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Report Number: ICRR0023093

1. Project Data

Project ID P144103	**Project Name** Second Competitiveness Enhancement Proj
Country Moldova	**Practice Area(Lead)** Finance, Competitiveness and Innovation

L/C/TF Number(s) IBRD-84000,IDA-55090	**Closing Date (Original)** 31-Jan-2020	**Total Project Cost (USD)** 42,904,181.76
Bank Approval Date 11-Jul-2014	**Closing Date (Actual)** 31-Dec-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	45,000,000.00	0.00
Revised Commitment	45,000,000.00	0.00
Actual	42,904,181.76	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Financing Agreement, the project development objective of the Moldova Second Competitiveness Enhancement Project was "to increase the export competitiveness of enterprises and reduce the regulatory burden they face."

In this ICR Review, the project development objective is parsed into:

1. To increase the export competitiveness of enterprises.
2. To reduce the regulatory burden that enterprises face.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had four components.

Small and Medium Enterprise (SME) Development (US$8.04 million estimated at appraisal, US$6.62 million disbursed by closing) aimed to "help SMEs and exporters to get access to business development services." This component supported: (a) strengthening the institutional capacity of the Organization for MSME Development (ODIMM) and the Moldovan Investment and Export Promotion Agency (MIEPO) – the MIEPO was reorganized into the Investment Agency (IA) in 2018, four years after the approval of this project – to facilitate the integration of SMEs and exporters into global supply chains; (b) financing payments under the Eligible Expenditure Program (the Government budgetary allocation for the compensation and benefits of staff involved in regulatory reform) for the ODIMM and MIEPO/IA to develop and implement strategies that promote the organizational effectiveness and segmentation of assistance delivery mechanisms for SMEs and for export promotion respectively; and (c) establishing a matching grant facility to help beneficiaries implement business improvement plans focused on export competitiveness.

Access to Finance (US$30 million estimated at appraisal, US$29.7 million disbursed by closing) aimed to "improve access to medium- and long-term finance for export-oriented enterprises." This component supported the: (a) provision of sub-loans to participating financial institutions to finance the investment and working capital requirements of enterprises; (b) revision and implementation by the ODIMM of its credit guarantee scheme; and (c) provision of technical assistance to the Ministry of Economy, the Ministry of Finance, and other public authorities and financial institutions to develop value chain financing models.

Regulatory Reform (US$6.24 million estimated at appraisal, US$5.81 million disbursed by closing) aimed to "improve the business environment through regulatory reforms that reduce the cost of doing business." This component supported: (a) improving the delivery of regulatory reform strategies; (b) implementing reforms to improve export competitiveness – simplifying the process to obtain documents for doing business, supporting the dissemination and implementation of the Competition Law of 2012, and technical assistance to amend laws and regulations tolerating anti-competitive conduct; and (c) financing payments under the Eligible Expenditure Program for business regulatory reform.

Project Management (US$0.72 million estimated at appraisal, US$0.77 million disbursed by closing) supported the implementation of the project by the Project Implementation Unit at the Ministry of Economy and by the Credit Line Directorate at the Ministry of Finance.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project was estimated to cost US$45 million at appraisal.

Financing. The project was financed by an IBRD loan of US$30 million, of which the amount of US$29.7 million was disbursed by closing, and an IDA credit of SDR 9.7 million (US$15 million equivalent), of which the amount of US$13.2 million was disbursed by closing.

Borrower Contribution. The Government was expected to make financial and in-kind contributions to cover the costs related to the Ministry of Economy, the ODIMM, and the MIEPO, and the project management costs related to the work of the Project Implementation Unit during the project closing period (grace period running for four months after the project closing date). The ICR did not present an accounting of these planned contributions.

Dates. The project was approved on July 11, 2014, became effective on October 2, 2014, and closed on December 31, 2021, almost two years after the original closing date of January 31, 2020. The project was restructured twice. The first restructuring on April 2, 2019, with US$26.69 million disbursed (62 percent of the final project cost), revised some items in the results framework, institutional arrangements, disbursement arrangements, and procurement arrangements, and changed the loan closing date from January 31, 2020 to July 30, 2021. The second restructuring on April 14, 2021, with US$41.56 million disbursed (97 percent of the final project cost), changed the loan closing date from July 30, 2021 to December 31, 2021.

Restructuring. The two restructurings did not change the project development objective or the project components and activities. Changes to three results indicators, including two disbursement-linked indicators, were made to reflect the reorganization of the MIEPO into the IA in 2018 – the results would then be attributed to the IA. The measurement unit for a fourth indicator – cumulative medium and long-term lending by participating financial institutions from the line of credit – was converted from a nominal value to a percentage. Finally, the target for a fifth indicator – the percentage of regulations which impact businesses that are assessed using the Regulatory Impact Assessment – was changed after the baseline value was found to be erroneous, requiring an adjustment in the target. Despite the introduction of Program for Results (PforR) conditions, in the form of four disbursement-linked indicators, in the implementation of this investment project, this ICR Review will follow the approach in the ICR of assessing the outcome of the project as though it were an investment project.

Because the project development objective was not revised and because the changes to some results indicators did not have a material impact on the results framework, a split evaluation will not be undertaken for this project.

3. Relevance of Objectives

Rationale

Binding Development Constraints. The project development objectives were relevant to the binding constraints to exporters and SMEs, as cited in the Systematic Country Diagnostic, *Moldova - Paths to Sustained Prosperity*, of 2016.

