



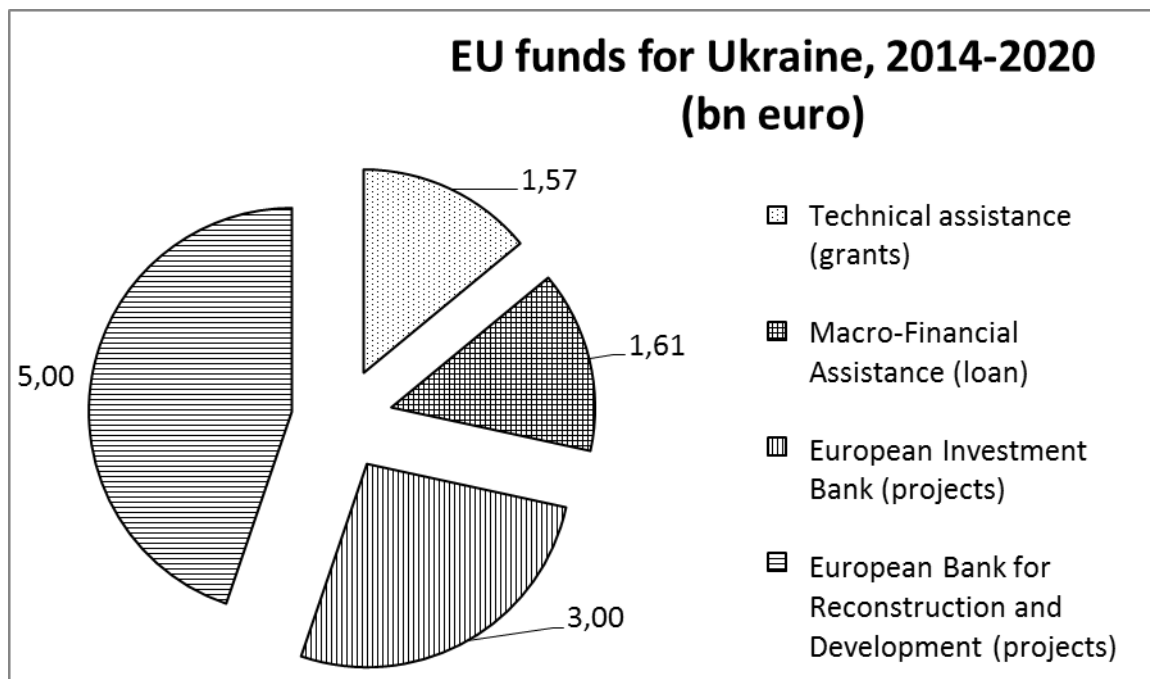
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### EU to give a €1 billion loan to Ukraine as a part of the "Support package for Ukraine"

On 13.05.2014, in Brussels, a Memorandum of Understanding<sup>1</sup> and **Loan Agreement were signed** between Ukraine as a borrower and the EU as the lender in order to provide macro-financial assistance in the amount of **€1 billion**.

The allocation of loan funds to Ukraine is a part of a "**Support package for Ukraine**,"<sup>2</sup>, which was approved by the European Commission in early March, providing funding for Ukraine in the amount of €11.175 billion between 2014-2020.



As a part of the Package to support Ukraine, an allocation of funds will be provided over the next few years for three main areas:

1. Grants - financial aid - €1.565 billion
- Bilateral agreements:
  - a. €0.14 - 0.20 billion - Annual Action Programme for 2014;
  - b. €0.78 billion (on average) - Annual Action Programme for 2015 - 2020;
  - c. €0.24 - 0.30 billion - Umbrella Programme for 2015 - 2020;

<sup>1</sup> <http://europa.eu/rapid/press-release MEMO-14-279 en.htm>

<sup>2</sup> Eng. - Support package for Ukraine - <http://europa.eu/newsroom/files/pdf/ukraine en.pdf>

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- Improving the investment viability of Ukraine - €0.20 - 0.25 billion;
  - Cooperation for Peace and Stability - €0.02 billion;
  - Policy of Joint activities in the field of international relations and security - €0.015 billion
2. Loan - Macro-financial assistance - €1.61 billion:
- €1 billion (Memorandum dated 13.05.2014) is divided into two tranches of €0.5 billion and will be provided after ratification of the Memorandum by the Verkhovna Rada [Supreme Council];
  - €0.61 billion<sup>3</sup> (memorandum ratified by the Verkhovna Rada 04.03.2014) - will be granted in four tranches:
    - a. first in the amount of €100 million before May 20;
    - b. second: €10 million;
    - c. third: €250 million;
    - d. fourth: €250 million;
3. Project financing (loans) by European financial institutions:
- European Investment Bank - up to €3.0 billion;
  - European Bank for Reconstruction and Development - €5.0 billion

Credit funds are to be provided to Ukraine for 15 years in order to reduce external financial pressure on Ukraine, improving its balance of payments and for satisfaction of budgetary requirements, as well as improving its foreign exchange reserves. This assistance from the European Union is supplementary to funds provided to Ukraine by international financial institutions on the basis of bilateral agreements with donors supporting the governmental program of economic stabilisation and reform.

