
TAX ADMINISTRATION MODERNIZATION PROJECT

IDA AGREEMENT 5829-MD

IBRD AGREEMENT 8625-MD

PROJECT FINANCIAL STATEMENTS

For the period from January 1, 2022 to December 31, 2022

**TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS**
For the period from January 1, 2022 to December 31, 2022

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INDEPENDENT AUDITOR'S REPORT

To: Management of the State Tax Service of the Republic of Moldova

Opinion

We have audited the Project Financial Statements of State Tax Service of the Republic of Moldova ("State Tax Service"), for the "Tax Administration Modernization" Project financed by International Development Association ("IDA") and International Bank for Reconstruction and Development ("IBRD") in accordance with Agreement 5829-MD and Agreement 8625-MD, respectively ("the Project"), which comprise the Balance sheet as of December 31, 2022, the Summary of Sources and Uses of Funds and the Designated Account Statement for the period from January 1, 2022 to December 31, 2022 and notes, comprising significant accounting policies and other explanatory information (together referred to as "the Project Financial Statements").

In our opinion, the accompanying Project Financial Statements are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the Project Financial Statements.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibility for the audit of Project Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Project Financial Statements in the Republic of Moldova, including the law, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Basis of accounting and restriction on use

We draw attention to Note 2 to the Project Financial Statements, which describes the basis of accounting. The Project Financial Statements are prepared solely for the purpose of complying with the terms of the IDA 5829-MD and IBRD 8625-MD financing agreements signed between the State Tax Service of the Republic of Moldova and IDA and IBRD respectively on 28 June 2016. As a result, the Project Financial Statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

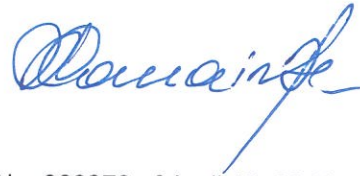
Other matters

These Project Financial Statements have been prepared solely for complying with the provisions specified. As a result, these Project Financial Statements may not be suitable for any other purpose. Our report is intended solely for the information and use of Project Management and should not be distributed to or used by any other parties.

We also provide those charged with governance a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For and on behalf of **Moore Stephens KSC SRL**

Vasile Benderschi
Administrator



Elena Panainte

No. Certificate of qualification of the auditor AG Series No. 000278 of April 15, 2011

July 31, 2023
Chisinau, Republic of Moldova



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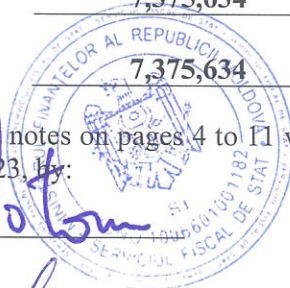
1 Balance Sheet

	Period ended		
	December 31, 2022	December 31, 2022	December 31,2022
	USD	EUR	Total, converted USD
ASSETS			
Cash and cash equivalents			
Cash under IBRD 8625-MD	-	11,424	12,196
Cash under IDA 5829-MD	-	-	-
	-	11,424	12,196
Undisbursed funds			
IBRD 8625-MD Undisbursed balance	-	568,400	606,824
IDA 5829-MD Undisbursed balance	151,229	-	151,229
TOTAL UNDISBURSED FUNDS	151,229	568,400	758,053
TOTAL CASH AND CASH EQUIVALENTS	151,229	579,824	770,249
Cumulative project expenditures			
IBRD 8625-MD - Project Expenses	-	10,520,013	11,231,148
IDA 5829-MD - Project Expenses	7,224,405	-	7,224,405
TOTAL CUMULATIVE PROJECT EXPENSES for the period Jan 25,2017 – Dec 31, 2022	7,224,405	10,520,013	18,455,553
TOTAL ASSETS	7,375,634	11,099,837	19,225,801
Source of funds (Funding)			
IBRD 8625-MD	-	11,099,837	11,850,167
IDA 5829-MD	7,420,000	-	7,420,000
Translation exchange difference EUR/USD (for IBRD 8625-MD)	-	-	-
Translation exchange difference XDR/USD (for IDA 5829-MD)	(44,366)	-	(44,366)
TOTAL FUNDING	7,375,634	11,099,837	19,225,801
TOTAL FUNDS AND LIABILITIES	7,375,634	11,099,837	19,225,801

The financial statements and accompanying notes on pages 4 to 11 were signed and approved on behalf of the Project's management on July 31, 2023, by:

