

Macro-financial assistance to Kosovo*

of up to EUR 100 million

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**Kosovo
as Borrower**

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

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MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND KOSOVO

1. On 25 May 2020 the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701²) on providing macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic. The Decision makes available to Kosovo (hereafter referred to as “the Partner”) 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 Partner’s external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the Partner address the current external and financial vulnerabilities. This assistance from the European Union is complementary to the resources provided to the Partner 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 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 Partner. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the Kosovo 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 Partner’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 Partner, the Commission will evaluate, based on consultations with the authorities of the Partner, progress made with respect to the fulfilment of the

² OJ L 165, 27.5.2020, p. 31.

conditionality. In this evaluation, particular attention will be paid to reforms to improve public finance, financial stability, good governance and fight against corruption, and employment. 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 Partner 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 Partner.

6. The Commission will also continuously verify the financing needs of the Partner and may reduce, suspend or cancel the assistance in case the financing needs of the Partner 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 Kosovo (hereafter referred to as “the Recipient”) at the Central Bank of Kosovo (hereafter referred to as “the Agent”). Given the substantial budgetary and external financing needs faced by the Partner, the proceeds of the loan will be used to finance the Partner’s budget and to refinance existing external debt.
8. During the implementation of the assistance, the Partner’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 Partner 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 Partner 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 Partner 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 Partner 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 Partner 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 Partner 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 Kosovo

Ministry of Finance
Sheshi Skenderbeu, no.14,
Pristina, 10000
Kosovo

With copy to:

Central Bank of Kosovo
Rr.Garibaldi, no.33
Pristina, 10000
Kosovo

16. The present MoU shall enter into force following its signature by the European Union and Kosovo and on the date on which Kosovo 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 ^{27/07/2020} on ^{30/7/2020} in ^{Bunnels} in four originals in the English language.

FOR THE EUROPEAN UNION
as Lender



FOR KOSOVO
as Borrower



FOR THE CENTRAL BANK
OF KOSOVO
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 Kosovo are committed to have accomplished the following actions:

Public finance

1. Ensure that the 2021 annual budget, as submitted to the Assembly, is based on up-to-date macro-fiscal projections and takes into account available information on budget execution in 2020.
2. Approve the working rules for the commission in charge of reclassifying the beneficiaries of the war veteran pension scheme with a view to limiting the fiscal costs of the scheme in line with the legislated cap.
3. Prepare an options paper on the establishment of an independent body for fiscal oversight, tasked among others with fiscal impact assessments of major initiatives, for further consultations with stakeholders, including the EU.
4. Regularly publish on the Ministry of Finance website quarterly balance sheets and profit and loss statements of publicly owned enterprises (POEs) with a three to four months lag. Conduct the first risk assessment related to high-risk POEs, based on profitability, liquidity and solvency indicators.

Financial sector

5. Launch a household indebtedness study, providing an integrated overview of household indebtedness to all financial (bank and non-bank) institutions.

Good governance and fight against corruption

6. 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 Kosovo's legal requirements on confidentiality.
7. Prepare a first draft of the rule of law sector strategy based on the functional review of the rule of law sector and a consultative process.
8. Draft proposals for concrete measures to improve tax revenue collection, including by reducing informality.

Employment

9. Initiate the preparation of a feasibility study on a Youth Guarantee scheme by taking into account relevant regional experiences.

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 Partner, 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)
- International³ debt stock and (interest and principal) payments (quarterly)
- Domestic⁴ 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 prices (monthly) and producer prices (quarterly)
- Interest rates (yields) on government securities (outstanding domestic debt) (primary) auctions (monthly)

b) Information submitted by the Central Bank of Kosovo

- Interbank interest rates at benchmark maturities (monthly, if available)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (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 Partner, on request from the Commission, notably:

- The draft 2021 budget
- Options paper on the establishment of an independent body for fiscal oversight
- First risk assessment of high risk POEs, indicating their profitability, liquidity and solvency

³ International debt is defined as government debt which is subject to agreement with foreign governments, government agencies, international financial organizations or other organizations and foreign companies on the basis of international agreements, treaties, conventions or other similar agreements subject to the laws of a legal jurisdiction other than of Kosovo.

⁴ Domestic debt is defined as government debt subject to the laws of Kosovo.

- Kick-off report, including all relevant documents, on launching the study on household indebtedness
- Report on the implementation of the COVID-19 emergency package, including the categories and amounts of aid provided, until October 2020
- First draft of the Rule of Law Sector Strategy based on the functional review of the rule of law sector (Ministry of Justice)
- Minutes of the steering committee for the functional review
- Report summarising the key findings from the preparatory work undertaken for a feasibility study on a Youth Guarantee scheme

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