Council of the
European Union

Brussels, 12 March 2018
(OR. en)

7055/18

Interinstitutional File:
2018/0058 (COD)

ECOFIN 232
CODEC 363
RELEX 219
COEST 57
NIS 5

PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	9 March 2018
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2018) 127 final
Subject:	Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL providing further macro-financial assistance to Ukraine

Delegations will find attached document COM(2018) 127 final.

Encl.: COM(2018) 127 final

EUROPEAN
COMMISSION

Brussels, 9.3.2018
COM(2018) 127 final

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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing further macro-financial assistance to Ukraine

{SWD(2018) 66 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- Grounds for and objectives of the proposal

The European Union (EU) has substantially strengthened its partnership with Ukraine in recent years, going beyond mere bilateral cooperation to evolve towards gradual political association and economic integration. By promoting deeper political ties, stronger economic links and the respect for common values, the EU-Ukraine Association Agreement, which was signed in 2014 and includes a Deep and Comprehensive Free Trade Area (DCFTA), is the main tool for bringing Ukraine and the EU closer together. Parts of the Association Agreement were provisionally applied from 1 November 2014, the DCFTA since 1 January 2016. The Agreement entered into force on 1 September 2017, following its ratification by Ukraine and all EU Member States and its conclusion by the Council of the EU in July 2017.

Despite the return to growth of 2016-2017 after a deep recession in 2014-2015, Ukraine's economy remains vulnerable to external shocks. This is reflected by the country's high dependency on commodity exports, the slower-than-expected replenishment of its international reserves and its elevated external indebtedness, in particular once payment obligations on restructured Eurobonds resume in 2019. **In this context, continued support from Ukraine's international partners remains essential.**

In March 2015, the International Monetary Fund (IMF) approved an Extended Fund Facility programme for Ukraine of around USD 17.5 billion that is ending in March 2019. The IMF financial assistance was complemented by substantial support from the EU, its Member States, a number of bilateral partners (such as the US, Japan, Canada, Switzerland) and other international financial institutions such as the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). However, as the economic recovery is still fragile and a number of vulnerabilities persist, Ukraine will face additional external financing needs in 2018 and early 2019, which the IMF estimates at USD 4.5 billion (approximately EUR 3.8 billion[1]).

On 29 November 2017, Ukraine Finance Minister Oleksandr Danyliuk addressed an official request to European Commission Vice-President Valdis Dombrovskis **for additional macro-financial assistance from the EU**. This assistance would contribute to covering the country's external financing needs and support reform implementation.

In light of this request and of the economic situation in Ukraine, in particular the emergence of additional external financing needs, **the European Commission is submitting to the European Parliament and the Council a proposal to provide further macro-financial assistance (MFA) to Ukraine,** based on Article 212 of the TFEU, **for an amount of up to EUR 1 billion to be provided in the form of medium- to long-term loans in two tranches**.

The proposed new MFA operation would complement the preceding three MFA operations, totalling EUR 3.4 billion, that have been offered to Ukraine since the onset of the crisis in 2014. A total of EUR 2.8 billion was disbursed under these operations, including EUR 1.6 billion in 2014-2015 (under the so-called MFA I and II) and two tranches of EUR 600 million each in July 2015 and April 2017 (under MFA III). A third and final tranche of EUR 600 million under MFA III, subject to the implementation of 21 policy measures jointly agreed with the Ukrainian authorities, was not disbursed. Although Ukraine fulfilled a large number of policy commitments attached to this instalment, four measures, including two

[1] All conversions in this document are based on a EUR/USD exchange rate of 1.19.

related to the fight against corruption, had not been implemented by the time the availability period of the assistance expired in January 2018. Under these circumstances, the Commission was not in a position to disburse the last instalment under MFA III, which was officially cancelled on 18 January 2018.

