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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

of the Commission Implementing Decision on the Individual measure in favour of Ukraine for 2022

**Action Document for State and Resilience Building Contract for Ukraine**

**INDIVIDUAL MEASURE**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and measure in the sense of Article 23(3) of the NDICI Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title</b> <b>CRIS/OPSYS</b> <b>Basic Act</b>	State and Resilience Building Contract for Ukraine Annual measure in favour of Ukraine for 2022 OPSYS business reference: NDICI-GEO-NEAR/2022/ACT-60707 (JAD.963313) Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The Action shall be carried out at the following location: The whole territory of Ukraine
<b>4. Programming document</b>	Multiannual Indicative Programme (MIP) 2021-2027 for Ukraine <sup>1</sup>
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Priority area 1: A resilient, sustainable and integrated economy
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	510 Budget Support; 720 Emergency Response; 231 Energy, 220 Communication
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDGs: - SDG 16 Peace, justice and strong institutions  Other significant SDGs: - SDG 1 No poverty - SDG 2 Zero hunger

<sup>1</sup> C(2021) 9351 final 13.12.2021

	<ul style="list-style-type: none"> <li>- SDG 3 Good health and well-being</li> <li>- SDG 5 Achieve gender equality and empower all women and girls</li> <li>- SDG 6 Clean water and sanitation</li> <li>- SDG 7 Affordable and clean energy</li> <li>- SDG 9 Industry, Innovation and Infrastructure</li> <li>- SDG 10 Reduced inequalities</li> </ul>			
<b>8 a) DAC code(s)</b>	51010 Budget support support-related aid 72050 Relief coordination and support services 22010 Communication policy and administrative management 23110 Energy policy and administrative management			
<b>8 b) Main Delivery Channel</b>	12000 – Recipient government			
<b>9. Targets</b>	<input checked="" type="checkbox"/> Migration <input type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <sup>2</sup> <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<sup>2</sup> For the Neighbourhood, activities related to education shall be marked as part of the “Social Inclusion and Human Development” target, in line with the NDICI-GE programming guidelines.

	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	<u>Connectivity</u> Tags: transport people2people energy digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>BUDGET INFORMATION</b>			
<b>12. Amounts concerned</b>	Budget line(s) (article, item): 14.020111 – Eastern neighbourhood Total estimated cost: EUR 120 000 000 Total amount of EU budget contribution EUR 120 000 000 of which EUR 120 000 000 for budget support and EUR 0 for complementary support.			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Implementation modalities (type of financing and management mode)</b>	Budget Support <b>Direct management</b> through: Budget Support: State and Resilience Building Contract			

## 1.2. Summary of the Action

In the night of 24 February 2022, the Russian Federation started an unprovoked and unjustified military aggression against Ukraine. This has brought along extreme human suffering and massive exodus of people from Ukraine to the EU. Since autumn 2021, Ukraine had been facing a continuously increasing risk of further military intervention as well as simultaneous destabilisation efforts by the Russian Federation. The military build-up at Ukraine's borders, as well as the political demands and threats by Russia had already started to destabilise its investment climate and macro-financial stability. Partner countries in the European Union (EU) and the North Atlantic Treaty Organisation (NATO) are providing support to tackle the crisis. As part of an emergency package for Ukraine, the European Commission announced on 24 January 2022 emergency macro-

financial assistance of EUR 1.2 billion as well as a EUR 120 million grant in the form of a State and Resilience Building Contract.

The overall objective of this action is for Ukraine to mitigate the impact of the current and potential future crises by strengthening civilian crisis preparedness and management at both central and local levels. It should strengthen the Government's overall capacity to adequately and timely respond to crises and emergencies, including resulting from open conflict or hybrid attacks. The Action will contribute to targeted policy measures aimed at addressing existing vulnerabilities against crises affecting society as a whole or particular critical infrastructure, including the transport network, information and communication systems and the power grid, by supporting the preparedness of adequate response mechanisms at all levels of government and society. The Action will be carried out, in complementarity to other means of intervention (humanitarian aid, pooled funds, and projects) in line with the humanitarian-development-peace nexus.

The Action therefore directly contributes to SDG 16 on Peace, justice and strong institutions and SDG 3 on Good Health and Well-Being. The Action primarily contributes to priority 5 of the 2021-2027 Multiannual Indicative Programme relating to resilient, fair and inclusive societies.

The Action further builds on the Economic Recovery Plan for Ukraine, the past and upcoming emergency Macro Financial Assistance (MFA), and budget support already delivered.

## **2. RATIONALE**

### **2.1. Context**

On 24 February 2022, the Russian Federation (RF) launched a full-scale, unprovoked and unjustified military attack on Ukraine. The assault has inflicted widespread suffering and casualties on the Ukrainian population, disrupted the provision of essential services, damaged civilian infrastructure and caused massive forced displacement. The European Union and the international community at large have firmly and unequivocally condemned the aggression and imposed unprecedented sanctions on the RF.

Prior to current aggression, Russia has in March 2014 illegally annexed Crimea and Sevastopol, and launched a hybrid war against mainland Ukraine, including armed aggression against Ukraine in Donetsk and Luhansk regions and targeted disinformation campaigns and cyber-attacks, all in violation of international law.

While the death toll in the Russian war against Ukraine is rising, the conflict in eastern Ukraine had already before had significant human, social, economic, and environmental impacts, causing over 10,000 casualties and 1.5 million internally displaced persons (IDP). Ever since the start of the Russian aggression in 2014, the territories and their populations have been divided between Government-controlled areas (GCA) and non-Government-controlled areas (NGCA). During the period 2015-2020, the more than 400 km long 'contact line' established between the two areas has been crossed monthly by just under a million people in need of getting their pensions and seeking social and administrative services. The elderly, women, children, and people with disabilities are particularly vulnerable – 54% of the people in need are women, 12% are people with disabilities, and over 30% are elderly. The COVID-19 pandemic has significantly aggravated the social and economic situation, affecting the livelihoods of the conflict-affected population, in particular along both sides of the contact line and in the non-government controlled areas, their equitable access to critical services, as well as the protection of human rights and gender equality. The current escalation of the conflict has significantly increased the number of vulnerable people.

The population in major Ukrainian cities as well as those living near the contact line and in the wider eastern and southern regions has been particularly affected by the conflict. There is significant infrastructure damage, and a lack of functional social, educational and health facilities, which have been significantly worsened by full-scale Russian military attack against many big Ukrainian cities. – Ukraine is fighting for its existence

and is facing harsh security, social and economic challenges. This affects negatively the resilience of the country.

Moreover, illegally annexed Crimea has seen its already dire human rights situation exacerbated by the sharp rise of the COVID-19 pandemic, notably as concerns mobility restrictions, access to healthcare and severe conditions in detention centres. Crimea has also become an important part of Russia's military industrial complex. Ethnic Ukrainians and Crimean Tatars remain two of the most discriminated ethnic communities in the peninsula. Ukrainians, and in particular Crimean Tatars, face severe restrictions in exercising their cultural traditions and are affected disproportionately by economic hardship due to discriminatory legislation, tying e.g. land ownership to Russian citizenship. Crossing the administrative boundary line from and to Crimea necessitates considerable efforts, even though conditions at the crossing points have improved somewhat since 2014. Similarly to NGCA residents, residents from the illegally annexed Crimea face obstacles in accessing Ukrainian services and education, further isolating them from mainland Ukraine.

Despite the above, Ukraine has made major reform progress since 2014, including with unprecedented EU support, notably in the areas of good governance, economic stabilisation and growth, health and social policies.

Following the 2019 elections, the new Ukrainian administration has adopted a significantly more inclusive approach towards the eastern and southern parts of Ukraine and has taken an active stance in furthering negotiations in Organization for Security and Co-operation in Europe (OSCE) Trilateral Contact Group for the peaceful settlement of the situation in eastern Ukraine, with initially renewed dynamics in negotiating new disengagement areas and crossing points.

Since 2020, progress has come to a halt, with the COVID-19 pandemic adding significant instability, affecting the healthcare system, the socioeconomic situation throughout the country, and increasing disinformation challenges.