- The composition of the export basket had shifted in the last decade, but at appraisal the sophistication of exports had not changed substantially and many indicators used to measure export competitiveness remained lower than those of comparators: (a) the export quality index was 0.8 in 2013 compared to the average 0.91 for a comparator group of seven countries (Albania, Bulgaria, Georgia, Hungary, Lithuania, Slovakia, and Ukraine) (the higher the index value the greater the quality of the export basket); (b) the export survival rate was 0.42 in 2013, compared to the average 0.49 for the comparator group; (c) the time to export was 23 days in 2013 compared to the average 15 days for the comparator group; and (d) the cost to export was US$1,545 per container in 2013 compared to the average US$1,232 per container for the comparator group.
- The competitiveness of firms was also constrained by a difficult business environment characterized by regulatory uncertainty and high transaction costs: (a) firms faced multiple and overlapping regulatory requirements at the national and local levels involving licenses, permits, and authorizations; (b) over 430 permits, licenses, and authorizations cost firms an estimated Moldovan leu (MDL) 240 million a year; (c) indirect costs, such as waiting times for obtaining permits, reached more than 60 days per firm; (d) yet 92 percent of centrally- and locally-issued permits and licenses did not comply with the regulatory principles required by legislation; (e) moreover, business inspections created additional hurdles – around 15 separate inspections were carried out at each business each year and a majority of firms reported that the process was unfair and that they were not treated equally.

Country Priorities. The project development objectives were aligned with the country's development priorities. The national development strategy, *Moldova 2020 - Seven Solutions for Economic Growth and Poverty Reduction*, aimed for increased fixed capital investment, higher productivity, as well as policy and structural reforms in seven sectors that were key to future economic growth and progress with poverty reduction.

- On export competitiveness, the national development strategy proposed the development of goods- and services-exporting industries. The goal would be deep and comprehensive free trade between Moldova and the European Union.
- On the business environment, the strategy document proposed eliminating regulatory constraints and reducing the high and unjustified costs of regulatory compliance. The goal would be a better business environment that encouraged investment in productive sectors, creating new products and services and earning greater access to foreign markets.

Trade Competitiveness Diagnostic and Strategy. The export competitiveness objective articulated in *Moldova - Paths to Sustained Prosperity* and *Moldova 2020 - Seven Solutions for Economic Growth and Poverty Reduction* was informed by the four-volume work, *Republic of Moldova Trade Study*, produced by the Bank in 2015.

- The first volume, *Analysis of Trade Competitiveness*, assessed Moldovan export performance in the global marketplace along four dimensions of competitiveness – growth, diversification, quality upgrading, and survival – and investigated constraints to competitiveness focused on supply-side factors – the role of backbone services, access to finance, the business environment (government regulations affecting trade and governance), and institutional quality. The volume found that Moldova's export performance compared poorly with its regional peers and competitiveness was hindered by poor access to finance, weak infrastructure. inadequate backbone services, and a difficult business environment.

- The second volume, *Is the DCFTA Good for Moldova? - Analysis of Moldova’s Trade Options Using a Dynamic Computable General Equilibrium Model*, concluded that the Deep and Comprehensive Free Trade Area Agreement (DCFTA) ratified by Moldova in 2016 (governing the free trade areas established between the European Union, and Georgia, Moldova, and Ukraine, part of each country's EU Association Agreement) provided a significant positive economic impact for Moldova (the EU had become Moldova's main trading partner by 2014). The key provisions of the DCFTA – liberalization of trade in goods and services, introduction of sanitary and phytosanitary standards, trade facilitation measures that removed behind-the-border barriers – coupled with the free trade agreement with Turkey would, if fully implemented, likely add about 7.6 percentage points to GDP, compared to the baseline, over the next 10 years.
- The third volume, *Competitiveness in Moldova’s Agricultural Sector*, noted that agricultural exports (fruits, nuts, vegetables) had grown significantly to contribute a third of total exports by 2013 but observed that agricultural productivity and competitiveness remained comparatively low, confining Moldovan exports to low-value markets. The volume recommended upgrading agricultural and food product quality standards to exploit the DCFTA and boost exports to the European Union.
- The fourth volume, *The Performance of Free Economic Zones in Moldova*, found that, although free economic zones (introduced in 1995) had helped diversify exports, their contribution to the domestic economy had been modest as most large free zone firms were part of global value chains that imported most of their inputs and had limited linkages to domestic firms. The volume recommended greater integration of the free zones with the domestic economy including through technical and support services that encouraged industrial clustering and enterprise networking.

Bank Group Strategy. The project's development objectives were consistent with the Bank Group country strategy in Moldova. The *Country Partnership Framework for the Republic of Moldova for the Period FY18-21* (CPF) supported three "focus areas" - economic governance, services governance, and skills development.

- The project objectives to increase the export competitiveness of, and to reduce the regulatory burden on, firms were consistent with the CPF objectives on economic governance – enhanced quality and implementation of investment climate regulation, strengthened management of public sector assets, and enhanced financial sector governance and stability.
- According to the CPF (paragraph 21), this project and related operations would "help improve trade logistics and policies for attracting foreign direct investment, as well as enhance the private sector’s capacity to export to the European Union" and would "continue support for regulatory reforms to de-risk investment by reducing the administrative burden of inspections, licenses, and permits on private businesses."

