

# EU assistance to Ukraine and scrutiny of the EU financing provided

The Committee on Budgetary Control (CONT) will hold an exchange of views with the parliamentary Committees on Budget and on Anti-corruption Policies of the Ukrainian Parliament, the Verkhovna Rada, on 20 March 2024. This briefing provides background information for that debate.

## 1 Ukraine's financing needs

It is difficult to estimate the funds required as the destruction is still continuing. As long as the war continues Ukraine will not only need help with financing the rebuilding of vital infrastructure and maintaining state services, but also with reconstruction in the secure areas of the country. To achieve this, the timing and predictability of the financial aid is crucial, as around USD 3 billion a month are necessary to keep the state functioning<sup>1</sup>. In case this financing is not available from external sources, the Ukrainian central bank needs to print money which would fuel inflation and lead to a currency crisis.<sup>2</sup>

Experts agree that financial aid given to Ukraine should not only be targeted to the physical rebuilding of destroyed infrastructure, but also to the reconstruction of a functioning and self-sufficient country suitable for EU membership<sup>3</sup>. Estimates go as high as EUR or USD 1 trillion (suggested by CEPA<sup>4</sup> and EIB president Werner Hoyer<sup>5</sup>) to be disbursed over the period of up to a decade. The Ukrainian government calculated USD 750 billion in July 2022 for the durability, restoration and modernisation of the country. However, the Commission and the World Bank, together with the government of Ukraine and the United Nations estimated reconstruction and recovery needs at USD 349 billion in June 2022<sup>6</sup>, at USD 411 billion in March 2023<sup>7</sup> and at USD 486 billion in February 2024<sup>8</sup>.

<sup>1</sup> [International cooperation is necessary to win the war. The monthly need for external financing is about \\$3 billion: Sergii Marchenko at the meeting of the G7 financial bloc](#), Press release, Ministry of Finance of Ukraine, 28 February 2024

<sup>2</sup> [The EU Cannot Afford Not to Support Ukraine Financially](#), Torbjörn Becker, SCEEUS Guest Platform for Eastern Europe Policy No. 13, 1 March 2023 and [Financing Ukraine's Victory and Recovery: For the War and Beyond](#), Maria Repko, SCEEUS Guest Platform for Eastern Europe Policy No. 10, 17 November 2022

<sup>3</sup> A brief overview of the high level international process discussing assistance to Ukraine can be found on page 2 of [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, European Parliament, January 2024

<sup>4</sup> [Rebuilding Ukraine: A Historic Plan for Congress](#), Timothy Ash and Polina Kurdyavko, Center for European Policy Analysis, CEPA, 25 January 2023

<sup>5</sup> [Ukraine reconstruction may cost \\$1.1 trillion](#), Ukraine Invest, 27 June 2022

<sup>6</sup> [Ukraine Rapid Damage and Needs Assessment](#), World Bank, Government of Ukraine, European Commission, August 2022

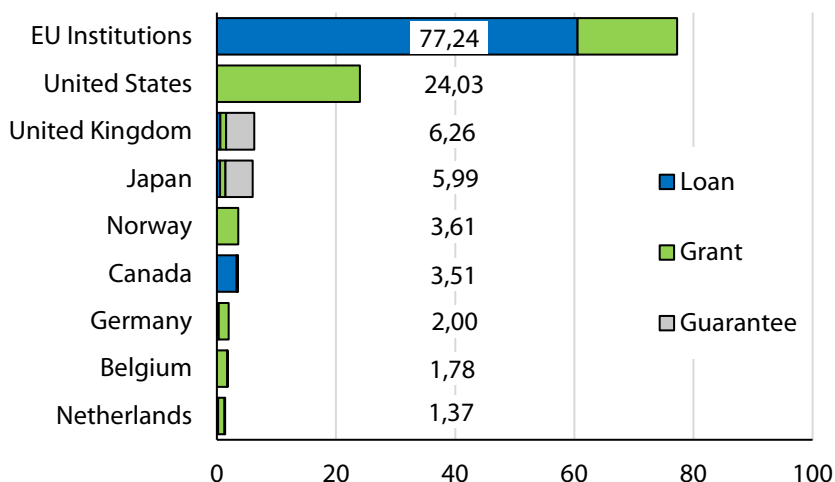
<sup>7</sup> [Ukraine: Rapid Damage and Needs Assessment - February 2022 - February 2023](#), the World Bank, the Government of Ukraine, the European Union, the United Nations, 20 March 2023

<sup>8</sup> [Ukraine - Third Rapid Damage and Needs Assessment \(RDNA3\) February 2022 - December 2023](#), the World Bank, the Government of Ukraine, the European Union, the United Nations, 14 February 2024



## 2 Current financing

**Figure 1 - financial assistance by donor (EUR billion)**



Source: Ukraine Support Tracker Data (published in February 2024)

There are some **discrepancies among figures** from different sources, which may be due to methodological differences in what type of assistance is included. Humanitarian aid, financial and/or military assistance may or may not be included. The same goes for grants vs. loans, guarantees, swaps, in-kind aid, etc. Some count pledged sums, some only disbursements.

Ukraine has been receiving financial support from many sources, including bilateral assistance and multilateral aid from international financial institutions. **Bilateral support can be consulted on the [Ukraine Support Tracker website](#)**, together with some figures on multilateral donors.

