



The World Bank

MD Second Competitiveness Enhancement Project (P144103)

REPORT NO.: RES25956

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RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

MD SECOND COMPETITIVENESS ENHANCEMENT PROJECT

APPROVED ON JULY 11, 2014

TO

GOVERNMENT OF REPUBLIC OF MOLDOVA

FINANCE, COMPETITIVENESS AND INNOVATION

EUROPE AND CENTRAL ASIA

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**I. BASIC DATA****Product Information**

Project ID P144103	Financing Instrument Investment Project Financing
Original EA Category Financial Intermediary Assessment (F)	Current EA Category Financial Intermediary Assessment (F)
Approval Date 11-Jul-2014	Current Closing Date 31-Jan-2020

Organizations

Borrower Government of Republic of Moldova	Responsible Agency Ministry of Finance,PIU under Ministry of Economy,Credit Line Directorate under Ministry of Finance,Ministry of Economy and Infrastructure
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Project Development Objective (PDO)

Original PDO

The project's development objective is to increase the export competitiveness of Moldovan enterprises and decrease the regulatory burden they face.

This PDO will be achieved through a set of measures that aim to: (i) improve the business environment through regulatory reforms that reduce the cost of doing business; (ii) help SMEs and exporters to get access to business development services;and (iii) improve access to medium and long term finance for export oriented enterprises.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net		
					Commitment	Disbursed	Undisbursed
IBRD-84000	11-Jul-2014	15-Jul-2014	02-Oct-2014	31-Jan-2020	30.00	22.12	7.88
IDA-55090	11-Jul-2014	15-Jul-2014	02-Oct-2014	31-Jan-2020	15.00	7.57	5.98



Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

A. SUMMARY

1. This memorandum seeks your approval for an extension (Level II Restructuring) of the Moldova Second Competitiveness Enhancement Project CEP 2 (P144103). The objective of the Project is to increase the export competitiveness of Moldovan enterprises and decrease the regulatory burden they face. This PDO will be achieved through a set of measures that aim to: (i) improve the business environment through regulatory reforms that reduce the cost of doing business; (ii) help SMEs and exporters to get access to business development services; and (iii) improve access to medium and long-term finance for export-oriented enterprises. The proposed change is to extend the closing date of the Project for 18 months from January 31, 2020 to July 30, 2021, amend three intermediate results indicators, two Disbursement Linked Indicators, and one PDO indicator, as per the Recipient's requests of October 05, 2018 and December 08, 2018.

2. This is the first extension and restructuring of this Project. CEP 2 is in need to restructure due to: (i) prolonged government reorganization and change in key ministries and agencies which affected the pace of project implementation under all components; (ii) adjustments in implementation arrangements and results framework (including Disbursement Linked Indicators) because of Government restructuring (for performance-based indicators DLIs), as well as Moldova Small and Medium Enterprise and Export Development Agency (ODIMM) and Moldova Investment and Export Promotion Agency (MIEPO) internal reorganization; (iii) slower than expected disbursement in the credit line due to limited commercial bank participation and delays in setting-up market competitive interest rate, (iv) required project extension to duly implement remaining activities and achieve the PDO, and (v) accounting for the temporary delays resulting from recently held national elections. An added benefit of an extended life for the project is more time to measure Matching grants recipient gains vs. control group.

B. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

3. The overall implementation progress is moderately satisfactory due to delays resulting from prolonged Government reorganization and change in key ministries and agencies. Disbursements are at 68% as of January 31, 2019.

Component: Regulatory Reform

4. There is a notable progress with the One-Stop-Shop (OSS) for online issuance of permits and licenses since mid-2018. OSS was formally launched in July 2018, with 29 permits issued online. After 7 months of operations:

a) 10 Government agencies are already utilizing the system and 85 permits/licenses are fully digitized/online. According to statistics from July 2018- February 2019, 2,311 requests from companies for issuance, modification or suspension of permissive documents were submitted through the system, of which 1,645 approved (71%), 711 are being processed (30%), 40 rejected (1.7%) due to companies not meeting criteria, and 5 cases suspended by



companies. 87% of issued permits are issued within 15 days of application, which compared to before where on average it took a month or more, is a notable improvement and significant reduction of waiting time for businesses. Transparency of the process is significantly improved.

b) However, to completely digitize all planned 150 permits/licenses, business registration process, as well as related registries, more time will be needed than originally planned. This reform turned-out to be more complex than when CEP 2 was designed, and implementation turned to be more cumbersome and demanding than anticipated. On the other hand, the impact of the reform will be far reaching than originally planned. But to implement this reform, given the experience so far and temporary delays encountered due to recently held national elections, we will need more time.

