



TWINNING FICHE

Project title:	Strengthening the institutional and regulatory capacity of the National Bank of Ukraine to implement EU-Ukraine Association Agreement
Beneficiary administration:	National Bank of Ukraine
Twinning Reference:	<i>UA 19 ENI FI 01 19</i>
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EU funded project

TWINNING INSTRUMENT

(It is recommended that the complete Twinning Fiche should not exceed 10 pages, excluding annexes)

LIST OF ABBREVIATIONS

AA	EU-Ukraine Association Agreement
DCFTA	Deep and Comprehensive Free Trade Area
NBU	National Bank of Ukraine
CRR	Capital Requirements Regulation
CRD	Capital Requirements Directive
PSD	Payment Services Directive

BASIC INFORMATION

1.1 **Programme:** Technical Cooperation Facility 2019 (ENI/2019/041-718, direct management)

“For applicants from the United Kingdom: Please be aware that eligibility criteria must be complied with for the entire duration of the grant. If the United Kingdom withdraws from the EU during the grant period without concluding an agreement with the EU ensuring in particular that British applicants continue to be eligible, you will cease to receive EU funding (while continuing, where possible to participate) or be required to leave the project on the basis of Article 12.2 of the General Conditions¹ to the grant agreement.”

1.2 **Twinning Sector:** Finance, Internal market and economic criteria

1.3 EU funded budget: *EUR 1 M*

2. OBJECTIVES

2.1 Overall Objective:

The overall objective of the project is to contribute to macroeconomic stability through institutional strengthening of the central bank, and through building a reliable banking and payments infrastructure for economic operators.

2.2 Specific objectives:

- Strengthen the NBU capacity as a bank supervisor in performing Supervisory Review Evaluation Process (SREP) assessments and improving the supervisor’s ability to evaluate characterizations for risks and the capitalization of the risks;
- Implementation of instant payments in line with the EU Payment Services Directive 2 (PSD 2);
- Institutional strengthening of the NBU by further developing its strategic planning and international cooperation functions.

2.3 The elements targeted in strategic documents i.e. National Development Plan / Cooperation agreement / Association agreement / Sector reform strategy and related Action plans

The EU-Ukraine Association Agreement, including the Deep and Comprehensive Free Trade Area, is the strategic document to be considered in the context of this project preparation. The AA/DCFTA sets out the foundation for enhanced economic cooperation between EU and Ukraine. The NBU as the *central bank* of Ukraine is responsible for the implementation of the AA/DCFTA provisions, including *the Chapter 6* “Establishment, trade in services and electronic commerce” (Sub-section 6 “Financial services”), *Chapter 7* “Current payments and movement of capital” and the Appendix XVII-2 “Rules applicable to financial services”.

Draft updated Appendix XVII-2, reflecting the developments in the EU Law since the AA/DCFTA have been negotiated, has been proposed by the EU side, has been considered by relevant Ukrainian authorities and has been sent to the EU side for further approval.

The Government's Action Plan on the EU-Ukraine Association Agreement implementation, and the NBU's Plan for the AA implementation and legal approximation include, among other priorities,

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms; Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms; and Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

The implementation the abovementioned Directives and Regulation are also included in the Comprehensive Program of Ukrainian Financial Sector Development until 2020, in line with which the NBU is continuously working on introducing international and the EU rules. A new Financial Sector Strategy until 2025 is under development by three financial market regulators, the Ministry of Finance and the Deposit Guarantee Fund. Main directions under the Strategy include Financial Stability (effective regulation and supervision, transparency, financial sector resilience to challenges, corporate governance and risk management); Macroeconomic development (facilitating crediting of the economy by the banking sector , development of non-bank financing, creditors' and investors' rights protection, long-term resources); Financial inclusion (access to financial services, consumer rights protection, financial literacy); Financial markets development (non-bank financial markets development, capital markets infrastructure, creation of liquid markets of financial instruments, integration of hryvna-denominated instruments into global financial markets); Innovation development (development of FinTech and digital technologies, development of regulatory and supervision technologies, digital economy).

3. DESCRIPTION

3.1 Background and justification:

After the Revolution of Dignity in 2014, the NBU began a full-scale reform of the financial sector.

Ukraine has 77 operating banks in late 2018, out of over 180 in 2014. The market share of state-owned financial institutions is 54.7% by net assets, and 63.4% by household deposits. The Ukrainian banking sector is highly concentrated, with the top-20 banks accounting for 91% of net assets in late 2018. In 2018, the banking sector earned UAH 21.7 billion in net profit. Ukrainian banks have substantial NPLs on their balance sheets (in Q4 of 2018, the NPL ratio slightly decreased by 1.7 pp, to 52.8%.), but have already reported nearly all of their losses from decreases in the quality of their loan portfolios.

In line with the Comprehensive Program of Ukrainian Financial Sector Development Until 2020, the NBU is continuously working on introducing international rules for capital adequacy, liquidity, corporate governance, information disclosure and risk management in the Ukrainian banking sector, including for example:

- Rulemaking (e.g. laws, regulations, regulatory requirements and supervision guidelines) has become more transparent and closer to the requirements set in the Association Agreement, as well as to other internationally accepted best practices;
- Stricter licensing procedures (transparency in ownership/control; suitability of owners);
- Identification of insiders and related parties or groups and reduction of harmful practices of lending to related parties;
- Suitability of internal governance structures and “fit and proper” assessments for management bodies;
- Stricter capital requirements determined for banks by the NBU, which increased banks’ capital in the sector;
- Increased transparency in the identification and reporting of non-performing loans, which are high and a priority for resolution.

