ProEra Grup

Consulting &Training Company

Project
"ECONOMIC GROWTH AREA ASSESSMENT"

EGA Ceadir-Lunga

FINAL REPORT

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Abbreviations

EGA - Economic Growth Area

SMEs - Small and Medium size Enterprises

LPA - Local Public Authority

CIS - Commonwealth of Independent States

JSC - Joint Stock Company

Ltd - Limited Liability Company

JV - Joint Venture

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 (SMEs) 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.

The major goal of the research is to contribute to the economic development of Moldova by providing assistance that improves the ability of micro, small and medium-sized enterprises (MSMEs) to operate and compete in local and international markets. This report is the first step which will incite economic growth in Ceadir-Lunga Region of Moldova and will help local enterprises 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).[1]

[1] An "Economic Growth Area" is defined as a region of Moldova. BIZPRO has established 10 EGAs, based loosely around the BIZPRO Hotlines that operate in Moldova. Boundaries of the EGAs are meant to be somewhat fluid, to allow for the development of business linkages between MSMEs and communities throughout Moldova. The EGAs bare a loose resemblance to the former *judets* of Moldova.

2 Objectives and Methods Used

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

1. Assessment of Ceadir-Lunga (Gagauz-Yeri) 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 and 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.

C. <u>The work schedule:</u>

The work was performed under the following schedule:

1. Information collection from different stakeholders: beneficiary MSMEs, other practitioners and professionals in relevant fields, private sector participants, relevant ministries, donors, and other participants and observers as deemed necessary.
2. Analysis of collected information: Analysis can involve different methodologies, but should include at a minimum:
   - review of available data and analyses already conducted, including local economic development plans, meetings with "anchor firms" in the EGA; interviews with MSMEs operating in the EGA including input suppliers, producers, processors, and support firms such as packaging, marketing, distribution
   - interviews with business associations representing firms in the EGA, business leaders, and local and regional government/municipal authorities
   - BSP may utilize industry analysis, SWOT, GAP, value chain, benchmarking, Porter Diamond and other tools to help accurately map the EGA
3. Interview representatives of the EGA to:
   - Identification of their current capabilities to access raw materials and inputs and produce different varieties of products
   - Assessment of the current technological state of their production facilities

- Examination of standards and quality issues (e.g. HCAAP for food/exports)
- Identification of local enterprises current and prospective markets
- Development an impression of their management and marketing approach (export and domestic), as well as gain an indication of their financial capability to upgrade their production capability and capacity and expand current or into additional markets;
- Determining the capabilities of MSMEs to access new credit and assess demand of MSMEs for financial products and services.

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

Gagauz-Yeri is an autonomous region in the south of Moldova. It occupies an area of 1850 square kilometers. The regions population of 158 900 resides in three towns and 27 villages.

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

Gagauz-Yeri economy is based mainly on the agriculture and food industry, which are producing about 65% of regions output.

Agriculture is the main branch of local economy. It provides about 40% of region output and it employs about 78% from total employees.

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

Services and Trade are producing about 20% of regions output and are the most dynamic branches of local economy.

There were identified three sectors of Region's economy that are producing about 70% of industrial output and are linking together agriculture industry and trade enterprises: winemaking, production of juices 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 40% of industrial output.

The canneries sector includes the production and bottling of fruit and vegetable juices. This industry holds about 20% of local industrial output. There is only one company that produce juices, with a total capacity of 12 thou tone per year – Basarabia-Agroexport SRL.

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

The local economy value chains are quite similar and are based on the same players with minor differences. The players within local EGA can be organized as: Agricultural Producers; Industrial Processors; Distributors; Final consumers.

Local value chain are mainly **buyer-driven** because they do not employ significant research and development, final products (food) are vital goods. That's why the success of local EGA depends upon the possibility to meet consumer requirements and to find and convince additional consumers to use these products.

Region's agricultural producers can be characterized as having low productivity, poor knowledge and without needed human and financial resources..

Local industrial company's companies are characterized as having low profitability, productivity, but the biggest deficiency is low salary provided to the employees.

Distribution is the most important process within the Regions Value Chains. Distribution companies can be called as "the owners of value chain", because their ability to sell will influence the success of agricultural producers and industrial processors.

Public administration must understand its role in ensuring needed economic growth. The rules imposed by the administration must develop fair competition, must ensure equal rights and obligation of the business. Public administration must serve private sector, but not vice versa.

There are two main paths of insertion in the global economy:

1. Through low delivery cost, in which producers are engaged in a cost reduction program. The major competitive advantage will be lower costs, lower prices, that will make the product available to large groups of population. This way offers the advantage of high volumes of sales, but with small margins.

2. Through high perceive value. This road is concentrating on quality and brands of products. Maintaining a high level of quality makes possible to obtain higher revenues primarily through premium prices. Customers are ready to pay more for quality.

The higher economic growth can be achieved organizing local enterprises into **clusters**. A cluster is a spatial concentration of specialized firms. The industrial clusters are focused on the role of local linkages in generating competitive advantages in export industries.

4 EGA General Presentation

Gagauz-Yeri is an autonomous region in the south of Moldova. It occupies an area of 1850 square kilometers. The Gagauz-Yeri population of 158 900 resides in three towns and 27 villages. Comrat, located 105 kilometers from Moldova's capital, Chisinau, is the region's capital and the biggest Gagauz-Yeri urban settlement with about 24,000 residents. It is located at the crossroads of the Chisinau-Cahul-Bucharest and Balti-Ceadir-Lunga-Odessa highways.

4.1 Characteristic of existent resources in the region

The major resources that the region has are human and land resources.

4.1.1 Human Resources

The Gagauz-Yeri population is about 158,9 thousands persons. This is about 4,4% from country total population. The biggest part of population lives in villages (59,2%).

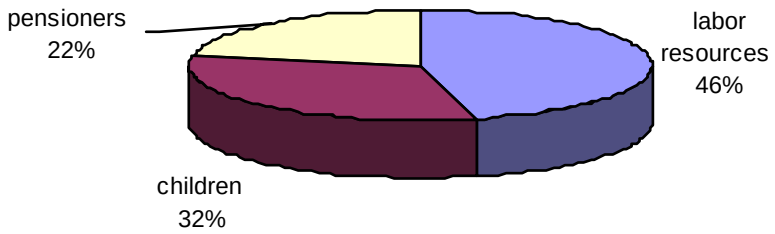
Table 1. The comparison between country and region's population, 2002, thou persons,

	Total population,	Labor resources,	Employment[2]	Number of employees[3],
Republic of Moldova's[4] total	3618	2048	1505	685
Gagauz-Yeri	158,9	73.1	61.5	34,9

Source: Statistical Yearbook of the Republic of Moldova, 2003
Regional Development Programme Gagauz-Yeri

Labor resources are about 46% from total population, 32% are children and 22% are pensioners. Comparing to country's situation (labor resources – 56%) the share of labor resources in the region is lower, due to higher level of children in the region.

Fig. 1. The structure of Region's population



Source: Regional Development Programme Gagauz-Yeri

[2] Employment represents persons who perform any economic or social activity, producing goods and services in order to receive income, in form of salary or other incomes.

[3] Employees – persons who perform their activity based on a work contract, in the counterpart of remuneration in form of salary, money or in kind.

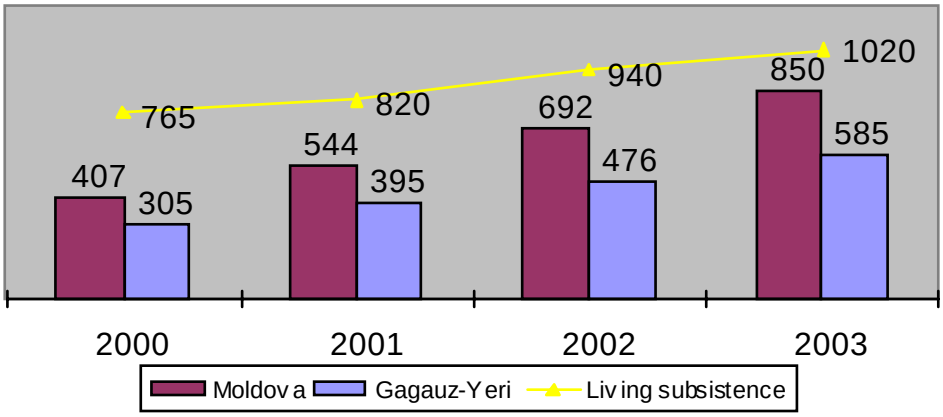
[4] Without eastern regions of country

One of the biggest problems for region's economy is unemployment. Based on official data the unemployment rate in the region is about 2,1%, that is about 1500 persons. But the share of hidden unemployment is higher. Based on table 1.1. it can be concluded that about 40 thou persons (difference between labor resources and number of employees) have no permanent occupation within the region and the biggest part of them are working either as farmers on their own land (having insignificant incomes) or outside the region and country, especially in Russia and Turkey (having an average income of ten times higher than country's average salary).

These persons and represent the biggest potential for the growth of the region. 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.

Based on estimations made by different NGOs about 15 thou personas currently are working outside the country. These usually are the most active and skilled persons.

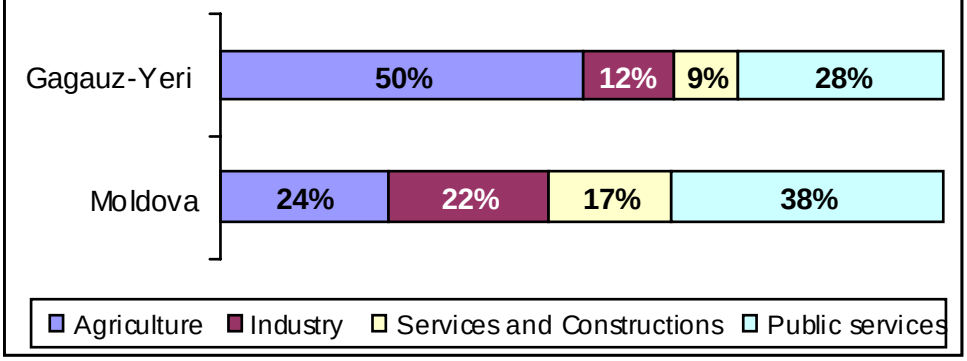
Fig. 2. The evolution of monthly average salary, MDL



As long as the average salary will be under the living subsistence (Fig.1.2.), 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. 3. Distribution of employees by main economic activities, 2002



About 50% of employees (that are 19 thou persons) are occupied in agriculture. The Public services sector (education, healthcare and administration) employs about 10 thou persons, about 4,6 thou persons are working within industrial enterprises and 2,6 thou persons are employed within services and constructions.

The value added created in agriculture is essentially lower than in industry. Public services sector are rather a consumer than a creator of value added. The Gagauz-Yeri is a typical raw material region, where value added created is low and the population incomes are manly formed from raw materials sales.

The quality of labor force is determined by the level of education. There are about 43 primary schools and 12 high schools. About 95% of children are going to school. A big problem for the region is the lack of teachers: the rate of provision with teachers is about 70%. That's why the quality of studies is not so good.

A University and 3 Secondary schools are preparing specialists for agriculture, industry, public education, etc. One of the important indicators to appreciate the quality of studies is occupancy rate of graduated students, which is less than 5%. The causes probably are the following:

- The lack of communication between real sector of economy and Educational bodies, or
- The poor image of Educational bodies, or
- The low quality of studies the educational bodies are providing.

