Development Financing Agreement

(Second Rural Investment and Services Project)

between

REPUBLIC OF MOLDOVA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 13, 2006
DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated April 13, 2006, between REPUBLIC OF MOLDOVA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated May 10, 2002, from the Borrower describing a phased program (the Program) to improve performance in the Borrower’s agricultural sector by developing post-privatization support services for private farmers and rural businesses and declaring the Borrower’s commitment to the implementation of the Program;

(B) the Borrower has requested the Association to support the execution of the Program through extension to the Borrower of credits and grants up to the equivalent of thirty million Dollars ($30,000,000) over a period of seven (7) years, the first such credit provided for under a Development Credit Agreement between the Borrower and the Association dated June 26, 2002 in support of the first phase of the Program (Credit No. 3668-MD), and the second a credit provided for in Article II of this Agreement in support of the second phase of the Program;

(C) by an agreement to be reached between the Swedish International Development Cooperation Agency (SIDA) and the Borrower (the SIDA Grant Agreement), SIDA has agreed to make a grant to the Borrower (the SIDA Grant) to assist in financing part of the Project on the terms and conditions set forth in the SIDA Grant Agreement;

(D) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which supports the second phase of the Program, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Financing to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I
General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “ACSA” means a non-governmental organization registered by the Ministry of Justice on March 19, 2001 and legally established pursuant to the Law of the Republic of Moldova on Non-governmental organizations No. 837 dated May 17, 1996, or its successor thereof;

(b) “Beneficiary” means any private farmer or private rural business legally established in the Borrower’s territory eligible for assistance under Part C.1 of the Project;

(c) “CAPMU” means the Consolidated Agricultural Project Management Unit established by the Borrower under Government Decision 878 dated September 29, 1999 to provide project management assistance under this Agreement pursuant to a Government Decision, or its successor thereof;

(d) “Credit Line” means the credit line for provision of investment loans or Financing Leases at commercial terms to private rural enterprises through eligible PFIs (hereinafter defined), in accordance with the requirements set forth or referred to in the Rural Investment Guidelines;

(e) “Credit Line Directorate” means the unit established by the Borrower under the MOF pursuant to Government Decision 953 dated September 9, 2001, or its successor thereof;

(f) “DAs” or “Development Agencies” means private organizations registered by the Ministry of Justice and legally established pursuant to the Law of the Republic of Moldova on Non-governmental organizations No. 837 dated May 17, 1996 with capacity in providing rural business development support;

(g) “EIA” means the Environmental Impact Assessment to be carried out for Sub-projects (hereinafter defined) requiring such assessment in accordance with the requirements of the Rural Investment Guidelines (hereinafter defined);
(h) “Environmental Review” means the review in the Rural Investment Guidelines (as defined hereinafter) describing the environmental classification, impact, monitoring and mitigation measures for the Sub-projects (as defined hereinafter);

(i) “Financing Lease” means lease made or to be made by a PFI to a Beneficiary for a Sub-project in accordance with the requirements set forth or referred to in the Rural Investment Guidelines;

(j) “Financing Lease Agreement” means the agreement to be entered into between a Beneficiary and a PFI pursuant to the provisions of paragraph 8 of Schedule 4 to this Agreement for the provision to the Beneficiary of a Financing Lease for the carrying out of a Sub-project in accordance with the requirements set forth or referred to in the Rural Investment Guidelines;

(k) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(l) “Leu” means the lawful currency of the Borrower;

(m) “MAFI” means the Borrower’s Ministry of Agriculture and Food Industry, or its successor thereof;

(n) “MOF” means the Borrower’s Ministry of Finance, or its successor thereof;

(o) “New PFI” means PFI (as defined hereinafter) which did not participate in the first phase of the Program;

(p) “Operational Manual” means the manual, satisfactory to the Association, setting forth the operational and administrative procedures for the implementation of the Project and referred to in paragraph 1 of Schedule 4 to this Agreement;

(q) “PFIs” or “Participating Financial Institutions” means the private commercial banks, leasing companies and other financial and lending institutions established and operating in accordance with the applicable rules of the Borrower meeting certain eligibility criteria and approved by the Association for participation in the Project under Parts C.1 and C.2 of the Project;