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To increase the export competitiveness of enterprises

Rationale

Theory of Change. Enterprises in Moldova, particularly SMEs, lacked access to business development services. Financing a matching grant facility to assist SMEs with business improvement projects would improve the access of the SMEs to business development services. Moreover, technical assistance for the institutional strengthening of the ODIMM and the IA, the two public agencies tasked to facilitate market-based SME growth, would help sustain the national effort for SME development. Enterprises in Moldova, particularly export-oriented enterprises, lacked ready access to medium- and long-term finance. Financing a line of credit by which participating financial institutions would provide term loans to export-oriented enterprises using both the line of credit and their own resources would improve the access of the export-oriented enterprises to medium- and long-term finance. In addition, technical assistance for the reorganization of the existing credit guarantee scheme and the preparation of value-chain financing mechanisms would begin to broaden and deepen the financial infrastructure for SMEs and exporters. The combination of SME business development services and medium- and long-term lending to exporters was expected to increase the export competitiveness of enterprises.

Outputs (the following evidence is drawn from Table 2 and Annex 1 in the ICR).

- The project achieved 13 of 14 outputs (two disbursement-linked indicators and 11 of 12 intermediate-result indicators) defined to measure the extent to which the objective to increase the export competitiveness of enterprises was achieved.
- The ODIMM strategy to "promote organizational effectiveness and adequately reflect the segmentation of the delivery assistance mechanisms and enterprise needs" was adopted, budgeted for, implemented, and monitored and evaluated (this was a disbursement-linked indicator and target). According to the ICR: (a) a review of the ODIMM strategy showed that eight of 11 performance indicators were fully met and three were partially met; (b) the Export Readiness Department was fully operational and was supporting SMEs and export-oriented enterprises; (c) the Government funded a pilot program to support SME competitiveness and export readiness; (d) the ODIMM programs benefitted several thousand enterprises; and (e) an updated ODIMM Strategy for 2021-25 was approved by the Ministry of Economy.
- The ODIMM's outreach increased from 2 percent in the baseline to 2.72 percent by closing, exceeding the target of 2.6 percent. The reading was based on an annual survey of a random sample of MSMEs.
- The ODIMM's effectiveness initially increased from 73 percent in the baseline to 91.2 percent in 2019, slightly under the target of 94 percent. However, the ODIMM's effectiveness subsequently deteriorated during 2020 due to the COVID-19 pandemic and dropped down to 80 percent by closing, failing to achieve the target of 94 percent.
- The IA strategy to "promote organizational effectiveness and adequately reflect the segmentation of the delivery assistance mechanisms and enterprise needs" was adopted, budgeted, implemented, monitored, and evaluated (this was a disbursement-linked indicator and target). According to the ICR: (a) the IA assumed an increasing export promotion role; (b) a national export promotion program was operational in key sectors, with the program providing export information to enterprises; (c) more than 200 enterprises benefitted from the export promotion

program; (d) more than 60 exporters took part in export missions organized for target markets; (d) ten percent of participants signed export contracts and started exporting; (e) IA's staffing and budget increased; (f) an updated IA Strategy for 2022-26 was developed.

- IA’s outreach increased from 0.2 percent in the baseline to 18 percent by closing, exceeding the target of 0.3 percent. The low value in the baseline reflected the poor performance of the MIEPO, the agency previously responsible for export promotion. The reading was based on an annual survey of a random sample of export-oriented MSMEs.
- IA’s effectiveness increased from 35 percent in the baseline to 49 percent by closing, substantially achieving the target of 52 percent.
- The number of MSMEs that received matching grants was 272 by closing, exceeding the target of 250.
- The number of business development services that was provided to SMEs was 1,460 by closing, exceeding the target of 500.
- The number of matching grant beneficiaries that created new products and services or that improved their existing products and services was 204 by closing, exceeding the target of 150.
- The number of matching grant beneficiaries that improved their production processes was 158 by closing, exceeding the target of 150.
- The number of matching grant beneficiaries that improved their business management practices was 211 by closing, exceeding the target of 150.
- The number of matching grant beneficiaries that were owned or led by women was 42 by closing. There was no target set for this results indicator.
- The number of sub-loans that were disbursed from the line of credit was 157 by closing, exceeding the target of 83.
- The amount of lending by participating financial institutions to exporters from the line of credit was US$29.4 million by closing, meeting the target.
- The portfolio-at-risk (i.e., defined as the ratio of non-performing loans to total loans) in the line of credit was zero percent at closing, exceeding the target of five percent.

Outcomes. The project achieved all three indicators defined for measuring the extent to which the objective of increasing the export competitiveness of enterprises was achieved.

- The percentage of matching grant recipients that engaged in a new export-oriented activity was 55 percent (150 of 272 enterprises), exceeding the target of 50 percent.
- Lending by participating financial institutions to export-oriented enterprises increased by an average 17 percent annually between 2014 and 2020, exceeding the target of 5 percent. (This indicator pertains to the overall lending by participating financial institutions to export-oriented firms, and not just lending from the line of credit.)
- Medium- and long-term lending (lending with maturities exceeding 24 months) by participating financial institutions from the line of credit was 87 percent of total lending from the line of credit, exceeding the original target was 80 percent and the revised target of 60 percent.