5. There is notable progress on enhancing Regulatory Impact Assessment (RIA) system over the past year and a half. RIA secretariat and quality oversight role was moved from the Ministry of Economy to State Chancellery in 2017, and in year and a half since then, the RIA compliance rate increased from 48% to 70% by end December 2018. In addition, Government abolished 3 different methodologies (ex-ante, RIA, policy impact assessment) in January 2019 and created one single impact assessment methodology under State Chancellery as proposed by the WBG. However, elimination of working group on entrepreneurial activity (remnant of the old RIA system that adds complexity to RIA process) is not completed, and implementation of a comprehensive capacity building program for impact assessment and cost benefit analysis within ministries did not take place. Implementation of all these activities will help us to achieve PDO, but this will require more time to implement (especially given the temporary delays caused by the recent national elections) and will not be implemented in the original time-frame of the project.

6. Government is tracking progress and reporting back on the Regulatory Reform Action Plan regularly, and this activity is progressing as originally planned, and could be completed as planned. PDO level indicator on improvement in the business environment through regulatory reforms that reduce the cost of doing business is already being met as a result of OSS, reduction of admin burden action plan, DLIs, etc.

7. There are delays with the technical assistance to the Competition Council. Over the past several years the WBG team was engaged in pushing for market assessments and upgrading technical capacity of Competition Council. And while there is a progress on the upgrading of technical capacity, market assessments are moving forward slowly. Due to delays in procurement from the client side, lack of specialized capacity of Competition Council to oversee the works of market assessments, and slow progress of selected consultants to address comments that WBG is making (we serve as quality assurance at this stage), the work is progressing slow. There was never a stand-still, and there was never a reversal in the work program, but progress was very slow. The recent change in management of Competition Council gives us new impetus that things might move faster than before. Once the market assessments are done, CEP 2 can move to the next phase of removing any anti-competitive behavior and reducing cost for businesses. To implement this important work, CEP 2 will need more time than the originally planned.

8. Disbursement Linked Indicators (DLIs). There are two DLIs linked to this component (Establish and apply performance indicators for Government authorities with a business regulatory function, and Cumulative number of reforms enacted according to the Action Plan to reduce regulatory barriers and remove anti-competitive elements of legislation and regulation). Second one has been duly met, while the first one is not met due to government reorganization and change in key ministries and agencies. Due to the government reorganization, some agencies part of the original baseline for performance indicators no longer exist. On the other hand, the State Chancellery established government-wide performance-based indicators for agencies with business regulatory function. These indicators will effectively consume former performance-based indicators with the Ministry of Economy and expand to



other agencies, which is even better. Same methodology and process is used, so it is compatible with what has been done, but to formalize this as replacement for the original DLI, CEP 2 needs to be restructured.

Component: SME Development

9. SME and Export Development Agency (ODIMM). The progress is delayed due to the Government reorganization and prolonged institutional changes at ODIMM. ODIMM was on good track to implement its institutional development strategy. However, prolonged institutional changes in ODIMM (as a result of the Strategy and Project's advice) took much longer (7-8 months) than expected, and this created delay in implementation. In June 2018, ODIMM internal reorganization was finally approved, but institutional changes are slow to implement within ODIMM. The Project is now assisting ODIMM to set up its export promotion department as well as the M&E and Internal Audit Department. In the meantime, ODIMM has moved office and has lost its long-time manager. We believe work will be completed in the extended time frame (restructuring period), but valuable time is lost.

10. Investment Attraction and Export Promotion Agency (MIEPO). MIEPO was on good track to implement its institutional development strategy, and we hoped for swift internal reorganization of MIEPO as a part of the overall Government reshuffling. However, it took Government longer than anticipated to complete reorganization. The Government by the Decree nr. 322 from April 17, 2018 formed the Investment Agency to absorb MIEPO and Tourism Agency. This reorganization put on hold all activities foreseen under CEP 2 regarding MIEPO support (given the fact that MIEPO was mentioned in the Financing and Loan Agreement, as well as the fact that MIEPO's efficiency and effectiveness were part of the disbursement linked indicators, CEP II has to be restructured to account for these Government changes and continue working with new agency that is not in the FA and LA), and thus delayed the implementation of the planned activities for almost 10 months. Now, more time is needed to implement all the planned activities with new investment agency, and we can't complete this within the original time frame.