For example the number of students at Comrat University exceeds 3000, but the labor market capacity to employ graduated students is ten times lower (300 employees). Also local economy is looking mainly for technically skilled persons (engineers, technologists, operators of modern production lines); in the meantime local university is training teachers, economists, accountants, lawyers.

That's why at the leading region's companies managerial stuff is formed from specialists trained at other Universities (and these specialists are from other regions), which salaries are comparable to the incomes of persons that are working abroad.

4.1.2 Land Resources

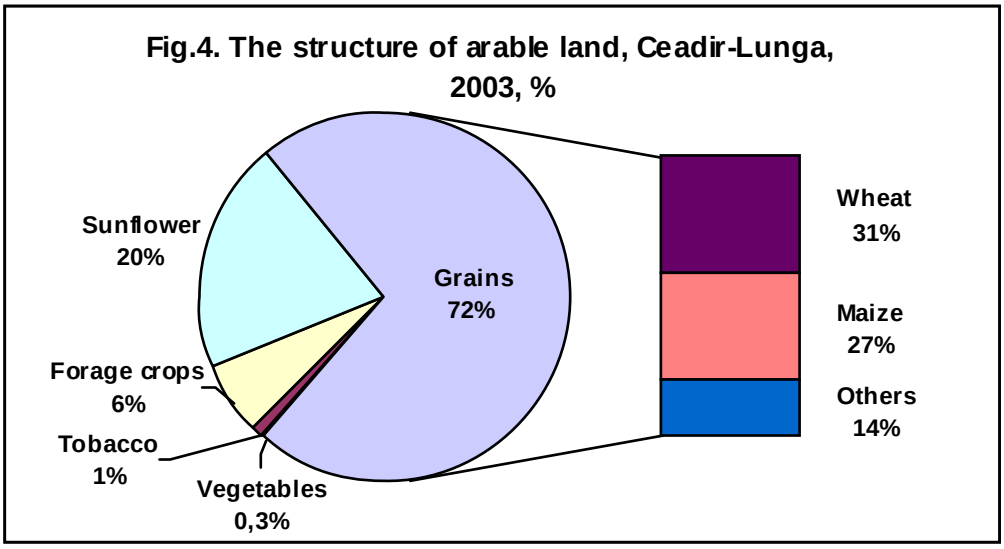
The total available land of the region is about 184,8 thousands hectares. Agricultural land is about 149,9 ha. The structure of land is shown in the next table.

Table 2. The structure of land resources

	Moldova		Gagauz-Yeri	
	thou ha	%	thou ha	%
Total lands	3384,4	100%	184,8	100%
Agricultural land	2533,8	74,9%	149,9	81,1%
Arable land	1842,6	54,4%	101	54,7%
Vineyards	152,8	4,5%	19,3	10,4%
Orchards	137,5	4,1%	6,1	3,3%

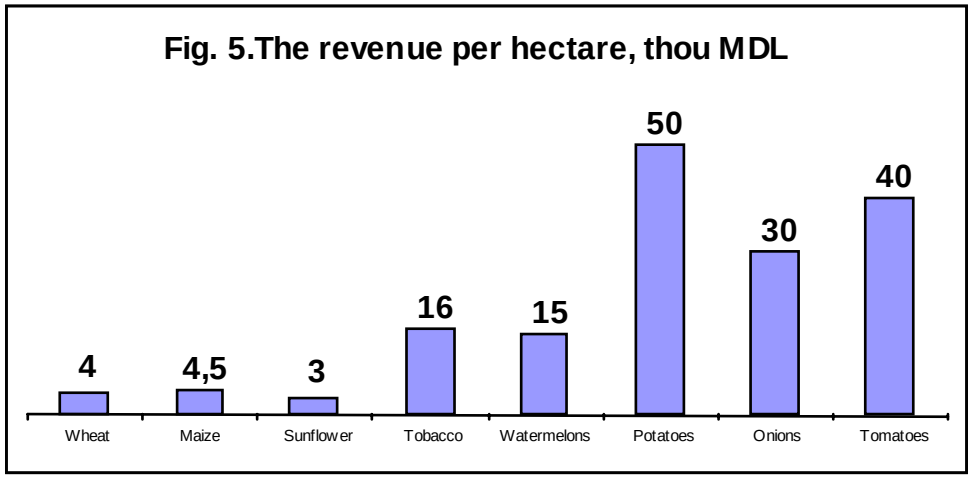
Source: Statistical Yearbook of the Republic of Moldova, 2003

The arable land is used mainly for grains and sunflower growing (Fig.4.). These crops aren't so labor-intensive and the value added created is low.



Source: Ceadir-Lunga Public Administration questioning, 2003

For example 1 hectare of wheat can bring about 4000 MDL of revenue, meanwhile one hectare of potatoes can bring at least 50 thou MDL. (Fig.5.).



* Developed by PRO ERA GRUP experts, based on average yield per hectare and sales price per unit

Agricultural producers should reconsider the structure of arable land in order to obtain the highest possible outcome and to employ the highest possible number of employees. Changing the structure of arable land probably will bring to a deficiency in labor force. So the agricultural producers should consider a significant increase in salaries to attract new workers.

The regions soils are represented by carbonate and ordinary black soils - 130 thou hectares. The quantity of humus per hectare is estimated at 280-350 tones. The fertility level varies in average from 71 to 82 points. About 4% of whole agricultural areas are irrigated, while the country's average is 10%.

The average annual volume of precipitations is about 330-370 mm per square meter, and it is less than country's average (500-550 mm per square meter). Because of this the region often suffers from draughts.

The annual average temperature (10,9 degrees Celsius) is higher than in the rest of the country (10,3 degrees Celsius), the temperature of 10 degrees Celsius and higher is maintaining for about 187 days per year. 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

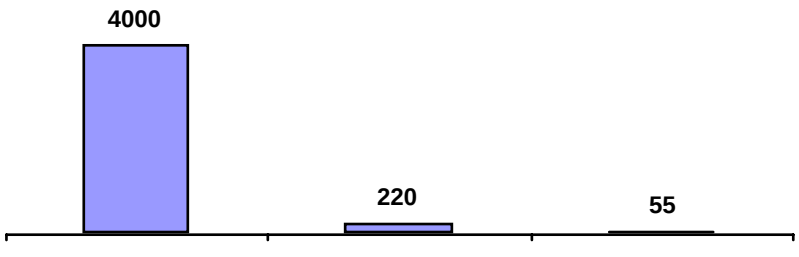
There are about 438,6 km of public roads within the region, from which 90% have hard surface. The quality of roads is law. There weren't started any works for improvement in transport infrastructure since 1995.

Railroad transport is less developed. Only 5 locations (including one town Ceadir-Lunga) are connected to the country's railroads network. The railroad transport still is based on diesel locomotives.

Water supply of region is underdeveloped. Usually water is obtained from draw-wells and artesian wells. Because of limited water resources the consumption of water in the region per one inhabitant is 4 times lower than on average in Moldova (Fig.1.6.).

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 the whole industries from the region.

Fig. 6. The annual water consumption per 1 inhabitant, 2002



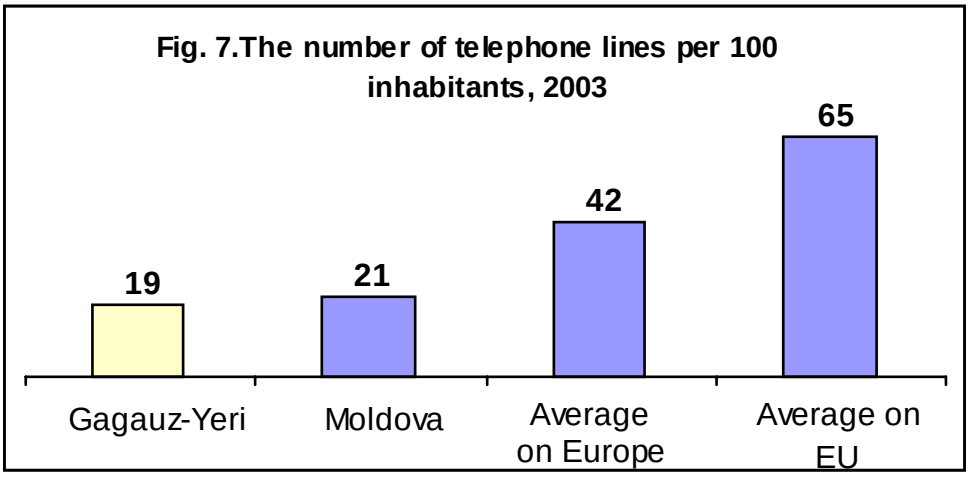
Source: Statistical Yearbook of the Republic of Moldova, 2003

There is a program to build an aqueduct from Danube River to Gagauz-Yeri, that will solve the water supply problem, but the lack of financial resources is a serious obstacle to program completion.

Drainage system within the region needs renovation. Industrial enterprises are throwing out residual waters directly into the local steams without treatment. This will be a subject for future penalties and losses for these companies.

Gas supply network was developing rapidly. All biggest settlements and industrial enterprises of the region were supplied with gas.

Telecommunications are another sector of infrastructure that needs development.



Source: Department of Informational Technologies of Republic of Moldova.

There are about 19 fixed telephone lines per 100 inhabitants within the region that is significantly lower than the average on Europe. The penetration rate of mobile telephony is also low: about 13 lines per 100 inhabitants, comparing for example with the European average – 43 lines.

The Internet penetration rate is about 8% for the country and about 4% for the region. Based on ANRTI information there are only 3 public access points to Internet within the region. Population still is not Internet literate.

Another problem that influences the capacity of region to grow is frequent stoppages of electro-power.

In the conclusion local infrastructure is not appropriate to support a continual economic growth and don't act like an incentive for future development.

4.1.4 Other resources

There are some mineral deposits and raw material resources represented by loam, sand and gravel mixture with total reserve of 23 mil cubic meters and 18 mil cubic meters respectively.

Water resources are represented by underground and surface waters (rivers, ponds). There are 3 rivers that are crossing the region: Ialpug, Lunga and Lunguța, but only Ialpug have a length more than 100 km. These are shallow streams and during the summer these rivers are drying out. In order to irrigate the agricultural land several ponds were created on the flow of above mentioned rivers. The biggest are the ponds from Congaz (the lake area is 490 hectares) and Comrat (170 hectares). In order increase the irrigated area a Gagauz-Yeri program of deepen the river Ialpug was started.

The underground water (about 8-10 mil. m3) is appropriate for drinking and irrigation. Surface waters, because of high mineralization can hardly be used for consumption and irrigation.

The absence of energy resources and forests is another problem for inhabitants, which are oriented mainly to purchase these resources from other regions.

Due to local characteristics as an alternative source of energy must be considered solar and wind energy and the future development strategies must consider these opportunities.

