Financing Agreement

(Economic Recovery Development Policy Financing)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 12, 2010
FINANCING AGREEMENT

Agreement dated August 12, 2010, 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 of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate 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.

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 sixteen million and six hundred thousand Special Drawing Rights (SDR 16,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 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 US 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 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 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 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 one hundred and twenty (120) days 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
Cosmonautilor Street, 7
277005 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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.

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

REPUBLIC OF MOLDOVA

By /s/ Vladimir Filat
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Robert B. Zoellick
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:

1. The Recipient has allocated MDL 582.9 million for road maintenance in the 2010 Budget through Law No. 138 dated December 29, 2009.

2. The Government has adopted the Government Decision No. 167 dated March 9, 2010 on the Regulation of the Use of Agricultural Support Fund Resources aiming to redirect the subsidy scheme to increase support for investment while reducing recurrent subsidies in the agriculture sector.

3. To improve targeting accuracy of the new TSA and increase its coverage of the extremely poor segment of population, the Government has adopted Government Decision No. 37 dated February 2, 2010 that: (i) revises proxies system to improve targeting; (ii) ignores cadastre income for households consisting of exclusively elderly, disabled or children; and (iii) reintroduces income “disregard” in calculation of the household’s monthly income of applicants.

4. To prevent Nominative Compensation from expanding at the cost of the new social assistance scheme, the Recipient has adopted: (i) Law No. 135 dated December 29, 2009 to freeze the level of Nominative Compensation for utilities payments for current beneficiaries and not introduce new beneficiaries; and (ii) Government Decision No. 19 dated January 19, 2010 to abolish child allowance of 54 MDL per child and integrate small child benefit into the new TSA.

5. The Recipient has adopted Law No. 31 dated October 7, 2009 and Government Decisions No. 597 dated October 21, 2009 and No. 793 dated December 2, 2009 to liberalize wine exports by: (i) abolishing restrictions on the exports of bulk wine, grapes for wine, and distilled wine; (ii) eliminating the certification requirement for each shipment of wine; (iii) eliminating the state trademarks on alcoholic products for export; and (iv) dissolving the independent agency “Moldova Vin” and delegating its functions to the Ministry of Agriculture and Food Industries.


7. The Recipient has ensured that ANRE established district heating tariff for the City of Chisinau at a level sufficient to allow “Termocom S.A.” to be current on its payables while implementing capital programs submitted in its tariff

8. The Recipient has ensured protection for poor segment of population from higher heating prices through the adoption of Law No. 15 dated February 26, 2010 for Social Compensations for the Cold Period of the Year 2010 and Government Resolution No. 162 dated March 5, 2010.

9. The Recipient has implemented the de-monopolization of the cross-border fiber optic cable access through:

   (i) Issuance of the Government letter to MTIC dated January 29, 2010 and MTIC’s letter to ANRCETI dated February 22, 2010 which provided formal confirmation of the legal rights of all licensed electronic communications service providers (ECSPs) to construct and operate cross-border telecommunications cable facilities; and

   (ii) ANRCETI’s letters of approval dated March 31, 2010 of two ECSP’s requests to construct and operate a cross-border telecommunications cable facility from permitted ECSPs.

10. The Government has approved and submitted to the Parliament the amendments to the Law on State Registration of Companies No. 220 dated November 19, 2007 to enable the Chamber of State Registration to become a one-stop-shop for registration for health, statistical and social insurance purpose through Government Decision No. 282 dated April 15, 2010.

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 tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>16,600,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>16,600,000</td>
</tr>
</tbody>
</table>
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 appropriateness of the Recipient’s macroeconomic policy framework.

D. 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 the Recipient State Treasury account with NBM; 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.

E. 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.

F. Closing Date. The Closing Date is December 31, 2010.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 15 and September 15 commencing September 15, 2020 to and including March 15, 2030</td>
<td>5%</td>
</tr>
</tbody>
</table>

* 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. **“ANRCETI”** means the Recipient’s National Agency for Regulation of Electronic Communications and Information Technology established through the Government Decision No. 905 dated July 28, 2008.


3. **ECSPs** means licensed electronic communications service providers.

4. **“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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including</td>
</tr>
<tr>
<td>No.</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

(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.

5. “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.

6. “MDL” means Moldovan Lei which is the lawful currency of the Recipient.

7. “MTIC” means the Recipient’s Ministry for Information Technology and Communications.

8. “NBM” means the National Bank of Moldova.

9. “Program” means the program of actions, objectives and policies designed to adequately fund priority expenditures for economic recovery and social protection during the fiscal correction period, while laying the foundation for a sustained post-crisis recovery though exports and private investments and set forth or referred to in the letter dated May 5, 2010 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.
10. “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 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. 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”.