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Report No: ICR 00002853

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-41190 IDA-46550 IDA-H1870 TF-55175)

ON A

CREDIT AND GRANT

IN THE AMOUNT OF XDR 26.3 MILLION
(US$ 33.8 MILLION EQUIVALENT)

TO THE

RUPUBLIC OF MOLDOVA

FOR A

COMPETITIVENESS ENHANCEMENT PROJECT

December 12, 2013

Private and Financial Sector
Ukraine, Belarus, Moldova Country Unit
Europe and Central Asia

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 15, 2013)

Currency Unit = MDL
MDL 1.00 = US$ 0.8
US$ 1.00 = MDL 12.50

FISCAL YEAR

ABBREVIATIONS AND ACRONYMS

AC	Accreditation Center for Conformity Assessment of Products
AF	Additional Financing
CAS	Country Assistance Strategy
CCI	Chamber of Commerce and Industry
CEP	Competitiveness Enhancement Project
CGS	Credit Guarantee Scheme
CLD	Credit Line Directorate
CODB	Cost of Doing Business
CPS	Country Partnership Strategy
CQ	Consultants Qualifications
CRR	Commission for Regulatory Reform
DC	Direct Contracting
DFlD	UK Department of International Development
EBRD	European Bank for Reconstruction and Development
EGPRSP I	Economic Growth and Poverty Reduction Strategy Paper of the Government of Moldova
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GOM	Government of Moldova
HACCP	Hazard Analysis and Critical Control Point
ICA	Investment Climate Assessment
IDA	International Development Association
IFC	International Finance Corporation
IUFR	Interim Unaudited Financial Report
ISO	International Organization for Standardization
IT	Information technology
LIL	Learning and Innovation Loan
LOC	Line of Credit Operation
MDL	Moldovan Lei
M&E	Monitoring and Evaluation
MEPO	Moldovan Export Promotion Organization

MGFA	Matching Grant Facility Administrator
MGF	Matching Grant Facility
MOE	Ministry of Economy
MOF	Ministry of Finance
MSTQ	Metrology, Standardization, Testing and Quality
NAB	National Accreditation Board
NCFM	National Commission on Financial Markets
NISM	National Institute of Standardization and Metrology of the Republic of Moldova
PDO	Project Development Objective
PFI	Private Financial Institution
PHRD	Policy and Human Policy Development Grant
PIU	Project Implementation Unit
PSD	Private Sector development
RIA	Regulatory Impact Assessment
RRS	Regulatory Reform Secretariat
SCREA	State Commission for the Regulation of Entrepreneurial Activity
SME	Small and Medium Enterprises
SS	Single Source Selection
SSM	Services of Standardization and Metrology
TA	Technical Assistance
TACIS	Technical Assistance to CIS
TOR	Terms of Reference
USAID	United States Agency for International Development
WTO	World Trade Organization

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MOLDOVA
Competitiveness Enhancement Project

CONTENTS

A. Basic Information			
Country:	Moldova	Project Name:	Competiveness Enhancement Project
Project ID:	P089124	L/C/TF Number(s):	IDA
ICR Date:	1215/2013	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	REPUBLIC OF MOLDOVA
Original Total Commitment:	XDR 6.70M	Disbursed Amount:	XDR 26.33M
Revised Amount:	XDR 26.33M		
Environmental Category: C			
Implementing Agencies: Ministry of Economy			
Cofinanciers and Other External Partners: N/A			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	11/23/2004	Effectiveness:	02/10/2006	02/10/2006
Appraisal:	09/26/2005	Restructuring(s):	09/25/2009 06/26/2012	09/25/2009 06/26/2012
Approval:	10/27/2005	Mid-term Review:	N/A	N/A
		Closing:	06/30/2009	06/30/2013

Note: A mid-term review was not conducted, but the project was restructured when additional finance was added in 2009.

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Negligible
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Not applicable	Government:	Not applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	Not applicable
DO rating before Closing/Inactive status:	Satisfactory	Quality of Supervision (QSA):	None

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Banking	2	
Central government administration	30	
General industry and trade sector	40	
Law and justice	20	
SME Finance	8	
Theme Code (as % of total Bank financing)		
Export development and competitiveness	24	
International financial standards and systems	13	
Micro, Small and Medium Enterprise support	25	
Other Private Sector Development	13	
Regulation and competition policy	25	

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Laura Tuck	Shigeo Katsu
Country Director:	Qimiao Fan	Paul Bermingham
Sector Manager:	Paloma Anos Casero	Gerardo Corrochano
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ICR Team Leader:	Melissa Rekas	
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The project's overall objective was to assist Moldova in enhancing competitiveness of enterprises through improvements in the business environment and making adequate standards, testing and quality improvement services available to enterprises.

Revised Project Development Objectives (as approved by original approving authority)
The PDO was revised, to include the wording "enhanced access to finance", as part of the restructuring carried out in 2009. The Revised PDO is: "to assist Moldova in enhancing competitiveness of enterprises through improvements in the business environment, enhancing access to finance, and making adequate standards, testing and quality improvement services available to enterprises."

(a) PDO Indicator(s)[1]

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1:				
Demonstrated capacity of the Government to coordinate and implement regulatory reforms in compliance with the Organization for Economic Co-operation and Development (OECD) principles	No mechanism for evaluating the impact of new regulations on business operations through consultation process within the Government and with the public (2005	N/A	Development of new Strategy for the Regulatory Reform Implementation based on smart regulation principles	There is a fully-functioning system of Regulatory Impact Assessment and a new Regulatory Reform Strategy based on "smart regulation" principles, which tackles the main constraints in the business environment.
Indicator 2:				
Decrease of regulatory compliance costs of companies/ Management time spent on meeting regulatory requirements[2]	17%	15%	10%	10.7%

[1] For indicators 1 and 3, no specific targets were established in the PAD or 2009 restructuring paper. Targets for December 2012 and June 2013 were added in the 2012 Restructuring Paper.

[2] This indicator was called "Decrease of regulatory compliance cost" in the PAD and 2009 restructuring, and did not have specific, quantitative targets. In the 2012 restructuring, the indicator "management time spent on meeting regulatory requirements" was moved from the intermediate outcome indicators to the PDO level indicators. As an

Indicator 3:				
MSTQ system development meeting the World Trade Organization (WTO) commitments (measured by periodic surveys of progress as per the WTO agreement)	Existing obsolete MSTQ infrastructure is not compliant with Moldova's commitments to WTO, which jeopardizes the growth of Moldova's exports (2005)	Modernized and internationally recognized MSTQ system, meeting the WTO commitments	N/A	Modernized and internationally recognized MSTQ system, meeting the WTO commitments

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
	Component A Business Environment			
Indicator 1:				
Inspections per year per firm	18	<12	<12	3.6
Indicator 2:				
Number of government officials and experts trained in RIA (cumulative) [3]	0	600	1100	1120
Indicator 3:				
Reduction in % of management time spent on meeting regulatory requirements	17%	15%	15%	10.7%
	Component B Modernization of MTQ System			
Indicator 1:				
EU compatible standards adopted (cumulative)[4]	133	1600	2800	5438
Indicator 2:				
Accredited testing facilities available to enterprises[5]	36	44	At least 100	117
Indicator 3 :				
Number of calibration services provided by NISM	5	250	1000	1300

intermediate outcome indicator, it had quantitative targets since the beginning of the loan, and therefore these were transferred to the PDO level.

[3] Increased to 1100 in the 2012 restructuring.

[4] Increased to 1700 in the 2009 restructuring and to 2800 in the 2012 restructuring.

[5] Increased to 170 in the 2009 restructuring and reduced to “at least 100” in the 2012 restructuring because the team realized that for an economy the size of Moldova, a number around 100 was more adequate.

to enterprises (annual)[6]				
Indicator 4				
Metrology system is compatible with EU (by participating in EUROMET activities) [7]		Participation in EUROMET activities	N/A	N/A
	Component C Facilitation of Enterprise Access to MSTQ			
Indicator 1:				
Number of international certifications received by Moldovan enterprises increased	70	110	[Indicator dropped – see footnote 8]	N/A
Indicator 2:				
Matching Grants disbursed for International certifications of quality (cumulative)[8]	70	170	210	249
Indicator 3:				
Matching Grants disbursed for business development[8]	0	250	250	246
	Component D : Facilitation of Access to Finance			
Credit information system set-up	NA	Established	Established	Established
Indicator 2:				
Reduced % of businesses who view access to finance as a constraint (per BEEPS) [9]	51%	<50%	<50%	40%
	Component F: Credit Line			
Indicator 1:				
Amount of term credit disbursed	0	N/A	22,500,000	22,500,000

[6] Increased to 1000 in the 2012 restructuring.
[7] This indicator was dropped during the Restructuring carried out in 2009.
[8] During the June 2012 restructuring, the original indicator of "number of international certifications received by Moldovan enterprises increased" was replaced by total matching grants disbursed was disaggregated into these two indicators (which were being tracked at this disaggregated level over the life of the project).
[9] This indicator was dropped from the Results Framework when the Results Framework was updated through the restructuring in June 2012. The restructuring updated the description of the "Facilitation of Access to Finance" component to reflect what was actually needed and done on the project. More information on these changes can be found in the body of the ICR.

through the Line of Credit[10]				
Indicator 2:				
Sub-loans approved to beneficiary enterprises (cumulative)	0	N/A	N/A	59 sub loans approved and disbursed directly from the credit line and 29 sub loans disbursed from the revolving fund
Indicator 3:				
Percentage of non-performing loans	0	<5	<5	0

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	07/22/2006	Satisfactory	Satisfactory	0.50
2	09/28/2006	Satisfactory	Satisfactory	0.55
3	11/06/2007	Moderately Satisfactory	Moderately Satisfactory	0.97
4	06/13/2008	Moderately Satisfactory	Satisfactory	1.48
5	06/22/2009	Moderately Satisfactory	Satisfactory	3.42
6	03/03/2010	Satisfactory	Satisfactory	4.77
7	07/23/2010	Satisfactory	Satisfactory	7.32
8	12/24/2010	Satisfactory	Moderately Satisfactory	12.88
9	07/12/2011	Satisfactory	Moderately Satisfactory	24.10
10	03/24/2012	Satisfactory	Moderately Satisfactory	30.51
11	09/11/2012	Satisfactory	Satisfactory	31.50
12	03/31/2013	Satisfactory	Satisfactory	33.14
13	06/25/2013	Satisfactory	Satisfactory	33.65

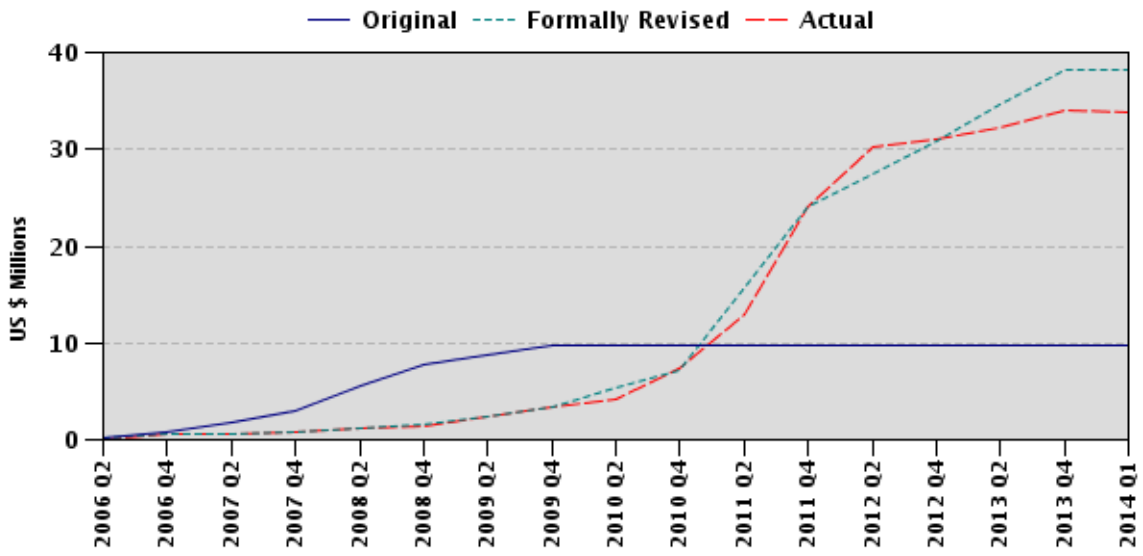
H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
09/25/2009	Yes, to include "Enhanced Access to Finance"	S	S	5.4	Additional financing provided to enhance the banking sector's ability to provide the funding required by enterprises to finance investment related to

[10] This indicator was added as a PDO level indicator during the 2009 additional financing and restructuring, and moved to the Intermediate Outcome Indicators during the 2012 restructuring.

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					improving competitiveness; extension of closing date.
06/26/2012	No	S	S	34.5	Extension of the closing date, .reallocation of funds within the IDA Credit/Grant as well as updating the end-of-project Results Framework.

I. Disbursement Profile



1. Project Context, Development Objectives and Design[11]

1.1 Context at Appraisal

Between 2000 and 2005 Moldova was on a steady path of recovery from the economic decline of the 1990s. During this period, the Government maintained prudent fiscal and tight monetary policies, which in effect brought inflation down to single digits, and implemented a number of important policy reforms to promote economic growth and reduce poverty. The legal and regulatory framework for private investments was improved with the adoption of the Law on Insolvency, Title V of the Fiscal Code (Tax Administration), the Law on Financial Institutions, and a new Civil Code. Moldova joined the World Trade Organization (WTO) in 2001, and was expecting to integrate with the European Union (EU).

However, the growth performance of this period largely reflected a combination of: i) economic recovery from the collapse of the 1990s, when the economy contracted by more than 60 percent, and ii) the growth of consumption fueled by an inflow of remittances, which were estimated at approximately 27 percent of GDP in 2004. Gross fixed capital formation remained at low levels, averaging less than 17 percent of GDP during the 2000-2004 period. Low levels of investment, in turn, hampered much needed improvements in productivity in the real sector, and made the diversification of exports, particularly to non-CIS markets, difficult.

The results of an Investment Climate Assessment (ICA) conducted during project preparation suggested that the regulatory burden in Moldova was the main constraint for dynamic private sector development and increased productivity. Limited access to finance and outdated national system of standards and quality also posed tremendous challenges for strengthening enterprise competitiveness.