(r) “Procurement Plan” means the Borrower’s procurement plan, dated February 22, 2007 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(s) “Project Coordination Team” means the teams established by the Borrower in the MOF and MAFI to oversee the implementation of the Project and
respectively referred to in paragraphs 2 and 4 of Schedule 4 to this Agreement respectively, or its successor thereof;

(t) Project Steering Committee” means the Committee established by the Borrower pursuant to a Government Decision to provide policy guidance and oversight of Project implementation, or its successor thereof;

(u) “Rural Investment Guidelines” means the guidelines, including eligibility criteria, main terms and conditions, monitoring, evaluation and reporting requirements for the Credit Line;

(v) “SCAs” means the Savings and Credit Associations registered with the Borrower’s Ministry of Justice and operating pursuant to the Borrower’s Law on Savings and Credit Associations of Citizens No. 1505-XIII dated February 18, 1998, or its successor thereof;

(w) “SPs” means Service Providers, a team of local consultants acceptable to the Association providing technical agricultural advisory services to local farmers and rural business under Part A of the Project;

(x) “SSB” means the State Supervisory Body for SCAs, established under the Ministry of Finance of the Borrower by Decision of the Government No. 1011, dated September 30, 1998, to license and supervise SCA operations, or its successor thereof;

(y) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(z) “Sub-loan” means a loan made or to be made by a PFI to a Beneficiary for a Sub-project in accordance with the requirements set forth or referred to in the Rural Investment Guidelines;

(aa) “Sub-loan Agreement” means the agreement to be entered into between a Beneficiary and a PFI pursuant to the provisions of paragraph 8 of Schedule 4 to this Agreement for the provision to the Beneficiary of a Sub-loan for the carrying out of a Sub-project in accordance with the requirements set forth or referred to in the Rural Investment Guidelines;

(bb) “Sub-project” means a specific investment project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan or Financing Lease in accordance with the requirements set forth or referred to in the Rural Investment Guidelines; and

(cc) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and each PFI pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement.
ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to five million two hundred thousand Special Drawing Rights (SDR 5,200,000) (the Credit); and

(b) an amount in various currencies equivalent to five million two hundred thousand Special Drawing Rights (SDR 5,200,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in accordance with the provisions of Schedule 1 to this Agreement, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods, services, Sub-loans and Financing Leases, incremental operating costs and training required for the Project and to be financed out of the proceeds of the Financing.

(b) The Borrower may, for the purposes of the Project, open and maintain a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of the June 30
immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (\(\frac{3}{4}\) of 1\%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing April 1, 2016 and ending October 1, 2045. Each installment to and including the installment payable on October 1, 2025 shall be one percent (1\%) of such principal amount, and each installment thereafter shall be two percent (2\%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or
more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of Dollars is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out Parts A, B, D and E.1 of the Project through its MAFI and Parts C and E.2 of the Project through its MOF, all with due diligence and efficiency and in conformity with appropriate agricultural, banking, environmental, administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For purposes of Part C.1 of the Project, the Borrower shall relend a portion of the proceeds of the Financing to eligible PFIs under a subsidiary loan agreement (the Subsidiary Loan Agreement) to be entered into between the Borrower and each PFI, under terms and conditions which shall have been approved by the Association and which shall include those set forth in Schedule 5 to this Agreement.

(c) The Borrower shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Financing, and, except as the Association shall
otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services, Sub-loans, Financing Leases, incremental operating costs and training required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.
(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the credit and Grant Accounts were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit and Grant Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association’s representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.
Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a Financial Monitoring Report for such period, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V
Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) Any PFI shall have failed to perform any of its obligations under the respective Subsidiary Loan Agreement and the Borrower has failed to exercise its rights pursuant to Section 3.01 (c) of this Agreement.

(b) A situation shall have arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(c) The charter of the State Supervisory Body or its successor shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely its ability to perform any of its obligations under this Agreement, without the Association prior agreement.
(d) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the SIDA Grant to be made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; and

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, that the events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur, and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely, that the Borrower has provided evidence that the Government has adopted a decision setting forth the Project management assistance to be provided by the CAPMU and establishing the Project Steering Committee.

Section 6.02 The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Borrower:

Ministry of Finance
Cosmonaut Street, 7
277005 Chisinau
Republic of Moldova

Telex: (3732) 22810
Facsimile: (3732) 24-0055

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Chisinau, Republic of Moldova, as of the day and year first above written.