Progress is apparent in developing the legal framework and developing NBU methodologies to perform risk-based supervision and establish risk-based capital requirements conforming to the Basel and the Capital Directive requirements: July 2016 credit risk regulation and subsequent amendments introduced in January 2017 after implementation testing; and the risk management regulation was adopted and published in June 2018. The NBU’s bank assessment Supervisory Review Evaluation Process was approved by the NBU Board in Resolution No. 59 on 30 January 2018. The NBU plans to issue a regulation for the ICAAP – Internal Capital Adequacy Assessment Process - by the end of 2019.

EU integration aspirations of Ukraine fostered demand of the public and business for new, transparent and uniform operating standards of the NBU's activities. Consequently, the reforms conducted by the NBU are focused not only on the banking sector issues, but on the National Bank of Ukraine as well.

In the area of financial services, obligations under the EU-Ukraine Association Agreement stipulate for the regulatory approximation in the areas of banking, insurance, securities, undertakings for collective investment in transferable securities (UCITS), market infrastructure, payments, anti-money laundering and free movement of capital and payments. This includes the harmonization of capital requirements to and prudential supervision of credit institutions.

Following Basel's three pillars, the EU legal and implementing frameworks for prudential supervision and the maintenance of sufficient bank capital are defined through the Capital Directive (and Regulation) and the implementing technical standards, guidelines and recommendations published by the EBA (and ECB for SSM).

- In brief, the framework for Pillar 1 is intended to ensure a bank is able to absorb losses as a going concern with its "own funds". The EU legal framework for capital requirements sets out characteristics and conditions for "own funds", and the EBA has published Implementing Technical Standards to further specify the quality criteria to be applied to the bank's regulatory own funds, as well as the deductions that should be applied to own funds elements and the harmonizing disclosures. In addition, requirements for Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital, deductions from the different types of capital, and transitional provisions for own funds regarding grandfathering are also included in the EU's Pillar 1 framework.

- The aim of the EU's Pillar 2 processes is to enhance the link between an institution's risk profile, its risk management and risk mitigation systems, and its capital planning. Pillar 2 can be divided into two primary components:

Aimed at institutions where they are expected to establish sound, effective and complete strategies and processes to assess and maintain, on an ongoing basis, the amounts, types and distribution of internal capital allocations commensurate to their risk profiles (ICAAP), as well as robust governance and internal control arrangements.

Within a credit institution's internal governance framework, the ICAAP is a process to ensure that the Board of Directors (both supervisory and management functions):

- adequately identifies, measures, aggregates and monitors the credit institution's risks;
- ensures that the credit institution holds adequate internal capital in relation to the credit institution's risk profile; and
- uses sound risk management systems and develops them further.

The onus is on the credit institution to demonstrate that its ICAAP is comprehensive and adequate to the nature of risks posed by its business activities and its operating environment. The framework under which a credit institution should develop its ICAAP is designed to be risk-based and emphasises the importance of capital planning, but also the importance of management and other qualitative aspects of risk management.

Supervisory review and evaluation process (SREP). The key purpose of SREP is to ensure institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure the sound management and coverage of the bank's risks to which they are, or might become, exposed, including risks revealed by stress testing and the risks an institution may pose to the financial system (i.e. systemically important).

- Pillar 3 is intended to promote transparency and is frequently called "market discipline" in the context of Basel. The EU framework requires disclosure of information to the market in order to contribute to the integrity, transparency, efficiency and orderly functioning of financial markets. Disclosing to the markets an adequate picture of a financial institution's risks is key to ensuring a properly functioning market with the ability of market participants to instill market discipline.

The introduction of the PSD 2 in the EU payment market introduce new rules regarding three key areas:

- Open competition. The PSD 2 establishes the rule for licensing and operation of new payment service providers, payment institutions, that may provide payment services in competition with traditional payment providers (mainly credit institutions and payment cards networks).
- New payment services. The PSD 2 allows the provision of two new payment services: Payment Initiation Services and Account Information Services. These new services end with the monopoly of credit institutions on customer account information and allow the provision of instant payments without the use of payment cards.
- User trust. The PSD 2 introduce new rules aimed to increase the transparency of payment services contractual and operational conditions with customers and improve the security of payment transactions by strong customer identification mechanisms and new secure communication standards.

Implementation of PSD 2 requires measures in 4 axes:

- Develop a regulatory framework in line with PSD 2 and other EU regulations, allowing the operation of new TPP (Third Party Payment Providers) and services: AISP (Account Information Service Providers), PISP (Payment Initiation Service Providers)
- Adoption of EU industry standards: SCT, SDD, SCT Inst (SEPA Instant credit transfer), XS2A (access to accounts), SCA (strong customer authentication), CSC (common secure communication standards), etc.
- Adapt payment infrastructures to the requirements of new payment instruments: CSMs (Clearing and Settlement Mechanisms), TIPS (Target Instant Payment Settlement), etc.
- Promote and launch innovative market initiatives with market participants – initiatives of Fintech solutions, supported by the NBU and financial market community.

3.2 Ongoing reforms:

Risk-based supervision

In line with the Comprehensive Program of Ukrainian Financial Sector Development Until 2020, the NBU is continuously working on introducing international rules for capital adequacy, liquidity, corporate governance, information disclosure and risk management in the Ukrainian banking sector.

