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CONFORMED COPY

CREDIT NUMBER 4682-MD

Financing Agreement

(Second Additional Financing for Social Investment Fund II Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 22, 2010

FINANCING AGREEMENT

Agreement dated February 22, 2010, entered into between REPUBLIC OF MOLDOVA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twelve million five hundred thousand Special Drawing Rights (SDR 12,500,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”);
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is US Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the Moldova Social Investment Fund (MSIF) in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Implementation Agreement has been executed on behalf of the Recipient and the MSIF.
 - (b) The Original Project's PIP and Operational Manual, as amended to the date of this Agreement, have been modified and adopted by the Recipient in a manner satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.

5.02. The Recipient's Address is:

Ministry of Finance
Cosmonautilor Street, 7
277005 Chisinau
Republic of Moldova

Facsimile:

(37322) 221307

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Chisinau, Republic of Moldova, as of the day and year first above written.

REPUBLIC OF MOLDOVA

By /s/ Veaceslav Negruta

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Melanie Marlett

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are: (i) to support the implementation of the National Development Strategy by empowering poor communities and vulnerable population groups to manage their priority needs; and (ii) to contribute to employment and wage incomes in selected poor rural communities during the current economic contraction and during the recovery.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

Part A: Rural and Small Towns Community Development

Development of strategic plans by poor villages and small towns and provision of Grants to Implementing Agencies to carry out, in accordance with the requirements set forth or referred to in the Operational Manual, community infrastructure Sub-projects involving labor-intensive construction methods, including but not limited to village roads, water supply, schools, health centers, and local networks of natural gas pipes in Moldova, including the Transnistria region.

Part B: Capacity Development, Communication, Monitoring and Evaluation

1. Capacity building of governmental institutions. Provision of technical assistance and training to central public administration and local government in villages and small towns to enable the implementation of the Social Investment Fund Project.
2. Monitoring and Evaluation. Financing of monitoring and evaluation activities, including impact assessment, management information system and participatory monitoring and evaluation through provision of technical assistance, equipment and training.

Part C: Project Management

Provision of technical assistance, including auditing services, training, equipment and incremental operating costs for the operation of the MSIF for purposes of Project management and implementation.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall cause the MSIF to carry out the Project, in accordance with the requirements set forth or referred to in the PIP, the Operational Manual and the Implementation Agreement to be entered into between the Recipient and the MSIF under terms and conditions which shall have been agreed upon with the Association and which shall include, inter alia, provisions whereby: (a) the Recipient shall make the proceeds of the Credit available to the MSIF in the form of a grant; (b) the MSIF shall be required to implement the Project in accordance with the PIP, the Operational Manual and the provisions of this Agreement; and (c) the MSIF shall be required as part of its responsibility for Project implementation to: (i) prepare and furnish to the Association, by February 15 in each year, for its review and concurrence, an annual work program for the Project for the following calendar year, including procurement and financing plans, and an annual progress report; (ii) maintain the Project financial records and accounts and arrange for the audit thereof; (iii) prepare applications for withdrawal of the proceeds of the Credit; (iv) administer the Designated Account of the Project; (v) participate in the administration of bidding procedures and of contracts under the Project and assist the Implementing Agencies in the preparation of bidding and contract documents for activities to be financed under the Grant Agreements and ensure that goods, works and services are procured in accordance with the provisions of Schedule 3 to this Agreement; (vi) supervise the implementation of the Project, including supervising the progress of each Sub-project; (vii) carry out monitoring and evaluation activities under the Project; and (viii) ensure compliance of operations under the Project with the requirements set forth or referred to in the Operational Manual and this Agreement.

2. Prior to launching the activities under Part A of the Project related to the Sub-projects involving rehabilitation of schools, the Recipient shall issue and submit, through the MoE, a letter of confirmation for each school stating the fact that the respective school will not be closed after its rehabilitation.

3. The Recipient shall maintain the MSIF EO until completion of the Project with staff, resources, and terms of reference satisfactory to the Association.

4. The Recipient shall maintain the National Board until completion of the Project, with composition and terms of reference satisfactory to the Association.

5. The Recipient shall ensure that all selected Sub-projects will be subject to an Environmental Assessment and an EIA and/or an EMP will be carried out in a timely manner and in compliance with: (a) environmental standards satisfactory to the

Association; and (b) all applicable laws and regulations of the Recipient relating to health, safety and environmental protection.

