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# **The New EU Financial Facility for Ukraine: Opportunities and Controversial Issues**

**Valentyna Puzikova<sup>\*</sup>**

May 1, 2024

## **Abstract**

The new EU Financial Facility for Ukraine presents both opportunities and controversial issues in the context of international assistance. This paper examines the multifaceted dynamics surrounding the Facility and highlights its potential benefits and challenges. Opportunities include substantial financial assistance that can stabilize Ukraine's economy, promote reforms, and foster development in various sectors. The Facility also provides incentives for reform efforts, particularly in the areas of governance, rule of law, and economic policy. Infrastructure development, support to civil society and the political signal of EU solidarity further enhance its potential benefits. To achieve these benefits and before using the received funds, it is important for Ukraine to make a conscious commitment to prioritize the areas of the economy for which these funds are intended, to calculate the growth rate of the external debt, the ability to meet its obligations, and to examine the assumed requirements. To minimize the risks of ineffective distribution of financial assistance and corruption schemes, bureaucratic simplicity of these processes is very important, especially when it comes to Ukraine, its reconstruction, and urgent needs. The implementation mechanism should be as simple as possible and easily verifiable and controllable, while ensuring the necessary transparency.

**Keywords:** "EU Financial Facility for Ukraine"; financial support; prioritization the areas of the economy; loans; non-repayable assistance; grants; provisioning of guarantees

**JEL:** F21, F50, F60

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## **Zusammenfassung**

Die neue EU-Finanzierungsfazilität (2024-2027) für die Ukraine bietet sowohl Chancen als auch Kontroversen im Kontext der internationalen Hilfe. Dieses Papier untersucht die vielfältigen Dynamiken, die die Fazilität umgeben, und beleuchtet ihre potenziellen Vorteile und Herausforderungen. Zu den Chancen gehört die umfangreiche finanzielle Unterstützung, die die ukrainische Wirtschaft stabilisieren, Reformen vorantreiben und die Entwicklung in verschiedenen Sektoren fördern kann. Darüber hinaus bietet die Fazilität Anreize für Reformbemühungen, insbesondere in den Bereichen Regierungsführung, Rechtsstaatlichkeit und Wirtschaftspolitik. Der Ausbau der Infrastruktur, die Unterstützung der Zivilgesellschaft und das politische Signal der Solidarität der EU erhöhen den potenziellen Nutzen zusätzlich. Um diese Vorteile zu erzielen, ist es wichtig, dass die Ukraine vor der Verwendung der erhaltenen Mittel eine bewusste Verpflichtung eingeht, die Wirtschaftssektoren, für die diese Mittel bestimmt sind, zu priorisieren, die Wachstumsrate der Auslandsverschuldung zu berechnen und die Fähigkeit zur Rückzahlung dieser Mittel zu bestimmen. Um das Risiko einer ineffizienten Verteilung der Finanzhilfe und von Korruption zu minimieren, ist die bürokratische Einfachheit dieser Prozesse sehr wichtig, insbesondere wenn es um die Ukraine, ihren Wiederaufbau und ihre dringenden Bedürfnisse geht. Der Umsetzungsmechanismus sollte so einfach wie möglich sein, leicht überprüfbar und kontrollierbar und gleichzeitig die notwendige Transparenz gewährleisten.

**Stichworte:** „EU-Finanzfazilität für die Ukraine“; finanzielle Unterstützung; Priorisierung von Wirtschaftssektoren; Darlehen; nicht rückzahlbare Hilfe; Zuschüsse; Bereitstellung von Garantien

## 1 Introduction

Russia's war of aggression against Ukraine has caused significant damage and destruction, especially to infrastructure across Ukraine. The EU is unwavering in its support for Ukraine and provides political, humanitarian, financial and military support to the country. However, it is important to understand the nature of the financial support to the country and the obligations that Ukraine assumes in order to receive this assistance.

According to World Bank data, prepared jointly with the Government of Ukraine, the European Commission and the United Nations, presented in March 2023, considering a full year of war, as of February 24, 2023, direct damage in Ukraine has reached over US\$135 billion, with housing, transport, energy, and commerce and industry the most affected sectors. Disruptions to economic flows and production, as well as additional expenses associated with the war, are collectively measured as losses and amount to some US\$290 billion. Ukraine's gross domestic product (GDP) shrank by 29.2 percent in 2022, and poverty increased from 5.5 percent to 24.1 percent in 2022 (based on the poverty line of US\$6.85 per person per day). Reconstruction and recovery needs, as of February 24, 2023, are estimated at about US\$411 billion.<sup>1</sup> Integrated into these needs are critical steps toward becoming a modern, low-carbon, disaster- and climate-resilient country that has aligned with European Union policies and standards in view of being ready to join the European Union, and where the population's vulnerabilities are addressed and people live in prosperity. All relevant information on this issue can be found in the second Rapid Damage and Needs Assessment (RDNA2)<sup>2</sup>, but it is important to note that the goal itself is determined by the needs, destruction due to war and requirements for Ukraine, taking into account the integration process of Ukraine into the EU. The report also estimates the implementation priorities for 2023 at around US\$14 billion. These are focused on the most urgent needs, including restoration of energy, housing, critical and social infrastructure, basic services for the most vulnerable, explosive hazard management, and private sector development. Around US\$9 billion in direct government expenditure will lay the groundwork for a safe, prioritized, achievable, and efficient reconstruction and recovery. This will be complemented by investments by state-owned enterprises (SOEs) and support to sustain and catalyze the private sector, including de-risking investment and trade.<sup>3</sup> While the government has already taken steps to meet some of these needs, the report identifies a need for an additional US\$11 billion in financing, including around US\$6 billion in further funding of the government budget and close to US\$5 billion to facilitate critical investments by SOEs and the private sector.<sup>4</sup>