Considerable progress is apparent in developing the legal framework and developing NBU methodologies to perform risk-based supervision and establish risk-based capital requirements conforming to the Basel and the Capital Directive requirements. In December 2017, the NBU Board issued a Resolution No. 141 for the assessment of banks' and banking system's stability. Since 2015, EU-funded FINSTAR project has been delivering assistance to the NBU to support the implementation of Basel's Pillar 2 (i.e. supervisory review). Before developing and implementing an EU approximated Pillar 2 methodology, it was first necessary for there to be a well-defined NBU Pillar 1 framework implemented by Ukrainian banks. Work on a new Credit Risk Regulation began in 2015 to properly reflect Pillar 1 requirements for credit and counterparty risks. Once completed, the Credit Risk Regulation was applied by banks in a test mode starting in July 2016 until the Regulation was amended in January 2017 to reflect changes identified during the testing phase and the feedback provided by bankers. In addition, the new Risk Management Regulation (Resolution No. 64) was adopted in June 2018. The amendments to the banking legislation are registered in Rada as of 7 September 2018 (draft Law 9067), although these amendments remain in the Financial Policy and Banking Committee for that Committee's review and deliberation before a first reading.). The NBU's bank assessment SREP was approved by the NBU Board in Resolution No.59 "On Approval of the Methodology for the Bank Assessment in course of Offsite Banking Supervision" on 30 January 2018. Requirements on organizing ICAAP at Ukrainian banks are only recently started to be developed. For the remainder of the EU-FINSTAR project, the assistance will focus on supporting the NBU in developing and documenting an ICAAP requirements for implementation by the banks and providing the NBU with an annual ICAAP Report from the banks that will become a part of the NBU SREP assessments. A concept model and an updated Roadmap for ICAAP implementation were prepared in November 2018. The revised Roadmap anticipates the NBU will complete the preparation of a draft ICAAP Regulation by the end of 2019. The draft ICAAP Regulation when issued will define the ICAAP requirements and the reporting that is required to be submitted by the banks to NBU

supervisors to incorporate the bank ICAAP Reports into the bank assessment SREPs. The EU-FINSTAR project is also working on standardized performance measures and indicators of risks derived from data compiled using the EBA FINREP and COREP XBRL taxonomies. These standardized measures for risks and performance will enhance the supervisor's ability to analyse banks, make domestic and cross-border comparisons, and verify the integrity of characterizations compiled in the banks' ICAAP Reports to the supervisor.

Payment systems

The EU-funded project "Strengthening the Regulation and Supervision of the Non-Bank Financial Market" (EU-FINREG) has developed a gap analysis of the payments landscape in Ukraine, and proposed nine priority initiatives under the regulatory framework, infrastructure, industry standards and market awareness. One of the initiatives, accepted by the NBU, is the implementation of Instant Payment Settlement System.

Financial sector reform implementation and further legal approximation to AA/DCFTA require EU support to institution building and capacity development of the NBU.

Upgrade and further development of the NBU's System of Electronic Payments (SEP) is one of the priorities of the NBU.

The SEP is a state-owned payment system that handles over 97% of all hryvnia interbank transfers within Ukraine. The SEP is the single systemically important payment system in Ukraine. SEP participants are all Ukrainian banks and the State Treasury Service of Ukraine. The SEP processes the majority of payments amounting to as much as UAH 100,000 (96% of the total number of payments). The biggest share of SEP payments falls on customer transactions (91.5% of the total number). In 2018, daily average SEP transactions accounted for 1.4 million payments worth UAH 101 billion.

The further system's development is an ongoing process, in particular, it includes bringing the SEP in line with the current international standards of financial messaging (introducing ISO 20022) and implementing innovative instruments for cashless transfers.

A priority in modernizing the SEP is to implement fast payments, lay the groundwork for 24/7 operations, fully update the NBU's system for cryptographic information security, and expand the functionality and information content of messages.

Regarding the fast payments system, the NBU is presently at the preliminary stage and does research on the issue. Thus, it would be useful to receive recommendations on the best model for creating the fast payments infrastructure.

Strategic planning

As a part of reorganizational process and strategic planning development, NBU passed through a vast internal transformation of the central bank ensured higher quality of decision-making:

- The removal of non-core functions, their transfer to other external entities and switch to the practice of outsourcing;
- Change of the head office's organisation chart, reducing the number of hierarchical levels to four and concentrating on several core functions: prudential supervision, monetary stability, market operations, settlement operations and financial and administrative operations;
- Streamlining the decision making process through the establishment of specialized policy and governance committees (e.g. on financial stability, monetary policy, assets and liabilities, credit, supervision, risk management, etc.);
- Reorganisation of regional network;
- Centralisation of accounting, procurement and administrative functions;
- Reengineering of internal work processes, with the distinction between key (e.g. lending) and auxiliary (e.g. procurement) processes.

In strategic planning, Phase 1 (identifying the mission and vision of the NBU) and Phase 2 (the analysis of current functions of the NBU to assess whether they meet the challenges of internal and external environments) have been implemented. A medium-term strategic plan of the NBU, which identifies the central bank's seven strategic goals, has been approved, including: (1) low and stable

inflation; (2) stable, transparent, and efficient banking system; (3) resumption of lending; (4) effective regulation of the financial sector; (5) free movement of capital; (6) financial inclusion; (7) a modern, open, independent, and effective central bank. The final (phase 3) stage of the NBU's internal transformation envisages the harmonization of its planning and monitoring operations with practices of the central banks of the EU Member States.

Strategic planning process is yet not fully documented in the NBU therefore some activities are done on an ad hoc basis. Methodological development is required to streamline all of the activities to avoid unnecessary processes. The strategic plan is operationalized in an annual "objective tree", in which each strategic objective is linked to targets for line managers. With this model, there now is a system to constantly track progress according to the strategy and a clear link to the NBU's performance management model.

To consolidate strategic management, the NBU should consider developing a holistic annual business plan and a corresponding management follow-up report. This could be a vehicle to interlink targets/indicators for desired output/outcome from core and internal functions, prioritized action plans, and cost budget for the coming year and facilitate an ongoing management discussion with a holistic perspective.

The NBU applies a systematic approach to process management based on international quality management standards (in particular ISO 9001: 2015). Such an approach is aimed at ameliorating the activities of the NBU, improving the quality of processes and their effectiveness.