Business Environment. At the time the project was prepared, Moldova still had one of the highest regulatory compliance costs in the Europe and Central Asia (ECA) region. The cumbersome certification, licensing, inspections, and customs regulations continued to discourage foreign investment, and limited the ability of local firms to invest and compete internationally. Moreover, multiple laws, regulations, and procedures were duplicate, contradictory and lacking clarity – and as, such conducive to corruption.

To address these constraints, starting in 2001 the Government had exerted efforts to improve the business environment, in particular by simplifying business registration and licensing procedures, decreasing the number of licensed activities, consolidating them in the Chamber of State Registration and the Chamber of Licensing respectively. Reforms of the Investment Law providing equal treatment to foreign investors and of customs procedures followed the WTO accession in 2001.

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[11] This section is based on the Project Appraisal Document (PAD).

In 2004, the Government took a more systemic approach to reforming the business environment with the adoption of a "Concept for Regulatory Reform", which set the framework for implementation of regulatory reform and defined its priorities, including reform of business inspections, simplification of business licenses, authorizations, permits, statistics reporting and reduction of costs and range of paid services offered by supervisory and control bodies. It was followed by the adoption, also in 2004, of a radical Law on Optimization of the Normative Framework for the Regulation of Business Activities (also known as the Guillotine Law). This Law mandated a comprehensive review of existing executive regulations of entrepreneurial activities and elimination of those that were no longer needed or had no legal base.

The Government was committed to consolidate, expand and institutionalize the advances made within the framework of the Law. In particular, the Government was aware of the necessity of strengthening the capacities to promote and implement the inter-ministerial reform program and introducing a regulatory impact assessment (RIA) in the legislative process. The following areas were deemed essential at that point: (i) developing a framework law on the principles of state regulations of economic activity; (ii) building institutional capacities for regulatory reform planning and implementation; (iii) further streamlining business entry and operations, particularly post-registration procedures in the issuing of permits, licenses and similar documents; (iv) reducing the number of state controls and inspections of business activities to diminish regulatory risks; and (v) decreasing the burden of paid regulatory services rendered by public authorities by setting tariffs for these services at the level of costs incurred, and providing free services that did not imply additional expenses.

Standardization and Quality. Regulatory reforms provided necessary but not sufficient conditions for a more competitive enterprise sector in Moldova. Global markets had become increasingly stringent in terms of product quality and performance; and conformity with international standards such as IS0 9000 had become a de facto requirement for market access. Upgrading the framework for metrology (measurements), standards, testing and quality (MSTQ) was a necessary first step in gaining access to the foreign markets and boosting competitiveness.

Moldova inherited its MSTQ infrastructure from the old Soviet Union system. While the main MSTQ institutions existed in Moldova, the entire system was based on centrally-planned economy principles and used outdated equipment and standards, inadequate for market economy practices in European and other international markets. With its accession to the World Trade Organization (WTO) in 2001, Moldova started the process of reforming its MSTQ system in accordance with WTO commitments. This included a transition to a system based on voluntary standards. In practice, however, the process was slow and the old, counterproductive system was still in use.[12]

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[12] As an example of the difficulties posed by the MSTQ system existing at the time of project preparation, all certifications of foreign origin required re-certification in Moldova, which were unnecessary and in many cases

The Government started developing a four-fold quality infrastructure strategy focusing on: (i) upgrading existing MSTQ institutions to international levels, (ii) improving existing services and introducing new MSTQ services (based on demand from Moldovan producers), (iii) promoting use of MSTQ services by enterprises to improve quality and conformity with international standards; and (iv) capacity development for supervision of production quality and consumer protection in line with the European Union practices.

More specifically, the government needed to undertake measures to: (i) improve assurance of product conformity and accreditation according to international and European criteria and practices, and to promote integration of Moldova's products into international markets; (ii) de-monopolize the conformity assurance procedure; (iii) promote the voluntary application of standards and developing technical regulations in accordance with international/European standards; (iv) create conditions for the introduction of IS0 9000 quality and ISO 14000 environment management systems; and (v) facilitate enterprises' access to external technical expertise for upgrading quality of their products and services, and obtaining ISO and Hazard Analysis and Critical Control Point (HACCP) certifications.

Access to Finance. The Economic Growth and Poverty Reduction Strategy Paper of the Government of Moldova (EGPRSP) as of the time of project preparation defined poor access to finance as one of the main impediments to growth of small and medium enterprises (SMEs). While the overall soundness of the financial sector in Moldova was perceived as adequate, it remained shallow with insufficient product diversification. Lending to SMEs, especially long-term investment lending, was scarce. According to the investment climate assessment mentioned above, the cost of financing remained one of the key constrains to enterprise development. Issues included maturity mismatches in the financial system (while the banking system was liquid, with capital adequacy of about 13 percent), too few financial products offered by financial institutions (for example, leasing and factoring were not developed), and problems related to the lack or quality of collateral. These issues were particularly worrisome since SMEs constituted over 90 percent of the total number of enterprises in Moldova, and were the main contributors to new job creation. The problem of lack of collateral was especially relevant for SMEs, and this problem was reinforced by the absence of a unified system of information on enterprises' payment practices and credit history.

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impossible to perform given outdated systems, and also enabled system misuse. On the institutional level, the separation of functions and responsibilities in the areas of standardization, national measurements standards, verification and accreditation between the existing institutions was not explicit, leading to a conflict of interest. Testing services to enterprises that were normally provided by secondary laboratories (usually privately owned) in other countries were virtually non-existent in Moldova. As a result, the national MSTQ system was not fully recognized by the corresponding European organizations, and this caused serious problems for the compatibility of Moldovan goods (some of which were excellent candidates for international markets) with the requirements of international trade, thus hampering the international competitiveness of the enterprise sector. The results of the initial demand survey referred to in the Project Appraisal Document (PAD) identified key sectors and areas that needed new standards, and also identified testing and certification needs. The results of this survey were expected to serve as a starting point for the transformation of the MSTQ system.

In response to these challenges, the Government intended to strengthen lending infrastructure and develop credit risk mitigation mechanisms. Several measures were required in this respect, including: (i) development of an adequate legal framework for establishment of a credit information system that enabled credit institutions to make better informed lending decisions, while allowing SMEs to accumulate credit history and business reputation they can use as non-financial loan security; and (ii) support for emerging loan guarantee mechanisms in order to address the important issue of lack of adequate collateral. In addition, it was also important to disseminate cash-flow based lending methodologies and SME tailored standardized products that would enable banks to decrease costs of lending and to deal with SME clients in a profitable manner.

Contribution to CAS objectives: The PDO was also relevant to the World Bank's Country Assistance Strategy at the time the project was approved. The CAS for FY05-FY08 envisioned interventions that aimed directly at helping Moldova to achieve its Millennium Development Goals through focusing on two areas: a) improvement of the quality and access to social services - education, health, social protection, and community infrastructure; and b) improvements in the business environment and public sector governance.

1.2 Original Project Development Objectives (PDO) and Key Indicators

The original Project Development Objective was to assist Moldova in enhancing competitiveness of enterprises through improvements in the business environment and making adequate standards, testing and quality improvement services available to enterprises. The project was expected to yield following outcomes: more efficient and streamlined business regulatory regimes (especially licensing and inspections) and reduced regulatory compliance costs of enterprises to increase their competitiveness; strengthened Government institutional capacity for carrying forward the business environment reform agenda through the introduction of regulatory impact analysis; upgraded national MSTQ system and improved and more accessible MSTQ services for enterprises; improved quality and range of local consulting services available to enterprises in the area of international certification, quality improvement, and product modernization; and improved conditions of access of private small and medium enterprises to the financial system .

The key performance indicators (original, prior to restructuring and additional financing) were as follows:

Business Environment Improvement

- Regulatory constraints and regulatory compliance costs decrease measured by regular Cost of Doing Business enterprise surveys, including "management time spent on meeting regulatory requirements" reduced to at least 15% (from 17% in 2004);
- Number of inspections maintained at the ECA average level of 18 per year and reduced to 10 per year by the end of the project;

- Quality of legislative flow improved as measured by number of officials trained in regulatory impact assessment concepts and techniques (to reach at least 600 assuming a repeat/overlap ratio of about 33%).

Modernization of MSTQ Systems

- Metrology system is compatible with EU and number of calibrations performed by the National Institute of Standards and Metrology (NISM) increased to 300 per year (from the current 5 per year);
- Standardization system is compatible with EU, and number of EU compatible standards adapted for Moldova reaches at least 1,700 by the end of the project (from the current 133);
- Accreditation system is compatible with EU and number of accredited testing laboratories reaches 44 by the end of the project

Enterprise Access to MSTQ Services

- Some 100-120 new international certifications are received by Moldovan enterprises

Access to Finance

- Credit information system is set up

1.3 Revised PDO and Key Indicators

The PDO was revised slightly to include "enhanced access to finance" in 2009, due to an "adaptive restructuring" presented by the opportunity to include a line of credit into the project, during the global financial crisis (see section 1.6). The results framework also was revised to more comprehensively and accurately measure project outcomes. Three new indicators were added; one indicator definition was revised; missing baselines were added; and one PDO indicator was moved to the component level (matching grants disbursed for international certifications of quality).

In the June 2012 restructuring, the results framework was updated again. The targets were increased as of June 2013 for all indicators except for "number of accredited testing facilities available to enterprises". This target was reduced from 170 to "at least 100" due to the fact that, in consultation with the National Accreditation Body and the Ministry of Economy, it was established that a country of the size of Moldova does not need more than 100 accredited testing facilities and it is the quality of services provided at these testing facilities that matter most rather than the number of facilities. It should also be noted that the target for "% of management time spent on meeting regulatory requirements" was changed from 15% to 10% as a realistic target achievable during the project implementation period.

1.4 Main Beneficiaries

The primary beneficiaries of the project were the enterprise sector, especially SMEs. The Ministry of Economy (MoE), the State Commission for Regulation of Entrepreneurial

Activity (SCREA), Regulatory Reform Secretariat (RRS), the National Institute for Standardization and Metrology (NISM), the Accreditation Center for Conformity Assessment of Products (AC), and other institutions of the MSTQ infrastructure were also expected to be major beneficiaries. The Administrator selected to administer matching grants component (the Chamber of Commerce and Industry, selected through a competitive process) was also expected to benefit from the technical assistance and know-how to manage these activities.

1.5 Original Components

(i) Business Environment Improvement. This component was to contribute to the government's overall effort to improve the business environment. It was expected to provide strategic input, including continuous support for developing the government's regulatory reform strategy, building institutional capacity for deregulation, and introducing Regulatory Impact Assessment (RIA) in the legislative process of Moldova. It was to build on the experience of the Law on Optimization of the Normative Framework for the Regulation of Business Activities (2004, also known as "Guillotine 1") implementation and ensure sustainability of its outcomes. The Law was implemented by a high level State Commission for the Regulation of Entrepreneurial Activity (SCREA), assisted by the National Working Group on Implementing Regulatory Reform, which reviewed the regulations impacting business activities against criteria established by the Law. The specific task of the State Commission was to ensure the implementation of the National Strategy. Its mandate was to improve the business environment in Moldova based on the objective indicators followed by the World Bank reports "Doing Business" and "Good Governance". The Regulatory Reform Secretariat supported the Commission and its Working Group. The Secretariat's main task was to develop the proposals, carry out research, assist the ministries, and monitor results for the Commission and its working groups' deliberations. The main responsible agency for this component was the Ministry of Economy.

This component of the project included institution-building activities for the SCREA, the Regulatory Reform Secretariat, relevant departments of the MoE, and other entities involved in the regulatory reform implementation, management, monitoring, and impact assessment. It also provided technical assistance with review of regulations and drafting relevant legal documents, setting up regulatory registries and information systems. To build support and understanding among stakeholders in the business and government sectors, the project also financed public awareness workshops and seminars, public consultation activities, and study tours of key staff to selected countries where such reforms were implemented. As a regular monitoring exercise to help the Government to evaluate the impact of the reform, the Project funded annual Cost of Doing Business (CODB) surveys.

(ii) Modernization of MSTQ System. This component addressed product quality obstacles faced by enterprises competing in domestic and international markets related to poor MSTQ infrastructure and services. The objective of the MSTQ Component was to strengthen capacity of the MSTQ system to provide internationally acceptable (especially EU-compatible) MSTQ Services. This objective was to be achieved through assistance to

the Government in: (i) revising and strengthening relevant MSTQ regulations and implementing institutional reorganization reform; (ii) building capacity in metrology and testing area by upgrading most urgently needed by the industry laboratories in NISM and strengthening their institutional capacity in order to perform basic measurements and calibrations, as well as testing for enterprises; (iii) upgrading standards system through translation and adaptation of most frequently used standards, strengthening institutional capacity of NISM in this area, and revising relevant regulations in line with international best practices; (iv) strengthening accreditation and certification capacity of Accreditation Center; and (v) improving quality assurance and conformity system by strengthening functions of the Conformity Assessment Board and know-how transfer from the EU. The main beneficiaries under this component were Service of Standardization and Metrology, National Institute for Standards and Metrology, Accreditation Center, and selected conformity assessment bodies.

The project was to finance equipment (laboratory and information technology) and technical assistance and training for NISM and select testing laboratories, Accreditation Council, and Conformity Assessment Board and other conformity assessment bodies. Translation and adoption of EU-compatible standards and technical documents were included into the project. Special attention was to be paid to the capacity building activities of the MSTQ institutions to ensure sustainability of the reform including reaping full benefit from upgraded facilities. Staff was to receive specialized training in operating new equipment and software, performing tests, assessments, implementation of IS0 9001:2000, and other activities. An emphasis was to be made on building skills among younger specialists and strengthening management and industry outreach.

(iii) Facilitation of enterprise access to MSTQ services. This component was to help promote the use of MSTQ services by enterprises, especially SMEs, through the use of a Matching Grant Facility (MGF). Its aim was to strengthen the competitiveness of Moldovan companies, both to increase exports and secure their domestic market position by improving quality of their products and services. The Facility was to provide financial support on a matching basis to enterprises to obtain international certifications, such as ISO and HACCP, and once the scheme was well established, to undertake feasibility studies and upgrading technological processes. The project was to provide the grant facility as well as technical assistance, training and some administration costs of the Matching Grant Facility Administrator (MGFA). The Facility was administered by a consulting company selected on a competitive basis.

