

ANNEX 1

of the Commission Implementing Decision on the Special measure 2014 in favour of Ukraine

Action Document for the State Building Contract for Ukraine

1. IDENTIFICATION

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| Title/Number | State Building Contract for Ukraine CRIS number: ENI 2014/037-370 | | |
| Total cost | Total amount of EU budget contribution EUR 232 million from the general budget of the European Union for 2014 (including EUR 40 million allocated through the multi-country umbrella programme). | | |
| Budget support | | | |
| Aid method / Management mode and type of financing | Direct management State Building Contract | | |
| Type of aid code | A01 – General Budget Support | Markers | BSAS |
| DAC-code | 51010 – General Budget Support | Sector | Legal and judicial development Financial policy and administrative management |
| | | | |

2. RATIONALE AND COUNTRY CONTEXT

2.1. Summary of the action and its objectives

Ukraine is potentially at a turning point. In February 2014, President Viktor Yanukovich was impeached and a new government appointed. Policy under the Presidency of Yanukovich had been characterised by widespread corruption and a system of “vertical power” overriding the checks and balances foreseen in the constitution. Ukraine was on the brink of bankruptcy. The new authorities are seeking to bring fundamental change, working with the International Monetary Fund (IMF) to bring macroeconomic stability in the short-term and opening the way for longer-term reform in the context of political association and economic integration with the EU through the Association Agreement/Deep Comprehensive Free Trade Areas

(AA/DCFTA). The general objective of the proposed action is to provide direct financial support in the short-term and, over the coming year, support the process of transition with a particular focus on the fight against corruption, public administration reform, as well as constitutional, Judiciary and electoral law reform.

There will be a first, rapidly disbursed, **fixed tranche of EUR 250 million, of which 127 million funded with the present action¹**, focussed on compliance with the general conditions of eligibility to EU budget support and a second, variable tranche, also funded by the present action, payment of which is linked to results by mid-2015 in the following areas: anticorruption, public administration, constitutional reform and electoral legislation. The main expected results in the area of anti-corruption, which will be linked to preparations for the reform of the justice sector, are enforcement of provisions against illicit enrichment, effective verification of declarations of interest, access to information of public interest, and transparency and competitiveness of public procurement. In the area of public administration reform the main expected result is a career-based civil service reflected in separation between political and administration positions, separation between public and private sphere, merit-based, non-political recruitment and promotion of senior and middle level civil servants, sufficient employment stability and protection against discretionary dismissals. In the area of constitutional and Judiciary reform as well as harmonisation of electoral legislation, the main result is expected to be an inclusive and participatory process lining towards reform in line with international recommendations.

2.2. Country context

Ukraine became independent in 1991 and has since been beset by weak and corrupt governance dominated by oligarchs, lack of commitment to reform, weak rule of law and in recent years an increasing centralisation of executive, legislative and judicial power under former President Viktor Yanukovich. At the eve of the Vilnius Summit, Cabinet of Ministers of Ukraine took a decision to suspend the preparation for the signing of the Association Agreement with its Deep and Comprehensive Free Trade Area (AA/DCFTA) in order notably to restore economic ties with the Russian Federation. This led to demonstrations in Kyiv that were brutally suppressed. The suppression unleashed a strong wave of protest against the Government and the President Yanukovich exemplified by the Maidan. President Yanukovich, together with the leaders of the opposition, agreed to an EU-brokered compromise to end the protest including constitutional reform and early Presidential elections but fled Kyiv on 22 February, failing to fulfil its duties.

As a consequence, the Verkhovna Rada elected a new speaker who automatically became Acting President. The Verkhovna Rada decided to revert to the 2004 Constitution on which basis a new government, selected from the previous Opposition, was approved on 27 February with a constitutional majority.

