# SYNSOPSIS

## 1.1. Action Summary Table

| 1. Title OPSYS Basic Act | Support to Ukraine’s fast recovery  
Annual Action Plan in favour of Ukraine 2023  
ABAC Commitment level 1 number: JAD.1163589  
Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe) |
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>2. Economic and Investment Plan (EIP)</td>
<td>No</td>
</tr>
<tr>
<td>EIP Flagship</td>
<td>No</td>
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<tr>
<td>3. Team Europe Initiative</td>
<td>No</td>
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<tr>
<td>4. Beneficiary/(ies) of the action</td>
<td>The Action shall be carried out in Ukraine.</td>
</tr>
<tr>
<td>5. Programming document</td>
<td>Multiannual Indicative Programme (MIP) 2021-2027 for Ukraine(^1)</td>
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<tr>
<td>6. Link with relevant MIP(s) objectives/expected results</td>
<td><strong>Specific objective 1</strong> under <strong>Priority area 5</strong>: Supporting conflict-affected and vulnerable regions through social and economic recovery and enhanced human security, including by pursuing humanitarian demining activities and enhancing Ukraine’s capacities to address risks from mines and other explosive remnants of war and by ensuring protection rights of the conflict-affected population.</td>
</tr>
</tbody>
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\(^1\) C(2021) 9351 final of 13.12.2021
Expected results:
- stronger capacities of communities in conflict-affected and vulnerable regions for citizen dialogue, engagement, peacebuilding and reconciliation
- improved access to protection and human security including through continued support to de-mining and economic resilience in conflict-affected communities

**PRIORITY AREAS AND SECTOR INFORMATION**

7. **Priority Area(s), sectors**  
**Priority area 5:** A resilient, gender-equal, fair and inclusive society.
DAC Codes:  
510 – Budget Support;  
720 – Emergency Response

8. **Sustainable Development Goals (SDGs)**  
Main SDG: SDG 1 - End poverty in all its forms everywhere

Other significant SDGs and where appropriate, targets:
- SDG 2 Zero hunger  
- SDG 3 Good health and well-being  
- SDG 4 Quality education  
- SDG 5 Achieve gender equality and empower all women and girls  
- SDG 6 Clean water and sanitation  
- SDG 9 Industry, Innovation and Infrastructure  
- SDG 10 Reduced inequalities  
- SDG 16 Peace, justice and strong institutions

9. **DAC code(s)**  
51010 General Budget support  
72050 Relief coordination and support services

10. **Main Delivery Channel**  
12000 – Recipient government

11. **Targets**  
☐ Migration  
☐ Climate  
☒ Social inclusion and Human Development  
☒ Gender  
☐ Biodiversity  
☒ Human Rights, Democracy and Governance

12. **Markers (from DAC form)**  
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<thead>
<tr>
<th>General policy objective</th>
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<td>Gender equality and women’s and girl’s empowerment</td>
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<td>Disaster Risk Reduction</td>
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<td>Inclusion of persons with Disabilities</td>
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<td><strong>RIO Convention markers</strong></td>
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1.2. Summary of the Action

Since the start of Russia’s war of aggression against Ukraine, the European Union has significantly stepped up its financial and humanitarian support to Ukraine. The overall assistance to Ukraine and its people by the European Union and its Member States, including military assistance, so far amounts to at least EUR 70 billion.

In order to ensure the macroeconomic stability of the country, the EU adopted the MFA+ instrument in 2022\(^2\), which will channel support of up to EUR 18 billion in highly concessional long-term loans to Ukraine in 2023 in a predictable, continuous, orderly and timely manner. EUR 6 billion have already been disbursed to Ukraine under the MFA+ instrument (as of end of April 2023).

The overall objective of this action is for Ukraine to mitigate the impact of Russia’s war of aggression on Ukraine’s population. The budget support action aims at strengthening the means of the Government to carry out: urgent rehabilitation of conflict-damaged critical priority objects, the recovery of which is necessary to prevent human disaster and significant displacement of people. This includes critical repairs of transport infrastructure such as bridges, roads and railways, repairs of other critical and municipal infrastructure and utilities, rehabilitation of housing facilities and of social infrastructure such as school and kindergartens, healthcare facilities.

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Furthermore, the war continues to substantially disrupt agro-food production systems, including export routes, while it systematically puts agricultural cropping seasons at risk. In this challenging context, the action will contribute to Ukraine’s food security and economic resilience by supporting uninterrupted production of agricultural and food products and provide working capital to farms (i.e. legal entities and individual agricultural producers) to ensure the functioning of agro-food supply chains in the short- and medium-term.

The Action therefore directly contributes to SDG 1 on ending poverty in all its forms everywhere; SDG 2 – Zero hunger; SDG 3 - Good health and well-being; SDG 4 - Quality education; SDG 5 - Achieve gender equality and empower all women and girls; SDG 6 - Clean water and sanitation; SDG 9 - Industry, Innovation and Infrastructure; SDG 10 Reduced inequalities and not least SDG 16 - Peace, justice and strong institutions. The Action primarily contributes to priority 5 of the 2021-2027 Multiannual Indicative Programme relating to resilient, fair and inclusive societies. The Action further supports the Economic Recovery Plan for Ukraine, the past ongoing and upcoming emergency Macro Financial Assistance (MFA), and budget support delivered in March, April and fall 2022.

1.3. Beneficiary of the action

The Action shall be carried out in Ukraine which is included in the list of ODA recipients.

2. RATIONALE

2.1. Context

On 24 February 2022, Russia renewed its unjustified, unprovoked and brutal aggression against Ukraine with direct military attacks on a large number of civilian and military targets and a further incursion of Russian military on Ukrainian territory. The attacks have resulted in significant loss of life, unprecedented displacement of the population, both internally and towards neighbouring countries, and devastating destruction of infrastructure. Environmental war-related damages (e.g. soil and water pollution, land and habitat degradation), also affected the population’s access to basic services and potentially their health. The security situation and the overall operational environment has deteriorated rapidly. According to the Office of the United Nations High Commissioner for Human Rights (OHCHR), as of 31 December 2022, the number of civilian casualties stands at 17,994 including 6,919 killed and 11,075 injured, but the true numbers are expected to be significantly higher. At least 18 million people were considered in immediate need of emergency assistance and protection in September 2022 (OHCHR).

The current situation jeopardises the safety of all Ukrainians, with specific impacts on key population groups affected by the Russian war of aggression including, internally displaced peoples, host communities and returnees. According to the latest estimates, over 8 million people have left Ukraine according to OHCHR and about 5 million moved within the country according to International Organisation for Migration (IOM), most of them women and children.

The second Ukraine Rapid Damage and Needs Assessment (RDNA2) was jointly prepared by the World Bank, the Government of Ukraine, and the European Commission. It covers a full year of the aggression by Russia against Ukraine (24.02 2022 – 24.02.2023). It finds that the priority needs for 2023 have reached around USD 14 billion. These priority needs focus on restoration of energy, housing, critical and social infrastructure, basic services, explosive hazard management, and private sector development.

Based on the RDNA2, Ukraine identifies for 2023 priority recovery needs in the sectors of energy infrastructure, humanitarian demining, private sector, housing and critical and social infrastructure. These
amount to USD 14.1 billion, of which USD 3.3 billion is already made available by the Government of Ukraine for this purpose in its 2023 budget. This leaves the recovery funding gap for 2023 at USD 10.8 billion.

