



**Macro-financial assistance to the Republic of Moldova
of up to EUR 150 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**Republic of Moldova
as Borrower**



EUROPEAN
COMMISSION

Brussels, XXX
[...] (2022) XXX draft

ANNEX

ANNEX

to the

COMMISSION IMPLEMENTING DECISION

**approving the Memorandum of Understanding between the European Union and the
Republic of Moldova**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND THE REPUBLIC OF MOLDOVA

1. On 6 April 2022, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2022/563¹) on providing further macro-financial assistance to the Republic of Moldova in the context of spill-over effects of the illegal and unjustified Russian invasion of Ukraine on Moldova, in particular, on its economic stability, as well as the gas crisis that began in October 2021 and the on-going post-pandemic economic recovery. The Decision makes available to the Republic of Moldova (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 150 million comprising a loan facility of up to EUR 120 million (the loan) and a grant facility of up to EUR 30 million (the grant). The assistance shall be made available for two and a half years starting from the first day after the entry into force of the Memorandum of Understanding (hereinafter MoU).
2. The objective of this assistance is to ease the Country’s external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the Country address the current external and financial vulnerabilities. This assistance from the European Union is complementary to the resources provided to the Country by international financial institutions and bilateral donors in support of the authorities’ economic stabilisation and reform programme.
3. The disbursement of the assistance shall be subject to the signature of the corresponding legal commitment (Loan Agreement and Grant Agreement) by the parties: the European Commission (hereafter referred to as “the Commission”), representing the European Union, the Ministry of Finance, representing the Country, and the National Bank of Moldova, acting as financial agent of the Country.
4. The assistance shall be subject to the decision of the budgetary authority of the European Union to make available the necessary appropriations.
5. The assistance will be disbursed in three instalments of up to EUR 50 million each, each being composed of a grant and a loan element. The disbursement of the first instalment shall not take place earlier than the first day after the entry into force of the MoU. The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment. The disbursement of the third instalment shall not take place earlier than three months after the release of the second instalment.
6. The disbursement of the three instalments of the assistance will be conditional on both a satisfactory track record in the implementation of the non-precautionary credit arrangement agreed between the Country and the International Monetary Fund (hereinafter “the IMF”) and on a positive assessment by the Commission on behalf of the European Union, of progress made with respect to a number of macroeconomic and

¹ OJ L .109, 08.04.2022, page 6.

structural adjustment measures. The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the Country's authorities and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

7. Prior to the release of the three instalments by the Commission, the Country's authorities shall provide the Commission with Compliance Statements on the fulfilment of the conditionality attached to the instalments in question. Upon receipt of Compliance statements by the authorities of the Country, the Commission will evaluate, in co-operation with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality attached to the instalment in question. In this evaluation, particular attention will be paid to reforms to improve public finance management, financial sector governance reforms, energy sector reform, support active policies in the fight against fraud, corruption and money-laundering, and promote the business and investment climate in line with the Deep and Comprehensive Free Trade Area (DCFTA) Agreement. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a negative evaluation, the Commission shall withhold the disbursement of the three instalments until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the EU and Country.
8. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel future assistance under this MoU in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.
9. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as "the Recipient") at the National Bank of Moldova (hereafter referred to as "the Agent"). Given the substantial budgetary financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget.
10. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
11. With a view to preventing fraud, corruption, irregularities and any other illegal activities related to the use of the assistance and ensuring the protection of the EU's financial interests, the relevant provisions of the Grant and Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of EU assistance, and checks and audits performed by the Commission, including the European Anti-Fraud Office, the European Court of Auditors and the European Public Prosecutor's Office. Also, the provisions of the Grant and the Loan Facility Agreement on early repayment will apply in case it has been established that the Country has engaged, relation to the

management of this assistance, in any act of fraud, corruption, irregularities and any other illegal activities.

12. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of European Union macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
13. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supplying all necessary information to the Commission, represented by its own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.
14. The authorities will ensure, as appropriate, close co-operation with the European Commission.
15. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, to guarantee the respect for human rights, and to ensure free, independent and pluralistic media. The Country also undertakes to make satisfactory progress towards implementation of the Association Agreement, including the Deep and Comprehensive Free Trade Area (DCFTA).
16. Annexes I and II are an integral part of this MoU.
17. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union



European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248
B-1049 Brussels, Belgium

For the Republic of Moldova

Ministry of Finance

Minister of Finance
7 Constantin Tanase str.
MD-2005, Chisinau, Republic of Moldova

With copy to:

National Bank of Moldova
Governor of the National Bank of Moldova
1 Grigore Vieru Ave.,
MD-2005, Chisinau, Republic of Moldova

16. The present MoU shall enter into force following the signature by the European Union and the Republic of Moldova and on the date on which the Republic of Moldova notifies the European Union that its internal legal requirements for its entry into force have been completed.
17. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in Brussels on 22.06.22 in four originals in the English language.

