

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6274-MD

Financing Agreement

(Economic Governance Development Policy Financing)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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: (i) the actions which the Recipient has already taken or supported under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) 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) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in the amount of twenty-four million nine hundred thousand EURO (EUR 24,900,000) (variously, "Credit" and "Financing").
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Service Charge is the greater of: (a) the sum of three-fourths of one percent (3/4 of 1%) per annum plus the Basis Adjustment to the Service Charge; and (b) three-fourths of one percent (3/4 of 1%) per annum; on the Withdrawn Credit Balance.
- 2.04. The Interest Charge is the greater of: (a) the sum of one and a quarter percent (1.25%) per annum plus the Basis Adjustment to the Interest Charge; and (b) zero percent (0%) per annum; on the Withdrawn Credit Balance.

- 2.05. The Payment Dates are January 15 and July 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 2 to this Agreement.
- 2.07. The Payment Currency is Euro.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, 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 5.05 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.
- 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 thirty (30) 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 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.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.03. For purposes of Section 10.05 (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 ten (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:
 - (a) the Recipient's address is:

Ministry of Finance
Constantin Tănase Street, 7
MD-2005 Chisinau
Republic of Moldova; and
 - (b) the Recipient's Electronic Address is:

Facsimile:	E-mail:
(37322) 221307	elena.matveeva@mf.gov.md
- 6.03. For purposes of Section 11.01 of the General Conditions: (a) The Association's address is:

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

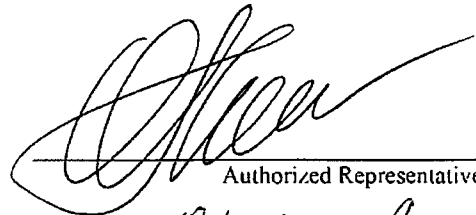
(b) the Association's Electronic Address is:

Telex: 248423(MCI) Facsimile: 1-202-477-6391 Email: aakhalkatsi@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF MOLDOVA

By



Authorized Representative

Name: Octavian Azmașu

Title: Minister of Finance

Date: July 11, 2018

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Anna Akhalkatsi

Title: Country Manager

Date: July 11, 2018

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:
1. The Recipient enacted amendments to its public pension legislation (Law No. 156-XIV of October 14, 1998 on State Social Insurance Pensions, republished in the Official Gazette No. 42-44, dated 2004, as subsequently amended and supplemented), by introducing a new benefit formula and indexation, increasing the retirement age, and streamlining the special pension regimes, as evidenced by paragraphs 13, 17, 30, and 32 of Article III of Law No. 290 of December 16, 2016, published in the Official Gazette No. 478-490 on December 30, 2016, which became effective on January 1, 2017, as amended through the Recipient's Constitutional Court Decision No. 25 on July 27, 2017, published in the Official Gazette No. 352-355, dated September 29, 2017, which became effective on July 27, 2017.
 2. The Recipient enacted legislation to increase specific excise taxes on cigarettes, as evidenced by paragraph 76 (which refers to the content of Annex No. 1 of Title IV) of Law No. 288 of December 15, 2017, published in the Official Gazette No. 464-470, dated December 29, 2017, which became effective on January 1, 2018.
 3. The Recipient enhanced transparency and oversight of SOEs by enacting legislation that:
 - (a) mandates the auditing of the annual financial statements of state/municipal enterprises which are part of the medium, large, or public interest category, as evidenced by Article 11 of Law No. 246 of November 23, 2017, published in the Official Gazette No. 441-450 dated December 22, 2017, which became effective on December 22, 2017, as amended by Law No. 39 of March 16, 2018, published in the Official Gazette No. 113-120 dated April 6, 2018;
 - (b) classifies Large SOEs as public interest entities and obligates them to prepare financial statements under IFRS, as evidenced by Articles 3, 4, and 5 of Law No. 287 of December 15, 2017, published in the Official Gazette No. 1-6, dated January 5, 2018, which will become effective on January 1, 2019; and
 - (c) establishes improved institutional and funding arrangements for an audit oversight system, as evidenced by Chapter VIII, Section 1 of Law 271 of

December 15, 2017, published in the Official Gazette No. 7-17, dated January 12, 2018, which will become effective on January 1, 2019.