Ukraine's reform progress and overall social cohesion needs to be ensured and safeguarded throughout the country, including to support and enable conflict resolution efforts. This requires strengthened resilience, notably in regions that can be used as easy entry points for destabilisation (be it at border regions, central/critical infrastructure nodes, via panic among population, cyberattacks, or loss of economic confidence).

The Ukrainian economy proved more resilient to the crisis than was expected at the onset of the COVID-19 pandemic and macro-financial stability was maintained, thanks also to substantial reforms implemented the previous years. After a recession of 4% in 2020, less severe than expected, return of Ukraine to economic growth in 2021 was rather slow and the outlook is surrounded by considerable risks.

The ongoing war with Russia has had considerable knock-on effects on confidence, in particular of foreign investors. The national currency has lost 9% of its value relative to the USD since mid-November 2021, despite the interventions by the National Bank of Ukraine. Ukraine's international reserves reached USD 30.9 billion as of 1 January 2022, covering more than five months of imports. In this context, the yields on the Ukrainian Government Eurobonds increased to prohibitive levels in mid-January 2022. Moreover, the ongoing assault by Russian armed forces are having a detrimental effect on Ukraine's economic and financial stability and have already triggered substantial outflow of capital. Furthermore, the situation is putting considerable pressure on State institutions to protect its citizens, which generates significant additional risks to the overall stability of the country and the broader society.

### *EU support*

Since the start of the armed conflict in 2014, the overarching aim of the EU response in Ukraine has been to support the country's sovereignty and territorial integrity and mainstream conflict-sensitivity in all support measures. Targeted programmes, initially under the Directorate General for European Civil Protection and Humanitarian Aid Operations (DG ECHO) and the Service for Foreign Policy Instruments (FPI), through the

Instrument contributing to Stability and Peace (IcSP) and since 2021 through NDICI-Global Europe, and increasingly under the European Neighbourhood Instrument (ENI) and through the European Investment Bank (EIB), have addressed specific recovery, peacebuilding and reconciliation needs. Ongoing EU programmes pay special attention to mitigate impacts of the ongoing conflict, including paving the way for possible reintegration of the areas currently not controlled by the government of Ukraine.

In addition, since the beginning of the conflict, the EU, together with its Member States, has been the biggest donor of humanitarian and early recovery assistance to Ukraine. It has provided over EUR 1 billion of which approximately half for humanitarian aid. EU humanitarian assistance in eastern Ukraine amounts to EUR 193.7 million. This support has been provided in line with the humanitarian principles, humanity, neutrality, impartiality and independence. Roughly 70% of the funding is spent to provide humanitarian aid in the non-government controlled areas.

Since 2016, the EU has been actively engaged in recovery and socioeconomic development of the GCA. In 2019, the EU activities expanded to the broader Sea of Azov region to promote local economic development, strengthen local business and civil society actors, as well as to contribute to greater community security. Activities in support of Crimea have largely focused on monitoring and documenting the human rights situation via targeted grants to specialized organisations, as well as support to the Crimean Tatar community. More recently, EU support has specifically addressed the regions adjacent to Crimea, including service delivery and infrastructure at the crossing points at the administrative boundary line.

The EU, its Member States and Ukraine signed an Association Agreement, including a Deep and Comprehensive Free Trade Area, in 2014. The Association Agreement is fully in force since September 2017. In December 2021, the European Commission adopted a multiannual indicative programme (MIP) for Ukraine for the period 2021-2027<sup>3</sup> under the Neighbourhood, Development and International Cooperation Instrument – Global Europe. Together with the five policy objectives of the March 2020 Joint Communication “Eastern Partnership policy beyond 2020: Reinforcing Resilience – an Eastern Partnership that delivers for all”<sup>4</sup>, it will frame financial assistance under the next Multiannual Financial Framework for the programming period 2021-2027. These priorities are reflected in the Joint Staff Working Document (JSWD) setting out the post-2020 Eastern Partnership agenda<sup>5</sup>, published on 2 July 2021, including its Economic Investment Plan and the five flagship initiatives to support socio-economic recovery and strengthen the country’s resilience.

This action will be implemented in close coordination and synergy with ongoing and future support programmes to the east and south Ukraine, and other relevant bilateral and regional assistance for Ukraine, including in particular the EUR 1.2 billion emergency Macro-Financial Assistance to Ukraine adopted<sup>6</sup>.

## 2.2. Problem Analysis

In the night of 24 February 2022, the Russian Federation started an unprovoked and unjustified military aggression against Ukraine. The situation is having a negative impact on Ukraine’s economic and financial stability and aggravating the already challenging COVID-19 crisis. Threats range from military invasion, cyber-attacks, disinformation, to restrictions to access energy sources. Destabilising and undermining Ukraine’s resilience is part of a hybrid warfare. These threats further increase economic vulnerability of Ukraine and call for the protection of critical infrastructure. Russian assault has caused widespread suffering and casualties on the Ukrainian population, damaged civilian infrastructure and caused massive forced displacement.

The current situation has shown a need for continued support to Ukraine's resilience, not only in relation to the areas directly affected by the conflict, but also in a broader geographical approach to vulnerabilities and a stronger emphasis on overall civilian crisis preparedness and response capabilities.

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<sup>3</sup> Commission Implementing Decision C(2021)9351 of 13.12.2021

<sup>4</sup> [JOIN\(2020\) 7 final](#)

<sup>5</sup> SWD(2021) 186 final

<sup>6</sup> Decision (EU) 2022/313 of the European Parliament and of the Council of 24 February 2022 on providing macro-financial assistance Ukraine, OJ L 55, 28 February 2022, p. 4–11

Efficient and effective civilian crisis preparedness capabilities require a robust response architecture allowing for proper planning, coordination and implementation of targeted measures and streamlined communication. It should cover immediate civil protection needs as well as the needs of the conflict-affected populations, but also tackle risks related to security of energy supply, protection of critical infrastructure, cybersecurity, crisis communication and disinformation challenges, and overall resilience aspects.

The Ukrainian authorities have taken steps to overhaul their preparedness structures and strengthen their capacities, notably through the adoption of a National Resilience Strategy, a National Energy Security Strategy, a Strategy on Information Security and a Cyber Security Strategy, while a Government Humanitarian Contingency Plan is under development. More efforts in these spheres are needed to ensure economic and social resilience and continuous service delivery to the population, including to the most vulnerable, in time of crisis.

## 2.3. Additional Areas of Assessment

### 2.3.1. Public Policy

In response to the ongoing conflict ahead of the Russian invasion on 24 February 2022 and multiple challenges faced by the country, Ukraine has made progress and gradually introduced and strengthened its strategic approach to external threats management and crisis preparedness. While initially largely relying on an outdated, overly bureaucratic and centralised framework geared towards classical deterrence and aid support, over the past years, Ukraine has initiated changes taking into account the emergence of new threats and realities as well as the overall reform processes in the country.

With Presidential Decree 392/2020, the term resilience was introduced into Ukrainian normative language, forming the basis for the development of the subsequent ‘Concept of a National Resilience System’<sup>7</sup> (hereinafter Concept), elaborated by the National Security and Defence Council (NSDC)<sup>8</sup> and adopted by Presidential Decree on 27 September 2021. The Concept was elaborated with support of a dedicated NATO Resilience and Advisory Support Team that accompanied the design and drafting process since a first assessment in 2019 with support of Latvian, Finnish and US experts. The Concept “defines the purpose, basic principles, focus areas, mechanisms and timelines of the introduction and functioning of the National Resilience System, aimed at ensuring the ability of the state and the society to identify threats in a timely manner, disclose vulnerabilities and assess national security risks, prevent or mitigate their negative impacts, effectively respond, and recover quickly and comprehensively after the evolution of threats or the onset of emergencies and crisis situations of all kinds, including hybrid threats.”

The Concept effectively overhauls Ukraine’s civilian crisis preparedness and response capabilities at state, regional and local levels, focusing on:

- the institutional resilience of the system of state authorities;
- security and protection of **critical infrastructure** facilities, including **energy systems**, and smooth functioning of information and **communication services**; ensuring defence and public order;
- capability of the unified state **civil protection** system to operate in conditions of threat or occurrence of emergency situations; ability of the **healthcare system** to function under heavy loads; ability to respond effectively to uncontrolled **mass movements of people**;
- public resilience, in particular, to **information influences**; **cyber security**
- financial and economic resilience, in particular, continuity of the main business processes.

