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## CONTENT

<b>ENVIRONMENTAL SUSTAINABILITY .....</b>	<b>10</b>
<i>Igor Yakymenko, Oksana Salavor, Yevhenii Shapovalov, Diane Henshel, Anatoli Giritch</i> EUROPEAN SUSTAINABILITY: AMBITIONS AND CHALLENGES .....	11
<i>Tetiana Stroiko, Carlos de las Heras Jambrino, Patricia P. Iglesias Sánchez</i> ENVIRONMENTAL START-UPS IN THE SOLAR ENERGY SECTOR: SOCIAL INITIATIVES OR PROFITABLE PROJECTS? .....	19
<i>Marília Santiago Carvalho, Carlos Godinho de Abreu, Leonardo de Figueiredo Vilela, Tatiana Cardoso e Bufalo, Eustáquio Souza Dias</i> BIOSURFACTANT PRODUCTION AND PETROLEUM DEGRADATION USING SPENT MUSHROOM SUBSTRATE .....	25
<i>Oksana Makovoz, Mykhailo Buriak</i> INTEGRATING SUSTAINABLE DEVELOPMENT GOALS INTO ENTERPRISE TARGET SETTING .....	32
<i>Vladyslav Sukhenko, Lesya Avdieieva, Yevgeny Sukhenko</i> METHODS AND FUTURE PROSPECTS OF ANIMAL FAT CONVERSION INTO BIOFUEL .....	42
<i>Vlas Berezovyi, Viacheslav Kharchenko</i> CHALLENGES AND OBSTACLES TO THE IMPLEMENTATION OF SUSTAINABLE DEVELOPMENT GOAL 6 IN UKRAINE (CASE OF THE ROS' RIVER) .....	49
<i>Igor Yakymenko, Olena Dotsenko, Victoria Negretova, Oleksandra Pobuta, Maryna Hrychenko, Svitlana Madzhd</i> ENVIRONMENTAL LEGISLATION OF UKRAINE: TOWARDS THE EUROPEAN UNION STANDARDS .....	61
<i>Serhii Telyma, Oleksandr Diatel</i> SOME PECULIARITIES BIOFILM FORMING AT WASTEWATER TREATMENT IN BIOREACTORS .....	69
<i>Inna Popova, Igor Palamarchuk, Marija Zheplinska, Mikhailo Mushtruk, Volodymyr Vasylyv</i> NON-DESTRUCTIVE ANALYSIS OF THE CONTENT OF MINERAL COMPONENTS OF CHICORY TO INCREASE ITS ENVIRONMENTAL SAFETY .....	80



<i>Nataliia Tkachuk, Liubov Zelena, Yaroslav Novikov</i> WET WIPES AS A CAUSE OF ENVIRONMENTAL PROBLEMS: A MINI REVIEW .....	88
<i>Oleksiy Buluy, Mariia Plotnikova, Oksana Prysiashniuk, Larysa Levkivska, Tatyana Shvets</i> CLUSTERING AS AN INNOVATIVE TOOL FOR ADMINISTERING THE DIGITAL ECONOMY AND SUSTAINABLE DEVELOPMENT .....	95
<i>Olena Mykhailovska</i> EFFECTIVENESS OF USING MEDIA COMMUNICATION IN ENVIRONMENTAL GOVERNANCE .....	108
<b>ECONOMIC GROWTH FOR SUSTAINABLE DEVELOPMENT .....</b>	<b>118</b>
<i>Oksana Liashenko, Olga Demianiuk</i> THE INTERCONNECTED NATURE OF SUSTAINABLE DEVELOPMENT GOALS: A HOLISTIC APPROACH TO GLOBAL DEVELOPMENT .....	119
<i>Tetiana Sobolieva, Anna Dobropas</i> SUSTAINABLE BUSINESS TRANSFORMATION IN TEXTILE INDUSTRY: CHALLENGES AND GOOD PRACTICES .....	128
<i>Vasylyna Podliesna</i> THE PROSPECTS FOR SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT UNDER MILITARY-ECONOMIC CYCLICITY .....	134
<i>Olha Kovalenko, Olena Bokiy, Hanna Lysenko, Natalia Riabinina</i> INSTITUTIONAL NEEDS TO OVERCOME FOOD SECURITY CHALLENGES IN UKRAINE IN EMERGENCY CONDITIONS .....	142
<i>Nataliia Gavkalova, Yuliia Lola</i> READINESS OF THE COMMUNITY OF KHARKIV TO SPREAD THE CONCEPT OF CIRCULAR ECONOMY AND SOCIAL ENTREPRENEURSHIP .....	154
<i>Ruslana Shurpenkova, Oksana Sarakhman</i> ORGANIZATION OF THE ANALYSIS OF THE EFFICIENCY OF TAX PLANNING OF THE SUSTAINABLE DEVELOPMENT OF THE ENTERPRISE .....	163
<i>Zhanna Klishchova, Inna Chorna, Thiago Alves Magalhães, Sergiy Kyrylenko</i> FIVE REASONS WHY <i>TARGETES ERECTA</i> AND OTHER MARIGOLDS SHOULD BE USED FOR IMPLEMENTING GREEN DEAL STRATEGY .....	173

