



**EUROPEAN COMMISSION**

## **MEMO**

Brussels, 5 March 2014

### **European Commission's support to Ukraine**

This document sets out the main concrete measures that the Commission is proposing for the short and medium term to help stabilise the economic and financial situation in Ukraine, assist with the transition, encourage political and economic reforms and support inclusive development for the benefit of all Ukrainians. These measures combined could bring overall support of at least **€11 billion** over the coming years from the EU budget and EU based international financial institutions (IFIs) in addition to the significant funding being provided by the IMF and World Bank.

All these measures should be seen as the Commission's contribution to a European and international effort at providing a sustainable way out of Ukraine's difficult economic situation and to support its economic and political transition. The action of Member States in complementing and reinforcing what the Commission can mobilise on its own is crucial. The participation of partner countries as well as of the international financial institutions, notably the IMF, the EIB, the EBRD and the World Bank, is essential to leverage what we can all offer, increase the visibility of our collective action and improve its impact. All elements and instruments need to be pulled together to ensure an effective and coherent European Union and international response.

Part of the EU's effort is to support Ukraine on its path towards political and economic reform, including those set out in the Association Agreement /Deep and Comprehensive Free Trade Area (AA/DCFTA), which we stand ready to sign. It is essential to raise public awareness in Ukraine as well as in third countries on the benefits and opportunities that such reforms can offer both for Ukraine and the region as a whole.

#### Key elements of the package:

- €3 billion from the EU budget in the coming years, €1.6 billion in macro financial assistance loans (MFA) and an assistance package of grants of €1.4 billion;
- Up to €8 billion from the European Investment Bank and the European Bank for Reconstruction and Development;
- Potential €3.5 billion leveraged through the Neighbourhood Investment Facility;
- Setting up of a donor coordination platform;
- Provisional application of the Deep and Comprehensive Free Trade Area when Association Agreement is signed and, if need be, by autonomous frontloading of trade measures;
- Organisation of a High Level Investment Forum/Task Force;
- Modernisation of the Ukraine Gas Transit System and work on reverse flows, notably via Slovakia;
- Acceleration of Visa Liberalisation Action Plan within the established framework; Offer of a Mobility Partnership;
- Technical assistance on a number of areas from constitutional to judicial reform and preparation of elections.

## **ECONOMIC AND FINANCIAL ASSISTANCE:**

Economic support takes the form of both macro financial and development assistance. The Commission is ready to mobilise some **€3 billion** from the EU budget in the coming years with the undertaking that a substantial amount of money can be made rapidly available to help Ukraine address its more urgent needs, including stabilising the financial situation and supporting the functioning of the new administration.

### Macro-Financial Assistance:

A total of **€1.6 billion** is foreseen for macro financial assistance (MFA). In the short term, the Commission is ready to mobilise €610 million in loans under MFA which has already been agreed but is conditional on the signature of an agreement between the government and the IMF. The Commission is willing to propose further MFA of up to €1 billion. The Commission has already deployed a mission on the ground to assess Ukraine's financial needs and to prepare the ground for such MFA. This team is working closely with the IMF.

### Development assistance:

Over the next seven years, a development assistance package to Ukraine in the form of **grants** could amount to a minimum of **€1.4 billion**.

The Commission is currently preparing a new **€140 million** programme for **2014** that would aim at improving the financial capability of the government and support the institutional transition, thus reinforcing the foreseen impact of the MFA. This would be complemented by actions aimed at supporting civil society. The size of such a programme could be **increased up to €200 million** if there were to be redeployment from within the European Neighbourhood Instrument (ENI) and if Ukraine were to benefit from the umbrella programme ("more for more") on the basis of proven progress in deepening democracy and respect of human rights.

For the remaining period of **2015-2020**, a yearly bilateral envelope of approximately **€130 million** is currently foreseen as part of the ENI with an **additional €40-50 million per year** from the afore-mentioned umbrella programme ("more-for-more") subject to proven progress in deepening democracy and respect of human rights and further significant funding from the Neighbourhood Investment Facility (NIF) described below.

As far as existing programmes are concerned, the Commission is currently funding a number of on-going sector budget support and technical assistance programmes which will provide input to the new Government in key areas such as economic development, public financial management and justice. This represents approximately **€400 million**.