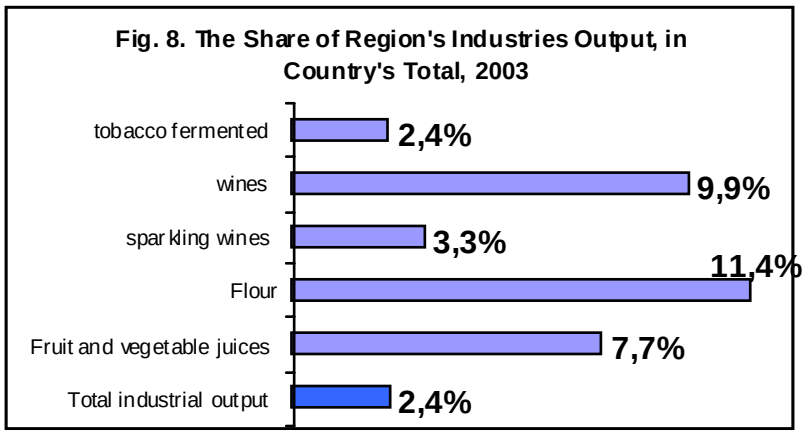
4.2 Characteristic of current economic situation

Gagauz-Yeri economy is based mainly on the agriculture and food industry, which is based on local raw material and population abilities. Agriculture and food industry is producing about 65% of regions output.

4.2.1 Industry Status

Industry is producing about 30% of region's output. Leading branches of Gagauz-Yeri industry are winemaking (about 40% of industrial output) and production of canned fruits and vegetables (about 20%). Other developed branches are flour and bread production – about 10% of industrial output, tobacco fermented production - about 8%, light industry - less than 5%, etc.

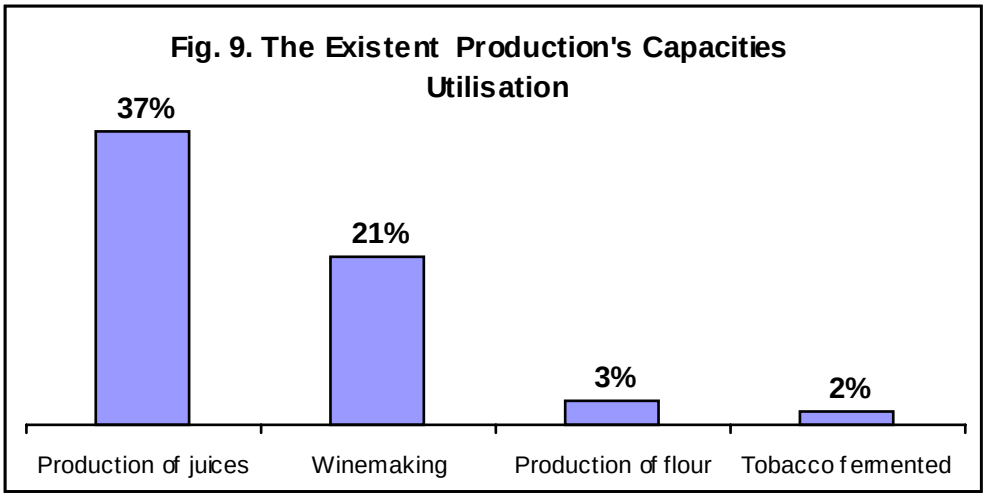
Region's industry is less developed than country's average. The annual volume of industrial production per capita is about 2,3 thou lei, comparing to 4,4 thou lei country's average.



Source: Statistical Yearbook of the Republic of Moldova, 2003

Local enterprises produced about 11% of Moldavian flour, 10% of wines, 8% of juices (fig. 8.) during 2003. Gagauz-Yeri industry produces annually about 4,2 thou tones of fruit and vegetable juices, 4,4 thou tones of flour, 1700 thou deciliters of wines, 25 thou deciliters of sparkling wines, 40 tones of processed milk, 160 tones of fermented tobacco, etc.

The local consumption of these products is lower than productions volume. That is why an export orientation is needed.



Source: Regional Development Programme Gagauz-Yeri

Statistical Yearbook of the Republic of Moldova, 2003

The biggest part of industrial enterprises is working significantly below their production capacities (fig. 9.). Capacities utilization within fodder production, meat and milk processing, carpets production is less than 1 percent.

Currently, about 60% of existing equipment needs renovation, because it has became obsolete physically and morally during the transition period.

Consumers perceive industrial products of local enterprises as low quality and because of this they must 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 Originally Food Manufacturers, or Originally Wine Manufacturers, etc.

4.2.2 Agriculture Status

Agriculture is the main branch of local economy. It provides about 40% of region output and it employs about 78% from total employees.

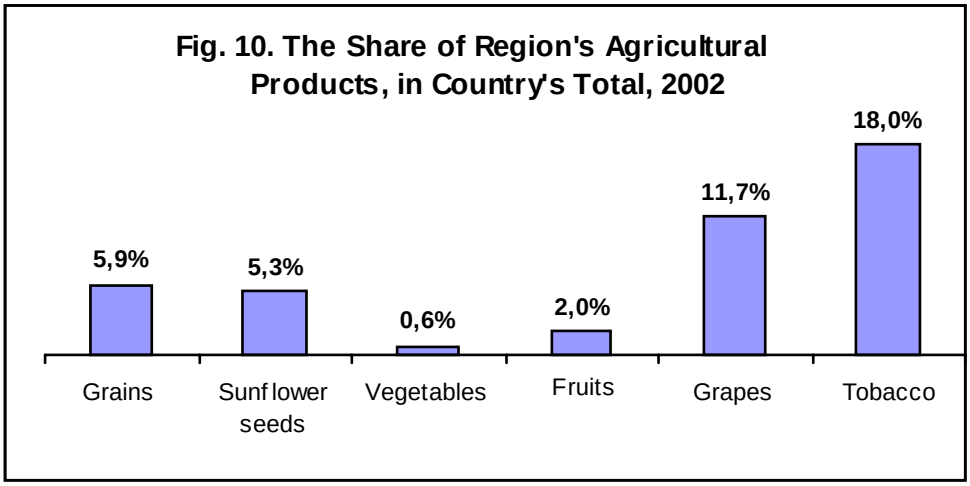
In the result of privatization in agriculture and former collective farms restructuring the peasants became the owners of land. This conducted to a partition of land in small plots (of about 1.7 ha per peasant). Newly created agricultural farms were required to lease the land and productive assets from peasants. Comparing to the rest of the country the Gagauz-Yeri agricultural producers were able to concentrate the land in the big enterprises. Currently about 80% of agricultural lands are managed by big companies – more than 500 ha. Finally the result of privatization was the following instead of 30 collective farms there were created about 400 small farms with total area of 7 thou hectares (17,5 hectares per farm) and 62 big farms (more than 500 hectares per farm).

The agricultural area is about 150 thou hectares, from which about 65% arable land is, 13%

are vineyards, 4% are orchards. 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 70% and about 20% are technical crops (mainly sunflower and tobacco) (Fig. 4.).

The major branch of Region's agriculture is plant growing. The region produces annually about 100-120 thou tones of cereals (about 6% of Moldova's production – Fig. 10.), 16 thou tones of sunflower seeds, 1 thou tone of vegetables, 44 thou tones of grapes, 5 thou tones of fruits, 1500 tones of tobacco leaves.



Sources: Regional Development Programme Gagauz-Yeri, Statistical Yearbook of the Republic of Moldova, 2003

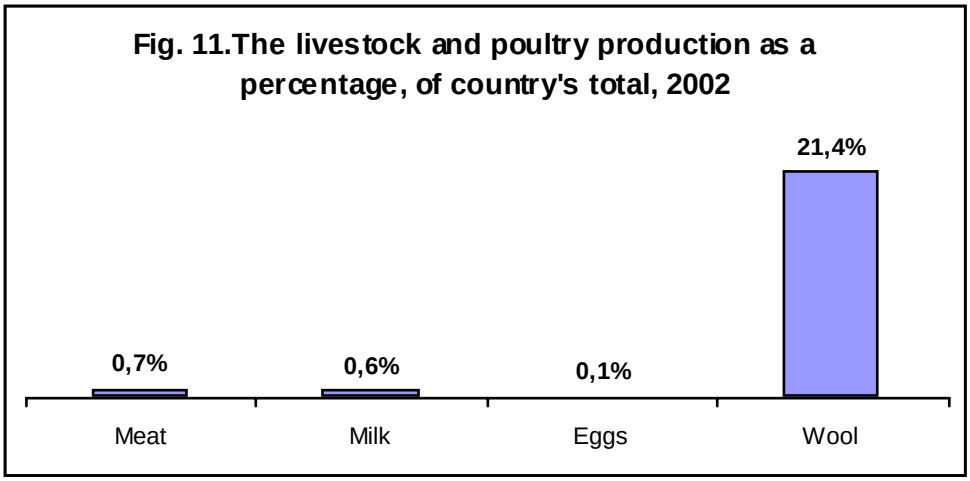
Animal breeding is another branch of local agriculture. The major branch of animal breeding is sheep breeding (table 3).

Table 3. The Livestock, 2003

	Cattle	Pigs	Sheep and goats
Total Republic of Moldova, thou capita	395	503	943
UTA Gagauzia, thou capita	13,2	14,5	99,2
UTA Gagauzia, % from total	3,3%	2,9%	10,5%

Sources: Statistical Yearbook of the Republic of Moldova, 2003
www.faostat.org

The poultry breeding is not developed. There isn't any battery farm within the region. Poultry breeding is not market oriented, and it is practiced only for households' consumption. The production of eggs for example is less than 0.1% from country's total (Fig. 11).



Sources: Regional Development Programme Gagauz-Yeri, Statistical Yearbook of the Republic of Moldova, 2003

The annual production volume of meat is about 800 tones; of milk is about 3500 tones, of wool is about 30 tones.

Agricultural producers suffered several times from natural calamities: droughts, storm precipitations, frosts, etc (the last case was in 2003 when the cereals production volumes was 10 times lower than average). This reduced their capacity to generate profits; financial institutions and suppliers of raw materials suffered losses from uncollected debts.

Because of limited access of farmers to credit, barter relations were established between raw materials suppliers and agricultural producers. Suppliers provide not only materials, but also financing to farmers in exchange for a share of harvest.

4.2.3 Services and Constructions Status

During the last years, **construction** industry suffered significant changes. The volumes of constructions works was 58 mil. MDL in 2002 and decreased to 42 mil. MLD in 2003. There are mainly construction works for water, gas supply and industrial objects. The dwelling construction volumes decreased from 3.8 mil. MDL in 2000 to 2 mil. MDL in 2003. There were constructed about 4,1 thou m^2 of dwelling houses.

New constructions of public facilities like health-care centers, schools, and theaters weren't started.

Retail trade is represented by 380 stores, 35 stalls, and 140 catering enterprises situated inside the region. The total volume of sales within the retail trade sector was about 130 mil MDL in 2002. This sector is still underdeveloped. The trade margins are high, because of low level of competition.

Services sphere is probably the most dynamic branch in the region. Different companies appeared like: tourist agencies, financial institutions, informational system companies, etc. The sales volume within the sector was about 91 mil lei in 2002.