In summary, although there was probably some association between the recorded project achievements and increased export competitiveness of enterprises in Moldova, there is no evidence in the ICR to confirm that the reported increase in exports was attributable to increased export-competitiveness of enterprises in Moldova. Nevertheless, because of the possibility that in future (given conducive economic conditions) capacity building leading to increased export-competitiveness of enterprises will be validated, the efficacy with which Objective 1 was achieved is rated substantial.

Rating
Substantial

OBJECTIVE 2

Objective
To reduce the regulatory burden that enterprises faced

Rationale
Theory of Change. Enterprises in Moldova faced a cumbersome and unpredictable business regulatory environment. Assisting the government to design and implement reforms to the business regulatory system would facilitate the implementation of the objectives of the Competition Law of 2012 and the Law on State Aid of 2012 which aimed to promote a fair, non-discriminatory, and transparent business regulatory framework and would discourage anti-competitive behavior in the market. The regulatory reform measures would reduce the regulatory burden faced by enterprises.

Outputs (the following evidence is drawn from Table 1 and Annex 1 in the ICR).

- The project achieved all four outputs (two disbursement-linked indicators and two intermediate-results indicators) defined for the objective to reduce the regulatory burden that enterprises faced.
- Performance indicators were established and applied for key all public authorities with business regulatory functions and the results were monitored and publicly reported semi-annually, achieving the target (this was a disbursement-linked indicator and target). Three performance measurement systems were instituted: (a) the Regulatory Impact Assessment, starting in 2015; (b) the degree of use of the One Stop Shop portal for permits, starting in 2018, and (c) the State Inspection Register, covering performance indicators for state inspection agencies, beginning in 2019.
- The number of reforms that were enacted to reduce regulatory barriers and to remove anti-competitive elements in existing legislation and regulation (laws, rules, and other legal instruments) was eight by closing, exceeding the target of six (this was a disbursement-linked indicator and target).
- The percentage of all regulations which impact businesses that were assessed using the Regulatory Impacts Assessment (by the Regulatory Impact Assessment Secretariat and before approval of the regulation by Parliament) increased from 35 percent in the baseline to 82 percent by closing, exceeding the revised target of 75 percent (the original target was 98 percent, set when the baseline number was thought to be 80 percent).
- The percentage of event participants who reported being "very satisfied" or "satisfied" with the various outreach activities, including conferences, seminars, workshops, training sessions, and study tours, was 90 percent, exceeding the target of 80 percent.

Outcomes. The project achieved the sole outcome defined for the objective to reduce the regulatory burden that enterprises faced.

- The proportion of time that management at businesses spent meeting regulatory requirements during the project's lifetime was reduced from 10.7 percent in the baseline to 6.2 percent by closing, exceeding the target reduction to 8.5 percent.

Rating
High

OVERALL EFFICACY

Rationale
There was probably some association between the recorded project achievements and increased export competitiveness of enterprises in Moldova, but there is no evidence in the ICR to confirm that the alleged increase in export competitiveness of enterprises occurred or (if it did occur) that it was attributable to the project's activities. Nevertheless, there is the possibility that in future capacity building financed by this project will be validated as having increased export-competitiveness of enterprises. On this basis the efficacy with which Objective 1 was achieved is rated substantial.

The degree of achievement of the objective to reduce the regulatory burden that enterprises faced was rated high because there was clear evidence that the number of regulations was reduced and a survey of management personnel in a sample of export-oriented enterprises revealed that during the project's lifetime the proportion of time that enterprise managers devoted to dealing with regulations was reduced significantly. In addition, informal canvassing of project stakeholders concluded that 90 percent were satisfied with the outcomes of the project's activities.

Finally, it is acknowledged that the ICR states that exports generated by the operation's beneficiaries totaled US$255 million (equivalent to an average of US$32 million in new exports per year between 2015 and 2021) which the ICR states is particularly noteworthy when considering that they represented roughly 28 percent of the annual growth of Moldova's total exports between 2015 and 2020. However, there is no evidence provided in the ICR that these increases in export income were attributable to the reductions in regulations or due to increased export-competitiveness of enterprises.

The overall efficacy with which the project achieved its objectives is rated substantial.

Overall Efficacy Rating

Substantial

5. Efficiency

Economic Efficiency. The Bank did not compute an economic rate of return or financial rate of return for the project at appraisal or at closing. Ex-post, the ICR argued that the economic efficiency of the project was high based on the following rough indicators.

- By reducing the time that managers spent dealing with business permits and other regulations, the project reduced the cost of doing business by US$13.5 million a year, or US$40.4 million over three years. The economic benefit/cost ratio could be stated as US$6.95 in savings per US$1.00 spent for the regulatory reform component of this project.
- By expanding the access of SMEs to business development services, the project contributed to additional value creation by SMEs of US$41 million in new export sales and 1,261 in new direct jobs. Of these, US$29.2 million in new export sales and 472 in new direct jobs could be attributed to the matching grants facility, according to an interim impact evaluation conducted in 2019 (ICR, Annex 4, pages 49-51). In addition, the US$2.5 million spent by the project for the matching grant facility (to implement business improvement projects focused on export competitiveness) mobilized an additional US$2.75 million from the beneficiaries.
- By expanding the access by export-oriented enterprises to medium- and long-term finance, the project helped generate US$184 million in export sales over three years and 818 new jobs by borrowers from the line of credit. Considering that total disbursement from the line of credit was US$29.7 million, the economic benefit could be stated as US$6.19 in sales per US$1.00 spent for the line of credit component of the project.
- The foregoing rough benefit/cost ratios do not account for costs shouldered by the Ministry of Finance, the ODIMM, and the MIEPO, part of the Government's financial and in-kind contribution to the project, for which data was not available (see Section 2.e in this review).