6. The Recipient shall maintain the Original Project's Operational Manual in form and content at all times satisfactory to the Association, and shall revise and update the Operational Manual provisions governing the activities under this Agreement.

7. The Recipient shall maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof.

B. Grant Agreement

Part A: Funding of Sub-projects

The Recipient shall cause the MSIF to provide financing for approved Sub-projects on the basis of a Grant Agreement, to be entered into between the MSIF and an Implementing Agency on behalf of a Beneficiary (or Beneficiaries). Each Grant Agreement shall include, inter alia:

(a) a description of the Sub-project, together with an estimate of the cost thereof, and the obligation of the Implementing Agency to carry out said Sub-project;

(b) the implementation schedule for the Sub-project;

(c) the degree to which cost sharing, in accordance with the principles set forth in the Operational Manual, shall be required to be made by the Beneficiary with respect to the financing of the Sub-project for the implementation of which assistance is provided to such Beneficiary under the Grant Agreement;

(d) the obligation of the Implementing Agency to procure goods, works and services to be financed under the Grant Agreement in accordance with the procedures set forth in the Operational Manual;

(e) the obligation of the Implementing Agency to implement the EMPs and EIAs for all Sub-projects requiring such EMPs and EIAs;

(f) the obligation of the Implementing Agency, at the request of the Recipient and the Association, to exchange views with the Recipient and the Association with regard to the progress of a Sub-project, the performance of its obligations under the respective Grant Agreement, and other matters relating to the purposes of the Credit and to enable representatives of the Recipient and the Association to visit the facilities, construction sites or other activities to be financed under the Grant Agreement;

(g) the obligation of the Implementing Agency to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Credit made available to the Implementing Agency under the Grant Agreement and to submit to the MSIF at regular intervals statements with respect to such records and accounts; and

(h) the obligation of the Implementing Agency to carry out the Sub-projects with due diligence and efficiency and in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of financing proceeds other than the Recipient.

Part B: Operation and Maintenance of Sub-projects

The Recipient shall cause the MSIF to ensure that each Grant Agreement contains provisions regarding the operation and maintenance of each Sub-project and the monitoring of said operation and maintenance activities and shall include in the annual progress report referred to in paragraph 1 of Schedule 2 to this Agreement information concerning the carrying out of said activities.

Part C: Monitoring and Evaluation

1. The Recipient shall cause the MSIF EO to:

(a) employ, in accordance with the provisions of Section III. C. of Schedule 2 to this Agreement, consultants with qualifications, experience and terms of reference satisfactory to the Association, to carry out procurement and technical reviews of selected Sub-projects; and

(b) thereafter, carry out every two years until completion of the Project and submit to the Recipient and the Association for its review and comment, reviews of samples of completed Sub-projects, including information and analysis adequate to support the conclusion that the selection of Sub-projects, Beneficiaries, and Implementing Agencies and the determination of the terms and conditions of Grant Agreements are all made in accordance with the principles set forth in the Operational Manual.

2. The Recipient shall cause the MSIF, the Implementing Agencies and Beneficiaries to carry out participatory monitoring and evaluation of each Sub-project based on a set of agreed monitoring indicators, as set forth in each Grant Agreement.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Safeguards

The Recipient, through the MSIF, shall implement the Project in accordance with principles and procedures set forth in the EG, satisfactory to the Association, and it shall not assign, amend, abrogate or waive any provision of the EG without prior approval of the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	National Competitive Bidding related to goods for Sub-projects estimated to cost less than \$100,000 equivalent per contract and works for Sub-projects estimated to cost less than \$300,000 equivalent per contract subject to the additional provisions described at paragraphs (a) to (l) from Section II.1, Schedule 3 in Development Credit Agreement for SIF II Project (Credit No.3931 MD)
(b)	Shopping
(c)	Direct Contracting
(d)	Community Participation procedures which have been found acceptable to the World Bank as described in Operational Manual

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method

(a)	Least-cost Selection
(b)	Selection under a Fixed Budget
(c)	Selection Based on Consultants' Qualifications
(d)	Single Source Selection
(e)	Procedure set forth in Paragraph 5.2 and 5.3 of the Consultant Guidelines for the selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
Goods, consultants' services, incremental operating costs and Grants under Grant Agreements for Sub-projects	12,500,000	100%
TOTAL AMOUNT	12,500,000	

