ProEra Grup

Consulting &Training Company

Project
"ECONOMIC GROWTH AREA ASSESSMENT"

EGA CAHUL

FINAL REPORT

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Abbreviations

EGA	- Economic Growth Area
MSEs	- Micro and Small Enterprises
LPA	- Local Public Authority
CIS	- Commonwealth of Independent States
CCI	- Chamber of Commerce and Industry
JSC	- Joint Stock Company
LTD	- Limited Liability Company
UE	- Unincorporated Enterprise
PC	- Production Cooperative
BSP	- Business Service Provider

1 Introduction

The Project "Economic Growth Area Assessment" is initiated by BIZPRO Moldova.

The aim of the Project is to assist the development of productive value chains and the micro and small enterprises (MSEs) that make up those value Chains in Economic Growth Areas of Moldova.

BIZPRO predetermined 10 Economic Growth Areas. An Economic Growth Area is defined as a region of Moldova that will be assessed to determine specific opportunities and challenges that are driven by external market standards, requirements, or legal and regulatory constraints, which may vary by regions.

This report is aimed to make an assessment of Cahul Economic Growth Area.

2 Objectives and Methods Used

A. <u>The principal objectives of this Project :</u>

1. Assessment of Cahul region's existing value chains and the MSEs that are working in those value chains;
2. Prepare an intervention roadmap, identifying gaps and weaknesses in value chains, buyer and supplier networks, existing markets and potential for development of new markets and input suppliers and buyers that are operating in the region.
3. Recommend specific firms that BIZPRO should work in order to improve operations for their future integration into productive value chains.
4. Determine industry specific skills that MSEs in the region need to improve operations.
5. Provide an assessment of specific legal and regulatory constrains that are hindering the growth of MSEs in the region.

B. <u>The principal Methods used:</u>

In order to fulfill the tasks of the project, there were used the following approaches:

- filling in the questionnaires (Annex 2) and performing interviews, in order to receive specific information on region's economic development issues, both from LPA and economic units;

- economic analysis methods – were used in order to analyze the main branches of region's economy and certain EGAs.

Methods of economic analysis:

Benchmarking Method

Benchmarking is a structured approach for achieving change and improving performance in public sector organizations and companies. It is a process of comparison. It seeks to break down barriers to implementing change by demonstrating what can be achieved by other, relevant companies and countries, and by demonstrating new ways of achieving change.

Over time the use of benchmarking has been expanded to encompass a wide range of organizational activities and processes.

Process Benchmarks. This type of benchmarking focuses on the processes that, taken together, help to explain "headline" results. Key processes do not determine overall outcomes but they do provide a more useful level of analysis for diagnosing the source of differences.

SWOT Analysis

It is an analytical tool used for:

- ❖ Analysis of processes within the firm, in order to evaluate its capacity to successfully face the changes.
- ❖ Continuous analysis of the firm's external environment, in order to anticipate and react to changes in proper time.

SWOT Analysis is carried out in four areas:

- *Strengths* – distinctive characteristics or competences, which are developed to a superior level in comparison with other firms/regions (especially competitors), and determine an advantageous position.
- *Weaknesses* - distinctive characteristics that determine an inferior performances level in comparison with competing firms/regions.
- *Opportunities* – represent positive external factors favorable for the firm/region, in other words, environmental chances offered to the firm/region with the purpose of developing a new strategy or reconsider the existing one in order to explore the appeared opportunities in the most profitable way.
- *Threats* - represent negative external factors, in other words, situations or events which can unfavorably (significantly) affect the firm/region's capacity to reach its objectives and determine financial and economic performances decrease.

Pareto Analysis

This technique is used to record and analyze data relating to a problem in such a way as to highlight the most significant areas, inputs or issues. Pareto Analysis often reveals that a small number of failures are responsible for the bulk of quality costs, a phenomenon called the "Pareto Principle". This pattern is also called the "80/20 rule" and shows itself in many ways. For example: 80% of sales are generated by 20% of customers.

A Pareto diagram allows data to be displayed as a bar chart and enables the main contributors to a problem to be highlighted.

Porter Model

The Harvard Business School professor M. Porter demonstrated that competition in a branch can be characterized by five competition forces:

1. Competition among sellers within the branch.
2. Trial of other branches' companies to attract consumers by their substituting products.
3. Possibility of new competitors to penetrate the branch.
4. Ability of raw materials suppliers to impose their conditions.
5. Ability of products consumers to impose their conditions.

The five competition forces model of M. Porter is a strong tool used for diagnosis of main competing forces that influence the market.

Value Added Chain

The most important tool of expenditures strategic analysis is the Value Added Chain method. Value Added Chain determines the activities, functions and processes of processing, production, marketing and delivery of product or service. Value Added Chain starts with raw materials supply is followed by production process at all stages of product creation and is finished by whole-selling or retailing to final consumers. It also allows appreciation of different sectors' inputs in creation of product's Value Added and determination of gaps and weaknesses, for their future removal.

Process Mapping

A Process Map is a pictorial representation of a process using some basic symbols. Processes can involve many disciplines, eg developing a new product would require contributions R&D, marketing, manufacturing, or be restricted to a specific area.

A simple inputs/outputs diagram can be used prior to help identify both the key inputs and outputs for a process and the secondary information flows in and out of the process.

Data Display

Data Display, as the name suggests, is a set of different methods to display information in order to make it easy to use, to highlight patterns, trends and relationships and make the data more interesting for a wider population. Some of them are:

- Histograms.
- Pie charts.

A Histogram shows the range of data which has been collected on a particular process or characteristic. A Pie chart shows proportions in relation to the whole item. It has a visual impact and also allows easy, visual comparison with other charts when percentages are used.

3 Executive Summary

- Project Framework:

This report was developed by Pro Era Grup LTD for the BIZPRO Moldova. BIZPRO works to improve the ability of Moldova's small and medium-sized enterprises (MSMEs) to grow and compete in local, regional, and international markets and to develop linkages and improve industry specific skills MSMEs require to grow, based around multiple Economic Growth Areas (EGA).

This report is aimed to make an assessment of Cahul Economic Growth Area. From administrative point of view this region consists from two districts: Cahul district and Cantemir district. During the assessment, data from these two districts have been split.

- Summary of findings:

Cahul region is situated in the south part of the Republic of Moldova. It occupies an area of 2410 square kilometers. The regional population of 190 800 resides in two town and 42 communes.

The major resources that the region has are human and land resources. There are some mineral deposits and raw material resources represented by argil, sand and clay.

Cahul region economy is based mainly on the agriculture and manufacturing industry, which are producing more than 70% of regions output.

Agriculture is the main branch of local economy. It provides about 45% of region output and employs about 62% from total employees.

Industry is producing about 30% of region's output. Leading branches of Cahul region industry are winemaking, production of canned fruits and vegetables, flour and bread production, and light industry.

Services and Trade are producing about 25% of regions output and are the most dynamic branches of local economy.

There were reflected the main legal and regulatory constrains, as well as training and consultancy needs of MSEs. The very high priorities of consultancy needs are: Sales and Marketing; Export and Internationalization; Business Planning and Strategy.

There were identified three sectors of Region's economy that are producing about 50% of industrial output and are linking together agricultural, industrial, trade enterprises. They are winemaking, canned goods production and production of bread and flour.

The winemaking sector includes the production and bottling of wine and other beverages obtained from the fermentation of grapes. This industry is the most developed within the region – about 30% of industrial output.

The canneries sector includes the production and canned fruits and vegetables. This industry holds about 5% of region industrial output.

The grains processing sector includes the flour making, bread making and fodder making. This sector holds about 10% of the overall region industry.

The Value Added Chain analysis allowed determination of main gaps and weaknesses of

EGAs, common for which are:

- low value added share of agricultural producers;
- convergences in economic interests of producers and processors of agricultural products.

Considering existent resources and opportunities, there were recommended one EGA as basis for cluster for winemaking sector.

Basing on executed research, there was carried out a SWOT Analysis of resources and region's economy.

On the grounds of revealed strengths and opportunities of the region's economy, there was elaborated the Project Intervention Roadmap, where reflected:

a. Recommendations for Legal and Regulatory Framework.
b. Training and consultancy needs of MSEs.
c. Opportunities for expanding market linkages.

In conclusion, there are given certain recommendations for companies' management, Local and State Public Authorities.

4 Region Snapshot

Cahul region is situated in the south part of the Republic of Moldova. It occupies an area of 2410 square kilometers. The regional population of 190 800 resides in two town and 42 communes. The total number of Cahul localities is 106. Cahul, the region's biggest urban settlement with about 48 thou of residents is located 175 kilometers from Chisinau and 60 kilometers from Galat, Romania. It is located at the highway Chisinau-Cahul-Bucharest.

4.1 Region Resources

The major region resources are human and land ones. Mineral resources are not significant, while water represents good opportunities for spa development.

4.1.1 Human Resources

The Cahul region population is about 190,8 thousands persons. This is about 5,3% from country total population. The biggest part of population (74,9%) are rural. The positive factor is that natural increase in population number of Cahul region is positive, while for other Moldova's regions natural increase is negative.

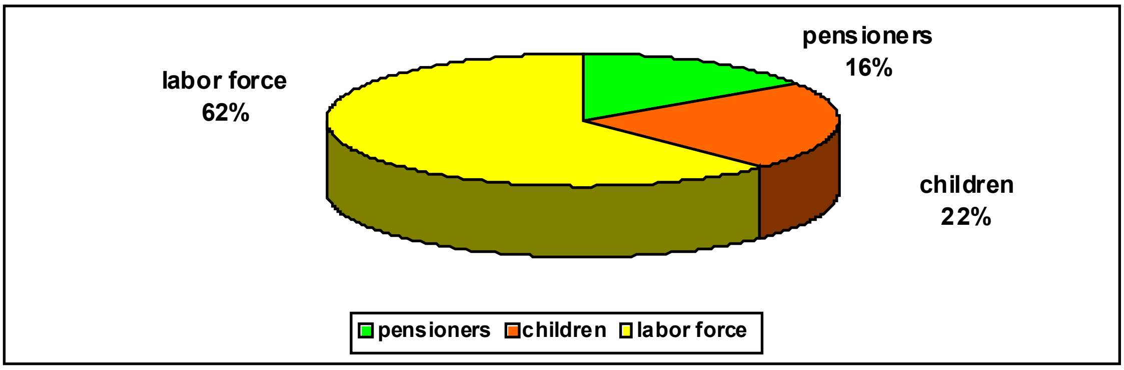
Table 1 The structure of the region's population, 2003

	Total population	Economically active population	Population employed in economy	Official unemployment, Th. persons
Republic of Moldova's[1] total	3623	1615	1505	19.7
Cahul region	190,8	118.9	70.8	4,6

Source: Statistical Yearbook of the Republic of Moldova, 2003
Regional Development Programmes for Cahul and Cantemir

Economically active population is about 62.3% from total population, 21,7% are children and 16% are pensioners. Comparing to country's situation (labor resources or economically active population – 44.5%) the share of labor resources in the region is higher, due to lower level of pensioners.

Fig. 1 The structure of Region's population



Source: *Regional Development Programmes for Cahul and Cantemir*

[1] Without eastern regions of country

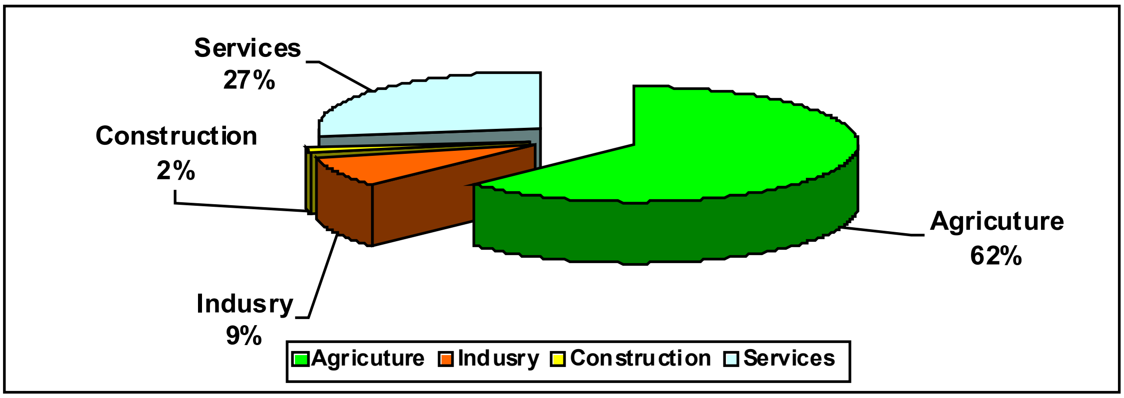
One of the biggest problems for region's economy is unemployment. Based on official data the unemployment rate in the region is about 2,4%, that is about 4600 persons. But the share of hidden unemployment is ten times higher. Real unemployment can be estimated as difference between labor resources and number of persons employed in economy. This is about 48 thou persons (for 2003), that have no permanent occupation within the region. The biggest part of them work either as farmers on their own land or outside the region and country, having an average income of ten times higher than country's average salary.