4. The Recipient strengthened its asset declaration regime by:
 - (a) enacting amendments to the NIA Law, the Law on Declaration of Assets and Interests, the Criminal Code, and the Contravention Code, as evidenced by: (i) Articles 19, 27 (paragraph 8) and 36 of Law 132 of 2016, published in the Official Gazette No. 245246 of 2016 ; (ii) Articles 2, 3, pertinent paragraphs of Article 4, Articles 5, 5¹, 7, 9, 12 and 23 and Sections III, IV (C and D); V, VII and VIII (B) of Annex 1 of Law 133 of 2016 published in the Official Gazette No 245246 of 2016; (iii) Article 326¹ of the Criminal Code, published in the Official Gazette No. 72-74 of 2009; and (iv) Article 313¹, 313⁵ and 313⁶ of the Contravention Code, published in the Official Gazette no. 78-84 of 2017 as amended by Law 66 of May 24, 2018, published in the Official Gazette No. 181 of June 1, 2018;
 - (b) adopting a regulation on the methodology for verification of asset declarations and conflicts of interests, as evidenced by: (i) Order No. 4, dated January 22, 2018 as amended by: (i) Order No. 35, dated May 4, 2018; and (ii) Order No. 36 dated May 10, 2018, all issued by the President of NIA.; and
 - (c) launching the NIA's electronic asset declaration and verification system online, as evidenced by: (i) Articles 7 and 24 of the Law on Declaration of Assets; (ii) Decision No. DD-1521816861070 dated March 23, 2108, of the President of the Recipient's Center for Personal Data Protection, on registering the e-integrity system as an automated system for personal data management; and (iii) the following websites: <https://declaratii.ani.md/> and <https://registru.datepersonale.md/rodcap/public/publicShow/180313C1313/>.
5. The Recipient enacted amendments to its legislation on the regulation of entrepreneurial activity (Law No. 160 of July 22, 2011, published in the Official Gazette No. 170-175 on October 14, 2011, as subsequently amended and supplemented), to:
 - (a) streamline requirements for application and the procedure for receiving authorizations, including mandating the use of a one-stop-shop, as evidenced by: (i) paragraphs 6-13 of Article LXXVI of Law 185 of September 21, 2017, published in the Official Gazette No. 371-382 on December 27, 2017; and (ii) Article XI of Law 181 of July 22, 2016, published in the Official Gazette No. 265-276 on August 19, 2016; and

- (b) reduce the list of required licenses, authorizations, and certificates, as evidenced by paragraph 3 of Article LXXVI of Law 185 of September 21, 2017, published in the Official Gazette No. 371-382 on December 27, 2017.
- 6. The Recipient enacted amendments to its legislation to improve farmers' access to agricultural inputs (seeds, seedlings, fertilizers, and pesticides) by simplifying the domestic mandatory requirements for testing and registration for European Union-registered inputs, as evidenced by: (a) Article II of Law No. 245 dated October 23, 2017, published in the Official Gazette No. 1-6 on January 5, 2018, which amended Law No. 119 dated June 22, 2004, published in the Official Gazette No. 170-175 on October 14, 2011; and Article No. 74 of Government Decision No. 418 dated April 27, 2018, published in the Official Gazette No. 133-141 on April 27, 2018; and (b) Articles I, II and III of Law No. 60 dated May 3, 2018 published in the Official Gazette No. 176-180 (6571-6575) on June 1, 2018 that amend Article 6 of Law No. 728/1996; Article 7, paragraph (2) of Law No. 57/2006 and article 9, paragraph 2) and article 11, paragraph (1) of Law No. 69/2013, respectively.
- 7. The National Bank of Moldova initiated evaluation of compliance by three banks in accordance with the bank governance provisions of the new Law on Banks' Activity (Law No. 202 of October 6, 2017, published in the Official Gazette No. 434-439 dated December 15, 2017, which became effective on January 1, 2018) and the new Regulation on Internal Governance and Risk Management in Banks (Decision No. 146 of June 7, 2017 issued by the Executive Board of the National Bank of Moldova, published in the Official Gazette No. 201-213 dated June 23, 2017), through its on-site and off-site monitoring systems, as evidenced by letter no. dated the letter issued by the Governor of the National Bank of Moldova no. 10-06-04/5/1943 dated April 27, 2018.
- 8. The Recipient has taken steps to improve the transparency and competition in the wholesale electricity market by:
 - (a) the approval of the Guidelines for Annual Procurement of Electricity for the purchase of electricity on the wholesale market (excluding regulated purchase of domestic power generation, power reserves, and emergency supply) as evidenced by Order No. 4, issued by the Ministry of Economy of the Recipient; and
 - (b) the involvement of the Group of Observers in the monitoring of the tender-related process as evidenced by the Report on the Group of Observers available at: <https://www.energy-community.org/news/Energy-Community-News/2017/05/16.html>.