By mid-January 2024, donor countries had committed **EUR 130.95 billion as financial assistance** (excluding military aid<sup>9</sup>), consisting of EUR 66.74 billion loans, EUR 52.69 billion of grants, EUR 10-61 billion of guarantees and EUR 910 million of [central bank swaps](#) (see Figure 1 for donors above EUR 1 billion). Nearly half of this (EUR 58.84 billion) has already been disbursed. The **largest contributors** are the EU (EUR 77.24 billion), the US (EUR 24.03 billion), followed by the UK, Japan, Norway, Canada, Germany, Belgium and the Netherlands (adding up to EUR 24.52 billion). While the US, Norway and Belgium are giving grants only, others donors, including the EU, provide a mix of loans and grants, and some also provide guarantees.

In a [Council breakdown of figures](#), the sums differ from those of the Ukraine Support Tracker. The financial and economic support committed by February 2024 from the EU budget reached EUR 81 billion, while the Member States committed EUR 12.2 billion separately, adding up to EUR 93.3 billion. In addition to this civil protection assistance worth EUR 796 million and humanitarian aid worth EUR 3 billion was provided by the EU.

According to the state budget of Ukraine, the total of non-repayable support under 'Official transfers from the European Union, foreign governments, international organizations, donor institutions' was UAH 481.3 billion in 2022 and UAH 433.6 in 2023<sup>10</sup> (EUR 14.2 billion and EUR 11 billion, respectively<sup>11</sup>).

## 3 EU financing sources, their control and scrutiny

Until the end of 2023, the EU budget instruments through which support was provided to Ukraine were the ones already existing before the outbreak of the war and also providing support to countries other than Ukraine. Consequently, their scrutiny was not necessarily specifically designed for the case of Ukraine. The source of financing that specifically targets Ukraine is the Ukraine Facility, the legal basis of which entered into force on 1 March 2024 (See Chapter 5.)

<sup>9</sup> Military aid of EUR 102.73 billion has been committed, however, this briefing focuses on recovery and reconstruction, and does not take it into account.

<sup>10</sup> [Consolidated budget figures for January - December 2023](#), Ministry of Finance of Ukraine

<sup>11</sup> Calculating with annual average exchange rate of 32.31 UAH/EUR for 2021, 33.98 UAH/EUR for 2022 and 39.56 UAH/EUR for 2023. Source: [Official hryvnia exchange rate against foreign currencies \(period average\)](#), National Bank of Ukraine

The CONT committee can primarily control these sources of financing through the discharge procedure or through targeted reports/debates. The latter could be on the basis of specific input received from the Commission (or OLAF) or the European Court of Auditors (ECA), but also be initiated by the committee itself. Control and scrutiny actions of EU assistance to Ukraine are also evolving over time both inside and outside the EP: in the annual reports of the ECA on the implementation of the EU budget for the 2022 financial year there is more targeted information included related to Ukraine than in the equivalent report on the year before. Similarly, the discharge procedure of the 2021 budget did not have very specific concerns about Ukraine related EU spending, and it remains to be seen what final conclusions and recommendations will be part of the 2022 discharge (to be voted in April). In its resolution on the protection of the European Union's financial interests, the Parliament underlines its belief that the EU resources allocated to Ukraine (in response to the war) are not adequately monitored and controlled, and calls on the Commission "to put appropriate measures in place, including the carrying out of more thorough checks (...)". Furthermore, Parliament stresses the need "to protect the rule of law and the financial interests of the Union and to prevent, detect and correct fraud, corruption, conflicts of interest and irregularities in the use of Union funds in Ukraine".<sup>12</sup>

### 3.1 Macro-Financial Assistance (MFA) and 'MFA+ instrument'

The European Union's [Macro-Financial Assistance \(MFA\)](#) is a vehicle to support non-EU countries that face a balance of payment crisis via loans and grants. It is important to note that, MFA is mobilised on a case-by-case basis and it is paid to the beneficiary countries' central banks and can be used for purposes chosen by the beneficiary country's government (reserves, foreign exchange market intervention or as direct budget support).<sup>13</sup>

The Commission proposed [a new emergency MFA for Ukraine](#) of up to EUR 1.2 billion in concessional loans just before the start of the war. In response to the war, pay-outs were fast-tracked, with the two loan instalments of EUR 600 million disbursed in March<sup>14</sup> and May 2022<sup>15</sup>. Additional MFA loan packages of EUR 6 billion ('exceptional MFA' packages of EUR 1 billion on 19 July<sup>16</sup> and EUR 5 billion on 3 October 2022<sup>17</sup>) and EUR 18 billion ('MFA+ instrument', 9 November 2022<sup>18</sup>) were approved, increasing the entire MFA amount to Ukraine to EUR 28.2 billion since the invasion started and also introducing an interest rate subsidy covering interest costs of the loan.<sup>19</sup> In total, EUR 25.2 billion have been disbursed using this instrument.<sup>20</sup> While the MFA loan packages adopted in 2022 were guaranteed through a mix of provisioning from the EU budget and bilateral guarantees from the Member States, the EUR 18 billion in MFA+ for 2023 are guaranteed through the 2021-2027 MFF headroom<sup>21</sup>. This represents a contingent liability for the EU, as no EU resources are needed to settle the EU debt unless the beneficiary country defaults.<sup>22</sup> This is highlighted as a risk by the ECA in its 2022 annual report<sup>23</sup>, namely that the MFA+ does not require any provisioning to cover the risk of default, thus should there be any losses, it will have to be covered by the EU budget or by the 'headroom' between the MFF ceiling and the own resources ceiling.