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<sup>1</sup> [Updated Ukraine Recovery and Reconstruction Needs Assessment \(worldbank.org\)](#), (application date: 28/04/2024)

<sup>2</sup> [Ukraine: Rapid Damage and Needs Assessment | United Nations in Ukraine](#), 23.03.2023, (application date: 28/04/2024),

<sup>3</sup> Rapid Damage and Needs Assessment (RDNA 2), [Ukraine: Rapid Damage and Needs Assessment | United Nations in Ukraine](#), 23.03.2023, (application date: 28/04/2024),

<sup>4</sup> Rapid Damage and Needs Assessment (RDNA 2), [Ukraine: Rapid Damage and Needs Assessment | United Nations in Ukraine](#), 23.03.2023, (application date: 28/04/2024),

Investment in Ukraine's reconstruction and recovery processes cannot be postponed until the war is over. Moreover, it is very difficult to determine when the war will end. The negative socio-economic impact of the war is extensive and affects the whole of Ukraine. Determining the negative socio-economic impact of the war in Ukraine involves assessing various aspects across multiple sectors: Human Casualties and Displacement, Infrastructure Damage, Economic Disruption, Public Health and Social Services, Education Disruption, Psychological Impact, Environmental Damage and others). The report of the second Rapid Damage and Needs Assessment (RDNA2) is one such assessment. The issue of foreign remittances in Ukraine is not considered in this assessment. However, if you analyse the official data of the Ministry of Finance of Ukraine according to the indicator "Money transfers to Ukraine from abroad" for the period from 2021 to 2023, you can see a decrease, and on this basis you can note that during the period of full-scale military operations the amount of foreign transfers in Ukraine fell asleep, and this reduces the national GDP accordingly. Thus, in 2021, the number of transfers amounted to US \$14.019 million, in 2022, the number of transfers decreased by 10 % in comparison with the previous period and amounted to US \$12.621 million, and in 2023 - decreased by another 8.3% and amounted to only US \$11.568 million.<sup>5</sup>

Supporting the recovery of the Ukrainian economy and social sphere requires a concerted effort to ensure that economic activity is sustained and that basic infrastructure is activity is sustained and that basic infrastructure is repaired and maintained. This, in turn, will ensure that the conditions are created for the economy to recover and generate revenues for the state budget, and thus gradually reduce the volume of international assistance required. Supporting Ukraine's reconstruction now also means maintaining or creating employment opportunities for Ukrainians, including internally displaced persons, and creating the conditions for refugees to return to Ukraine.

The EU's financial support mechanism for Ukraine includes grants, technical assistance, loans, and financing of projects aimed at economic development, infrastructure, and reforms<sup>6</sup>. In other words, there is a wide variety of financial instruments, in particular, assistance has been provided in the form of macro-financial assistance and through the Global Europe programme (NDICI). This makes it difficult to unify all these financial instruments into a single one.

This article is addressed to a wide range of stakeholders in Ukraine's development and stability, including: 1) *Politicians and government officials in both Ukraine and the EU*: inform them about the opportunities and challenges of the new financial mechanism and gain their support for relevant reforms and projects. 2) *Business representatives*: inform them about potential business and investment opportunities in Ukraine and contribute to the economic development of the country. 3) *NGOs and civil society organizations*: Inform them about the financial resources available to support democracy, human rights, and social projects in Ukraine and encourage their participation in the

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<sup>5</sup> <https://index.minfin.com.ua/ua/economy/transfer/>, (application date: 28/04/2024)

<sup>6</sup> [The Ukraine Facility - Consilium \(europa.eu\)](https://europa.eu/eu-foreign-affairs/en/ukraine-facility), (application date: 28/04/2024)

reforms. Also, inform the wider population that most of the money will have to be given back and that it is important to first create social responsibility for the funds received and their implementation.

4) *International organizations and donors*: establish possible cooperation and obtain funding.

The goal of the article is to understand the financial mechanism proposed by the EU and its implications for Ukraine. For this, the purpose of the article is to study the financial instruments of the EU's support for Ukraine, that proposed in this EU financial mechanism for Ukraine, to identify their key principles and consequences for Ukraine. The structure of the article includes an introduction, a brief overview of the assistance already provided to Ukraine. European Union has proposed a new financial instrument as aid to Ukraine, called "Facility for Ukraine" and discussed the issues, and future implementation of it. In this article I have tried to draw conclusions from this instrument, to understand the advantages, disadvantages or challenges, readiness of Ukraine to receive such financial assistance to Ukraine. The article also contains a list of relevant references.

