

CEP II
DECEMBER 31, 2015

4M3 30053
AB 31.05.2016

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
PROJECT FINANCIAL STATEMENTS
FOR THE PERIOD
01 NOVEMBER 2014 - 31 DECEMBER 2015

CONTENTS

PAGE

Independent Auditor's Report

Statement of Financial Position

Summary of Sources and Uses of Funds

Statement of Designated Accounts

Notes to the Project Financial Statements

1

2

3 - 4

5 - 12

To the Management of
Second Competitiveness Enhancement Project (CEP II)
Chisinau, Republic of Moldova

INDEPENDENT AUDITORS' REPORT

1. We have audited the accompanying financial statements of the Second Competitiveness Enhancement Project (the "Project"), which comprise the balance sheet as at 31 December 2015, the summary of sources and uses of funds and the statement of designated accounts for the period 01 November 2014 - 31 December 2015, and a summary of significant accounting policies and other explanatory notes.
2. The financial statements have been prepared on a basis of cash accounting according to which income and expenditures are recognized when cash is actually received or paid out rather than incurred.

Management's Responsibility for the Financial Statements

3. Management is responsible for the preparation of these financial statements in accordance with the requirements of the financing agreement 5509-MD signed between the Republic of Moldova and International Development Association on 15 July 2014 and loan agreement 8400-MD signed between the Republic of Moldova and International Bank for Reconstruction and Development on 15 July 2014 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

4. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

7. In our opinion, the financial statements of the Project, present fairly, in all material respects, the financial position as of 31 December 2015, the funds received and disbursements made during the period 01 November 2014 - 31 December 2015, in accordance with the requirements of cash accounting and the agreements referred to in the paragraph 3.
8. In addition, our tests indicate based on sample selected that adequate documentation has been maintained to support (a) the expenditures incurred during the period 01 November 2014 - 31 December 2015; and (b) that such expenditures are eligible for financing under the applicable agreements referred to in the paragraph 3.

Usage of Report

9. The financial statements are prepared to assist the Second Competitiveness Enhancement Project to comply with the financial reporting provisions of the agreements referred to in paragraph 3. As a result, the financial statements may not be suitable for another purpose.

Deloitte & Touche SRL

Deloitte & Touche S.R.L.
Chisinau, Moldova
31 May 2016

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
BALANCE SHEET
AS AT 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

	Notes	31 December 2015
ASSETS		
Cash and cash equivalents		
Designated account 8400-MD		270,247
Designated account 5509-MD		433,133
Total cash and cash equivalents		703,380
Undisbursed balance		
Undisbursed balance 8400-MD		22,271,559
Undisbursed balance 5509-MD		12,016,191
Total unspent balance		34,287,750
Cumulative project expenses		
Spent 8400-MD	4, 5, 6	7,458,194
Spent 5509-MD	4, 5, 6	1,006,738
Total cumulative project expenses		8,464,932
Exchange rate differences	7	(14,481)
TOTAL ASSETS		43,441,581
FUNDS		
Funding		
Loan agreement 8400-MD		30,000,000
Financing agreement 5509-MD		13,441,581
Total funds		43,441,581
TOTAL FUNDS		43,441,581

The financial statements and accompanying notes on pages 5 to 11 were signed and approved on behalf of the Project's management on 31 May 2016 by:



Aureliu Casian
Project Executive Director



Tatiana Rodideal
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

	Notes	For the period November 01, 2014 – December 31, 2015	Cumulative to date
Opening cash balances			
Designated account 8400-MD		-	-
Designated account 5509-MD		-	-
Total opening cash balances		-	-
Add: Sources of funds			
IBRD 8400-MD	3	7,728,441	7,728,441
IDA 5509-MD	3	1,439,871	1,439,871
Total Sources of Funds		9,168,312	9,168,312
Less: Uses of Funds			
IBRD 8400-MD			
(1) Sub-loans under Part 3(a) of the Project	4, 5, 6	7,449,988	7,449,988
(2) Goods, non-consulting services, consultants' services (including audits), training and incremental operating costs under Parts 3(b) and 3(c) of the Project; and audits under Part 3(a) of the Project	4, 5, 6	8,206	8,206
IDA 5509-MD			
(1) Goods, non-consulting services, consultants' services (including audits), training and incremental operating costs under Parts 1(a), 1(b), 2(a) and 2(b)(i) of the project and audits under Parts 1(c), 2(b)(ii) and 2(c) of the project	4, 5, 6	1,006,738	1,006,738
Total uses of funds	4, 5, 6	8,464,932	8,464,932
Closing cash balances			
Designated account 8400-MD		270,247	270,247
Designated account 5509-MD		433,133	433,133
Total closing cash balances		703,380	703,380

