REPORT NO.: RES41570

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

TAX ADMINISTRATION MODERNIZATION PROJECT

(APPROVED ON JUNE 6, 2016)

TO

REPUBLIC OF MOLDOVA

SEPTEMBER 14, 2020

GOVERNANCE

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

CBA	Cost-benefit analysis
CIT	Corporate Income Tax
DLI	Disbursement Linked Indicator
DLP	Data Loss Protection
DLR	Disbursement Linked Result
ECA	Europe and Central Asia
EEP	Eligible Expenditure Program
EUR	Euro
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IRR	Internal Rate of Return
IT	Information technologies
ITMS	Integrated Tax Management System
MDL	Moldovan Leu
MoF	Ministry of Finance
NPV	Net Present Value
PBC	Performance-Based Condition
PDO	Project Development Objective
POM	Project Operational Manual
RBF	Results Based Financing
RF	Results Framework
RMS	Remote Monitoring System
SDR	Special Drawing Right
STEP	Systematic Tracking of Exchanges on Procurement
STS	State Tax Service
TA	Technical Assistance
TAMP	Tax Administration Modernization Project
ToR	Terms of reference
VAT	Value added tax
USD	United States Dollar

MOLDOVA

Tax Administration Modernization Project

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BASIC DATA

Product Information

Project ID	Financing Instrument
P127734	Investment Project Financing
Original EA Category	**Current EA Category**
Not Required (C)	Not Required (C)
Approval Date	**Current Closing Date**
06-Jun-2016	30-Nov-2023

Organizations

Borrower	Responsible Agency
The Ministry of Finance	The State Tax Service

Processing (this section will be automatically removed by the system before the paper is disclosed)

Form Type	Based on the proposed changes this Restructuring type is
Full Restructuring Paper	Level 2

Decision Authority

Board/AOB Decision

Explanation of Exception to Decision Authority

The proposed Level Two restructuring involves significant change to the Project Development Objective (PDO) and design. Specifically, USD15 Million or 75% of the original Bank-financing of USD 20 Million will now be reallocated to supporting COVID-19 response measures. The revised scope, current context and current closing date, will no longer allow for the achievement of improved revenue collection and tax compliance which were key elements of the original PDO of "to improve revenue collection, tax compliance and tax services". Thus, the proposed new PDO is “to support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova.”

Project Development Objective (PDO)

Original PDO

To improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova

Summary Status of Financing (US$, Millions)

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IBRD-86250	06-Jun-2016	28-Jun-2016	25-Jan-2017	30-Nov-2023	12.58	0	0
IDA-58290	06-Jun-2016	28-Jun-2016	25-Jan-2017	30-Nov-2023	7.42	1.91	5.53

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

A. Project Status

1. **The Tax Administration Modernization Project (TAMP) was approved in June 2016 and restructured in June 2019.** The TAMP, financed by an IDA Credit (IDA-58290) of USD 7.42 Million and an IBRD loan (IBRD-86250) of USD 12.58 Million, for a total Bank financing of USD 20 Million, was performing less than satisfactory in its early years of implementation. The Project was first restructured in 2019 to improve its performance and better align the Project activities with the State Tax Service's (STS) ongoing tax modernization activities. The 2019 restructuring introduced a new Results-based Financing (RBF) Component to incentivize effective implementation of reforms and allocated to it USD 3 Million of the IDA financing; revised the Results Framework (RF); adopted a new implementation approach for the Integrated Tax Management System (ITMS) solution; and extended the Project closing date by 23 months to complete and operationalize the ITMS. The Letters of Amendments to the Loan and Financial Agreements were signed by the Government of Moldova on August 2, 2019, ratified by the Parliament in October 2019 and came into effect on January 16, 2020.

2. **The Government of Moldova has progressed with the implementation of RBF activities.** The RBF Component aimed to provide financing for Eligible Expenditure Programs (EEPs) that support the Government of Moldova's efforts at increasing efficiency of tax policy and tax administration, including strengthening the operational capacity of the STS. In line with the original project development objective (PDO) of improving revenue collection, tax compliance and taxpayer services, five disbursement linked indicators (DLIs, now referred to as Performance-Based Conditions or PBCs) were introduced: (i) PBC/DLI1: increasing nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220; (ii) PBC/DLI2: supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle; (iii) PBC/DLI3: improving the usability of the STS website; (iv) PBC/DLI4: strengthening the capacity of STS staff to deliver taxpayer services; and (v) PBC/DLI5: introducing an electronic taxpayer survey tool. As of August 2020, the restructured Project has progressed well with respect to the RBF Component with disbursement of USD 0.798 Million, accounting for 41.9% of the total current disbursements against Bank financing. It has fully achieved PBC/DLI2 and fulfilled the first disbursement linked result under PBC/DLI4 with the development of a Manual on Taxpayer Services. In July 2020 the STS signed the contract for developing its new website that will support the achievement of PBC/DLI3. Achievement of the five PBCs/DLIs planned for 2020 would result in the disbursement of about USD 2 Million.

3. **However, overall progress towards achievement of the PDO and implementation progress were downgraded to moderately unsatisfactory in the Implementation Summary and Results Report (ISR) of May 2020 due to implementation delays and non-completion of planned activities under the non-RBF components.** Specifically, the procurement of services to develop bidding documents for ITMS has been suspended, making impossible further progress under Component 3: IT Infrastructure and System Modernization that accounts for USD 15.76 Million or 78% of Bank financing. In late December 2019, the STS put on hold further progress on ITMS-related procurement due to several Government Orders related to the development of specific Information Technology (IT) Modules for tax services. These Orders necessitate changes to the scope and implementation approach of the ITMS that had been agreed with the Bank as part of the 2019 restructuring.

4. **In March 2020, the Government of Moldova began to mobilize a pandemic preparedness response to manage the impact of COVID-19 in the country.** The Preparedness and Response Plan was approved by the Resolution of the Extraordinary Commission for Public Health (Number 7) on March 13, 2020. The Plan covers key areas such as coordination of preparedness and response, epidemiological surveillance, and case investigation and rapid response. Funds intended for exceptional situations, including the Government emergency funds and reserve funds, are managed in accordance with approved Government regulations. On March 17, 2020, Moldova's Parliament declared a state of

emergency until May 15, 2020 which introduced a set of measures aimed at slowing the spread of the virus**.** Critical restrictions were imposed on movement, in line with social distancing practices similar to those in other countries. Temporary restrictions were imposed on economic activity. Businesses considered non-essential were ordered to stop operations. All educational institutions and many public venues were closed. Strict transportation restrictions were introduced: air and rail traffic were suspended, and 70 of Moldova's 81 land border crossings with Romania and Ukraine were closed. Additional quarantine measures have followed. Also, the Government prohibited Moldovan economic operators and manufacturers from exporting medical equipment and medical supplies and materials. Further, the authorities adopted a set of economic measures to ease the immediate impact of the crisis, including the introduction of tax relief measures to support businesses. The Government delayed payment of income tax from entrepreneurial activity, suspended tax inspection visits during the state of emergency, postponed the payment of income tax for 2019 for individual entrepreneurs, farmers, non-VAT payers, and small and medium-sized enterprises, and introduced tax subsidy programs.

5. **State of National Emergency was substituted by the National Public Health Emergency in May 2020.** Since the start of the outbreak, Moldova has seen a continuous progressive rise in confirmed COVID-19 cases. After the expiration of State of National Emergency, the National Public Health Emergency was declared starting from May 16 onwards through at least August 2020. As of August 17, 2020, the country had recorded 30,183 COVID-19 infection cases, 21,543 (71.4%) individuals that have recovered, and 897 (3%) people that have died. The near-term impact of COVID-19 on the Moldovan economy is expected to be negative. Due to COVID-19 the Moldovan economy faces recession in 2020 caused by the lockdown and the interruption in the country's economic ties with the EU and Russia through trade, remittances, and commodity channels, as well as financial sector.

6. **The Government requested Bank's support to its efforts to mitigate the fiscal impact of the COVID-19 pandemic.** As a result of the decline of economic activity, the economic agents in the country face financial constraints to continue their activities, retain employees by paying salaries, and meet companies' tax obligations. All of this, eventually, will affect revenue collection in the short and mid-term. According to the Ministry of Finance of Moldova (MoF) scenario specified for 2020, state budget revenues will decrease by around 2.8% of GDP. A comprehensive fiscal package has been adopted per the 2020 State Budget Amendment. (See Box 1.)

Box 1. Moldova: Relief Stage Response to COVID-19

Health & Social Protection Measures	Support to Businesses	Support to Financial Sector
-Increased spending on urgent health care needs -Increased budget for mortgage guarantee program -Protect employment through subsidies provided to businesses	-Tax Relief through subsidies, delayed tax payments, suspending tax audits/controls -Subsidies on interest payments	-Eased liquidity provision

7. **Specifically, the Government, through the Ministry of Finance (MoF), requested support in implementing its tax-related conditional subsidy programs aimed at both supporting business survival and protecting employment.** To support business survival, boost liquidity and sustain employment levels, the Government adopted two temporary conditional subsidies programs: (i) subsidies to firms that have continued to pay salaries/allowances while on technical and /or stationary unemployment status during the declared state of emergency (payroll subsidies);[1] and (ii) granting

[1] The Commission for Exceptional Situations of the Republic of Moldova has approved the Payroll Subsidies Program by the Provision #16 of April 10, 2020. The Ministry of Finance has approved the relevant Regulation by its Order #58 dated April 29, 2020. Total estimated cost of the Program is USD 16.6 million. The period covered by the program is the period of the first state of emergency (60 days, until May 15, 2020)

firms, which are not eligible for VAT refund per provisions of the Tax Code, the right to receive subsidies based on the VAT refund mechanism (VAT subsidies), provided the companies are operating after the lifting of the first State of Emergency (May 15, 2020) until December 2020. This is a subsidy program as provided in "Chapter II of Law 60/2020 on the establishment of support measures of entrepreneurial activity and change some normative acts". This temporary program will run in parallel with the regular VAT refund program. The beneficiary firms will receive an amount equivalent to their applicable income tax and social contributions paid during the first state of emergency for the payroll subsidies and after the first state of emergency through December 2020 for VAT subsidies, but with limits. These limits include, among others, (i) cumulative subsidy cannot exceed amounts in VAT 2019 declaration, and (ii) monthly average of income and social withholding cannot exceed those registered in February 2020; otherwise, the amount declared in February will be used in calculating the subsidy. The State Budget has been amended to foresee the program related expenditures (Law #61 as of April 23, 2020). Total estimated cost of the Program is USD 55 Million.

8. **The MoF, as a Borrower and Recipient of the TAMP, requested the Bank to reallocate funds intended for the ITMS to COVID-19 mitigating activities in the amount of USD 15 Million to support both programs.** This will indirectly support sustaining revenue collection in line with the current PDO but only in the medium to long-term and beyond the current closing date of the Project. Accordingly, the current PDO will need to be revised to reflect the more immediate goal of supporting business survival through temporary tax relief in the context of COVID-19 while maintaining part of the original PDO that is oriented to improving tax services. (MoF letter number 15/2-14/211 dated June 13, 2020).

9. **In addition, the STS proposed to procure two IT software solutions that will allow for business continuity for the tax agency and improved taxpayer services under situations requiring quarantine.** The STS proposes to acquire a Remote Monitoring System (RMS) for Tax Inspectors and a Data Loss Protection (DLP) software. Together, these would enable the STS to continue performing functions that contribute to improving compliance and uninterrupted and secure service to taxpayers in the event of the recurrence of the pandemic or similar emergencies. In addition, implementation of both software will contribute towards improving tax administration and ultimately taxpayer services.

a) **The RMS will allow STS to monitor allocated tasks across employees and to confirm staff are actually working when on home-based work.** The RMS will greatly help STS to improve task management, both in terms of efficiency and quality. RMS will save many of the administrative resources currently used in this heavily manual process. STS plans to deploy these savings by shifting excess tax inspectors from administrative support work to the front line, taxpayer-facing operations in Taxpayer Service and Arrears unit. Additional tax inspectors in Taxpayer Service will be able to help educate taxpayers on their filing and paying responsibilities, thereby reducing the number of those who become delinquent. In the medium to long-term, the additional tax inspectors in the Arrears unit will be able to work on arrears inventory more effectively, leading to a decrease in tax arrears. The impact of RMS on improving compliance, specifically through reducing tax arrears will however be indirect.

b) **The DLP will ensure privacy and security of information for users of STS systems including taxpayers.** The STS expects that it will contribute to improving compliance. Voluntary compliance is based in part on taxpayers' confidence in the ability of STS to protect taxpayers sensitive, confidential tax data. As more and more of STS operations are digitalized, taxpayers want assurance that their personal information is not exposed through a cybersecurity breach. Taxpayers who are not confident that STS can protect their data are less likely to comply with their filing and paying requirements. DLP is one tool that will help protect taxpayer data and provide taxpayers with the assurance they seek. Similar to the RMS, the impact of DLP on the compliance indicators will be indirect. Accordingly, this restructuring proposes to drop the original PDO outcome area of improving compliance.