## **2 A brief overview of the financial support provided by the EU**

There is a huge amount of information about EU financial assistance to Ukraine, the amount of which is difficult to systematize.<sup>7</sup> However, from my point of view, it is the systematization of the financial assistance and the obligations undertaken by Ukraine that, on the one hand, will help to understand the amount of the assistance and, on the other hand, will reflect the increase of Ukraine's foreign debt, as well as the need for proper accounting and management of the assistance.

I propose to make a list of the main types of financial assistance already provided by the EU to Ukraine. The logic of the following list of assistance is structured according to the amount of assistance provided to Ukraine. Unfortunately, there is currently no single document that would provide comprehensive information on the list of all aid provided to Ukraine, indicating the instrument for providing this aid and information on the return of funds. This may lead in the future to inconsistent and non-prioritized spending of the provided assistance, problems of corruption and shadow spending of funds, and the impossibility of conducting a full audit and monitoring. This list is not complete or exhaustive and was compiled by the author to provide data on the largest amounts of financial assistance already provided, based on the relevant sources indicated next to each type of assistance.

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<sup>7</sup>[https://economy-finance.ec.europa.eu/international-economic-relations/candidate-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/ukraine\\_en](https://economy-finance.ec.europa.eu/international-economic-relations/candidate-and-neighbouring-countries/neighbouring-countries-eu/neighbourhood-countries/ukraine_en), (application date: 28/04/2024)  
[https://neighbourhood-enlargement.ec.europa.eu/news/commission-disburses-further-eu2-billion-exceptional-macro-financial-assistance-ukraine-2022-10-18\\_en](https://neighbourhood-enlargement.ec.europa.eu/news/commission-disburses-further-eu2-billion-exceptional-macro-financial-assistance-ukraine-2022-10-18_en), (application date: 28/04/2024)  
<https://ec.europa.eu/newsroom/budget/items/770840/>, (application date: 28/04/2024)  
[Financial Statement for MacroFinancial Assistance - Performance - European Commission \(europa.eu\)](#), (application date: 28/04/2024)  
[Regulation - 2022/2463 - EN - EUR-Lex \(europa.eu\)](#), (application date: 28/04/2024)  
[https://neighbourhood-enlargement.ec.europa.eu/funding-and-technical-assistance/neighbourhood-development-and-international-cooperation-instrument-global-europe-ndici-global-europe\\_en](https://neighbourhood-enlargement.ec.europa.eu/funding-and-technical-assistance/neighbourhood-development-and-international-cooperation-instrument-global-europe-ndici-global-europe_en), (application date: 28/04/2024)  
[The Ukraine Facility - Consilium \(europa.eu\)](#), (application date: 28/04/2024)

The financial instruments used for the assistance already provided to Ukraine are varied and depend on the source of this assistance. These include loans, loans on preferential terms, grants, technical assistance, investments, military assistance, budget support, instruments for the development of transit and, as a result, exports). The issue of unification of all assistance provided to Ukraine by Western partners, in particular the EU, is very relevant. Because this will be able to clarify the amount and order of its return on the part of Ukraine. Today, due to the large amount of information and lack of unified data, not all citizens of Ukraine, for example, understand and consciously relate to the financial support of the ES of Ukraine, considering it as non-repayable funds. And this issue is key, because from 2033 Ukraine will have to pay bills and repay debts. And of course, including the taxes of Ukrainians. Therefore, it is very important to unify the data and convey to all interested parties the order of figures and the procedure for repayment of the debts that Ukraine is currently taking from Western partners.

The main types of financial assistance provided by the EU to Ukraine include:

- **financial support by Member States<sup>8</sup> - EUR 143.2 billion** (military support, budget support, humanitarian support, support for refugees within in EU: grants, loans and guarantees),
- **macroeconomic assistance, which is the most important factor in Ukraine's macroeconomic and financial stability<sup>9</sup>- EUR 40.1 billion** (macro-financial assistance, emergency and humanitarian assistance, military assistance: concessional loans through macro-assistance instrument MFA+. Repayment will start after 2033 year over a max. of 35 years),
- **the EU-Ukraine Solidarity Lanes (2022)-** the contribution an estimated **EUR 31 billion** in exports for the Ukrainian economy by the end of Ukrainian economy by the end of May 2023<sup>10</sup>,
- **off-budget Assistance to the Ukrainian Armed Forces under the European Peace Facility in the amount of Facility of EUR 5.6 billion** and a military assistance mission in support of Ukraine of 0.1 billion for common costs<sup>11</sup>,
- **support from the European Investment Bank and the European Bank for Reconstruction and Development<sup>12</sup>- EUR 1.8 billion** (immediate financial assistance, upfront disbursements, based on the financial contracts, technical assistance, package grant),
- **significant financial support through an additional package, combining funds from the Neighborhood, Development, and, International Cooperation Instrument - Global Europe**