These persons are usually the most active and skilled ones, and represent the strong potential for the region growth. But as long as their incomes will be below living subsistence they will avoid applying for job in the region. And the potential value added they can bring will be lost or transferred to other regions and countries.

For the year of 2003 average month salary in the region achieved only 683 MDL, being lower than consumption basket and comparable with living subsistence. As long as the average salary will be lower than consumption basket, the tendencies of labor migration will continue and the growth potential will slow down.

Another important aspect to be analyzed is the structure of employment (fig. 2).

Fig. 2 The structure of Region's employment



Source: *Regional Development Programmes for Cahul and Cantemir*

More than 60% of employees (that are 44.4 thou persons) are employed in agriculture. The services sector includes public services - education, healthcare and local administration, and employs about 19 thou persons. Industrial enterprises employed about 4,2 thou persons and only 1,1 thou persons are employed in constructions. These figures reveal that Cahul region is a typical raw material region, with low value added created.

The quality of labor force is determined by the level of education. In the region there are 85 primary schools and gymnasiums, and 17 Lyceums. There are 2 University and only 1 Professional Secondary school. There is a lack of qualified specialists in all branches of economy; especially local economy is looking for technically skilled persons (engineers, technologists, and operators of modern production lines). The low salary in the real sector of economy and lack of financial motivation for young specialists do not allow improving situation. At the same time, this category of employees is the most receptive to new technologies and knowledge, and can be a real diver for the economic growth of the region.

4.1.2 Land Resources

The total available land of the region is about 240,2 thousands hectares. Agricultural land is about 183,6 ha. The structure of land is shown in the next table.

Table 2 The structure of land resources

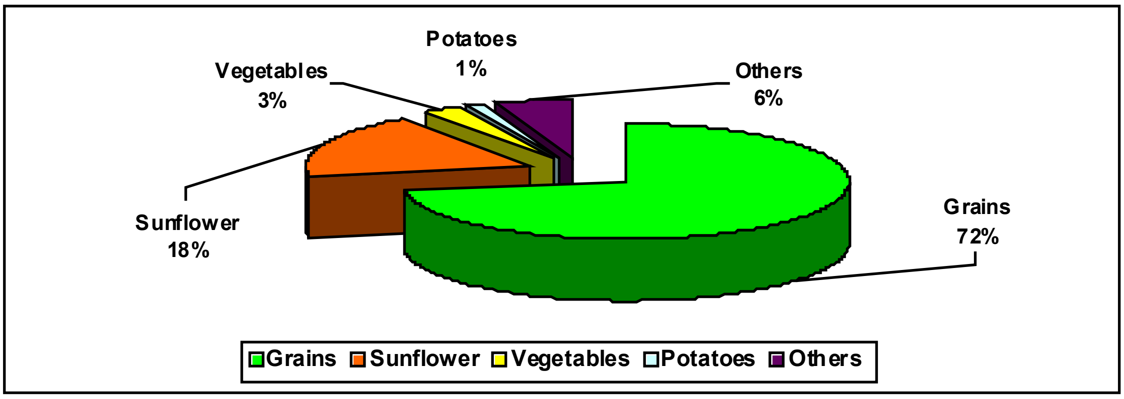
	Moldova		Cahul region	
	thou ha	%	thou ha	%
Total lands	3384,4	100%	240.3	100%
Agricultural land	2533,8	74,9%	183.8	76,5%
Arable land	1842,6	54,4%	130,3	54,2%
Vineyards	152,8	4,5%	25,5	10,8%
Orchards	137,5	4,1%	5,7	2,4%

Source: Statistical Yearbook of the Republic of Moldova, 2003
Regional Development Programmes for Cahul and Cantemir

Table 2 shows that the region's land is more intensive used for agriculture (76,5%) than in the whole t of country (74,9%). Vineyards take about 25,5 thou ha of region's land which constitutes 16.7% from total country's vineyards, and this constitute a good raw material base for wine making industry.

The arable land is used mainly for grains and sunflower growing (Fig.3.). These crops are not so labor-intensive and the value added created is quite low. For example 1 hectare of wheat can bring about 4 thou MDL of revenue, 1 hectare of sunflower 3 thou MDL, meanwhile one hectare of potatoes can bring at least 50 thou MDL.

Fig. 3 The structure of Region's arable land



Source: *Regional Development Programmes for Cahul and Cantemir*

Agricultural producers should reconsider the structure of arable land in order to obtain the highest possible outcome employing more employees. The labor resources are available, but the agricultural producers should consider a significant increase in salaries to attract new workers.

The regions soils are represented by chernozem – about 60% of agricultural land. The fertility level varies in average from 52 to 84 points.

Less than 1% of whole agricultural areas are irrigated, while the country's average is 10%.

The region is located in a zone with insufficient humidity. The average annual volume of precipitations is varying from year to year and constitutes about 342 mm per square meter in 2000 and 568 mm per square meter in 2002. Often it is less than country's average (500-550 mm per square meter), due to this the region suffers from draughts.

The climate is continental. The average annual temperature in the region (11 degrees Celsius) is higher than in the rest of the country (10,3 degrees Celsius). The absolute minimum (for 2002) is registered in January (-18.6 degrees Celsius) and the maximum in July (+35,5 degrees Celsius).

Duration of daylight is about 2300 -2450 hours. The sum of daily temperatures that exceeds 10 degrees Celsius is higher than 3300 degrees Celsius, while the country's average is about 3000 degrees Celsius.

4.1.3 Infrastructure

There are about 658,7 km of public roads within the region, from which 90% have hard surface. The length of the national roads constitutes 278,1 km while the length of local ones is 380,6 km.

The density of communication routes per 1000 км^2 in the region is 273 км. That is lower than the average indicator for the whole country (310 км).

The quality of roads is not good enough, especially local roads. The share of modernized roads is 50,2% in Cahul district and only 28.3% in Cantemir district. However, today, the roads are in inadequate station and need significant investments for repairing. The main cause of it is lack of financial resources, there are no money allocated from state budget for this purpose. The current repairs are fulfilled by financial sources of mayoralties and districts.

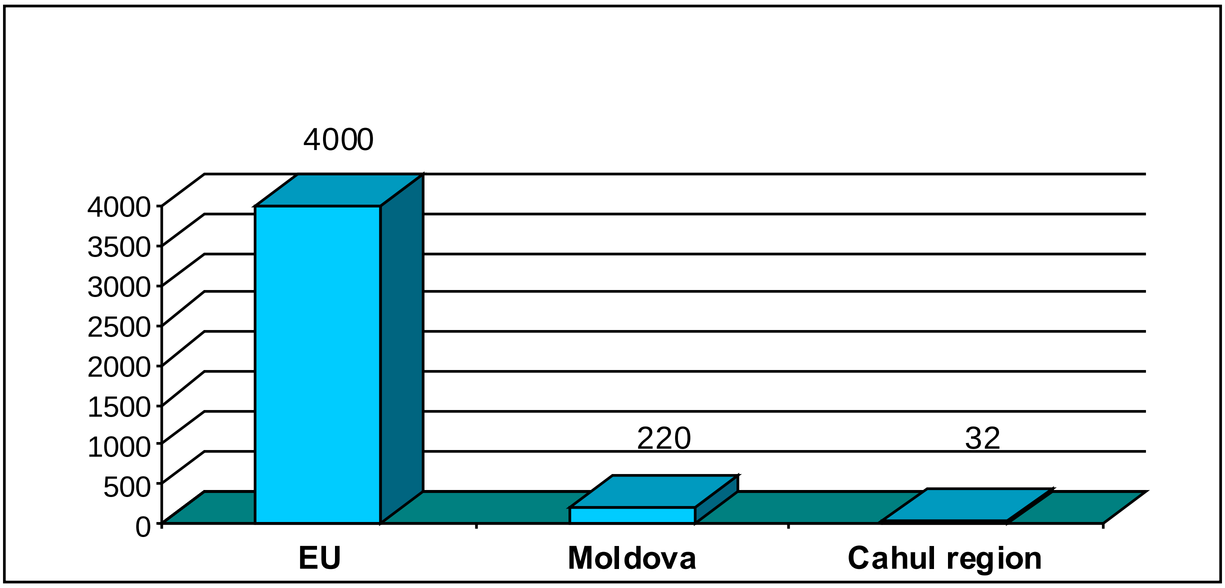
Railroad transport is less developed. The town Cahul is connected to the country's capital railroads network Chisinau – Tighina – Basarabeasca – Cantemir - Cahul.

The Cahul region has borders with Romania by the Prut River, which is used for river transportation. Thus, the geographical location of the region represents a good potential for development.

Water supply of region is underdeveloped. The main water sources are: about 3250 of draw-wells, 182 of artesian wells and the river Prut water.

In accordance with regional statistical data in 2003 water consumption achieved about 6,2 ml.м^3 of water, from which production purpose consume was about 1,5 ml м^3. This is about 32 м^3 of yearly use per capita, while country's average is 6 times higher (fig 4). This is an important impediment for the economic growth of the region. It is difficult to imagine an economic growth without an increase in water consumption; water is an important resource for all region' economic sectors.

Fig. 4 Water consumption per 1 inhabitant, м3

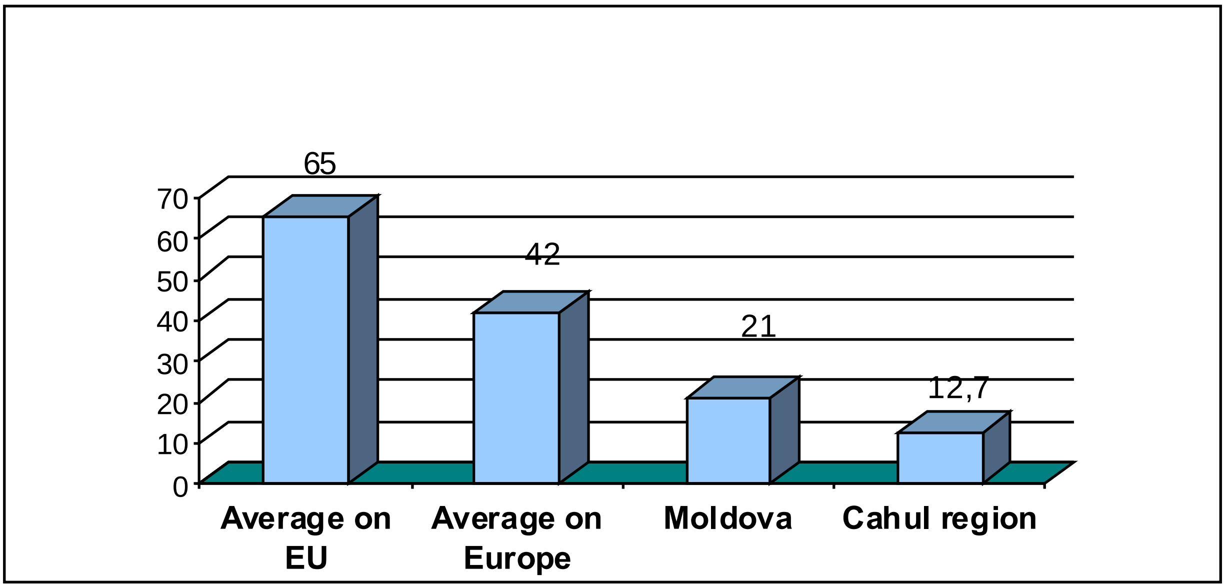


Source: Statistical Yearbook of the Republic of Moldova, 2003

The share of localities that have functional water-supply chain by districts is different; for Cahul district this indicator is 36,5%, while for Cantemir district is only 4%.