The objective of the proposed MFA is to help Ukraine cover part of its additional external financing needs in 2018-2019, reducing the economy's short-term balance-of-payment and fiscal vulnerabilities. In addition, the EU assistance would **provide incentives to step up Ukraine's reform efforts** by agreeing with the Ukrainian authorities a Memorandum of Understanding setting out an appropriate package of measures supporting economic adjustment and structural reforms. The Commission would seek a broad consensus with the Ukrainian authorities, so as to ensure ownership and hence increase the likelihood of smooth implementation of the agreed conditionality. The policy conditions should address key weaknesses of the Ukrainian economy and economic governance system and be in line with the reform commitments taken by Ukraine in the context of the Association Agreement, as well as under other EU support instruments and the adjustment programmes with the IMF and the World Bank. Delivering on key anti-corruption and governance reforms will be indispensable if the MFA operation is to be successfully completed.

In light of the incomplete implementation by Ukraine of the policy programme linked to MFA III, which led to the cancellation of the final tranche by the Commission in January 2018, it is appropriate to include specific conditions for each of the two tranches of this assistance. More specifically, **it is planned to reflect the measures that were not implemented under the previous programme in the following way:**

- On **the verification of asset declarations** of public officials, the Commission would insist on the establishment of an effective verification system, including through automatic verification software with direct and automatic access to state databases and registers. In the Memorandum to be agreed with Ukraine under the proposed new MFA operation, the Commission would therefore require the aforementioned automated verification system to be in place and operating, with a significant number of declarations verified through the automated system, giving priority to high-level officials.
- On the verification of data to be provided by companies on their beneficial owners and the enforcement of companies' reporting obligation, it has to be recognised that this is still in its infancy internationally, including in the EU. Expert exchanges between Ukraine and the EU will be organised, on a Ukrainian request, with a view to defining feasible steps for Ukraine to operationalise a verification mechanism. On this basis, the Memorandum could specify tangible benchmarks for a verification mechanism as a condition under the MFA programme.
- The **wood export ban**, which is not compatible with refraining from trade-restricting measures, remains in place, and a law repealing it is yet to be considered by the responsible parliamentary committee in Ukraine. The Commission will engage with the Ukrainian authorities with a view to finding a solution to this irritant through the use of dedicated trade instruments, possibly including the bilateral dispute settlement.
- As to the law **establishing a central credit registry,** it was adopted by the Ukrainian parliament on 6 February 2018 and entered into force on 4 March 2018. This measure can thus be assessed as implemented and does not need to be reflected in the new Memorandum.

In addition, **the Memorandum for the new programme will also include other measures to be implemented by Ukraine in order to receive the first and second disbursement**. These will comprise actions in the area of public finance management, which is part of all MFA-related policy programmes. More generally, the conditionality will focus on a select number of key sectors that are relevant to Ukraine's macroeconomic stabilisation.

As further elaborated in the Commission Staff Working Document accompanying this proposal and based, among others, on the assessment of the political situation made jointly by the Commission and the European External Action Service (EEAS), **the Commission considers that the political and economic pre-conditions for the proposed MFA operation are satisfied.**

- General context

Ukraine was affected by a particularly deep recession in 2014 and 2015, where real GDP contracted by 6.6% and 9.8% respectively. While reflecting Ukraine's long-standing macroeconomic and structural weaknesses, the economic crisis was largely driven by the confidence loss and damage to production capacity resulting from the conflict provoked by Russia's destabilising actions in the East of the country. The combination of a strong policy response and a large-scale international support package helped the economy return to growth in 2016 (2.3%). The recovery continued into 2017, when GDP growth reached an estimated 2.2%, despite the negative impact of a cargo blockage introduced in March 2017 vis-à-vis the non-government-controlled areas. The expansion of economic activity in 2017 was mainly driven by investment and household consumption, on the back of improving confidence and wage growth.