REPUBLIC OF MOLDOVA

By /s/ Mihail Pop
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward Brown
Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>Amount of the Grant Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) (a) Goods, Works and Consultants’ Services Incremental Operating Costs, Training other than for Part A.1 of the Project</td>
<td>524,000</td>
<td>524,000</td>
<td>100%</td>
</tr>
<tr>
<td>(b) Goods under Part A.1 of the Project</td>
<td>724,000</td>
<td>724,000</td>
<td>53%</td>
</tr>
<tr>
<td>(2) Sub-loans or Financing Lease under Sub-loan or Financing Lease Agreements under Part C.1 of the Project</td>
<td>3,952,000</td>
<td>3,952,000</td>
<td>80% of eligible Sub-loans and Financing Leases disbursed by the PFIs</td>
</tr>
</tbody>
</table>
2. For the purposes of this Schedule, the term “Incremental Operating Costs” means expenditures incurred by the Borrower on account of management of Project implementation for office supplies, utilities, minor refurbishments, office equipment, operating expenses, communication, transportation, insurance for goods, training, and salaries of staff, including qualified social charges, but excluding salaries of civil servants, and such other expenditures as may be agreed upon by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account and Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than $100,000 equivalent each; (b) works under contracts costing less than $300,000 equivalent each; (b) services under contracts costing less than $100,000 equivalent each for consulting firms and $50,000 equivalent each for individual consultants; (c) incremental operating costs; (d) Sub-loans and Financing Leases; and (e) training, all under such terms and conditions as the Association shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objective of the Project is to foster post-privatization growth in the Borrower’s agricultural sector by improving the access of private farmers and rural businesses to knowledge, know-how, and finance.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives.

Part A: Rural Advisory Services

1. Continued provision of agricultural and technical information, knowledge and know-how to newly established private farmers and rural population, by a nationwide network of decentralized, rural advisory Service Providers (SPs)

2. Preparation of a national medium term strategy on rural advisory services.

3. Strengthening the MAFI’s capacity in management of advisory services under Part A.1 of the Project and implementation of the strategy under Part A.2 of the Project.

Part B: Rural Business Development Services

Continued provision of support for the creation of limited post-establishment services to legally registered and sustainable rural businesses (including agribusinesses and farmer organizations) by local Development Agencies.

Part C: Rural Finance

1. Credit Line

   Continued provision of Sub-loans or provision of Financing Leases through the eligible PFI s to eligible Beneficiaries in accordance with the criteria and principles, set forth or referred to in the Rural Investment Guidelines.

2. Institutional Capacity Development For Rural Finance System

   Provision of training and capacity building to eligible PFI s on agricultural lending, including financial leasing, mortgage and environment related aspects.
3. **Institutional Strengthening of the Savings and Credit Associations Industry**

Provision of support for the strengthening and improvement of the institutional, legal, regulatory and supervisory framework of the Savings and Credit Associations industry and provision of capacity building to related institutions to ensure their long term sustainability.

**Part D: Land Re-parceling Pilots**

Improving the efficiency of land markets in pilot villages through the implementation of voluntary market-based land re-parceling projects based on international best practices, including the elaboration of land property maps and area development plans, financing of reasonable land transaction registration costs, monitoring and evaluation and training and capacity building of local land re-parceling designers and Cadastre and MAFI staff.

**Part E: Project Management**

1. Provision of technical assistance, including auditing services, and incremental operating costs and monitoring and evaluation for the purposes of the management of Parts A, B and D of the Project.

2. Provision of technical assistance, including auditing services, and incremental operating costs and monitoring and evaluation for the purposes of the management of Part C of the Project.

* * *

The Project is expected to be completed by December 31, 2009.
SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than $100,000 equivalent per contract and works estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method. Technical services under Part A.1 of the Project shall be provided by ACSA for the management of Rural Advisory Services under paragraph 3.6 (a) of the Procurement Guidelines, as a continuation of the existing Contract under the
first phase of the Program. ACSA shall be responsible for contracting the services of other Service Providers pursuant to the competitive procedures in accordance with the Procurement and Consultants Guidelines;

3. **Commercial Practices.** Items estimated to cost less than $250,000 equivalent per contract and to be financed under Sub-loans or Financing Leases made for Subprojects under Part C.1 of the Project, may be procured in accordance with commercial practices acceptable to the Association.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. **Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $100,000 equivalent per contract may comprise entirely national consultants.