<sup>8</sup> [EU solidarity with Ukraine - Consilium \(europa.eu\)](https://www.europa.eu/press-communication/infographic/eu-solidarity-ukraine), (application date: 28/04/2024)

<sup>9</sup> [https://www.europarl.europa.eu/RegData/etudes/ATAG/2022/739203/EPRS\\_ATAG\(2022\)739203\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2022/739203/EPRS_ATAG(2022)739203_EN.pdf), (application date: 28/04/2024)

<sup>10</sup> [https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine/eu-ukraine-solidarity-lanes\\_en](https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine/eu-ukraine-solidarity-lanes_en), (application date: 28/04/2024)

<sup>11</sup> Council Decision (CFSP) 2021/509 of 22 March 2021 establishing a European Peace Facility, and repealing Decision (CFSP) 2015/528, (OJ L 102 24.3.2021, p. 14), (application date: 28/04/2024),

<sup>12</sup> [EIB approves "EU for Ukraine" Initiative to finance Ukraine recovery and reconstruction, and backs transport, energy and business investment around the world](https://www.eib.org/en/press/2022/eib-approves-eu-for-ukraine-initiative), (application date: 28/04/2024)

**(NDICI) under Regulation (EU) 2021/947 of the European Parliament and of the Council<sup>13</sup>**

**- EUR 1 billion** and loans from the European Investment Bank loans,

- Financial Support for Ukrainian Start-Up, Erasmus program, Horizon Europe and other stipendiums for scientists, entrepreneurs<sup>14</sup>- EUR 20 million.**

From the above it follows, that the EU has already provided substantial financial assistance to Ukraine to help meet its short-term budgetary needs and to support its rapid recovery through highly concessional loans. The EU develops its relations with Ukraine through the European neighbourhood policy and the Eastern Partnership. The main financial programs for this were:

- Decision (EU) 2022/313 – emergency macrofinancial assistance to Ukraine** (support economic stabilisation and its reform agenda, the full amount in loans, that will have a maximum average maturity of 15 years)<sup>15</sup>,
- Decision (EU) 2022/1201 – exceptional macrofinancial assistance to Ukraine<sup>16</sup>** (to cover urgent funding needs and to ensure the operation of the state’s critical functions- highly concessional long-term loan. The MFA complements other EU support granted to date: humanitarian, development, and defence assistance; suspension of all import duties on Ukrainian exports for 1 year; and other solidarity initiatives, such as addressing transport bottlenecks to allow exports, in particular of grain, to take place).
- Decision (EU) 2022/1628 – exceptional macrofinancial assistance to Ukraine<sup>17</sup>** (to supporting Ukraine’s macro financial stabilisation, strengthening the country’s immediate resilience and sustaining its capacity towards recovery, thereby contributing to its public debt sustainability and its ability to ultimately be able to repay the loans),
- Regulation (EU) 2022/2463 – macrofinancial assistance+ instrument for 2023<sup>18</sup>** (providing €18 billion in loans to Ukraine in 2023. The loans will have a 10-year grace period. The loans aim to offer short-term financial relief to finance Ukraine’s immediate needs, including the rehabilitation of critical infrastructure and initial support towards sustainable post-war reconstruction, with a view to supporting the country on its path towards European integration).

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<sup>13</sup> Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU and repealing Regulation (EU) 2017/1601 and Council Regulation (EC, Euratom) No 480/2009 (OJ L 209, 14.6.2021, p. 1), (application date: 28/04/2024),

<sup>14</sup> [https://eic.ec.europa.eu/news/eic-eu20-million-ukrainian-tech-call-and-other-initiatives-support-ukraine-2023-02-24\\_en](https://eic.ec.europa.eu/news/eic-eu20-million-ukrainian-tech-call-and-other-initiatives-support-ukraine-2023-02-24_en), (application date: 28/04/2024),

<sup>15</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:4581923>; Decision (EU) 2022/313 providing macrofinancial assistance to Ukraine, (application date: 28/04/2024)

<sup>16</sup> Decision (EU) 2022/1201 providing exceptional macrofinancial assistance to Ukraine; (application date: 28/04/2024)

<sup>17</sup> Decision (EU) 2022/1628 providing exceptional macro financial assistance to Ukraine, reinforcing the common provisioning fund by guarantees by Member States and by specific provisioning for some financial liabilities, (application date: 28/04/2024),

<sup>18</sup> Regulation (EU) 2022/2463 establishing an instrument for providing support to Ukraine for 2023 (macrofinancial assistance+), (application date: 28/04/2024),



- **the financial package combining funds from the Neighborhood, Development, and International Cooperation Instrument - Global Europe (NDICI) and European Investment Bank loans**<sup>19</sup> (on the process of Ukraine's integration into the EU).

