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Report No: PAD4824

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT *AND*
INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN
IN THE AMOUNT OF EUR 17.70 MILLION
(US$18.67 MILLION EQUIVALENT)

AND A PROPOSED CREDIT
IN THE AMOUNT OF EUR 29.80 MILLION
(US$31.43 MILLION EQUIVALENT)

TO THE

REPUBLIC OF MOLDOVA

FOR A

MSME COMPETITIVENESS PROJECT

June 3, 2022

Finance, Competitiveness And Innovation Global Practice
Europe And Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective: April 30, 2022)

Currency Unit =	Moldovan Leu (MDL)
MDL 18.61 =	US$1.00
MDL 21.33 =	EUR 1.00
EUR 0.948 =	US$1.00

FISCAL YEAR

January 1 - December 31

Regional Vice President:	Anna M. Bjerde
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ABBREVIATIONS AND ACRONYMS

BEEP	Business Environment and Enterprise Performance Surveys
CAGR	Compound Annual Growth Rate
CEP	Competitiveness Enhancement Project
CEP II	Second Competitiveness Enhancement Project
CERC	Contingent Emergency Response Component
CGF	Credit Guarantee Fund
CGS	Credit Guarantee Scheme
CPF	Country Partnership Framework
EAP	Emergency Action Plan
E&S	Environmental and Social
EBRD	European Bank for Reconstruction and Development
ESCP	Environmental and Social Commitment Plan
ECA	Europe and Central Asia
EEP	Eligible Expenditures Program
EFSE	European Fund for Southeast Europe
EGD	European Green Deal
EIB	European Investment Bank
ESF	Environmental and Social Framework
ESMS	Environmental and Social Management System(s)
ESS	Environmental and Social Standard
EU	European Union
FCI	Finance, Competitiveness and Innovation
FDI	Foreign Direct Investment
FM	Financial Management
GIES	General Inspectorate for Emergency Situations
G2B	Government-to-Business
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GM	Grievance Mechanism
GRS	Grievance Redress Service
IA	Investment Agency
IFRs	Interim Financial Reports
IMF	International Monetary Fund
IPF	Investment Project Financing
IT	Information Technology
KPIs	Key Performance Indicators
LMP	Labor Management Procedures
MFA	Macro-Financial Assistance
MGF	Matching Grants Fund
MGFT	Matching Grants Fund Team
MIA	Ministry of Internal Affairs
MMIP	Mechanism for Managing and Issuing Permits
MoE	Ministry of Economy
MoF	Ministry of Finance
MSME	Micro, Small or Medium-sized Enterprise

NBM	National Bank of Moldova
ND-GAIN	Notre Dame Global Adaptation Index
NGOs	Non-Governmental Organizations
NPL	Non-Performing Loan
NPP	National Procurement Procedures
NQI	National Quality Infrastructure
ODIMM	Organization for SME Development
PBC	Performance-Based Condition
PDO	Project Development Objective
PFI	Participating Financial Institution
PIU	Project Implementation Unit
PP	Procurement Plan
PPSD	Project Procurement Strategy for Development
RIA	Regulatory Impact Analysis
SEA/SH	Sexual Exploitation and Abuse and Sexual Harassment
SEP	Stakeholder Engagement Plan
SME	Small and Medium-sized Enterprise
SOE	Statement of Expenditure
STEP	Systematic Tracking of Exchanges in Procurement
TSA	Technical Supervision Agency
USAID	U.S. Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Moldova	MSME Competitiveness Project	
Project ID	**Financing Instrument**	**Environmental and Social Risk Classification**
P177895	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[✓] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[✓] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
27-Jun-2022	02-Aug-2027

Bank/IFC Collaboration
No

Proposed Development Objective(s)

The Project's Development Objective is i) to reduce the regulatory burden, increase access to finance, increase export competitiveness of Moldovan enterprises, and (ii) in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Components

Component Name	Cost (US$, millions)
Digitization and Regulatory Reform	21.85
Access to Finance	15.00
MSME Development and Export Competitiveness	12.25
Project Management and Implementation	0.09
Contingency Emergency Response Component	0.00

Organizations

Borrower:	Republic of Moldova
Implementing Agency:	Ministry of Economy

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	155.00
Total Financing	155.00
of which IBRD/IDA	50.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	18.60
International Development Association (IDA)	31.40
IDA Credit	31.40

Non-World Bank Group Financing

Commercial Financing	105.00
Commercial Financing Guaranteed	50.00

Unguaranteed Commercial Financing	55.00

IDA Resources (in US$, Millions)

	Credit Amount	Grant Amount	Guarantee Amount	Total Amount
Moldova	31.40	0.00	0.00	31.40
Crisis Response Window (CRW)	31.40	0.00	0.00	31.40
Total	**31.40**	**0.00**	**0.00**	**31.40**

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2022	2023	2024	2025	2026	2027	2028
Annual	0.00	13.00	4.72	6.77	12.00	12.88	0.63
Cumulative	0.00	13.00	17.72	24.49	36.49	49.37	50.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate

7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Low
10. Overall	Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Conditions

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article 4, 5.01 (a) of FA, the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article V, 5.01 (b) of FA and LA, the Project Operations Manual has been prepared and adopted by the Recipient in a manner satisfactory to the Association.

Type	Financing source	Description
Effectiveness	IBRD/IDA	Article V, 5.01.(c) of FA and LA, the Matching Grants Manual has been prepared and adopted by MoE and ODIMM in a manner satisfactory to the Association.
Type Effectiveness	Financing source IBRD/IDA	Description Article 4, 5.01 (a) of LA, the Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(b)(i) of LA, under Category 2, the Subsidiary Agreement referred to in Section I.B. of Schedule 2 to the Loan Agreement has been entered into between the Borrower and ODIMM, in a manner acceptable to the Bank.
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(b) (ii) of LA, under Category 2, the Borrower has opened a separate treasury account for the Loan proceeds designated for the capitalization of the CGF, under Part 2.1 of the Project
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(b) (iii) of LA, under Category 2, The Borrower, through MoE, has caused ODIMM to prepare and adopt the CGF Operations Manual in form and substance acceptable to the Bank.
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(c)(i) of LA, under Category 2(a), Government Decision No. 828/2018 which approved the regulation of Law 179/2016 that established the CGF, has been amended to reflect the enabling of the CGF to issue Portfolio Guarantees in accordance with Law Law 179/2016 as amended by Law 79/2022
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(c)(ii) of LA, under Category 2(a), at least two (2) Letters of Intent have been received from potential PFIs, in content and substance acceptable to the Bank
Type Disbursement	Financing source IBRD/IDA	Description Section 3, B 1(d) of LA, under Category (2)(b), unless and until evidence satisfactory to the Bank has been provided, evidencing that the Action Plan set forth in Schedule 4 has been implemented in a manner satisfactory to the Bank

Type	Financing source	Description
Disbursement	IBRD/IDA	Section 3, B 1(e) of LA, under Category (4), unless and until all funds under Category (5) of the withdrawal table set forth in Section III.A of Schedule 2 to the Financing Agreement have been entirely depleted
Type	Financing source	Description
Disbursement	IBRD/IDA	Section 3, B 1(f) (i) of LA, under Category 5, under Category (5), unless and until all of the following conditions have been met in respect of said expenditures, the Borrower has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Bank a request to withdraw Financing amounts under Category (5), and the Bank has agreed with such determination, accepted said request and notified the Borrower thereof.
Type	Financing source	Description
Disbursement	IBRD/IDA	Section 3, B 1(f) (ii) of LA, under Category 5, under Category (5), unless and until all of the following conditions have been met in respect of said expenditures, the Borrower has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Bank.

I. STRATEGIC CONTEXT

A. Country Context

1. **Moldova's swift recovery will be held back due to the ongoing war in Ukraine.** Moldova has been beset by multiple shocks in recent years, from the COVID-19 pandemic,[1] to a severe drought that reduced agricultural production by 34.0 percent in 2020, and the European gas crisis that pushed gas prices up by around 400 percent in the second half of 2021. Just as Moldova was finally emerging from this series of severe shocks, the social and economic spillovers of the war in Ukraine have put at risk its short-term economic recovery and its long-term economic prospects. With the loosening of COVID-19 restrictions, economic activity recovered by 13.9 percent in 2021. Household consumption, driven by wage increases, remittances, social transfers, and mortgages, contributed the most on the back of favorable monetary conditions and market sentiment. In 2021, all sectors of the economy signaled positive developments after a sharp contraction the previous year. The most dynamic sector was agriculture, which rebounded after the severe drought in 2020. In 2022, while there is a high level of uncertainty related to the socio-economic ramifications in Moldova, the war in Ukraine is expected to have a substantial impact, through the trade and remittances channels, as well as high energy prices and financial uncertainties.

2. **In line with the economic rebound, the labor market has recovered from its COVID-19-induced low but remains structurally weak**. At 39.8 percent, the employment rate recovered in the fourth quarter of 2021 to return to its 2019 level. However, at a mere 41.1 percent of the working-age population, labor force participation remains exceptionally low**.** Following an increase in poverty in 2020 due to the impact of the COVID-19 pandemic, poverty is projected to have decreased in 2021 on the back of strong growth in wages and pensions. As a result, poverty, based on the upper middle-income country poverty line of US$5.5 a day, is projected to have decreased from 14.8 percent in 2020 to 10.9 percent in 2021. Strong domestic demand fueled by recovery in household consumption from rising wages, social assistance, remittances, and consumer loans, contributed to inflationary pressures, which were also fueled by a spike in gas prices and consequent adjustments in tariffs. In 2021, the inflation rate steadily increased from well below the target band (5, +/- 1.5 percent) and breached it in September 2021, continuing its upwards trajectory, reaching 22.2 percent year-over-year in March 2022. The National Bank of Moldova (NBM) has responded by tightening monetary policy and raising the policy rate six times, moving it from 2.65 percent in June 2021 to 12.50 percent in April 2022. Going forward, the economy faces extreme challenges, stemming from the war in Ukraine, which will affect trade routes, as well as the industrial, particularly food, and transportation sectors. The financial sector will have to adjust to new monetary conditions limiting the expansion of the credit activity. Food and medicine shortages could add to existing inflationary pressures, as the authorities already introduced export restrictions for selected products and introduced some measures of price control.

3. **On the back of the war in Ukraine, both fiscal and external position will be further challenged.** On the back of strong domestic demand, and quick expansion of imports, the current account deficit reached 11.6 percent of Gross Domestic Product (GDP) in 2021 and was mainly financed by cash and deposits and public debt instruments. With expected growth above potential in the medium term, and with global prices surging, coupled with disruption of trade routes to Ukraine and Russia, the current account deficit is expected to be higher than

[1] As of April 20, 2022, Moldova has one of the highest COVID-19 inflection rate and death rate proportional to its population in Europe, with 516,444 COVID-19 infection cases and 11,481 fatalities amongst a population of 4 million.
https://gismoldova.maps.arcgis.com/apps/opsdashboard/index.html#/d274da857ed345efa66e1fbc959b021b

historical values. The pandemic exacerbated the structural inefficiencies of Moldovan public finances. The already high recurrent spending was mobilized and concentrated to fight the effects of the pandemic and emerging financing needs for refugees[2], while public investments are lagging behind the planned levels. In 2021, the pace of growth of expenditures slowed down to around 12 percent, year-over-year, as the country relaxed the restrictive measures and started the vaccination campaign. Nevertheless, spending on goods and services are still increasing rapidly (28.1 percent, year-over-year), as healthcare expenditures remain a priority. Revenue collection rebounded strongly (23.5 percent, year-over-year) after the relaxation of restrictive measures, with Value Added Tax (VAT) on imports increasing almost 30 percent, year-over-year. The fiscal deficit reached 1.9 percent of forecasted GDP, well below the planned levels. The strong rebound in economic activity in 2021 has contributed to a decline in public and publicly guaranteed debt to about 31 percent of GDP. Also, in the medium term the fiscal deficits are expected to be higher as public transfers to protect the population from higher energy prices, and enormous investment needs will stretch further public finances, while collections at customs and refugee related spending will add to the existing pressures. The government faces considerable financing needs, which will be difficult to be fully achieved through domestic financing and thus will critically depend upon the ability to access external public financing, which will may not fully materialize as the war in Ukraine unfolds.

4. **While the country is vulnerable to climate change effects, there is potential for mitigation.** According to the widely used ND-GAIN[3] vulnerability assessment methodology, Moldova is the 84th least vulnerable country in the world and one of the most vulnerable countries in Europe. At the same time, it ranks 96 on the readiness indicator measuring the country's ability to leverage investments and convert them to adaptation actions. River and urban floods and wildfires are the country's most common hazards classified as high risk, while earthquakes, water scarcity and extreme heat have a medium level of expected frequency. Temperature and rainfall have increased in Moldova over the last century, and severe floods and droughts have been occurring more regularly in recent times. For example, in the years prior to 2007, average annual losses from climate-related disasters were estimated at over US$60 million per year, but in the same year, a severe drought occurred which was later assessed to have caused around US$1 billion of damage and losses. In the 2019-2020 agricultural season, the country has again experienced a severe drought, with yield losses ranging from 20 to 60 percent. Climate models predict further mean temperature rises and more variable rainfall with anything from a slight increase to a significant decline in total precipitation. The hazard level of both river and urban floods is predicted to increase due to the effects of climate change. Even under scenarios with an increase in mean rainfall, however, water availability will decrease due to increased temperatures and rates of evapotranspiration. The frequency of fire occurrences, as well as duration and severity of fire are also predicted to increase. Rainfall will also become more variable and more concentrated due to the more common extreme events.

5. **The Republic of Moldova is fully committed to the Paris Agreement objectives and in this regard has undertaken the appropriate measures including the update of the Nationally Determined Contributions.** The latter includes an ambitious target of reducing Greenhouse Gas (GHG) emissions by 70 percent by 2030. National commitments are in line with the emissions pathways towards 2050 that correspond to keeping global warming below 2 degrees °C as compared to pre-industrial levels. Moldova’s medium- and long-term adaptation goal is to reach a sustainable social and economic development resilient to the impact of climate change by establishing a strong enabling environment for a coherent and effective adaptive action with mitigation benefits, integrating climate risk into investment decision- making and business planning, while remaining socially inclusive and sensitive to gender impacts of climate change. As such, the whole of Moldova’s adaptation framework makes a

[2] The United Nations Refugee Agency (UNHCR) estimates that as of May 22, more than 460,000 Ukrainian refugees crossed the border into Moldova - https://www.unhcr.org/news/stories/2022/5/6284d6bc4/ukrainian-refugees-find-warm-welcome-neighbouring-moldova.html
[3] Notre Dame Global Adaptation Index - https://gain.nd.edu/our-work/country-index/

contribution to the country's sustainable development priorities embodied in the "National Development Strategy: Moldova 2030" (2019), to the update of the Nationally Determined Contributions (NDC) and to the overarching adaptation goal of the Paris Agreement to enhance adaptive capacity, resilience and reduce vulnerability to climate risks

B. Sectoral and Institutional Context

6. **Moldova has a low business density of micro-small and medium-sized enterprises.** The density of micro, small and medium sized enterprises (MSMEs)[4] in Moldova at 13.5 MSMEs per thousand inhabitants in 2020 is lower than in peer countries.[5] MSMEs account for approximately 98.6 percent of all firms, 61.6 percent of business sector employment, and 39.5 percent of turnover in 2019.[6] Overall, the private sector employs more than 77 percent of the workforce; however almost a quarter of Moldova's labor force is employed in relatively low productivity activities. Women are under-represented in the enterprise sector, as female-owned businesses represent only one third of enterprises.[7]

7. **Moldova has a poor track record in attracting investments and building linkages between foreign direct investors and the local economy**. Moldova attracted US$55 million in Foreign Direct Investment (FDI) in 2020, down from US$500 million in 2019.[8] Moldova's FDI stock (estimated at US$4.8 billion) is low given its level of development.[9] Foreign firms are 60 percent more productive than private domestic firms, and 80 percent more productive than state-owned enterprises.[10] There is scope for increasing and diversifying FDI into strategic sectors and reaping the benefits of higher productivity and innovation. While FDI has driven Moldova's export growth and diversification, linkages between foreign and domestic firms remain limited due to input unavailability and insufficient capabilities of local firms. Every four out of five domestic firms in Moldova rely on inputs and supplies of foreign origin,[9] nine percentage points higher than the Europe and Central Asia (ECA) average.[11] More than half of total inputs used by domestic firms in Moldova are of foreign origin, well above the regional average. Recent analysis[12] also confirms that foreign firms' local sourcing behavior is positively correlated with the size of the sector, average productivity of the supplying sector, and largest supplier's growth rate.

8. **Relatively few Moldovan enterprises export, with a higher share among male-owned firms.** Although Moldova enjoys an open trade regime and has signed numerous free trade agreements, most Moldovan firms remain small and focused on the domestic market. Based on Moldova's Cost of Doing Business Survey 2020-21, which has been conducted jointly by the Ministry of Economy (MoE) and the World Bank, only 3 percent of firms conduct export operations,[13] with export sales estimated at around 3 percent from direct exports and 2 percent from indirect exports.[14] The 2019 Business Environment and Enterprise Performance Surveys (BEEPS) estimate

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[4] As defined by the Company law, a micro-enterprise has at most 9 employees, annual turnover of up to 9 million lei or total assets of up to 9 million lei; a small enterprise has 10-49 employees, annual turnover of up to 25 million lei or holds total assets of up to 25 million lei; a medium-sized enterprise has 50-249 employees, annual turnover of up to 50 million lei or total assets of up to 50 million lei.
[5] Compared to Romania's 23.7 MSMEs per thousand inhabitants, Turkey's 30.1, Bulgaria's 47.4 and Kazakhstan's 61.3. MSMEs defined as enterprises with less than 249 employees. Source: MSME Economic Indicators Database 2019, SME Finance Forum.
[6] NBM. The activity of small and medium enterprises in the Republic of Moldova in 2019.
[7] Supporting women's entrepreneurship in Moldova: review, assessment, and recommendations (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/411391516856355553/Supporting-women-s-entrepreneurship-in-Moldova-review-assessment-and-recommendations
[8] UNCTAD, 2021 World Investment Report.
[9] Albania US$10 billion, Serbia US$52 billion, Georgia US$18 billion.
[10] Criscuolo at al. What drives Buyer-Supplier Linkages in Moldova? Determinants and Policy Options, Washington DC; World Bank Group, forthcoming
[11] Criscuolo at al. What drives Buyer-Supplier Linkages in Moldova? Determinants and Policy Options, Washington DC; World Bank Group, forthcoming
[12] Criscuolo at al. What drives Buyer-Supplier Linkages in Moldova? Determinants and Policy Options, Washington DC; World Bank Group, forthcoming
[13] Cost of Doing Business 2020-21 survey, Government of Moldova.
[14] Sahovic, Tarik; Gimelli, Noa Catalina; Cicanci, Galina. Supporting women's entrepreneurship in Moldova: Review, assessment, and recommendations (English). Washington, D.C.: World Bank Group.

that 12.1 percent of Moldovan firms export at least 10 percent of their sales, which is below the ECA average (17.6 percent). Female-managed firms are disproportionately less likely to export than male-managed firms, and exports constitute lower percentage of sales than in male-managed firms which is confirmed by the BEEPS follow-up surveys (2.8 percent of female-managed firms in comparison with 8.3 percent of male-managed firms export directly at least 10 percent of sales).[15] In a World Bank survey of manufacturing firms in 2018, an average manufacturing firm had an export share of 9.3 percent of its sales revenues, while firms reported importing on average 16.3 percent of the total value of their inputs.[16] This suggests that firms rely more heavily on imports for their production processes, but little of their output is sold outside the Moldovan market, with only 9 percent of firms certifying their products and production processes. As comparison, on average foreign firms export at least one third of their production. Recent experience with export missions[17] shows that only 10 percent of companies were able to sign export deals, demonstrating that many companies do not have certifications and improved processes to meet export demands.

9. **The country's export basket relies on low technology and primary products.** Moldova's exported goods account for approximately 17 percent of GDP, of which nearly 66.5 percent are destined for Europe. The country's export basket is specialized in products inserted in the upstream phases of global value chains or the production of primary commodity goods for final consumption, and thereby, with low levels of sophistication. Moldova is ranked 71st in the Economic Complexity Index in 2020, behind Serbia, Ukraine, and Georgia. Exporters are the most productive firm category in Moldova, followed by foreign companies and manufacturers. Foreign companies make 5 percent of the country's enterprise population but encompass between 20 and 30 percent of Moldova's GDP and are more export and import-oriented, and more productive than domestic manufacturing firms. The pandemic, however, is expected to bring new export opportunities for Moldovan firms as European firms rethink their supply chains and move production closer to home. Trade policy shocks and the outbreak of COVID-19 have highlighted the vulnerabilities of the current organization of global supply chains. Firms are thinking about re-shoring or finding an alternative input source closer to home. Imports from more remote regions of value chains may be substituted by suppliers from Eastern European countries (Javorcik, 2020). At the same time, foreign firms in Moldova may start to rely more on domestic suppliers for raw materials and intermediate inputs.

10. **Given the recent trends in nearshoring and the fact that most FDIs are from neighboring countries, Moldova has an opportunity to explore this potential in post-COVID-19 recovery**. 77 percent of firms in Moldova reported sourcing inputs from suppliers of foreign origin in 2019, the highest among comparator countries for the same year. Four out of five domestic firms in Moldova rely on inputs and supplies of foreign origin, 9 percentage points higher than the ECA region average. The most common reasons not to purchase locally are input unavailability, decision-making by parent company, and unreliability of local suppliers. Hence, while local manufacturers are clearly at an advantage geographically and from a price perspective, they need to improve their production capacities and reliability. From the perspective of local suppliers, the three main types of needed assistance are access to working capital and finance, product quality, and production process efficiency upgrading.

11. **The investment climate is still not fully conducive for enterprise development.** The overall perception of state intervention in business activity has greatly decreased in the past 15 years, as measured by the annual Cost of Doing Business survey. The average management time spent on dealing with the government, frequency and duration of inspections, number of procedures required for business registration and obtaining permits have all reduced by half or more. Major improvements, supported by the World Bank, included the reform of permits and

[15] BEEPS Follow-up on COVID-19, 2021.
[16] Buyer-Supplier Linkages in Moldova, World Bank, 2020.
[17] Export missions were financed by the Government of Moldova through the World Bank Second Competitiveness Enhancement Project; 60 Moldovan companies went for Business-to-Business visits to six countries.

licenses with a three-fold cut in the number of authorizations and the consolidation and streamlining of inspection bodies. Thanks to negotiations linked to Moldova's accession to the World Trade Organization (WTO), modern commercial legislation has been adopted in accordance with WTO rules. However, the main challenges to the business climate remain due to the lack of effective and equitable implementation of laws and regulations.[18] Lack of transparency in regulatory making and implementation pose uncertainty risks to companies. The authorities have made progress in digitizing permissive documents, but more work is needed to digitize remaining permissive documents and inspections, notifications, export/import processes, local level permissive documents, and to integrate these systems. Moldova's efforts towards a collaborative regulation framework and implementation could benefit from more agile and inclusive mechanisms for collaboration and a new approach to digital markets uplift and the provision of integrated service delivery for the private sector. In addition, MSMEs continue to assume additional costs to prove compliance with regulatory requirements in export markets due to the lack of internationally recognized conformity assessment bodies.[19]

12. **The current government action plan aims to reduce the number of inspection visits by 30 percent and the number of sanctions by 50 percent.** The inspection reform in Moldova was initiated by adopting Law No. 131 on State Control of Business Activities in 2012, with support World Bank Group (WBG), and several subsequent changes, the last from April 2021. The inspection reform focused on the preventive and advisory role of inspections with enforcement and sanctions to be applied only when necessary. While the number of inspections decreased from 120,000 in 2015 to 40,000 in 2020, 60 percent of them are unplanned which is a significant share. For a country the size of Moldova, it means that every company was visited by 0.8 inspections, which is not business friendly (many businesses should be in low-risk category and should not be visited by inspection agencies at all). While e-Registry is built to record inspection visits, very few have been recorded there. Moreover, only 10 percent of inspection agencies are meeting performance-based indicators in 2021.[20] The new Government's intent is to focus on proactive, risk-based, and planned inspections while avoiding ad-hoc interventions and inspections except when required to stop harm to the public good.

13. **Moldovan businesses have been negatively impacted by COVID-19 with a greater share of female-managed firms closed or facing financial difficulties.** A follow-up enterprise survey was conducted in May 2020 during the initial wave of COVID-19, a second round in November 2020 and a third round in June 2021 to gauge the impact of the pandemic on firms. According to the June 2021 survey, 15.2 percent of firms have permanently closed[21] while 45.1 percent of firms having experienced decreased monthly sales, leading to 29.0 percent of firms decreasing employed hours. A greater portion of female-managed firms have permanently closed (19.3 percent) compared to male-managed firms (14.2 percent). Financing for enterprises has become increasingly constrained; 96.5 percent have experienced decreased liquidity and cashflow availability (compared to 52.1 percent in the first round and 64.4 percent in the second round) while 74.5 percent of firms have delayed payments to suppliers, landlords, or tax authorities. Overall, more than one third of firms (36.7 percent) have overdue obligations to financial institutions, the distribution among female-led (34.8 percent) and male-led (37.2 percent) firms is approximately the same. Despite the government support, as of June 2021, only 9.9 percent of firms had received or expected to receive assistance from national or local government, with more female-managed firms (13.7 percent) receiving such support than male-managed firms (9.0 percent).

