

**Macro-financial assistance to Georgia
of up to EUR 45 million**

MEMORANDUM OF UNDERSTANDING

between

**THE EUROPEAN UNION
as Donor**

and

**Georgia
as Beneficiary**

with

**The National Bank of Georgia
as the Beneficiary's Financial Agent**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND GEORGIA

1. On 18 April 2018, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2018/598¹) to make available to Georgia (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 45 million, of which up to EUR 35 million in the form of a loan and up to EUR 10 million in the form of a grant. The assistance shall be made available for two and a half years 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, each being composed of a loan and grant element. The first instalment will amount to up to EUR 20 million, of which up to EUR 15 million is in the form of a loan and up to EUR 5 million in the form of a grant, and the second instalment will amount to up to EUR 25 million, of which up to EUR 20 million is in the form of a loan and up to EUR 5 million in the form of a grant.
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 Grant Agreement and shall be conditional upon a satisfactory track record of implementation of the programme agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”).
5. 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 programme 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.

¹ OJ L 103, 23/04/2018, p. 8–13.

6. 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 instalments in question. 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 to improve public finance management, the financial sector, social and labour market policies, 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 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.
7. 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.
8. 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.

The National Bank of Georgia shall not be liable for the financial liabilities of the Beneficiary under this MoU and any other agreements concluded in connection with it.

9. 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.
10. 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 and the Grant Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks and audits performed by the Commission, including the European Anti-Fraud Office, and the European Court of Auditors. Also, the provisions of the Loan Facility Agreement and the Grant 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.
11. 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).

12. 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.
13. The authorities will ensure, as appropriate, close co-operation with the European Commission.
14. 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).
15. Annexes I and II are an integral part of this MoU.
16. 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

National Bank of Georgia
2 Sanapiro Street
0114 Tbilisi, Georgia

17. 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.
18. 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 21.08.2018 and in Brussels on 31.08.2018 in four originals in the English language.

FOR THE EUROPEAN UNION



H.E. Mr Pierre MOSCOVICI
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
Governor

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 FINANCIAL MANAGEMENT

1. To ensure that a sound project selection framework and appropriate administrative capacities are in place for the planned significant increase in **public investment**, the Government of Georgia will ensure that the unit responsible for assessment of public investment projects at the Ministry of Finance is adequately staffed and has started assessing public investment projects with a value of more than GEL 5 million, in line with the Public Investment Project Management Guideline (adopted by the Government of Georgia Decree No. 191 of 22 April 2016) and the Methodology on pre-selection, appraisal, selection and budgeting of investment projects (adopted by the Ministry of Finance Order No. 165 of 22 July 2016).
2. To ensure that a sound regulatory framework for **public-private partnerships** (PPP) is in place for a significant expected increase in PPP activity, the Parliament of Georgia will adopt the draft PPP Law, in line with the requirements defined in the EU-Georgia Association Agreement and covering concessions. In addition, the Government of Georgia will ensure that (a) a PPP unit and (b) a fiscal risk unit at the Ministry of Finance are adequately staffed and have started assessing PPP projects.
3. To reduce the proportion of direct procurement (without an open call for tenders), thereby ensuring that **public procurement** is competitive, transparent and delivering value-for-money for the public purse, the Georgian authorities will more narrowly define in relevant secondary legislation, and strictly apply, the exceptions under which direct procurement is allowed, in particular regarding the criteria of (a) urgent necessity and (b) important public events with restricted timeframe. In addition, the Georgian authorities will draft a revised legal framework for the public procurement dispute resolution (review) body, so as to ensure its impartiality and independence, as set out in the Association Agreement. This revised legal framework will include procedural guarantees relating to the selection, legal status, remuneration and dismissal of the members of the review body, which will ensure their independence and impartiality, and will also provide for the basic rules of procedure of the review body, covering the review of complaints and the transparency of the decisions made.

FINANCIAL SECTOR

4. To help to develop the domestic **insurance sector** and capital markets, the Parliament of Georgia will adopt the Motor Third Party Liability Insurance Law covering mandatory insurance of domestic vehicles. In addition, to ensure that the expected growth of the insurance sector is matched by an increase in supervisory capabilities, the Insurance State Supervision Service of Georgia will adopt an offsite inspection manual and launch inspections.

5. To raise the resilience of the financial sector, the National Bank of Georgia will adopt a regulation on sound risk management, which will also cover the management of **dollarisation-related risks**.

SOCIAL AND LABOUR MARKET POLICIES

6. To ensure the sustainability of the **Universal Healthcare System**, the Social Services Agency will extend the pilot project on selective contracting – which currently covers maternity care – to other medical treatments offered by the Universal Healthcare System, with a focus on costly areas.
7. To support matching of demand and supply in Georgia's **labour market** and contribute to higher employment, the Government of Georgia will adopt and start implementing a new medium-term labour market strategy with an action plan covering: labour market analysis and forecasting; the establishment of a public employment service and of a labour inspection system in line with international and EU standards; and the completion of the employment-related legal framework.
8. To improve the quality of **vocational education and training (VET)** as part of the ongoing education reform and, in this way, contribute to addressing the skills mismatch in the Georgian economy, the Parliament of Georgia will adopt the VET Law.

BUSINESS ENVIRONMENT

9. To help to create a functioning **land market** with a view notably to increasing productivity in agriculture, the National Agency of Public Registry will ensure that at least 500,000 plots of land are registered according to the temporary rule for simplified registration. In addition, to complement this so-called sporadic registration, the National Agency of Public Registry will adopt an action plan to roll out systematic registration, building on the experience of ongoing pilot projects, with a view to reaching full coverage of registration of land plots.
10. To help to reduce uncertainty regarding the **governance of companies**, increase transparency and, in this way, reduce the number of commercial disputes and improve companies' access to finance, the Government of Georgia will submit to the Parliament of Georgia a draft Law on Entrepreneurs in line with the requirements defined in the EU-Georgia Association Agreement.
11. To increase independence and quality of the **judicial system** as part of the ongoing civil law reform and thereby further improve the business environment in Georgia, the Georgian authorities will (a) ensure the publication of all rulings of supreme and appeal courts, (b) fully implement the system of random electronic allocation of cases in civil proceedings, and (c) publish statistical data on disciplinary procedures against judges in the High Council of Justice, including the total number of reported disciplinary cases, the number of such cases in which a disciplinary procedure was initiated, the type of the decision taken (acquittal or conviction) and, in the case of convictions, the type of sanctions applied.

ANNEX II

MONITORING SYSTEM

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

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

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (annual)
- 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, including external arrears (quarterly)
- External public debt service payments (quarterly)
- Domestic public debt and debt service (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

- Data and/or information relating to the implementation of policy measures specified in Annex I (on request from the Commission)