Gas supply network is developing slowly. The share of localities that have gas-supply chain by districts is different; for Cahul district this indicator is 20%, while for Cantemir district is 8%.

Fig. 5 The number of telephone lines per 100 inhabitants, 2003



Source: Department of Informational Technologies of Republic of Moldova.

There are about 13 fixed telephone lines per 100 inhabitants within the region that is significantly lower than the average on Europe.

In the conclusion it should be said that local infrastructure is not appropriate to support a sustainable economic growth and do not act like an incentive for future development.

4.1.4 Other resources

Water resources are represented by and surface waters (rivers, likes) and underground ones. There are 4 big likes situated in the region: Beleu, Dracele, Rotunda and Fontan having an area of more than 11 square km. The Prut river is the biggest one on the region's territory, the water surface takes up 7,5 thou ha.

The underground water is appropriate for drinking and irrigation. They are also used for spa and treatment.

There are no big deposits of mineral and raw material resources in the region. Mineral resources are represented by sand, argil and clay, which can be used as raw material for construction industry. There are some small quantities of natural gas in commune Baimaclia.

In Cahul region forests occupies about 24 thou ha or 10% of the total region's territory. The forest reserve "Prutul de Jos" is about 1,7 thou ha and is state protected.

4.2 Region's Economy

Economy of Cahul region produces about 4% of country Gross Domestic Product. The main sectors are agriculture and food industry. They are supplied with local raw material and based on population abilities. Agriculture and industry produce more than 70% of gross region output in basic prices.

The economy of the Cahul region is currently made up by 43,7 thou businesses (27,4 thou – in Cahul district and 16,3 Th. – in Cantemir district).

4.2.1 Industry development

Industry is producing about 28-30% of region's output. Leading branch of Cahul region industry is winemaking (about 30% of industrial output). Other developed branches are flour, fodder and bread production – about 10% of industrial output, light industry - about 15%, and production of canned fruits and vegetables (about 5%). .

The regional industry development during the year of 1999-2002 showed very good results, the volume of industrial production has increase from 147 ml MDL in 1999 up to 577 ml MDL in 2002 (current prices). The rate of industrial development in the region is much higher (292%) than the average growth rate per country, which constituted 75% in that period. The region's share in country's total industrial production has increased from 2,4% to 4,8% (Table 3)

Table 3 The dynamics of the industrial production

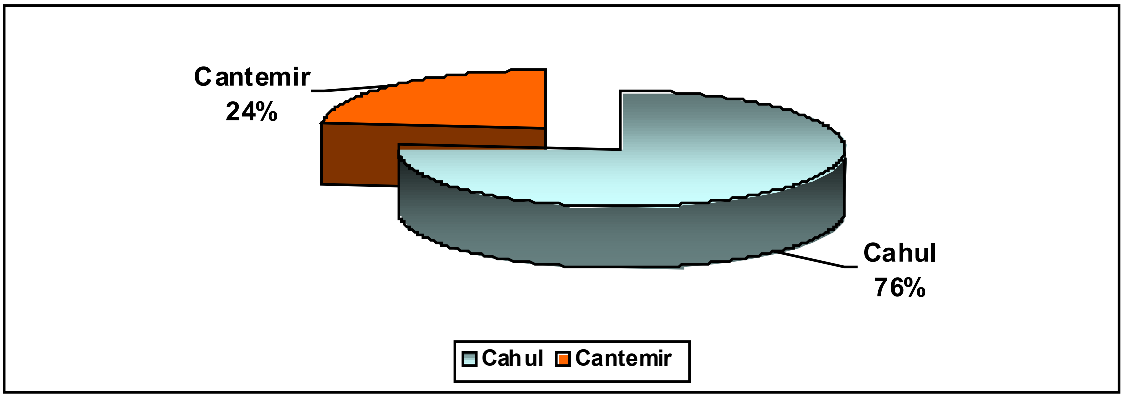
Year	The volume of industrial production (current prices), ml MDL	The share in total per country, %	Volume indices, in % to previous year (comparable prices)
1999	147,0	2,4	134,6
2000	208,5	2,6	116,5
2001	303,5	3,0	135,7
2002	576,7	4,8	123,9

Source: Statistical Yearbook of the Republic of Moldova, 2003

But nevertheless region's industry is still less developed than country's average. The annual volume of industrial production per capita is about 3 thou lei, comparing to 3,5 thou lei of country's average (for 2002).

The major industrial potential of the region is concentrated in Cahul district, the Cantemir district is less developed (fig. 6).

Fig. 6 The structure of Region's industry's output, 2003



Cahul's industry has produced for the last year around 1,8 thou tones of canned fruit and vegetable, more than 4,8 thou tones of bread and confectionery, 3,1 ml deciliters of grape wines, about 480 thou deciliters of sparkling mines, 36 tones of butter, etc. (tab. 4).

Table 4 The production of the main industrial products in Cahul Region

Name of the industrial products	measurement units	2002	2003	in % comparing to previous year
Knitwear	Mio pcs	518	383	73,9
Newspaper	Thou ex.	876	1107	126
Fat cheese and brynza	Tones	250	266	106,4
Butter	Tones	37	36	97,3
Dairy products	Tones	81	83	102
Canned fruits and vegetables	Tones	652	1785	273,8
Flours and meals	Tones	8670	4655	53,7
Bread and confectionery	Tones	3854	4869	126,3
Vegetable oil	Tones	2000	5000	250
Grape wines	Thou dal	2273,9	3056,1	134,4
Sparkling wines	Thou deciliters	537,1	479,3	89,2

Source: Statistical reports of the Cahul and Cantemir districts, 2004

The region's industry potential includes: 17 wineries with a processing capacity of 200 thou tones grape per year; 3 canning factory, plus 8 section with a processing capacity of 30 Th. tones of raw material per season; 1 dairy factories with a capacity of 20 tons of milk a day; 6 big bakery – 50 tones of bread a day and more than 10 small bakeries; one reinforced concrete plant; one knitwear company and one ready garment company.

However, for the most part of products the total production capacity is much higher than it is used now; for example, the capacity utilization of dairy plant is about 15%. This fact is caused by lack of raw material. But in the case of cannery industry the situation is opposite, the existing functional plants in Cantemir district is not able to process all local raw material. There are 6 sections that at the moment are not working due to the lack of financial resources and high production costs. Their revitalization will be an opportunity for region development.

Currently, about 60-70% of existing equipment needs renovation, because it has became obsolete physically and morally during the transition period. The mentioned factor has a negative influence on labor productivity and leads to increasing of production costs.

Consumers perceive industrial products of local enterprises as low quality and due to this they usually have low prices. In order to increase the consumers' perception on quality companies must work on their image: implementing quality management system (HACCP, ISO 9000); using appropriate measuring devices to maintain and confirm the stability of quality indicators, must develop brands and confirm the high quality with the company name. In that way the value added created will increase and so the income of local population.

The future markets are markets of brands. So it is an important advantage for a company to be recognized as an Originally Food Manufacturer, or Originally Wine Manufacturer, etc.

Otherwise the region's industrial enterprises will act like a source of raw material and semi-products for others Originally Food Manufacturers, or Originally Wine Manufacturers, etc.

4.2.2 Agriculture development

Agriculture is the main branch of local economy. It provides about 45% of region output and employs about 62% from total employees. In 2003 region's agriculture output constituted about 630 ml MDL (current prices).

In the result of privatization in agriculture and former collective farms restructuring the peasants became the owners of land. This conducted to a partition of land in small plots (of about 1.9 ha per peasant). Newly created agricultural farms were required to lease the land and productive assets from peasants, which are not able to process lands by themselves. There are more than 38 thou of landholders in the region.

The region agriculture is higher developed than country's average. In 2002 net profit of sold production accounted 9,7 ml MLD, while for entire country this indicator was in red figures, losses generated by agriculture constituted about 130 ml MDL.

The area of total lands is about 240 thou hectares, from which about 76,5% arable land is, 10,8% are vineyards, 2,4% are orchards (tab.2). The rest of land is used as pastures and hayfields. The percentage of fallow lands is insignificant.

The arable land is used mainly for cereals and leguminous plants (wheat, maize, etc) – about 72%, about 18% are used for sunflower and only 3% are used for vegetables growing (Fig. 3.).

Table 5 The agriculture production in Cahul region

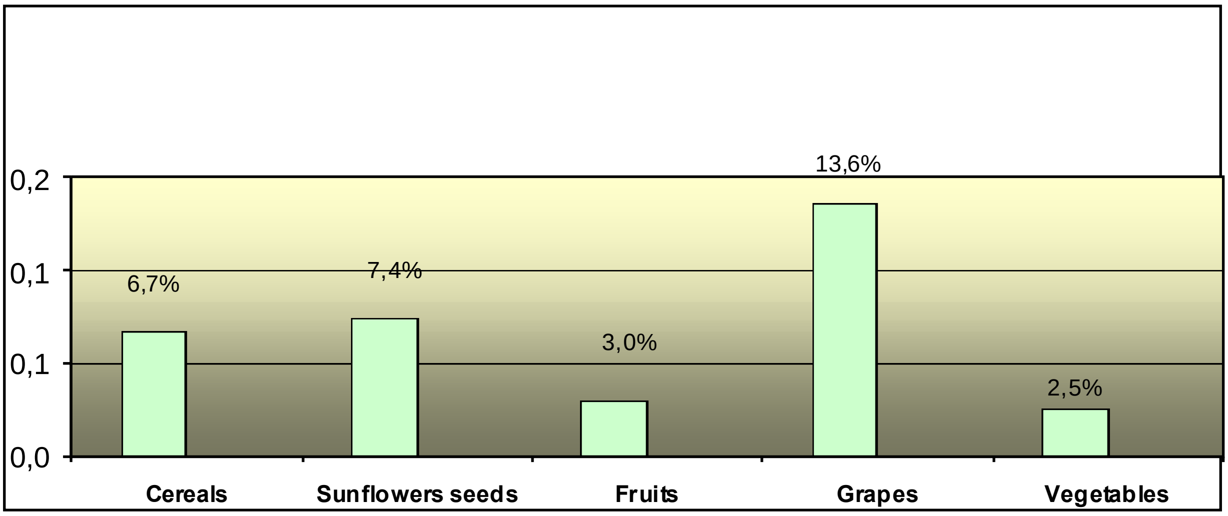
Products	Measurement units	2001	2002	2003	Average
Cereals and leguminous	Th. tones	240,0	175,5	102,7	172,7
Sunflower	Th. tones	23,3	23,7	30,2	25,7
Potatoes	Th. tones	9,7	0,6	0,2	3,5
Vegetables	Th. tones	35,3	10,9	9,8	18,7
Fruits	Th. tones	20,4	8,7	25,1	18,1
Grapes	Th. tones	86,2	87,1	93,7	89
Livestock	Th. tones	6,2	2,2	1,4	3,3
Milk, total	Th. tones	28,9	22,6	24,3	25,3
Eggs, total	Th. pies	39,9	10,5	25,5	25,3

Sources: Statistical Report on Cahul and Cantemir districts, 2003

The major branch of region's agriculture is plant production. The region production of cereals and leguminous varies from 102 to 240 thou tones in dependence of year's climate conditions. Annual agriculture production is presented in the table 5.

The region produced in 2003 about 30 thou tones of sunflower seeds, 9,8 thou tones of vegetables, 93 thou tones of grapes, 25,1thou tones of fruits, and only 0,2 tones of potatoes.

Fig. 7 The share of region's agricultural product in country's total, 2002



Source: Statistical Yearbook of the Republic of Moldova, 2003

The share of main types of region's agricultural products in the total country's amount counts for 2,5-13,6% (fig.7).