The Board of the NBU defines a comprehensive vision of the state of process management by introducing the concept of the development of the management system. During 2018 the concept of the process management of the NBU was updated. Process management is cyclical, with usage of the Shewhart-Deming cycle (PDCA) - for planning, process execution, verification and impact. As at 31 December 2018, the NBU identified 28 first-level processes, 182 second-level processes and 896 third-level processes.

The NBU applies a quantitative and measurable approach to assessing the state of the processes. The system of indicators of processes is based on the principle of ensuring dimensionality, reliability, transparency and visibility. Key Performance Indicators (KPIs) and arrangements between owners and customers/participants/suppliers (SLAs) of processes are established for the purpose of valuation, monitoring and control. All changes in processes are directed at improving them and improving the results of processes.

3.3 Linked Activities (other international and national initiatives):

Several donors have been supporting the NBU over last few years. In the area of prudential requirements to financial institutions, currently the key partners for the NBU are the IMF, the EU and the World Bank, which have been closely coordinating.

The EU-funded project "Technical Assistance in Financial Sector Priority Areas" (EU-FINSTAR) includes the implementation of Pillar 2 of Basel II Accord issued by the Basel Committee on Banking Supervision. However, the activities in this area have been much delayed, as it had turned out that the implementation of Pillar 1 had not been completed by the time of the project start and required substantial contribution by the project (e.g. in drafting the Risk Management Regulation for Banks, which was adopted by the NBU Board in June 2018). The current plan of the NBU is to develop a draft of the ICAAP regulation for banks by the end of 2019. Consequently, further development, testing and implementation of the ICAAP methodologies (including SREP methodology) cannot be fully completed in the EU-FINSTAR timeframe and need to be continued by another project, preferably through the Twinning modality. In addition, there is a need to develop already key aspects of Basel III enhancements, like increased scrutiny for managing liquidity - internal liquidity adequacy assessment process (ILAAP), comprising a clear assessment of the risks to liquidity and risk governance processes.

The EU project "Strengthening the Regulation and Supervision of the Non-Bank Financial Market" (EU-FINREG) has developed a gap analysis of the payments landscape in Ukraine, and proposed nine priority initiatives under the regulatory framework, infrastructure, industry standards and market awareness. One of the initiatives, accepted by the NBU, is the implementation of Instant Payment

Settlement System. In the area of payments, other donors are also active, however their attention is mainly focused on e-money operations.

In the area of planning and internal transformation, the main partner for the NBU has been the CIDA-funded project “Institutional Capacity Building for Effective Policy Making” implemented by the IMF. However, the future work plan of this project includes only ad-hoc assessments of strategic planning instruments, whereas the NBU is seeking to learn from MS central banks to design improved processes of strategic planning, management, monitoring and reporting. The abovementioned project is also working on banking supervision issues, however does not plan to work on ICAAP and will focus his assistance toward helping bank supervisors learn how to conduct the analysis for SREP and document the SREP analyses.

The NBU is also seeking to upgrade its system of international cooperation.

3.4 List of applicable Union acquis/standards/norms:

- Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures
- Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012
- Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

3.5 Results per component:

The project will include four components:

Component A: Further transposition of Basel Core Principles for Effective Banking Supervision

Transposition of Basel Core Principles for Effective Banking Supervision and the EU capital requirements legislation in the area of internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP) and assessment of the banks’ risk profiles through the Supervisory Review and Evaluation Process (SREP). The component will support the development of an ILAAP methodology, training of the banks on its application, and integration of the ICAAP and ILAAP evaluation in the NBU's regular SREP.

Component B: Instant Payment Settlement System

The component is a part of a strategy to transpose the Payment Services Directive 2 in Ukraine. It aims at the development of an architecture and requirements for the Instant Payments Settlement System in line with the ECB TIPS (Target Instant Payment settlement) specifications, and an implementation road map.

Component C: Institutional strengthening through the establishment of an integrated system of strategic planning, execution and monitoring, process-based model of planning and management.

The component is aimed at the streamlining, consolidation and implementation of strategic management and performance measurement techniques already launched within the NBU. It should result into a holistic system of strategic planning, its breaking into mid-term and short-term planning and monitoring of key performance indicators.

Component D: Strengthening of the NBU international cooperation function and capacity in the area of European integration of Ukraine.

The component is aimed in the development of methodologies to plan, coordinate, consolidate and report on NBU activities on the implementation of the EU-Ukraine Association Agreement

obligations. More streamlined and focused cooperation with foreign Central Banks and International Organisations, including attraction and provision of technical assistance, is also expected.

Mandatory Result 1 – Component A. Transposition of Basel Core Principles for Effective Banking Supervision and the EU capital requirements legislation in the area of internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP) and assessment of the banks’ risk profiles through the Supervisory Review and Evaluation Process (SREP).

In the context of Mandatory Result 1, as a minimum the following sub-results will be achieved:

Sub-result 1.1. The NBU regulation is developed establishing requirements for the banks’ Internal Liquidity Adequacy Assessment Process (ILAAP), based on EU member states experience and best practices. NBU is provided with expert’s assistance to process of developing regulation and share experience in implementation of ILAAP in the EU member states and overview of the best practices;

Sub-Result 1.2. A practical training course for the NBU staff in proper implementation of SREP methodology and for Ukrainian banks in proper implementation of ILAAP is developed and delivered. A practical training course should contain at least ICAAP, ILAAP and assessment of the banks’ risk profiles through the SREP;

Sub-result 1.3. The NBU Supervisory Review Evaluation Process (SREP) Regulation is amended to include the assessments of ICAAP and ILAAP and of an aggregated risk level, and tested at pilot banks.

Mandatory Result 2 – Component B. A model is developed for the instant payments architecture in Ukraine, and a road map to implement it.