(iv) Facilitation of Access to Finance. This component was expected to contribute to improving access to finance of private enterprises (mostly SMEs). Given that the main obstacle at the time included poor collateral on the part of the borrowers and inefficient credit information system, the project was expected to help in: (i) creating regulatory framework for establishment of a credit bureau and development of expertise for better tracking credit histories, and (ii) building relevant capacity in implementing and administering credit guarantee schemes in Moldova, as well as promoting of the SME-tailored financial products and services within the Moldovan financial sector.

(v) Project Management. The project financed costs of project management, monitoring, financial management, audits and other activities related to overall project management, monitoring and coordination

1.6 Revised Components

Through an additional financing (AF) and restructuring of the project carried out in September 2009, a new line of credit component (LOC) in the amount of US$22.5 million was introduced, and the Development Objective was modified slightly to include "enhance access to finance". The revision was due to the on-going financial crisis at that time and the need to ensure that enterprises continued to have access to credit.

The CEP was based on the inherent assumption that the banking sector, in combination with foreign capital inflows, would be able to provide the funding needed by the enterprise sector to finance investments related to improving competitiveness. This assumption was challenged in 2008-09 by the global and regional economic downturn. The global liquidity squeeze meant a drastic reduction in the already limited external financing options for banks and enterprises alike in Moldova. In addition, adverse economic conditions and stricter regulation in Russia, Ukraine and the EU – the main destinations for Moldovan migrants – were already causing the inflow of remittances to significantly slow down. At the same time, Moldovan banks were restricting the flow of credit to the real sector in during that period in an attempt to preserve liquidity and minimize the credit risks. As a result, even strong exporters found it increasingly difficult to raise external financing even for working capital purposes. The main outcome of the proposed restructuring was to improve access of private enterprises to credit and business development services. A secondary outcome was the improved ability of Moldovan banks to provide term financing to the enterprise sector.

Financial analysis of nine potential PFIs was undertaken in early June 2009 as part of the project preparation process for additional financing. Potential PFIs were assessed from the point of profitability, capital adequacy, asset quality, prudential compliance, corporate governance and risk management. The assessment enabled the determination of which banks could be eligible to participate in the Project. Six PFIs met the eligibility criteria and was selected to participate under the LOC; one bank decided not to participate because it had adequate access to finance from its international parent bank.

The LOC provided funding to qualified banks for on-lending to eligible exporting enterprises to support their working capital and investment funding needs. Investment loans were capped at € 800,000, while working capital loans could not exceed € 500,000. The LOC was implemented by the Credit Line Directorate (CLD), which was established in 1995 with the Bank's Private Sector Development 1 (PSD 1) project support, specifically for the purpose of administering credit line resources financed by International Financial Institutions. The CLD was an autonomous structure within the MOF, entrusted with the management of various donor-funded credit lines. The CLD had an experienced team and had administered LOCs under several Bank-funded projects.

During the 2009 restructuring, the existing Matching Grant Facility (MGF) was also scaled up by $1.5 million. At that point in time, the MGF was co-financing only the cost of the international certification of the quality management system (ISO) of the eligible enterprises. The expanded facility provided matching grants for business advisory services (BAS), which reimbursed beneficiary enterprises up to 50 percent of expenditures (up to US$10,000 equivalent in Lei) in the following areas: consulting services for preparation of business plans, feasibility studies, marketing, development of new products and services and on-the-job training of management and personnel, including IT requirements.

The MGF was implemented by the Chamber of Commerce and Industry of Moldova (CCI), who was selected through a competitive process, following Bank procurement guidelines. The MGF expanded access to business development services was meant to complement the LOC and help increase competitiveness of enterprises.

Consistent with the addition of these components, the project's closing date was extended from December 31, 2009 to June 30, 2012.

1.7 Other significant changes

The June 2012 restructuring involved the following:

(i) extension of the Closing Date from June 30, 2012 to June 30, 2013
(ii) reallocation of funds between goods and the consultancy categories, to reflect changes in the actual costs of project activities
(iii) updating the end-of-project targets until the extended closing date and enhancing measurement of the project outcomes (as described in section 1.3).
(iv) updating the description of the "Access to Finance" component to describe what was financed and undertaken under the project, given that the idea of further developing the government credit guarantee system was abolished in favor of a credit line under the Additional Financing (AF) in 2009.

These changes did not affect the Project Development Objective (PDO).

The restructuring was required to ensure and sustain achievement of the PDO. It enabled: (a) completion of the procurement of the equipment under the modernization of the metrology, standards, testing and quality system (MSTQ) system component; (b) reimbursement of beneficiary enterprises from the Matching Grant Facility (MGF); and (c) utilization of savings of $2 million for new assignments that fall within the description of the business environment improvement, modernization of the MSTQ system and matching grant components.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

(a) Soundness of the background analysis

The CEP was expected to help the Government to continue the business regulatory reform and to commence modernization of the national standards and quality system, all together, leading to improved competitiveness of the Moldovan economy in international markets and its attractiveness for FDI. The analysis carried out under the CEP was sound, as it built on the experiences of the two Private Sector Development (PSD) Projects which created constituency for broader reforms of business environment and access to technical assistance, training, and investment finance. In addition, the project built on the findings of Investment Climate Assessment (ICA) that was concluded prior to project preparation, the Financial Sector Assessment Program (FSAP), the Country Economic Memorandum, the Trade Development Study, as well as on the experience of other Bank financed technology and business environment projects implemented in Turkey, Tunisia, Brazil and Indonesia. Initially, the Project was envisaged as a Leaning and Innovation Loan (LIL), but this idea was dropped since the Project was not an experimental type operation and the considered intervention was beyond LIL potential.

(b) Assessment of the Project Design

In the design stage, the project benefited from the previous experience of the World Bank in supporting private sector development in Moldova, as well as World Bank's extensive experience in implementing industrial technology and regulatory reform projects around the world. By supporting government measures aimed at reaching medium term objectives of the EGPRSP of the Government of Moldova and relying on active participation of the MOE, MOF, the Prime Minister's Office and business community representatives, the project strongly echoed the principles of *long-term comprehensive development* and *country ownership* put forth in the Comprehensive Development Framework, as well as the lessons learned and outlined in the Country Assistance Strategy document (FY05-08) at that time, particularly the importance of allowing Governments to proceed with policies which they owned.

At the same time, the project built on the international experience and lessons learned in the course of the regulatory reforms implementation in several countries. It acknowledged the importance of the institutional infrastructure for successful implementation of regulatory reform, and the necessity of local capacity building and improvement of the quality of legislation process for ensuring long-term sustainability of the reform's results

With respect to the matching grant component, the experience of the World Bank in the provision of matching grant schemes suggested that it was extremely important to find the correct proportion of the grant amount to the funds provided by enterprises. Too high a threshold may have become prohibitive and prevented enterprises from applying. At the same time, a low threshold may have resulted in funding undertakings that would have been financed even without a matching grant. These considerations were taken into account during project design.

While the MSTQ component addressed the supply side of the MSTQ system, the matching grants and access to finance components aimed at increasing the demand for the above services in the private sector. At the same time, expansion of SMEs depended critically on both the business environment, as well as on the access to finance and to technology services, addressing these issues in a combined manner was expected to have a total effect greater than the added effect of each individual component due to the existence of synergies among project components.

While the Bank team understood the complexity involved in the selection of project components (to bring synergies), the anticipated time frame (three and a half years) to implement and to achieve these synergies may have been optimistic. In addition, given the low technical capacity of the Borrower with respect to MSTQ activities, and the complex nature of procurement of equipment involved, the Bank should have guided the Borrower to acquire the required TA during the design stage which would have helped to mitigate the delays encountered at the early stages of project implementation (see under lessons learned).

(c) Adequacy of Government's Commitment

The Government showed a strong commitment to the areas to be addressed under the project even before the project was approved. Evidence of this included:

- Accession to the WTO in 2001
- Adoption/approval of the "Concept for Regulatory Reform" and the Guillotine Law in 2004
- Adoption of the national quality infrastructure strategy

The Government's commitment remained strong throughout project implementation. The Minister of Economy was actively engaged and supportive of the project, the PIU and Credit Line Directorate functioned very well, and all primary beneficiaries (NISM, NAB, RRS, others) were actively engaged. The Government's commitment to the project was maintained even after the change in the governing party/coalition in 2009-2010.

(d) Assessment of Risks

Several risks were identified during project preparation, and risk mitigation measures were incorporated into the project design as follows:

- Possible backtracking by the Government: Project preparation focused on the multiple and proven "reform champions" in MoE, MoF, and the Parliament. The team also sought broad involvement of non-governmental stakeholders (Chamber of Commerce, private entrepreneurs, etc.) in project preparation and implementation. The Project financed "hard TA" - introduction of specific international MSTQ standards and international certificates and financed the MSTQ equipment compatible with EU requirements.
- Regulatory reform efforts becoming unsustainable due to political factors (e.g. changes in the government coalition): The proposed legal and institutional framework was reflected in the framework law establishing principles of state

regulation of economic activities. There was quite consistent support of regulatory reforms among a broad spectrum of political forces and the role of academia and civil society was enhanced.

- Weak capacity of participating MSTQ institutions: Special attention was paid to implementation arrangements. Institutional capacity building was initiated before procurement of equipment.
- Weakness in the legal and institutional framework will hamper the development of the MSTQ system: The project supported the review of the legal framework and reorganization of the institutional infrastructure to bring them closer to EU practices, as well as assist the government in the preparation (and following through initial stages) of a development strategy for the MSTQ system.
- Weak demand for grants among SMEs: Public information and awareness campaigns were undertaken to inform potential beneficiaries about the MGF. Assessment of demand was undertaken at the project preparation stage. The ratio of matching element of the grant scheme was adjusted with the view of making grants attractive for beneficiaries.
- Weak demand for credit information: Two round tables organized by BIZPRO (a USAID funded project) indicated growing interest among commercial banks for credit information. A working group formed with participation of the National Association of Banks and other stakeholders was established to advance the creation of a credit bureau, and the project supported it with the required technical assistance.
- Unwillingness of banks to share information: The MoE and the MoF worked closely with the National Association of Banks and a Working Group that was set up to deal with the key issues pertaining to the credit system design and establishment.

A Quality at Entry (QAE) review was carried out for the project and found satisfactory. Comments received were incorporated in the project design. In addition, other project related risks were identified and mitigation measures were put in place, as described above.

2.2 Implementation

(a) Factors outside the control of government or implementing agencies:

As described in section 1.6, the assumption that the Moldovan banking sector and foreign capital inflows would provide the funding needed by the enterprise sector to finance investments related to improving competitiveness, was challenged during the global financial crisis of 2008-2009. The reduced access to finance that the crisis caused in Moldova had a potential to lead to loss of markets, triggering bankruptcies with a ripple effect in the economy. This could have ultimately undermined the expected development effect of the CEP.

(b) Factors generally subject to government control:

The new operating environment, as a result of the financial crisis mentioned above, called for pro-active restructuring of the project, which was carried out by the Bank and the Borrower. The support came in the form of additional financing (AF in 2009) that enabled the Moldovan export-oriented enterprises to effectively address the challenges arising from the economic crisis. Through the LOC instrument, the authorities expected to help banks raise term funding at a reasonable cost, to be able to provide credit to the enterprise sector on affordable terms. In parallel, the expansion of a successful matching grant fund (MGF) was expected to allow the private firms to pursue the business development activities in these changed circumstances.

(c) Factors subject to implementing agency control:

The implementing agency was the MoE. The relevant parts of the project was implemented by the various MoE agencies (RRS, SSM, NISM, AC) and other selected agencies (the LOC by the Credit Line Directorate and the MGF by the Chamber of Commerce). A PIU was established within the MoE. The PIU was responsible for the day to day management of the project including, procurement, disbursement, financial management, monitoring and evaluation. Overall, the performance of the PIU was very satisfactory and project implementation was smooth and no major impediments were encountered.

The day-to-day responsibility for implementation of the LOC component lay with the CLD. At that point in time, the CLD was administering half a dozen credit lines financed by IFIs. The CLD had an experienced team which was well versed in standard World Bank credit line administration related requirements. The CLD signed Subsidiary Financing Agreements (SFAs) with six eligible Participating Financial Intermediaries (however, only five banks finally participated), through whom the total amount of AF allocated (US$ 22.5 million) was fully disbursed.

The MGF component was successfully implemented and the allocated funds nearly fully disbursed (disbursement ration of 98.4% at the end of the project). The Chamber of Commerce did a satisfactory job of managing the MGF. Details of the program can be found under Project Achievements and in Annex 11. A factor that affected the level of disbursement is explained in section 6 on Lessons Learned.

During implementation, there were some delays in the rehabilitation of the NISM premises, which was to be undertaken by using Borrower's own funds. As a result of this delay, first delivery of equipment for the MSTQ laboratories was delivered only about 18 months into project implementation, a delay approximately of one year. In addition, some sophisticated laboratory equipment had to be tendered twice, due to the lack of technical expertise (to write the technical specifications) in house and the PIU. This shortcoming was mitigated, however, by the PU by hiring an international expert to write the technical specifications and follow up on the procurement process, which was successfully concluded in a short time thereafter. This delay did not have an adverse effect on the project as the closing date was extended to include a new component for additional financing.

The project was never considered at risk at any time during implementation.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

(a) M&E Design: The PIU was responsible for the overall monitoring and evaluation of project performance. Progress was to be monitored both to gauge the overall progress, as well as for indicators: (i) input indicators; (ii) output indicators; and (iii) outcome indicators. Annual Cost of Doing Business surveys were carried out by firms/consortia hired under the project, to determine the perception of progress by the business community.

(b) M&E Implementation: The PIU produced quarterly and annual monitoring and evaluation reports. These reports were shared with the Government and the Bank, and served as a useful tool for project monitoring and progress reporting. During implementation, the results framework was revised to more comprehensively and accurately measure the project outcomes, as part of a restructuring carried out in 2012.

(c) M&E Utilization: The PIU monitored and assessed the outcomes of the project on a frequent basis. Using the reports mentioned above, the PIU assessed progress towards meeting the end-of-project targets, identifying issues and risks and reporting on time-bound action plans to mitigate them. The reports aided the assessment of the project's progress and also served as a basis for dialogue with stakeholders (The Bank, MoF). Annual Cost of Doing Business surveys of enterprises were used for assessing progress in the business environment over time and in comparison with international benchmarks. The set of selected indicators of the CODB 2005 was used as a baseline for project results monitoring purposes. The enterprise surveys were complemented with discussions of focus group of business representatives to assess the situation in specific areas of the business environment.