[18] Based on World Bank assessment during the implementation of previous projects in Moldova, as well as Cost of Doing Business survey results.
[19] The impact of COVID-19 on trade and structural transformation in the Republic of Moldova, Evidence from UNECE's survey of Micro, Small and Medium Enterprises, 2020.
[20] The Performance-based indicators were adopted as part of the implementation of the World Bank Second Competitiveness Enhancement Project (P144103).
[21] Percentage of firms confirmed or assumed permanently closed.

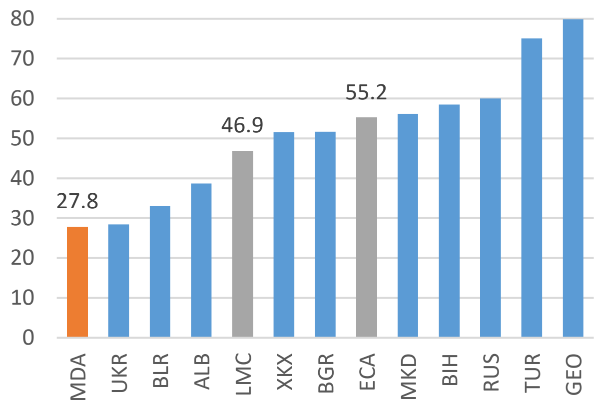
14. **Exporters have been hit particularly hard by the COVID-19 crisis.** Moldovan exports dropped 11.2 percent in 2020.[22] According to follow-up enterprise surveys, exporters have been hit harder by COVID-related disruptions and restrictions, with 48.2 percent of direct exporters having discontinued their operations for some time in response to the outbreak (vs. 21.2 percent for non-exporters). Exporters experienced greater decline in monthly sales (58.6 percent vs. 42.1 for non-exporters) and over 54.5 percent of them had to reduce their hours worked per week (vs. 34.0 percent for non-exporters) and registered a greater reduction of permanent full time and temporary workers compared to non-exporters. More than two thirds (68.6 percent) had overdue obligations to financial institutions, compared to 27.4 for non-exporters. Over 55 per cent of the MSMEs surveyed lost their main export partners, particularly in Romania and the Russian Federation.[23] While exporting firms have managed to adjust their product or service faster in response to COVID-19 crisis and introduced new products or services more frequent than non-exporting firms, their capacity utilization after re-opening remains lower than for non-exporters. As the demand for their products and services continues to recover, 60 percent of exporters decreased their supply of inputs, due to limited working capital availability. This may lead to loss of market and market share if no liquidity is provided within reasonable timeframes. Exporters estimate that it will take them 2-3 times longer to return to their pre-COVID level of sales (19 months on average), but the same amount of time to recover all jobs.

15. **Financial intermediation in Moldova is low and dominated by banks.** The financial sector is predominantly bank-centered with 87.3 percent of total financial sector assets held by banks as of September 2021. As a share of GDP, banking assets accounted for 57.4 percent in December 2021, similarly to 2015 level, while non-banking financial sector corporations accounted for 8.0 percent of GDP, an increase from 4.3 percent in 2015. Private credit to GDP was a mere 27.8 percent in 2020, compared to 31.0 percent in 2014 and an average of 55.2 percent in the ECA region, excluding high income countries.[24] Business credit demand is constrained by the relatively low number of firms and low share of large firms, as well as a high share of foreign-owned firms, and the use of non-bank financing sources. The high level of non-performing loans (NPLs) post the 2014 banking crisis, minimal access to long-term funding, and a preference for government securities[25] also undermine the ability of banks to finance the real economy. Financial intermediation is adversely broadly affected by structural elements of the Moldovan economy, including poverty, rurality, and informality.

16. **While total credit has been growing since 2014, credit to enterprises has been declining**. While credit has improved compared to the post-2014 levels, with outstanding loans registering a Compound Annual Growth Rate (CAGR) of 3.4 percent in the period March 2014-February 2022, this has mainly driven by the household sector, while loans to resident legal entities registered a negative CAGR of 1.9 percent. Results from the Bank Lending Survey undertaken by the National Bank of Moldova (NBM) indicate that lending developments in 2020 took place under increased caution from the banks and of declining credit demand in the first and second quarters. The main factor that influenced the tightening of lending standards was the perception by banks of the risks associated with the uncertain developments and the low potential for tolerating credit-related risks in the context of the pandemic.

[22] Source: National Bureau of Statistics of the Republic of Moldova.
[23] The impact of COVID-19 on trade and structural transformation in the Republic of Moldova, Evidence from UNECE's survey of Micro, Small and Medium Enterprises, 2020.
[24] Source: World Development Indicators.
[25] As of December 2021, 15.9 percent of the banking sector assets were debt securities, compared to 46.1 percent for loans.

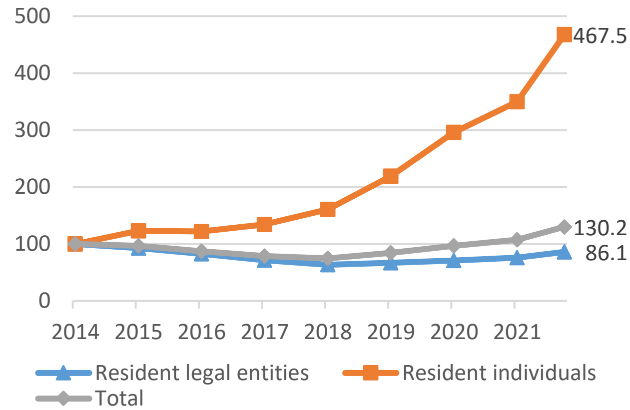
Figure 1. Domestic credit to private sector, % of GDP



Source: World Bank, 2020.

Note: LMC: Low and Middle-income countries.

Figure 2. Credit growth by debtor (March 2014 = 100), %



Source: NBM, 2021.

17. **Even before the COVID-19 crisis, access to finance was a significant obstacle for Moldovan MSMEs.** MSME access to finance and the high cost of credit are often cited as key constraints to MSME development. According to the SME Finance Forum,[26] 35.6 percent of micro enterprises and 13.9 percent of MSMEs are either fully or partly credit constrained with the MSME financing gap estimated at MDL 894.3 million, or 14 percent of GDP in 2017. According to 2019 BEEPS only 23.6 of firms had a bank loan (16.8 percent of female-managed MSMEs and 25.2 percent for male-managed MSMEs). Only 16.0 percent of small firms[27] had a bank loan and only 7.8 percent used banks to finance investments while 56.1 percent of small firms noted that their most recent loan application had been rejected. Access to finance for MSMEs is further constrained by high levels of collateralization in Moldova compared to regional peers, exacerbated by inefficiencies in the financial infrastructure including credit information sharing and secured transactions framework (see Box 1). While public support for access to finance is provided through the Credit Guarantee Fund (CGF) managed by the Organization for SME Development (ODIMM), the fund has been underutilized and faced challenges in achieving significant impact.

Box 1. Financial infrastructure barriers to access to finance

The quality of financial infrastructure reduces the risk and determines the efficiency of financial intermediation. Financial Infrastructure comprises the underlying foundation for a financial system, including all institutions, information, technologies, rules and standards that enable financial intermediation. Key elements of financial infrastructure, such as insolvency and creditor / debtor regimes, credit reporting, and consumer protection, are vital for facilitating greater access to finance, improving transparency and governance, as well as safeguarding financial stability in financial markets. Inadequate incomplete financial infrastructure, related to insolvency, secured transactions, credit information-sharing, and consumer protection are hurdles to financial intermediation.

While Moldova has recently updated its insolvency law introducing important changes to reorganization procedures, a fully operational centralized database of insolvency cases is still lacking. The primary law governing insolvency proceedings for all legal persons, other than banks and state-owned entities, in Moldova

[26] https://www.smefinanceforum.org/

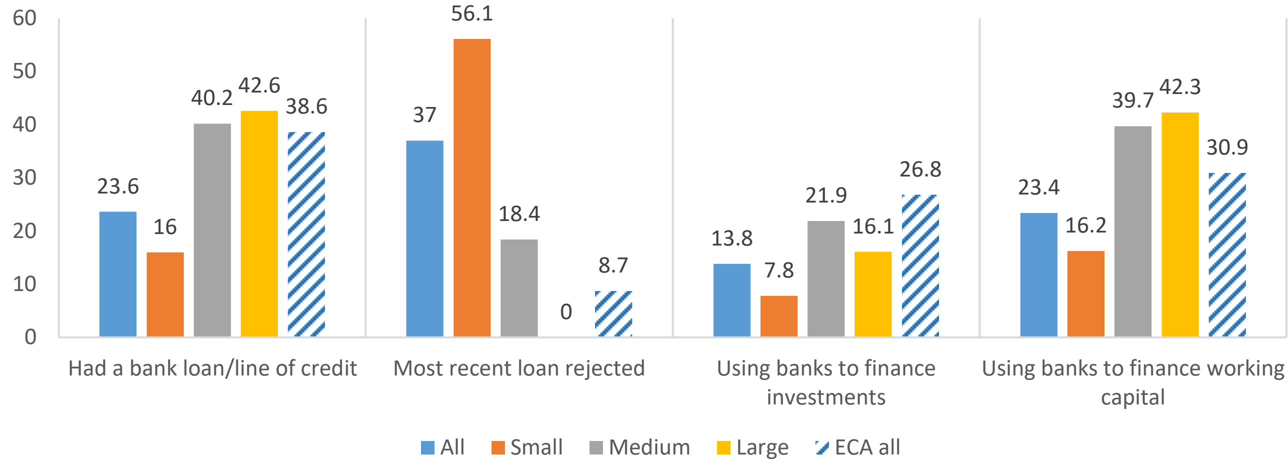
[27] BEEPS firm size levels are 5-19 (small), 20-99 (medium), and 100+ employees (large-sized firms).

is the Insolvency Law No. 149 of June 29, 2012, which was amended in 2020 with World Bank assistance. Among other, the Law aims to improve the efficiency of the reorganization procedure and introduce a functional accelerated procedure that relies on out-of-court negotiations. Insolvency courts in the country are required to maintain a public register of insolvency cases, however, there is currently no centralized database of insolvency cases. Once the court decides to initiate insolvency proceedings with respect to a particular company, the decision must be registered on the State Company Registry. The 2020 amendment to the Insolvency Law introduced an electronic registry of insolvency cases, but it is still under development and is not fully operational.

Credit information infrastructure is hindered by partial informality and despite several credit bureaus, there are gaps in the credit information sharing system. There is evidence of grey aspects of company operations, firms consider informal practices a bigger hinderance relative to peer countries and credit information coverage stands at 18 percent, below regional peers as well. The four credit bureaus encounter legal and technical problems in collecting data from several government agencies including tax arrears, data from collateral registries such as installments due for real estate purchased without a bank loan, debts in collection by bailiffs, data from customs, and the companies' registry. Additionally, the exchange of information among the bureaus is inefficient, partly because of technical or communication aspects. Data users also need more value-added services such as analytics and rating/scoring products with more transparency on methodologies used. Enriching the data sources will allow for the development of better risk assessment tools and consequently better and easier credit decisions. Detailed company financial statements are also not publicly accessible, but the law already provides for a Public Depository of Financial Statements. MSMEs financial statement quality is also impeded by informality. This significantly holds back risk appraisal capacity in the financial sector and drives up both NPLs and consumer protection concerns.

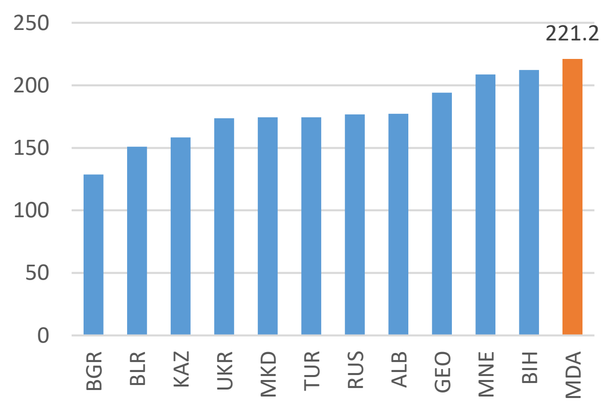
Although lending secured by movable collateral exists, mostly for equipment and machinery, other tangible assets, including categories like accounts receivable and inventory, are rarely used. The legal framework (the pledge law and the Civil Code) was updated in 2018 with World Bank assistance to encourage creditors taking security over new types of assets and improve access to finance by MSMEs. However, despite the numerous legislative reforms in recent years, there is a major implementation gap because the collateral registry has not been upgraded to accommodate the possibilities afforded by the new legal framework. Even though the Civil Code recognizes a variety of forms of security and allows financial institutions to register security directly with the collateral registry, these options are not used because the registry has not been upgraded.

Figure 3. Access to finance indicators



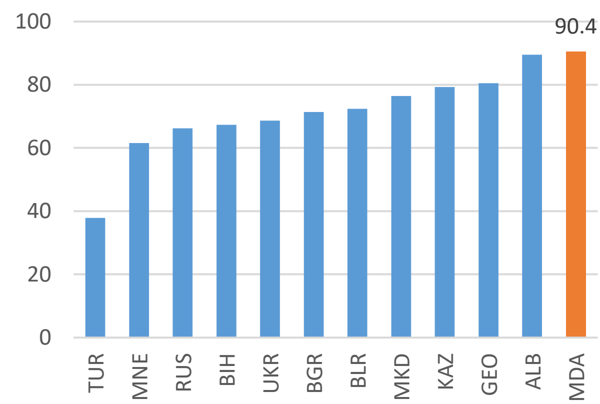
Source: BEEPS, World Bank Group, 2019.

Figure 4. Value of collateral needed for a loan (percent of the loan amount)



Source: Enterprise Surveys, World Bank.

Figure 5. Proportion of loans requiring collateral (percent)



Source: Enterprise Surveys, World Bank.

18. **There is evidence that gender gap exists in access to finance between male and female-managed firms in the country.** According to the 2019 Enterprise Survey, only 16.8 percent of female-managed MSMEs have a bank loan or line of credit compared to 25.2 percent for male-managed MSMEs. Despite having greater insufficiency of financial sources, fewer women apply for credits than men. This discrepancy is because women are less confident that their request for credit will be approved.[28] Female-managed firms indicated that the value of collateral was 299.5 percent of the loan amount vs. 204.4 percent for male-managed firms. Also, since the start of COVID-19 about 42.7 percent of female-managed firms had overdue obligations to financial institutions compared with only 32.2 percent of male-managed firms. The number of female-managed firms whose recent loan application was rejected was significantly higher than that of male-managed firms (61.1 percent versus 28.8 percent). See Annex 2. Therefore, Moldovan women-managed MSMEs have disproportionately higher collateral

[28] Moldova Comprehensive Gender Assessment, United Nations Moldova, 2022.

burden, higher loan rejection rates, and lower instances of having a line of credit compared with men-managed MSMEs. Other aspects of social disadvantage can compound this: in addition to the gender stereotypes and discrimination, women-entrepreneurs with disabilities face discrimination when applying for bank credit because of their special needs.[29]

19. **While banks have remained relatively well capitalized and liquid, risks from COVID-19, the macro-economy, and credit risk continue to present headwinds**. The capital adequacy ratio of the banking sector, as measured by the share of regulatory capital in risk-weighted assets, stood at 25.6 percent as of February 2022, partly explained by the measures introduced by NBM aiming to relax the capital buffers requirements for banks. Liquid assets to total assets were at 48.3 percent in the fourth quarter of 2021. While the liquidity ratio remains high, it has been on a gradually declining trend since 2017 when it reached 55.5 percent. At the same time, banks rely on deposits (89.7 percent of liabilities as of February 2022), which are predominantly short-term. The profitability of the banking sector was hit by the COVID-19 shock, with the return on equity down from 14.6 percent in 2019 to 8.4 percent in the second quarter of 2020, but has fully recovered, standing at 15.0 percent in February 2022. Asset quality remains a vulnerability with the ratio of NPLs to gross loans as of February 2022 at 6.6 percent and higher, at 8.6 percent, for small and medium sized enterprises (SMEs). In the unfavorable context and uncertain conditions of the pandemic, credit risk continues to a pose a significant threat to the stability of the financial sector, ranked third in the NBM's systemic risk survey,[30] after COVID-19 and macroeconomic risk. These risks are mitigated by: (a) an adequate coverage level of non-performing loans by provisions (coverage ratio was 66.2 percent in February 2022), which, coupled with the very high capital ratios, results in sufficient loss absorbency capacity, (b) high degree of liquidity, and (c) strong bank ownership structure, which may translate in higher ability of owners to support their subsidiaries.

C. Relevance to Higher Level Objectives

20. **The Project is aligned with the Moldova Country Partnership Framework (CPF)[31] for the period FY2018-2021 and is aligned with Government priorities to support MSME development.** The proposed Project falls under Focus Area 1 of the CPF "Economic Governance - Strengthening Rule of Law & Accountability in Economic Institutions," Objective 1A "Enhanced quality and implementation of investment climate regulation, as well as Objective 2C "Improved climate services and adaptation". The Project is aligned with the Government strategy to support development of MSMEs through reducing regulatory burden and digitizing government to business services, enabling export competitiveness of MSMEs, and facilitating access to finance.

21. **The Project is aligned with the WBG operational approach to the COVID-19 Crisis and will be partly financed by IDA through the Crisis Response Window.** In line with the WBG COVID-19 Crisis Response Approach Paper,[32] the Project will support activities under Pillar 3 Ensuring Sustainable Business Growth and Job Creation, as well as Pillar 4 Strengthening Policies, Institutions and Investments for Rebuilding Better. The Project is critically important for providing immediate support for MSME recovery and resilience amid the ongoing pandemic, as well as for transforming business environment and supporting job creation. The Project will specifically support firm resilience through matching grants and financial guarantees, for growth and job retention/creation. The Project is also supporting policies for sustainable long-term recovery through: (a) reconfiguration of firms and local supply chains through export readiness and competitiveness and local linkages, (b) regulatory reform that will eliminate distortions in the business environment and digitization of government to business services, and (c) institutional

[29] Idem.
[30] Source: NBM Financial Stability Report, 2020.
[31] Country Partnership Framework for the Republic of Moldova for the period FY18-21, Report No. 115716-MD, discussed by the Board on June 29, 2017.
[32] Saving Lives, Scaling-up Impact, and Getting Back on Track, World Bank Group COVID-19 Crisis Response Approach Paper, June 2020.

strengthening of key agencies for private sector development, access to finance for MSMEs, and export competitiveness. The operation also includes a Contingency Emergency Response Component (CERC) that if triggered will allow for uncommitted loan or credit resources to be reallocated to respond to an emergency. Also, even though Moldova graduated from IDA in July 2020, it was granted exceptional access to IDA funding of US$63.2 million from the Crisis Response Window (CRW), for FY21 only, and then in FY22, on IDA Blend terms, with the CRW economic crisis triggers and its allocation methodology for economic crises waived for this access, to assist the country in responding to urgent COVID-19 related needs.[33] The FY22 allocation (and the uncommitted US$18.2 million balance from the CRW allocation of FY21) is to be partly absorbed by the Project in the amount of US$31.4 million.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

22. **The Project's Development Objective (PDO) is i) to reduce the regulatory burden, increase access to finance, increase the export competitiveness of Moldovan enterprises, and (ii) in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.**

23. **The PDO will be achieved through a set of activities that aim to**: (a) digitize government to business services and inspections, streamline permissive documents, and enhance national quality infrastructure to reduce the regulatory burden enterprises face (Component 1); (b) support access to finance for enterprises through credit guarantees and enhance the capacity of CGF (Component 2), and (c) support the development of MSMEs and enhance their export competitiveness (Component 3); d) support project management (Component 4); e) support the government's response in case of an emergency (Component 5).

PDO Level Indicators

24. **The following five PDO level indicators are proposed to capture the Project's interventions:**

1. Reduction in compliance costs for businesses in meeting regulatory requirements
2. Total volume of loans guaranteed by CGF under the Project
3. Beneficiaries reached with financial services[34]
4. Value of exports generated by MSMEs supported by Project activities
5. Percentage of matching grant recipients that are engaged in a new export-oriented activity

Table 1. Components and PDO indicators

Components	PDO Indicators
1. Digitization and Regulatory Reform	1
2. Access to Finance	2, 3, 4
3. MSME Development and Export Competitiveness	4, 5

[33] Performance and Learning Review of the Country Partnership Framework for the Republic of Moldova for the period FY18-21, Report No. 144635-MD, discussed by the Board on March 12, 2020.
[34] This is a Corporate Results Indicator

B. Project Components

25. **The new operation will be an Investment Project Financing in the amount of US$50 million equivalent.** There will be three main components: Component 1 on Digitization and Regulatory Reform , Component 2 on Access to Finance, and Component 3 on MSME Development and Export Competitiveness. The design will include Performance-Based Conditions (PBCs) in support of key reforms under Component 1 and disbursement conditions for Component 2. In addition, a Project Management component will be retained. The Project funds are allocated to each component as shown in Table 2. The Project will provide financing inclusive of taxes (i.e. no exemption of taxes will be applied).

Table 2. Project Components

US$ million equivalent	World Bank funds	Source of funds	
Components		**IDA**	**IBRD**
1. Digitization and Regulatory Reform	21.85	21.85	0.00
2. Access to Finance	15.00	0.00	15.00
3. MSME Development and Export Competitiveness*	12.25	8.65	3.60
4. Project Management and Implementation	0.90	0.90	0.00
5. Contingency Emergency Response Component	0.00	0.00	0.00
Total	**50.00**	**31.40**	**18.60**

* The export readiness activity will be fully funded by IBRD funds, while the supplier linkages activity will be funded in part by IBRD and in part by IDA sources, with IDA resources to be used first.

26. **The Project envisions that part of the disbursements will be conditional on the achievement of Performance-Based Conditions (PBCs).** Building on the success of the results-based financing element of the Second Competitiveness Enhancement Project (P144103) (CEP II), the Project will include PBCs. PBCs are included in the design to provide additional incentives in support of key regulatory reforms that had not moved forward as quickly or comprehensively as reform champions in the government would have liked. Issues hampering reforms included differences between ministries, low capacity and weak institutions, and a lack of direction and accountability for results. The PBC design in the Project recognizes the importance of building on existing government programs to undertake reforms that will contribute to the overall effectiveness and sustainability of programs. Aiming at increasing the results orientation of the Project, the PBCs will be linked to activities that are critical for the achievement of the PDO, especially as they relate to supporting a regulatory reform, inspections and digitization. Hence, the PBCs aim at motivating counterparts to undertake activities that will have lasting effects beyond the Project cycle.

27. **The authorities have requested US$200,000 equivalent of retroactive financing under the operation**. Retroactive financing has been requested for an amount of US$100,000 equivalent under the IBRD Loan and US$100,000 equivalent under the IDA Financing for activities related to the PDO and which are included in the Project description. The items to be procured will be consulting services for Components 1, 2, and 3. According to policy requirements, the retroactive financing period includes payments made by the Borrower/Recipient prior to the signature date of the legal agreements but in no case more than 12 months before the expected date of the signing of the legal agreements.

Description of Components

Component 1: Digitization and Regulatory Reform (US$21.85 million equivalent)

28. **Digitization and Regulatory reform (US$12.85 million equivalent)** will focus on key activities linked with

scaling up digitization of Government-to-Business (G2B) services at the national and local levels, enhancing and digitizing inspection services, improving interoperability and integrated service delivery for enterprises, as well as simplifying the regulatory environment to reduce regulatory burden, as follows:

29. **Scale up the digitization of G2B services including upgrading the existing government digital platform, digitalizing national level business permits, and deploying the platform to the sub-national level to digitize additional local level permits (US$4 million equivalent), as follows:**

- **Upgrade the Mechanism for Managing and Issuing Permits (MMIP).** The upgrade of MMIP will ensure updated operating platform, better interoperability and data sharing and improved regulatory efficiency in processing business permits and licenses (i.e., instead of asking businesses to provide the same information to various government regulators, such information will be exchanged internally using the MConnect government interoperability platform). This upgrade may also require the digitization of paper-based registries[35] required for processing business permits and licenses. Up to 10 such registries will be digitized and integrated into MConnect. Finally, local level permissive documents and national level ones will be fully integrated in the new MMIP upgraded system.
- **Digitize 27 national level permits, licenses, approvals, notifications, using the digital One Stop Shop.** So far, 78 procedures have been fully digitized in MMIP, and 135 (out of 150) configured under CEP II, which closed on December 31, 2021. The Project will support further digitization at national level by digitizing another 27 business permits and licenses, bringing the total number to at least 105. The processes related to these permits and licenses will be configured in MMIP, including application forms, data exchange interfaces, and output document templates. This extension may include additional regulatory agencies to process permits via MMIP, which will require the capacity development of these agencies (such as training and client computer equipment). The result will be a fully digitalized process for these 27 additional permits and licenses (for example those from Food Safety Agency, or National Agency for Auto Transport, etc), allowing digital, contactless, and paperless G2B procedures. While digitizing the permissive documents, the Project will aim to improve utilization of the MMIP system by many different agencies (now, 135 permissive processes are configured in the system, but only 78 are used adequately by different agencies).
- **Re-engineer and automate local level permissive documents.** Building on the successful pilot of automating construction permits and other local level permissive documents (total of 7) in Chisinau municipality (under CEP II), the Project will aim to re-engineer and then automate/digitize local level permissive documents and related internal processes and procedures (local level will include construction permits and six other local permissive documents) in 35 rayon centers (headquarter of regional administrative units), geographically dispersed throughout the country. This work is done on the top of digitization of 27 national level permits. The ongoing efforts of the government to organize and equip public services centers ("one-stop-shops") will be leveraged to maximize the number of rayons to which MMIP will be implemented. In this way, the Project will gain maximum impact on businesses in rural and areas outside Chisinau and reduce regulatory burden. This work will also support public outreach and events to inform businesses about integrated and digital business administrative procedures.
- **Increase in online applications for permissive documents through MMIP by businesses.** As of December 31, 2021, 50 percent of all applications are submitted online. By digitizing more national and local level

[35] Examples of such data include agricultural establishment registry, animal, Phyto registry, chemicals, road and transport, and biocidal products registries, among others.

permits, as well as upgrading MMIP, as well as active outreach to private sector, the share of online applications should increase to 60 percent by the end of the Project. This will help to reduce compliance costs for the private sector and improve business environment. Implementation support to be supported through PBCs.