In the context of Mandatory Result 2, as a minimum the following sub-results will be achieved:

Sub-Result 2.1. An optimum model is selected for processing instant payments in Ukraine compatible with ISO 20022;

Sub-Result 2.2. High level architecture, main requirements and business processes developed for the selected model;

Sub-Result 2.3. A road map is developed for implementing the model and establishing infrastructure for instant payments including assessment of risks and risk mitigation measures.

Mandatory Result 3 – Component C. Process-based planning and management model, including a performance management system, is introduced in the NBU.

In the context of Mandatory Result 3, as a minimum the following sub-results will be achieved:

Sub-Result 3.1. Strategic planning processes, including monitoring and reporting, are established and systematized in a register;

Sub-Result 3.2. Methodology of breaking down mid-term strategic planning to the short-term strategic planning and actions for NBU structural units is developed;

Sub-Result 3.3. Options of automation of strategic planning process, KPI set-up, monitoring and reporting.

Sub-Result 3.4. Other public administration bodies of Ukraine are informed about the achievements under this component, in the context of the ongoing Public Administration Reform.

Mandatory Result 4 – Component D. The NBU international cooperation function is strengthened, in particular with regard to the implementation of the Association Agreement.

In the context of Mandatory Result 4, as a minimum the following sub-results will be achieved:

Sub-Result 4.1. A centralized terminology management system is established at the NBU;

Sub-Result 4.2. Practical guidelines for the Tables of Concordance for transposition of the EU acquis and on preparation of AA implementation reports are developed and approved;

Sub-Result 4.3. Recommendations on enhancing cooperation of the NBU with International Organisations, the European Central Bank (ECB), the European Banking Authority (EBA), the European System of Central Banks (ESCB), EU MS Central Banks, including attraction and delivery of technical assistance.

Sub-Result 4.4. The achievements of this component are shared with the central banks of other Eastern Partnership countries to promote best practices at the regional level, in particular in the context of the implementation of the Association Agreements.

3.6 Means/input from the EU Member State Partner Administration(s)

The implementation of the project requires one Project Leader (PL) with responsibility for the overall coordination of project activities and one Resident Twinning Adviser (RTA) to manage implementation of project activities, Component Leaders (CLs) and pool short-term experts within the limits of the budget.

The interested Member State(s) shall include in their proposal the CVs of the designated PL and the Resident Twinning Advisor, as well as the CVs of the potentially designated CLs.

The project will be implemented in the form of a Twinning contract between the Beneficiary Country and EU Member State(s). The implementation of the project requires one Project Leader (PL) with responsibility for the overall coordination of project activities and one Resident Twinning Adviser (RTA) to manage implementation of project activities, Component Leaders (CL) and pool of short-term experts within the limits of the budget. It is essential that the team has sufficiently broad expertise to cover all areas included in the project description.

Proposals submitted by Member State shall be concise and focused on the strategy and methodology and an indicative timetable underpinning this, the administrative model suggested, the quality of the expertise to be mobilised and clearly show the administrative structure and capacity of the Member State entities. Proposals shall be detailed enough to respond adequately to the Twinning Fiche, but are not expected to contain a fully elaborated project. They shall contain enough detail about the strategy and methodology and indicate the sequencing and mention key activities during the implementation of the project to ensure the achievement of overall and specific objectives and mandatory results/outputs.

The interested Member State(s) shall include in their proposal the CVs of the designated Project Leader (PL) and the Resident Twinning Adviser (RTA), as well as the CVs of the potentially designated Component Leaders-(CLs).

The Twinning project will be implemented by close co-operation between the partners aiming to achieve the mandatory results in sustainable manner.

The set of proposed activities and indicators will be further developed with the Twinning partners when drafting the initial work plan and successive rolling work plan every three months, keeping in mind that the final list of activities will be decided in cooperation with the Twinning partner. The components are closely inter-linked and need to be sequenced accordingly.

3.6.1 Profile and tasks of the Project Leader (PL)

Qualifications and skills:

- Proven contractual relation to a public administration or mandated body (*see Twinning Manual 4.1.4.2*) responsible for central banking and/or banking supervision

- University degree preferably in the of law, public administration, economics, finance, business administration or equivalent, or additional 5 years (to the required below) of general professional experience in financial services
- General professional experience of at least 3 years, but preferably over 7 years, in financial services.
- At least 3 years of specific experience in the areas of banking supervision and/or payment systems oversight
- Previous experience in project management and/or as a team leader will be considered as asset
- Previous experience in international cooperation will be considered as asset
- Previous experience in change management will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian or Russian will be considered as asset

Tasks:

- Conceive, supervise and coordinate the overall Twinning project
- To provide strategic advice on high level regarding reforms supported by the Twinning
- Coordinate and monitor the overall implementation of the project including coordination and direction of the MS TW partner
- Coordinate MS experts' work and availability
- Communicate with the beneficiary and EU Delegation
- Ensure the backstopping functions and financial management
- Guarantee from the MS administration side, the successful implementation of the project
- Participate in quarterly meetings of the Project Steering Committee with the BC PL
- Participate in preparation of the initial and subsequent work plans
- Participate in preparation of both interim and final reports.

Primary responsibility of the MS Project Leader shall be to ensure that the project produces the required outputs, to the required standards of quality and within the specified constraints of time and cost. PL and other project staff will also address cross-cutting issues.

3.6.2 Profile and tasks of the Resident Twinning Advisor (RTA)

The relevant institution of MS will appoint a long-term Resident Twinning Advisor (RTA).