In addition, the EU has eliminated tariffs under the Deep and Comprehensive Free Trade Area (DCFTA) and included Ukraine in the EU's internal market program to support its small and medium-sized enterprises. A revised Priority Action Plan for enhanced implementation of the EU-Ukraine DCFTA in 2023-2024 has been adopted to accelerate Ukraine's integration into the internal market. The EU has opened the possibility for Ukraine to develop joint projects with EU Member States for the development of border crossings under the Connecting Europe Facility (CEF). Measures have been rapidly taken to facilitate the participation of Ukrainian displaced persons in the Erasmus and other possibilities of the stipendiums for Scientists, Young Entrepreneurs program, which will result in the highest number of beneficiaries from Ukraine in 2022.<sup>20</sup>

As a result of the above, Julian Bergmann (2023), a senior researcher at the Institute for Development and Sustainable Development (IDOS) in Bonn, confirms that the macro-financial assistance that has been provided until now is at the root of the position that Ukraine managed to lose over the course of 35 years, starting in 2013. Unfortunately, the obligations of Ukraine regarding the position and their repayment have not been calculated from the point of view of economic studies for Ukraine and its ability to repay these positions.<sup>21</sup> Unfortunately, Ukraine's commitment to the loans and their repayment was not calculated in terms of the economic consequences for Ukraine and its ability to repay these loans.

Analyzing the macro-financial assistance already provided to Ukraine by the EU, it can be noted that this is a really large amount of assistance, even compared to its neighbors, members of the EU. For example, in 2023, according to the Ministry of Finance of Ukraine, Ukraine received EUR 18 billion of macro-financial assistance from the EU.<sup>22</sup> Poland received EUR 5 billion<sup>23</sup>, Hungary EUR 13.3 billion.<sup>24</sup> At the same time, it should be noted that in both cases, both in the situation with Poland and Hungary, these funds were frozen in the EU until they were allocated (due to a departure from the norms of democracy).

<sup>19</sup> [Neighbourhood, Development and International Cooperation Instrument – Global Europe \(NDICI – Global Europe\) - European Commission \(europa.eu\)](https://ec.europa.eu/euipo/ndici/), (application date: 28/04/2024)

<sup>20</sup> Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility, (application date: 28/04/2024),

<sup>21</sup> Wiederaufbauplan: Wie gelingt der Neuanfang in der Ukraine? G.Poluschkin, R.Kirchner, J.Bergmann, ifo Institut, München, 2023; ifo Schnelldienst, 2023, 76, Nr. 04, 03-28 Julian Bergmann, Die Europäische Union und der Wiederaufbau der Ukraine – bereit für die Herkulesaufgabe? (application date: 28/04/2024),

<sup>22</sup> [https://www.mof.gov.ua/uk/news/ukraine\\_received\\_eur\\_18\\_billion\\_in\\_macro-financial\\_assistance\\_from\\_the\\_eu\\_in\\_2023\\_almost\\_half\\_of\\_the\\_total\\_external\\_budget\\_financing-4353?fbclid=IwARlSmEPOVcsc0eE8WvIDH2hSfesEBJNc7tLF8fSu9dNdr-ToblssxzMovCc](https://www.mof.gov.ua/uk/news/ukraine_received_eur_18_billion_in_macro-financial_assistance_from_the_eu_in_2023_almost_half_of_the_total_external_budget_financing-4353?fbclid=IwARlSmEPOVcsc0eE8WvIDH2hSfesEBJNc7tLF8fSu9dNdr-ToblssxzMovCc), (application date: 28/04/2024),

<sup>23</sup> <https://www.eurointegration.com.ua/news/2023/12/15/7175638/>, (application date: 28/04/2024)

<sup>24</sup> <https://www.unian.ua/world/yes-dast-groshi-ugorshchini-shchob-rozblokuvati-18-milyardiv-yevro-dopomogi-ukrajini-12076545.html>, (application date: 28/04/2024),

However, given the scale and complexity of the challenge ahead, a longer-term solution is needed to ensure that is needed to ensure that funds are well coordinated and used efficiently, and to link reconstruction and and reconstruction with Ukraine's accession process.

**From my point of view, it is important for Ukraine to make a conscious commitment to prioritize the areas of the economy for which this financing is intended, to calculate the rate of increase in foreign debt, the ability to fulfill the obligations assumed, and to study the requirements before receiving this financing. To do this, it is necessary to unify Ukraine's commitments, recovery plans into a single document, develop a road map to it with determination of prioritization of recovery for economic sectors received from the event, and agree with all interested parties. Convert the plan into an intention, link it to reality and accordingly translate the intention into action and begin to implement it systematically.**

### **3 EU proposed "Facility for Ukraine" (mechanism of the financial support)**

In this context, the European Commission has concluded that it is necessary to adopt and implement a single medium-term instrument, which will combine with the bilateral assistance provided by the Union to Ukraine, ensuring coordination and efficiency.<sup>25</sup>

Proposal for a regulation of the European Parliament and of the Council on establishing the Ukraine Facility gives us new perspectives from the financial issue. Given the devastating consequences of Russia's war of aggression on Ukraine's people, economy, and infrastructure, and considering the enormous scale and complexity of the recovery and reconstruction challenge, the European Commission proposes to create a special financial instrument **"Facility for Ukraine"**<sup>26</sup> to ensure consistent, predictable, and flexible support to Ukraine for the period 2024-2027, adapted to the unprecedented challenges of assisting a country at war. This proposal reflects the risk of a protracted conflict and the need for continued macro-financial assistance. The Facility should be a flexible instrument, allowing the Union to respond to Ukraine's needs through a diversified of instruments, including financing of the Ukrainian State, support for short-term recovery and reconstruction priorities, support for investment and access to finance, as well as technical assistance and capacity building and technical assistance, capacity building and other relevant activities.