The productivity of agriculture is higher than country's average, but it is significantly below the EU average (table 6.)

Table 6 The Average Yield per Hectare of Main Crops, 2002, centners

	Cereals	Sunflower seeds	Vegetables	Fruits	Grapes
Moldova	24,1	12,4	70,7	30,2	37,4
Cahul region	27,4	14,9	84,5	36,6	43,6
EU	54	15	253	102	72

Source: Statistical Yearbook of the Republic of Moldova, 2003
Statistical Report on Cahul and Cantemir districts, 2002
www.fao.org

The big gap between yields of Moldavian and EU farmers is caused by significant reduction of soil fertility and low usage of modern technologies for crop cultivation. The level of fertilizers utilization was also decreased during transaction period, the crop rotation principle was practically abandoned by private farmers.

Livestock production is another branch of local agriculture. The average (for 2001-2003) production volume of meat is about 3300 tones and about 25,3 thou tones of milk.

Agricultural producers often suffered from natural calamities like droughts, storm precipitations, frosts, etc. This reduced their capacity to generate profits; financial institutions and suppliers of raw materials suffered losses from uncollected debts.

Due to the limited farmers' access to bank financial resources, barter relations were established between raw materials suppliers and agricultural producers. Suppliers provide not only materials (for example fuel), but also financing to farmers in exchange for a share of harvest.

4.2.3 Services and Constructions

During the last two years, **construction** industry suffered significant changes. The volumes of constructions works was 74 mil. MDL in 2002 and increased up to 118 ml MLD in 2003. Construction works have been fulfilled mainly for water, gas supply and industrial objects. The dwelling construction volumes is insignificant. There were constructed about 46 thou m^2 of dwelling houses from all financial resources.

Another important branch is **retail trade**. A lot of small trade companies appeared, which start to act in all locations of the region. There are more than 3100 such companies in the region. The total volume of sales within the retail trade sector achieved 155 mil MDL in 2003.

The region have a positive trade balance - 17,7 mil USD in 2001 to 22,4 mil USD in 2003. The lion share of export is wine production. The main market is CIS one (about 80% of export in 2003).

Services sphere is probably the most dynamic branch in the region. Different companies appear like: tourist agencies, financial institutions, informational system companies, etc. The sales volume within the sector was about 103 mil MDL in 2003.

Transport is another important branch of local economy. Local enterprises transported about 142 thou tones of goods. Distance of the transporter passengers (by bus, by microbus) was about 25 thou passenger/km during 2003.

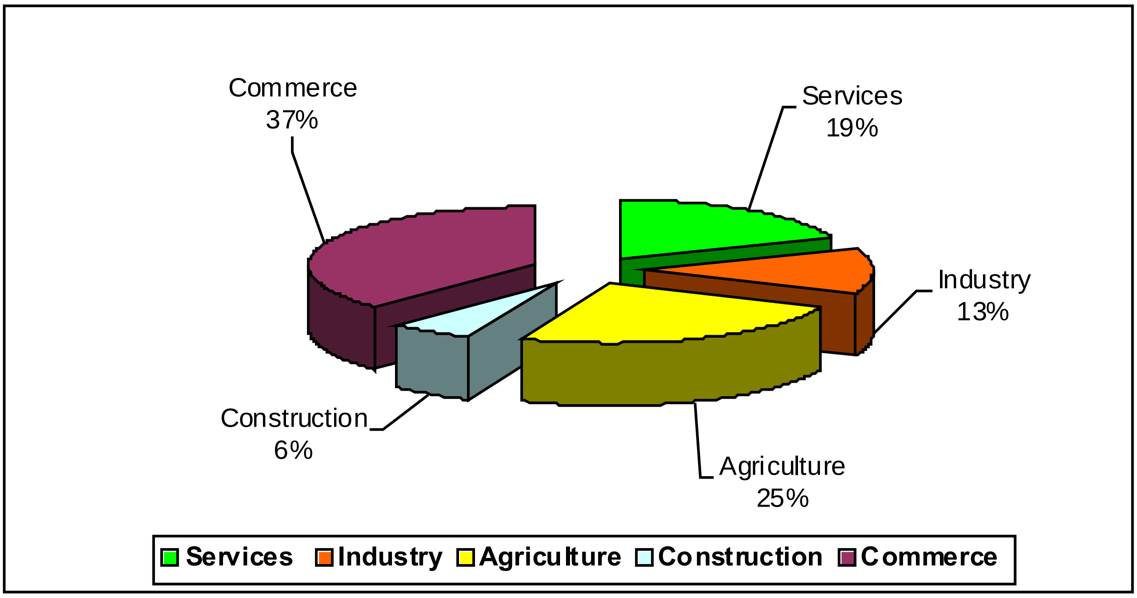
4.2.4 The MSEs sector in the region

According to the Law of the Republic of Moldova № 619-XV from 08.11.2001 “For the amendment and addition to the Law of the Republic of Moldova № 112-XIII from 20.05.1994 concerning the support and protection of small business”, the enterprise whose annual average number of employees does not exceed 9 persons and the annual turnover is under 3 million lei is considered a micro-enterprise; the enterprise with the annual average number of employees consisting of 10 to 50 persons (inclusive) and the annual turnover under 10 million lei is considered a small enterprise.

At the moment region’s business is represented by 43,7 thou economic units, from which din care 42,9 thou are micro and small-size enterprises. The share of them in region total is 98,2%. In the structure small business in both districts (Cahul and Cantemir) predominate the farmer households, achieving 23 thou units and 15,5 thou units respectively.

In the Cahul district in 2003 there were registered 5465 economic units, that present financial reports to statistical bodies. District’s reporting MSEs structure by type of activities is presented in figure 8 . The biggest share of MSEs refers to commerce activity – 37%, being followed by agriculture with 25% and services - 19%.

Figure 8 Structure of economic units (MSEs) by activities, Cahul district

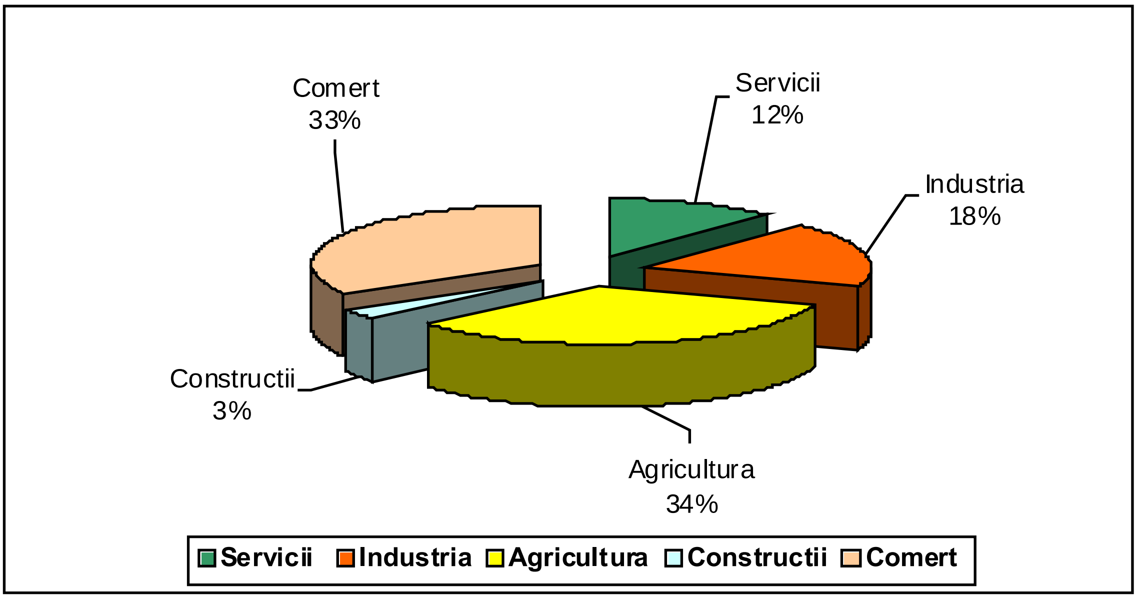


Source: Statistical reports of the Cahul district,2003

The number of MSE's businesses calculated for 1000 of inhabitants achieves 211 units (for 2003).

Reporting MSEs' structure for Cantemir district by type of activities is presented in figure 9. The biggest share of MSEs refers to agriculture and commerce activity - 34% and 33% respectively, being followed by industry e with 18% and services - 12%.

Figure 9 Structure of economic units (MSEs) by activities, Cantemir district



Source: Statistical reports of the Cantemir district,2003

As a result of entrepreneurial activity 78,8% from economic units, represented MSEs' sector in Cantemir district are profit generated ones. Patent based entrepreneurial activity are under development, in 2003 1414 of patents have been realized in sum of 292,6 thou lei.

As soon as, the main branches of the region's economy are agriculture and processing industry, then especially MSEs in these branches need support for the future development.

MSEs in agriculture and processing industry can be divided into following main groups:

- services providers to agricultural enterprises and households (fuel, fertilizers, repairing services, and other);
- agricultural producers;
- agricultural raw materials processors;
- seeds and saplings producers;
- finished goods' distributors.

As the agricultural services sector is underdeveloped, many MSEs are consequently involved in different types of activities – from fuel purchase and selling on local market to distribution of finished goods. But, the firms that deliver services produce seeds and saplings, and distribute products are underdeveloped and need specific support.

5 Legal and Regulatory Constrains

As a result of Cost of Doing Business Assessment in Moldova, accomplished in 2004, there were identified certain changes and problems in business running, that appeared during 1999-2004.

While discussing with enterprises' managers, there were identified the main business regulation problems, which are as follows:

Registration

Despite the significant efforts to simplify the registration procedure, the average time to register a company at the Registration Chamber shows negative trends – it amounted from 11.3 days (during 1999-2001) to 15.5 days (during 2000-2002) and to 17.0 days (during 2001-2003). As a result, the overall registration time became longer.

Registration costs changed insignificantly during last years and amounted to $142. About 80% from them are made when registering at the Chamber of Registration and the notary services. The number of respondents who paid unofficially when registering the company decreased from 26% to 10%. At the same time the average unofficial payment made by them (from $84 to $145) increased considerably.

Licensing

The survey results demonstrate, that in the respondents' opinion licensing procedures are still very burdensome for economic entities in the Republic of Moldova, due to a large number of documents from several authorities required to receive a license. It takes an average economic entity more than two months (83 days) and $1342 to obtain an average of 2.6 licenses.

Although the share of respondents that paid unofficially decreased, the average amount paid unofficially increased two times comparing to the previous year.

The Law No. 451-XV changed the number of licenses, but didn't stream the procedure of their issuance, i.e. the number of documents required to obtain them. According to the company's managers, the obtaining procedure of all these documents is long-lasting and expensive, resulting in corruption.

Import-export procedures

The review reveals that import-export procedures require an excessive number of authorizations, permits and other documents.

Many times the same documents, permits, authorizations have to be submitted to different bodies. In most cases, authorities require the documents to be authenticated or presented in original. The review did not identify any significant improvement in the polled companies' assessment in this field.

As mentioned above, in 2003 the procedures for VAT restitution have been notably improved. Nevertheless, the perception of polled entrepreneurs is that even for companies with a high degree of credibility the procedure is complex and time-consuming. According to the regulations the VAT restitution should take 45 days, however, due to the complexity of the procedure and lack of cash, the procedure of VAT restitution lasts longer (63 days). Sometimes, when the amount to be restituted is insignificant, the companies refuse to undertake the VAT restitution procedure, because of the above problems. For the enterprises that provide international transportation services is practically impossible to receive the VAT paid because of the legislation imperfections.

Restrictions on import of certain products are unjustified and permanently changing.

The comparison of import and export procedures shows that the time for clearing customs in Moldova in 2001-2003 is longer than during 2000-2002 years.