Qualifications and skills of the Resident Twinning Adviser

- Proven contractual relation to a public administration or mandated body, in charge of central banking or banking supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 7 years (to 3 years required below) of experience in the fields relevant to the project
- At least 3 years, but preferably over 5 years, of general professional experience in public administration and project management in a public institutions context
- At least 3 years, but preferably over 5 years, of experience in the fields relevant to the project: of strategic planning, change management, banking supervision, electronic payments, central bank international cooperation
- Previous experience in project management, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian or Russian will be considered as asset

Tasks:

As to the general responsibility of the day-to-day implementation of the Twinning project in the Beneficiary Country, the Resident Twinning Adviser (RTA) tasks will include:

- Provide technical advice and assistance to the administration or other public sector bodies in the BC in the context of a predetermined work-plan
- Coordination of all project activities and experts inputs in the BC
- Ensuring day-to-day implementation of the Twinning project in the BC
- Ensuring coordination with other donors working in relevant fields
- Ensuring smooth correlation between the activities, deadlines and the envisaged results in the Work Plan
- Preparation of the materials and documentation for regular monitoring and reporting
- Preparation of side letters
- Together with the Project Leader, to nominate, mobilize and supervise the Short-Term experts.

In addition to the above, an assistant and a full time translator-interpreter shall be appointed to assist the RTA. Allowance for this must be made within the project budget. Furthermore, the assistant and translator will facilitate the training activities. Where necessary (for example, during training activities, translation of project documents/reports and materials) the project will hire an additional translator with costs covered by the project.

3.6.3 Profile and tasks of Component Leaders:

Component Leaders will provide general guidance for four Components of the project. Their profiles should correspond to the following requirements:

- Proven contractual relation to a public administration or mandated body, in charge of central banking or banking supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 8 years (to the required below) of general professional experience
- At least 3 years, but preferably over 5 years, of general professional experience in public administration
- At least 3 years, but preferably over 5 years, of experience in the fields relevant to the project: of strategic planning and change management, banking supervision according to EU rules, Target Instant Payment Settlement, central bank international cooperation
- Previous experience in consulting, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian or Russian will be considered as asset

3.6.4 Profile and tasks of other short-term experts

STEs will provide specialised know-how for the individual tasks in the project. Their profiles should correspond to the following requirements:

- Proven contractual relation to a public administration or mandated body, in charge of central banking or banking supervision
- University degree in one of the following fields: law, public administration, economics, finance, business administration or equivalent; or additional 8 years (to the required below) of general professional experience
- At least 3 years, but preferably over 5 years, years of general professional experience in public administration
- At least 3 years, but preferably over 5 years, years of experience in the fields relevant to the project: of strategic planning and change management, banking supervision according to EU rules, Target Instant Payment Settlement, central bank international cooperation

- Previous experience in consulting, training and mentoring in related areas will be considered as asset
- Fluent written and spoken English
- Fluency in Ukrainian or Russian will be considered as asset

4. BUDGET

The total maximum budget is EUR 1 million.

5. IMPLEMENTATION ARRANGEMENTS

5.1 Responsible body

The Delegation of the European Union to Ukraine is the contracting authority for the contract.

The person in charge at the EU Delegation to Ukraine:

Ms Vitaliya Mudruk
Sector Manager
EU Delegation to Ukraine
101, Volodymyrska street, Kyiv, Ukraine, 01033
Tel.: +38 044 390 80 10 ext. 1812
e-mail: Vitaliya.Mudruk@eeas.europa.eu

The Delegation of the European Union to Ukraine together with the Twinning Programme Administration Office (PAO) will control the quality of all twinning documentation, check that the good financial management of the twinning project is in compliance with EC rules, receive and examine all twinning project reports, support all twinning stakeholders, including beneficiary administration and Member States.

The person in charge at the PAO in Ukraine:

Ms Yuliia Yerchenko,
Head of SIGMA and CIB Coordination Division
Projects Management Unit,
Twinning Programme Administration Office (PAO)
National Agency of Ukraine on Civil Service
15, Prorizna Street, Kyiv, 01601, Ukraine
Tel: +38 044 278 36 44
e-mail: pao@center.gov.ua

Monitoring will be performed by the EU Delegation to Ukraine.

5.2 Institutional framework

The NBU is a central bank of Ukraine, it is the independent body. The legal status, principles of organization and activity of the NBU are determined by the Constitution of Ukraine and the Law of Ukraine “On National Bank of Ukraine”.

5.3 Counterparts in the Beneficiary administration

5.3.1 Contact person: Ms Liudmyla Labur
Position: Head of EU and Bilateral Relations Division, Office for European Integration and International Programs
Address: 9 Instytutaska St., Kyiv 01601

5.3.2 PL counterpart: Mr Dmytro Solohub
Position: Deputy Governor
Address: 9 Instytutska St., Kyiv 01601

5.3.3 RTA counterpart: Mr Volodymyr Kuchyn
Position: Head of Office for European Integration and International Programs
Address: 9 Instytutska St., Kyiv 01601

6. Duration of the project

The project's implementation period is 21 months. The legal duration of the project is 24 months.

7. Management and reporting

7.1 Language

The official language of the project is English. All formal communications regarding the project, including interim and final reports, shall be produced in English.

7.2 Project Steering Committee

A project steering committee (PSC) shall oversee the implementation of the project. The main duties of the PSC include verification of the progress and achievements *via-à-vis* the mandatory results/outputs chain (from mandatory results/outputs per component to impact), ensuring good coordination among the actors, finalising the interim reports and discuss the updated work plan. Other details concerning the establishment and functioning of the PSC are described in the Twinning Manual.

7.3 Reporting

All reports shall have a narrative section and a financial section. They shall include as a minimum the information detailed in section 5.5.2 (interim reports) and 5.5.3 (final report) of the Twinning Manual. Reports need to go beyond activities and inputs. Two types of reports are foreseen in the framework of Twining: interim quarterly reports and final report. An interim quarterly report shall be presented for discussion at each meeting of the PSC. The narrative part shall primarily take stock of the progress and achievements *via-à-vis* the mandatory results and provide precise recommendations and corrective measures to be decided by in order to ensure the further progress.