<sup>12</sup> [European Parliament resolution of 18 January 2024 on the protection of the European Union's financial interests – combating fraud – annual report 2022 \(2023/2045\(INI\)\)](#)

<sup>13</sup> [Macro-Financial Assistance \(MFA\)](#), European Commission

<sup>14</sup> [EU disburses €300 million in emergency Macro-Financial Assistance to Ukraine](#) and [EU disburses additional €300 million in emergency Macro-Financial Assistance to Ukraine and adopts €120 million in grant support](#), Commission Daily News, 18 March 2022

<sup>15</sup> [EU disburses €600 million in Macro-Financial Assistance to Ukraine](#), Commission Press release 20 May 2022

<sup>16</sup> [Memorandum of Understanding - EUR 1 billion exceptional MFA to Ukraine](#)

<sup>17</sup> [Memorandum of Understanding - EUR 5 billion exceptional MFA to Ukraine](#)

<sup>18</sup> [Commission proposes stable and predictable support package for Ukraine for 2023 of up to €18 billion](#), Commission Press Release, 9 November 2022.

<sup>19</sup> Overview of MFA provided for Ukraine can be found [here](#)

<sup>20</sup> [Factsheet: EU solidarity with Ukraine](#), European Commission, 22 June 2023

<sup>21</sup> As described in the [Commission's proposal for the MFA+ regulation](#), COM(2022) 597, 9.11.2022

<sup>22</sup> ECA Special Report on [The EU's financial landscape](#)

<sup>23</sup> [ECA 2022 annual report](#) on the implementation of the EU budget for the 2022 financial year

The **Commission reports annually to the EP and the Council about the implementation of MFAs in third countries**. The latest annual report (2022)<sup>24</sup>, presents chronologically the MFA packages to Ukraine, including the disbursements made, difficulties that arose, and the specificities linked to the extraordinary situation of Ukraine, such as the system of reporting requirements that was introduced to ensure sound financial management of the funds provided. **Evaluations** are usually required by the legal basis of a given MFA package, and even a meta-evaluation has been carried out on the MFA 2010-2020<sup>25</sup>, although it is not clear where these reports are available in full.<sup>26</sup> The **annual management and performance report** of the Commission contains a programme performance statement for all headings of the MFF, including one statement on macro-financial assistance, under Heading 6: Neighbourhood & the World. This text has a broad approach but it is also relevant for Ukraine.

As explained earlier, since the outbreak of the war there have been several MFA packages provided to Ukraine. **The legal basis of these packages and the Memoranda of understanding** signed by Ukraine and the EU all include similar reporting requirements:

- The Commission manages the MFA and has to inform EP and the Council of developments including disbursements and provide those institutions with relevant documents in due time. By 30 June each year, an annual report on the implementation in the preceding year (including an evaluation) has to be submitted by the Commission to the EP and Council.
- The Memorandum of understanding obliges Ukraine's authorities to supply the Commission with information necessary to monitor its economic and financial situation and assess progress with structural reforms.
- The Memorandum of understanding stipulates that, to prevent irregularities and fraud, regular checks will / can be carried out by Ukraine, and checks, audits, investigations by the EC including OLAF and by the ECA and EPPO.

Within the EP, MFAs provided to third countries are in the remit of the Committee on International Trade (INTA) which thus has the lead role during the ordinary legislative procedure establishing the legal basis of individual MFA packages. Once the act establishing the specific package enters into force, INTA is informed about the conclusion of the Memorandum of Understanding between the EU and the third country, which is usually annexed to a draft implementing act sent to INTA as part of comitology communication. INTA receives the annual implementation report on MFAs, which is also publicly presented by the Commission during an INTA committee meeting. MFA implementation is also regularly discussed in the EP's Committee on Budgets (BUDG). Moreover, BUDG, as lead committee, approved the amendment to the MFF Regulation (end 2022) that was necessary for the EUR 18 billion (MFA+) to be provided to Ukraine in 2023. The interest costs related to the MFA+ are also debated in BUDG.

## 3.2 EU Civil Protection Mechanism

The **EU Civil Protection Mechanism** (a disaster prevention, preparedness, and response instrument) committed around EUR 796 million of in-kind assistance and emergency operations to channel emergency items to Ukraine, in its largest mobilisation ever. Since February 2022, the European Commission has allocated EUR 860 million for humanitarian aid programmes to help civilians affected by the war in Ukraine.<sup>27</sup>

The EU Civil Protection Mechanism is coordinated by the European Commission's Civil Protection and Humanitarian Aid Operations department (DG ECHO). The department integrates the EU's humanitarian aid office and civil protection, for a better coordination and disaster response inside and outside Europe.

<sup>24</sup> Report from the Commission to the European Parliament and the Council on the implementation of macro-financial assistance to third countries in 2022, COM(2023)409

<sup>25</sup> The executive summary is available on [eur-lex](#).

<sup>26</sup> Some older ex post evaluations can be found [here](#).

<sup>27</sup> [European Civil Protection and Humanitarian Aid Operations: Ukraine](#), Factsheet, European Commission

In the case of humanitarian aid, the EU shares competence with its Member States. The EU's initial humanitarian budget amounts to [over EUR 1.65 billion](#) per year and helps millions of people across the globe. When it comes to civil protection, the EU has a supporting role in coordinating contributions of in-kind assistance.<sup>28</sup>

The coordination of the programmes is based on annual [strategic plans](#) and the transparency and accountability is ensured via [public annual reports](#).

The department is regularly subject to [audits](#) by the ECA and the Internal Audit Service of the Commission (IAS). In order to assess whether grants had been spent in accordance with the rules ECHO also carries out audits of partners, which also provide recommendations to improve their financial management.