**EU support**

The EU has provided significant financial assistance to Ukraine, which over the years from 2014 to 2021 amounted to EUR 1.7 billion in grants under the European Neighbourhood Instrument, EUR 5.6 billion under five macro-financial assistance programmes in the form of loans, EUR 194 million in humanitarian aid and EUR 355 million from foreign policy instruments. The EU provides its support to Ukraine for policy development and comprehensive reforms, with strong involvement from Member States in a Team Europe approach. Among the flagship programmes are those on decentralisation, public administration reform and anti-corruption.

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In order to ensure the macroeconomic stability of the country, the EU adopted the MFA+ instrument in 2022, which will channel support of up to EUR 18 billion in highly concessional long-term loans to Ukraine in 2023 in a predictable, continuous, orderly and timely manner.

The EU is supporting Ukraine through other initiatives as well, such as the EU-Ukraine Solidarity Lanes, backed by EUR 1 billion support from the EU, the EIB, the EBRD and the World Bank.

The present action will be implemented in close coordination, synergy and in complementarity with other EU funding instruments, in particular relating to humanitarian aid and civil protection.

The present action will be implemented in close coordination and synergy with ongoing and future bilateral and regional assistance programmes for Ukraine, in particular the emergency support programmes.

Moreover, the action is linked to ongoing EU-funded projects for a total of about EUR 140 million that were repurposed to respond to immediate needs arising as a consequence of the war.

The Association Agreement including a Deep and Comprehensive Free Trade Area signed in 2014 by the EU, its Member States and Ukraine and fully in force since September 2017 continues to guide the relationship between the EU and Ukraine. In December 2021, the European Commission adopted a multiannual indicative programme (MIP) for Ukraine for the period 2021-2027 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”, the MIP frames financial assistance under the current 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, 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. On 28 February 2022 Ukraine submitted an application for membership in the European Union, an opinion was adopted by the Commission on 17 June and on 23 June the European Council granted Ukraine a European perspective and EU candidate status.

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4 This is particularly relevant in connection to the EUR 34 million disbursed in 2022 as humanitarian aid for the rehabilitation of schools and the work DG ECHO’s partners are doing on the light rehabilitation of war-damaged homes.
2.2. Problem Analysis

Russia’s war of aggression has had a devastating impact on Ukraine’s economy and people’s livelihoods. IOM estimated that up to 60 per cent of the population of Ukraine could be facing poverty and vulnerability to poverty due to Russia’s invasion, and 30 per cent of the people are likely to require life-saving assistance. At the same time, according to the International Organisation for Migration (IOM), in December 2022 43 per cent of all households in Ukraine have completely exhausted their savings. To reduce costs, 63 per cent of respondents have reported that they are rationing their use of gas, electricity, and solid fuel. According to the World Bank, Ukraine’s economy is projected to grow by 0.5% in 2023, following a contraction of 29.2% in 2022. The exact magnitude of the contraction will depend on the duration and intensity of the war, and the levels of destruction of productive capacity, damage to arable lands, and labour supply. The UN also suggests that development setbacks for Ukraine will be significant, including increased inequalities and poverty rates; the country’s economy, its social fabric, and the environment will suffer. Eighteen years of socio-economic achievements in Ukraine are at risk. To mitigate such dramatic development setbacks, support on all front to the conflict affected populations is vital.

One specific problem faced by conflict affected population groups is the lack of housing in their place of origin as well as in host communities. Indeed as of March 2023, the total number of destroyed or damaged housing stock is about 1.4 million buildings according to the World Bank’s Rapid Damage and Needs Assessment and the total cost of damage to the housing sector is estimated to be over US$50 billion. The latest report by the International Organisation for Migration (IOM) indicates IDPs amount to 5.4 million and returnees to 5.6 million. In previous reports 9% indicated that their home (primary residence before war) was damaged by the war. Among returnees this figure reached 14% while among IDPs this figure rises to 27%. 37% of IDPs have relocated more than once and 41% indicated lack of accommodation as a reason, 32% lack of access to services and 18% lack of access to healthcare. Temporary housing conditions are frequently inadequate, while the private rental market is saturated, in particular in major population centres in the West of the country, often raising problems of affordability.

Multi-purpose cash/food assistance remains an important means to swiftly reach the most vulnerable people in various parts of the country and secure their basic needs. It is the preferred assistance modality in the majority of IDP-hosting settlements and according to recent UNCHR reports, food is the most commonly reported envisaged usage of financial support (76 per cent of IDPs, 66 per cent of non-IDPs). Proper coordination between international partners and governmental authorities engaged in cash/food assistance is needed to avoid duplication of payments to beneficiaries.

The ability of local authorities to sustain a minimum level of service delivery has been severely hampered in war-affected areas, as employees have been displaced or can no longer access their workplaces. At the same time, displacement has placed an additional burden on local service providers in host and transit communities, including administrative services, healthcare, mental health and social services, and those concerned with ensuring access to justice. According to the OCHA/REACH Rapid Needs Assessment (RNA) IDPs face difficulties accessing information about the availability of assistance, housing, legal aid, information about evacuation and transportation, information on the registration process, and employment opportunities. As a result, over 2.7 million people have already returned to their places of residence, most of them in northern Ukraine – a further 15% of IDPs are considering returning home in the nearest time.

The RNA indicates that 46% of the war-affected settlements reported the disruption of healthcare services as one of their main concerns. The risk of disease outbreaks has also increased due to limited access to water.

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and sanitary facilities, crowded conditions in collective centres, and low immunisation rates. Those directly war-affected, survivors of war crimes, including sexual and gender-based violence (SGBV), and women providing care for children, the elderly, and sick, are at increased risk of mental disorders and psychological distress. In addition, the impact of the war on provision of social services is acute. In the directly war-affected areas of the country, the Government reports little visibility regarding damage and destruction of infrastructure and it is not clear what services are available, where and for whom. With the inaccessibility of social and health services, schools and kindergartens, women’s share of care – for children, the elderly, relatives with disabilities, sick, or injured family members – has sharply risen, often combined with the necessity to earn their own income.

Russia’s war of aggression has also severely disrupted agricultural production and food processing in both deliberate and systematic Russian attacks on the agricultural infrastructure and as a consequence of overall warfare. This poses a direct risk for food security and disproportionately impacts small and family farmers. Ukraine is a large agricultural economy with 42.8 million ha of agricultural land and an average contribution of 10.1% to the GDP in past years. The sector is dominated by large farms and agro-holdings, with about 70 agricultural companies operating 25% of the arable land through relative monoculture (cereals and oilseeds) and 40,000 registered legal entities. On the other side, it is estimated that between 1 and 1.5 million small or family farms operate in the country with their economic and social development constrained notably by low investment capacities due to limited access to finance. Market oriented small-scale farmers have been severely impacted by the disorganisation of the supply chains since Russia’s military aggression, further exacerbating problems they faced before the war, in particular the limited access to market (especially for export purposes), credit, insurance scheme, the absence of guarantee on this year’s harvest, or their inability to use their land as collateral. As a result, some of them may not be able to grow any crop in 2023.

As a result of the Russian aggression at least 24% will be uncultivated in 2023. In addition to the damages caused by hostilities and mine and unexploded ordnance contamination, farmers’ access to their fields in occupied territories has been limited. Many of these territories have been liberated and as agricultural land is returned to Ukraine, the government's priority is to restore farming in these areas, focusing on sustainable farming practices. Investing in agricultural production and critical upstream functions will help to meet the food requirements of local and displaced populations and address food insecurity in the country in the immediate and short term, and will be critical to averting a global food security crisis.