Ms. Petru ROTARU
Director

Ms. Alina PUȘCAȘ
Head of Economic and Finance Division



TAX ADMINISTRATION MODERNIZATION PROJECT
IDA AGREEMENT 5829-MD / IBRD AGREEMENT 8625-MD
PROJECT FINANCIAL STATEMENTS

For the period from January 1, 2022 to December 31, 2022

Summary of Sources and Uses of Funds

	Period ended		
	December 31, 2022	December 31, 2022	December 31, 2022
	USD	EUR	Total, converted USD
OPENING CASH BALANCES			
IDA 5829-MD Designated Account	85	-	85
IBRD 8625-MD Designated Account	-	-	-
Own funds	-	-	-
TOTAL OPENING CASH BALANCES	85	-	85
FINANCING			
IDA 5829-MD	1,577,881	-	1,577,881
Designated account	-	-	-
Direct payments	-	-	-
Reimbursement against Disbursement	1,577,881	-	1,577,881
Linked Indicators	-	-	-
IBRD 8625-MD	-	91,600	97,792
Designated account	-	91,600	97,792
Direct payments	-	-	-
Reimbursement against Disbursement	-	-	-
Linked Indicators	-	-	-
Total Financing	1,577,881	91,600	1,675,673
EXPENDITURES			
Goods, Non-consulting services, consulting services, training & incremental operating costs	85	80,176	85,681
Eligible expenditures under Disbursement	1,577,881	-	1,577,881
Linked Indicators IDA 58290	-	-	-
Eligible expenditures under Disbursement	-	-	-
Linked Indicators IBRD 86250	-	-	-
Total Expenditures	1,577,966	80,176	1,663,562
CLOSING CASH BALANCES			
IDA 5829-MD Designated Account	-	-	-
IBRD 8625-MD Designated Account	-	11,424	12,196
Own funds	-	-	-
TOTAL CLOSING CASH BALANCES	-	11,424	12,196

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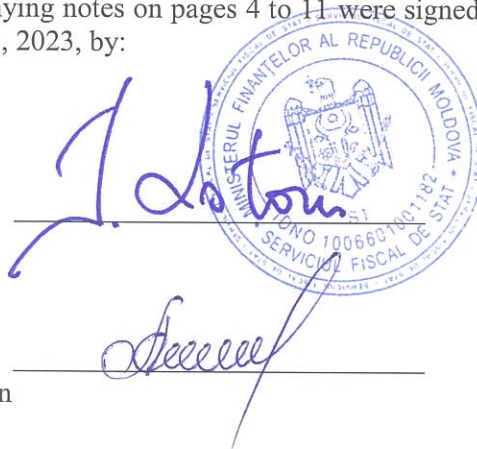
For the period from January 1, 2022, to December 31, 2022

2 Designated Account Statement

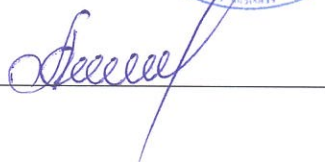
	Period ended December 31, 2022
	USD
Opening balance, January 1	85
Add:	
Sources of funds – IDA 5829-MD	77,005
Sources of funds – IBRD 8625-MD	-
Less:	
Refund to IDA from DA during the period	38,500
Uses of funds	2,578
Funds transferred to project account EUR	36,012
Exchange Rate Differences	-
Closing balance, December 31	-
	Period ended December 31, 2022
	EUR
Opening balance, January 1	-
Add:	
Sources of funds – IDA 5829-MD	-
Sources of funds – IBRD 8625-MD	56,500
Funds received from project account USD	32,866
Less:	
Refund to IDA from DA during the period	-
Uses of funds	77,942
Funds transferred to project account EUR	-
Exchange Rate Differences	-
Closing balance, December 31	11,424

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Director



Ms. Alina PUȘCAȘ
Head of Economic and Finance Division



Notes to the Project Financial statements

1. GENERAL INFORMATION

The objective of the Project was to improve revenue collection, tax compliance and taxpayer services in the Republic of Moldova. Since September 2020, the objective 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 Eligible Expenditure Program to support the Borrower 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.

Notes to the Project Financial statements (continued)

1. GENERAL INFORMATION (continued)

Part 4. Project Management and Change Management

- (a) Carrying out of capacity building activities supporting the Borrower'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 through: (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 support for the implementation of Government programs on granting subsidies for salaries and VAT refund to mitigate the negative fiscal impact of the COVID-19 pandemic. This Component has two Performance Based Conditions:

- (a) support sustaining business operations and employments levels in the context of COVID-19;
- (b) support establishing the relevant legal frameworks to efficiently and effectively implement the tax relief programs, introducing a public awareness campaign to ensure adequate information dissemination as well as optimum access by eligible beneficiaries, operationalizing grievance mechanisms and ensuring transparent reporting on the implementation of the programs.