The obligation to report suspicions of misconduct, mismanagement or fraud related to ECHO-funded actions, partners or staff is based on ethical and integrity standards laid down in internal regulations and partnership agreements. The department also has dedicated mailboxes for victims and witnesses to anonymously report misconduct.<sup>29</sup>

Besides the regular audits by both an external (ECA) and an internal auditor (IAS), ECHO also contracts with external audit companies for formal audits of all its civil protection and humanitarian aid operations.

The ECA provides an annual 'Statement of Assurance' on the legality and regularity of EU-funded civil protection and humanitarian actions and also carries out ad-hoc performance audits, the results of which are published in '[Special Reports](#)'. Internal work processes of the department are audited by the IAS. Partner organisations implementing humanitarian aid actions are audited primarily by external companies, based on international standards. These audits check partners against criteria set out in partnership agreements, their internal systems and the proper accounting of spending.<sup>30</sup>

Civil protection falls within the remit of the Committee on Environment, Public Health and Food Safety (ENVI) in the Parliament (ENVI is responsible for the Decision on the Mechanism under the ordinary legislative procedure), however, the external dimension of the topic (connected to humanitarian aid) is amongst the responsibilities of the DEVE committee.

### 3.3 European Fund for Sustainable Development Plus (EFSD+)

The **European Bank for Reconstruction and Development (EBRD)** has disbursed EUR 3 billion in 2022-23<sup>31</sup>. The EU budget provides for guarantees to the EBRD under the [European Fund for Sustainable Development Plus \(EFSD+\)](#) instrument.<sup>32</sup>

As part of the EU's investment framework for external action, [The European Fund for Sustainable Development Plus \(EFSD+\)](#) is included in the EU's long-term budget programme for external action [Global Europe – NDICI](#), and governed by its [establishing Regulation](#).

The NDICI Regulation foresees timely, transparent and inclusive information sharing by the Commission towards Member States. The minutes and agendas of EFSD+ strategic board meetings have to be made public. The Commission needs to report annually to the EFSD+ strategic board on the progress made in the implementation of the programme. It also has an obligation to prepare an annual report to the European Parliament and the Council on the implementation of the NDICI-Global Europe instrument.

<sup>28</sup> [About European Civil Protection and Humanitarian Aid Operations](#), European Civil Protection and Humanitarian Aid Operations, European Commission

<sup>29</sup> [Accountability](#), European Civil Protection and Humanitarian Aid Operations, European Commission

<sup>30</sup> [Auditing](#), European Civil Protection and Humanitarian Aid Operations, European Commission

<sup>31</sup> [EBRD reaches its €3 billion financing target for Ukraine in 2022-23](#), Vanora Bennett, EBRD News, 23 October 2023

<sup>32</sup> [Multilateral financial assistance to Ukraine](#), Drazen RAKIC, Vasileios PSARRAS, European Parliament, February 2023



Counterparts outside the EU that have concluded a guarantee agreement must annually provide the Commission and the ECA with audited financial reports on financing and investment operations. Regular evaluation reports are also required by the Regulation with the mid-term evaluation report due by 31 December 2024, to be followed by different types of evaluation reports every three years.<sup>33</sup> The Commission shall evaluate the impact and effectiveness of its actions per area of intervention, and the effectiveness of programming, where appropriate by means of independent external evaluations.<sup>34</sup>

The NDICI programme is under the joint responsibilities of the AFET and DEVE committees within the EP (and the BUDG committee also plays an important role, it held associated committee position during the legislative procedure<sup>35</sup> establishing the legal basis of the instrument), while EFSD+ specifically falls more into the remit of the DEVE committee.

### 3.4 European Investment Bank (EIB)

The **European Investment Bank (EIB)**, as part of the [EIB Ukraine Solidarity Urgent Response](#) for 2022-2023, pledged to provide EUR 2.26 billion to Ukraine, of which EUR 1.7 billion have been disbursed. In March 2022, the EIB announced an emergency solidarity loan backed by an EU guarantee (part of the Solidarity Urgent Response) of EUR 2 billion for Ukraine, including the immediate provision of EUR 668 million as liquidity assistance. A second part of the Response amounts to EUR 1.59 billion, of which EUR 1.05 billion was disbursed in 2022 and EUR 540 million are earmarked for 2023. They also disbursed a humanitarian donation worth EUR 3.6 million. In addition to the support provided to Ukraine, a credit line and an advisory platform were created to support EU Member States neighbouring Ukraine in their efforts to meet displaced people's needs. On 29 March 2023, the Board of Directors of the EIB approved [the "EU for Ukraine Initiative"](#), a new temporary scheme which will enable continued EIB engagement in the country while the expected medium term EU support is put in place. As part of the initiative, the EIB has established the EU for Ukraine Fund to 'support for Ukraine's most urgent infrastructure needs and help sustain its economy' to which donors have so far committed EUR 157.3 million<sup>36</sup> (although the original pledges amounted to over EUR 400 million in July 2023<sup>37</sup>) with the first EUR 25 million financing approved in December 2023. The Fund was also accompanied by a EUR 100 million dedicated technical assistance package.