B. **Other Procedures**

1. **Least-cost Selection.** Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.9 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines. For the purposes of Part B of the Project the four Development Agencies hired under the first phase of the Project may be hired on a single-source basis in accordance with paragraphs 3.10 (a) and (d) of the Consultant's Guidelines.

4. **Individual Consultants.** Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances
described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV.  Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association. All the Terms of Reference shall be subject to the Association’s Prior Review.
SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project in accordance with the requirements set forth or referred to in the Operational Manual and the Rural Investment Guidelines. Except as the Association shall otherwise agree or as the Association may otherwise judge it necessary to update the Operations Manual and the Rural Investment Guidelines to reflect and support a sustainable evolution of the Project, the Borrower shall not assign, amend, abrogate or waive said Project documents or any provision thereof.

2. The Borrower shall maintain the Project Steering Committee until completion of the Project under terms satisfactory to the Association and consisting of high level representatives from the key ministries and governmental bodies and other representatives as determined by the Borrower’s government. The committee shall be responsible for reviewing the progress of the Project activities, overseeing the Project operations of and coordination between the MOF and MAFI and advising on any major policy issues related to the implementation of the Project.

3. The Borrower shall, by not later than three months following effectiveness, establish and thereafter maintain a Project Coordination Team in the MOF, chaired by the Minister of Finance and including key representatives of the Credit Line Directorate and the SSB, until completion of the Project responsible for the overall Project coordination and implementation of Part C of the Project.

4. The Borrower shall, by not later than three months following effectiveness, establish and thereafter maintain a Project Coordination Team in the MAFI, chaired by the Minister of Agriculture and Food Industry, until completion of the Project responsible for the overall Project coordination and implementation of Parts A, B and D of the Project.

5. (a) The CAPMU shall provide support to the MOF and MAFI for the daily fiduciary and technical activities necessary for the implementation of the Project under Part E of the Project and as set forth in the Operational Manual, including:

   (i) preparation of withdrawal applications under the Financing;

   (ii) management of the Special Account referred to in Section 2.02 (b) of this Agreement;
(iii) maintenance of records and accounts related to the Project and arranging for the audit thereof;

(iv) preparation of FMRs for the Project as referred to in Section 4.02 of this Agreement;

(v) participation in administration of bidding procedures and of contracts under the Project;

(vi) preparation of consolidated quarterly progress reports and submission thereof to the Borrower and the Association not later than 45 days after the end of each quarter, the first such report to be furnished to the Association not later than February 15, 2007; and

(vii) technical support to the MOF and MAFI for the implementation of the Project, including direct coordination of the implementation of activities under Part B of the Project.

(b) The CAPMU will provide its assistance to the Project with staff, resources and terms of reference satisfactory to the Association.

6. The Borrower shall ensure that the carrying out of the measures required under the Environmental Review shall be taken in a timely manner and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such measures in the quarterly progress reports referred to in paragraph 5 (a) (vi) of this Schedule.

7. The Borrower shall ensure that EIAs shall be carried out in a timely manner for all Sub-projects requiring such EIAs and in compliance with: (a) environmental standards satisfactory to the Association; and (b) all applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such EIAs in the quarterly progress reports referred to in paragraph 5 (vi) of this Schedule.

8. For purposes of Part C.1 of the Project, each Sub-loan or Financing Lease shall be provided on the basis of a standard Sub-Loan Agreement or Financing Lease Agreement in accordance with the terms and conditions set forth in the Rural Investment Guidelines. Each Sub-loan Agreement and Leasing Agreement shall include inter alia: (a) the purpose and use of the Sub-project and cost sharing to be made by the Beneficiary with respect to the financing of the Sub-project; (b) the obligations of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Financing; (c) the obligation of the Beneficiary to enable representatives of the Association and the Borrower, if the Association or
Borrower shall so request, to visit the Sub-project sites to be financed under the Sub-loan Agreement or Financing Lease Agreement; and (d) the repayment terms and conditions of the Sub-loan or Financing Lease.