30. **Enhance, digitize, and equip business inspections (US$6.85 million equivalent).**

- **Develop the risk-based models, inspection procedures, and training for inspectors** and **State Chancellery's Inspections Monitoring Unit** (US$0.85 million equivalent). The risk-based models shall allow the shift from unplanned and ad-hoc to risk-based planned inspections. The focus would be on food safety, technical safety, market surveillance, road inspection, and environment inspection domains. The risk criteria will be developed following data availability and efficient data management. The inspection procedures will be revised to emphasize preventive and advisory inspection's role, supporting the economic recovery and resilience, instead of unnecessary enforcement and fines. The procedures will make all inspection bodies use the upgraded e-Inspections system. The border inspection procedures, including veterinary and phytosanitary inspections, will apply a risk-based approach integrated to customs procedures, particularly when deciding on long laboratory analysis preventing seamless cross-border supply chains. The activity will refine needs and develop terms of reference for inspection equipment, including computer equipment, mobile laboratory indication, and sampling equipment. The new inspection procedures will be introduced through training for inspectors and the development of the curriculums for continuous professional development. The procedures and training will also include complaints and inspection feedback management to improve the inspection performance and quality of sectoral regulations. The above activities will be complemented with capacity building of State Chancellery's Inspections Monitoring Unit.
- **Upgrade and transform the existing Inspection Registry software to a full-fledged e-Inspection system** (US$2 million equivalent). The upgrade will include integrations with the external registries and databases for automated risk-based inspection scheduling. It will also include the digitization and upgrade of up to 10 registries to make them interoperable with e-Inspections. The field inspections will include the mandatory online inspection software on mobile devices (such as tablets) to record inspection checklists and inspection outcomes. The inspection performance indicators will be implemented in the e-Inspections, to allow automated statistical reporting and data insights. Businesses will be provided with online access to inspection checklists for self-assessments to learn compliance requirements and good practices for risk management, receive a notification on planned inspections, access inspection history, and provide online feedback on inspections. Emerging considerations for remote and virtual inspections will also be considered to reduce the burden from unnecessary field inspection to a minimum, organized only when necessary to address high-risks (i.e., the data availability and upgraded e-Inspections would allow most of low- and medium-risk facilities to be inspected remotely without field visits).
- **Equip inspections.** Purchasing inspection equipment, including computer equipment, sampling and sampling transport equipment, and training for pilot inspection agencies (~US$4 million equivalent). Given that investment needs of inspection agencies are immense it is proposed to prioritize equipping those inspection agencies that are linked with key economic activities, cover many businesses, and are linked with exports, competitiveness, and permissive documents. These inspection agencies are the National Agency for Food Security, the Technical Supervision Agency, the Agency for Consumer Protection and Market Surveillance, National Agency for Auto Transport, Environmental Inspection. The computer equipment shall enable online use of e-Inspections in the field to record inspection outputs (such as tablet

computers). The inspection sampling equipment shall include mobile laboratories for quick indication to inform better risk management to avoid unnecessary laboratory analyses that are long and harm businesses (particularly for cross-border formalities). The sampling equipment shall allow taking samples according to the sampling procedures. The training shall enable inspectors to use new mobile laboratory and sampling equipment for improved risk management and decreased regulatory burden. To support the efficient transport of equipment and samples, the operation will finance vehicles equipped for this use (such as integrated refrigerators in vehicles for samples that must follow the cold chain).

31. **Enable interoperability of different platforms and services provided to businesses through the development of integrated service delivery (US$1.2 million equivalent).** Some of the registries used by inspection or permitting agencies, and NQI institutions that will be covered by the Project are still paper-based and not digitized, and/or the digitized registries are not interoperable and connected to the national interoperability and data exchange digital platform (MConnect) or other relevant registries/systems. This hampers service provision for businesses and increases costs for MSMEs. The Project aims to support implementation of integrated regulatory service delivery for businesses, digital informational and integrated transactional procedures for businesses through one single point of contact. The Project will assess during implementation which registries are key to be upgraded. Such integrated and digital service delivery for businesses will enable the access to all necessary information for starting a business, to run and grow business, as well as to apply to required business permits and licenses, and inform on inspection-related compliance requirements (examples are *Singapore GoBusiness* and Canada Nova Scotia's *Online Services and Business Planning*). The integrated service delivery contact point for businesses for Moldova will use the existing e-Government portal and shared services and integrate the existing digital platforms for implementing regulations (MMIP and e-Inspection Registry).

- The informative data on administrative procedures related to business will be organized according to business activities following a standardized classification of business activities (EC NACE[36]). The selection of business activity in the online interface will enable businesses to obtain all information about procedures to register a business, obtain necessary permits and licenses, and on inspection-related compliance requirements (i.e., inspection checklists) in a user-friendly manner (such as through simple to navigate online interface and use of virtual assistant – chatbot).
- In the selected regulatory domains, the integrated service delivery online interface will enable applying for necessary licenses and permits in bulk, i.e., for businesses to submit an integrated application form for all required permits and licenses for starting a business activity instead of separate application forms. The implementation of such integration will be informed through the ongoing activities to standardize regulatory delivery data under the competitiveness for jobs and economic transformation grant implemented by World Bank in the country (C-JET) focused on food safety and environmental protection domains. The online interface will enable adding business activities and regulatory domains following the readiness of digitalized administrative procedures and integration of data and registries.
- All of the above should lead to improved **key performance indicators for 15 Inspection agencies,** as per Government Decision on approving methodology for key performance indicators for 15 inspection agencies. Implementation support to meet key performance indicators to be provided through PBCs.

32. **Simplify the regulatory environment (US$0.8 million equivalent):** Building on the successes of CEP II, the Project will support regulatory simplification and process re-engineering for national level permissive documents

[36] The National Bureau of Statistics of the Republic of Moldova has applied classification of economic activities, see *https://statistica.gov.md/pageview.php?l=en&idc=385*

(using Pareto principle, focusing on top 20 percent of most frequent ones initially out of 152 permits for maximum effect). For all procedures, the business process analysis will be conducted, resulting in TO-BE business process diagrams (diagrams showing how process should look like after the reform) following a standardized methodology (such as BPMN - Business Process Modeling Notation). The redesigned processes and legal amendments will be an input to digitalize these procedures via the MMIP digital platform. As needed, analysis of export-import processes, export logistics, laws and regulations to enable digital trade and services, as well as MSME regulations and sanctions against businesses will be undertaken. This work will be done through technical assistance to MoE, Ministry of Infrastructure and Transport, and relevant stakeholders.

33. **National Quality Infrastructure (NQI) activities (US$7 million equivalent) will focus on increasing MSME competitiveness and enabling exports.** NQI consists of the national system of standards, certification, metrology, accreditation, laboratories, and inspections, which are all critical to enhance competitiveness and enable exports of Moldovan enterprises, a significant part of which is on the public side. The NQI activities will focus on increasing MSME competitiveness, reducing regulatory burden, and enabling more exports. Activities aim at addressing the enterprise sector's difficulties in competing in foreign markets caused by the existing gaps in NQI and services. Primary and secondary laboratories are often left without technical means and skills to upgrade services. Where international standards are used, there is often a deficiency concerning expertise, equipment, or correct application. Networks and exchange platforms with a view to the users of QI services are lacking, as well as accreditation of services and methods that will enable more export orientation. This objective will be achieved through (a) building capacity in metrology and testing area by upgrading selected laboratories and strengthening institutional capacity in order to expand the list of measurements and testing demanded by export oriented firms; (b) ensuring the traceability of the measurements performed to enterprises, as well as access to quality infrastructure services due to increased number of calibrations and accredited cross-comparisons at the European Union (EU) level and (c) strengthening accreditation and certification capacity.

34. **The Project proposes to prioritize investments and associated small technical assistance focusing on those areas linked with enabling exports in key economic sectors (food processing, manufacturing including metals, furniture, plastics, apparel, etc.).** Investment and technical assistance needs are significantly higher than what the Project can support. Thus, an allocation of approximately US$7 million equivalent is planned to address these priority needs. Special attention will be paid to building skills among specialists to perform tests and ensuring more laboratories and services are accredited by the EU. The Project will also perform a comprehensive assessment of NQI to further identify detailed gaps that require priority upgrades to deliver better government services to the private sector. Once the assessment is completed, the priority interventions by the project will be updated, and investments made in the NQI system, particularly into systems enabling the exports of Moldovan products by MSMEs.

35. **Performance-Based Conditions (US$2 million equivalent).** Funds will be allocated for compliance with PBCs that reflect the Government's own objectives and are relevant to the success of digitization of G2B services, and inspection reform. PBCs are intended to raise the profile of targets, encourage accountability, and improve results. The focus will be on reducing the regulatory burden from inspections, permits/licensing. Details of PBCs are in the results framework.

36. **Specific activities under Component 1 will ensure that the Project addresses climate vulnerabilities and supports reduction of GHG emissions and generates mitigation and adaptation climate co-benefits.** The Project will support digitization of new permissive documents (7 permits in 35 rayons = 245, plus 15 permits at national level), plus upgrading MMIP platform where 80 permits have been already digitized, as well as digitizing inspections and related government functions under this Component. Enabling digitization and supporting online

applications for businesses (estimated number of online applications that will replace paper ones during the life of the Project is 150,000; for every application businesses used to have two sheets of papers at minimum that will be abolished with online application, plus cost of fuel linked with physical visit to Government offices each time businesses want to apply that will not be needed anymore; so less visits less fuel spent), as well as digital inspections (estimated number of annual inspections is 25,000-35,000 or 125,000-175,000 during the life of the Project; for each visit on average inspector carries 2-3 sheets of paper, and the assumption is that will no longer be needed once inspections are digitized) will significantly reduce paper usage and GHG emissions and will thus address the country's climate change vulnerabilities. Finally, the data recovery and backup are designed to prevent data loss in the event of natural disasters.

Component 2: Access to Finance (US$15 million equivalent)

37. **The Access to Finance component will support CGF within ODIMM for the provision of financial guarantees to MSMEs.** Access to finance is essential for businesses to expand their business and realize economies of scale, start operations in new markets, engage in new export activities, and adopt new technologies required for productivity gains.[37] The objective of Component 2 is to unlock financial intermediation to MSMEs by addressing high collateral requirements and the heightened risk aversion of financial institutions to MSMEs in Moldova through public portfolio partial credit guarantees. Component 2 will benefit private MSMEs, with no more than 249 employees, annual turnover up to 50 million lei, and total assets up to 50 million lei. A full list of eligibility criteria is included in Annex 6. The Project will support public credit guarantees for both investment loans and working capital loans by commercial banks via CGF. The Project will finance the provision of portfolio public credit guarantees to MSMEs through capitalization of CGF (~US$14.5 million equivalent) and will also provide technical assistance (up to US$0.5 million equivalent) to strengthen ODIMM/CGF's institutional capacity and enable sustainability of CGF to facilitate access to finance for MSMEs in the long term.

38. **CGF meets several of the key best practices while the Project will also support institutional strengthening of ODIMM with regards to CGF.** The World Bank undertook an assessment of ODIMM/CGF against the "Principles for Public Credit Guarantee Schemes for SMEs"[38] (hereinafter "Principles"), which covers sixteen principles considered good global practices for establishing and operating credit guarantee schemes. CGF was found to be observant with several aspects covered by the Principles including those relating to legal status, ownership, mandate, eligibility criteria for beneficiaries and qualification criteria for Participating Financial Institutions (PFIs), the guarantee coverage (which should be partial). In addition, certain areas for enhancements have been identified to increase CGF's impact, especially as CGF is poised to expand products and operations. An OP10 review was also conducted. See Annex 3. The Project will support institutional strengthening of ODIMM/CGF through disbursement conditions and technical assistance to address the areas identified by the assessment as they relate to the ability of CGF to achieve its mandate and achieve sustainability.

39. **CGF is preparing to introduce a new portfolio guarantee product to complement its loan-by-loan offerings.** CGF currently offers guarantees on an individual basis but has taken significant steps towards the implementation of a portfolio scheme. Under the portfolio scheme, the credit decision will be made by PFIs, which will use commercial sector standards when making credit decisions for MSMEs that underly guarantee issuance. This scheme structure should encourage PFIs to meet market needs for guarantees by reducing the administrative requirements necessary to obtain a guarantee. The proposed portfolio program will be divided into four segments based on whether the guarantee coverage is capped and whether there is collateral equal to at least 70 percent of the loan amount. The guarantee fee paid will be different for each segment. In the capped segment, the

[37] World Bank (2020) "Global Productivity. Trends, Drivers and Policies" World Bank Documents.
[38] https://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes

guarantee coverage is 80 percent on each individual loan; however, there is a limit on losses equal to 20 percent of the amount of the portfolio. On the uncapped portfolios, the guarantee coverage is 50 percent for each loan without a portfolio limit. The guarantee fee for each loan ranges between 0.5 percent for a capped loan that is secured to 1.5 percent for an uncapped loan that is unsecured.

40. **The legal barrier for the implementation of portfolio guarantees has been addressed.** The legal amendments to Law 179/2016 enabling ODIMM to implement portfolio guarantees were approved in the second reading by the Parliament on March 31, 2022 and published in the official gazette of the Republic of Moldova on April 20, 2022. ODIMM is now in process of proposing amendments to the Government Decision 828/2018 on the approval of the CGF Regulation in line with the amended legislation. It is expected that these amendments will be approved by the Government by June 30, 2022.

41. **CGF estimates that it could become self-sustaining without government injections with sufficient initial capital for the portfolio scheme through the Project.** Based on the volume of active guarantees, as well as the volume of guarantees issued monthly, CGF's current capital (164.3 million lei as of the end of 2020), will be exhausted during 2022 by the individual guarantees. Since ODIMM intends to maintain the flow and volume of individual guarantees, additional capital is needed to launch the portfolio scheme. ODIMM would need sufficient initial capital to achieve self-sustainability in the medium term. CGF estimates that it could become self-sustaining without government injections with sufficient initial capital for the portfolio scheme through the Project. The target loss rate is around 3.5 percent. The WBG team developed a financial model for this scenario that indicates that with a loss rate of about 3.5 percent, the scheme could be self-financing with income from investing the capital and from guarantee fees charged to lenders. The model assumes that lenders would foreclose on collateral and receive recoveries on defaulted loans.

42. **The Project will support the capitalization of CGF, which will take place in two tranches based on disbursement conditions.** This component will include disbursement conditions, which will ensure an enabling environment is in place for the implementation of Project activities and sustainability of the results. Opening a CGF account in the State Treasury of MoF will be a disbursement condition for Component 2. The first tranche (US$10 million equivalent) is available upon meeting disbursement conditions relating to the capitalization of CGF and operationalization of the portfolio guarantee product: a) approving the template guarantee agreement between ODIMM and PFIs and receiving two letters of intent from potential PFIs, b) approving the amendments to the Government Decision 828/2018 on the approval of the CGF Regulation enabling CGF to issue portfolio guarantees. The second tranche (~US4.5 million equivalent) would be disbursed upon successful implementation of institutional strengthening actions (see Table 3) during the Project's implementation period. These actions are based on an assessment of CGF and identification of measures that are essential for expanding CGF's operations, with the objective of achieving self-sustainability and wider outreach. These actions are: (a) development of a financial projection model, (b) establishment of internal control framework, (c) establishment of risk management framework, (d) review of the legal framework concerning the investment of CGF resources, and (e) establishment of separate financial reporting for CGF.

43. **A portion of the Project funds, up to US$0.5 million equivalent, will be allocated toward technical assistance to support the expanded CGF operations.** ODIMM has identified high priority TA needs to launch the portfolio product. Initially, CGF will need to strengthen its financial management, including to utilize a financial projection model to manage augmented capitalization. Support to develop IFRS-compliant financial reporting for CGF is also planned within the financial management TA. Second, ODIMM/CGF is in the process of upgrading the MIS, including the platforms and interfaces with PFIs, for which technical assistance would help to enhance real-time information exchange, increase the efficiency for guarantee issuance and claims, and facilitate recoveries

needed to support the simultaneous operations of the portfolio and individual product lines. TA on governance arrangements and to implement newly adopted operational management framework policies will follow.

44. **Component 2 will generate significant private capital mobilization.** While the exact figure is not known a priori and depends on a number of assumptions, it is estimated that the proceeds of US$14.5 million equivalent from the World Bank loan will generate US$100 million equivalent in private capital mobilization, which will be the commercial loans to MSMEs from PFIs during the life of the Project. This amount includes both the amount guaranteed by CGF and the non-guaranteed portion. The results framework includes a PDO indicator which will measure the volume of loans guaranteed by CGF under the Project, which is equivalent to the private capital mobilized under Component 2. Since CGF aims to achieve sustainability and maintain the level of capital beyond the life of the Project, the actual amount of loans supported by the initial capital could be considerably larger.

45. **The Project will address climate action priorities by providing trainings to PFIs and capacity building workshops to NBM on climate change topics (adaptation and mitigation).** The Project will also enhance the capacity of PFIs to address climate action priorities by providing trainings on climate change topics (adaptation and mitigation). The trainings will address climate change adaptation and mitigation topics relevant for financial institutions in the country and in the context of international regulations (e.g., European Green Deal, EU Taxonomy, etc.), as well as will focus on climate change vulnerability assessments. Additionally, the trainings will raise awareness of climate change, will help promote skills necessary to support the industry in adapting to climate change impacts and assessing their climate change vulnerability and implementing adaptation measures. The Project will also assist NBM in the preparation of a strategy to deal with the regulatory and supervisory aspects of climate-related and environmental risks. This will include the organization of several capacity-building workshops where international relevant experiences will be shared and the preparation of surveys for banks to ascertain the degree of preparedness for managing and controlling these risks. In addition, the advanced data collection and analysis under improved MIS of CGF should provide a baseline understanding on the use of proceeds, including those toward green and sustainable finance. Once a baseline is established, CGF may add “green tags” in credit information collected under CGF guarantees, to monitor credit flow on green objectives. In turn, the data on green and sustainable credit – e.g., borrower types, use of proceeds, and performance -and can inform the design of future guarantee products that could help to achieve the country’s green and sustainable finance goals.

Component 3: MSME Development and Export Competitiveness (US$12.25 million equivalent)

46. **Activities under this component will support firms through matching grants, export readiness, supplier linkages, and export promotion programs.** The planned activities are linked with the Government’s goals of simplifying the rules for MSME operation, supporting business establishment, growth and internationalization, enabling more efficient support programs for MSMEs, as well as facilitating the inflow of investments. The tools provided under this Component will help companies to address some of the current shortcomings, thus improving competitiveness and enabling exports. The planned activities are as follows:

47. **Enhance export promotion activities of the Investment Agency (US$3 million equivalent).** This work is building on the pilot program of export missions and information sharing undertaken with the Investment Agency (IA) under CEP II. It is planned to be implemented through focused technical assistance and capacity building activities to help exporting MSMEs with: (a) information sharing on key target markets, including new COVID-19-related requirements; this should be done through exporter meetings, webinars or focus groups (at least 20 of them); (b) export missions and export promotion to key target markets for Moldovan exporters (four export missions, targeting 240 Moldovan companies to connect with potential buyers aboard); (c) enhancing Moldova country brand through export promotion and economic diplomacy (series of trainings for economic attaches and

Moldovan diplomatic staff; promotion of brand recognition along with export missions, etc.), and (d) building research, marketing and operational capacity of IA in target export markets. This work will be done in close cooperation with ODIMM export readiness/matching grants and linkages programs. IA will work closely with ODIMM on selecting firms for export missions, given ODIMM's programs on export readiness, the Matching Grants Fund (MGF) and linkages, and jointly these two institutions can enhance chances of success for exporting firms.

48. **Enable local firms to export through matching grants: (US$10 million equivalent: US$5 million equivalent through the Project and US$5 million equivalent from MSMEs).** MGF under CEP II has proven very effective and impactful; thus, scaling up and continuing support to firms to obtain business development services is one of the critical tools to enable exports. The new MGF will be housed in ODIMM and will follow all relevant World Bank rules and procedures. Energy efficiency and environmental and climate performance criteria will be applied for purchases of small equipment as a climate change mitigation measure under MGF. In this way, MGF will be integrated in ODIMM's export readiness, internationalization, European Green Deal, and linkages programs for maximum efficiency. MGF beneficiaries will be required to pay 50 percent of the cost of the activities that will be funded through the matching grants. In this way, MGF will also generate private capital mobilization in the same amount allocated for this subcomponent.

49. **Under MGF, the Project will provide matching grants to Moldovan MSMEs to help them export to the international market and/or to be integrated into export-oriented value chains**. MGF will be housed at ODIMM. Through the provision of matching grants, the project will help eligible MSMEs to finance a set of activities, including business development services and fixed assets, to achieve a business improvement objective, inter alia, to: (a) improve existing products and services; (b) create new products and services; (c) improve production processes; (d) improve business management; and/or (e) purchase small equipment. The Project will help increase the number of MSMEs reaching a new export-oriented goal such as: (a) exporting to new markets or new customers, (b) exporting for the first time, (c) exporting new products; and/or, (b) selling new products into export-oriented value chains.

50. **Under ODIMM's existing programs, strengthen export readiness program for MSMEs at ODIMM (US$2.65 million equivalent)** to bring MSMEs to export readiness. This activity will build on previous work under CEP II and include (among others) a system of quick 360-degree screening/assessment of several hundred MSMEs and the preparation of short- and medium-term action plans for addressing deficiencies to bring MSMEs to become export-ready. This activity will support interactive guidance platform for MSMEs to guide them along the way of their export readiness path and connect with different institutions and programs engaged in the process. At the same time, the plan is to work with MSMEs through the existing ODIMM program on strengthening the capacity of Moldovan companies and exporters on European Green Deal and to inform them on the EU export requirements. These activities will complement other Project activities, including the MGF, export missions and export promotion, and the local linkages program.

51. **Under ODIMM's programs, enable local linkages with foreign manufacturing firms (US$1.50 million equivalent)**: Build linkages with foreign manufacturing firms (present in the country and abroad), where local firms will relate to foreign direct investors or exporting companies to enable value chain integration. The activities on linkages will be anchored in ODIMM, in close collaboration with IA. The Project will help ODIMM and IA (with links to Free Economic Zones) build a robust pilot on local linkages, where ODIMM's capacity will be strengthened by setting up a mechanism and a tool for screening of local firms (360 degree audits of firms identifying gaps that prevent them from exporting or supplying exporters), preparing action plans for implementation, and enabling

firms to implement improvement plans. The MGF, CGF, as well as other ODIMM programs will benefit firms to upgrade skills, business processes and technology, as well as working capital and equipment. At the same time, the Project will assist ODIMM to play the role of a catalyst between the public and private sectors, link with Free Economic Zones, and IA to enable business-to-business exchanges and links with FDIs. Finally, the Project will support the further development and population of a buyer-supplier platform at ODIMM (that has been built already by donor assistance and owned by ODIMM). The platform will serve as a database for potential buyers and sellers in their procurement process. Buyers will be able to use this platform to gain detailed insights into suppliers during the procurement process, while suppliers can use it to present their credentials to buyers through a single database and become eligible for new tenders. ODIMM's internal capacity for implementing reforms will also be strengthened throughout this work.

52. **The Project will enhance the capacity of ODIMM and MSMEs to address climate action priorities by providing trainings on climate change topics (adaptation and mitigation) (US$0.1 million equivalent).** The Project will provide capacity building to ODIMM and MSMEs focusing on supporting climate-informed production, both mitigation and adaptation. The trainings will address climate change adaptation and mitigation topics relevant for companies in the country and in the context of international regulations through two sets of activities envisaged: (a) capacity building (roundtables, webinars, focus groups) of Moldovan companies and exporters by the IA and ODIMM on European Green Deal and on export requirements to the EU. At the same time, capacity building to ODIMM and MSMEs is aimed at focusing on supporting climate informed production, both mitigation and adaptation, and (b) criteria on high energy efficiency and environmental and climate performance for small equipment purchases under MGF.