Tax Administration

The taxation system of the Republic of Moldova was cardinally changed on January 1, 1998, when the 1st and the 2nd Titles of the Fiscal Code entered into force. At present, six titles of the Fiscal Code were adopted and entered into force: Title one – General information about taxation system, Title two – Income tax, Title three – Value Added Tax, Title four – Excise, Title five – Fiscal administration, Title six – Estate income tax. Currently the Government of Moldova is developing the Title seven of the Fiscal Code – Local Taxes.

On March 01, 2002, by the Law No. 732-XV dated December 13, 2001 and the State Fiscal Inspection Communicate on the fiscal invoices (dated February 21, 2002) a new VAT invoice was introduced with higher degree of security, substituting two different forms, the old VAT invoice and the waybill. As a result, the procedure of selling goods got a little easier. However, the printed forms of the new VAT invoices can only be obtained from the local fiscal authorities.

The taxation system is largely criticized by the Moldovan business community due to the high level of taxation, frequent changes of the fiscal legislation and high level of penalties and sanctions.

Salaries are subjected to higher taxation (22%) than company's income tax (20%).

It is to underline that since January 2003 the Fiscal Code was modified and amended fifteen times, some changes being radical. Some of the most important modifications and amendments were introduced by the Law No. 430-XV dated October 31, 2003, which *inter alia*:

- Modified the article 15 of the Fiscal code, reducing the tax level for individuals from 25% to 22% and increasing the level of the amount subject to 10% income tax.
- Reduced the tax level for the legal persons from 22% to 20%.
- Increased the level of the excise.

Although, starting January 2004 the income tax was decreased from 25% to 22%, the Parliament introduced by the Law No. 519-XV dated December 18, 2003 regarding the State social insurance budget on 2004 the 2% of individual social contribution from the salary.

The taxation system is appraised by a half of the polled business as getting more complicated during last years. A very small percentage of the respondents felt some improvements in the system.

The most serious problems are caused by the instability of taxation legislation, high sanctions for mistakes and extremely complicated and incomprehensible taxation and accounting procedures.

Inspections

The survey demonstrated that Moldovan enterprises are subject to constant inspections executed by state control agencies. The average annual duration of inspections is about one month or twice less than in 2002. However, more than a half of polled enterprises consider that inspections stayed at the same level comparing to the previous year. Only 12% believe that the situation is becoming better.

Enterprises employing more personnel had the most inspections.

In many cases, inspections resulted with a fine. But in some cases – inspections carried out by the fire fighting authority, police, environment protection organs and licensing bodies – the sum of unofficial payments is equal or even higher than the level of fines. If the amount of sanctions is broken down by employee, the heaviest burden is carried by small businesses (less than 10 persons), where the per-employee amount of fines is about $40 per year. At large enterprises that employ more than 200 people this ratio is about $5.

Most of inspections are carried out by the police. Sanitary inspection, State standardization bodies and Licensing bodies do also an important number of inspections – about four per year.

Although the number of inspections remained at the same level as during the previous years, their length decreased considerably during last two years: 1.9 times during 2001-2002 years and 1.8 times during 2002-2003. During last year the cost associated with inspections decreased 1.9 times.

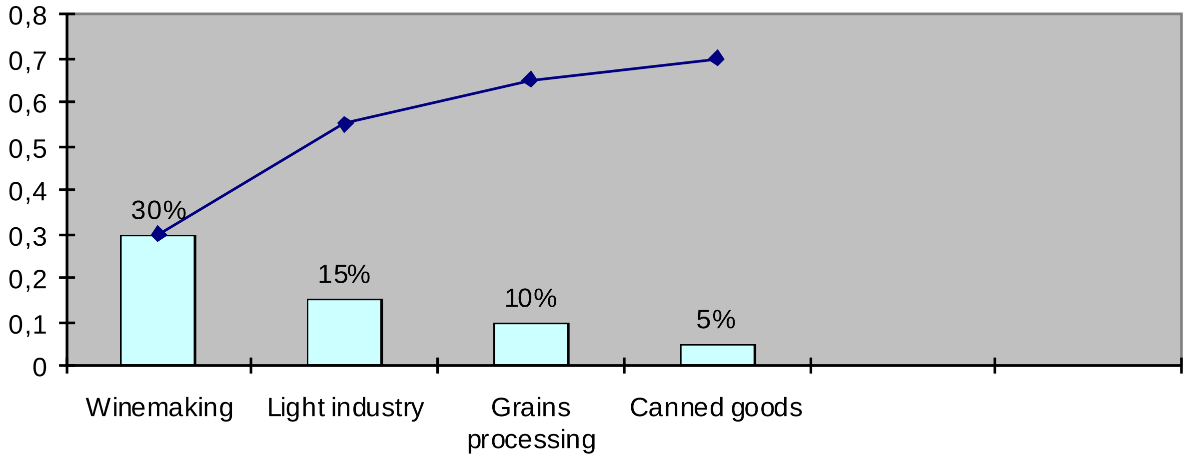
6 Economic growth area mapping

In the result of regions snapshot the following growth areas were identified:

1. Winemaking industry with a possibility to process about 200 thou tones of grapes per year.
2. Production of canned fruits and vegetables Existent capacities allow processing of 30 thou tones of fruit and vegetables.
3. Spa services that are represented by company „Nufărul Alb"
4. Grains processing industry . Existent capacities allow to produce 20 thou tones of flour per year.
5. Light industry (2 companies producing knitwear goods and ready garment).

Based on ABC Pareto Model (Fig. 10) there were identified three main industrial branches that ensure 70% of output.

Fig. 10 Pareto Model: the share of region's industrial output, 2003,%



Winemaking, grains processing and canned goods production have the biggest potential for development in the region, due to local raw materials, experience and skills of population, available production capacities, distribution channels, insignificant investment needed. These industries also cannot be separated from whole country industry. Winemaking companies, for example, are working together with similar companies from other regions: they can purchase grapes from Hincesti, can sell the brut wines to other regions or directly to a Russian distributor, etc.

The first two sub sectors are the most important ones. Due to winemaking sector region have positive trade balance.

Some opportunities for development have light industry, represented by cloths production sector, but the big problem is market. The Cloths production sector includes such companies as "Tricon" JSC and "Laboratorio-Tesile Mol" LTD, both of them are mainly lohn-production companies. The main products are knit wears and cloths.

These companies supply insignificant part of products to local market (about 10%). They, mainly, sew products basing on a foreign companies' orders and use their textile. The finished products are integrally owned by customer and they are delivered to his address.

Good opportunities for development have tourism and Spa services rendered by unique company „Nufărul Alb” The realization of these opportunities depends on region possibility to attract investment for infrastructure development.

6.1 Winemaking sector

The wine sector includes the production and bottling of wine and other beverages obtained from the fermentation of grapes. This industry is the most developed within the region. Grapes processing is represented by 17 wine producers (see Annex1) that have a total capacity that allows processing a quantity of 200 thou tones of grapes per year.

The total region’s area of vineyard is about 22 thou ha with the yield of 4,4 thou tones per ha (for the year of 2002). Only 25% of them are processed by agricultural enterprises, the biggest part is cultivated by private farmers. The local production of grapes do not ensures existent capacities with raw material.

Table 7 Production of grapes and wine production in Cahul region

	2001	2002	2003	Average
Grapes, thou tones	86,2	87,1	93,7	89
Grape wines, thou deciliter	929,8	2273,9	3056,1	2086,6
Sparkling wines, thou deciliter	…	537,1	479,3	508,2

Fig. 11 Supply Chain: Bottled Wine, per bottle

4 MDL	8 MDL	1 MDL	2 MDL	5 MDL	20 MDL
Farmer **20%**	Processing& bottling **40%**	Logistics **5%**	Wholesaler **10%**	Retailer **25%**	

Skif-1 LTD	*Margaritar JSC.*	*BTA – 19 JSC*
Iri–Carmen LTD	*Basavin Group JSC*	*PAT – 8 JSC*
Ceteronis LTD	*Prut JSC*	*Targus JSC*
Gavanoasa LTD	*Imperial Vin JSC*	*Integral-Auto JSC*
	Burlacu-Vin JSC	
	Vitrisam LTD	

The biggest value added is obtained by:

- Agricultural producers (grape growers) - 20% of value added
- Wineries during processing & bottling - 40% of value added
- Distributors – 35% of value added.

The local companies are gaining about the 60% of value added. In the case if distribution is done by local companies, the value added gained is higher. The current situation is stimulating the vineyard planting process.

Analyzing the supply chain, we can easily observe that the value added is formed mainly by wineries. The current situation of the region chain is stimulating the processors for backward integration due to a low capacity utilization mainly by processing companies. This is demonstrated by several companies from the region (for example Imperial – Vin JSC).

In the same time the value added generated by the whole chain is quite low, in EU countries a bottle of wine is several time higher. It could be improved especially by small wineries, offering to the market not quantity, but quality and value added. It is sure that companies from the region can not have economy of scale. Also, the analysis of Porter model is proving that.

Fig. 12 Porter Model: Bottled Wine

Competing sellers	Potential new entrants	Substitute products	Suppliers	Buyers
The competition on the traditional markets increase. New competitors from Chilli, South Africa, Australia, France, Italy, Spain, etc. as well as from other regions of Moldova appeared especially on the foreign markets (Russia). Very attractive, Russian market is still growing, while the world wine market, especially European one, had a significant decline. So in the next years the competition will keep growing	Possibilities for new entrants are moderate due to high cost of investment needed and lack of raw material. However some markets are very promising.	Substitute products pressure is high due to an increase in consumption of beer and other soft alcoholic drinks. Consumption of strong alcoholic drinks will keep decreasing in the nearest future	Suppliers' power is increasing due to an important reduction of vineyard areas. There is a strong competition between wineries for raw material. It is expected that prices for raw materials will increase.	Very demanding to the quality as well as to the type of wine. Prices have a trend of dropping down, mainly due to the high competition and bad times on the EU markets.

The future development of the Cahul region' sector depends largely on several issues:

1. The privatization of wineries, as it can't provide needed resources and incentives to develop the business;
2. Development of vineyards, including backward integration strategies;
3. Vineyard yield improvement;
4. The ability to rationalize the whole business process, to increase the productivity, to control and reduce unit costs from vineyards to retail shelves.

In the nearest future, companies from the region should have at least 2 main priorities: defending its positions on the markets (especially Russia) and development of suppliers.

Key Success factors for these companies are:

- Developed raw materials base
- Consistent quality of wine
- Strong distribution network
- Broad product line

Recommendations:

- for companies:

1. Improvement of suppliers / farmers

2. Implementation of modern management techniques (HACCP, ISO 9000 quality systems, etc.) to improve the productivity and competitiveness of companies;
3. Diversification of markets
4. Replacement of hot pasteurization with cold one
5. Enter *premium* wine segment;

- for State authorities:

1. Granting of fiscal facilities to companies investing in new vineyards;
2. Promoting the importance to produce value added products (for ex. not recommending to export raw wine)
3. Stimulating the region and wineries included in "wine road" project.

Recommendations for the sector

In order to increase the efficiency of agricultural and processing sector, the international experience proposes the creation of clusters.

There are many definitions of a cluster but, there is proposed to use the following: **cluster is a loose business organization, in which cooperation of partners gives synergy effect in a relatively short time** (*Source: Contribution to the 42nd EUROPEAN CONGRESS of the Regional Science Association Dortmund, August 27-31).*

The aim of partners form a cluster is to solve local problems, e.g. to decrease unemployment, organize training courses, improve local transportation systems, lobby for legislation etc. Usually, partners cooperate in a very informal way in hope to achieve a synergy effect, i.e. the effect of cooperation is expected to be bigger than a sum of their separate activities and is attained in a relatively short time. A cluster is a loose business organization, successful by definition. As it becomes more and more successful, to reach a fully mature business stage at one point, with all legal, financial and managerial developments on its side, then it usually drops the word cluster in its name. Clusters can be considered a possible way of merging small and medium-sized entrepreneurs. Merging of big companies usually entails complex and lengthy negotiations.

Rural clusters can be formed also due to following main reasons: to increase competitiveness of this sector product, to improve socio-economic status of farmers and MSEs, and to combat unemployment in rural areas.