Transport is another important branch of local economy. Local enterprises transported about 150 thou tones of goods (6% from country's total). Also turnover of goods was 6,9 mil tones/km during 2003. In the same time about 500 thou passengers were transported, with a turnover of 18 thou persons per kilometer. There are about 9500 motor vehicles in the private

ownership of citizens

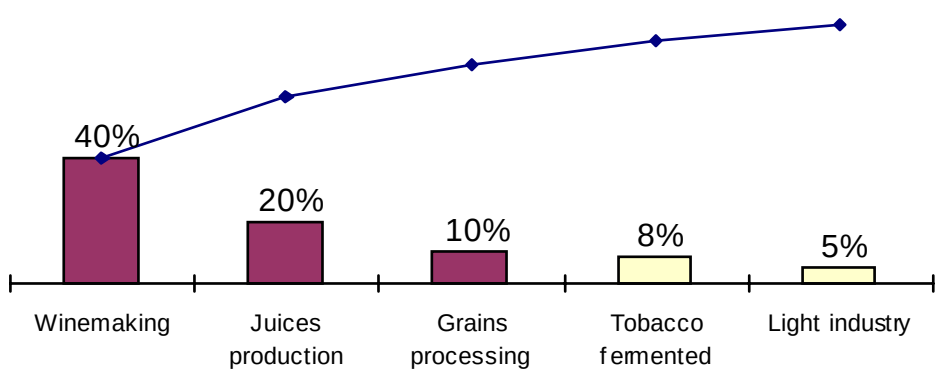
4.3 Assessment of existing growth areas

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

1. Grains processing industry. Existent capacities allow to produce 150 000 tones of flour and 200 000 tones of mixed fodders per year.
2. Winemaking industry. Existent capacities allow to process 150 000 tones of grapes per year
3. Production of Fruits and Vegetable Juices. Existent capacities allow producing 12 thou tones of juices per year.
4. Light industry. Existent capacities allow to produce 470 thou m^2 of carpets, 600 thou pieces of ready garments per year
5. Production of tobacco fermented. Existent capacities allow producing 10 thou tones of fermented tobacco per year.
6. Dairy products. Existent capacities allow to produce 20 000 tones of diary products per year.
7. Meat products. Existent capacities allow to produce 20 000 tones of meat products per year
8. Constructions. Existent capacities allow producing 60 thou m^3 of reinforced concrete per year.

Based on ABC Pareto Model (Fig. 12) there were identified three main industrial branches that ensure 70% of output.

Fig. 12. ABC Pareto Model: The structure of Industrial output, 2003, %



Winemaking, juices production and grains processing have the biggest potential for development in the region, because of existent raw materials, experience and skills of population, available production capacities, distribution channels, insignificant investment needed. Also these industries 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 Cahul, can sell the brut wines to Hincesti or directly to a Russian

distributor, etc.

Certain opportunities for development have light industry, but there two conditions for succeeding: design of garments and sales markets. That's why from the beginning this industry should be developed on the base of commission (lohn production), but in this case the value added that remains into the region is only 10-15% (cost of labor force).

4.4 Moldavian products for which there are potential Markets

4.4.1 Grains processing

The grains processing sector includes the flour making, bread making, fodder making and spirit 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, spirits and patisseries. In the developing countries, the bread is considered to be one of the most important food products. That's way the bread consumption comparatively are higher than in EU countries.

The major players within the sector are:

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 materials. 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. Agricultural producers are represented by former collective farms reorganized into cooperatives or limited liabilities companies and small farmers. Comparing to the rest of the country predominant are big companies (more than 500 ha) – about 80%. The total quantity of cereals produced in the region was about 100 thou tones in 2002. (about 6% of country production). 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.

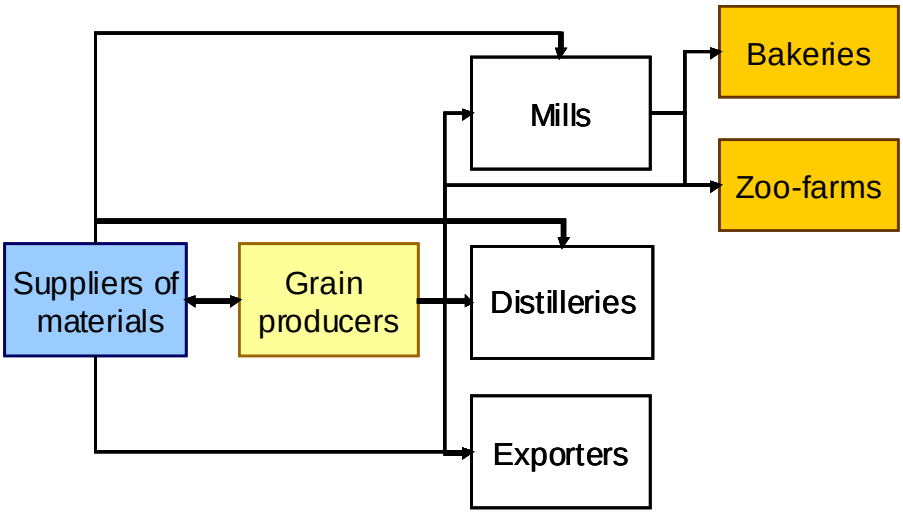


Fig. 13. The Grain Processing Sector

Table 4. Production of cereals and leguminous

	1998	2000	2002	Average
Cereals and leguminous, thou tones	120,7	83,9	102,6	102,4

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

3. Grains processors are represented mainly by mills and distilleries. There are about 35 small capacity mills with total processing capacity of 350 tones of grains per 24 h. These mills can be characterized as following:

- low quality of flour
- low costs due to tax avoidance
- low yield of flour (about 60%)
- good location (near agricultural producers)

The major product of these mills is not flour, but flour production services.

There are also two medium capacity mills (JSC BEREKET Q= 250 t / day and JSC EKINI Q 95 t / day). The major features of these mils are:

- High quality of flour
- High yield of flour – 78%
- Low percentage of capacity usage – 3%
- High indirect costs (about 40% due to low level of capacity utilization).

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

The existent capacities allow processing of more than 210 thou tones of grains per year, which is two times higher than production volumes.

There are installed spirit production capacities at the JSC BEREKET. Due to the lack of financial resources the spirit production technological line is not used. The usage of this capacity will increase the value added that remains into the region.

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

Table 5. Production of flour and bakery products

	1998	2000	2002	Capacities
Flour, thou tones	32,4	8,8	4,4	150
Breadstuff, thou tones	3,1	1,2	0,5	…

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

Flour is used for bread production. Despite the fact, that the bread consumption per capita remains almost constant (about 10.5 kg per month), the industrial baking production suffers substantial changes.

The production of bread in the industrial sector showed a decreasing tendency, while the household baking has increased.

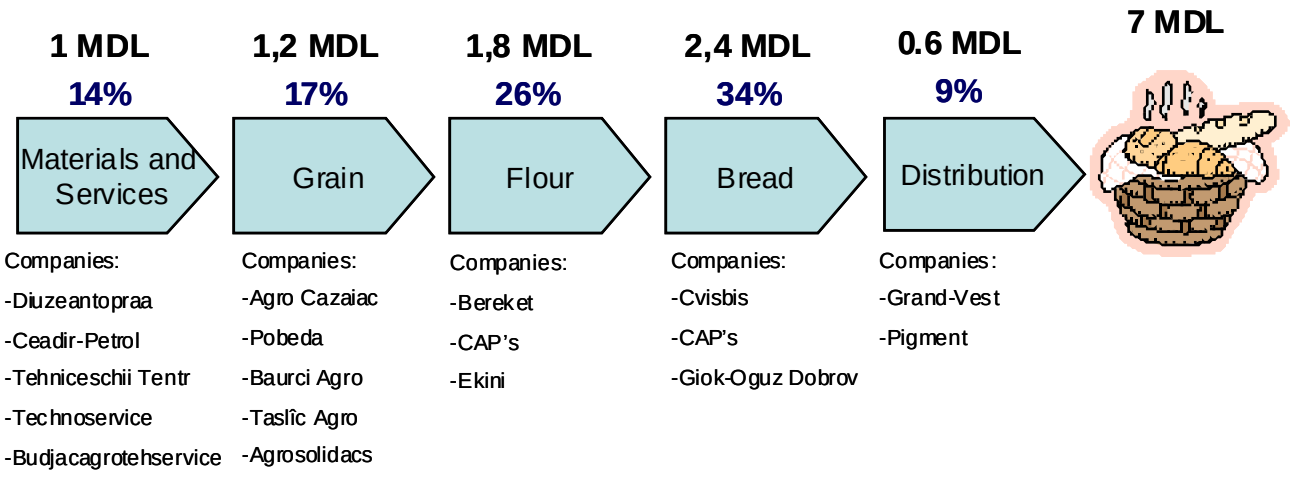
Causes:

- Rural population often is paid in kind.
- The reduction in the purchase power of the population.
- Lack of investment funds for the quality improvement purpose

The production volumes at big bakeries show an obvious 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.

The value added chain in the bread production sector is the following. The flour and bread producers gain the highest value added within the chain.

Fig. 14. Value Added Chain: Bread per 1 kg of bread



The highest value added is obtained during flour and bread production. 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. 15. 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	Substitute products pressure is moderate because the bread products are the basic products of human meal; but the tendencies to consume more fruits and	Suppliers' power is moderate because of their big number in the industry; There is only one important material - flour for the baking products.	Competitive Force of Buyers: The buyers cannot influence the producers directly because bread is the main product for the consumption; but due to the latest changes in the

	of prices.	vegetables can decrease the demand for bread products.		people's life stile – trends to consume less caloric products will have an impact on bread producers.

4.4.2 Winemaking

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. Winemaking is represented by 8 big wine producers that have a total capacity that allows processing a quantity of 150000 tones of grapes per year. The total area of vineyard is about 20 thou ha.

Table 6. Production of grapes in Gagauz-Yeri

	1998	2000	2002	Average
Grapes, thou tones	29.9	56.7	45.0	44.0
Yield of grapes tones per ha Gagauz-Yeri	1,5	2,8	2,3	2.2
Yield of grapes tones per ha Moldova	2,1	4,9	4,3	3.8

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

The local production of grapes ensures less than 30% of capacities utilization.

Table 7. Production of wines in Gagauz-Yeri

	1998	2000	2002	Average
Wines, thou deciliters	912	632	1683	1075
Sparkling wines, thou deciliters	75	56	34	55

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

The production volumes of wines are dependent upon the harvest of grapes and ability of the companies to purchase raw materials. In 2000, because of limited financial abilities of local wineries, a lot of wineries outside the Gagauz-Yeri purchase grapes from the region.

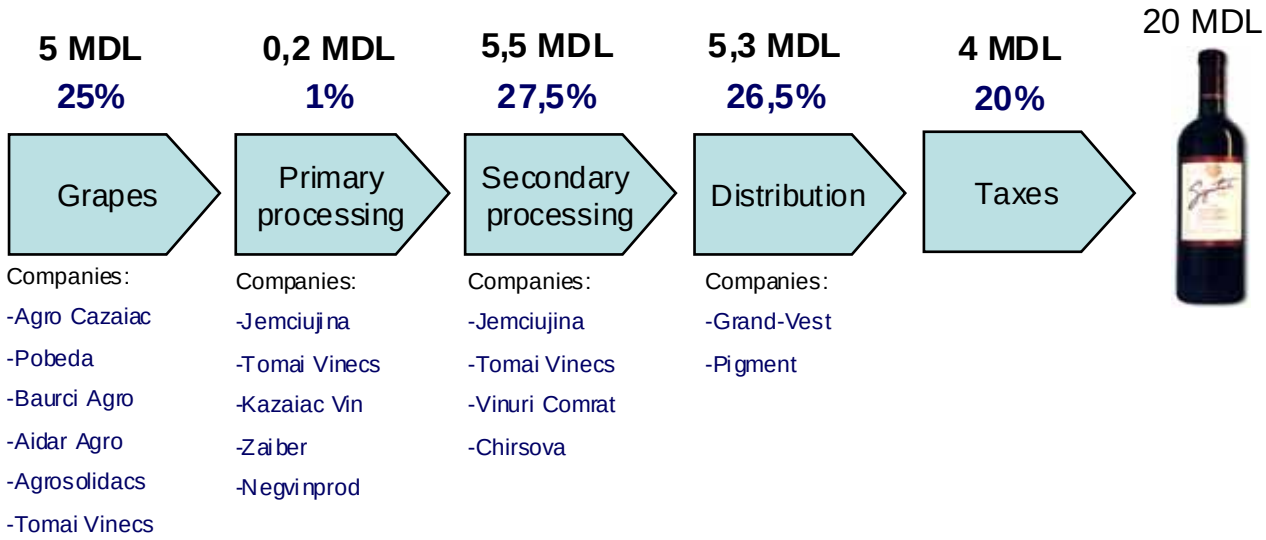


Fig. 16.Value Added Chain: Bottled Wine, per bottle

The biggest value is obtained by:

- Agricultural producers: winegrowers - 25% of value added
- Wineries during secondary processing -27% of value added
- Distributors – 26% of value added.