**SOCIAL INCLUSION AND PUBLIC HEALTH ..... 191**

*Olena Ivanova*

ANALYSIS OF GAPS IN DEMAND AND PROVISION OF PSYCHOLOGICAL ASSISTANCE OF THE MILITARY ..... 192

*Volodymyr Bondar*

SUSTAINABLE DEVELOPMENT OF THE SYSTEM OF PUBLIC ADMINISTRATION IN UKRAINE THROUGH RESILIENCE OF ITS MANAGERIAL STAFF ..... 204

*Oleh Sokil, Yana Sokil*

MODELING ECONOMIC RECOVERY IN THE WAKE OF COVID-19: THE ROLE OF HR AND SOFT SKILLS ..... 212

*Halyna Ponomarova, Alla Kharkivska, Olena Kapustina*

SELF-ASSESSMENT AS A WAY TO DETERMINE THE LEVEL OF COMPETENCIES DEVELOPMENT OF FUTURE SPECIALISTS IN SPECIAL AND INCLUSIVE EDUCATION ..... 220

*Alla Kharkivska, Alona Prokopenko, Nelli Tarasenko*

FORMS AND METHODS OF PRESERVING AND STRENGTHENING CHILDREN'S HEALTH IN THE CONDITIONS OF TODAY'S MILITARY CHALLENGES ..... 228

*Nataliia Lisnevskia*

FEATURES OF SOCIAL INTEGRATION AND SOCIAL INCLUSION OF PRESCHOOL CHILDREN WITH SPECIAL EDUCATIONAL NEEDS ..... 235

**ADVANCED TECHNOLOGIES FOR SUSTAINABLE DEVELOPMENT ..... 241**

*Olena Haisha, Eugen Rusu, Oleksandr Haisha*

REVIEW ON THE POSSIBILITIES OF USING OF UNDERWATER VERTICAL AXIS TURBINES ARRAYS FOR CLEAN ENERGY HARVESTING ..... 242

*Tatiana Cardoso e Bufalo, Helena Rabelo Freitas, Mylene Silva Ladislao, Carlos Godinho de Abreu, Hector José Valério Ardon, Joaquim Paulo da Silva, Eustáquio Souza Dias*

THE ROLE OF FUNGI IN THE GREEN SYNTHESIS OF CdS QUANTUM DOTS: NANOTECHNOLOGY APPLIED TO SOLAR ENERGY ..... 256

<b><i>Veronika Ostapenko, Yuliya Gladka</i></b> APPLICATION OF SYSTEM ANALYSIS IN THE DEVELOPMENT OF GREEN ENERGY IN UKRAINE .....	265
<b><i>Kateryna Danilova, Sergii Oliynichuk</i></b> STRATEGIE OF PRETREATMENT OF LIGNOCELLULOSIC BIOMASS FOR BIOETHANOL PRODUCTION AS BIOFUEL .....	275
<b><i>Olena Dotsenko, Viktoriia Krasinko, Margarita Lomborg, Oksana Mykchaylova</i></b> ANALYSIS OF GROWTH CONDITIONS OF THE GENUS HERICIUM AS A POSSIBLE TOOL FOR SUSTAINABLE BIORESOURCE MANAGEMENT .....	281
<b><i>Valeriia Marchenko, Oksana Skrotska, Rostyslav Koval</i></b> ENVIRONMENTALLY FRIENDLY SYNTHESIS OF SILVER NANOPARTICLES .....	290
<b><i>Mykhailo Tymofiienko, Liudmila Butsenko</i></b> A DEVELOPMENT OF A FAST CHROMATOGRAPHIC METHOD FOR INDOLEACETIC ACID DETERMINATION IN CELL CULTURES .....	304
<b><i>Svitlana Bazhay-Zhezherun, Ludmyla Bereza-Kindzerska, Alla Bashta, Tetiana Fedorenko</i></b> ENRICHMENT OF WHOLE GRAIN BREAD WITH HERBAL ADDITIVES .....	312
<b><i>Hanna Dekusha, Lesia Avdieieva, Mykola Kozak</i></b> RESEARCH OF THE PROCESS OF ENZYMATIC HYDROLYSIS OF MILK WHEY PROTEINS AND SOY PROTEINS .....	321
<b><i>Oksana Skrotska, Pavlo Holubiev</i></b> THE ROLE OF <i>SACCHAROMYCES</i> GENUS AND THEIR METABOLITES IN BIOSYNTHESIS OF NANOPARTICLES .....	328
<b><i>Marija Zheplinska, Volodymyr Vasylyv, Larisa Bal-Prylypko, Mikhailo Mushtruk, Nataliia Slobodianiuk, Konstantyn Gorenkov</i></b> EVALUATION OF THE INFLUENCE OF THE AMINO ACID COMPOSITION OF WHEAT GERM AS ADDITIVE TO MEAT PRODUCTS .....	340
<b><i>Maryna Hryshchenko, Svitlana Starovoitova</i></b> ENVIRONMENTAL FRIENDLINESS OF THE PRODUCTION OF GLYCOSAMINOGLYCANS BY BIOTECHNOLOGICAL MEANS .....	348
<b><i>Petro Zinkevych, Serhii Baliuta, Iuliia Kuievda</i></b> RECYCLING AND DISPOSAL OF LITHIUM-ION BATTERIES .....	357