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 is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. 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 EUR)
Single Withdrawal Tranche	24,900,000
TOTAL AMOUNT	24,900,000

C. Withdrawal Tranche Release Conditions.

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. Deposit of Financing Amounts.

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the Recipient's account at the National Bank of Moldova to which the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is July 31, 2019.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15:	
commencing July 15, 2023 to and including January 15, 2043	1.65%
commencing July 15, 2043 to and including January 15, 2048	3.40%

* 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 3.05 (b) of the General Conditions.

APPENDIX

Definitions

1. "ANRE" means the Borrower's National Agency for Energy Regulation established further to Parliament Decision No. 238 dated October 26, 2012 published in the Official Gazette No. 22-25 on February 1, 2013.
2. "Basis Adjustment to the Interest Charge" means the Association's standard basis adjustment to the Interest Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
3. "Basis Adjustment to the Service Charge" means the Association's standard basis adjustment to the Service Charge for credits in the currency of denomination of the Credit, in effect at 12:01 a.m. Washington, D.C. time, on the date on which the Credit is approved by the Executive Directors of the Association, and expressed either as a positive or negative percentage per annum.
4. "Contravention Code" means the Recipient's Law No. 218-XVI of October 24, 2008, published in the Official Gazette No. 3-6/15 dated January 16, 2009 for purposes of establishing general and special principles and provisions in the field of contravention by determining administrative offenses and corresponding sanctions.
5. "Criminal Code" means the Recipient's Law No. 985-XV of April 18, 2002, published in the Official Gazette No. 128-129/1012 dated September 13, 2002, and republished in the Official Gazette No. 72-74/195 dated April 14, 2009.
6. "Energy Community" means the international organization founded by the Treaty establishing the Energy Community signed in October 2005 in Athens, Greece, in force since July 2006, which has as its main objective to extend the European internal energy market rules and principles to countries in South East Europe, the Black Sea region and beyond on the basis of a legally binding framework.
7. "General Conditions" means the "International Development Association General Conditions for IDA Financing, Development Policy Financing", dated July 14, 2017.
8. "Group of Observers" means the group in charge of monitoring the entire process for electricity tendering composed of representatives delegated by the ANRE, Ministry of Economy, Energy Community Secretariat and of the European Union Delegation to the Republic of Moldova.

9. "IFRS" means International Financial Reporting Standards, a set of accounting standards developed by an independent, not-for-profit organization called the International Accounting Standards Board.
10. "Large SOEs" means an SOE that at the reporting date exceeds the limits of two of the following criteria: (a) total assets-318 million lei; (b) income from sales-636 million Lei; and (c) average number of employees during the management period-250, all in accordance with Article 4 of the Recipient's Law No. 287 of December 15, 2017, published in the Official Gazette No. 1-6 on January 5, 2018, which will become effective on January 1, 2019.
11. "Law on Declaration of Assets and Interests" means the Recipient's Law No. 133 of June 17, 2016, published in the Official Gazette No. 245-246 dated July 30, 2016, as amended by Law No. 305 of December 21, 2017, published in the Official Gazette No. 7-17, dated January 12, 2018.
12. "National Bank of Moldova" means the Recipient's Central Bank established further to Presidential Decree dated June 4, 1991 and in accordance with Article I of the Law on the National Bank of Moldova No. 548-XIII of July 21, 1995, published in the Official Gazette; No. 56-57/624 on December 10, 1995.
13. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated May 18, 2018 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 and comprising actions taken, including those set forth in Section I of Schedule I to this Agreement, and actions to be taken consistent with the program's objectives.
14. "NIA" means the Recipient's National Integrity Authority.
15. "NIA Law means the Recipient's Law No. 132 of June 17, 2016, published in the Official Gazette No. 245-246 of July 30, 2016, as amended by Law No. 178 of July 21, 2017, published in the Official Gazette No. 301-315 dated August 18, 2017, and Law No. 305 of December 21, 2017, published in the Official Gazette No. 7-17, dated January 12, 2018.
16. "Official Gazette" means *Monitorul Oficial*, the Recipient's Official Gazette.
17. "Signature Date" means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to "the date of the Financing Agreement" in the General Conditions.

18. "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.
19. "SOE" means a state-owned enterprise of the Recipient.