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2015/0005 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing macro-financial assistance to Ukraine

{SWD(2015) 1 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

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

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 cooperation in all key areas of reform and continues to be the legal basis of EU-Ukraine relations. Relations were further reinforced 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). On 21 March and 27 June 2014, the EU and Ukraine signed an Association Agreement, which will establish a deep political association and economic integration between the EU and Ukraine. It covers a wide range of areas such as justice, trade and sectorial cooperation including energy, transport and environment and sets out detailed commitments and timelines that are demanding for both parties.

The Ukrainian economy is experiencing a deep recession that is the result of long-standing macroeconomic imbalances and structural problems. The situation was aggravated by the eruption of an armed conflict in the East that had a heavy toll on the economy through sizable losses of productive capacity and reduced confidence. Following mass public protests, former President Viktor Yanukovych left power and a **reform-minded government was appointed in Ukraine in February 2014**. It embarked on an ambitious macroeconomic adjustment and structural reform programme that aimed to change the country's unviable economic model and pave the way for long-term, sustainable growth. This programme was underpinned by a USD 17 billion financial assistance programme by the IMF and significant support from other international donors.

Following the political change in February 2014, Ukraine held free and democratic presidential and parliamentary elections (on 25 May and 26 October, respectively). Furthermore, important steps were taken by Ukrainian authorities in 2014 to fight corruption and strengthen the rule of law. In December 2014, the newly formed government presented an ambitious Action Plan outlining the reform agenda of the coalition government. It is envisaged to be followed up in early 2015 by a comprehensive National Reform Strategy setting out economic, political, judicial and administrative reform measures for 2015-17 that are necessary to ensure medium-term macroeconomic stability, as well as the implementation of the EU-Ukraine Association Agreement.

The **reform efforts of the authorities have been seriously complicated, however, by the armed conflict in the East,** growing trade restrictions from Russia, and the escalation of a natural gas dispute between the two countries. As a result, the economic recession in Ukraine has become more severe than initially expected by international donors. The crisis is expected to be a prolonged one, as Ukraine is heading for another year of a contraction in 2015. The loss of export proceeds due to the conflict in the East and the confidence crisis led to a sharp depreciation of the local currency and a depletion of international reserves. In the current situation, Ukraine does not have access to international debt markets and is not expected to regain it in the short term. A significant additional external financing gap has therefore emerged.

Against this background, **additional official financial assistance is required** to address Ukraine's short-term balance of payments needs, including the replenishment of international reserves, and to support the reform programme of the authorities, in particular the restructuring of the energy and banking sectors. Last but not least, this support is required to shore up investor confidence, which is essential for bringing Ukraine's economy eventually back to a sustainable growth path.

The **Ukrainian authorities requested MFA from the EU of EUR 2 billion** on 9 September 2014. The request for MFA was reiterated in a further letter on 15 December 2014. Taking into consideration these requests and the economic situation in Ukraine, in particular the emergence of significant additional external financing needs, **the European Commission is submitting to the European Parliament and the Council a proposal to grant MFA to Ukraine of maximum EUR 1.8 billion in the form of medium-term loans**.

The objective of the proposed MFA is to help Ukraine cover part of its residual additional external financing needs in 2015 and early 2016 in the context of the on-going IMF programme. These additional needs are estimated by the IMF at USD 15 billion. The EU's assistance would also reduce the economy's short-term balance of payments and fiscal vulnerabilities, while supporting the government's adjustment and reform programmes through an appropriate package of accompanying policy measures to be agreed with the Ukrainian authorities in a Memorandum of Understanding (MoU).

In this context, the Commission considers that the political and economic pre-conditions for a MFA operation of the proposed amount and nature are satisfied.

- **General context**

Ukraine is experiencing a deep recession that is the result of long-standing economic and structural problems. The situation is aggravated by the armed conflict in the eastern part of the country that not only destroyed part of Ukraine's productive capacity but also had significant confidence impact for households and businesses. In recent months, the implementation of much-needed stabilisation policies, aimed at reducing imbalances and safeguarding fiscal and external sustainability, have further weighed on short-term economic prospects. As a result, **GDP is expected to contract by around 7% in real terms in 2014**.

