

SECOND COMPETITIVENESS ENHANCEMENT PROJECT

PROJECT FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
31 DECEMBER 2018**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

1. We have audited the accompanying special purpose financial statements of Second Competitiveness Enhancement Project (the "Project"), which comprise the balance sheet as at 31 December 2018, the summary of sources and uses of funds and the statements of designated accounts for the year ended 31 December 2018, and a summary of significant accounting policies and other explanatory notes.
2. In our opinion, the special purpose financial statements of the Project as at 31 December 2018 and for the year then ended are prepared, in all material respects, in accordance with the requirements of cash accounting and the financial reporting provisions of the financing agreements referred to in the paragraph 6.

Basis for Opinion

3. We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Project in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of accounting, Restriction on Use

4. We draw attention to Note 2 to the special purpose financial statements, which describes that these financial statements are 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. Our opinion is not modified in respect to this matter.
5. These special purpose financial statements are prepared to assist the Second Competitiveness Enhancement Project to comply with the financial reporting provisions of the financing agreements referred to in paragraph 6 and may not be suitable for another purpose. Our report is intended solely for the Project and the World Bank, and should not be used by any other party not familiar with the financial reporting provisions of the financing agreements referred to in paragraph 6. Our opinion is not modified in respect to this matter.

Management's Responsibility for the Financial Statements

6. Management is responsible for the preparation of these special purpose financial statements in accordance with the financial reporting provisions 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.

7. In preparing the special purpose financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations, or has no realistic alternative but to do so.
8. Those charged with governance are responsible for overseeing the Project's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

9. Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
10. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
 - Identify and assess the risks of material misstatement of the special purpose financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit 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 Project's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
11. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte & Touche SRL

Deloitte & Touche S.R.L.
Chisinau, Moldova
31 May 2019

SECOND COMPETITIVENESS ENHANCEMENT PROJECT

BALANCE SHEET

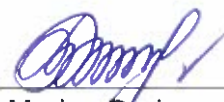
AS AT 31 DECEMBER 2018

(all amounts are expressed in USD, unless otherwise mentioned)

	<u>Notes</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS			
Cash and cash equivalents			
Designated account IBRD		563,866	700,000
Designated account IDA		228,008	375,177
Total cash and cash equivalents		791,874	1,075,177
Undisbursed balance			
Undisbursed balance IBRD		8,814,807	13,830,240
Undisbursed balance IDA		6,251,800	8,445,694
Total undisbursed balance		15,066,607	22,275,934
Cumulative project expenses			
Spent IBRD	4, 5, 6	20,621,327	15,469,760
Spent IDA	4, 5, 6	7,065,225	4,882,526
Total cumulative project expenses		27,686,552	20,352,286
Exchange rate differences		-	110,664
TOTAL ASSETS		43,545,033	43,814,061
FUNDS AND LIABILITIES			
Funding			
Loan agreement IBRD		30,000,000	30,000,000
Financing agreement IDA		13,545,033	13,814,061
Total funds		43,545,033	43,814,061
TOTAL FUNDS AND LIABILITIES		43,545,033	43,814,061

The financial statements and accompanying notes on pages 5 to 12 were signed and approved on behalf of the Project's management on 31 May 2019 by:


 Aureliu Casian
 Project Executive Director


 Marina Darie
 Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
SUMMARY OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts are expressed in USD, unless otherwise mentioned)

	<u>Notes</u>	<u>For the year ended December 31, 2018</u>	<u>Cumulative to date</u>
Opening cash balances			
Designated account 8400-MD		700,000	-
Designated account 5509-MD		375,177	-
Total opening cash balances		1,075,177	-
Add: Sources of funds			
IBRD 8400-MD	3	5,015,433	21,185,193
IDA 5509-MD	3	2,035,529	7,293,233
Total Sources of Funds		7,050,962	28,478,426
Less: Uses of Funds			
IBRD 8400-MD			
(1) Sub-loans under Part 3(a) of the Project	4, 5, 6	5,145,617	20,590,511
(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	5,950	30,816
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	1,247,141	4,731,743
(2) Matching grants under Part 2(b)(ii) of the project		355,066	736,297
(3) Payments for EEPs under Parts 1(c) and 2(c) of the project		580,491	1,597,184
Total uses of funds	4, 5, 6	7,334,265	27,686,552
Closing cash balances			
Designated account 8400-MD		563,866	563,866
Designated account 5509-MD		228,008	228,008
Total closing cash balances		791,874	791,874

The financial statements and accompanying notes on pages 5 to 12 were signed and approved on behalf of the Project's management on 31 May 2019 by:


Aureliu Casian
Project Executive Director


Marina Darie
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts are expressed in USD, unless otherwise mentioned)

For the period ended **31 December 2018**
Account no. **3261884032**
Depository Bank **Ministry of Finance – State Treasury**
SWIFT code **TREZMD2X**

International Bank for Reconstruction and Development

	Notes	For the year ended 31 December 2018
Opening balance, 01 January 2018		700,000
Add:		
Sources of funds	3	5,015,433
Deduct:		
Uses of funds	4, 5, 6	5,151,567
Closing balance, 31 December 2018		563,866

The financial statements and accompanying notes on pages 5 to 12 were signed and approved on behalf of the Project's management on 31 May 2019 by:



Aureliu Casian
Project Executive Director



Marina Darie
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
STATEMENT OF DESIGNATED ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts are expressed in USD, unless otherwise mentioned)

For the period ended **31 December 2018**
Account no. **3261184033**
Depository Bank **Ministry of Finance – State Treasury**
SWIFT code **TREZMD2X**

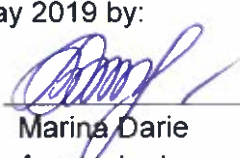
International Development Association

	<u>Notes</u>	<u>For the year ended 31 December 2018</u>
Opening balance, 01 January 2018		<u>375,177</u>
Add:		
Sources of funds	3	1,455,039
Deduct:		
Uses of funds	4, 5, 6	<u>1,602,208</u>
Closing balance, 31 December 2018		<u>228,008</u>

The financial statements and accompanying notes on pages 5 to 12 were signed and approved on behalf of the Project's management on 31 May 2019 by:



Aureliu Casian
Project Executive Director



Marina Darie
Accountant

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(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 enhance the export competitiveness of the moldovan enterprises through increasing links with sales markets, reducing the regulatory burden on the business environment and improving the access to medium- and long-term funding.