11. Matching Grants Facility (MGF). MGF facility is progressing well, and impact evaluation is underway. Interim results from impact evaluation (which is continuous process) show difference in control group (no MG recipients) as compared to both treatment groups with MG recipients (5 times higher sales for new export oriented activities in MG recipients with close monitoring as compared to control group). As of December 31, 2018, 193 grant application was approved (77% of end-Project target), with the total committed amount to beneficiaries constitute the equivalent of US\$1.7MM, of which US\$720K have been already paid to SMEs. Six of intermediate indicators have been substantially or completely achieved. The lone exception is number of SMEs improving production processes which has already reached 70 percent of the original target. Given the pace of delivery of business development services (less than half of committed amount has been paid so far), and to ensure that we meet PDO indicator of more than half of recipient engaged in new export oriented activity, implementation of this activity will require somewhat more time than originally planned. An added benefit of an extended life for the project is more time to measure Matching grants recipient gains vs. control group.

12. Disbursement Linked Indicators (DLIs). There are two DLIs linked to this component. The first DLI is Adoption and implementation of a Strategy for ODIMM that promotes organizational effectiveness and reflects segmentation of delivery assistance mechanisms and enterprise needs, and the second DLI is Adoption and implementation of a Strategy for MIEPO that promotes organizational effectiveness and reflects segmentation of delivery assistance mechanisms and enterprise needs. DLIs linked with ODIMM and MIEPO implementing strategy and increasing operational effectiveness have been disbursed before the Government reorganization and change in key ministries and agencies took place (ODIMM and MIEPO both increased effectiveness and efficiency, as well as receiving higher budget for operations - all preconditions for disbursement). However, reaching the final DLI related to ODIMM and



MIEPO will be challenging in the original time-frame due to prolonged government reorganization and change in key ministries and agencies that resulted in delays in implementation and thus deterioration in services offered and outreach to private sector.

Component: Access to Finance

13. The credit line of USD 29.4 mln was originally planned to be disbursed over the course of five years, under the expectation that some of the largest banks in Moldova would participate. After the large-scale banking fraud was unveiled in late 2014, three large banks lost their licenses and were put into liquidation and the next three largest banks were placed under special supervision by the National Bank of Moldova, making them ineligible for participation in the credit line. While one of these banks has recently exited special supervision as a result of acquisition by strategic investor and has requested participation in the credit line, the appraisal process is only expected to be finalized by April 2019. With the current four Participating Financial Institutions (PFIs), which account for 23.2% of banking sector assets as of December 2018, the Credit Line Directorate (CLD) has disbursed an estimated 68.7% of the credit line as of October 2018. The Intermediate Result Indicator "Volume of PFI funding for exporters through the Line of Credit" as of October 2018 was US\$ 20.2 MM vs a four-year target of US\$ 25.0 MM. This disbursement ratio is laudable given the worsening macroeconomic and financial sector conditions in the country after the fraud. Indicatively, four year after the crisis, credit to private sector amounts to 24.5% of GDP, still below the 2013 level (40.3% of GDP). Nonetheless, this implementation pace is slower than originally expected.

14. The slower than expected disbursement is also adversely affecting the progress in one of the PDO Indicators: "Cumulative Amount of medium and long-term lending by PFIs under the credit line (>24 months)". As of September 2018, the actual level of the indicator was US\$ 16.4 MM (77 percent of total disbursements) vs. a four-year target of US\$ 20 MM. While the PDO indicator is tracking the impact of the project on access to medium/long-term finance for enterprises, a slow disbursement overall directly has a negative effect on progress on this PDO Indicator as the units of the indicator are absolute levels (USD million), as opposed to relative (expressed as % of total disbursement). For this reason, it is proposed to change the units of the PDO indicator from absolute (USD mm) to relative (%) to ensure that the indicator accurately captures the impact on medium/long-term lending without duplication with the Intermediate Indicator that tracks overall disbursement. At the same time, the targets of the PDO Indicator are high, equivalent to 80% medium and long-term lending out of total lending supported by the credit line. This is much higher than the aggregate banking sector, where 50.2% of new loans granted by banks have maturity over 2 years, as of October 2018. It is therefore proposed to change the target for medium/long-term lending to 60% of total disbursements, which would reflect the expected favorable impact of the project on medium/long-term finance for private enterprises in Moldova, which is greater than what is currently provided by the aggregate banking sector.

