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# A BRIEF ASSESSMENT OF THE REGULATORY FRAMEWORK FOR THE HIGH VALUE AGRICULTURE (HVA) SECTOR IN MOLDOVA

**AGRICULTURAL COMPETITIVENESS AND ENTERPRISE DEVELOPMENT  
PROJECT (ACED)**

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## Introduction

Agriculture holds the key to accelerating Moldova’s economic growth. The transformation of the sector demands a fundamental reorientation—better product choices, better production and marketing techniques, better management, and better logistics. It also demands better policies. In fact, the transition calls for a new partnership between the private and public sector. Poor policy choices and heavy-handed administration share the blame for the current state of agriculture. New policy and investment initiatives, such as the publicly funded rehabilitation of major irrigation systems financed largely through the MCC Compact, represent just one element in a public-private partnership. The public sector must also strive to build a support system that keeps regulations and administrative procedures to a minimum, offers greater market transparency and fairness, grants full support for quality assurance for both inputs and products, and promotes the adoption of new production and marketing technologies in the sector.

USAID’s Agricultural Competitiveness and Enterprise Development (ACED) Project is designed to address binding constraints to the emergence of a competitive high-value agriculture (HVA) sector in Moldova. While agricultural producers are the focus of the project, it will also address issues related to the policies, regulations and administration that shape the development of the HVA sector.

The policy component of the ACED Project is designed to tackle the issues on two levels. First, it includes a top-down look of the features of the business environment that affect investments in and operations of HVA farmers and producers. This step comprises an overall assessment of the relevant policies, regulations and administrative procedures relevant to economic agents in the HVA sector to highlight areas of concern. The present report summarizes the findings of this overall review. The *action plan* attached as an annex lays out several steps in support of broader policy and regulatory reforms that are likely to benefit the HVA sector.

Second, the ACED Project will also conduct a detailed appraisal of the impact of regulatory and administrative constraints on the competitiveness of selected value chains. Using the CIBER (Competitiveness Impacts of Business Environment Reforms) approach, the Project will work with value chain stakeholders to identify key regulatory/administrative constraints. To the extent possible, the analysis then seeks to quantify the impact of these key constraints on the competitiveness of the targeted value chains, either in terms of cost/price, or quality, or both. The estimates of the economic cost of regulatory or administrative barriers to competitiveness subsequently shape the policy dialogue. Armed with that evidence, value chain stakeholders can advocate changes that boost growth potential.

This report summarizes some key findings about the “top-down” review of the business environment for the HVA sector in Moldova. The main challenges in the current business environment relate to regulations concerning inputs, primarily seeds/seedlings and phytosanitary products, and to the lack of an adequate quality infrastructure needed to ensure and certify the quality of agricultural products.

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The report touches only briefly on issues related to the current reforms affecting the sanitary and phytosanitary (SPS) regime, since these questions are the subject of a complementary assessment. Neither does this report pay much attention to the impact of environmental protection legislation and enforcement on the development of the HVA sector. Finally, the findings and impressions should be viewed as a snapshot of the current state of affairs. As we document, the Government of the Republic of Moldova has launched an ambitious program to bring the country's legislation, regulations and institutions in line with EU requirements. For 2011 alone, the Government's Action Plan (adopted on March 23, 2011) lists a series of legislative and other actions for the Ministry of Agriculture and Food Industry (MAFI). The ACED Project will follow these efforts, and may provide assistance, as required, in terms of drafting legislative amendments, preparing the regulatory impact analysis (RIA) required under the Ghilotina II legislation, or train officials as needed. In addition, the Project will also provide support for promotion of foreign direct investment focusing on the HVA sector.

## The regulatory reform and the policy agenda

### Accomplishments to date

Over the last few years, the Government of the Republic of Moldova (GORM) has undertaken a number of efforts to reform the country's business environment and to lighten regulatory and administrative burden on business in general, and agriculture in particular. As a basis for these efforts, it has adopted the principles and practices of the regulatory guillotine. Starting with Ghilotina I to clean up the thicket of regulations, and then moving on to Ghilotina II to impose far-reaching standards on new legislation and regulations, including the requirement that all new laws and regulations have to be accompanied by an adequate regulatory impact analysis (RIA).