A key to their success is that they are able to provide large volumes of standardized quality. It is impossible for a single farmer and MSE (in many cases it refers to relatively big enterprises too) to achieve such a success and level of profit; conversely it requires the dynamic of a group. As a joint body, they are able to establish modern storage facilities and refrigeration warehouses, as well as quality assessment procedures. These clusters let to have more value added by developing more processed food beyond the basic line.

In Cahul region it is proposed to create a cluster for winemaking sector and promoting finished goods on local and external markets, by involving big and small business enterprises.World experience has proven firmly that only balanced economies, in which both big, small- and medium-sized firms are growing, are successful on global markets. In other words, a successful economy today is a balanced composition of big, small- and medium-sized companies.

In cluster there must be involved the following types of firms:

- agricultural producers providers of saplings;
- grape growers;
- producers of finished goods from fermented grape;
- product promoters on the market;
- innovative and consulting support providers;

- services (technical, agrochemical, and other) providers

6.2 Fruits and Vegetables processing sector

Fruits and vegetables processing sector is represented in the region by 3 main processing companies (2 in Cahul district and 1 in Cantemir district) and some canning sections. The total processing capacity is over 30 Th. tones of raw material a year.

Unfortunately, the situation in this sector is quite bad especially in Cantemir district. Obsolete equipments caused high cost incurred by cannery sections, lack of financial resources do not allow to process all existent raw material. In 2003 a big part of fruits and vegetables produced were no processed. This situation do not permit development of the whole fruits and vegetables supply chain. Although the region have about 6 thou ha of orchards and about 4 thou ha of vegetables, canneries from the region do not process them. Raw material goes to canneries from other regions.

Table 8 Production of fruits and vegetables in Cahul region

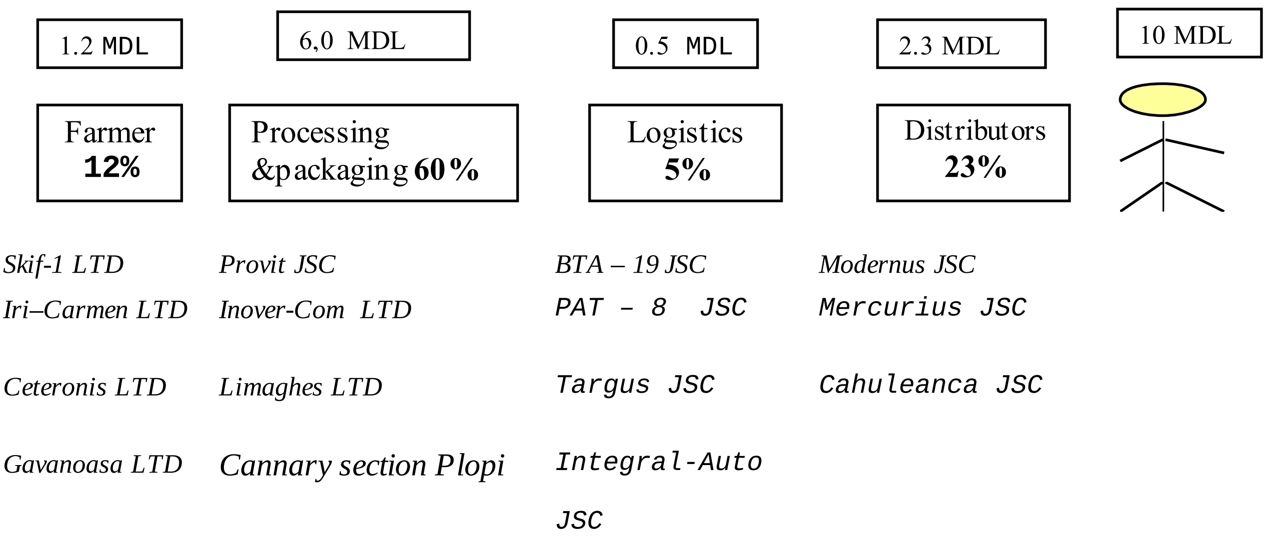
	2001	2002	2003	Average
Fruits, thou tones	20,4	8,7	25,1	18,1
Vegetables, thou tones	35,3	10,9	9,8	18,7

It can be assume that bad development of vegetables growing business is related to unsatisfactory development of these local canneries.

Due to this, development of alternative fruits and vegetables chains should be considered. The development of these chains will promote development of downstream part of the supply chain – fruits and vegetables farming.

Below are presented Supply Chain analysis of pickled vegetables.

Fig. 13 Supply Chain: Pickled vegetables[2], per 1 can (0.9 liter)



[2] Based on pickled tomatoes

The biggest value added is obtained by:

- Canneries during processing and packaging - 60% of value added
- Distributors – 23% of value added.

The local companies are gaining about the 70% of value added.

The biggest value added goes to processing and packaging companies as well as to retailers. Due to the fact that retailer of pickled vegetables are usually outside the region, the leader of the chain should be processing companies. So the current situation of the chain does not stimulate the fruit and vegetable farmers because canneries from the region are in a precarious financial situation, while the farmers' value added is low – only 12%.

However, the region's pattern of the supply chain is far to be optimal. The value chain analysis of fruits and vegetables sector revealed that the performance of Cahul region sector is far away from being competitive as benchmarked against the chain performance in other Moldovan regions or in Eastern Europe countries (for example in Poland or Hungary). A lot of improvement is required to increase value added. Many of the recommendations will have a starting point the analysis of the supply chain. Main limiting factors which spanned the entire chain are listed below:

- low farmers yields;
- high handling damages and wastes;
- no tracking and tracing ability leading to uncertainty about the quality of product;
- insufficient product specifications (color, size, quality, package, etc.);
- unreliable supply to market;
- lack of irrigation, storage capacities and cooled transportation;
- insufficient management and technical capacity in farms and processing companies.

Farmers lack clear understanding about market they want to export. No sharp product specifications formulated anywhere that could be communicated throughout the entire supply chain. Fruits and vegetables are often out of stock, particularly when market demand is high (from January to June). Post-harvest losses are high due to the lack of pre-cooling and cooled transportation. The quality of batches is non-uniform and it is impossible to trace products back to the farm.

When matching this situation with the demands of customers for quality, calibration, freshness, safety of product, availability of variety products at acceptable prices, it became clear that lots of improvements are required.

Fig. 14 Porter Model: Fruits and Vegetables sector

Competing sellers	Potential new entrants	Substitute products	Suppliers	Buyers
The competition on the fruits and vegetables (fresh or processed) will increase on the national as well as international markets. Growing incomes of the population from the traditional markets: Chisinau at the national and Russia at the international level will attract more producers from different regions and countries to consider these markets as a real challenge, so local companies should be prepared for a tough time in next 3-5 years.	Possibilities for new entrants are low due to high cost of investment needed and lack of raw material.	Milk products and canned fish are the main substitute products. However the consumer will probably choose fruits and vegetables at least equal to the quantities of substitutes, with no regard to price. Only quality can influence the choice	Suppliers' power is increasing due to an important reduction of orchards areas. The competition between processing companies and exporters for raw material will increase soon.	Prices are established by distributors. A lot of imported products are on the market and local producers must face these prices. Price and quality are the major factors that motivate a consumer to buy.

It seems that the future development of the sector in the region depends largely on following issues:

1. Improvement of farmers yield
2. Possibility to reorganize/restructure three canneries from the region
3. Forward integration of successful farmers[3]
4. Irrigation of agricultural land (especially for vegetables farming)

Next ten years the industry will be defending its position on the Russian market, trying to develop links with distributors from Asian countries. "Good consistent quality at a reasonable price" is the market approach that will earn best benefits.

Recommendations:

1. Improve managerial skills & efficiency
2. Marketing studies in the larger target markets
3. Training in marketing & sales
4. Packaging improvement
5. Product availability
6. Implement continuous improvement and quality assurance programmes
7. Capacity utilization improvement
8. Reactivate R&D work

The competitive elements (key success factors) that most affect the ability fruits and

[3] Due to the very bad situation of processing companies will be quite difficult to them to integrate backward, as it is seen in other regions (for example in Soroca) and countries.

vegetables sector players are:

1. High value added products (the region can not compete on volumes)
2. Focus on customers needs
3. Clear marketing strategy
4. Quality - the first and only priority
5. Good planning and right resources utilization
6. Continuous improvement environment
7. Productivity

6.3 Grains processing

The grains processing sector includes the flour making, bread making and fodder making industries. This sector holds about 10% of the overall region industry. Though, its share is not so essential, but it is of primary importance for people.

The main products are bread, flour, fodder and patisseries. In the developing countries, the bread is considered to be one of the most important food products. That is why the bread consumption comparatively is higher than in EU countries.

The major players within the sector are: suppliers of raw materials, grain producers and grains processors.

1. Suppliers of raw materials provide needed seeds, fertilizers, spare parts, fuel and oils, etc. Another advantage that they provide is commercial credit to producers. Usually they wait until the moment of harvesting to collect money from sales of goods. Frequently there are barter payment arrangements that put agricultural producers into an inconvenient situation. But because of limited access of agro firms to bank's credits, these barter payments are accepted.

2. Grain producers are represented by small farmers (about 60% of total cereals production) and former collective farms reorganized into cooperatives or limited liabilities companies. The total quantity of cereals produced in the region constituted only 103 thou tones in 2003. The major characteristic of these firms are low productivity – about 2 – 2,5 tones of grains per ha, obsolete equipment, low quality crops (percentage of gluten in wheat is about 15-18%), lack of workforce.

Table 9 Production of cereals and leguminous in Cahul region

	2001	2002	2003	Average
Cereals and leguminous, thou tones	240	175,5	102,7	172,7

3. Grains processors are represented by mills, fodder producers and bakeries. There are 3 medium size companies in the grain processing sector and more than 10 small capacity mills. The small mills can be characterized by low quality of flour, usually low costs due to tax avoidance and good location (near agricultural producers). The major product of these mills is not flour, but flour production services.

The medium capacity mills are SA VIT SIM LTD, "ALT-ALB" LTD and Prut Com Agro LTD. The major features of these mills are:

- High quality of flour
- High yield of flour – about 80%
- Low percentage of capacity usage – no more than 30%.

These mills are flour producers; usually they purchase wheat and sell flour.

The existent capacities allow processing of more than 30 thou tones of grains per year.

As the result of processing of grains flour and mixed fodder are produced.

Table 10 Production of flour and bakery products

	2001	2001	2003
Flour, thou tones	5,85	8,67	4,66
Breadstuff, thou tones	5,2	3,85	4,87

Sources: Regional Development Programme Canul and Cantemiri,

Flour is used as main raw material for bread production. The industrial bread production per capita in the region is low (about 2,1 kg per month in 2003), this can be explained thought changing in structure of baking production in the favor of household baking.

The production volumes at big bakeries show a decreasing tendency, due to the changes of the industry structure. Many small private producers have appeared over the last few years. They are more flexible to the consumers' requirements, are placed closer to them, have lower fixed costs and many other advantages.

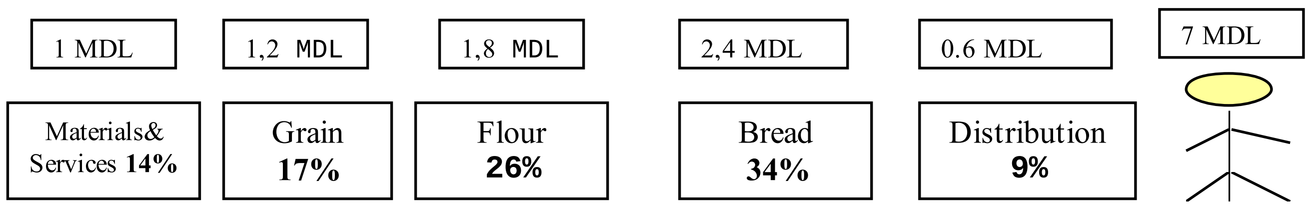
Another factor that affected substantially the industrial sector consists in the increase of household bread making.

Causes:

- ✓ Rural population often is paid in kind.
- ✓ Low purchasing power of the rural population.

The value added chain in the bread production sector is presented bellow.