B. Rationale for Restructuring

10. **The Project will need to adapt to remain relevant in the context of COVID-19 pandemic and the immediate needs of the country.** While the current PDO outcome areas remain very important development goals, the country is presently suffering from the immediate effects of the pandemic and needs to mitigate its negative social and economic impacts in the near term. The original outcome areas of improving revenue collection and tax compliance have now been overtaken by the need to support economic recovery and reverse the recession-driven downward trend in revenue mobilization. Specifically, refocusing the Project to COVID-19 response will require reallocation of its funds from the ITMS platform development (which the authorities intend to undertake in future out of the state funds), and a corresponding replacement of the improved revenue collection and tax compliance outcome areas with outcomes focused on sustaining employment and ensuring business survival. This, in its turn, will result in significant revision of the PDO. This proposed restructuring positions the TAMP to support the relief stage measures in Moldova and is consistent with pillar three of the World Bank Group's COVID-19 Crisis Response that focuses on an "economic response for saving livelihoods, preserving jobs, and ensuring more sustainable business growth and job creation by helping firms and financial institutions survive the initial crisis shock, restructure and recapitalize to build resilience in recovery."[2]

11. **The proposed level 2 restructuring aims to support the Government of Moldova in implementing critical tax relief measures that will support business operations and sustain employment levels in the context of the COVID-19 pandemic, and will improve taxpayer services.** The restructuring will support the Government of Moldova in addressing the negative fiscal impact of the COVID-19 pandemic through the implementation of its two conditional subsidy programs: payroll and VAT subsidies. Both programs will enable continued collection of revenues and the continued operation of beneficiary firms while protecting jobs. With salaries and benefits of the employees protected in the immediate term, the employees are better able to meet their needs during the pandemic. Likewise, the restructuring will support the purchase of the DLP and RMS software by the STS to ensure business continuity and improve taxpayer services during situations of quarantine, improve task management, protect taxpayers' data and subsequently improve tax compliance and revenue collection.

12. **Accordingly, the restructuring will revise the Project scope, which necessitates a revised PDO; and to ensure achievement of the revised PDO, the results-based orientation of the Project will be expanded.** The key proposed changes are:

Revised Scope: Under Component 3 (IT Infrastructure and System Modernization), the activities related to ITMS procurement will be cancelled. These ITMS related resources amounting to USD 15 Million will now be reallocated to a new component to support business survival and sustain employment levels in the context of the COVID-19 pandemic through supporting the implementation of the conditional payroll and VAT subsidy programs. The cancellation of the ITMS – which is at the core of modernizing tax administration - limits the Project's ability to effectively improve revenue collection and compliance. On the other hand, continuation of other existing activities and the proposed addition of two new IT software solutions (RMS and DLP) would facilitate improvements in taxpayer services and enhance STS's business continuity, which have become increasingly relevant in the context of the pandemic.

Revised PDO: The PDO will need to be revised as USD 15 Million, 75% of the original Bank-financing of USD 20 Million, will be reallocated to supporting COVID-19 response measures. The revised scope, current context, and current closing date will no longer allow for the achievement of improved revenue collection and tax compliance objectives. Thus, the

[2] World Bank. Saving Lives, Scaling-up Impact and Getting Back on Track: World Bank Group COVID-19 Crisis Response Approach Paper. June 2020.

proposed new PDO is "to support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova."

Expand Results-Orientation. The Project already has one RBF component focused on the original PDO. The restructuring will expand on the Project's results orientation to ensure a focus on results and the achievement of the revised PDO. In this regard, the new component will also be an RBF that will include two PBCs. The first will focus on incentivizing effective and transparent implementation of the mentioned Government programs, ensuring the introduction of a broad public awareness campaign, and using grievance mechanisms with a total allocation of USD 3 Million. The second will focus on rewarding the achievement of results in terms of continuity of business operations and sustained employment with a total allocation of USD 12 Million.

13. Consequently, the following will also be revised: results framework, components and costs with reallocation, disbursement arrangements, project management including fiduciary arrangements, and economic analysis. These changes will not require an extension of the closing date.

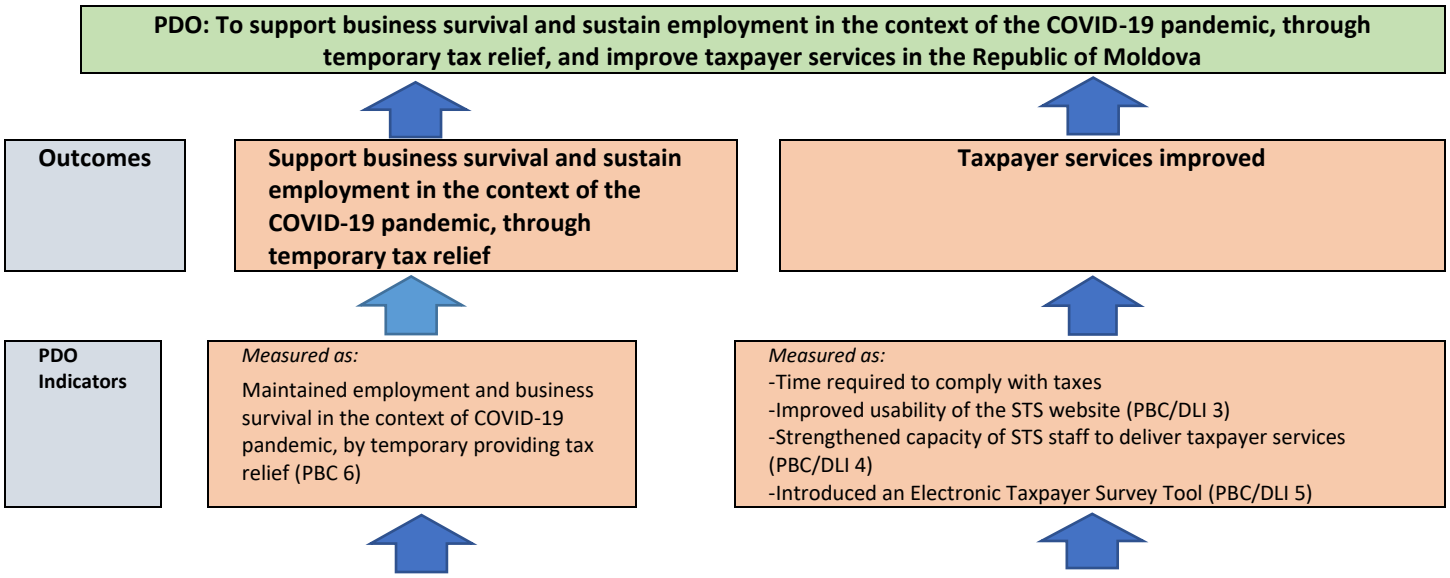
II. DESCRIPTION OF PROPOSED CHANGES

14. The proposed level 2 restructuring requires revision to the following aspects of the Project: (a) PDO; (b) results framework; (c) components and costs; (d) reallocation between disbursement categories; (e) disbursement arrangements and disbursement estimate; (f) project management including fiduciary arrangements; (g) economic analysis; and (h) overall risk rating.

PDO and Results Framework

15. **The PDO will be revised** as follows: "to support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova." Likewise, changes to the Project's theory of change and results indicators are necessary to reflect the proposed restructuring. Figure 1 below presents the new results chain of the Project and Table 1 summarizes those changes.

Figure 1. TAMP: Results Chain / Theory of Change



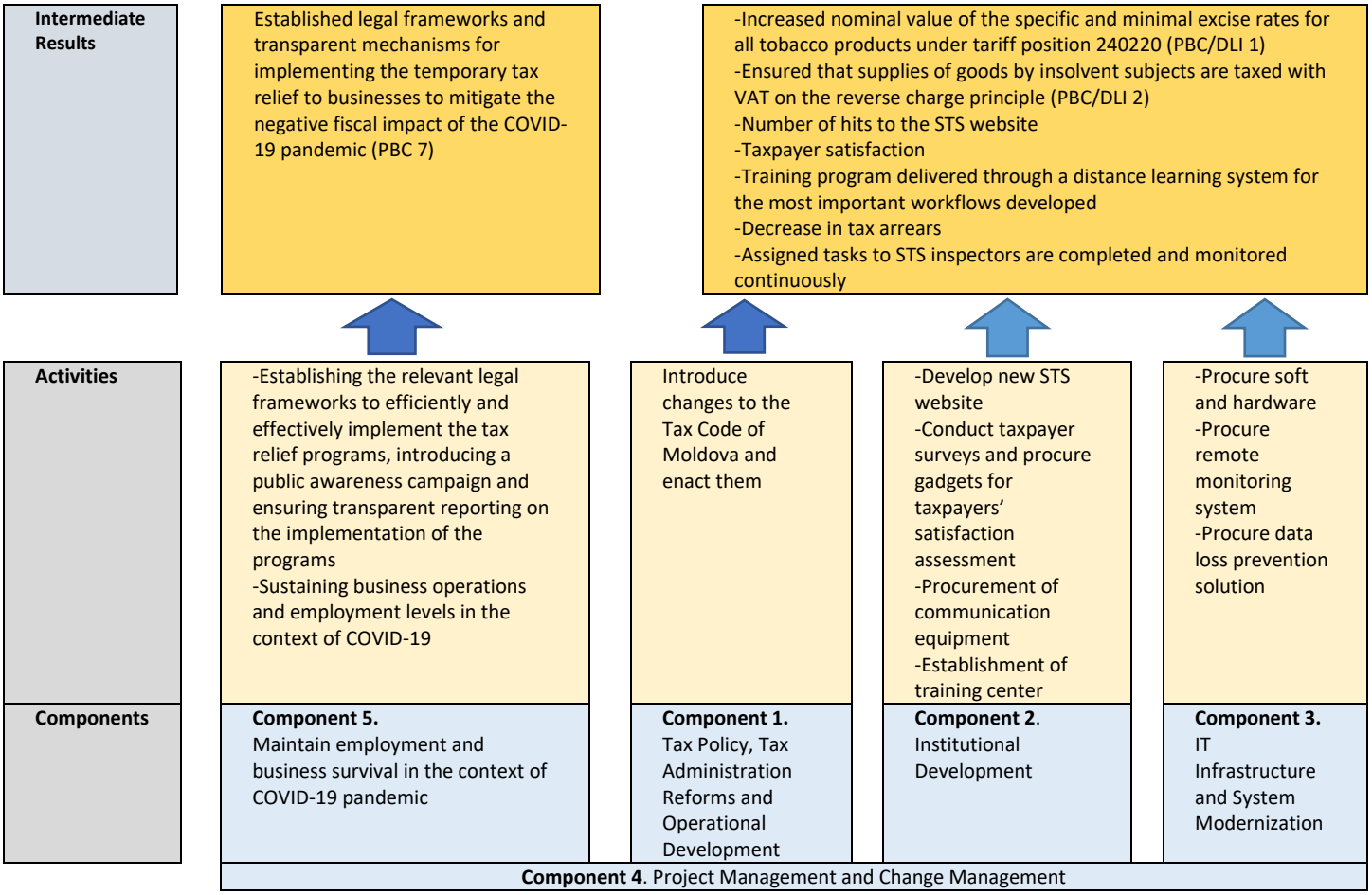


Table 1: Revision of TAMP's Results Framework

Indicators	Revisions	Justifications
PDO Outcome Area: Improve Revenue Collection - Dropped		
DLI 1: *Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220*	**Moved to Intermediate Result Indicators**	To reflect revision in PDO formulation.
DLI 2: *Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle*	**Fully achieved. Moved to Intermediate Result Indicators**	
PDO Outcome Area: Improve Tax Compliance – Dropped		
Share of active taxpayers (legal entities) filing income declarations in total active taxpayers (legal entities)	**Dropped**	Indicators will be dropped since the ITMS will no longer be supported.
Increase in additional tax assessed per audit		
PDO Outcome Area: Support business survival and sustain employment through temporary tax relief in the context of COVID-19 – New		

PBC 7: *Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief*	**New/Add with five Disbursement Linked Results (DLRs)**	To reflect the revised PDO and desired government results in terms of maintained employment and business survival through introduction of two subsidy programs.
PDO Outcome Area: Improve Taxpayer Services - Maintained		
PBC/DLI 3: *Improved the usability of the STS website*	**Moved from "Improve Tax Compliance"**	To reflect revised results chain.
PBC/DLI 4: *Strengthened the capacity of STS staff to deliver taxpayer services*	**Remains unchanged**	
PBC/DLI 5: *Introduced an Electronic Taxpayer Survey Tool*		
Time required to comply with taxes		
Intermediate Results Indicators (IR)		
PBC 1: *Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220*	**Moved from PDO level**	To reflect revised results chain. These PBCs/DLIs were included during the first restructuring to reflect the tax policy reform supported by the Component 1 and under the original PDO outcome area of improved revenue collection.
PBC 2: *Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle.*		
Number of hits to the STS website	**Remains unchanged**	
The distance learning system for the most important workflows developed		
Decrease in tax arrears	**Annual target levels adjusted**	To reflect recent developments.
Taxpayer satisfaction		
Assigned tasks to STS Inspectors are completed and monitored continuously	**New**	To reflect contribution of new activities related to COVID-19 response measures (i.e., RMS))
PBC 7: *Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic*	**New/Added with six Disbursement Linked Results (DLRs)**	To reflect the government measures to mitigate negative fiscal impact of COVID-19 pandemic and new RBF component.