It additionally aims at establishing a coordination commission for all matters pertaining to its scope.

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<sup>7</sup> Presidential Decree No. 479/2021 On the decision of the National Security and Defence Council of Ukraine of August 20, 2021 "On the introduction of a national system of resilience" - <https://www.rnbo.gov.ua/ua/Ukazy/5017.html>

<sup>8</sup> advisory state body to the President of Ukraine tasked with developing and coordinating a policy of national security on domestic and international matters

The Concept identifies current weaknesses in the crisis preparedness and response architecture, among others related to the lack of overall coordination and interaction of responsible agencies at central, regional and local levels, weak communication between state authorities and citizens and outdated or absent methodological and planning approaches and proposes to address them with an updated legal framework, strengthened coordination between existing and newly created state bodies, capacity building of resilience actors and an increased emphasis on communication and interaction with non-state actors. The foreseen implementation period is between 2-5 years.

**A first (non-public) implementation plan is being finalised by the Cabinet of Ministers of Ukraine under the leadership of the Vice-Prime Minister for European and Euro-Atlantic Integration. Work is also ongoing to establish the coordination commission for the national resilience system.** The Ukrainian Governmental Office for European and Euro-Atlantic Integration has been effectively coordinating the process in cooperation with the National Security and Defence Council, while the NATO Resilience Advisory Support Team remains associated to the process and provides guidance and input in the drafting process.

The creation of a national coordination commission uniting all major actors involved in crisis response can play an important role in improving coordination and streamline response in times of crisis. It will be important to ensure sufficient resources and staffing and endow it with appropriate decision making power to make it effective.

In addition to and under the overarching umbrella of the Concept of a National Resilience System, a host of sectoral strategies and normative acts on civilian crisis preparedness and response have started to be developed that can be grouped into three main categories: (1) protection of critical infrastructure and energy security (2) cyber and information security (incl. crisis communication) (3) civil protection and support to the conflict-affected population.

#### Protection of Critical Infrastructure and Energy Security

Already ahead of 24 February 2022 the ongoing conflict had exposed the vulnerability of Ukraine's critical infrastructure amid a more hostile security environment and heightened threats of economic disruptions and hybrid attacks. This includes economic considerations, e.g. due to the systemic importance of banks and other financial service providers but also immediate health and security concerns such as in the energy sector.

The fuel and energy complex in Ukraine is operating under severe strain and is particularly vulnerable to external threats. Ukraine's unified energy system is synchronised with the energy system of the Russian Federation and Belarus, which cannot any longer be considered reliable strategic partners for Ukraine's energy security. In addition, oligarchic and monopolistic structures in domestic energy production, transmission and distribution have hampered modernisation and liberalisation of the sector, deterring foreign investments and delaying innovation. Severe underinvestment in maintenance have led to a deterioration of the technical condition of fixed assets in the sector and increase the cost of energy supply due to energy losses and low efficiency. Nuclear power stations are approaching the end of their service life and are under severe threat due to Russian military aggression, including the shelling of nuclear power plants.

Against this backdrop, on 4 August 2021, the Cabinet of Ministers of Ukraine adopted a new **Energy Security Strategy**<sup>9</sup>. The Strategy contains an analysis of energy security threats to determine their criticality, identifies energy security priorities and describes strategic choices, goals and objectives aimed at preventing situations that could potentially pose threats to energy security.

The Strategy is an important step in conceptualising future energy sector priorities and contains a good analysis of the situation, threat description, as well as general recommendations that are largely consistent with the analysis of international experts. The Strategy foresees the development of an **action plan by the Ministry of Energy** and regular reports on its implementation within a five year period. It is complemented by

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<sup>9</sup> Cabinet of Ministers of Ukraine Order No. 907-r "On the Approval of the Energy Security Strategy" - <https://zakon.rada.gov.ua/laws/show/907-2021-%D1%80#Text>



Presidential Decree 452/2021 of 28 August 2021 on **neutralising threats in the energy sector**<sup>10</sup>, containing additional measures, covering in particular gas, electricity and district heating sectors.

In 2019, a contingency plan for the fuel and energy sectors, initially drafted in the first conflict years (2014 and 2015) was updated and a new risk analysis and new recommended actions for gas, electricity, district heating and oil/oil product supply prepared by a team of Ukrainian and international experts. The "Winter Action Recommendations for 2019-2020, Fuel and Energy Sector"<sup>11</sup>, covers several potential risk scenarios and approximately 90 action recommendations. A further **update of the contingency and emergency plan and a review of not yet implemented recommendation is being envisaged**, also in the face of the military escalation.

To improve and systematise the protection of critical infrastructure, including in the energy sector, on 16 November 2021 the Parliament adopted the **Law on Critical Infrastructure**<sup>12</sup>, which defines state policy aimed at forming a set of organizational, regulatory and methodological measures to ensure the safety of critical infrastructure, among others by forecasting, preventing and mitigating crises. The law will enter into force on 15 June 2022 and tasks the Cabinet of Ministers to **designate an authorized body for the protection of critical infrastructure** within three months from the date of entry into force of this Law and **ensure the adoption of necessary regulations to develop a protection system**. The body will prepare a National Plan for Protection and Sustainability of Critical Infrastructure and a register of critical infrastructure, coordinating the work of other state bodies which are tasked to develop own binding planning for the protection of infrastructure at national, regional and local levels.

Cyber aspects regarding the protection of critical infrastructure are included in the overall strategy on cybersecurity (cf. below).

A dedicated EU-Ukraine Strategic Energy Partnership with regular high-level meetings exists since 2017.

#### Cyber and Information Security (incl. Crisis Communication)

Since the early days of the conflict, Ukraine has been increasingly a target for cyber and disinformation attacks aimed at undermining key infrastructure like energy and banking services, inflicting physical and reputational damage and undermining the trust in the Ukrainian authorities and its democratically chosen path to European and Euro-Atlantic integration. This hybrid aggression has become an almost daily occurrence and has intensified in the context of the recent military escalation.

As a response and to further its ambitious digitalisation agenda, in September 2019 the Ukrainian authorities set up a Ministry of Digital Transformation with distinct responsibilities in the sphere of cyber security. The State Security Service for Communication and Information Protection under the Ministry ensures the design and implementation of the state cybersecurity policy, protect critical information infrastructure and coordinate activities of other cyber security stakeholders.

Ukraine adopted a **Law on the Fundamentals of Cybersecurity**, which came into force in May 2018 and establishes a comprehensive governance system for the security of information and communications technology, defines key cybersecurity principles, objects of cybersecurity and defence, and sets responsibilities and tasks. The law was revised in 2021 to reflect better the objectives of Ukraine's digital transformation. A first **Cybersecurity Strategy of Ukraine** was adopted in 2016 and subsequently updated in 2021<sup>13</sup> taking into account innovations of the Cyber Security Strategy for the Digital Decade and the EU Cyber Security Law, current challenges and trends in cyberspace threats. An **action plan**<sup>14</sup> for its

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<sup>10</sup> Decree of the President of Ukraine No. 452 / 2021 On the decision of the National Security and Defence Council of Ukraine of July 30, 2021 "On measures to neutralize threats in the energy sector" - <https://www.president.gov.ua/documents/4522021-40021>

<sup>11</sup> Non-public document

<sup>12</sup> Law of Ukraine 1882-IX "On Critical Infrastructure" - <https://zakon.rada.gov.ua/laws/show/1882-20#Text>

<sup>13</sup> Decree of the President of Ukraine No. 447 / 2021 On the decision of the National Security and Defence Council of Ukraine of May 14, 2021 "On the Cyber Security Strategy of Ukraine" - <https://www.president.gov.ua/documents/4472021-40013>

<sup>14</sup> Decree of the President of Ukraine No. 37 / 2022 On the decision of the National Security and Defence Council of Ukraine of December 30, 2021 "On the Plan for the implementation of the Cyber Security Strategy of Ukraine" - <https://www.president.gov.ua/documents/372022-41289>

implementation was adopted in February 2022 with references to creating effective cyber defence, counter-intelligence and counterterrorism capabilities and to strengthening overall national cyber readiness in the society with scientific and technical support and safe e-services.

