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**The State Tax Service
REPUBLIC OF MOLDOVA**

Tax Administration Modernization Project (TAMP) P127734
PROJECT OPERATIONAL MANUAL

Developed by STS

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ABBREVIATIONS AND ACRONYMS

AP	Private Sector Advisory Panel
BD	Bidding Documents
DA	Designated Account
e-Gov	E-Governance Agency
EU	European Union
P.I. CTIF	Public Institution - Center of Informational Technologies in Finance
GDP	Gross Domestic Product
REI	Request for Expression of Interest
GRM	Government of the Republic of Moldova
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant
IDA	International Development Association
IT	Information Technologies
ITMS	Integrated Tax Management System
MDL	Moldovan Leu
MoF	Ministry of Finance
MTBF	Medium-term budgetary framework
LTO	Large Taxpayer Office
OECD	Organization for Economic Cooperation and Development
PAD	Project Appraisal Document
PDO	Project Development Objective
PIT	Project Implementation Team
PS	Procurement Specialist
PSC	Project Steering Committee
RBF	Result Based Financing
SBD	Standard Bidding Documents
SDR	Special Drawing Rights
STS	State Tax Service
TAMP	Tax Administration Modernization Project
ToR	Terms of Reference
UNDB	United Nations Business Development Portal
WB	World Bank

INTRODUCTION

This Project Operational Manual (POM) lays out overall operating, fiduciary, and decision - making procedures and results monitoring arrangements regarding the Tax Administration Modernization Project (TAMP), which is implemented by the State Tax Service (STS) of the Republic of Moldova under the Loan #8624-MD of the International Bank for Reconstruction and Development and Credit #5829-MD of the International Development Association`s (IDA).

1. PROJECT'S LEGAL BASIS AND CONSTITUTIVE DOCUMENTS

The legal basis for the present Operational Manual is the Financing Agreement between the Republic of Moldova and the International Development Association and the Loan Agreement between the Republic of Moldova and the International Bank for Reconstruction and Development regarding Tax Administration Modernization Project both dated June 28, 2016 and Amendments to the Financing Agreement and the Loan Agreement both dated August 2, 2019.

The Financing Agreement and the Loan Agreement were ratified by the Parliament of Moldova by the law no. 23 of September, 2016 and promulgated by the President of the Republic of Moldova on 19 of October, 2016. The Laws on the Ratification of the Financing and Loan Agreements have been published in the Official Gazette of the Government of Moldova and entered into force on 16 of December, 2016.

The Project was declared effective by the International Development Association and International Bank for Reconstruction and Development on January 25, 2017.

The Amendments to the Financing Agreement and the Loan Agreement were ratified by the Parliament of Moldova by the law no.140 of 04 of October, 2019 and promulgated by the President of the Republic of Moldova on 18 of October, 2019. The Law on the Ratification of the Amendments to the Financing and Loan Agreements has been published in the Official Gazette of the Government of Moldova and entered into force on 1st of November, 2019.

The following legal documents (project files) are governing or affecting in a way or another Project's operation:

1. TAMP Assessment Document, including the general implementation and procurement plans;
2. Law on ratification of the Financing and Loan Agreements
3. Law on ratification of the Amendments to the Financing and Loan Agreements
4. TAMP Operational Manual;

This list may be amended and adjusted by the implementation team, without prior approval by the Project Steering Committee and the World Bank, if necessary.

2. PROJECT OBJECTIVES, BENEFICIARIES, COMPONENTS AND KEY PROJECT INDICATORS

2.1 Development objective

The development objective of the TAMP is to improve revenue collection, tax compliance and taxpayer services.

The long-term vision supported by the Project is a tax administration with streamlined business processes supported by risk-based compliance management, effective use of electronic communication with taxpayers, skilled and professional staff, contributing to an efficient, client-oriented tax administration. The modernized tax administration will improve the business environment and improve the country's competitiveness.

2.2 Project beneficiaries

The immediate Project beneficiaries are the employees of the State Tax Service who will benefit from an improved working environment based on streamlined operations and working methodologies as well as extensive training and access to international best practices provided by the project.

The Government of Moldova and its public finance institutions will benefit from improvements in the administrative efficiency of tax administration.

The final beneficiaries are taxpayers (business community and individuals) and Moldovan citizens, who would benefit directly from lower compliance costs and indirectly through more revenues collected to finance important social and infrastructure expenditures.

2.3 Key Project indicators

The following indicators have been agreed to evaluate the development impact of the Project (Results framework is in Annex 1):

(a) improve revenue collection:

- (i) Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 (DLI 1);
- (ii) Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle (DLI 2);

(b) improve tax compliance:

- (i) Increase in additional tax assessed per audit
- (ii) Share of active taxpayers (legal entities) filing income declarations in total active taxpayers (legal entities);
- (iii) Improve the usability of the STS website (DLI 3);

(c) improve taxpayer services:

- (i) Time required to comply with taxes;
- (ii) Strengthened the capacity of STS staff to deliver taxpayer services (DLI 4);
- (iii) Introduced an electronic taxpayer survey tool (DLI 5).

2.4. Project Components

The Project consists of the following parts:

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

This is a new Results Based Financing (RBF) Component introduced as a result of Project restructuring and is aimed at supporting Tax Policy, Tax Administration Reforms and Operational Development. Its objective is to provide incentives for undertaking tax policy and administration reforms and achieving results along the three outcome areas of the PDO: improved revenue collection, improved tax compliance, and improved taxpayer services. These reforms implemented by the Government will be in the areas of increasing the collection of excises and VAT, which are core tax revenues of the State Budget of the Republic of Moldova; establishment of favorable conditions for tax compliance; improving the quality of taxpayer services and strengthening institutional capacity of STS for improved taxpayer satisfaction. These are among the priority areas of the Action Plan on Improvement of Tax Administration, adopted by STS's Order #168 dated March 29, 2018.

The RBF Component includes the provision of financing for Eligible Expenditure Program (EEP) to support the MoF 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*,

- (i) 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 (DLI 1);
- (ii) Ensuring that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle (DLI 2);
- (iii) improving the usability of the STS website, through the launching of a single STS website which would, *inter alia*, (i) support 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 (DLI 3);
- (iv) 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 (DLI 4);
- (v) developing and carrying out of an electronic taxpayer survey tool (DLI 5).

The RBF Component amounting SDR 2.2 million (or the equivalent of USD 3 million) is funded from IDA Credit and will disburse against EEPs upon achievement of key results – Disbursement linked results (DLR) - as measured by five above mentioned DLIs and described in details in Annex 2. While both DLIs and DLRs are not time-bound, an indicative timetable for the achievement of the DLRs under each DLI is determined as specified in Annex 2.

“Disbursement Linked Result” or “DLR” means in respect of a given DLI, the result under said DLI 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 the FA.

The DLIs related to tax policy reforms that are expected to contribute to improving tax collection are: DLI 1 - increasing nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220 for 2021 by at least 15 percent; and DLI 2 - supplies of goods by insolvent subjects taxed with VAT on the reverse charge principle.

DLIs which will reflect the result of STS activities aimed at improving taxpayer services, compliance and strengthening STS's institutional and staff capacity are: DLI 3 - improving the usability of the STS website; DLI 4: strengthening the capacity of STS staff to deliver taxpayer services; and DLI 5- introducing an electronic taxpayer survey tool.

Component 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 website with improved usability and broadened functionality to replace the two existing web-sites.

Two activities of the Component 2 will complement the RBF Component. First is a consultancy for development and establishment of the new STS web-site (whereas, STS will develop the concept, technical specifications, tender documents and necessary changes of STS business processes). Second, the procurement of specific gadgets (tablets) to support implementation of an electronic tool for assessing the degree of taxpayer satisfaction with services provided by STS.

Component 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.

Component 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 specialist and a procurement specialist; and (iii) the financing of Operating Costs.

2.5 Lending Instrument

The lending instrument for the TAMP is an IPF with RBF component. Selection of the lending instrument followed considerations of the technical needs of the STS in managing a comprehensive institutional reform. The project is financed through IDA credit 5829-MD in an amount equivalent to five million three hundred thousand Special Drawing Rights (SDR 5,300,000) and IBRD loan 8625-MD in amount of twelve million five hundred eighty thousand United States Dollars (USD 12,580 million or 11,099,836.77 Euro), both totaling to USD 20.00 million.

2.6 Project Implementation Period

According to the Financing Agreement and Loan Agreement Project Implementation Period was January 25, 2017 - December 31, 2021.

The Amendments to the Financing Agreement and the Loan Agreement extended the closing date until November 30, 2023.

A mid-term review of the project implementation activities is re-scheduled for September 2021 considering the project restructuring. The mid-term review will assess the progress achieved in the implementation of the Project and inform the actions to be taken to meet the PDOs. This might also result in update of the results framework upon agreement with the World Bank.

3. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

3.1 Project's key institutions.

The STS under the auspices of the Ministry of Finance is the responsible implementing institution for the project. The STS shall ensure appropriate coordination internally within the STS as well as with the Ministry of Finance and P.I. Center for Information Technologies in Finance (CTIF) to achieve project objectives. The STS is the effective beneficiary of Project implementation, the Ministry of Finance is the hierarchically superior institution of the State Tax Service as well as the Borrower of Loan and the Recipient of Credit funds, and CTIF is the administrator of the tax information system. CTIF took over FiscServInform's responsibilities for providing IT support to STS starting on August 1, 2018. It is responsible for managing, developing, maintaining and ensuring the functioning of information system of the STS and on a contract basis will support STS in the implementation of ITMS. Representatives of CTIF are members of the Project Steering Committee and Private Sector Advisory Panel.

3.2. Project Steering Committee

In February 2017, STS established by its order the Project Steering Committee as a high project coordinating body to provide strategic guidance to the STS on issues related to project implementation and overall revenue administration modernization reforms and will ensure inter-agency coordination. The Committee comprises high level representatives of the key government stakeholders, including MoF, STS (Director, Heads of STS departments), PI. CTIF, State Chancellery (e-Gov) and chaired by the Director of STS. Representatives of donor and international organizations are invited as observers.

The Committee meets regularly at least on semi-annual basis and ensures the effectiveness and quality of implementation of the TAMP through the following, inter alia, tasks:

- a. ensures that project activities are aligned with the STS's strategy;
- b. supports the achievement of the project objectives;
- c. presents proposals for overcoming the difficulties and risk management related to the implementation of project activities;
- d. examines, on the basis of the documents submitted by the management team and partners, the implementation reports of the project, and the progress achieved to achieve the specific objectives of the project.