Pursuant to the amendments signed to the Financing Agreements in September 2020, the Project was restructured into 5 major parts, as a result of including Part 5. The new structure of the Project consists of the following parts:

- Part 1. Support Tax Policy, Tax Administration Reforms and Operational Development
- Part 2. Institutional Development
- Part 3. IT Infrastructure and System Modernization
- Part 4. Project Management and Change Management
- Part 5. Maintaining employment and business survival in the context of Covid-19 pandemic

PROJECT FUNDING

IDA 5829-MD and IBRD 8625-MD financing agreements

The IDA 5829-MD and IBRD 8625-MD were signed between the Republic of Moldova and International Development Association and the International Bank for Reconstruction and Development on June 28th 2016, in amount of SDR 5,300,000 (equivalent of USD 7,420,000 at the historical exchange rate of 1.4 SDR for 1 USD) and USD 12,580,000, respectively. The financing agreements were signed in order to achieve the objective of the Project: to strengthen State Tax Service capacity through increased efficiency and effectiveness.

Notes to the Project Financial statements (continued)

2. BASIS OF ACCOUNTING

These Project Financial Statements are prepared solely for the purpose of complying with the terms of the IDA 5829-MD and IBRD 8625-MD Financing Agreements, signed between the Republic of Moldova and International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”). As a result, Project Financial Statements may not be suitable for another purpose.

The Project Financial Statements have been prepared in accordance with the basis of preparation and significant accounting policies described below.

(a) Basis of preparation

The Project Financial Statements have been prepared in accordance with the accounting policies listed below.

The amounts are expressed in USD and are prepared for the period from January 01st 2022 to December 31th 2022.

(b) Functional and presentation currency

The Project’s functional and presentation currency is the United States Dollars (USD).

The transactions performed in other currencies are converted and reported in USD using the official exchange rate of National Bank of Moldova on the date of payment. Total funding has been accounted at the historical rate at the approval of the Project Financing.

The Undisbursed balance under the Credit IDA 5829-MD in the Financial Statement is calculated using the USD/SDR rate at the period end. The exchange rate of USD/SDR as at 31 December 2022 is 1.3091.

The Undisbursed balance under the Credit IBRD 8625-MD in the Financial Statement is calculated using the EURO/USD rate at the period end. The exchange rate of EUR/USD as at 31 December 2022 is 0.94.

(c) Foreign currency difference

The foreign currency difference is determined as the difference between undisbursed balance of IDA-Loan available in SDR or IBRD-Loan available in EUR and translated in USD at the reporting exchange rate, total cumulative Project expenditures in USD (accounted in USD at the date of the transactions) and Total funding presented in USD at the historical rate (date when the Project has been approved).

(d) Designated Account (DA)

The Designated Account (“DA”), opened by the State Treasury at the National Bank of Moldova, is the account through which funds are received. Also, all payments for eligible expenses are made from this DA and if the payment is in local currency it is made through transitory account.

(e) Transitory accounts

The transitory accounts are held at State Treasury for the converted amount in MDL, since the payments within the country can be done only in the local currency (MDL). The conversion is made using the exchange rate of USD vs MDL published by the National Bank of Moldova at the date of payment.

Notes to the Project Financial statements (continued)

2. BASIS OF ACCOUNTING (continued)

(f) Sources of funds (Funding)

The sources of funds (funding) are the amounts committed by the International Development Association and International Bank for Reconstruction and Development according to the financing agreements.

(g) Project expenditure (Uses of funds)

The uses of funds are the amounts spent for covering eligible expenditures for the needs of the Project and funds disbursed transferred to the Ministry of Finance for the achievement of Disbursement Linked Indicators, as defined by the loan agreement.

These are recognized on a cash basis method.

(h) Undisbursed funds

Represents the balance of funds which are not yet drawn from the Sources of funds.

(i) Cash and cash equivalents

Total cash and cash equivalents comprises: cash and cash equivalents in banks drawn from the Sources of funds and which are not yet used for project expenditure.

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Notes to the Project Financial statements (continued)

3. WITHDRAWAL SCHEDULE

		Application amount	Amount disbursed	
		SDR	USD	USD
IDA 5829-MD				
Application No. 35		440,000	615,639	
Application No. 36	Disbursement	27,453	38,500	
Application No. 38	Refund	(28,754)	(38,500)	
Application No. 39		735,047	962,242	
Total disbursed during January 1st, 2022 – December 31st, 2022, period				(1,577,881)
Prior period disbursements				(5,646,524)
Total cumulative disbursed as at December 31st 2022				(7,224,405)
<hr/>				
		Application amount	Amount disbursed	
		EUR	USD	USD
IBRD 8625-MD				
Application No. 003		35,100	38,505	
Application No. 005		56,500	55,856*	
Total disbursed during January 1st, 2022 – December 31st, 2022, period				(94,361)
Prior period disbursements				(12,488,959)
Total cumulative disbursed as at December 31st 2022				(12,583,320)

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For the period from January 1, 2022, to December 31, 2022

Notes to the Project Financial statements (continued)

