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FINANCING NUMBER 4236-MD

Financing Agreement

(Poverty Reduction Support Financing)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 22, 2006

FINANCING NUMBER 4236-MD

FINANCING AGREEMENT

Agreement dated December 22, 2006, entered into between the REPUBLIC OF MOLDOVA (“Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 the Financing 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 six million eight hundred thousand Special Drawing Rights (SDR 6,800,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 1 and December 1 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III - PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V - EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

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

6.02. The Recipient's Address is:

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

Telex:

Facsimile:

(3732) 22810

(3732) 224-0055

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI) or
64145(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/ Mihail Pop

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward Brown

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions under the Program**

The actions taken by the Recipient under the Program include the following:

Macroeconomic Framework

1. The Recipient has implemented prudent macroeconomic policy and has maintained a satisfactory macroeconomic framework, consistent with the core objectives of the Program, including: (a) an estimated primary fiscal surplus of 3.0 percent of the Gross Domestic Product (GDP) for calendar year 2005; (b) a 12-month inflation rate, as of December 31, 2005, of 10 percent; and (c) public external debt to GDP of 28.2 percent, as of December 31, 2005.

Improving the Investment Climate

1. The Recipient has reduced the regulatory and administrative costs of business regulations through the adoption of Government Decision No. 1030, dated October 3, 2005 as amended on March 16, 2006, establishing a registry of official acts regulating the business activity and the enactment of the Law on Basic Principles and Mechanisms of State Regulation of Business Activity No. 235, dated July 20, 2006.
2. The Recipient has improved trade facilitation through the introduction of a risk-based selectivity customs system module (Asycuda) by the Moldovan Customs Service under its Internal Order No. 148, dated April 14, 2006.
3. The Recipient has developed agricultural markets through the adoption of Government Decision No. 946, dated August 18, 2006 making the Universal Commodities Exchange voluntary for all commodities.

Improving the Efficiency and Management of Public Sector Resources

1. The Recipient has improved civil service through the adoption of a strategy to ensure competitive merit based recruitment of civil servants as part of the Civil Service Development Concept adopted by the Recipient's Parliament in Concept of the Public Services Personnel Policy No. 1227-XV, dated July 18, 2002, and the Recipient's Government Strategy for Central Public Administration Reform in the republic of Moldova, adopted in the Government's Decision No. 1402, dated December 30, 2005.

2. The Recipient has implemented a transparent and uniform remuneration system for civil servants through the adoption of a Law on Public Sector Remuneration No. 355-XVI, dated December 23, 2005 and Government's Decision No. 525, dated May 16, 2006 implementing such law.
3. The Recipient has improved the strategic allocation of public resources through the adoption of Government Decision No. 1043, dated September 8, 2006 removing all restrictions on access to subsidies and supports, based on farm ownership structure or size.
4. The Recipient has increased competition for public procurement contracts through the carrying out of the Recipient's Government policy to reduce use sole source and increase open tendering procurement methods, as evidenced in the Recipient's Government's Decision No. 790, dated August 1, 2005 and quarterly reports on procurement No. 0509-2804, dated August 14, 2006 and annual report No. 0706-596, dated February 21, 2006 prepared by the Government of the Recipient.

Strengthening Social Protection Systems

1. The Recipient has advanced the pension system reform program under, among others, the Law of the Republic of Moldova on Public Social Insurance System No. 489-XIV, dated July 8, 1999 and Government's Decision No. 418, dated May 3, 2000, by ensuring that 100 percent of the 2005 contribution data submitted to the Recipient's National Social Insurance House was entered into the computerized contribution database, as evidenced in the Integrated Action Plan for the Implementation of Individual Accounts in the Public Social Insurance System, issued by the Recipient's National Social Insurance House, dated March 5, 2004 and the Report of the National Social Insurance House, dated September 5, 2006 regarding the implementation by the National Social Insurance House of the Action Plan for the Implementation of Individual Accounts in the Public Social Insurance System as of September 1, 2006.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDRs)
Single Tranche	6,800,000
TOTAL AMOUNT	6,800,000

C. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is October 31, 2007.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 1 and December 1:	
commencing December 1, 2016 to and including June 1, 2026	1%
commencing December 1, 2026 to and including June 1, 2046	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**Section I. Definitions**

1. “Excluded Expenditure” means any expenditure:
- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another Financing, credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

Group	Sub-group	Description of Item
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) under a contract with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.
2. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
 3. "Moldovan Customs Service" means the Recipient's customs service established pursuant to the Recipient's Law No. 23-XVI, dated April 14, 2005 amending the Recipient's Law on the Government No. 64-XII, dated May 31, 1990, and Government Decision No. 547, dated June 7, 2005.
 4. "National Social Insurance House" means the Recipient's institution in charge of managing the Recipient's public system of social insurance in accordance with

the Law of the Republic of Moldova on Public Social Insurance System No. 489-XIV, dated July 8, 1999 under the Government's Decision No. 739, dated July 25, 2000.

5. "Pension Fund" means the Recipient's fund established under the Law of the Republic of Moldova on Public Social Insurance System No. 489-XIV, dated July 8, 1999.
6. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 19, 2006 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
7. "Single Tranche" means the amount of the Financing allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