Based on a commitment taken at the 22<sup>nd</sup> EU-Ukraine Summit of 6 October 2020, an EU-Ukraine Cyber-Dialogue, was launched in June 2021.

To intensify its **fight against disinformation**, in 2014 Ukraine agreed to transform the National Television Company of Ukraine from a state to a politically independent public broadcaster that went on air on 19 January 2017. Further steps to regulate the media market are enshrined in the draft law on media that is currently registered in the Verkhovna Rada of Ukraine and awaiting final reading. This draft law also contains some provisions on disinformation, with the topic being more comprehensively covered by a dedicated draft law on combatting disinformation, which requires further elaboration going forward.

On 2 December 2014, the Government created a Ministry of Information Policy, which since March 2020 is merged into the Ministry of Culture and Information Policy. Among the tasks of this Ministry are the fight against disinformation and the furthering of media literacy, while the President recently tasked the Minister of Culture and Information Policy to also ensure crisis communication. To increase the effectiveness of the Ministry's work, the Centre for Strategic Communication and Information Security was created, which, however still lacks a legal status as independent entity and instead operates as part of the national news agency Ukrinform and with limited staffing. In addition, the National Security and Defence Council hosts the Centre for Countering Disinformation, whose activities are, however, limited.

On 28 December 2021, a **Strategy on Information Security**<sup>15</sup> was adopted, replacing the previous Doctrine on Information Security adopted in December 2016. The Strategy identifies current challenges and threats to Ukraine's national security in the information sphere, lists strategic goals and objectives aimed at counteracting such threats, and ways to protect individuals' rights to information and their personal data. Strategic goals refer among others to countering disinformation operations, improving the level of media culture and media literacy, the information reintegration of Ukrainian citizens living in the temporarily occupied territories and adjacent territories of Ukraine and creating an effective system of strategic communications. The Ministry of Culture and Information Policy is the main responsible body for the development and implementation of a **dedicated action plan**.

As part of the Strategy on Information Security, the Minister of Culture and Information Policy was also tasked to oversee **crisis communication**. However, no further framework, strategy or action plan have yet been put in place in this regard and communication activities remain split between various Ministries, notably the Ministry of Foreign Affairs, the Ministry of Defence and the Ministry for the Reintegration of Temporarily Occupied Territories.

#### Civil Protection and Support to Conflict-Affected Population

A dedicated Ministry [for the Reintegration of Temporary Occupied Territories] was created to strengthen coordination of humanitarian, social and other policies targeted at people most affected by the conflict in eastern Ukraine. While territorially focused only on the three regions adjacent to the contact line / administrative boundary line, the Ministry engages in management of internally displaced persons and support of conflict-affected populations on both sides of the contact line and plays an increasing role also beyond its initial geographical scope.

Overall operational responsibility for civil protection remains with the State Emergency Service of Ukraine under the Ministry of Internal Affairs, which also has a role as one of the first responders in emergencies, while civil protection and social protection departments at local and regional level play an important role in the delivery and identification of needs on the ground, and emergency response planning, further bolstered by decentralisation reform, whose potential must be duly factored in the proposed actions.

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<sup>15</sup> Decree of the President of Ukraine No. 685 / 2021 On the decision of the National Security and Defence Council of Ukraine of October 15, 2021 "On the Information Security Strategy" - <https://www.president.gov.ua/documents/6852021-41069>

The State Commission on Technogenic and Environmental Safety and Emergency Situations chaired at central level by the Minister of Communities and Territories Development and replicated at regional level oversees and decides on emergency levels and coordinates response.

Efforts have been intensified to bring together still disjointed and poorly coordinated parts of Ukraine's civil protection and crisis response system by setting up a **dedicated working group** under the Vice-Prime Minister and Minister for the Reintegration of Temporary Occupied Territories to overhaul legislation and other normative acts. The task force unites state actors and representatives of humanitarian partners and aims to develop legislative proposals to update the civil protection framework and simplify the import of humanitarian goods, in the past often plagued by arbitrary and lengthy customs procedures.

In addition, the Vice-Prime Minister has been tasked to develop a **Humanitarian Contingency Plan** for a better preparedness in case of escalation of violence. The UN **Ukraine Inter-agency Contingency Plan**<sup>16</sup> for humanitarian assistance has been revised listing main needs / activities in case of a worsening of the situation, while a civil society consortium of ACTED/Responsibility to Protect (R2P) is finalising analytical reports on the strategic disaster risk reduction framework to be published in June 2022, focusing among others on the impact of budget decentralisation.

In addition, Ukrainian authorities have identified the need to improve emergency response planning procedures and inter-agency coordination as one of the main priorities throughout a holistic assessment of the civil protection system conducted under the EU-funded regional programme for prevention, preparedness and response to natural and man-made disasters (PPRD East 3).

On 18 November 2021, the Ukrainian National Centre for Peacebuilding was set up under the Ministry for the Reintegration and Temporarily Occupied Territories and a **Conceptual Framework for Peacebuilding Policy** was prepared to shape activities of the Centre. The Centre will document human rights violations committed during and as a consequence of the conflict and work with non-state actors as well as victims on psychosocial and legal support mechanisms. The Ministry announced that a fully-fledged strategy and action plan would be developed in 2022 to further systematise and bolter the work of the new agency.

At **local level**, emergency preparedness has largely been focused on (quasi-)military initiatives, while the civil protection dimension has been somewhat neglected; equally no efficient communication mechanisms between the local and state level seem to be in place. Against this backdrop, the Association of Ukrainian Cities, the largest local self-government association uniting over 900 municipalities representing more than 80% of the Ukrainian population, is preparing a **resolution on crisis management and infrastructure**. A working group will be established to develop crisis response for local authorities and issue recommendations for amendments to legislative acts, rules and procedures.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.2 Macroeconomic Policy

The return of Ukraine to economic growth in 2021 was rather slow. Following a less severe than expected recession of 4% only in 2020, GDP contracted by 2.2% year-on-year in the first quarter of 2021. The second quarter rebound by 5.7% year-on-year was disappointing, given base effects with a corresponding severe contraction of 11.2% in Q2 2020. Growth further decelerated to 2.7% year-on-year in the third quarter. Overall, economy is estimated to have grown by 3% in real terms in 2021.

After an initial deterioration during the recession, unemployment started to decrease in the second quarter of 2021. The unemployment rate reached 10.5% in Q1 2021, which was still 1.9 percentage points above its level

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<sup>16</sup> Non-public document

a year earlier. Yet, the return to economic growth had an immediate impact in Q2, when the unemployment rate declined already to 9.9%. It further declined to 9.7% in Q3. Nominal wages moderated their annual growth from almost 30% in April 2021 to 19% in November 2021, when the average monthly wage reached EUR 460. The annual growth of wages in real terms accelerated to almost 20% in April 2021, which is well above developments in 2018 (+12.6% by year-end) and in 2019 (+9.8%). By end-November 2021, annual growth in real wages moderated to 8%.

Taking into account the growing money supply and the accelerating inflation, the National Bank of Ukraine (NBU) increased its key policy rate by 400 basis points to 10% between June 2021 and January 2022. Consumer and producer prices inflation reached 10.0% and 62.2% year-on-year in December 2021, respectively, up from 5% and 14.5% a year earlier, and compared to inflation target of 4%-6%.

After a lasting stabilisation of the exchange rate and of the level of international reserves, an abrupt decline in investors' confidence started to reverse the stabilisation trend in November 2021. Earlier in the year, the gross international reserves at the NBU had continued to grow and had reached more than USD 31.6 billion (more than 5 months of imports) in August 2021, also thanks to the allocation of additional special drawing rights (SDR) by the International Monetary Fund (IMF) for USD 2.73 billion. However, the trend started reversing already in November 2021, when the NBU had to intervene in the foreign currency market by buying back hryvnia for the equivalent of USD 940 million. The cumulative support measures in the first three weeks of 2022 reached another USD 730 million. Meanwhile, the domestic currency has depreciated by 8% relative to mid-November and has been exchanging at UAH 28.3 for 1 US dollar in mid-January 2022, up from UAH 26.1 for 1 US dollar in mid-November.