In spite of the economic crisis, Ukraine has made significant progress in the consolidation of its **public finances** in the past three years. The overall fiscal deficit, including the deficit of the oil and gas company Naftogaz, was reduced from 10% of GDP in 2014 to only 2.4% in 2016 (compared with the 3.7% deficit target agreed for 2016 under the IMF programme). Budget execution continued to be strong in 2017 due to robust tax collection, rising dividend payments from state-owned enterprises and some one-off factors such as the confiscation of frozen assets of former President Yanukovych (totalling 1% of GDP). As a result, the consolidated state budget deficit in 2017 amounted to approximately 1.5% of GDP. Quasi-fiscal deficits, associated with the recapitalisation of state-owned companies and banks, have been significantly reduced, notably due to the elimination of the operating deficit of Naftogaz. Such fiscal consolidation, coupled with relative exchange rate stability since 2016, has also helped reduce **general government debt** to an estimated 76% of GDP at the end of 2017 (down from 81% at end-2016).

The 2018 budget envisages a fiscal deficit of 2.4% of GDP (in line with the 2.5% ceiling foreseen in the IMF programme) and is based on assumptions of 3% real GDP growth and 9% consumer price **inflation**. The disinflation trend that prevailed from spring 2015 (60.9% in April 2015) to mid-2016 (6.9% in June 2016) has been gradually reversed. Since then, the pick-up in inflation (14.1% in January 2018) has been driven by growing production costs and consumer demand (notably resulting from wage hikes), as well as rising raw food prices (due to the frost in early 2017 which damaged crops) and fuel prices. Growing inflationary pressure has led the central bank to raise its policy **interest rate** by a cumulative 4.5 percentage points since October 2017 to 17% as of 2 March 2018.

With respect to the external sector, Ukraine's **current account** deficit has gradually widened (3.5% of GDP in 2017) following the sharp downward adjustment induced by the economic crisis (from 9% of GDP in 2013 to 0.3% in 2015). This was mainly the result of the recovery in investment imports (in line with improving business confidence) and of robust domestic consumption. A further widening of the current account deficit was contained by the strong rebound in exports (17% year-on-year in 2017) on the back of a growing global economy and favourable terms of trade. Private, non-FDI, **capital inflows** have also increased, notably as a result of a USD 3 billion Eurobond placement by the government in September 2017. The support from Ukraine's multilateral and bilateral partners, coupled with current account adjustment and a gradual return of private financial flows, helped Ukraine replenish its **international reserves** to USD 18.6 billion at end-January 2018, despite weakness in FDI.

Despite the improvement of the economic situation since 2015, a number of vulnerabilities remain due to the country's high dependency on commodity exports, the slower-than-expected replenishment of its international reserves and its elevated external indebtedness. Additionally, the unstable domestic political environment and a continued threat of intensification of tensions in the Eastern part of the country are downside risks that could weigh on the still timid recovery.

Being a commodity exporter (agricultural products and metals account for approximately 70% of Ukraine's merchandise exports), Ukraine remains particularly vulnerable to **worsening terms of trade** and to the measures introduced by Russia to restrict transit from Ukraine. In fact, the global plunge of commodity prices was a key factor for the balance of payments crises which Ukraine went through in 2009 and 2014-2015.

Ukraine's **high external indebtedness** constitutes another source of vulnerability. Despite steep deleveraging by the corporate and banking sectors since the 2014 crisis, gross external debt amounted to USD 117.3 billion as of 1 October 2017 (111% of GDP), including USD 47.5 billion of short-term maturities (45% of GDP). While this debt relates predominantly to the private sector and does not represent as such a direct liability for the state, part of it is related to state-owned companies (sometimes guaranteed by the state) and thus amounts to a contingent liability for the authorities. The amount of direct state-owned external debt maturing in the following year has significantly declined with the crisis, as the authorities resorted to long-term lending from international financial institutions and rescheduled some USD 15 billion of bonded debt (both directly owned as well as guaranteed) with its so-called debt operation of November 2015. However, it remains relatively elevated and the repayment obligations in 2018-2019 are considerable.