2.4 Safeguard and Fiduciary Compliance

The project did not entail any major environmental risk and did not include any construction or land acquisition. The project was rated as category "C". There were no issues in compliance with environmental safeguards. The project supported 59 subprojects (through the line of credit) and 29 sub projects through the Revolving Fund, among which only two subprojects were in category B, while the rest was classified as category C. Most of the subprojects were related to industrial activities (requiring working capital for purchase of raw materials and equipment). The Environmental Management Framework was implemented successfully with all subprojects assessed from an environmental point of view, providing them with an environmental category as well as requiring relevant environmental authorizations, licenses and permits. In addition, all subprojects that were approved had relevant supporting EA documents – Environmental Screening Checklist and/or simple Environmental Management Plans.

The project did not entail any social risk or risk of adverse social impact. On the contrary, the project assisted to make entrepreneurial activities easier to pursue and in the medium term increase the demand for labor in more competitive enterprises.

The financial management of the project was assessed as satisfactory. There were no outstanding audit reports for the Project and all audit reports were found satisfactory to the Bank. Quarterly interim unaudited financial reports (IUFRs) were submitted to the Bank. The project audits received "unqualified" opinions of the audited financial statements and no major systems and control issues were identified by the auditors during the course of the audits.

Procurement under the project was rated as satisfactory, based on review of prior review documents and post review missions. The PIU had followed the Bank's procurement rules and procedures and no major procurement issues were encountered.

2.5 Post-completion Operation/Next Phase

The project achieved its objectives, and key elements for project sustainability are in place. The CEP helped the Government to continue to implement the business regulatory reform started earlier and to commence modernization of the national standards and quality system, all together, leading to improved competitiveness of the Moldovan economy in international markets. The Bank continues to play an important role of a reform facilitator and coordinator of the reform efforts in accordance with the international best practices. For instance, the June 2013 study on Policy Priorities for Private Sector Development in Moldova directly informed the Government's Business Roadmap2013-14, a guiding reform document.

In addition, the Government's commitment to business environment reform and EU integration, and the additional technical assistance and financing to be provided through the proposed Second Competitiveness Enhancement Project (CEP II, Board date in FY15), provide a good reassurance for the sustainability of this Project.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

(a) Relevance of Objectives:

The relevance of the objective is rated high. The PDO of the CEP was to assist Moldova in enhancing competitiveness of enterprises through improvements in the business environment and making adequate standards, testing and quality improvement services available to enterprises remain highly relevant for the Government of Moldova. This was consistent with the Government's effort to implement reforms to eliminate the bottlenecks to growth identified in the EGPRSP.

Points that are specifically relevant include the following: (i) Systematic review of existing legislation affecting business (Guillotine exercise) resulted in major simplification in the legal framework for business entry and operations; (ii) The RIA methodology became mandatory for the preparation of all new regulatory acts affecting business operations, which has led to a reduction in the cost of doing business substantially (Annual Cost of Doing Business Survey); (iii) Provision of internationally compatible MSTQ systems and services were highly relevant for improving the enterprise sector's competitiveness and exports; (iv) Establishment of a Credit Bureau has enabled most borrowers to establish their credit history and make it much easier for them to borrower from participating banks, and has made the actual level of bank debt transparent.

The relevance of the PDO was still rated high with the restructuring carried out in 2009 (see para 1.6). The MGF and the LOC, helped enterprises to improve business performance, finance their working capital and investment needs, and made them more competitive and helped increase exports.

The PDO was also relevant to the World Bank's Country Assistance Strategy (FY05-08), as described in section 1.

(b) Relevance of Design:

The relevance of the design is rated substantial. The design of the CEP was consistent with its PDO. The project was intended to address the unfavorable business environment and high regulatory compliance costs and to improve productivity and competitiveness of Moldovan enterprises. This was to take place through the provision of technical assistance and institutional support, a Matching Grant Fund (MGF) and a Line of Credit Operation (after restructuring). The project was designed to address these constraints by simplifying business registration and licensing procedures, decreasing the number of licensed activities, providing equal treatment to foreign investors and, including reform of business inspections, simplification of business licenses, authorizations, permits, statistics reporting and reduction of costs and range of paid services offered by supervisory and control bodies. As mentioned in Section 2.1 (b), given the complexity of

the project, it would have been advisable during the design phase to have allocated more time (than the three and a half years anticipated) to achieve the desired results.

Consideration was also given to continuing provision of management training initiated under PSD I project for building local managerial capacity at private enterprises. This option was rejected, since Moldova was limiting its borrowing for training and technical assistance (TA). Instead, it was decided to consider a matching grant scheme to facilitate access of enterprises to technological and management know-how related to MSTQ. The grant scheme was also expected to benefit the development of local consulting market for technology and business services through stimulating private sector demand for them. The Government also initially was keen to borrow for a credit line to support SME lending (following a good experience of the PSD-I credit line). An alternative approach was considered, in the form of a credit guarantee scheme facility. However, due to a combination of factors – such as limited resources allocated for this project, existing good liquidity among the Moldovan banks, existing track record of Moldovan banks to carry out SME loans evaluations, and lack of proven and financially viable institution to administer a credit guarantee scheme – it was decided to focus on initial stages of developing credit guarantee industry as a tool to encourage the financial institutions mobilize their own liquid assets for SME lending. Although the LOC was not included in the original design (for reasons given above), it was included as part of the 2009 restructuring given the prevalent financial crisis at that time (see section 1.6)

(c) Relevance of Implementation:

Relevance of implementation is rated as substantial. Implementation of the various project interventions to improve business environment were highly relevant. The systematic review of existing legislation affecting business (Guillotine exercise) resulted in major simplification in the legal framework for business entry and operations. In addition, the RIA methodology became mandatory for the preparation of all new regulatory acts affecting business operations, which has led to a reduction in the cost of doing business substantially (Annual Cost of Doing Business Survey). Project interventions to improve provision of internationally compatible MSTQ systems and services are likewise highly relevant for improving the enterprise sector's competitiveness and exports. The project-financed strategy for the integrated development of the MSTQ system continues to provide a medium-term strategy for facilitating integration with the EU and for institutional development of the project beneficiary agencies. Project interventions to establish the Credit Bureau has enabled most borrowers to establish their credit history and make it much easier for them to borrower from participating banks, and has made the actual level of bank debt transparent. As mentioned in section 1.6, the global financial crisis during implementation (2009), affected the liquidity of the banking sector in Moldova and in turn the enterprise sector. The Bank team worked closely with the Borrower to provide additional financing for a LOC that would help alleviate the liquidity requirements of the enterprise sector. The smooth implementation of the MGF and the LOC helped enterprises to finance their working capital and investment needs, and made them more competitive and helped increase exports. As mentioned in 2.1 (b), the initial implementation delays could have

been avoided, if during the project design stage, the required technical expertise was available.

Overall, Relevance is rated as Substantial.

3.2 Achievement of Project Development Objectives

The project has met its PDO by enhancing the competitiveness of enterprises through improvements in the business environment and modernization of the MSTQ system and access to finance (after restructuring) and **is rated as High**. However (prior to the first restructuring) from late 2007 through mid-2009, the DO was assessed moderately satisfactory. Only 37 percent of the total financing had been disbursed (total of $5.4 million of which IDA was $1.9 million). The disbursement lag with regard to IDA resources stemmed from somewhat delayed project effectiveness, but more importantly from the original project design, under which the PHRD grant was first used to engage consulting services for due diligence and preparation of technical specifications for goods packages under the MSTQ component, to be then financed by the IDA Credit Grant. Notwithstanding the disbursement lag, the Project remained well on track in meeting its Development Objective and related outcomes. Just prior to Restructuring, a mission that visited Moldova agreed with the Ministry of Economy and Trade on the time bound action plan for accelerating the implementation, with special attention given to the MSTQ component due to its complexity. On the basis of the progress made since the previous supervision visit in November 2008, the rating for the progress toward achievement of the Project Development Objective (PDO) was upgraded from Moderately Satisfactory to Satisfactory.

By achieving the objectives and targets, the project has improved: (i) the business environment (efficient and streamlined business regimes and strengthened government institutional capacity to carry forward the reform agenda); (ii) making adequate standards, testing and quality improvement services available to enterprises by upgrading the national MSTQ system (which led to improved product quality and thereby helps to increase export competitiveness); (iii) improving the quality and range of local consulting services through the MGF which led to obtaining international certifications, quality improvement, and product modernization; (iv) enhancing access to finance through the LOC which helped enterprises to invest and upgrade their production facilities and for working capital purposes, which resulted in better quality products and increase in export sales, including the establishment of better credit histories for enterprises seeking credit as a result of the Credit Bureau set up under the project. The achievements under the project is summarized below and detailed in Annex 1.

(i) Business Environment Improvement: Satisfactory

Outputs: The outputs under this component included institution building activities for the State Commission for Regulation of Entrepreneurial Activity, the Regulatory Reform Secretariat, relevant departments of the MoE and other entities involved in the regulatory

reform implementation, management, monitoring, and impact assessment. The project also financed public awareness workshops and seminars, public consultation activities, and study tours of key staff to selected countries where such reforms were implemented. As a regular monitoring exercise to help the Government to evaluate the impact of the reform, the Project funded an annual Cost of Doing Business (CODB) surveys.

Outcomes: The activities of the business environment component were of major importance for improving the regulation of business activity and ensuring the improvement of investment/business climate and sustainable economic growth.

Under this, all outcomes far exceeded the targets envisaged at appraisal. One of the main outcomes was to streamline business regulation (especially licensing and inspections) and reduce regulatory compliance costs of enterprises. Outcomes include: (i) management time spent on regulatory compliance was reduced drastically from 17 to 10.7 percent (original target 15, revised down to 10); (ii) inspections per year per enterprise were reduced from 18 to 3.6 (target 12); (iii) implementation of a fully-functioning system of Regulatory Impact Assessment (RIA) for new legislation affecting business operations: and (iv) training of 1,120 Government officials (target 600).

The project also strengthened Government institutional capacity for carrying forward the business environment reform agenda through the introduction of regulatory impact analysis. The RIA methodology is of major importance for public officials to support the development, justification and promotion of draft regulatory acts. The project was also critical in helping the Government to develop a new Strategy for Regulatory Reform, and an accompanying Action Plan, focusing on practices of "smart regulation" – ensuring the low cost/low risk principle in promoting new legislation, considering its impact on both the State and the private sector. Through these actions, the project strengthened the Government's capacity to coordinate and implement regulatory reforms in compliance with Organization of Economic Cooperation and Development (OECD) principles.

(ii) Modernization of the MSTQ System: Satisfactory

Outputs: Under this component, the project supported the institutional reform, legal reform and improvement of the MSTQ infrastructure, by providing technical assistance, equipment, study tours and training to the various agencies under the MoE to upgrade the national MSTQ system. Substantial results have been achieved. Initially, the project assisted the NISM to develop an MSTQ strategy with detailed action plans (see below) for each field of quality infrastructure (including metrology, standards, accreditation and testing) and the required institutional restructuring. Subsequently, an independent National Accreditation Bureau (NAB) was created, the former Department of Standardization and Metrology was dissolved, and the policy decisions in the field of MSTQ were transferred to the line ministry, MoE. The accredited testing facilities available to enterprises increased from 36 in 2005 to 117 (target 100) by the end of the project.

The project helped develop and promote new legislation in line with international best practices (for example, the metrology and accreditation laws and standardization law were adopted by Parliament). Under the project, 5,438 EU compatible standards were adopted, up from 133 (target 1700) at the beginning of the project. Further, the project modernized and renovated eight national metrological laboratories. As a result, the number of calibration services increased from 5 at the start of the project to over 1,300 (target 550) by project completion.

Outcomes: Upgrading of the national MSTQ system and improved MSTQ services for enterprises was the major outcome under the component. As mentioned above, substantial results have been achieved. In order to advance the process of meeting Moldova's commitments to the WTO and the recognition of the MSTQ system at the European level, the Government restructured the MSTQ institutions whereby the NISM has been reorganized into the National Institute of Metrology (NIM) and the National Institute of Standardization (NIS). The project also contributed to the strengthening of the institutional capacity of these newly created national bodies. In addition, the capacity of the newly created NAB and the newly established Agency for Consumer Protection (established on January 1, 2012) were also strengthened as part of the institutional reorganization process. The MSTQ institutions that were strengthened under the project are able to provide better services to the enterprise sector, thereby helping them to produce better quality and more competitive products and to increase exports.

(iii)Matching Grants Facility: Satisfactory

Outputs: Enhanced access of enterprises to technical advice supporting their modernization, quality improvement, and new product development was another outcome envisaged under the project, which was achieved through the MGF component. The MGF was subdivided into two sub-components: (i) the Quality Certification sub-component, providing financial support to firms seeking to obtain international quality certifications (i.e. ISO 9001, HACCP, etc.) and (ii) the Business Advisory Services (BAS) sub-component, supporting firms interested in obtaining advisory and training services (added in the 2009 restructuring). Over the 2006-2012 period, the Chamber of Commerce and Industry (CCI) implemented this sub-component as MGF Administrator. The CCI received applications from over 550 enterprises. By the end of the project, 495 matching grants had been disbursed, of which 249 for Quality Certification, 246 for BAS. The total number of companies that benefitted was 479 (16 companies used both sub-components).

Outcomes: The MGF mostly supported small and medium enterprises (SME), but the presence of large enterprises is also not negligible (about 25% of the total, with a higher share for the Quality Certification sub-component). In the case of the Quality Certification sub-component, MGF support was mostly used to obtain ISO 9001 certification and, to a much lesser degree, food safety-related certifications (ISO 22000 and HACC). In the case of the business advisory services sub-component, funding was mainly used for market studies, feasibility studies and management information systems. Under this component, international certification of quality was obtained by 249 enterprises, far exceeding the target of 170 envisaged at appraisal. Of all the companies

participating in the project, 59% implimened quality management systems consisting of a single ISO, and 41% of them an integrated system consisting of multiple ISOs. The outcome indicator for matching grants disbursed was 246 against a target of 250 estimated at appraisal. Overall, the MGF was very successful, although there were some issues associated with its design, especially with regards to how the contract for the MGF Administrator was structured, which led to some constraints (see Lessons Learned).