Despite the sharp economic contraction and the conservative central bank policies, **inflationary pressures remain high**, reflecting the currency weakening and an adjustment of administered prices (in particular of utility tariffs). CPI inflation accelerated to 21.8% year-on-year in November and is expected to pick up further in the near future as the effect of the currency depreciation fully kicks in. The **hryvnia has lost close to 50% of its value against the USD** since its floatation in February, well above initial expectations. The weakening was particularly strong in August and September, forcing the central bank to introduce a number of administrative measures and currency controls, in addition to undertaking some foreign exchange market interventions, which succeeded in bringing temporary stability to the exchange rate ahead of the October parliamentary elections. At the same time, these measures impacted negatively on business activity and led to a fast depletion of the already low international reserves. Following a slight relaxation of the administrative controls, the currency has depreciated strongly as from November.

Weak economic activity, coupled with higher interest outlays on foreign currency denominated debt in light of strong currency depreciation, as well as and sizable losses in tax collection capacity in the eastern parts of the country, led to **widening of the budget deficit** in 2014 despite a number of austerity measures introduced by the authorities[1]. According to recent forecasts of the Ministry of Finance, the government fiscal deficit will rise to 5.3% of GDP for 2014 as a whole.

A major additional drag on public finances in 2014 came from the ailing oil and gas company **Naftogaz**. This company traditionally runs sizable operational deficits due to the administrative cap on natural gas prices for households and municipal utility companies, which forces Naftogaz to sell at below-cost rates and general operational inefficiency. In 2014, the company's activities were negatively affected by the strong depreciation of the hryvnia and the need for coverage of gas arrears to Russia (including ones accumulated in 2013). As a result, the state had to inject UAH 103bn into Naftogaz by November, an amount representing 6.8% of projected GDP. Thus, **the overall fiscal deficit run by Ukraine in 2014, which includes the deficit of Naftogaz, is projected at nearly 12% of GDP**, up from 6.7% in 2013 and compared to 8.5% forecast by the IMF in April 2014.

The widening budget deficit and the sharp depreciation of the local currency, coupled with a significant economic contraction, led to a **sharp deterioration of Ukraine's public debt metrics**. At the end of October 2014, the general government public debt amounted to 63% of the projected GDP for the year, an increase of almost 23 percentage points from the year end-2013 debt of 40.2% of GDP.

On the external side, the depreciation of the hryvnia, coupled with weak domestic demand, has contributed to a **significant adjustment of the current account**. The deficit is expected to narrow to around 4% of the GDP in 2014 from 9.0% in 2013, although this is primarily due to strong import compression[2]. However, this was accompanied by **sizeable private-sector financial outflows due to dwindling confidence** in an environment of high geopolitical uncertainty[3]. The official financing extended as from May 2014 was insufficient to offset the capital flight. Overall, Ukraine received around USD 9 billion in gross official financing in May-December, a large part of which was used to cover maturing debt (see IMF support and other donor assistance up to 2014).

In the context of a deepening economic recession and a confidence crisis, the **sizable official financial assistance provided to Ukraine in 2014 was insufficient to stop the continuous drain on reserves**. In the first eleven months of the year, reserves halved from their end-2013 level to only USD 10 billion. A further significant drop is expected in December as a result of payments for gas (including arrears to Russia). As a result, Ukraine's gross international reserves are now expected to drop to USD 7 billion at the end of 2014, or around one month of projected 2015 imports of goods and services.

On 30 April 2014, the **IMF approved a two-year Stand-By Arrangement (SBA) for Ukraine** amounting to SDR 10.976 (USD 17 billion, or 800% of the country's quota). The IMF's financial assistance has been complemented by significant support from other official and bilateral assistance (EU, US, Japan, Canada). Other international financial institutions

[1] The authorities have twice revised the budget (in March and in July) in an attempt to rein in the high fiscal deficit.

[2] In January-October, imports of goods plummeted by 26.2% year-on-year, well outpacing the 10.8% decline of exports.

[3] The net outflow from the financial account amounted to USD 4.8 billion in January-October 2014. Withdrawals of bank deposits by non-residents were the main factor behind the capital outflow. Both FDI and portfolio investments also recorded outflows in the period, although of a smaller size.

such as the World Bank, the EBRD and the EIB have also significantly scaled up their activity to support Ukraine's economic transition.

However, in view of the deeper-than-expected economic recession and the strong capital outflows due to the confidence crises, Ukraine is facing significant additional external financing needs in 2015 and in early 2016. These needs arise mainly from the need to replenish the very low level of international reserves and sizable private capital outflows. These additional financing needs are estimated at USD 15 billion. The proposed MFA would cover 16.7% of the total additional financing gap.