3.3. Project Coordinator and Project Implementation Team

The Deputy Director of STS serves as the Project Coordinator. The Project Coordinator oversees daily project implementation, ensures the proper communication with and decision-making processes with the institution within the project scope are in place, monitors progress and ensures timely completion of the project activities. The Project Coordinator is the focal point for the communication of the institution with the World Bank team on project related issues. The Project Coordinator works closely with a resident advisor from the US Treasury who provides technical support to the STS in project implementation.

The Project Coordinator is assisted by the Project Implementation Team according to the approved STS Order no 533, dated October 05, 2018. The Project Implementation Team ensures coordination, monitoring and reporting of the TAMP and comprises inter alia:

- project manager -the Head of the Organizational Management Department,
- financial specialist (takes responsibility for financial management of the project)– Head of the financial planning and analysis Department,

- IT specialist (takes responsibility for IT management of the project) – Head of the Information Development Department,
 - staff from the Implementation of the Tax Administration Modernization Project Unit (that was created, with responsibility for coordination of implementation of the TAMP procurement aspects).
- As well, STS may hire an external consultancy at least on IT project management and procurement on a part time basis to support the STS in implementing project activities. The services to be provided by such consultants are detailed in ToR for each position.

3.4. Private Sector Advisory Panel

STS has established a Private Sector Advisory Panel which has the role of consulting with business and civil society situations of major interest and strategic importance for the tax administration, in accordance with the conditions and requirements for membership acceptable to the World Bank, and as is stipulated in LA/FA. The Advisory Panel facilitates the involvement of taxpayers and citizens in the implementation of the TAMP activities. The STS summons Advisory Panel meetings as needed or at least on a semi-annual basis to consult with the private sector on optimization of tax administration, project implementation and other related issues. The Advisory Panel comprises high level representatives of the key government stakeholders, including MoF, STS (Director, Heads of STS departments), P.I."CTIF", Periodical Publication "Monitorul fiscal FISC.md", President of the Chamber of Commerce and Industry of the Republic of Moldova, and chaired by the Director of STS. The resolution establishing the Advisory Panel was approved on April 07, 2017, by STS Order no 24 (with future amendments).

3.5. Results Monitoring and Evaluation

3.5.1 Progress Project Report

The STS is responsible for monitoring, evaluation and reporting on project progress and achievement of outcomes and intermediate indicators. Progress Project Reports are prepared in form and substance acceptable to the World Bank and include, *inter alia*, description of project implementation status, activities performed, and results achieved taking into account the Project results framework. Each Progress Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty five (45) days after the end of the period covered by such report. The reports are prepared by the PIT, approved by the Project Coordinator, presented to the STS Director, and forwarded to the World Bank.

3.5.2. DLI Monitoring, Verification and Reporting

The MoF via STS will monitor and report to the Association on the achievement of the Disbursement Linked Indicators, as a part Progress Project Reporting not later than in 45 days after the end of each year during the implementation of the Project, in accordance with the verification protocol.

The MoF and STS will provide the World Bank for the purpose of verification with the evidences confirming the achievement of each DLI. Specifically, the MoF will submit appropriate draft laws, final laws approved by the Parliament and links to the official publications of those documents. The STS will share adopted Orders and develop specific reports, which will then be reviewed and verified by the World Bank team. The verification protocol is attached in Annex 3.

3.5.3 Taxpayer survey

The project will finance the implementation of surveys to assess STS's taxpayer services. The surveys will provide gender-disaggregated data (where feasible as in the case of individual taxpayers) and also monitor any gender differences in the feedback provided. The first survey will be completed not later than the second year of implementation of the project and will be used to establish a baseline for

improved satisfaction of taxpayers. Follow – up surveys shall be completed every two years thereafter during the life of the project.

4. PROCUREMENT

4.1. General Provisions

Organization and implementation of procurements under the TAMP shall ensure that “the proceeds of the loan/credit are used only for the purposes for which the loan/credit was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations”.

4.2 Documents governing the procurements

The World Bank’s Guidelines “Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants”, published in January 2011, revised in July 2014 (Procurement Guidelines); and

- The World Bank’s Guidelines "Selection and Employment of Consultants under IBRD Loans & IDA Credits & Grants by World Bank MSTIs", published in January 2011, revised in July 2014 (Consultant Guidelines), and
- latest Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits
- provisions stipulated in the Legal Agreement - Financing Agreement between the Republic of Moldova and the International Development Association (IDA) and the Loan Agreement between the Republic of Moldova and the International Bank for Reconstruction and Development (IBRD) both dated June 28, 2016.
- Project Procurement Plan, approved with the World Bank.

4.3 Procurement Key persons

Overall responsibility for procurement management and coordination is with the STS, being assisted by PIT staff and Evaluation Committee.

The Evaluation Committee, established by STS order on May, 2017 is responsible for the evaluation of proposals or CVs for consultant services, and bids/quotation for goods. PIT shall provide assistance to the selection committees in drafting of bidding documents, advertising, collection of bids/proposals/CVs, drafting of evaluation reports, drafts of contracts and their submission to the World Bank for preview. Members of the Evaluation Committees are representatives from the STS departments. The Evaluation Committee may establish specific evaluation teams for the purpose of evaluation of the proposals/bids under separate procurement packages.

Filing of procurement - related documents, and records keeping under the project, is done by PIT. Procurement progress reports will be submitted to the World Bank as per Financing/Loan agreements provisions.

4.4 Procurement Plan and STEP

STS developed a procurement plan for project implementation, which provides the basis for the agreed procurement procedures. The Procurement Plan agreed between the STS and the WB is approved and sign by the STS. The Procurement Plan will also be published by the World Bank on its external website. The Procurement Plan is updated as necessary to reflect the actual project implementation needs. Procurement Plan and all its updates are subject to mandatory approval by the World Bank.

The procurement plan includes the following information: A brief description of the contract/procurement package; selection method; estimated cost of the package, the expected procurement milestones (date (month and year) of the submission of documents for the World Bank's clearance, invitation to bid submission of bids, the date of contract conclusion, and contract completion date); World Bank's prior/post review, and any other necessary information. For the contracts concluded, contract number, actual cost and name of contracting party are specified in the PPP.

Any procurement procedure should be included in the procurement plan before the beginning of its implementation.

During the preparation, coordination and actualization of the procurement plan and all procurement operations, STS uses the Systematic Tracking of Exchanges in Procurement (STEP) which is an online tool for procurement planning and tracking to prepare, clear and update the Procurement Plan and conduct all procurement transactions under the project. In order to be able to work in the STEP, STS provided the World Bank with all needed details on persons who shall be granted access to STEP with defining their functions and the World Bank created the corresponding profiles. Detailed information on STEP is presented in the STEP user manual.

As cost-related information can be entered into STEP only in USD dollars, whereas the project currency includes EURO and SDR the STS will make corresponding conversions into USD dollars (using an exchange rate of the National Bank of Moldova as of the date of approval of an updated procurement plan).

4.5 Documentation used for procurement

For each contract financed by IBRD and IDA, different procurement methods or consultant selection methods, need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Recipient and the World Bank in the Procurement Plan.

For procurement under the IDA and IBRD Financing, the STS will use the World Bank's Standard Bidding Documents (SBD), Standard Form of Consulting Contracts and Request for Proposals (RFP), and Sample Bid Evaluation Report Forms.

For International Competitive Biddings (ICB) procedures, acceptable Bidding Documents are agreed. These will comprise Supply and Installation of Information Systems Single or Two Stage Bidding and installation of Information Systems - Two Stage bidding (for both - March 2008 or a more recent version). Also, the sample procurement documents and forms developed in ECA Region for small value procurement would be adapted to suit the Project needs for procurement as outlined in the POM.

4.6 Procurement advertising

The General Procurement Notice (GPN) will be published in the on-line edition of Development Business (UNDB Online) announcing goods and consulting services to be procured and inviting interested eligible suppliers and consultants to express interest and to request any complementary information from STS. The GPN will contain information concerning the STS, amount and purpose of the financing, scope of procurement reflecting the Procurement Plan, and the name, telephone (or fax) number, and address(es) of the STS as the institution responsible for procurement, and the address of a widely used electronic portal with free national and international access or website where the subsequent REI will be posted.

Specific Procurement Notices (SPN) will be published in the on-line edition of the Development Business for all International Competitive Biddings (ICB) contracts, and in the printed edition at the option of STS. For goods to be procured through ICB, individual bidding opportunities would also be advertised in a major local newspaper on the same (or within 5) day(s) of the on-line publication.

With the use of STEP, all the procurement notices will be automatically published in UNDB Online once approved by the World Bank.

The local advertisements will be in the English language and, at the option of the STS, will also be in the national language. For consultants' contracts above USD 300,000, Request for Expression of Interest will be advertised in the on-line edition of the *Development Business* and in at least one major national newspaper/publication of wide circulation (in the national and English languages). The notices should also be published on the STS web site.

The contract award publications will include the following information: the names of all Bidders who submitted a bid, the bid prices as read out at the public bid opening, the name of the bidder and the evaluated price for each bid that was evaluated, the name of bidders who were rejected and the reasons for rejection, the name of the winning bidder and the price offered. Information about all contracts awarded through direct contracting, irrespective of price shall be published. For all ICB contracts and contracts awarded through selection of consultant firms for contract exceeding US\$300,000 the information should be posted on the World Bank site and in UNDB Online. The procurement procedures and SBDs to be used for each procurement method are presented in this Project Operational Manual.

4.7 Procurement methods

Procurement of goods and non-consulting services. Goods and non-consulting services procured under the project would include, among others, procurement of the ITMS (including hardware and training), equipment for the training center, minor equipment for STS and PIT, and logistical services for training activities. Under International Competitive Bidding (ICB) procedures, procurement will be done using the World Bank Standard Bidding Document (SBD) for Procurement of Goods.

Goods and non-consulting services contracts below USD 100,000 may be procured through Shopping procedure in accordance with the provisions of paragraph 3.5 of the Procurement Guidelines.

Procurement of logistical and organizational services for various events organized under the project would be done using Shopping procedures provided the contract value does not exceed USD 100,000. Training activities in the form of study tours, or participating in national or international workshops shall be procured in accordance with the procedures agreed with the World Bank. The STS will develop a Training Plan which will be prior reviewed by the World Bank. Each request to attend an event listed in the Training Plan or other events not listed in the plan will be submitted to the World Bank together with the proposed list of participants, agenda of the event and the estimated budget with the breakdown of costs.

