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Proposal for a

COUNCIL DECISION

providing Macro-Financial Assistance to Ukraine

{SWD(2014) 112 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

The Ukrainian economy has been in recession since the second half of 2012, with only one quarter of positive growth in the end of 2013, which was quickly reversed in the first two months of 2014 as a result of the deterioration of the political and security situation.

The Ukrainian government lost access to international financial markets during 2013 as confidence dropped in view of the widening fiscal and current account and in the absence of much needed reforms. The unwillingness of the authorities to commit to reforms also prevented them from concluding a financing agreement with the IMF.

As a result of large debt repayments in the fourth quarter of 2013 and beginning of 2014 and of the central bank's interventions to defend the currency peg against the dollar, reserves have dropped dramatically to USD 15.5 billion at the end of February, leaving Ukraine with a very weak and rapidly worsening balance-of-payments situation. The current political crisis has very damaging effects on Ukraine's already precarious economic and financial stability. The de facto interruption of Russia's assistance under its USD 15 billion package agreed last December, and the announced end to the reduced gas prices granted by Gazprom from April 2014 onwards, will deteriorate the situation even further. Under these circumstances Ukraine faces a serious risk of default in the near future.

At the same time, during the month of February and following mass protests on-going since end-November, the government resigned. A new government was approved by the Verkhovna Rada on 27 February and there was a reversal to the 2004 Constitution. Despite these changes, Ukraine has not been able to return to political stability since the sovereignty and territorial integrity of Ukraine has recently been violated by the Russian Federation.

The new government has publicly committed itself to begin implementing significant and comprehensive reforms before the 25 May presidential elections.. Although the political process at the moment is volatile, so far it shows clear signs of a commitment to economic reforms.

Against this background, the Ukrainian authorities are seeking financial assistance from the multilateral and bilateral creditors and donors to support a reform programme, currently under preparation, that would reduce economic vulnerabilities, boost international reserves and foster economic growth. The IMF sent a staff mission to Ukraine in the beginning of March, and is expected to play the key role in the preparation of this programme and mobilisation of international financial assistance to Ukraine. In the next weeks, the IMF and the Ukrainian authorities are expected to come to an agreement on an economic programme that will be supported by a financing arrangement.

It is expected that the external financing needs of Ukraine will exceed the funding likely to be provided by the IMF. In this context, the European Commission announced on 5 March 2014 a package of financial support to Ukraine, that was welcomed by the EU Heads of State or Government the day after. One of the elements of the package is a new Macro-Financial Assistance (MFA) programme in the amount of up to EUR 1 billion.

The European Commission submits to the Council a proposal to grant MFA to Ukraine amounting to a maximum of EUR 1 billion. The assistance would take the form of medium-term loans, with no grant component being envisaged given that Ukraine does not meet the eligibility criteria for the use of grants in MFA operations.

The proposed EU MFA is intended to help Ukraine cover part of its urgent external financing needs in the context of the stabilisation and reform programme currently under preparation, reducing in this way the economy's short-term balance of payments and fiscal vulnerabilities. The proposed assistance would support the urgent fiscal consolidation and external stabilisation and encourage the implementation by the authorities of structural reforms aimed at improving the overall macroeconomic management, strenghtening economic governance and transparency and improving conditions for sutainable growth.

The proposed MFA is in line with the aims of the Eastern Partnership and the orientations of the new European Neighbourhood Policy (ENP). It would signal to the other countries in the region that the EU is ready to support countries embarking on political reforms, in moments of economic difficulties. In this context, the Commission considers that the political and economic pre-conditions for an MFA operation of the proposed amount and nature are satisfied.

- **General context**

After 5 quarters of consecutive decline, real GDP grew by 3.3% y/y in 4Q2013, leading to flat growth for the year 2013. The poor performance of the economy was due to a combination of a bad harvest, decline in steel exports and delayed domestic reforms. According to the IMF, it is believed that growth was negative in January and February. Due to the volatile situation forecasts for 2014 range from -5% to +3% depending on assumptions. Macroeconomic adjustments, including fiscal consolidation and exchange rate flexibility, will have contractionary effects, but on the other hand, the foreseen IMF arrangement would increase confidence that could lead to FDI inflows quite quickly. Still, Russia's policy towards Ukraine signifies a substantial downside risk to growth.

Inflation has been very low in the last few years, reaching 0.3% at end-2013; however, inflationary pressure has increased in 2014. CPI was 0.5% in January and 1.2% in February and the National Bank of Ukraine (NBU) expects it could reach 10% or more by end-2014, as a result of the depreciation of the hryvnia (UAH) and the expected increase in energy tariffs for households.

The fiscal deficit, including the operational deficit of the main Ukrainian energy sector operator Naftogaz, was estimated at 6.5%-7.5% of GDP in 2013, largely as a result of continued energy subsidies, which amount to 7% of GDP, but also as a result of the economic slowdown. Capital expenditure was cut by 40% in 2013, while VAT revenues dropped by 7%. The 2014 budget was passed by the Rada in early January, but was based on unrealistic assumptions of growth and inflation and is currently being revised by the Ministry of Finance in close cooperation with the IMF. Revenues in January-February 2014 amounted to 82% of what was planned in the budget, suggesting that expenses need to be cut by around UAH 80 billion, or 15-17% in 2014. In addition, the gas import price from Russia will be increased on 1 April to at least 400 USD per 1000 cubic meters, putting significant strain on the budget. However, the Minister of Finance has made assurances that gas tariffs for households and district heating companies will be increased before the 25 May elections, alleviating this pressure. An additional issue is arrears, both of VAT refunds to corporates and overdue subsidy payments to utility companies, amounting to UAH 12bn and UAH 8bn respectively.