Component 4 – Project Management and Implementation (US$0.9 million equivalent)

53. Funds will be allocated to ensure adequate staffing of the Project Implementation Unit (PIU) with key staff, including monitoring and evaluation, environmental and social specialists, to ensure implementation in accordance with World Bank rules. PIU will be under MoE and it will manage implementation of the Project.

Component 5 – Contingency Emergency Response Component (US$0 million equivalent)

54. **This is an unfunded contingency component that can be activated in case of a relevant emergency event.** Following an eligible crisis or emergency, the Borrower may request the World Bank to reallocate Project funds to support an emergency response. Once triggered, this component will draw from the then uncommitted loan/credit resources under the Project to address the emergency. Eligible crisis or emergency is any event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Borrower, associated with a natural or man-made crisis or disaster. This design of the activities to be carried out under this component will consider the context of the COVID-19 pandemic and the recent geopolitical risks in the region whereby additional social protection measures may be required, as well as response to any other large shocks that may manifest. Therefore, the CERC is not limited to certain sectors, regions, or specific activities. The definition of eligible emergency will be included in the Project Legal Agreements and a positive list of activities will be reflected in the CERC Manual annex included as part of the Project Operations Manual (POM).

Private Capital Mobilization

55. **The Project will mobilize private capital through guarantees (Component 2) and matching grants (Component 3).** It is estimated that the total amount of private capital to be generated during the implementation period will be US$105 million equivalent (US$5 million equivalent through the business contribution of beneficiaries of MGF and US$100 million equivalent from the commercial bank loans supported by CGF

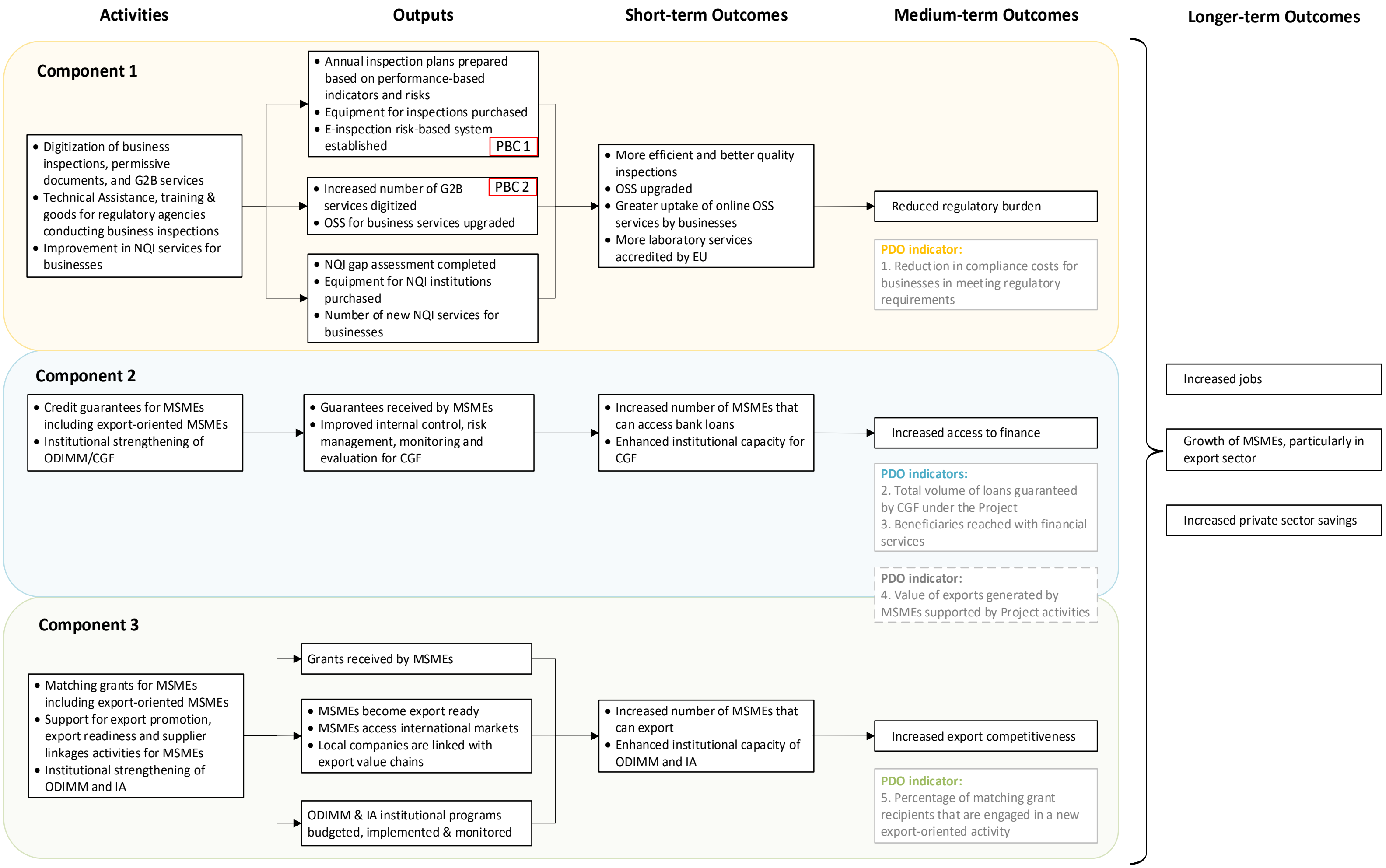
guarantees).

C. Project Beneficiaries

56. **The Project will benefit a broad range of private enterprises as well as public institutions.** Firm beneficiaries of the MGF will include new and prospective, direct and indirect exporters. The instrument will also benefit business development service providers. In addition, ODIMM will benefit from getting access to an experienced technical and operational team and capacity building activities that will help the institution acquire the necessary knowledge and expertise to implement the MGF. Beneficiaries of export missions will be companies that are ready to export. The Project will also benefit female-owned/female-managed firms, which are disproportionately less likely to export than male firms, as well as have more difficulty getting a loan. Beneficiaries of ODIMM's export readiness and supplier linkages programs will be all MSMEs willing to participate in the program. Beneficiaries of the credit guarantees will be all MSMEs, as defined by domestic legislation. These are expected to include a significant share of export oriented MSMEs. PFIs will also benefit from the Project by mitigating credit risk from lending to MSMEs. The Project will also increase the capacity of public institutions tasked with export promotion and MSME development to serve MSMEs more effectively such as ODIMM and IA. The National Institute for Metrology, National Accreditation Center, the National Institute for Standardization, the Customer Protection and Market Surveillance Agency, other agencies and certification bodies are additional Project beneficiaries. Finally, all enterprises operating in Moldova - both domestic and foreign - will benefit from the improvements in the business enabling environment, especially through digital inspection services and online application and processing of permissive documents.

D. Results Chain

57. **The Project's aims to increase the competitiveness of Moldovan enterprises by reducing the regulatory burden they face, supporting their access to finance, and supporting MSMEs development and their export competitiveness.** Through Component 1, the Project will digitize G2B services (permissive documents, inspections), which in turn will reduce compliance costs and the regulatory burden for enterprises. In addition, improvements in NQI, will increase the number of accredited laboratory services and reduce costs for enterprises, which also enabling more exports. These activities will enhance MSME competitiveness in the domestic and international markets. Through Component 2, the Project will provide funds to CGF to issue partial credit guarantees to support MSME access to finance. Beneficiary MSMEs will receive working capital loans to support their liquidity or investment loans for business expansion, new operations, export activities and technology adoption. CGF will also improve its institutional capacity through technical assistance. As a result, access to finance is expected to increase, contributing to MSME survival or growth, job increase or retention, and increased exports. Through Component 3, the Project will provide funds to MGF to support MSMEs in improving their products and services, as well as technology adoption. The Project will also fund an export readiness program, buyer-supplier linkages as well as export missions, all geared towards helping MSMEs export and link with international buyers. As a result, MSMEs will increase their competitiveness and exports.



Key Assumptions:
A1: Political stability and counterpart continuity are necessary for the implementation of regulatory reforms (Component 1).
A2: Sufficient demand for finance by viable MSMEs is critical for the outreach of the CGF (Component 2).
A3: Development of export competitiveness (Component 3) depends on economic recovery from COVID-19 and easing of COVID-19 related trade restrictions.

E. Rationale for Bank Involvement and Role of Partners

58. **The Project complements World Bank Group support for Moldova's COVID-19 response and post-crisis recovery and resilience.** In the aftermath of the declaration of the COVID-19 pandemic, the WBG announced it will be providing up to US$160 billion financing tailored to the health, economic, and social shocks. The WBG brings international and institutional expertise in post-disaster situations. The Project complements the WBG support for Moldova's COVID-19 emergency response and post-crisis recovery and resilience, which include US$57.9 million Emergency COVID-19 Response IPF (P173776), US$30 million Additional Finance for COVID-19 vaccine deployment (P175816), and US$15 million Additional Finance for Agriculture Competitiveness (P171284) for supporting post-COVID-19 economic recovery.

59. **The Project builds on the long-standing engagement with the Moldovan authorities including both lending operations and technical assistance over the last decade.** The World Bank has had a strong engagement in finance and private sector development issues in Moldova over the last decade. The World Bank and the Government of Moldova have jointly monitored the business environment for the last fifteen years through the Cost of Doing Business Survey (2005-2021), one of the most widely used analytical pieces in the country. The Project also builds on the success and knowledge gained during the implementation of CEP and CEP II, which closed in December 2021. Under CEP II, in 2015 the World Bank assisted CGF in developing new Regulations and a new operations manual, with its rules and products streamlined to be more attractive for PFIs and produce greater impact on MSME lending, as well as developing a new information system software that improved the guarantee performance and risk monitoring. In addition, under CEP II the World Bank supported strengthening of ODIMM and IA, which will be critical for implementing the current Project. Moreover, CEP II supported the creation of MMIP, which will be cornerstone for further digitization of G2B services and reduction of regulatory burden. In April 2021, the World Bank assessed ODIMM's CGF scheme against the "Principles for Public Credit Guarantee Schemes for SMEs," which has informed the design of the Project. The World Bank also completed two analytical pieces on buyer-supplier linkages (2019 and 2021) that are key inputs for the design of Component 3.

60. **The World Bank is a globally recognized standard setter for public credit guarantee schemes.** The World Bank includes international experts working on the credit guarantee schemes. The World Bank's "Principles for Public Credit Guarantee Schemes (CGSs) for SMEs," set standards for public CGS on legal and regulatory, corporate governance, risk management, operational, monitoring and evaluation issues. The World Bank worked on partial credit guarantees in a number of countries in ECA including Georgia, Kosovo, Kyrgyz Republic, and Uzbekistan. These projects span through both capitalization and technical assistance.

61. **The World Bank is the only partner that brings implementation support, technical assistance, and funding to a government program**. MoE benefited from technical assistance, implementation support and funding for a very successful MGF under CEP II. The NQI system benefited from various donors that provided either technical assistance alone or with limited investments, but none of them offer the entire package. In addition, CGF benefited from external technical assistance for the implementation of a portfolio guarantee product, funded by the European Fund for Southeast Europe (EFSE) but the recommended measures are yet to be financed. Further, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and USAID support MSMEs and lenders in Moldova, but this has been through bilateral programs or private investments. Currently, no other partner is engaging with government agencies on large-scale institutional strengthening and funding where MSMEs are the principal beneficiaries. The team has also consulted with IFC to explore opportunities to leverage its response package to support the private sector.

62. **The implementation of financial and private sector reforms continues to be supported by the World Bank, the International Monetary Fund (IMF), and the EU.** The World Bank is currently preparing a new Development Policy Operation for US$150 million in two operations to support reforms in line with Government priorities on enhancing competitiveness and building resilience. In December 2021, the IMF approved Moldova's requests for an economic reform program with three main objectives: first, sustain the post-pandemic recovery; second, address pressing developmental needs, and third, strengthen Moldova's governance and institutional frameworks. Total envisaged disbursements under these arrangements would amount to about US$558.3 million. In January 2022, the EU proposed a new package of Macro-Financial Assistance (MFA) for Moldova worth EUR150 million, to accompany the new IMF program. Specifically, the MFA would help the country cover some of its external financing needs over the coming two years and reduce the economy's short-term balance-of-payments and fiscal vulnerabilities. MFA conditionalities would encompass addressing the most pressing problems in such areas as good governance, fight against corruption, rule of law and energy security.

F. Lessons Learned and Reflected in the Project Design

63. **The technical design of the Project is rooted in vast World Bank experience and reviews of regulatory reform and SME support projects around the world.** This includes the Independent Evaluation Group's "World Bank Group's Response to the Global Economic Crisis" report, an evaluation of the unprecedented response to the 2008-2009 global economic crises. The report concluded that more MSMES could be reached by working through financial intermediaries that on-lend to MSMEs. At the same time, the report stressed that it is critical to strengthen government capacities to regulate private sector activities effectively, and that private sector, as the main engine of growth, will need to be supported through policies and regulation and reduced burden. Lessons have also been incorporated from planned or approved Projects to support MSME recovery in ECA (Bosnia and Herzegovina, Croatia, Georgia, Kyrgyzstan, Turkey).

64. **The design has benefited from analytical work on the impact of crises on enterprises.** The COVID-19 pandemic has had far-reaching effects on lives, livelihoods, communities, national economies, and the global economy. Although the impacts are unprecedented and likely to be long-lasting, research on prior crises still provides some useful lessons. Most studies on the impacts of crises on MSMEs focus on financial crises, wars, or natural disasters. Similar to wars and natural disasters, the COVID-19 crisis is causing both demand and supply side shocks to the economy, although destruction of infrastructure is not a direct effect. As with the global financial crisis, the effects of COVID-19 are far-reaching across countries. A summary of lessons from these studies shows that: effects are heterogeneous across sectors, facilitating access to capital is important and the duration of the effects goes well beyond the end of the crises, particularly effects on productivity that persist even after revenues and unemployment have recovered.[39] Furthermore, an OECD study from 2009 on the impact of the 2008 global crisis on SMEs and financing found that SMEs experienced a rapid depletion of working capital and lack of available financing, which contributed to increased insolvencies. Access to finance for SMEs was particularly difficult given their already poor prospects and need to provide full collateral.[40] The Project has incorporated the elements into the design of the Project, which includes a sizeable access to finance component, no sectoral allocation for the provision of financial guarantees, and access to both working capital and investment loans.

65. **The Project has incorporated lessons from CEP II on regulatory reform.** Licensing, permit and inspection reforms are always complex and long-term processes. The WBG faced a lot of resistance from Government agencies when it comes to changing existing processes, reducing inspections, which is typical to similar projects

[39] World Bank, Equitable Growth, Finance, and Institutions COVID-19 Notes. "Assessing the impact and policy responses in support of private-sector firms in the context of the COVID-19 pandemic." March 26, 2020.
[40] OECD. "The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses." 2009.

globally. The WBG team has had many years of experience in managing similar projects and thus implemented these reforms as per best practices: mapping of regulation/permissive documents/processes and inspections, consultations with private sector, recommendations for simplification or re-engineering or elimination or permissive documents and inspections, advocacy for adoption and following through with implementation once adopted. In addition, a strong PIU and client buy-in, regular field presence of the WBG team with strong knowledge of the topic. These elements are replicated in the Project under Component 1.

66. **MGF has been enhanced through lessons from implementation over the past decade.** The WBG has implemented two MGF projects in Moldova in the past 10 years, through the Competitiveness Enhancement Project (P089124) (CEP) and CEP II. The MGF in the Project builds on lessons derived such as: conducting impact assessment, focusing activities, as well as including a small portion of operational equipment. A key ingredient to a successful MGF is constant and close monitoring as evident from impact assessment. These aspects are incorporated in the design of the Project.

67. **The Project builds on lessons from the implementation of the Moldova CPF, previous World Bank lending projects, and recent gender assessment.** One of the lessons learnt during the implementation of the Moldova CPF is that the WBG is most effective when it combines policy dialogue, knowledge, lending and private sector investment and advice in support of long-term strategic goals. In this regard the Project build upon this experience and includes knowledge-sharing, technical assistance as well as direct lending and private sector support. Lessons are also reflected from the Implementation Completion and Results Report for CEP, which closed on June 30, 2013. 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. Successful implementation focusing on supporting SMEs also depends on the proper project design which should include (a) the regulatory reform for a better business environment and ease of doing business, (b) a system to support firms in gaining access to foreign markets and boosting their competitiveness, and (c) having access to finance and technology services. The Project reflects these lessons. Additionally, when providing support to MSMEs it is important to have a range of instruments to ensure that particularly vulnerable firms are included, especially female-managed companies that are often left out. According to the Moldova Comprehensive Gender Assessment (2022), women are more willing to access funding opportunities through different support programs and development projects.[41] The Project will help narrow the gap between female- and male-managed companies through two separate instruments.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

68. **The Borrower, through MoE, shall be responsible for the overall implementation of the Project**. The MoE shall maintain the same PIU as the one under CEP II, with structure, functions, and responsibilities acceptable to the World Bank, as further set forth in the POM throughout the implementation of the Project. Several different Government agencies and institutions (ODIMM, IA, e-Government Agency, State Chancellery, Ministry of Infrastructure and Transport, and other national and local level institutions) will be partnering with MoE and PIU to implement the Project, but MoE is solely responsible for implementation, including for FM and procurement.

69. **Several agencies will participate in project implementation for Component 1**. Aside from the e-Government Agency, the MoE and the State Chancellery and Ministry of Infrastructure and Transport will support

[41] Moldova Comprehensive Gender Assessment, United Nations Moldova, 2022.

implementation of inspection and permits reform under Component 1. The State Chancellery is a central Government body responsible for the quality of regulations, and works closely with MoE, as lead business regulatory body to ensure regulatory reforms are implemented. The State Chancellery is also legally mandated with monitoring the work of inspectorates. MoE is the key regulatory policy setting body and will be implementing inspection reform jointly with the State Chancellery. The National Institute for Metrology, the National Accreditation Center, the National Institute for Standardization are all under MoE and report to MoE, and therefore will be engaged in implementation of NQI reforms under MoE's leadership. Finally, local level authorities are mandated by law to digitize procedures and will work closely with MoE and e-Government agency, which houses MMIP for permit digitization.

70. **ODIMM will also be involved in the technical implementation alongside the PIU with regards to Component 2**. A subsidiary agreement will be entered into between the Borrower and ODIMM with regards to Component 2. The PIU will support ODIMM in the technical implementation of Component 2 in terms of financial management, monitoring and evaluation, procurement, and E&S measures.

71. **ODIMM will be involved in the technical implementation alongside the PIU with regards to MGF under Component 3.** ODIMM will be responsible of managing this subcomponent in accordance with the provisions of the MGF manual. ODIMM will maintain a MGF team (MGFT) throughout Project implementation paid by the Project (from Component 3 as a part of technical assistance to ODIMM). The MGFT will be established one month after the Effectiveness Date at the latest and integrated at least by a MGF coordinator and a one specialist. The MGFT will be responsible for coordinating the implementation, supervision, completion, and documentation of all the activities related to the MGF. ODIMM will be responsible to enter into a Matching Grants Agreement with eligible MSMEs. The PIU will support ODIMM in the technical implementation of Component 2 in terms of FM, disbursement of MGFs, monitoring and evaluation, procurement, and E&S measures.

72. **The PIU is experienced and will be adequately staffed.** The PIU will be the same as that of CEP II, which has proven track record in project implementation in the private and financial sector. The PIU is well versed in NQI procurement, IT hardware and software procurements, as well as implementation of similar reforms. Aside from core staff that should be in place at effectiveness, the PIU will be additionally staffed with monitoring and evaluation staff, Environmental and Social (E&S) staff one month after the effectiveness. E&S staff will aid the entire Project and all Project components.

73. **Institutional capacity of the key implementing agencies to carry out reforms is stronger.** The e-Government Agency (host of MMIP) is experienced, adequately staffed and has sufficient budget for MMIP maintenance. It is well versed in maintenance of the MMIP. MoE is experienced in regulatory reforms and has extensive experience in leading and implementing regulatory reforms economy wide. Moreover, ODIMM and IA have strengthened over the past five years. Both have new strategies aligned with Project objectives and sufficient budgets to implement their activities and have improved their HR capacities. Both have new and active management willing to undertake challenging tasks. They have a history of accomplishments. Both agencies are well positioned to work with MoE (PIU) to implement the Project.

74. **The Government of Moldova will make in-kind and monetary contributions to support implementation of the Project and the preparation of the Implementation Completion and Results report**. These contributions will cover project management costs incurred by MoE, PIU, ODIMM, and IA related to the Project Implementation Unit's after the Project's closing and up to the disbursement deadline date. The estimated project management costs during the period is US$60,000 equivalent.

75. **The CERC—if activated—will be implemented by MoE, relying on the Ministry of Internal Affairs (MIA) through its General Inspectorate for Emergency Situations (GIES) to implement the technical aspects, given its mandate to lead emergency response and recovery efforts.** The MoE will retain responsibility and carry out all the procurement, Financial Management (FM), ESS compliance, and M&E functions related to the CERC and the MIA through the GIES will carry out the technical aspects of implementation. In case of an emergency, the National Commission for Emergency Situations will coordinate among the relevant government bodies and will make a recommendation to the MoF to activate the CERC (supplemented with Rapid Needs Assessments and other documentation). The MoF will decide whether to request the World Bank to activate the CERC.

B. Results Monitoring and Evaluation Arrangements

76. **The PIU will monitor and evaluate progress towards achieving the PDO.** The PIU will be responsible for monitoring and evaluating the PDO-level and intermediate results indicators for the Project by providing semi-annual and annual Project Reports as described in the results framework. The PIU will conduct necessary baseline analysis, focus groups and collect data with relevant stakeholders on project progress as needed. In addition, for MGF, impact assessment will be done and specified in the POM.

C. Sustainability

77. **The sustainability of the Project's objectives is grounded on the track record of ODIMM and IA.** The Project supports existing programs that have been consistently funded and implemented by ODIMM and IA over the last five years. ODIMM and IA have new governance documents, are adequately funded and strengthened through CEP II. ODIMM has traditionally worked through PFIs to implement its programs, which reinforces the sustainability of objectives beyond the Project's closure. The financial guarantees supported under the Project include features to integrate financial management including to offset projected loss with fees and recoveries, modernize CGF's investment strategy for sustainable capital base, and enhance appraisal by PFIs while the lending rate for beneficiaries are determined by PFIs at prevailing market conditions.

78. **The sustainability of CGF's capital over the medium term is a stated objective of ODIMM.** CGF intends to operate the portfolio product to achieve broader outreach while also maintaining sufficient return on capital over the medium term. CGF is not planning operations toward capital depletion. To do so, CGF will implement a dynamic financial projection model, manage losses and recoveries, and introduce a diversified investment strategy. The Project supports this objective through a front-loaded disbursement schedule that allows for maximal guarantee issuance, investment and financial projection, and will provide technical assistance on financial management, PFI oversight, internal controls including introducing risk-based pricing, and incorporating green finance enhancements to guarantees.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Component 1: Digitization and Regulatory Reform

79. **Digitization and Regulatory Reform are expected to lead to compliance costs savings for the private sector.** Analysis of the results achieved in CEP II indicate that the savings achieved by regulatory reform and digitization may exceed US$1,000 per firm. Such savings result from reducing the time required for interaction with the Government, processing time for permits issuing, introduction of digital services, which result in direct and indirect compliance costs savings for firms thus leading to increased competitiveness. Moreover, regulatory

simplification and digitization of government's back-office processes generate cost efficiencies that are difficult to factor-in but are recognized by the public sector. Process simplification and scale up of the digital infrastructure for G2B services to cover local authorities (35 district centers) and additional central level registries (at least 16 authorities of 30 which are issuing permits) are expected to lead to cumulative compliance costs savings for the private sector of at least US$8 million per annum. Improved risk-based targeting of inspections through digital means will bring more efficiency to current government spending on inspection systems, reducing the spending and efforts while maximizing inspection outcomes by focusing government resources on high-risk areas and subjects and by applying adequate equipment. Finally, it is expected that digitization and regulatory reform will benefit the entire population of businesses in the country. Since July 2018, MMIP had more than 108,000 applications by tens of thousands of businesses, and this is expected to continue.

80. **Regulatory simplification and digitization works are informed by the experience and activities undertaken during CEP II implementation, by focusing on both national and local level permissive documents.** Experience from the CEP II implementation, as well as good international practices show that to achieve results on the ground and impact for the private sector, a concentrated efforts on implementation at both national and local level should be made to reduce regulatory implementation gap (difference what is on the books and what's gets implemented). Thus, the planned work will focus on redesigning and digitizing both national and local level permissive documents through MMIP. 27 national level permissive documents, as well as all 7 local level permissive documents are envisioned to be redesigned and digitized through MMIP. The software platforms, as well as know-how and institutional set are aligned with this work, building on the work done under CEP II. National level permissive documents are applicable across the country, while local level ones are applied within specific regions (rayons). For this reason, the project plans to digitize these seven in all rayons (35 of them) throughout the country, to enable standardized approach and implementation of these across the country. In this way, we are reducing the risk of implementation gap, and notably reducing costs of doing business.