Reserves remain below IMF adequacy standards, notably in a context of high external indebtedness. While Ukraine has managed to replenish its gross **international reserves** over the last three years, the process has been slower than initially programmed by the IMF. With USD 18.6 billion at end-January 2018, reserves remain below their pre-crisis level and the level foreseen for end-2017 at the launch of the IMF programme (USD 22.3 billion). Reserves could come under renewed pressure in 2018-2019, when the country is expected to make more than USD 12 billion of payments (interest and principal) on sovereign and quasi-sovereign external debt. This peak in debt repayments comes at the time of the presidential and parliamentary elections in 2019. In this context, the further replenishment of Ukraine’s international reserves seems necessary, and the EU’s additional MFA could usefully support this effort, both directly (through its disbursements) and indirectly (as a catalyst for private capital inflows and instilling confidence in the local currency).

In this context, continued support from the IMF and Ukraine's international partners, including the EU, remains essential. Since the onset of the crisis, the USD 17.5 billion Extended Fund Facility programme for Ukraine approved by the IMF in March 2015 has been complemented by substantial support from Ukraine's bilateral partners, including the EU. Other international financial institutions such as the World Bank, the EBRD and the EIB have also significantly scaled up their activity to support the country’s economic transition.

However, as Ukraine's economy remains fragile and exposed to a number of vulnerabilities, the IMF estimates that the country will face additional external financing needs in 2018 and early 2019, amounting to USD 4.5 billion (approximately EUR 3.8 billion[2]). The proposed MFA would cover 26.5% of the total additional financing gap. The World Bank is also preparing a new Development Policy Loan in the amount of USD 800 million as a contribution towards the financing gap. Once the potential contribution from the World Bank is taken into account, the EU MFA will finance 32% of the remaining gap of USD 3.7 billion.

- Existing provisions in the area of the proposal

MFA has been provided to Ukraine under four separate decisions:

– Council Decision of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (2002/639/EC)[3]

– Decision No 646/2010/EU of the European Parliament and of the Council of 7 July 2010 providing macro-financial assistance to Ukraine[4]

– Council Decision of 14 April 2014 providing macro-financial assistance to Ukraine (2014/215/EU)[5]

– Decision No (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine[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 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 development in Ukraine and, more broadly, resilience in the Eastern European neighbourhood. By supporting the authorities’ efforts to establish a stable macroeconomic framework and implement ambitious structural reforms, the proposed operation enhances the added value of the overall EU involvement in Ukraine and improves the effectiveness of other forms of EU financial assistance to the country, including budget support operations and grants available through external financial instruments under the current multiannual financial framework for 2014-2020. The proposed MFA is also an integral part of overall international support for Ukraine and will continue to complement the assistance provided by other multilateral and bilateral donors.

Ukraine has important economic ties to the EU. On 1 September 2017, the EU-Ukraine Association Agreement came into force. The provisions concerning the Deep and Comprehensive Free Trade Area (DCFTA) had been provisionally applied since 1 January 2016, when the EU and Ukraine started to mutually open their markets for goods and services. The EU is Ukraine's first trading partner, accounting for 40.6% (in value terms) of Ukraine's total trade in 2016. Bilateral trade increased further in 2017. Ukrainian exports to the EU grew by 27.3% year-on-year, while imports from the EU rose by 22.1% (in value terms).

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[2] All conversions in this document are based on a EUR/USD exchange rate of 1.19.
[3] OJ L 209, 6.8.2002, p. 22-23.
[4] OJ L 179, 14.7.2010, p. 1.
[5] OJ L 111, 15.4.2014, p. 85.
[6] OJ L 100, 17.4.2015, p. 1–7.

2. LEGAL ELEMENTS OF THE PROPOSAL

- Summary of the proposed action

The European Union shall make MFA available to Ukraine for a total amount of up to EUR 1 billion, provided in the form of medium- to long-term loans, which will contribute to cover Ukraine's residual external financing needs in 2018-19. The assistance is planned to be disbursed in two loan instalments. Provided the policy measures attached to each tranche have been implemented in a timely manner, the first instalment is expected to be disbursed in the second half of 2018, while the second instalment could be released in the first half of 2019. 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. Moreover, 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.