<i>Andrii Makarenko, Tetiana Turchyna, Lesia Avdieieva</i> PROSPECTS AND IMPACTS OF INNOVATIVE TECHNOLOGY FOR PROCESSING NATURAL FRUIT RAW MATERIALS INTO POWDER FORM .....	367
<i>Iryna Druzhkova</i> INTELLECTUAL PROPERTY LAW IN THE CONTEXT OF OPEN ACCESS: CHALLENGES AND OPPORTUNITIES FOR UKRAINIAN UNIVERSITIES .....	374
<i>Anastasiia Riznyk, Tetiana Sylchuk, Vita Tsyruhnikova, Olha Dulka, Olena Tyshchenko</i> FORMATION OF THE DOMESTIC MARKET OF GLUTEN-FREE PRODUCTS IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT .....	383
<b>EUROPEAN STUDIES FOR SUSTAINABLE DEVELOPMENT .....</b>	<b>390</b>
<i>Alina Maslova, Olga Goncharova</i> INTERNATIONALIZATION AS A LEADING FACTOR OF UKRAINIAN UNIVERSITY INTEGRATION INTO THE EUROPEAN EDUCATIONAL SPACE .....	391
<i>Vitalii Venger, Nataliia Romanovska, Andrii Ramskyi, Oleksandr Sheiko, Olena Burunova</i> FACTORS OF DEVELOPMENT OF THE CONFECTIONERY MARKET IN POLAND ...	400
<i>Viktoriiia Kiptenko, Snizhana Ulanova</i> SUSTAINABLE FUTURE FOR UKRAINE: CLARIFYING THE SENSES AND STUDYING THE CASES OF DOUGHNUT MODEL .....	406
<b>RUSSIAN INVASION OF UKRAINE AS A THREAT TO EUROPEAN SUSTAINABILITY .....</b>	<b>414</b>
<i>Viacheslav Kharchenko, Andriy Kotynsky, Igor Yakymenko</i> ECOCIDE IN UKRAINE AS A RESULT OF TARGETED RUSSIA’S WAR CRIMES .....	415
<i>Liliia Timofieieva</i> THE MARINE POLLUTION UNDER CONDITIONS OF RUSSIAN AGGRESSION AND PROPORTIONAL MEASURES TO RESPOND TO SUCH ACTIONS.....	426
<i>Tetiana Burlay, Viktoriiia Blyzniuk</i> UKRAINE’S SOCIAL SECURITY IN THE CONTEXT OF OVERCOMING MILITARY SHOCKS .....	436

<i>Natalia Hlebova, Natalia Falko, Lyudmila Afanasieva, Ernest Murtaziiev, Mykhailo Semikin</i>	
STUDYING HIGH SCHOOL STUDENTS ABROAD IN THE DIMENSIONS OF CIVIC AND CULTURAL IDENTITY .....	449
<i>Kostiantyn Grygoriev, Liudmyla Grygorieva, Anna Aleksieieva</i>	
RADIOECOLOGICAL MONITORING OF ATMOSPHERIC AIR DURING MILITARY OPERATIONS .....	459
<i>Andrii Minosian, Oleksiy Varypaev</i>	
RUSSIAN AGGRESSION AND EXISTENTIAL CHALLENGES OF THE MODERN WORLD: UKRAINIAN CONTEXT .....	466
<i>Yuriy Ivanov, Vlada Karpova, Olena Revenko</i>	
EUROPEAN SUPPORT UKRAINE FACILITY: PROBLEMS AND CHALLENGES .....	474