The financial statements and accompanying notes on pages 5 to 11 were signed and approved on behalf of the Project's management on 31 May 2016 by:


Aureliu Casian
Project Executive Director


Tatiana Rodideal
Accountant

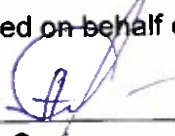
SECOND COMPETITIVENESS ENHANCEMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

For the period ended **31 December 2015**
Account no. **3261884032**
Depository Bank **Ministry of Finance – State Treasury**
SWIFT code **TREZMD2X**

International Bank for Reconstruction and Development

	<u>Notes</u>	<u>For period 01 November 2014 - 31 December 2015</u>
Opening balance, 01 November 2014		-
Add:		
Sources of funds	3	7,728,441
Deduct:		
Uses of funds	4, 5, 6	<u>7,458,194</u>
Closing balance, 31 December 2015		<u>270,247</u>

The financial statements and accompanying notes on pages 5 to 11 were signed and approved on behalf of the Project's management on 31 May 2016 by:



Aureliu Casian
Project Executive Director



Tatiana Rodideal
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

For the period ended **31 December 2015**
Account no. **3261184033**
Depository Bank **Ministry of Finance – State Treasury**
SWIFT code **TREZMD2X**

International Development Association

	<u>Notes</u>	<u>For period 01 November 2014 - 31 December 2015</u>
Opening balance, 01 November 2014		-
Add:		
Sources of funds	3	1,439,871
Deduct:		
Uses of funds	4, 5, 6	<u>1,006,738</u>
Closing balance, 31 December 2015		<u>433,133</u>

The financial statements and accompanying notes on pages 5 to 11 were signed and approved on behalf of the Project's management on 31 May 2016 by:



Aureliu Casian
Project Executive Director



Tatiana Rodideal
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

1. GENERAL INFORMATION

Project description

The Second Competitiveness Enhancement Project is regulated by the Loan Agreement 8400-MD between International Bank for Reconstruction and Development and Republic of Moldova in amount of USD 30,000,000 signed on July 15, 2014 and by the Financing Agreement 5509-MD between International Development Association and Republic of Moldova in amount of SDR 9,700,000 signed on July 15, 2014.

The objective of the Project is to increase the export competitiveness of the Recipient's enterprises and decrease the regulatory burden they face.

The Project consists of the following parts:

Part 1: Regulatory Reform

Provision of support for:

- (a) Improving the timely delivery of the Recipient's business regulatory reform strategies and the quality of the business enabling environment; and
- (b) Implementing priority reforms to improve export competitiveness; and
- (c) Provision of financing of payments under the Eligible Expenditure Program (EEP) in support of the business regulatory reform.

Part 2: SME Development

Provision of support for:

- (a) Strengthening the institutional capacity of ODIMM and MIEPO to facilitate business sophistication and integration into global supply chains for SMEs and exporters; and
- (b) Establishing a Matching Grant Facility (MGF) to assist Matching Grant Beneficiaries in the implementation of business improvement plans focused on export competitiveness; and
- (c) Provision of financing of payments under the Eligible Expenditure Program (EEP) to support the institutional strengthening of ODIMM and MIEPO.

Part 3: Access to Finance

Provision of support for:

- (a) Provision of sub-loans by eligible PFIs to support investment and working capital financing needs of Beneficiary Enterprises; and
- (b) Providing support to ODIMM to revise and implement its credit guarantee scheme; and
- (c) Provision of technical assistance to MOE, MOF, other relevant Recipient's public authorities and financial institutions in the Recipient's territory on developing value chain financing models.