Funds from the loan will be used to finance the budget deficit. In order to obtain said funds, the Government is obligated to implement structural reforms in the following areas:

**1. Improvement of public financial management:**

- Facilitate the establishment of public procurement system, which will be based on the principles of transparency, non-discrimination and competition among bidders:
  - a. The Ministry of Economic Development and Trade will publish quarterly data on the number and cost of procurement procedures on a competitive basis, as well as the procurement procedures on a non-competitive basis;
  - b. Establish within the Anti-monopoly Committee a complete department with the facility to effectively deal with complaints submitted by losing participants of bidding in the field of public procurement.
- Endorse the National Strategy on corruption prevention and eradication and approve a national program on the introduction of such a strategy with clearly defined measures and deadlines for their implementation;

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<sup>3</sup> On 12.07.2002 Council of the European Union adopted a decision on granting Ukraine macro-financial assistance of up to €110 million in the form of a loan (Decision 2002/639/EC). On 7.06.2010, the European Parliament and the Council of the European Union decided to grant Ukraine macro-financial assistance of up to €500 million in the form of a loan (Decision 646/2010/EU).

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- Introduce comprehensive anti-corruption legislation as recommended by the Group of States against Corruption (GRECO) and other international standards.
  - In order to improve public internal financial management, adopt a strategy of personnel training at various levels of management (national and municipal level, including internal audit services) and certification for internal auditors;
  - Submit to the Parliament, a bill that will clearly define powers of the Accounting Chamber of Ukraine concerning audit not only for budget expenditures, but also budget income in accordance with the standards of the International Organisation of Supreme Audit Institutions (INTOSAI);
  - Adopt a set of standards for public internal financial management (based on the principles of organisational accountability and functional independence of internal audit);
  - Increase financial resources allocated for the external audit function.

## 2. **Trade and Taxation:**

- Refrain from activities which violate the principles of foreign trade;
- Introduce in Ukraine, a modern commodity classification for foreign economic activities, developed on the basis of the Harmonised Commodity Description and Coding System, 2007;
- In accordance with the Program of economic reforms, provide that customs valuation practices fully meet WTO standards (in particular, customs commodity value shall be determined primarily on the basis of the declared values of the market value);
- Repay of all the arrears on VAT recovery and repayment of all legal requirements for VAT recovery in a timely manner;
- Introduce into existing legislation on VAT provisions regulations assuring that the entire amount of arrears on VAT recovery will be charged with the appropriate interest penalty of at least 120% of the NBU discount rate;
- Provide timely recovery of VAT through the operation of an automatic VAT recovery system with a risk-based audit.

## 3. **Energy sector:**

- Increase the collected payments by NJSC "Naftogaz of Ukraine" by ensuring improved payment discipline, particularly in companies providing public services;
- Pay compensation in relation to the increase in gas prices to vulnerable households; improve the system of targeted social assistance.
- Achieve significant progress in the performance of Ukraine's obligations under the Treaty establishing the Energy Community, expressly providing delimitation of production, distribution and transport activities in the national gas sector;
- Achieve the status of "Candidate" under the Extractive Industries Transparency Initiative for transparency in the energy sector;
- Make significant progress towards obtaining the status of "EITI compliant" within the Extractive Industries Transparency Initiative.

## 4. **Financial sector:**

- Provide implementation of International Financial Reporting Standards among all participants of the financial market by 2014;

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- Prepare the ground for the introduction of EU legislation on financial services, as indicated in the Annex to the relevant Section concerning cooperation on the Association Agreement, in particular through adoption of a strategic long-term plan for gradual convergence of regulation of the financial sector to the EU legislation in this field. This strategic plan will identify priorities regarding legislative convergence, provide a list of specific steps and actions to be taken, and determine the periods of their implementation.

To monitor the effectiveness of structural reforms in Ukraine, the government will provide corresponding quarterly reports to the European Commission.

**For more detailed information, please contact:**

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