There has been strong pressure on the local currency since the outbreak of the crisis. The NBU has allowed the hryvnia to depreciate significantly (by about 25%) in February. Part of this was a deliberate devaluation of the official exchange rate on 7 February from the 7.99 UAH/USD that had been kept since July 2012 to 8.708 UAH/USD. Later the depreciation of the currency sped up as a result of the NBU's inability to intervene due to very low foreign exchange reserves. In agreement with the IMF, the NBU is now pursuing a policy of non-intervention, except in cases of significant exchange rate movements. It is also maintaining a number of capital controls, but says it will refrain from introducing new ones. The hryvnia remains volatile, despite these measures. Further significant devaluation of the currency would risk deterioration of credit portfolios and capital of banks and would not necessarily rebalance the current account as much of exports are dependent on imported inputs. In addition, the Ukrainian economy is consumption-driven (75% of GDP) and devaluation with accompanying inflation would likely have a contractionary effect on GDP.

The current account deteriorated significantly in 2013 to an estimated deficit of 10% of GDP reflecting mostly decreased exports. The NBU expects a significant narrowing of the current account deficit in 2014 as a result of adjustments connected to the foreseen IMF arrangement, including fiscal consolidation. Yet, current account financing needs will remain substantial in the short run – at least USD 4 billion before the end of the second quarter of 2014. Net FDI is estimated to have dropped further from 5.0% of GDP in 2012 to 2.6% of GDP in 2013 and was near 0% in January 2014.

External debt was estimated at 76.7% of GDP at end-2013. Only about one-third of it is owed or guaranteed by the public authorities (including debt of the National Bank to the IMF). In addition to publicly guaranteed liabilities of some Ukraine's corporate borrowers, e.g. State guaranteed Eurobonds issued by Naftogaz, other external liabilities of Ukraine's corporates may have a systemic importance for the country. In particular, Naftogaz' debt (in arrears) for gas shipments from Russia's Gazprom has direct implications for the country's current account as Gazprom sets its price depending on Naftogaz' debt payment record.

Official reserves declined by 16% to USD 20.4 billion in the course of 2013, as a result of the large current account deficit, pressure on the hryvnia and significant debt repayments in 2013. This negative trend continued in January and February when reserves dropped a further 13% per month to USD 15.5 billion at end-February (2 months of import cover). This development clearly reflects an increased balance-of-payments vulnerability.

At 41% of GDP (end-2013), public debt is below the high-risk benchmark. At the same time, public debt servicing obligations, in particular on external debt or on foreign currency denominated domestic debt, weigh heavily on public finances and international reserves in the near future. Total debt service of the government and the NBU for the rest of 2014 amount to about USD 10 billion. Debt payments peak between June and September. In the period March-May debt service amounts to approximately USD 2 billion. In addition, the outstanding Naftogaz' debt to Gazprom amounts to another USD 2 billion. Debt payment obligations in 2015 are about USD 10 billion.

According to the NBU, there is sufficient liquidity in the banking sector, but no credits are extended to corporates since February. Deposit erosion amounted to some 2% in January and about 8% in February. Possible further currency devaluation would present problems for the banking sector and asset quality has the potential to fall quickly. The banking sector is in need of a thorough asset quality review. Beyond short-term risks, the banking sector in Ukraine presents some structural weaknesses that are likely to be a focus of a reform programme supported through the foreseen IMF arrangement. There are clear weaknesses in bank supervision and corporate governance in the banking sector and a lack of protection of creditor rights.

In addition to the need to restructure and strengthen the banking system, other key structural reform challenges include raising utility tariffs, currently a significant contributor to the fiscal deficit, while strengthening the social safety net; combatting corruption, not least in taxation and customs; strengthening private sector development; and improving the business environment to boost investment including FDI.

Based on the indications provided above, in 2014 and 2015 Ukraine will be facing significant external financing needs reflecting in particular a still substantial current account deficit, large external debt payment obligations and the need to re-build a minimum buffer of foreign exchange reserves. Also, private capital inflows, in the form of foreign direct investments or private credits, will remain extremely low. It is expected that preliminary projections of Ukraine's residual external financing needs will become available in the coming weeks, in view of the results of the on-going technical discussions the Ukrainian authorities are conducting with the IMF. But already now it is anticipated that a wider international support will be required to cover these needs and create conditions for a successful implementation of the reforms in Ukraine. The proposed EU MFA would contribute to cover part of the residual financing gap for the 2014-2015 period.

- **Existing provisions in the area of the proposal**

Council Decision of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (2002/639/EC)[1]

Decision no 646/2010/EU of the European Parliamnt and of the Council of July 2010 providing macro-financial assistance to Ukraine[2]

- **Consistency with the other policies and objectives of the Union**

The EU is seeking an increasingly close relationship with Ukraine that goes beyond mere bilateral cooperation, encompassing gradual political association and economic integration. Ukraine is an important country both within the European Neighbourhood Policy and the Eastern Partnership. The EU signed a Partnership and Cooperation Agreement (PCA) with Ukraine in 1998 that outlines the framework of our cooperation in all key areas of reform and continues to be the legal basis of our relations. Relations were further enforced in November 2009 when the Cabinet of Ministers of Ukraine adopted the EU-Ukraine Association Agenda, which was updated in 2011 (endorsed by the EU-Ukraine Cooperation Council in June 2013), and aims to prepare for and facilitate the entry into force of the new Association Agreement, which was negotiated in 2007-2011, initialled in 2012 and is expected to be signed in the near future.

