



**Macro-financial assistance to Georgia
of up to EUR 150 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**Georgia
as Borrower**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND GEORGIA

1. On 25 May 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701) on providing macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic.¹ The Decision makes available to Georgia (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 150 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 75 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 a satisfactory track record of implementation of the commitments agreed between the Country and 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 in the implementation of the commitments agreed with the IMF and on 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. 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 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.

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

¹ OJ L 165, 27.5.2020 p. 31-37.

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 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 in public finance management, the rule of law and the fight against corruption, the business climate, as well as sector reforms, including to state-owned enterprises. 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 of the Country (hereafter referred to as "the Recipient") at the National Bank of Georgia (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 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 Georgia

Ministry of Finance
16 V. Gorgasali Street
0114 Tbilisi, Georgia

With copy to:
National Bank of Georgia
2 Sanapiro Street
0114 Tbilisi, Georgia

16. The present MoU shall enter into force following the signature by the European Union and the Country and upon its ratification by the Country's Parliament.
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 Tbilisi on _____ and in Brussels on 22. 09. 2020 in four originals in the English language.

FOR THE EUROPEAN UNION



H.E. Mr Paolo Gentiloni
Member of the European Commission

FOR GEORGIA
as Beneficiary



H.E. Mr Ivane Matchavariani
Minister of Finance

FOR THE NATIONAL BANK
OF GEORGIA
as the Beneficiary's Financial Agent



H.E. Mr Koba Gvenetadze
President

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. To ensure impartiality and independence of the **public procurement dispute resolution body** as set out in the Association Agreement, adopt the revised legal framework for this body and prepare for its functioning from 2021 (staff, budget).
2. To ensure an adequate and sustainable pension system and to improve the institutional capacity of the Pension Fund managing the recently launched funded pension pillar, a) adopt the amendments to the **Law on State Pensions** related to rules-based mechanism for indexing basic public pensions, and b) develop and adopt the **investment strategy of the Pension Fund**.

Governance

3. To reduce uncertainty regarding the governance of companies and improve transparency of business, adopt the **Law on Entrepreneurs**, in line with the EU company law directives.
4. To improve the governance of publicly owned companies, develop and adopt **corporate governance standards for state-owned enterprises** along the OECD guidelines, including principles for transparent and merit-based appointments to supervisory boards, and publish the first edition of a regular report on progress towards implementation of the OECD guidelines.
5. To increase the independence, accountability and quality of the **judicial system**, the Georgian authorities will, in line with two packages of judicial reforms adopted in 2017 and 2019: a) further enhance transparency and merit-based selections in the appointment of judges to first instance and appeal courts, notably by publishing written justifications for appointments of judges with reference to integrity and competence criteria; b) submit to the Parliament draft legislation on the appointments to the Supreme Court in line with the related Venice Commission opinion No. 949/2019 of 24 June 2019, notably as concerns the staggered approach to appointments, open voting in the High Council of Justice, and the need for the latter to justify the nominations; c) refrain from making appointments to the Supreme Court under existing rules; d) adopt the legislation implementing the ruling of the Constitutional Court of Georgia from June 2019 by setting rules for the publication of judicial decisions.

Sector reforms

6. To achieve economic benefits from increased energy efficiency, following the adoption of the laws on Energy Performance of Buildings and on Energy Efficiency, a) adopt regulations establishing minimum requirements and defining a national methodology for calculating **energy performance of buildings** in compliance with the Energy Community Treaty; and b) make the dedicated **Energy Efficiency Unit** in the Ministry of Economy and Sustainable Development fully operational, including adequate staffing.

Labour market

7. In line with the Labour Market Strategy and its Action Plan adopted in December 2019, a) to better enable public employment service providers to help deal with the labour market fall-out from the COVID-19 crisis and to provide legal certainty to the role of the state in the labour market, adopt the **Law on Employment Services**; b) to ensure safe working conditions in the post COVID-19 context, increase the number of **labour inspectors** to 80.

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:

- 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 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)
- Consumer and producer prices (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the National Bank of Georgia

- 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:

- Number of first instance and appeal courts judges appointed; number of judges appointed with published written justifications;
- Number of labour inspectors employed by the Labour Inspectorate.