Identification of main stakeholders to be covered by the action. The indicative Ukrainian authorities involved in the implementation of the Action will include:

- the Cabinet of Ministers of Ukraine,
- the Secretariat of the Cabinet of Ministers of Ukraine,
- the Ministry of Finance,
- the Ministry for Communities, Territories and Infrastructure Development,
- the Agency for Restoration and Infrastructure Development of Ukraine,
- the Ministry for the Reintegration of Temporary Occupied Territories,
- the Ministry of Ecology and Natural Resources,
- the Ministry of Social Policy,
- the Ministry of Economy and its partners, PJSC Ukrazaliznytsia and concerned Regional Military Administrations,
- the Ministry of Agrarian Policy and Food (MAPF) and the Ukrainian State Fund for Support of Farms (FSF),
- the Ministry of Education and Science.

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

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6 These farms use / lease less than 500 ha. It is also estimated that there are totally 4 million households active in agriculture, including mostly for self-subsistence.
of Finance, the Ministry for Communities, Territories and Infrastructure Development, and the Secretariat of the Cabinet of Ministers. 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.

2.3. 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 Public Finance Management (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. There is also an ongoing policy dialogue on Public Administration Reform the policy area for the current budget support in Ukraine. Budget Support 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, and there continues to be a need to build the Ministry’s capacity as the primary fiscal authority in Ukraine. The Ministry of Finance is being supported through the EU4PFM programme. Finally, it was recommended that further transparency on fiscal information be ensured. Ukraine has since 2014 seen gradual improvements in transparency of the budget, and are continuing these efforts with a target to further improve its score in the open budget index before 2025. The ongoing Russia’s war of aggression has naturally limited the amount of information being made public on the budget, but all non-confidential spending is being published on a government managed website accessible to all. Continued policy dialogue on the fundamental eligibility criteria for budget support will be continued both at high political and technical level during the implementation period of the current state building and resilience budget support programme.

2.4. Additional Areas of Assessment

2.4.1. Public Policy

Ukraine has reacted swiftly to Russia’s war of aggression and its administration has shown an impressive resilience, remaining largely operational despite the major onslaught and the considerable drain on resources. Against all odds and faced with multiple challenges, the Government has taken quick and resolute action to alleviate the effects of the war on the general population. Nevertheless the extreme stress on the system means that there are considerable gaps to further stabilise the situation and address urgent needs of the population, in particular the most vulnerable.

Past reforms, in particular in the field of decentralisation, digitalisation and public administration among others, have proven crucial in reacting to Russia’s aggression as has the overall strengthening of the crisis preparedness and management framework that has been defined in the ‘Concept of a National Resilience System’. The Concept effectively overhauls Ukraine’s civilian crisis preparedness and response capabilities at state, regional and local levels, focusing among others on the capability of the unified state civil protection system to operate in conditions of threat or occurrence of emergency situations and the ability to respond effectively to uncontrolled mass movements of people, currently very relevant due to the large number of displaced persons.

7 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.president.gov.ua/documents/4792021-40181?fbclid=IwAR2z9UuyU8q9GCThFG7NjgzNGToooqF47KVGzZZVT2WpsqGsyDPyla09nirc
A non-public implementation was finalised by the Cabinet of Ministers of Ukraine under the leadership of the Vice-Prime Minister for European and Euro-Atlantic Integration and 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.

A host of sectoral strategies, normative acts and policies to react to Russia’s war of aggression and mitigate its effect on the civilian population have started to be developed. For the purposes of this State and Resilience Building Contract, these can be grouped into two main categories: (1) protection of livelihoods of the displaced and conflict-affected population (2) provision of housing and repairs to critical infrastructure.

In April 2022, the President established the **National Recovery Council** with the Presidential Decree No. 266/2022 - an advisory body tasked with the development of the post-war recovery and development plan and identification of priority reforms. The draft National Recovery Plan was presented at the Ukraine Recovery Conference in Lugano on 4-5 July 2022. It has established working groups⁸ that are working in the areas covered by this action including the ones on **restoration and development of infrastructure, construction, urban planning, modernization of cities and regions** as well as **return of citizens who are temporarily displaced, in particular abroad and their integration into the socio-economic life of the state**.

Within the framework of 24 working groups, plans and measures for the post-war recovery and development of Ukraine, priority reforms and strategic initiatives, drafts legal acts are being developed to ensure the effective work and recovery of Ukraine during war and post-war periods. The short term, during war, policies are relevant for this action.

A new agency, the Agency for Restoration and Infrastructure Development of Ukraine, has been established and will be responsible for the efficiency, transparency, and accountability of the reconstruction policies of Ukraine. It will be the main implementer of the reconstruction of the country with the the Ministry for Communities, Territories and Infrastructure Development, other line ministries and local authorities. Its speedy operationalisation will be key in delivering on its tasks with adequate capacities in place as will be international standards for its transparency and internal controls.

Among others and in the context of their work, the assessment of damaged facilities for the provision of public services and facilities, and public safety facilities in accordance with the needs of communities and regions will be carried out and will generate information at object level with regards to its needs and potential of rehabilitation and repair. Tools and mechanisms are needed to inform policies on urgent rehabilitation of critical objects as well as the future reconstruction of Ukraine within the building back better and green reconstruction principles. An electronic system for the recovery management is being designed, the Digital Infrastructure Reconstruction Management System to this end.

There is a large number of initiatives in restoration of the war-damaged infrastructure and housing supported by the Government and/or international donors. For instance, DG ECHO has contracted EUR 130 million in humanitarian aid for rehabilitation and basic refurbishment of schools and shelters, temporary centres/reception centres and the distribution of emergency shelter repair kits, winterisation relief items and cash for heating/energy needs. The EU has also mobilised 3,000 Relief Housing Units from the rescEU shelter reserve under the EU Civil Protection Mechanism (UCPM).

One of the first initiatives launched, was a central programme of support of restoration of liberated municipalities (UAH 1 billion) in five liberated oblasts: Kyivska, Chernihivska, Zhitomirska, Sumska and

some liberated areas of Kharkivska oblast. The objective is to take essential restoration actions such as: demining, quick repairs of housing to allow people to return to the liberated cities. Quick reconstruction of emergency infrastructure is also included in the programme. The programme is being implemented with the Oblast State Administrations.

In order to address the high demand for housing, including from IDPs, the Ukrainian Government is preparing a dedicated concept, covering three main segments: short-term (or transitional), mid-term and long-term accommodation. Short-term accommodation is targeted at people in transition and is offered mainly in updated public buildings such as schools and kindergartens, whereas mid-term accommodation foresees, on the one hand, providing accommodation in modular housing. Long-term accommodation implies the purchase by the state of living units in newly constructed or soon to be commissioned apartment buildings (prefabricated houses) as social housing. Criteria for selecting the location of social housing areas have been developed by the Ministry for Communities, Territories and Infrastructure Development to ensure access to social infrastructure (schools, kindergartens) and healthcare facilities; and appropriate connections to utilities as well as access to employment opportunities. Local municipalities will select specific locations following these criteria.

The new programme ‘Restoration of Homes’ ‘VydnoviDim’of the Energy Efficiency Fund (EEF), a fund that has been co-established by the EU and the Ukrainian Government, supports light rehabilitation of war-damaged multi-family buildings in the affected regions of Ukraine. It is financed by the EU (EUR 5 million for pilot stage and EUR 20 million for the main part of the project). It is expected that the Government will also co-finance the programme. During the pilot stage, grants for rehabilitation will be allocated to around 90-100 multi-family buildings.

A new program is being prepared for the design, critical repairs, reconstruction, optimisation and modernization of public sphere infrastructure, social infrastructure, cultural heritage, housing and communal services, transport infrastructure for aviation, railway, sea and inland water transport, road management, energy infrastructure, border crossing points, measures for road traffic safety, thermal modernization of residential and public buildings, development of railway freight transportation.