Operational Efficiency. The ICR argued that the operational efficiency of the project was substantial.

- All the project activities were completed.
- Ninety-five percent of the project funds was disbursed.
- The completion of the project was delayed by 23 months, but the delay was due to the COVID-19 pandemic and to political volatility, according to the ICR.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

With the relevance of objectives rated high, and the efficacy and efficiency rated substantial, there were minor shortcomings in the project's efficacy and efficiency and therefore the project's overall outcome is rated satisfactory.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The sustainability of gains made by this project in SME development, access to finance for export-oriented enterprises, and regulatory reform face risks related to gaps in institutional capacity, unexpected downturns in macroeconomic activity, and political friction.

- According to the ICR, further progress with institutional capacity building at the ODIMM and the IA faced several hurdles – frequent changes in top management, significant turnover of agency personnel, and weak motivation coupled with insufficient training of staff. Strengthening the gains made by this operation will require continuing political and financial support for the two agencies.
- The line of credit for export-oriented enterprises was fully disbursed by November 2020, ahead of the closing of the project in December 2021. The reflows are managed by the Ministry of Finance as a revolving fund, with principal repayments and interest payments reinvested in new similar export-oriented private enterprise sub-projects. This scheme should help ensure the continuity of the on-lending operation. Moreover, lending by participating financial institutions from their own resources, apart from the line of credit, should further improve the financing for SMEs and export-oriented enterprises. However, these positive outturns are at risk from any unexpected macroeconomic downturn that might tighten financial conditions in general and financing for SMEs in particular (SMEs are especially vulnerable to contractions in demand and to credit crunches during periods of macroeconomic and financial stress), not to mention the financial pressures on the Ministry of Finance.
- Some regulatory reforms advanced by this project have since been strengthened, according to the ICR. For example, the One Stop Shop system for obtaining permits is operationally integrated with the government's e-Payment System and linked to the private sector through the MPay app. The pilot in Chisinau for improving the construction permit system links public bodies and all utilities in one network. However, political commitment to some of these initiatives does not yet appear to be uniform across all governmental bodies. The National Bank of Moldova requested an exception from coverage by the One Stop Shop system.

The ICR noted that recent initiatives may help mitigate these risks.

- The World Bank approved the MSME Competitiveness Project (P177895) in June 2022 to reduce the regulatory burden, increase the access to finance, and increase the export competitiveness of enterprises, and, in case of an eligible crisis or emergency (an event that causes major economic or social impacts), to respond promptly and effectively to it. The new operation broadens the reforms achieved by this project in three areas: (a) MSME development and export competitiveness, including through the use of matching grants for business improvement; (b) access to finance, including the capitalization of the Credit Guarantee Fund; and (c) regulatory reform and the digitization of government services to businesses.

- The European Union initiated a project to help the ODIMM enhance the export orientation and readiness of MSMEs and the digitization of government services, and the Government approved a budgetary allocation equivalent to US$3 million for a pilot MSME competitiveness program.
- The operationalization of the Credit Guarantee Fund, reorganized with technical assistance from this project (see Section 2.d in this review), will help mitigate financial risks by providing portfolio guarantees for investment loans and working capital loans given to MSMEs by financial institutions.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Foundations. The design of the project was underpinned by analytical work produced by the Bank and other development partners. *Republic of Moldova Trade Study* (World Bank, 2015) documented the low competitiveness of Moldovan exporters and identified constraints posed by poor access to finance, weak infrastructure, and a difficult business environment. *Policy Priorities for Private Sector Development in Moldova* (World Bank, 2016) highlighted the key constraints to private sector growth and provided a detailed roadmap for reforms. *Fostering SME Development in the Republic of Moldova - Business Development Services* (Organization for Economic Cooperation and Development, 2014) conducted an in-depth review of SME policy and developed a set of recommendations and priorities for SME policy reform, including deepening the emerging business development services market, improving the quality of, and increasing confidence in, business development services, and addressing gaps in the business development services market. *Fostering SME Development in the Republic of Moldova - Access to Finance* (Organization for Economic Cooperation and Development, 2014) recommended enhancing the legal and regulatory framework for the financial infrastructure serving SMEs, diversifying the sources and types of external finance available to SMEs, and improving the investment readiness and financial literacy of SMEs. The *Moldova Financial Sector Assessment Program* (International Monetary Fund and World Bank, 2014) identified key financial sector vulnerabilities and financial sector development issues and provided policy recommendations.

Linkages to Other Operations. This project succeeded the (First) Competitiveness Enhancement Project (P089124) which was approved in October 2005 and closed in June 2013. The operation aimed 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." The two projects shared similar components including regulatory reform to improve the business environment, a matching grant facility to strengthen the competitiveness of enterprises, and a line of credit for export-oriented enterprises. According to the ICR, the design of this project incorporated lessons learned from the first operation, including that: (a) SME development activities should address market failures and facilitate market transactions; (b) market grant facilities should offer incentives to enterprises to apply for matching grants; and (c) lines of credit should encourage competition among participating financial institutions.