Components and Costs

16. **The existing Components 1 (Support Tax Policy, Tax Administration Reforms and Operational Development) and 2 (Institutional Development) will remain unchanged.**

17. **Component 3 (IT Infrastructure and System Modernization) activities will be significantly revised and cost allocation reduced substantially from USD 15.76 Million to USD 1.18 Million.** The bulk of the funds originally intended to procure ITMS solution will be reallocated towards a new component for COVID-19-related support activities. Earlier planned activities on preparation, supply, and installation of the ITMS as well as hiring of an IT Manager who was

supposed to support ITMS activities, will be excluded from the Project. The STS will continue to develop new IT modules and ensure their integration with the rest of the system using Government own funds. Instead, in response to COVID-19 pandemic emergency needs, the Component will include the purchase of the RMS aimed at enabling the STS to conduct its key operational activities remotely and thus ensure uninterrupted services to taxpayers. The RMS will incorporate two kinds of solutions: (i) task management system to digitalize the entire work assignment process; and (ii) centralized communication system to support work from home option. In addition, working remotely has increased the need for data security. In this regard, under this component, the STS will procure the DLP to detect and prevent potential data breaches/data ex-filtration transmissions by monitoring, detecting, and blocking sensitive data during use (endpoint actions), movement (network traffic), and at rest (data storage). Thus, the component will support the purchase of the hardware and software to ensure modernization and continuity of STS's business operations, including (i) an RMS and (ii) a DLP, as well as the originally planned antivirus licenses for the servers, computers and system operating equipment. Accordingly, the legal description of the component is proposed to be revised to read: "Provision of support for the purchase and installation of tax administration modernization tools, including the provision of relevant hardware and software, and training regarding, *inter alia*, its functions, management reporting and document management tools." This Component will no longer support the hiring of an IT Manager.

18. **The scope of Component 4 (Project Management and Change Management) will be slightly revised with cost allocation reduced from USD 0.59 Million to USD 0.17 Million.** This Component will no longer support the hiring of a Procurement specialist given the changes to Component 3 which significantly reduce the procurement activities of the Project. It will now mainly cover activities on annual financial audits given utilization of own staff by STS to perform most of the functions envisaged under project management. The remaining funds will be reallocated to support COVID-19 related activities.

19. **A new results-based Component 5 – Maintaining employment and business survival in the context of COVID-19 pandemic - will be introduced.** This component will support the implementation of Government programs on granting subsidies for salaries and VAT refund to mitigate the negative fiscal impact of the COVID-19 pandemic. This Component will have two new PBCs. The first (PBC 6) will focus on rewarding the achievement of results in terms of continuity of business operations and sustained employment with a total allocation of USD 12 Million. The second (PBC 7) will focus on incentivizing effective and transparent implementation of the mentioned Government programs, ensuring the introduction of a broad public awareness campaign, and using grievance mechanisms with a total allocation of USD 3 Million.

20. Component 5 will provide financing for Eligible Expenditure Programs (EEPs) that support the Borrower in mitigation of negative fiscal impact of the COVID-19 pandemic. Specifically, this component will support the following:

(i) PBC 6 will support sustaining business operations and employments levels in the context of COVID-19. Disbursements will be made through five DLRs and on a reimbursement basis. DLR 6.1 for USD 2 Million will be achieved once at least 75% of beneficiary firms that will have received payroll subsidies for the payment of allowances/salaries continue to operate in August 2020, while also maintaining reported employment of at least a 60% level compared to April 2020. DLR 6.4 for USD 2.5 Million corresponds to maintaining the same achieved results as under DLR 6.1, but as of October 2020. DLRs 6.2, 6.3, and 6.5 for USD 2.5 Million each correspond to at least 75% of beneficiary firms that received VAT subsidies based on the expanded VAT refund mechanism continuing to operate and maintain reported employment (as of a certain date) of at least 60% of the firms' employment levels in April 2020.

(ii) PBC 7 will support establishing the relevant legal frameworks to efficiently and effectively implement the tax relief programs, introducing a public awareness campaign to ensure adequate information dissemination as well as optimum access by eligible beneficiaries, operationalizing grievance mechanisms and ensuring transparent reporting on the implementation of the programs. Disbursements will be made through six DLRs and on a reimbursement basis. The first and second DLRs (DLR 7.1 and DLR 7.2) each for USD 0.30 Million correspond to the establishment of legal frameworks for granting payroll subsidies and the VAT refund program including measures for eligibility verification and grievance mechanism. They would be paid against results achieved and EEPs paid from March 2020 when COVID-19 response measures were officially adopted by the Government. The third DLR (DLR 7.3) for USD 0.70 Million corresponds to the conducted public awareness campaign. The fourth DLR (DLR 7.4) for USD 0.70 Million corresponds to reporting on the completion of Payroll subsidies program and grievance mechanism, and the fifth DLR (DLR 7.5) for USD 0.50 Million corresponds to the status of VAT subsidies program and grievance mechanism as of August 1, 2020. The sixth DLR (DLR 7.6) for USD 0.50 Million corresponds to the completion report on the implementation of the VAT subsidies program and grievance mechanism.

21. **The proposed new PBCs and their DLRs are verifiable.** The MoF will provide, for verification by the Bank, appropriate Government Regulations and links to the official publications of those documents. The MoF and STS will share adopted Orders and develop specific reports, which will then be reviewed and verified by the Bank team. If needed, the Bank, at its discretion, may engage an external reviewer for support in the verification process. The results framework provides for the agreed verification protocol.

22. **Following the changes in components, the costs per component were revised.** Revisions are presented in Table 2 as follows:

Table 2. Costs per Component

Component	Current Estimates (USD Million)	Revised Estimates (USD Million)
Component 1 (Results Based Financing to Support Tax Policy, Tax Administration Reform and Operational Development)	3.00	3.00
Component 2 (Institutional Development)	0.65	0.65
Component 3 (IT Infrastructure and System Modernization)	15.76	1.18
Component 4 (Project Management and Change Management)	0.59	0.17
Component 5 (Results Based Financing to Support Maintaining Employment and Business Survival in the Context of COVID-19)		15.00
Total Costs	**20.00**	**20.00**

Reallocation between Disbursement Categories

23. **Reallocation of the credit and loan proceeds is necessary to accommodate the changes in components and costs.** PBC 7 will be financed under the IDA Credit No. 5829-MD, while PBC 6 will be financed entirely by the IBRD Loan No.8625-MD. The reallocation between disbursement categories is presented in Table 3, Revised Withdrawal Schedule below:

Table 3. Revised Withdrawal Schedule

IDA Credit

Category	Amount of Credit Allocated (in SDR)	Percentage of Expenditures to be financed
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs for Components 2, 3 and 4 of the Project	902,500	100 %
(2) EEPs under Component 1 of the Project through:		100% of achieved DLI/DLR amount before the date of this Amendment Letter
DLI 1: Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220	0	
DLI 2: Ensured that supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle	476,700	
DLI 3: Improved the usability of the STS website	0	
DLI 4: Strengthened the capacity of STS staff to deliver taxpayer services	110,000	
DLI 5: Introduced an electronic taxpayer survey tool	0	
(3) EEPs under Components 1 and 5 of the Project through:		100% of achieved PBC from the date of this Amendment Letter
PBC 1: Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220	513,300	
PBC 2: Ensured that supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle	0	
PBC 3: Improved the usability of the STS website	440,000	
PBC 4: Strengthened the capacity of STS staff to deliver taxpayer services	110,000	
PBC 5: Introduced an electronic taxpayer survey tool	550,000	
PBC 7. *Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic*	2,197,500	
TOTAL AMOUNT	**5,300,000**	

IBRD Loan

Category	Amount of Loan Allocated (in EUR)	Percentage of Expenditures to be financed
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs for Components 2, 3 and 4 of the Project	660,000	100%
(2) EEPs under Component 5 of the Project through:		100% of achieved

PBC 6. *Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief*	10,439,836.77	PBC
TOTAL AMOUNT	**11,099,836.77**	

Disbursement Arrangements and Estimates

24. For each of the new PBCs/ /DLRs under Component 5, the Recipient will be able to withdraw Credit or Loan proceeds in the amount specified for each target by presenting: (i) evidence of the achievement of the agreed PBCs disbursement linked results (DLRs), which are subject to verification; and (ii) the detail of expenses incurred under agreed budget lines in accordance with the agreed template for budget execution report. Like Component 1, this new RBF component will only utilize the reimbursement method. Likewise, similar to Component 1, the current expenditures of MoF and STS (i.e., maintenance costs without capital investments) will serve as the eligible expenditures for PBC7. For PBC6, in addition to the current expenditures of MOF and STS, the conditional subsidies related payments will also serve as underlying expenditures for PBC 6. Annex 1 presents the list of budget line items eligible under the EEPs. None of the new PBCs/DLIs and DLRs are time-bound. Nevertheless, an indicative timetable for the achievement of the DLRs under the new PBCs/ 6 and 7 are presented in the Performance-Based Conditions Matrix below.

25. Under the IDA Credit, payments against PBCs/DLRs will be in USD and USD value will be determined at the day of each payment by applying SDR/USD exchange rate of the World Bank Treasury. The payments against PBCs/DLRs covered by the IBRD loan will be made in EUR. The Bank will verify both achievement of the new PBC/DLRs and the execution of the eligible expenditures per the agreed Verification Protocol prior to disbursement. The Project proceeds against achieved new PBCs/DLRs will be channeled to a specific USD or EUR Budget Account of the State Treasury, indicated by the Government.

26. The eligible expenditures underpinning the PBCs and DLRs will be included in the annual project audits based on Terms of Reference acceptable to the World Bank.

27. **Withdrawal condition.** The disbursement for payments related to the RBF components will be conditioned on the fulfillment of PBCs (DLRs) and the amount of eligible expenditures incurred equivalent to or higher than the value of the reported PBCs (DLRs).

28. **Scalability approach for PBC 6.** PBC 6 targets will be paid as follows: i) 100 percent of PBC 6 price is paid if 100 percent of target results are achieved for both business continuity and staffing level (i.e., 75 percent of business continuity and 60 percent of staffing level); ii) 80 percent of PBC 6 price is paid if at least 80 percent of target results are achieved for both business continuity and staffing level (i.e., minimum 60 percent of business continuity and 48 percent of staffing level), and iii) 60 percent of PBC 6 price is paid if at least 60 percent of target results are achieved for both business continuity and staffing level (i.e., minimum 45 percent of business continuity and 36 percent of staffing level).

29. The disbursement estimates were also revised to reflect the changes introduced in this restructuring.

Project Management including Fiduciary Arrangements

30. **Project Management.** The MoF and STS will continue to be jointly responsible for the Project with implementing agency responsibilities, including fiduciary, remaining with STS. However, given the proposed changes, STS will no longer require an IT advisor or a Procurement Specialist. For the new Component 5, the STS will review applications for subsidies and endorse to the Treasury for payment. The STS will lead the public awareness campaign and organize support to taxpayers to apply for both programs, including through call centers/phone helpdesks and publications on the STS's website. The STS will also address received grievances. The MoF will be responsible for ensuring proper implementation of the programs.

31. **Effectiveness Condition.** The updated Project Operational Manual (POM) will be an effectiveness condition for the amendment related to this restructuring. The POM will be updated to detail the changes in financial management and disbursement arrangements, including reporting, annual auditing, and flow of funds for the new activities under Component 5, detailed description of PBCs/DLIs and DLRs with verification and confirmation procedures.

32. **Financial Management.** The project financial management arrangements are satisfactory. The Project is in compliance with the financial reporting and auditing requirements: acceptable interim financial reports have been timely received and an unqualified audit opinion was provided on the project financial statements which were prepared as of December 31, 2018. Due to the restrictions imposed by the pandemic situation, the deadline for submission of FY2019 audit has been extended to August 31, 2020. The audit of project financial statements for 2019 has already been completed and unqualified audit opinion was issued on August 19, 2020. The Project will utilize the budget execution reports prepared by MoF for regular financial monitoring and preparation of the Interim Financial Reports. These reports show both planned expenditures for the year and actual expenditures executed to-date and for the basis for annual project financial statements which are subject to audit.

33. **Procurement under Component 5**. No procurements are foreseen under the new Component 5. If, however, the need arises to carry out any procurement as part of Component 5, the procurement will follow the applicable Procurement and Consultant Guidelines.

34. **Procurement under other components:** Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised July 2014 and Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers, dated January 2011 and revised July 2014 will continue to apply to the activities under Components 2-4 of the Project. Updated Procurement Plan resulting from the revision of Project components and costs covering the remaining project implementation period has been discussed and agreed but will be uploaded in STEP (Systematic Tracking of Exchanged in Procurement) after the Project is restructured. The World Bank procurement team will continue to provide support and guidance to STS throughout the project implementation period.

35. **Moreover, IT procurements under the Project will need to adhere to recent Government regulations**. "According to the Government Decision nr. 544 from November 12, 2019, the STS is the subject of the methodical requirements on IT procurements. In correspondence with the p.8 of the Methodological requirements the STS is obliged to:

- initiate the procurement of ICT in strict accordance with the planned and approved budget limits on the basis of the general procurement plan approved by the e-Governance Agency (eGA) in accordance with the provisions of the methodology;

- prior to the start of the procurement process, regardless of the category of its risk, agree on the reasoning of such procurement with the eGA, which will take a decision on this matter and provide recommendations regarding the justification and argumentation of the appropriateness of the procurement;

- prior to the start of the procurement process, regardless of its risk category, they will coordinate with the eGA the documentation related to the procurement process (announcement, terms of reference, qualification criteria, terms of reference, technical task / specification, etc.)