The local companies are gaining about the 55% of value added. The current situation is stimulating the vineyard planting process.

Fig. 17. Porter Model: Bottled Wine

Competing sellers	Potential new entrants	Substitute products	Suppliers	Buyers
The competition on the world wine market is increasing. Also the growing incomes in Russia will attract more producers from different countries to consider this market 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.	Substitute products pressure is high due to an increase in consumption of beer, vodka.	Suppliers' power is increasing due to a n 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.	Prices are established by distributors, Bottled wines are targeting consumers with high and medium incomes. For local companies, the Russian market is crucial. Trends on this market will affect the success of the winemaking industry.

Practically there are two major challenges for the winemaking company's:

1. The raw material challenge – the competition between different local producers to purchase the biggest possible quantity of grapes;

2. The Russian market challenge – competition between Moldavian and foreign companies for keeping and expansion of current positions. In this case a cooperation of local producers is needed. At the moment local companies are having some advantages, but Russia's entrance to World Trade Organization and EU subventions to agricultural producers will add new competing advantages to foreign producers.

It seems that the future development of the industry depends largely on three issues:

1. The willingness of major companies to invest in new productive vineyards;
2. The ability to penetrate on EU, China, USA markets
3. The ability to rationalize the whole business process, to increase the productivity, to control and reduce unit costs from vineyards to retail shelves.

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.

4.4.3 Production of Fruits and Vegetables Juices

The canneries sector includes the production and bottling of fruit and vegetable juices. This industry is one of the most developed within the region. There is only one company that produce the juices, with a total capacity of 12 thou tone per year – Basarabia-Agroexport SRL.

Table 8. Production of fruits and vegetables in Gagauz-Yeri

	1998	**2000**	**2002**	**Average**
Fruits, thou tones	13,1	5,4	4.9	7.8
Vegetables, thou tones	4,3	1,8	0.8	2,3

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

The productions volumes of fruits and vegetables decreased significantly due to yields reduction and land area for fruits and vegetable. This causes a low level of capacity usage.

The local production of juices ensures about 30% of capacities utilization.

Table 9. Production of fruit and vegetable juices in Gagauz-Yeri

	1998	**2000**	**2002**	**Average**
Fruits and vegetable juices, tones	1688	7627	4144	4486

Sources: Regional Development Programme Gagauz-Yeri,
Statistical Yearbook of the Republic of Moldova, 2003

The increase in production volumes was achieved due to the ability of the company to attract raw materials from other regions: Cahul, Basarabeasca, Cantemir, etc.

Because of the low prices, the local agricultural producers are not interested in growing the fruits and vegetables for industrial processing.

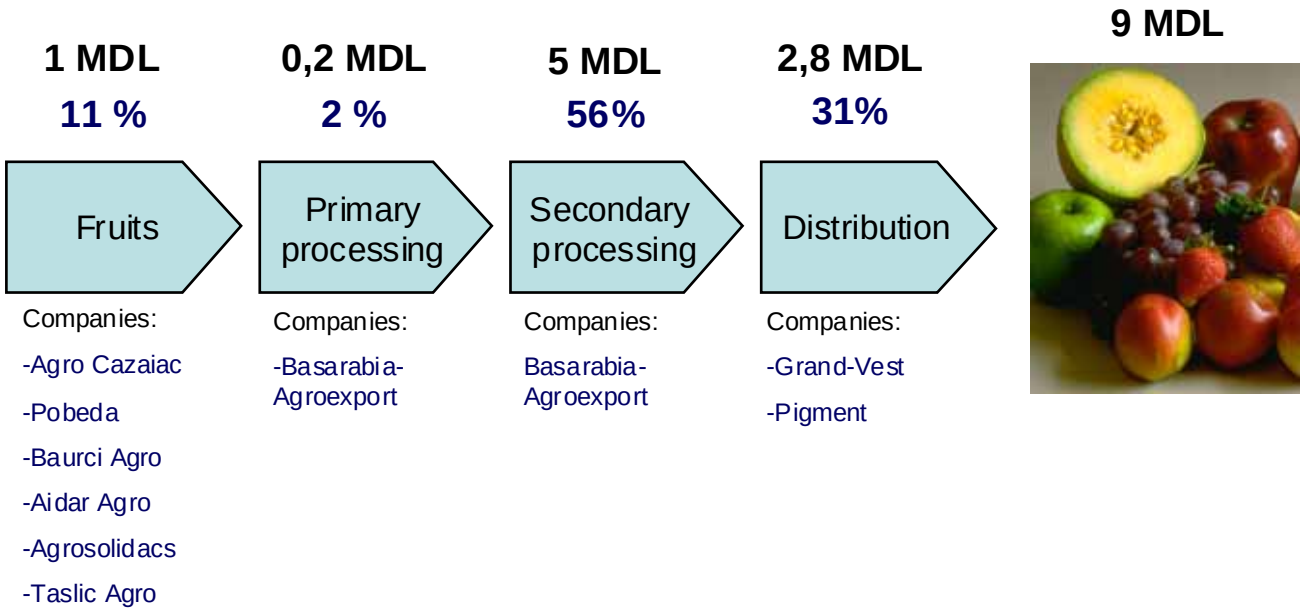


Fig. 18.Value Added Chain: Fruits Juice, per one liter

The biggest value is obtained by:

- Canneries during secondary processing -56% of value added
- Distributors – 31% of value added.

The current situation doesn't stimulate the fruit and vegetable producers because their value added is low.

Fig. 19. Porter Model: Fruits Juice

Competing sellers	Potential new entrants	Substitute products	Suppliers	Buyers
The competition on the world juices market is increasing. Also the growing incomes in Russia will attract more producers from different countries to consider this market as a real	Possibilities for new entrants are low due to high cost of investment needed and lack of raw materials	Soft drinks are the main substitute products, usually are cheaper, but with lower quality.	Suppliers' power is increasing due to an important reduction of orchards areas. The competition between canneries for raw material will increase soon.	Prices are established by distributors, A lot of imported juices are on the market and local producers must face these prices. Price and quality are the major factors that

challenge, so local companies should be prepared for a tough time in next 3-5 years.				motivate a person to buy.

Practically there are two major problems for the canneries(quite similar to wines):

1. The raw material challenge – the low productivity of agriculture makes the cost of fruits and vegetables very high and juice producers can not afford to purchase at such high prices.

2. The CIS market challenge – competition between Moldavian and foreign companies for keeping and expansion of current positions. In this case a cooperation of local producers is needed. At the moment local companies are having some advantages, but Russia's entrance to World Trade Organization and EU subventions to agricultural producers will add new competing advantages to foreign producers.

It seems that the future development of the industry depends largely on three issues:

1. The development of local agriculture that will allow reducing the price of raw material.
2. The increase of the level of capacities utilization, that will allow decreasing the production costs.
3. The willingness of major companies to invest in new productive orchards;
4. The ability to rationalize the whole business process, to increase the productivity, to control and reduce unit costs from orchards and garderns to retail shelves.

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.

5 Legal and Regulatory Framework

5.1 Legal Framework

Moldova is a highly centralized country and the local administration autonomy is limited. The legal framework for the enterprises is similar and is not dependent upon the country's region. There are a few regional differences that are affecting mainly ways of distribution of taxes between local and central administration. Also several differences are noticed in the field of local taxes. Local administration can impose different local taxes, but the number and way of taxation is also regulated by central administration.

The local legal framework which authorize and manage entrepreneurial activity can be divided into 6 groups:

1. Enterprises registration and liquidation

The most important legal acts are listed bellow:

Year	Name of the legal act
03.01.1992	Enterprises and Entrepreneurial law
14.01.1992	Leasing law
16.01.1992	Cooperation law
01.04.1992	Foreign investment law
26.03.1996	Bankruptcy law
02.04.1997	Joint Stock Companies law
15.07.1998	Entrepreneurial Patent law

2. Licensing

The most important legal acts are listed bellow:

Year	Name of the legal act
31.10.1996	Government decision regarding audit practice licensing
28.12.1998	Government decision regarding import and export licensing
22.01.1999	Government decision regarding agricultural and industrial licensing
13.07.1999	Government decision regarding pharmaceutical practice licensing
14.07.1999	Government decision regarding medicine practice licensing
28.12.1999	Government decision regarding insurance licensing
30.07.2001	Licensing law

3. Business conducting

The most important legal acts are listed bellow:

Year	Name of the legal act
25.05.1993	Offshore zones law
27.06.1997	Advertising law
30.06.2000	Competition law
30.07.2001	Pawning law
2003	Civil Code
2003	Labour Code

4. Accounting

The most important legal acts are listed bellow:

Year	Name of the legal act
04.04.1995	Accounting law
25.12.1997	S.N.C.1 Accounting policy
25.12.1997	S.N.C.12 Income tax accountings
25.12.1997	S.N.C.13 Intangible assets accounting
25.12.1997	S.N.C.16 Long term assets accounting
25.12.1997	S.N.C.18 Revenue accounting
25.12.1997	S.N.C.2 Inventories accounting
25.12.1997	S.N.C.3 Expenses accounting
25.12.1997	S.N.C.5 Financial reports
25.12.1997	S.N.C.7 Cash flow statement
03.03.2000	S.N.C.17 Leasing accounting
03.03.2000	S.N.C.4 SME accounting

5. Taxation

The most important legal acts are listed bellow:

Year	Name of the legal act
Anul	Denumirea documentului
24.04.1997	Fiscal code, title 1
24.04.1997	Fiscal code, title 2, Income tax
17.12.1997	Fiscal code, title 3, Value-added tax
16.06.2000	Fiscal code, title 4, Excise-duty
16.06.2000	Fiscal code, title 6, Property tax
20.07.2000	Customs code

6. Quality, standardization, certification

The most important legal acts are listed bellow:

Year	Name of the legal act
25.05.1993	Consumers protection law
22.09.1995	Standardisation law
28.10.1999	Certification law

7. SME development

The most important legal acts are listed bellow:

Year	Denumirea documentului
21.10.1993	Government decision to create a Fund for SME development
20.05.1994	SME protection and development law
05.08.1999	Government decision regarding SME development during 2000-2002
25.10.2000	Government decision regarding SME activity control

5.2 The Role of Public Administration

Local administration must facilitate the projected economic growth of the region. Using monetary and fiscal policies, a proper environment for business development should be created.

A recent study conducted by Pro Era Grup for BIZPRO, comprising 615 businesses in Chisinau, ten regions of Moldova and Administrative Territory Unit Gagauzia, was aimed to evaluate the role of public authorities from local enterprises view point. The major results of the study were:

1. On average, businesses that had to **register** during the last three years (2001-2003) required 27.6 days to fulfill these statutory procedures, comparing to 15 days according to legal procedure. The average registration costs is about $151. Official payments and fees accounted for $130 out of these costs.