On Strengthening Food Security and the Agricultural Sector, the Ukrainian Government has enacted plans to support agricultural production, with a specific emphasis on small and medium farms, especially in liberated areas of Northern, Eastern and Southern Ukraine.

a. State Agrarian Register (SAR). The SAR\(^9\) is a State-funded automated information system for collecting, recording, accumulating, processing and providing information about agricultural producers and the agricultural activities they carry out. The management of such farm register is an obligation for EU Member State or candidate country. As a result of joint efforts by MAPF, the EU, and the World Bank, SAR is fully operational since mid-August 2022. EU assistance ensures the continuous improvement of SAR.

b. Production support grants (PSG) to farms (i.e. legal entities and individual agricultural producers). Eu support was delivered in 2022 for production support grants (PSG) that allowed to rapidly respond to disruptions in agricultural production caused by the war. This consists of cash-based support to commercially oriented small-scale farming and small-scale animal husbandry.

In addition to the direct benefits for small-scale farms, SAR registration and the PSG scheme had positive impacts on separating policy and execution functions and establishing clear implementation procedures

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\(^9\) State Agrarian Register (SAR) established by Law No. 985-IX of 5 November 2020 “On amendments to certain laws of Ukraine concerning the functioning of the state agrarian register and improvement of state support for agricultural producers”. The procedure for maintaining and administering SAR, as well as the list of information entered in the SAR, were approved by the Cabinet of Ministers Resolution No. 573 of 2 June 2021 “On the functioning of the state agrarian register”.

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outlined in a grants manual, which includes guidelines for applications, administration, and on-the-spot checks as per EU Common Agriculture Policy (CAP) requirements.

Ensuring food security has been a top priority for the Ukrainian government, and productive agriculture plays a crucial role in achieving this objective. Small-scale farmers have the potential to contribute significantly to improving the food security situation if they benefit from the assistance that would allow them to secure their working capital for 2023. The recently liberated territories face particularly challenging circumstances, but they also present an opportunity for securing the production in 2023. EU support to re-launch the agricultural production by small and family farms (i.e. legal entities and individual agricultural producers) of newly liberated territories would allow to continue responding to disruptions in agricultural production caused by the war through the provision of cash-based support, notably in the liberated territories. The exceptional nature of this support requires tailor-made solutions, and will also allow pursuing the adoption by MAPF of EU-based best practices in state support and CAP requirements. Targeted beneficiaries will necessarily be farmers registered in the SAR, operating less than 120 eligible hectares\textsuperscript{10} of land for agricultural purposes and having agricultural land in liberated territory (detailed and specific area will be defined by the grant manual). Same control and verification measures will be taken as for the PSG operations in 2022. Specific measures will be applied to avoid providing support for arable land that would not have been cleared from mines or UXOs.

Main Actors

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 Russia’s war of aggression. While territorially focused only on the three regions adjacent to the contact line / administrative boundary line, the Ministry has the overall responsibility for the management of internally displaced persons and conflict-affected populations on both sides of the contact line and plays an increasing role also beyond its initial geographical scope.

End of 2022 the Ministry of Communities has been merged with the Ministry of Infrastructure into the new Ministry for Communities, Territories and Infrastructure Development. This new Ministry is headed by Deputy Prime Minister Kubrakov and is in charge of coordination of infrastructure rehabilitation, including restoration of damages in transport infrastructure, social infrastructure, housing, part of energy infrastructure, as well as preparation of post war recovery and reconstruction. In addition to the reforms followed by the merged Ministries, the new Ministry will be to coordinate with and provide assistance to local authorities in rehabilitation of the municipalities in liberated cities. Both the Ministry of Communities and Territories and Ministry of Infrastructure played a key role once the war started with regards to early repairs and rehabilitation of damaged infrastructure. Being in charge of inter alia infrastructures, energy efficiency, housing, these new Ministry is expected to play a central role once reconstruction of Ukraine can be initiated.

The new Ministry is developing an electronic system for restoration of infrastructure (“Digital Infrastructure Reconstruction Management System”). This platform, planned for March 2023, will be connected with the register of infrastructure damages and other various existing systems including potentially Prozorro. It will allow to monitor different steps of the rehabilitation process of infrastructure, such as project selection, donor financing, implementation timelines, procurement process, evaluation and reporting.

The State Agency for Reconstruction and Development of Infrastructure of Ukraine was created on 13 January 2023. Its activities are steered and coordinated by the Cabinet of Ministers of Ukraine through the Vice-Prime Minister for the Reconstruction of Ukraine - the Minister of Development of Communities, Territories and Infrastructure. The Agency is responsible for the implementation of state policy in field of construction including for the efficiency, transparency, and accountability of the infrastructure reconstruction and restoration. It will coordinate projects at national and local level, including but not limited to new construction,

\textsuperscript{10} Eligible hectare means any agricultural area of the holding that is used for agricultural activity regardless owning or renting.
reconstruction, restoration, overhaul, repair, modernization of: infrastructure, residential real estate objects, of public purpose, industrial complexes, social infrastructure, housing and communal services, improvement of settlements, household waste management (waste treatment facilities, landfills), transport and energy infrastructure, protective structures of civil defence, military facilities and property, aviation, railway (except for maintenance), sea and inland water transport, public road transport, urban electric transport, energy efficiency of buildings.

The Ministry of Agrarian Policy and Food (MAPF) is in charge of monitoring the food security situation across the country and support the primary agricultural production.

At local level, civil and social protection departments of municipalities and hromadas bearing the largest burden in tackling the situation on the ground, often depending on local initiative and resources, efforts are not always well-coordinated regionally and with the central Government.

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.

2.4.2. Macroeconomic Policy

The Russian war of aggression is damaging profoundly the Ukrainian society and the economic potential of the country. The destruction of physical capital and infrastructure is a serious impediment to future economic growth. The massive human exodus of about 7 million people abroad, out of whom more than 4 million sought a temporary protection status, and of more than 6.5 million internally displaced persons has a dire impact on the labour market and on the potential output of the country. The prolonged and, more recently, intensified war triggers further capital depletion, and hence larger reconstruction needs.

The war is imprinting a heavy toll on Ukraine, whose macro-economic performance was muted already in peace times. After a milder-than-expected COVID-19 related recession of 4% in 2020, the incomplete rebound in 2021, where real GDP increased by 3.4%, kept the economy below its pre-pandemic size. [1] The war-driven contraction of the economy by 15.1% y-o-y in Q1 2022 accelerated to 37.2% in Q2, before moderating to 30.8% in Q3. The full-year GDP decline is estimated at about 30% in 2022. In the absence of official data on sectoral developments, independent company surveys suggest that capacity utilisation in industry is down to 75%, while heavy impairments to logistics and loss of market access are a serious bottleneck to both international and domestic trade even if EU-Ukraine Solidarity Lanes have contributed to ensuring exports of both agricultural and non-agricultural products. Overall, the situation is weighing heavily on private investment, which the forecasters’ consensus suggests might contract by more than half by the end of the year, from an already depressed level (Ukraine used to undertake less than half the investment effort of its peer economies). Bringing investment to sustainably higher levels will be among the formidable challenges of the reconstruction period.

Against the backdrop of a suspended inflation-targeting framework amidst a fixed exchange rate regime since the start of the war, the National Bank of Ukraine has stepped up its direct financing of the budget and devalued the domestic currency. In a situation where the sovereign has lost access to international capital markets, the NBU provided about USD 11 billion to the state Treasury since the beginning of the war, by buying domestically issued war bonds, for which private demand is subdued due to the low proposed yields.