8. Sustainability

The twinning partners will undertake to provide the basic infrastructure necessary for the sustainability of their joint twinning achievements. The sustainability of the results is likely to be achieved if the twinning partners commit themselves to the following:

- absorbing efficiently the contents and understanding of the training materials by the Beneficiary personnel being measured and monitored after each training session that is provided by simple tests;
- making maximum use of the skills and abilities of the beneficiary country administration personnel previously trained by [other] Member States; apply “train the trainers approach” for sustainable capacity building of the beneficiary administration;
- allowing for confirmation of the effect of the twinning project for the beneficiary administration by organising a final seminar that presents achieved results of the twinning activities at the end of the twinning project;
- providing assurance that manuals and procedures developed within the twinning project will be used by the beneficiary beyond the primary contract period.

The success of the project will be based on achieving practical results and the sustainability of the results will be an important measure of success.

9. Crosscutting issues (*equal opportunity, environment, climate etc....*)

All activities under this project will be designed and implemented in accordance with principles of good governance, human rights based approach, gender equality and environmental sustainability. Support to mainstreaming gender issues into the legislative processes under the activities for the implementation of Association Agreement will be provided. All activities will ensure the respect to key Principles of Public Administration, especially the commitment to inclusive and evidence-based policy and legislative development.

This action will be implemented following a rights-based approach, encompassing all human rights. The five working principles below will be applied at all stages of implementation: legality, universality and indivisibility of human rights; participation and access to the decision-making process; non-discrimination and equal access; accountability and access to the rule of law; transparency and access to information.

By promoting an institutional culture of openness, accountability and transparency, the project will positively impact on the credibility and integrity of concerned Government Departments and Agencies. The project will strive to act as an example of positive administrative reform. The results achieved under Component C: “Institutional strengthening through the establishment of an integrated system of strategic planning, execution and monitoring, process-based model of planning and management” will be shared with other public administration bodies of Ukraine in the context of the ongoing Public Administration Reform.

The project results will also be shared with the Central Bank of other Eastern Partnership countries, in particular those implementing Association Agreements with the EU.

10. Conditionality and sequencing

The underlying assumption for this project is the Ukrainian political will to create efficient balanced and open access to the market of electronic communications in the country that will facilitate its integration with that of the European Union to coordinate actions globally.

Projects to be implemented through Twinning require the full commitment and participation of the senior management of the beneficiary institution. In addition, to provide the Twinning partner with adequate resources to operate effectively, the senior management must be fully involved in the development and implementation of the policies required to deliver the desirable results.

The NBU is aware that several issues important for the smooth implementation of the Twinning Project and for the achievement of the components are partially or completely under its sole responsibility.

When the project starts, the NBU has to:

- ensure strong involvement/commitment of NBU staff at all levels;
- assign NBU's experts as counterparts for the STEs to cooperate on the implementation of activities according to the working plan;
- provide suitable venues and equipment for training sessions and seminars that will be held under the Project.

The sequencing of all Twinning activities will be prioritized in close coordination between the MS and the NBU and will work according to the Logical Framework, which will form part of the Twinning project contract.

11. Indicators for performance measurement

Project`s main targets and indicators:

- The NBU`s approaches to the Supervisory Review Evaluation Process (SREP) have been improved with account for ICAAP and ILAAP procedures;
- Implementation of instant payments in Ukraine started along the Road Map and requirements developed in the framework of the Twinning project;
- New strategic and operational planning, including the systems of monitoring and performance measurement, are introduced at the NBU;
- Formal procedures are introduced to monitor the implementation of obligations under the Association Agreement;
- Cooperation is established with more foreign central banks and EU institutions; increased offer of the NBU`s technical assistance to central banks abroad; NBU`s centralized terminology management system is established.

12. Facilities available

The office space, meeting rooms, hard and software, telephone, internet access, security related issues and facilities available for training, seminars and conferences will be provided by the NBU for the RTA, his/her assistants and visiting experts.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format (compulsory)

ANNEX I - LOGFRAME PLANNING MATRIX FOR Twinning Fiche		Technical Cooperation Facility 2019		
Strengthening the institutional and regulatory capacity of the National Bank of Ukraine to implement EU-Ukraine Association Agreement		Total budget: EUR 1 million		
Overall objective	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
To contribute to macroeconomic stability through institutional strengthening of the central bank, and through building a reliable banking and payments infrastructure for economic operators	Macroeconomic and banking sector reviews by the NBU and other publishers confirm stability trends	Publications by the IFIs, the NBU	Lack of Ukrainian political support for the NBU to play its proper role in Ukrainian financial sector development as an independent central bank in a market economy	The NBU can't continue its moving toward financial markets development and EU acquis implementation due to political reasons
Project purpose	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
<ul style="list-style-type: none"> Strengthen NBU capacity as a bank supervisor in performing Supervisory Review Evaluation Process (SREP) assessments and improving the supervisor's ability to evaluate characterizations for risks and the capitalization of the risks; Implementation of instant payments in line with the EU Payment Services Directive 2; Institutional strengthening of the NBU by further developing its strategic planning and international cooperation functions 	<ul style="list-style-type: none"> The NBU's approaches to the Supervisory Review Evaluation Process (SREP) have been improved with account for ICAAP and ILAAP procedures; Implementation of instant payments in Ukraine started along the Road Map and requirements developed in the framework of the Twinning project; New strategic and operational planning, including the systems of monitoring and performance measurement, are introduced 	<p>The NBU Board Resolutions approving new tools for use</p> <p>Twinning Progress Reports</p> <p>Twinning Final Report</p> <p>Development of strategic portal</p> <p>NBU Strategic Quarterly and Yearly Reports</p> <p>Tables of Concordance and other relevant monitoring tools confirm progress in implementation of the AA commitments in the banking</p>	<p>Slowing down or reversing the process of European integration</p> <p>Weak coordination between Twinning partners</p> <p>Dismissal of key project participants</p> <p>The risk of incomplete assistance of experts</p> <p>The risk of delayed implementation within the Twinning Project</p>	The new political regime does not attempt to revert the reforms in the banking sector or undermine the NBU independence