In addition, the NIF will be mobilised in favour of bankable investment projects in Ukraine. Experience with the implementation of the NIF in the East over the past programming period has shown that, for an amount of **€200-250 million of grants** foreseen for Ukraine **for blending**, one could expect a leverage effect that would generate loans of **up to €3.5 billion**. The participation of International Financing Institutions (IFIs) will be crucial to allow this leveraging and to exploit its full potential.

Within the NIF framework, the Commission is now working on the possibility of setting up a dedicated window to support the implementation of the AA/DCFTA for the relevant countries. This would allow our partners to have access to a guaranteed and dedicated envelope to support investment in sectors crucial for modernisation and the adoption of EU standards (in areas such as environment and energy). We are also looking at using this facility to further leverage the investment opportunities in the private sector.

The Instrument contributing to Stability and Peace (IcSP), formerly the Instrument for Stability, could be deployed to target urgent actions, for example, on police reform and electoral support. **Up to €20 million** could be mobilised quickly if appropriate actions are identified and **a further €15 million** could be added from the CFSP budget to support measures in relation to security sector reform.

Finally, Ukraine is the most important country for the EU for operations in the area of nuclear safety and security. Currently, projects are being implemented under the Instrument for Nuclear Safety Cooperation for a total amount of **€50 million**, in the field of nuclear waste management and social projects in the affected area around the Chernobyl exclusion zone. In addition, a further envelope of **€36.5 million** can be contracted in the very short term for actions in this field. The programming period for the new financial period is on-going, which will allow the EU efforts in this area to be further stepped up.

The Commission reiterates its readiness to establish an **EU Trust Fund** should Member States support such an initiative. This would create a vehicle that would allow Member States to make substantial further financial contributions and would increase the visibility of the EU, including its Member States, and contribute to an effective, swift and coordinated disbursement of funds.

The **European Investment Bank** (EIB) is the EU's own policy-driven bank and already has a project pipeline in Ukraine of up to **€1.5 billion for the next three years**. The EIB could significantly scale this up, without diverting from other regions, if adequate guarantee provisions were to be granted and if the political and operational conditions allow. The EIB could then provide financing for long-term investments of **up to €3 billion for 2014 – 2016** in support of both the local private sector and economic and social infrastructure. After the Mid-Term Review of the EIB External Lending Mandate planned by end 2016, the EIB could further increase its activity until 2020 via the activation of the **€3 billion** optional mandate already foreseen, subject to the agreement of additional funding by the budgetary authority.

In its operations, the EIB works closely together with the other IFIs active in the region thereby contributing to a significant leverage effect. The Commission will also explore the opportunity for ring fencing and front loading some of the additional guarantees for the EIB funds secured with the FEMIP reflows for AA/DCFTA related lending.

For its part, the **European Bank for Reconstruction and Development** (EBRD) is an IFI in which the EU and its Member States account for a majority of the shareholding. As part of a coordinated financial assistance programme in support of credible structural and macroeconomic reforms, the EBRD could make **€5 billion** available over the same period, though that amount could be exceeded if economic circumstances permit.

## **INTERNATIONAL DONOR CO-ORDINATION MECHANISM:**

The Commission remains in close contact with both the IMF and the World Bank on the ground in Ukraine and at Headquarters. In order to help ensure effective delivery and maximise the impact of the EU economic and development assistance described above, as well as heighten its visibility, the Commission is exploring avenues to enhance international donor coordination by setting up, together with the international community and IFIs, an ad hoc donor coordination mechanism.

Such a mechanism could take work forward on the basis of a needs assessment and of the reform programme prepared by the Ukrainian authorities, and provide a sustainable way out of Ukraine's difficult economic situation supporting economic and political transition.

This donor coordination mechanism could take the form of an **international platform** based in Kiev which would meet regularly to closely coordinate donor efforts to address the economic situation of the country. The political guidance will be provided by high level coordination meetings of the international platform. The Commission is willing to host the meetings in Brussels. This mechanism is open to the participation, namely, of EU Member States, IMF, World Bank, EBRD, EIB, and interested third countries. EU participation would be led on the ground by the EU Delegation.

## **TRADE AND INVESTMENT:**

While economic and financial assistance are essential, trade and investment are also key instruments in helping secure long term sustainability for Ukraine. All Ukrainians stand to benefit enormously from the ambitious DCFTA trade deal with the EU. For example, Ukrainian exporters will save almost half a billion euros annually due to reduced EU import duties; Ukrainian agriculture will benefit from cuts in duties on agricultural and processed agricultural products of almost €400 million. The different levels of economic development of the EU and Ukraine are reflected by the asymmetrical nature of the Agreement. It is designed to provide Ukraine with favourable treatment, for example, through the faster and broader opening of the EU market by the front loading of tariff dismantlement granted by the EU combined with a longer period for similar measures on the Ukrainian side.

