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CREDIT NUMBER 4413 MD

Financing Agreement

(Second Poverty Reduction Support Financing)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 2008

FINANCING AGREEMENT

Agreement dated June 2, 2008, entered into between REPUBLIC OF MOLDOVA (“Recipient”) and 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, (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 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 six million, one hundred thousand Special Drawing Rights (SDR 6,100,000) (variously, “Credit” and “Financing”).
- 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 15 and December 15 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.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

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

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 Minister of Finance of the Recipient.

6.02. The Recipient's Address is:

Ministry of Finance
Cosmonaut Street, 7
MD 2005 Chisinau
Republic of Moldova

Facsimile:

(37322) 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)

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 Durllesteanu
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Paul Bermingham
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 (cash) fiscal surplus for calendar year 2007; (b) a lower 12-month inflation rate, as of December 31, 2007; and (c) a reduced general government debt to Gross Domestic Product (GDP) ratio as of December 31, 2007.

Improving the Investment Climate

1. In implementing the transitional provisions of the Law on Basic Principles and Mechanism of State Regulation of Business Activity (Law 235-XVI as adopted on July 20, 2006 and amended by Law 279-XVI, dated December 14, 2007) the Recipient has reduced the regulatory and administrative costs of business regulations through the adoption of a Government Decision No. 690, dated June 18, 2007 and submission to Parliament of a draft law covering amendments to 80 laws.
2. The Recipient has taken steps to promote the further development of agricultural markets through the adoption of Decision 282, dated March 11 2008 and of an action plan that covers: (i) liberalization of the import regime for seeds and seedlings; (ii) improvements in agricultural product standardization and certification system; and (iii) development of a market information system. Further, implementation of this action plan has commenced.

Improving the Efficiency and Management of Public Sector Resources

1. The Recipient has adopted and submitted to Parliament a new Civil Service Law (Government Decision No. 1311, dated November 29, 2007) that defines the scope of the civil service, contains guiding principles for competitive merit based appointments and promotions, posts classification and grading and institutional responsibilities for civil service management.
2. The Recipient has improved the strategic allocation of public resources through the adoption of a strategy for Transportation Infrastructure Management and Financing (Government Decision No. 85, dated February 1, 2008) that includes:

(i) mechanisms for reform of road financing; (ii) introduction of competition in the execution of road maintenance contracts; and (iii) participation of road users in the oversight of road maintenance financing.

3. The Recipient has advanced reforms to the education sector and the use of public resources in that sector by the Ministry of Education and Youth's approval of a strategy to optimize school networks (published in the Buletinul invatamintului, the Ministry of Education and Youth's information bulletin No. 6 issued in 2007), initiating consultations with stakeholders on that strategy and undertaking preparations for piloting the strategy in two (2) rayons.

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 Law on State Social Security Pension No. 156, dated October 14, 1998, 2000, by adopting amendments to those laws (Government Decision No. 138 of February 11, 2008) ensuring that pension payments will be made based on actual individual pension contributions.

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 SDR)
Single Tranche	6,100,000
TOTAL AMOUNT	6,100,000

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree: (i) all withdrawals from the Financing Account shall be deposited by the Association into an account at the National Bank of Moldova designated by the Recipient and acceptable to the Association; and (ii) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account at the

National Bank of Moldova, 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 December 31, 2008.

SCHEDULE 2**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

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 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
728	728.43	Tobacco processing machinery

Group	Sub-group	Description of Item
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) 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, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
2. "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.
 3. "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 April 7, 2008 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.

4. “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 (as amended through October 15, 2006) 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. 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.

6. 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”.