The project also financed a survey for CEP Impact Assessment**.** It included the evaluation of the impact the project had on beneficiaries that participated in the MGF and the LOC. This assessment provided additional data and evidence to demonstrate the achievement of the PDO. It should be noted that the assessment was carried out several months prior to project closing (June 2013), so the whole impact of the MGF on enterprises (especially those who received the assistance in the last year of the project) was not yet fully evident. Interventions co-financed by MGF resulted in a number of positive effects. More than three quarters of the beneficiaries reported improvements in organizational effectiveness, technical efficiency, and managerial skills as well as an increased credibility and reputation vis-à-vis clients and suppliers. About half of the firms, participating in the scheme also had positive effects in improving the product mix and in accessing new markets.

The impact assessment detected a positive and statistically significant impact on export sales: in the two years subsequent to the application, MGF beneficiaries exported on average between MDL 9 to 12 million more than their peers in the 'control group'. The analysis also detected a positive relationship between MGF support and turnover (more than 70% of the firms reporting a significant impact).

The MGF component also played an important role in the development and consolidation of the consulting services sector in Moldova. Since the launch of the MGF the number of service providers had increased significantly, and this was coupled with an improvement in the quality of services provided, as per the feedback from the clients. Even more importantly, the MGF greatly contributed to increase the awareness of the benefits of professional advisory services in the business community, thereby stimulating a spontaneous demand for consulting services. While only 7% of MGF beneficiaries made frequent use of consultancy services before enrolling in the scheme, more than two thirds expressed their intention to purchase advisory services with their own money in the future, after participating in the scheme.

(iv) Enhancing Access to Finance: Satisfactory

Outputs: The original objective was to contribute to improving access to finance of private enterprises (mostly SMEs). At that point in time, the main obstacles included poor collateral on the part of the borrowers and inefficient credit information system. Availability of finance was not an issue (see section 3.1 (b)). As a result, the project was expected to (i) create regulatory framework for establishment of a credit bureau and development of expertise for better tracking of credit histories, and (ii) building relevant capacity in implementing and administering credit guarantee schemes in Moldova, as

well as promoting of the SME-tailored financial products and services within the Moldovan financial sector. However, given the global financial crisis during implementation (in 2009, see section 1.6), and the lack of liquidity in the banking sector to finance the requirements of the enterprise sector, a LOC was introduced in lieu of item (ii) above through the additional financing and restructuring carried out in 2009.

The $22.5 million LOC was fully disbursed prior to the closing of the project. A total of 59 loans were disbursed directly through the LOC, and the CLD managed repayments of these loans in a revolving fund, from which an additional 29 loans had been disbursed by June 30, 2013. These loans went to finance 60 enterprises, with an average of about US$ 400,000 per loan. Nearly half of LOC beneficiaries were active in agri-business, with a strong presence of wine producers and other food processors. While the majority of beneficiaries fell within the definition of SME, more than one third were large enterprises, sometimes with turnovers well in excess of US$ 10 million.

The project assisted with the development of a regulatory framework for the private Credit Bureau. The Credit Bureau was established, is fully operational, and is licensed and supervised by the National Commission on Financial Market (NCFM). It currently includes information from all banks and two leasing companies (with further expansion expected). Reporting is voluntary, and requires prior consent of the borrower. A legal amendment to mandate reporting of all commercial loans to the Credit Bureau is currently under discussion. The CEP's assistance with the legal framework contributed to reducing perceived risks in SME lending through allowing them to establish credit histories.

Only a small amount of funds (approximately $80,000) was allocated under the project for TA to assist in capacity building for credit guarantees schemes and SME tailored financial products mentioned under item (ii) above. As mentioned above, these activities were replaced by the LOC component which was a priority for the Borrower, given the prevalent financial crisis and lack of liquidity in the banking sector at that time. The existing Credit Guarantee entity was not fully capitalized and its activities were very limited. In addition, the banking sector was more focused on liquidity management rather than on developing new financial products for the SME sector. As a result, both the Bank and the Borrower agreed not to pursue item (ii) above. A small amount of funds under item (ii) above (approximately $5,000) were used to help improve the legal framework for the private credit bureau, as described above.

Outcomes: Two-thirds of LOC borrowers obtained working capital loans, one-fifth obtained investment loans, and the rest obtained both types of loans. With respect to working capital financing, three quarters of enterprises indicated that LOC loans played an important role in the purchase of raw materials and other inputs (which could be bought in larger quantities and/or at the most appropriate time) and in reducing delays in payment to suppliers. To a lesser degree, loan proceeds were also used to support the entry in new markets or market segments, to expand production capacity and/or modernize existing facilities (in the case of investment loans), and to extend more favorable payment conditions to clients.

In 2012, Moldova's exports stood at US$ 2.2 billion, compared with US$ 1.3 billion in 2007. Based on the impact assessment carried out (see section 3.2 (iii)), the value of incremental exports attributable to the participation in the LOC component was in the order of US$ 14 to 20 million. The LOC exerted only a limited influence on the financial sector in general. The possibility of accessing long term resources at a reasonable cost was obviously appreciated by participating banks, but this did not lead to major changes in their operating modalities. Some banks reported being able to offer loans with a longer maturity, at least in the case of working capital loans, but none appeared to have developed specific products in connection with access to LOC funding.

The CLD required that the PFIs simplify their pricing structure to be more transparent to beneficiaries and include only the interest rate and commitment fee – no disbursement fee, front-end fee, or prepayment penalty. In accord with the Operations Manual for the Credit Line, the CLD promoted best practice in lending in regards to the pricing of the sub-loans. Even though the final decision on applicable fees and commissions rested with the PFIs, the banks were responsive to CLD's request. This was an important good practice in the area of SME and consumer finance that was introduced with the help of the CEP credit line. The latter practice was also very much appreciated by the beneficiaries based on the interviews during the impact evaluation.

Most of the feedback from the PFIs was positive, with special focus on the long-term maturity of the loans, which was considered as one of the major problems for the Moldovan banks, as well as the advantageous interest rates. The PFIs have expressed demand for future lines of credit operations.

The Credit Bureau has already helped establish a credit history for most borrowers, which should particularly benefit micro- and small companies seeking credit. The bureau currently stores data on 130,000 borrowers and 250,000 loans. Despite its short existence, the data provided by the Credit Bureau is very comprehensive. This is a significant achievement, given the limited time frame. The Credit Bureau has already helped clients establish a credit history, and made the actual level of bank debt transparent. The information is stored for seven years, and borrowers have a right to verify the data. The Doing Business Credit Information index now assigns 4 out of 6 points to Moldova.

3.3 Efficiency

The project achieved its objectives efficiently, and the achievements can be rated as Substantial. Based on the impact assessment (see above) the added value of exports due to the project ranged between $69-93 million (including both the LOC and MGF components), far exceeding the project cost. Overall, the incremental exports associated with the two components, i.e. LOC and MGF account for between 7% and 11% of the US$ 0.9 billion total increase in exports recorded between 2007 and 2012[13].Efficiency in

[13] CEP Line of Credit & Matching Grants Impact Assessment Report, June 2013

the original project was based on qualitative description of benefits, including more business-friendly regulatory environment, increased compliance of Moldova's goods and services with EU requirements and improved governance of public institutions, leading ultimately to better public finances. Many project investments will have long-term benefits by improving Moldovan's enterprise sector's competitiveness because they will be more compliant with EU requirements (i.e., impact of the MSTQ strategy, improved MSTQ capacity); lower costs due to the creation of a more business-friendly regulatory environment. As mentioned above, the participation of enterprises under the MGF and LOC helped boost exports by enterprises.

3.4 Justification of Overall Outcome Rating

Rating: Satisfactory

The PDO of the CEP was to aid the Government of Moldova in enhancing competitiveness of enterprises through improvements in the business environment, MSTQ system and services, business development services, and access to finance. The project increased competitiveness by improving the business environment and reducing compliance costs, providing more appropriate and internationally-compatible MSTQ services to companies, providing investment and working capital finance during the global financial crisis and with longer maturities than available in the domestic commercial market, and increasing access to international quality certifications and business development services. The sustainability of investments in the MSTQ system, consulting sector, and the credit bureau was strengthened. The MGF and LOC had a significant impact on export sales, as found in the impact assessment. The project benefited from the sustained commitment of the Government, including MoE and MoF. The objectives of the CEP were consistent with those outlined by the Government of Moldova in the EGPRSP.

The overall outcome rating is satisfactory (see Table 1). The project remains highly relevant to the country and for the World Bank's assistance strategy aimed at boosting competitiveness and investments and with the Government's commitment to meet EU standards. The project achieved the targets for facilitating business entry and operations in the formal economy and strengthening the enterprise sector's capability to increase exports towards regional and EU markets to a substantial extent. Efficiency of achieving the outcomes will also be greatly enhanced by the long-term benefits, especially those related to the greater capacity of the upgraded metrology laboratories to provide more services to companies.

Table 1

		Against Original PDO	Against Revised PDO	Overall	Comments
1	Rating	Marginally Satisfactory	Satisfactory		Significant Improvement
2	Rating Value	4	5		
3	Weight (%	14%	86%	100%	

	disbursed before/after PDO change)				
4	Weighted value (2*3)	0.6	4.3	4.9	
5	Final rating (rounded)			Satisfactory	Early revision preserves S rating

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

The Project's impact on poverty is expected to be positive as it helped enterprises to increase sales and exports. Although it is difficult to measure the benefits to the population in general, the benefits will accrue indirectly. The enterprises that accessed credit were able to invest, thus grow and create (direct and indirect) employment by expanding their production or services.

(b) Institutional Change/Strengthening

The project had a profound impact on the institutions that participated, which included the, the Regulatory Reform Secretariat, relevant departments of the MOE and other Ministries, bringing about fundamental institutional changes and strengthening management, monitoring and impact assessment. In addition, the project supported the strengthening of the MSTQ infrastructure and the institutional reorganization of the National Institute of Metrology (NIM) and the National Institute of Standardization (NIS). Technical assistance was in the form of knowledge transfers, on the job training and study visits, which helped to strengthen staff capacity. These interventions were greatly appreciated by these institutions. The project also assisted in the establishment of the Credit Bureau, which became operational in 2011. The MGF component played an important role in the enhancement of the enterprise sector, including the development and consolidation of the Moldova consulting sector. Many enterprises that engaged these consultants were pleased with their performance and value added and have indicated that they are willing to use their own funds to procure more consultancies in the future. The positive aspects brought about by the project which strengthened these institutions included capacity building, staff training, public awareness campaigns, workshops, seminars and new methods and approaches to problem solving.

(c) Other Unintended Outcomes and Impacts (positive or negative)

The vast majority of beneficiaries had no or very little experience with consultants before applying for MGF support, and the scheme was therefore instrumental in exposing them to advisory services. In addition, several of the enterprises declared that they would have been able (and willing) to pay the full cost of certification and/or consulting services, in case MGF support was not available. The scheme also increased the membership of the

enterprises in the CCI, as the enterprises were exposed to the range of valuable services and information being offered by the Chamber.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

As mentioned in section 3.2, an impact evaluation and survey of the MGF and LOC was carried out. Overall, available evidence suggested that the MGF and the LOC components were successful interventions. Both components were successful in increasing exports and the development and consolidation of the consulting sector. These achievements are mentioned above. Both components were implemented in a fairly smooth manner and favorably influenced the activities of beneficiary firms. There were, however, differences in terms of impact, with the MGF performing comparatively better than the LOC. Some suggestions for the continuation of these interventions and possible improvements (from the impact assessment report) are summarized below.

MGF Component. Results of the survey carried out as part of the impact assessment suggested that there is a keen interest for the continuation of the scheme. In case this option is pursued, some modifications in the design and operating modalities of the intervention were deemed advisable. Recommendations included: (i) the broadening of the range of services eligible for support, in order to better suit the needs of potential beneficiaries; (ii) the tightening of eligibility criteria for beneficiaries, with more focus on MSME and/or locally owned firms; (iii) the reduction of the co-financing rate from 50% to 40% to enhance cost effectiveness; and (iv) the setting up of a more sophisticate management information system, which inter alia could facilitate future M&E activities.

LOC Component. The findings of the impact assessment on opportunities for improving the design of the LOC were more limited. As its ‘competitive positioning’ vis-à-vis other credit lines essentially rests on the low interest rate, any change that might result in an increase in the cost of funding was likely to drastically reduce the attractiveness of the initiative in the eyes of banks and, therefore, to negatively impact on absorption. Similarly, there appears to be limited scope for the simplification of procedural aspects, as the procurement rules of World Bank-funded projects were intrinsically different from those applicable to credit lines funded by institutions such as the IFC or the EBRD that can directly interact with private banks. A possible area of improvement concerns the eligibility criteria for potential borrowers, which could place a comparatively greater emphasis on lending to MSME and/or locally-owned firms.

4. Assessment of Risk to Development Outcome
Rating: Negligible

The risk to development outcome is considered negligible. The key investments of the project were the following, and all are either completed or sustainable: (i) the metrology laboratories were equipped and are operational; (ii) LOC and MGF were fully disbursed and the results are positive with increased exports and repayments to the banks being high; (iii) the Credit Bureau is operational; and (iv) the reform laws that were prepared and funded under the project have been approved and adopted by the Government. Although the government coalition did change during project implementation, the risk that reforms would be de-railed did not materialize. Instead, regulatory reform continued to be a central piece of the government's reform program. Sustainability of the CEP's achievements has been further enhanced by the Government's commitment to improve Moldova's business environment and to provide EU compatible MSTQ services, as well as desire for future Bank involvement in this sector evidenced by the on-going preparation of the proposed CEP II.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance
(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

The Bank's performance regarding quality at entry was satisfactory. The Bank responded in a timely manner to the need of the Moldovan economy by designing and implementing this Project to enhance the competitiveness of the enterprise sector. The Bank was also able to utilize the experience it gained from implementing similar types of projects world-wide to ensure quality at entry in the project design and to build in simplified implementing arrangements. Several alternatives were also considered in the design of the project, but were rejected (see section 3.1(b)).

(b) Quality of Supervision

Rating: Satisfactory

Quality of supervision was good and project supervision was rated Satisfactory. Supervision missions were carried out at least twice a year. The Bank team had a high degree of continuity, had the proper skills mix and was adequately supported by staff from the local office. The Bank team was proactive and was responsive to the Government's requests for change when required throughout project implementation, and demonstrated flexibility and understanding in the use of project resources. As and when required, the Bank assisted the counterparts to amend the Credit Agreement to provide additional funding (during the financial crisis, see section 1.6) and other interventions to ensure the achievement of development outcomes and to suit the changing external environment and evolving country needs. With respect to the fiduciary requirements, the performance was satisfactory with financial management, procurement and environment activities under the project effectively implemented, with no major issues.