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

Results Based Financing (RBF)

The project includes an innovative US\$3 million performance - based lending (PBL) funding element, in the reform of results-based financing. There are four Disbursement Linked Indicators (DLIs) related to activities from "Regulatory Reform" and "SME Development" components. These indicators will be evaluated by the World Bank in three steps, throughout the project implementation period, i.e. April 2015, December 2017 and December 2019. Each DLI payment values US\$ 250,000, thus the total annual amount of DLIs represents US\$ 1 million. RBF portion of the loan will be disbursed to the treasury account of the Ministry of Finance, against (and will reimburse) priority Ministry of Economy budget expenditures (EEPs) conditioned upon achievement of Disbursement-Linked Indicators (DLIs) for the respective time period.

EEPs have been identified as staff compensation costs for the institution whose mandate is core to achieving the project's objectives and results: the Ministry of Economy. The project supports achievement of MoE's reform objectives and the mandate that it has been given by the government: to advance regulatory reform, SME development, exports, access to finance, and ensuring a sound enabling environment for business operations.

Project management

Project Implementation Unit

Preparation of Competitiveness Enhancement Project II (CEP II)

Executive Director – Aureliu Casian

180, Stefan cel Mare bd., off. 815

Chisinau, Republic of Moldova

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The Project Financial Statements have been prepared in accordance with generally accepted accounting principle and practices and relevant World Bank guidelines.

The cash basis of accounting was used in the preparation of these Project Financial Statements since the recording of cash receipts and payments is the primary interest. Under the cash basis system income (or expenditure) is recognized when cash is received (or paid) irrespective of when goods or services are received.

The amounts are expressed in USD and financial statements are prepared for the period 01 November 2014 - 31 December 2015.

Designated account

The designated account opened by the Treasury at the National Bank of Moldova is the account through which the replenishments are drawn. All payments for eligible expenses are made from this designated account and if the payment is in local currency it is made through transitory account.

Transitory accounts

The transitory accounts are held at State Treasury for the converted amount in MDL, since the payments within the country can be done only in the local currency (MDL).

Exchange rates

The Exchange rate used to convert the USD amounts in MDL is the official exchange rate of National Bank of Moldova on the date of payment.

Sources of funds

The sources of funds are the amounts transferred by the World Bank from the loan account, to the Designated Account of the Project.

Uses of funds

The uses of funds are the amounts spent for covering eligible expenditures for the needs of the Project.

Consultants' services

Consultants' services consist of short and long-term assignments to be contracted to firms and/or individuals (national and/or international) depending on the nature and duration of the assignments. Selection procedures will be generally through competition among qualified short listed consultants.

Goods

Goods required under the project are of nature of information technology (IT) systems and office equipment.

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

Foreign expenditures

Foreign expenditures means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower.

Local expenditures

Local expenditure means any expenditure in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

Operating Costs

Operating costs means the expenditures incurred by the PIU on account of Project, including minor office equipment, furniture and supplies, utilities, communications and internet fees, copying, reproduction and publication costs, travel and per diem costs of PIU and governmental staff directly associated with the implementation of the Project activities, and such other expenditures as may be agreed upon by the Bank.

Matching Grants

Grants provided by the Ministry of Economy through the Matching Grant Facility Administrator out of the Matching Grant Facility to Matching Grant Beneficiaries.

Training

Training means training activities (other than consultants' services) to be carried out under the Project, as approved by the Association on the basis of the annual training and study tour plans acceptable to the Association.

Foreign currency

Transactions denominated in currencies other than US Dollar are translated at the National Bank of Moldova established rates ruling at the date when they occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at last day of the reporting period. Foreign currency non-monetary assets and liabilities are translated at historical rates.