With respect to agriculture, the government has moved a few steps forward in terms of policy and regulatory reform. Aside from the adoption of new legislation regulating the sanitary and phytosanitary system, there have been attempts to lighten the administrative burden on investors and operators, and to ensure a more transparent system of import licensing (in particular for meat and meat products). With respect to the HVA sector, the government lifted the need to obtain a license from the Licensing Chamber for orchard or vineyard operations or the propagation of seeds and seedlings, as recommended by USAID's BIZTAR. However, that particular decision removed only one layer of administrative requirements. The introduction of new seeds or seedlings, their propagation and distribution and imports remain officially under government control. In fact, as discussed further below, the requirements for lengthy testing of new varieties continue to jeopardize access to new technology for Moldova's commercial farmers.

The import, production and distribution of phytosanitary materials still require a license (issued by the Licensing Chamber). The requirement stands, although these activities are subject to a comprehensive legal framework and supervision by other agencies (such as the National Scientific Center of Preventive Medicine, the Environmental Inspectorate, and the Inspectorate for Plant Protection of the Republic). New combinations of fertiliz-

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ers or pesticides are subject to testing, requiring one year for fertilizers and two years for pesticides. While these conditions are rather stringent, supervision of both input markets (seeds and phytosanitary materials) is hampered by inadequate capacities in the Ministry of Agriculture and Food Industry.

More broadly, the system of construction permits has been simplified, and legislation improving investor protection has been adopted, both with support from USAID's BIZTAR. These changes will modernize the business environment, and they should also result in significant improvements in the country's ranking on the annual *Doing Business* exercise. The BIZTAR project has also assisted in the development of the "Ghilotina II Plus" package which eliminates about 40 percent of the 450 required permits, authorizations or certificates, and introduces the one-stop shop principle at both the national and local levels.

## The current policy agenda

While there has been progress, much remains to be done. The recent Country Economic Memorandum of the World Bank seeks to "show that policies in the agriculture sector seem to be generating anti-growth and anti-competitiveness outcomes. A strategy to export more agro-based products will require that agriculture policies improve rapidly and comprehensively." And at least some reforms are certainly under way. Even so, agricultural policy formulation and reform remain works in progress.

The general consensus reaffirms the judgment of the World Bank; most observers agree that policies and regulatory reforms lack focus. Policies often work at cross-purposes. Meat imports are a case in point. The new government reacted to the evidence that the non-transparent import licensing scheme then in place imposed a high cost on Moldovan consumers.<sup>1</sup> It opted for a more transparent and less quota-driven import regime. However, it insisted on protecting the domestic meat industry by imposing higher duties on meat imports. Whether the domestic meat industry currently has the strength to benefit from this continuing protection is questionable. The structure of that industry resembles that of other elements of the agriculture sector—many small producers with little access to proper inputs, or market information, largely dependent on traders who buy their stock.

The government has also imposed limits on grain exports in the name of food security and expectations of rising prices. The ban was announced on February 2, 2011. It was lifted on May 10, 2011, apparently largely at the behest of the IMF. While such interventions may not have a direct impact on the HVA sector, except by shifting investment and other economic incentives, they underline a willingness to interfere with markets.

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<sup>1</sup> According to rumors, one element of the quid pro quo apparently was an arrangement to help customs with efforts to curtail smuggling. However, the evidence suggested that this was only partially successful since significant amounts of imports of chicken from the US and pork from Brazil destined for Moldova somehow vanished.

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The dynamics of reform pose a challenge for any attempt to assess the current legal and regulatory framework for the HVA sector. The picture keeps shifting, as the GORM keeps moving forward. The “European Choice” drives the policy agenda. To meet requirements of the projected Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union, and to prepare for ultimate membership, the GORM is committed to continue to move aggressively on reforms of the business environment. The work done on Ghilotina II Plus is viewed as a base for moving to Ghilotina III, designed to reduce the role of the government even more. These reforms will target the remaining layers of administrative control of the economy.

The GORM has adopted an ambitious Action Plan detailing the necessary legislative, regulatory, institutional and administrative reforms to achieve compliance with EU standards. The portion of this Action Plan directed at the development of the agribusiness sector comprises major actions, most of them associated with a series of activities, each with its own deadline. Policy reforms in the agriculture sector are designed to address the following objectives:

- Modernize the agricultural sector and lessen its dependency on the weather;
- harmonize food safety regulations with those of the EU;
- implement a more efficient system of subsidies to the agricultural sector;
- improve the quality of the human capital in agriculture and stimulate the institutionalization of agricultural extension services; and
- arrest the degradation of land resources and stimulate and extend the system of land improvement.