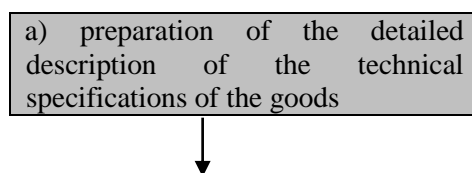
The thresholds for the procurement and selection methods are presented in the Annex 4.

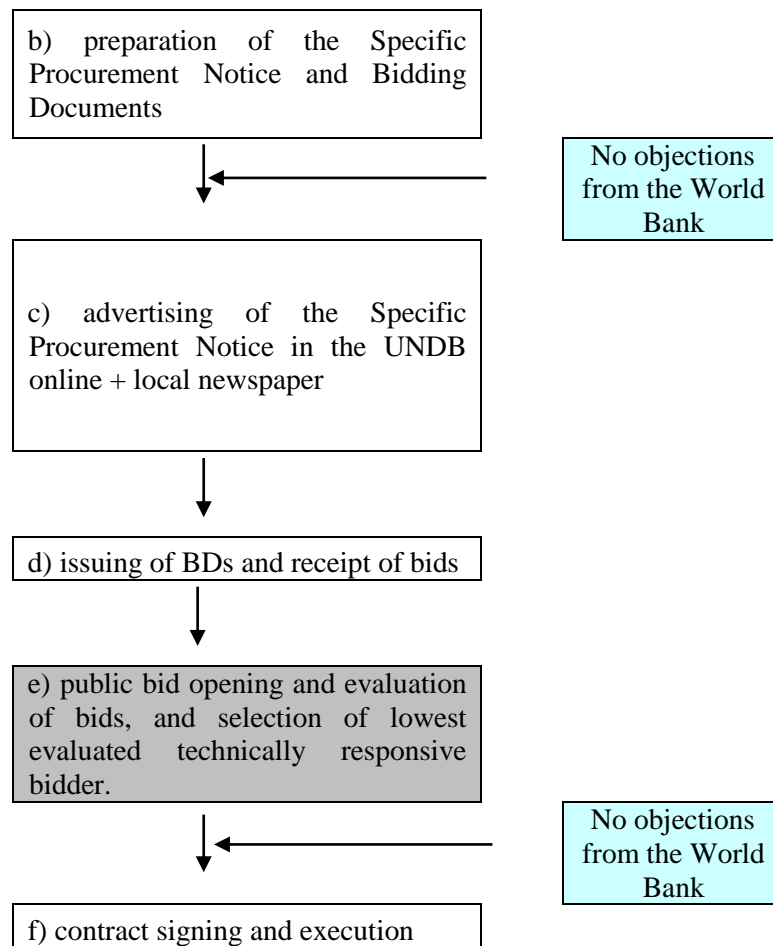
Methods to be applied for procurement of Goods and non-consultancy services:

(i) ***International Competitive Bidding (ICB).*** ITMS system, IT equipment and other systems, as well as procurement under the Component 4 of the Project for contracts above USD1,000,000 equivalent per contract for goods will be procured using ICB procedures in accordance with the World Bank's Procurement Guidelines.

Procedures for the World Bank's Prior Review will include the steps below, where the boxes indicate a point where the World Bank must issue its "no objection".

Chart 1. ICB Steps and Process Sequences





(ii) **Shopping (SH)** procedure will be used for readily available off-the-shelf goods, including office and computer equipment. In line with regional policy, all items would have standard specifications, estimated to cost less US\$100,000 equivalent per contract. This procedure will be based on obtaining and comparing price offers from at least three suppliers in accordance with paragraph 3.5 of Procurement Guidelines.

(iii) **National Competitive Bidding (NCB)**. Goods estimated to cost less than \$1,000,000 equivalent per contract will be procured according to NCB procedures in accordance with paragraphs 3.3 and 3.4 of the World Bank's Procurement Guidelines using documents agreed with and acceptable to the World Bank;

(iv) **Direct Contracting**. Where certain goods are available only from a particular supplier or in cases where compatibility with existing equipment so requires goods may be procured under Direct Contracting (in accordance with para. 3.6 of the Procurement Guidelines).

Procurement of consulting services. Consulting services under the project are of various size and complexity. These would include, among others: review and drafting of the tax code, including tax ruling review, tax administration issues, and local taxes and fees administration reform; implementation plans for restructuring of STS including workload and workforce analysis and strengthening human resources development capacity; fiduciary and technical consultants. Selection will be done using the World Bank Standard Request for Proposals (SRFP).

Contracts for Consulting Services will be packaged to combine related skills and services in order to make them attractive for competition and reduce the number of contracts to be administered taking into consideration the implementation arrangements. To the extent practicable, training activities would be incorporated with consulting services contracts.

The employment of fiduciary and technical experts will be conducted through the selection of individual consultants in accordance with the provisions of the Section V of the Consultant Guidelines.

In case the service is required from a consultancy firm, Quality- and Cost-Based Selection (QCBS) method will be applied in accordance with the Section II of the World Bank's Consultants Guidelines. For contracts below USD 300,000 equivalent Selection Based on Consultants' Qualification method may be used in accordance with paragraph 3.7 of the Consultants' Guidelines. The short list can comprise entirely national consultants, if the contracts with the firms are below USD 300,000 equivalent.

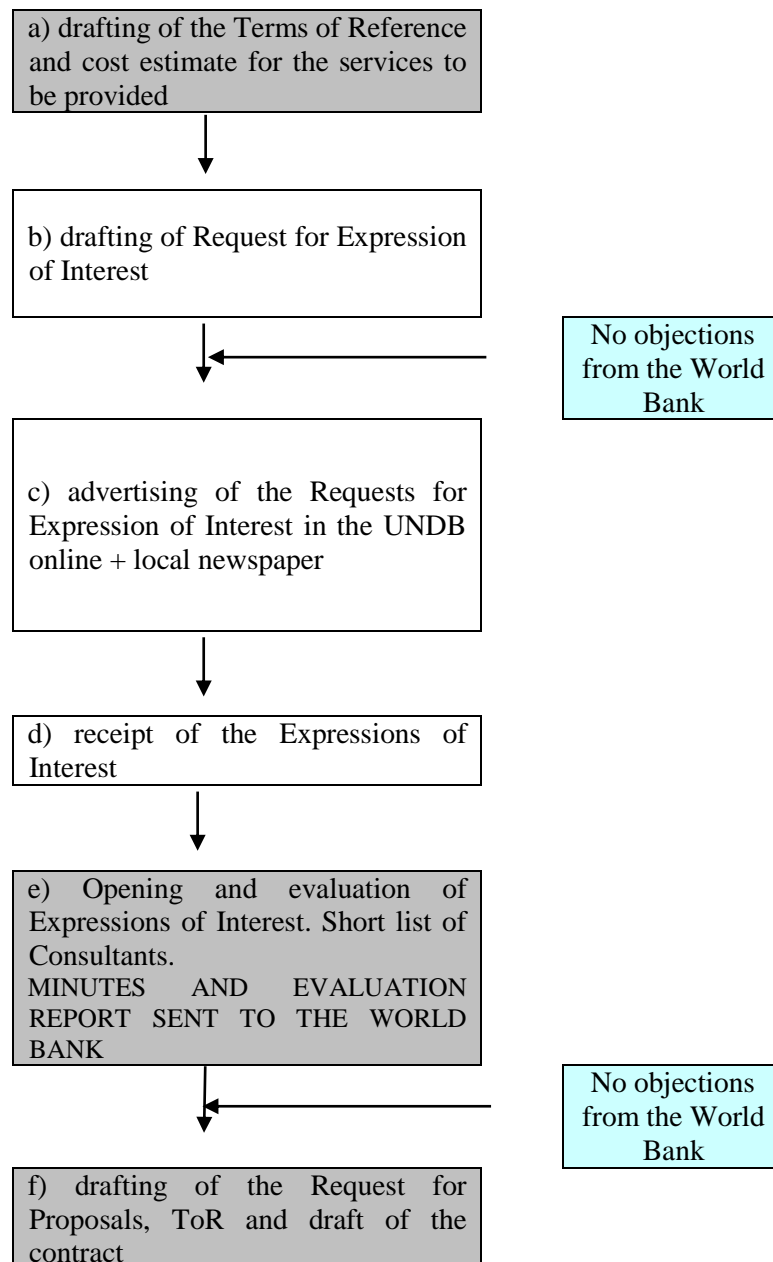
For consulting assignments exceeding USD 300,000 equivalent per contract, expressions of interest will be obtained by advertisement in the UNDB Online, supplemented with notices issued in the national press.

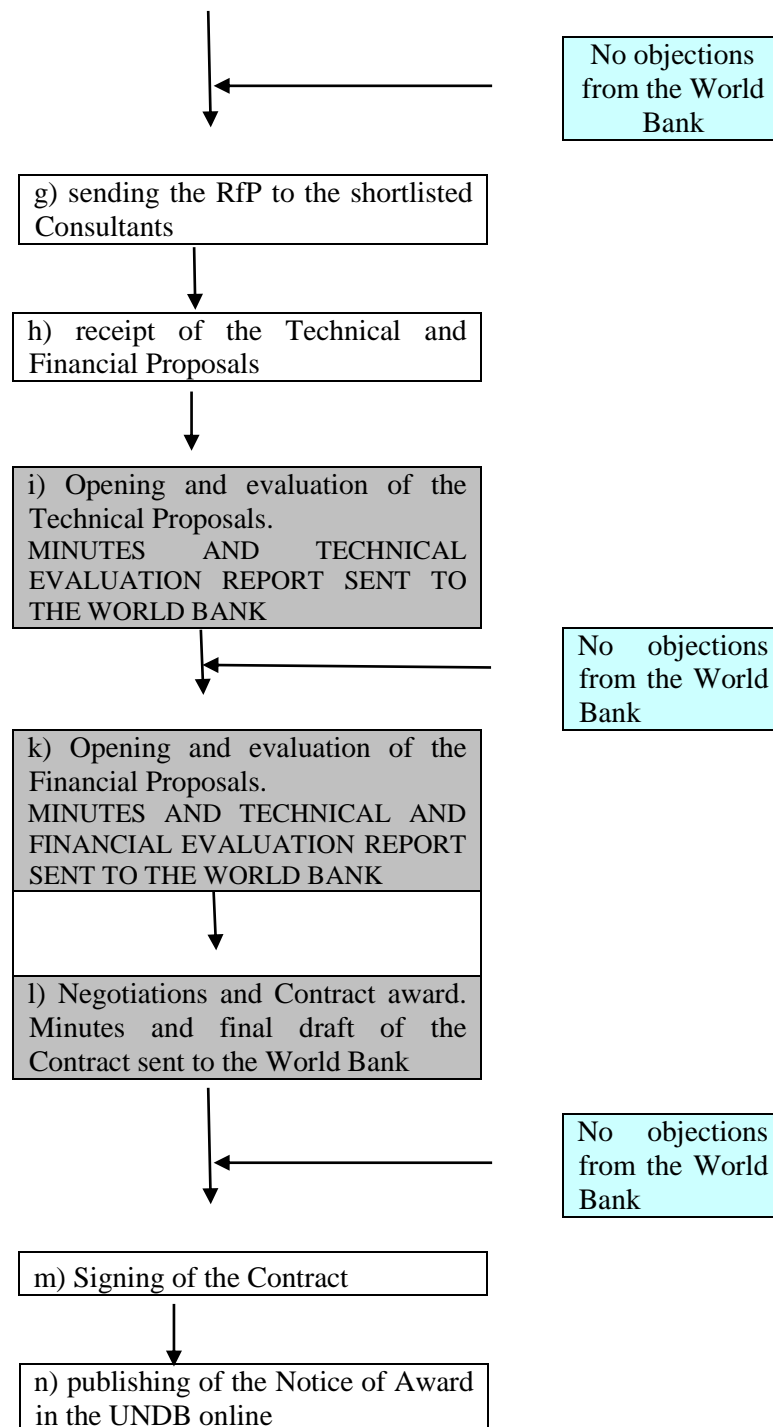
Government officials and civil servants can be hired as individual consultants or as members of a team with financing under the IDA and IBRD Financing, provided they meet the eligibility requirement as per paragraph 1.13 (d).