Component 2: Access to Finance

81. **The current market conditions are appropriate for the use of a guarantee scheme to increase the availability of financing to MSMEs.** During preparation missions, the World Bank met with several commercial banks, which confirmed that this is an opportune time for CGF to expand its outreach and diversify its product offerings. Banks reported that MSMEs have been using savings to survive during the pandemic and that the reduction in savings is making businesses less creditworthy; this decreasing creditworthiness can be offset by partial credit guarantees. Loan demand by MSMEs is expected to further increase in 2022 as economic activity is expected to increase. Banks expressed interest in a portfolio guarantee scheme by CGF and cited anticipated lower transaction time and cost for guarantee issuance and more predictability of eligibility as benefits, as well as a more efficient claims process.

82. **Commercial banks would welcome more efficient and less cumbersome CGF guarantee products.** The uptake by commercial banks of CGF guarantees has been limited primarily due to the limited coverage ratio and the overall cap of loan size, the perception of an onerous issuance process, requirements on collecting against collateral before claims on guarantee, and the difficult claims process. The portfolio product will address much of the burden on the issuance process by implementing a delegated-portfolio model. The commercial banks have availed of similar products from EIB and USAID. In addition, the banks cited challenges in data and information exchange in the past, which required manual bank staff time to prepare. Banks benefit from guarantees as they enable them to lend for longer maturities, through working capital and investment loans, which CGF can leverage to promote targeted finance to specific underserved sectors. Since 2018, CGF has begun to address these impediments in its individual guarantee products and began the design of the portfolio product. Further, the

accompanying CGF IT upgrades will lessen the transaction burden and costs to the banks and will optimize the real-time issuance and reporting.

83. **During 2020, CGF adjusted the terms of its individual guarantees and streamlined its process, making its guarantees more attractive.** CGF currently only offers guarantees on an individual basis. During 2020, CGF adjusted the terms including (a) increasing the guarantee term for working capital loans, (b) eliminating the maximum term for investment loans, and (c) increasing the guarantee ceiling for SMEs founded by young entrepreneurs and women-managed firms. It also took measures to streamline the application for a guarantee and the claims process and reduce collateral requirements. The adjustments to the collateral requirements also serve to shift utilization of the guarantees away from collateral substitution and toward a more risk-sharing instrument, in line with best practices. CGF has also reduced the documents needed to request a guarantee, including eliminating submission of pledge and mortgage documents, which will permit CGF to reduce the time to respond to requests for guarantees from 15 to 7 calendar days. It has also simplified the lender reporting process for guarantees outstanding and increased the time frame during which lenders may request payment on the guarantee. The NBM has also reduced the risk weight on the exposures guaranteed by CGF from 100 to 20 percent.

84. **CGF has also taken significant steps towards the implementation of a portfolio scheme.** CGF benefited from external technical assistance funded by the EFSE. The assistance included a diagnostic analysis, based on a survey, interviews of PFIs, and a review of CGF documentation. The diagnostic confirmed that: (a) the adjustments introduced by ODIMM in 2020 are perceived favorably by banks, (b) CGF is managed by highly professional staff although there is no specialization per functional area since CGF is not structured as a financial institution, and (c) that uptake of CGF guarantees was modest primarily due to its limited risk appetite. The diagnostic noted the need for a broader and more flexible mandate for CGF to optimize outreach. The external assistance also supported CGF to develop documents for the portfolio product including a template guarantee agreement with banks, a manual for the portfolio guarantee, a draft application form, a scoring approach for bank applications, and preliminary terms for the guarantee product.

85. **CGF meets several of the key best practices.** The World Bank team assessed CGF's operations against the Principles to identify ODIMM/CGF's readiness to expand operations with World Bank funding for capitalization. In this context, the World Bank held virtual meetings with ODIMM senior management, NBM, and select number of PFIs in April 2021. The assessment found that CGF's track record of credit guarantee operations generally reflects observance or moving toward observance of some of key best practices reflected in the Principles. CGF is a mature scheme, with defined legal and regulatory framework, and clear mandate and governance structure.

86. **However, several areas for improvement that are critical for CGF’s expansion and sustainability have been identified.** Specifically, there are weaknesses in the operational management framework, risk management, and financial management and reporting. Most of these weaknesses arise from CGF's status of a fund within the larger ODIMM, and from the fact that neither CGF nor ODIMM is structured as a financial entity. These areas of strengthening are addressed in an Action Plan (see Table 3), the implementation of which will be a disbursement condition for the second tranche of Component 2. The timeline in the Action Plan is indicative for planning and sequencing activities. ODIMM/CGF will be able to withdraw the funds at any point during the implementation of the Project as soon as all the actions in the Action Plan have been undertaken to the satisfaction of the World Bank.

Table 3. Action Plan for institutional strengthening of ODIMM/CGF based on the Principles

Principle	**Recommendation**	**Action**	**Expected timeline**
P2: Adequate funding to achieve policy objectives	Develop a financial model and use it for making projections on capital utilization and maintenance.	A financial model for the portfolio guarantee scheme has been developed, approved and adopted by ODIMM and has been used for the following fiscal year planning.	Year 1
	Amend legal framework to enable CGF to invest in government securities and NBM certificates for projected investment returns.	A legal and regulatory review has been undertaken to assess eligibility to invest in State Securities and NBM Certificates.	Year 1
P7: The CGS should have a sound internal control framework	Establish a formal internal control framework and functions within CGF. The internal control framework should be subject to internal audit.	An internal control manual for the CGF, incorporating segregation of functions and guidance on internal audit requirements, has been developed and approved by ODIMM.	Year 1
P8: The CGS should have a formal risk management framework	A formal risk management framework should be adopted, including at a minimum a financial model, cash controls, physical security of staff, lender oversight, and a review of outreach materials/web presence.	A risk management framework, including policies and/or procedures on, inter alia: the financial model, cash controls, physical security, oversight of the PFIs, oversight of the investment of capital and a review of outreach materials/web presence has been developed and adopted by ODIMM.	Year 2
P14: The CGS should be subject to rigorous financial reporting and should have its financial statements audited externally	Establish separate accounts for CGF as necessary to allow for independent financial statements audited in accordance with International Financial Reporting Standards.	Financial statements for CGF are produced for at least one full fiscal year and audited by an independent external auditor, according to International Financing Reporting Standards.	Year 2

87. **CGF is well-positioned to expand its outreach through increased leverage.** Before the Moldova bank fraud, ODIMM was supporting nearly double the number of operations and guarantee issuances compared to the period following the consolidation of the banking sector after the fraud. Since the amendment to CGF Regulation in 2018, the number and volume has begun to rise again. However, the leverage level of CGF guarantees remains low. Following the adoption of the COVID-19 emergency measures in 2020, the rate of growth has increased, and the number of requests appear poised to remain elevated during the recovery in 2021-2022. In order for ODIMM and CGF to assess the financial sustainability and projected growth through the launch of the portfolio product, it will need to strengthen financial reporting and analysis, including on projected claims. The current financials do not specify for differentiated product offerings within the portfolio approach (for example by borrower type or segment), differentiated or risk-based pricing as appropriate, nor the expectation of elevated claims in a

potentially uneven post-crisis recovery. CGF will need to develop a robust and responsive financial projection model and cash-flow analysis into its operational framework within the Project, as per the Action Plan.

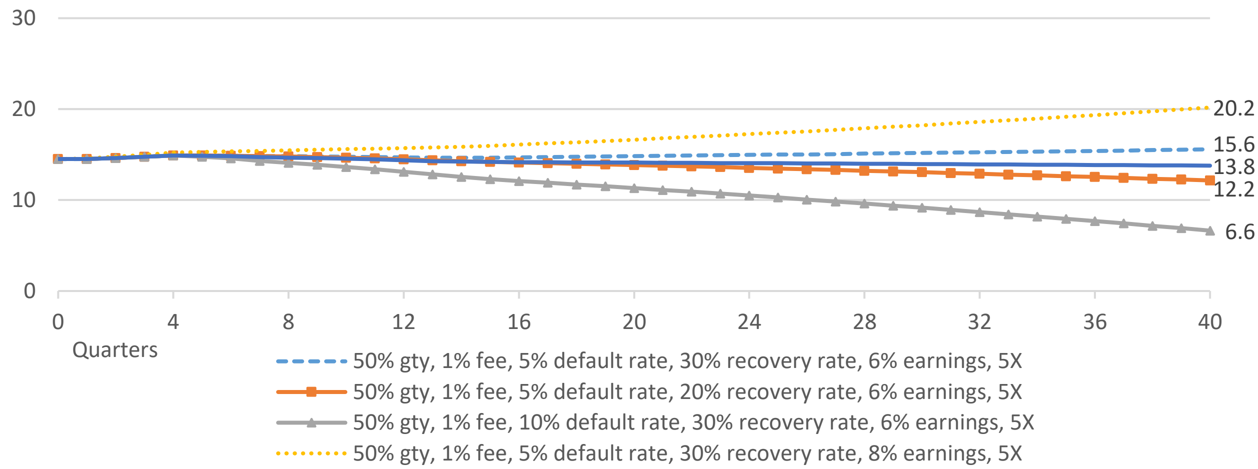
Table 4. CGF Key Financial Indicators

Amounts in MDL million	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Number of active guarantees	107	118	98	135	179	527
Number of newly issued guarantees	12	49	27	66	116	468
Active guarantees amount	20.3	40.6	35.7	60.2	111.4	412.9
Newly issued guarantees amount	2.9	30.9	14.8	41.2	82.8	387.8
Value of active guaranteed loans	59.9	132.3	112.9	194.9	325.9	1073.5
Value of active guaranteed loans / total MSME loans (%)	0.7	1.1	1.0	1.7	2.4	6.8
Value of newly issued guaranteed loans	14.4	99.3	44.1	127.6	235.2	992.8
Average coverage ratio (%)	33.2	32.2	31.4	32.0	33.3	39.1
Total capital	82.6	117.0	128.6	148.6	163.6	169.1
Leverage ratio (%)	24.6	34.7	27.8	40.5	68.1	244.2

Source: ODIMM, NBM.

88. **ODIMM will have to carefully monitor performance of the portfolio guarantee scheme to remain sustainable.** A financial model was developed to estimate capital remaining after 10 years of operation in five different scenarios (Figure 6). The model uses as variables: the guarantee coverage rate, the guarantee fee, default (NPL) rate, the recovery rate on the sale of collateral, earnings rate on the capital and the leverage. ODIMM has projected a default rate of 5 percent going forward and a recovery rate on defaulted loans of 30 percent. This will result in a loss rate of 3.5 percent. ODIMM noted that the NPL rate on loans is declining from the historical level of 9 percent and continuing to improve. ODIMM plans to strictly monitor lender performance and use all possible intervention levers to ensure good portfolio performance. ODIMM is proposing to use a leverage of 5 going forward to meet demand for guarantees. The financial model used by the World Bank is structured so that the default rate (NPL rate) is input along with a recovery rate to obtain a loss rate. In this case, 5 percent was used as a default rate along with a 30 percent recovery rate to result in a 3.5 percent loss rate. It is assumed that the guarantee coverage rate would be 50 percent. The guarantee fee is assumed to average 1 percent as the range is 0.5 percent to 1.5 percent on an annual basis. The chart below includes the scenario proposed by ODIMM along with other examples of the model output using a slightly higher default rate and slightly lower recovery rate. The chart shows that ODIMM will have to carefully monitor performance and ensure that the estimated loss rate and recovery rate are achieved. If losses are higher than expected or recoveries lower than expected, the scheme is likely to have to reduce the leverage rate or will have a loss in capital over a 10-year period. With these assumptions, the scheme is sustainable after 10 years. The model uses a 6 percent investment return on the capital, which is likely to be conservative. One of the lines in the chart shows the ODIMM assumptions with an earnings rate of 8 percent on the capital, showing the additional earnings that could be available to the fund and which would increase available capital. The increased capital would allow the scheme to support additional loans and make it much easier to attract additional capital from donors. The primary conclusion from the financial model is that ODIMM must carefully monitor the portfolio and ensure that a robust lender oversight process is implemented quickly.

Figure 6. CGF capital projections, after injection, under different scenarios over the next 40 quarters (US$ million)



89. **Component 2 is expected to create a significant impact in supporting jobs and household livelihood.** Economic analysis (Table 5) suggests that using an average guarantee rate of 50 percent and depending on the leverage, the US$14.5 million equivalent for CGF would directly reach 496-1,239 MSMEs, which hire between 2,480-6,195 people.[42] There also be indirect benefits for the suppliers and customers of the beneficiary firms as well as induced impact coming from changing incomes spent to maintain households as a result of direct and indirect economic activities. Including these indirect and induced effects, the operation is expected to support between 4,960 and 12,390 jobs and the livelihood of about 14,880-37,170 people, or 2.1-7.1 percent of the population.[43]

Table 5. Estimated Impact in Supporting Jobs

	Amounts in US$ equivalent		Scenario 1	Scenario 2	Scenario 3
A	Total Project Financing--Starting Capital		$14,500,000	$14,500,000	$14,500,000
B	Leverage		2	3	5
C	Total Value of Guarantees	= A*B	$29,000,000	$43,500,000	$72,500,000
D	Guarantee Percentage		50%	50%	50%
E	Total Value of Loans	=C/D	$58,000,000	$87,000,000	$145,000,000
F	Average Loan Size		$117,000	$117,000	$117,000
G	Average Number of Borrowers	=E/F	496	744	1,239
H	Average Number of Employees per firm		5	5	5
I	Number of Jobs	=G*H	2,480	3,720	6,195
J	Average Household Size		3	3	3
K	Total Individual Beneficiaries	=I*J	7,440	11,160	18,585

Source: National Bureau of Statistics of the Republic of Moldova, World Bank, CGF.

[42] The IPF would translate into a financing of around US$3,509 per employee of the beneficiary firms (using the average number of jobs across the three scenarios).
[43] Indirect and induced impacts are calculated based on a multiplier of 2, in line with the typical propagation of shocks through production network and effect of fiscal stimulus during downturns. Notice that given sub-projects are not pre-identified, these estimate serves as a benchmark. It is also assumed that each job supports a household size of three (the average size of a household was 2.9 according to the 2014 Population and Housing Census).

Component 3: MSME Development and Export Competitiveness

90. **Activities under MSME Development and Export Competitiveness are expected to have a substantial increase in exports and creation of jobs.** Based on the impact evaluation of the matching grants program undertaken under CEP II, for every US$1 invested by matching grants the private sector will generate US$9 in export sales (ceteris paribus) which significantly exceeds the investment into this activity.

91. **The econometric analysis performed by the World Bank team[44] shows that local sourcing of foreign companies in 2019 is positively correlated with the size of the supplying sector.** Foreign companies will source more from local suppliers if there are more suppliers in the market if they have higher quality inputs and if suppliers are reliable. Local sourcing is also positively correlated with the quality of inputs. Lastly, local sourcing is positively correlated with the reliability of local suppliers. Activities in this Component support building linkages for local firms to FDI firms and international value chain to achieve exactly the three factors contributing to such integration - number of firms, their size and quality and reliability, which should economically result into more sales to global value chains.

92. **Under Component 3, the additional new investment of US$5 million in the MGF, coupled with CGF work in supporting 900 firms, as well as export readiness, supplier development and export mission programs should yield notable US$175 million in export sales during this operation.** The new investment in MGF as well as CGF (under Component 2) is expected to create or retain over 3,000 jobs (based on current trends), while other activities under this component will also contribute to job creation/retention. Increased export sales and jobs achieved by Project activities should bring important fiscal benefits.

B. Fiduciary

(i) Financial Management

93. **Financial management arrangements.** FM assessment has been carried out to appraise the FM arrangements proposed for the project and identify FM implementation risks. The experienced PIU will assume overall financial management responsibility for the project, including provision of regular project financial reports and audits. ODIMM will handle CGF management and will work in close cooperation with the PIU in terms of CGF reporting and auditing. ODIMM is a public institution under MoE and it is a separate legal entity. It manages one Treasury account where it receives all budget allocations for its programs from the state budget, including for CGF capitalization. For the Project, a separate account for the World Bank financing designated for CGF capitalization will be required and this will be a disbursement condition for the first tranche.

94. **The existent arrangements at the PIU and ODIMM as assessed by the World Bank team meet the minimum requirements of the World Bank**. Yet, there are elements that require further strengthening in the area of CGF financial reporting and internal controls that are described in more detail in the Table 3 on the measures of the institutional strengthening. The details on the Project's FM arrangements are provided in Annex 1.

95. **The major FM risk associated with the project is the insufficient or untimely budgetary appropriation and allocations.** To mitigate this risk the PIU, and ODIMM shall ensure a realistic project budget and forecast is included in the Medium-Term Budgetary Framework and the Annual Budget Law and shall coordinate with Ministry of Finance (MoF) any budgetary revisions in a timely and effective manner. The residual FM risk is Moderate.

[44] Criscuolo et al. What drives Buyer-Supplier Linkages in Moldova? Determinants and Policy Options, Washington DC; World Bank Group, forthcoming.

96. **The Project will rely on some elements of Moldova's public FM system.** These specific elements include: (a) the planning and budgeting: the project planning would be done in accordance with the budgetary rules and budget preparation procedures established by MoF for all budgetary units, and the project will be included in the annual state budget law; (b) flow of funds: the funds will flow through treasury single account; (c) internal audit: CGF operations will be subject to ODIMM's internal audit; (d) execution of project budget: the project related payments will be executed by the Treasury by applying additional controls over the spending; and (e) financial reporting: underlying expenditures under PBCs would be regularly reported according to the MoF established templates. The preliminary results of the ongoing Public Expenditure and Financial Accountability Assessment of the PFM systems in Moldova show that state budget planning, budget execution, controls and reporting is overall strong.

97. **Cash basis principle would be applied for project accounting, and International Public Sector Accounting Standards "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants will be used for the project's financial reporting.** The project-related expenditures will be reported through quarterly Interim Financial Reports (IFRs) prepared by PIU following the existing format and submitted to the WB within forty-five days of the end of each calendar quarter.

98. **The annual financial audit of the project will be conducted by an independent audit firm acceptable to the Bank**, according to the International Standards on Auditing and on Terms of Reference agreed with the WB. Annual audited project financial statements, including PBC-related budget execution reports and CGF financial statements, will be submitted to the WB within six months of the end of the Government's fiscal year and at project closing. Following the formal acceptance of these reports, the Bank and PIU will make them publicly available on their websites.

99. **Various disbursement methods will be available for the project.** For regular IPF related categories, advances, direct payment and reimbursements will be applicable, and a Designated Account will be opened at NBM. For CGF capitalization, direct payment will be used and the funds will flow in two tranches that are condition-based into a separate CGF account opened in the State Treasury of the MoF. The disbursement method for PBC will be a reimbursement against the underlying eligible expenditures identified as staff compensation costs of the MoE, costs of inspection agencies, and one of the subprograms implemented by the ODIMM.

100. **The POM will include an annex for the CERC (the CERC Manual), detailing the operational, fiduciary, and disbursement details for activating and implementing the CERC.** The PIU will have fiduciary accountability for the day-to-day management of the CERC, including management of the flow of funds, while the MIA through GIES has ultimate responsibility as the implementing agency. To activate the CERC, the Government will (a) determine the existence of an eligible crisis or emergency and send a request to the World Bank for support through the CERC and (b) prepare and submit to the World Bank for approval an emergency action plan (EAP) for the use of CERC funds, indicating the activities and total amount to be reallocated to CERC, and from which Category. In turn, the World Bank will ensure that all ESS instruments, adequate staff capacity, and resources are in place and acceptable as proposed in the EAP. Once the disbursement conditions are fulfilled and the World Bank confirms compliance, the reallocation of uncommitted funds from the original project components to the CERC is processed based on the EAP, and disbursements for CERC activities may commence.[45] A separate designated account will be opened

[45] Project restructuring will be necessary to reflect the activation of the CERC, which will need to take place no later than 3 months after its activation as per Bank Policy.

for the CERC. The CERC will be audited as part of the audit of the original project and evaluated according to its indicators.

(ii) Procurement

101. **Applicable procurement arrangements.** Procurement under the Project will be carried out in accordance with the World Bank Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing of Goods, Works, Non-Consulting and Consulting Services (Fourth Edition, November 2020), (hereinafter referred to as "Procurement Regulations"), and with the latest "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants".

102. **Capacity assessment.** An assessment of the capacity of the PIU to implement procurement was carried out by the World Bank team. The team assessed the risks that could negatively affect the ability of the MoE, through its PIU, to carry out procurement processes. Given the risks identified and the results of the assessment, procurement risk is assessed as Low after the proposed mitigation measures are implemented. The key issues and risks concerning procurement for implementation of the proposed Project include: (a) limited experience of ODIMM with World Bank procurement procedures; (b) potential delays in the procurement cycle (development of technical specifications and terms of references, evaluation, implementation of contracts and approval of deliverables) especially for IT contracts; (c) delays in delivery of goods or materials due to the current geopolitical situation in the region; (d) increase in cost of performance of contracts; and (e) delays in contract performance. Annex 1 includes details on the procurement arrangements, the Project Procurement Strategy for Development (PPSD), and the proposed mitigation measures to address the identified risks.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

103. **Project environmental risks and impacts are classified as moderate.** These risks and impacts will be generated mostly under Component 2, which will support different types of subprojects (through portfolio credit guarantees under ODIMM) in the area of industrial and agricultural production, agro-processing, and manufacturing. It is expected in many cases the project will provide financial guarantees for working capital, purchasing of limited amounts of raw material and equipment purchase/replacement and, respectively, the potential environmental and social risks and impacts of such financial guarantees are not expected to be significant. Screening will ensure that any MSME beneficiary activities classified as high or substantial for environmental and social risk will not be eligible for financing. The Project may provide guarantees for capital expenditure (for purchase and upgrade of equipment, machinery and other physical assets) and working capital in agriculture, services, food processing, and a range of small manufacturing. Their environmental and social impacts are likely to be moderate and can be summarized as follows: (a) small-scale construction of new facilities (such as storehouses, cold storage boxes, produce sorting lines, vinification facilities): soil and air pollution; acoustic, aesthetics impacts, etc.; (b) manufacturing (small ventures in sewing, printing, auto-repair, soap making, furniture production, shoe-making, fiber glass thread, toilet paper and others): air pollution, wastewaters, hazardous wastes, and solid waste generation, labor safety; (c) agricultural production (such as wheat, soy, corn,

sunflower seeds, fertilizers and other smallholder farming with an average workforce of 30-40 personnel): soil erosion, loss of soil productive capacity, soil compaction, soil pollution, surface, and underground water pollution, health and environmental risks associated with agro-chemicals use; and (d) agro-processing (such as in plums, biscuits, milk, bread production, popcorn, wine, grapes, cattle): contribution to surface water pollution, wastes generation, odor. In addition, all these subprojects may generate risks of spreading COVID-19 infection. Under Component 3, the Project will provide support for a series of technical assistance and consultancy activities which during the implementation and operational phases might also generate some indirect environmental risks and impacts. In particular, while developing new business plans, creating new products, or improving production processes, may induce downstream MSME investment activities that generate some impacts related to air and water pollution, waste generation, labor and health risks. These are not expected to generate significant impacts as the technical assistance will deliver more economically and environmentally friendly ways to manufacture products. Overall, all these impacts are expected to be site-specific and mostly temporary and can be easily mitigated through good project design and implementation practices. Additionally, the Project will not generate impacts on biodiversity or physical cultural resources as it will not support subprojects located in protected areas, critical and non-critical habitats or culturally or socially sensitive areas, along with subprojects that might have impacts on international waterways such as the River Prut, Dniester, or Danube Delta. The expected cumulative impact of the project activities is mostly positive and will include increased income, better knowledge on best agricultural, agro-processing and manufacturing practices, with consequent improvements in the status of the environment in the country. The Project will apply an exclusion list to screen for activities funded by the matching grants and credit guarantees. These exclusions are described in the Environmental and Social Management Framework (ESMF) screening criteria and indicated in the Environmental and Social Commitment Plan (ESCP). See Annex 4.

104. **Project social risks and impacts are classified as moderate.** Project activities associated with the provision of matching grants for purchase of equipment and credit guarantees for working capital, manufacturing and construction works for small-scale industrial and agricultural activities are unlikely to involve significant risk of adverse impacts on workers or communities. Workforces of MSMEs participating in activities enabled by the grants and credit guarantees are typically small (average 30-40 personnel). While inspection and prevention of health and safety incidents and forms of harmful labor is reportedly weak in country, no such issues have been identified under the previous operations. Some community health and safety risks may be present depending on the nature of MSME activities supported by the credit, grants and TA activities such as risk of interaction with nearby communities during transport of equipment and machinery or during localized construction activities. No land taking is required under the project. Should any land or property be acquired by beneficiaries, it will be on a willing buyer-willing seller basis as documented by legal transaction records. Sexual exploitation and abuse and sexual harassment (SEA/SH) risks are estimated to be low but preventative measures should be put in place. Fair labor conditions and worker health and safety provisions need to be included in the ES Management systems of ODIMM and participating financial institutions to ensure they screen for track record of participating companies and identify labor-related risks associated with MSME activities prior to approval of credit guarantees and subsequent loans. MSMEs that use labor for production and services should have protection measures in place to avoid SEA/SH and prohibit use of forced labor and harmful child labor. A review of MSME activities supported by the previous project by sector indicates that the proposed activities are unlikely to generate disproportionate impacts on vulnerable groups. However, there is risk that provision of matching grants and credit financing during COVID-19 may benefit those enterprises with existing financial capacity, and not reach rural new starters or those with insolvency records or without access to information or awareness of the programme. Entrepreneurs from culturally or geographically remote communities, or female-led businesses may be more reluctant to apply and take on debt during COVID-19.