# **ENVIRONMENTAL SUSTAINABILITY**

# EUROPEAN SUPPORT UKRAINE FACILITY: PROBLEMS AND CHALLENGES

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*As a result of the military aggression of the Russian Federation in Ukraine, the state budget deficit increased significantly, and tax revenues decreased. In these conditions, to ensure the economy and defense capability, Ukraine needs to receive external financing. In 2024, EU Regulation 2024/792 was adopted, which regulates the implementation of the Ukraine Facility program and provides for the provision of funding to Ukraine for the period from 2024 to 2027. Funding under EU Regulation 2024/792 depends on legislative reforms implemented in Ukraine. The article analyzes the consistency of the Plan for the Ukraine Facility with EU Regulation 2024/792. Problematic points that may prevent the implementation of the measures provided for in EU Regulation 2024/792 have been identified. It was found that the Plan of Ukraine contains a reference to the National Revenue Strategy until 2030, which the conditions specified in the National Economic Strategy until 2030 doesn't fully meet. The Plan for the Ukraine Facility provides only directions for carrying out relevant reforms and lacks a specific toolkit for their implementation. In order to support the inflow of private investments, it is necessary to implement certain stimulation measures, including through the application of preferences in taxation, which is also expedient to provide for in the Plan for the Ukraine Facility. The identified problems require an urgent solution, as financial support from the EU within the framework of the Ukraine Facility program depends on this.*

*Keywords: Ukraine Facility Plan, tax policy, tax incentives, budget revenues, private investments*

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## **Introduction**

Russia's full-scale aggression against Ukraine, which is understood as an open military invasion of Russian troops on the internationally recognized territory of Ukraine, the transition from a hybrid form to open military operations, began on February 24, 2022. The military aggression of the Russian Federation led to unprecedented challenges and consequences in Ukraine, which are manifested in all spheres of activity.

According to European Union estimates, Russia's war against Ukraine has caused more than €270 billion in damage in Ukraine as of 24 February 2023, with recovery costs estimated at €384 billion, while government spending on humanitarian relief and maintaining the continuity of public services have grown significantly.

As stated in the National Revenue Strategy until 2030, the state budget deficit in 2022 increased by UAH 602 billion compared to 2021 (about 15.7% of GDP) and amounted to UAH 817.9 billion. The deficit in 2021 was financed at the expense of international grants and preferential



financing for a total amount of about 33.9 billion euros. Tax revenues in 2022 decreased by 14.2%, while budget expenditures increased by 81.4%.

According to the Ministry of Finance of Ukraine (2023) the need for external financing for 2024 reaches 37.3 billion US dollars, as verified by the IMF.

In 2024, external financing reached USD 10.1 billion, and since the beginning of the full-scale war – USD 83.7 billion. International assistance is directed to finance the priority social expenditures of the State Budget of Ukraine (Ministry of Finance of Ukraine (2024)).

On March 30, 2023, the International Monetary Fund (IMF) estimated the deficit of state financing until 2027 at 75.1 billion euros and agreed with Ukraine on a four-year program worth 14.4 billion euros. These funds are provided to consolidate policies that support fiscal, external, price, financial stability and economic recovery support of Ukraine. The program is aimed at improving governance and strengthening institutions to promote long-term growth in the context of post-war reconstruction and Ukraine's path to joining the European Union (Ministry of Finance of Ukraine, 2023).

In EU Regulation 2024/792 it is noted that Ukraine will need institutional capacity to support its functions, as well as for rapid recovery, reconstruction and modernization. Therefore, it is necessary to create a medium-term single instrument that unifies the support that the Union provides to Ukraine. To this end, it is necessary to introduce the Ukraine Facility for the period from 2024 to 2027, to solve the funding deficit and Ukraine's needs for recovery, reconstruction, modernization and to support Ukraine's reforms as part of its path to EU accession.

In order to receive support under the Ukraine Facility, Ukraine submitted the Plan of Ukraine to the European Commission (2024). This document is the basis for the financial support provided under Pillar I of the Facility. The plan envisages the implementation of reforms that will lay the foundation for further recovery and development of the economy and integration of Ukraine into the EU.

The problems of financing the needs of Ukraine during the war were considered by various scientists. In particular, E. Dmytrenko (2023) analyzed the peculiarities of the functioning of the financial system of Ukraine in the conditions of martial law and the post-war period. N. Denysenko (2022) considered the main modern trends in the sphere of state finances of Ukraine and made a comparison with the world experience of the functioning of military state finances. Samodai, V., Mashina, Yu., & Zhilnikov, O. (2024) analyzed and summarized the international aid provided to Ukraine since the beginning of the full-scale invasion of Russia in 2022, which was classified by type, highlighting military, humanitarian and financial aid.

However, the analysis of the reforms envisaged by the Plan of Ukraine in the context of their coordination with the provisions of EU Regulation 2024/792 and the National Income Strategy until 2030 has not yet been carried out.

The purpose of the article is to analyse the reforms provided for in the Plan of Ukraine in the context of their alignment with the provisions of EU Regulation 2024/792 and the National Revenue Strategy until 2030 (NRS). The tasks of the research include the following: analysis of compliance and coherence of the provisions of the Plan of Ukraine with the requirements of EU Regulation 2024/792 and NRS, identification of problematic points in the legislation of Ukraine that may hinder the implementation of the Ukraine Facility financing program.