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

MFA has been provided to Ukraine under three separate decisions:

- Council Decision of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (2002/639/EC)[4]
- Decision No 388 /2010/EU of the European Parliament and of the Council of 7 July 2010 providing macro-financial assistance to Ukraine[5]
- Council Decision of 14 April 2014 providing macro-financial assistance to Ukraine (2014/215/EU)[6]

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

The proposed MFA is consistent with the EU's commitment to support Ukraine's immediate economic and political transition. 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 proposed MFA is in line with the objectives of the European Neighbourhood Policy (ENP). It contributes to support the European Union's objectives of economic stability and economic development in Ukraine and, more broadly, in the eastern European neighbourhood. By helping the authorities' efforts to establish a stable macroeconomic framework and implement an ambitious structural reform programme, the proposed assistance helps improve the effectiveness of other EU financial assistance to the country, including budgetary support operations The proposed MFA also complements the assistance provided by other multilateral and bilateral donors in the context of the IMF-sponsored economic programme.

The EU MFA would complement the total EUR 1.565 billion in grants that can be 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 over 2014-2020, whereby EUR 370 million have already been committed in 2014. 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

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4 OJ L 209, 6.8.2002, p. 22-23.
5 OJ L 189, 22.7.2010, p. 28.
6 OJ L 111, 15.4.2014, p. 85.

the EU’s intervention including through other financial instruments, such as the State Building Contract and other budget support operations.

Ukraine has important economic ties to the EU. The EU is among Ukraine’s most important commercial partners and accounts for about one third of its external trade. In 2013, the value of Ukrainian imports from the EU was EUR 23.9 billion while the value of its exports was EUR 18.8 billion. Ukraine also has a high dependence on the EU in terms of FDI and other financial flows. On 27 June 2014, Ukraine and the EU agreed to the future establishment of a Deep and Comprehensive Free Trade Area (DCFTA). This will support a further increase in bilateral trade in goods and services and gradually bring Ukraine's trade-related rules and standards in line with those of the EU.

Ukraine’s transition is very difficult and the risk of 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, based on the rule of law. The country is also developing an economic reform programme aimed at laying the ground for a sustainable growth model. Progress in respect of these objectives and the reform programme will be of the utmost importance to underpin a successful transition.

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 for the economic stabilisation of Ukraine. In the preparation of this proposal for MFA, the Commission services have consulted with the International Monetary Fund and other international partners, which are putting in place sizeable financing programmes. The Commission has also been in regular contact with the Ukrainian authorities.

- **Collection and use of expertise**

An Operational Assessment verifying the quality and reliability of Ukraine's public financial circuits and administrative procedures was carried out by the Commission with the assistance of external experts, with the final report prepared in August 2014.

- **Impact assessment**

The MFA and the economic adjustment and reform programme attached to it will help alleviate Ukraine’s short-term financing needs while supporting policy measures aimed at strengthening medium-term balance of payments and fiscal sustainability and raising sustainable growth. It will notably support reform efforts in the following areas: public finance management and anti-corruption; tax administration; reforms in the energy sector, including strengthening the social safety net to ensure targeted cushioning of the ongoing withdrawal of retail energy price subsidies; financial sector reforms; and measures to improve the business environment.

3. LEGAL ELEMENTS OF THE PROPOSAL

- **Summary of the proposed action**

The European Union shall make MFA available to Ukraine for a total maximum amount of EUR 1.8 billion, provided in the form of medium term loans. The assistance will contribute to cover Ukraine's residual external financing needs in 2015-16, as identified by the Commission based on the estimates of the IMF.

The assistance is planned to be disbursed in three loan instalments. The disbursement of the first instalment is expected to take place in the middle of 2015. The second instalment could be disbursed in the fourth quarter of 2015. The third and last instalment could be made available towards the end of the first quarter of 2016. 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 Commission and the Ukrainian authorities would agree on a Memorandum of Understanding setting out the structural reform measures associated with the proposed MFA operation, including aspects of timing and sequencing. These measures will support the authorities' reform agenda, including relevant elements of the aforementioned forthcoming National Reform Strategy for 2015-17, and the implementation of the EU-Ukraine Association Agreement, as well as complementing the programmes agreed with the IMF, the World Bank and other multilateral and bilateral donors. As is normally the case with MFA, the disbursements would inter alia be conditional on satisfactory reviews under the IMF programme and the continued drawing by Ukraine on IMF funds.