105. **The Project will upgrade the Environmental and Social Management Systems (ESMS) of PFIs.** ODIMM has a good track record of working with local NGOs and financial institutions to extend grants and guarantees for MSMEs nationwide. However, ODIMM does not have experience in implementing World Bank-financed projects and is not familiar with the World Bank's ESF or the provisions of ESS9. ODIMM will require additional staffing and capacity-building in order to implement its activities under the Project in accordance with ESF requirements for financial intermediation. Participating commercial banks will also require due diligence review to demonstrate that their ESMS are in place and consistent with ESS9. Development of the ODIMM ESMS is to be completed before Project effectiveness and the ESMS of PFIs are to be in place prior to their participation under Component 2. While the existing PIU track record on implementing safeguards issues under CEP II is overall positive, the PIU will need to strengthen its capacity to apply the ESF, especially on risk management related to labor and working conditions and on ESS9 in order to support ODIMM and PFIs with technical guidance and training. Prior to Appraisal the PIU has prepared an ESCP, a Stakeholder Engagement Plan and Grievance Mechanism (SEP, GM) for all project activities. In addition, an ESMF and Labor Management Procedures (LMP) have been prepared to support screening and management of risk under components one and three. These tools may be adapted to inform review and development of the ODIMM and PFI ESMS. This draft package and information about the Project has been disclosed in country and consulted on with interested and affected stakeholders and their feedback taken into account in the proposed Project activities and risk mitigation measures. The updated ESF documents have been cleared and disclosed on the Project website. In case it is agreed to activate the CERC, an addendum to the existing ESMF will be prepared, which will outline an E&S risk screening process for the positive list of activities likely to be financed under CERC. The addendum will also identify institutional arrangements for oversight of any additional required E&S due diligence and monitoring measures.

E. Citizen Engagement, Gender, and Climate Change Co-benefits

Citizen Engagement

106. **The Project citizen engagement will build on the strong processes established under CEP II**. CEP II utilized several pro-active citizen engagement mechanisms to involve the public and businesses and to consult them on implementation and improvements of project activities - in particularly the regulatory changes. The PIU and clients have been organizing frequent (5-6 annually) formal roundtables and workshops, to discuss project activities linked to the matching grants, the One-Stop-Shop for permissive documents, and the Regulatory Impact Analysis with beneficiaries (enabling them to provide feedback and to share their opinions) and to share actions taken based on beneficiaries' feedback (so that MSMEs know what difference their feedback has made to on-going decisions and activities). Each event had a high satisfaction rate of 90 percent, which was measured with a results indicator, above the end of project target of 80 percent. There was also a beneficiary feedback mechanism for the MGF. Matching grants recipients were contacted once or twice a month to check on progress of implementation, to inquire about matching grant products, and to seek their feedback and collect suggestions for improvement. Based on this feedback, the MGF Operations Manual was amended three times to address beneficiaries' suggestions, and beneficiaries were informed about this. CEP II was supporting Regulatory Impact Assessment (RIA), which is a mechanism for public consultations on new business regulations, by developing an online platform for participatory feedback. The RIA is a formal and permanent government consultation mechanism (notice-and-comment system), where citizens and stakeholders can provide feedback, trace which comments have been addressed, and monitor the status of the regulatory proposal in terms of the government's adoption process. Through the feedback platform citizens have been empowered to participate in the planning and design of new government initiatives. Finally, annual surveys of ODIMM and IA were conducted among the MSMEs to assess, to adjust and to improve the implementation, effectiveness and outreach of the agencies' programs.

107. **The Project will strengthen citizen engagement mechanisms.** Most of the citizen engagement mechanisms utilized in CEP II (i.e., the frequent roundtables and workshops, the beneficiary feedback mechanism for MGF, baseline survey, and feedback loop with private sector) will continue. The beneficiary feedback mechanism for the MGF will be strengthened through exit polling, collecting feedback on participants' satisfaction every six months. In addition, ODIMM and IA plan to organize annual workshop/roundtable with MSMEs to discuss and – if relevant - improve the implementation, effectiveness and outreach of the agencies' programs. The PIU also hired a Social Safeguards Specialist, who will proactively collect feedback from citizens and stakeholders through focus group discussions and jointly work with them on ways to improve project activities based on their needs. Finally, CGF at ODIMM will reach out to beneficiary MSMEs and PFIs on annual basis to discuss project progress, product design and collect any suggestions to improve the process and inform any changes in product design. The project will include two indicators on citizen engagement: (a) Percentage of participants reporting satisfied or very satisfied with workshops, etc. (baseline 0 and target 90 percent); and (b) Percentage of MGF beneficiaries satisfied with engagement (baseline 0 and target 70 percent).

Gender

108. **The Project will address the gender gap in exports businesses and access to finance by providing matching grants, export readiness technical assistance, and guarantees targeted at female-owned/female-managed MSMEs.** The Project will tackle the gender gap through specific gender-inclusive actions. Under Component 2, the Project will ensure that at least 30 percent of MSMEs benefitting from CGF guarantees will be female-owned or female-managed. The Project will also support enhanced reporting on CGF guarantee use of proceeds including borrower gender information, which will provide granular credit distribution information. Higher quality information on the gender gap will allow more refined guarantee terms to help address gaps. Under Component 3, the Project will ensure that a minimum of 36 percent of matching grants recipients are female-owned or female-managed businesses.

Climate Change Co-Benefits

109. **By addressing identified climate risks through activities in project components, the operation will contribute to strengthening climate resilience in the financial and private sector of Moldova.** The proposed Project is screened for short- and long-term climate risks and potential ways to support climate action in Moldova have been explored. The Project will contribute to strengthening climate resilience in the private sector of Moldova by addressing the identified climate risks through activities across all components. Under Component 1 digitization of permissive documents, inspections, and related government functions, as well as the digital One-Stop-Shop will significantly reduce paper usage and GHG emissions. The data recovery and backup are designed to prevent data loss in the event of natural disasters. Under Component 2, the Project will assist NBM with preparing a multi-year strategy to deal with the regulatory and supervisory aspects of climate-related and environmental risks and enhance the capacity of PFIs to address climate action priorities by providing trainings on climate change topics. Under Component 3, two sets of activities are planned: (a) capacity building to Moldovan companies and exporters by the IA and ODIMM on the European Green Deal and export requirements to EU. At the same time, capacity building to ODIMM and MSMEs will focus on supporting climate informed production, both mitigation and adaptation; (b) criteria on high energy efficiency and environmental and climate performance for small equipment purchases under MGF. Climate related activities under Component 3 will be tracked through intermediate results indicator - MSME dialogues/roundtables (face-to-face, virtual) regarding climate change to encourage climate-smart businesses.

V. GRIEVANCE REDRESS SERVICES

110. **Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

111. **The overall risk rating of the proposed Project is assessed as Moderate.** The COVID-19 pandemic is affecting the risk profile but is not expected to pose a vital risk to the achievement of the PDO. The scale of the impact of COVID-19 pandemic on the economy and the business processes is dependent on a variety of factors and the team will continue monitoring the situation and make necessary adjustments.

112. **The Macroeconomic risk is rated High.** After the declaration of state of emergency in mid-March 2020 and its continuation through April 2021, caused by COVID-19 pandemic, several measures were taken to contain the crisis impact, although the economic outlook is subject to considerable downside risks. The main risk is the ongoing war in Ukraine, which might have large macro fiscal impact through multiple channels including the inflow of refugees, increase of energy prices, and trade and financial flows. These risks may affect the achievement of the PDO, including the underlying demand for credit by MSMEs and the implementation of the access to finance component. These risks are partially mitigated by the fact that most of the government's expected financing is expected to be provided by bilateral donors, the IMF and multilateral development banks. At the Project level, this risk is mitigated by significantly stronger banking sector fundamentals compared to the 2014 banking crisis. Moldova now has a stable, well-capitalized banking sector with strong bank ownership and strong external regulation and supervision by NBM. In addition, Component 2 will include a set of rigorous financial soundness criteria for PFIs.

113. **Political and Governance risk is rated Substantial.** The political developments in the recent decade show that the country experiences frequent political changes which induce significant instability on the policy level and in government institutions. Political instability may bring changes in policy priorities, changes in the leadership of key institutions, change in instruments preferred for policy implementation, as well as changes to decision-making and the speed the decisions are taken. Such changes have the potential to affect the priorities supported by the project and, hence, may affect the achievement of the PDO, as well as shift away the focus from certain instruments towards other less effective but more popular interventions. The team has established coordination with different levels of government counterparts in the key agencies and has continued working on a technical level even during turbulent times. Coupled with a proactive PIU and the fact that reforms are institutionalized in the existing system, this gives additional mitigation from severe adverse effects of political instability.

114. **Stemming from the above, Institutional capacity for implementation is also a Substantial risk.** While CEP

II supported the efforts of the Borrower to strengthen the implementation capacity of its key institutions (ODIMM, IA, MoE), institutional weaknesses remain across a number of institutions that will be engaged in the implementation. Risks to institutional capacity relate to a bigger role to be played by ODIMM in the proposed Project due to the use of public credit guarantees and the need to coordinate with PIU on the access to finance component. Additional risks are due to institutional memory which is undermined by frequent changes in top management and significant turnover of staff, but also to insufficient training and weak motivation among staff to take initiative, implement more and better reforms. Risks are higher also due to coordination efforts across multiple institutions for digitization and regulatory reform component, that are prone to frequent management changes. This risk is mitigated by the track record of the existing PIU that will remain during implementation and the fact that the World Bank team will continue working with a number of counterparts and agencies, not relying on a single one. The risk is further mitigated by the fact that Project is engaging not only senior management, but also technical staff that usually remains intact with government changes. The team will monitor the Project's implementation closely.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Moldova
MSME Competitiveness Project

Project Development Objectives(s)

The Project's Development Objective is i) to reduce the regulatory burden, increase access to finance, increase export competitiveness of Moldovan enterprises, and (ii) in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Reduced regulatory burden				
Reduction in compliance costs for businesses in meeting regulatory requirements (cumulative) (Amount(USD))		0.00	3,500,000.00	8,000,000.00
Increased access to finance				
Total volume of loans guaranteed by CGF under the Project (cumulative) (Amount(USD))		0.00	30,000,000.00	100,000,000.00
Share of medium and long term lending (>24 months) guaranteed by CGF under the Project (Percentage)		0.00	18.00	60.00
Beneficiaries reached with financial services (CRI, Number)		0.00	270.00	900.00
Increased Export Competitiveness				
Value of exports generated by MSMEs supported		0.00	50,000,000.00	175,000,000.00

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
by Project activities (cumulative) (Amount(USD))				
Percentage of MGF recipients that are engaged in a new export-oriented activity (Percentage)		0.00	25.00	55.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Component 1: Digitization and Regulatory Reform				
Share of the inspection agencies progressing on their key performance indicators (Percentage)	PBC 1	10.00	25.00	50.00
Upgrading the e-Inspection system to enable risk-based inspections and automation of inspection visit reports (Yes/No)		No		Yes
Digitization of G2B services (Number)		78.00	90.00	105.00
Increase in the online application rate by business for getting business permits through the electronic One-Stop-Shop (Percentage)	PBC 2	50.00	55.00	60.00
Number of accredited NQI services provided by local testing laboratories available to firms increased by 50 (Number)		0.00	15.00	50.00
New accredited calibration laboratories available to firms (cumulative) (Number)		3.00	0.00	5.00
Percentage of participants reporting satisfied or very satisfied with workshops (Percentage)		0.00	70.00	90.00
Component 2: Access to Finance				

Indicator Name	PBC	Baseline	Intermediate Targets	End Target
			1	
Number of jobs created (Number)		0.00	1,000.00	3,000.00
Share of female-owned/female-managed MSMEs supported by CGF under the Project (Percentage)		0.00	15.00	30.00
Component 3: MSME Development and Export Competitiveness				
Establishment of export readiness and supplier development (local linkages) programs for MSMEs (Yes/No)		No		Yes
Number of MSMEs benefiting from export readiness, supplier development or export missions programs (Number)		0.00	350.00	750.00
Number of MSMEs benefiting from export missions (Number)		0.00	120.00	240.00
Number of MSMEs benefiting from export readiness program (Number)		0.00	220.00	450.00
Number of MSMEs benefiting from supplier development program (Number)		0.00	20.00	60.00
Cumulative number of MSMEs receiving Matching Grants (Number)		0.00	125.00	320.00
Percentage of MGF beneficiaries satisfied with engagement (Percentage)		0.00	35.00	70.00
Share of Matching Grants beneficiaries that are female—owned/female-managed (Percentage)		0.00	25.00	36.00
Number of roundtables / training sessions (face-to-face, virtual) on climate change (Number)		0.00	6.00	11.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Reduction in compliance costs for businesses in meeting regulatory requirements (cumulative)	Reduction in compliance costs for businesses in meeting regulatory requirements as a result of regulatory reforms supported by the Project. This is a cumulative indicator and it will be measured using the standard World Bank Group Compliance Cost Saving methodology.	Annual.	Firm surveys and official government records.	The PIU will conduct a firm baseline survey in 2022 to gather data on permissive documents, inspections and NQI, and use it with existing data from previous surveys to set up a baseline. Through annual focus groups, follow on survey (if needed), and government records, the PIU will gather data on savings and report annually using the World Bank Group Compliance Cost Saving methodology.	PIU.
Total volume of loans guaranteed by CGF under the Project (cumulative)	This is cumulative volume of loans to MSMEs by PFIs. This should track both the guaranteed and the non-guaranteed portion of the loans that benefit from a CGF guarantee. This amount is equivalent to the private	Semi-annual.	Company information, CGF team at ODIMM.	The CGF Operations Manual will detail data collection and frequency that companies and PFIs will be reporting.	PIU and ODIMM (CGF team).

	capital mobilized by Component 2.				
Share of medium and long term lending (>24 months) guaranteed by CGF under the Project	Share of medium and long term lending (>24 months) guaranteed by CGF under the Project.	Semi-annual.	PFIs reports.	The CGF Operations Manual will detail methodology and frequency of data collection from PFIs.	PIU and ODIMM (CGF).
Beneficiaries reached with financial services	The indicator measures the number of persons benefited from financial services in operations supported by the Bank, and the number of businesses that benefited from financial services.	Semi-annual.	PFIs.	The PFIs will record the number of companies that benefiting from the CGF. They will document this, and ODIMM (CGF) with PIU will verify the list. As needed, site visits/focus groups with beneficiaries will be conducted to verify evidence.	ODIMM (CGF) and PIU
Value of exports generated by MSMEs supported by Project activities (cumulative)	Cumulative value of exports generated by MSMEs supported by project activities with ODIMM (including CGF and MGF), IA export missions.	Annual.	Company records, PIU/MGF/CGF/MoE records.	This indicator will measure: MSMEs exporting existing products to new markets or new customers, exporting for the first time, exporting new products to existing or new markets, or selling new products into export-	PIU and MoE, in collaboration with ODIMM and IA.

				oriented value chains. Data will be collected through annual financial statements or reports from beneficiary companies; through focus groups, or through official government records, or combination of all three.	
Percentage of MGF recipients that are engaged in a new export-oriented activity	MGF beneficiaries exporting existing products to new markets or new customers, exporting for the first time, exporting new products to existing or new markets, or selling new products into export-oriented value chains.	Annual.	Company records.	As described in the MGF Operations Manual (part of Project Operations Manual). This is the same methodology used in CEP II. Also, an impact evaluation will be carried out and this will be part of the MGF Operation Manual.	ODIMM and PIU.

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Share of the inspection agencies progressing on their key performance	Share of the inspection agencies progressing on	Annual.	State Chancellery	Annual data collection as per methodology for	State Chancellery and

indicators	their key performance indicators in totality. This indicator means that only those inspection agencies that implement their KPIs fully on any given year, will be recorded.		and state inspectorates official records, as well as e-inspection system.	key performance indicators that is adopted by the Government Decree No. 355/2020 dated October 6, 2020.	PIU.
Upgrading the e-Inspection system to enable risk-based inspections and automation of inspection visit reports	Upgrading the e-Inspection system to enable risk-based inspections as well as automation of inspection visit reports. It will include the Inspections Registry data sources, risk assessment criteria, risk-based inspections planning, performance analysis, as well as automating inspection visits. This will also involve equipping pilot inspectorates with relevant equipment to enable modern inspections.	Annual.	State Chancellery.	The PIU in coordination with State Chancellery will collect data from e-Registry on upgrades and performance of the system, as well as automation of the inspection visits. Focus groups with inspectors and businesses will be done by the PIU to verify progress as needed. Also, evidence of equipping up to 4 pilot inspectorates will be collected by the State Chancellery and the PIU and documented as progress towards meting this indicator.	PIU.
Digitization of G2B services	Number of G2B permissive documents at the national	Annual.	MMIP.	The PIU will report on digitized national level	PIU.

	level digitized through MMIP.			permissive documents in MMIP based on the reports from MMIP.	
Increase in the online application rate by business for getting business permits through the electronic One-Stop-Shop	Increase in the online application rate by the business for getting business permits through the electronic One-Stop-Shop.	Annual.	MMIP.	Data from the official Government system that is readily available.	PIU
Number of accredited NQI services provided by local testing laboratories available to firms increased by 50	Number of accredited NQI services provided by local testing laboratories available to firms to increase at least by 50. This indicator will measure new services offered to the private sector as a result of intervention.	Annual.	Accreditation and Metrology agencies, PIU	Accreditation and Metrology agencies will provide data on annual basis of new services that are offered to MSMEs. These new services will be accredited within the country.	PIU
New accredited calibration laboratories available to firms (cumulative)	Two new calibration laboratories available to firms accredited by the Accreditation Agency enabling exports to the EU.	Annual.	Accreditation Agency and PIU.	The Accreditation Agency will provide evidence on completed accreditation.	PIU.
Percentage of participants reporting satisfied or very satisfied with workshops	Percentage of participants reporting satisfied or very satisfied with workshops	Annual.	Participants at various seminars, workshops, events organized as a part of all project	Participants at various seminars, workshops, events organized as a part of all project components. Exit survey will be conducted and reported.	PIU

			components. Exit survey will be conducted and reported.		
Number of jobs created	Number of jobs created as a result of CGF, MGF, export missions and export readiness.	Semi-annual.	PFIs and Company records.	PIU, together with ODIMM and IA will collect data from companies on jobs created. As needed, focus groups with businesses to be conducted to document the findings.	PIU, ODIMM, IA
Share of female-owned/female-managed MSMEs supported by CGF under the Project	Share of female-owned/female-managed MSMEs supported by CGF under the Project.	Semi-annual.	Beneficiary enterprises, PFIs and ODIMM's CGF team	CGF operations manual will detail procedure on data collection from PFIs and beneficiary MSMEs.	PIU and ODIMM CGF team
Establishment of export readiness and supplier development (local linkages) programs for MSMEs	ODIMM will establish export readiness and supplier development programs to help MSMEs to increase competitiveness and become export ready. This will also enable linking with exporting value chains.	Annual.	MoE	MoE will provide legal basis and decisions needed to justify establishment of these programs.	PIU

Number of MSMEs benefiting from export readiness, supplier development or export missions programs	This indicator will track number of MSMEs that benefited from export missions, supplier development or export readiness programs. These three programs are aimed at helping MSMEs to become more competitive, export ready and link them with exporting value chains of export markets.	Annual.	Company records, ODIMM, IA and PIU records.		ODIMM, IA, PIU
Number of MSMEs benefiting from export missions	Number of MSMEs that took part in export missions	Annual	Company records, IA, PIU	PIU and IA will collect data from companies that took part in export missions	PIU and IA
Number of MSMEs benefiting from export readiness program	Number of MSMEs benefiting from export readiness program. These are companies which participated and completed the 360 degree screening, received the recommendations to improve performance and agreed to implement the action plans.	Annual.	Company records, ODIMM, PIU	PIU and ODIMM will collect data from companies that went through export readiness program.	PIU and ODIMM.
Number of MSMEs benefiting from supplier development program	Number of MSMEs undergoing supplier development program. These are companies which	Annual.	Company records, MoE and PIU	MoE with PIU will collect data from companies and relevant agencies on	PIU

	participated and completed the 360 degree screening, received the recommendations to improve performance and agreed to implement the action plans.			participation in this program.	
Cumulative number of MSMEs receiving Matching Grants	Cumulative number of MSMEs receiving Matching Grants.	Annual.	Company records, ODIMM and PIU	As per POM.	ODIMM and PIU.
Percentage of MGF beneficiaries satisfied with engagement	Percentage of MGF beneficiaries satisfied with engagement.	Semi-annual.	MGF beneficiaries.	ODIMM's MGF team and PIU will conduct exit interviews or focus groups with MGF beneficiaries annually and report on their satisfaction with the engagement. At least 3 focus groups should be conducted each 6 months with minimum 20 MGF beneficiaries/or exit poling of at least 20 MGF beneficiaries each 6 months (in the first year of operations if there are no 20 MGF beneficiaries, then all existing ones should be	PIU.

				engaged). MGF beneficiaries should not be repeated in semi-annual surveys. Only satisfied and very satisfied will be counted towards the indicator as positive results, and the rest will be negative results.	
Share of Matching Grants beneficiaries that are female—owned/female-managed	Share of Matching Grants beneficiaries that are female-owned or female-managed.	Semi-annual.	Company records, ODIMM, PIU.	As per POM.	ODIMM and PIU.
Number of roundtables / training sessions (face-to-face, virtual) on climate change	Number of roundtables / training sessions for MSMEs, PFIs, other stakeholders (face-to-face, virtual) regarding climate change to encourage climate-smart businesses	Annual.	ODIMM, IA, PIU and other stakeholders.	Actual number of workshops targeting MSMEs, PFIs, other stakeholders regarding climate change to encourage climate-smart businesses. Agenda, list of participants and event organizers will have to be filed to be counted.	PIU

Performance-Based Conditions Matrix				
PBC 1	Reduction in regulatory burden for MSMEs by improving business inspections			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	Yes	Text	1,000,000.00	
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	The percentage of inspection agencies implementing KPIs is 10%			
June 30, 2026	The percentage of Inspection agencies implementing the totality of its KPIs on any given year is at 50%, or 7 Inspection agencies, whichever is higher		1,000,000.00	n/a

PBC 2	Reduction of regulatory burden for MSMEs through digitization of G2B services			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	Yes	Text	1,000,000.00	
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	The number of digitized government-to-business business permits at national level through MMIP is 78; online application rate through MMIP is 50%			
June 30, 2026	The number of digitized government-to-business business permits at national level through MMIP is at least 105, and online application rate through MMIP is at least 60%, in totality		1,000,000.00	n/a

Verification Protocol Table: Performance-Based Conditions	
PBC 1	Reduction in regulatory burden for MSMEs by improving business inspections
Description	PBC will focus on digitization of government to business services (inspections), and enhancement of risk-based inspections, all resulting in reducing regulatory costs for the private sector and sustainability of achieved reforms. PBC will focus on increasing the number of inspection agencies that are implementing key performance indicators (KPIs).
Data source/ Agency	PIU provided evidence with the help of MoE, State Chancellery, EGovernment agency and other relevant agencies
Verification Entity	Independent consultant will be engaged by PIU to verify evidence. WB team will double check that. Verification will be spelled out in POM
Procedure	Verification protocol: KPIs and inspection agencies are defined in the Government decision No. GD355/2020 of 10.06.2020 and any amendments thereto. The baseline is set as of December 31, 2021 and progress will be tracked against that. The Protocol will be part of POM. Any changes to this protocol will be agreed upon between the government (as the Borrower) and the World Bank by adjusting POM. The action plan or delivery date of PBC may also be amended by adjusting POM. In all years, the government and Bank teams will systematically review progress towards meeting indicators and make any decisions deemed necessary to resolve issues that might arise. Reports identifying all indicators, progress in implementation of existing indicators, and definition of new indicators and targets will be posted on a website and made public to the enterprise community and civil society. Through the process of supporting the implementation, the World Bank will assist were desired by the government, and will also vet the indicators. The government will prepare a report to be delivered to the World Bank as evidence of achieving the PBC result target. Verification will be done by the independent consultant hired by the PIU. The World Bank team that will verify PIU evidence and then WB team will provide final verification.

PBC 2	Reduction of regulatory burden for MSMEs through digitization of G2B services
Description	PBC will focus on digitization of national level government to business business permits and regulatory simplification, together with increase in the uptake of online applications for permit issuance - all resulting in reducing regulatory costs for the private sector and sustainability of achieved reforms.
Data source/ Agency	PIU provided evidence with the help of MoE, State Chancellery, EGovernment agency and other relevant agencies
Verification Entity	Independent consultant will be hired by PIU to verify submission, and then WB team will provide final verification
Procedure	Verification protocol: The baseline is set as of December 31, 2021 and progress will be tracked against that. Verification protocol will be part of POM. Any changes to this protocol will be agreed upon between the government (as the Borrower) and the World Bank by adjusting POM. The action plan or delivery date of PBC may also be amended by adjusting POM. In all years, the government and Bank teams will systematically review progress towards meeting indicators and make any decisions deemed necessary to resolve issues that might arise. Reports identifying all indicators, progress in implementation of existing indicators, and definition of new indicators and targets will be posted on a website and made public to the enterprise community and civil society. Through the process of supporting the implementation, the World Bank will assist were desired by the government, and will also vet the indicators. The government will prepare a report to be delivered to the World Bank as evidence of achieving the PBC result target. Verification will be done by the independent consultant hired by PIU, and then WB team will provide final verification. The government’s progress making the legislative changes to address these areas will be actively monitored during the project, through the normal implementation support channels. Reforms will be considered to be achieved: a) when processes have been implemented; b) official records of improvements verified through the Government systems; c) when the legal amendments have been adopted by whichever authority is charged with approving such changes so that they can become operational, and they are published in the Official Gazette; d) when evidence from Government electronic systems are provided, etc

ANNEX 1: Implementation Arrangements and Support Plan

COUNTRY: Moldova
Moldova MSME Competitiveness Project

Financial Management

The Project's general FM responsibilities including planning, budgeting, accounting, internal controls, flow of funds, regular financial reporting and auditing, will be handled by the experienced PIU which has a successful and proven track record of implementing World Bank-financed projects, and it is staffed with qualified accounting staff.