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11 Basic unit of administrative division in Ukraine, similar to a municipality.

12 Between May 2022 and end of January 2023, the Solidarity Lanes have allowed Ukraine to export close to 51 Mt of goods and to import more than 28 Mt of goods it needs. The total value of trade via the Solidarity Lanes since May 2022 is estimated at around EUR 65 billion, with more than EUR 22 billion for UA exports and EUR 43 billion for UA imports.
As international support was still scarce in the first months of the war, the central bank’s foreign exchange reserves have declined by more than USD 8 billion (as of June 2022), i.e. by 26% of their end-2021 level. To halt the depletion of its assets, the NBU increased its main refinancing rate from 10% to 25% in June and devalued the hryvnia by 20% from 29.2549 to 36.5686 UAH for 1 USD in July, in line with market trends. Following these measures, the improved confidence in the domestic currency, together with the incoming sizable flows of international assistance in the second half of 2022, contributed to a notable stabilisation of the official reserves, which reached USD 28.5 billion by year end, down only by 8% compared to the beginning of the year. The European Union contributed 7.2bn EUR in Macro financial assistance programmes in 2022 to help cover Ukraine’s emergency financing needs.

In the context of an elevated and rising inflation, the domestic currency is expected to continue to lose purchasing power. Consumer prices inflation reached 26.6% in December 2022, due to the continuous increase in the money supply in the context of amplified scarcity of goods, the hryvnia devaluation and a high global inflation. Producer prices inflation hit 53.5% in February, when data was published last. If this trend has continued since then, it is set to have depressed the operating incomes of many companies, thereby further eroding their capacity to self-finance the future reconstruction.

The scale of deterioration of the fiscal outlook depends on the duration of the war and its impact on the economic activity. The budget deficit is estimated to have reached about 20% of GDP in 2022. According to the IMF, tax revenues were to almost reach pre-war budget 2022 revenues in nominal terms. Personal income tax (PIT) and social security contributions (SSC) receipts have been buoyant, reflecting sizeable wage increases in the defence and security sectors as well as inflation. Corporate Profit Tax (CPT) receipts suffered as the war progressed. Receipts for VAT and excises also suffered sharp shortfalls due to the collapse in economic activity, migration, as well as Martial Law measures (including changes in tax policy rates and administrative arrangements). Expenditures are estimated to be about 52% higher in nominal terms than the initial (pre-war) 2022 budget. The government increased spending on defence and social protection through nine supplementary budgets over the course of 2022, initially by compressing non-priority expenditures and later by allowing a higher deficit. The scarcity of public resources and corresponding rationalisation efforts have taken a toll on healthcare and education spending, as well as on capital expenditure. The war is expected to completely reverse the slow and painstaking gains in fiscal consolidation since 2015, with public debt approaching 90% by the end of the year after having stood at 49% of GDP in 2021.

Thanks to the sizable flows of positive net income from abroad, the current account recorded a surplus of USD 8.5 billion in the first eleven months of 2022. In the same period, the trade balance deficit widened to USD 20 billion, driven by a strong contraction of the exports of goods (-33% year-on-year in nominal terms) due to activity disruptions and transport and supply chain difficulties. While the imports of goods also contracted (-20%), imports of services increased by 74% to USD 22.5 billion, primarily driven by refugees’ personal travel expenditure abroad. The exports of services, which are much less affected by physical logistics-related obstacles, declined by 11% only. Primary and secondary income altogether registered a net inflow of USD 28.5 billion, thereby accounting for the overall current account surplus. This sizable net positive income from abroad was sustained, inter alia, by stable remittances of more than USD 12 billion and substantial official international assistance in the form of grants.

The future macro-economic and financial developments depend crucially on the duration of the war and the ensuing destruction. The future reconstruction needs and the overall scarcity of private capital in a country where under-investment has been a chronic issue even in peace times will make it challenging to return to balanced public finances in the medium term. The domestic banking sector, weakened by non-performing loans and liquidity constraints in the current situation, could not provide meaningful amounts of financing without endangering the macro-financial stability of the country and further deteriorating the purchasing power of the domestic currency.

In its latest analysis, the IMF assumes economic stabilisation in 2023, as the economy gradually adjusts to the protracted war (GDP growth of 1%), with significant downside risks related to the war developments. Inflation is set to remain elevated at around 25% in 2023 and to reach the 5%-target only gradually in a couple of years.
Gross fixed capital formation remains subdued at historically low levels. The fiscal deficit, excluding grants, is expected to remain above 20% of GDP, with public debt stabilising at around 90% of the nominal GDP, thanks to the sizable inflation. The latest estimates of the International Monetary Fund point at an external funding gap between USD 39 and 49 billion in 2023. The European Union will provide 18 billion EUR in Macro Financial Assistance+ thus covering a sizeable share of the expected funding gap for 2023, as an expression of the Union’s solidarity with the people of Ukraine. This support would need to be matched by other international partners to ensure that the entirety of Ukraine’s funding gap will be covered.

This pessimistic outlook and the scarcity of domestic resources highlight the future relevance and growing importance of sizable international assistance in the years to come.

**Engagement with the International Monetary Fund**

Following its swift support of USD 1.4 billion disbursed at the very start of the war under its Rapid Financing Instrument, the IMF remained engaged with the authorities on technical and policy discussions. The IMF strengthened its engagement with Ukraine in the autumn of 2022, notably through the provision of further emergency support of USD 1.3 billion in October 2022 under its food-shock window.

On 19 December, the IMF Board approved a non-financing Staff Monitored Program with Board Involvement (PMB) for Ukraine, which focused on conditions in fiscal policy with the aim of strengthening tax collection and ensuring domestic debt roll-over, the financial sector and public enterprises governance. Staff-Level Agreement (SLA) with the Ukrainian authorities was reached on 17 February 2023 and communicated to the IMF Board at a meeting on 28 February 2023. The review found that the authorities’ performance under the PMB has been strong. All quantitative and indicative targets have been met, as well as all the structural benchmarks spanning fiscal policy, governance, and financial sector issues.

On 21 March, the Ukrainian authorities and IMF staff have reached an agreement on a set of macroeconomic and financial policies that would be supported by a new 48-month Extended Fund Facility (EFF) Arrangement. The IMF Executive Board approved the USD 15.6 billion Extended Fund Facility (EFF) Arrangement on March 31, 2023. The EFF aims to support the Ukrainian authorities anchor policies that sustain fiscal, external, price and financial stability, and support the ongoing gradual economic recovery, while promoting long-term growth in the context of post-war reconstruction and Ukraine’s path to EU accession. The programme envisages quarterly reviews in 2023-24 and semi-annual reviews from mid-2025. The program has been designed in line with the new Fund's policy on lending under exceptionally high uncertainty, and strong financing assurances are expected from donors, including the G7 and EU. In view of the exceptionally high uncertainty, the requested IMF-supported program envisions a two-phased approach:

The first phase, currently envisioned during the first 12-18 months of the program, will build on the PMB, to strengthen fiscal, external, price and financial stability by: (i) bolstering revenue mobilisation, (ii) eliminating monetary financing and aiming at net positive financing from domestic debt markets, and (iii) contributing to long-term financial stability, including by preparing a deeper assessment of the banking sector health and continuing to promote central bank independence. New measures that might erode tax revenues will be avoided. The authorities are also committed to continuing reforms to strengthen governance and anti-corruption frameworks, including through legislative changes.