[1] OJ L 209, 6.8.2002, p. 22-23
[2] OJ L 189, 22.7.2010, p. 28

Economic ties with the EU are important. The EU is among Ukraine's most important commercial partner and accounts for about one third of its external trade. In 2012, the value of Ukrainian imports from the EU was EUR 23.8 billion while the value of its exports was EUR 14.6 billion. Ukraine also has a high dependence on the EU in terms of FDI and other financial flows. Within the framework of the Association Agreement, the EU finalised negotiations with Ukraine on establishing a Deep and Comprehensive Free Trade Area (DCFTA) in 2011 with the goal to allowing the full access of Ukraine to the EU's single market. On 11 March 2014, the Commission adopted a proposal for an EU Council/Parliament Regulation temporarily removing customs duties on Ukrainian exports to the EU (COM 2014/166). The proposed measures, expected to be adopted by the co-legislators in the coming months, will be applied immediately and will be discontinued in November 2014, when the provisional application of the DCFTA will start.

The EU MFA would complement the total EUR 1.565 billion in grants mobilised under the European Neighbourhood Instrument, the Neighbourhood Investment Facility, the Instrument contributing to Stability and Peace and the EU budget line for the Common Foreign and Security Policy. By supporting the adoption by the Ukrainian authorities of an appropriate framework for short-term macroeconomic policy and structural reforms, the EU's MFA would enhance the added value of the overall EU involvement increasing the effectiveness of the EU's overall intervention including through other financial instruments.

Ukraine's immediate transition will be very difficult and the risk of political and economic collapse remains. At the same time, the new government has publicly committed to taking significant steps towards political and economic reforms, with the aim of tackling corruption and strengthening institutions and mechanisms, including the rule of law. The country is also envisaging an economic reform programme aimed at laying the ground for a sustainable growth model.

The proposed MFA is consistent with the EU's commitment to support Ukraine's immediate economic and political transition. Also, it is consistent with the principles: governing the use of the instrument of MFA, including its exceptional character, political preconditions, complementarity, conditionality and financial discipline. The current operation is taking place under very particular circumstances of extreme urgency.

The Commission will continue to monitor and assess during the life of the MFA operation satisfaction of these criteria, including the assessment, in close liaison with the European External Action Service, of the political preconditions.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENTS

- **Consultation of interested parties**

MFA is provided as an integral part of the international support to the economic stabilisation of Ukraine. In the preparation of this proposal for MFA, the Commission services have consulted with the International Monetary Fund, which is in the process of putting in place a sizeable financing programme, and other multilateral and bilateral creditors and donors. The Commission has also been in regular contact with the Ukrainian authorities.

- **Collection and use of expertise**

Due to the need for an urgent approval process, an Operational Assessment verifying the quality and reliability of Ukraine's public financial circuits and administrative procedures will only be carried out by the Commission, with the assistance of external experts, during the months of April and May 2014.

- **Impact assessment**

The MFA and the economic adjustment attached to it will help alleviate the risk of imminent default and economic collapse by addressing Ukraine's short-term external financing needs while supporting policy measures aimed at strengthening the balance-of-payments and fiscal positions and raising sustainable growth. It is planned that the conditionality attached to the programme will notably help improve the efficiency and transparency of public finance management; promote fiscal reforms to reduce utility subsidies and other expenditure; support existing efforts to strengthen the social safety net; strengthen the financial sector governance and supervision; strengthen anti-corruption measures that will increase revenue; and facilitate the adoption of measures to improve the regulatory framework for trade and investment.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The European Union shall make available to Ukraine MFA for a total maximum amount of EUR 1 billion, provided in the form of a medium-term loan. The assistance will contribute to cover Ukraine's residual external financing needs in 2014.

The assistance will be provided in one or two instalments and will be conditional on an IMF arrangement being in place and on the implementation by Ukraine of specific structural reform measures that will be agreed by the Commission on behalf of the EU and Ukraine in a Memorandum of Understanding. The preparation of the Memorandum of Understanding will be made in coordination with the IMF and the World Bank. In view of the critical need for Ukraine to implement strong macroeconomic policies and ambitious reforms, it is not deemed appropriate to disburse the new programme without specific conditionality. In this context, the preferred option is to disburse the assistance in two tranches, with the first tranche being conditional to the IMF arrangement being in place, and the second tranche being also conditional to the implementation of the agreed conditions. There will be a delay of at least three months between the two tranches. The disbursement of the first instalment (possibly EUR 500 million) is expected to take place in June 2014, and the disbursement of the second instalment – in autumn of the current year. In case, however, it is decided by the Commission that in view of the extreme urgency of the financing needs the disbursement of the assistance should be made in one tranche, the Commission would still condition it to the completion of some critical prior actions.

In the preparation of the list of conditions or prior actions for the release of the assistance, the Commission will target structural reforms aimed at improving the overall macroeconomic management and the conditions for sustainable growth (e.g. targeting the transparency and efficiency of public finance management; fiscal reforms; governance and supervision of the financial sector; reforms to strengthen the social safety net; and reforms to improve the regulatory framework for trade and investment).