The following selection methods will be used for selection of consultant services:

(i) **Quality and Cost Based Selection (QCBS)** – procedure would be used for selection of consulting companies for technical assistance assignments for the Project where the contract value exceeds USD 300,000.

(ii) **Chart 2. QCBS Steps and Process Sequences**





(iii) **Least Cost Selection (LCS)** procedure would be used for selection of consultants for assignments of standard or routine nature (audits, and others).

(iv) **Selection Based on Consultants' Qualifications (CQS)** will be used for contracting firms for certain assignments under all components of the project for which the value of the assignments is estimated to cost less than US\$300,000 equivalent per contract and where it is considered that a small team of specialists would be more beneficial than a single individual.

(v) **Individual Consultants (IC)** will be used for the employment of fiduciary and technical experts and for the hire of individual consultants (both foreign and national) for specialized activities where specific skills are needed for short period of time at scattered intervals and which would not be practical to package with the assignments for consulting firms described above.

(v) **Single Source (SS)** The method will be used for certain individuals or training institutions (in accordance with para 3.8 and Section V).

4.8 Frequency of Procurement Supervision

The World Bank Procurement Specialist will conduct routine procurement reviews and supervision. In addition to the prior review supervision to be carried out from World Bank offices, one supervision visit is expected to take place per year during which ex-post reviews will be conducted. The Bank team recommends to post-review at least 20 percent of contracts subject to post review. Procurement documents will be kept readily available for World Bank's ex-post review during supervision missions or at any other point in time. A post review report will be prepared, shared with STS and filed in the procurement post review system.

4.9 Reporting

The STS no later than December 31 of every year during the implementation of the Project, shall prepare and furnish to the World Bank, a procurement progress report (Procurement Report) in form and substance acceptable to the World Bank, which shall include, *inter alia*.

- a) description of the issues which arose during the period preceding the date of presentation of each Procurement Report, from design through planning, bidding, contract implementation and completion;
- b) a list of proposed measures and actions to be taken to resolve the issues identified under (a) above; and
- c) a proposed timeline for the implementation of said measures and actions and thereafter implement, or cause to be implemented, the proposed measures and actions under each Procurement Report in accordance with its terms and in a manner acceptable to the World Bank

5. DISBURSEMENT PROCEDURES

All disbursement arrangements will be based on standard documentation as described in the World Bank's Disbursement Handbook (May 2006). Disbursements are administrated by STS (processed by the General Department Economy and Finance and signed off by the STS Director) with the assistance of PIT.

World Bank funds will be disbursed under the World Bank's standards procedures as described below. Supporting documentation for Statements of Expenditures and Interim Financial Reports, approved by the World Bank, including completion reports and certificates, will be retained by PIT and the STS and made available to the World Bank during project supervision.

5.1. Designated Account

Once the Project enters into force, the State Treasury shall open two Designated Accounts (DA) for the STS in the National Bank of Moldova. The designated accounts in USD and EURO will be opened and maintained under conditions acceptable to IDA and IBRD. The type of Designated Account: Segregated. An authorization from the Ministry of Finance is needed before the DA can be opened. Apart from the DAs a transit MDL account is opened in the State treasury, so that the payments to local suppliers could be made on the same day as the project currency is converted into MDL. The Treasury will open and manage these Designated Accounts specifically for this Project, to which the IDA and IBRD funds will be transferred.

5.2. Disbursement Arrangements

(i) Disbursement Methods. The following Disbursement Methods may be used under the Credit and Loan:

- Advances
- Direct Payment
- Reimbursement
- Special Commitment

(ii) The Project's current closing date is 30 November 2023 and the deadline for submission of withdrawal applications is March 31, 2024, as specified in the Financing and Loan Agreements and their amendments.

(iii) The conditions for disbursement are described in the Financing and Loan Agreements.

5.3. Withdrawal Operations

Withdrawal of Financing Proceeds

The withdrawals from the DA will be made for eligible expenditures as indicated in the tables below: For the financing provided by IDA under the Financing Agreement:

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	513,300 476,700 440,000	100% of achieved DLI/DLR amount

DLI # 3: Improved the usability of the STS website		
DLI # 4: Strengthened the capacity of STS staff to deliver taxpayer services	220,000	
DLI # 5: Introduced an electronic taxpayer survey tool	550,000	
TOTAL AMOUNT	<u>5,300,000</u>	

Disbursement conditions under RBF component

The reimbursement of funds which the MoF and STS utilized to achieve the DLIs is the key feature of this mechanism. In this regard, the annual current expenditures of MoF and STS (i.e., maintenance costs without capital investments) were identified as the eligible expenditures for the TAMP's RBF Component. Annex 5 includes the list of budget line items eligible under the EEPs, which consists of non-procurable items. Disbursements against eligible expenditures under the RBF Component will be report-based and as such will utilize the budget execution reports prepared by MoF on a regular basis (the template is included in Annex 6). These reports show both planned expenditures for the year and actual expenditures executed to-date and will be included in the annual project audit.

For each of the DLIs, the MoF will be able to withdraw Credit proceeds in the amount specified for each DLRs by presenting: (i) evidence satisfactory to the Association in accordance with the verification protocol on the achievement of the respective DLI(s) and DLR(s) against which withdrawal is requested; and (ii) the detail of expenses incurred under agreed budget lines through submission to the Association the interim unaudited financial reports documenting the incurrence of Eligible Expenditures.

The payments under RBF Component will be in USD and USD value will be determined at the day of each payment. The EEP budget execution report per the agreed template for the corresponding period will be enclosed to this submission. The World Bank will verify both achievement of the DLIs/DLRs and the execution of the eligible expenditures per the agreed Verification Protocol prior to disbursement. The project proceeds against achieved DLIs/DLRs will be channeled to a specific USD Budget Account of the State Treasury as will be indicated by the Government.

For the financing provided by IBRD under the Loan Agreement:

Category	Amount of the Loan Allocated (expressed in EURO)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services, Training and Operating Costs for the Project	11,099,836.77	100%
TOTAL AMOUNT	11,099,836.77	
TOTAL AMOUNT in USD equivalent*	12,580,000.00	

* As requested by the Ministry of Finance, the currency for the IBRD Loan was converted from USD to Euro. The conversion was executed by the World Bank on the loan unwithdrawn amount on March 04, 2019 by applying the EUR/USD exchange rate of 1.13335

The Closing Date of financing is November 30, 2023.

The Disbursement Deadline Date is four months after the Closing Date specified in the Agreements. Any amendment to this date will be communicated by the World Bank.

The STS Director, Head of Economic and Finance Department from STS, Deputy Head of Economic and Finance Department from STS, have the rights for authorized signatures for withdrawal applications, and will be given for funds managed by the STS.

The authorized signatory letter (ASL) should be furnished to the World Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank
1 Dniprovskiy Uzviz
Kyiv, 01010

Ukraine
Attention: Country Director, ECCU2

The completed and signed applications for withdrawal, together with supporting documents, and applications for special commitments, together with a copy of the commercial bank letter of credit, shall be provided to the address indicated below:

The World Bank
Radnicka cesta 80, 9th floor
Zagreb, HR - 10 000
Croatia
Attention: Loan Department

Electronic Delivery. The World Bank may permit the STS to electronically deliver to the Bank Applications (with supporting documents) through the Bank's Client Connection, web-based portal. The option to deliver Applications to the Bank by electronic means may be effected if: (a) the STS has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials ("SIDC") from the Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the STS have registered as users of Client Connection. If the Bank agrees, it will provide the STS with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (<https://clientconnection.worldbank.org>). The STS may continue to exercise the option of preparing and delivering Applications in paper form. The Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the STS.

Minimum Value of Applications. The Minimum Value of Applications for Reimbursements, Direct Payments and Special Commitments is USD 100,000 for each DA, or equivalent in Euro in case of DA B.

Advances to Credit and Loan

- Type of Designated Accounts:
 - o Designated Account A - Segregated for the IDA Credit managed by the STS
 - o Designated Account B - Segregated for the IBRD Loan managed by the STS
- Currency of Designated Accounts: USD and Euro
- Financial Institution at which the DAs are opened: National Bank of Moldova.
- Ceilings:
 - DA A USD 800,000
 - DA B EURO, equivalent of USD 2,000,000

5.4. Reporting on Use of Financing Proceeds

Supporting documentation should be provided with each application for withdrawal as set out below:

- **For requests for Reimbursement:**
 - Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments against contracts valued more than prior review threshold.
 - Statement of Expenditure in the form attached for contracts not subject to prior review;
 - List of payments against contracts that are subject to the Association's prior review, in the form attached
- **For reporting eligible expenditures paid from the Designated Accounts:**
 - Records evidencing eligible expenditures (e.g., copies of receipts, supplier invoices) for payments against contracts valued more than prior review threshold.
 - Statement of Expenditure in the form attached for contracts not subject to prior review;
 - List of payments against contracts that are subject to the Association's prior review, in the form attached

- ***To request for Direct Payment:*** Records evidencing eligible expenditures, e.g., copies of receipts, supplier invoices

- ***To request for Special commitments***

Copy of Letter of Credit

Frequency of Reporting Eligible Expenditures Paid from the Designated Account: Monthly
To monitor disbursement information, the Project will be using secure website “Client Connection” at <http://clientconnection.worldbank.org>, to download Applications, monitor the near real-time status of the Funding, and retrieve related policy, financial, and procurement information.

