The World Bank
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July 8, 2019

Her Excellency
Ms. Natalia Gavrilița
Minister
Ministry of Finance
7, Constantin Tănase Street
MD-2005 Chisinau
Republic of Moldova

Excellency,

MOLDOVA: Tax Administration Modernization Project
Credit No. 5829-MD
Amendment to the Financing Agreement

We refer to the Financing Agreement between the Republic of Moldova (the "Recipient") and the International Development Association (the "Association") dated June 28, 2016, with respect to the above-captioned Project (the "Financing Agreement"). Capitalized terms used in this amendment letter and not defined herein have the meaning ascribed to them in the Financing Agreement.

Pursuant to your letters No. 26-07/1-12 – 566 dated December 22, 2017 and No. 26-07/3-12/12394 dated October 5, 2018, requesting the Association to amend the Financing Agreement, we are pleased to inform you that the Association agrees to amend the terms of the Financing Agreement, as follows:

1. Schedule 1 (Project Description) to the Financing Agreement is amended to read as set forth in Attachment 1 to this Amendment Letter.

2. Section I.A.1 of Schedule 2 to the Financing Agreement is amended 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, monitoring and evaluation, and reviewing and verifying the Annual Reports on the achievements of the DLIs and recommending corresponding payments for approval to the Recipient and the Association, all acceptable to the Association 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."

3. Section II.A.2(a) of Schedule 2 to the Financing Agreement is amended to read as follows:

"2. (a) By September 30, 2021, or such other date as agreed by the Association, the Recipient, through STS, shall carry out jointly with the Association, a mid-term review of the implementation of the activities under the Project ("Mid-term Review") which shall cover the progress achieved in the implementation of the Project. "

4.. Section II.C is added to Schedule 2 to Financing Agreement to read in its entirety as follows:

"**C. DLI 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 Disbursement Linked Indicators, 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 hereby amended in its entirety as reflected in the Attachment 2 to this Amendment Letter.

6. Paragraphs 1, 2 and 3 of Section IV.B of Schedule 2 to the Financing Agreement are amended 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; or

   (b) for Category 2, 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 DLI(s) and DLR(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 Eligible Expenditures.

2. Notwithstanding the provisions of Parts A and B.1. of this Section, the amount of the Financing to be withdrawn upon the verified achievement of any DLI shall correspond to the amount of the financing allocated for such DLI 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 DLI 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 DLI; (b) disburse in whole or in part the amount of the Financing allocated to such DLI at any later time if and when such DLI 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 DLI; and/or (d) cancel in whole or in part any withheld amount of the Financing allocated to such DLI."

7. Schedule 4 (Disbursement Linked Indicators) is added to the Financing Agreement as set forth in Attachment 3 to this Amendment Letter.

8. Section I. (Definitions) of the Appendix to the Financing Agreement is amended as follows:

(a) The following definitions are amended and replaced to read in their entirety 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 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 DLIs and confirmation of DLRs achievement, as said manual 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):

"Disbursement Linked Indicator" or "DLI" means any one of the indicators set out in the table in Schedule 4 to this Agreement; and "DLIs" means, collectively, all such DLIs.

"Disbursement Linked Result" or "DLR" means in respect of a given DLI, the result under said DLI as set forth in the table in Schedule 4 to this Agreement, on the basis of the achievement of which, the amount of the Credit allocated to said result may be withdrawn in accordance with the provisions of said Schedule

"Eligible Expenditures Program" or "EEP" means a set of defined investment and recurrent expenditures listed in Schedule 4 to this Agreement incurred by the Recipient under the budget codes set forth in the Project Operational Manual (and this said set of expenditures constitute a subset of the Eligible Expenditures defined in the Standard Conditions).

Please confirm your agreement with the foregoing amendment by signing this letter in the spaces provided below and returning one fully executed original to us. This amendment letter shall be executed in two counterparts each of which shall be an original.

The provisions set forth in 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 this amendment letter on behalf of the Recipient has been duly authorized by all necessary governmental actions; and (iii) the updated Operational Manual acceptable to the Association; and (b) dispatch by the Association to the Recipient of the notice of its acceptance of the evidence required herein.

Please also note that the restructuring paper dated June 5, 2019, has been disclosed on the Association's external website as per the Association's policy on Access to Information.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION



Satu Kähkönen
Country Director
Belarus, Moldova, Ukraine
Europe and Central Asia

AGREED:

REPUBLIC OF MOLDOVA

By: N. Gaviletco
Authorized Representative

Name: Natalia Gavrilita

Title: Minister of Finance

Date: 02.08.2019

Attachment 1.

SCHEDULE 1

Project Description

The objective of the Project is to improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova.

The Project consists of the following parts:

Part1. Tax Policy, Tax Administration Reforms, and Operational Development

Provision of financing for EEP to support to 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;

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 an integrated tax management system, including the provision of relevant hard 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 and 3 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; (ii) the hiring and selection of, *inter alia*, a financial management and a procurement specialist; and (iii) the financing of Operating Costs.

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 Parts 2, 3, and 4 of the Project	3,100,000	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	513,300 476,700 440,000 220,000 550,000	100% of achieved DLI/DLR amount
TOTAL AMOUNT	5,300,000	

Attachment 3

SCHEDULE 4

Disbursement Linked Indicators

Disbursement Linked Indicator Description	DLR achieved By December, 2019	DLR achieved by December, 2020	DLR achieved by December, 2021
(a) DLI # 1. Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 Baseline: Specific rates and minimum excise rates by types of tobacco products as set up in the Tax Code of Moldova in 2017	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.	DLR # 1.2: The Parliament approved the Law	DLR # 1.3: specific rates increase came into effect

DLI # 2. Ensured that supplies of goods by insolvent subjects have been taxed with VAT on the reverse charge principle; 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	DLR # 2.1: Draft Law on Changes to the Tax Code of Moldova (Title 3, art 3, 93 102, 115) (DLR 2.1) submitted to Parliament	DLR # 2.2 Parliament adopted the Changes to the Tax Code and they came into effect :	n.a.
DLI # 3. Improved the usability of the STS website 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	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); -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 # 3.2: Use of STS website by taxpayers within 1 month of its launch	n.a.
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	DLR # 4.1: Manual on taxpayer services developed and adopted by STS.	DLR # 4.1: All eligible staff of STS, located in all offices, are trained.	n.a.

DLI # 5. Introduced an electronic taxpayer survey tool **Baseline:** No tool for taxpayers' regular feedback is in place	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.	DLR # 5.2: Evaluation report on Roll-out results for six months of implementation	n.a.