The scientific novelty consists in the scientific justification of recommendations on directions for making changes to the current legislation, which reduces the risks of non-compliance of legislative reforms in Ukraine with the provisions of EU Regulation 2024/792.

### Materials and Methods

Qualitative and quantitative methods were used in the research. Qualitative methods were used to analyse the consistency of the Plan for the Ukraine Facility with the relevant provisions of EU Regulation 2024/792 and NRS.

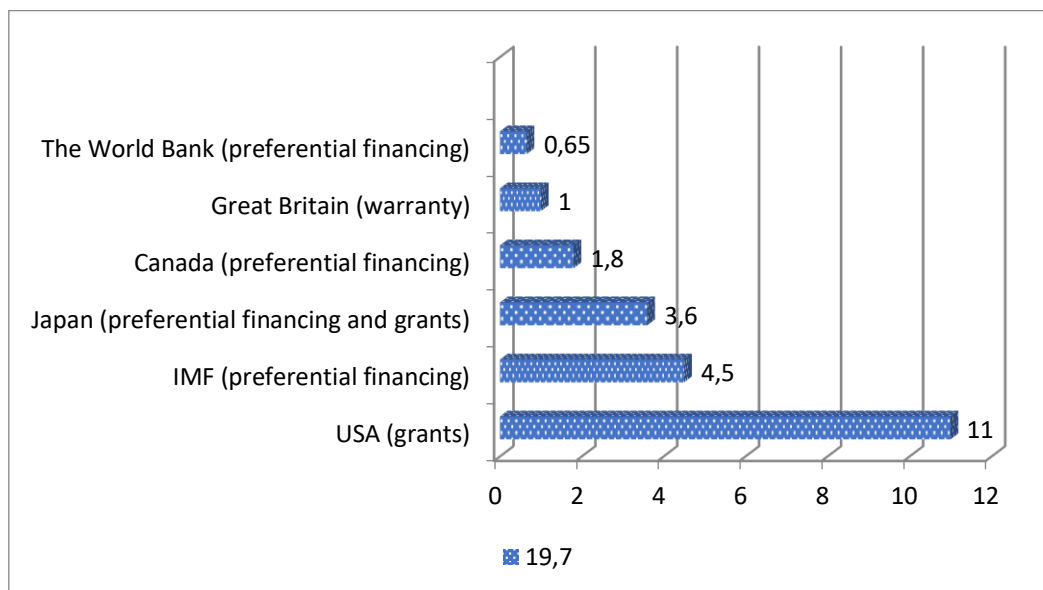
The method of statistical analysis was used to analyse the sources of external financing of Ukraine in 2023 and the directions of financing within the framework of the Ukraine Facility program. Calculations were made using the Excel program based on data from the Ministry of Finance of Ukraine.

### Results and Discussion

According to the Ministry of Finance of Ukraine, in 2023, the state budget received 42.6 billion US dollars in external financing. In total, since the beginning of the full-scale war, international partners have sent 73.7 billion US dollars to Ukraine.

In 2023, grant funds provided on non-refundable terms amounted to 11.5 billion US dollars, about 27% of the total amount of funding. At the same time, Ukraine received all loans on preferential terms.

The largest donors of financial assistance in 2023 are: Figure 1.



**Figure 1. The largest donors of financial assistance in 2023**

**Source:** Developed by the authors for information from the Ministry of Finance of Ukraine

The European Union provided Ukraine with the largest amount of financial assistance within the framework of large-scale macro-financial assistance (MFA+) for 2023. The total volume of preferential funds reached 19.5 billion euros.

In March 2023, the IMF Executive Board made a historic decision to launch a 4-year Extended Fund Facility program for Ukraine in wartime conditions. The total amount of the program is about 15.6 billion US dollars, of which Ukraine received about 4.5 billion US dollars in 2023.