There is no overdue audit under this Project.

Restructuring Action Plan will be agreed with the client within one month from the Project restructuring approval.

C. DESCRIPTION OF PROPOSED CHANGES

The proposed changes are:



- (i) extend the closing date of the Project from January 31, 2020 to July 30, 2021 due to delays resulting from Government reorganization and change in key ministries and agencies; delays in setting-up market competitive interest rate for Credit line that resulted in no lending for six months, and accounting for temporary delays resulting from the recently held national elections. In order to reach PDO, an 18 month extension is needed;
- (ii) correct the baseline for intermediate indicator "Percentage of laws and sub-laws affecting businesses that are assessed by the RIA Secretariat and discussed at Working Group of the State Commission on Regulation before approval by Parliament" from existing 80% to 35% due to error in entering baseline;
- (iii) adjust the target for intermediate indicator "Percentage of laws and sub-laws affecting businesses that are assessed by the RIA Secretariat and discussed at Working Group of the State Commission on Regulation before approval by Parliament" from existing 95% to 75%. This change is needed as target of 98% can't be attained in the most advanced RIA systems and 75% is attainable if all the reforms are implemented, while the proposed change reflects greater improved as compared to baseline than the original baseline and target;
- (iv) change in name of indicator "Percentage of laws and sub-laws affecting businesses that are assessed by the RIA Secretariat and discussed at Working Group of the State Commission on Regulation before approval by Parliament", to "Percentage of laws and sub-laws affecting businesses that are assessed by the RIA Secretariat before approval by Parliament".
- (v) adjust the units of PDO level indicator "Cumulative amount of medium and long term lending by participating financial institutions under the line of credit (>24 months)" from absolute to relative (%) and adjust the target to 60%;
- (vi) clarify measurement and reforms to be considered as evidence for disbursement under Disbursement Linked Indicator "Establish and apply performance indicators for Government authorities with a business regulatory function", where the client will measure progress towards meeting this indicator as combination of three separate systems established to monitor performance of government bodies with business regulatory functions, namely Impact Assessment, One-Stop-Shop for permissive documents, and business inspections. Baselines for all three systems exists and government will track progress on semi-annual basis. Requirements from the original DLI indicator remain in terms of setting targets, validating and publishing findings. Reason for the change is government reorganization that removed some regulatory functions, and established these three. Now we have these business regulatory functions as a part of different institutions or different monitoring mechanisms, namely – RIA has separate monitoring and tracking mechanism and verification; permits are part of One Stop Shop, an online platform with electronic monitoring, data collection and dissemination; service delivery as part of One Stop Shop, and inspections fully reformed (from 56 inspecting bodies, down to 15; monitoring and coordination mechanism is being set up, burden to business reduced). So effectively, Government has performance based indicators for regulatory functions and monitors them. This change does not materially alter DLI, as same core regulatory functions are measured and monitored;
- (vii) change in name of Disbursement Linked Indicator "Adoption and implementation of a Strategy for MIEPO that promotes organizational effectiveness and reflects market segmentation and improved export promotion delivery assistance mechanisms", to "Adoption and implementation of a Strategy for Investment Agency that promotes organizational effectiveness and reflects market segmentation and improved export promotion delivery assistance mechanisms." As a part of government restructuring, MIEPO was merged with another agency, and Investment agency is formed at Prime minister level. Given the fact that the Investment agency has the same mandate for export promotion as MIEPO and that this agency is continuing to work on activities MIEPO did, the change will not have a material impact as baseline, strategy development, activities remain the same, and
- (viii) change in names of two intermediate results indicators "Increase effectiveness of MIEPO" and "Increase outreach of MIEPO" to "Increase effectiveness of Investment agency" and "Increase outreach of Investment agency". As a part of government restructuring, MIEPO was merged with another agency, and Investment agency is formed at Prime minister level. Given the fact that the Investment agency has the same mandate for export promotion as MIEPO and that this agency is continuing to work on activities MIEPO did, the change will not have a material impact as baseline, strategy development, activities remain the same.



II. DETAILED CHANGES

LOAN CLOSING DATE(S)

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IBRD-84000	Effective	31-Jan-2020		30-Jul-2021	30-Nov-2021
IDA-55090	Effective	31-Jan-2020		30-Jul-2021	30-Nov-2021