2. Currently, 58 types of business activities are subject to licensing. A business in Moldova has on average 2.6 licenses. A license is valid in average for 3.1 years. Companies required on average 32 days and $642 receiving one license.

3. About 46% from all polled businesses certified their goods and services in 2003. On average, economic entities are annually obliged to go through certification procedures 13 times. From overall companies that certify their products, about 39% certify production lines and 61% - separate batches of goods.

4. Over the last three years, 61% out of all polled businesses have purchased equipment. Usually the equipment is not the subject for certification. However, 10% from them were obliged to obtain certificates confirming the compliance of the purchased equipment to Moldovan standards. The procedure took an average of 23 days at a cost of $278. The time and costs increased significantly comparing to 1999-2001 (14 days and $135).

5. About 64% from all polled participants were subject to hygienic registration in 2003. On average, the polled companies have to undertake hygienic registration 1.9 times a year. It takes an average of 14 days for a company to receive one hygienic permit**.** The cost of this procedure was $73.

6. A typical Moldovan enterprise was subject in average to 18 inspections last year. Inspectors spent an average of 27 days per annum on a single enterprise. Average inspection costs equaled $752 per enterprise in 2003. Fines levied on enterprises averaged at $683 per enterprise, confiscations at $475, "voluntary contributions" at $251, and bribes at $336.

7. An average economic entity pays a total of 8.5 taxes. Individual entrepreneurs pay in average 7.1 taxes. To ensure the timely payment of all taxes, 85% of the respondents maintain a staff of 2.1 in-house accountants.

8. About 31.4% of Moldovan businesses are subject to a varying degree of price controls. Most often the state limits the highest margin level. The survey demonstrated that the Tax Inspectorate controls most prices, comparing to other state bodies.

Public administration must understand its role: to help private sector to succeed. The rules imposed by the administration must develop fair competition, must ensure equal rights and obligation of the business. Public administration must serve private sector, but not vice versa.

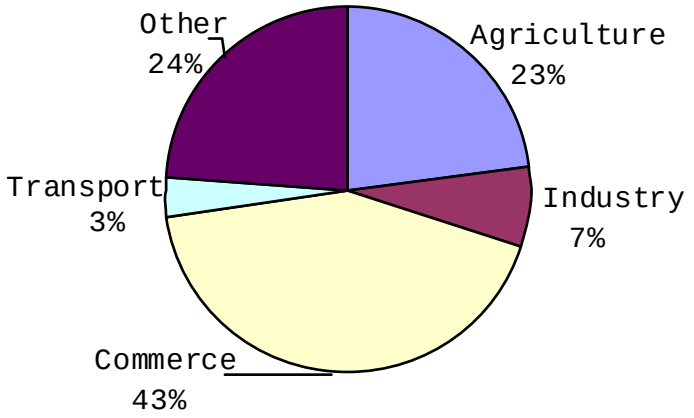
That's why during the elaboration of present report the hostile attitude of local administration wasn't understood. The whole region will benefit from a faster development of local private sector. Higher revenues will mean higher salaries for employees, higher taxes for administration and finally higher standards of life.

6 SMEs sector within the region

Small and Medium Size Enterprises are categorized according to number of employees or to the annual revenue. Micro-enterprises are those that have less than 9 employees and annual revenue is less than 3 mil. MDL. Small enterprises are those that have less than 50 employees and annual revenue is less than 10 mil. MDL.

According to Gagauz-Yeri public administration there were 5409 enterprises that were registered in RENIM at 1.01.2004. In terms of revenue generated 99,9% of local enterprises can be considered Small and Medium Size Enterprises.

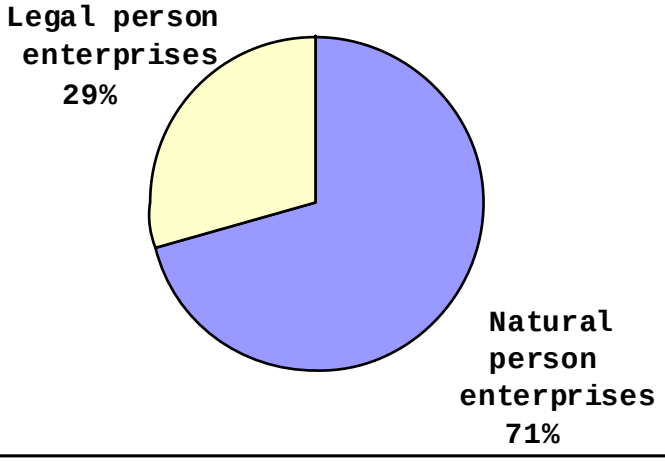
Fig. 20. Nr. of enterprises by economic activities, 2003



About 43% of them (2320 enterprises) have the major activity commerce and trade, 23% (1255 enterprises) – agriculture, 7% (365 enterprises) - industry.

In terms of organizational – legal form local enterprises can be divided as follows:

Fig. 21. Enterprises by organizational-legal form



Legal person enterprises are dominated by limited liabilities enterprises: about 985 enterprises. Within natural person enterprises sole proprietorships are prevailing - 2646 enterprises.

From the whole number about 700 enterprises are considered small by local administration. These enterprises employ about 5600 persons with a total sales volume of 875 thou MDL, or about 1200 MDL annually per enterprise.

Table 10. Comparison between Moldova and Gagauz-Yeri SME

	Nr. of small enterprises	Total Revenue, thou MLD	Nr. of employees	Revenue per enterprise, MDL	Revenue per employee, MDL
Moldova	22.138	10.832.000	130.432	489.294	83.047
Gagauz-Yeri	700	874,7	5.586	1.250	157
Gagauz-Yeri %	3,2%	0,0%	4,3%	n/m	n/m

Source: Statistical Yearbook of Moldova, 2003

Gagauz-Yeri Administration

According to official statistical data Gagauz-Yeri enterprises are several times less efficient than country's average. For example sales per one employee of SME for Moldova are about 83 thou MDL, while for Gagauz-Yeri is about 157 MDL.

7 SWOT Analyses

Strengths	Weaknesses
1. High level of population's skills in traditional branches (winegrowing and sheep breading); 2. Appropriate climate for winegrowing; 3. High percentage of young people; 4. Good level of CIS markets penetration.	1. Lack of financial and natural resources; 2. Lack of communication between educational system and enterprises; 3. Lack of technologically skilled personnel 4. Underdeveloped infrastructure; a. Water supply and drainage b. Communications and Internet c. Roads and electricity 5. Low level of population's incomes; 6. Obsolete equipment and assets; 7. Low level of production capacities utilization.
Opportunities	**Threats**
1. Economic Growth of neighbor regions and countries; 2. EU approaching to the regions borders; 3. Financial support from Turkey and International organization; 4. Making the Ialpug River deeper. Construction of Danube River – Gagauz-Yeri aqueduct.	1. Country and Region isolation due to latest EU extension trends; 2. Migration of skilled labor force abroad 3. Lack of export diversification (CIS); 4. High vulnerability to natural calamities; 5. Appreciation of local currency.

8 Project Intervention Roadmap

8.1 Value Chain Analyses

Gagauz-Yeri economy is based mainly on the agriculture and food industry, which is based on local raw material and population abilities. Agriculture and food industry is producing about 65% of regions output.

The local economy value chains are quite similar and are based on the same players with minor differences. The players within local EGA can be organized as:

1. Agricultural Producers
2. Industrial Processors
3. Distributors
4. Final consumers

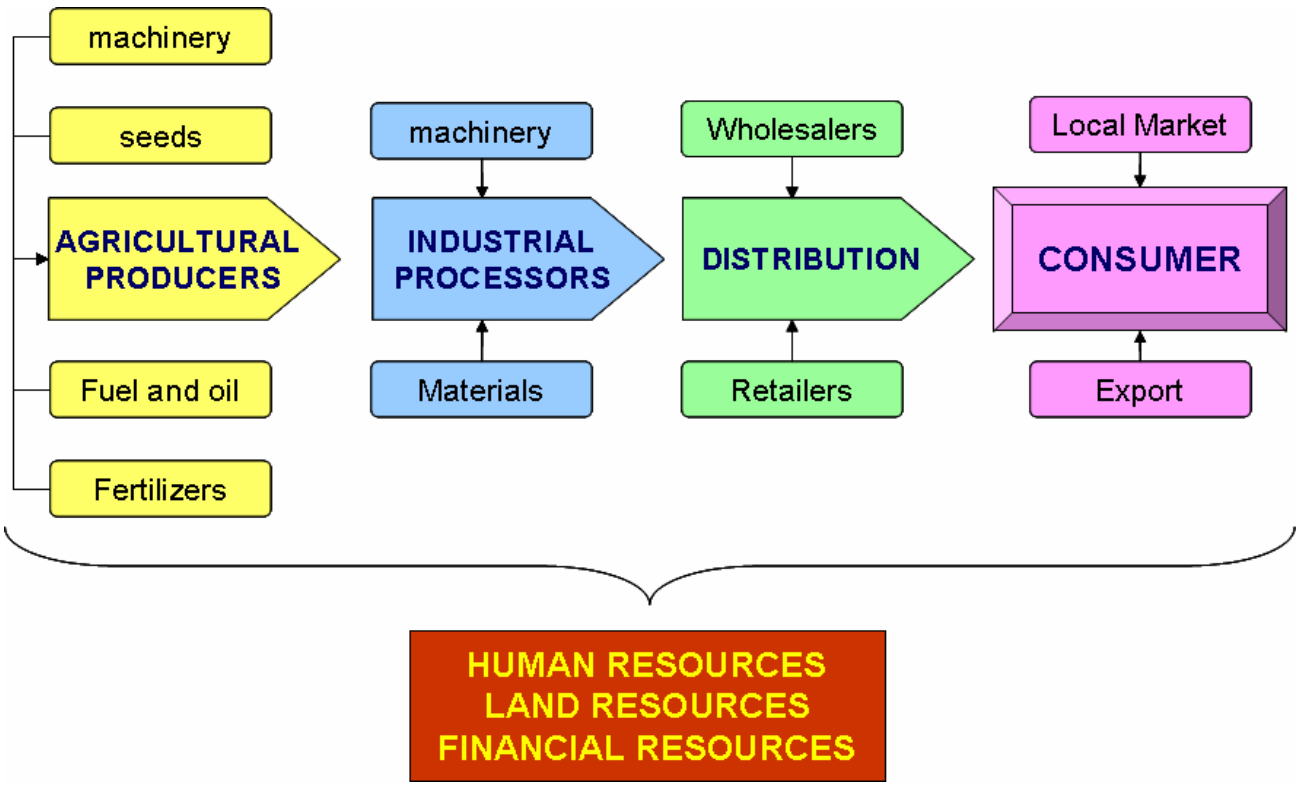


Fig. 22. Value Chains within the Region

For successful operation within this environment a lot of small companies that must fill the gaps within this value chain must be created. First of all this refers to the suppliers of materials and semi-products for agricultural producers and industrial processors. Second gap is related to the distribution process and concerns the development of local retail network and a stable network of warehouses and wholesalers s that will drive the production process.

Local value chain are mainly **buyer-driven** because they do not employ significant research and development, final products (food) are vital goods. That's why the success of local EGA depends upon the possibility to meet consumer requirements and to find and convince additional

consumers to use these products.