The new government has promised in its programme to take a radical approach as regards the corruption and conflicts of interest that had typified the previous policy of the former President and Governments and to seek early signature of the AA/DCFTA. Civil Society as

¹ The State Building Contract for Ukraine is made of the present action, amounting to EUR 232 million from the general budget of 2014, and of an amount of EUR 123 million from the ENPI Annual Action Programme 2013 in favour of Ukraine, subject to the modification of Commission Implementing Decision C(2013)8059 of 20 November 2013 adopting the ENPI Annual Action Programme 2013 in favour of Ukraine.

represented in the structures of the Maidan remains sceptical that the new government represents an effective change in the system (rather than a change in those profiting from the system as had been the case following the Orange Revolution of 2004).

The new government programme and the approach based on transparency and oversight by representatives of civil society represent a systemic regime change for Ukraine which will provide a much stronger basis for reform as well as political association and economic integration with the EU than has existed heretofore and stands to provide a reliable basis for the implementation of the AA/DCFTA. The purpose of the State Building Contract (SBC) is to support the transition process to an improved functioning of the governmental institutions.

2.2.1. *Main challenges towards poverty reduction/inclusive and sustainable growth*

In 1989 GNP per head was at about the same level as in Poland. Twenty-five years later it is only one-third. Ukraine's economy collapsed in the 1990s and since then recovery has been weak and unsustainable, based on low value-added, high energy consumption industries exploited by rent-seeking oligarchs. The business climate has worsened yet further in recent years with the advent of corporate raiding by those close to the centre of power, as can be seen for example from World Bank rankings. In recent years the economy has again stagnated and the current account and government deficits have grown to unsustainable levels. Inequality remains significant. The AA/DCFTA provides a legal framework for reform and, if implemented effectively, will allow for improvement of quality of life in Ukraine, as well as economic development. This will be however a major challenge for both the public administration and the private sector. The scourge of conflict of interest and corruption must be overcome to allow a level playing field and effective competition, as well as effective implementation of the AA/DCFTA.

In the short-term Ukraine is in negotiation with the IMF for a Standby Agreement (SBA) to provide the necessary liquidity for Ukraine to meet its international obligations. This SBA is expected to be further supported by macroeconomic lending from the EU and other donors, including possibly loan guarantees from the United States.

2.2.2. *Fundamental values*

Under the Presidency of Viktor Yanukovich, despite its membership of the Council of Europe and OSCE and presenting the forms of democracy, Ukraine had significant issues relating to the fundamental values of democracy, human rights and the rule of law as described in the European Neighbourhood Policy Annual Progress Reports.

The EU Foreign Affairs Council in December 2012 had set out a series of prior actions to be taken by Ukraine in the domains of selective justice, elections and the rule of law as preconditions for the signature of the AA/DCFTA at the Vilnius summit. In the course of 2013 this led to some improvements, primarily of a cosmetic nature. The rapid worsening of the situation after the Vilnius summit, leading eventually to the assassination by snipers of about 100 people in Kyiv in February 2014, exemplified the previous policies' lack of respect for human rights and the rule of law.

2.2.3. *Fragility and transition processes*

Ukraine is in a process of difficult political and economic transition and instability is exacerbated by ongoing security concerns. There is a risk of generalised instability, possibly even a risk of collapse in governance in the event of non-intervention by the international

community. This SBC is one of the elements of rapidly evolving international support which will help cover the short-term urgent needs while putting the country into a stronger position to address its longer-term reform as well as political association and economic integration with the EU in the context of expected signature and implementation of the AA/DCFTA.

The SBC will contribute to progressive stabilization, to countering further deterioration in market confidence, to progressively building up a policy dialogue with government, parliament and civil society (as part of the comprehensive EU/Ukraine dialogue foreseen in Title VII of the AA/DCFTA²) and to provide support in some specific but essential areas for a gradual improvement in governance.

2.3. Eligibility for budget support

Despite the difficulties it faces, Ukraine continues to meet the eligibility criteria for budget support.

2.3.1. Public policy

Ukraine is in a process of transition. There is a broad acceptance that it is possible for Ukraine to fundamentally change its governance away from corrupt systems, typified by endemic conflicts of interest and vertical power, to systems based on deep democracy, transparency and the rule of law. This will be a medium- to long-term process. In the shorter term covered by the SBC, the emphasis must be on the first steps and also on the process by which the authorities are held to public account to the population and where civil society will play a key role.