The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

The decision to disburse the full MFA in the form of loans is justified by Ukraine's level of development (as measured by its per-capita income) and debt indicators. It is also consistent with the treatment given to Ukraine by the World Bank and the IMF. Indeed, Ukraine is not eligible for concessional financing from either the IDA or the IMF.

- **Legal basis**

The legal basis for this proposal is Article 213 of the TFEU. Given that the beginning of the disbursement of the proposed assistance in the first half of 2014 would not be possible and would thus not address the urgent financial needs of Ukraine, if the decision was adopted by the Parliament and the Council in accordance with Article 212 TFEU under the ordinary legislative procedure, it is justified to use Article 213 TFEU providing for the adoption of the decision by the Council.

- **Subsidiarity principle**

The proposal does not fall under an exclusive competence of the EU. The subsidiarity principle applies to the extent that the objectives of restoring short-term macroeconomic stability in Ukraine cannot be sufficiently achieved by the Member States alone and can therefore be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectivenes of the assistance.

- **Proportionality principle**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of short-term macroeconomic stability by alleviating the risk of a possible default and does not go beyond what is necessary for that purpose.

In view of the size of Ukraine's external financing needs in 2014 and 2015, the amount of the assistance will correspond to a relatively limited part of these needs. Given the assistance pledged to Ukraine by other bilateral and multilateral donors and creditors, it is deemed an appropriate level of burden-sharing for the EU.

- **Complementarity**

The proposed MFA would complement the assistance being envisaged by other multilateral and bilateral donors in the context of the IMF-sponsored economic programme. The EU MFA would also complement the EU grants and loans mobilised under the regular EU cooperation instruments (notably the European Neighbourhood Instrument) and extended by the European Investment Bank

- **Choice of instruments**

Project finance or technical assistance would not be suitable or sufficient to address these macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be its rapid implementation to alleviate Ukraine's immediate external financial constraints, but also to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall framework for macroeconomic and structural policies, MFA can increase the effectiveness of the actions financed in Ukraine under other, more narrowly focused EU financial instruments.

4. BUDGETARY IMPLICATION

The planned assistance would be provided in the form of a loan and should be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary impact of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed in the Guarantee Fund for External Actions of the EU, from budget line 01 03 06 ("Provisioning of the Guarantee Fund"). Assuming that the loan will be disbursed in 2014, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the 2016 budget.

5. OPTIONAL ELEMENTS

- **Review/revision/sunset clause**

The proposal includes a sunset clause. The proposed MFA would be made available for one year, starting from the first day after the entry into force of the Memorandum of Understanding, with a possibility to extend it if necessary.

2014/0104 (NLE)

Proposal for a

COUNCIL DECISION

providing Macro-Financial Assistance to Ukraine

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 213 thereof,

Having regard to the proposal from the European Commission[3],

Whereas:

(1) Relations between the European Union ('the Union') and Ukraine are developing within the framework of the European Neighbourhood Policy (ENP) and the Eastern Partnership. The Partnership and Cooperation Agreement between the Union and Ukraine entered into force on 1 March 1998. Bilateral political dialogue and economic cooperation have been further developed within the framework of the EU-Ukraine Association Agenda adopted on 23 November 2009. A new Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA), was negotiated in 2007-2011 and initialed in 2012. On 21 November 2013, the Cabinet of Ministers of Ukraine took a decision to suspend preparations to sign the Association Agreement. Following the resignation of the government in February 2014, the new Ukrainian government has declared its willingness to sign the Association Agreement in the near future. On 6 March 2014, the European Council declared in its Statement on Ukraine its commitment to sign very shortly all the political chapters of the Association Agreement and to unilaterally adopt measures allowing Ukraine to benefit substantially from the DCFTA. The proposal for a Regulation of the European Parliament and Council to this effect was adopted by the Commission on 11 March 2014.

(2) The current political crisis has very damaging effects on Ukraine's already precarious economic and financial stability. Ukraine is currently facing a very weak and rapidly worsening balance-of-payments and fiscal situation, with the economy moving into recession again. The de facto interruption of Russia's assistance under its USD 15 billion package, and the announced end to the reduced gas prices granted by Gazprom from April 2014 onwards, will deteriorate the situation even further. Under these circumstances Ukraine faces a serious risk of default in the near future.

(3) Following the resignation of the government, a new interim President and a new government were appointed by the Parliament on 22 and 27 February 2014 respectively. Even though the constitution of 2004 was reinstated and presidential elections were announced for 25 May 2014, Ukraine could not return to political

[3] OJ C […], […], p. […].

stability, since the sovereignty and territorial integrity of Ukraine has recently been violated by the Russian Federation.

(4) In this context, Ukraine requires urgent financial assistance by international creditors and donors. Given that the first rapid disbursement of the Union's macro-financial assistance to Ukraine ("the Union's macro-financial assistance") in the first half of 2014 would not be possible and would thus not address the urgent financial needs of Ukraine, if the decision was adopted by the Parliament and the Council in accordance with Article 212 TFEU under the ordinary legislative procedure, it is justified to provide the Union's macro-financial assistance based on a Council decision pursuant to Article 213 TFEU.

(5) The urgency of the assistance is related to the immediate need of Ukraine for funds, in addition to those which will be provided by other international financial institutions and other bilateral donors and to the Union's macro-financial assistance foreseen by Council Decision of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (2002/639/EC)[4] and Decision no 646/2010/EU of the European Parliamnt and of the Council of July 2010 providing macro-financial assistance to Ukraine[5].

(6) The current crisis in Ukraine justifies the exceptional use of the urgent procedure under Article 213 TFEU. The decision providing macro-financial assistance to Ukraine is without prejudice to other future MFA operations.