A centerpiece of the reforms aimed at the agricultural sector is the creation of the National Food Safety Agency (NFSA), patterned after similar efforts in Romania and Bulgaria. The broader scope of this agency may be somewhat beyond the scope of this assessment. Yet some of its features address issues that matter to the sector. This document will therefore close with a brief summary of its relevant components.

## Policy dialogue in agriculture

The current institutional framework for a structured policy dialogue remains weak. Remnants of the national (as well as regional) policy dialogue in the context of the regulatory guillotine still offer some opportunities. However, few of these options focus specifically on issues of interest to agriculture. Many had set great stock in the creation and operation of the “Product Councils” in agriculture, designed to bring together representatives of growers, processors and their counterparts in the government. The basis for these councils was established several years ago (Law no. 257 of July 27, 2006, on the organization and functioning of agricultural and food product markets), but the Councils are still in the process of organization. The following Product Councils are currently in operation:

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- Fruits, berries and related processed products;
  - Cereals and related products; and
  - Sugar beets, sugar and related processed products.

In addition, a product council for fisheries has been started. There appears to be little information on what these councils do or how successful they have been in contributing to the policy dialogue.

According to the Ghilotina II law, all new laws and regulations require a regulatory impact analysis (RIA). Most observers and participants agree that the MAFI currently lacks the capacity to carry out an adequate RIA, even though the requirements are not particularly stringent. One of our interlocutors in the Ministry referred to the less pleasurable aspects of the guillotine, claiming the RIA requirements imposed a heavy burden.

## Subsidies

Recent reforms of the agricultural subsidy schemes have evinced the Government's and MAFI's commitment to greater transparency in targeted support to the sector. The previous subsidy regime, prior to 2008, was linked to the scale of operations. According to the World Bank's recent Country Economic Memorandum (CEM), there is some argument that these subsidy schemes may have distorted agricultural practices by offsetting market incentives to shift to other, more profitable crops, such as tomatoes, cabbage and plums. As a result, as productivity in these more profitable products increased, acreage devoted to them decreased.

After two years of preparation, in 2010, the government launched a fundamental reform of the agricultural subsidy scheme. The reforms included the creation of an Agency for Agricultural Interventions and Payments (AIPA), charged with managing the system of agricultural subsidies, as well as assessing the impact of these subsidies. One focus of these reforms was to concentrate all agricultural subsidy funds under this single institution for improved management and oversight. The reforms are designed to ensure a transparent and fair system for providing whatever subsidies are being granted by the government. Current arrangements, however, include a highly centralized organization of the AIPA, unclear mandates for its regional divisions, and lack of any supervising executive body. Moreover, the launch of operations has been delayed by budgetary difficulties. The budget for 2011 includes MDL 250 million for the subsidy fund, and roughly MDL 240 million for paying arrears for 2010.

Even so, some observers have noted that some features of the new system are questionable. Some observers have focused on the condition for obtaining subsidies is the presentation of a viable business plan. Apparently, it is the staff of the AIPA that judges the viability of these business plans, although there some doubts about their capacity for this task or their own business acumen. Moreover, the insistence on business plans as a con-



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## Policies and regulations regarding primary inputs

### Land

Moldova's experience with land restructuring and the current regulations represent a major barrier to the modernization of the agricultural sector. The current land situation reflects a dual structure. Some 350,000 smaller farms, averaging about 1.6 hectares, account for about half of the agricultural land. Large-scale corporate farms, averaging about 650 hectares, cultivate the other half. Many of these farms are being operated in a manner similar to that of the former collectives, but on a smaller scale. Many of the larger operations focus on extensive crops like wheat, sugar beets or sunflowers. The smaller family farms tend to be more efficient (with a higher total factor productivity) than the large farms. On 50 percent of the land, they produce 75 percent of the total agricultural value added.

Foreign investors are barred from owning land, although 30-year leases are available. In the past, the investment promotion agency, MIEPO, has made efforts to attract foreign direct investment into agricultural activities. However, it appears that they have scaled back their role to that of a one-stop shop for foreign investors. Basically, if foreign investors are interested in agricultural opportunities, MIEPO directs them to the Ministry of Agriculture and Food Industry, without further involvement.