Fig. 15 Supply Chain: Bread (per 1 kg of bread)



Targus JSC	*Skif-1 LTD*	SAVIT SIM LTD	Jenin Prod Com LTD	*Modernus JSC*
Integral-Auto JSC	*Iri–Carmen LTD*	"ALT-ALB" LTD	CAHUL PAN JSC	*Mercurius JSC*
	Ceteronis LTD	Prut Com Agro LTD	SAVIT SIM LTD	*Cahuleanca JSC*
	Ceteronis LTD			
	Agro Prut Cooperative			
	Farmers			

The biggest value added goes to flour and bread production companies – about 60%.

The biggest part of grains produced in the region are exported, so the biggest part of value added is gained by enterprises from another regions.

Fig. 16 Porter Model: Bread

Competing sellers	Potential new entrants	Substitute products	Suppliers	Buyers
Competition among sellers is strong due to a large number of sellers; demand for products is stable, competing sellers use the strategy of prices minimization.	Possibilities for new entrants are high because of the low cost of investment needed. The major entry barrier is authorization obtaining and state regulation of prices.	Substitute products pressure is moderate because the bread products are the basic products of human meal. But the tendencies to consume more fruits and vegetables can decrease the demand for bread products.	Suppliers' power is moderate because of their big number in the industry. There is only one important material - flour for the baking products.	The buyers cannot influence the producers directly because bread is the main product for the consumption; but due to the latest changes in the people's life stile – trends to consume less caloric products will have an impact on bread producers. The income growth of rural population may re-orient it to consumption of ready made breadstuff. The urban buyers can insignificantly reduce the bread consume.

The future development of the branch is dependent upon the following issues:

- for Companies
  1. Increasing capacities utilization rate
  2. Diversifying products and services
  3. Improving and widening companies' distribution systems
  4. Co-operation and tightening the collaboration with the suppliers of the grains.
- For Public Authorities

1. Facilitation of agribusiness companies access to cheaper loan through creation of compensation fund of interest rate for credits accorded to agricultural sector;
2. To stimulate the grain producers in terms of selling price for grains;
3. Control over price forming of fuel for agricultural works.

The competitive elements that affect the ability of EGA producers to prosper in the marketplace are:

- Large range of products for different groups of consumers.
- Small lots and often distribution.
- Quick and suitable access of the consumers to the distributors.
- Tendency for the consumption of natural food.

7 SWOT Analyses

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>
1. High or acceptable level of population's skills in traditional branches (winemaking)
2. Human resources availability
3. Higher growth rate in industry production comparing to the country's total
4. Appropriate climate for grape growing
5. Positive trade balance
6. Good level of CIS markets penetration.
</td><td>
1. Lack of financial and natural resources
2. Lack of technologically skilled personnel
3. Lack of good managerial skills for good administration of the companies
4. Low level of the industry specific skills (marketing, financial management, technology)
5. A big share of population uninvolved in region's economy
6. Underdeveloped infrastructure (water supply, communications, roads)
7. Low level of population's incomes
8. Obsolete equipment and assets
9. Low level of production capacities utilization.
</td></tr>
<tr><th>Opportunities</th><th>Threats</th></tr>
<tr><td>
1. Economic Growth of neighbor regions and countries
2. Favorable geographical position of the region
3. EU approaching to the regions borders
4. Financial support from International organization
</td><td>
1. Country and Region isolation due to latest EU extension trends
2. Migration of skilled labor force abroad
3. Dependence on foreign/external energy suppliers.
4. Insufficient export diversification (CIS)
5. High vulnerability to natural calamities
6. Local currency appreciation.
</td></tr>
</table>

8 Project intervention Roadmap

8.1 Interventions in Legal and Regulatory Framework

The main recommendations for eliminating the business regulation problems are as follows:

Registration

• To continue the reform of the enterprises registration system, simplifying and adjusting it to the international norms and standards.

• To reduce the registration costs within the framework of the State Registration Chamber by eliminating services, which are not performed de facto. For example, at present any entrepreneur should pay for any information provided as a consultation.

• To eliminate restrictions concerning the maximum number of registered activities or to simplify the procedure for their substitution.

• To reduce the procedures costs in case of equity capital growth, constituting 0.5% of the value at present.

• To simplify procedures for enterprise liquidation initiated by the owner.

Licensing

• To reduce the number of documents required for license obtaining;

• To implement an information system that will allow getting the requested documents from other state bodies (Chamber of State Registration, tax authorities, fire prevention authorities) without the company's involvement;

• To reduce the number of licensed activities per company by aggregation of their sub-activities;

• To ensure the overall transparence of procedures and prices for all types of licenses;

• To eliminate the necessity of notary confirmation of the documents submitted to the licensing bodies.

Import-export procedures

• Customs procedures should be simplified by reducing the number of documents to be submitted and by avoiding examination of these documents by various institutions. Therefore, it is recommended to review the list of documents required for customs procedures to avoid the double examination.

• The transportation procedure of goods should be simplified. Therefore, it is recommended to avoid the customs seal monopolization. The enterprises interviewed recommended to simplify the procedure of car sealing by reducing the number of seals from six (three customs seals and three seals from the rail road departments) to two for the export in the neighboring countries.

• In order to reduce the transit barriers in import-export activities (specifically with Ukraine), it is recommended to sign intergovernmental acts with neighboring countries.

• The procedure of VAT refunding should be simplified to be more efficient.

Tax Administration

Some actions should be taken out in order to eliminate the following key business **impediments** in **tax administration**:

• Tax legislation is instable, with some taxes being reviewed annually under the Law on Budget.

• The procedure for financial report submitting to the Department of Statistics and Sociology is very exhausting and complicate. The procedure implies much time because requires a huge quantity of information.

• Individual entrepreneurs pay an excessive number of taxes – 7. In many cases, the tax amount is insignificant comparing to the effort needed to calculate it, to submit the report to the Fiscal Inspectorate and to pay the tax.

Inspections

The following key business impediments in **inspection** area, there should be eliminated:

- The responsibility of controlling bodies is vaguely defined. This is due to the fact that the acts adopted to outline the scope of activities and responsibility of these bodies contains only references to other legal acts.

- Private companies are more inspected than public ones.

- Inspections are done ex-prompt, without a prior notification.

- The Budget Law stipulates for each year the revenues from fines and penalties. Thus, inspectors are encouraged to achieve the “goal”.

- Sanctions can be imposed on the basis of intermediate inspection results, which can engender sizeable losses for entrepreneurs.

- Fines levied on a company can be debited against the bank accounts of economic entities that have outstanding debts to this company without their consent.

- Despite the recent efforts of the Government to reduce the number of inspections, most of companies accused the Center for Economic Crimes and Corruption Combating, which increased the frequency of inspection and the fines levied from companies. The costs caused by the visits of their inspectors exceeded even those caused by the Fiscal Inspectorate.

8.2 SME Training and Consultancy Needs

Within the TACIS “SME Development Project” there was carried out the MSEs Needs Analysis, which covered 4 republic’s regions. One of the purposes was to identify the needs and priority of consultancy and management training services that can be developed and delivered by the Business Services Providers for upgrading the future competitiveness of the MSEs (*Source: Report “SME Needs Analysis”, Delloit)*

In order to execute this analysis there was carried out the questionnaire survey, in which 130 MSE-managers took part and organized 6 workshops, where 150 MSE-managers participated.

As a result, there were identified the following MSEs’ needs in services, training and consultancy with the following priorities among the topics:

Consultancy

Top priority:

- Sales and Marketing
- Export and Internationalization, especially targeted for micro and small sized manufacturing & processing enterprises
- Business Planning and Strategy

High priority:

- Financial Management and Management Accounting
- Information on Tax & Accounting Laws and Registrations, especially targeted at micro-enterprises and the trade sector
- Human Resource and Personnel Management, specially for service sector
- Management and Leadership for micro and small sized enterprises

Medium priority:

- Logistics and Purchasing, specially for the micro enterprises
- Technical/Production Management, specially targeted at manufacturing industries and construction sector
- Quality Control

Training Courses

Sales and Marketing:

- Research of domestic markets
- Competitive product quality
- Promotion system/advertising
- Distribution channels
- Participation in fairs

We recommend above mentioned thematic as basic for consulting and training.

8.3 Opportunities for expanding market linkages

As opportunities for expanding market linkages there is proposed to create cluster in one of the EGAs of the region, namely:

- Grape cultivation and wine production, as well as finished goods promotion on local, national and external markets. The analysis of opportunities and recommendations of cluster creation have been reflected in the chapter 6.1 of this report.

While forming a cluster system, there in necessary to:

- involve in the process the agricultural MSEs and farms;
- create favorable conditions, when economic interests of agricultural processors and producers would coincide, i.e. economic conditions, when it is advantageous for agricultural producers to sell their products to processors in Moldova.

9 Recommendations

9.1 Recommendations for companies' management and Public Authorities

Recommendations	Specific issues
For Companies	
1. Increase yield per ha of agricultural crops.	➢ Implementation of new technologies and modern equipment; ➢ Fertilizers and plants protection materials supplying integrally and in proper time.
2. Increase capacities utilization rate.	➢ Agricultural producers' development ; ➢ Promotion products on external markets.
3. Diversification of products and services.	➢ Market needs identification; ➢ Implementation of innovations; ➢ Cooperation with research and scientific centers, academies.
4. Maintaining consistent quality of products for keeping the customer loyal to company's products.	➢ Implementation of Statistical Process Control, HACCP, Implement modern management techniques (Statistical Process Control, HACCP, Business Process Analysis, ISO 9000 quality systems, etc.) in order to improve the productivity and competitiveness of companies. ➢ Consulting, training, providers services utilization, to companies having the experience in modern management techniques implementation
5. Improvement and widen company's distribution system.	➢ Creation of specialized distribution structures for region's (country's) products promotion on external markets.
6. Co-operation and tightening the collaboration among raw materials producers, finished goods producers and distributors.	➢ Vertical cooperation of uncoordinated activity of farms, agricultural enterprises, processing companies and poorly developed distribution structures.
7. Diversification of export markets (USA, Asia and Europe)	➢ Identification of new markets' demands and standards; ➢ Implementation of new technologies that would allow achievement of these standards; ➢ Products promotion system mprovement .
For regional authorities	
1. Specific funds creation in order to stimulate the regions' prior types of	➢ Analyzing the experience of other states; ➢ Normative acts elaboration;

activity;	➢ Searching for financing resources.
2. Assuring the region's participation at different tenders.	➢ Creation of the mechanism of documents drawing up for region's participation at different tenders (search for tenders, preparing and presenting the information, presentations, implementation monitoring, and efficiency appreciation).
3. Flexible use of local tax methods in order to stimulate the region's prior types of activity;	➢ Elaboration proposals to modify the methods of local tax calculation, collection and utilization, in order to create the possibility to stimulate the region's prior types of activity;
4. Creation of the Regional System of Services for SMEs.	➢ This system should be an integral part of The National System of Services for SMEs and organized following the same principal (see p. 8 Recommendations for State authorities).
For State authorities:	
1. Introduction of unique (or two-three taxes) tax for agriculture.	➢ Analyzing the experience of other states; ➢ Performing constant monitoring of experience running in Taraclia district in 2004; ➢ Elaboration of the appreciation methods of experiment results; ➢ When positive results, to elaborate the experience implementation program in he whole country.
2. Creation of compensation fund of interest rate for credits accorded to agricultural sector and processing industry.	➢ To chose the types of agro-industrial products with a long production cycle that need long-term investments and are strategic for country's economy; ➢ To elaborate the mechanism of creation and utilization of compensation fund for credits, attracted for this products production.
3. Control over price forming of fuel for agricultural works during the sowing and harvesting works.	➢ Elaboration of the mechanism to determine the speculative fuel price increase during the sowing and harvesting works; ➢ Elaboration of the economic responsibility mechanism for these breaches.
4. Rendering assistance to companies in promoting Moldavian products and Moldova's image on foreign markets – SME Export Promotion Program	➢ Elaboration of export strategies and export plans for companies; ➢ Pro-export development of the companies - professional advisory services for companies which realize elaborated development export plans;