(7) Since the resignation of the government, the Union has**,** on various occasions**,** declared its commitment to support the new Ukrainian Government to stabilize the situation and pursue the course of reforms. The Union has also declared its readiness to fully support efforts of the international community and international financial institutions, especially the IMF, with regard to an international assistance package to address the urgent needs of Ukraine, based on clear commitment to reforms. Financial support from the Union to Ukraine is consistent with the Union's policy as set out in the ENP and in the Eastern Partnership.

(8) The Union's macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short-term.

(9) The Ukrainian authorities and the International Monetary Fund (IMF) are expected to agree shortly on an economic programme that will be supported by a financing arrangement with the IMF.

(10) On 5 March 2014, in view of the drastically worsening balance-of-payments situation in Ukraine, the European Commission announced a support package, which included the proposed MFA. This package was endorsed by the Extraordinary European Council on 6 March. This package includes financial assistance of EUR 11 billion in 2014-2020 including a total of up to EUR 1.565 billion in grants for the same period mobilised under the European Neighbourhood Instrument, the Neighbourhood Investment Facility, the Instrument contributing to Stability and Peace and the budget of the Common Foreign and Security Policy. The disbursement of the Union's macro-

4 OJ L 209, 6.8.2002, p. 22-23

5 OJ L 189, 22.7.2010, p. 28

financial assistance foreseen by Council Decision of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (2002/639/EC)[6] and Decision no 646/2010/EU of the European Parliamnt and of the Council of July 2010 providing macro-financial assistance to Ukraine[7] can take place as soon as the IMF programme is in place.

(11) Given that Ukraine is a country covered by the ENP, it is eligible to receive the Union's macro-financial assistance.

(12) Given that the drastically worsening external financing needs of Ukraine are expected to be well above the resources that will be provided by the IMF and other multilateral institutions, the Union's urgent macro-financial assistance to be provided to Ukraine is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine's request to support financial stabilisation. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Ukraine, supplementing resources made available under the IMF's financial arrangement.

(13) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Ukraine thereby supporting its economic and social development.

(14) The amount of the Union's macro-financial assistance is based on a preliminary estimate of Ukraine's residual external financing needs and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Ukraine and the added value of the overall Union involvement.

(15) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and other relevant Union policies.

(16) The Union's macro-financial assistance should support the Union's external policy towards Ukraine. The Commission services and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and to ensure the consistency of, Union external policy.

(17) The Union's macro-financial assistance should support Ukraine's commitment to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rule-based and fair trade.

(18) A pre-condition for granting the Union's macro-financial assistance should be that Ukraine respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance

[6] OJ L 209, 6.8.2002, p. 22-23
[7] OJ L 189, 22.7.2010, p. 28

management systems in Ukraine and to promote structural reforms aimed at supporting sustainable growth and fiscal consolidation. Both fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission.

(19) In order to ensure that the Union’s financial interests linked to the Union’s macro-financial assistance are protected efficiently, Ukraine should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.

(20) Release of the Union's macro-financial assistance is without prejudice to the powers of budgetary authority.

(21) The amounts of the provision required for macro-financial assistance should be consistent with the budgetary appropriations provided for in the multi-annual financial framework.

(22) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.

(23) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council[8].

HAS ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance available to Ukraine ("the Union's macro-financial assistance") of a maximum amount of EUR 1 billion, with a view to supporting Ukraine's economic stabilisation and reforms. The assistance shall contribute to covering Ukraine's urgent balance-of-payments needs as identified in the government's economic programme supported by the IMF.

2. The full amount of the Union's macro-financial assistance shall be provided to Ukraine in the form of loans. The Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions and to on-lend them to Ukraine. The loans shall have a maximum maturity of 15 years.

3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the IMF and Ukraine, and with the key principles and objectives of economic reforms set out in the EU-Ukraine Association Agenda agreed under the ENP. The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including

[8] Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

disbursements thereof, and shall provide those institutions with the relevant documents in due time.

4. The Union's macro-financial assistance shall be made available for a period of one year from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1). The availability period can be extended by a decision of the Council on a proposal of the Commission.

5. Where the financing needs of Ukraine decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro financial assistance shall be that Ukraine respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights. The Commission shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance. This Article shall be applied in accordance with Council Decision 2010/427/EU[9].

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Ukrainian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding") which shall include a timeframe for the fulfilment of those conditions. The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macro-economic adjustment and structural reform programmes implemented by Ukraine, with the support of the IMF.

2. Those conditions shall aim, in particular, to enhance the efficiency, transparency and accountability of the public finance management systems in Ukraine, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.

[9] *Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).*

3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be agreed between the Commission and the Ukrainian authorities.

4. The Commission shall verify at regular intervals that the conditions in Article 4(3) continue to be met, including that the economic policies of Ukraine are in accordance with the objectives of the Union's macro-financial assistance. In so doing, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in one or two loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding.

2. The amounts of the Union's macro-financial assistance shall be provisioned, where required, in accordance with Council Regulation (EC, Euratom) No 480/2009[10].

3. The Commission shall decide on the release of the instalments subject to the fulfilment of all of the following conditions:

   (a) the pre-condition set out in Article 2;

   (b) a continuous satisfactory track record of implementing a policy programme that contains adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement. In fact, the disbursement shall start immediately as soon as the IMF programme is in place.

