

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4414 MD

Financing Agreement

(National Water Supply and Sanitation Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 2008

CREDIT NUMBER 4414 MD

FINANCING AGREEMENT

AGREEMENT dated June 2, 2008, entered into between REPUBLIC OF MOLDOVA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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 eight million six hundred thousand Special Drawing Rights (SDR 8,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 Dollars.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, shall carry out and shall carry out Part 1 of the Project, through Participating Water Utility Entities and Parts 2, 3, and 4 of the Project through MCTD, in accordance with the provisions of Article IV 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 - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) that any Participating WUE shall have failed to perform any of its obligations under its respective Implementation Agreement; or
 - (b) that any Participating WUE shall have failed to perform any of its obligations under its respective Subsidiary Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that at least one Subsidiary Agreement has been entered into between the Recipient and a Participating WUE.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement entered into in accordance with Section 5.01 (a) of this Agreement has been duly authorized or ratified by the Recipient and the

Participating WUE and is legally binding upon the Recipient and the Participating WUE in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance.
- 6.02. The Recipient's Address is:

Ministry of Finance
7, Cosmonautilor Street
Chisinau 2005
Republic of Moldova

Telex:	Facsimile:
(3732) 22810	(37322) 221 307

- 6.03. 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/ Mariana Durlesteanu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Bermingham

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) improve the coverage, quality, efficiency, and sustainability of water and sanitation services in selected urban and rural communities; and (b) strengthen the capacity of MCTD to prepare and supervise its investment program and to provide technical assistance to water utility entities.

The Project consists of the following parts:

1. Water Supply and Wastewater Services in Selected Water Utility Entities

Improvement of the coverage, quality, efficiency, and sustainability of water and sanitation services in select urban municipalities including Balti, Cahul, Caușeni, Floresti, Orhei, Soroca, and Ungheni through carrying out rehabilitation works, including:

- (a) installation of water pipe in the municipalities;
- (b) rehabilitation of a water treatment plant;
- (c) rehabilitation of networks and pumping stations;
- (d) supply of construction machinery and trucks; and
- (e) construction of new sewage collectors.

2. Water Supply Services in Selected Rural Communities

Rehabilitation of water systems and provision of assistance in about fifty rural communities, consisting of:

- (a) rehabilitation of existing deep wells and piped water systems in order to provide a safe water supply; and
- (b) carrying out health and sanitary education programs to teach safe water consumption habits.

3. Capacity Building

Provision of assistance to MCTD to enhance capacity and enable it to prepare, appraise, and supervise the implementation of water supply and sanitation activities through provision of equipment, provision of technical assistance through consultants services and assistance with incremental operating costs and carrying out of training programs.

4. Energy Efficiency

Demonstration and dissemination to Water Utility Entities of appropriate means of increasing energy efficiency in municipal water and wastewater operations and reducing emission of greenhouse gases through, *inter alia*, carrying out of energy audits, provision of hydrological optimizations, and rehabilitation of electromechanical equipment, as necessary.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. (a) The Recipient shall maintain, and shall cause MCTD to maintain, subject to sub-paragraph (c) below, for the purposes of overall day-to-day management and Project implementation, the Project Implementation Unit, with terms of reference and resources, and with competent staff in adequate numbers, all satisfactory to the Association;

(b) the Project Implementation Unit staff shall train MCTD staff in order that MCTD staff become competent to manage and supervise implementation of the Project; and

(c) by no later than June 30, 2011, or such later date as the Association and the Recipient shall agree, the Project Implementation Unit shall be abolished and absorbed into MCTD with its functions, duties and authority transferred to MCTD, thereafter MCTD shall appoint sufficient staff, appropriately trained, in accordance with sub-paragraph (b) above, to take over implementation and supervision of the Project. Before declaring the PIU abolished and transferring its function to MCTD, the Recipient will ensure that the fiduciary arrangements of MCTD are assessed and deemed satisfactory to the Association.
2. The Recipient, through MCTD and the Participating Water Utility Entities, will be responsible for carrying out Part 1 of the Project and to this end shall ensure that each Participating WUE shall appoint and retain sufficient and qualified staff and provide all resources necessary to carry out its respective portion of Part 1 of the Project.
3. The Recipient, through MCTD, shall, and shall ensure that each Participating WUE shall, in accordance with the provisions of its respective Implementation Agreement, implement the Project in accordance with the Project Operational Manual. The Recipient undertakes that it shall not amend, suspend, abrogate, repeal or waive any provision of the POM without the prior consent of the Association.