### Labor

Family farms outperform the large operations, but they are facing their own labor problems. The main export of the rural sector in the past has been labor. People in the working age groups seek work abroad and keep the economy afloat with their remittances, which have amounted to over one-third of GDP. The exodus of labor from the agricultural sector has not only created problems for the ones who stay behind, but has also deprived the sector of entrepreneurial talent (if one views the quest for work abroad as a sign of entrepreneurship).

In terms of labor regulations, the *Doing Business* team of the World Bank/IFC rates Moldova fairly low at rank 141 in 2010, about the same as "Trading across borders."<sup>3</sup> Only "Dealing with construction permits" ranks lower at 161. However, to what extent these rankings have any meaning for agriculture is debatable.

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<sup>3</sup> Customs obviously plays a major role in shaping the business environment for export-oriented agriculture. The low rank on this indicator is therefore of some concern. We were told by a transportation provider operating in the Cahul area that the government's decision to limit the number of border crossings to the EU meant long waiting times for trucks, on average about two days. That delay probably matters if you try to ship fresh fruit or vegetables. The same operator also claimed that the scanners at the border presented a health hazard.

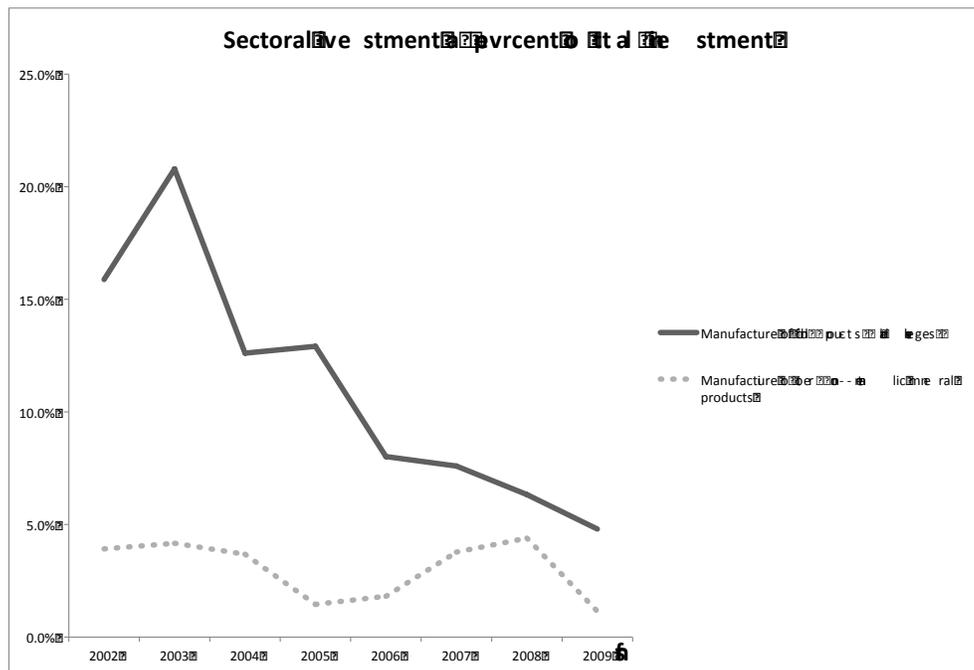
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## Capital and finance

Access to finance represents one element of the business environment. While Moldova ranks reasonably well in terms of the *Doing Business* indicator “Getting credit,” rank 87 in 2010, credit remains a perennial problem in the agricultural sector. High interest rates, collateral requirements, short tenors, and a lack of specialized instruments suitable for agriculture complicate investments in the sector.

Issues regarding access to capital have contributed to a declining share of investment in the agribusiness sector in total investment, as illustrated in Figure 2.

Figure 2: A declining share of investment in agribusiness



Source: National Bureau of Statistics; the other sector is shown for comparison purposes

However, part of this decline is due to the lower share of investment in manufacturing relative to total investment. But investment in the sector has also declined as a percentage of total manufacturing investment, until 2009 when the global crisis caused some abnormal patterns.

## Policies and regulations concerning purchased inputs

Inadequate access to modern inputs, such as seeds and seedlings, but also fertilizers and pesticides has been cited as one of the reasons for the low productivity in agriculture. Access to these purchased inputs is hampered by cumbersome procedures for registra-

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tion, requiring lengthy testing. In addition, the rising cost of fuel directly affects producers and distributors.