   (c) the implementation, within a specific time-frame, of the economic policy and financial conditions agreed in the Memorandum of Understanding.

   In case a second instalment is foreseen, it shall not take place earlier than three months after the release of the first instalment.

4. Where the conditions in paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.

5. The Union's macro-financial assistance shall be disbursed to the National Bank of Ukraine.

[10] *Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10).*

Article 5

1. The borrowing and lending related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.

2. Where the circumstances permit, and if Ukraine so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.

3. Where circumstances permit an improvement of the interest rate of the loan and if Ukraine so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.

4. All costs incurred by the Union which relate to the borrowing and lending under this Decision shall be borne by Ukraine.

5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council[11] and Commission Delegated Regulation (EU) No 1268/2012[12].

2. The implementation of the Union's macro-financial assistance shall be under direct management.

3. The Memorandum of Understanding and the Loan Agreement to be agreed with the Ukrainian authorities shall contain provisions:

   (a) ensuring that Ukraine regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any

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11 *Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).*

12 *Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).*

funds provided under this Decision that have been misappropriated;

(b) ensuring the protection of the Union's financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union's macro-financial assistance, in accordance with Council Regulation (EC,Euratom) No 2988/95[13], Council Regulation (EC, Euratom) No 2185/96[14] and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[15];

(c) expressly authorising the Commission, including the European Anti-Fraud Office, or its representatives to carry out checks, including on-the-spot checks and inspections;

(d) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;

(e) ensuring that the Union is entitled to early repayment of the loan where it has been established that, in relation to the management of the Union's macro-financial assistance, Ukraine has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.

4. During the implementation of the Union's macro-financial assistance, the Commission shall monitor, by means of operational assessments, the soundness of Ukraine's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

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13 *Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).*

14 *Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).*

15 *Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).*

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:

   (a) examine the progress made in implementing the Union's macro-financial assistance;

   (b) assess the economic situation and prospects of Ukraine, as well as progress made in implementing the policy measures referred to in Article 3(1);

   (c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Ukraine’s on-going economic and fiscal performance and the Commission’s decisions to release the instalments of the Union's macro-financial assistance.

2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the day after its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Macro-financial assistance to the Republic of Ukraine

1.2. Policy area(s) concerned in the ABM/ABB structure[16]

Policy area: Title 01 – Economic and Financial Affairs

Activity: 03 – International economic and financial affairs

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

"To promote prosperity beyond the EU"

The major area of DG ECFIN related activity pertains to:

1. Fostering the implementation of the European Neighbourhood Policy by deepening economic analysis and strengthening policy dialogue and advice on the economic aspects of the Action Plans.

2. Developing, monitoring and implementing macro-financial assistance for partner third countries, in co-operation with the relevant international financial institutions.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No. 1: "Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability"

ABM/ABB activity(ies) concerned: International Economic and Financial Relations, global governance.

1.4.3. Expected result(s) and impact

The proposed assistance consists of an EU loan of up to EUR 1 billion to Ukraine ('Ukraine'), with a view to contributing to a more sustainable balance-of-payments situation. The assistance will help the country overcome the economic and social hardships endured as a result of the domestic and regional unrest. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management.

1.4.4. Indicators of results and impact

The authorities will be required to report on a set of indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative

16 ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

procedures in Ukraine that will be carried out in preparation of this operation. The EU Delegation in Ukraine will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in Ukraine.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, comprising an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the future financing arrangement between Ukraine and the IMF. In addition, the Commission shall agree with the Ukrainian authorities on specific policy conditions, listed in a Memorandum of Understanding.

1.5.2. Added value of EU involvement

By helping the country overcome the economic shock caused by the domestic and regional unrest, the proposed MFA will contribute to promoting macroeconomic stability and economic reforms in the country. By complementing the resources made available by the international financial institutions, the EU and other donors, it will contribute to the overall effectiveness of the package of financial support agreed by the international donor community in the aftermath of the crisis.

The proposed programme will also strengthen the government's reform commitment and its aspiration towards closer relations with the EU. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal to the other countries in the region that the EU is ready to support countries embarking on a clear path towards political reforms in times of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Since 2004, a total of fifteen ex-post evaluations have been carried out on macro-financial assistance operations. These evaluations conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operations had a positive effect on the balance of payments of the beneficiary country and helped to relax their budgetary constraints. They also led to a somewhat higher economic growth.

1.5.4. Coherence and possible synergy with other relevant instruments

The EU is among the major donors of Ukraine. The EU intends to make available up to EUR 1.565 billion in grants for the period 2014-2020 under its regular cooperation, in support of Ukraine's political and economic reforms.

The key value added of the MFA in comparison to other EU instruments would be its rapid implementation to alleviate Ukraine's immediate external financial constraints, but also help create a stable macroeconomic framework, including by promoting a sustainable balance-of-payments and budgetary situation, and an appropriate framework for structural reforms. MFA does not provide a regular financial support nor is meant to support the economic and social development of the recipient countries. The MFA is to be discontinued as soon as the country's external financial situation has been brought back onto a sustainable path.

MFA would also be complementary to interventions envisaged by the international financial institutions, in particular the adjustment and reform programme supported by the IMF and the Development Policy Loans of the World Bank.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration**

- X Proposal/initiative in effect for 1 year from the entry into force of the Memorandum of Understanding, as stated in Article (1.4) of the Decision
- X Financial impact from 2014 to 2016

1.7. Management mode(s) envisaged[17]

X **Centralised direct management** by the Commission

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

This assistance is of macroeconomic nature and its design is consistent with the IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF arrangement and specific reform measures to be agreed with the Ukrainian authorities in a Memorandum of Understanding (see also point 1.4.4).