Ursula von der Leyen, President of the European Commission, said: "Ukraine is bravely fighting the Russian invasion and needs our stable financial support to meet the huge costs it is causing. The EU promised to support them for as long as it takes, and we are keeping our word. Today we are proposing to provide up to €50 billion between 2024 and 2027 to help Ukraine resist aggression and

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<sup>25</sup> [Regulation - EU - 2024/792 - EN - EUR-Lex \(europa.eu\)](#) – point 11 (In this context, it is necessary to set up an exceptional medium-term single instrument that brings together the bilateral support provided by the Union to Ukraine, ensuring coordination and efficiency. To that end, it is necessary to establish a Ukraine Facility (the 'Facility') for the period 2024 to 2027, providing a balance between flexibility and programmability of the Union's response to address Ukraine's financing gap and recovery, reconstruction and modernisation needs, while at the same time supporting Ukraine's reforms effort as part of its accession path to the Union), (application date: 28/04/2024),

<sup>26</sup> <https://eur-lex.europa.eu/eli/reg/2024/792/oj>, <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32024R0792>, (application date: 28/04/2024),

rebuild a modern, prosperous country. Ukrainians are determined to join Europe. And our Union supports this brave nation in its efforts"<sup>27</sup>. The aim of this mechanism is to support the transition to a green, digital and inclusive economy, progressively aligned with EU rules and standards.

According to the Regulation - EU - 2024/792, Chapter 1 “General Provisions”, Article 1 “Subject matter”, the Facility is organized around three pillars:

1. **Pillar I** - Government financial support in the form of grants and loans.
2. **Pillar II** is an investment framework for Ukraine, designed to attract private and public investment in the recovery and reconstruction of Ukraine and to support the implementation of the of the Plan.
3. **Pillar III** - Technical assistance and other support measures, including the mobilization of reform expertise, support to municipalities, civil society, and other forms of bilateral assistance previously available to candidate countries under the Instrument for Pre-Accession Assistance (IPA), as well as support to the objectives of the Ukraine Plan. Pillar III will also cover the interest rate subsidies on loans to granted to Ukraine under Pillar I.

After a thorough analysis of the proposed mechanism, I would like to dwell on the most important points of this document. For convenience, I laid out the basic principles in Table 1 - The Financial Facility for Ukraine by EU. Also, general information is available in text form.

- 1) This mechanism is similarity to the Next Generation EU due to its framework structure around the national plan and its implementation.<sup>28</sup>
- 2) The Facility shall be financed by:
  - (a) loans guaranteed above the ceilings of the Multiannual Financial Framework (MFF) ceilings;
  - (b) a new special instrument above the MFF ceilings, the Ukraine Reserve, as part of the amendment of Council Regulation (EU, Euratom) 2020/2093.<sup>29</sup>

This reserve can support any expenditure other than loans, including non-repayable assistance, grants and provisioning of guarantees. The amendment to the MFF Regulation also stipulates that the Ukraine Reserve shall aim at 2.5 billion in current prices as an annual indicative amount. The Ukraine reserve may be mobilized by the European Parliament and the Council during the budgetary the budgetary procedure foreseen in Article 314 TFEU. The mobilization of the reserve for Ukraine should aim at providing at least an annual indicative amount of assistance,

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<sup>27</sup>Keynote speech by President von der Leyen at the Ukraine Recovery conference 2023. News Article. 21.06.2023. European Neighborhood Policy and Enlargement Negotiations (DR Near). [https://neighbourhood-enlargement.ec.europa.eu/news/keynote-speech-president-von-der-leyen-ukraine-recovery-conference-2023-2023-06-21\\_en](https://neighbourhood-enlargement.ec.europa.eu/news/keynote-speech-president-von-der-leyen-ukraine-recovery-conference-2023-2023-06-21_en), (application date: 28/04/2024)

<sup>28</sup> NextGeneration EU, (application date: 28/04/2024),

<sup>29</sup> COM(2023)337 final, (application date: 28/04/2024),

other than in the form of loans, in accordance with the proposed Article 10b of the proposed amendment of Council Regulation (EU, Euratom) 2020/2093.<sup>30</sup>