A new government, presidential elections, constitutional change, ongoing lustration procedures and possibly advanced parliamentary elections in the course of 2014 would give the opportunity for widespread change and could reinforce the legitimacy of democratic institutions. Civil society will follow and oversee these changes.

The amendments to the current constitution in line with Venice Commission (VC) recommendations, in particular the part concerning the powers of President and parliament, should be adopted at first reading before the presidential elections for voters to have clarity on which powers the new President will be invested with. The final voting on the constitutional amendments would be in the autumn session of the parliament (constitutional changes require two votes in two different sessions), after the opinion of the Venice Commission. Constitutional reform is also crucial for the Judiciary reform.

Since the recently (re)introduced 2004 Constitution has granted increased powers to the parliament, elected under the 1996 Constitution, it would be desirable to hold pre-term parliamentary elections after the improvement of the current parliamentary election law which was amended with a non-transparent process. The improvement of the parliamentary election law should be carried out in parallel with a harmonisation process of all election legislations.

In parallel, work should proceed on key longer-term policy issues, especially as regards the rule of law. EU assistance is heavily implicated in this through the justice sector "super twinning", a EUR 8.6 million contract funded under the Annual Action Programme 2010 to provide embedded advisers in the Ministry of the Interior (police), Prosecutor-General, Ministry of Justice and courts systems with rapid access to high-level short-term expertise. The aim is to produce a coherent and complete set of strategies for the constitutionally independent players in the justice sector.

² Until entry into force of the AA/DCFTA the dialogue will take place within the dialogue structures foreseen in the pre-existing Partnership and Cooperation Agreement (PCA).

In the short-term, anti-corruption actions can be based on transparency as regards interests and effective implementation of existing legislations, including in the judicial system. Nevertheless, there is a need for a strategy to put in place effective culture, systems, institutions, and legislations to bear down on corruption in the longer term including in the judicial system. A key element will be a consolidated career-based and politically neutral civil service, which will require a revised Civil Service Law and simplifications to administrative procedures to reduce the scope for corruption and reforms in the justice sector.

2.3.2. *Macroeconomic policy*

The Ukrainian economy has been experiencing a recession since the third quarter of 2012 as a result of very large twin deficits and in the absence of much needed reforms. The only quarter of positive growth was in the fourth quarter of 2013, and was quickly reversed in the first two months of 2014, as a result of the deterioration of the political and security situation. The Ukrainian government has lost access to international financial markets during 2013 as confidence dropped significantly. At present there is an estimated USD 15.5 billion in Foreign Exchange reserves (around 2 months of import cover). The first substantial debt redemptions fall due already in May and June. The new government, approved by the Parliament on 27 February 2014, invited the IMF fact finding mission to assess the latest economic developments and external financing needs.

Discussions on the priority policy measures to be adopted by the authorities and on a possible financing arrangement with the IMF are going forward.

On 27 March 2014, the IMF staff reached an agreement with Ukraine on an economic reform program to be supported by a two-year Stand-By Arrangement (SBA) with the IMF. Assistance from the IMF will range between US\$14-18 billion, with the precise amount to be determined once all bilateral and multilateral support is accounted for. The agreement is subject to approval by IMF Management and the Executive Board expected in April, following the authorities' adoption of a strong and comprehensive package of prior actions aiming to stabilize the economy and create conditions for sustained growth.

2.3.3. *Public financial management*

Ukraine developed a Public Financial Management (PFM) Strategy and an Action Plan in 2013 that was considered sufficiently good by the European Commission, although the Action Plan needs to be more monitorable. In that respect an OECD SIGMA mission is expected to take place in the second half of April 2014 and meet with the Ministry of Finance, other Ukrainian institutions and representatives of the EU Delegation to Ukraine to brainstorm a more specific monitoring mechanism.

The Ministry of Finance has thus agreed to work together with Sigma to improve the Action Plan with a view in particular to identifying specific, measurable and timed actions which could serve as indicators for effective implementation of the strategy. Moreover, the Ministry of Finance committed to prepare quarterly reports on the strategy implementation with recommendations and the first such report, covering the last quarter, was produced in February 2014.