SUMMARY OF EXPENSES (SOE) SCHEDULE

<i>World Bank Number of the SOE IDA 5829-MD</i>	Period	Period	Period
	January 1 st 2022 - December 31 st 2022	January 1 st 2022 - December 31 st 2022	January 1 st 2022 - December 31 st 2022
	USD	EUR	Total USD
SOE reported to WB for the period January 1, 2022 to May 31, 2022	-	2,234	2,385
SOE reported to WB for the period June 1, 2022 to October 31, 2022	85	77,942	83,296
SOE reported to WB for the period November 1, 2022 to December 31, 2022	-	-	-
Uses of funds during 2022 – specific project costs	85	80,176	85,681
Funds used in the prior periods – specific project costs	1,261,472	-	1,261,472
Cumulative uses of funds – specific project costs as at December 31st 2022	1,261,557	80,176	1,347,153

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For the period from January 1, 2022 to December 31, 2022

Notes to the Project Financial statements (continued)

4. SUMMARY OF ELIGIBLE EXPENDITURES UNDER DLI

<i>World Bank Summary of eligible expenditures under Disbursement Linked indicators Ministry of Finance and State Tax Service</i>	Period January 01 st 2022 - December 31 st 2022
	USD
IDA 5829-MD	
Funds disbursed to Ministry of Finance (recurring costs of MF)	1,577,881
IBRD 8625-MD	
Funds disbursed to Ministry of Finance (recurring costs of MF)	-
Uses of funds during 2022 - Eligible expenditures under Disbursement Linked Indicators	1,577,881
Funds used in the prior periods - Eligible expenditures under Disbursement Linked Indicators	16,873,926
Cumulative uses of funds Eligible expenditures under Disbursement Linked Indicators as at December 31st 2022	18,451,807

5. EXPENDITURE DETAIL BY PROJECT ACTIVITY

	Period January 01 st 2022 - December 31 st 2022	Cumulative as at December 31 st 2022
	USD	USD
IBRD 8625-MD		
Part 1: Tax Policy, Tax Administration Reforms and Operational Development	-	-
Part 2: Institutional development	61,019	61,019
Part 3: IT infrastructure and System Modernization	-	-
Part 4: Project Management and Change Management	24,577	24,577
Part 5: Maintaining employment and business survival in the context of COVID-19 pandemic	-	11,145,552
Total	85,596	11,231,148
IDA 5829-MD		
Part 1. Tax Policy, Tax Administration Reforms, and Operational Development	615,639	2,923,220
Part 2. Institutional Development	-	523,203
Part 3. IT Infrastructure and System Modernization	-	695,608
Part 4. Project Management and Change Management	85	42,746
Part 5. Maintaining employment and business survival in the context of COVID-19 pandemic.	962,242	3,039,628
Total	1,577,966	7,224,405
Total expenditures by project activity	1,663,562	18,455,553

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For the period from January 1, 2022, to December 31, 2022

Notes to the Project Financial statements (continued)

5 EXPENDITURE DETAIL BY PROJECT ACTIVITY (CONTINUED)

On December 23, 2021, TAMP reported and provided evidence of attainment of Performance-Based Conditions (PBC) 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” in accordance with the provisions of the Section II. C to Schedule 2 of the Financing Agreement No. 5829-MD, between the Republic of Moldova and the International Development Association. On January 21, 2022, TAMP received the approval that World Bank accepted the evidence furnished in fulfillment of the withdrawal conditions for PBC 5.1, and the corresponding amount of XDR 440,000 is available for withdrawal. The Credit amount of USD 615,639.20 for PBC 5.1 was disbursed on February 3, 2022.

On July 12, 2022, TAMP reported and provided evidence of attainment of Performance-Based Conditions (PBC 7) "Established legal frameworks and the transparent mechanisms for implementing the temporary tax relief to businesses to mitigate negative fiscal impact of COVID-19 pandemic. Namely, interim report on VAT refund program implementation (PBC 7.5) and Report on VAT refund program covering payments made for applications received from start of program until December 2020 (PBC 7.6) in accordance with the provisions of the Section IV. B to Schedule 2 of the Financing Agreement 5829-MD, between the Republic of Moldova and the International Development Association. The corresponding amount of XDR 735,047 (XDR 732,500.00 for PBC,s 7.5 and 7.6, and the remainder of XDR 2,546.82 for PBC,s 7.1 to 7.4) is available for withdrawal. The Credit amount of USD 962,242 for PBC 7.5 and 7.6 was disbursed on August 19, 2022.

6. SUBSEQUENT EVENTS

During the period December 31st, 2022, and until the date these Project Financial Statements have been authorised for issuing, the following disbursements have been made:

		Application amount EUR	Amount disbursed USD	USD
IBRD 8625-MD				
	Application No. 007	25,500	27,854	
	Application No. 008	52,521	57,484	
	Application No. 009 Direct payment	115,545	126,273	
Total disbursed during January 01st 2023 – June 30th 2023 period				211,611