All the disbursements shall be made in accordance with the Financing Agreements for the Project and the corresponding sources of funds.

6. FINANCIAL MANAGEMENT, ACCOUNTING AND REPORTING

STS is responsible for carrying out the financial management function of the project, including planning and budgeting, accounting, flow of funds, financial reporting, internal control and auditing, being assisted by the PIT staff.

6.1 Organizational Arrangements

Under the given project arrangements, PIT will provide support to STS for fiduciary and technical activities necessary for the implementation and management of the TAMP, including:

- preparation of withdrawal applications for financing the project activities;
- management of the project Designated Accounts;
- keeping record and maintenance of project accounts and organizing their auditing;
- preparation of financial reports for the project;
- participation in administration of bidding procedures and of contracts under the project;
- development of consolidated quarterly progress reports and submitting them to the attention of the World Bank not later than forty-five (45) days after the end of each quarter, submitting the first such report to the Bank no later than the end of the quarter when the first disbursement takes place.

6.2. Planning and Budgeting

Budgeting is the basic tool for financial planning, monitoring and analysis of the project activities. The budgeting process is to be handled by the accounting staff of the Economic and Finance Department of STS with the support of PIT staff, with further submission of project-related information to the Ministry of Finance.

The STS prepares its annual budget in accordance with the architecture of Moldova's budget classification system. As the Bank financed Projects are included in the overall State budget framework, the project budget will follow the established procedure for approval, budget execution reporting and monitoring at the Government level.

These include budget formulation, monthly distribution of allocations through financing plans, and monthly, quarterly and annual reporting on budget execution (separately for credits and grants). All activities that need to be covered are listed below:

1. Preparation of 3 years' expenditure and disbursement forecasts for purposes of the Medium-term budget framework (MTBF);
2. Preparation of the draft Project Procurement Plan by the PIT;
3. Coordination of the Procurement Plan with the World Bank and the STS;
4. Annual Preparation of Expenditures Forecast by the STS and PIT finance staff;
5. Preparing by the STS and PIT finance staff of the Annual Budget for the Project Expenditures under expenditure categories and project activities;
6. Approval of the Annual Budget by the STS through the PSC;
7. Approval of monthly distribution of allocations (for credits and grants);
8. Adjustments of annual budgets and financing plans based on project implementation progress;
9. Preparing the monthly Aggregate budget execution reports to be submitted to the Ministry of Finance (MoF) separate for Credits and Grants (according to formats approved by MoF);
10. Preparing the quarterly and annual budget execution reports to be submitted to the Ministry of Finance (MoF) (according to formats approved by MoF);

Budget execution will be monitored through the regular budget reports submitted to the Ministry of Finance. Once reviewed and endorsed by the Ministry of Finance, the Project budget will be included in the state budget. The approved annual budget will be entered into the accounting system and used for periodic comparison with actual results as part of the interim reporting.

6.3. Flow of funds and step sequencing

The designated accounts of the STS are opened in the National Bank of Moldova, separately for each source of financing within the limits established in the Project Disbursement Letter. At the same time, transit accounts shall be opened for payments in national currency (MDL).

The request for funds may be made online using “Client Connection” database. Before the first disbursement, the STS shall submit to the World Bank the specimen of authorized signatures for disbursement of project funds and will request access to Client Connection through the World Bank’s local coordinator.

While executing the payments in local currency, the Treasury shall ensure the transfer of funds to local suppliers on the day when payment orders are submitted and shall submit bank statements and a copy of the payment order as confirmation that the funds reached the beneficiary's account.

The following chart reflect the general framework of documents and funds flows.

Chart 3. Sequence and flow of documents and funds under STS

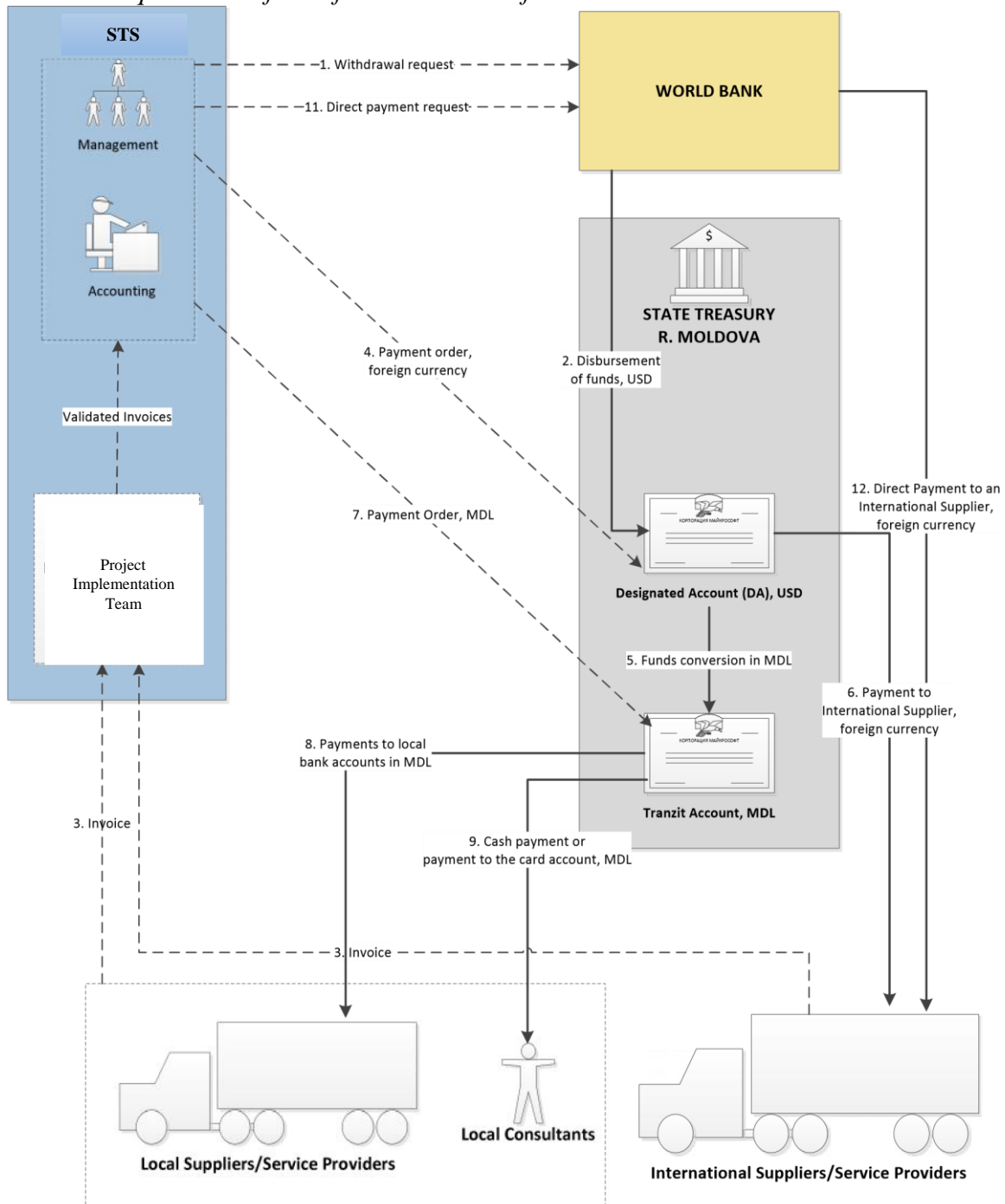


Table to Chart 3

SEQUENCE AND FLOW OF DOCUMENTS AND FUNDS

Step	Description
1-2	<p><i>Replenishment of the Designated Account.</i></p> <p>As required, the STS Accountant prepares a withdrawal application [the latter is incorporated in the automated process with the project accounting software] together with relevant supporting information – Statement of Expenditure, List of payments against prior review contracts, copies of invoices, bank statements and any other documents as requested by finance providers. The withdrawal application is then reviewed and approved by the STS Director before it is sent to the WB Loan Department for the replenishment of the Designated Account. The first application for the initial deposit into the DA will be submitted as soon as the project is declared effective.</p>
3 -13	<p><i>Procurement</i></p> <ol style="list-style-type: none"> 1. Contracts are signed and Invoices from suppliers and consultants are approved by the STS, as appropriate, and then are directed for payment. 2. Other invoices (i.e. project operating costs) are approved and paid by the STS. <p>Note 1: Invoices from suppliers and consultants are matched by the Procurement Specialist, Project Manager and Project Coordinator, as well as by Head of General Economic and Financial Department to an approved goods delivery note, or similar document, and to the original purchase order, and contract, if necessary. The Procurement Specialist, the Project Manager as well as Project Coordinator approves the invoice. Payments are effected in one of the following two ways, depending upon the source of financing: (i) from the WB funds – a bank payment order from the relevant DA is prepared and funds are transferred from the DA either directly to the foreign supplier or via the Transit account to the local supplier/consultant. All goods procured by the project will be received directly by the STS (with PIT's participation).</p> <p>Note 2: IDA and/or IBRD funds are not used to pre-finance other sources of funds.</p> <p>Note 3: Local consultant's/PIT staff remuneration – these are computed monthly by the STS accounting staff on a single spreadsheet for all employees (all projects administrated), verified by the Head of General Economic and Financial Department. Individual employee calculations and payment orders are prepared and again signed by the Head of General Economic and Financial Department and the STS Director; sufficient cash in MDL (if payments are made in MDL) is withdrawn from the DA (via the Transit Account); and payments are made to relevant employees/consultants via transfer to a banking account (card or simple bank account).</p> <p>Note 4: Transit Account – the Transit Account is used for converting US\$ funds from the designated financing account into MDL, and therefore the WB funds are not kept in the Transit Account except for very brief periods of time.</p> <p>Note 5: If the small petty cash transactions are required – the reimbursement to employee is made through a debit card account. Cash is used in cases of training abroad for logistical support costs (travel expenses, etc.)</p>
14-15	<p><i>World Bank Direct Payments.</i> Direct Payment requests are sent from the STS to the World Bank Loan Department when necessary. The payment request is prepared on Form 2380 and authorized as for normal Withdrawal Applications (see above). The World Bank makes direct payment to the suppliers as directed.</p>

6.4. National Accounting Policy Framework

The STS accounting policy is developed according to the provisions of the Law on Accounting no. 113-XVI from 27 April 2007, Chart of accounts and Methodological norms on accounting and financial reporting in the institutions part of the state budgetary system (approved by the Order of the Ministry of Finance no. 216 from 28th of December 2015),

Budget classification (approved by the Order of the Ministry of Finance no. 208 from 24th of December 2015) and other normative acts issued by the Ministry of Finance, as well as according to the Internal Regulations of the Economic-Financial Department from STS.