Additionally, STS is obliged to follow other methodological requirements depending on the procurement risk category as defined by the Government Decision."

36. **Environmental and Social Safeguards.** There is no change in the safeguards policies and the Project will continue to be a category "C" post-restructuring. This restructuring will not involve any civil works or the procurement or use of any critical medical equipment in the context of COVID-19 response. From the social perspective, no significant adverse social impacts are anticipated. In order to ensure transparency and accountability, the Project already includes citizen consultations, engagement in the process of re-engineering of tax services, service quality monitoring and use of feedback on perceptions of service quality. In line with the original Project design, the restructured Project will not support any activities that may result in the reduction in staffing levels. The restructured Project supports efforts to maintain employment levels by the firms that received subsidies. Adequate monitoring is in place to ensure firms that received the subsidies continue to operate and are maximizing efforts to retain staff. No major issues are expected regarding exclusion/discrimination in relation to people who are retained on salary as a result of the subsidies. The Project also includes an information sharing system within and among companies/firms. The STS has monitoring and audit systems which include a complaint handling/appeals mechanism (GRM). This grievance mechanism will also be subject to audit (including number of appeals received and follow up measures) and will ensure that needed information is reported and published.

Economic and Financial Analysis

37. **The updated cost-benefit analysis of the revised TAMP confirms that the Project remains feasible and desirable from the economic standpoint, and profitable and beneficial from an investment perspective.** The TAMP restructuring has shifted the focus away from tax compliance and revenue collection towards supporting business survival and employment following the COVID-19 pandemic. While the previous economic analysis assumed the reduction in the time to comply with taxes and deal with tax inspections to be the major benefits to taxpayers, the present analysis focuses on the benefits of preserving employment per the Government programs supported by the revised TAMP. In this regard, for purposes of the economic cost-benefit analysis, a pragmatic approach was adopted that focused on quantifying only the most likely realizable direct benefits of the Project. Hence, the economic benefits quantified were the avoided costs of losing a worker and replacing them. Applying a social discount rate of 14%, the analysis covering 2017-2025 yielded a net present value of USD 1.92 Million and an economic rate of return of 73%. From the financial standpoint, the revised TAMP is expected to generate revenues through increasing the excise rates for tobacco products in accordance with PBC/DLI1, implementation of VAT collection using the reverse charge principle in accordance with PBC/DLI2, and additional collections of employment taxes that otherwise would have been lost if the new subsidy programs were not introduced. Additional employment taxes are projected to come from businesses that retain their employees as a result of the new subsidy programs. Using a discount rate of 15%, the analysis covering 2017-2025 yielded a net present value of USD 28 Million and an internal rate of return of 163%. In addition, the revised TAMP presents other economic and social benefits that were not quantified as part of the cost-benefit analysis. For example, other benefits such as improved functionality and usability of the STS website; enhanced user confidence in

the way that their private data is handled and stored; and increased satisfaction of the STS staff with the services provided are just a few examples of Project benefits not quantified in the economic analysis. (See Annex 2 for details.)

Table 4. Economic Benefits and Costs under the Revised TAMP, 2017-2025

Project Schedule\Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Disbursement plan, mln$	0.1	1.2	0.6	13.0	3.6	1.5	-	-	-	20.0
Economic benefit of avoided re-hiring/Avoided cost 70% in 2020 and 30% in 2021, mln$	-	-	-	16.7	7.1	-	-	-	-	
Net economic profit, mln$	-0.1	-1.2	-0.6	3.7	3.6	-1.5	0.0	0.0	0.0	
Net Present Value, mln$										$1.92
Economic Rate of Return, %										73%

Table 5. Financial Costs and Benefits under the Revised TAMP, 2017-2025

Project Schedule\Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Disbursement plan, mln$	0.1	1.2	0.6	13.0	3.6	1.5	-	-	-	20.0
Benefits from government subsidies/Total incremental employment taxes, 70% in 2020 and 30% in 2021 (mln$)				15.2	6.7					
Benefits from increased tobacco excise revenues, mln$					11.7	12.5	13.5	14.9	16.3	
Benefits from VAT collected on the reverse charged principle, mln$				1.0	1.1					
Net financial profit	-0.1	-1.2	-0.6	3.2	15.9	11.0	13.5	14.9	16.3	
Net Present Value, mln$										$28
Internal Rate of Return, %										163%
FX, USD/MDL	18.4	16.8	17.5	17.5	17.0	17.5	17.8	17.9	18.0	
GDP, billion MDL	178.9	190.0	210.0	213.3	233.4	253.9	276.7	301.6	328.7	

Overall Risk Rating

38. The proposed restructuring, with its revised PDO that now focuses on supporting COVID-19 response measures, lowers the overall risk rating of the Project from Substantial at approval to Moderate given the following considerations:

(i) Political and Governance risk for the restructured Project is lowered to Substantial (from High). While the political context continues to be unstable owing to the short tenure of Government coalitions in Moldova,

support for the restructured Project that focuses on COVID-19 response is expected to be a priority of any administration.

(ii) Macroeconomic risk is lowered to Moderate (from High). The restructured Project supports critical programs of the Government that aim to stabilize the economy.

(iii) Sector Strategies, Technical, and Institutional Capacity risks are lowered to Moderate (from Substantial). The Government programs supported by the restructured Project are clearly articulated with implementation mechanisms manageable within the current capacities of the MoF and STS. In addition, the Project will incentivize a focus on results to ensure that the objectives of the Government programs, that are consistent with the revised PDO to sustain employment and business survival within the COVID-19 context, are achieved.

(iv) Fiduciary risk is also lowered to Moderate given that the restructured Project will no longer finance the ITMS that required a higher level of procurement expertise not currently available within the STS.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Project's Development Objectives	✓	
Results Framework	✓	
PBCs	✓	
Components and Cost	✓	
Reallocation between Disbursement Categories	✓	
Disbursements Arrangements	✓	
Disbursement Estimates	✓	
Overall Risk Rating	✓	
Legal Covenants	✓	
Financial Management	✓	
Economic and Financial Analysis	✓	
Implementing Agency		✓
DDO Status		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Safeguard Policies Triggered		✓
EA category		✓
Institutional Arrangements		✓
Procurement		✓

Implementation Schedule		✓
Other Change(s)		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

PROJECT DEVELOPMENT OBJECTIVE

Current PDO

To improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova

Proposed New PDO

To support business survival and sustain employment in the context of the COVID-19 pandemic, through temporary tax relief, and improve taxpayer services in the Republic of Moldova

COMPONENTS

Current Component Name	Current Cost (US$M)	Action	Proposed Component Name	Proposed Cost (US$M)
Institutional development	0.65	No Change	Institutional development	0.65
IT Infrastructure and system modernization	15.76	Revised	IT Infrastructure and system modernization	1.18
Project management and change management	0.59	Revised	Project management and change management	0.17
RBF	3.00	No Change	RBF. Support Tax Policy, Tax Administration Reforms and Operational Development	3.00
	0.00	New	RBF. Maintaining employment and business survival in the context of COVID-19 pandemic	15.00
TOTAL	**20.00**			**20.00**

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)

				Current	Proposed
IBRD-86250-002 | Currency: EUR					
iLap Category Sequence No: (1)	Current Expenditure Category: Goods, non-consulting services, consultants' services, Training and Operating Co				
	11,099,836.77	0.00	660,000.00	100.00	100.00
iLap Category Sequence No: (2) PBC6	Current Expenditure Category: EEPs under Part 5, PBC 6				
	0.00	0.00	10,439,836.77		100
Total	**11,099,836.77**	**0.00**	**11,099,836.77**		
IDA-58290-001 | Currency: XDR					
iLap Category Sequence No: (1)	Current Expenditure Category: Goods, non-consulting services, consultants' services, Training and Operating Co				
	3,100,000.00	791,953.68	902,500.00	100.00	100.00
iLap Category Sequence No: (2) DLI1	Current Expenditure Category: EEPs under Part 1, DLI#1				
	513,300.00	0.00	0.00	100.00	100.00
iLap Category Sequence No: (2) DLI2	Current Expenditure Category: EEPs under Part 1, DLI#2				
	476,700.00	476,700.00	476,700.00	100.00	100.00
iLap Category Sequence No: (2) DLI3	Current Expenditure Category: EEPs under Part 1, DLI#3				
	440,000.00	0.00	0.00	100.00	100.00
iLap Category Sequence No: (2) DLI4	Current Expenditure Category: EEPs under Part 1, DLI#4				
	220,000.00	110,000.00	110,000.00	100.00	100.00
iLap Category Sequence No: (2) DLI5	Current Expenditure Category: EEPs under Part 1, DLI#5				
	550,000.00	0.00	0.00	100.00	100.00

iLap Category Sequence No: (3) PBC1	Current Expenditure Category: EEPs under Part 1, PBC #1			
	0.00	0.00	513,300.00	100
iLap Category Sequence No: (3) PBC2	Current Expenditure Category: EEPs under Part 1, PBC #2			
	0.00	0.00	0.00	100
iLap Category Sequence No: (3) PBC3	Current Expenditure Category: EEPs under Part 1, PBC#3			
	0.00	0.00	440,000.00	100
iLap Category Sequence No: (3) PBC4	Current Expenditure Category: EEPs under Part 1, PBC#4			
	0.00	0.00	110,000.00	100
iLap Category Sequence No: (3) PBC5	Current Expenditure Category: EEPs under Part 1, PCB#5			
	0.00	0.00	550,000.00	100
iLap Category Sequence No: (3) PBC7	Current Expenditure Category: EEPs under Part 5, PBC#7			
	0.00	0.00	2,197,500.00	100
Total	**5,300,000.00**	**1,378,653.68**	**5,300,000.00**	

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates
Yes

Year	Current	Proposed
2016	0.00	0.00
2017	0.10	0.10
2018	0.70	0.12
2019	3.70	1.23
2020	9.20	1.40

2021	4.20	15.00
2022	2.00	2.00
2023	0.20	0.15

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating at Approval	Current Rating
Political and Governance	High	Substantial
Macroeconomic	High	Moderate
Sector Strategies and Policies	Substantial	Moderate
Technical Design of Project or Program	Substantial	Moderate
Institutional Capacity for Implementation and Sustainability	Substantial	Moderate
Fiduciary	Substantial	Moderate
Environment and Social	Low	Low
Stakeholders	Moderate	Moderate
Other		Moderate
Overall	Substantial	Moderate

LEGAL COVENANTS

Loan/Credit/TF	Description	Status	Action
IDA-58290	Finance Agreement :Project implementation responsibility | Description :The Recipient shall vest the overall responsibility for the implementation of the Project in STS, and to this end, through STS, shall: (a) operate and maintain, throughout Project implementation, the Project Implementation Unit (PIU) with qualified staff in sufficient numbers, as well as adequate funds, premises, services and other resources for Project implementation (including procurement, financial management and monitoring and evaluation), and reviewing and verifying the Annual Reports on the achievement of the DLIs and recommending corresponding payments for approval to the Recipient and the Association, all acceptable to the Association	Partially complied with	Revised

	and described in the Project Operational Manual; (b) ensure that any staff of the PIU financed out of the proceeds of the Credit is selected and hired in accordance with Section III of this Schedule; and (c) no later than ninety (90) days after the Effective Date, have selected and hired the financial management and procurement specialists referred to in Part 5 (b)(ii) of the Project in a manner acceptable to the Association. | Frequency :CONTINUOUS		
Proposed	STS, shall: (a) operate and maintain the Project Implementation Unit (PIU), review and verify the Annual Reports on the achievement of the PBCs/DLIs, and recommend payments for approval, all acceptable to the Association and described in the Project Operational Manual; and (b) ensure that any staff of the PIU financed out of the Credit is hired in accordance with Section III of this Schedule.	CP	
IDA-58290	Finance Agreement :Private sector Advisory Panel | Description :No later than ninety (90) days after the Effective Date, the Recipient/Borrower shall, through the STS, establish and operate, throughout Project implementation, a private sector advisory panel vested with the responsibility to facilitate citizen engagement in the implementation of Project activities, with terms of reference and membership acceptable to the Association/Bank, as described in the POM. | Due Date :31-Oct-2016	Complied with	No Change
IBRD-86250	STS, shall: (a) operate and maintain the Project Implementation Unit (PIU), review and verify the Annual Reports on the achievement of the PBCs/DLIs, and recommend payments for approval, all acceptable to the Bank and described in the Project Operational Manual; and (b) ensure that any staff of the PIU financed out of the Loan is hired in accordance with Section III of this Schedule.	Partially complied with	New

Results framework

COUNTRY: Moldova
Tax Administration Modernization Project

Project Development Objectives(s)

To improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
To improve revenue collection *(Action: This Objective has been Marked for Deletion)*									
Overall efficiency of VAT collection (Percentage)		52.30	53.30						54.70
Action: This indicator has been Marked for Deletion									
DLI: Increased nominal value of the Specific and Minimal Excise Rates for all tobacco products under tariff position 240220 (Text)	PBC 1	Specific rates and minimum excise rates by types of tobacco products as set up in the Tax Code of Moldova in 2017	Draft Law on Changes to the Tax Code aimed at increasing the specific rate and the minimum rate for both cigarettes with filter and without filters on minimum 15 % each for the year 2021 comparing to	The Parliament approved the Law (DLR 1.2)	Specific rates increase came into effect. (DLR 1.3)				Increased specific rates came into effect.