FOR THE EUROPEAN UNION
as Lender



FOR THE REPUBLIC OF MOLDOVA
Represented by

The Ministry of Finance
as Borrower



THE NATIONAL BANK
OF MOLDOVA
as Agent to the Borrower



MOLDOVA - ANNEX I
STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the first, second and third instalments, the authorities of the Republic of Moldova are committed to have accomplished the following actions:

FIRST INSTALMENT

Rule of Law and the Fight against Corruption

Action 1

The Parliament will adopt a legislative package on asset recovery addressing especially international cooperation and exchange of information with other national relevant authorities, clarification of the definition of beneficial owner, preservation of the value of criminal assets and streamlining the recovery process at the enforcement stage of confiscation orders. Strengthen international cooperation/use of the Joint Investigation Teams for recovery of assets from abroad, especially on the banking fraud.

Financial Sector Governance

Action 2

The Parliament will adopt the Law on amending certain legislative acts (Law no. 114/2012 on payment services and electronic money, Law no. 548/1995 on The National Bank of Moldova, Tax Code no. 1163/1997, Contravention Code of The Republic of Moldova no. 218/2008, Law no. 62/2008 on foreign exchange regulation, Law no. 308/2017 on prevention and combating money laundering and terrorism financing) aiming to further align national legislation with Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

Energy Sector Reforms

Action 3

The Government to initiate the process to establish a strategic gas reserve operated by a national energy company (i.e. Energocom) in close cooperation with neighbouring EU and Energy Community contracting parties, and create the appropriate framework for ANRE to establish harmonized gas transmission tariffs in order to facilitate the cross-border trading with Romania and Ukraine, by approving in the Governmental meeting the Draft Natural Gas Law and submitting it to Parliament.

SECOND INSTALMENT

Public Sector Governance

Action 4

The Ministry of Finance to establish a procedure to identify eligible public investment projects for funding.

Action 5

Adoption by the Government of a new multiannual Public Finance Management Reform Strategy with expenditure and revenue areas, initial benchmarks, annual targets, responsibility for implementation, and reporting together with the required human and budgetary resources.

Rule of Law and Fight against Corruption

Action 6

The Government to initiate and where possible to conclude the selection process for the vacant management positions of the institutions responsible for the fight and prevention of corruption and money laundering (including the Anti-Corruption Prosecutors Office, the National Anti-Corruption Centre and the Office for Prevention and Combatting of Money Laundering).

Action 7

The Parliament will adopt the national Programme on Asset Recovery in order to develop an effective and efficient mechanism for the freezing, seizure, confiscation and capitalization of criminal assets, with an achievable timetable, sufficient resources and clear monitoring and reporting requirements.

Action 8

The Government will ensure the implementation of the legislation on the assessment (pre-vetting) of the candidates for membership of the judiciary and prosecution self-administration bodies with a crucial role of international partners and in line with Venice Commission recommendations.

Business Climate

Action 9

The Parliament will adopt amendments to the new Customs Code for its approximation with the Union's Customs Code (and related acts), and the Government will adopt the implementing regulation to allow its entry into force on 1 January 2023.

THIRD INSTALMENT

Public Sector Governance

Action 10

The Government to adopt a new Public Procurement Program including initial benchmarks, annual targets, responsibility for implementation and reporting together with the required human and budgetary resources.

Rule of Law and Fight against Corruption

Action 11

The Parliament will amend the legislation in order to delimitate the competences of Anticorruption Prosecutor's Office and National Anticorruption Centre to investigation of high-level corruption.

Business Climate

Action 12

The Parliament will repeal art 7, paragraph 4¹ of Law 440/2001 on Free Economic Zones (introduced by Law 64/2014), which provides for customs duty exemption on imported goods processed via the Zone.

Action 13

The Government to adopt a strategy to combat undeclared work, or include actions to combat undeclared work in the 2022-2026 Employment Programme.

Energy Sector Reforms

Action 14

The Government to ensure that institutional capacity in the energy sector, in particular for the competent Ministry, for the Energy Efficiency Agency (AEE) and for Energocom is ensured by recruiting additional staff and expertise.

Action 15

The Government to ensure progress towards full transposition of Energy Community acquis into national laws (i.e. unbundling, market reforms and adoption of a National Energy and Climate Plan). Regarding market reforms, those include

- on gas: implementation of gas network codes and Regulation of Energy Market Integrity and Transparency (REMIT);
- on electricity: improvement of balancing rules and mechanisms, establish a joint capacity calculation with Ukraine or Romania, implementation of REMIT.

ANNEX II

MONITORING SYSTEM

1. Monitoring of macro-economic and financial developments and policies

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be published or provided to the Commission by the relevant authorities of the Country, on a quarterly/monthly basis.

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External central government debt stock and (interest and principal) payments (quarterly)
- Domestic central government debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external central government debt for the years 2022-2024 (quarterly)
- Consumer and producer prices (monthly)
- Interest rates on government securities (monthly)

b) Information published by the National Bank of the Republic of Moldova

The National Bank of Moldova undertakes to ensure the timely updating of the information in the database according to the calendar agreed with the International Monetary Fund. Link for the reports: <https://statistica.gov.md/SDDS/NSDP/>

- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of structural policies

During the implementation of the European Union macro-financial assistance, data and/or information relating to the implementation of policy measures specified in Annex I shall be provided to the Commission by the relevant authorities of the Country, on request from the Commission and by quarterly progress reports on reforms specified in Annex I.