

OFFICIAL DOCUMENTS CR 5928-MD
CR 5929-MD

CREDIT NUMBER 5929-MD
CREDIT NUMBER 5928-MD

Financing Agreement

(Second Development Policy Financing)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *December 17*, 2016

CREDIT NUMBER 5929-MD
CREDIT NUMBER 5928-MD

FINANCING AGREEMENT

AGREEMENT dated *December 17*, 2016, 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*, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (b) the Recipient's maintenance of an adequate macroeconomic 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 the following amounts, which in the aggregate equal to an amount equivalent to thirteen million Special Drawing Rights (SDR 13,000,000) (variously, "Credit" and "Financing"):
 - (a) ten million Special Drawing Rights (SDR 10,000,000) ("Portion A of the Credit"); and
 - (b) three million Special Drawing Rights (SDR 3,000,000) ("Portion B of the 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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.
 - (a) The Interest Charge payable by the Recipient on the Withdrawn Credit Balance of Portion A of the Credit shall be equal to one and a quarter percent (1.25%) per annum.
 - (b) The Interest Charge payable by the Recipient on the Withdrawn Credit Balance of Portion B of the Credit shall be equal to one and thirteen hundredths percent (1.13%) per annum.

- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.08. The Payment Currency is Dollar.
- 2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:
 - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and 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 promptly inform the Association of any situation that 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, namely, that 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; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework; and
 - (b) The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of the Financing Agreement) have been fulfilled.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. 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 (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

Ministry of Finance
Constantin Tănase Street, 7
MD-2005 Chisinau
Republic of Moldova

Facsimile: (37322) 221307

- 6.03. The Association's Address is:

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

Telex:

Facsimile:

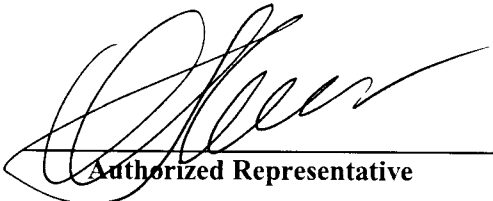
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AGREED at Chisinau, Republic of Moldova, as of the day and year first above written.

REPUBLIC OF MOLDOVA

By



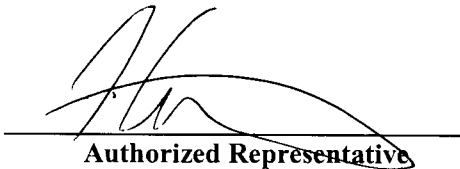
Authorized Representative

Name: Octavian Armașu

Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Alexander Kremer

Title: Country Manager

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

- A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

Pillar A: Strengthen the regulatory framework to improve predictability of the business environment, facilitate competition and reduce regulatory compliance costs

1. The Recipient has enacted amendments to the Law on State Control of Entrepreneurial Activity (Law No. 131 dated June 8, 2012 and published in the Official Gazette No. 181-184/595 on August 31, 2012) which aim to reduce compliance costs of state inspections, as evidenced by Law No. 230 on Amendment and Completion of Some Legislative Acts, dated September 23, 2016, and published in the Official Gazette No. 369-378 on October 28, 2016.
2. The Recipient has issued a decree establishing an institutional mechanism for information collection on all state aid under the Law on State Aid (Law No. 139 dated June 15, 2012 and published in the Official Gazette No. 166-169a/565 on August 16, 2012) and state aid secondary legislation, as evidenced by Decision No. 378 on Approving the Concept of Automated Information System: State Aid Register, dated May 27, 2014 and published in the Official Gazette No. 142-146/427 on June 3, 2014.