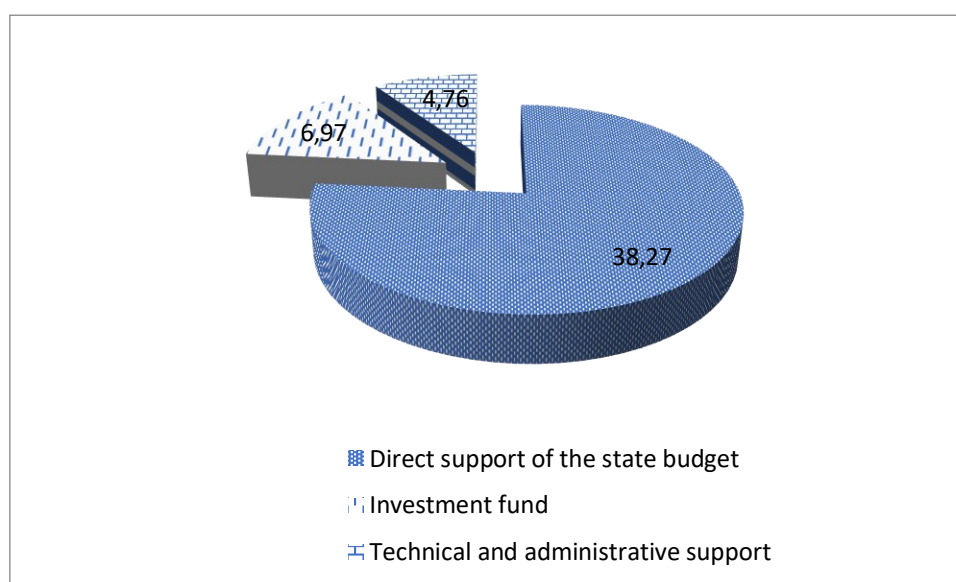
According to the Ministry of Finance of Ukraine in March 2024, the general fund of the State Budget of Ukraine received about USD 9 billion of external financing. Among the donors: EU – USD 4.9 billion (concessional financing); Canada – USD 1.5 billion (concessional financing); Japan – USD 1.1 billion (concessional financing); IMF – USD 880 million (concessional financing); UK – USD 515 million (concessional financing).

Since the beginning of the full-scale war, the World Bank has created 7 projects to support Ukraine: PEACE in Ukraine, HOPE, HEAL Ukraine, RELINC, Re-Power, INSPIRE, ARISE.

In these conditions, the participation of Ukraine in the projects implemented by the EU is of decisive importance for the support of Ukraine's defense capability, economy and investment attractiveness. In particular, the European Union's provision of macro-financial assistance in the amount of up to 18 billion euros for 2023 in accordance with Regulation (EU) 2022/2463 of the European Parliament and the Council was a response to Ukraine's funding deficit for 2023. This financing became the main factor of macroeconomic and financial stability of Ukraine at a critical time.

The European Union also provided significant financial support through an additional package combining funds under the Neighbourhood, Development and International Cooperation Instrument - Global Europe (NDICI-Global Europe) established by Regulation (EU) 2021/947 of the European Parliament and of the Council and EIB loans. In addition, ongoing support is provided by member state authorities, communities, non-governmental organizations and volunteer groups.

The financing of Ukraine under the Ukraine Facility program provided for by EU Regulation 2024/792 provides for the receipt of financing of 50 billion euros during 2024-2027. These funds will be used to finance the state budget, stimulate investments, and provide technical support in the implementation of the program (Figure 2).



**Figure 2. Funding directions of Ukraine under the program Ukraine Facility**

Source: Developed by the authors for information from the Ministry of Finance of Ukraine

Most of the funds provided by the Ukraine Facility program (38.27 billion Euro) will be directed to direct support of the state budget. Assistance will be provided in the form of soft loans (33 billion euros) and grants (5.27 billion euros). At the same time, 20% of grant funds within the framework of the first component of the program (1.05 billion euros) should be directed to the needs of the regions.

EU Regulation 2024/792 repeatedly refers to the Plan of Ukraine, which serves as the basis for the activities planned for priority EU funding under the Ukraine Facility.

The plan for the Ukraine Facility is a technical document necessary for the implementation of the program of financial support for Ukraine from the European Union.

In accordance with the norms of Part 2 of Art. 1 of EU Regulation 2024/792 within the framework of the Ukraine Facility, support will be provided to Ukraine under the following three Pillars:

Pillar I: financial support provided to Ukraine to carry out reforms and investments for the implementation of the Plan of Ukraine, as well as to support the macro-financial stability of the country, as specified in Section III;

Pillar II: a specific investment program in Ukraine to support investments and ensure access to financing, as specified in Section IV;

Pillar III: technical assistance and related support to Ukraine for the development and implementation of reforms related to accession to the Union and the strengthening of Ukraine's administrative capacity, subsidizing borrowing and collateral costs, and other relevant measures, as specified in Section V.

Financial support to Ukraine for the implementation of reforms and investments is one of the main priority areas of financing within the framework of the Ukraine Facility.

Ukraine Facility provides financing after satisfactory fulfillment of the preliminary conditions set out in Article 5(1) of EU Regulation 2024/792, as well as the conditions outlined in the Plan of Ukraine, in the form of qualitative or quantitative steps. Such conditions should reflect the different goals of the Ukraine Facility, as specified in Article 3 of EU Regulation 2024/792, and include conditions related to the main requirements, such as the maintenance of economic and financial stability, budgetary supervision and management of public finances, as well as conditions related to the implementation of reforms and investments outlined in the Plan of Ukraine.

The reforms presented in the Ukraine Facility Plan are divided into 3 main blocks: basic reforms, economic reforms, and key sectors.

Therefore, for financing under the Ukraine Facility, the measures provided for by the Plan of Ukraine are of crucial importance, since there is a direct connection in this direction.