	<p>at the NBU;</p> <ul style="list-style-type: none"> • Formal procedures (tables of concordance, other means for approximation assessment) are introduced to monitor the implementation of obligations under the AA; • Cooperation is established with more foreign central banks; increased offer of the NBU's technical assistance to central banks abroad 	<p>sector</p> <p>Reports of AA Implementation</p>		
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RESULTS	Objectively verifiable indicators	Sources of Verification	Risks	Assumptions
<p>Transposition of Basel Core Principles for Effective Banking Supervision and the EU capital requirements legislation in the area of internal capital adequacy assessment process (ICAAP), internal liquidity adequacy assessment process (ILAAP) and assessment of the banks' risk profiles through the Supervisory Review and Evaluation Process (SREP)</p>	<ul style="list-style-type: none"> • The NBU regulation is issued to establish requirements for the banks' Internal Liquidity Adequacy Assessment Process (ILAAP). The NBU and banks staff is trained for proper development of NBU ILAAP Regulation and proper implementation of ILAAP by banks; • The NBU Supervisory Review Evaluation Process (SREP) Regulation is amended, to include ICAAP and ILAAP assessments; • Practical testing of the SREP procedures (taking into account ICAAP and ILAAP procedures) is implemented at pilot banks (with their consent); 	<ul style="list-style-type: none"> • NBU Board Resolution on ILAAP • Project reports • Trainees list • Training materials • Evaluation trainings reports • Reports on the tests' results of ICAAP and ILAAP procedures (as SREP elements) of some banks within the framework of the pilot project 	<ul style="list-style-type: none"> • Lack of banks' interest to participate in practical pilot testing of ICAAP and ILAAP procedures • Dismissal of key project participants • The risk of incomplete assistance of experts • The risk of delayed implementation within the Twinning Project 	<p>As above</p>

	<ul style="list-style-type: none"> The NBU staff from the departments of methodology and banking supervision is trained in proper implementation of the SREP methodology as a minimum: ICAAP, ILAAP and assessment of the banks' risk profiles through SREP 			
<p>A model is developed for the instant payments architecture in Ukraine, and a road map to implement it</p>	<ul style="list-style-type: none"> An optimum model is selected for processing instant payments in Ukraine compatible with the international standard ISO 20022; A road map is developed for implementing the model and establishing infrastructure for instant payments, including assessment of risks and risk mitigation measures; The business process of instant payments effecting is described; High level system architecture is developed for processing instant payments; Main requirements to the system are developed, including key characteristics, timeframes, limitations as to payment amounts, types of payments, and requirements to the market infrastructure 	<ul style="list-style-type: none"> NBU internal documents SEP Payment Organization Council Decision The concept of the instant payment system implementation has been developed NBU Board Resolutions Project reports 	<ul style="list-style-type: none"> Drafts of laws and regulations prepared in accordance with the PSD 2 have not been adopted Political decision to establish an instant payment system on the market not by the NBU, but by another institution Lack of resources (budget and human) 	As above
<p>Process-based planning and management model, including a performance management system, is introduced in the NBU</p>	<ul style="list-style-type: none"> Strategic planning process established in line with financial planning and performance management system; 	<ul style="list-style-type: none"> NBU internal documents Development of strategic portal 	<ul style="list-style-type: none"> Lack of resources/budget for processes automation Resistance of the 	As above

	<ul style="list-style-type: none"> • Methodology of breaking down mid-term strategic planning to the short-term strategic planning and actions for NBU structural units is developed; • Monitoring and reporting processes are designed as a part of strategic planning, quarterly and yearly reports of Strategy implementation are designed and used for decision making by the Board; • Options of automation of strategic planning process, KPI set-up, monitoring and reporting. • Development of a methodology for a process management system, a register of processes and a map of interaction of processes at the central bank 	<ul style="list-style-type: none"> • NBU Strategic Quarterly and Yearly Reports • NBU Board Resolutions • Automated system of strategic planning process is set-up • Reporting of strategy achievement and progress is in place • Project reports 	<p>organization to change</p> <ul style="list-style-type: none"> • Lack of time to set-up an entire process of strategic planning and monitoring 	
<p>The NBU international cooperation function is strengthened, in particular with regard to the implementation of the AA</p>	<ul style="list-style-type: none"> • Practical guidelines and recommendations on development of the centralized terminology management system are provided. The centralized terminology management system is established at the NBU; • Practical guidelines and recommendations on development of Tables of Concordance and the AA implementation reports are provided; • Recommendations on improving the coordination of European 	<ul style="list-style-type: none"> • NBU internal documents • Ukrainian-English online glossary of the NBU-specific terminology • Tables of Concordance and other relevant monitoring tools confirm progress in implementation of the AA commitments in the banking sector • Project reports • Training materials • Trainees lists • Evaluation trainings reports 	<ul style="list-style-type: none"> • Lack of resources/budget for development of the Ukrainian-English online glossary of the NBU-specific terminology • Political turbulence and uncertainty regarding European Integration Issues 	<p>As above</p>

	<p>Integration process in the Central Bank, enhancing cooperation of the NBU as a third country central bank with the European Central Bank (ECB) and the European Banking Authority (EBA);</p> <ul style="list-style-type: none">• Relations and cooperation with international organizations and institutions and with novel international authorities are developing in line with designed model/framework;• Process of attracting, applying, and coordinating international technical assistance and of provisioning technical assistance by the NBU to other central banks and partners is updated and set in line with issued recommendations			
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