(c) Justification of Rating for Overall Bank Performance
Rating: Satisfactory

Overall, the Bank was proactive and responsive to the client's needs from the design stage through to project closing with close supervision and excellent support from the country office. Based on the above, the overall Bank performance in ensuring quality at entry and quality of supervision is rated as satisfactory.

5.2 Borrower Performance
(a) Government Performance
Rating: Satisfactory

There was strong commitment from the Borrower for the CEP. The Borrower worked closely with the Bank throughout project preparation, and negotiations and the performance was satisfactory. The close collaboration demonstrated by the Borrower

with the Bank during implementation was a primary factor in the overall success of the Project. The Borrower was also proactive in working with the Bank to request additional financing for the LOC to ensure adequate financing was made available to enterprises. The Government was also willing to utilize project funds to procure technical expertise lacking in-country. The Borrower complied with all covenants under the Credit Agreement towards the achievement of the development outcomes. The Borrower provided its contribution to project management support in order to enable a successful close to the project during the grace period. The strong degree of ownership demonstrated by the Government was another important factor leading to the successful implementation of this Project.

(b) Implementing Agency or Agencies Performance
Rating: Satisfactory

The PIU as the implementing arm of the MoE was very effective in providing efficient implementation, monitoring and reporting, allowing for better management and implementation of the Project and facilitating the Bank's supervision activities. The PIU was staffed with qualified people, selected through a competitive process and adequately compensated for their work. The participating PFIs, entity entrusted with implementing the LOC (CLD), and entity entrusted with implementing the MGF (CCI) carried out their activities successfully to achieve the development objectives of the project.

(c) Justification of Rating for Overall Borrower Performance
Rating: Satisfactory

The overall Borrower performance is rated as satisfactory. The Borrower has concluded the Project successfully in a challenging political environment with financial constraints due to the global financial crisis that took place during project implementation. The challenging political environment included a major change in government in the 2009 and 2010 elections (when the Alliance for European Integration was elected and replaced the Communists as the governing coalition), a period during which the country had only an acting President (September 2009-March 2012), and another change in the ruling coalition in February-May 2013. The implementing agency and the participating PFIs and other agencies too implemented their activities successfully and effectively to achieve the PDOs.

6. Lessons Learned

1. The Project's satisfactory implementation benefited significantly from the high degree of borrower's ownership of the program. In addition, the Borrower was willing to utilize project funds to procure technical assistance lacking in-country to ensure that the services of the highest quality were provided to support the project. Given the sustained high degree of borrower's ownership of and commitment to the program, even a very complex and ambitious program can be implemented successfully.

2. The selection of two professional organizations (CCI and CLD) to administer the MGF and the LOC went a long way to ensure their successful implementation. In most projects, these functions are carried out either by a commercial bank or a unit within the Central Bank created for project purposes or by the PIU, which is normally overburdened with overall project implementation and do not have the time or the capacity to effectively administer such complex components. Outsourcing such time consuming and complex components to qualified professional organizations could ensure successful and effective implementation, as was the case under the CEP. The Government must be commended for utilizing project funds to hire such competent agencies.

3. Providing equipment to the metrology laboratories – one of the major components – was completed with an overall delay of about 12 months. The project design should have taken into consideration the complexity and time required in procuring such complex machinery which was to be installed in existing refurbished buildings. The delays in completing these activities were caused by highly technical bidding and review processes for sophisticated, high precision metrological equipment and the need for re-tendering. This was due to the lack of in-house technical expertise to carry put these activities. However, this shortcoming was mitigated by the PIU by hiring an international expert who assisted in concluding the second tender for equipment successfully. Complex metrology equipment needs stringent environment conditions to operate effectively. The procurement of the machinery had to be postponed in order to refurbish the existing laboratories which fell behind schedule. It is recommended that the Bank, in collaboration with the counterparts, invest more time in planning complex project activities (such as high precision metrological instruments and the facilities to house them), involving relevant technical experts and allowing for an adequate timeframe, to avoid delays that were experienced under this project.

4. While the Matching Grants Facility (MGF) component was successful overall, the component could have had a greater impact if it were not for constraints on timelines presented by the way in which the MGF Administrator's (Chamber of Commerce and Industry) contract was handled. The MGF administrator's contract was renewed annually, usually by August, and its contract required it to finalize activities by the end of May in order to submit its final report in June. This meant that grant cycles (award and payment to companies) were on an annual basis (August-May). The results-based nature of the grant meant that the company had to demonstrate results in order for the matching portion of the grant to be paid. Due to the administrative requirements that limited the grant cycle to only approximately 10 months, the companies were under a substantial time

constraint, especially when the grant was funding an international quality certification (which required a consultant analysis, implementation of changes, and verification of those changes by a certification body). For the final year of the CEP, the World Bank and PIU agreed that the matching component of these grants should be paid to all companies that demonstrate results by June 2013. The Bank also agreed to extend the deadline for payments to companies to mid-June 2013, as opposed to the end of May as in the 2012 cycle. In the design of Matching Grant components for future projects, it would be helpful to allow for matching grant facility to operate on an ongoing basis instead of having yearly, "artificial" cut-offs driven by administrative considerations as was the case under the CEP.

5. The main essential components for a successful PSD project which focuses on SMEs in a country the size of Moldova can be considered to have: (i) proper regulatory reforms for a better business environment and ease of doing business; (ii) upgrading of the MSTQ systems to gain access to foreign markets and boosting competitiveness; and (iii) having access to finance and technology services. Addressing these issues in a combined manner was expected to have a total effect greater than the added effect of each individual component due to the existence of synergies among project components. These elements were present in the project design for the CEP. However, the successful implementation of such complex components involving technical assistance and complex procurement activities (for MSTQ equipment) take time, more than the three and a half years that was anticipated at appraisal for the CEP. Adequate time needs to be built in for implementation of such operations, especially where the technical capacity of the counterparts are low.

6. A well-functioning implementation unit, staffed with competent and committed people and fairly remunerated is essential for a successful implementation of a multi-component and a complex project, such as this. Under the CEP, such a unit was established and fully supported by the MoE, which led to the successful implementation of the project and achievement of its PDOs.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

None

(b) Cofinanciers

N/A

(c) Other partners and stakeholders

N/A

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Regulatory Component	2.20	2.28	104
MSTQ Component	9.60	8.60	90
Matching Grant Scheme	1.40	2.94	210
Facilitation to Access to Finance	0.30	0.01	3
Line of Credit Facility		22.50	
Implementation Support	0.50	0.97	194
Un-Allocated	0.30		
Total Project Costs	14.30	38.30	268
Total Financing Required	14.30	38.30	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
International Development Association (IDA)	Credit	4.90	28.90	590
IDA Grant	Grant	4.90	4.90	100
JAPAN: Ministry of Finance - PHRD Grants	Grant	4.50	4.50	100

Annex 2. Outputs by Component (from the Borrower's Completion Report)

BUSINESS ENVIRONMENT IMPROVEMENT

The regulatory reform initiative comprised a number of regulatory and institutional changes aimed at creating a better business environment for the country's private sector. The new Regulatory Reform Strategy 2013-2020 developed with the CEP assistance built on and complemented previous efforts, providing a conceptual and management framework for all efforts designed to improve the business environment and was approved by the Government in July 2013. The new Strategy will help Government's efforts in streamlining the legislative process and ensuring the low cost/low risk principle in promoting new legislation, considering its impact on both the State and the private sector. The activities are shown in Table 1.

The Government started the review of laws in accordance with the provisions of the so-called Guillotine 2 law, which was implemented with the support of the CEP during August 2006 – January 2008 resulting in major simplifications in the legal framework for business entry and operations. In addition, the implementation of the Regulatory Impact Assessment (RIA) was also an important milestone. The project assisted the Government in development and implementation of the RIA methodology, which became mandatory for preparation of all new regulatory acts affecting business operations, with the CEP supporting capacity building activities in various line ministries, thus creating a standardized consultation mechanism within the Government and with business. In total 1,120 government officials (see Table 11) and sector experts were trained in Regulatory Impact Assessment during the project lifetime. The priorities for the RIA secretariat was to focus on ensuring that new laws and regulations met modern regulatory standards through the application of adequate impact assessments. The six consultants, employed under the CEP in coordination with the Ministry of Economy offered qualified legal expertise that covered basically all regulatory domains. Between 2007 and 2009 the project supported a special regulatory reform unit in the Parliament and a Special Commission on the optimization of the regulatory framework for entrepreneurship (the Regulatory Reform Commission). The above-mentioned interventions had a positive impact on the business environment which was confirmed by the outcomes of annual Cost of Doing Business" surveys carried out annually during the project lifetime.

Table I. Regulatory Reform Working Group Activity

Year	2006	2007	2008	2009	2010	2011	2012	2013 1st semester	**Total**
Meetings of the Working Group	46	52	44	36	49	37	30	13	**307**
Examined: Draft Laws	42	54	40	75	47	29	22	6	**315**
Draft Governmental decisions	74	136	87	43	48	37	32	8	**465**

Draft of normative acts	159	53	18	10	7	9	3	10	**269**
Regulatory Impact Assessments	-	-	73	99	137	89	75	32	**505**
Total examined:	**275**	**243**	**218**	**227**	**239**	**164**	**132**	**56**	

Source: Ministry of Economy

During the project implementation, following the changes in the Government, the MoE was given additional responsibilities, when the Ministry of Industry and Infrastructure and the Standardization and the Metrology Service were dissolved. In addition, the responsibilities of the Office of the Deputy Prime Minister also changed, requiring additional expertise in several areas such as macroeconomics, tax policy, energy and infrastructure, trade and quality infrastructure, structural reforms and non-banking financial sector, telecommunication and IT. At the request of the MoE and for enhancing the Regulatory Reform Strategy, the Project assisted the Deputy Prime Minister / Minister of Economy to obtain the expertise in these areas.

Table II. Results indicators framework, Regulatory reform component

Indicator	Baseline	End of project target	End of project progress
Number of inspections per year per firm	18	12	3,6
Number of government officials and experts trained in RIA (*cumulative*)	0	1.100	1.120
Decrease in regulatory compliance costs for enterprises (*as measured by management time spent on meeting regulatory requirements), %*	17	10	10.7

Source: Ministry of Economy & CODB survey

MODERNIZATION OF MSTQ SYSTEM

Under this component, the project has supported the institutional reform, legal reform and improvement of the MSTQ infrastructure. Substantial results have been achieved. As part of the WTO commitments regarding MSTQ system, Government approved short to medium term (2007-2020) MSTQ Strategy with detailed action plan for each field of quality infrastructure. The project helped develop and promote new legislation in line with international best practices as follows: (i) The Law on Technical Regulations, which foresees the activity and agenda of the technical committees; (ii) Law on Standardization; (iii) Law on Metrology: and (iv) The new Law on Accreditation, were all approved. The institutional reorganization of NISM into the National Institute of Metrology (NIM) and National Institute of Standardization (NIS) has been completed. The separation will exclude the existing conflict of interest due to unclear legal structure of (and relationship between) these entities and will create adequate capacity to respond to the current economic needs. The government is also expected to establish a State owned Enterprise that will provide metrology services across the spectrum, to build the market of service providers and ensure there is some competition in all areas of metrology.

During the last six years under the project, the national MSTQ system made significant steps ahead for the recognition at the European level. For instance, National Accreditation Body (NAB) signed an Associate Membership Agreement with the European co-operation for Accreditation (EA), while the NISM due to the know-how transfers and modern equipment furnished under the CEP applied for the inter-

comparisons results for publishing the Calibration and Measurement Capabilities tables (CMC) in the Bureau International des Poids et Mesures (BIPM) key comparison database. NISM's supported by Dutch Metrology Institute implemented a quality management system within metrology laboratories and undertook peer review performed by COOMET and was awarded the ISO/CEI 17025 certificate. NISM (now NIM) already has more than 10 results of inter laboratory comparisons in the field of flow and temperature.

The project modernized and renovated nine national metrological and testing laboratories in Chisinau and two in regional metrology center in the Balti district. The first delivery of equipment was made at the end of 2007, one year and a half after the beginning of the project. The main reason for delays was due to the delays in the Governments contribution for the renovation of the NISM premises.

Beside laboratory equipment, the CEP provided IT equipment like servers for information storage, computers, etc. for NISM, MOLDAC and Agency for Consumer Protection, and communication equipment for training rooms of MOLDAC and NIS. Training was also provided to over 145 staff of these institutions to utilize the newly acquired equipment.

In order to strengthen the capacity and improve efficiency and visibility of the newly established National Standardization Institute (NIS) the Project assisted in development of Standards Repository Software, which was an important communication tool between NIS and industry, business society, governmental agencies, potential investors, other stakeholders etc.

The Project supported the development of institutional capacity of MOLDAC (accreditation) by exchange of experience and good practices in accreditation field with other international institutions, including study visits and training to similar institutions in Romania, Czech Republic, Poland, Sweden, Germany, Turkey, etc. In addition, the project supported an integrated information system at MOLDAC to meet ISO standards.

One of the important elements of the EU– Moldova Action Plan is, *inter alia*, harmonization of the legislation related to quality infrastructure and adoption of EU standards was the transposition of EU Directives in strategic fields of the national economy. During the last year of CEP implementation the MOE received technical assistance for the elaboration of six EU Directives as well adjustment of legal and normative framework to subject Directives and EU requirements. The draft legislation to transpose the six EU directives is awaiting first discussion in government.

Table 111 below summarizes the results framework under this component of the project, indicating the baseline, end of project target and final result, as of 30.06.3013.

Table III. Results indicators framework, MSTQ component

Indicator	Baseline	End of project target	End of project progress
Number of EU compatible standards adopted (*cumulative*)	133	1,700	5,438
Number of accredited testing facilities available to enterprises (*cumulative*)	36	170	117

Number of calibration services provided by NISM to enterprises (*annual*)	5	1,000	1,300
Number of international certifications received by Moldovan enterprises (*cumulative*)	70	280	338

Source: National Institute of Standardization and Metrology

MATCHING GRANTS FACILITY

This component helped in promoting the use of MSTQ services by enterprises, especially SMEs, through the use of the Matching Grants Facility (MGF), to strengthen the competitiveness of Moldovan companies, both to increase exports and secure their domestic market position by improving quality of their products and services. The MGF was administered by the Chamber of Commerce and Industry of Moldova (CCI), which was selected by the PIU through a tender. The CCI was responsible for promoting the scheme in business circles, for the management of the application and selection process as well as for the management of administrative aspects related to the payment of the MGF contribution.