In the short-term, action in two priority areas has been identified – public procurement and budget transparency. As regards public procurement a broadly acceptable law was approved in 2010 which was subsequently subject to a series of 20 amendments aimed at withdrawing certain procurement action from the scope of competition to the advantage of private interests. The Accounting Chamber of Ukraine produced a critical report noting the reduction of the proportion of procurement subject to competitive procedures. The new government has expressed its intention to move rapidly on revising the public procurement law as part of the broader fight against corruption. Key factor in verifying the progress is aligning the Law "On Public Procurement" with European principles of competitive procurement.

2.3.4. *Budget transparency and oversight of the budget*

The legislation as regards budget transparency is acceptable, requiring publication of the draft budget proposed by the government to the Rada on 15 September of the year *n-1*, allowing three months for civil society to analyse and comment on it prior to its adoption by the Rada. Moreover the ACU is required to provide a report on the draft budget. This procedure was not respected in 2012 and 2013 with the result that the 2013-2014 budgets were voted by the Rada without any real public debate as regards budget priorities.

The 2014 budget will be subject to amendment following the IMF mission and it is expected that there will be drastic cuts in budgetary expenditure. This amendment will be introduced with little active involvement of civil society as the Law "On the State Budget 2014" was already approved by the Rada in January 2014 and consultations with civil society are not legally required to introduce amendments in this law.

While the content and the preparation of the 2015 budget law remains, for internal and external reasons, uncertain, it is important to support an environment more conducive to increased transparency and accountability in the management of public finances by, inter alia, ensuring the participation of civil society and international stakeholders.

2.4. *Lessons learnt*

The EU has committed funds for sectoral budget support since 2007 totalling over EUR 600 million. The experience has been mixed and the use of the sectoral budget support instrument in Ukraine is currently subject to an independent evaluation (delayed because of the ongoing civil disturbances). The most significant difficulty was experienced with the EURm70 million sector budget support programme for public administration reform of 2011. It was not possible to negotiate a Financing Agreement with the Ukrainian authorities and the programme was cancelled. The principal reasons for the impossibility of negotiating a Financing Agreement was the absence of a Public Administration Reform (PAR) strategy compounded by inadequate legislation that the government was not ready to amend. The inadequacies related primarily to the lack of provision for a sustainable career-based civil service and to excessive possibilities of politicisation and direct hierarchical control over civil servants that facilitated manipulation and corruption.

Other sector budget programmes have proven difficult to implement effectively with levels of achievement for variable tranches averaging around 60%. This reflects a lack of ownership of sectoral reform and a consequent lack of commitment to sectoral reform strategies. Technical assistance has in the past been similarly frustrated by the lack of commitment to reform.

Civil society, including think tanks, has a good potential for monitoring reform and engaging in dialogue with the government. However there has been in the past reluctance from the authorities to engage substantively with civil society as regards sectoral reform. The EU will increase support to civil society both politically and financially to encourage appropriate engagement which is very much in line with the approach taken by some Maidan-linked civil society organisations.

2.5. Complementary actions

Ukraine has been the recipient of widespread donor support for over twenty years. Assistance has been focussed in the first instance on support to reform processes. Over 2011-2013 the EU has focussed its strategy on the Association Agenda with a particular focus on good governance and the rule of law, facilitation of the entry into force of the AA/DCFTA and sustainable development. Other aid donors (including the international financial institutions) have aligned themselves with the overarching objectives of reform as well as political association and economic integration with the EU.

There are substantial technical assistance funds available under previous Annual Action Programmes to support Ukraine in the short-, medium- and long-term in Ukraine. As Ukraine proceeds to the detailed implementation of the AA/DCFTA, the twinning instrument may be expected to assume increasing importance. The EU has substantial funds committed for this instrument. Detailed priorities for use of the twinning instrument are agreed locally between the EU Delegation to Ukraine and the Ukrainian authorities. Moreover, SIGMA expertise continues to provide capacity development support in the area of Public Finance Management.

