



12-Nov-2020

His Excellency
Mr. Serghei Puscuta
Minister
Ministry of Finance
Chisinau
Republic of Moldova

Excellency,

**Re: Republic of Moldova: Tax Administration Modernization Project
(Credit No. 5829-MD)
Amendment No. 2 to the Financing Agreement**

We refer to: (i) the Financing Agreement between the Republic of Moldova (the “Recipient”) and the International Development Association (the “Association”) dated June 28, 2016 for the above-mentioned Tax Administration Modernization Project (the “Financing Agreement”), as amended; and to (ii) the Recipient’s letter dated June 13, 2020, requesting the Association certain amendments to the Financing Agreement. The capitalized terms used in this amendment letter (the “Amendment Letter”) and not defined herein have the meanings ascribed to them in the Financing Agreement.

We are pleased to inform you that the Association agrees to amend the terms of the Financing Agreement as follows:

1. In Schedule 1 the Project objective is amended to read as set forth in Attachment 1 to this Amendment Letter:
2. Schedule 1 (Project Description) to the Financing Agreement is amended and restated to read as set forth in Attachment 1 to this Amendment Letter.
3. Section I.A.1 of Schedule 2 to the Financing Agreement is amended in its entirety to read as follows:

“A. Institutional Arrangements

1. 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 achievements of the PBCs and recommending corresponding payments for approval to the Recipient and the Association, 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 proceeds of the Credit is selected and hired in accordance with Section III of this Schedule.”

4. Section II.C to Schedule 2 is amended to read as follows:

“C. PBC Monitoring and Reporting

Without limitation on its other reporting obligations under this Agreement, the Recipient shall monitor and furnish reports to the Association on the achievement of the Performance-Based Conditions, not later than in 45 days after the end of each year during the implementation of the Project, in accordance with the verification protocol set out in the Project Operational Manual.”

5. The Table under Section IV.A.2 of Schedule 2 to the Financing Agreement is amended in its entirety to read as set forth in Attachment 2 to this Amendment Letter.
6. Section IV.B of Schedule 2 to the Financing Agreement is amended in its entirety to read as follows:

“B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement;
 - (b) for Categories 2 and 3 respectively, unless and until the Recipient has: (i) furnished evidence satisfactory to the Association in accordance with the verification protocol set forth in the Project Operational Manual that the Recipient has achieved the respective PBC(s) set forth in Schedule 4 to this Agreement against which withdrawal is requested; and (ii) complied with the additional instructions referred to in Section IV.A of this Schedule, including furnished to the Association the interim unaudited financial reports documenting the incurrence of the Eligible Expenditures.
2. Notwithstanding the provisions of Parts A and B.1 of this Section, the amount of the Financing to be withdrawn upon verified achievement of any PBC shall correspond to the amount of the financing allocated for such PBC as set forth in the table under Section IV.A.2 of Schedule 2 to this Agreement.
3. Notwithstanding the provisions of Part B.1 of this Section, if the Association shall determine, based on the evidence furnished by the Recipient under paragraph 1 of this Part B, that any PBC that has not been achieved, the Association may in its sole discretion, by notice to the Recipient : (a) withhold in whole or in part the amount of the Financing allocated to such PBC; (b) disburse in whole or in part the amount of the Financing allocated to such PBC at any later time if and when such PBC is actually completed, to the extent that such completion remains feasible at a later time; (c) reallocate in whole or in part any withheld amount of the Financing allocated to such PBC; and/or (d) cancel in whole or in part any withheld amount of the Financing allocated to such PBC.
4. The Closing Date is November 30, 2023.”