The MGF provided financial support on a matching basis (50%) to enterprises interested in using technical assistance and consulting services to upgrade their operations. The MGF was subdivided into two sub-components, namely: (i) the Quality Certification sub-component, providing financial support to firms seeking to obtain international quality certifications (i.e. ISO 9001, ISO 22000, etc.) and (ii) the Business Advisory Services (BAS) sub-component, supporting firms interested in obtaining advisory and training services (e.g. business plans, feasibility studies, etc.). Over the 2006 – 2013 period, the CCI received applications from over 550 enterprises. As of June 2013, around 380 enterprises had received support from the MGF, of which 234 for Quality Certification, 125 for BAS and 21 for both sub-components. The average value of MGF grants was about US$ 6,000, with individual values ranging from less than US$ 1000 up to US$ 10,000 and little difference between the two sub-components. The MGF provided support to enterprises active in all sectors, with a concentration in manufacturing (38% of the total), services (26%) and commerce (18%). Almost 80% of beneficiaries were based in Chisinau, with firms located in Moldova's Northern and Central regions accounting for, respectively, 9% and 8% of the total. The MGF mostly supported micro, small and medium enterprises but the presence of large enterprises is also not negligible (about 25% of the total, with a higher share for the Quality Certification sub-component).

MGF had a positive impact on participating enterprises. In the case of the Quality Certification sub-component, MGF support was mostly used to obtain ISO 9001 certification and, to a much lesser degree, food safety-related certifications (ISO 22000). In the case of the BAS sub-component, funding was mainly used for market studies, feasibility studies and management information systems. Interventions co-financed by MGF appear to have resulted in a number of positive effects. More than three quarters of the beneficiaries reported improvements in organizational effectiveness, technical efficiency, and managerial skills as well as an increased credibility and reputation vis-à-vis clients and suppliers. Overall, the influence appears to be stronger in the base of firms benefitting from the Quality Certification sub-component. To some extent this is linked to the fact that, in the case of the BAS sub-component, several measures deriving from

the advice received have been only partly implemented, and therefore have not yet deployed their effects.

MGF-funded activities allowed several beneficiaries to diversify their product mix, and, in turn, to enter new market segments: over half of the interviewees reported of 'some impact' in this respect. The certification obtained through the co-financing allowed, for instance, the participation in public and private tenders for several of the firms interviewed. In other cases, quality standards were mandatory requirements to access foreign markets – and in particular EU countries. Market studies and business plans were identified as major contributor in the development of new products and services, as well as for activities such as re-branding and on-line orders.

The MGF component played an important role in the development and consolidation of the consulting services sector as well. Since the launch of the MGF the number of service providers has increased significantly, and this was coupled with an improvement in the quality of services provided. Even more importantly, the MGF greatly contributed to increase the awareness of the benefits of professional advisory services in the business community, thereby stimulating a spontaneous demand for consulting services.

As one of the objective of the MGF was aimed at strengthening the competitiveness of Moldovan companies to increase exports, the impact assessment of this component performed by an independent consulting firm hired under CEP, indicated that Moldova's export sales displayed an oscillating trend, with a growth in 2008, a decline in 2009, a recovery in 2010 and 2011, and another drop in 2012. Overall, in 2012, exports stood at US$ 2.2 billion compared with US$ 1.3 billion in 2007. Based on the results of the counterfactual impact assessment, the value of incremental exports attributable to the participation in the MGF can be estimated in the range of US$ 55 to 73 million[14].

Table IV below summarizes the results framework under this component of the project, indicating the baseline, end of project target and final result, as of 30.06.3013.

Table IV. Results indicators framework, Matching Grants component

Indicator	Baseline	End of project target	End of project progress
Number of matching grants disbursed (*cumulative*)	0	460	495
Number of matching grants disbursed for international certifications of quality (*cumulative*)	70	210	249
Number of matching grants disbursed for business development (cumulative)	0	250	246

Source: Chamber of Commerce and Industry of Moldova

[14] CEP Line of Credit & Matching Grants Impact Assessment Report, June 2013

ACCESS TO FINANCE

A privately-owned **Credit Bureau became operational in 2011**. The Credit Bureau was licensed and supervised by the National Commission on Financial Market (NCFM), and currently includes information from banks and two leasing companies. Reporting is voluntary, and requires prior consent of the borrower. To foster the use of the bureau, NBM has put in place differentiated provisioning rules of 2 percent for borrowers that are already covered by the Credit Bureau and have a clean record, and 30 percent for those on whom no information is available from the Credit Bureau or other contractual obligations, or for those who did not give consent to have their information reported to the Credit Bureau. The vast majority of individual clients have already given consent, but not all enterprises have done so, either because their loans were approved prior to the launch of the Credit Bureau, or due to performance and indebtedness concerns. A legal amendment to mandate reporting of all commercial loans to the Credit Bureau is currently under discussion. This would help increase the reliability of information on legal entities.

The existence of the Credit Bureau has already helped establish a credit history for most borrowers, which should particularly benefit micro- and small companies seeking credit. The bureau currently stores data on 130,000 borrowers and 250,000 loans, compared to 131,000 active borrowers and 148,000 active loans in the banking system at the end of 2012. An estimated 7000 loans are with enterprises; the rest is with individuals (likely also some microenterprises). Despite its short existence, the data provided by the Credit Bureau is very comprehensive, and the hit ratio stood at 72 percent in the last quarter of 2012. This is a significant achievement, given the limited time frame. The Credit Bureau has already helped clients establish a credit history, and made the actual level of bank debt transparent. The information is stored for seven years, and borrowers have a right to verify the data. The Doing Business Credit Information index now assigns 4 out of 6 points to Moldova.

LINE OF CREDIT

The LOC component provides funding to banks for on-lending to export-oriented enterprises in support of their working capital and investment financing needs. It was administered by the Credit Line Directorate (CLD), an autonomous structure within the Ministry of Finance, entrusted with the management of various internationally-funded credit lines.

Launched in 2009 with a total funding of US$ 22.5 million, the LOC was fully disbursed during 2012 and it is currently managed as a revolving fund by the CLD, as repayments are received. Investment loans were capped at € 800,000, while working capital loans could not exceed € 500,000. Maximum maturities were eight years for investment loans and four years for working capital operations. Loans could be denominated in MDL or in foreign currency, Euros or US$. Interest rates varied depending upon the currency and were adjusted every six months: in the case of foreign currency loans, rates were typically between 100 and 200 basis points lower than those charged by banks on loans funded with their own resources. The LOC saw the involvement of six commercial banks: (i) MoldovaAgroindbank; (i) Victoriabank; (iii) Banca Sociala; (iv)

Moldindconbank; (v) Energbank and (vi) Mobiabank. As of end 2012, a total of 74 loans had been disbursed to 60 enterprises, with an average of about US$ 400,000 per loan. The majority of loans fell in the US$ 100,000 - 500,000 range, while a handful number of loans exceeded US$ 800,000 and a similar number had a very small size, below US$ 50,000.

Nearly half of LOC beneficiaries were active in agri-business, with a strong presence of wine producers and other food processors. About half of LOC borrowers were based in Chisinau, about quarter located in the Central Region, with the rest being subdivided between the Northern and Southern regions. While the majority of beneficiaries fell within the definition of SME, more than one third was large enterprises, sometimes with turnovers well in excess of US$ 10 million.

The most active commercial banks were Moldova Agroindbank with 27 sub-projects, representing 46% from the total number of sub-projects approved and 50% from the total amount approved by the CLD for CEP financing, followed by Victoriabank with 18 Sub-projects, or 31% from the total number of sub-projects and 30% from the total amount approved.

Almost 67% of the sub-loans amounts were projects solicited to be financed in EURO, due to the import of equipment and partially raw materials imported from European countries, followed by the sub-loans requested in USD (22%) and about 11% of the LOC amount was disbursed in MDL. Investment loan accounted for about 37%, while working capital accounted for 63% of the total loans disbursed.

The majority of LOC beneficiaries reported an improvement in key performance indicators, such as employment, exports and (especially) turnover. However, access to LOC loans appears to explain only part of the positive developments. The influence is comparatively greater in the case of turnover, with about 40% of beneficiaries reporting a 'significant' impact, compared with 30% indicating a 'limited' impact and a similar share reporting no impact or unable to provide an answer. In the case of employment, 37% of respondents report a 'significant' impact, compared with a similar share indicating no appreciable influence.

In terms of impact the LOC had on export figures, according the assessment performed by an independent Consulting firm, the value of incremental exports attributable to the participation in the LOC was estimated in the order of US$ 14 to 20 million[15].

Overall, the incremental exports associated with the two components, i.e. LOC and MGF account for between 7% and 11% of the US$ 0.9 billion total increase in exports recorded between 2007 and 2012[16].

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[15] CEP Line of Credit & Matching Grants Impact Assessment Report, June 2013
[16] Ibid.

Annex 3. Economic and Financial Analysis

(including assumptions in the analysis)

No economic or financial analysis (ROR) was carried out for the project. Economic benefits of the project was expected to be achieved as a consequence of increased competitiveness and, therefore, productivity an increased incomes of the individual enterprises and the whole economy of Moldova. These benefits include lower transaction costs of doing business due to the improvement in the business environment. It was also expected that improved business climate and bigger transparency should also bring significant benefits of increased FDI, which was critical for a small open economy with inexpensive but well educated labor force. However, it has not been possible to quantify the increase in FDI due to the project. The core components of the project: improved MSTQ capacity and matching grant facility and the LOC have generated direct and indirect financial revenues to the participating commercial entities and to the budget. Improved MSTQ standards and increased number of international quality standards owned by Moldovan producers have strengthened the position of Moldovan products in international markets. This was confirmed by the survey carried out which attributed export sales of US$60-90 million as a result of the CEP.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Anarkan Akerova	Counsel	LEGCF	
Victor Burunsus	Private Sector Development Spe	ECSF1	
Alexandru Cojocaru	Economist	ECSP3	
Gregory T. Jedrzejczak	Lead Private Sector Developmen	ECSF2	
Vitaly Kazakov	Financial Management Specialis	ECSOQ	
Arben Maho	Procurement Specialist	ECSO2	
Ekaterina Mikhaylova	Sr Mining Spec.	SEGM2	
Anna Sukiasyan	Resource Management Officer	AFTRM	
Supervision/ICR			
Fatiha Amar	Program Assistant	MNSTI	
Irina Astrakhan	Sector Manager	AFTFE	
S. Brajovic-Bratanovic	Consultant	FFIMS	
Victor Burunsus	Private Sector Development Spec.	ECSF1	
Andrei Busuioc	Sr Financial Management Spec.	ECCAT	
Alexandru Cojocaru	Economist	ECSP3	
Edward Daoud	Consultant	GPOBA	
Daria Goldstein	Senior Counsel	LEGLE	
Gregory T. Jedrzejczak	Lead Private Sector Development.	ECSF2	
Arben Maho	Procurement Specialist	ECSO2	
Martin Melecky	Sr Financial Sector Spec.	ECSPF	
Ekaterina Mikhaylova	Sr Mining Spec.	SEGM2	
Alexander Pankov	Country Sector Coordinator	ECSPF	
Melissa Rekas	Private Sector Development Spec.	ECSF1	
Ghenadie Cotelnic	Consultant	ECSF1	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY05	22	120.42
FY06	13	54.83
Total:		
Supervision/ICR		
FY06	26	31.80
FY07	57	80.54
FY08	25	82.32

FY09	41	134.27
FY10	51	193.68
FY11	18	99.60
FY12	27	97.10
FY13	21	70.18
FY14	7	26.18
Total:		

Includes budget for the additional financing

Annex 5. Beneficiary Survey Results

No beneficiary survey was carried out. However, an Impact Assessment of the CEP Matching Grants and Line of Credit Components was carried out.
The assessment provided an evaluation of two key components of the Competitiveness Enhancement Project (CEP or "the Project"), namely the Matching Grant Facility (MGF) and the Line of Credit (LOC) components. However, the exercise also extended to other aspects, with a review of implementation arrangements, an analysis of additionality, and the assessment of economy-wide effects.

The Reports built upon three main elements, namely: (i) a survey of enterprises receiving support under the two components, (ii) a counterfactual impact assessment exercise, and (iii) a series of in-depth interviews. The survey covered a sample of 188 enterprises, of which 147 receiving support under the MGF and 57 benefitting under the LOC (with 16 enterprises benefitting from both components). The counterfactual impact assessment involved the application of various econometric techniques analysis to a set of data provided by the National Statistical Office and by the Customs. In-depth interviews concerned more than 20 entities involved in project implementation and other stakeholders (financial institutions, donors, providers of business development services, etc.).

Impact on Participating Enterprises - MGF Component

Influence on Beneficiaries' Activities. In the case of the Quality Certification sub-component, MGF support was mostly used to obtain ISO 9001 certification and, to a much lesser degree, food safety-related certifications (ISO 22000 and HACC). In the case of the BAS sub-component, funding was mainly used for market studies, feasibility studies and management information systems. Interventions co-financed by MGF appear to have resulted in a number of positive effects. More than three quarters of the beneficiaries interviewed report improvements in organizational effectiveness, technical efficiency, and managerial skills as well as an increased credibility and reputation vis-à-vis clients and suppliers. According to about half of the firms, participation in the scheme also had positive effects in improving the product mix and in accessing new markets. Instead, the program did not have any appreciable influence on the access to finance, with only a handful of firms reporting some progress. Overall, the influence appears to be stronger in the base of firms benefitting from the Quality Certification sub-component. To some extent this is linked to the fact that, in the case of the BAS sub-component, several measures deriving from the advice received have been only partly implemented, and therefore have not (yet) deployed their effects.

Impact on Performance – Counterfactual Analysis. The impact of MGF was assessed by comparing the results achieved by beneficiary firms with those achieved by a 'control group' consisting of firms that had applied for support but in the end did not participate in the scheme. The exercise assessed the impact over a three year period, comparing the results achieved in the year preceding the application with those achieved two years later, using a variety of econometric techniques. The analysis detected a positive and statistically significant impact on export sales: in fact, in the two years subsequent to the application, MGF beneficiaries exported on average between MDL 9 to 12 million more than their peers in the 'control group'. The analysis also detected a positive relationship between MGF support and turnover. However, in this case the degree of statistical significance is much lower, below the levels typically considered acceptable for this type of analyses. No conclusive results were achieved regarding the other variables analyzed, i.e. employment, investment, productivity, value added, and operating profits. Similar

results were achieved for the sub-set of firms receiving support under the Quality Certification sub-component, while no similar analysis could be carried out for beneficiaries of the BAS sub-component, due to the limited number of observations.