B. Subsidiary Agreements

1. For the purposes of carrying out Part 1 of the Project, the Recipient shall make part of the proceeds of the Financing available to each Participating WUE under a Subsidiary Agreement entered into between the Recipient and the respective

Participating WUA, on terms and conditions approved by the Association, and stipulated in the POM, including, without prejudice, provisions that:

- (a) the proceeds of the Financing on-lent to such Participating WUE shall be repaid over a period of 30 years, inclusive of a grace period of 6 years;
- (b) interest at a rate of one and one-half of one percent (1 and 1/2 of 1%) shall be paid on the principal amount of the Financing withdrawn and outstanding from time to time; and
- (c) a commitment charge on the Unwithdrawn Balance of the Financing made available to the Participating WUE shall be payable at no less than the rate payable by the Recipient pursuant to Section 2.03 of this Agreement.

- 2. The Recipient shall exercise its rights under each Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Subsidiary Agreement or any of its provisions.

C. Implementation Agreements

- 1. For the purposes of carrying out of Part 1 of the Project, the Recipient, through MCTD, shall enter into Implementation Agreements with each Participating WUE, under terms and conditions approved by the Association, and stipulated in the POM including provisions that :
 - (a) MCTD shall monitor and supervise implementation of Part 1 of the Project;
 - (b) each Participating WUE shall comply with the financial terms specified in Section V of this Schedule;
 - (c) each Participating WUE shall at all times observe and comply with the policies and procedures set forth in the POM, and, to the extent applicable, with the provisions of this Agreement in implementing its respective portion of Part 1 of the Project, including without limitation, all provisions relating to environmental and other safeguard matters, procurement, the need to adhere to and observe the Anti-Corruption Guidelines, financial (including obligations relating to the keeping of accounts and auditing requirements) and other matters; and
 - (d) each Participating WUE shall provide to MCTD, and MCTD shall provide to the Association, all information and access as, in the opinion of the Association, is necessary or desirable.

2. The Recipient, through MCTD, shall exercise its rights under each Implementation Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish and implement Part 1 of the Project. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Implementation Agreement or any of its provisions.

D. Rural Communities

5. The Recipient, through MCTD, for the purposes of carrying out Part 2 of the Project:
 - (a) shall select, rural communities based on the following eligibility criteria: (i) the community is included in the priority list contained in the Government Strategy; and (ii) the community has been identified as a community in which the water supply adversely suffered during the Recipient's drought in 2007; and
 - (b) shall carry out implementation in accordance with the provisions regarding appraisal and implementation of proposed community rehabilitation work and carrying out of health and education programs contained in the Operational Manual, including provisions relating to requirements for community in-kind contribution.

E. Anti-Corruption

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

F. Safeguards

The Recipient shall take all measures necessary to carry out the Environmental Management Plan 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, and shall provide promptly to the Association detailed updates and information, in such detail and at such intervals as the Association shall request, regarding the carrying out of the Environmental Management Plan.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. 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 indicators agreed with the Association. Each

Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months after the Closing Date.

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 4.09 of the General Conditions.
2. 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, including financial statements of Participating WUE, audited in accordance with the provisions of Section 4.09 (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 months after the end of such period.
4. The Recipient shall, and shall cause the Participating WUE:
 - (a) have the internal control framework, the operational processes and procedures followed under the Project, audited for the first and third year (or any other period agreed to by the Association), in accordance with terms of reference and by independent auditors both acceptable to the Association;
 - (b) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (i) certified copies of the assessment of the internal control framework, the operational processes and procedures referred to in paragraph (a) of this paragraph for such year (or other period agreed to by the Association), as so audited; and (ii) an opinion on such processes and procedures by said auditors, in scope and detail satisfactory to the Association, as to whether they provide the Recipient adequate accounting, internal control and financial reporting as intended for the Project; and

- (c) furnish to the Association such other information concerning such internal control framework, operational processes and procedures, and the audit of such internal control framework, operational processes and procedures, and concerning said auditors, as the Association may from time to time reasonably request.