7. Schedule 4 (Performance Based Conditions) to the Financing Agreement is amended in its entirety to read as set forth in Attachment 3 to this Amendment Letter.
8. Section 1 (Definitions) of the Appendix to the Financing Agreement is amended as follows:

(a) The following definition is amended in its entirety to read as follows:

““Project Operational Manual” or “POM” means the Recipient’s manual referred to in Section I.A.3 of Schedule 2 to this Agreement, in the form and substance satisfactory to the Association, containing, *inter alia*, detailed arrangements and procedures for the implementation, monitoring, evaluation and reporting on the Project including a verification protocol containing the technical standards and arrangements and procedures for the monitoring, reporting and verification of PBCs and confirmation of their achievement, as said manual maybe may be modified from time to time with prior approval in writing of the Association, and such term includes any schedules to the Project Operational Manual.”

(b) The following definitions are added and placed in alphabetical order, (and existing definitions are consequently renumbered to keep the alphabetical order):

“Beneficiaries” means private companies falling under the eligibility criteria and selected to become beneficiaries of the subsidies under Part 5 of the Project, all in accordance with terms defined in the Project Operational Manual.

“Performance-Based Condition” or “PBC” means any of the conditions set out in the table in Schedule 4 to this Agreement; “Performance-Based Conditions” or “PBCs” means the plural thereof.

All the terms and conditions of the Financing Agreement that have not been amended hereby shall remain unchanged and in full force and effect.

Please confirm your agreement with the foregoing by signing and dating the confirmation on the enclosed copy of this amendment letter and returning it to us. This Amendment letter shall be executed in two counterparts each of which shall be an original.

This Amendment Letter shall become effective upon: (a) receipt by the Association of: (i) one countersigned original; (ii) evidence that the execution and delivery of the Amendment Letter on behalf of the Recipient has been duly authorized by all necessary governmental action; and (iii) the updated Project Operational Manual acceptable to the Association; and (b) dispatches by the Association to the Recipient of the notice of its acceptance of the evidence required herein.

Please note that the restructuring paper dated 09/14/2020 has been disclosed on the Association's external website as per Association's policy on Access to Information.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION



Anna Akhalkatsi

Country Manager

CONFIRMED AND AGREED:

REPUBLIC OF MOLDOVA

By: 

Authorized Representative

Name: SERGHEI PUȘCUTA

Title: MINISTER OF FINANCE

Date: NOVEMBER 13, 2020

SCHEDULE 1

Project Description

“The objective of the Project 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.”

The Project consists of the following parts:

Part 1. Tax Policy, Tax Administration Reforms, and Operational Development

Provision of financing for EEP to support the Recipient in increasing efficiency of the tax policy and tax administration, including strengthening the operational capacity of the State Tax Service of Moldova through, *inter alia*,

- a) increasing 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;
- b) ensuring that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle;
- c) improving the usability of the STS website, through the launching of a single STS website which would, *inter alia*, (i) support to requirements of people with special needs; (ii) allow taxpayers to submit income statements electronically through their personal account created on the site; (iii) be synchronized with the state web sites through the automated information exchange (open data); (iv) have a new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; and (v) have a feedback mechanism through the online (chat) assistance service;
- d) strengthening the capacity of STS staff to deliver taxpayer services by developing a Manual on taxpayer services and training the STS staff on its use; and
- e) developing and carrying out of an electronic taxpayer survey tool.

Part 2. Institutional Development

Provision of support for strengthening STS performance and service delivery, including through *inter alia*: (a) the purchase and installation of technical hardware and software to support the functioning of the existing and future IT and communication systems, and training equipment; (b) the carrying out of training activities; and (c) the carrying out of regular taxpayer satisfaction surveys; and (d) the technical development and establishment of the new STS's website with improved usability and broadened functionality to replace the two existing web-sites.

Part 3. IT Infrastructure and System Modernization

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.

Part 4. Project Management and Change Management

- a) Carrying out of capacity building activities supporting the Recipient's change management process to implement the activities referred to in Parts 1, 2, 3 and 5 above, including: (i) the carrying out of awareness campaigns and training activities on the implementation of said reforms; and (ii) the establishment of a private sector advisory panel for citizen engagement; and
- b) Project implementation, monitoring and evaluation including: (i) the carrying out of the Project audits; and (ii) the financing of Operating Costs.