2.2. Management and control system

2.2.1. Risk(s) identified

There are fiduciary, policy and political risks related to the proposed MFA operation.

There is a risk that the macro-financial assistance, which is not dedicated to specific expenses, could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the central bank and the Ministry of Finance and the appropriateness of internal and external audit capabilities.

Another key risk to the operation stems from the economic and political uncertainty, notably due to the unprovoked Russian violation of Ukrainian sovereignty and territorial integrity. On the domestic front, the main risk is instability related to difficulties in the political and economic reform process. The full implementation of the stabilisation and reform measures supported by the international community, including the proposed MFA operation, might be undermined by social dissatisfaction potentially leading to unrest.

Finally, there are risks stemming from a possible weakening of the European and global economic environment.

[17] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

2.2.2. Control method(s) envisaged

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF), and by the European Court of Auditors.

2.2.3. Costs and benefits of controls and probable non-compliance rate

The basic costs for the Commission related to the methods of verification and control as well as the cost of the Operational Assessment of financial and administrative circuits conducted prior to the operation, are described in Table 3.2.1. In addition, there are costs for the European Court of Auditors and of possible interventions of the OLAF. The Operational Assessment not only helps assess risks of misuse of the funds but, as a collateral benefit, it provides useful information on the necessary reforms in the area of public finance management. Regarding the probable non-compliance rate, the risk of non-compliance (in the form of non-repayment of the loan or misuse of the funds) is judged to be low, based on the experience with the MFA instrument since its creation.

2.3. Measures to prevent fraud and irregularities

To mitigate the risks of fraudulent use several measures will be taken:

First, the proposed legal basis for macro-financial assistance to Ukraine includes a provision on fraud prevention measures. These measures will be elaborated further in the Memorandum of Understanding and the Loan Agreement, envisaging a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, mainly in the area of public finance management, with a view to strengthening efficiency, transparency and accountability.

Second, the Commission services, with the support of duly mandated external experts, will carry out an Operational Assessment of the financial circuits and administrative procedures at the Ministry of Finance and the National Bank of Ukraine, in order to fulfil the requirements of the Financial Regulation applicable to the General Budget of the European Communities. This review will determine whether the framework for sound financial management of macro-financial assistance is sufficiently effective in Ukraine by covering areas such as management structure and organisation, management and control of funds, security of IT systems, internal and external audit capacity as well as the independence of the central bank. In the light of this assessment, specific mechanisms applying to the management of the funds by the beneficiaries may be introduced in agreement with the national authorities. Also, the assistance will be paid to a dedicated account at the National Bank of Ukraine.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including OLAF, and the European Court of Auditors.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing expenditure budget lines

01 03 02: Macro-financial assistance

01 03 06 – Provisioning of the Guarantee Fund

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description……… ………...……….]	Diff./non-diff. (18)	from EFTA countries[19]	from candidate countries[20]	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
4	01 03 02 Macro-financial assistance	Diff.	NO	NO	NO	NO
4	01 03 06 Provisioning of the Guarantee Fund	Diff.	NO	NO	NO	NO

01 03 06 – European Union guarantee for EU loans raised for macro-financial assistance to third countries: The Guarantee Fund for external actions has to be provisioned according to the Fund Regulation, as amended. In line with this Regulation, loans are based on the outstanding amount at the end of a year. The provisioning amount is calculated at the beginning of the year "n" as the difference between the target amount and the Fund's net assets at the end of the year "n-1". This provisioning amount is introduced in the year "n" to the "n+1" draft budget and effectively paid in one transaction at the beginning of the year "n+1" from "the provisioning of the Guarantee Fund" (budget line 01 03 06). As a result, 9% (maximum of EUR 90 million) of the effectively disbursed amount will be considered in the target amount at the end of the year "n-1" for the calculation of the provisioning of the Fund.

The budget entry ("p.m.") on the budgetary line reflecting the budget guarantee for the loan will be activated only in the case of an effective call on the guarantee. It is not expected that the budget guarantee be called.

☐☐New budget lines requested: not applicable.

18 Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.
19 EFTA: European Free Trade Association.
20 Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to 3 decimal places)

Heading of multiannual financial framework:	**4**	[Heading: The EU as a global partner]

DG: <ECFIN>			Year **2014**	Year **2015**	Year **2016**	**Year 2017**	**TOTAL**
• Operational appropriations							
Budget line 01 03 06 Provisioning of the Guarantee Fund	Commitments	(1a)			90		**90**
	Payments	(2a)			90		**90**
Appropriations of an administrative nature financed from the envelope of specific programmes[21] (operational assessment and ex-post evaluation)							
Budget line 01 03 02	Commitments	(3)	0.1	0.2			**0.30**
	Payments	(3a)	0.1	0.1	0.10		**0.30**
TOTAL appropriations for DG ECFIN	Commitments	=1+1a +3	0.1	0.2	90		**90.3**
	Payments	=2+2a +3	0.1	0.1	90.1		**90.3**
• TOTAL operational appropriations	**Commitments**	(4)	0.1	0.2	90		**90.3**
	Payments	(5)	0.1	0.1	90.1		**90.3**

21 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

• TOTAL operational appropriations	Commitments	(4)	0.1	0.2	90		**90.3**
	Payments	(5)	0.1	0.1	90.1		**90.3**
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					
TOTAL appropriations under HEADING 4 of the multiannual financial framework	Commitments	=4+ 6	0.1	0.2	90		**90.3**
	Payments	=5+ 6	0.1	0.1	90.1		**90.3**