The European Investment Bank is the lending arm of the European Union. Its governance structure includes an Audit Committee, which is an independent body answerable directly to the Board of Governors. The committee's six members are appointed by the Board of Governors for a non-renewable term of six years, and may use the services of external auditors. It is responsible for 'verifying that the operations of the Bank have been conducted and its books kept in a proper manner', 'auditing the Bank's accounts'<sup>38</sup>. It reviews financial statements and annual accounts<sup>39</sup>, and its report is joint to the annual report of the Board of Directors.<sup>40</sup>

'In respect of the European Investment Bank's activity in managing Union expenditure and revenue, the Court's rights of access to information held by the Bank shall be governed by an agreement between the Court, the Bank and the Commission. In the absence of an agreement, the Court shall nevertheless have access to information necessary for the audit of Union expenditure and revenue managed by the Bank.'<sup>41</sup> In November 2021, a tripartite agreement was signed by the ECA, the EIB and the Commission ensuring greater

<sup>33</sup> [The New EFSD+ and the EIB's External Lending Mandate](#), Erik Lundsgaarde, María-Luisa Sánchez-Barrueco, Andreea Hancu Budui, European Parliament 2022

<sup>34</sup> Article 42 of [Regulation \(EU\) 2021/947 of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe](#)

<sup>35</sup> See: [legislative observatory](#)

<sup>36</sup> [EU for Ukraine Fund](#), European Investment Bank

<sup>37</sup> [EU Member States pledge over €400 million to the EIB's Fund supporting Ukraine](#), EIB press release, 13 July 2023

<sup>38</sup> Chapter V of [Rules of Procedure of the European Investment Bank](#), European Investment Bank, 2023

<sup>39</sup> Article 12 (3) of [Protocol \(No 5\) to the Treaty on the Functioning of the European Union on the statute of the European Investment Bank](#), OJ C 202, 7.6.2016, p. 251–264

<sup>40</sup> [Audit Committee](#), European Investment Bank

<sup>41</sup> [Article 287](#) (3) TFEU

and more streamlined access for the ECA to the documents and data of the EIB concerning its Commission mandated activities.<sup>42</sup>

The Annual Report on the financial activities of the EIB is discussed in the Parliament. The BUDG committee is responsible for 'the financial activities of the European Investment Bank which are not part of European economic governance', the latter being in the remit of the ECON committee, while the CONT committee is charged with 'the control of the financial activities of the European Investment Bank'.<sup>43</sup> In practice, in 2022 an own-initiative report was prepared by the CONT committee with the DEVE committee providing an opinion on the control of the funds<sup>44</sup>, and another own-initiative report was drawn up by the ECON committee with the BUDG committee providing an opinion on the Bank's activities<sup>45</sup>.

### 3.5 European Bank for Reconstruction and Development (EBRD)

As mentioned in chapter 3.3, EBRD's EUR 3 billion commitment is guaranteed under the [EFSD+](#) instrument, and therefore, the scrutiny of its programmes is relevant for the EU. However, EBRD is an independent international financial organisation, the membership of which comprises of 66 governments, the EU and the EIB, the two latter having 3.03% shares of the bank's capital, each. The EU is represented by a Governor and an Alternate Governor in the EBRD's main governing body, the Board of Governors, and by an Executive Director and an Alternate Director on the Board of Directors. The EU Executive Director consults regularly Member States, the Commission and EEAS, in order to be able to take into account the priorities of the EU as a whole. The operational cooperation among the EU, EIB and the EBRD outside the European Union is based on a [Tripartite Memorandum of Understanding](#)<sup>46</sup>. The EU has no right of scrutiny over the operations of the EBRD.

The EBRD has its own Evaluation Department, which is tasked with the systematic analysis of the performance of the Bank's projects and programmes. In order to contribute to the legitimacy of the Bank it provides objective, evidence based performance assessment of outputs and outcomes relative to targets and thus enhances institutional learning by presenting operationally useful findings. The Evaluation Policy establishing the scope and objectives of evaluations was approved by the Board in January 2013. It sets out the evaluation principles, internal roles and responsibilities, the essential framework for procedures and methods. It also covers the management's response to evaluation findings, their utilisation, accessibility, internal circulation and external disclosure.

The EBRD also had its evaluation system reviewed by an independent external expert to see if it (i) reflects best practice, (ii) is meeting the needs of the Bank and (iii) is contributing to improving institutional performance, learning and accountability.<sup>47</sup>

The highest level responsible for the use of EBRD resources is the Board of Directors, which has established the Audit Committee to assist with its work. Its tasks include warranting the integrity of the Bank's financial statements and its accounting, financial reporting and disclosure policies and practices. It needs to assure the soundness of the Bank's systems of internal controls, the performance of the Bank's compliance, internal audit, evaluation and risk management functions. It also has to guarantee the independence, qualifications and performance of the Bank's external auditor.<sup>48</sup>

<sup>42</sup> [EU auditors to have more access to EIB data](#), European Court of Auditors, 11/11/2021

<sup>43</sup> [Rules of procedure, 9th Parliamentary term](#), European Parliament, July 2023

<sup>44</sup> Procedure [2022/2046\(INI\)](#) - Control of the financial Activities of the European Investment Bank - annual report 2022

<sup>45</sup> Procedure [2022/2062\(INI\)](#) - Financial Activities of the European Investment Bank - annual report 2022

<sup>46</sup> [Coordination with the European Bank for Reconstruction and Development](#), European Commission

<sup>47</sup> [Evaluating the EBRD's work](#), European Bank of Reconstruction and Development

<sup>48</sup> [Corporate governance](#), European Bank of Reconstruction and Development