- 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 effectiveness 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 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 26.5% of the estimated additional financing gap for the period 2018-2019. This significant commitment is justified by: the political importance of Ukraine for the stability in the European Neighbourhood; the political association and economic integration of the country with the EU as reflected by the Association Agreement between the two sides that entered into force on 1 September 2017; as well as the challenging situation that Ukraine continues to face, notably as a result of the conflict in the Eastern part of the country.

- Choice of instruments

Project finance or technical assistance would not be suitable to address macroeconomic 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 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.

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

- Consultation of interested parties

In the preparation of this proposal for MFA, the Commission services have been in regular contact with the Ukrainian authorities, in order to foster Ukraine's ownership of the programme. Besides, as MFA is provided as an integral part of the international support for the economic stabilisation of Ukraine, the Commission has also consulted with international partners of Ukraine such as the International Monetary Fund and the World Bank, which are supporting the country through sizeable financing programmes.

- 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. A new Operational Assessment is foreseen to be conducted in the second quarter of 2018 in order to reflect recent developments.

- Impact assessment

The EU's macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. Therefore, this MFA proposal is exempted from the requirement to carry out an Impact Assessment in accordance with the Commission's Better Regulation Guidelines (SWD(2015) 111 final) as there is a political imperative to move ahead quickly in this emergency situation requiring a rapid response.

More generally, the Commission's MFA proposals build on lessons learned from ex-post evaluations carried out on past operations in the EU's neighbourhood. 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 the country's fiscal and external positions in the medium term and at laying the ground for sustainable growth.

4. BUDGETARY IMPLICATION

The planned assistance would be provided in the form of loans and should be financed through borrowing operations 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 loan disbursements will be made in 2018 for a total amount of EUR 500 million and the second loan disbursement in 2019 for the amount of EUR 500 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the budgets for 2020 (EUR 45 million) and 2021 (EUR 45 million).

Based on current projections on the utilisation of the budget line 01 03 06, the Commission assesses that the budgetary impact of the proposed MFA operation for Ukraine can be accommodated.

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.

2018/0058 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing further 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 (2) thereof,

Having regard to the proposal from the European Commission,

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

Acting in accordance with the ordinary legislative procedure,

Whereas:

(1) Relations between the European Union and Ukraine continue to develop within the framework of the European Neighbourhood Policy and the Eastern Partnership. An Association Agreement between the Union and Ukraine, including a Deep and Comprehensive Free Trade Area (DCFTA), entered into force on 1 September 2017.

(2) Since spring 2014, Ukraine has embarked on an ambitious reform programme aiming to stabilise its economy and improve the livelihoods of its citizens. Ukraine and the Union have jointly defined a reform agenda (the Association Agenda, which was last updated in March 2015). The fight against corruption as well as constitutional, electoral and judicial reforms are among the top priorities on the agenda.

(3) In addition to its political support, the Union pledged over EUR 11 billion financial package in March 2014 to support economic stabilisation and reform implementation in Ukraine, including 1.6 billion of macro-financial assistance pursuant to Council Decision 2002/639/EC[7], Decision No 646/2010/EU of the European Parliament and of the Council[8] and pursuant to Council Decision 2014/215/EU[9]. In view of Ukraine's substantial external financing needs, an additional EUR 1.8 billion of macro-financial assistance was made available to the country in April 2015 pursuant to Decision (EU) 2015/601 of the European Parliament and of the Council[10].

(4) Since May 2014 Ukraine has received EUR 2.81 billion of macro-financial assistance from the Union, including EUR 1.2 billion out of the EUR 1.8 billion available under Decision (EU) 2015/601 of the European Parliament and of the Council. The third and last instalment of EUR 600 million of macro-financial assistance under Decision (EU) 2015/601

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[7] Council Decision 2002/639/EC of 12 July 2012 providing supplementary macro-financial assistance to Ukraine, OJ L 209, 6.8.2002, p. 22.