<u>If more than one heading is affected by the proposal / initiative:</u>

EUR million (to three decimal places)

Heading of multiannual financial framework:	**5**	‘Administrative expenditure’

		Year **2014**	Year **2015**	Year **2016**	Year **2017**	**TOTAL**
• Human resources		0.528	0.132	0.066		**0.726**
• Other administrative expenditure		0.028	0.012	0.004		**0.044**
TOTAL DG ECFIN	Appropriations	0.556	0.144	0.070		**0.770**
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.556	0.144	0.070		**0.770**

EUR million (to three decimal places)

		Year **2014**	Year **2015**	Year **2016**	Year **2017**	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.556	0.144	0.070		**0.770**
	Payments	0.556	0.144	0.70		**0.770**

3.2.2. *Estimated impact on operational appropriations*

– ☐ The proposal/initiative does not require the use of operational appropriations

– X The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs

⇩

SPECIFIC OBJECTIVE NO 1[22]

		Year 2013		Year 2014		Year 2015		Year 2016		Year 2017			
	Type	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total Cost
Output 1	Operationnal assessment			1	0.1							1	0.1
- Output 2	Ex-post evaluation					1	0.2					1	0.2
- Output 3	Provisioning of the Guarantee Fund							1	90			1	90

22 As described in point 1.4.2. ‘Specific objective(s)…’

Subtotal for specific objective No 1	1	0.1	1	0.2	1	90			3	90.3
TOTAL COST	1	0.1	1	0.2	1	90			3	90.3

3.2.3. *Estimated impact on appropriations of an administrative nature*

3.2.3.1. Summary

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	[23]	Year **2014**	Year **2015**	Year **2016**	Year **2017**	Enter as many years as necessary to show the duration of the impact (see point 1.6)			**TOTAL**
HEADING 5 of the multiannual financial framework									
Human resources		0.528	0.132	0.066					**0.726**
Other administrative expenditure		0.028	0.012	0.004					**0.044**
Subtotal HEADING 5 of the multiannual financial framework		0.556	0.144	0.070					**0.770**
Outside HEADING 5[24] of the multiannual financial framework									
Human resources									
Other expenditure of an administrative nature									
Subtotal outside HEADING 5 of the multiannual financial framework									
TOTAL		0.556	0.144	0.070					**0.770**

The administrative appropriations required will be met by the appropriations of the DG which are already assigned to management of the action and/or which have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

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[23] Year N is the year in which implementation of the proposal/initiative starts.

[24] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

		Year 2014	**Year 2015**	**Year 2016**	**Year 2017**	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
• **Establishment plan posts (officials and temporary agents)**								
01 01 01 01 (Headquarters and Commission's Representation Offices)		4	1	0.5				
XX 01 01 02 (Delegations)								
XX 01 05 01 (Indirect research)								
10 01 05 01 (Direct research)								
• **External personnel (in Full Time Equivalent unit: FTE)**[25]								
XX 01 02 01 (CA, INT, SNE from the "global envelope")								
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)								
XX 01 04 **yy**[26] - at Headquarters								
- in delegations								
XX 01 05 02 (CA, SNE, INT - Indirect research)								
10 01 05 02 (CA, SNE, INT - Direct research)								
Other budget lines (specify)								
TOTAL		**4**	**1**	**0.5**				

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Director Dir. D: Supervise and manage the operation, liaise with Council and Parliament for the adoption of the Decision and the approval of the Memorandum of Understanding (MoU), negotiate with the Ukrainian authorities the MoU, review reports, lead missions and assess progress with conditionality compliance. HoU/DHoU Dir. D: Assist the Director in managing the operation, liaising with Council and Parliament for the adoption of the Decision and the approval of the MoU, negotiating with the Ukrainian authorities the MoU and Loan Facility Agreement (together with Dir. L), reviewing reports and assessing progress with conditionality compliance. Desk economists, MFA Sector (Dir. D): Prepare the Decision and MoU, liaise with the authorities and the IFIs, conduct review

25 CA= Contract Agent; LA = Local Agent; SNE = Seconded National Expert; INT = agency staff ('Intérimaire'); JED= 'Jeune Expert en Délégation' (Young Experts in Delegations).

26 Sub-ceiling for external staff covered by operational appropriations (former "BA" lines).

	missions, prepare Commission staff reports and Commission procedures related to the management of the assistance, liaise with external experts for the operational assessment and the ex-post evaluation. Directorate L (Units L4, L5 and L6 under the supervision of the Director): Prepare the Loan Facility Agreement (LFA), negociate it with the Ukrainian authorities and have it approved by the responsible Commission services and signed by both parties. Follow up the entry into force of the LFA. Prepare the Commission decision(s) on the borrowing transaction(s), follow up the submission of the Request(s) for Funds, select the banks, prepare and execute the funding transaction(s) and disburse the funds to Ukraine. Carry out the back-office activities to follow up the reimbursement of the loan(s). Prepare the corresponding reports on these activities.
External staff	N/A

3.2.4. *Compatibility with the current multiannual financial framework*

– X Proposal/initiative is compatible the current multiannual financial framework.

3.2.5. *Third-party contributions*

– X The proposal/initiative does not provide for co-financing by third parties.

3.3. Estimated impact on revenue

X Proposal/initiative has no financial impact on revenue.