Accounting records are produced in the language of the state and transactions value is expressed in the national currency. The transactions made in foreign currency are recorded in both – the local and

foreign currencies. The transactions made in foreign currency are recorded at the official exchange rate set by the National Bank of Moldova. Double entry accounting is used for accounting records. STS records the accounting elements using both principles – cash-based and accruals. The cash-based principle is applied for records related to the budget execution and the accruals principle is applied for records of revenue and actual expenditures, financial and non-financial assets, liabilities and results.

Basic accounting definitions

Non-financial assets are non-monetary, tangible and intangible assets.

Intangible assets - assets that are not physical in nature, controlled by the entity and having a useful life greater than one year in production, distribution and any other activity, as well as for administrative purposes or rent to physical or legal entities.

Tangible assets – assets that have a physical form (fixed assets, land, natural resources, etc.).

Financial assets – stocks, bonds, receivables, cash and bank deposits.

Revenue – transactions increasing the net value of assets.

Expenses – transactions reducing the net value of assets.

Net assets value – the value of an entity's assets minus the value of its liabilities.

Fixed assets – tangible assets with a useful life exceeding 1 year.

Financial instruments - assets not used in the production or for consumption purposes and held for appreciation of the cost over time.

Basic accounting principles

The basic principles of accounting are as follows:

- *going concern* – an assumption that financial statements are prepared assuming that the public authority will continue to operate in the foreseeable future;
- *accruals* - concept of accounting which requires that the accounting elements must be recognized in the accounting periods to which they relate rather than on cash basis;
- *comparability* - comparability of financial statements over different accounting periods can be ensured by the application of similar accountancy policies over a period of time;
- *dual aspect concept* - a fundamental convention of accounting that necessitates the recognition of all aspects (assets and liabilities) of an accounting transaction;
- *non-compensation* - any compensation of debt by asset elements, or revenue by expense elements is not allowed, except the compensations provided by the law;
- *consistency* – the way of presentation of the elements and their classification in the financial statements must be consistent from one accounting period to another one.

Accounting of Revenue and Expenditures

The expenditures represent the actual expenses made by the institution, confirmed by corresponding documents, including expenses for unpaid Invoices and accrued remunerations.

The revenues reflect the payments received from the sale of the standardized forms of primary documents with special regime and payments from rental of the public property.

6.5. Financial Reporting to IDA and IBRD

General provisions

STS prepares its statutory financial statements based on the provisions of the Law on Accounting and according to terms and requirements set by the Ministry of Finance. The financial statements (except the Cash Flows Statement) provides information on previous transactions on payments made and received and are prepared based on the accrual principle. the Cash Flows Statement, as compared to other financial statements, is prepared on a cash basis principle.

The financial statements shall comply with the following qualitative characteristics:

- a) *understandability* - transactions and events must be presented in the financial statements in a manner that is easily understandable by users;

- b) relevance - information should be relevant to the assessment of past, current and future events;
- c) reliability - information is reliable and faithfully represents the transitions, events, value of the assets, liabilities, revenues and expenditures and the information presented in the financial situations is complete;
- d) comparability/consistency - the information presented by different authorities/budgetary institutions or financial statements of one accounting period must be comparable to another.

Project management-oriented Interim Un-audited Financial Reports (IFRs) will be prepared under the project. STS will produce a full set of IFRs every quarter throughout the life of the project. The format of IFRs includes: (i) Project Sources and Uses of Funds, (ii) Uses of Funds by Project Activity; (iii) Project Balance Sheet, (iv) Designated Account Statement; and (v) Statement of Expenditures Withdrawal Schedule. These financial reports will be submitted to World Bank within 45 days of the end of each calendar quarter for the quarter. The first quarterly IFRs will be submitted after the end of the first full quarter following the initial disbursement.

TAMP Interim Financial Reports are compiled on a cash basis method, as long as these are mostly related to the actual disbursements made under the Designated Accounts, and not much difference in timing appears from the due payment date until the actual payment, as well as from the date of generation of the revenue and the actual receipt of funds. As a result, no material differences would appear between financial and disbursement reports. (Note. The information produced by IFRs is used for monthly, quarterly and annual budget execution reports submitted to Ministry of Finance). The Financial reports for statutory purposes, excluding cash flow statements, are prepared based on the accrual method.

Currency

The functional currency of the project is US Dollars and Euro and the accounting records for the Project are in US Dollars (USD), Euro and Moldovan Lei (MDL). As the part of project financing is provided in Special Drawing Rights, STS shall periodically reconcile the USD/SDR differences that might appear.

Fixed assets and capital items

The fixed assets held by STS are shown in the financial statements (IFRs) at cost at the moment of purchase. Since the organization does not have any commercial revenues, the accrual of depreciation does not have sense for their reconciliation with the corresponding revenues; thus, depreciation is not shown in the corresponding reports.

Foreign currency

Transactions denominated in currencies other than US Dollar are translated at the National Bank of Moldova rates in effect on the date of such transactions. Foreign currency monetary assets and liabilities are translated at the rates in effect on the last day of the reporting period. Foreign currency non-monetary assets and liabilities are translated at historical rates.

Revenue recognition

Revenues are recognized upon receipt of funds in the designated account.

This section also summarizes agreed formats of financial reports (e.g. Project Management Reports, government reports, reports to tax authorities), information relating to the submission of the reports (specifying to whom, when and where the reports should be delivered):

a) Tax returns:

- Information of individual tax for the year;
- Report on the health insurance premiums;

b) Reports to national social insurance house on social charges:

- Report on social charges accrued and paid;

c) REV forms on individual contributions paid for each employee; IFRs. The following basic IFRs are to be produced by STS (templates are attached in the Annex 7):

- Balance sheet;

- Project sources and uses of funds;
- Use of sources by project components/activities, details on expenditures
- Designated account statement
- Project cash forecast
- Report on execution of funds under each component and/or sub-component
- Report on monitoring of the procurements.

6.6. Financial Management staff

The STS General Department Economy and Finance is responsible for statutory accounting, planning and financial analysis within STS, and it will undertake the Financial Management function of the project with the support of the Financial Management Specialist from the PIT.

STS has an adequate internal control system in place for implementation of the project, including adequate segregation of duties among its accounting staff. The division of tasks is performed according to the four eyes principle and the principle of tasks' segregation. Thus, the procedures of issuing payment orders and preparing accounting formulas are made by two different persons. At the same time, each payment document is reconciled with the grant agreement by the person making the payment order and the Head of Department.

The Head of STS General Department Economy and Finance will hold primary responsibility and accountability for maintaining reliable financial arrangements for the project, including performing data import-export, monitoring use of funds, reporting, development of record keeping methodology, training of employees and implementation of internal control measures, planning and organizing for external audit, and providing overall guidance on project related issues to the rest of staff.

The Head of STS General Department Economy and Finance will be responsible for preparing financial plans and monitoring their implementation, provision of financial reports and statements to the World Bank, and organizing the financial audit. The Deputy Head of STS General Department Economy and Finance will replace the head of the department during the absence of the latter.

The PIT Financial Management Consultant will provide support in planning and monitoring the use of funds under the project, drafting payments documents, completing and submitting project financial statements to the Bank, and planning and organizing of the external audit of the project financial statements.

6.7. Accounting Software

The STS General Department Economy and Finance shall keep records both on paper, as well as using the automated 1-C accounting software, version 8.1, developed and maintained by „CTIF“, ensuring permanent and timely renewal of the database with the new financial and accounting provisions.

The 1-C system capabilities will be adapted to use analytical accounts and additional signed (additional classifications related to specific accounts), and all the payments for the project related transactions will be reflected using:

- A) Categories of expenditures,
- B) Levels of project components and sub-components,
- C) Sources of funds.

Thus, the system will have the capability to generate the required information for the statements to be presented for disbursements, as well as for the IFRs. The system shall be adapted to use the information on each specific category, component or sub-component, and source of funding for budgeting purposes. The forms of the reports and statements are provided in Annex 7 of this manual. At least once a week a back-up of the files contain data shall be made and stored at the office according to a set procedure. If necessary, the 1-C accounting system maintenance services will be provided by a company having the capacity to provide such services.

6.8. Periodic Processing Schedule

The following table indicates the periodic procedures for the software operation (e.g. backup of data, maintenance of data), for manual procedures (e.g. formal reconciliation of bank account statements to project accounting records, reconciliation of IDA and IBRD disbursement records), and agreed project reporting schedules.

Table 4. Periodic Processing Schedule

Frequency	Responsible	Process
Periodically, upon processing of each Withdrawal Application	STS and PIT	Checking the processed data in the <i>Client Connection</i> system with the Project records
Monthly (3 working days after end of the month)	STS accounting staff	Presentation of Reports on budget execution outside the Treasury system to the Ministry of Finance
Quarterly or more frequently, upon use of funds	STS and PIT	Preparation of withdrawal applications
Quarterly according to the deadline specified by the Ministry	STS accounting staff	Submission of detailed budget execution reports to MoF
Quarterly (within 45 days)	STS accounting staff and PIT	Submission of IFRs to the WB
Annually	STS accounting staff and PIT	Following up on auditing arrangements (bidding, contracts, TORs)
Annually (6 months after the year end)	STS accounting staff and PIT	Sending the auditing reports to the WB

6.9. Internal Control Procedures

A) **Control Environment** – STS has the competence and organization methods to ensure a proper control environment.

B) **Risks** – The overall project financial management staff comprises the financial management consultant from the PIT and the financial management staff of the STS General Department Economy and Finance, therefore internal checks and reconciliation can be ensured by employees from these two organizational structures. In addition, the approval procedures of contracts, invoices and other relevant source documents by the Procurement Specialist, Project Manager and Project Coordinator can be put in place.