The second phase would shift focus to more expansive reforms to entrench macroeconomic stability, support recovery and early reconstruction, and enhance resilience and higher long-term growth, including in the context of Ukraine’s EU accession goals. During the second phase, Ukraine would be expected to revert to pre-war policy frameworks, including a flexible exchange rate and inflation targeting regime. In addition, fiscal policies would focus on critical structural reforms to anchor medium-term revenues through the implementation of a national revenue strategy, together with strengthening public finance management and introducing public investment management reforms to support post-war reconstruction. Enhancing competition in the vital energy sector, while reducing quasi-fiscal liabilities would complement the post-war reform efforts.
2.4.3. Public Financial Management

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

The EU Delegation undertook a PFM assessment in Ukraine in late 2022, which concluded that progress is made in key outputs and measures against targets set in the Ukrainian authorities' key strategic and operational documents, namely in the PFM Strategy and its Action Plan. The government continues to pursue the following PFM goals: Maintaining overall fiscal discipline in a medium-term perspective (Goal 1); Improving the efficiency of resource allocation at the level of formation of the state policy (Goal 2); Ensuring effective execution of the state and local budgets (Goal 3); Enhancing transparency and accountability in PFM, including (Goal 4); and Development of human resource management in public finance (Goal 5). However, in connection with the war and martial law, the implementation of reform measures is delayed and requires additional time; therefore, results achieved are marginal compared to the plan.

There has been continuous progress in the fulfilment of EU Association Agreement commitments in terms of legal approximation. In the tax area, the Ukrainian VAT legislation is broadly aligned with the relevant EU legislation. In customs, the substantial amendments to the Customs Code were adopted in August 2022 to enable the accession to the common transit procedure. Further efforts were focused on the development of the secondary legislation arising from the above amendments. In effect of the martial law, the Verkhovna Rada of Ukraine adopted a number of laws to adapt the tax and customs administration and budgetary, and legal relations to the requirements of martial law.

Achievements are made in the State Tax (STS) and Customs (SCS) Services in terms of improving tax and customs administration. Both services enacted the introduction of the single legal entities, being operational as of 01/01/2021. The tax and customs administration reforms have been resumed shortly after the start of the war.

Public procurement in Ukraine has a good level of alignment with the EU acquis, when it comes to Public Procurement Law (PPL), while the law on concessions needs to be largely modified. The PPL requires the use of the e-procurement system Prozorro for the award of all contracts with a value equivalent to or exceeding 50,000 UAH. The system is used by all the contracting authorities, including the vast majority of Ukrainian State-Owned enterprises (SOEs). The PPL does not fully apply during the martial law, the public procurement is being currently regulated by decrees of the Ministry of Economy. A monitoring platform Dozorro was created by Transparency International Ukraine and used by various stakeholders, including suppliers, customers, regulatory bodies and citizens. There are ongoing discussions on how to optimally use concessions and Public-Private Partnerships (PPPs) for recovery projects. The compulsory use of the e-procurement system Prozorro was resumed shortly after the start of the war ensuring transparency of public tenders. Looking forward, it will be important to safeguard the use of Prozorro for the reconstruction. Control and accountability mechanisms will need to be enhanced too to secure the value for money and mitigate the risk of misuse of the recovery funding.

Work is in progress to improve audit methodology in line with INTOSAI standards, including financial, compliance and performance audits. Modern audit planning is in its implementation using a risk-oriented approach, which is not yet implemented in Ukraine. Audit quality control and quality assurance methodology and process are developed, but also not implemented.

Numerous challenges currently pose risks to the achievement of budgetary objectives. The following key PFM weaknesses have been emphasised in the course of PFM Strategy planning: inconsistency and fragmentation of planning, ineffective management by results, insufficient prediction of budgetary and tax policy in the medium term, and weaknesses in the execution of the state and local budgets. The 2019 PEFA observed differences between applicable national provisions, and IPSAS are not presented in the Financial Statements. The lack of a comprehensive fiscal risk management system affects the reliability of the budget policy. The
activities of state-owned enterprises (SOEs) are one of the major sources of fiscal risks. Management of assets and liabilities shows mixed performance, and the system still has a number of substantial deficiencies. Debt sustainability analysis (DSA) is not conducted. A comprehensive process is lacking in managing the public investment programme.

There are also numerous challenges in tax and customs administrations. Earlier, 2018 TADAT pointed out the following weaknesses in tax administration, which still remain largely relevant: lack of integrated compliance improvement plan and structured compliance risk management framework; high level of tax arrears of more than 12 months old; lack of monitoring and limited actions are taken on deterring inaccurate reporting; and absence of large scale automated cross-checking of information from banks, financial institutions, or employers. There are also challenges in tax and customs administrations related to wartime circumstances.

Ukraine’s current public procurement control environment is complex and weak, with overlapping responsibilities, suboptimal quality, and low enforcement, despite the progress made in alignment with the EU acquis in the area of public procurement. Certain elements of the Ukrainian legislation still need to be aligned with the EU public procurement acquis. The Ukrainian concessions law is in partial alignment with the EU Concessions Directive. Prozorro itself is not sufficient to avoid corruption in procurement.

Even before the war, Ukraine’s subnational finance system faced important challenges, despite significant reforms and positive fiscal outcomes in inter-budget relations and fiscal decentralisation. These challenges concern the organisation of subnational government (SNG), the balance between revenue and expenditure assignments, formulation and execution of subnational government budgets and the framework for intergovernmental fiscal coordination.

The external audit is weak. For the Accounting Chamber of Ukraine (ACU) to function as an SAI in line with international standards, legislative approximation and regulatory changes are required. The ACU activities are limited to the analysis of quarterly and annual Budget Execution Reports and are not considered as audits. There is also an overlap between the mandates of the ACU and that of the State Audit Service (SAS). There are no formal parliamentary procedures for examining SAI reports or follow-up processes to audit recommendations.

Complex external conditions caused challenges to PFM, that started with COVID-19, requiring to take appropriate measures and allocate resources (2020-21), and then by the Russian invasion (February 2022). The impact of the war in Ukraine on economic activity has been enormous. The outbreak of the war has caused major losses to the Ukrainian economy and infrastructure, heavily affecting the domestic revenue mobilisation (DRM). Temporary adjustments made in PFM processes since the introduction of 2022 martial law in Ukraine, including in formulation of the state budget, reprioritisation of expenditures, revenue mobilisation, budget execution, the functioning of the Treasury, as well as reporting with limitations for transparency and publicising key budget data and reports.

The ongoing Russia’s war of aggression has temporarily paused the PFM reform process in Ukraine, including the EU-UA PFM dialogue which last took place in November 2021.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met. The PFM Strategy 2022-2025 and its accompanying action plan remain relevant and credible, and satisfactory progress has been reported in the implementation of the programme during the reporting period, albeit a number of reform actions are being delayed due to war and martial law.

2.4.4. Transparency and Oversight of the Budget

Due to martial law, the publication of budget documentation is limited, and access is restricted. However, the entry point is considered to be met as the Government publishes both the Executive’s budget proposal (FY 2023 draft budget is published on MoF website) and the enacted budget (FY 2022 Enacted Budget is published on MoF website and here). The Executive Budget 2022 was enacted (adopted) by the Parliament on the 2nd
of December 2021, signed by the President on the 10th of December 2021 and published in the "Voice of Ukraine" newspaper on the 14th of December 2021.

Despite the war, the MoF managed to prepare the 2023 draft budget in line with the terms established by the Budget Code, the CMU approved it and submitted to Verkhovna Rada on September 15, 2022. The 2023 budget was prepared in conditions of high uncertainty. It considers the moderately conservative scenario of the macroeconomic forecast, the influence of the military situation and external factors.