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
			the excise rates from 2020 submitted to the Parliament (DLR 1.1)						
Action: This indicator has been Marked for Deletion									
DLI: Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle. (Text)	PBC 2	Due to the legal gap in provisions which stipulates the process of debt cancellation, at the time transfer of collected VAT insolvent subject does not have liquidity and this creates budget losses.	Draft Law on Changes to the Tax Code of Moldova (Title 3, art 3, 93, 102, 115) submitted to the Parliament (DLR 2.1)	Parliament adopted the Changes to the Tax Code and they came into effect (DLR 2.2).					The adopted changes to the Tax Code came into effect.
Action: This indicator has been Marked for Deletion									
To improve tax compliance *(Action: This Objective has been Marked for Deletion)*									
Share of active taxpayers (legal entities) filing income declarations in		19.35	21.00	86.00	86.00	87.00	88.00	89.00	90.00

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
total active taxpayer (legal entities) (Percentage)									
Action: This indicator has been Marked for Deletion									
Increase in additional tax assessed per audit (Percentage)		0.00	10.00	10.00	15.00	20.00	25.00		34.00
Action: This indicator has been Marked for Deletion									
DLI: Improved the usability of the STS website. (Text)	PBC 3	There are two websites available (one for information only and another one for the submission of tax declarations by taxpayers); there are some gaps in the functionality of both websites.	Single STS website launched with at least the following new features:- Support to requirements of people with special needs;- single STS web page which will allow taxpayers to submit income statements electronically through their personal account	Use of STS website by taxpayers within 1 months of its launch (DLR 3.2)					New STS website is used by the taxpayers

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
			created on the site;- STS web site is synchronized with the state web sites through the automated information exchange (open data);-new searching system which will reflect the final version of the legal documents, specifying all amendments and additions;- feed-back mechanism is available through the online (chat) assistance service (DLR 3.1)						
Action: This indicator has been Marked for Deletion									
To improve taxpayer services									
Time required to comply with taxes (Hours)		186.00	181.00	180.00	180.00	178.00	175.00	173.00	173.00

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Action: This indicator has been Revised	***Rationale:*** ***The ITMS will not be implemented under the Project. Thus the annual and end target levels were slightly revised.***								
DLI: Strengthened the capacity of STS staff to deliver taxpayer services (Text)	PBC 4	There is no a Manual on Taxpayer Services, the staff had no specific trainings.	Manual on taxpayer services is developed and adopted by STS (DLR 4.1)	All eligible staff of the STS, located in all offices, are trained (DLR 4.2).					The Manual is implemented and all eligible staff of STS located in all offices was trained
DLI: Introduced an Electronic Taxpayer Survey Tool (Text)	PBC 5	No tool for taxpayers' regular feedback is in place.	Pilot of the electronic taxpayer survey mechanism is completed and training courses for the designated staff to support the roll-out are conducted, and the roll-out is initiated (DLR 5.1)	Evaluation report on Roll-out results for six months of implementation (DLR 5.2).					The tool is implemented.
Improved the usability of the STS website (Text)	PBC 3	There are two websites available (one for information only and another one for the submission of tax declarations by taxpayers);	Single STS website launched with at least the following new features: - support to requirements of people with special	Use of STS website by taxpayers within 1 month of its launch					New STS website is used by taxpayers

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
		there are some gaps in the functionality of both websites.	needs; - single STS web page which allow taxpayers to submit income statements electronically through their personal account created on the site; - STS website is synchronized with the state websites through the automated information exchange (open data); - new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; - feedback mechanism is available through						

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
			the online (chat).						
Action: This indicator is New	***Rationale:*** ***This indicator is moved from "Improve Tax Compliance" as this outcome area was deleted for the revised PDO.*** ***This PBC/DLI indicator has been included with two DLRs during the first restructuring.***								
Support business survival and sustain employment in the context of COVID-19 through temporary tax re *(Action: This Objective is New)*									
Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief (PBC 6) (Text)	PBC 6	No government programs to support business continuity and sustain employment in the context of COVID-19 pandemic	At least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries until August 1, 2020 continue to operate in August 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.1)	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism up to August 31, 2020 continue to operate in September 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.2)	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism from September 1-30, 2020 continue to operate in October 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.3)	At least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries continue to operate in October 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.4)	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism from October 1 to November 30, 2020 continue to operate in December 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.5)		75% of beneficiary companies that received subsidies under the payroll and expanded VAT refund mechanisms continued operation and maintained employment at 60% level compared to April 2020
Action: This indicator is New	***Rationale:*** ***This is a new PBC with five DLRs under the new RBF Component 5. The indicator reflects the desired government results in terms of maintained employment and business survival through introduction of two subsidy programs on payroll and VAT refund.***								

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Institutional development									
Taxpayer satisfaction (Text)		Legal entities - 76,3% and Individuals – 69,2%.	Baseline survey conducted with data disaggregated by gender, results and suggested actions of the STS to address weaknesses are published on the STS website.	Legal entities – 83,9% and Individuals – 76,1%. Satisfaction increase - 10% (compared to baseline) Mid-project survey conducted with data disaggregated by gender; results and suggested actions of the STS to address weaknesses are published on the STS website.					Satisfaction increase - 10% (compared to baseline) Final survey conducted with data disaggregated by gender. Results and suggested actions of the STS to address weaknesses are published on the STS website.
Action: This indicator has been Revised	***Rationale:*** ***Given that the implementation of the ITMS will not be done under the project, it is proposed to keep the target of 2021 year as the end target as well.***								
The Training Distance Learning System for the most important		The list of training programs is not identified	Seven training courses to support the distance	Ten training courses to support for the distance	Twelve training courses to support the distance	Training courses with topics and content of major			All identified distance learning courses to support

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
workflows developed (Text)			learning training programs identified by domains are developed.	training programs identified by domains are developed	training programs identified by domains are developed	importance for STS placed on the platform and available for training.			for the most important workflows are developed and updated.
Action: This indicator has been Revised	***Rationale:*** ***The wording of the intermediate target 4 is improved.***								
Number of hits to the STS web-site (Number (Thousand))		3,570,004.00	3,900,000.00	6,900,000.00	7,000,000.00	7,050,000.00	7,100,000.00		7,150,000.00
IT Infrastructure and System Modernization *(Action: This Component is New)*									
Assigned tasks to inspectors are completed and monitored continuously (Percentage)		0.00							100.00
Action: This indicator is New	***Rationale:*** ***This new indicator will reflect the impact of the use of the Remote Monitoring System that will allow the STS to ensure continuous assignment of tasks to its inspectors and monitoring of their fulfillment regardless of inspectors work from office or remotely.***								
RBF: Support in tax policy and tax administration reforms									
Decrease in tax arrears (Percentage)		8.50	6.68	6.67	6.48	6.48			6.48
Action: This indicator has been Revised	***Rationale:*** ***Annual target level for 2020 was slightly increased and its level is kept as an end target.***								

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Increased nominal value of the specific and minimal excise for all tobacco products under tariff position 240220 (PBC/DLI 1) (Text)	PBC 1	Specific rates and minimum rates by types of tobacco products as set up in the Tax Code of Moldova in 2017	The Government of Moldova submitted to the Parliament a draft Law on Changes to the Tax Code aimed at increasing the specific rate and the minimum rate for both cigarettes with filter and without filters on minimum 15% each for the year 2021 comparing to the excise rates from 2020 (DLR 1.1)	The Parliament approved the Law (DLR 1.2)	Increased specific rates came into effect (DLR 1.3)				Specific rates came into effect
Action: This indicator is New	***Rationale:*** ***This PBC/DLI has been moved from PDO level indicators due to deletion of the original outcome area on improving revenue collection from the revised PDO. This PBC/DLI with three DLRs has been included during 2019 restructuring to reflect the tax policy reform supported by the RBF Component 1 introduced in 2019.***								
Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse	PBC 2	Due to the legal gap in provisions which stipulates the process of debt cancellation,	The Government submitted to the Parliament a Draft Law on Changes to the Tax Code of	The Parliament adopted the Changes to the Tax Code and they come into effect.					The adopted changes to the Tax Code came into effect

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
charge principle (PBC/DLI 2) (Text)		at the time transfer of collected VAT insolvent subject does not have liquidity and this creates budget losses.	Moldova (Title 3, art 93,94,102,115) (DLR 2.1)	(DLR 2.2.)					
Action: This indicator is New	***Rationale:*** ***This PBC/DLI has been moved from PDO level indicators due to the deletion of the original outcome area on improving revenue collection in the revised PDO. This PBC/DLI with two DLRs has been included during 2019 restructuring to reflect the tax policy reform supported by the RBF Component 1 introduced in 2019. This PBC/DLI has been already achieved in full (January 2020).***								
Support Maintaining Employment and Business Survival in the Context of COVID-19 Pandemic *(Action: This Component is New)*									
Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic (PBC 7) (Text)	PBC 7	Legal frameworks for mechanisms to sustain tax revenue collection through support to business continuity that ensured transparency are not available	Regulation on implementation of subsidies for the payment of allowances/ salaries is approved and among others includes measures of eligibility verification and grievance mechanisms (DLR 7.1)	Regulation on implementation of subsidies based on expanded VAT refund mechanism is approved and among others includes measures of eligibility verification and grievance mechanisms (DLR 7.2)	Public awareness campaign and support to taxpayers in obtaining subsidies and VAT refunds are introduced and ongoing (DLR 7.3)	Completion report on the implementation of Payroll Subsidies program is made public (DLR 7.4)	Interim report on VAT Refund program implementation is published (DLR 7.5)	Report on VAT refund program covering payments made for applications received from start of program until December 2020 is published (DLR 7.6.)	Legal frameworks are established and reports on implementation of Payroll Subsidies and VAT refund programs are available

Indicator Name	PBC	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Action: This indicator is New	***Rationale:*** ***This is a new PBC with six DLRs under new RBF Component 5. The aim is to reflect the government measures to mitigate negative fiscal impact of COVID-19 pandemic and sustain the revenue collection***								

Performance-Based Conditions Matrix

PBC 1	DLI: Increased nominal value of the Specific and Minimal Excise Rates for all tobacco products under tariff position 240220			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Text	700,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	Specific rates and minimum excise rates by types of tobacco products as set up in the Tax Code of Moldova in 2017			
December 2019	Draft Law on Changes to the Tax Code aimed at increasing the specific rate and the minimum rate for both cigarettes with filter and without filters by a minimum of 15 % each for the year 2021 comparing to the excise rates from 2020 submitted to the Parliament. (DLR 1.1)		350,000.00	50% of DLI1 allocation;1.75% of total financing.
December 2020	The Parliament approved the Law (DLR1.2)		140,000.00	20% of DLI1 allocation;0.7%of total financing.

December 2021	Specific rates increase came into effect. (DLR 1.3)	210,000.00	30%of DLI1 allocation;1.05% of total financing.
August 2020		0.00	
September 2020		0.00	
October 2020		0.00	
November 2020		0.00	
February 2021		0.00	
Action: This PBC has been Revised. See below.			

PBC 1	*Increased nominal value of the specific and minimal excise for all tobacco products under tariff position 240220 (PBC/DLI 1)*			
Type of PBC	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Outcome	*Yes*	*Text*	*700,000.00*	*0.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*Specific rates and minimum rates by types of tobacco products as set up in the Tax Code of Moldova in 2017*			
December 2019	*Draft Law on Changes to the Tax Code aimed at increasing the specific rates and the minimum rates for both cigarettes with filter and without filters by a minimum of 15% each for the year 2021 comparing to the excise rates from 2020 submitted to the Parliament (DLR 1.1)*		*350,000.00*	*50% of DLI1 allocation;1.75% of total financing.*
December 2020	*The Parliament approved the Law (DLR 1.2)*		*140,000.00*	*20% of DLI1 allocation;0.7%of total financing.*

December 2021	*Specific rates increase came into effect (DLR 1.3)*	*210,000.00*	*30%of DLI1 allocation;1.05% of total financing.*
August 2020		*0.00*	
September 2020		*0.00*	
October 2020		*0.00*	
November 2020		*0.00*	
February 2021		*0.00*	

Rationale:
This PBC/DLI 1 was included during first project restructuring in 2019. In view of the revision in the PDO, this PBC/ DLI 1 is moved to Intermediate Results Indicators level.

PBC 2	DLI: Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle.			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Text	650,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	Due to the legal gap in provisions which stipulates the process of debt cancellation, at the time transfer of collected VAT insolvent subject does not have liquidity and this creates budget losses.			
December 2019	Draft Law on Changes to the Tax Code of Moldova (Title 3, art 3, 93 102, 115) (DLR 2.1) submitted to the Parliament (DLR 2.1)		455,000.00	70% of DLI2 allocation;2.275% of total financing.