[8] Decision No 646/2010/EU of the European Parliament and of the Council of 7 July 2010 providing macro-financial assistance to Ukraine, OJ L 179, 14.7.2010, p. 1.

[9] Council Decision 2014/215/EU of 14 April 2014 providing macro-financial assistance to Urkaine, OJ L 111, 15.4.2014, p. 85.

[10] Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015, OJ L 100, 17.4.2015, p. 1.

was cancelled on 18 January 2018 due to incomplete compliance by Ukraine with the programme of structural reforms attached to this instalment.

(5) On 11 March 2015, the International Monetory Fund approved a four-year Extended Fund Facility programme for Ukraine of around USD 17.5 billion to support the country's economic adjustment and reform programme, out of which USD 8.5 billion were disbursed in 2015-2017. The IMF financial assistance has been complemented by substantial support from a number of bilateral partners (including the Union and its Member States, as well as the US, Japan and Canada). Other international financial institutions such as the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB) have also significantly scaled up their activity to support Ukraine’s economic transition.

(6) Following its technical mission of November 2017, the IMF revised its estimates of Ukraine's external financing needs, identifying an additional gap of USD 4.5 billion for 2018 and 2019. Those financing needs go over and above the funding committed so far by the international community, which includes the Union's macro-financial assistance pursuant to Council Decision 2002/639/EC, Decision No 646/2010/EU of the European Parliament and of the Council, Council Decision 2014/215/EU and Decision (EU) 2015/601 of the European Parliament and of the Council.

(7) In November 2017, in view of the challenging economic and financial situation that Ukraine continues to face, the authorities requested additional macro-financial assistance from the Union.

(8) At the EU-Ukraine Association Council which took place on 8 December 2017, the Union reaffirmed its support for Ukraine's substantial reform efforts, including financial assistance linked to concrete reform progress.

(9) Given that Ukraine is a country covered by the European Neighbourhood Policy, it should be considered to be eligible to receive macro-financial assistance from the Union.

(10) 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 beneficiary's balance-of-payments position in the short term.

(11) Given that a residual external financing gap remains in Ukraine’s balance of payments over and above the resources provided by the IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Ukraine is, under the current exceptional circumstances, considered to be an appropriate response to Ukraine’s request for support to its 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.

(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

bilateral and 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, rules-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 should promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both the 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 provisioning required for macro-financial assistance should be consistent with the budgetary appropriations provided for in the multiannual 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.[11]

[11] 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).

(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 macrofinancial 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,

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 1 billion available to Ukraine ("the Union's macro-financial assistance"), 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 average 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, including the DCFTA, 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. If 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 this Article shall be applied in accordance with Council Decision 2010/427/EU[12].

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, at enhancing 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 concluded between the Commission and the Ukrainian authorities.

4. The Commission shall verify, at regular intervals, that the conditions referred to 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 referred to in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in two loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.

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12 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).

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.[13]

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 satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

   The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

4. Where the Commission finds that the conditions laid down in paragraph 3 are not met, it 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 the 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.

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13 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).

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[14] and Commission Delegated Regulation (EU) No 1268/2012.[15]

2. The Union's macro-financial assistance shall be implemented under direct management.

3. The Loan Agreement referred to in Article 3(3) 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[16], Council Regulation (EC, Euratom) No 2185/96[17] and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[18];

   (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-

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[14] 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).*

[15] 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).

[16] 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).

[17] 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).

[18] 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).

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. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, 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 Brussels,

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 Ukraine

1.2. Policy area(s) concerned in the ABM/ABB structure[19]

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

"A new boost for jobs, growth and investment: promoting prosperity beyond the EU"

The DG ECFIN related activities pertain to:

(a) Supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance; and

(b) Supporting the enlargement process, the implementation of the EU Neighbourhood Policy and EU priorities in other third countries by conducting economic analysis and providing policy assessments and advice.