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

3. WITHDRAWAL SCHEDULE

W/D Number	(1) Goods, works, non-consulting services, consultants' services, training and operating costs for the Project	(2) Advance to Designated Account	Total
8400-MD			
Apl. 1	-	1,500,000	1,500,000
Apl. 2	1,490,141	-	1,490,141
Apl. 3	1,449,586	-	1,449,586
Apl. 4	1,010,530	-	1,010,530
Apl. 5	1,005,470	-	1,005,470
Apl. 6	1,272,714	-	1,272,714
Total	6,228,441	1,500,000	7,728,441
5509-MD			
Apl. 2	-	200,000	200,000
Apl. 3	-	300,000	300,000
Apl. 4	300,382	-	300,382
Apl. 5	215,220	-	215,220
Apl. 6	240,016	-	240,016
Apl. 7	184,253	-	184,253
Total	939,871	500,000	1,439,871
Grand total	7,168,312	2,000,000	9,168,312

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

4. SOE SCHEDULE

W/D Number	Sub-loans under Part 3(a) of the Project	Goods, non- consulting services, consultants' services (including audits), training and incremental operating costs under Parts 3(b) and 3(c) of the Project; and audits under Part 3(a) of the Project	Goods, non- consulting services, consultants' services (including audits), training and incremental operating costs under Parts 1(a), 1(b), 2(a) and 2(b)(i) of the project and audits under Parts 1(c), 2(b)(ii) and 2(c) of the project	Total
8400-MD				
SOE 2	1,490,141	-	-	1,490,141
SOE 3	1,443,480	6,106	-	1,449,586
SOE 4	1,010,320	210	-	1,010,530
SOE 5	1,005,120	350	-	1,005,470
SOE 6	1,271,874	840	-	1,272,714
SOE 7	1,229,053	700	-	1,229,753
Total	7,449,988	8,206	-	7,458,194
5509-MD				
SOE 4	-	-	300,382	300,382
SOE 5	-	-	215,220	215,220
SOE 6	-	-	240,016	240,016
SOE 7	-	-	184,253	184,253
SOE 8 (partially)	-	-	66,867	66,867
Total	-	-	1,006,738	1,006,738
Grand total	7,449,988	8,206	1,006,738	8,464,932

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

5. EXPENDITURES BY SUBCATEGORIES

	For the period 01 November 2014 – 31 December 2015	Cumulative to date
5509-MD		
(1) Goods, non-consulting services, consultants' services (including audits), training and incremental operating costs under Parts 1(a), 1(b), 2(a) and 2(b)(i) of the project and audits under Parts 1(c), 2(b)(ii) and 2(c) of the project	1,006,738	1,006,738
(2) Matching grants under Part 2(b)(ii) of the project	-	-
(3) Payments for EEPs under Parts 1(c) and 2(c) of the project	-	-
Total	1,006,738	1,006,738
8400-MD		
(1) Sub-loans under Part 3(a) of the Project	7,449,988	7,449,988
(2) Goods, non-consulting services, consultants' services (including audits), training and incremental operating costs under Parts 3(b) and 3(c) of the Project; and audits under Part 3(a) of the Project	8,206	8,206
Total	7,458,194	7,458,194
	8,464,932	8,464,932

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD 01 NOVEMBER 2014 - 31 DECEMBER 2015
(all amounts are expressed in USD, unless otherwise mentioned)

6. EXPENDITURE BY PROJECT ACTIVITY

	For the period 01 November 2014 – 31 December 2015	Cumulative to date
5509-MD		
Part I Regulatory Reform Capacity Building	420,552	420,552
- 1a. Reform Governance	303,685	303,685
- 1b. Reform Implementation Support	116,867	116,867
Part II SME Development	467,362	467,362
- 2a. Institutional Strengthening	338,358	338,358
- 2b(i). MGF Management Cost	129,004	129,004
Part IV Project Management	118,824	118,824
Total 5509-MD	1,006,738	1,006,738
8400-MD		
Part III Access to Finance	7,458,194	7,458,194
- 3a. Line of Credit Sub-Loan	7,449,988	7,449,988
- 3c. TA to MoE and banks on developing value chain financing model	8,206	8,206
Total 8400-MD	7,458,194	7,458,194
GRAND TOTAL	8,464,932	8,464,932

7. EXCHANGE RATE DIFFERENCES

In the balance sheet, there is an exchange rate difference in amount of 14,481 USD. The difference appears because at the granting date the exchange rate of SDR was of 1.4783 USD; at the reporting date – 1.3857 USD.

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