The Commission stands ready to react quickly to ensure the rapid provisional application of the AA/DCFTA once a decision on its signature has been made.

In the meantime, the Commission is ready to offer the early application of those provisions of the agreement related to the imports of goods (i.e. the reduction of tariffs and opening of tariff rate quotas) by proposing a draft Council/Parliament Regulation on such so called 'autonomous trade measures'. These transitional trade measures, unilateral in nature from the EU side, would allow Ukraine to benefit substantially from many of the advantages offered by the Agreement already now, that is to say, in the period until it could be signed and provisionally applied. However, the rapid implementation of such support measures would require a clear commitment by the Council and the EP to fast track the approval process.

As part of the effort to mobilise all of its assets and instruments in support of Ukraine at this exceptional time, the High Representative and the Commission are also ready to convene a High level Investment Forum/Task Force to explore investment and co-operation possibilities in Ukraine. This should bring together a wide range of private and public economic actors, Ukrainian and EU and IFIs together with the host country to maximise their collective impact and ensure a sustainable, democratic and prosperous future for the people of Ukraine. Such an event would also provide an opportunity to help Ukraine to maximise the benefits of autonomous trade measures and the AA/DCFTA.

## **ENERGY AND TRANSPORT:**

Energy and energy security, and affordable prices, are essential for the stability and security of Ukraine. The EU will work with the new government in Ukraine, including through budget support, to ensure long term diversification of supplies and to make sure that the Ukrainian gas transmission system continues to be an essential transit route for gas supplies to the Europe. As such, the Commission will continue to work with the government in Ukraine to modernise its gas transmission system in co-operation with the EIB, EBRD and World Bank, as gas sector reforms in line with the Energy Community commitments are carried out. Provided that certain conditions are fulfilled, an initial loan could be possible in the near future.

In the short term, the Commission is ready to assist Ukraine in diversifying its gas supply routes, notably by ensuring that reverse flows with the EU, notably via Slovakia (in addition to Poland and Hungary as is currently the case), can be operationalised as soon as possible. The Commission should ensure, together with Slovakia, that the Ukrainian and Slovakian transmission system operators establish the necessary rules and process that allows gas to flow from EU to Ukraine in increased capacities in order to enhance the security of supply in Ukraine. The text of a Memorandum of Understanding between the transmission system operators of Slovakia and Ukraine for the physical reverse flow via the Ukraine-Slovak pipeline was brokered by the Commission in December 2013 but was not signed. The Commission is ready to facilitate the signature by the two operators if requested. The Commission remains committed to continue working with the relevant Member States to facilitate the creation of additional reverse flow corridors to Ukraine via Bulgaria and Romania and via Croatia and Hungary.

In the medium term, should circumstances allow, the Commission continues to be ready to promote a trilateral approach (between EU, Russia and Ukraine) for the modernisation of the Ukrainian gas transmission system.

With regard to transport, following the initialling of the EU-Ukraine Common Aviation Area Agreement at the Eastern Partnership Summit in Vilnius, the Commission is advancing rapidly in preparatory work to allow the Council to take a decision on the signature of the Agreement and stands ready for its early implementation. The Commission is determined to continue working on the enhancement of the EU-Ukraine transport relations, in particular in the framework of the Eastern Partnership Transport Panel.

## **MOBILITY:**

Mobility is an important area where the Commission believes meaningful, visible, short-term steps should be taken. While a number of them depend on the political decisions of the Member States, the Commission is willing and ready to pro-actively facilitate swift and efficient coordination in this area. The Commission fully recognises the importance of mobility and people-to-people contacts for Ukrainian citizens and will support Ukrainian efforts to move forward the visa liberalisation process as quickly as possible in line with the agreed conditions of the Visa Liberalisation Action Plan. Progress will of course depend on how the new authorities are able to tackle the most important outstanding issues. However, the Commission can and will do its utmost to help solve the remaining issues in an accelerated manner. Completing the visa liberalisation process will lead to the abolition of the visa obligation for Ukrainian citizens wishing to travel to the Schengen zone for up to 90 days within 180 days.