## 4 OLAF and EPPO

OLAF signed the administrative cooperation arrangements on 11 February 2021 with the Prosecutor General's Office of Ukraine.<sup>49</sup> CONT committee welcomed this agreement in its report<sup>50</sup> (section on external dimension of the control of the EU budget), and highlighted that cooperation with international partners is crucial to protect EU funds spent outside Europe. More recently, in March 2023, OLAF signed an administrative cooperation arrangement with the State Audit Service of Ukraine (SAS). According to the [press release](#), this arrangement 'aims to further improve the investigative cooperation between OLAF and the SAS by facilitating the exchange of information and cooperation in investigative activities.' OLAF activities will go beyond what is foreseen in the arrangement, for example it will provide support (through capacity building, [training](#)) to the Ukrainian authorities in their national anti-fraud efforts and strategies. Ukraine should also as soon as possible be associated to the [Union Anti-Fraud Programme \(UAFP\)](#) that is managed by OLAF and supports national authorities in their fight against fraud. Similarly, in July 2023<sup>51</sup> the European Public Prosecutor's Office and the National Anti-Corruption Bureau of Ukraine (NABU), signed a working arrangement on cooperation aiming to facilitate the cooperation in investigating corruption cases. EPPO also entered into an agreement with the Ukrainian Prosecutor General's Office (March 2022)<sup>52</sup>. According to the press release, this working arrangement "is the basis for a close cooperation to protect the financial interests of the EU and Ukraine, through effective investigation and prosecution, and to bring to justice without undue delay all suspects or accused of crimes against the EU budget. It testifies to Ukraine's recognition of the EPPO as a competent authority." The European Parliament in the earlier mentioned resolution of 18 January 2024 on the protection of the European Union's financial interests, highlighted that cooperation with international partners is crucial to protect EU funds spent outside Europe, and welcomed the working arrangements that the EPPO concluded with the Prosecutor General's Office of Ukraine. According to its annual report 2023<sup>53</sup>, one of EPPO's international priorities in 2023 was to strengthen cooperation with Ukrainian partners, and EPPO organised two training courses for Ukrainian prosecutors and NABU's investigators, with the aim to share expertise and present tools of cross-border investigations.

## 5 Ukraine Facility<sup>54</sup>

As part of the mid-term review of the MFF 2021-27, the Commission proposed the establishment of a Ukraine Facility, and after inter-institutional negotiations the regulation establishing the Ukraine Facility entered into force the 1st March 2024<sup>55</sup>. It has launched a new support mechanism for the years 2024 to 2027, providing Ukraine with up to €50 billion (in current prices), based on three pillars:

1. **Direct financial support** will be provided based on 'The Ukraine Plan', consisting of loans (up to EUR 33 billion) and grants (financed through the EU annual budget, through a new special instrument, the Ukraine Reserve<sup>56</sup>), adding up to over EUR 38 billion;
2. **Specific investment framework:** aiming at scaling up investment framework for recovery and reconstruction, worth EUR 7 billion (using EU budget guarantees and a blend of grants and loans from public and private institutions);
3. **Accession assistance:** a new assistance measures including technical assistance.

Disbursements are conditional, Ukraine must implement its recovery and reform plan and uphold democratic mechanisms (such as a multi-party parliamentary system), the rule of law and human rights,

<sup>49</sup> See details [here](#).

<sup>50</sup> [Report on the Protection of the European Union's Financial Interests – Combating Fraud – Annual Report 2021](#)

<sup>51</sup> See press release [here](#).

<sup>52</sup> See press release [here](#).

<sup>53</sup> [EPPO Annual Report 2023](#), published 29 February 2024

<sup>54</sup> Source: The Commission's dedicated [Ukraine Facility website](#) and the Regulation establishing the Ukraine Facility.

<sup>55</sup> [Regulation \(EU\) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility](#)

<sup>56</sup> Established by the mid-term revision of the MFF Regulation for 2021 to 2027, [Council Regulation \(EU, Euratom\) 2024/765 of 29 February 2024 amending Regulation \(EU, Euratom\) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027](#)



including the rights of persons belonging to minorities.<sup>57</sup> A framework agreement will be concluded with Ukraine to form the basis of the implementation of the Facility. It will include principles of the financial cooperation, the necessary mechanisms to control and audit expenditures, and will thus ensure that Ukraine commits to achieve a high level of protection of the financial interests of the Union (Article 9). Several provisions are included to ensure transparency of beneficiaries and final recipients of EU funding (laid down in Articles 27 and 33). Specific rules on the protection of the financial interests of the Union are laid down in Chapter VI (Articles 35-37) of the Regulation, and include, among others:

- Ukrainian authorities to commit to cooperate with EPPO and OLAF, which are empowered to carry out investigations (cooperation with the ECA shall also be ensured);
- Setting up of an independent Audit Board that will assist (and regularly report to) the Commission in the effective protection of the financial interests of the Union, and it will ensure a regular dialogue and cooperation with the ECA as well as with the Accounting Chamber of Ukraine;
- The Commission to hold a regular Ukraine Facility Dialogue with the competent committees of the European Parliament, taking place at least every four months.

Finally, Ukraine has to provide once a year an annual progress report on the implementation, and the Commission will then also assess each year the implementation and draw up an annual report. Both reports shall be made available to the European Parliament and the Council.

## 6 Scrutiny in Ukraine

### 6.1 The Committees of the Verkhovna Rada of Ukraine on budget issues<sup>58</sup> and on anti-corruption policies

The Committee on Budget Issues of the Ukrainian Parliament, is one of the 23 Committees set up after the last parliamentary elections in 2019. It has 37 members and eight subcommittees. The tasks and competences of the committee include:<sup>59</sup>

- State budgetary policy and interbudgetary relations;
- Budget Process (including medium-term budget planning, reporting on implementation budget, control over compliance with budget legislation);
- State Budget Ukraine;
- State internal and external debt;
- Activities of the Accounting Chamber;
- Activities of the state financial bodies and state financial control bodies ([State Audit Service of Ukraine](#));
- Carrying out expertise on the impact of draft laws, drafts of other acts on indicators budget and compliance with the laws governing budgetary relations.