The European Commission will seek consensus with the Ukrainian authorities on the expected National Reform Strategy, so as to facilitate smooth implementation also of the conditionality to be agreed in the Memorandum of Understanding for the proposed MFA operation. These policy conditions should address some of the fundamental weaknesses accumulated over the years by the Ukrainian economy. Possible areas of conditionality could in principle include: public finance management and anti-corruption; tax administration; reforms in the energy sector; financial sector reforms; and measures to improve the business environment.

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). It is also consistent with the treatment given to Ukraine by the World Bank and the IMF.

- **Legal basis**

The legal basis for this proposal is Article 212 of the TFEU.

- **Subsidiarity principle**

The subsidiarity principle is respected as 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 macro economic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the stand-by arrangement, the amount of the assistance corresponds to around 16.7% of the estimated additional financing gap for the period 2015–Q1 2016. This significant commitment is justified by: the political importance of Ukraine for the stability in the European Neighbourhood; the political integration of the country with the EU as reflected by the Association Agreement between the two sides that provisionally entered into force on 1 November 2014; as well as the exceptionally challenging situation and correspondingly large financing needs that this EU neighbour is currently facing.

- **Choice of instruments**

Project finance or technical assistance would not be suitable or sufficient to addressmacroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraint in a swift manner and 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 costs of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed into the guarantee fund for external lending of the EU, from budget line 01 03 06 (“Provisioning of the Guarantee Fund”). Assuming that the first and second loan disbursements will be made in 2015 for a total amount of EUR 1,200 million and the third loan disbursement in 2016 for the amount of EUR 600 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the budgets for 2017 (for EUR 108 million) and 2018 (EUR 54 million). On the basis of the currently available information on the expected overall provisioning needs of the Guarantee Fund, this additional budgetary impact will be partly financed by a reallocation in the indicative financial programming for 2017 and 2018 from macro-financial assistance grants (budget line 01 03 02) and partly by using the unallocated margin for commitments under Heading 4 in the Multi-Annual Financial Framework. The indicative breakdown of this financing is as follows:

EUR million

	2017	2018
Additional expenditure: Provisioning of the Guarantee Fund as a result of the proposal (see the legislative financial statement)	108	54
Sources of financing: Macro-financial assistance (grants) 01.0302	-50	-40

Margin under Heading 4	-58	-14

5. OPTIONAL ELEMENTS

- **Review/revision/sunset clause**

The proposal includes a sunset clause. The proposed MFA would be made available for two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding.

2015/0005 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing macro-financial assistance to Ukraine

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission[7],

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure[8],

Whereas:

(1) Relations between the European Union and Ukraine are developing within the framework of the European Neighbourhood Policy (ENP) and the Eastern Partnership. An Association Agreement between the European Union and the European Atomic Energy Community and their Member States, on the one part, and Ukraine, on the other part ('the Association Agreement'), including a Deep and Comprehensive Free Trade Area (DCFTA), was negotiated from 2007 to 2011 and was initialled in 2012. The Association Agreement was signed by Ukraine and the Union on 21 March and 27 June 2014. Since 1 November 2014 important parts of the Association Agreement have been provisionally applied in the areas of the respect for human rights, fundamental freedoms and rule of law, political dialogue and reform, justice, freedom and security, economic and financial cooperation.

(2) Following the reinstatement of the Ukrainian constitution of 2004, presidential as well as parliamentary elections were successfully held on 25 May 2014 and 26 October 2014, respectively. Following the formation on 2 December 2014 of a new government reflecting the outcome of the parliamentary elections, Ukraine has reconfirmed its commitment to political and economic reforms in line with the framework provided by the Association Agreement and presented an Action Plan outlining the intended reforms.

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7 OJ C […], […], p. […].

8 Position of the European Parliament of … 2012 and Decision of the Council of … 2012.

(3) The violation of Ukraine's sovereignty and territorial integrity and the resulting military conflict have had damaging effects on Ukraine's already precarious economic and financial stability. Ukraine is facing a difficult balance of payments and liquidity position linked to receding confidence and concomitant capital flight, as well as a worsening fiscal situation as a result of the direct budgetary cost of the conflict, a deeper than expected recession and the loss of fiscal revenues from the areas controlled by the separatists. At the same time, pre-existing structural weaknesses and budgetary and external-financial vulnerabilities have also contributed to the deterioration of the economic situation.