In the meantime, a Visa Facilitation Agreement (VFA) is in operation between the EU and Ukraine and the Commission encourages Member States to fully exploit its potential. It gives Member States the possibility of choosing from a series of measures, including waiving visa fees for certain categories of citizens. In addition, the Visa Code gives the Member States additional options to waive the visa fees for further categories, such as, for example, children.

In addition, the Commission is willing, subject to the agreement of Member States, to offer Ukraine a Mobility Partnership promoting people-to-people contacts and legal migration options, and offering a framework for cooperation and practical support to the Ukrainian authorities going beyond the visa liberalisation process. Such a Mobility Partnership could be established very quickly should there be an interest on the Ukraine side to do so.

## **PEOPLE TO PEOPLE LINKS AND EDUCATION:**

Under the new Erasmus+ programme, the EU will offer more opportunities for student mobility, academic cooperation and youth exchanges. The Erasmus programme will support short-term student mobility in both directions to obtain credits in a host institution, which are then recognised by the home institution. It is estimated that more than 4,000 young Ukrainians will benefit from university exchanges under Erasmus+, and more than 7,000 will take part in youth projects and exchanges.

Staff mobility for training and teaching will also be promoted. Ukrainian students and universities will be able to participate in high-level joint Master degrees offered by consortia of European universities. Capacity building measures will be offered to universities, to modernise curricula, teaching practices, upgrade facilities and improve governance. Erasmus + will also fund youth mobility through youth exchanges, European Voluntary Service and mobility of youth workers.

Ukraine will continue to take part in eTwinning for schools, with 101 schools and 280 teachers already registered since the official launch in March 2013. Researchers will be able to apply for doctoral or post-doctoral fellowships of other research grants available under the Marie Skłodowska Curie actions.

## **ADDITIONAL ACTIONS:**

More broadly, the Commission remains committed to helping Ukraine build institutions which serve the interests of the state and the people by promoting good governance, rule of law and fighting corruption, etc. Making these institutions fit for purpose is not just an end in itself, but also a means to securing the country's medium and long term development, both socially and economically. Support for sustainable economic and political transition will also require grants providing technical expertise in many of the areas outlined in this paper.

In addition to this, the Commission and the High Representative will continue to provide support for **constitutional reform**, together with the Council of Europe and the Venice Commission. Assistance to support reform of the Prosecutor's Office and of the police through the EU-Ukraine Judiciary Reform Dialogue is also on-going. In addition, in the area of **electoral assistance**, the possibility of providing electoral support and technical assistance, including to monitoring in the context of an OSCE-ODHIR Electoral Observation Mission for future elections is being explored.

- **Restrictive measures:** The EU has demonstrated that it can act in a rapid and flexible manner to adopt the necessary relevant legislation. The Commission presented its proposal on Monday 24 February and is about to be adopted by the Council, updated to reflect the changing reality on the ground so as to now focus on the freezing and recovery of assets of persons identified as responsible for the misappropriation of State funds. The Commission stands ready to come forward with more proposals if and when necessary.

- **Humanitarian aid and civil protection:** The Commission has opened an antenna office in Kiev to monitor the situation and provide information, including to Member States, on humanitarian and civil protection issues. This office is in touch with with all main relief and aid organisations to coordinate any possible future activities and carry out contingency planning. The Commission stands ready to provide assistance from the EU Civil Protection Mechanism should Ukraine request it. In anticipation, the Commission has already asked Participating States to the Mechanism to take stock of possible medical related offers of assistance.

## **ANNEX: SUPPORT TO UKRAINE: INDICATIVE ASSISTANCE PACKAGE**

Source	Indicative amounts / ranges (in € million)
<b>I. EUROPEAN COMMISSION (2014-2020)</b>	
<b><i>I.1 Overall development assistance (grants)</i></b>	<b><i>1,565</i></b>
Bilateral envelope, where:	
- Annual Action Programme (AAP) for 2014	140-200
- AAPs (average) - for 2015-2020	780
- Umbrella programme ("more for more") for 2015-2020	240-300
Neighbourhood Investment Facility	200-250
Instrument contributing to Stability and Peace (IcSP)	20
CFSP	15
<b><i>I.2 Macro financial assistance (loans)</i></b>	<b><i>1,610</i></b>
<b>I.2 EUROPEAN FINANCIAL INSTITUTIONS</b>	
EIB	up to 3,000
EBRD	5,000
<b>GRAND TOTAL</b>	<b>11,175</b>