Donor Collaboration. According to the Project Appraisal Document (page 40) and donor documents, the Bank coordinated with the International Finance Corporation, the U.S. Agency for International Development, and the Swedish International Development Cooperation Agency to advance regulatory reforms in Moldova. The International Finance Corporation assisted the authorities to improve the process for issuing construction permits (IFC, *Moldova Investment Climate Reform Project, 2015-18*). The U.S. Agency for International Development funded the Moldova Business Regulatory, Investment, and Trade Environment Project which supported the elimination, streamlining, and simplification of regulations and administrative procedures, initiated customs reforms to reduce the number of days required for imports and exports, and backed reforms to the business environment to attract investment and encourage entrepreneurship (USAID, 2016, *Moldova Business Regulatory, Investment, and Trade Environment Program – Final Report).* The Swedish International Development Cooperation Agency focused on strengthening market development by promoting innovation and entrepreneurship that would better integrate Moldova with the European Union (SIDA, *SIDA's Work in Moldova*).

Risk Assessment and Mitigation Measures. The Bank assessed the overall implementation risk of the project to be substantial. The PAD (pages 94-102) stated that mitigation measures had been incorporated in the project design to minimize the risks posed by weak governance, the complexity of project design, and questions about implementation capacity.

- The Bank considered implementing agency governance risk to be substantial, as vested interests had in the past exploited the state apparatus to extract private benefits for themselves. Mitigation measures included: (a) using results-based financing and disbursement-linked indicators to enhance the incentives for reform; (b) setting eligibility criteria for participating financial institutions, matching grant recipients, and line of credit borrowers; (c) setting standards for the use of matching grants and loan funds; and (d) requiring strict oversight of the application and approval processes for matching grants and bank loans.
- The Bank also considered project design risk to be substantial, as the operation consisted of a combination of regulatory reforms and direct interventions with business development services and enterprise lending. To address the risk, the Bank and the Government planned the project activities in detail, developed a five-year procurement plan for the operation, and designated "component coordinators" at the Project Implementation Unit to strengthen the implementing agency's ability to coordinate the project's diverse activities.
- Meanwhile, the Bank rated implementing agency capacity risk as moderate. The ODIMM and the MIEPO (the predecessor of the IA) had some experience implementing reform programs (albeit the ODIMM had a stronger record than the MIEPO). The Credit Line Directorate at the Ministry of Finance had administered the line of credit under the First Competitiveness Enhancement Project. The Competition Council had been reformed with the passage of the Competition Law and the Law on State Aid in 2012. Risk mitigation measures would include: (a) continued Bank support to enhance the institutional capacity of the Ministry of Economy, ODIMM, MIEPO, and Competition Council; (b) Bank training for new staff of the Credit Line Directorate; (c) Bank training on procurement for all credit officers at participating financial institutions; (d) continued use of the financial management, accounting, and auditing systems under the predecessor

operation for this project; and (e) the implementation of a European Union capacity-building program that will benefit the Competition Council.

Shortcoming at Design. Despite the considerable and satisfactory preparation and appraisal of this project, a significant shortcoming at entry was the absence of any definition of export competitiveness of enterprises. The upshot was that the key outcome indicators intended to measure increased export competitiveness were not focused on competitiveness but on "new export activity" and the "amount of medium- and long-term lending by participating financial institutions." Neither of these measures revealed anything about increased export competitiveness of (export-oriented) enterprises.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

Supervision and Implementation Support. The Bank conducted regular supervision missions. According to the ICR (pages 24-25), the quality of Bank supervision and implementation support, which was led by two qualified task team leaders and involved the country management unit, was highly satisfactory:

- The supervision missions were thoroughly conducted, included visits with borrowers from the line of credit, and increased in frequency (up to four a year) during periods of heightened political volatility in 2015 and 2019 and after the bank fraud scandal of 2014 (when illegal transfers by three banks of US$1 billion to shell companies in the U.K. and Hong Kong, China and to banks in Latvia resulted in losses of up to 12 percent of GDP).
- The Bank recorded the findings and recommendations of supervision missions in Aide Memoires. The Bank also filed 15 Implementation Status and Results Reports (ISRs) over the seven-year life of the project, or two reports a year, the average for investment operations.
- The Bank supplemented the regular supervision missions with teleconferences and meetings with the Project Implementation Unit and with other project stakeholders.
- The Bank worked to ensure that only sound financial institutions could be admitted as participating financial institutions, regularly re-assessed the eligibility of the participating financial institutions, and closely monitored the state of the banking system. The Bank also advised on interest rates for the line of credit, which the Government heeded, according to the ICR.
- The Bank also supported the conduct and completion of other activities related to the project, including: (a) the impact evaluations of the matching grants (conducted by third parties); (b) the annual Costs of Doing Business Surveys; (c) the Enterprise Gender Survey of 2017; and (d) the broader analytical work on the Moldovan financial sector.

Mid-Term Review. The Bank conducted the mid-term review of the project in October 2016. According to the ICR (page 24), the review allowed the Bank and the Government to assess the progress made with the project activities, analyze the results of the disbursement-linked indicators, and reexamine the project results framework and implementation schedule.