According to the central government's preliminary estimate, the 2021 public deficit stood at 3.1% of GDP in December, which is 2 percentage points better than initially planned. Public revenues increased by 24% year-on-year, which is 2.8 pps higher than planned, while public expenditure increased by 11% year-on-year, which is 1.5 pps less than planned. All of the expenditure increase reflects current spending, while public investment has stagnated.

The current account ran only a moderate deficit (1.1% of GDP) in 2021. This was made possible by high global prices for food and metals-and-mining products, which are Ukraine's major exports. Yet this deficit widened rapidly in the second half of the year because of surging energy prices, weaker external demand for metals-and-mining products, and record-high dividend payments.

International investors' perception of the sovereign risk remained volatile throughout 2021 and started worsening since mid-November. The yield on the USD-denominated Eurobond with remaining maturity of two years spiked to more than 20% on 19 January, before moderating slightly to 14.8% a few days later and compared to below 5% in early November 2021. This deterioration in the funding conditions implies that Ukraine no longer has access to international capital markets and cannot finance its external funding gap privately at sustainable rates.

Assessing financing needs is surrounded by an unusual degree of uncertainty at the current juncture. From the point of view of government finances only, Ukraine faces a USD 2.5 billion of external debt redemptions in the course of 2022, with the largest one-time payment of USD 1 billion on 1 September (Eurobond maturity). The remaining redemptions are split relatively evenly throughout the year. The reserve liquidity available to the State Treasury is currently estimated at the equivalent of USD 2 billion, out of which 60% is in foreign currency. Without access to international capital markets, the government of Ukraine would have to rely primarily on the domestic banks to finance its deficit. This, however, could result in a further drain on the official reserves, thereby de facto widening the external financing gap beyond USD 2.5 billion. While the government could use the available liquidity reserve of USD 2 billion, a sizable impact on the stock of official reserves could potentially further weigh on international confidence.

The EU Macro Financial Assistance operation of EUR 1.2 billion covers almost half of the USD 2.5 billion by which the external financing gap (as of 23 February 2022) has widened as a result of the loss of access to international capital markets.

Ukraine currently implements a USD 5.0 billion Stand-by programme, of which USD 2.1 billion of budget support was disbursed in June 2020. The country also received USD 2.7 billion of the IMF's global allocation of SDRs in August 2021. Ukraine's engagement with the IMF under the programme has been slow and uneven. While Ukraine met the two structural benchmarks for the period up to end-August 2020 on time, there has been a lack of progress and even some evidence of backtracking in relation to crucial reforms in the areas of rule of law, the fight against corruption and governance of state-owned enterprises. This delayed the official start of the first IMF review mission to mid-December 2020. The engagement with the IMF was reinvigorated in the summer of 2021. The Executive Board of the IMF validated the first programme review on 22 November 2021, which paved the way for the immediate disbursement of the equivalent of about USD 700 million. Simultaneously, the Board also approved the extension of the current Stand-By Arrangement until end-June 2022. Two more programme reviews are planned. If these disbursements take place, the outstanding amount of IMF loans to Ukraine would reach the binding upper limit of 450% of Ukraine's SDR quota in the IMF. This means that the IMF would not be able to provide any *net* funding to Ukraine beyond the current programme.

Key risks to macroeconomic stability come from the ongoing conflict caused by Russia's aggression against Ukraine, which acts as an important deterrent to private capital inflows. Diplomatic efforts for de-escalation, conflict management and resolution continue, including with the support of the EU. Moreover, politically Ukraine remains highly committed to its comprehensive commitments under the Association Agreement with the EU, including in the part on the establishment of a Deep and Comprehensive Free Trade Area, which is also reflected in the government's action plan of April 2020.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

### **2.3.3 Public Financial Management**

Following 2019 Public Expenditure and Financial Accountability (PEFA) report, the government launched the preparation of the new Public Financial Management (PFM) strategy and action plan 2021-2025. Following an extended approval process, the new PFM strategy was adopted in December 2021.

The 2019 PEFA summarized the positive PFM reform developments. Specifically, the Government of Ukraine has made progress in: (i) implementing medium-term budget planning; (ii) integration of International Public Sector Accounting Standards (IPSAS) into Ukraine's statutory framework and the adoption of the 2025 public sector accounting (PSA) Strategy; (iii) improving macroeconomic and budget forecasting tools; (iv) increasing transparency in public financial management through the introduction of an open budget portal; (v) fiscal risk management, and (vi) gradually introducing a gender-oriented approach to budgeting.

Although general progress is recorded, three sensitive areas received a score "D" in the 2019 PEFA assessment: Fiscal strategy, legislative scrutiny of the budget, and Payroll control. The indicators related to the Fiscal strategy and medium term perspective in expenditure budgeting scored respectively "D" and "C", reflecting a shortcoming in the policy-based fiscal strategy and budgeting.

The share of tax revenue to GDP is around 35% (IMF Country Report), which is very close to the average of 33.8% in 2019 in OECD countries. Over last years, tax burden on the economy was reduced, with a shift also from labour to indirect taxation. The pandemic has postponed the agenda for a comprehensive tax policy reform including broadening the tax base, further tightening exemptions, reducing scope for abuse of preferential regimes. Despite COVID-19, a satisfactory revenue mobilisation performance was maintained, reforms of tax and customs administrations gained a new momentum with substantial EU support. Legislation regarding base erosion and profit shifting (BEPS) was adopted. Improvements in tax administration have been focusing on improving risk management including via e-audit, introducing electronic cabinet of tax payers and single tax account, upgrading the contact centre and implementing e-cash registers.

The State Tax Service in Customs area, the national pilot of the new computerised transit system, was completed in March 2021 and is currently running at a national level. The country intends to join the

Convention on Common Transit Procedure by end-2022. The Authorised Economic Operators (AEO) programme was launched. All those measures shall contribute to reduce opportunities for misuse and corruption which remains widespread, especially in customs.

The Bureau of Economic Security, a new agency to combat serious economic and financial crimes, was created, however challenges remain in ensuring that the body operates properly. Criminalisation of large scale smuggling is pending. Ukraine is not on the EU list of non-cooperative tax jurisdictions.

A gender oriented approach to the budget was first rolled out in 2017. More than 200 budget programmes at both state and local level have been analysed from a gender perspective since 2014. The 2021-2025 PFM strategy refers to strengthening of the practical application of a gender based approach in the budget process at national and local levels to ensure that the needs of vulnerable social groups, including women, are taken into account. Specifically the accountability of key spending units will be strengthened through increased transparency. A PEFA assessment of gender responsive public financial management was published in August 2021. The main findings are summarised below.

<b>GENDER RESPONSIVENESS OF PFM TOOLS</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>NU</b>
#1: GENDER IMPACT ANALYSIS OF BUDGET POLICY PROPOSALS				D	
#2: GENDER RESPONSIVE PUBLIC INVESTMENT MANAGEMENT				D	
#3: GENDER RESPONSIVE BUDGET CIRCULAR		B			
#4: GENDER RESPONSIVE BUDGET PROPOSAL DOCUMENTATION			C		
#5: SEX-DISAGGREGATED PERFORMANCE INFORMATION FOR SERVICE DELIVERY				D+	
#6. TRACKING BUDGET EXPENDITURE FOR GENDER EQUALITY			C		
#7. GENDER RESPONSIVE REPORTING				D	
#8: EVALUATION OF GENDER IMPACTS OF SERVICE DELIVERY				D	
#9: LEGISLATIVE SCRUTINY OF GENDER IMPACTS OF THE BUDGET				D	

The assessment concluded that the Ministry of Finance is the only body interested in implementing gender based budgeting in Ukraine, and while the Ministry is important, further political buy-in from other stakeholders is required. Currently key spending units are not required to use a gender approach to budgeting. Other challenges is the lack of sex-disaggregated data and gender statistics on performance indicators of budget programs. Budget scrutiny is generally considered to be weak, this is only enhanced in terms of looking at the budget from a gender perspective, where both the Parliament and the accounting chamber are missing the needed capacity and information to undertake this analysis. Finally, the possibility to review public investments in terms of gender impact has not yet been considered.