- 3) In order to ensure an efficient implementation of the Facility, including the facilitation of Ukraine's European value chains, all supplies and materials financed and procured under this and procured under this Facility should originate from Member States.
- 4) The mechanism will replace the existing assistance provided to Ukraine under the Macro-Financial Assistance Plus (MFA+) program. The plan for Ukraine to be prepared under the first component of the Fund will include conditions on key requirements that were also part of the MFA+ framework, such as macro-financial stability, fiscal surveillance, and public financial management. However, the novelty lies in the Ukrainian plan, which will link the allocation of funds to the implementation of sectoral and structural reforms and investments, thus providing a coherent, medium-term vision of the expected measures of recovery, reconstruction, and modernization, closely linked to the perspective of the EU accession path. Similar to MFA+, the loan component of the assistance will be guaranteed by the EU budget reserve.
- 5) Given the uncertainty, the Regulation will allow Ukraine to submit a reasoned request to the Commission to amend or replace the plan for Ukraine. This will be done in particular in cases where, due to objective circumstances, the previously established conditions cannot be fully or partially met by Ukraine.
- 6) The possibility of exceptional financing is provided for in duly substantiated exceptional circumstances, in the event of a significant deterioration of the state of war, which makes it impossible for Ukraine to meet the conditions under the mechanism.
- 7) The mechanism is open to other donors (e.g. Member States, partner countries, international organizations) and should encourage cooperation and synergy with like-minded partners.

#### **4 The controversial points**

A study of this document also reveals certain controversial points. For example, in the first pillar and in the Chapter II (78% irreversible aid) of the mechanism it is stated that financial assistance will be provided in the form of both grant and loan assistance. However, further on, in paragraphs 74-77, it is clearly stated that financial support for Ukraine's plan should be possible only in the form of a loan, which is expected to improve the liquidity of Union bonds and the attractiveness and attractiveness and cost-effectiveness of Union issuance. The EU Commission proposes to provide loans to Ukraine on highly concessional terms with a maximum term of 35 years and to start repayment of the principal only in 2034. And for me, as a scientist and a Ukrainian who longs to return home, from this point of view it is a controversial issue that urgently needs to be studied - how

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<sup>30</sup> 2020/2093, (application date: 28/04/2024),

the loans taken (in particular, making specific calculations) will affect the social and economic condition of Ukraine, its foreign debt. Will Ukraine be able to withstand such conditions of support from the EU, and will Ukraine's acceptance of loans and corresponding obligations regarding the interest rate lead to the complete default of the country and the decline of the economy in Ukraine?

In order for the macro-financial assistance received by Ukraine on preferential terms from the EU to really help Ukraine ensure its sustainable economic development, it is necessary to implement effective regulation and spending of these funds. First of all, as I have already noted, it is necessary to unify the borrowed debt with a parallel unification of existing plans for the restoration of Ukraine. It is also important to develop a clear plan of action and identify priorities for the economic sector for recovery, while developing a strategy for the use of borrowed funds. Its content includes the following elements:

- 1) **Smart planning and contracting:** Contracting projects that have a high potential for real economic benefit to the country, such as infrastructure development, increased competitiveness, and human capital development through education and health.
- 2) **Transparency and accountability:** Ensure transparent use of funds and effective monitoring of expenditures to prevent corruption and wasteful spending.
- 3) **Developing stakeholder dialog:** Involving the public, businesses, and other stakeholders in the decision-making process on the use of financial resources to ensure that projects meet the real needs of society.
- 4) **Invest in human capital development:** Financing education, training and health can increase the productivity and competitiveness of the workforce, which in turn contributes to economic growth.
- 5) **Supporting innovation and entrepreneurship:** Supporting the development of innovative sectors, start-ups and small businesses can stimulate economic development and provide new sources of income for the country.
- 6) **Strategic infrastructure projects:** Investing in key infrastructure projects such as transportation networks, energy and communications will contribute to economic growth and attract new investment.

Also, a feature that, in my opinion, hides additional risks in receiving financial assistance from the EU for Ukraine is the provision in paragraph 76 of this document only for the possibility of the central government of Ukraine to request an interest subsidy and exemption from administrative costs each year, and not the provision of such a right for Ukraine.

The paragraph 83 of the document, which provides for support under the Ukrainian investment program in indirect management and the creation of a Ukrainian guarantee without a defined and

clear list of objects that will guarantee investment risks, to me remains rather vague, which can lead to irreversible consequences for Ukraine and the loss of independence as such.

After studying this document, I consider it necessary to mention the risk of possible burdensome bureaucracy and additional costs for Ukraine in this connection (for example, administrative costs), given the lack of similar experience in Ukraine. In my opinion, bureaucratic simplicity is very important for the successful implementation of any plan, especially when it comes to Ukraine and its recovery and urgent needs. The implementation Facility should be as simple as possible and easy to audit and control, ensuring the necessary transparency.

In my opinion, the fact that the plan does not provide for a special distribution of funds by areas of use is ambiguous - this will be determined by the standard budget approval procedure, which in turn may lead to certain corrupt schemes for the use of these funds or the chaotic use of funds without an integrated approach and prioritization in the recovery of economic sectors.

