

**Macro-financial assistance to Albania
of up to EUR 180 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**the Republic of Albania
as Borrower**


Ilir Khameli

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

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 Albania (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 180 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 90 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 positive assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, of progress made with respect to a number of macroeconomic and structural adjustment measures 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 Reform Programme endorsed by the authorities of the Country. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities 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 it. Upon receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations

¹ OJ L 165, 27.5.2020 p. 31



with the authorities of the Country, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms to improve public finance, financial stability, good governance and fight against corruption, and social protection. 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 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 European Union and the Country.

6. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance 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 and Economy of the Country (hereafter referred to as "the Recipient") at the Bank of Albania (hereafter referred to as "the Agent"). Given the substantial budgetary and external financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget and to refinance existing external debt.
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, and 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, and to guarantee the respect for human rights.
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 Albania

Ministry of Finance and Economy
Minister's Office
Bulevardi "Dëshmorët e Kombit", Nr.3,
Tirana, Albania

With copy to:

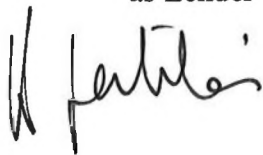
Bank of Albania
Governor's Office
Sheshi "Skënderbej", No. 1,
Tirana, Albania

16. The present MoU shall enter into force following the signature by the European Union and the Country.
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.

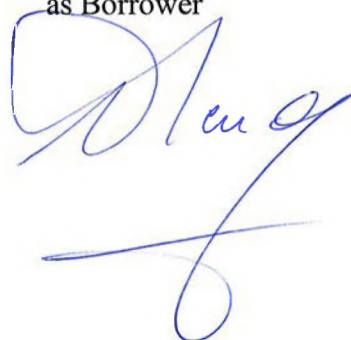


Done in *Brussels* on *3/11/2020* in four originals in the English language.

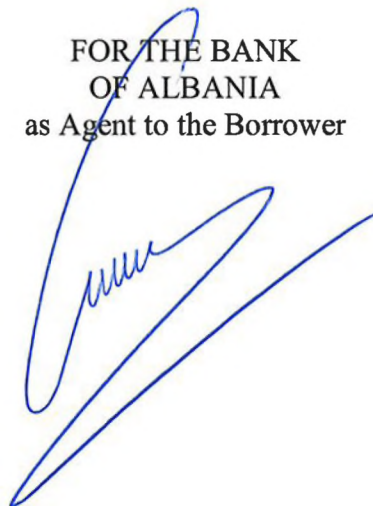
FOR THE EUROPEAN UNION
as Lender



FOR THE REPUBLIC OF ALBANIA
as Borrower



FOR THE BANK
OF ALBANIA
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

1. The inter-ministerial committee on Medium-Term Revenue Strategy (MTRS) will meet at least once to discuss next steps and agree on a timeline with concrete steps for completing the MTRS.
2. Formally sign and implement the agreements on the repayment schedules of VAT refund arrears between the Ministry of Finance and Economy and the identified large taxpayers. Pay timely all VAT refunds arising and due in 2020.
3. Publish existing, newly occurred and cleared spending arrears at central and local government level regularly as of end-2019, end-March 2020, end-June 2020, end-September-2020 and end 2020 in a timely manner within the respective following quarter.

Financial sector

4. Adopt the remaining three bylaws to the “Law On Bankruptcy” (2017):
 - i) Regulation of the Registry of Information Concerning Insolvency Decision;
 - ii) Regulation on the Presentation of Accounts and Final Discharge of the Insolvency Representative;
 - iii) Regulation on Out of Court Restructuring Agreements for Financially Distressed Debtors (Article 79)

Good governance and fight against corruption

5. Publish on a quarterly basis comprehensive information on the adoption and implementation of the COVID-19 emergency support measures, including the amounts of aid by category of beneficiaries, the identity of and the amounts allocated to the 50 largest beneficiaries of aid, as well as the conditions and allocation criteria for the support in line with the national legal requirements on confidentiality.
6. In the context of implementing the FATF Action Plan of February 2020 and the measures underlined by the European Commission in its letter of 7 April 2020, present the draft legal basis for the central register on beneficial ownership for legal persons and legal arrangements to the Council of Minister.
7. Prepare a roadmap laying out concrete steps towards the effective functioning of the Case Management System, in close coordination with the independent institutions for the governance of the judiciary.



Social policies

8. Initiate an assessment of the adequate level of the benefits under the economic aid scheme (Ndihma Ekonomike) based on the data from the Survey on Income and Living Conditions, also taking into account the minimum wage level and other available information. Prepare a roadmap with steps and timeline for a) adjusting these benefits and b) establishing a transparent mechanism for their regular annual review.



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 basis.

a) Information submitted by the Ministry of Finance and Economy of the Republic of Albania:

- 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 (quarterly)
- Budgetary amendments of 2020 with the amended fiscal framework
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- Summary of the use of funds under the reconstruction fund (planned, committed and disbursed funds, purpose and beneficiaries) and of the use of the sovereign guarantees until October 2020 issued as part of the covid-19 fiscal packages.
- Summary of tax relief measures granted in 2020 (incl. estimated values and numbers of beneficiaries).
- External public debt stock and (interest and principal) payments (quarterly)
- Domestic public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external public debt for the years 2020-2022 (quarterly)
- External concessional and private financing (project-related and budget support) expected and received in 2020
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the Bank of Albania

- 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, notably:

- Draft Budget proposal for 2021.

- Date of the meeting of the interministerial committee and the decision on the agreed timeline for the completion of the Medium Term Revenue Strategy.
- Signed agreements with the large taxpayers on the repayments of VAT arrears, in line with decision no. 146 of 13.2.2020 “On procedures and criteria of agreement for the instalment payment of value added tax, approved for reimbursement.
- Net and gross VAT collection and refund report for Q1, Q2 and Q3 2020.
- Documentation and link to the publication of spending arrears at central and local government level including the source of the data as of end-2019 (to be submitted by end of July), end-March 2020 (to be submitted by end of July), end-June 2020 (to be submitted by the end of September) and end-September 2020 (to be submitted by the end of October).
- Summary of applications (approved and rejected) for social support schemes in the context of the covid-19 fiscal packages until October 2020.
- Link to the publication of the comprehensive information on the adoption and implementation of the COVID-19 emergency support measures.
- Adoption and publication date of the three remaining bankruptcy bylaws.
- The draft legal basis and the date of presentation to the Council of Ministers for establishing a beneficial ownership registry and a documentation of actions taken to implement the FATF action plan.
- Roadmap for adjusting and reviewing the benefits under the economic aid scheme (Ndihma Ekonomike) and an inception report or methodology for the assessment of the adequacy of social assistance benefits under the economic aid scheme.
- Roadmap laying out concrete steps towards the effective functioning of the Case Management System.


 The signature is written in blue ink and appears to be 'S. Kandi'.