Because of the high competition among agricultural producers and industrial processors the most important player within local value chains are distributors. That's why both agricultural producers and industrial processors should develop their own contacts with distributors and should try to meet all the requirements that distributors will ask.

8.1.1 Agricultural Producers

In order to measure the efficiency of agricultural products following factors should be considered: revenues per hectares and productivity.

Comparing to the leaders in the field Dutch and Denmark Company's the average revenue per hectare is several times lower. In average an EU farmer is having a revenue from one hectare equal to 10 thou EURO, while local farmer is able to generate in average 500 EURO. There are several causes of this difference; the most evident is lower productivity.

Table 11. The Average Yield per Hectare of Main Crops, 1992-2003, hg/ha

	Wheat	Maize	Sunflower seeds	Fruits	Grapes	Vegetables	Tobacco leaves
Europe	33	49	12	80	66	181	19
European Union (15 countries)	54	83	15	102	72	253	24
Moldova, Republic of	26	27	13	39	41	82	13
Gagauz-Yeri	25	25	13	25	38	32	11

Source: www.faostat.org

Local producers are registering lower yields per hectare that EU producers. The average yields are even lower that European and Moldavian average. The big gap between yields of Moldavian and EU farmers is caused by significant reduction of soil fertility. The crop rotation principle was practically abandoned by farmers; the level of fertilizers utilization was also decreased.

Table 12. The Average Yield per Hectare of Main Crops, 1992, hg/ha

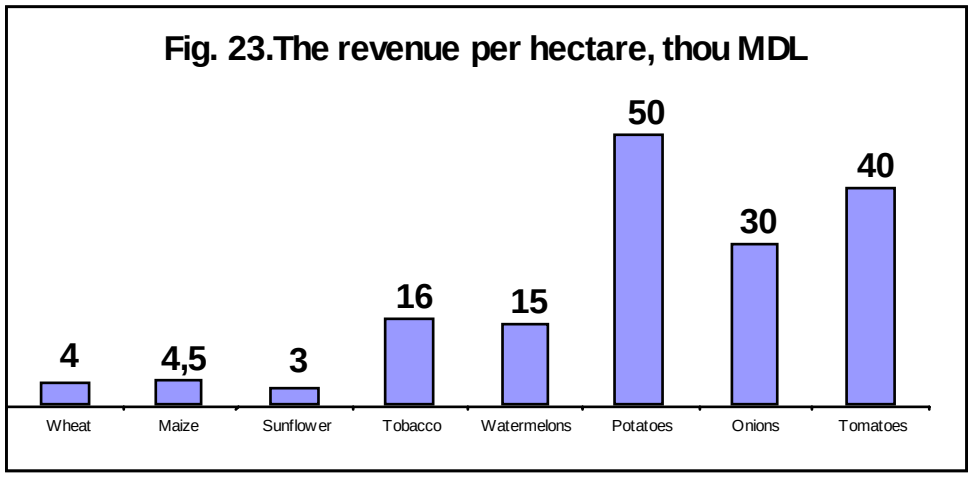
	Wheat	Maize	Sunflower seeds	Fruits	Grapes	Vegetables	Tobacco leaves
Europe	32	42	13	85	71	172	17
European Union (15 countries)	51	78	15	110	77	234	21
Moldova, Republic of	33	27	15	41	49	108	15
Gagauz-Yeri	31	25	14	35	44	84	13

Source: www.faostat.org

Nowadays, comparing to 1992 (tables 9, 10) the yields per hectare, in average, are lower. If in 1992 the average yields per hectare were at the European average, nowadays domestic producers' productivity is lower.

Another factor that influences the revenue per hectare is the structure of agricultural lands.

For example 1 hectare of wheat can bring about 4000 MDL of revenue, meanwhile one hectare of potatoes can bring at least 50 thou MDL. (Fig. 23.).



* Developed by PRO ERA GRUP experts, based on average yield per hectare and sales price per unit

Agricultural producers should reconsider the structure of arable land in order to obtain the highest possible outcome and to employ the highest possible number of employees.

The structure of arable should be oriented to the crops that are bringing higher revenues per hectare (value added), but employment of more labor force probably will cause a deficiency of employees. So the agricultural producers should consider a significant increase in salaries to attract new workers. As long as salaries will be lower than the living subsistence the workers will search for new employment opportunities. Region's managers must understand that employees represent an important asset to the company that can bring significant value added due to their abilities. Excellent skills and abilities must be rewarded adequately.

The major gap concerning the development of agricultural producers is underdeveloped network of suppliers. Due to limited access to financial resources, agricultural producers are obliged to accept barter payments that decrease significantly their capacity to generate a higher value added.

In order to bring near agricultural raw materials (seeds, fertilizers, etc.) to farmers, agro-stores must be established in the major places of the region. Thus, an important amount of money will be saved by smaller farmers.

Another factor to develop is better organization of the farmers. The decision about planting must consider distributors of agricultural raw material and industrial processors opinion. Also a close coordination between agricultural producers regarding what crops must be planted should be developed. In such way specialization will be achieved that decrease production expenses.

An important step is to teach the farmers modern plant growing technologies, ways of agro-business management. Information and Knowledge is another asset that can provide additional revenues.

8.1.2 Industrial processors

Industry is producing about 30% of region's output. Leading branches of Gagauz-Yeri industry are winemaking (about 40% of industrial output) and production of canned fruits and vegetables (about 20%). Other developed branches are flour and bread production – about 10%

of industrial output, tobacco fermented production - about 8%, light industry - less than 5%, etc.

The efficiency of local industry can be measured in terms of labor productivity, level of capacities utilization, sales per 1 MDL invested in assets, profitability, etc.

In order to compare business efficiency of the local industry and EU industries, winemaking sector was analyzed.

Table 13. The main business indicators of winemaking sector, 2002.

Indicators	The best company within the region	The average per Region	The average per EU
Return on Sales, %	9%	1,3%	17%
Return on Assets, %	7%	1,5%	20%
Assets turnover	0,83	0,77	1,14
Sales per employee, EURO	27303	7581	85620
Average salary per month, EURO	40,1	39,5	2412
Capacities utilization, %	65%	30%	75%

Sources: Spahni Piere "World Wine Development"
Financial Department of Ceadir-Lunga District

Local companies are characterized as having low profitability, productivity, but the biggest difference is provided by the average salary per month (table 13.). Local specialists are rewarded 50 times lower than their EU colleagues. In the mean time, despite, of lower production expenses local companies can not compete with foreign winemakers on the international markets.

The major gap at this stage of value chain can be characterized as the lack of raw material. Agricultural producers are not ready to provide sufficient raw materials (winemaking, fruit juices, dairy) or industrial processors are not capable to purchase the needed quantity of raw materials (grains processing).

Because of seasonal aspect of food industry, significant financial resources for current assets purchasing is needed. Frequently industrial processors are not able to purchase needed raw materials because of lack of financial resources and they are obliged to limit their production volume to the quantities that can be purchased from existent resources. Agricultural producers are not accepting credit sales; financial institutions are providing money with high interest rate or are refusing completely to finance processing of agricultural raw material.

For example the winemaking technology can go on from 6 month up to 3-5 years. This mean that producer should wait for several years until money invested in raw materials will be recovered. That s why short term credits are not adequate to finance winemaking process, but the access to medium and long term financing is limited.

From our point of view food industry companies should develop unions with commercial banks (financial-industrial groups) in order to facilitate the access of industrial producers to banks' resources and to decrease the credit risk of banks. In this case industrial processors can serve as an intermediate between banks and farmers. In such way farmers can obtain financing for development of vineyards, orchards, purchasing of needed machinery. Every company should understand its role within value chain and altogether should have common goals,

orientation. For example the Winemaking cluster can be created within the region, where everybody will now their advantages and responsibilities and their places within value chain and finally with common efforts to attain world class.

8.1.3 Distribution

Distribution is the most important process within the Regions Value Chains. Distribution companies can be called as "the owners of value chain", because their ability to sell will influence the success of agricultural producers and industrial processors.

Distribution can be dividend into retailing network and wholesaling network.

Retailing network is concentrated on the local market. Local food market is characterized by high level of competition, low purchasing power of consumers. That's why the value added obtained from sales on local market is low. The capacity of local market (retail) is low and in average only 10% of sales is made on local market (winemaking, juice making)

Wholesaling network is concentrated on the international market and Chisinau market. These markets are well segmented, consumers' purchasing power is higher, but the requirements about quality, packaging is also higher. The value added obtained on the international markets is several times higher, but the efforts that producers should take to conform to these requirements are also higher.

Retail selling is under control of local enterprises. They are interested mainly in low prices to the production, higher period of warranty (servable life)

Wholesaling network is controlled by big companies from Chisinau or outside the country. These wholesalers are able to purchase huge quantities of products but under certain conditions of price, quality, service, etc. The sales prices can be several times higher.

During the distribution the highest value added is generated, that's why local companies should think in terms of developing their own distribution network with collective brands. For example Ceadir-Lunga Wines, or Bugeac Wines, that will represent the interest of all winemakers on international markets, will develop connections with retailers from different regions.

In order to facilitate contacts with international wholesalers companies should implement modern management techniques (Statistical Process Control, HACCP, Business Process Analysis, ISO 9000 quality systems, etc.) to improve the productivity and competitiveness.

9 Recommendations

9.1 Local and Regional Level

9.1.1 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 providing 40% of local industrial output.. Winemaking is represented by 8 big wine producers that have a total capacity that allows processing a quantity of 150000 tones of grapes per year.

The major gaps within the sector's value chain are:

- Limited access of agricultural producers to materials and machinery suppliers due to high prices, insufficient financial resources, lack of information.
- Continual deterioration of local vineyards.
- Insufficient financial resources for grapes purchasing and vineyard planting by wineries.

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

- for Companies:

  1. Implementation of modern management techniques (Statistical Process Control, HACCP, Business Process Analysis, ISO 9000 quality systems, etc.) to improve the productivity and competitiveness of companies;
  2. Diversification of export markets (toward USA, Asia and Northern Europe);
  3. Replacement of hot pasteurization with cold bottling;
  4. Improvements of bottles supply logistics in order to avoid the necessity of washing them, because the residuals diminish the quality of wine.

- for Public Authorities:

  1. To render assistance to companies in promoting Moldavian wines and spirits on foreign markets;
  2. To grant the fiscal facilities to companies investing in new vineyards;
  3. To facilitate the access of agricultural producers to long term financing with proper conditions for vineyards planting.
  4. To prevent raw wine export imposing taxes on raw wines export.

9.1.2 Production of Fruits and Vegetables Juices

The canneries sector includes the production and bottling of fruit and vegetable juices. This industry is second important industry within the region providing about 20% of region's industrial output. There is only one company that produce juices, with a total capacity of 12 thou tone per year – Basarabia-Agroexport SRL.

The major gaps within the sector's value chain are:

- Limited access of agricultural producers to materials and machinery suppliers due to

high prices, insufficient financial resources, lack of information.

- Continual deterioration of local orchards.
- Insufficient financial resources for fruits purchasing and orchards planting by cannery.
- Lack of coordination and communication between agricultural producers and cannery.

Recommendations for future development of branch:

- for Companies:
  1. Implementation of modern management techniques (Statistical Process Control, HACCP, Business Process Analysis, ISO 9000 quality systems, etc.) to improve the productivity and competitiveness of companies;
  2. Diversification of export markets (toward USA, Asia and Northern Europe);
  3. Replacement of tetra pack with bottles;
  4. Vertical integration with raw material producers
- for Public Authorities:
  1. Rendering assistance to companies in promoting Moldavian juices and preserves on foreign markets;
  2. Granting of fiscal facilities to companies investing in new orchards;
  3. Introduction of barriers for juice importing, especially illegal importing.