The new 2021-2025 PFM strategy is considered relevant as it addresses key weaknesses as assessed by the 2019 PEFA. The accompanying action plan is clear and sets clear targets and deadline for implementation of the strategy, while also appointing the responsible body for each of the action areas. A joint working group on PFM is in place and meets on a bi-annual basic. This group serves partly as a coordination body partly as a forum to exchange best practices and ideas. The capacity of the Ministry of Finance, the tax authorities, the customs authorities and the accounting chamber of Ukraine is reinforced by a comprehensive capacity building package EU4PFM of EUR 50.5 million. There is an ongoing bi-annual high level policy dialogue on PFM between the European Union and Ukraine, always followed up by operational conclusions on the key priorities of reform. This dialogue will be continued and strengthened by additional technical monitoring through the EU4PFM programme and regular working level meetings between the Ministry of Finance and EU representatives.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

### 2.3.4 Transparency and Oversight of the Budget

In 2021 important reforms have been made to the budget process in Ukraine. The budget declaration for 2022-2024 was adopted, which was an important step towards medium term budget planning and is the basis for the 2022 budget. The 2022 budget was approved in December 2021, based on medium term planning. However, the ongoing Russian invasion will have an impact on the budget planning.

The annual executive budget proposal and enacted budget provide a comprehensive picture of central government fiscal forecasts and out-turn, including forecast of the fiscal deficit with current year's budget, and aggregated budget data for both revenue and expenditure.

The objective of the PFM strategy and action plan 2021-2025, supports the progress achieved by Ukraine in the area of budget transparency, including further extension of information to be published in machine-readable format, budget requests, passports of budget programs of key spending units and reports on their implementation. Also, measures to further increase fiscal transparency will be developed following the assessment conducted by the International Monetary Fund. As for local budgets, unification and standardization of methods and measures of disclosure of information of the key spending units of local budgets, decisions on local budgets and local budget forecasts will be provided. This will allow every citizen to get acquainted with the main budget indicators of their city, district, community or region and compare them with others using a clear procedure. The aim set in the 2021-2025 PFM strategy is for Ukraine to achieve at least 67/100 points in 2025 in the open budget index. The last recorded score was 63 points in 2019 (compared to 54 in 2017).

According to the 2021 Fiscal transparency Report<sup>17</sup> the Government of Ukraine generally makes its budget and information on debt obligations widely and easily accessible to the general public, including online. Budget documents provide a substantially complete picture of the government's planned expenditures and revenue streams. However, the government maintains off-budget accounts, including three social insurance funds, which have yet to be independently audited. To further improve budget transparency, Ukraine should strengthen the use of international standards in the Accounting Chamber of Ukraine, subject off-budget account to public oversight, increase transparency in the award process for natural resource extractions contracts and strengthen the compliance of budget spending.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

## 3. DESCRIPTION OF THE ACTION

### 3.1. Objectives and Expected Outputs

The Action consists of a State and Resilience Building Contract to support societal and state resilience in Ukraine<sup>18</sup> in complementarity to other means of intervention (humanitarian aid, pooled funds, and projects) in line with the humanitarian-development-peace nexus. The budget support contract contributes to the government's policy to improve its civilian crisis preparedness and response system, in particular in the fields of civil protection and support to conflict-affected populations, energy security, cyber security and the fight against disinformation and to increase the government's capacity to engage in crisis communication vis-à-vis the general population. The EU's approach will be accompanied by a robust policy dialogue. An EU-Ukraine High Level Dialogue on Cyber Security was already launched in June 2021 following a previous commitment at the EU-Ukraine summit in 2020.

In line with the aforementioned National Resilience Strategy, the **overall objective** (Impact) of this Action is for Ukraine to mitigate the impact of the current Russian invasion and potential future crises in Ukraine by strengthening civilian crisis preparedness and management at both central and local level. This becomes even more urgent in view of the ongoing Russian aggression against Ukraine.

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<sup>17</sup> published by the US department of State

<sup>18</sup> In line with the Joint Communication on A Strategic Approach to Resilience in the EU's External Action (JOIN(2017) 21 final

The **specific objectives** (Outcomes) of this Action are:

1. Contributing to the continued delivery of basic services, including protection, to the most vulnerable citizens through the establishment of a Ukrainian crisis preparedness and response system.
2. Strengthening protection of critical infrastructure.
3. Strengthening Ukraine's capacity to effectively mitigate the effects of cyber and disinformation attacks.
4. Supporting the development of a robust system of crisis communication.

The **induced outputs** to be delivered by this Action contributing to the corresponding specific objectives (Outcomes) are:

- 1.1 Establishment of a central body to oversee the implementation of the Concept of a National Resilience.
- 1.2 Adoption of an action plan to implement the Concept of a National Resilience System.
- 2.1 An update of the winter contingency plan for the fuel and energy sector of 2019.
- 3.1 Adoption of an action plan to implement the Strategy for Information Security.
- 4.1 Establishment of crisis management, emergency response and communication procedures between the central level and municipalities.

The **direct outputs** to be delivered by this Action are:

5. Helping to relieve the external financing constraints by increased fiscal space and reduced transaction costs.
6. Improved monitoring and reporting on crisis preparedness.
7. Strengthened capacity on crisis preparedness and response planning, including through flanking measures.
8. Improved preparedness and crisis management communications to the citizens.

### **3.2. Indicative Activities**

#### Activities related to Output 5

Continuous fulfilment of the general conditions will be ensured through the dedicated policy dialogue (see below) as well as constant dialogue with the authorities and monitoring and assessment/field visits conducted on the ground if possible in light of the ongoing Russian invasion of Ukraine.

#### Activities related to Output 6

A robust policy dialogue will accompany the State and Resilience Building Contract throughout its implementation period. The dialogue will take place at high level, with technical level dialogue/exchanges conducted on a regular basis. Ongoing dialogue on crisis preparedness and related sectoral reforms continues as part of the EU's regular activities.

#### Activities related to Output 7

Existing relevant technical assistance projects and regional programmes provided through ENI/NDICI instruments will continue their contribution to strengthen Ukraine's crisis preparedness and crisis response. This includes work with various Ministries, the State Emergency Service of Ukraine, local governments and bodies combatting cyber and disinformation threats. Additional flanking measures may be put in place to support the process.

### **3.3. Mainstreaming**

#### **Environmental Protection, Climate Change and Biodiversity**



**Outcomes of the Strategic Environmental Assessment (SEA)** screening (relevant for budget support and strategic-level interventions).

The SEA screening concluded that no further action was required.

**Outcomes of the Environmental Impact Assessment (EIA)** screening (relevant for projects and/or specific interventions within a project).

The EIA screening classified the Action as Category C (no need for further assessment).

**Outcome of the Climate Risk Assessment (CRA)** screening (relevant for projects and/or specific interventions within a project).

The CRA screening concluded that this Action is no or low risk (no need for further assessment).

### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this Action is labelled as G1. This implies that the principles of gender equality and women empowerment are significant objectives to this Action.

The principles of gender equality and women empowerment are significant objectives to this Action. The principle of gender equality will be embedded in the activities related to targeted civilian crisis preparedness and response measures, ultimately benefiting crisis-affected women and men in the framework of Ukraine's crisis preparedness planning and its crisis communication to the entire population. The project will hence have an impact on women and men as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

Under the regional programme for prevention, preparedness and response to natural and man-made disasters (PPRD East 3) the "Practical guidelines for integrating gender, human rights and environmental issues in Disaster Risk Management" have been developed and can serve as a guiding tool.

### **Human Rights**

Actions under this programme will apply the human rights based approach and be based on the principles of good governance, equality and the inclusion of socially or economically deprived or vulnerable groups.

### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this Action is labelled as D1. This implies that the inclusion of persons with disabilities is an important objective of the Action as they would be directly affected by the objectives of the Action. In 2014, the estimated numbers of persons with disabilities is at 2.7 million, representing 6% of the total population of the country.