December 2020	Parliament adopted the Changes to the Tax Code and they came into effect (DLR 2.2).	195,000.00	30% of DLI2 allocation, 0.975% of total financing.
December 2021		0.00	0%
August 2020		0.00	
September 2020		0.00	
October 2020		0.00	
November 2020		0.00	
February 2021		0.00	
Action: This PBC has been Revised. See below.			

PBC 2	*Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle (PBC/DLI 2)*			
Type of PBC	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Outcome	*Yes*	*Text*	*650,000.00*	*0.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*Due to the legal gap in provisions which stipulates the process of debt cancellation, at the time transfer of collected VAT insolvent subject does not have liquidity and this creates budget losses.*			
December 2019	*Draft Law on Changes to the Tax Code of Moldova (Title 3, art 93, 94, 102,115) submitted to Parliament (DLR 2.1.).*		*455,000.00*	*70% of DLI2 allocation;2.275% of total financing.*
December 2020	*The Parliament adopted the Changes to the Tax Code and they come into effect. (DLR 2.2.)*		*195,000.00*	*30% of DLI2 allocation, 0.975% of total financing.*

December 2021		*0.00*	*0%*
August 2020		*0.00*	
September 2020		*0.00*	
October 2020		*0.00*	
November 2020		*0.00*	
February 2021		*0.00*	

Rationale:
This DLI 2 has been included during the first project restructuring in 2019. In view of the dropping of the Project objective to improve revenue collection, the DLI 2 has been moved to Intermediate Results Indicators.

PBC 3	DLI: Improved the usability of the STS website.			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Text	600,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	There are two websites available (one for information only and another one for the submission of tax declarations by taxpayers); there are some gaps in the functionality of both websites.			

December 2019	Single STS website launched with at least the following new features: - Support to requirements of people with special needs; - single STS web page which will allow taxpayers to submit income statements electronically through their personal account created on the site; - STS web site synchronized with the state web sites through the automated information exchange (open data); -new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; -feed-back mechanism available through the online (chat) assistance service. (DLR 3.1)	450,000.00	75%of DLI3 allocation; 2.25% of total financing.
December 2020	Use of STS website by taxpayers within 1 months of its launch (DLR 3.2)	150,000.00	25%of DLI3 allocation; 0.75% of total financing.
December 2021		0.00	0%
August 2020		0.00	
September 2020		0.00	
October 2020		0.00	
November 2020		0.00	
February 2021		0.00	
Action: This PBC has been Revised. See below.			

PBC 3	*Improved the usability of the STS website (PBC/DLI 3).*			
Type of PBC	***Scalability***	***Unit of Measure***	***Total Allocated Amount (USD)***	***As % of Total Financing Amount***
Output	*Yes*	*Text*	*600,000.00*	*0.00*
Period	***Value***		***Allocated Amount (USD)***	***Formula***
Baseline	*There are two websites available (one for information only and another one for the submission of tax declarations by taxpayers); there are some gaps in the functionality of both websites.*			
December 2019	*Single STS website launched and has as minimum the following new features: - support to requirements of people with special needs; - creating a single STS web page that will allow taxpayers to submit income statements electronically through their personal account created on the site; - synchronizing the STS web site with the state websites through the automated information exchange (open data); - new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; - a feed-back mechanism through the online (chat) assistance service. (DLI 3.1.)*		*450,000.00*	*75%of DLI3 allocation; 2.25% of total financing.*
December 2020	*Use of STS website by taxpayers within 1 months of its launch (DLR 3.2)*		*150,000.00*	*25%of DLI3 allocation; 0.75% of total financing.*
December 2021			*0.00*	*0%*

August 2020		*0.00*	
September 2020		*0.00*	
October 2020		*0.00*	
November 2020		*0.00*	
February 2021		*0.00*	

Rationale:
This PBC/DLI 3 was included during the first restructuring and is now being moved under the PDO outcome area of improved taxpayer services due to the deletion of the original outcome area on improving tax compliance.

PBC 4	DLI: Strengthened the capacity of STS staff to deliver taxpayer services			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Text	300,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	There is no a Manual on Taxpayer Services, the staff had no specific trainings.			
December 2019	Manual on taxpayer services developed and adopted by STS. (DLR 4.1)		150,000.00	50%of DLI4 allocation; 0.75% of total financing.
December 2020	All eligible staff of the STS, located in all offices, are trained (DLR 4.2).		150,000.00	50%of DLI4 allocation; 0.75% of total financing.
December 2021			0.00	0%
August 2020			0.00	

September 2020			0.00	
October 2020			0.00	
November 2020			0.00	
February 2021			0.00	
PBC 5	DLI: Introduced an Electronic Taxpayer Survey Tool			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Text	750,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No tool for taxpayers' regular feedback is in place.			
December 2019	Pilot of the electronic taxpayer survey mechanism is completed and training courses for the designated staff to support the roll-out are conducted, and the roll-out is initiated (DLR 5.1)		600,000.00	80%of DLI5 allocation;3% of total financing.
December 2020	Evaluation report on Roll-out results for six months of implementation (DLR 5.2).		150,000.00	20%of DLI5 allocation; 0.75% of total financing.
December 2021			0.00	0%
August 2020			0.00	
September 2020			0.00	
October 2020			0.00	

November 2020			0.00	
February 2021			0.00	
PBC 6	Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief (PBC 6)			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	Yes	Text	12,000,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No government programs to support business continuity and sustain employment in the context of COVID-19 pandemic			
December 2019			0.00	
December 2020	At least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries continue to operate in October 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.4)		2,500,000.00	20,8% of DLI 6 allocation; 12,5% of the total financing
December 2021			0.00	
August 2020			0.00	
September 2020	At least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries until August 1,2020 continue to operate in August 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.1)		2,000,000.00	16,7% of DLI 6 allocation; 10% of the total financing

October 2020	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism up to August 31, 2020 continue to operate in September 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.2)	2,500,000.00	20,8% of DLI 6 allocation; 12,5% of the total financing
November 2020	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism from September 1-30, 2020 continue to operate in October 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.3)	2,500,000.00	20,8 % of DLI 6 allocation; 12,5% of the total financing
February 2021	At least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism from October 1 to November 30, 2020 continue to operate in December 2020 and maintain reported employment on at least 60% level compared to April 2020 (DLR 6.5)	2,500,000.00	20,8% of DLI 6 allocation; 12,5% of the total financing
Action: This PBC is New	***Rationale:*** ***This new PBC/DLI reflects the desired government results in terms of maintained employment and business survival in the COVID-19 context as the result of introduction of two subsidy programs.***		

PBC 7	Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic (PBC 7)			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	No	Text	3,000,000.00	0.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**

Baseline	Legal frameworks for mechanisms to sustain tax revenue collection through support to business continuity that ensured transparency are not available		
December 2019		0.00	
December 2020	Interim report on VAT Refund program implementation is published (DLR 7.5)	500,000.00	16,7% of DLI 7 allocation; 2,5% of the total financing
December 2021		0.00	
August 2020	Regulation on implementation of subsidies for the payment of allowances/salaries is approved and among others includes measures of eligibility verification and grievance mechanisms (DLR 7.1)	300,000.00	10% of DLI 7 financing; 1,5% of the total financing
September 2020	Regulation on implementation of subsidies based on expanded VAT refund mechanism is approved and among others includes measures of eligibility verification and grievance mechanisms (DLR 7.2)	300,000.00	10% of DLI7; 1,5% of the total financing
October 2020	Public awareness campaign and support to taxpayers in obtaining subsidies and VAT refunds are introduced and ongoing (DLR 7.3)	700,000.00	23% of DLI67allocation; 3,5% of the total financing
November 2020	Completion report on the implementation of Payroll Subsidies program is made public (DLR 7.4)	700,000.00	23% of DLI7 allocation; 3,5% of the total financing
February 2021	Report on VAT refund program covering payments made for applications received from start of program until December 2020 is published (DLR 7.6.)	500,000.00	16,7% of DLI7 allocation; 2,5% of the total financing
Action: This PBC is New	***Rationale:***		

	This new DLI is aimed to reflect the desired government results in terms of maintained employment and business survival through introduction of two subsidy programs on payroll and VAT refund.

Verification Protocol Table: Performance-Based Conditions	
PBC 1	DLI: Increased nominal value of the Specific and Minimal Excise Rates for all tobacco products under tariff position 240220
Description	This indicator will measure the increase of nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 for the year 2021 by at least 15 percent compared to the excise rates from 2020. This is aimed to reduce the consumption of tobacco products and increase the budget revenues.
Data source/ Agency	The Ministry of Finance of Moldova/ Official Gazette.
Verification Entity	World Bank
Procedure	1. For DLR1.1, review of evidence that the draft Law has been submitted to and is registered in the Parliament. 2. For DLR1.2, review of evidence that the Parliament adopted the Law and is published in the official gazette. 3. For DLR 1.3, review of evidence that the mentioned rates came into effect.

PBC 1	Increased nominal value of the specific and minimal excise for all tobacco products under tariff position 240220 (PBC/DLI 1)
Description	This indicator will measure the increase of nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 for the year 2021 by at least 15 percent compared to the excise rates from 2020. This is aimed to reduce the consumption of tobacco products and increase the budget revenues
Data source/ Agency	The Ministry of Finance of Moldova/ Official Gazette.
Verification Entity	World Bank

Procedure	1. For DLR1.1, review of evidence that the draft Law has been submitted to and is registered in the Parliament. 2. For DLR1.2, review of evidence that the Parliament adopted the Law and is published in the official gazette. 3. For DLR 1.3, review of evidence that the mentioned rates came into effect.
PBC 2	DLI: Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle.
Description	Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle.
Data source/ Agency	The MoF/ Official Gazette
Verification Entity	World Bank
Procedure	For DLR2.1, review of evidence that the draft Law has been submitted to and is registered in the Parliament. For DLR2.2, review of evidence that the Parliament adopted the Law that is published in the official gazette and all mentioned changes came into effect.
PBC 2	Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle (PBC/DLI 2)
Description	Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle.
Data source/ Agency	The MoF/ Official Gazette
Verification Entity	The World Bank
Procedure	For DLR 2.1, review of evidence that the draft Law has been submitted to and is registered in the Parliament. For DLR 2.2, review of evidence that the Parliament adopted the Law that is published in the official gazette and all mentioned changes came into effect.
PBC 3	DLI: Improved the usability of the STS website.
Description	This indicators measures the improvement of the STS`s website functionality and usability.

Data source/ Agency	STS
Verification Entity	World Bank
Procedure	For DLR3.1, review reports produced by the STS including accessing the website and testing its new features. For DLR3.2, review reports produced by STC on use of the web-site which should include as minimum: number of visits, number of feedback received, number of tax declarations submitted.
PBC 3	Improved the usability of the STS website (PBC/DLI 3).
Description	This indicators measures the improvement of the STS`s website functionality and usability.
Data source/ Agency	STS
Verification Entity	World Bank
Procedure	For DLR3.1, review reports produced by the STS including accessing the website and testing its new features. For DLR3.2, review reports produced by STC on use of the web-site which should include as minimum: number of visits, number of feedback received, number of tax declarations submitted.
PBC 4	DLI: Strengthened the capacity of STS staff to deliver taxpayer services
Description	Strengthening capacity of STS staff to deliver taxpayer services via development of Manual on taxpayer services and relevant training of eligible staff.
Data source/ Agency	STS
Verification Entity	World Bank
Procedure	For DLR4.1., review evidence of STC adoption of the Manual on Taxpayer Services. For DLR4.2, review reports produced by the STS on staff being trained on the Manual.

PBC 5	DLI: Introduced an Electronic Taxpayer Survey Tool
Description	This indicator measures the improvement of taxpayer services through introduction of electronic taxpayer survey tool. Obtaining in-depth information on taxpayers` satisfaction degree will help STS to improve and optimize its tax services provided.
Data source/ Agency	STS
Verification Entity	World Bank
Procedure	For DLR5.1, review evidence of the STS's Order on the conduct of a Pilot of the Electronic Taxpayer Survey Tool and STS 's Report on the Pilot to document the feedback mechanism piloted, the analysis of the feedback and adjustments made to improve the STS's business processes. For DLR5.2, review of evidence of the STS's Order on the system's roll-out and the STS's report on the six-months implementation experience (including an inventory of adjustments made based on the survey results).

PBC 6	Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief (PBC 6)
Description	Maintained employment and business survival in the context of the COVID-19 pandemic, by temporarily providing tax relief
Data source/ Agency	The Ministry of Finance of Moldova
Verification Entity	The World Bank
Procedure	For DLR 6.1. – review of MoF's report with statistical evidences confirming that at least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries until August 1, 2020 continued to operate in August 2020 and maintained reported employment on at least 60% level compared to April 2020. For DLR 6.2. - review of MoF's report with statistical evidences confirming that at least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism up to August 31, 2020 continued to operate in September 2020 and maintain reported employment on at least 60% level compared to April 2020.