Pillar B: Strengthen financial sector stability, promote transparency of shareholding and ease conditions for access to finance

3. The Recipient has enacted amendments to the Law on the National Bank of Moldova (Law No. 548-XIII, dated July 21, 1995, published in the Official Gazette No. 56-57/624 on October 12, 1995, and republished in the Official Gazette No. 297-300/544 on October 30, 2015) to consolidate the corporate securities registration function into a single central securities depository, as evidenced by the enactment of Law No. 62 on Amending and Supplementing Certain Acts, dated April 8, 2016 and published in the Official Gazette No. 123-127/248 on May 6, 2016.
4. The Recipient has enacted legislative amendments to strengthen the independence of financial market supervisors by: (i) strengthening the framework for contesting acts of the National Bank of Moldova related to banking regulation and supervision; (ii) providing legal protection to all employees of the National Bank of Moldova and of the National Commission for Financial Markets in case of lawsuits for actions taken in good faith; and (iii) removing the Ministry of Justice's power to amend the content of National Bank of Moldova and National Commission for Financial Markets regulations, as evidenced by the enactment of:
 - (a) Law No. 108 on Approving of Amendments and Completion of Some Legislative Acts dated June 19, 2014 and published in the Official Gazette No. 238-246/539 on August 15, 2014; and

- (b) Law No. 62 on Amending and Supplementing Certain Acts, dated April 8, 2016 and published in the Official Gazette No. 123-127/248 on May 6, 2016.
- 5. The National Bank of Moldova has withdrawn the licenses from *Banca de Economii S.A.*, *Banca Sociala, S.A.* and *Unibank, S.A.* and initiated the liquidation of said banks, as evidenced by:
 - (a) Decision No. 62 of the National Bank of Moldova on Approving of the Withdrawal of the License for Conducting Financial Activities and Initiation of the Liquidation Process of JS BEM, dated October 16, 2015 and published in the Official Gazette No. 291-295/2177 on October 23, 2015;
 - (b) Decision No. 63 of the National Bank of Moldova on Approving the Withdrawal of the License for Conducting Financial Activities and Initiation of the Liquidation Process of JS Banca Sociala, dated October 16, 2015 and published in the Official Gazette No. 291-295/2178 on October 23, 2015; and
 - (c) Decision No. 64 of the National Bank of Moldova on Approving the Withdrawal of the License for Conducting Financial Activities and Initiation of the Liquidation Process of JS Unibank, dated October 16, 2015 and published in the Official Gazette No. 291-295/2179 on October 23, 2015.
- 6. The National Bank of Moldova has issued an order on launching special audits (diagnostic studies) for Moldova's three largest Banks (*Victoriabank S.A.*, *Moldindconbank S.A.*, and *Moldova Agroindbank S.A.*), as evidenced by:
 - (a) Decision No. 156 of the National Bank of Moldova on Establishment of Special Surveillance at *Moldindconbank S.A.* adopted on June 11, 2015;
 - (b) Decision No. 157 of the National Bank of Moldova on Establishment of Special Surveillance at *Victoriabank S.A.* adopted on June 11, 2015; and
 - (c) Decision No. 158 of the National Bank of Moldova on Establishment of Special Surveillance at *Moldova Agroindbank S.A.* adopted on June 11, 2015.
- 7. The Recipient has enacted amendments to the Law on Pledge (Law No. 449-XV dated July 30, 2001 and published in the Official Gazette No. 120/863 on October 2, 2001 and republished in the Official Gazette No. 345-351/655 on November 21, 2014) to facilitate the use of movable assets as collateral, as evidenced by the enactment of Law No. 173 on approving of Amendments and Completion of Some Legislative Acts dated July 25, 2014 and published in the Official Gazette No. 231-237/531 on August 8, 2014.
- 8. The Recipient has approved a policy requiring the State Treasury within the Ministry of Finance, and fully or majority state-owned companies, to conduct price-based public tenders for banking services which incorporate at least the regulatory minimum required capital adequacy and liquidity ratios, as evidenced by:

- (a) Government Decision No. 387 on Approving the Regulation on the Procurement of Financial Services by the State and Municipal Enterprises and Trading Companies with Integral or Majority Public Capital, dated May 28, 2014 and published in the Official Gazette No. 142-146/431 on June 3, 2014; and
- (b) Government Decision No. 428 on Approving the Selection of Banking Services of Financial Institutions for Public Institutions and Authorities, dated June 9, 2014 and published in the Official Gazette No. 153-159/468 on June 13, 2014.