Another challenge is the question of the disproportion of the proposed amount of €50 billion to the estimated cost of Ukraine's reconstruction, which will amount to \$411 billion as of early 2023. The EU Ukraine Facility program creates a really significant financial base of €50 billion, but the cost of full state restoration significantly exceeds this initial fund. And in the proposed EU document there is no information on how to solve the problem of the discrepancy in the amount of funds in practice, which may lead to unexpected challenges for Ukraine, taking into account the fact that the war is ongoing, possible changes in the exchange rate and the probability of inefficient use of these funds in the amount of 50 billion euros ... because of the focus on this number, and not prioritizing the needs and sectors of the economy for the sake of reconstruction.

According to the Chapter 2 of the Regulation - EU - 2024/792, “Financing and implementation”, Article 6 “Budget”, the resources for the implementation of the Facility shall be available through the Ukraine Reserve to be mobilised in the framework of the annual budgetary procedure in accordance with Article 10b of Regulation (EU, Euratom) 2020/2093, with the following indicative distribution:

- (a) 31 % in the form of non-repayable financial support pursuant to Chapter III – PILLAR I UKRAINE PLAN – this section provides funds for the development of investments, but the amount is not specified – paragraph d tells us the following: “...develop investments, that shall be measurable and to be implemented by December 2027”;
- (b) 41 % for expenditure pursuant to Chapter IV -PILLAR II: UKRAINE INVESTMENT FRAMEWORK this section provides funds for the development of the investment framework, but the amount is not specified;
- (c) 26 % for expenditure pursuant to Chapter V- PILLAR III: UNION ACCESSION ASSISTANCE AND RELATED SUPPORT MEASURES;
- (d) 2 % for expenditure pursuant to paragraph 5 – support the Ukrainian army, which may be increased in exceptional circumstances but shall not in any event exceed 2.5 %.

It is certainly important to pay attention to the multiplier of foreign investments, which, with the development of Ukraine's investment climate, will be able to provide Ukraine with new funds for debt recovery and repayment. However, it is not possible to determine the exact amount of funds from these 50 billion, intended for investment development and investment decision-making. Therefore, it is impossible to make an approximate forecast of the impact of this EU aid to Ukraine on the improvement of its economic condition and the financial possibility of repaying the country's debts.

I am also concerned that currently there are no additional details about this initiative, information about the draft plan of Ukraine, which indicates the inability to start the process from January 2024.

In summary, it is clear that the program of the EU Ukraine Facility creates a significant financial base of €50 billion for the recovery and development of Ukraine, but it requires careful elaboration by all participants.

## **5 Summary**

Undoubtedly, Ukraine is going through a unique and delicate transition to the EU. The chosen process of European integration for Ukraine means, on the one hand, an opportunity to survive and, on the other hand, an opportunity to transition from a shadow economy to a stable market economy, making Ukraine a competitive country and a strong partner. Having thoroughly studied the program of the EU Ukraine Facility, it is definitely necessary to note the main advantage of this document, which is that it offers a unified single program of financial assistance and requires the preparation of a corresponding recovery plan by Ukraine with further approval by the EU. However, in my opinion, this program is also a challenge for Ukraine, for which it is necessary to carefully prepare and calculate all possible risks and costs, calculate how much Ukraine will have to return to the EU after receiving these 50 billion euros. are planned to be decided with these funds with the mandatory prioritization of sectors of the economy that require priority investment and on the basis of which other sectors can be revived in the future.

**Table 1: “Ukraine Facility – the financial Mechanism for Ukraine” 2024-2027**

The goal of the instrument	Provided Sum	Implementation Mechanism	Commitments of Ukraine	Key institutions	Comments
Support Ukraine's efforts to maintain macro-financial stability, promote recovery and modernize the country as it implements key reforms on the road to EU accession, the approximation to the Union acquis. It will support the transition to a green, digital and inclusive economy, progressively aligned with EU rules and standards.	up to 50 billion euro	3 pillars: 1) grants and loans 2)Ukraine Investment Framework 3)Technical assistance and other supporting measures	1)Preparation the Plan in close consulting with EU with set of conditionalities from Ukraine and a timeline for disbursements 2) Reporting to the Commission on its implementation of the part of the Ukraine Plan covered by the Facility 3) publishing the data on persons and entities receiving amounts of funding exceeding the equivalent of EUR 500.000 4) establish a framework agreement setting out the principles of financial cooperation between the Union and Ukraine, including the necessary mechanisms to control and audit expenditure. 5) preparation with Ukraine Guarantee	Government of Ukraine, The EU Parliament, the Council, the European Commission, for donor coordination - the G7 Multi-agency Donor Coordination Platform for Ukraine, the European Investment Bank, the European Bank for Reconstruction and Development, the World Bank, the Organisation for Economic Co-operation and Development, and the International Monetary Fund, OLAF and EPPO	It will replace existing bilateral support to Ukraine (MFA+, NDICI bilateral allocation). It will also support that Ukraine would have received under the Instrument for Pre-Accession Assistance.

**Notes:** Developed by the author on the basis of the proposal for a regulation of the EU Parliament and of the Council on establishing the Ukraine Facility and on the established Regulation - EU - 2024/792, (developed date: 28/04/2024),



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