The PIU's FM arrangements, which have been reviewed periodically as part of implementation support visits for other WB-funded Projects (including recently closed CEP II), have been always rated as satisfactory, and are considered adequate for new project. The PIU demonstrated high level compliance with the financial reporting requirements, all required interim financial reports and audit reports having been received by the Bank in a timely manner. A good accounting system that allows to keep accurate and up-to-date records is in place. The PIU has experience with PBCs which comes handy for this project as well.

CGF related accounting and reporting matters will be held by ODIMM. Given that CGF does not have legal status, it does not require to provide separate financial statements. CGF is reflected in the state budget law under separate code "00385"within the ODIMM's program "Support to small and medium enterprises". The funds for CGF capitalization flow from MoF to ODIMM through MoE into ODIMM's single account. ODIMM keeps separate analytical records in 1C accounting information system on CGF allocations and operations. ODIMM provides quarterly activity and performance reports to MoE. The FM capacity of ODIMM in relation to CGF management is assessed as adequate, however; the World Bank requires a separate account to be opened for CGF capitalization that comes under its financing, provision of regular financial reports and audits of CGF as described in the sections below.

Cash basis principle would be applied for project accounting, and International Public Sector Accounting Standards "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants will be used for the project's financial reporting. The project-related expenditures will be reported through quarterly Interim Financial Reports (IFRs) prepared by PIU following the existing format and submitted to the WB within forty-five days of the end of each calendar quarter. The IFRs will include financial statements prepared by ODIMM for CGF according to the template agreed with the Bank and as approved by the ODIMM's Coordination Board. These statements will contain adequate disclosures on CGF operations, its financial position and financial performance and cash flow statement. The PIU will also submit to the Bank the budget execution reports related to the sub-programs underpinning the PBCs on six-, nine- and twelve-month basis that is in line with the reporting requirements of the Ministry of Finance.

The annual financial audit of the project will be conducted by an independent audit firm acceptable to the Bank, according to the International Standards on Auditing and on Terms of Reference agreed with the WB. Annual audited project financial statements, including PBC-related budget execution reports and CGF financial statements, will be submitted to the WB within six months of the end of the Government's fiscal year and at project closing. Following the formal acceptance of these reports, the Bank and PIU will make them publicly available on their websites.

Performance based conditions (PBCs) are being introduced. Staff compensation costs of the MoE and sub-program "Instrument of support for digitization of small and medium enterprises" implemented by the ODIMM will serve as underlying expenditures for the PBC. The pertaining arrangements related to these expenditures are assessed as adequate, including keeping complete records, producing reliable budget executions reports, and resulting in satisfactory internal and external audits. With regard to staff costs, the project will rely on the procedures and systems, budgeting and accounting arrangements existent at MoE which are straightforward and fairly well managed. Evidence of compliance with EEP expenditures will be generated by client systems which have been vetted by the Bank team. These expenditures are regularly reported through budget execution reports which show both planned expenditures for the year and actual expenditures executed to-date.

As to the subprogram activities, the Project will follow the existing architecture of national program budgeting, reporting and spending. The subprogram is budgeted in FY2022 state budget and in the Medium-Term Budgetary Framework for 2022–2024 as actions linked to ODIMM's larger subprogram 5004 "Support to small and medium enterprises" under program 50 "General economic and commercial services". The subprogram execution is regularly reported to MoE and it is published. The eligible expenditures linked to PBC will be included in the annual Project audit and updated as needed. The budget codes and estimated amounts of these expenditures for FY2022–2024 are provided in the Table below. These amounts are more than sufficient to cover the PBC-related disbursement.

Table 6. Eligible expenditures for the PBC

Eligible Expenditures for PBCs	**Budget codes as of May 25, 2022 (P1P2, P3, ECO)**	**2022**	**2023**	**2024**
		Budgeted (MDL)	Estimated (MDL)	Estimated (MDL)
MoE staff compensation costs and associated taxes	5001, 00010, 211800, 212110 or other codes as further amended by the Ministry of Finance	11,006,700	11,006,700	11,006,700
Subprogram activity "Instrument of support for digitization of small and medium enterprises"	5004, 00116, 254000 or other codes as further amended by the Ministry of Finance	10,000,000	10,000,000	10,000,000
Total in MDL		**21,006,700**	**21,006,700**	**21,006,700**
Estimated US$ equivalent		**1,235,600**	**1,235,600**	**1,235,600**

The flow of funds and disbursement arrangements. The PIU will oversee planning and managing project disbursements, including preparation and submission of withdrawal applications. For regular non-EEP/PBC categories the project will use standard disbursement methods: Advance, Reimbursement, Direct payment and Special Commitment. The project funds will be deposited in a Designated Account to be opened by the PIU in the National Bank of Moldova. The eligible project expenditures will be documented and reported to the World Bank using statement of expenditure (SOE).

Project proceeds against achieved PBCs will be channeled to a specific Budget Account of the State Treasury, indicated by the Ministry of Finance. The PBC category will only utilize the reimbursement method and the amount of underlying eligible expenditures incurred shall be equivalent to or higher than the value of the reported PBCs. For each PBC, the Government will be able to withdraw Loan proceeds in the amount specified for each target by presenting: (a) evidence of the achievement of the agreed PBCs, which are subject to verification; and (b) the detail of expenses incurred under agreed budget lines in accordance with the agreed template for budget execution reports.

The disbursements for capitalization of CGF will be made as direct payment against fulfillment of disbursement conditions established in the legal documents. The PIU will arrange the transfer of the proceeds as CGF capital parts to a separate account specifically opened by ODIMM in the Treasury for the purpose of providing credit guarantees to participating lenders. Two tranches are envisaged throughout the implementation period. The funds transfer (bank statement) together with the ODIMM's board decision for capital increase would substantiate the eligible expenditure to be reported. ODIMM's Operation Manual for CGF (part of POM) will be updated with the procedures related to flow of funds for second component, procedures on calling guarantees by PFIs, contract arrangements with PFIs and related procedures.

Further details on disbursement arrangements will be provided in the Disbursement and Financial Information Letter.

FM Support and Supervision Plan. During project implementation, the World Bank FM team will: (a) conduct regular check-ups with the project implementation agency on FM and disbursement matters; (b) keep engaged with the counterparts on issues impacting performance, compliance and reporting; (c) review the project's IFRs and audits; (d) perform virtual and on-site supervision based on the assessed project's risk and performance; (e) perform frequent sample-based verification of transactions, and (f) and provide necessary support and guidance or training to the project implementing units.

Procurement

Procurement under the project will be carried out in accordance with the Procurement Regulations and the latest Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants.

Procurement implementation arrangements. The PIU is a separate legal entity established through Government Decision No 895, dated August 25, 2005, with the purpose of implementing CEP. The PIU reports to MoE. It is currently adequately staffed. The PIU has extensive experience with Bank-funded and other donor-funded projects and with all procurement/selection methods and procurement of activities of different size, nature and complexity. Internal processes are well-established and have been adequately functioning in previous projects. A Project Operations Manual will be developed and agreed with the Bank. Currently the PIU employs one full-time Procurement Specialist.

An assessment of the procurement capacity was carried out. The team assessed the risks to implement procurement processes and identified measures to mitigate those risks. The PIU has experience with the Bank procurement procedures and the existing procurement capacities are sufficient to implement and carry out the project activities. The PIU managed the MGF under the previous project with this task being now moved to ODIMM. Table 7 illustrates the key procurement risks and proposed mitigation measures. The overall procurement risk is Low.

Table 7. Key Procurement Risks and Mitigation Actions

Identified Risk	Proposed Mitigation Measure	Responsible Entity	Time Frame
Limited experience of ODIMM with Bank procurement procedures	• The World Bank procurement team will provide the procurement teams and parties responsible for procurement with procurement training that covers approach to procurement, Procurement Regulations, and STEP.	World Bank team	Shortly after project approval
	• Based on the previous experience in managing the MGF PIU will support ODIMM with guidance and share knowledge and sample documents developed as part of the previous project.	PIU	Throughout the project implementation
Potential delays in the procurement cycle (development of technical specifications and terms of references, evaluation, implementation of contracts and approval of deliverables) especially for IT contracts	• Develop a POM that includes a detailed chapter on steps in the procurement cycle and on roles and responsibilities of implementing agency staff in the procurement process. • Employ additional procurement and technical experts to enhance capacities where expertise is lacking. • Employ technical experts to enhance the expertise of ODIMM and PIU. • Closely follow up and monitor the performance of contractors/consultants/suppliers to avoid delays in contract implementation, through a proper contract administration mechanism (regular inspections/meetings). • Ensure that all the required clearances as per the national legislation are obtained prior to launching IT procurement.	PIU/ODIMM	After project effectiveness Throughout the project implementation
Delays in delivery of goods or materials due to the current geopolitical situation in the region	• Amend contracts to extend deadlines or change of the goods or materials	PIU/ODIMM	Throughout the project implementation
Increase in cost of performance of contracts	• Include price adjustment and apply price adjustment formula • Active contract management to discuss with suppliers on alternative sources of supplies • Negotiate contract where necessary	PIU/ODIMM	Throughout the project implementation

Identified Risk	Proposed Mitigation Measure	Responsible Entity	Time Frame
Delays in contract performance	• Proactive contract management to include time extensions	PIU/ODIMM	Throughout the project implementation

Project Procurement Strategy for Development (PPSD). Based on the Project requirements, operational context, economic aspects, technical solutions, and market analysis, a PPSD is currently being developed for the Project scope with support from the World Bank team. The PPSD identifies the following major types of activities: (a) consulting services; (b) goods contracts; and (c) non-consulting services. Although market research finds a significant number of potential consultants/suppliers within Moldova for the types of services needed, the participation of reputable and qualified international consultants will be beneficial to Project implementation. Therefore, the World Bank recommends that the Project approach international markets for larger-value contracts and for those critical for the Project. It has however been agreed that—irrespective of the market approach—the World Bank's Standard Procurement Documents be used for all contracts, including those for which a national approach is foreseen. If this is not feasible, other procurement documents agreed by the World Bank will be used. For procurement in the international market, the World Bank's Standard Procurement Documents should be used.

Procurement under MGF. Private sector commercial practices may be followed for goods and consulting services under sub-grants in accordance with paragraph 6.46 and 7.26 of Procurement Regulations. Maximum sub-grant value per firm shall not exceed MDL 600,000 (equivalent of EUR 30,000). Eligible expenditures under the sub-grants are goods (small value equipment) and consulting services (business development services) financed in the proportion of up to 55% for services and up to 45% for goods. No contract under sub-grants will exceed the Commercial Practices thresholds (equal or more of US$1 million for goods, works and non-consulting services; and equal or more of USD 300,000 for consulting services). Otherwise, Request for Bids and Consultants Quality and Cost-based Selection with international market approach will be applied as defined in the Procurement Regulations. Because of the demand-driven nature of MGF, it is not possible to estimate the sub-beneficiaries nor their procurement requirements under MGF financing of sub-grants at the appraisal stage of the project. Therefore, it is not possible for the PIU/ODIMM to develop a Procurement Plan which provides the basis for procurement methods under this component.

The MGF Operations Manual (part of POM) shall describe the basic guiding principles and acceptable procedures which shall, inter alia, include mandatory provisions that: (a) beneficiaries of the sub-grants shall not award contracts to their subsidiary or affiliated companies unless there is an established arms-length arrangement; (b) procurement of second hand goods shall not be eligible for financing under any of the sub-components; (c) no contract will be financed with a firm/individual which is not eligible under World Bank financing under Paragraph 3.21 through 3.23 of the Procurement Regulations; and (d) all activities are eligible except for those listed in the exclusion list approved by the Bank (Annex 4).

National Procurement Procedures (NPP): Public procurement regulations in Moldova were assessed and it is concluded that the NPP can be used with certain exceptions. The new Public Procurement Law (PPL) No. 131 which entered into effect on May 1, 2016, is better adjusted to the EU Directives. While the PPL provides a good basis for the public procurement system and properly draws the legal framework for a sound public procurement system, the law has not been fully implemented/applied. An assessment of NPP has been carried out by the World Bank. The assessment concluded that given the ongoing and planned reforms in the public procurement sector, various technical issues with the current electronic procurement system, the PPSD suggests that the projects adopts the Standard Procurement Documents developed by the Bank or any other procurement documents agreed with the Bank for procurement following national market approach.

Systematic Tracking of Exchanges in Procurement (STEP): STEP will be used under the project. All procurement transactions for post and prior contract review under the project must be recorded in/processed through the Bank's planning and tracking system, STEP. This ensures that comprehensive information on procurement and on the implementation of all contracts for goods, works, non-consulting services, and consulting services awarded under the whole project are automatically available. This tool will be used to manage the exchange of information (such as bidding documents, bid evaluation reports, no-objections, and other procurement documents) between the implementing agency and the Bank. The Procurement Plan (PP) will be prepared in STEP and will be submitted to the World Bank for review and approval. The approved PP will be published on the World Bank's external website. Any updates to the PP will be subject to Bank's review and approval.

The CERC will help the Borrower respond quickly in case of a crisis or emergency. It was agreed that the PPSD developed by the PIU will include a section applicable to the CERC. The CERC-PPSD will focus mainly on complex contracts and new or innovative procurement, rather than on smaller, routine contracts. The strategy will describe, among other things, how procurement opportunities and risks will be managed in emergency circumstances and how suppliers and contractors will be motivated to bid and incentivized to perform. Procurement arrangements under the CERC will be streamlined. The World Bank's oversight and due diligence for procurement will be done through augmented implementation support with close monitoring, increased procurement-related post review, and/or third-party procurement reviews. All these arrangements will be described in detail in the CERC-PPSD and POM's CERC annex, which will be developed by the PIU. Given that the CERC is contingent and event-driven, no PP for the CERC is prepared ex-ante. This PP will be formulated once the CERC is triggered.

Advance Contracting and Retroactive financing may be considered under the Project, subject to the conditions set out in paragraphs 5.1 and 5.2 of the World Bank's Procurement Regulations for Borrowers. In accordance with the Procurement Regulations, the Bank requires the application of, and compliance with, the Bank's Anti-Corruption Guidelines, including without limitation the Bank's right to sanction and the Bank's inspection and audit rights. To ensure compliance with the above provisions in bidding processes that have already been conducted and for which the awarded/signed contracts did not include the relevant fraud and corruption provisions, suppliers/consultants/contractors will be required to sign the Letter of Acceptance of the World Bank's Anticorruption Guidelines and Sanctions Framework so that these contracts can be eligible for financing under this project. The PIU will provide to the Bank the list of contractors/suppliers and subcontractors/sub-suppliers under these contracts for the Bank to ensure that the firms chosen are not and were not at time of award or contract signing on the Bank's List of Debarred Firms. Contracts awarded to firms debarred or suspended by the Bank (or those that include debarred or suspended sub-contractors/sub-suppliers) will not be eligible for Bank's financing.

Complaint handling mechanism. To address procurement complaints received by the proposed Project, the Borrower will implement a complaint handling mechanism. The project is required to ensure recording of procurement-related complaints in the STEP system. Both the World Bank and Borrower will use STEP to track complaints. The Borrower will be responsible for performing the following actions in STEP: (a) promptly record all complaints relating to procurement process; (b) for procurement process complaints received on contracts subject to the World Bank's prior review, submit the Borrower's proposed response to each complaint before issuing it to the complainant(s); (c) record the Borrower's response to the procurement process complaints upon issuance to the complainant(s); and (d) promptly register requests for debriefings and update STEP with the record of the debriefings to interested parties.

Procurement documentation: All documentation with respect to each procurement will be retained by the PIU/ODIMM according to the requirements of the Legal Agreements. PIU/ODIMM will furnish such documentation to the World Bank upon request for examination by the World Bank or by its consultants/auditors. Documents with respect to procurement subject to post review will be furnished to the World Bank upon request.

Procurement prior review thresholds. The procurement prior review thresholds will be set by the World Bank based on the Project's procurement risk level. All contracts at or above the set thresholds are subject to international advertising and the use of the World Bank's Standard Procurement Documents. Use of certain procurement approaches—specifically best and final offer, procurement processes involving contract negotiations, competitive dialogue, and sustainable procurement—are not foreseen under the Project but these approaches will be subject to the World Bank's procurement prior review, irrespective of the contract value, if the decision is taken during Project implementation to apply them. The applicable thresholds are defined in the table below and will be specified in the textual part of the PP.

Table 8. Procurement Types, Method and Prior Review Thresholds

Type of Procurement	Method Threshold (US$, millions)	Prior Review Threshold
• Works (including Turnkey, Supply & Installation of Plant and equipment, and PPP)	• Open International > 5 • Open National < 5 • National Request for Quotation < 0.2	• All contracts more than US$20 million equivalent
• Goods, Information technology and Non-Consulting Services	• Open International > 1 • Open National < 1 • National Request for Quotation < 0.1	• All contracts more than US$6 million equivalent
• Consulting firms	• Selection Based on Consultants' Qualifications < 0.3 • Least Cost Selection and Fixed Budget Selection - in justified cases • Quality- and Cost-based Selection and Quality-based Selection - in all other packages • National market approach (As per paragraph 7.25 of the Procurement Regulations) < 0.3	• All contracts more than US$4 million equivalent
• Consulting - individuals	• No threshold	• All contracts more than US$500,000 equivalent
• Direct selection	• No threshold	• With prior agreement based on justification: • For goods/works/non-consulting services: As per paragraphs 6.8–6.10 of the Procurement Regulations. • For consultants: As per paragraphs 7.13–7.15 of the Procurement Regulations.

Note: The above thresholds are for the initial 18-month implementation period. Based on the procurement performance of the Project, these thresholds may be subsequently modified.

World Bank's procurement oversight. The World Bank will exercise its procurement oversight through a risk-based approach comprising prior and post review and independent procurement reviews, as appropriate. Procurement supervision visits will be carried out at least twice per year. These will include special procurement supervision for post review on procurement processes undertaken by the PIU/ODIMM, with the goal of determining whether they comply with the requirements of the Legal Agreements. The post review will be conducted with an initial sampling rate of 10 percent of contracts, though this could be adjusted periodically during Project implementation based on the Project's performance.

ANNEX 2: Gender gaps in entrepreneurship and access to finance in Moldova

COUNTRY: Moldova
Moldova MSME Competitiveness Project

By global and regional standards, gender equality is quite high in Moldova. The country ranks 28 among the 156 countries covered by the World Economic Forum Global Gender Gap Index 2021[46] and is in the top 5 among the Eastern Europe and Central Asia countries. It ranks 65 in the Women, Business and the Law 2021 Index[47] demonstrating the highest scores on 5 out of 8 indicators, while lagging behind on those related to workplace, pay and pensions. The country has close to universal primary and secondary education completion rates that are equal for boys and girls and a high university completion rate. Women account for 58 percent of university graduates. Gender discrepancies in labor force participation are relatively low and women are slightly more likely than men to hold secure, albeit less well-paid, public sector jobs. Moldova is one of the countries with the smallest Economic Participation and Opportunity gaps and Health and Survival gaps.[48] At the same time, it is lagging behind on political empowerment indicators.

However, there is evidence that gender discrepancies persist within important areas of social and economic life[49]. The Moldova Country Gender Assessment of 2014[50] indicated that while gaps in gender outcomes are low, men and women face distinct challenges. The major gender challenges can be divided into the following categories: (a) inequalities in the labor market, (b) agency, voice, and gender-based violence, (c) healthy lifestyles and behaviors.

Gender segregation is particularly evident in the labor market: by sector, occupation, and gender distribution of leadership positions. The majority of employed women concentrate in public administration, education, agriculture, and trade and hotel services. According to Enterprise Survey 2019,[51] only 18.6 percent of firms have women as top managers. Women earn only 74 percent of what men earn and the earnings gap persists even in economic sectors in which women predominate.[52] The largest gender pay gaps were identified in the financial and insurance activities, ICT, and industry. Women are underrepresented in areas such as IT and financial services that generally offer higher-paying jobs. The World Bank (2016) report "From Aspirations to Occupations" find that gender differences in aspirations in terms of vocational or general education as well as preferred fields of study perpetuate existing occupational segregation in the labor market. A SIDA gender analysis of Moldova's accession to the EU Deep and Comprehensive Free Trade Agreement (Spear, et. al. 2016) concluded that Moldovan women may not be as successful in reaping economic benefits from the DCFTA agreement due to the sectors of the economy where female labor is concentrated, and lower access to finance, among other factors. Women may benefit as employees in selected sectors, such as agriculture and textiles. Women in Moldova are less likely to start a business, and when they do, they are less likely to expand and employ others. Detailed research and policies on women in business is incipient; available data suggest that barriers include social norms, access to productive assets, and the need for skills (leadership, management).

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[46] Global Gender Gap Report 2021, March 2021. *http://www3.weforum.org/docs/WEF_GGGR_2021.pdf*
[47] World Bank. 2021. Women, Business and the Law 2021. Women, Business and the Law identifies legal differences between men and women as one step toward a better understanding of where women's economic rights may be restricted in practice.
[48] Global Gender Gap Report 2021, March 2021.
[49] Evidence based on: World Bank Country Gender Assessment (2014), World Bank Systematic Country Diagnostic (2015), Moldova National Gender Equality Strategy (2017), Moldova Gender Equality Portal (http://egalitatedegen.md/en/), reports by local and international organizations (UN WOMEN, Sida, Women's Law Center, Partnership for Development Center, Soros Foundation, see Bibliography attached).
[50] "World Bank. 2014. Moldova: Gender Disparities in Endowments and Access to Economic Opportunities.
[51] Enterprise Surveys, 2019, The World Bank Group, www.enterprisesurveys.org.
[52] WB Republic of Moldova Country Gender Action Plan, April 2017.

Further investment in women-owned businesses in Moldova is warranted. The 2018 WBG report "Supporting Women's Entrepreneurship in Moldova"[53] provided an overview of the conditions for female-owned businesses. In 2016, female-owned businesses represented only about 25 percent of all Moldovan enterprises. Women's participation in entrepreneurship has somewhat improved over the past years: they are now holding and managing about one-third of the companies, while still representing a little-used growth potential and a minority in the business community. Women own micro-businesses more frequently than men and rarely own medium and large businesses. They rarely start businesses on their own initiative and more often use their family members' support.[54] According to the assessments, women-owned businesses produce higher average annual sales, employ on average more people, show higher labor productivity than male-owned companies as well as a much stronger propensity to provide employment and advancement for other women than male-owned firms. Despite these strong indicators, growth from 2014 to 2016 among female-owned firms was less than that of male-owned firms in four of seven industries. This trend can be reduced by a targeted policy effort. One special concern identified in the survey is the apparent trend across industries and regions for women to lose ownership and control over their businesses to males, likely because of indebtedness and lack of access to equity capital.

Female firms are disproportionally less likely to export than male firms, and exports constitute lower percentage of sales than in male firms. According to the BEEPS Follow-up on COVID-19 2021 2.8 percent of female-managed firms in comparison with 8.3 percent of male-managed firms export directly at least 10 percent of sales. 19 percent of firms with majority female ownership are non-exporter, as compared to 14 percent in ECA, while direct exports are 10 percent or more of sales in 9 percent of companies versus 11 percent in ECA. 41 percent of firms with female participation in ownership is non-exported as compared to 34 percent in ECA, while direct exports are 30.5 percent of total sales, versus 32.5 percent in ECA. This shows that female owned/managed firms are less likely to export in Moldova and supporting them to enhance their export readiness is important. Moreover, women need more support and encouragement to start and grow businesses. Compared to men, women are more reluctant to initiate private enterprises. Given that on average, women possess fewer assets, financial resources and informal support, women entrepreneurs must rely on formal financial schemes, so are more willing to access the funding opportunities through different support programs and development projects. Therefore, export competitiveness and matching grants work is more so important to help them grow and export.

There are disparities in access to finance between male and female-managed firms. Though women and men are equally likely to have lines of credit, in 2016 fewer women applied for credit and those who did were required to pledge four times the amount of collateral as the men.[55] Women entrepreneurs face barriers getting access to bank loans and to state-funded business and entrepreneurship development programs. The 2019 Enterprise Survey data show that 16.8 percent of female-managed MSMEs have a bank loan or line of credit compared to 25.2 for male-managed MSMEs. Female-managed firms indicated that the value of collateral was 299.5 percent of the loan amount vs. 204.4 percent for male-managed firms.