(4) In this context, Ukraine's external financing needs are substantially larger than initially identified, requiring additional financial assistance by international creditors and donors. In its most recent programme review mission, the International Monetary Fund (IMF) has identified a significant financing need over and above the funding committed so far by the international community, which includes Union macro-financial assistance under Council Decision 2002/639/EC[9], Decision No 388/2010/EU of the European Parliament and of the Council[10] and Council Decision 2014/215/EU[11].

(5) The Union has, on various occasions, declared its commitment to support the new Ukrainian authorities in their aims to stabilise the situation and pursue the course of reforms. The Union has also declared its readiness fully to support efforts of the international community and international financial institutions, especially the IMF, with regard to an international assistance package designed to address the urgent needs of Ukraine, conditional on Ukraine's 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. In its conclusions of 18 December 2014, the European Council states that, following the Commission's second disbursement in December 2014 of EUR 500 million in macro-financial assistance, the Union and its Member States stand ready to further facilitate and support Ukraine's reform process, together with other donors and in line with IMF conditionality.

(6) 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.

(7) On 30 April 2014, the Ukrainian authorities and the IMF agreed on a two-year Stand-By-Arrangement of Special Drawing Rights (SDR) 10.976 billion (about USD 17.01 billion, 800 percent of quota) in support of Ukraine's economic adjustment and reform programme.

(8) On 5 March 2014, in view of the drastically worsening balance-of-payments situation in Ukraine, the Commission announced a support package, which was endorsed by the extraordinary European Council on 6 March 2014. That package includes financial

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9 OJ L 209, 6.8.2002, p. 22-23
10 OJ L 189, 22.7.2010, p. 28.
11 OJ L 111, 15.4.2014, p. 85.

assistance in the amount of EUR 11 billion for the period 2014-2020, including 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, as well as Union macro-financial assistance of up to EUR 1.61 billion for 2014-15.

(9) On 9 September 2014, in view of the worsening economic situation and outlook, Ukraine requested further macro-financial assistance from the Union. This request was reiterated in another letter on 15 December 2014.

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

(11) Given that there is still a significant residual external financing gap in Ukraine's balance of payments over and above the resources provided by IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Ukraine ("the Union's macro-financial assistance") is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine's request to support economic stabilisation in conjunction with the IMF programme. 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.

(12) 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 in line with the Association Agreement.

(13) The determination of the amount of the Union's macro-financial assistance is based on a complete quantitative assessment 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 expected financial contributions from multilateral donors and 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.

(14) 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.

(15) The Union's macro-financial assistance should support the Union's external policy towards Ukraine. 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.

(16) 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.

(17) 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 management systems in Ukraine and to promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.

(18) 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.

(19) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council (as budgetary authority).

(20) 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.

(21) 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.

(22) 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[12].

(23) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Ukrainian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to Ukraine, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

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[12] 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).

HAVE 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 1.8 billion, with a view to supporting Ukraine's economic stabilisation and a substantive reform agenda. The assistance shall contribute to covering Ukraine's balance of payments needs as identified in the IMF programme.

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 International Monetary Fund (IMF) and Ukraine, and with the key principles and objectives of economic reforms set out in the EU-Ukraine Association Agreement and the EU-Ukraine Association Agenda agreed under the European Neighbourhood Policy (ENP). The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including 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 two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).

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.

2. The Commission and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.

3. Paragraphs 1 and 2 of his Article shall be applied in accordance with Council Decision 2010/427/EU[13].

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 macroeconomic adjustment and structural reform programmes implemented by Ukraine, with the support of the IMF.

2. The conditions referred to in Paragraph 1 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.

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 whether 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 three loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.

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[14].

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[13] 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).

[14] 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).

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 strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement; and

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

The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment. The disbursement of the third instalment shall not take place earlier than three months after the release of the second 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. Subject to provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Ukrainian Ministry of Finance as the final beneficiary.

Article 5

1. The borrowing and lending operations 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 operations 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[15] and Commission Delegated Regulation (EU) No 1268/2012[16].

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 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[17], Council Regulation (EC, Euratom) No 2185/96[18] and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[19];

   (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;

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15 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).*

16 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).

17 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).

18 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).

19 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).

(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.

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 third day following that of its publication in the *Official Journal of the European Union*.

Done at …,

For the European Parliament
The President

For the Council
The President

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[20]

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 1.8 billion to 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 promote structural reforms

[20] ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

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 procedures in Ukraine that was carried out in 2014, in preparation of earlier MFA operations. 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 contribute to strengthening the government's reform commitment. 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 2.5 years from the entry into force of the Memorandum of Understanding, as stated in Article (1.4) of the Decision

X Financial impact from 2015 to 2018

1.7. Management mode(s) envisaged[21]

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).