Many of the key responsibilities are shared between subcommittees, which are:

- The Subcommittee on Budget Policy and Improvement of the Provisions of the Budget Code of Ukraine
- The Subcommittee on Revenues and Financing of the State Budget and Public Debt
- The Subcommittee on State Budget Expenditures

<sup>57</sup> Describing the Ukraine Facility in greater detail goes beyond the scope of this briefing. A detailed introduction to the Facility, including Parliament's position and achievements during negotiations of the legislative framework are included in this recent briefing: [Establishing the Ukraine Facility, Financing Ukraine's recovery and its path to EU accession](#), Tim Peters, Members' Research Service EPRS, March 2024

<sup>58</sup> This section is largely based on an earlier note entitled "The Verkhovna Rada Committee on Budget Issues", Hendrik Becker, April 2023

<sup>59</sup> Machine translated from [Ukrainian](#).

- The Subcommittee on Public Investment Projects
- The Subcommittee on Local Budgets and Budget Support for Regional Development
- The Subcommittee on State Financial Control and the Accounting Chamber
- The Subcommittee on the assessment of draft laws for their impact on budget indicators and compliance with budget legislation
- The Subcommittee on modern information technologies and innovations in the budget process

While the Committee on Budgets focuses more on controlling and overseeing the implementation of state funds, the [VR Committee on Anti-Corruption Policy](#), chaired by Anastasiia Radina, develops the country's anti-corruption policy and controls the state agencies tasked with fighting corruption. Furthermore, it works on legislative proposals concerning the prevention of conflict of interests and harmonising Ukrainian law on the issue with EU and international standards.<sup>60</sup> In more detail, the committee is responsible for:

- the formation of anti-corruption policy;
- anti-corruption examination of draft laws submitted;
- preventing and combating corruption;
- preventing and settling conflicts of interest;
- the Rules of Ethical Conduct on public service;
- financial control of persons in functions of the state and local self-government;
- cases of corruption and corruption-related offenses;
- legal regulation and organization activities of the National Anti-Corruption Bureau of Ukraine, the National Agency on Corruption Prevention, and the Asset Recovery and Management Agency;
- activities of other law enforcement and state bodies in the field of prevention and counteraction of corruption;
- state protection of persons who provide assistance in preventing and combating corruption.<sup>61</sup>

## 6.2 Ukraine's Anti-Corruption Institutions<sup>62</sup>

The [Accounting Chamber](#) is Ukraine's independent and external supreme audit institution, the role of which is enshrined in the [Ukrainian Constitution](#). It was established in 1996, and at that time was controlling only budget expenditures. Its functions and powers were extended in 2015 to include control over the revenues of the State Budget of Ukraine and their use. The Chamber is a supreme audit institution and has a constitutional mandate: Article 98 thereof states that it exercises its powers on behalf of the Verkhovna Rada. The Accounting Chamber has nine members appointed by the Verkhovna Rada through competitive selection for a 6 year term.<sup>63</sup> On 10 January 2024, the Verkhovna Rada of Ukraine appointed Olha Pishchanska, a member of the Accounting Chamber since 21 December 2023, as the Chairperson of the Accounting Chamber.<sup>64</sup>

Since 2014, at the same time when it was taking on reform in a number of spheres, as discussed above, the Ukrainian government created new bodies to fight corruption, particularly with regard to investigating and

<sup>60</sup> [Work Plan of the Verkhovna Rada Committee on Anti-Corruption Policy](#).

<sup>61</sup> [Verkhovna Rada Committee on Anti-Corruption Policy](#)

<sup>62</sup> This section is largely based on an earlier internal note entitled "The State of Corruption and Anti-Corruption Efforts in Ukraine", Hendrik Becker and Nina Husarčíková, May 2023

<sup>63</sup> [The Accounting Chamber](#)

<sup>64</sup> [Head of Accounting Chamber](#), The Accounting Chamber

prosecuting those involved in corruption. This was mandated by the EU, the United States and the Ukrainian civil society after the revolution and related unrests in 2014.<sup>65</sup>

The anti-corruption institutions created include:

- the National Anti-Corruption Bureau (**NABU**)
- the National Agency on Corruption Prevention (**NACP**)
- the Special Anti-Corruption Prosecutor's Office (**SAPO**)
- the Asset Recovery and Management Agency (**ARMA**)
- the High Anti-Corruption Court (**HACC**)

The **NABU** investigates corruption cases and prepares them for prosecution with the intention to clean the government of corruption. It collects evidence and has investigatory powers but cannot indict suspects.<sup>66</sup> After the transparent and thorough competition, the Selection Commission, which included representatives of international partners, appointed Semen Kryvonos as new NABU Director.<sup>67</sup> On 6 March 2023, the Cabinet of Ministers approved the nomination.