### **Democracy**

Actions under this programme will support steps taken by the Ukrainian government to address the principles of public administration developed by the European Commission in close cooperation with the OECD/SIGMA.

### **Conflict sensitivity, peace and resilience**

The contract is intended to increase the overall resilience of economy and society to external shocks, with a particular emphasis on crisis preparedness, to reduce the impact of any such event for the population at large.

### **Disaster Risk Reduction**

While the contract will help bolster the response capabilities of civil protection players with its specific emphasis on civilian crisis preparedness and response. An all-hazards approach will be adopted including all potential natural and human-induced (intentional and non-intentional) risks to ensure that mitigation of one risk does not increase the country's vulnerability to other risks.

### 3.4. Risks and Lessons Learned

Category <sup>19</sup>	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
1	Further escalation of military activity / intensification of Russian aggression.	H	H	Support the strengthening of Ukraine's civilian crises preparedness and management structures based on international best practice and lessons learned. Coordination with other EU services and international partners.
1	Russian destabilisation efforts including hybrid and disinformation campaigns are successful.	H	H	Build capacity in cyber security and countering disinformation.
1	Russia cutting further back its energy supply to Ukraine, in an attempt to destabilise the country.	H	H	Support the development of a contingency plan for the fuel and energy sector. Support to the implementation of the national energy and security strategy.
2, 3	There is an identified risk and prevalence of corruption in Ukraine, which can undermine the reform process and prevent crises support to reach the most vulnerable.	M	H	Ensure a strong policy dialogue, which will closely follow the establishment of a crises preparedness and management structure in Ukraine, including emergency communication procedures and clear coordination structures for humanitarian aid.
2, 3	Lack of capacity of the government to define and implement efficiently short and medium term response measures to establish a credible crises preparedness and management structure.	H	H	Pursue the policy dialogue and technical support to the relevant public authorities, if still possible. Otherwise, ensure close coordination with international partners and civil society organisations in order to support the strengthening of civilian crises preparedness.
1	Democratically elected government loses control over Ukraine's territory.	M	H	The budget support payment will only be executed if democratically elected government of Ukraine is in control over the management of the treasury.
2,3	Unintended negative human rights impacts or risks that perpetuate gender inequalities.	L	M	In the development of the outputs under this action, a human rights approach is used, seeing to increase protection systems for the most vulnerable including IDP's,

<sup>19</sup> The risk (category) can be related 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information.

				conflict affected populations, women and girls.
1,2	The external financing gap could not be filled beyond 2022, which could cause macro-economic destabilization.	H	H	Continued macro-financial assistance from the EU and the IFM. Continued political pressure to de-escalate the conflict
2,3	Normal oversight procedures could be jeopardised in crises, increasing the risk of corruption and mismanagement of funds.	M	M	Ongoing and continued strengthening of PFM monitoring and dialogue with relevant stakeholders in Ukraine.

## Lessons Learned

A general evaluation of Budget Support in Ukraine from 2006-2013 was carried out in 2014. It concluded that budget support can be an effective instrument for Ukraine. However, the evaluation also concluded that the EU should make the necessary organisational arrangements to maintain a periodic and systematic high level dialogue on aggregate budget, fiscal and PFM issues, and ultimately the implementation of the budget support instrument in Ukraine as a whole. This has been done and regular dialogues on macro-economic issues and PFM issues are undertaken twice a year. The instrument has been instrumental in pushing for the approval of the new PFM strategy 2021-2025 and is as such recognised broadly as a valuable contribution to Ukraine by a broad spectrum of Ukrainian stakeholders. The evaluation recommended a strengthening of the Ministry of Finance as the effective central fiscal authority. While there is now little doubts as to the status of the Ministry of Finance, there is still a need to build its capacity as the primary fiscal authority in Ukraine. The Ministry is being supported through the EU4PFM programme. Finally, it was recommended that further transparency on fiscal information was ensured. Ukraine has since 2014 seen gradual improvements in transparency of the Budget, and is continuing these efforts with a target to further improve its score in the open budget index before 2025. Continued policy dialogue on the fundamental eligibility criteria for budget support will be continued both at high and technical level during the implementation period of the current state building and resilience budget support programme.

### 3.5 The Intervention Logic

The action is implemented against the backdrop of an ongoing Russian aggression against Ukraine that commenced in 2014 with the illegal annexation of Crimea and the occupation of parts of Donetsk and Luhansk oblasts in eastern Ukraine.

The transfer of funds to the Ukrainian state budget will increase fiscal space in a context of increased stress on international financial markets and will accordingly lower transaction costs, allowing to underpin reform priorities in the areas of resilience and civilian crisis preparedness. An accompanying robust policy dialogue will ensure sufficient focus on advancing government efforts through increased reporting and monitoring activities. A specific attention will be put, through coordination, at ensuring the complementarity of the Action with other means of intervention already in place in the country (humanitarian aid, pooled funds, and projects). At the same time, flanking actions from existing and newly designed technical assistance interventions will contribute to building capacities of relevant Ukrainian counterparts at central, but also regional and local level and thus further improve relevance and quality of the reform (direct outputs).

The State and Resilience Building Contract will induce Ukraine to continue updating its normative framework for civilian crisis preparedness. This encompasses the creation of a central coordination body for overseeing overall crisis preparedness efforts as well as work on sectoral action plans to further preparedness in the areas of energy security, cybersecurity, the fight against disinformation, crisis communication and the civil protection and support to conflict-affected population framework (induced outputs). Credible government efforts in these spheres have already been initiated, with the present budget support inducing a further prioritisation of these areas in the face of imminent needs of stepping up overall preparedness efforts and coordination. This will help reaching enhanced energy security in order to ensure economic and social resilience and continuous service delivery to the population, including to the most vulnerable, increased abilities to prevent and mitigate the effects of cyber and disinformation attacks and advance the creation of a framework for modern civil protection and support to conflict-affected population (specific objectives).

All of the above will ultimately create an effective and efficient civilian crisis preparedness and response system with clearly defined policies and responsibilities, robust coordination mechanisms and effective communication procedures, capable to respond to crisis situations at central and local level, including reaching the most vulnerable parts of the population (overall objective).

### **3.6 Indicative Logical Framework Matrix**

Results	Results chain	Indicators (max. 15)	Baselines (2022)	Targets by the end of the budget support contract (2022-2024)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy (Overall objective)</b>	Mitigate the impact of the current Russian invasion and potential future crises in Ukraine by strengthening civilian crisis preparedness and management at both central and local level.	<i>Inform Severity Index</i>	<i>3.7 in January 2022</i>	No deterioration	<a href="https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Severity/Severity-Crisis-Profile">https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Severity/Severity-Crisis-Profile</a>