C) *Control activities:*

- *Authorization procedures:* all transactions related to procurement of works and services shall be authorized by STS.

- *Segregation of duties:* the main segregations should be performed between the Project Coordinator, the Project Manager, and the Head of General Department Economy and Finance, and will be responsible for the support to STS in planning and administering project procurements, including monitoring the delivery of goods and services. The PIT will be responsible for providing support to STS General Department Economy and Finance staff with all project financial management and reporting. The Project Manager, Project Coordinator and the Head of the General Department Economy and Finance will approve all transactions, monitor activity of the subordinated project staff, monitor their reports, etc.

D) **Information and communication** – timely and appropriate information reporting about the project implementation, projects expenditures, and sources of funds should be in place. Information should be delivered to all relevant stakeholders (WB team, STS, Ministry of Finance, project beneficiaries, etc.).

E) **Monitoring** – The proper monitoring of the project shall be organized by the WB supervision team as well as by PIT and STS specialists who shall report on any weaknesses that may appear. STS and PIT will then be responsible for elimination of the identified weaknesses.

External Control

The activity of the STS and PIT is checked and monitored by external institutions:

1. The Court of Accounts performs total and thematic controls of the use of funds both from budget allocations and project sources;
2. The Ministry of Finance continuously monitors the project's expenditures, presentation of financial reports, financing plans and operating information;
3. The World Bank verifies the use of project funds, payment procedures and reporting.

6.10. External Audit

STS is responsible for regular audit of the project financial statements. The annual audits of the project financial statements will be provided to the World Bank within six months of the end of each fiscal year, and also at the project closing. STS has agreed to disclose the audit reports for the project within one month of their receipt from the auditors, by posting the reports on the STS Website. Following the Bank's formal receipt of these reports from the STS, the Bank will make them publicly available according to World Bank Policy on Access to Information. If the period from the date of effectiveness of the loan to the end of the STS's fiscal year is no more than six months, the first audit report for the project may cover financial statements for the period from effectiveness to the end of the second fiscal year. The contract for the audit awarded during the first year of project implementation may be extended from year to year with the same auditor, subject to satisfactory performance. The cost of the audit will be financed from the proceeds of the project.

Before an auditor is contracted, the TORs shall be agreed with the WB country Financial Management Specialist, and "No-objection" is to be received from the TAMP Task Team Leader, in accordance to procurement procedures. The audit arrangements (selection and contracting of auditor, etc.) are organized by STS, being required to provide necessary support to the auditors in conducting their duties related to the audit and to sign their part of financial reports for which preparation they are responsible for. The project audit will cover the calendar year, beginning with the year when the first disbursement takes place. Each audit report is to be submitted within six months after the end of that calendar year. The list of eligible auditors is provided by the WB country Financial Management Specialist before the selection of project auditors.

In accordance with "The World Bank Policy on Access to Information" dated July 1, 2010, which requires that the audited financial statements are made publicly available, the project financial audit reports would be published within sixty days after submission of the audit report to the Bank on its external website. The reports will be published at the same time on the web sites of the STS.

Results Framework
Country: MOLDOVA
Tax Administration Modernization Project

Project Development Objectives(s)

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

Project Development Objective Indicators by Objectives/Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets						
			Y 1 2018	Y 2 2019	Y 3 2020	Y 4 2021	Y 5 2022	Y 6 2023	End Target
To improve revenue collection									
Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220	DLI 1	Specific rates and minimum rates by types of tobacco products as set up in the Tax Code of Moldova in 2017		Draft Law on Changes to the Tax Code aimed at increasing the specific rate and the minimum rate for both cigarettes with filter and without filters by a minimum of 15 % each for the year 2021 comparing to the excise rates from 2020 submitted to the Parliament. (DLR 1.1)	The Parliament approved the Law(DLR 1.2)	Specific rates increase came into effect(DLR 1.3)			Increased specific rates came into effect
Ensured that supplies of goods by insolvent subjects have been taxed	DLI 2	Due to the legal gap in provisions		Draft Law on Changes to the Tax Code of Moldova	Parliament adopted the Changes to				The adopted changes to the Tax Code

with VAT on the reverse charge principle		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		(Title 3, art 93, 94, 102, 115) (DLR 2.1) submitted to Parliament	the Tax Code and they came into effect(DLR 2.2)				came into effect
To improve tax compliance									
Share of active taxpayers (legal entities) filing income declarations in total active taxpayer (legal entities) (Percentage)		19.35	86.00	86.00	87.00	88.00	89.00	90.00	90.00
Increase in additional tax assessed per audit (Percentage)		25822 MDL per audit	+10.00	+10.00	+15.00	+20.00	+25.00	+34.00	+34.00
Improved the usability of the STS website (Text)	DLI 3	There are two websites available (one for information only and another one for the submission of		Single STS website launched with at least the following new features: - Support to requirements of people with special needs;	Use of STS website by taxpayers within 1 month of its launch (DLR 3.1)				New STS website is used by the taxpayers

		tax declarations by taxpayers); there are some gaps in the functionality of both websites		<ul style="list-style-type: none"> - single STS web page which will allow taxpayers to submit income statements electronically through their personal account created on the site; - STS web site synchronized with the state web sites through the automated information exchange (open data); -new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; -feed-back mechanism available through the online (chat) assistance service. (DLR 3.1)					

To improve taxpayer services									
Time to required to comply with taxes (Hours)		186.00	181	180	178	175	173	165	165
Strengthened the capacity of SFS Staff to deliver taxpayer services (Text)	DLI 4	There is no a Manual on taxpayer services; the staff had no specific trainings		Manual on taxpayer services developed and adopted by STS (DLR 4.1)	All eligible staff of STS, located in all offices, are trained. (DLR 4.2)				The Manual is implemented and all eligible staff of STS located in all offices was trained
Introduced an Electronic Taxpayer Survey Tool (Text)	DLI 5	No tool for taxpayers' regular feedback is in place.		Pilot of the electronic taxpayer survey mechanism is completed and training courses for the designated staff to support the roll-out are conducted, and the roll-out is initiated (DLR 5.1)	Evaluation report on Roll-out results for six months of implementation. (DLR5.2)				The tool is implemented.
Intermediate Results Indicators									
Taxpayer satisfaction (Text)		Legal entities -76,3% and Individuals – 69,2%.		Baseline survey conducted with data disaggregated by gender, results and suggests actions of the STS to address weaknesses are		Legal entities – 83,9% and Individuals – 76,1%. Satisfaction increase - 10% (compared to baseline)		Legal Entities – 91,6% and Individuals – 83,0% Satisfaction increase -	Satisfaction in crease - 20% (compared to baseline) Final survey conducted with data

				published on the STS website.		disaggregated by gender, results and suggests actions of the STS to address weaknesses are published on the STS website. Mid-project survey conducted with data		20% (compared to baseline) Final survey conducted with data disaggregated by gender, results and suggests actions of the STS to address weaknesses are published on the STS website.	disaggregated by gender. Results and suggested actions of the STS to address weaknesses are published on the STS website.
The Training Distance Learning System for the most important workflows (Text)		The list of training programs is not identified	Seven training courses to support the distance learning training programs identified by domains	Ten training courses to support for the distance training programs identified by domains are developed	Twelve training courses to support the distance training programs identified by domains are developed	Assessment System is launched.			All identified distance learning courses to support for the most important workflows are developed and updated.

			are develope d.						
Number of hits the STS web-site (Number Thousand)		3,570,004	6 850 000	6 900 0004,	7 000 000	7 050 000	7 100 000	7 150 000	7 150 000
Decrease in tax arrears (Percentage)		8.50		6,68	6,67	6,50	6,48	6,47	6.47

Disbursement Linked Indicators, Disbursement Linked Results, Indicative Timeline for the Achievement of the DLRs under each DLI and Allocated Amounts for Each DLI/DLR

Disbursement Linked Indicators		Disbursement-Linked Results		
	Baseline	Results to be achieved in Year 1 (Dec-2019)	Results to be achieved in Year 2 (Dec-2020)	Results to be achieved in Year 3 (Dec-2021)
DLI 1. Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220	Specific rates and minimum rates by types of tobacco products as set up in the Tax Code of Moldova in 2017.	Draft Law on Changes to the Tax Code aimed at increasing the specific rate and the minimal excise rate for both cigarettes with filter and without filters by a minimum 15 % each for 2021 comparing to the excise rates from 2020 submitted to the Parliament. (DLR 1.1)	The Parliament approved the Law (DLR 1.2)	Specific rates increase came into effect (DLR 1.3)
Financing amounts: SDR 513,300 (USD 700,000)		SDR 256,650 (USD 350,000) / 50% of DLI 1	SDR 102,660 (USD 140,000)/ 20%	SDR 153,990 (USD 210,000)/30%
DLI 2. Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle	Due to the legal gap in provisions which stipulates the process of debt cancellation, at the time transfer of collected VAT insolvent subject does not have liquidity and this creates budget losses	Draft Law on Changes to the Tax Code of Moldova (Title 3, art 93, 94, 102, 115) submitted to Parliament (DLR 2.1)	The Parliament adopted the Changes to the Tax Code and they came into effect (DLR 2.2)	
Financing amounts SDR 476,700 (USD 650,000)		SDR 333,690 (USD 455,000)/ 70% of DLI 2	SDR 143,010 (USD 195,000)/ 30%	

Disbursement Linked Indicators	Disbursement-Linked Results			
	Baseline	Results to be achieved in Year 1 (Dec-2019)	Results to be achieved in Year 2 (Dec-2020)	Results to be achieved in Year 3 (Dec-2021)
DLI 3. Improved the usability of the STS website	There are two websites available (one for information only and another one for the submission of tax declarations by taxpayers) there are some gaps in the functionality of both websites.	Single STS website launched with at least the following new features: - support to requirements of people with special needs; - single STS web page that will allow taxpayers to submit income statements electronically through their personal account created on the site. - STS web site synchronized with the state websites through the automated information exchange (open data); - new searching system which will reflect the final version of the legal documents, specifying all amendments and additions; - feedback mechanism available through the online (chat) assistance service. (DLR 3.1)	Use of STS website by taxpayers within 1 month of its launch (DLR 3.2)	
Financing amounts: SDR 440,000 (USD 600,000)		SDR 330,000 (USD 450,000) / 75% of DLI 3	SDR 110,000 (USD 150,000) /25%	
DLI 4. Strengthened the capacity of STS staff to deliver taxpayer services	There is no a Manual on taxpayer services; the staff had no specific trainings.	Manual on taxpayer services developed and adopted by STS (DLR 4.1)	All eligible staff of STS located in all offices are trained (DLR 4.2)	
Financing amounts: SDR 220,000 (USD 300,000)		SDR 110,000 (USD 150,000) /50% of DLI 4	SDR 110,000 (USD 150,000)/50%	