	For DLR 6.3. - review of MoF's report with statistical evidences confirming that at least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism up during September 1-30, 2020 continued to operate in October 2020 and maintain reported employment on at least 60% level compared to April 2020. For DLR 6.4. - review of MoF's report with statistical evidences confirming that at least 75% of beneficiary firms that received subsidies for the payment of allowances / salaries under the Payroll Subsidies Program continued to operate in October 2020 and maintained reported employment on at least 60% level compared to April 2020. For DLR 6.5. - review of MoF's report with statistical evidences confirming that at least 75% of beneficiary firms that received subsidies based on expanded VAT refund mechanism from October 1 to November 30, 2020 continued to operate in December 2020 and maintain reported employment on at least 60% level compared to April 2020. PBC Targets will be paid as follows: 1. Pay 100% of PBC price if 100% of target results are achieved for both business continuity and staffing level (i.e., 75% of business continuity + 60% of staffing level) 2. Pay 80% of PBC price if at least 80% of target results are achieved for both business continuity and staffing level (i.e., minimum 60% of business continuity + minimum of 48% of staffing level) 3. Pay 60% of PBC price if at least 60% of target results are achieved for both business continuity and staffing level (i.e., minimum 45% of business continuity + minimum of 36% of staffing levels)

PBC 7	Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic (PBC 7)
Description	Established legal frameworks and transparent mechanisms for implementing the temporary tax relief to businesses to mitigate for the negative fiscal impact of the COVID-19 pandemic
Data source/ Agency	The Ministry of Finance of Moldova
Verification Entity	The World Bank
Procedure	For DLR 71. - review of an evidence provided by the MoF that the Regulation on subsidizing enterprises and non-commercial organizations, residents of the Republic of Moldova, which have established technical and / or stationary unemployment due to the epidemiological situation (COVID-19) is approved, published and include measures of eligibility verification and grievance mechanisms; For DLR 7.2. - review of an evidence provided by the MoF that the Regulation on implementation of subsidies based on expanded VAT Refund mechanism is approved and includes measures of eligibility verification and grievances mechanisms;

	For DLR 7.3. - review of the MoF report with evidences confirming the implementation of i) a public awareness campaign about Payroll Subsidies and VAT refund programs and ii) support to taxpayers. The evidences should include links to the websites of the MoF/STS, other web sources and/or official magazines /newspapers with publication of rules and procedures, established call lines, etc. For DLR 7.4. - review of completion report produced and made public by the MoF on the implementation of Payroll Subsidies Program; Reports shall include, inter alia, summary information used for determining the subsidy, and total number of applicants and actual beneficiaries, size and type of enterprise, number of employees, number of complaints received, and actions taken based on the established mechanism of grievances. For DLR 7.5. - review of an interim report produced by MoF/STS on implementation of VAT Refund Program. The report shall include, inter alia, summary information used for determining the subsidy, and total number of applicants and actual beneficiaries, size and type of enterprise, number of employees, number of complaints received, and actions taken based on the established mechanism of grievances. For DLR 7.6. - review of completion report produced and made public by the MoF on the implementation of VAT Refund program from its start until December 2020. The report shall include, inter alia, summary information used for determining the subsidy, and total number of applicants and actual beneficiaries, size and type of enterprise, number of employees, number of complaints received, and actions taken based on the established mechanism of grievances.

Annex 1

TAMP: Eligible Expenditure Programs
Current expenditures of the MoF and the STS

	Recurrent costs	Budget classification	2018	2019	2020
			Actuals (MDL)	Actuals (MDL)	Planned (MDL)
MoF					
1	Electricity	222110	1,940,261.34	1,849,454.77	2,458,534.00
2	Gas	222120	2,475.27	412.40	7,000.00
3	Heating	222130	1,010,956.66	1,052,900.94	1,305,000.00
4	Water & sewerage	222140	213,200.30	198,331.50	235,000.00
5	Other utilities	222190	76,740.67	69,512.00	90,000.00
6	Informational services	222210	15,898,243.50	19,682,197.78	20,052,600.00
7	Telecommunication services	222220	298,122.16	286,967.64	357,800.00
8	Rent	222300	730,213.99	788,900.21	850,000.00
9	Transportation	222400	79,310.00	15,040.00	30,000.00
10	Current repairs	222500	3,421,590.47	1,759,054.06	2,466,300.00
11	Professional development / training	222600	261,344.46	1,117,269.58	1,958,000.00
12	In-country travel	222710	5,524.68	6,475.28	19,500.00
13	Travel abroad	222720	1,735,695.49	1,067,630.28	1,790,000.00
14	Medical services	222810			
15	Editing services	222910	6,500.00		80,000.00
16	Representation costs	222920	180,707.62	95,085.11	175,000.00
17	Security costs	222940	1,108,206.49	11,83,180.03	1,216,666.00
18	Banking services	222970	300.00	225.00	1,000.00
19	Post services	222980	130,353.96	65,369.50	121,000.00
20	Other expenditures	222990	3,479,683.86	3,324,278.79	7,066,700.00
	TOTAL	**222**	**30,579,430.92**	**32,562,284.87**	**40,280,100.00**
STS					
1	Electricity	222110	2,429,195.32	2,196,288.14	2,781,400.00
2	Gas	222120	1,009,651.87	832,697.82	1,299,100.00
3	Heating	222130	680,980.96	676,903.64	994,600.00
4	Water & sewerage	222140	306,930.19	280,557.50	413,600.00
5	Other utilities	222190	64,052.73	76,741.56	97,800.00
6	Informational services	222210	39,443,049.73	37,801,858.49	40,834,200.00
7	Telecommunication services	222220	1,605,683.94	1,667,503.81	2,431,100.00
8	Rent	222300	9,280,951.79	9,610,713.39	11,930,000.00

	Recurrent costs	Budget classification	2018	2019	2020
			Actuals (MDL)	Actuals (MDL)	Planned (MDL)
9	Transportation	222400	259,730.61	318,641.43	380,000.00
10	Current repairs	222500	2,568,601.73	2,317,430.68	1 280,100.00
11	Professional development / training	222600	439,523.20	376,380.66	500,000.00
12	In-country travel	222710	739,310.23	611,928.16	760,000.00
13	Travel abroad	222720	756,577.29	630,133.53	1,073,300.00
14	Medical services	222810			
15	Editing services	222910			
16	Representation costs	222920	18,291.00	29,042.22	50,000.00
17	Security costs	222940	1,333,694.49	1,669,485.17	1,787,300.00
18	Banking services	222970	75.00		100.00
19	Post services	222980	1,254,612.28	1,243,028.78	1,258,300.00
20	Other expenditures	222990	4,845,137.47	8,012,914.11	6,184,200.00
	TOTAL	**222**	**67,036,049.83**	**68,352,249.09**	**74,055,100.00**

Annex 2

Economic and Financial Analysis

Background information

1. The COVID-19 pandemic has expanded rapidly from a health emergency to an extraordinary shock to the Moldovan economy, with far reaching consequences for the country's private sector. The authorities have taken swift measures to offset negative effects of the COVID-19, supporting businesses and vulnerable households by: (i) expanding unemployment benefits and strengthening existing targeted social assistance, (ii) providing tax relief for sectors affected by state-imposed restrictions, (iii) delaying tax payment deadlines, and (iv) suspending tax audits, among other measures. The present analysis aims at quantifying the likely economic and financial impact of the revised TAMP. It first gives an overall summary of the potential benefits associated with the project implementation before moving on to their quantification.

Methodology and Data

2. Cost-benefit analysis (CBA) is an analytical exercise, which aims to assess the economic advantages or disadvantages of an investment project on society or the economy as a whole.[3] In the context of the revised TAMP, the CBA attempts to quantify the impact of the likely project costs and benefits for both taxpayers and the STS. The calculation of the financial and economic costs and benefits is made with the incremental net benefits techniques, which considers the differences in the costs and benefits by comparing two scenarios: (i) with-the-project; and (ii) the alternative scenario "if not pursuing the project" at all. To conduct the cost and benefit analysis various sources of information have been used. They can be summarized as follows:

- Cash flow under the project as defined in the revised Project Disbursement Plan;
- Administrative records concerning the number of active taxpayers by size and tax type;
- The number of potential project beneficiaries as estimated by the Ministry of Finance;
- Estimates of labor cost by taxpayer size, distribution of the workforce since COVID-19 from the 2020 COVID-19 Impact Enterprise Survey Follow-up survey for Moldova[4]; the 2019 Moldova Enterprise Survey[5]; and
- Other official administrative data sources and relevant research studies.

3. The revised TAMP is expected to generate both tangible and intangible benefits and costs for the taxpayers and the STS. While the project costs are typically easy to define and quantify, measuring some benefits, as well as defining causal linkages between project outcomes is not straightforward. Quantifying project benefits during the current COVID-19 pandemic is even a more challenging task. Since the current shock is highly asymmetric across sectors and types of taxpayers, more plausible results can be obtained if project benefit estimates are periodically revised as new information about the pandemic and its countermeasures becomes available. For the time being, the CBA aims to quantify only the most realizable and quantifiable benefits brought by the Project.

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[3] In this analysis, we adopt the following guiding principles *self-contained* (results of previous studies should be briefly recalled and illustrated); *transparent* (a complete set of data and sources of evidence should be made easily available); *verifiable* (assumptions and methods used to calculate forecast values should be made available so that the analysis can be replicated by the reviewer); and *credible* (based on well-documented and internationally accepted theoretical approaches and practices).

[4] As part of the efforts to understand the impact of COVID-19 on the private sector, the Enterprise Analysis unit of the World Bank is conducting a series of follow-up surveys in several countries, including Moldova. The COVID-19 follow up survey for Moldova follows the baseline provided by a recent standard Enterprise Survey and is designed to provide quick and punctual information on the impact and adjustments COVID-19 has brought to the country's private sector. The data collection period is May 19-May 29, 2020, with April 2020 used as a reference period.

[5] For further reference see https://www.enterprisesurveys.org/en/enterprisesurveys.

A. Economic Analysis

4. The TAMP restructuring has shifted the focus away from tax compliance and revenue collection towards supporting business survival and employment following the COVID-19 pandemic. While the previous economic analysis assumed the reduction in the time to comply with taxes and deal with tax inspections to be the major benefits to taxpayers, the present analysis focuses on the benefits of preserving employment, thanks to the subsidy programs supported by the revised TAMP. Additionally, it is anticipated that new IT softwares under the restructured TAMP will contribute to the increase of taxpayers' confidence, and more efficient business processes within the STS. As a result, this will indirectly lead to more benefits to taxpayers, for instance, through strengthen voluntary compliance.

5. For taxpayers, the major economic benefits of the proposed program are the avoided costs of losing a worker and replacing them. In Moldova, access to skilled labor remains of the main constraints to business growth[6], which coupled with the employment subsidy programs should give the companies more incentives to keep their workers. The cost of replacing a worker generally includes the following: (i) onboarding a new person, including training and management time; (ii) lost engagement (i.e., other employees who see high turnover tend to disengage and lose productivity); and (iii) customer service and errors—for example new employees take longer and are often less adept at solving problems, etc. Furthermore, once a new worker is hired, others must also spend time training them, and it will take some time for the new worker to achieve the same level of productivity as the worker who left.[7]

6. For the STS, the major economic benefits are associated with the optimized business processes within the inspectorate. Specifically, this will be achieved through a procurement of two IT software - a DLP software that will ensure privacy and security of information for users of STS systems and a RMS for Tax Inspectors that will allow STS to continue performing their functions remotely. The introduction of the software solutions is expected to improve compliance and ensure the continuity of critical business functions at the STS, as well as to enhance user confidence in the way that their private taxpayer data is handled. Most of the benefits generated at the level of the STS will result in enhanced operational efficiency and effectiveness of services provided ("more" and "better" will be done with the same resources), which will be ultimately passed on to the taxpayers. For the purpose of this CBA, only benefits to taxpayers are quantified.

Key assumptions

- CBA of this Project is presented relative to the current state of the tax administration system in the country since the COVID-19 outbreak, reflecting the anticipated changes in employment levels;
- It is anticipated that approximately 100,000 employees would benefit from the employment subsidy program. The new program is designed for companies that have established technical and/or stationary unemployment during the declared state of emergency. The estimated program cost is USD 16.6 Million[8] or 166 USD/2888 MDL[9] per an individual employee;
- The total cost of replacing a worker was set at 6% of annual salary for workers of small firms and 7% for works of medium-sized and large firms[10];

[6] See e.g. World Bank, 2020. Special Focus Note: Are Moldovan Firms Ready for Fast Recovery?

[7] A study by Mellon Financial Corp. found that lost productivity resulting from the learning curve for new hires and transfers was between 1% and 2.5% of total revenues. On average, the time for new hires to achieve full productivity ranged from eight weeks for clerical jobs to 20 weeks for professionals to more than 26 weeks for executives. See R. Williams, "Mellon Learning Curve Research Study" (New York: Mellon Corp., 2003)

[8] Law no. 61 of April 23, 2020 regarding the amendment of the State Budget Law for 2020 no. 172/2019.

[9] It is estimated based on an average exchange rate of 17.4 MDL/USD.

[10] At the time of this work, the cost of re-hiring a worker wasn't available for Moldova and had to be imputed from relevant studies. A study conducted by the Center for American Progress (CAP) found average costs to replace an employee to vary by wage and role of employee: (i) 16 percent of annual salary for high-turnover, low-paying jobs; 20 percent of annual salary for midrange positions, and (iii) up to 213 percent of

- Workers from large firms are more likely to benefit from the employment subsidy programs. It is anticipated that at least half of project beneficiaries will be from SMEs, with the rest coming from large firms[11];
- The number of STS staff will not change significantly over the project horizon and likely be fixed at the 2020 level, considering the STS reform that was conditional of TAMP effectiveness and the latest STS staff optimization; and
- The Social Discount Rate equals 14 percent[12] and remains unchanged compared to the previous economic analysis.