2.6. Risk management framework

Ukraine faces a difficult security situation carrying risks to the integrity of the country and its system of government. Ukraine is also threatened by economic collapse should it fail to reach agreement with the IMF. Paradoxically these threats carry with them a strengthened desire to make a successful transition to a country characterised by deep democracy, human rights and the rule of law – as well as increased awareness and willingness on the part of international donors to assist this process.

Ukraine failed to entrench these characteristics in the first twenty years of its independent existence and allowed vested interests to take effective control of state institutions culminating in the "vertical power" during the Presidency of Viktor Yanukovich. The main risk to this SBC is that the vested interests will quickly accommodate to and corrupt the new Government – perhaps under the influence of the neighbouring power. That is why quick and substantial help is needed. The risk of delay is that democratic elements will be isolated and non-democratic elements will be allowed to re-emerge, as happened after the Orange Revolution of 2004.

To sum up the main risk is that the system will not change. The main mitigating measure is to help Ukraine to change it through a broad range of EU support, as indicated in the "European

agenda" document given by Commissioner Füle to Prime Minister Yatsenyuk on 26 March. The SBC is a key element of the "European agenda".

3. DETAILED DESCRIPTION OF THE BUDGET SUPPORT CONTRACT

3.1. Objectives

The general objective is to support the government of Ukraine in addressing short-term economic problems and preparing for in-depth reform in the context of political association and economic integration with the EU on the basis of the AA/DCFTA through support to improved governance, fight against corruption, Judiciary reform and public administration reform.

Specific objectives include:

- Increase the financial capacity of the government to reinforce macroeconomic stability and strengthen the capacity to reform.
- Improve governance and in particular public service delivery, public finance management (PFM), public procurement, budget transparency, judiciary reform and strengthen the fight against corruption.
- Support Ukraine in the process of transition and harmonious national development.
- Increase government responsiveness to citizens through reinforced civil society dialogue and oversight.

3.2. Expected results

The State Building Contract to reinforce the transition process in Ukraine is focussed on supporting the country in implementing the government programme through improved governance including concrete steps in the fight against corruption and preparation for public administration reform including civil service reform, improved PFM and reform of the justice sector.

The main expected results include:

1. Serious **progresses in the fight against corruption** by setting up and ensuring effective functioning of a specialised anti-corruption investigative agency for high-level corruption cases in line with international standards, aligning criminal corruption offences with international standards, and the introduction and enforcement of provisions on illicit enrichment. A particular attention should be paid to Justice System in that regard.
2. **Strengthened integrity and accountability** in the public sector through improved and effectively enforced procedures for **declaration and verification of incomes, assets and**

expenses and for the prevention of conflict of interests of different categories of public officials.

3. **Transparency and competitiveness** in public procurement via significant reduction of the list of exceptions from the sphere of public procurement, ensuring competitive procurement and access to information related to public procurement, in particular by public enterprises.

4. Seriously **improved access to information** of public interest through aligning with the Access to Public Information Law of other legislative acts, setting up an independent oversight authority and ensuring unrestricted access to public registers of companies

5. Increased transparency and accountability in **public finance management** (PFM) via the **regular reporting by the Government** on the implementation of the PFM plan, together with clear explanations to media and citizens, and evidence of regular consultations with civil society and international stakeholders.

6. Comprehensive **civil service reform** focusing on European principles of public administration such as separation of a civil service and political positions and a merit-based approach to civil service recruitment and promotion is adopted and effectively implemented. Administrative legal framework and public service delivery are improved as part of efforts to increase effectiveness of public administration.

7. Completion of the **constitutional reform** through an inclusive and participatory process, including active consultations with civil society and in line with the Venice Commission recommendations. .

8. Harmonisation of **electoral legislation** and political parties financing (including on state financing) completed through an inclusive and participatory process in line with the OSCE/ODIHR and GRECO recommendations.

In consideration of the rapidly evolving situation in Ukraine, in case of unforeseen developments main expected results related to the second budget support disbursement could be revised based on a common agreement.