3. For the purpose of this Schedule the term "incremental operating costs" means reasonable expenditures incurred by the MSIF on account of management of Project implementation for office supplies, printing, utilities, training, communications, office equipment, office rent, office maintenance and repairs, travel of MSIF staff, vehicle operating and maintenance costs, bank charges for the Designated Account operation, translations, salaries of MSIF staff (but excluding salaries of civil servants) and such other expenditures as may be agreed upon by the Association.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is March 31, 2013.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15	
commencing February 15, 2020 to and including August 15, 2029	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary” means any community eligible for assistance under the Project in accordance with the requirements set forth or referred to in the Operational Manual (hereinafter defined).
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the Bank in May 2004 and revised in October 2006.
5. “EG” means the Environmental Guidelines of the Recipient prepared and approved by the Recipient, dated June 18, 2004 and further up-dated, setting forth the environmental aspects of the procedures for the design, screening, appraisal, and implementation of the small-scale community infrastructure Sub-projects under the Project, included in the Project’s Operational Manual and referred to in Section I.D of Schedule 2 to this Agreement.
6. “EIA” means Environmental Impact Assessment to be carried out for Sub-projects (hereinafter defined) requiring such assessment in accordance with the requirements of the Environmental Guidelines (here above defined).
7. “EMP” means Environmental Management Plan to be prepared and implemented for Sub-projects (hereinafter defined) requiring such plans in accordance with the requirements of the Environmental Guidelines (here above defined).
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
9. “Grant” means a grant made or to be made to an Implementing Agency on behalf of a Beneficiary for a Sub-project or Sub-projects in accordance with the requirements set forth or referred to in the Operational Manual.

10. “Grant Agreement” means the agreement to be entered into between an Implementing Agency and the MSIF (hereinafter defined) pursuant to the provisions of Section I.B. of Schedule 2 to this Agreement, for the provision to the Beneficiary of a Grant for the carrying out of a Sub-project or Sub-projects, as the same may be amended from time to time.
11. “Implementation Agreement” means the agreement to be entered into between the Recipient and the MSIF (hereinafter defined) pursuant to the provisions of paragraph I.A of Schedule 2 to this Agreement.
12. “Implementing Agency” means the local governments to be responsible for the implementation of a Sub-project on behalf of the Beneficiary in accordance with the requirements set forth or referred to in the Operational Manual.
13. “Lei” means the lawful currency of the Recipient.
14. “MSIF” means the Moldova Social Investment Fund, or any successor thereto, established under the Recipient’s Decision No. 468 of May 19, 1997, as an autonomous public interest agency created by the Recipient to implement the Recipient’s projects contributing to poverty alleviation in rural communities and among disadvantaged groups.
15. “MSIF EO” means the Executive Office of the MSIF responsible for the implementation of the Project.
16. “MoE” means the Recipient’s Ministry of Education established according to the Recipient’s Law No. 64-XII dated May 31, 1990, as amended, or any successor thereof.
17. “Ministry of Finance” means the Recipient’s Ministry of Finance established according to the Recipient’s Law No. 64-XII dated May 31, 1990, as amended, or any successor thereof.
18. “NDS” means the Recipient’s National Development Strategy replacing the Recipient’s Economic Growth and Poverty Reducation Strategy (EGPRS) adopted through the Recipient’s Law No. 295 - XVI on the National Development Strategy for 2008-2011 dated December 21, 2007 and published in the Recipient’s Official Gazette No.18-20/57 dated January 29, 2008, as amended.
19. “National Board” means the MSIF National Board established by the Recipient to provide policy guidance and oversight of Project implementation.
20. “Operational Manual” means the Operational Manual, including all Annexes, satisfactory to the Association, prepared by the MSIF and adopted by the

National Board for the carrying out of the Project, included in the PIP, as the same may be amended from time to time with the agreement of the Association.

21. “Original Financing Agreement” means the Development Credit Agreement for the Social Investment Fund II Project between the Recipient and the Association, dated June 18, 2004 (Credit No. 3931 MD).
22. “Original Project” means the Project described in the Original Financing Agreement.
23. “PIP” means the Project Implementation Plan for the carrying out of the Project prepared and adopted by the Recipient, as the same may be amended from time to time with the agreement of the Association.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
25. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 18, 2009 and referred to in paragraph B.2 of Section III, Schedule 2 of this Agreement, paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “Sub-projects” means a specific project to be carried out by a Beneficiary through an Implementing Agency under the Project utilizing the proceeds of a Grant in accordance with the requirements set forth or referred to in the Operational Manual.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or

collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”