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

Specific objective: "Promoting prosperity beyond the EU"

ABM/ABB activity(ies) concerned: International Economic and Financial Affairs.

1.4.3. Expected result(s) and impact

The proposed assistance consists of an EU loan of up to EUR 1 billion to Ukraine, with a view to contributing to a more sustainable balance-of-payments situation. The assistance, to be disbursed in two instalments, should help the country overcome its difficult economic and balance-of-payments situation. 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 instalments 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 would be carried out in the second quarter of 2018. The

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

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, including 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 on the fulfilment of the political pre-condition and a satisfactory track record in the implementation of a 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 to build its external economic resilience, the proposed MFA will contribute to promoting macroeconomic stability and economic reforms in the country. By complementing the resources made available by other EU instruments, the international financial institutions 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 of reforms in times of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Since 2004, 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 somewhat higher economic growth.

An independent evaluation examined in 2017 the added value, impact, design and implementation of two previous MFA operations in Ukraine (MFA I and MFA II for a total of EUR 1.61 billion disbursed in 2014-2015) and found them to be relevant, effective and efficiently implemented. The main conclusions from the evaluation are that the MFA, in part because of the speed of its deployment, had a positive impact on Ukraine’s economy helping to stabilise the financial situation and avoided measures that would have had serious negative social impacts (such as further public spending cuts). It also contributed to the reform effort in the country.

1.5.4. Coherence and possible synergy with other relevant instruments

The EU is among the major donors to Ukraine, supporting its economic, structural and institutional reforms as well as civil society. The aim is to maintain the current level of support of up to EUR 200 million annually in grants also for the period 2018-2020, provided that the progress with reforms is maintained. Apart from supporting economic and government reforms, the EU assistance would aim to ensure improved access to education, jobs and healthcare for the Ukrainian citizens, especially for the most vulnerable including those affected by the conflict in the East.

The key value added of the MFA in comparison to other EU instruments would to help create a stable macroeconomic framework, including by promoting a sustainable balance-of-payments and budgetary situation, and an appropriate framework for advancing structural reforms. MFA does not provide regular financial support. 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 programmes supported by the IMF and 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 2018 to 2021

1.7. Management mode(s) envisaged[20]

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. Risks identified

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

There is a risk that the MFA could be used in a fraudulent way. As MFA is not designated to specific expenses by Ukraine (contrary to project financing, for example), this risk is related to factors such as the general quality of management systems in the National Bank of Ukraine and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

[20] 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

A second risk stems from the possibility that Ukraine will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused for example by a significant additional deterioration of the balance of payments and fiscal position of the country.

Another key risk to the operation stems from the regional geopolitical situation, in particular the lingering conflict in the eastern part of the country, which acts as an important deterrent to private capital inflows. A worsening of the regional geopolitical situation could have a negative impact on Ukraine's macroeconomic stability, affecting the performance of the IMF programme and the disbursement and/or repayment of the proposed MFA. Ukraine's still difficult relations with Russia, one of its key export markets, is also negatively impacting on the economic recovery of the country.

On the domestic front, the main risks stem from the complex political environment and the existence of strong vested interests against reforms. This could result in insufficient reform implementation, in particular ahead of national elections in 2019, and therefore hamper the implementation of the proposed MFA, inlcuding though impacting on progress with the IMF programme.

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 Loan Agreement will comprise 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. Also, the assistance will be paid to a specific account of the National Bank of Ukraine.

Moreover, in line with the requirements of the Financial Regulation, the Commission services will carry out an Operational Assessment of the financial and administrative circuits of Ukraine to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment will cover 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. The preliminary findings of the consultancy company engaged with this Operational Assessment are to be received in the second quarter of 2018. Developments in that area will be further closely monitored by the EU Delegation in Kyiv. The Commission is also using budget support assistance to help the Ukrainian authorities improve their PFM systems, and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (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. (21)	from EFTA countries[22]	from candidate countries[23]	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 – According to the Commission proposal, the Guarantee Fund for external actions will be provisioned according to the Fund Regulation,[24] using the appropriations under budget line 01 03 06 ("Provisioning of the Guarantee Fund"), at a rate of 9% of the total outstanding liabilities. 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 entered in year "n" into 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% (i.e. a 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.