9.1.3 Grains Processing Sector

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

The major gaps within the sector's value chain are:

- Limited access of agricultural producers to materials and machinery suppliers due to high prices, insufficient financial resources, lack of information.
- Lack of coordination and communication between agricultural producers and flour and bread makers,
- Insufficient financial resources for grains purchasing by mills and bakeries. Mills act like service rendering companies not like a flour making companies.
- The absence within the Ministry of Agriculture of a Department responsible for coordination of activity of agricultural and food industry enterprises.
- Strict control of bread prices by public administration. The price of bread is a political issue.

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

- for Companies
  1. Production capacities reexamination.
  2. Technology upgrade and equipment modernization.

3. Diversify products and services
4. To improve and wide company's distribution system
5. Co-operation and tightening the collaboration with the suppliers of the grains.
6. Studying external markets in search of sources of raw material.
7. Debt restructuring of the company's from EGA
8. Financial restructuring of the enterprises

- For Public Authorities

1. To reconsider the taxation of agricultural producers. To create equal opportunities for small and big agricultural farmers.
2. To facilitate to access of farmers to cheap long and medium term financial resources.
3. To stimulate the grain producers in terms of selling price for grains;

9.2 National level

In the final two decades of the century virtually all developing countries increasingly liberalized their markets and forced producers to operate on a global market. The key policy issue is not whether to participate in global markets, but how to do so in a way which provides for sustainable growth.

There are two main paths of insertion in the global economy (Fig. 24.):

1. Through low delivery cost, in which producers are engaged in a cost reduction program. The major competitive advantage will be lower costs, lower prices, that will make the product available to large groups of population. This way offers the advantage of high volumes of sales, but with small margins.

2. Through high perceive value. This road is concentrating on quality and brands of products. Maintaining a high level of quality makes possible to obtain higher revenues primarily through premium prices. Customers are ready to pay more for quality.

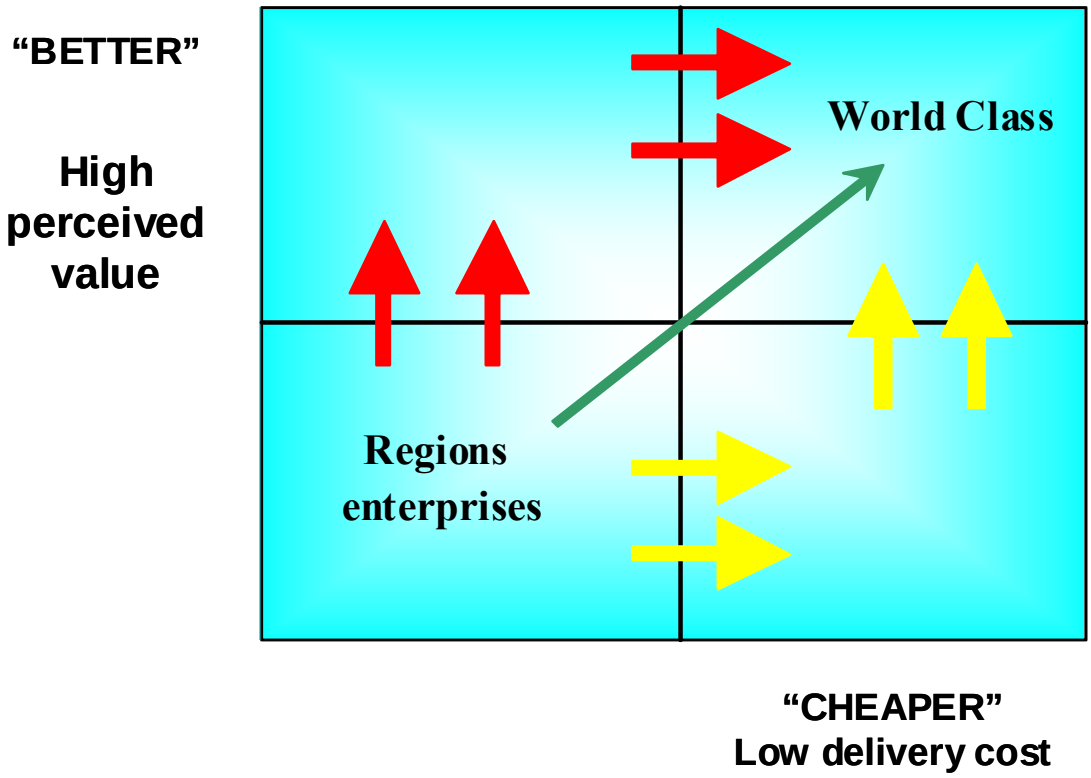
In the case of Gagauz-Yeri Region enterprises, for example, must decide whether to sell wines for 2 USD or for 20 USD per bottle.

Agricultural producers must decide to put the accent on quantity and to increase productivity using all achievements of science or to concentrate on the production of organic products in this way reducing the yields but enjoying premium prices.

The regions future growth is impossible without the growth of agriculture; otherwise the enormous investments will be needed to develop other branches. In such way future strategies should be connected to the possibilities of the growth of agricultural revenues.

Future development strategies must consider also the possibility of whole year sales of agricultural products: during the winter prices for fresh fruits and vegetable are 10-20 times higher than during the summer. A good way to benefit from these prices is development of a network of refrigerators to maintain a good quality of products during the whole year.

Fig. 24. Roads to achieve World Class



A key capability is the capacity to upgrade (to innovate in a relative context: how fast compared to competitors). There are four types of upgrading that firms or groups of firms might undertake:

- Process upgrading
- Product upgrading
- Functional upgrading
- Intersectoral upgrading

Finally the upgrading process must result into a cluster. A cluster is a spatial concentration of specialized firms. The industrial clusters are focused on the role of local linkages in generating competitive advantages in export industries.

Firms located in clusters may benefit from collective efficiency: Together they generate external economies which spill-over to other firms (incidental – passive – effect of clustering). External economies can arise from:

- The availability of a pool of specialized skills;
- Cheap and ready available supply of specialized inputs;
- Easy access to specialized trade and technical knowledge and rapid dissemination of information;
- Improved market access: the concentration attracts customers.

Also the members of a cluster are engaged in joint actions (consciously pursued – active-effect of clustering). Joint actions are referring to:

- Joint action within vertical linkages: with suppliers, sub-contractors, traders and buyers;
- Joint action within horizontal linkages between two or more local producers: joint purchasing of inputs, selling under a collective label;
- Joint action within horizontal multilateral linkages among a large number of local producers: co-operation in trade associations, joint participation in trade fairs, collective provision of business development services.

9.3 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 development within the region::*

- There were identified three important areas which can be transformed into clusters> winemaking, juicemaking and grains processing. BIZPRO can develop a pilot cluster in one 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.

IV. BSP involvement in this process:

- local:
  - Entrepreneurial development center Deloitte and Touché
  - Center for Rural Consulting Bugeac-Consult
  - Consulting and information center Dialog
- republican:
  - Agency for Enterprises Restructuring and Assistance ARIA
  - 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. Working with BSPs:
   - Creation of coordination mechanism for all BSPs' activity in the region.
   - Equipping small business departments in LPA.

B. Collaboration with acting MSEs

I. The group of MSEs that provide services in vegetable seeds and seedlings cultivation, as well as saplings for vineyards and orchards.

- 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. The group of MSEs involved in agricultural products processing.

- 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. The group of MSEs involved in distribution channels.

- to elaborate the forming mechanism for sector's 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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11 Annexes

Annex 1

The list of the main industrial enterprises within the Gagauz-Yeri

	Company's name	Location	Basic activity
Winemaking industry			
1.	Margaritar S.A.	Comrat	Production of wines
2.	Sardrisvin SRL.	Comrat	Production of wines
3.	Vinuri de Comrat S.A.	Comrat	Production of wines
4.	Cristal-Dion SRL	Comrat	Production of wines
5.	Burlacu-Vin S.A.	Comrat	Production of wines
6.	Invintorg SRL.	Comrat	Production of wines
7.	Jemciujina S.A..	Ceadir-Lunga	Production of wines
8.	Tomai-Vineks S.A.	Tomai	Production of wines
9.	Zaiber SRL	Ceadir-Lunga	Production of wines
10.	Cazaiac-Vin S.A.	Cazaclia	Production of wines
11.	Negvinprod SRL	Ceadir-Lunga	Production of wines
Canneries			
12.	Basarabia SRL	Comrat	Production of juices and sauces
Dairy industry			
13.	Fabrica Oloi Pak SRL	Bugeac	Dairy products
14.	Inlav S.A.	Vulcanesti	Dairy products
Grains processing			
15.	Aina SNC	Comrat	Production of spirit
16.	Ekini S.A.	Comrat	Production of flour and forages
17.	Stepi SRL	Comrat	Production of forages
18.	Nurcom SRL	Comrat	Macaroni, flour
19.	Giok-Oguz Dobrov SRL	Comrat	Bakery products
20.	Bereket S.A.	Ceadîr-Lunga	Production of flour and forages
21.	Cap's SRL	Ceadir-Lunga	Flour, macaroni, vegetable oil, cereals
22.	Cvisbis SRL	Comrat	Bakery
23.	Combifuraj Vulcanesti S.A	Vulcanesti	Production of forages
Light industry			

24.	Gekatex International S.A.	Comrat	Sewing services
25.	Iappa Service SRL	Ceadîr-Lunga	Garment industry
26.	Kilim S.A.	Comrat	Carpets production
27.	Leo-Tai SRL	Comrat	Garments,
28.	Stil S.A.	Vulcanesti	Garments
Other industries			
29.	Budjactehsnab S.A.	Comrat	Furniture production
30.	Eni Evlad Boiu	Comrat	Computer services
31.	Altron Plus SRL	Comrat	Production of sunflower seeds
32.	Gagauz Stru Com SRL	Comrat	Public catering
33.	Goliat-Vita SRL	Comrat	Furniture production
34.	Grand-Vest SRL	Comrat	Trade
35.	LEMO SNC	Comrat	Sawmill
36.	Mark-Media SRL	Comrat	Advertising agency
37.	Pigment SRL	Comrat	Trade
38.	Polisad SRL	Comrat	Nuts production
39.	Spades Pus SRL	Comrat	Pesticides trade
40.	Biruiza-Toporas II	Vulcanesti	Industrial production
41.	Compania Bugeac S.A.	Vulcanesti	Transport services
42.	Piteli N II	Vulcanesti	Production of vegetable oil
43.	Tagrima Grup SRL	Vulcanesti	Production of vegetable oil
44.	Technoservice S.A.	Vulcanesti	Technical services
45.	Alifarium SRL	Ceadir-Lunga	Production of beer
46.	Suti S.A.	Ceadir-Lunga	Food processing
47.	Uzina experimentala Ceadir-Lunga	Ceadir-Lunga	Metal processing
48.	Budjacagrotehservice	Ceadir-Lunga	Technical services for agriculture
49.	Uzina de utilaje Electromecanice	Ceadir-Lunga	Metal processing
50.	Azat-Su SRL	Comrat	Services
51.	Zeto S.A.	Ceadir-Lunga	Gas-fire equipment
52.	Vasco-Baicean II	Vulcanesti	Building services

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

_____

_____

_____

_____