Adaptation. The Bank restructured the project twice (see Section 2.E). According to the ICR (page 24), the restructuring helped to clarify the disbursement triggers for the disbursement-linked indicators. However, the project still lacked a definition and relevant results indicators of export competitiveness following two rounds of restructuring.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Results Indicators. The results framework defined 19 output indicators and four outcome indicators to measure the achievement of the project objectives.

- Disbursement Linked Indicators**.** The Financing Agreement listed four disbursement-linked indicators and results, the achievement of which would allow the disbursement at pre-set due dates (December 31, 2015, December 31, 2017, and December 31, 2019) of pre-set proceeds from the loan (at SDR 161,500 for each result at each due date): (a) the establishment and application of performance indicators for public authorities with business regulatory functions; (b) the implementation of the action plan to reduce regulatory barriers and remove anti-competitive elements in laws and regulations; (c) the adoption and implementation of a revised strategy for the ODIMM; and (d) adoption and implementation of a revised strategy for the IA.
- Intermediate Results Indicators. In addition to the four disbursement-linked indicators, fifteen intermediate results indicators were to measure the output of the project activities.
- Key Outcome Indicators**.** Four key outcome indicators would reflect the achievement of the project objectives. The "percentage of matching grant recipients that engaged in a new export-oriented activity," the "growth rate of lending by participating financial institutions to export-oriented enterprises," and the "percentage of medium- and long-term lending by participating financial institutions from the line of credit" would reflect the extent to which the export competitiveness of enterprises had been increased. The "amount of time that management at businesses spent dealing with regulatory requirements" would reflect the extent to which the regulatory burden on enterprises would have been reduced.
- Overall, the lack of a definition of the export competitiveness of enterprises impaired the choice of relevant indicators to measure the achievement of the objective to increase the export competitiveness of enterprises. While the three key outcome indicators "percentage of matching grant recipients that engaged in a new export-oriented activity," "growth rate of lending by participating financial institutions to export-oriented enterprises," and "percentage of medium- and long-term lending by participating financial institutions from the line of credit" would reflect the degrees to which supply-side factors constraining firm export performance would have been

addressed, these indicators do not actually measure the achievement of increased export competitiveness by the firms, in the absence of a precise definition of export competitiveness.

M&E Arrangements. The project implementation arrangements provided for M&E to be conducted at the project component level by the Project Implementation Unit, ODIMM, and the MIEPO for the SME development and regulatory reform components and by the Credit Line Directorate for the access to finance component. M&E of the overall project results would be the responsibility of the Project Implementation Unit.

b. M&E Implementation

The Project Implementation Unit produced quarterly and annual M&E reports which it submitted to the Government and the Bank. The reports were useful for tracking the progress of the project, according to the ICR (page 22).

The project completed three impact evaluations for the matching grant facility as planned: (a) an interim impact evaluation for the period December 2015 (when the facility was established) to 2018; (b) a second impact evaluation for the period 2015 to 2019; and (c) the final impact evaluation for the period 2015 to 2021. Beneficiary firms (applicant firms that obtained final approval of their business improvement projects) were assigned to a control group (of 63, 72, and 62 respondents for the first to third evaluations respectively) and to two treatment groups (of 130, 167, and 210 respondents). The impact evaluations were to determine whether the matching grants, and the matching grants together with close monitoring and frequent sites visits, had an “economic impact” on the beneficiary firms.

c. M&E Utilization

The M&E reports were useful to identify deviations from plan and to prepare action plans to address implementation problems, according to the ICR (pages 22-23).

The impact evaluations were the source of the efficiency analysis reported in Annex 4 of the ICR (see Section 5).

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

Environmental Safeguards. All project activities complied with environmental safeguards requirements and were implemented consistent with the Environmental Management Framework prepared by the Government for the project following OP/BP 4.01 - Environmental Assessment, which was triggered at appraisal. Sub-grant and sub-loan proposals were subject to environmental screening. Sub-project proposals with the significant impacts (Category A) were not eligible for project financing. Also excluded were proposed sub-projects located in protected areas, critical habitats, or culturally or socially sensitive areas, along with those with impacts on international waterways. All approved sub-projects had relevant supporting Environmental Assessment documentation (e.g., Environmental Screening Checklist and/or Environmental Management Plan) as well as authorizations, licenses, and permits as required by law. Twenty-one percent of all submitted sub-projects fell under Category B, requiring a simple Environmental Assessment and/or a simple Environmental Management Plan. Seventy-nine percent fell under Category C, requiring only an environmental due diligence procedure as the sub-projects were deemed to have an insignificant environmental impact. Project compliance with OP/BP 4.01 - Environmental Assessment was rated satisfactory in the final ISR of December 2021.

Social Safeguards. All project activities complied with social safeguards requirements, according to the ICR (page 23). Sub-grant and sub-loan proposals were subject to social safeguards screening. Sub-project proposals that would acquire land through land expropriation were not eligible for project financing, nor would proposals that would invest in a business which would require the involuntary displacement of existing occupants or economic users of any plot of land or loss of, or damage to, assets including standing crops, kiosks, and fences. Project compliance with overall safeguards was rated satisfactory in the final ISR.

b. Fiduciary Compliance

Procurement. Procurement was implemented satisfactorily and in accordance with applicable Bank guidelines. Fiduciary tasks were managed by the Project Implementation Unit. The quality of procurement documents submitted to the Bank was "generally good," according to the ICR (page 23) and there were no major issues cited during ex-post reviews, including at the sub-grant and sub-loan levels. Procurement was rated satisfactory in the final ISR.