Table 4.1. Net Economic Benefits of the Revised TAMP

Economic indicators	Small firms	Medium firms	Large firms	Total
Distribution of the Workforce since COVID-19				
Workers with active permanent contract (A)	36,094	46,966	72,802	155,861
Furloughed Workers	11,701	10,391	10,937	33,028
Laid off Workers	30	1,574	11	1,614
Workers that took leave or quit due to COVID-19	1,307	2,730	571	4,609
Estimated average annual labor cost per worker, MDL (B)	49,114	63,496	64,920	53,106
Cost of replacing a worker, % (Imputed) (C)	6.0%	7.0%	7.0%	
Cost of replacing a worker, MDL (D = B x C)	2,947	4,445	4,544	
Estimated project beneficiaries (E = A x 22% for small, 28% for medium, 50% for large firms)	21,656	28,180	50,164	100,000
Project cost, USD (1 = E x USD166)	3,594,920	4,677,819	8,327,262	16,600,000
Avoided costs of re-hiring, USD (2 = (E x D)/3)	3,646,676	7,157,131	13,026,629	23,830,436
Estimated net economic profit, USD (2) - (1)	51,757	2,479,313	4,699,367	7,230,436
Average exchange rate, USD/MDL (3)	17.5	17.5	17.5	17.5

Source: World Bank calculations based on Moldovan authorities and 2020 COVID-19 Enterprise Survey Follow-Up.
Note: Estimates correspond to the benefits of employee retention. The reference period is April 2020. Total savings are calculated by multiplying the cost of replacing an individual worker by the number of project beneficiaries.

Table 2. Economic Benefits and Costs under the Revised TAMP, 2017-2025

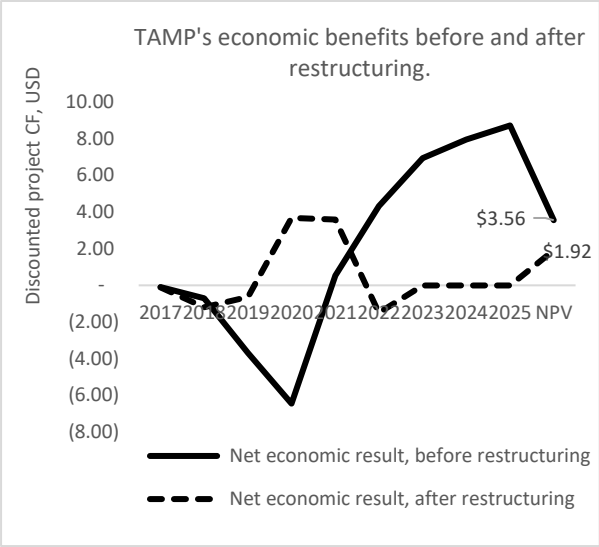
Project Schedule\Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
% of realization	1%	4%	19%	46%	21%	10%	1%			100%
Disbursement plan, mln.$	0.1	1.2	0.6	13.0	3.6	1.5	-	-	-	20.0
Economic benefit of avoided re-hiring/Avoided cost 70% in 2020 and 30% in 2021, mln.$	-	-	-	16.7	7.1	-	-	-	-	
Net economic profit, mln.$	-0.1	-1.2	-0.6	3.7	3.6	-1.5	0.0	0.0	0.0	

annual salary for highly educated executive positions. For Moldova, it can be argued that the cost of replacing an individual employee is half as much, ranging from 6% for workers from small firms to 7% in the case of large and medium sized firms - and these are very conservative estimates. The choice of lower cost estimates for Moldova is explained primarily by (i) labor and social insurance regulations, (ii) less widespread reliance on specialized HR management services which altogether push the cost of labor upward in developed countries; (iii) limited formal employment with a great incidence of youth neither in employment nor in education or training (ILO), among other factors.

[11] There is some supporting evidence that small and medium-sized firms may find it harder to obtain information not only on measures to halt the spread of the virus, but also on possible government initiatives available to provide support (OECD 2020, Coronavirus (COVID-19): SME policy responses).

[12] The European Commission guide to CBA (2014-2020) recommends 5% SDR for Cohesion Countries and 3% for other Member States. Such a high SDR rate in the case of Moldova is the reflection of the high-country premium.

NPV, mln.$	$1.92
ERR, %	73%



7. At NPV of USD 1.92 mln. and ERR of 73%, the Project is feasible and desirable from an economic standpoint. The present economic analysis of the revised TAMP follows a pragmatic approach, which aims to quantify only the most likely realizable direct benefits of the Project. In this regard, the economic benefit of avoided cost of re-hiring was spread between 2020 (70%) and 2021 (30%). On the other hand, improved functionality and usability of the STS website; enhanced user confidence in the way their private data is handled and stored; increased satisfaction of the STS staff with the services provided are just a few examples of project benefits that have not been quantified in the economic analysis.

8. The estimate of the economic rate of return represents therefore a lower bound of potential net benefits of the Project to the economy. Lastly, the present economic analysis is sensitive to various macro-economic developments, including the duration of the COVID-19 pandemic. For the purpose of the calculations, only one lockdown period has been assumed consistent with current provisions of the law.[13]

B. Financial Analysis

9. From the financial standpoint, the Project is expected to generate revenues through increased collections of excise taxes and additional collections of employment taxes that otherwise would have been lost if the new subsidy programs were not introduced. The former is expected to be achieved by increasing excise rates for tobacco products for the year 2021 by a minimum 15 percent compared with the excise rates for 2020. Additional employment taxes are projected to come from businesses that would retain their employees as a result of the new subsidy programs.

10. Additionally, the Project is expected to generate a one-off increase in budgetary revenues from the sale of goods by insolvent subjects taxed with VAT on the reverse charge principle[14]. As a result of this policy measure the budget is expected to benefit from an extra MDL 35 mln. over 2020-2021.

11. The previously quantified additional revenues from improved compliance are dropped from the analysis as the funds intended for the procurement of ITMS, which was also meant to be the key component in strengthening taxpayer compliance, would be reallocated towards the implementation of the Government programs on granting subsidies for salaries and VAT refund to mitigate the negative impact of the COVID-19 pandemic. Although, the new components of the revised TAMP are expected to have some positive impact on tax compliance (e.g. improvements in voluntary compliance as a result of taxpayers' confidence in the ability of STS to protect taxpayers confidential tax data), they are not quantified in the analysis given re-focusing of the Project towards COVID-19 mitigation efforts.

[13] Provision no.16 of April 10, 2020 of the Commission for Exceptional Situations of the Republic of Moldova; Law no. 61 of April 23, 2020 regarding the amendment of the State Budget Law for 2020 no. 172/2019.

[14] According to the reverse charge principle, insolvent sellers of goods subject to VAT are supposed to not tax their goods and buyers calculate by the themselves the VAT that has to be paid to the budget.

12. The financial analysis of the Project is based on the project outflows under the revised disbursement plan and greater budgetary revenues (inflows) estimated using the tax elasticity approach[15] for tobacco excise revenues. Estimating the tax specific elasticity and then multiplying it by the growth rate of GDP (which is used as a tax base) yields the tax revenue forecast.

13. Additional employment taxes (such as personal income tax and social insurance, medical and pension contributions) are estimated based on the average labor costs and the number of months firms expect it will take to return to normal level of workforce based on the COVID-19 Enterprise Survey follow-up for Moldova. It is assumed that firms that benefit from the government subsidy would adjust faster to their normal workforce levels. And, as a result, the budget would receive more in employment taxes that otherwise would have been lost. Employment taxes are simulated by applying the statutory tax rates and using as a tax base the average annual labor costs from the 2019 Enterprise Survey for Moldova. Total additional employment taxes on a monthly basis is calculated by multiplying the number of potential project beneficiaries by the average employment taxes (see Table 4.3). It is reasonable to assume that as a result of the government programs the budget will receive some additional corporate income taxes and VAT. However, given the uncertainty around the duration of the COVID-19 pandemic and challenges in identifying additional Corporate Income Tax and VAT revenues, the decision was made to focus only on employment taxes.

Key assumptions:

- The counterfactual scenario reflects the anticipated development in the employment tax revenues calculated from the number of potential beneficiaries (i.e., employees) and the number of months small, medium-sized and large firms expect it will take them to return to normal level of workforce. The estimated benefits are expected to have a one-time effect on budget revenues;
- A 15 percent increase in the excise tax rate on tobacco products is expected to generate a permanent increase in the tobacco excise revenue starting from 2021. The tobacco excise revenue cash flows for the years 2018-2020 are based on the actual and projected collections of tobacco excise taxes. By following the tax elasticity approach, the tobacco excise tax revenues is first calculated without the 15 percent increase in the tax rate in 2021. The effect of a 15 percent change in the tax rate is then introduced by adjusting the 2021 excise tax elasticity. It is assumed that the tobacco excise elasticities will average 1.14 over 2022-2025, being consistent with the historical averages observed 2009-2014;
- The changes to the Tax Code were adopted by the Parliament and consequently the sales of goods by insolvent subjects on the reverse charge principle became eligible under the amended Tax Code. As a result of this measure, the budget is expected to receive an extra MDL 35 mln. Between January-June 2020, MDL 17.4 mln. were transferred to the budget. The remaining MDL 17.9 mln. are projected to be received in 2021;
- Nominal GDP growth[16] is projected at 1.1% for 2020 and 9.1% over 2021-2025; the nominal exchange rate is expected to average 17.5 USD/MDL for 2020, and 17.6 USD/MDL onwards;
- The Financial Discount Rate is 15%.

Table 4.3. Additional Financial Benefits of the Revised TAMP

Economic indicators	Small firms	Medium firms	Large firms	Total
Estimated average annual labor cost per worker, MDL	49,113.7	63,495.6	64,919.9	53,106.1
Simulated employment taxes, incl.	15,063.7	19,474.8	23,180.1	19,239.5
Personal income tax	*4,643.2*	*6,002.8*	*5,691.8*	*5,445.9*
Social security contributions	*5,683.9*	*7,348.3*	*9,539.1*	*7,523.8*

[15] Tax elasticity is the ratio of percentage change in tax revenue to the percentage change in tax base.
[16] Based on the Spring 2020 MTI projections up to 2025.

Pension fund contributions	*1,894.6*	*2,449.4*	*3,179.7*	*2,507.9*
Medical insurance	*2,842.0*	*3,674.2*	*4,769.6*	*3,761.9*
Estimated project beneficiaries, level	21,656.1	28,179.6	50,164.2	100,000
Estimated additional employment taxes, MDL mln/month	27.2	45.7	96.9	160.3
Number of months firms expect will take to return to normal level of workforce	1.3	1.6	2.8	1.9
Total employment taxes, MDL mln	35.3	73.2	271.3	379.8
Total employment taxes, mln$	2.0	4.2	15.5	21.7
Average exchange rate, USD/MDL (3)	**17.5**	**17.5**	**17.5**	**17.5**

Source: World Bank calculations based on the 2019 Enterprise Survey and 2020 COVID-19 Enterprise Survey follow up for Moldova.

Table 4.4. Financial costs and benefits under the project, 2017-2025

Project Schedule\Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
% of realization	1%	4%	19%	46%	21%	10%	1%			100%
Procurement plan, mln.$	0.1	1.2	0.6	13.0	3.6	1.5	-	-	-	20.0
Benefits from government subsidies/Total incremental employment taxes, 70% in 2020 and 30% in 2021 (mln.$)				15.2	6.7					
Benefits from increased tobacco excise revenues, mln.$					11.7	12.5	13.5	14.9	16.3	
Benefits from VAT collected on the reverse charged principle, mln.$				1.0	1.1					
Net financial profit	-0.1	-1.2	-0.6	3.2	15.9	11.0	13.5	14.9	16.3	
NPV, mln.$										$28
IRR, %										163%
FX, USD/MDL	18.4	16.8	17.5	17.5	17.0	17.5	17.8	17.9	18.0	
GDP, billion MDL	178.9	190.0	210.0	212.3	233.4	253.9	276.7	301.6	328.7	

14. At the IRR of 163% and NPV of USD 28 mln. the Project is profitable and beneficial from an investment point of view. The revised financial project indicators are lower than what was previously estimated (174% IRR, USD 74 mln. NPV). There are several key explanations to that:

a. The restructured TAMP is still expected to generate more fiscal benefits stemming primarily from a permanent increase in the excise tax rate for tobacco products, but the tax base (i.e. GDP) is expected to narrow in 2020 as a result of the COVID-19 pandemic.
b. Future tobacco excise taxes have been forecasted against a smaller tax base as it will take time to recover from the shock. Based on the current analysis, nominal GDP will contract by an average of 6.6 percent over 2020-2025 compared to the previous projections. Furthermore, historical elasticities for tobacco excise taxes were adjusted downward (1.14 vis-à-vis 1.71); and
c. Additional revenues from strengthened tax compliance were completely removed from the analysis following the restructuring.