The continuation of producing relevant budgetary information is encouraged, including under martial law. The redacted versions, which do not contain state secrets, can be shared with the EU, and other stakeholders, including civil society and the public. Meanwhile, the government should produce and publish timely key budget documents, including those which are not produced or published currently - Audit reports, Budget execution reports, and Budget Declaration.

The ACU reports are limited to the analysis of the government budget execution reports, focusing on budget execution rates, and comparison of the budget to the outturns. Therefore, the ACU reports are not considered as audit reports on the government's annual consolidated financial statement, as per international standards.

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. 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 65 points in 2021 (compared to 54 in 2017).

3. DESCRIPTION OF THE ACTION

3.1. Objectives and Expected Outputs

The Overall Objective/Impact of this action is to mitigate the impact of Russia’s war of aggression on Ukraine’s population.

The Specific Objective 1 (Outcome 1) of this action is to contribute to the urgent rehabilitation of conflict-damaged critical priority objects including transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing.

The Specific Objective 2 (Outcome 2) of this action is to contribute to the country’s food security and economic resilience by supporting uninterrupted production of agricultural and food products and continue supporting the access of small farms (i.e. legal entities and individual agricultural producers) to working capital.

The Induced Outputs to be delivered by this action contributing to the corresponding Specific Objective are:

1.1 The Ukrainian government has put in place a programme for rehabilitation and repairs of war affected transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing.

2.1 Farms (i.e. legal entities and individual agricultural producers), especially those that are not recorded in the Register of Legal Entities, continue to be registered in a consolidated State Agrarian Register (SAR), systematically used to channel state support financial resources.

2.2 Farms (i.e. legal entities and individual agricultural producers) of less than 120 ha located in liberated areas benefit from direct payments through the Production Support Grant (PSG) scheme based on EU state support standards;

The Direct Outputs to be delivered by this action contributing to the corresponding Induced Outputs are:

1.1.1 contributing to Induced Output 1.1 helping to relieve the external financing constraints by increased fiscal space, budgetary transparency and reduced transaction costs.
1.1.2 contributing to Induced Output 1.1, helping to align the policy dialogue and to improve adopted policies in support of conflict affected populations

3.2. Indicative Activities

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 for the urgent rehabilitation of conflict-damaged critical priority infrastructure to reduce vulnerability of the population in Ukraine.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Outcomes of the Strategic Environmental Assessment (SEA) screening
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 and response measures, ultimately benefiting crisis-affected women and girls. The programme will also target internally displaced population groups, returnees and host communities. The majority of displaced peoples are women and girls, hence women and girls will constitute the majority of the projects final beneficiaries. 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 mitigating the impact of the war for the conflict affected population groups.

**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, it will also help eliminate or reduce disaster risk through proactive measures taken before the emergency occurs. 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 Assumptions

<table>
<thead>
<tr>
<th>Category</th>
<th>Risks</th>
<th>Likelihood (High/Medium/Low)</th>
<th>Impact (High/Medium/Low)</th>
<th>Mitigating measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Escalation of military activity, Russia’s war of aggression protracts over an extended period of time and security conditions deteriorate further.</td>
<td>H</td>
<td>H</td>
<td>Support the strengthening of Ukraine’s civilian crises preparedness and state support management structures based on international best practice and lessons learned.</td>
</tr>
<tr>
<td>2, 3</td>
<td>There is an identified risk and prevalence of corruption in Ukraine, which can undermine the reform process and prevent support to reach the most vulnerable or identified target farms.</td>
<td>M</td>
<td>H</td>
<td>Ensure a strong policy dialogue, which will closely follow the establishment of clear coordination structures for emergency and state support assistance.</td>
</tr>
<tr>
<td>2, 3</td>
<td>Lack of capacity of the government to define</td>
<td>M</td>
<td>M</td>
<td>Pursue the policy dialogue and technical support to the relevant public authorities,</td>
</tr>
</tbody>
</table>

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13 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.
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<thead>
<tr>
<th>and implement efficiently short- and medium-term response measures to establish a credible crises preparedness and management structure.</th>
<th>ensure close co-ordination with international partners and civil society organisations in order to support the strengthening of civilian crises preparedness.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,3 Unintended negative human rights impacts or risks that perpetuate gender inequalities.</td>
<td>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, conflict affected populations, women and girls.</td>
</tr>
<tr>
<td>1,2 The external financing gap could not be filled beyond 2023, which could cause macro-economic destabilization.</td>
<td>H H Continued macro-financial assistance form the EU, IFM and partners.</td>
</tr>
<tr>
<td>2,3 Normal oversight procedures could be jeopardised in a crisis, increasing the risk of corruption and mismanagement of funds.</td>
<td>M M Ongoing and continued strengthening of PFM monitoring and dialogue with relevant stakeholders in Ukraine.</td>
</tr>
</tbody>
</table>

**External Assumptions**

It is assumed that the Government of Ukraine will continue to be functional during the duration of the action. That there is a treasury account under the control of the Government of Ukraine, where the funds can be deposited and that there is an interest by the Government of Ukraine in mitigating the impact of the war among groups of people mostly affected by the ongoing Russia’s war of aggression against Ukraine, including internally displaced people, returnees and host communities. Furthermore, it is assumed that the Government of Ukraine will continue the reform process in fundamental areas for budget support such as macro-economic stability, budgetary transparency and public finance management.

**3.5. Intervention Logic**

The underlying intervention logic for this action is that 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. An accompanying robust policy dialogue will ensure sufficient focus on advancing government efforts through increased reporting and monitoring activities. Specific attention will be put, through coordination, at ensuring the complementary of the Action with other means of intervention already in place in the country (humanitarian aid, emergency assistance projects, pooled funds, etc.). At the same time, flanking actions from existing and newly designed technical assistance interventions and grants 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 implementation of rehabilitation activities.
The State and Resilience Building Contract will induce Ukraine to continue strengthening its policies in support of the population affected by the conflict. In particular it will support the capacity of Ukrainian legitimate public institutions to address needs of conflict affected population including by contributing to ensuring the urgent repair and rehabilitation of transport infrastructure, critical, and municipal infrastructure, utilities, social infrastructure and housing. It will also contribute to the country’s food security and economic resilience by ensuring uninterrupted production of agricultural and food products and supporting access of farms (i.e. legal entities and individual agricultural producers) to working capital.

Ultimately this should contribute to improved livelihoods for the population groups most affected by Russia’s war of aggression based on a strengthened institutional framework in Ukraine.
3.6. Indicative Logical Framework Matrix
<table>
<thead>
<tr>
<th>Results</th>
<th>Results chain</th>
<th>Indicators (max. 15)</th>
<th>Baselines (value and year)</th>
<th>Targets by the end of the budget support contract (value and year)</th>
<th>Sources of data (1 per indicator)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Outcomes of the policy</td>
<td>1. Contributed to the urgent rehabilitation of conflict-damaged critical priority objects including transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing.</td>
<td>1.1 Number of users of rehabilitated infrastructure and services</td>
<td>1.1 May 2023 value (TBD)</td>
<td>1.1 Number of users of rehabilitated infrastructure and services</td>
<td>Government of Ukraine / State Statistics Service reports / electronic systems for the recovery management</td>
</tr>
<tr>
<td></td>
<td>2. Contributed to the country’s food security and economic resilience by ensuring uninterrupted production of agricultural and food products and continue supporting the access of small farms (i.e. legal entities and individual agricultural producers) to working capital</td>
<td>1.2 Number of critical priority objects repaired (segregated by type of infrastructure)</td>
<td>1.2 Number of critical priority objects repaired (segregated by type of infrastructure) in May 2023 (TBD)</td>
<td>1.2 Increased number of critical priority objects repaired (segregated by type of infrastructure) compared to baseline</td>
<td>Government of Ukraine / State Statistics Service reports</td>
</tr>
<tr>
<td></td>
<td>2.1 Production of main agricultural crops – wheat, corn and sunflower seeds</td>
<td>2.1 Total crop production in 2022: Winter wheat: 19.4 million tons; Corn: 24.7 million tons; Sunflower seeds: 10.4 million tons.</td>
<td>2.1 Limited decrease in production in 2023 vs. 2022 [less than -20%]</td>
<td>2.1 Limited decrease in production in 2023 vs. 2022 [less than -20%]</td>
<td>Government of Ukraine / State Statistics Service reports</td>
</tr>
</tbody>
</table>
**Induced Outputs**