Based on the results of the analysis of the reforms provided for in the Plan for the Ukraine Facility, in the context of consistency with the NRS, it is possible to conclude that some areas need to be amended in regulatory documents. In particular, attention should be paid to such reforms.

The reform in the field of energy involves the approval of the Integrated National Plan for Energy and Climate to establish national goals of climate neutrality, development of renewable energy sources, energy efficiency and ensuring proper planning of relevant measures. The plan will be approved taking into account the recommendations of the Secretariat of the Energy Community. The plan will define the goals to be achieved in 2030:

- reduction of greenhouse gas emissions using market mechanisms of carbon pricing;
- share of renewable energy sources in gross final energy consumption;

- energy savings in final energy consumption by 2030. The reform will be implemented by the Ministry of Economy by the 2nd quarter of 2024.

At the same time, the NRS indicated that there is a question regarding the gradual harmonization of the norms of the tax legislation of Ukraine with the norms of the European legislation and noted the following problems in the energy sector:

1) the tax rate for carbon dioxide emissions is 30 hryvnias for 1 ton of carbon dioxide emissions, which in 2022 corresponded to the lowest rate in the European Union at that time;

2) in recent years, several EU countries have taken measures to reduce carbon emissions, including environmental regulations, emissions trading systems, and carbon taxes;

3) the Association Agreement with the EU (2014) obliges Ukraine to create emissions trading systems by 2025 with similar coverage to the existing EU emissions trading system (energy and industry), and Ukraine has committed to reducing emissions by 65% below the 1990 level by 2030 at the expense of its nationally determined contribution;

4) there is also a problem of the non-compliance of the environmental tax of biofuel with European practice. In all member states of the European Union, taxes on carbon dioxide emissions during the burning of biofuel are not applied, since according to EU legislation, biofuel is considered a CO<sub>2</sub>-neutral fuel.

Therefore, the measures provided for in the Plan of Ukraine are partially outlined in the NRS of revenues.

The reform to improve the management of public finances provides for the restoration of budget planning from 2024 to ensure the predictability of budget policy.

Regarding medium-term planning, the NRS only states that it will contribute to the achievement of fiscal guidelines, medium-term budget planning, which are focused on reducing public debt as a percentage of GDP, reducing the primary budget deficit as a percentage of GDP, and maintaining the downward trend of both debt and deficit budget as a percentage of GDP. These fiscal benchmarks are formulated to achieve medium-term fiscal goals of the Government.

At the same time, the NRS lacks any specific measures to implement budget planning from 2024, in which the concept of tax expenditures should be applied. In EU countries, the concept of tax expenses was introduced by COUNCIL DIRECTIVE 2011/85/EU, when the calculation of tax expenses was integrated into the mechanism of medium-term budget planning, in Ukraine there are no reform plans regarding the implementation of the concept of tax expenses.

The reform to improve the management of public investments provides for the approval of the Action Plan for the implementation of the Road map for reforming the public investment management system based on the recommendations of the PIMDA of the World Bank by the 2nd quarter of 2024. Ukraine will give priority to public investment planning based on strategic priorities and the medium-term budget perspective, as well as transparent and economically justified selection of investment projects, primarily for economic recovery. However, there are no references in the NRS to the approval of the Action Plan for the implementation of the Roadmap for reforming the public investment management system based on the PIMDA recommendations of the World Bank until the 2nd quarter of 2024.

The reform of improving the legislative framework for a more effective fight against corruption involves making changes to the Criminal and Criminal Procedural Codes to improve the procedure for agreements with the justice authorities, cancelling the pre-trial investigation period from the moment of registration of criminal proceedings to the notification of a person of suspicion.



However, the NRS only provides for amendments to the Criminal and Criminal Procedure Codes of Ukraine regarding the criminalization of smuggling of goods and excise products, as well as false declaration of goods. However, the changes provided for in the reform 2 of the Plan of Ukraine are not mentioned in the NRS.

The reform in the field of measures to prevent money laundering provides for the creation of a single register of bank accounts of individuals and legal entities in accordance with EU standards; harmonization of legislation in the field of virtual assets with the EU acquis; adoption of a road map for institutional capacity creation and joint methodological guidelines for justice authorities and the prosecutor's office.

With regard to this reform, the NRS states that the key prerequisite for reforms in the field of tax policy is to ensure the availability of information about the transactions in taxpayers' bank accounts to tax authorities. Expanding such powers of tax authorities will require the taking effective measures aimed at restoring trust in the work of tax authorities (especially in the part of working with personal data of taxpayers), and providing society with guarantees to prevent the use of these expanded powers to put pressure on individual taxpayers and hinder their work.