Pillar C: Improve the public investment management framework, make investment subsidies in agriculture more efficient and equitable and improve the coverage well-targeted social assistance programs

- 9. The Recipient has strengthened the regulatory framework for public investment management by: (i) enacting provisions of the Law on Public Finance and Fiscal Budgetary Responsibility (defined in paragraph (a) below) on the principles of the public investment management system and public investment financing; (ii) amending the Regulation on Public Capital Investment (Government Decision No. 1029 on Approving the Principles of Public Capital Investment dated December 19, 2013 and published in the Official Gazette No. 311/1157 on December 27, 2013) to expand its coverage; and (iii) adopting guidelines for the project preparation cycle, as evidenced by:
 - (a) Law No.181 on Approving of Public Finance and Fiscal Budgetary Responsibility dated July 25, 2014 and published in Official Gazette No. 223-230/519 on August 8, 2014;
 - (b) Government Decision No.1181 on Approving the Amendments to Appendix 3 to the Government Decision No.1029 dated December 19, 2013, adopted on October 26, 2016 and published in Official Gazette No. 369-378 /1276 on October 28, 2016; and
 - (c) Order No. 185 from Ministry of Finance on Approving the Instructions on the Management of Capital Investment Projects dated November 3, 2015 and published in Official Gazette No. 361-369/2695 on December 31, 2015.
- 10. The Recipient has adopted the regulation on the agricultural support fund for agricultural producers for 2016, which: (i) narrows the scope of the largest investment subsidy program; and (ii) caps, or reduces the caps of, subsidy sizes allowed for each beneficiary, as evidenced by Government Decision No. 910 dated July 25, 2016 and published in the Official Gazette No. 247-255/996 on August 5, 2016.
- 11. The Recipient has adjusted the parameters of the *Ajutor Social* benefit program by increasing the eligibility threshold to Moldovan Lei 900 Guaranteed Minimum Income (GMI) in the amendments to the 2015 Budget Law (Law No. 72 on State Budget for 2015 dated April 12, 2015 and published in the Official Gazette No. 102-104/172 on April 28, 2015), as evidenced by Law No. 200 on Amendments to the State Budget for 2015 dated November 20, 2015 and published in the Official Gazette No. 330-331/629 on December 8, 2015.

Section II. Availability of Credit Proceeds

A. General. The Recipient may withdraw the proceeds of the Credit 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 Credit Amounts. The Credit is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Credit. The allocation of the amounts of the Credit to this end is set out in the table below:

Allocations	Amount of the Credit Allocated (expressed in SDR)
Single Withdrawal Tranche	13,000,000
TOTAL AMOUNT	13,000,000

C. Withdrawal Tranche Release Conditions

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposits of Credit Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Credit 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 Credit into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. Excluded Expenditures. The Recipient undertakes that the proceeds of the Credit shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Credit 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.

F. Closing Date. The Closing Date is September 30, 2017.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing May 15, 2022 to and including November 15, 2031	1.65%
commencing May 15, 2032 to and including November 15, 2041	3.35%

* 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. “*Ajutor Social*” means the Recipient’s social benefit program which aims to ensure a minimum monthly income guaranteed to disadvantaged families by granting welfare payments determined in accordance with the average monthly income of each family and the need for social assistance, as set forth in Law No. 133 dated June 13, 2008 and published in the Official Gazette No. 179/625 on September 30, 2008.
2. “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
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.
3. "Loan Agreement" means the agreement between the Recipient and the Bank in support of the Program, of the same date as this Agreement, as such agreement may be amended from time to time. "Loan Agreement" includes all appendices, schedules and agreements supplemental to the Loan Agreement.
 4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
 5. "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 November 8, 2016 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, as well as the actions listed in Section I.A of Schedule 1 of this Agreement.
 6. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal 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 General Conditions are hereby modified 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 subsequent Sections in Article II are renumbered accordingly.
3. Section 3.02 is modified to read as follows:

"Section 3.02. *Service Charge and Interest Charge*

(a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

4. 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.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 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.”

7. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 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.”

8. 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 “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.
- (d) A new term called “Interest Charge” is added to read as follows:

 ““Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b).”
- (e) The term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.
- (f) 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”.
- (g) The term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).