| 1.1 | The Ukrainian government has put in place a programme for rehabilitation and repairs of war affected transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing |
| 1.1.1 | Status of programme for rehabilitation and repairs of war affected transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing |
| 1.1.2 | Number of repaired and rehabilitated critical priority objects |
| 1.1.3 | Number of beneficiaries of the programme affected by rehabilitations and repairs |
| 1.1.4 | Amount disbursed for rehabilitation and repairs of war affected transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing |

1.1.1 Status of programme for rehabilitation and repairs programmes status in May 2023
1.1.2 Number of repaired and rehabilitated critical priority objects in May 2023 (to be defined)
1.1.3 Number of beneficiaries of the programme affected by rehabilitations and repairs in May 2023 (to be defined)
1.1.4 Amount disbursed from the rehabilitation and repairs of war affected infrastructure in May 2023 (to be defined)

| 2.1 | Farms (i.e. legal entities and individual agricultural producers), especially those that are not recorded in the Register of Legal Entities, continue to be registered in a consolidated State Agrarian Register (SAR), systematically used to channel state support financial resources; |
| 2.1.1 | Number of farms (i.e. legal entities and individual agricultural producers) registered in the SAR, including farms not registered in the Register of Legal Entities; |
| 2.1.1.1 | Number of farms (i.e. legal entities and individual agricultural producers) registered in the SAR [March 2023] |

2.1.1 At least 200,000 registered farms (i.e. legal entities and individual agricultural producers) registered in SAR

Electronic system for the recovery management

**SAR farm registration records**

SAR and PSG records, reports from government authorities (MAPF, Ukrainian State Fund for Support of Farms).
| 2.2 Farms (i.e. legal entities and individual agricultural producers) of less than 120 ha located in liberated areas benefit from direct payments through the Production Support Grant (PSG) scheme based on EU state support standards; | 2.2.1 Number of farms (i.e. legal entities and individual agricultural producers) in newly liberated areas of less than 120 ha, which have submitted a request for direct payment through the PSG scheme | 2.2.1 0 farms (i.e. legal entities and individual agricultural producers) [March 2023] | 2.1.2 Stable or increased proportion of registered farms (i.e. legal entities and individual agricultural producers) | 2.1.2 50% of registered farms (i.e. legal entities and individual agricultural producers) | 2.1.2 Proportion [%] of farms (i.e. legal entities and individual agricultural producers) registered in SAR, but not registered in the Legal entity register; | 2.1.3 Status of state support schemes systematically channelled and monitored through SAR within the broader frame of the land reform; | 2.1.3.1 State support programmes such as 5-7-9 and Partial Credit Guarantee (PCG) not administered through SAR; | 2.1.3.2 CMU resolution on state support monitoring not adopted | 2.1.3.2 CMU resolution on SAR functioning and administering (covering 5-7-9 programme and PCG) adopted and made operational through testing with different stakeholders (including banks) | 2.1.3.1 CMU resolution on SAR functioning and administering (covering 5-7-9 programme and PCG) not administered through SAR; | 2.1.3.1 CMU resolution on SAR functioning and administering (covering 5-7-9 programme and PCG) adopted and made operational through testing with different stakeholders (including banks) |
| Direct Outputs | | | |
|----------------|-----------------|-----------------|-----------------|-----------------|
| 1.1.1 Helped relieve the external financing constraints by increased fiscal space, budgetary transparency and reduced transaction costs. | 1.1.1.1 Money received in the treasury | 1.1.1.1 no money received | 1.11.1 100 EUR million received in the treasury | Records of the Ukrainian Treasury |
| 1.1.2 Helped align policy dialogue and improved adopted policies in support of conflict affected populations | 1.1.2.1 Meetings of EU-Ukraine ad hoc working group on rehabilitation and repairs of war affected transport infrastructure, critical and municipal infrastructure, utilities, social infrastructure and housing | 1.1.2.1 Working group has not yet met | 1.1.2.1 One or several ad hoc working group meeting(s) take place in 2023 | Continued discussions in the framework of EU-Ukraine High Level Dialogues |
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 will be carried out and the corresponding contracts and agreements implemented, is 36 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 250 000 000.

This amount is based on the commitment of the partner country to allocate national budget resources (including EU budget support) to mitigate the impact of the ongoing Russia’s war of aggression against Ukraine for the population groups most affected by the war, including IDPs, returnees and host communities.

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 policies/measure for: (1) urgent rehabilitation of conflict-damaged critical priority objects (including housing, transport, social, critical and municipal infrastructures) (2) Food security and economic resilience and continued credibility and relevance thereof 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 specific conditions are as follows:

The budget support payment will only be executed if a 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

The following disbursement calendar and profile proposed for the action is indicative. The actual disbursement calendar and profile will be set out in the financing agreement and may remain subject to change.

Disbursements in two fixed financial tranches are indicatively proposed to take place in July 2023 and November 2023. 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.

4.4. Indicative Budget

<table>
<thead>
<tr>
<th>Indicative Budget components</th>
<th>EU contribution (amount in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget support - cf. section 4.3</td>
<td>250 000 000</td>
</tr>
<tr>
<td>Evaluation – cf. section 5.2</td>
<td>may be covered by another Decision</td>
</tr>
<tr>
<td>Audit – cf. section 5.3</td>
<td></td>
</tr>
<tr>
<td>Strategic communication and Public diplomacy – cf. section 6</td>
<td>N/A</td>
</tr>
<tr>
<td>Totals</td>
<td>250 000 000</td>
</tr>
</tbody>
</table>

4.5. Organisational Set-up and Responsibilities

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

- the Cabinet of Ministers of Ukraine,
- the Secretariat of the Cabinet of Ministers of Ukraine,
- the Ministry of Finance,
- the Ministry for Communities, Territories and Infrastructure Development,
- the Agency for Restoration and Infrastructure Development of Ukraine,
- the Ministry for the Reintegration of Temporary Occupied Territories,
- the Ministry of Social Policy;
- the Ministry of Economy and its partners, PJSC Ukrazaliznytsia and concerned Regional Military Administrations;
- the Ministry of Education and Science.

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 Secretariat of the Cabinet of Ministers. 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 Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the partner’s strategy, policy or reform action plan list.

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).

Arrangements for monitoring and reporting, including 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 International Monetary Fund (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.

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 importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

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 Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 60 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

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.
Evaluation services may be contracted under a framework contract.

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. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document Communicating and raising EU visibility: Guidance for external actions (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. 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.

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 the EU Delegation fully informed of the planning and implementation of specific visibility and communication activities before the implementation. 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.

Efforts will be made to coordinate communication and visibility activities of the Delegation with Ukraine’s communication on the urgent rehabilitation of conflict damaged critical priority infrastructure and/or its results. Strengthening the capacities of the Ukrainian institutions to communicate about EU support to this programme so as to raise awareness and mobilise public support on might also be considered in this context.’