Part 5. Maintaining employment and business survival in the context of COVID-19 pandemic

Provision of financing for EEP to support the Recipient in mitigation of negative fiscal impact of the COVID-19 pandemic.

Attachment 2

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs for the Project, except of Parts 1 and 5	902,500	100%
(2) EEPs under Part 1 of the Project through: DLI # 1: Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 DLI # 2: Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle DLI # 3: Improved the usability of the STS website DLI # 4: Strengthened the capacity of STS staff to deliver taxpayer services DLI # 5: Introduced an electronic taxpayer survey tool	0 476,700 0 110,000 0	100% of achieved DLI/DLR amount before the date of this Amendment Letter
(3) EEPs under Part 1 and 5 of the Project through: PBC 1: Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 PBC 2: Ensured that supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle PBC 3: Improved the usability of the STS website PBC 4: Strengthened the capacity of STS staff to deliver taxpayer services PBC 5: Introduced an electronic taxpayer survey tool	513,300 0 440,000 110,000 550,000	100% of achieved PBC from the date of this Amendment Letter

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	<u>5,300,000</u>	

SCHEDULE 4

Performance-Based Conditions

Performance Based Conditions Description	PBC/DLR achieved by December, 2019	PBC/DLR achieved by December, 2020	PBC/DLR achieved by December, 2021
<p>PBC/DLI # 1. Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220</p> <p>Baseline: Specific rates and minimum excise rates by types of tobacco products as set up in the Tax Code of Moldova in 2017</p>	<p>PBC/DLR # 1.1 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</p>	<p>PBC/DLR # 1.2: The Parliament approved the Law</p>	<p>PBC/DLR # 1.3: specific rates increase came into effect</p>
<p>PBC/DLI # 2. Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle;</p> <p>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</p>	<p>PBC/DLR # 2.1: Draft Law on Changes to the Tax Code of Moldova (Title 3, art 94, 93 102, 115) submitted to Parliament</p>	<p>PBC/DLR # 2.2 Parliament adopted the Changes to the Tax Code and they came into effect</p>	<p>n.a.</p>
<p>PBC/DLI # 3. Improved the usability of the STS website</p> <p>Baseline: There are two websites available (one for information only and another one for the</p>	<p>PBC/DLR # 3.1: 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);</p>	<p>PBC/DLR # 3.2: Use of STS website by taxpayers within 1 month of its launch</p>	<p>n.a.</p>

submission of tax declarations by taxpayers); there are some gaps in the functionality of both websites	-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.		
PBC/DLI # 4 Strengthened the capacity of STS staff to deliver taxpayer services: Baseline: There is no a Manual on taxpayer services; the staff had no specific trainings	PBC/DLR # 4.1: Manual on taxpayer services developed and adopted by STS.	PBC/DLR # 4.1: All eligible staff of STS, located in all offices, are trained.	n.a.
PBC/DLI # 5 Introduced an electronic taxpayer survey tool Baseline: No tool for taxpayers' regular feedback is in place	PBC/DLR # 5.1: 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.	PBC/DLR # 5.2: Evaluation report on Roll-out results for six months of implementation.	n.a.

Performance Based Condition Description	By August 2020	By September 2020	By October 2020	By November 2020	By December 2020	By February 2021
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 Baseline: Legal frameworks for mechanisms to sustain tax revenue collection through support to business continuity that ensured transparency are not available	PBC 7.1. Regulation on implementation of subsidies for the payment of allowances/salaries is approved and among others includes measures of eligibility verification and grievance mechanisms	PBC 7.2. Regulation on implementation of subsidies based on expanded VAT refund mechanism is approved and among others includes measures of eligibility verification and grievance mechanisms	PBC 7.3. Public awareness campaign and support to taxpayers in obtaining subsidies and VAT refunds are introduced and ongoing	PBC 7.4. Completion report on the implementation of Payroll Subsidies program is made public	PBC 7.5. Interim report on VAT Refund program implementation is published	PBC 7.6. Report on VAT refund program covering payments made for applications received from start of program until December 2020 is published