New budget lines requested: not applicable

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

3.2. 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 **2018**	Year **2019**	Year **2020**	**Year 2021**	**TOTAL**
• Operational appropriations							
Budget line 01 03 06 Provisioning of the Guarantee Fund	Commitments	(1a)			45	45	**90**
	Payments	(2a)			45	45	**90**
Appropriations of an administrative nature financed from the envelope of specific programmes (operational assessment and ex-post evaluation)							
Budget line 01 03 02 Macro-financial assistance	Commitments	(3)	0.07			0.15	**0.22**
	Payments	(3a)	0.07			0.15	**0.22**
TOTAL appropriations for DG ECFIN	Commitments	=1+1a +3	0.07		45	45.15	**90.22**
	Payments	=2+2a +3	0.07		45	45.15	**90.22**
• TOTAL operational appropriations	**Commitments**	(4)			45	45	**90**
	Payments	(5)			45	45	**90**
TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)	0.07			0.15	**0.22**
TOTAL appropriations under HEADING 4 of the multiannual financial framework	Commitments	=4+ 6	0.07		45	45.15	**90.22**
	Payments	=5+ 6	0.07		45	45.15	**90.22**

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 **2017**	Year **2018**	Year **2019**	Year **2020**	Year **2021**	**TOTAL**
DG: ECFIN							
• Human resources		0.043	0.429	0.215	0.010	0.010	**0.706**
• Other administrative expenditure		0.010	0.040	0.020			**0.070**
TOTAL DG ECFIN	Appropriations	0.053	0.469	0.235	0.010	0.010	**0.776**
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.053	0.469	0.235	0.010	0.010	**0.777**

EUR million (to three decimal places)

		Year **2017**	Year **2018**	Year **2019**	Year **2020**	Year **2021**	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.053	0.539	0.235	45.01	45.16	**90.997**
	Payments	0.053	0.539	0.235	45.01	45.16	**90.997**

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[25]

		Year 2017		Year 2018		Year 2019		Year 2020		Year 2021			
	Type	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total Cost
- Output 1	Ex-post evaluation									1	0.150	1	0.150
Output 2	Operational assessment			1	0.070							1	0.070
- Output 3	Provisioning of the Guarantee Fund							1	45	1	45	2	90.0
Subtotal for specific objective No 1				1	0.070			1	45	2	45.150	4	90.22
TOTAL COST				1	0.070			1	45	2	45.150	4	90.22

25 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)

	[26]	Year **2017**	Year **2018**	Year **2019**	Year **2020**	Year 2021			**TOTAL**
HEADING 5 of the multiannual financial framework									
Human resources		0.043	0.429	0.215	0.010	0.010			**0.707**
Other administrative expenditure (missions)		0.010	0.040	0,020					**0.070**
Subtotal HEADING 5 of the multiannual financial framework		0.053	0.469	0.235	0.010	0.010			**0.777**
Outside HEADING 5[27] of the multiannual financial framework									
Human resources									
Other expenditure of an administrative nature									
Subtotal outside HEADING 5 of the multiannual financial framework									
TOTAL		0.053	0.469	0.235	0.010	0.010			**0.777**

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.

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

27 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 2017	Year 2018	Year 2019	Year 2020	Year 2021		
• **Establishment plan posts (officials and temporary agents)**									
01 01 01 01 (Headquarters and Commission's Representation Offices)			0.3	3.0	1.5	0.07	0.07		
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)**[28]									
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**[29]	- 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			0.3	3.0	1.5	0.07	0.07		

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:

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

29 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), negotiate 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.