9. The Borrower shall take all measures necessary to ensure that the Participating Financial Institutions (PFIs) shall obtain the Association’s prior approval of the first three (3) Sub-loans by new PFIs and the first three (3) Financing Leases proposed by each PFI under the Credit Line and shall, for this purpose, furnish to the Borrower and the Association an application including: (a) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed from the proceeds of the Financing; (b) the proposed terms and conditions of the Sub-loan or Financing Lease, including the schedule of amortization of the Sub-loan and the Financing Lease; and (c) such other information as the Borrower or the Association shall reasonably request.

10. The Borrower shall take all measures necessary to ensure that the PFIs shall each furnish to the Borrower a quarterly summary report listing the Sub-loans and/or Financing Leases provided by it in the preceding quarter and other information evidencing compliance with the terms and conditions for such Sub-loan as set forth in the Rural Investment Guidelines.

11. The Borrower shall:

   (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and of measures included in the Program and the achievement of the objectives thereof;

   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association on or about June 30, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project and the Program during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the Program and the achievement of the objectives thereof during the period following such date; and

   (c) review with the Association, by September 30, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the Program and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.
SCHEDULE 5

Principal Terms and Conditions of
the Subsidiary Loan Agreement

The following terms and conditions shall be included in the Subsidiary Loan Agreement entered into pursuant to Section 3.02 (b) of this Agreement:

(a) The Subsidiary Loan will be denominated in Leu and/or Dollars in accordance with the provisions of the Rural Investment Guidelines.

(b) Unless the Association and the Borrower agree otherwise, the interest rate on the Lei portion will be variable (floating) and based on inflation rate data issued by the National Bank of Moldova as reference rate whose calculation will be reflected in the Rural Investment Guidelines. The reference rate and its calculation shall be reviewed jointly by the Association and the Ministry of Finance of the Borrower and revised semi-annually as necessary. An initial fixed margin of 2% will be added by the Borrower to the basic reference rate to finance administrative costs and foreign exchange risks. The foreign exchange premium will be revised every six months in consultation with the Association based on the actual fluctuations of the currency during the interest adjustment.

(c) The interest rate on the Dollar portion will be variable (floating) interest rate based on the reference rate which shall equal the 6-month LIBOR rate for Dollars. The reference rate shall be reviewed jointly with the Association, the Ministry of Finance of the Borrower and PFIIs and revised semi-annually. A minimum margin of 1% will be added at all times to the basic reference rate by the Borrower.

(d) The principal amount of the Subsidiary Loan shall be repaid by PFIIs over a period of fifteen (15) years, inclusive of a grace period not exceeding three (3) years, in accordance with a detailed amortization schedule that will be furnished to the PFI by the Ministry of Finance of the Borrower before the expiration of the grace period indicated above.
SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

   (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods, services, Sub-loans, Financing Leases, incremental operating costs and training required for the Project and to be financed out of the proceeds of the Financing allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

   (c) the term “Authorized Allocation” means an amount equivalent to $1,400,000 to be withdrawn to the extent practicable equally from the Credit Account and the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $700,000 until the aggregate amount of withdrawals from the Credit Account and the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

   (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits
into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account or the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account or Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or
(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account or the Grant Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
SCHEDULE 7

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is modified to read:

   “Section 1.01. Application of General Conditions

   These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.

2. Section 2.01 is modified to read as follows:

   (a) Paragraph 3 of Section 2.01 is modified to read as follows:

       “3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

   (b) Paragraph 8 of Section 2.01 is modified to read as follows:

       “8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

   (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

       “12. “Grant” means the development grant provided for in the Development Financing Agreement.”

       “13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”
“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01 (3), 2.01 (12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01 (6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. Financing Accounts

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02 (a) and the heading of Section 4.02 are modified to read as follows:
“Section 4.02. **Currencies in which Payments are to be Made**

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.06 (b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8 Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. **Treatment of Taxes**

Except as otherwise provided in the Development Financing Agreement, the proceeds of the Financing may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Financing, or on their importation, manufacture, procurement or supply. The financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Financing is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Financing Agreement as required to be consistent with such policy of the Association.”

9. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a) (ii) and (c) (i) of Section 6.02 is replaced with the words “credit, grant or financing”.
(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied pro rata to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

(b) The word “credit” in paragraph (b) (i) is replaced with the words “credit, grant or financing”.

11. Section 8.01 (a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”

12. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”