Impact of Performance – Self Assessment. Results from the counterfactual analysis are broadly in line with the 'perceived' impact self reported by the sample of MGF beneficiaries interviewed, although there are some differences. In the case of exports, a significant impact (i.e. 'high impact' or 'some impact') is reported by more than 50% of firms actually active in export markets. However, the share declines to a much less impressive 22% when the whole sample (i.e. including non exporters) is considered. The perceived influence is stronger in the case of turnover, with almost 70% of interviewees reporting a significant impact, compared with little more than 10% reporting no impact or unable to answer. Instead, MGF-funded activities appear to have had much less influence on employment, with 56% of interviewees reporting 'no impact' compared with less than 40% indicating a significant impact.

Impact on Participating Enterprises – LOC Component

Influence on Beneficiaries' Activities. Two thirds of LOC borrowers received working capital loans, one fifth got investment loans, and the rest obtained both types of loans. In line with the prevalence of working capital financing, three quarters of interviewees indicate that LOC loans played an important role in the purchase of raw materials and other inputs (which could be bought in larger quantities and/or at the most appropriate time) and in reducing delays in payment to suppliers. To a lesser degree, loan proceeds were also used to support the entry in new markets or market segments, to expand production capacity and/or modernize existing facilities (in the case of investment loans) and to extend more favorable payment conditions to clients. Instead, little influence is reported regarding the development of new products.

Impact on Performance. The majority of LOC beneficiaries report an improvement in key performance indicators, such as employment, exports and (especially) turnover. However, access to LOC loans appears to explain only part of the positive developments. The influence is comparatively greater in the case of turnover, with about 40% of beneficiaries reporting a 'significant' impact, compared with 30% indicating a 'limited' impact and a similar share reporting no impact or unable to provide an answer. In the case of employment, 37% of respondents report a 'significant' impact, compared with a similar share indicating no appreciable influence. Somewhat strikingly, given the export-orientation of the scheme, only 31% of LOC beneficiaries report a significant impact on export sales, compared with 28% indicating a limited impact and 21% reporting no impact (with the rest being unable to provide an assessment).

Assessment of Economy-wide Effects

Influence on Export Sales. Over the 2007 – 2012 period, Moldova's export sales displayed an oscillating trend, with a grow in 2008, a decline in 2009, a recovery in 2010 and 2011, and another drop in 2012. Overall, in 2012 exports stood at US$ 2.2 billion, compared with US$ 1.3 billion in 2007. Based on the results of the counterfactual impact assessment, the value of incremental exports attributable to the participation in the MGF can be estimated in the range of US$ 55 to 73 million. The corresponding value for the LOC component is lower, in the order of US$ 14 to 20 million. Overall, the incremental exports associated with the two components account for between 7% and 11% of the US$ 0.9 billion total increase in exports recorded between 2007 and 2012.

Influence on the Market for Consulting Services. The MGF component played an important role in the development and consolidation of the consulting services sector. Since the launch of the MGF the number of service providers has increased significantly, and this was coupled with an improvement in the quality of services provided. Even more importantly, the MGF greatly contributed to increase the awareness of the benefits of professional advisory services in the business community, thereby stimulating a spontaneous demand for consulting services. Indeed, while only 7% of MGF beneficiaries made frequent use of consultancy services before enrolling in the scheme, more than two thirds express their intention to purchase advisory services with their own money in the near future.

Influence on the Financial Sector. The LOC exerted a limited influence on the financial sector. The possibility of accessing long term resources at a reasonable cost was obviously appreciated by participating banks, but this did not lead to major changes in their operating modalities. Some banks reported being able to offer loans with a longer maturity, at least in the case of working capital loans, but none appear to have developed specific products in connection with access to LOC funding. In addition, most of the sub-loans went to well established, traditional clients and no significant contribution in broadening access to finance can be noticed.

Assessment of Implementation Arrangements

MGF Component. The CCI was quite effective in disseminating information about the opportunities offered by the scheme: about three quarters of the firms interviewed learned about MGF through the CCI, either directly or indirectly (i.e. through the CCI website or the participation in promotional event organized by the CCI). Even more importantly, less than 50% of beneficiaries were CCI members at the time of the application, a clear indication that promotional efforts were able to reach out a wide range of businesses. The MGF application process was quite simple and this was generally highly appreciated by beneficiaries, with more than 80% of firms providing a positive assessment of the various procedural aspects. A marginally less positive assessment is voiced regarding the reimbursement process (i.e. documentation to be submitted and time required to get the money), but even in this case outright negative views concern less than 10% of respondents. Overall, the near totality of MGF beneficiaries expressed a positive or very positive assessment of MGF implementation arrangements, with one single interviewee holding a neutral view.

LOC Component. Views about procedural aspects are generally positive, although with some qualifications. The near totality of interviewees appreciate the information received about the scheme and the assistance extended by banks' personnel and a solid majority provides a positive assessment regarding the loan application process. Instead, views are much more divided regarding the time required for loan approvals, with only 40% of interviews providing a positive assessment, the rest being equally subdivided between neutral and negative opinions. The existence of delays in the approval process was also frequently mentioned by participating banks, although the situation improved over time. However, once approved, the loans were usually disbursed fairly rapidly. Almost half of LOC beneficiaries received monitoring visits from the CLD and the assessment was invariably positive. Overall, 88% of LOC borrowers provide a positive or very positive assessment, the rest holding a negative or, more often, neutral view.

Assessment of Additionality

MGF Component. The level of additionality of MGF support appears to be quite high. The vast majority of beneficiaries had no or very little experience with consultants before applying for MGF support and the scheme was therefore instrumental in exposing them to advisory services.

In addition, only half of the interviewees declared that they would have been able (and willing) to pay the full cost of certification and/or consulting services, in case MGF support was not available. The level of additionality is higher in the case of the BAS sub-component (only 40% would have been able to implement the initiatives on their own), due to the prevalence of micro and small firms with limited financial means. The opposite holds true in the case of the Quality Certification sub-component, where the higher share of well established companies obviously translates into a higher ability to pay for consulting services.

LOC Component. The LOC component displays a lower level of additionality. All beneficiaries already had experience in dealing with banks and the vast majority did not have major problems in accessing bank lending in the past: about 80% of interviewees got one or more loans in three years before applying for LOC financing and those who did not have any loan, usually did not apply as they had other sources of funding. All in all, only few LOC borrowers can be regarded as truly 'finance constrained'. The limited additionality is confirmed by the fact that the interest rate is almost unanimously regarded as the most important advantage of the LOC, while other features (e.g. multi-currency lending, ability to finance working capital, longer maturity compared to standard loans available in the market) are scarcely mentioned.

Comparison with Other Similar Programs

Comparison of MGF with Other Support Schemes. About one fifth of interviewees were in the position to compare the MGF with another support scheme, the EBRD-funded BAS program. Launched in 2005, the EBRD-BAS also provides financial support to firms interested in using consulting and advisory services, but its operating modalities present some differences compared with the MGF (i.e. focus on MSME only, higher co-financing rate – 75% compared with 50% for MGF, no assistance provided in the area of quality certification). For most of the aspects considered in the comparison, the views expressed by interviewees are in favor of the MGF, although in several cases (e.g. eligibility criteria, assistance provided to applicants, etc.) a significant share of respondents considers the two programs as broadly equivalent. The only two aspects for which the EBRD-BAS receives a more positive assessment are (i) the nature of activities eligible for co-financing (but the majority of respondents are neutral on unable to pass an informed judgment), and (ii) unsurprisingly, the co-financing rate.

Comparison of LOC with Other Credit Lines. About one third of interviewees were able to compare the LOC with other donor/IFI-funded credit channeled through Moldovan banks. The low interest rate and the fast disbursement procedures emerge as the main positive features of the LOC, with positive assessments outnumbering opposite views by 5 to 1. Instead, the loan application process and the time required for loan approval are perceived as the main 'problem areas', with a clear majority of interviewees expressing a preference for other credit lines. In the case of the other aspects considered in the comparison, such as the maximum size and maturity of loans and the possibility of receiving financing in various currencies, views are more divided (with an equal number of interviewees favoring the LOC or other credit lines) or neutral.

Overall, available evidence suggests that the MGF and the LOC components were successful interventions. Both components were implemented in a fairly smooth manner and favorably influenced the activities of beneficiary firms.

Annex 6. Stakeholder Workshop Report and Results
(if any)

N/A

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

The final draft ICR was submitted to the Borrower for their comments. They provided only minor comments on some results indicators, and their comments have been incorporated into the final version of the ICR.

Below is a summary of the Borrower's comments, from their ICR. The full Borrower's ICR is in the project files.

WORLD BANK PERFORMANCE

The Ministry of Economy is highly satisfied with the Bank's involvement during the preparation, implementation and supervision stages over the project implementation.

The Project Task Team Leader and his team demonstrated high activity and flexibility to solve all issues quickly and in a correct manner. The results achieved during project implementation are noticeable and could be rated as satisfactory.

The successful achievement of project goals and objectives were due to good cooperation between the Ministry of Economy, governmental agencies, the World Bank, as well as the project team and PIU support.

CONCLUSIONS AND LESSONS LEARNED

- The design and project structure was well prepared in terms of correlation to the needs of the country in the fields covered by project activities. It is worth mentioning that the Government and its agencies essentially contributed to the achievement of project' objectives;
- One of the key factor which ensured the successful development of the project was the synergy between all stakeholders involved in project preparation and implementation;
- Important input to project successful implementation has been provided through technical assistance and expertise of the international consultants, *inter alia* those involved in activities related to the modernization of the MSTQ system, specifically know-how transfer and development of the technical requirements for the metrological equipment;
- All project development objective targets have been met. Many intermediate results indicator targets have substantially exceeded, and all but two intermediate results indicator targets have been fully met. The team does not believe that these two indicators reflect negatively on the project. The project included some innovative elements and ambitious targets, MoE and the Project Implementation Unit (PIU), along with the various project beneficiaries and partners, have managed and implemented it very well;
- The regulatory reform component of the project was very useful not just because it provided funding to engage the consultants to the RIA secretariat, but more importantly because funding from the IDA Credit allowed other government entities to view these consultants as impartial experts. MoE will explore with World Bank Group team ways in which to ensure objectivity of the Secretariat, so that it is sustainable in the longer term;
- The matching grant facility MGF and line of credit (LOC) indicates that both components were successful. The components were implemented in a fairly smooth manner and favorably influenced the activities of beneficiary firms. The MGF provided relatively more additionally than the LOC. The impact assessment report calculates that export growth of USD 55-73 million over 2007-2012 can be attributed to the MGF, and that export growth of USD 14-20 million can be attributed to the LOC. Overall, the incremental exports associated with the two components account for between 7% and 11% of the USD 0.9 billion total increase in exports

recorded between 2007 and 2012;

- The margins for improving the design of the LOC are quite limited. As its 'competitive positioning' vis-à-vis other credit lines essentially rests on the low interest rate and maturity, any change that might result in an increase in the cost of funding and or maturity is likely to reduce the attractiveness of the initiative in the eyes of banks and, therefore, to negatively impact on absorption. Similarly, there appears to be limited scope for the simplification of procedural aspects, as the procurement rules of World Bank-funded projects are intrinsically different from those applicable to credit lines funded by institutions such as the IFC or the EBRD, which can directly interact with private banks. A possible area of improvement concerns the eligibility criteria for potential borrowers, which could place a comparatively greater emphasis on lending to SME and/or locally-owned firms, with a view to increase the additionality of the intervention;
- The MGF application process was quite simple and this was generally highly appreciated by beneficiaries, with more than 80% of firms providing a positive assessment. At the same time beneficiaries consider as appropriate expanding the list of eligible services for co-financing such as (i) market access and international networking; (ii) sector-specific training and services and (iii) advisory services on energy efficiency;
- The beneficiaries highly appreciates the role and the input of the PIU in achieving the project objectives as well as efficient and correct administration of the project' funds.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

N/A

Annex 9. List of Supporting Documents

1. Borrower's full Completion Report.

2. Impact Evaluation of the CEP Matching Grants and Line of Credit Components. Evaluation carried out by Economisti Associati in collaboration with Associazione per lo Sviluppo della Valutazione e l'Analisi delle Politche Pubbliche, Agrex NGO

3. PAD, Additional Financing Paper (2009), Restructuring Paper (2012), Implementation Status and Results Reports (ISRs) and aide memoires (AMs).


IBRD 33448R
UKRAINE
ROMANIA
MOLDOVA
Dnestr
Prut
Nistru
To Chernivtsi
To Vinnytsya
To Vinnytsya
To Chernivtsi
To Pascani
To Birlad
To Birlad
To Voznesens'k
To Zhmerynka
To Odesa
To Artsyz
To Imayil
To Bucharest and Constanta
Briceni
Ocniţa
Moghiliov-Podolski
Donduşeni
Edineţ
Soroca
Drochia
Rîşcani
Camenca
Floreşti
Soldăneşti
Costesti
Glodeni
Balţi
Rezina
Ribniţa
Balatina
Singerei
Fălesti
Teleneşti
Chiperceni
Orhei
Sculeni
Dubăsari
TRANSNISTRIA
Mt. Balănesti (430 m)
Călăraşi
Criuleni
Ungheni
Grigoriopol
Nisporeni
Străşeni
Stăuceni
CHIŞINĂU
Lăpusna
Ialoveni
Anenii Noi
Tiraspol
Bender (Tighina)
Hîncesti
Leuseni
Slobozia
Căinari
Căuşeni
Plain
Cimişlia
Ştefan-Vodă
Bugeac
Leova
Basarabeasca
Comrat
Cantemir
GĂGĂUZIA
Ceadir-Lunga
Cahul
Taraclia
GĂGĂUZIA
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Black Sea
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MOLDOVA
SELECTED CITIES AND TOWNS
AUTONOMOUS TERRITORIAL UNIT CAPITALS
RAIONS OR MUNICIPALITIES CAPITALS*
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
AUTONOMOUS TERRITORIAL UNIT BOUNDARIES
RAIONS OR MUNICIPALITIES BOUNDARIES
INTERNATIONAL BOUNDARIES
*Names of the raions or municipalities are identical to their capitals.
MAY 2007