## Seeds and seedlings

Recent reforms of the licensing regime—licenses issued by the Licensing Chamber in Chisinau—have eliminated the need for a special license for any investment in orchards or vineyards, and the propagation of seeds and seedlings. This step had been recommended by a study carried out by USAID’s BIZTAR project. The license in effect just certified (again) that the propagator had met all the requirements under the law on seeds and seedlings. It was therefore completely redundant. However, all other requirements have remained.

Preventing diseases is cited as the main purpose of the current system of seeds and seedling testing. Moldova has established its register of varieties, but the GORM is planning to move (gradually) to adopting the full EU register. However, officials in the Ministry of Agriculture and Food Industry suggested a transition period of 10-15 years.

Even so, the new law on seeds and seedlings is harmonized with EU legislation. But until Moldova adopts the EU catalogue, varieties registered with the EU are not automatically approved. The State Commission for Testing of Plant Varieties, supervised by the 13-member State Council for Varieties, is expecting a transition period until the full adoption of the EU register. However, there also seems to be residual intent to test new varieties under the soil and weather conditions typical for Moldova. In other words, even after the full adoption of the EU register, at least some stakeholders expect that remnants of the current system will remain in place. The Academy of Sciences is apparently in charge of GMO testing

The Commission is focusing on “strategic varieties.” The typical testing period is two (for vegetables) to three years. Sometimes, if the variety is included in the EU register, the testing may be accelerated, to be completed within one year. The law allows for non-commercial cultivation (on < 5 ha) of varieties during the testing period.

Registration also involves the State Agency for Intellectual Property (AGEPI). Any breeder interested in registering a new variety is expected to submit his or her application to AGEPI. AGEPI checks the application to ensure it is complete and that all legal requirements are met, and then forward the paperwork to the State Commission for testing. They reportedly get about 30-40 applications per year. Once the testing has been completed (successfully), AGEPI awards a patent for 25-30 years on the plant variety.

The main problem appears to be that the protection of plant varieties so far is not taken very seriously by the holders of patents or by their competitors. The State Inspectorate is charged with the enforcement of the laws, but institutional weaknesses leave only the courts as the primary recourse. Protection of plant variety patents requires filing a lawsuit. AGEPI is not aware of a single case that has been presented to the courts so far. However, insiders suggest that the lack of enforcement has given rise to black markets linked to imports of purchased inputs, in particular seeds and seedlings.

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In addition to the lengthy testing period, the rather shaky protection of variety patents demands a major outreach effort to ensure better protection of intellectual property rights in agriculture, and the HVA sector in particular. AGEPI has already provided some training for users; the staff of AGEPI has received training from the International Union for the Protection of New Varieties of Plants (UPOV). AGEPI is now planning another major training event for the fall of 2011.

## Phytosanitary products

The recent reform of the licensing regime did not affect the need for a license for the import and distribution of phytosanitary products, primarily fertilizers and pesticides. One issue is that the regulations treat fertilizers and pesticides together. Ultimately, fertilizer use should not be subject to a licensing requirement, but pesticide use should. One of the requirements for the license is the existence of an approved storage facility. That authorization is issued at the local level, with groups like the fire department, health office, and environmental protection involved. Obtaining such authorizations is still governed by relatively burdensome procedures, as reflected in Moldova's poor performance on the "Dealing with construction permits" indicator of Doing Business: rank 161 (out of 183 countries ranked). Holders of the license are also subject to a reporting requirement on a quarterly basis.

The introduction of new phytosanitary products (or mixes) is subject to a testing requirement, handled by the Commission for Testing and Homologation. The testing period is one year for fertilizer and two years for pesticides.

Until recently, there was subsidy scheme in place for fertilizer. Since 2010, this scheme has been replaced by a new approach intended to be more transparent. The emphasis has shifted to supporting investments, in particular for the HVA sector, including investments in irrigation systems and greenhouses. Originally the new approach sought to require a business plan as the basis for any subsidies. Apparently, it was never fully implemented, and observers noted a potential bias against small farmers who lack the wherewithal to prepare adequate business plans. The requirement was abolished in 2011. As a result of these reforms, subsidies for fertilizer have been effectively eliminated, leading growers to complain about significant increases in the effective price of fertilizers, which deters appropriate use.