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 shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the following additional procedures:
- 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
(b) Shopping
(c) Direct Contracting

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) Consultants Qualifications
(b) Fixed Budget
(c) Single Source
(d) Least Cost
(e) 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 Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, works and consultants' services for Part 1 of the Project	5,000,000	100%
(2) Goods, works and consultants' services for Parts 2, 3 and 4 of the Project	3,600,000	100%
TOTAL AMOUNT	<u>8,600,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; or
 - (b) under Category 1 for any expenditure relating to a Participating WUE under Part 1 of the Project until the Association has received in respect of such Participating WUE:
 - (i) a copy of the relevant WUE Subsidiary Agreement;
 - (ii) a copy of the relevant Implementation Agreement; and
 - (iii) a legal opinion, satisfactory to the Association, that the Subsidiary Agreement and Implementation Agreement referred to in (i) and (ii) above, have been duly authorized or ratified by the Recipient, in the case of the Subsidiary Agreement, and by the Recipient, through MCTD, in the case of the Implementation Agreement, and by the Participating WUE and that each is legally binding upon the respective parties in accordance with its respective terms.
2. The Closing Date is June 30, 2013.

Section V. Other Undertakings

1. The Recipient, through MCTD, shall ensure, through monitoring and enforcement of the provisions of each WUE Implementation Agreement, that:

(a) each Participating WUE shall maintain its cash operating costs to cash operating revenue ratio at or below 90% for each fiscal year, throughout the Project implementation period, and for these purposes “cash operating expenses” means the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt and taxes on profit; and “cash operating revenue” means the sum of cash revenues from all sources (including direct budgetary transfers); and

(b) each Participating WUE shall ensure a debt service ratio of at least one to three (1:3) and shall take all measures necessary to ensure that it does not incur any new debt unless a reasonable forecast of the revenues of the Participating WUE shows that its estimated net revenues for each Fiscal Year during the term of the debt to be incurred shall be at least 1.3 times its estimated debt service requirements in such year on all its debt, taking into account the debt to be incurred.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing June 15, 2018 to and including December 15, 2027.	1%
commencing June 15, 2028 to and including December 15, 2047	2%

* 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**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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Environmental Management Plan” means the plan, satisfactory to the Association, prepared and adopted by the Recipient, which describes the environmental mitigation, monitoring and institutional measures to be taken in respect of the Project (including measures to be taken to mitigate effect on cultural property during Project implementation) and which has been prepared through a participatory process and publicly disclosed prior to commencement of the Project.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
6. “Government Strategy” means the strategy contained in “Strategy for Water Supply and Sanitation of Localities of Republic of Moldova” dated June 13, 2007 and adopted by the Government’s Decree No. 662.
7. “Implementation Agreement” means each agreement entered into between MCTD and each Participating WUE and referred to in Section 1 (C) 1 of Schedule 2 to this Agreement pursuant to which the WUE will implement its respective portion of Part 1 of the Project.
8. “MCTD” means the Recipient’s Ministry of Construction and Territorial Development established by the Recipient pursuant to Law No. 63-WVI, dated March 27, 2008 responsible for the Recipient’s water sector.
9. “Participating Water Utility Entity” and “Participating WUE” means a WUE which meets eligibility criteria specified in the POM for participation in the Project and which has entered into a Subsidiary Agreement and an Implementation Agreement for the purposes of carrying out its respective portion of Part 1 of the Project.

10. “Project Implementation Unit” and “PIU” mean the implementation unit established pursuant to Government Decree No. 986 dated August 11, 2003 and which will assist in implementation of the Project.
11. “Project Operational Manual” and “POM” mean the operational manual prepared by the Recipient for carrying out the Project dated May, 2008, outlining policies and procedures governing Project implementation including financial management, anti-corruption, procurement and environmental procedures and (a) in respect of Part 1 of the Project: the eligibility criteria for WUEs, procedures for application and selection for inclusion in Part 1 by WUEs; (b) in respect of Part 2 the regulations regarding appraisal and implementation of rehabilitation works in selected communities and the terms and conditions of grants to rural communities and rules and procedures governing in-kind contributions and (c) in respect of Parts 3 and 4 of the Project the institutional arrangements and implementation procedures to be followed; as the same may be amended and updated from time to time with the Associations prior approval.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 7, 2008 and referred to in 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.
14. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to a Participating WUE for the purposes of implementation of a portion of Part 1 of the Project and under which the Participating WUE agrees to implement its respective portion of Part 1 of the Project.
15. “Water Utility Entity” and “WUE” mean an Apa Canal utility being a water utility entity operating in accordance with the applicable laws and regulations of the Recipient.