3.3. Rationale for the amounts allocated for budget support

The amount allocated in total³ to this budget support operation (the State Building Contract) is equivalent to approximately 0.2% of annual GDP. With payments spread over two budget years this implies an annual contribution to the Ukrainian state budget equivalent to about 0.3% of overall government budget revenues in the years 2014 and 2015. The amount is relatively limited as a percentage reflecting Ukraine's large population and middle-income

³ Including an amount of EUR 123 million from the ENPI Annual Action Programme 2013 in favour of Ukraine, as explained in footnote 1.

status. However, this State Building Contract will contribute to trigger important reforms to support the transition period in Ukraine and will set a policy dialogue framework with the government, as well as it will contribute to restore macroeconomic stability and the prospects for long term growth.

It forms a significant part of overall EU financial support to Ukraine estimated at EUR 11 billion in the coming years (European Commission MEMO/14/59 of 5 March 2014) and will accompany the IMF SBA, increased World Bank lending and substantial support from other donors.

The participation of the EU in the overall international donor support is of particular political and symbolic importance for Ukraine given the renewed and reinforced support for political association and economic integration with the EU of the country as evidenced by the signature of the political part of the AA/DCFTA.

3.4. Main activities

The main activities to implement the state building contract budget support are:

- Policy dialogue with government and civil society *inter alia* in the structures foreseen in title VII of the AA/DCFTA (PCA structures prior to entry in force of the AA/DCFTA);
- Financial transfer with a fixed tranche and a variable tranche⁴;
- Performance assessment on the basis of reports by government ministries, the Venice Commission, OECD SIGMA, OSCE/ODIHR and oversight reports from civil society;
- Capacity development in particular as regards the capacity of civil society to effect oversight over the activities of judicial, legislative and executive bodies.

3.4.1. Budget Support

Regular dialogue will take place between the EU services and the Government of Ukraine in the context of the Joint Budget Support Monitoring Group for budget support as well as in meetings with civil society participation. Payment will be split into a first fixed tranche to be transferred to the Government of Ukraine upon signature of the Financing Agreement, subject to compliance with the general conditions, and a second variable tranche that will be released after the agreed conditions are met⁵. The EU Delegation to Ukraine, possibly with the support of independent experts, will verify the extent to which conditions are met for the disbursement of the second tranche.

3.4.2. Complementary support

Complementary support is not foreseen as part of the State Building Contract as such. However, actions financed by other ENPI and ENI programmes will directly support the objectives of the SBC (see section 2.1. above).

⁴ The present action funds only a share (EUR 127 million) of the first, fixed tranche and the totality of the second, variable tranche (up to EUR 105 million).

⁵ See footnote 4.

3.5. Donor coordination

In 2010 the government set up a top-down, comprehensive system of donor coordination. This system has not worked effectively both because of the one-size-fits-all approach and because of the significant resources that would have been needed to make it work.

In 2014 and following the appointment of a new Government, the EU is working together with the government and the international community to put in place a **donors' coordination mechanism**. This government-led system of donor cooperation will be based around four indicative areas of work: response to very short-term humanitarian needs; support to implementation of conditionality linked to macroeconomic support programmes; support for the implementation of the AA/DCFTA; and support for deep democracy, human rights and the rule of law.

This State Building Contract is part of the wider European Union effort to provide Ukraine with support for the short term priorities identified with the Ukrainian government in the main areas of political processes, economic support, trade, mobility, home affairs, energy, enterprise, and transport.

3.6. Stakeholders

The main stakeholders are the Ukrainian authorities and citizens working through civil society. Given the systemic nature of the transition to be supported through the SBC, the Council of Ministers and the Prime Minister will play the key role. The Ministry of Economy is responsible for aid coordination within the government and the Ministry of Finance for public finance management, public transparency and (together with the Ministry of Economy) macroeconomic stability. The Ministry of Justice has a particular role in coordinating constitutional and electoral legislation, the fight against corruption and public administration reform, in particular in the context of justice sector reform. Other public bodies that are stakeholders include the Rada, the court system, the Central Election Commission and the Accounting Chamber of Ukraine.