Financial Management. Financial management arrangements were satisfactory throughout the operation’s lifetime: (a) the internal control system functioned well; (b) financial reporting was accurate, timely, and
sufficiently detailed; (c) tests of sample transactions confirmed that they were handled correctly, accurately documented, and properly authorized; (d) accounting records were maintained in an automated accounting software, which allowed for contract monitoring and left an audit trail; and (e) audit reports were submitted as required, with the external auditors issuing unqualified opinions on expenditure reports and the project financial statements. Financial management was rated satisfactory in the final ISR.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Highly Satisfactory	Satisfactory	For reasons stated in Section 4 of this review the efficacy with which export-competitiveness was likely to be achieved in future because of the capacity building of export-oriented entrepreneurs financed by this project was rated "substantial" instead of a rating of "high" in the ICR. This impacted the overall outcome rating which became "substantial".
Bank Performance	Satisfactory	Satisfactory	
Quality of M&E	High	Substantial	While M&E design and its implementation measured the performance of the project using the indicators proposed in the PAD, they were irrelevant to the measurement of export-competitiveness. M&E quality was therefore rated substantial.
Quality of ICR	---	Substantial	

12. Lessons

The first three lessons are drawn from the ICR, with adaptation. The fourth is added by this ICR Review.

Long-term policy dialogue with a government can help solidify the political and public commitment to a structural or policy reform. This project benefitted from extended policy dialogue conducted by the World Bank and other development partners with the Government of Moldova in over two decades of program, project, technical assistance, and advisory service work focused on private sector development. The policy dialogue helped achieve a broad consensus among the government, private enterprise, and other stakeholders on the importance of enhancing the country's competitiveness including through regulatory reforms, SME development, and access to medium- and long-term finance for enterprises. The policy dialogue was conducted with successive administrations, with competitiveness recognized by the political leadership as vital to the country's drive for membership in, and economic integration with, the European Union.

A flexible lending format can raise the chances of success of a financial intermediary operation. In this project, the line of credit was allowed to provide sub-loans to enterprises in wide ranges of economic sectors and geographic locations. The line of credit could provide loans for fixed investment and for working capital. The line of credit could also lend in Moldovan leu, in Euros, or in U.S. dollars. The First Competitiveness Enhancement Project had drawn this same lesson. This project, which adopted a flexible and inclusive lending format as recommended, faced a robust demand for medium- and long-term credit and fully disbursed the loan funds for the line of credit a year ahead of the project closing date.

Impact evaluations using randomized control trials can help illuminate the economic impact of project interventions. In this project, three impact evaluations used the randomized control design to assess the impact of matching grants on new export sales and new job creation by beneficiary enterprises. Grant recipients were randomly assigned to a control group (for which the grants were approved later than for the treatment groups) and to two treatment groups (one provided for regular monitoring, and the other, closer monitoring) that allowed for the quantification of the effect of the grants and monitoring mechanisms on export sales and jobs. By ensuring that the groups were highly comparable (the only expected difference between the control and experimental groups were the outcome variables under study), the impact evaluations were able to separate the impact of the matching grants from the impact of other observed and unobserved factors on new exports and new jobs. The impact evaluations were conducted by independent experts, using a methodology agreed with the Bank and made part of the Matching Grants Manual, with the Bank conducting field visits to firms in the sample.

Explicit definitions of concepts underlying project development objectives can help enhance the relevance of project results frameworks. In this project, the lack of a precise definition of export competitiveness hampered the design of the M&E framework and the choice of relevant results indicators. While the three key outcome indicators selected for the objective to increase the export competitiveness reflected the extent to which constraints to firm export performance eased following the fulfillment of the prior actions, the indicators did not directly measure the achievement of export competitiveness itself, for lack of a concrete definition of the underlying concept.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

<u>Consistency with Guidelines.</u> The ICR is consistent with OPCS guidelines on ICRs for investment operations.

<u>Conciseness.</u> The account of the project's performance is well informed and concisely presented.

<u>Results Orientation</u>. The efficacy assessment is outcome-oriented and based on the degree of achievement of the targets for the disbursement-linked indicators, intermediate results indicators, and key outcome indicators as proposed in the PAD, although the latter were inappropriate to assess the extent to which the project's main objective was achieved.

<u>Quality of Evidence</u>. The ICR presents evidence to support its assessment of the Bank's performance at project design and during project implementation.

Quality of Analysis. The assessment of the efficacy of the program is candid, but partly irrelevant to the PDO..

Lessons. The ICR draws lessons that could be valuable to future private sector development projects, including those using matching grants and lines of credit and those advocating for business regulatory reforms.

An Important Deficiency. The ICR's discussion of the project's relevance failed to refer to the considerable analysis of the challenges facing Moldova's export competitiveness – *the Republic of Moldova Trade Study* (World Bank, 2015) was not cited in the ICR despite the fact that it provides solid justification for supporting export competitiveness and regulatory reform (see Section 3). The ICR also failed to discuss the appropriateness of the key outcome indicators defined to assess the extent to which the project's main objective to increase the export competitiveness of export-oriented enterprises was achieved. Despite these significant shortcomings, the quality of the ICR is rated substantial but only marginally so.

a. Quality of ICR Rating

Substantial