	➢ Access to international markets - promotional activity (common exhibitions during trade fairs, publication of the promotional materials etc); ➢ Financial support for exporters - grants for companies which, by investment, improve the quality of their export products; ➢ Providing methodical, organizational and economic support to organizations that assist promotion of agro-industrial products on external markets.
5. Granting of fiscal facilities to companies that invest in new vineyards and new orchards.	➢ Exemption from income tax the investments in new vineyards and new orchards; ➢ Exemption from land-tax, new vineyards and new orchards for the period of their introduction in use.
6. Introduction of export barriers for agricultural raw materials.	➢ Elaboration the economic mechanism of early export regulation for agricultural products in accordance with environment in processing industry and economic interests of raw materials producers.
7. Endowing agriculture with technical devices, mainly by supporting the agricultural producers to buy tractors, agricultural machinery, tools, equipment, installations, chemical fertilizers, pesticides and petroleum products	➢ Elaboration of the mechanism of credit warrantees for agricultural enterprises – direct equipment, installations, chemical fertilizers, pesticides and petroleum products importers.
8. Create the National System of Services for SMEs.	This system should provide and coordinate the following types of services: ➢ Consulting services - basic consulting for starting up SME's and specific consultation in marketing, finance, law, planning & management, human resources, implementing innovations, export promotion, quality improvement and environment protection. ➢ Training services - for starting up including specific (marketing, finances, management etc.) and general (language, computer) training. ➢ Information services - linking of the trade partners, verification of the company credibility, information on trade fairs etc. ➢ Financial services - assistance in gaining of financial means

9.2 Recommendations for BIZPRO

In order to implement the proposed recommendations BIZPRO can be involved in:

A. Clusters creation in Moldova's economy sectors

I. Elaboration of a set of regulatory documents (laws) concerning creation and functioning of Clusters in Moldova and bring them into accord with other laws:
- benchmark similar laws in East European countries;
- identify the laws structures about Cluster's creation and functioning in RM;
- elaborate the laws drafts about Cluster's creation and functioning in RM;
- monitor these laws functioning for their future improvement;

Elaboration of a set of normative acts for clusters creation in certain economy sectors of Moldova.

II. Clusters creation in certain sectors of Moldova's economy:
- identify the prior sectors of Moldova's economy, in order to create a pilot cluster;
- create a pilot cluster in one economy's sector:
    - trainings, round tables, meetings with potential cluster's partners;
    - determine cluster-forming enterprises of the sector;
    - finishing of normative acts for creation of this cluster, with active involvement of potential cluster's partners;
    - juridical organization of the cluster;
    - monitoring of pilot clusters functioning.
- results analysis of pilot clusters functioning;
- clusters creation in other economy's sectors.

III. *1. Business-providers involvement in this process:*
- local:
    - CCI Cahul
    - Center for Regional Development "Cahul"
    - Pro-Business-Sud
    - Business Women Association "Femida"
    - Small Business School
- republican:
    - Agency for Enterprises Restructuring and Assistance AREA
    - ProEra Ltd
    - Center for Productivity and Competitiveness CPC
    - Small Business Association
    - National Association of Agricultural Producers
    - National Federation of Farmers
    - NGO "National Federation AgroInform"
    - International Center Assisting Women in Business (ICAWB)
    - Training and Consulting in Agriculture Agency (ACSA)
    - Rural Investment and Services Project (RISP)
    - Rural financing and Small enterprises development Project (IFAD)
    - National Association for Rural Development "Oikos"
    - National Association for Agricultural Development "Agroconsulting"

2. Work with BSPs:

- Creation of coordination mechanism for all BSPs' activity in the region.
- Equipping small business departments in LPA.

B. Colaboration with acting MSEs

I. <u>The group of MSEs that provide services in vegetable seeds and seedlings cultivation, as well as sapling for vineyards and orchards.</u>

- to identify the region's needs in this type of services;
- to identify the opportunities to execute this volume of services by the region;
- to identify the needs of MSEs acting in this sector;
- to provide consulting services;
- to conduct trainings (management, financial management, marketing, modern technologies and equipment);
- to motivate the financial support;
- to provide financial support;
- to determine the number of entrepreneurs who expressed the willingness to do this type of activity;
- to provide support in drawing up the business starting documents;
- to provide starting financial support.

II. <u>The group of MSEs involved in agricultural products processing.</u>

- to elaborate the mechanism of structures creation that would provide all types of services;
- to provide support in drawing up this structures' creation documents;
- to provide starting financial support;
- to provide consulting services;
- to conduct trainings.

III. <u>The group of MSEs involved in distribution channels.</u>

- to elaborate the forming mechanism for sector's finished products distribution channels;
- to provide support in drawing up this structures' creation documents;
- to provide starting financial support;
- to provide consulting services;
- to conduct trainings.

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Annexes

Annex 1.

The list of major industrial enterprises within the Cahul region

	Company's name	**Location**	**Basic activity**
Winemaking industry			
1.	Margaritar JSC.	Cahul, Colibasi village	Production of wines
2.	Basavin Group JSC	Cahul, Cucoara village	Production of wines
3.	Prut JSC	Cahul, Brinza village	Production of wines
4.	Imperial Vin JSC	Cantemir, Pleseni village	Production of wines
5.	Burlacu-Vin JSC	Cahul, Burlacu village	Production of wines
6.	DELTA LTD	Cahul	Production of wines
7.	Trifesti JSC.	Cahul, Bucuria village	Production of wines
8.	BOTRITIS JSC	Cantemir, Cania village	Production of wines
9.	Vinia - Traian JSC	Cahul, Cavanoasa village	Production of wines
10.	CEBA-VIN JSC	Cahntemir, Cebolaccia village	Production of wines
11.	Fabrica de Vin Slobozia Mare JSC	Cahul, Slobozia Mare village	Production of wines
12.	Vitrisam LTD	Cantemir	Production of wines
13.	Vinal-Coci JSC	Cantemir	Production of wines
Canneries			
1	Provit JSC	Cahul	Production of juices and sauces, Tinned vegetables
2	Inover-Com LTD	Cahul, Zirnesti vilage	Production of juices and sauces, Tinned vegetables
3.	Limaghes LTD	Cantemir	Canned goods
	Cannary section Plopi	Cantemir, village Plopi	
Dairy industry			
1	JSCVIT SIM LTD	Cahul	Dairy products
2	Fabrica de brinzeturi Cahul JSC	Cahul	Dairy products
Grains processing			
1	SACVIT SIM LTD	Cahul	Production of flour

			and forages, Bakery products
2	"ALT-ALB" LTD	Cahul, Lebedenco village	Production of flour and forages
3	Prut Com Agro LTD	Cahul	Production of flour and forages, Bakery products
4	Jenin Prod Com LTD	Cahul, Valeni village	Bakery products
5	CAHUL PAN JSC	Cahul	Bakery
Light industry			
1	Tricon JSC	Cahul	Sewing services
2	Laboratorio-Tesile Mol LTD	Cahul	Garment industry
Brewery			
1	Bere Unitanc S.A/	Cahul	Beer, mineral water
Construction Industry			
1	«Constructorul-Sud» JSC	Cahul	Building construction
2	«Cahindmontaj» JSC	Cahul	Building construction
3	"Montator" JSC	Cahul	Building construction
4	"RUBIN-216" JSC	Cahul	Building construction
5	Agrocon –1 JSC	Cahul	Building construction
6	DANSER LTD	Cahul, Zirnesti vilage	Materials
7	STROIARSENAL LTD	Cahul	Materials
8	Toma-Maximenco II	Cahul	Furniture production
9	GESUSBAU LTD	Cahul	Furniture production
10	Zidarul – Sud JSC	Cahul	Building construction
Tourism			
	Nufarul Alb JSC	Cahul	SPA
Agriculture			
1	Skif-1 LTD	Cahul	
2	Elita Alexandrfeld JSC	Cahul, Cimpeni village	
3	Iri – Carmen LTD	Cahul, Lebedenco vilage	
4	GIGLBOE LTD	Cahul, Lopatica village	
5	ALDEX LEG LTD	Cahul, Rosu village	
6	TARJSCL AGRO LTD	Cahul, Taraclia de JSClcie village	
7	Baur MW LTD	Cahul, Baurci Moldoveni village	

8	Ceteronis LTD	Cahul, Doina village	
9	Agro Prut Cooperative	Cahul, Rosu village	
10	AGROSUD – SERVICE LTD	Cahul, Bucuria village	
11	Agri Iliici	Cahul, Burlaceni village	
Other industries			
1	Stinca Mare JSC	Cahul	Refrigerator
2	Matrix LTD	Cahul	Computer services
3	Cartal LTD	Cahul	Computer services
4	Modernus JSC	Cahul	Trade
5	Mercurius JSC	Cahul	Trade
6	Cahuleanca JSC	Cahul	Trade
7	Raza de Sud JSC	Cahul	Printing-house
8	Real-Sud LTD	Cahul	Advertising agency
9	BTA – 19 JSC	Cahul	Transport services
10	PAT – 8 JSC	Cahul	Transport services
11	Targus JSC	Cahul	Transport services
12	Integral-Auto JSC	Cahul	Transport services
13	Butu-Test-Auto LTD	Cahul	Auto diagnostic services
14	Tarai Irina II	Cahul	Metal processing

Annex 2

Questionnaire for enterprise

1. Enterprise name ____

2. Form of organization (JSC, LTD, Other_________________________________

3. What is the share:
- Private capital ____
- Shareholders ____
- Investors ________________________ funds _________________

4. Type of actitivity____
5. industry ____

6. Number of employees ________________________________

7. Products:

Products	Share in Sales			
	2000	2001	2002	2003
1.				
2.				
3.				

8. Describe for main products: main raw material used, main suppliers and buyers, using following model.
Supplier 2 → Supplier 1 → **Company** → Buyer 1 → Buyer 2

7.1 Suppliers

Products	Raw material	Supplier 1 (direct)		
		Market, (Country, town)	Supplier 2 (Supplier for Supplier 1)	
			Market name	Type of raw material
A	A1	1.	1.1	
			1.2	
	A2	2.	2.1	
			2.2	
B	B1	1.	1.1	
			1.2	
	B1	2.	2.1	
			2.2	

7.2 Buyers

Products	Buyer 1 (direct)	
	Market, (Country, town)	Buyer 2 (Buyer for Buyer 1) Market
A	1.	1.1
		1.2
	2.	2.1
		2.2

9. Raw materials' markets

Main raw materials	Existent markets		Potential market
	Traditional	New	

10. Describe main problems for new market entries

____

____

____

11. Volumes of raw material

	2000		2001		2002		2003	
	thou lei	%	thou lei	%	thou lei	%	thou lei	%
. Volumes of raw material Total, thou lei		x		x		x		x
- imported raw material								
- locale raw material (Moldova)								

13. Estimate equipment state:

Type of equipment by technologies groups	Age	Evaluate renewal necessities (by priorities)		
		1	2	There are no necessities

14. Do you have quality management system ISO 9001:2000 or other (please name them):

____

____

____

15. Do you have quality certificates for your products (please name them):

____

____

____

16. Markets for your products

Products	Existent markets (Country, region, town)		Perspective markets
	Out of region	Out of R. M	

17. Export

Volume of export for main products (Thou lei)	2000	2001	2002	2003
Total sales, inclusive				
- Export share total, and by exported products :				
1.				
2.				
3.				

18. Products' promotion (publicities, exhibitions, distribution network)

Promotion expenditure	2000		2001		2002		2003	
	Total (thou lei)	Share in sales %	Total (thou lei)	Share in sales %	Total (thou lei)	Share in sales %	Total (thou lei)	Share in sales %
Publicities								
Exhibitions, participation								
Distribution network development								

19. Main problems in marketing activities

____

____

____

____

20. What kind of services do you need in marketing domain (training, training services)?

21. Financial Indicators

Indicators	2000	2001	2002	2003
Volume of sales				
Net profit				
ROS				
Profit margin				
Accounts payable, total, inclusive – share of accounts payable				

22. Investment

Period	Object for investment	Goal	Investment Volume	Result

23. Financial support necessity for product development (credits, grants, subsidies), technical assistance, training