

Moldova: Supporting Development of Export Capacity



Enhancing Competitiveness of Enterprises in Moldova

Overview

The Competitiveness Enhancement Project (CEP) supported major improvements in the business environment in Moldova, reducing the time required to register a company and comply with regulatory requirements and cutting the number of annual inspections. Further, the Project improved competitiveness and export capacity of businesses by supporting implementation of International Organization for Standardization (ISO) quality certification and offering exporters access to long-term financing.

Challenge

The unfavorable business environment was one of the main constraints to improvements in productivity and competitiveness of Moldovan enterprises. Moldova had one of the highest regulatory compliance costs in the Europe and Central Asia region, due to bureaucratic certification, licensing and inspections. This discouraged foreign investment and hindered the ability of local firms to export and compete internationally. The Metrology, Standardization, Testing and Quality (MSTQ) infrastructure, inherited from the old Soviet system, was inadequate for the market-economy environment and competition in external markets, and not in line with Moldova's commitments to World Trade Organization (WTO). This ultimately jeopardized the growth of Moldova's exports. Access to high quality MSTQ services, in line with international standards such as ISO, has become a requirement for gaining access to European export markets and boosting enterprise competitiveness. Access to adequate long-term financing was another important issue that needed to be addressed.

Approach

The Project was designed to assist the Moldovan Government in creating a competitive business environment that would facilitate sustained economic growth and generate employment. The Project supports improvements in the business environment through removal of excessive administrative barriers, reduction of the regulatory

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More Results



31%

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compliance cost, as well as modernization of the MSTQ system. Based on the request from the Government, the Project was restructured using additional financing to include a credit line providing longer-term financing for the eligible exporting enterprises through the local commercial banks. The local commercial banks were evaluated and monitored to provide this long-term financing in a transparent manner and under best business practices. The additional financing helped exporters finance their working capital and investment on suitable borrowing terms in line with their longer-term business objectives.

Results

The CEP assisted the Government of Moldova in achieving several key results:

1. The systematic review of existing legislation affecting business was completed in spring 2008, resulting in major simplifications in the legal framework for business entry and operations.

- Time spent by firm management on compliance with regulatory requirements reduced from 17 percent in 2004 to 10 percent in 2010;
- Number of inspections per year per firm decreased from 18 in 2003 to 7.9 in 2010;
- Regulatory Impact Assessment (RIA) became mandatory for all new legislation affecting business operations in 2008;
- Number of days required to register a new company decreased by 31 percent (from 20 in 2005 to 14 days in 2010).

2. Modernization of MSTQ infrastructure and support in implementation of modern quality management tools and techniques facilitated firms' easier access to export markets:

- 160 private companies implemented quality management and/or food safety management standards from 2007 to February 2011. Majority reported easier access to European markets and increased sales by approximately 10 percent;
- Number of EU compatible standards adopted as National Standards increased from 133 in 2004 to 2,500 in 2010.

3. Increased access to business-enabling finance:

- 30 exporting enterprises benefited from financing for their working capital and investment on business-enabling terms from the CEP Credit Line from 2007 to February 2011, in the total amount of over US\$ 10 million;
- Legal infrastructure for the establishment of the first Private Credit Bureau was set up in 2008. The Bureau will become operational in mid-2011 and is expected to reduce the cost of finance for private enterprises.

Bank Contribution

In 2005, the original CEP project was funded by the International Development Association (IDA) with US\$ 9.8 million, including a US\$ 4.9 million credit and a US\$ 4.9 million grant. In the wake of the global financial crisis and at the request of the Moldovan Government, IDA provided additional financing of US\$ 24 million in 2009, to bring the total IDA contribution to

2,500

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MORE INFORMATION

- » Competitiveness Enhancement Project (2005-2012)
- » Matching Grant Facility Implementation
- » Credit Line Implementation (Romanian)

US\$ 33.8 million.

Partners

There is a strong partnership among key partners in development of Moldova's private sector and the CEP project benefited from the participation of one such partner – the Government of Japan. IDA's commitment of US\$ 33.8 million was complemented by US\$ 4.5 million in grant contributions from the Government of Japan.

Toward the Future

Given the success of the Project to date, there will be continuous efforts to ensure that the following remaining Project objectives are met:

- Improvement of the regulatory environment for private businesses, attraction of foreign investment and export promotion;
- Further improvement of the MSTQ infrastructure.

The World Bank will continue providing technical assistance to: a) improve access to finance through Secured Transactions Reform; b) modernize payments system including focus on retention of remittances within the financial system; c) develop capital market – as a complementary source of funding for larger Moldovan enterprises; and d) establish a Public Credit Registry.

Beneficiaries

- The Project helped Anturaj Nou SRL, a furniture producing company, to obtain ISO certification. As a result, the company secured an important export contract to supply its furniture to a British hotel chain, and won tenders which required an ISO quality certification. General Manager, Mr. Dorin Dumbraveanu, said: "*This internationally recognized quality certification will be instrumental in the company's efforts to penetrate new markets in the region, like Ukraine and Bulgaria.*"
- The CEP matching grant enabled Monicol SRL, a dried fruit processing company, to successfully address the challenge of ensuring stable quality of the end products to meet the requirements of the export markets. Due to excellent quality and competitive prices, Monicol SRL is currently selling high value-added products to many European countries including Germany, Switzerland, Italy, Belgium, and France. The company has been also registered in the US Foreign Direct Investment (FDI) database to access the US market.