When analyzing the COVID-19 impact businesses, female-managed firms have been disproportionately hit by closures and financial pressures compared to male-managed firms. The November 2020 follow-up enterprise survey indicates that while female-managed and male-managed firms have been affected equally in terms of decline in sales, female-managed firms have been affected disproportionately by closures (16.2 percent of female-

[53] Supporting women's entrepreneurship in Moldova: review, assessment, and recommendations (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/411391516856355553/Supporting-women-s-entrepreneurship-in-Moldova-review-assessment-and-recommendations.

[54] *https://moldova.unwomen.org/en/noutati-si-evenimente/noutati/2020/08/women-in-entrepreneurship*

[55] Supporting women's entrepreneurship in Moldova. Review, assessment and recommendations, WBG, March 2018.

managed firms have permanently closed or assumed to be permanently closed vs. 9.6 percent of male-managed firms). However, female-managed firms seem to have experienced a lower decline in employment than male-managed firms as (30.7 reported a decrease in employed hours vs. 38.1 percent for male-managed firms). Since the start of COVID-19 about 42.7 percent of female-managed firms had overdue obligations to financial institutions compared with only 32.2 percent of male-managed firms. Interestingly a much larger share of female-managed firms (61.9 percent) compared with the men-managed firms (46.3 percent) stated that they do not need a loan as a reason for not applying for one, but the number of female-managed firms whose recent loan application was rejected was significantly higher than that of male-managed firms (61.1 percent versus 28.8 percent). However, the larger share of women not needing a loan may stem from various firm factors (e.g., industry, size etc.) and entrepreneur characteristics (e.g., if female entrepreneurs are more risk-averse than men they may have a lower demand for bank loans). Additionally, women may anticipate discrimination and therefore refrain from applying to banks. More than that, the problem may be exacerbated if females are less overconfident than men, which could reduce the share of female applicants even further.[56]

[56] Entrepreneurs' gender and financial constraints: Evidence from international data, Journal of Comparative Economics 37 (2009) 270–286.

ANNEX 3: Financial Intermediary Assessment and OP 10 Memo

COUNTRY: Moldova
Moldova MSME Competitiveness Project

Project Design

As the access to finance component involves a mode of financial intermediation, based on guarantees managed by ODIMM, an OP 10 review has been undertaken. ODIMM, which manages CGF, will be involved in the technical implementation of the access to finance component alongside the PIU. ODIMM will hence act as a financial intermediary facilitating greater availability of credit for final beneficiaries, in accordance with the OPCS/FCI GP 2016 Guidance Note on Financial Intermediary Financing. The World Bank conducted virtual meetings with ODIMM management and reviewed the documents provided by ODIMM to assess CGF against the "Principles for Public Credit Guarantee Schemes for SMEs," which cover sixteen principles considered good global practices for establishing and operating credit guarantee schemes. This OP10 review is derived from the assessment against these principles, with a focus on those principles that are relevant for the purpose of financial intermediation.

Assessment of ODIMM / CGF

ODIMM is a state agency under the MoE. ODIMM is non-commercial organization in the form of a public institution under the MoE established by Government Decision No. 538 of May 17, 2007**.** ODIMM is a legal entity, has an autonomous balance sheet, bank accounts and operates in collaboration with ministries and other central and local administrative authorities in Moldova and abroad. The financial means of ODIMM are primarily based on funds allocated annually from the state budget, which for 2020 amounted to MDL 219.8 million. ODIMM is a suitable implementation partner for the access to finance component given that there is no development bank, state-owned commercial bank, nor any commercially operated institution that can perform this role, in line with the provisions of the Guidance Note. As such, there is no conflict of interest arising from the choice of ODIMM as apex financial intermediary, in line with the provisions of the Guidance Note.

ODIMM is the primary vehicle for implementing the Government strategy for MSMEs. ODIMM was created to support the development of the MSME sector in the country, in accordance with Government priorities. ODIMM manages several programs that are aimed at: (a) facilitating MSMEs' access to business consulting and assistance services; (b) forming and developing entrepreneurial culture; and (c) facilitating MSMEs' access to diversified financial resources. These include, among others, business consultancy services on entrepreneurship, capacity building to entrepreneurs through training programs, seminars etc., and issuance of financial guarantees through CGF. ODIMM is involved in identifying and establishing regional and international partnerships with key institutions to increase the competitiveness of the MSME sector in Moldova. In 2019, ODIMM implemented 12 technical and financial assistance projects aimed at internationalization of MSMEs, regional development, development of cluster initiatives, promotion of female entrepreneurship and strengthening transnational cooperation. According to the World Bank assessment, CGF has a clearly defined mandate supported by strategies and operational goals consistent with policy objectives, in line with Principle 5. ODIMM currently has 75 employees.

One of the main tools for the development of the MSME sector implemented by ODIMM is CGF. The administration and management of the current CGF programs has been granted to ODIMM by the Government Decision No.538 in 2007, when the latter was established. The updated Regulation on CGF for MSMEs, which covers all general aspects regarding the procedure for granting financial guarantees, was approved by the Government Decision No.828 in 2018. Since 2007, CGF's funding grew ninefold from MDL 1.7 million MDL in 2007 to 15.0 million MDL in 2020. The number of guarantees in the active portfolio increased from 12 in 2007 to 179 in 2020 while the value of the credits guaranteed increased from MDL 4.0 million to MDL 325.9 million. The guarantees issued by ODIMM support MSMEs, as defined by Law No. 179/2016.

While CGF is not itself an independent legal entity according to Principle 1, based on the World Bank assessment, this does not necessarily prevent it from effectively accomplishing its mission, as the guarantee mandate is clearly articulated and defined. Indeed, CGF can leverage, link, and coordinate the other MSME assistance programs implemented by ODIMM with the access to finance programs of CGF. The Credit Guarantee Department within ODIMM is staffed by 10 people. CGF is also supported by other departments within ODIMM. As such, CGF can undertake the financial obligations needed to act as financial intermediary under the Guidance Note. Nonetheless, the team has advised that ODIMM should consider making CGF a separate subsidiary to provide sufficient controls around the financial services function and autonomy over the medium/long term. A separate subsidiary for CGF would allow for an independent budget, including staff costs, enable prudential oversight of CGF financial services activities, and separate independent auditing. CGF also lacks a separate internal control framework in line with Principle 7, which it will implement to separate key functions on credit origination, financial management, and claims payout as part of an agreed Action Plan under the Project.

ODIMM is managed and CGF is supervised by a governing body, the ODIMM Coordinating Council. While CGF does not have a separate and independent corporate governance structure, in line with Principle 6, it is supervised by a governing body, the ODIMM Coordinating Council, with sufficient stakeholders' representation to independently and efficiently represent stakeholders' interests. The Coordinating Council is composed of at least 7 members: 3 representatives of the Government (MoE, MoF), 2 representatives of non-governmental organizations, representing the interests of MSMEs, 1 representative of donors and ODIMM's director. The Coordination Council meets at a regular and ad hoc basis, and coordinates and directs the work of the ODIMM. Its functions, among others, include approval of the organizational structure, of the strategy, annual activity plan and the annual expenditure estimate, and supervision of the use of financial means. The Coordination Council also approves CGF regulation on the issuance, monitoring and execution of financial guarantees, its internal instructions on the guarantee process, the annual activity plan and the report on guaranteeing loans for MSMEs, approves the multiplication coefficient and the amount of completion of the provision fund, as well as guarantee products (including their terms, ceilings, amounts and commissions).

CGF is not, however, separately supervised by a financial regulator in line with Principle 4. As a result, the adequacy of supervision and thus risk-proportionate accountabilities of CGF are not defined, and CGF is not subject to prudential oversight. In the medium/long term, NBM or other financial supervisor should be enabled to develop a risk-based supervision framework for CGF. Because of the legal limitation to appoint a supervisor for CGF, ODIMM is currently considering additional responsibilities of internal audit over CGF activities to enhance supervision and accountability.

CGF offers public credit guarantees with clearly defined and transparent eligibility and qualification criteria for MSMEs and claims management process. CGF currently has seven different products that target starts-ups, firms founded by young entrepreneurs, female-managed/female-owned MSMEs, active firms, export-oriented enterprises. The individual guarantee products are well defined with sufficient credit instrument descriptions, including maximum loan amount, percent of guarantee coverage, use of proceeds, maximum maturity, interest rates, fees, and borrower qualification, in line with Principle 9. The qualifying borrowers apart from being registered, should be carrying out entrepreneurial activity and meeting the criteria for classification of the MSME sector, stipulated by the normative acts, should present evidence of the viability of the business, the ability to serve and repay the loan according to the criteria established by the financial institution, and should not be in a state of insolvency, bankruptcy proceedings, reorganization. The guarantee coverage varies from 50 to 80 percent (with caps in certain products), hence the products fulfill the criteria of Principle 11. ODIMM has a transparent and clearly documented claim management providing incentives for loan loss recovery and is aligned with the Moldovan legal and regulatory framework (Principle 13).

To support the expansion of guarantees, ODIMM is currently developing a portfolio guarantee product. Following the approval of the recent legal amendments allowing ODIMM to conclude collaboration contracts with non-bank credit organizations and facilitate the access of loans requested by MSMEs from these organizations, ODIMM initiated the process of identifying national and international experts, in order to develop a new model of the collaboration contract to be used for these purposes, as well as for the elaboration of the whole set of procedural acts used in the management of the guarantee process arising from the risks imposed in these partnerships. Additionally, ODIMM intensified its collaboration with the Office for the Management of External Assistance Programs,[57] as well has benefits from technical and financial expertise from international partners, such as the World Bank (under CEP II), the EU, and EFSE. A key priority for 2022 is the development of a portfolio mechanism for issuing guarantees.

Eligibility of PFIs

ODIMM has an established appraisal methodology to assess PFIs. According to the Guidance Note, the entity must have the necessary capacity and knowledge to perform the assigned apex role, including especially the capacity to assess competence and creditworthiness of participating financial institutions. The guarantee products offered by ODIMM are currently available through 9 PFIs out of 11 commercial banks in Moldova. At the same time, the analysis process identifies new financial institutions with potential for collaboration. The main users of CGF guarantees in 2020 were BC Moldova-Agroindbank SA, BC EuroCreditBank SA and BC Comerțbank SA accounting in total for 76.4 percent of guarantees managed. From the launch of CGF until end 2021, 1,031 guarantees have been granted with a total value of MDL 663 million, which supported loans amounting to MDL 1.8 billion. As of end 2021, CGF's active guarantees amounted to MDL 527 million for active loans amounting to MDL 1.1 billion, about 6.8 percent of loans outstanding to MSMEs. Therefore, to date CGF programs do not pose a systemic risk to the financial sector.

In its assessment of financial institutions, ODIMM leverages the licensing requirements of the NBM and its own criteria. ODIMM regularly analyzes the economic situation of financial institutions in order to determine their market position, identify new measures to improve the guarantee process, and ensure prudent issuance of financial guarantees. The banking sector reports adequate prudential indicators. One of the methods used for the analysis of the PFIs is the analysis of the following indicators: capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk (CAMELS Method). The portfolio guarantee product will rely even more on the credit risk assessment by PFIs. In turn, CGF will need to augment its own lender oversight and risk-management to ensure PFI procedures are consistent. Currently, CGF relies on quantitative assessment factors of PFIs alone; additional qualitative factors, e.g., good standing with the banking supervisor, have been recommended under Principle 9.

The proposed PFI appraisal framework for the portfolio products is expected to meet the standard of the World Bank's methodology for PFI appraisal. The PFI appraisal for the portfolio augments ODIMM's current

[57] Office for the Management of External Assistance Programs is a special unit with administrative and financial autonomy assigned the functions of re-lending and managing the resources of credit lines of investment projects and programs defined by the Government and the MoF, financed by external loans and grants from the World Bank, EIB, IFAD and other IFIs, granted to support and develop the country's economy, promoting exports, supporting young entrepreneurs, creating new jobs, developing new businesses.

methodology, and the World Bank team has reviewed two PFI appraisal reports (30 September and 31 December 2020). The current ODIMM methodology addresses all quantitative requirements (including key prudential ratios) for the appraisal of PFIs. ODIMM will be asked to add three qualitative assessments for each PFI to align with the World Bank methodology: (a) confirmation that each PFI is in good standing with the NBM Supervision Department; (b) confirmation that each PFI has adequate risk management systems in place; and (c) confirmation that each bank poses no significant reputational risks. The World Bank will review the assessments to be provided by ODIMM prior to approving each PFI to participate in the portfolio guarantee scheme.

Table 9. Banks main financial indicators (December 2021)

Indicators (%)	Agroind bank	Comert Bank	EuroCreditBank	Energ bank	Exim bank	Fincom banc	OTP Bank	Moldincombank	ProCredit bank	BCR Chisinau	Victoria bank
Market share	31.4	1.7	1.3	2.5	4.1	3.7	14.2	20.6	4.4	2.3	14.0
CAR	25.9	21.1	33.6	32.8	46.9	45.1	24.4	18.9	25.5	23.2	38.6
Current liquidity ratio	48.5	44.3	49.1	53.0	63.3	54.9	55.4	44.6	52.0	34.6	57.7
NPLs / total loans	6.1	6.9	6.1	5.9	10.9	3.6	4.1	4.7	5.2	3.9	2.1
ROE	12.4	13.8	4.8	5.8	7.7	2.5	11.2	12.7	18.3	13.4	4.8
ROA	2.0	2.1	0.9	1.4	1.7	0.6	1.8	1.7	3.1	1.7	0.9

Source: NBM.

While there are certain areas where CGF deviates from best practices according to the Principles, they are either addressed in the design of the Project or are less material to the determination of CGF's role as an apex. The Project addresses a number of the key areas as part of disbursement conditions and planned technical assistance.

- **ODIMM's Financial statements do not provide sufficient information on CGF operations and finances (Principle 2).** Specifically, available data indicates that CGF is not sufficiently funded to meet its policy objectives and will exhaust capital in 2022 under the current individual guarantee program. Accordingly, to support the expansion into the portfolio guarantee, the capitalization from the World Bank operation will be crucial. With an anticipated loss rate of 3.5 percent will require that the scheme retain the earnings on capital to be self-sustaining. CGF will have to manage leverage, claims and recoveries accordingly to maintain capital over the medium term. The low level of historical claims -5 claims paid during the 2007-2020 period - are not likely to be the case going forward with a higher expected loss ratio and the introduction of the portfolio product. This may require additional staff resources to manage claims and recoveries going forward. Audited financial statements for CGF are not available for CGF given that it is not a separate entity from ODIMM. This will be supported by the implementation of the Action Plan, which is the disbursement condition for the second tranche.
- **Furthermore, CGF currently does not have a loss or claims projection model, but this has been justified to now by the low level of claims paid during the 2007-2020 period**. Going forward, the CFG operation is anticipated to grow, and will thus require a cash flow projection model to identify, and to quantify future expected cash in-flows and out-flows resulting from this higher expected activity levels. These cash flow projections will then be used to estimate future funding requirements. ODIMM has indicated that they are in the process of building the required data, technology, and analytical framework to estimate their future cash flows and funding requirements. This will be supported by the implementation of the Action Plan.

- **CGF at present does not have a sufficiently sound or robust sound internal control framework (Principle 7).** Key functions in CGF are part of combined responsibilities, including guarantee issuance, monitoring and claims payout. As such, the assessment has recommended CGF to begin the process to segregate its critical functions, and how they are distributed and separated among its staff across ODIMM and CGF. It is important that functions do not constitute an institutional or operational conflict of interest. To some extent, CGF can rely on ODIMM departments responsible for critical internal functions: ODIMM Director General, working group on budgetary allocation, Legal Department, Central Commission, Credit Guarantee Directorate, Guarantee Coordinator, and auditing department. This will be supported by the implementation of the Action Plan.
- **CGF lacks an explicit enterprise risk management framework that identifies, assesses, and manages the risks related to its operation (Principle 8) that accounts primarily for credit risk.** Traditionally, credit guarantee schemes have (a) an established credit risk policy document and (b) a document outlining the methodology for estimating the cash flows of its credit guarantee operation. CGF produces an "*annual estimate of expenditures*" that is submitted to the ODIMM Coordinating Council. Thus, CGF should have some form of these two procedural documents, and the annual expenditure estimates could serve as the basis for more detailed and explicit credit risk policy and cash flow estimating methodology. The World Bank will assist ODIMM in preparing these documents and methodologies during project implementation by providing background documents, templates, and advice, and this action will also be supported by the implementation of the Action Plan.
- **There is no evidence to assess the trade-off between outreach, additionality, and financial sustainability, taking into account the level of financial sector development of the country (Principle 10).** In addition, it indicates that the rate of CGF's claims paid may be significantly lower than the average rate of claims paid by Moldovan financial institutions and hence CGF may be guaranteeing the financial sector's safest SME loans. The World Bank will assist CGF in developing the financial projection model for financial sustainability and enhancing and outreach and additionality by introducing a portfolio guarantee and reviewing and revising the collateral requirements, claims process, target sectors, and pricing of its guarantees. This will be supported by the implementation of the Action Plan.
- **There are currently no indications that CGF has a risk-based pricing policy (Principle 12).** While ODIMM documents provide a very good description of ODIMM's programs with sufficient details on their characteristics including pricing structures. In addition, ODIMM provides information on its funding, claims paid information, and staffing levels. This information is indicative of sufficient funding but not indicative of a risk-based pricing policy. The World Bank will assist ODIMM in developing a cash flow projection model with specification on cash inflows (including a pricing structure of fees, and interest) and cash outflows (claims paid) and revisiting and adjusting the pricing of CGF guarantees by providing background documents, templates and advice. This will be supported by the implementation of the Action Plan.
- **ODIMM has a transparent and clearly documented claim management process, but rigorous financial reporting is lacking (Principle 14).** ODIMM's claim management provides incentives for loan loss recovery and is aligned with the Moldova's legal and regulatory framework. However, a rigorous financial reporting is not currently available to the public and stakeholders, while CGF financial statements are not separately audited independently. Specifically, CGF should prepare financial statements including Balance Sheet, Income Statement, and Cash Flow Statement that comply with International Financial Reporting Standards (IFRS). This will be supported by the implementation of the Action Plan.

ANNEX 4: Exclusion List

COUNTRY: Moldova
Moldova MSME Competitiveness Project

Activities that are screened and identified as involving the following will not be supported under the Project:

1. in the case they may cause significant impacts for which it would be necessary a full EIA, according to national Law #86/2014;
2. any investments related to wood harvesting and/or those that might have impacts on the forest health;
3. production and processing of Genetically Modified Organisms (GMOs);
4. located in protected areas, critical habitats or culturally or socially sensitive areas recognized under national regulations (i.e., on natural areas protected by state, core areas of ecological network, national register of monuments etc.) (Ref.: ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS8 Cultural Heritage);
5. any activities that may cause permanent or temporary physical or economic displacement of owners or users of any plot of land resulting in loss of or damage to assets including standing crops, structures or other improvements to the land (Ref.: ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement);
6. any activities involving forced or child labor, reported or significant concern for sexual exploitation and abuse or sexual harassment (Ref.: ESS2 Labor and Working Conditions)
7. purchasing pesticides listed as "I, II or III of Moldova Toxicity Group"[1], "Ia, Ib or II of WHO Toxicity Class"[2] and/or "EU Banned or Severally Restricted"[3] (Ref.: ESS3 Resource Efficiency and Pollution Prevention and Management);
8. large scale irrigation systems[4] and sub-projects involving discharging waste waters directly in the international waterways, abstraction or diversion of international waters, sub-projects related to discharging waste materials in a location that could impact on international waters, construction of any dams that might affect international waters hydrological regime, etc. (Ref.: OP/BP 7.50 Projects on International Waterways).

The Project will also not support other types of sub-projects that are specified in the IFC/WB Exclusion List:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions.*
3. Production or trade in alcoholic beverages (excluding beer and wine).*
4. Production or trade in tobacco.*
5. Gambling, casinos and equivalent enterprises.*
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

[1] Registrul de stat al produselor de uz fitosanitar si al fertilizantilor, permise pentru utilizare in Republica Moldova, 2020 (in Romanian).
[2] The WHO recommended classification of pesticides by hazard and guidelines to classification: 2009. www.who.int/ipcs/publications/pesticides_hazard_2009.pdf
[3] Pesticide Action Network Europe – www.pan-europe.info
[4] More than 100 ha, according to Moldovan Law on Environmental Impact Assessment #86/2014

7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
9. Production or activities involving harmful or exploitative forms of forced labor**/harmful child labor.***
10. Production or trade in wood or other forestry products other than from sustainably managed forests.
11. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Notes:
* This does not apply to Project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations.
** Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
*** Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

ANNEX 5: Climate Change Co-Benefits

COUNTRY: Moldova
Moldova MSME Competitiveness Project

While the country is vulnerable to climate change effects, there is potential for mitigation and some Project activities aim at strengthening resilience to climate change. The Republic of Moldova is fully committed to theta's objectives on: (a) holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5 °C; and (b) increasing the ability to adapt to the adverse impacts of climate change. The Republic of Moldova's medium- and long-term adaptation goal is to reach a sustainable social and economic development resilient to the impact of climate change by establishing a strong enabling environment for a coherent and effective adaptive action with mitigation benefits, integrating climate risk into investment decision- making and business planning, while remaining socially inclusive and sensitive to gender impacts of climate change. As such, the whole of the Republic of Moldova's adaptation framework makes a contribution to the country's sustainable development priorities embodied in the "National Development Strategy: Moldova 2030" (2019), to the Updated Nationally Determined Contributions (NDC) and to the overarching adaptation goal of the Paris Agreement to enhance adaptive capacity and resilience, to reduce vulnerability, with a view to contributing to sustainable development, and ensuring an adequate adaptation response in the context of the goal of holding average global warming well below 2 degrees °C as compared to pre-industrial levels and pursuing efforts to keep it below 1.5 degrees C. As part of Project, specific activities will be undertaken to reduce GHG emissions.

The proposed Project was screened for short- and long-term climate risks and potential ways to support climate action in Moldova have been explored. The Project will address climate vulnerabilities and support reduction of GHG emissions and generate mitigation and adaptation climate co-benefits.

Under Component 1 the Project plans to support digitization of permissive documents, inspections, and related government functions. Enabling digitization and supporting online applications for businesses, as well as digital inspections will significantly reduce paper usage and GHG emissions and will thus address the country's climate change vulnerabilities. Finally, the data recovery and backup are designed to prevent data loss in the event of natural disaster

Under Component 2, The Project will enhance the capacity of PFIs to address climate action priorities by providing trainings on climate change topics (adaptation and mitigation). The trainings to PFIs will address climate change adaptation and mitigation topics relevant for financial institutions in the country and in the context of international regulations (e.g., European Green Deal, EU Taxonomy, etc.), as well as will focus on climate change vulnerability assessments. Additionally, the trainings will raise awareness of climate change, will help promote skills necessary to support the industry in adapting to climate change impacts and assessing their climate change vulnerability and implementing adaptation measures. The Project will also assist NBM in the preparation of a strategy to deal with the regulatory and supervisory aspects of climate-related and environmental risks. This will include the organization of several capacity-building workshops where international relevant experiences will be shared and the preparation of surveys for banks to ascertain the degree of preparedness for managing and controlling these risks. In addition, the advanced data collection and analysis under improved MIS of CGF should provide a baseline understanding on the use of proceeds, including those toward green and sustainable finance. Once a baseline is established, CGF may add "green tags" in credit information collected under CGF guarantees, to monitor credit flow on green objectives. In turn, the data on green and sustainable credit – e.g., borrower types, use of proceeds, and performance -and can inform the design of future guarantee products that could help to achieve the country's green and sustainable finance goals.

Under Component 3, the Project will address climate vulnerabilities through two sets of activities envisaged: (a) capacity building to Moldovan companies and exporters by the IA and ODIMM on the European Green Deal and export requirements to EU. At the same time, capacity building to ODIMM and MSMEs will focus on supporting climate informed production, both mitigation and adaptation; (b) criteria on high energy efficiency and environmental and climate performance for small equipment purchases under MGF. Climate related activities under Component 3 will be tracked through intermediate results indicator - MSME dialogues/roundtables (face-to-face, virtual) regarding climate change to encourage climate-smart businesses.

ANNEX 6: Portfolio Credit Guarantee – Borrower Eligibility Criteria

COUNTRY: Moldova
Moldova MSME Competitiveness Project

1. The borrower is considered SME according to Law no. 179 of 21.07.2016 on Small and Medium Enterprises.
2. The borrower operates in the Republic of Moldova.
3. The borrower is deemed potentially economically viable.
4. The borrower shall not be a “firm in difficulty” (Commission regulation EU C(2014) 3292/3 of 21 May 2014).
5. The PFI has identified the borrower’s shareholders/owners.
6. The borrower is not delinquent more than thirty (30) days past due, at the date of a new loan application or in default status in a transaction granted from financial institutions during the last 3 years.
7. The borrower confirms absence of any debts to the state budget
8. The borrower does not conduct as part of their business illegal activities.
9. The borrower including owners and shareholders are not included in any financial sanctions list[58].
10. The borrower do not conduct as part of their business activities listed in the Exclusion List.

[58] https://data.europa.eu/data/datasets/consolidated-list-of-persons-groups-and-entities-subject-to-eu-financial-sanctions?locale=bg