



**Macro-financial assistance to the Republic of Moldova
of up to EUR 100 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**Republic of Moldova
as Borrower**

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

1. On 25 May 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701¹) on providing macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic. 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 100 million in the form of a loan. The assistance shall be made available for one year starting from the first day after the entry into force of this Memorandum of Understanding (hereafter referred to as “the 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 assistance shall be disbursed in two instalments of up to EUR 50 million each.
4. The first instalment of the assistance shall be released upon the signature and entry into force of this MoU and the accompanying Loan Facility Agreement and shall be conditional upon the implementation of a “Rapid Financing Instrument” of the International Monetary Fund (hereafter referred to as “the IMF”).

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

The disbursement of the second instalment of the assistance will be conditional on both a satisfactory track record of progress made with respect to a number of macroeconomic and structural adjustment measures, based on an assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, and, if applicable, a satisfactory track record in the implementation of the commitments agreed with the IMF. The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the authorities of the Country and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of the second 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.

5. Prior to the release of the second instalment by the Commission, the Country’s authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to the second instalment in question. Upon

¹ OJ L 165, 27.5.2020, p. 31.

receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms to improve public finance management, governance and fight against corruption, and the business environment. 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 may withhold the disbursement of the second instalment 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 European Union and the Country.

6. 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.
7. 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 the Republic 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.
8. 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.
9. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU’s financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks, audits and investigations 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 Loan Facility Agreement on early repayment will apply in case it has been established that the Country has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
10. 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).
11. 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.

12. The authorities will ensure, as appropriate, close co-operation with the European Commission.
13. 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).
14. Annexes I and II are an integral part of this MoU.
15. 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
7 Constantin Tanase str.
MD-2005, Chisinau, Republic of Moldova

With copy to:

National Bank of the Republic 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 Chişinău on 21/04/2020 and in Brussels on 23/7/2020 in four copies.

FOR THE EUROPEAN UNION
as Lender



FOR THE REPUBLIC OF MOLDOVA
Represented by

The Ministry of Finance
as Borrower



THE NATIONAL BANK
OF THE REPUBLIC OF MOLDOVA
as Agent to the Borrower



ANNEX I

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Country are committed to have accomplished the following actions:

Public finance management

1. In order to strengthen the transparency and efficiency of centralised procurement in the health sector, Government authorities will amend secondary legislation regarding joint and centralised procurement in a way that fully reflects the opportunities offered by the Public Procurement Law, including with respect to framework contracts. In addition, in order to allow the Centre for Centralised Procurement in the Health Sector to better perform its duties, Government authorities will improve its internal organisation, with a view to address its capacity constraints in terms of staffing, skills and administrative resources, and define and introduce standard operational procedures.

Good governance and fight against corruption

2. The Government of the Republic of Moldova will approve the draft law amending the Constitution of the Republic of Moldova regarding the Superior Council of Magistracy, revised fully in line with the recommendations of the Venice Commission, including Opinions CDL-AD(2020)01 and CDL-AD(2020)021; and will register it in the Parliament of the Republic of Moldova for adoption. In particular, the revised draft law shall abolish the probationary period for judges, exclude the ex-officio membership in the Superior Council of Magistracy (SCM), ensure that lay members for the SCM are selected in line with the options endorsed by the Venice Commission, and revise the transitional provision on the mandate of SCM members to ensure that lay members are appointed to the SCM through a re-selection procedure upon the adoption of constitutional amendments.
3. To improve the efficiency of the National Integrity Authority (NIA), the Parliament of the Republic of Moldova will adopt amendments to the legal framework related to assets and conflict of interest declarations, in order to (i) extend the competences of integrity inspectors by allowing them to request the evaluation of assets during control procedures from independent evaluators; (ii) extend the scope of control to related persons in case of justified suspicion, and (iii) oblige the subjects of declaration of assets and conflicts of interest to declare assets at their real market value.

4. The authorities will update the bank fraud criminal asset recovery strategy to set up a new mechanism of asset recovery that is more achievable, efficient and effective than the one of the current strategy (adopted in June 2018). To do so, this mechanism shall build on the following elements: clear timetables and bi-annual targets of the ongoing and future criminal cases; the provision of detailed quality data on ongoing cases to the extent that will not prejudice the proper conduct of the criminal proceedings; and foresee a six-monthly public reporting by the General Prosecutor. Furthermore, international cooperation, including through Joint Investigation Teams and Eurojust, will be significantly intensified targeting comprehensive asset recovery.

Business environment

5. In line with the commitments under the DCFTA, Parliament of the Republic of Moldova will adopt a new Customs Code consistent with the European Union's Customs Code (Regulation (EU) No 952/2013).
6. In order to strengthen the deterrence capacity of anti-smuggling policy and measures, the Parliament will adopt legislative amendments with a view to reducing the legal thresholds for determining smuggling and tax evasion as criminal offences, as well as raising the administrative fines for such violations. Additionally, the authorities will introduce an efficient monitoring system (i.e. special excise stamps) for tobacco and alcohol beverage products imported intended for domestic consumption without the payment of customs duty, excise duties and VAT. The Government of the Republic of Moldova will monitor and report on the impact of the introduced measures with a view to consider further measures if they do not prove sufficiently effective.

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 of the Republic of Moldova:

- 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 2020-2022 (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 the Republic 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.