The **NACP** was established in 2015 to establish an anti-corruption policy, prevention of general and political corruption, collaborate with whistle-blowers, and deal with declarations of officials and matters of conflicts of interest.<sup>68</sup> At the moment, NACP is working on an Action Plan to prevent corruption, analyse and monitor the risks of corruption and to create the anti-corruption environment.<sup>69</sup> One part of the Action Plan is the online platform, informing how every government body is contributing to fight against corruption.<sup>70</sup> On May 2022, former director of NABU, Artem Sytnyk, who was found guilty of corruption in 2019, was appointed as Deputy Head of the NACP, imposing a question of credibility of the fight against corruption in Ukraine's agencies.<sup>71</sup> Following an open competitive selection, on 27 February 2024, former head of the NABU's detective department Viktor Pavlushchuk was appointed as Head of the NACP.<sup>72</sup>

The **SAPO** oversees NABU investigations and brings grand corruption cases to court. SAPO is part of the Public Prosecutor's Office which limits its full independence. Following a transparent and open competition, Oleksandr Klymenko was appointed as head of SAPO in July 2022.<sup>73</sup> Since the appointment, the investigations into grand corruption have improved significantly<sup>74</sup>, however, it is the anti-corruption body showing the least amount of progress in the past years<sup>75</sup>.

The **ARMA** is tasked with finding, tracing and recovering assets obtained through corruption.<sup>76</sup> A new head was appointed for the agency on 28 June 2023: Olena Duma.<sup>77</sup>

<sup>65</sup> [Strengthening Ukraine's anti-corruption and judicial infrastructure to safeguard the recovery](#), Basel Institute on Governance and Transparency International Ukraine, 2022

<sup>66</sup> [Chornovol: A lot of work ahead for Ukraine's corruption fighters](#), I. Verstyuk, Kyiv Post, 4 May 2014

<sup>67</sup> [Government appoints Director of the National Anti-Corruption Bureau](#), Government Portal.

<sup>68</sup> [Prosecutor Chosen As Ukraine's New Anti-Corruption Chief](#), RFE, 16 December 2019

<sup>69</sup> [National Agency on Corruption Prevention – NACP](#), Network for Integrity

<sup>70</sup> [Anti-Corruption Strategy](#), National Agency on Corruption Prevention

<sup>71</sup> [Artem Sytnuk is appointed Deputy Head of the NACP](#), NACP, 12 May 2022

<sup>72</sup> [Government has appointed Viktor Pavlushchuk as the Head of the NACP](#), NACP, 28 February 2024

<sup>73</sup> [Election of SAPO Head at the finish line: What to expect?](#) Transparency International Ukraine, 28 July 2021

<sup>74</sup> [Detective Klymenko wins SAPO competition: The Commission has approved the winner, but there are nuances](#), Transparency International Ukraine, 19 July 2022.

<sup>75</sup> [SAPO capacity: Anti-corruption Prosecutor's office shows the least growth](#), study results by Transparency International Ukraine

<sup>76</sup> [Mission](#), ARMA

<sup>77</sup> [Appointment of Olena Duma Can Put an End to ARMA](#), Transparency International Ukraine, 28 June 2023

The **HACC** was established in April 2019, supported by the EU and civil society.<sup>78</sup> The objectives were to deal with corruption cases and return the sense of justice to citizens and foreign investors, as ordinary courts were not able to prosecute grand corruption cases effectively<sup>79</sup>. It consists of 38 judges who are elected by the High Judicial Qualifications Commission and the Public Council of International Experts, and headed by Chief Judge Olena Tanasevych<sup>80</sup>. Since the outbreak of the war, the court continues to work in a limited capacity. Transparency International rated HACC to be the most effective anti-corruption agency.<sup>81</sup>

On a final note, two recent news items published on the website of the Committee of the Verkhovna Rada of Ukraine on Anti-Corruption Policy lists the main pieces of legislation in the field of preventing and combating corruption, adopted since the beginning of the war (some of which take into account key recommendations of the European Commission)<sup>82</sup>. Undoubtedly, progress has been made: according to the evaluation of Transparency International Ukraine, the overall capabilities, efficiency and independence of the Ukrainian anti-corruption bodies have significantly increased since 2020, although there is still room for improvement.<sup>83</sup> Another recent analysis points to the obstacles in the functioning of the different players of the anti-corruption ecosystem and highlights the interdependence of the individual bodies, namely that the capacity limits of one player can directly affect the capabilities of the others.<sup>84</sup>

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<sup>78</sup> [EU welcomes launch of Ukraine's High Anti-Corruption Court](#), UKR Inform 5 September 2019

<sup>79</sup> [Launching an effective anti-corruption court : Lessons from Ukraine](#), Vaughn D. and Nikolaieva, O., U4 Practice Insight 2021:1, U4 Anti-Corruption Resource Centre, 2021, pp. 3-11.

<sup>80</sup> [High Anti-Corruption Court elects Head and sets date for start of operations](#), EUACI News

<sup>81</sup> [The HACC is the most effective anti-corruption agency, a TI Ukraine study found](#), Transparency International Ukraine, 23 October 2023

<sup>82</sup> Based on machine translation of the news articles of 26 January 2024 '[On the occasion of the 2nd anniversary of the beginning of the war: the most significant laws adopted in the field of preventing and combating corruption](#)', and of 08 December 2023 '[The Verkhovna Rada of Ukraine adopted in the second reading and in general two draft laws in the field of prevention of corruption](#)', Committee of the Verkhovna Rada of Ukraine on Anti-Corruption Policy

<sup>83</sup> [How Effectively Anti-Corruption Infrastructure Agencies Work — Findings of Transparency International Ukraine's Research](#), Transparency International Ukraine, 12 October 2023

<sup>84</sup> [Obstacles in the Work of the Anti-Corruption Ecosystem](#), Transparency International Ukraine, 24 November 2023