There is a wide range of stakeholders in civil society, including think tanks, carrying out advocacy roles who will play an active role in the policy dialogue.

3.7. Conclusion on the balance between risks and expected benefits/results

Ukraine faces a difficult security situation carrying risks to the integrity of the country and its system of government. Paradoxically these threats carry with them a strengthened desire to make a successful transition to a country characterised by deep democracy, human rights and the rule of law – as well as increased awareness and willingness on the part of international donors to assist this process.

Ukraine has the potential, both human and natural resources, to be a wealthy and democratic neighbour, if it puts its governance in order. This State Building Contract is an essential part of the EU response to the fast moving events in Ukraine and to the urgent need to mobilise considerable assistance to contribute to the stabilisation and development of the country. It will also nurture the transition process towards democratic governance. The AA/DCFTA

provides a legal framework that could encourage such an evolution if Ukraine is able to transform itself.

4. IMPLEMENTATION ISSUES

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012⁶.

4.2. Indicative operational implementation period

The indicative operational implementation period of this action, during which the activities described in sections 3.4. will be carried out, is **18 months**, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3. Criteria and indicative schedule of disbursement of budget support

The general conditions for disbursement of all tranches are as follows: Satisfactory progress in the implementation of the transition to a society characterised by deep democracy, human rights and the rule of law and continued credibility and relevance thereof; implementation of a credible stability-oriented macroeconomic policy; satisfactory progress in the implementation of PFM reform, in particular the adoption by the Verhovna Rada of amendments to the Law on Public Procurement in line with good international practices; satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information;

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on fiscal year of the partner country.

| Country fiscal year | Year 1 (2014) | | | | Year 2 (2015) | | | | Total |
|------------------------|---------------|------------|----|----|---------------|----|------------|----|------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| Base tranche | | 127 | | | | | | | 127 |
| Variable tranche | | | | | | | 105 | | 105 |
| Total | | 127 | | | | | 105 | | 232 |

⁶ A single financing agreement will be concluded for the total amount of the State Building Contract. As the latter includes funds originating from the general budget of 2013, the financing agreement shall be concluded by 31 December 2014 at the latest, in application of the N+1 rule referred to in Article 189(2) of Regulation (EU, Euratom) No 966/2012.

4.4. Details on complementary support

No complementary support is foreseen.

4.5. Indicative budget

| Module | Amount in EUR million | Third party contribution (indicative, where known) |
|---|-----------------------|--|
| Budget support (State Building Contract) ⁷ | 232 | N.A. |
| - <i>Ukraine annual allocation 2014</i> | 192 | |
| - <i>Umbrella programme 2014</i> | 40 | |
| Total | 232 | N.A. |

4.6. Performance monitoring

Policy dialogue covering *inter alia* macroeconomic stability and reform process will be documented through the procedures that will be put in place for the Association Council/committee/sub-committees/Parliamentary Association Committee/Civil Society Platform once the AA/DCFTA enters into force. Prior to that the analogous procedure for the Partnership and Cooperation Agreement will be in force.

As regards public procurement and budget transparency these will be subject to monitoring in the broader context of the quarterly reporting arrangements in place for monitoring the public finance management strategy and action plan.

Constitutional and Judiciary reform as well as the harmonisation of election legislation will be subject to review and ad hoc reporting by the Venice Commission, OECD SIGMA and OSCE/EDIHR. Civil society will monitor, verify and report on compliance with regard to public administration reform and the fight against corruption, constitutional and Judiciary reform, and harmonisation of election legislation.

4.7. Evaluation and audit

An end of programme review will be conducted in order to assess progress against expected objectives and draw lessons for the design of any future budget support programmes.

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The total amount of the State Building Contract for Ukraine is EUR 355 million and includes an amount of EUR 123 million from the Annual Action Programme 2013 in favour of Ukraine, subject to the modification of Commission Implementing Decision C(2013)8059 of 20 November 2013 adopting the ENPI Annual Action Programme 2013 in favour of Ukraine.

4.8. Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.