There are also certain inconsistencies between EU Regulation 2024/792 and the Plan of Ukraine and NRS. Thus, the Plan of Ukraine also provides that in order to speed up the recovery process, Ukraine will attract investments from the private sector. Attracting private investment will require, in particular:

- identification of priority sectors of the economy, which, with the inflow of private capital, will contribute to the creation of added value and new jobs;
- implementation of reforms, including those covered by the Plan of Ukraine, which will ensure the creation of a supportive environment for private investment and for the recovery, reconstruction and modernization of the country;
- development of guarantee instruments to cover the risks of private investments and public-private partnership instruments.

The Plan of Ukraine also states that in the context of Ukraine Facility Pillar II - the Investment Program for Ukraine, designed to attract private and public investments, will become the main tool in the recovery of Ukraine. However, the EU Regulation 2024/792 and the Plan of Ukraine do not provide for specific measures to reform investment taxation, which would contribute to stimulating the attraction of private investments.

NRS is mentioned in this document only in the context of the harmonization of tax legislation and the implementation of income detinization measures. In particular, these documents stated that the approved NRS includes such measures as:

- proposals for amendments to the tax legislation of Ukraine in accordance with the requirements of the legislation of the European Union (in terms of taxation with value added tax and excise duties, measures to combat tax evasion, etc.);
- proposals for amendments to the tax legislation of Ukraine to improve the taxation of the income of individuals;
- proposal of the IT strategy of the State Tax Service;
- measures to overcome the shadow economy;
- measures to reform property taxation;
- measures to reduce tax losses and exemptions.

Meanwhile, in order to support the inflow of private investments, it is necessary to implement certain measures for stimulation, including through the use of preferences in taxation, which is also expedient to provide for in the Plan of Ukraine.

A certain inconsistency between the Plan of Ukraine and the NRS can also be traced to the problem of medium-term budget planning, which requires the implementation of the concept of tax expenditures, but this aspect is not mentioned in the EU Regulation 2024/792 and the Plan, and in the NRS it needs to be detailed in the part devoted to tax benefits.

The task of creating conditions for encouraging reinvestment, declared in EU Regulation 2024/792 and the Plan of Ukraine, is not coordinated with the NRS in terms of measures in the field of dividend taxation, and the tools for reinvestment direction proposed in the NRS are limited to accelerated and immediate full depreciation, which limits the possibilities of tax policy.

It should also be taken into account that according to paragraph 70 of the EU Regulation 2024/792, the Plan of Ukraine must define the conditions that reflect the expected progress in the implementation of the measures it contains. These conditions must take the form of qualitative or quantitative steps to be implemented by 31 December 2027, although the overall completion of the measures to which such steps relate should be possible after 2027.

Support in the form of grants and loans will be provided quarterly as the indicators of the Ukraine Facility Plan are executed. More than 150 quarterly performance indicators correspond to the 69 reforms provided for in the Plan and include 16 investment indicators.

The schedule of indicators of the Plan for the Ukraine Facility is presented on the website of the Ministry of Finance of Ukraine (2024). So this condition is fulfilled.

EU Regulation 2024/792 establishes that, if necessary, the measures provided for in the Plan of Ukraine can be adjusted. This allows, on the basis of monitoring the use of the received funding, to promptly respond to negative deviations from the expected results.

When making changes to the Plan of Ukraine and Ukrainian legislation, it is necessary to take into account that according to Article 93 of the EU Regulation 2024/792 in accordance with the Pillar III Ukraine Facility, support should be aimed mainly at gradual alignment with EU rules, standards, policies and practices ("acquis") with a view to future membership in the European Union. This process should also take into account the relevant recommendations of international organizations such as the Council of Europe and the Venice Commission. Support should also be aimed at strengthening democratic and judicial institutions, including courts, and the capacities of stakeholders, including local and regional authorities, social partners and civil society organizations, including their public oversight role.

## **Conclusions**

In general, based on the results of the analysis of the Plan of Ukraine, it can be concluded that this document is drawn up in accordance with EU Regulation 2024/792 and contains all the main conditions stipulated in the Regulation. However, according to certain reforms, it is necessary to make clarifying changes in the NRS. It should also be taken into account that the NRS does not fully meet the conditions specified in the National Economic Strategy until 2030. Therefore, it is necessary to make appropriate adjustments to the National Economic Strategy until 2030 in order to align it, first of all, with the NRS.

In the Plan of Ukraine, only directions for carrying out relevant reforms are given and there is no specific toolkit for their implementation. And the results of the reform directly depend on this.



Therefore, a final assessment of the compliance of the measures and reforms specified in the Plan of Ukraine with the requirements of EU Regulation 2024/792 can be provided only after the instruments for their implementation, including tax, have been clearly defined in National Revenue Strategy.

### **Conflict of interest**

The authors state no conflict of interest.

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**Selected Papers of VI International Conference on European Dimensions of Sustainable Development, May 15 – 17, 2024. – Kyiv: NUFT, 2024. – 484 p.**

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