<p><b>Expected Outcomes of the policy (Specific objectives)</b></p>	<p>1. Contributed to the continued delivery of basic services, including protection, to the most vulnerable citizens through the establishment of a Ukrainian crisis preparedness and response system, which ensures continued delivery of services to the most vulnerable.</p> <p>2. Strengthened energy security for all Ukrainians and increased protection of critical infrastructure.</p> <p>3. Strengthened Ukraine's capacity to effectively prevent and mitigate the effects of cyber and disinformation attacks</p> <p>4. Supported the development of a robust system of crisis communication</p>	<p><i>1.1 Number of state institutions applying security, conflict prevention, protection of civilian population and human rights principles in their action plans/rules of procedure</i></p> <p><i>1.2 Proportion of population living in households with access to basic services</i></p> <p><i>2.1 Proportion of population with access to electricity.</i></p> <p><i>3.1 International Communication Union (ITU) Global Cybersecurity Index</i></p> <p><i>4.1 Number of local Governments that have adopted and implement crises management (including crises communication) strategies/plans.</i></p>	<p><i>1.1 Seven</i></p> <p><i>1.2 100%</i></p> <p><i>2.1 100%</i></p> <p><i>3.1 2020 – Ukraine ranked 78<sup>th</sup> at 65.95</i></p> <p><i>4.1 To be established during the first 3 months of implementation</i></p>	<p><i>1.1 increased</i></p> <p><i>1.2 limited deterioration effects</i></p> <p><i>2.1 limited deterioration effects</i></p> <p><i>3.1. No deterioration</i></p> <p><i>4.1 An increase in numbers from that of established baseline.</i></p>	<p><i>Annual reports and websites of state institutions, United Nations Recovery and Peacebuilding Programme (UN RPP) records. UN RPP programme records, reports from local CSOs</i></p> <p><i>Government of Ukraine reports/ Association of Ukrainian cities data collection</i></p>
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<b>Induced Outputs</b>	1.1 A coordination commission to oversee the implementation of the Concept of a National Resilience System has been established.	<p><i>1.1.1 A coordination commission is monitoring the implementation of the resilience concept</i></p> <p><i>1.2.2. Number of state institutions supported on security, conflict prevention, protection of civilian population and human rights</i></p>	<p><i>1.1.1 body not set up (02/2022)</i></p> <p><i>1.2.2 To be established during the first 3 months of implementation</i></p>	<p><i>1.1.1 Order setting up the coordination body signed.</i></p> <p><i>1.2.2 One</i></p>	<p><i>Government reporting (Council of Ministers of Ukraine) NATO assessment</i></p>
	1.2 An action plan to implement the Concept of a National Resilience System has been adopted.	<p><i>1.2.1 Adoption of action plan on the implementation of the National Resilience System</i></p>	<p><i>1.2.1 plan not yet adopted (02/2022)</i></p>	<p><i>1.2.1 plan adopted</i></p>	<p><i>Government reporting (Council of Ministers of Ukraine), NATO assessment</i></p>
	2.1 An update of the winter contingency plan for the fuel and energy sector of 2019 and a review of not implemented recommendations has been initiated.	<p><i>2.1.1 Contingency plan update for fuel and energy sector of 2019 is finalised and implemented</i></p>	<p><i>2.1.1 contingency plan update has not started (02/2022)</i></p>	<p><i>2.1.1 contingency plan update has started</i></p>	<p><i>Government reporting (Ministry of Economy)</i></p>
	3.1 An action plan to implement the Strategy for Information Security has been adopted.	<p><i>3.1.1 Action plan for the strategy for information security is implemented</i></p>	<p><i>3.1.1 plan not yet adopted (02/2022)</i></p>	<p><i>3.1.1 plan adopted</i></p>	<p><i>Government reporting (Ministry of Culture and Information Policy)</i></p>
	4.1 Pilot measures are initialized to promote crisis management and emergency response procedures in municipalities including a review of the communication between actors in charge of	<p><i>4.1.1 Status of the pilot project</i></p>	<p><i>4.1.1 pilot has not yet started</i></p>	<p><i>4.1.1 pilot ongoing</i></p>	<p><i>Government reporting (Ministry for Reintegration of the Temporary Occupied Territories, State Emergency Service of Ukraine, local</i></p>



	civil protection at local, regional and national level.				authorities) Project reports
<b>Direct Outputs</b>	5. Increased fiscal space and reduced transaction costs	5.1 Money received in the treasury	5.1 no money received	5.1 EUR 120 million received	Continued discussions in the framework of EU-Ukraine High Level Dialogues  Project reporting
	6. More aligned policy dialogue and improved monitoring and reporting on crisis preparedness reforms	6.1 EU-Ukraine High-Level Dialogue on Crisis Preparedness	6.1 dialogue has not started	6.1 dialogue takes place in 2022	
		6.2 EU-Ukraine High-Level Dialogue on Cyber-Security	6.2 dialogue has taken place once	6.2 dialogue continues in 2022	
		6.3 EU-Ukraine High-Level Working Group on Strategic Communication	6.3 working group has not yet met	6.3 working group has met	
6.4 EU-Ukraine Strategic Energy Partnership meetings	6.4 dialogue has taken place since 2017	6.4 dialogue continues to take place regularly			
7. Strengthened capacity on crisis preparedness, and emergency response planning including through flanking measures	7.1 # of dedicated new activities / events on crisis preparedness implemented by EU technical assistance projects	7.1 none	7.1 increased		

## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

### **4.2. Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3.2 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

### **4.3. Implementation of the Budget Support Component**

#### **4.3.1. Rationale for the Amounts Allocated to Budget Support**

The amount allocated for the budget support component is EUR 120 000 000 and the complementary support EUR 0.

This amount is based on the commitment of the partner country to allocate national budget resources (including EU budget support) to enhance its civilian crisis preparedness and response capabilities, as well as crisis management.

#### **4.3.2. Criteria for Disbursement of Budget Support**

##### **a) Conditions**

The general conditions for disbursement are as follows:

- Satisfactory progress in the implementation of the national resilience system.
- Continued credibility and relevance there of or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.
- The budget support payment will only be executed if democratically elected government of Ukraine is in control over the management of the treasury.

##### **b) Fundamental values**

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

### 4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Ukrainian Hryvnas will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The budget support component consists of one fixed tranche.

### 4.4. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

### 4.5. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>	<b>Indicative third party contribution, in currency identified</b>
<b>Budget support</b> - cf. section 4.3	120 000 000	N.A
<b>Total</b>	120 000 000	N.A.

### 4.6. Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the governance structures set up for governing the implementation of the Action.

The indicative Ukrainian authorities involved in the implementation of the Action will include:

- the Cabinet of Ministers,
- the Governmental Office for European and Euro-Atlantic Integration,
- the Ministry of Finance,
- the Ministry for the Reintegration of Temporary Occupied Territories,
- the Ministry of Internal Affairs,
- the Ministry of Energy,
- the Ministry of Culture and Information Policy,
- the National Security and Defence Council, and
- the State Emergency Service of Ukraine.

Relevant local authorities and civil society groups may also be invited to participate in the monitoring of the action. Main focal point for implementing the action and direct counterparts for the EU will be the Ministry of Finance and the Governmental Office for European and Euro-Atlantic Integration. The Ministry of Finance will be delivering the disbursements requests and evidence of progress linked to the payment. Regular policy dialogues and steering committee meetings with participants of relevant Ukrainian counterparts will underpin the monitoring of the action.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## **5. PERFORMANCE MEASUREMENT**

### **5.1. Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this Action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the Action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the Action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The government will coordinate and monitor the development of the above-mentioned actions and policies, including possible necessary reviews. The responsible agency for each objective and measure will be in charge of developing sectoral performance based action plans with further specified outcomes, outputs, Key Performance Indicators (KPIs) and budgets based on the evidence-based policy and the budgeting principles of the government of Ukraine. Close monitoring of the situation will be performed in coordination with the IMF and other partners such as the European Bank of Reconstruction and Development (EBRD), the European Investment Bank (EIB) the World Bank and relevant civil society organisation.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the Action as follows: the baselines of chosen indicators are based on available national statistics.

The assessment of performance indicators may require carrying out external reviews or data verification exercises to contribute to strengthening the policy monitoring framework and national statistical systems.

### **5.2. Evaluation**

Having regard to the action, an evaluation will not be carried out for this action or its components.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this is the beginning of setting up a national system of resilience.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

### 5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## 6. COMMUNICATION AND VISIBILITY

Communication and visibility is a contractual obligation for all entities implementing EU-funded external actions, to advertise the European Union's support for their work to the relevant audiences.

To that end they must comply with the instructions given in the [Communication and Visibility Requirements of 2018](#) (or any successor document), notably with regard to the use of the EU emblem and the elaboration of a dedicated communication and visibility plan, to be completed for every action at the start of implementation.

These obligations apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries or entrusted entities. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

Communication and visibility measures may be funded from the amounts allocated to the Action. For the purpose of enhancing the visibility of the EU and its contribution to this Action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds.

Effectiveness of communication activities on awareness about the Action and its objectives as well as on EU funding of the Action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before work starts.

Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall Action to the relevant monitoring committees.

Actions related to communication and visibility will be coordinated with the Strategic communications project of the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

The communication and visibility activities will also be aligned and coordinated with partner country's communication on National Resilience building. Strengthening of the capacities of the Government of Ukraine to communicate on National Resilience, the related reforms and expected results will also be considered in this context.