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 policy reforms to improve export competitiveness, investment attraction and access to finance; and
- (c) Provision of result based financing (RBF) 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 result based financing 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 MEI, 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 YEAR ENDED 31 DECEMBER 2018
(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 are 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 priority Ministry of Economy and Infrastructure 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 and Infrastructure. The project supports achievement of MEI’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

The Competitiveness Enhancement II project is managed by the Project Implementation Unit, a public institution subordinated to the Ministry of Economy and Infrastructure. The Unit operates in accordance with the legislation of the Republic of Moldova, loan / development credit and / or grant agreements, World Bank directives and standards, and the Statute approved by Government Decision no.895 of 25.08.2005.

Executive Director – Aureliu Casian
180, Stefan cel Mare si Sfant bd., off. 815
Chisinau, Republic of Moldova

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(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 year ended 31 December 2018.

Designated account

The designated accounts opened by the Treasury at the National Bank of Moldova are the accounts through which the replenishments are drawn. All payments for eligible expenses are made from these designated accounts and if the payment is in local currency it is made through transitory account. For this Project there are two designated accounts opened separately for IDA 5509-MD and IBRD 8400-MD resources.

Transitory account

The transitory account is held at State Treasury for the converted amount in MDL, since the payments within the country can be done only in the national 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 Accounts 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 YEAR ENDED 31 DECEMBER 2018
(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 national 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

Co-financing grants are provided for consultancy services and minor equipment in business development for beneficiaries to strengthen their export capacity and competitiveness.

Training

Training means training activities (other than consultants' services) 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 YEAR ENDED 31 DECEMBER 2018
(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) Results-based financing (RBF)	Total
8400-MD			
Apl. 18	868,608	-	868,608
Apl. 19	794,302	-	794,302
Apl. 20	1,339,798	-	1,339,798
Apl. 21	1,028,509	-	1,028,509
Apl. 22	984,216	-	984,216
Total	5,015,433	-	5,015,433
5509-MD			
Apl. 16	382,932	-	382,932
Apl. 17	280,639	-	280,639
Apl. 18	319,669	-	319,669
Apl. 19	208,373	-	208,373
Apl. 20	263,425	-	263,425
Apl. MF 5	-	234,889	234,889
Apl. MF 6	-	232,205	232,205
Apl. MF 7	-	113,397	113,397
Total	1,455,038	580,491	2,035,529
Grand total	6,470,471	580,491	7,050,962

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(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 18	568,608	350	-	568,958
SOE 19	792,832	1,120	-	793,952
SOE 20	839,027	770	-	839,797
SOE 21	1,027,529	980	-	1,028,509
SOE 22	983,586	630	-	984,216
SOE 23	934,035	2,100	-	936,135
Total	5,145,617	5,950	-	5,151,567
5509-MD				
SOE 16 (partially)	-	-	258,109	258,109
SOE 17	-	-	280,639	280,639
SOE 18	-	-	319,669	319,669
SOE 19	-	-	208,373	208,373
SOE 20	-	-	263,425	263,425
SOE 21	-	-	271,993	271,993
Total	-	-	1,602,208	1,602,208
Grand total	5,145,617	5,950	1,602,208	6,753,775

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts are expressed in USD, unless otherwise mentioned)

5. EXPENDITURES BY SUBCATEGORIES

	For the year ended 31 December 2018	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	1,247,141	4,731,744
(2) Matching grants under Part 2(b)(ii) of the project	355,066	736,297
(3) Payments for EEPs under Parts 1(c) and 2(c) of the project	580,491	1,597,184
Total	2,182,698	7,065,225
8400-MD		
(1) Sub-loans under Part 3(a) of the Project	5,145,617	20,590,511
(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	5,950	30,816
Total	5,151,567	20,621,327
Grand total	7,334,265	27,686,552

SECOND COMPETITIVENESS ENHANCEMENT PROJECT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
(all amounts are expressed in USD, unless otherwise mentioned)

6. EXPENDITURE BY PROJECT ACTIVITY

	For the year ended 31 December 2018	Cumulative to date
5509-MD		
Part I Regulatory Reform Capacity Building	874,857	2,884,103
- 1a. Reform Governance	252,315	1,159,284
- 1b. Reform Implementation Support	509,145	1,045,436
- 1c. Results-Based Financing (RBF)	113,397	679,383
Part II SME Development	1,199,087	3,706,961
- 2a. Institutional Strengthening	212,011	1,452,723
- 2b(i). MGF Management Cost	164,916	600,139
- 2b(ii). Matching Grant Facility (MGF)	355,066	736,297
- 2c. Results-Based Financing (RBF)	467,094	917,802
Part IV Project Management	108,754	474,161
Total 5509-MD	2,182,698	7,065,225
8400-MD		
Part III Access to Finance		
- 3a. Line of Credit Sub-Loan	5,145,617	20,590,511
- 3c. TA to MoEI and banks on developing value chain financing model	5,950	30,816
Total 8400-MD	5,151,567	20,621,327
GRAND TOTAL	7,334,265	27,686,552

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