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[21] 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. 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.

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 have been and will be taken:

First, the Commission services, with the support of duly mandated external experts, carried out an Operational Assessment of the financial circuits and administrative procedures at the Ministry of Finance and the National Bank of Ukraine in April 2014, in order to fulfil the requirements of the Financial Regulation applicable to the General Budget of the European Communities. This review covered areas such as budget preparation and execution, public internal financial control, internal and external audit, public procurement, cash and public debt management, as well as the independence of the central bank. It determined that the framework for sound financial management of macro-financial assistance is sufficiently effective in Ukraine for the EU to provide this support. Also, the assistance will be paid to a dedicated account at the National Bank of Ukraine.

Second, 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, including in the area of public finance management, with a view to strengthening efficiency, transparency and accountability.

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. [(22)]	from EFTA countries[23]	from candidate countries[24]	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	Non-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 Council Regulation (EC, Euratom) No 480/2009[25]. In line with this Regulation, the fund shall correspond to 9 % (the 'target amount') of the EU's total outstanding capital liabilities arising from each operation, increased by unpaid interest due. 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 budget line "Provisioning of the Guarantee Fund" (budget line 01 03 06). As a result, 9% of the disbursed amount (maximum of EUR 162 million) 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 budget guarantee. It is not expected that the guarantee be called.

22 Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.
23 EFTA: European Free Trade Association.
24 Candidate countries and, where applicable, potential candidate countries from the Western Balkans.
25 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).

New budget lines requested: not applicable.

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 **2015**	Year **2016**	Year **2017**	**Year 2018**	**TOTAL**
• Operational appropriations							
Budget line 01 03 06 Provisioning of the Guarantee Fund	Commitments	(1a)			108	54	**162**
	Payments	(2a)			108	54	**162**
Appropriations of an administrative nature financed from the envelope of specific programmes (operational assessment and ex-post evaluation)							
Budget line 01 03 02	Commitments	(3)		0.2			**0.20**
	Payments	(3a)			0.2		**0.20**
TOTAL appropriations for DG ECFIN	Commitments	=1+1a +3		0.2	108	54	**162.2**
	Payments	=2+2a +3			108.2	54	**162.2**
• TOTAL operational appropriations	**Commitments**	(4)		0.2	108	54	**162.2**
	Payments	(5)			108.2	54	**162.2**
• TOTAL operational appropriations, incl. ex-post evaluation	Commitments	(4)		0.2	108	54	**162.2**
	Payments	(5)			108.2	54	**162.2**
• 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		0.2	108	54	**162.2**
	Payments	=5+ 6			108.2	54	**162.2**

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

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			0.660	0.396	0.132	**1.188**
• Other administrative expenditure			0.022	0.016	0.016	**0.054**
TOTAL DG ECFIN	Appropriations		0.682	0.412	0.148	**1.242**
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)		0.682	0.412	0.148	**1.242**

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		0.682	0.412	0.148	**1.242**
	Payments		0.682	0.412	0.148	**1.242**

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[26]

		Year 2015		Year 2016		Year 2017		Year 2018		Year 2019			
	Type	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total Cost
- Output 1	Ex-post evaluation					1	0.2					1	0.2
- Output 2	Provisioning of the Guarantee Fund					1	108	1	54			2	162
Subtotal for specific objective No 1						2	108.2	1	54			3	162.2
TOTAL COST						2	108.2	1	54			3	162.2

26 As described in point 1.4.2. 'Specific objective(s)…'

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)

	[27]	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			0.660	0.396	0.132				**1.188**
Other administrative expenditure (missions)			0.022	0.016	0.016				**0.054**
Subtotal HEADING 5 of the multiannual financial framework			0.682	0.412	0.148				**1.242**
Outside HEADING 5[28] of the multiannual financial framework									
Human resources									
Other expenditure of an administrative nature									
Subtotal outside HEADING 5 of the multiannual financial framework									

TOTAL			0.682	0.412	0.148				**1.242**

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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27 Year N is the year in which implementation of the proposal/initiative starts.

28 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)			5	3	1			
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)**[29]								
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**[30] - at Headquarters								
XX 01 04 **yy**[30] - 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			**5**	**3**	**1**			

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:

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

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

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 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.