Disbursement Linked Indicators		Disbursement-Linked Results		
	Baseline	Results to be achieved in Year 1 (Dec-2019)	Results to be achieved in Year 2 (Dec-2020)	Results to be achieved in Year 3 (Dec-2021)
DLI 5. Introduced an electronic taxpayer survey tool	No tool for taxpayers' regular feedback is in place	Pilot of the electronic taxpayer survey mechanism is completed and training courses for the designated staff to support the roll-up are conducted, the roll-out is initiated (DLR 5.1)	Evaluation report on Roll-out results for six months of implementation (DLR 5.2)	
Financing amounts: SDR 550,000 (USD 750,000)		SDR 440,000 (USD 600,000) / 80% of DLI 5	SDR 110,000 (USD 150,000)/20%	
Total		SDR 1,470,340 USD (2,005,000)	SDR 575,670 USD (785,000)	SDR 153,990 USD (210,000)

Disbursement Linked Indicators Verification Protocol Table

DLI 1	Increased nominal value of the specific and minimal excise rates for all tobacco products under tariff position 240220
Data source/ Agency	The Ministry of Finance of Moldova/Official Gazette
Verification Entity	The World Bank
Procedure	<i>For DLR 1.1.</i> – review of an evidence that the draft Law on Changes to the Tax Code regarding the increase of the specific and minimal excise rates for all tobacco products under tariff position 240220 has been submitted to and is registered in the Parliament
	<i>For DLR 1.2</i> – review of an evidence that the Parliament adopted the Law on Changes to the Tax Code and the latter is published in the official gazette
	<i>For DLR 1.3.</i> – review of an evidence that the mentioned excise rates came into effect.
DLI 2	Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle
Data Source/Agency	MoF/ Official Gazette
Verification Entity	The World Bank
Procedure	<i>For DLR 2.1.</i> - review of an evidence that the draft Law on Changes to the Tax Code (Title 3, articles 93, 94, 102, and 115) has been submitted to and is registered in the Parliament
	<i>For DLR 2.2.</i> – review of an evidence that the Parliament adopted the Law on Changes to the Tax Code that is published in the official gazette and all mentioned changes came into effect
DLI 3	Improved the usability of the STS website
Data source/Agency	STS
Verification Entity	The World Bank
Procedure	<i>For DLR 3.1.</i> – review reports produced by the STS including details on assessing the website and testing its new features
	<i>For DLR 3.2.</i> - review reports produced by the STS on use of the web-site which shall include as a minimum: number of visits; number of feedbacks received; number of tax declarations submitted
DLI 4	Strengthened the capacity of STS staff to deliver taxpayer services

Data source/Agency	STS
Verification Entity	The World Bank
Procedure	<i>For DLR 4.1.</i> – review an evidence of STS adoption of the Manual on Taxpayer Services
	<i>For DLR 4.2.</i> – review reports produced by the STS on staff being trained on the Manual on Taxpayer Services
DLI 5	Introduced an electronic taxpayer survey tool
Data source/Agency	STS
Verification Entity	The World Bank
Procedure	<i>For DLR 5.1.</i> – review of evidence of the STS`s Order on the conduct of a pilot of the electronic taxpayer survey tool and STS`s Report on the pilot to document the feedback mechanism piloted, the analysis of the feedback and adjustments made to improve the STS`s business processes.
	<i>For DLR 5.2.</i> – review of an evidence of the STS`s Order on the system`s roll out and the STS`s report on the six-month implementation experience (including an inventory of adjustments made based on the survey results)

Thresholds for procurement Prior Review Thresholds:

	<i>Procurement Type</i>	<i>Prior Review Threshold (USD Million)</i>
1	Works, Turnkey and S&I of Plant & Equipment	≥5.0
2	Goods	≥1.5
3	IT Systems and Non-Consulting Services	≥1.5
4	Consultant (Firms)	≥0.5
5	Consultant (Individuals)	≥0.2

Procurement/Selection Method Thresholds

	<i>Procurement /Selection Method</i>	<i>Prior Review Threshold</i>
1	Terms of References	All (irrespective of the threshold and review status)

Procurement Method Thresholds

ICB		NCB		Shopping		National Consultant Ceiling
Goods	Works	Goods	Works	Goods	Works	
≥1	≥5	<1	<5	≤\$0.1	≤\$0.2	≤0.3

Eligible Expenditure Programs for the DLIs

Budget code	Code of the Budget classification	Code of the institution	Related DLI	Title of the budget line	Allocation for 2019, USD (actual)	Allocation for 2020, USD (estimated)	Allocation for 2021, USD (estimated)
222	00112	00325-Ministry of Finance	<i>DLI 1: Increased nominal value of the Specific and Minimal Excise Rates for all tobacco products under tariff position 240220</i>	Recurrent costs	2,130,359.03	2,044,062.3	1,937,914.6
			<i>DLI 2: Ensured that supplies of goods by insolvent subjects are taxed with VAT on the reverse charge principle.</i>				
222	00112	15272-State Tax Service	<i>DLI 3: Improved the usability of the STS website</i>	Recurrent costs	4,332,047.5	4,095,797.9	3,976,309.4
			<i>DLI 4: Strengthened the capacity of STS staff to deliver taxpayer services</i>				
			<i>DLI 5: Introduced an electronic taxpayer survey tool</i>				

Report on execution of EEP (recurrent costs of the Ministry of Finance and State Tax Service)
for the period ended _____

		codes
Periodicity		
Institution		
Primary budget executor		
Main group		
Type of institution		
Type of expenditure	Recurrent costs	222
Expressed in		

Eligible expenditure program	Initially approved for the year	Adjusted for the year	Ececuted in the curent reporting period	Actual expenses*	Total receivables	Total payables
222110 - Electricity						
222120 - Gaze / Gas						
222130 - Heating						
222140 - Water & sewerage						
222190 - Other utilities						
222210 - Informational services						
222220 - Telecommunication services						

222300 - Rent						
222400 - Transportation						
222500 - Current repairs						
222600 - Professional development / training						
222710 - In-country travel						
222720 - Travel abroad						
222810 - Medical services						
222910 - Editing services						
222920 - Representation costs						
222940 - Security costs						
222970 - Banking services						
222980 - Postal services						
222990 - Services not assigned to other lines						
Total	0,00	0,00	0,00	0,00	0,00	0,00

* Actual expenditure are the amounts eligible for disbursements under EEP

Samples of Project Reports

Tax Administration and Modernization Project

Project Sources and Uses of Funds As of: _____

	Actual			Planned			Variance (Over) Under			Life of Project
	Current Quarter	YTD	CTD	Current Quarter	YTD	CTD	Current Quarter	YTD	CTD	
Opening Cash Balance(s) Designated Accounts (by accounts) Other accounts (if any) Total opening cash balance(s)										
Add: Sources of Funds (by financiers and implementing agency) Designated Account Direct payments Other accounts (if any) Total Sources										
Less: Uses of Funds (by expenditure category for each financier in accordance with Financing Agreement and by each implementing agency) Total Uses										
Closing Cash Balance(s) Designated Account and other accounts (for each account) Other accounts (if any) Total closing cash balance(s)										

Tax Administration and Modernization Project
Uses of Funds by Project Component/Activity (Statement of Expenditure Detail) As at:

Project components/activities	Actual			Planned			Variance (Over) Under			Life of Project
	Current Quarter	YTD	CTD	Current Quarter	YTD	CTD	Current Quarter	YTD	CTD	
Consolidated Agricultural Projects Management Unit (PMU)										
Component 1. Tax Policy, Tax Administration Reforms, and Operational Development Component 2: Institutional development Component 3: IT Infrastructure and System Modernization Component 4: Project Management and Change Management										
Overall Total										

Tax Administration and Modernization Project**Designated account statement STS**

(for the quarter ended XXXX.)

Designated Account № _____ in USD Bank:**USD**

Designated Account opening balance as at _____20xx		<u>0</u>
Total Credits (add):	Advance to DA during the period	0
		0
		<u>0</u>
		<u>0</u>
Total debit (less):	Refund to IDA from DA during the period	0
	Amount of eligible expenditures paid from DA during the period	0
	Funds transferred to the project account in MDL	0
		<u>0</u>
Designated Account closing balance as at _____20xx		<u>0</u>

Tax Administration and Modernization Project**Designated account statement STS**

(for the quarter ended XXXX.)

Designated Account № _____ in EURO Bank:**EURO**

Designated Account opening balance as at _____20xx		<u>0</u>
Total Credits (add):	Advance to DA during the period	0
		0
		<u>0</u>
		<u>0</u>
Total debit (less):	Refund to IBRD from DA during the period	0
	Amount of eligible expenditures paid from DA during the period	0
	Funds transferred to the project account in MDL	0
		<u>0</u>
Designated Account closing balance as at _____20xx		<u>0</u>

Tax Administration and Modernization Project

IBRD - Statement of Expenditures (SOE)

Payments made during the period from _____ to _____

Loan No.: _____

Application No.: _____

Category No.: _____

SOE No.: _____

1	2	3	4	5	6	7	8	9	10	11
Supplier's Name	WB Contract Number in Client Connection	Type of Good or Service / Brief Description	Currency and Total Amount of Contract	Currency and Total Amount of Invoice Covered by Application	% Financed by IBRD/IDA	Amount Eligible for Financing (5 x 6)	Currency and Amount Paid from Designated Account (if Applicable)	Exchange Rate	Date of Payment	Remarks
TOTALS										

Supporting documents for this SOE retained at _____ (location)

Tax Administration and Modernization Project
Payments Made during Reporting Period
Against Contracts Subject to the Association's Prior Review

Contract Number	Supplier	Contract Date	Contract Amount	Date of WB's Non Objection to Contract	Amount Paid to Supplier during Period	WB's Share of Amt Paid to Supplier during Period

Tax Administration and Modernization Project
Balance Sheet

	Period ended _____
ASSETS	
Total cash	0.00
Cash under the Agreement xxx	0.00
Undisbursed balance	0.00
Cumulative expenses	0.00
Project expenses	0.00
TOTAL assets	0.00
EQUITY AND LIABILITIES	
Funding	0.00
Agreement xxxx	0.00
TOTAL equity and liabilities	0.00