While the environmental dimension is not the subject of this report, there is a general consensus that pesticide use is inefficient. Currently, phytosanitary products are the means of choice for protection against pests. According to the National Food Safety Strategy, only 0.2 percent of the agricultural land is protected by biological controls. Few farmers know about the best pest management issues, resulting in ineffective application programs. As a result, pesticide application is primarily driven by economic considerations. The use of pesticides declined from 10-12 kg/ha between 1981 and 1985 to 2-3 kg/ha in 2000, and have fallen further since. "For example, some products are used at a rate of 0.07 kg per hectare." (National Food Safety Strategy). The absence of viable crop insurance schemes together with the low application of pesticides raises risks for the

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farmer. However, reliable data on the price and information effects regarding pesticide use in Moldovan agriculture are lacking.

## Fuel

The issue of rising fuel costs is of course not restricted to agriculture, but agricultural producers are particularly affected, especially since the basis for any subsidies has shifted away from specific inputs in favor of a broader support for promising business plans. Growers, intermediaries (agents) and transport operators are therefore seeing their meager profits further diminished.

## Market information

There are a few systems providing market information to agricultural operators. Agencies such as ACSA or AGROinform are providing consulting services to farmers, including price and other market information. However, intermediaries (traders) are the most important source of information, or the lack thereof, in the commercial agricultural sector. The crop (export) market structure has been described as exhibiting “monopsonistic tendencies,” which result in lower farmgate prices than in more open and transparent markets. Basically, traders control the market, and there is no centralized price-finding mechanism that would ensure proper incentives for all. Traders earn a rent as a result of market structures.

Weaknesses in the market information systems and associated extension services are widely recognized. That consensus is reflected in one of the objectives of agricultural reforms, to “stimulate the institutionalization of agricultural extension services.” However, that commitment runs up against budgetary constraints. Improved extension services therefore depend on innovative approaches that are likely to involve IT-enabled solutions.

While the supply of market information is being upgraded, the demand side also needs attention. Interviews with growers suggest that they are quite content to rely on the traders for information on market prices and quality requirements in markets. Further efforts to ensure that individual farmers realize the benefits of direct, impartial information about market realities are needed. Such efforts are likely to challenge existing arrangements, threatening to reduce the rents for traders. To overcome likely resistance, programs to stimulate demand for better market information therefore need to be closely coordinated with reforms on the information supply side. The political support for moving in this direction exists, coming primarily from the private sector.

Another initiative appears to be aimed at strengthening the price-finding mechanism in agriculture. The government is planning on contributing to the emergence of a stronger market infrastructure. For example, a new wholesale market on 33 ha outside of Chisinau is reportedly under construction, and four regional markets are planned. The law on internal trade governs exports and imports.

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## Quality assurance and certification

Strengthening the quality infrastructure for the HVA sector represents probably the most important policy challenge. Major gaps in the system of quality assurance and certification undermine the ability of exporters to move into new or expand in existing markets. While some producers are shipping produce to the EU, weaknesses in the system of testing and issuing certificates of conformity prevent others from taking advantage of this huge market. The same also applies increasingly to markets to the east, in particular the Russian Federation.

### Standards and metrology

Moldova's quality infrastructure, in particular its standards and metrology institution, is undergoing change. The legal framework is defined primarily by the law on metrology (No. 647-XIII, 17 November 1995), as amended in 2007 (law No. 222-XVI, 25 October 2007). The central organization is the National Institute of Standardization and Metrology ("Moldova-Standard" or MOLDST), which is responsible standardization, metrology, conformity assessment and technical supervision. The Ministry of Economy (Metrology Directorate) exercises the functions of the Central Metrology Authority, with Moldova-Standard acting as the National Metrology Body (NMB). Moldova –Standard issues the "SM" mark. This mark is not recognized internationally, and therefore applies only to the Moldovan market. The certification functions are hampered by the absence of a network of independent laboratories that are properly accredited.

The current policy debate about the restructuring of Moldova's quality infrastructure should be largely seen in the light of the country's "European choice," and changing roles of the state versus the private sector. For example, a number of private sector leaders are arguing that standards and metrology should be independent of public authorities, moving more to a structure like the US with the functional separation of metrology and standards (NIST versus ANSI).

### Quality infrastructure

The discussion of the restructuring of the system of quality assurance and certification is also linked to the efforts to create a National Food Safety Authority. According to the National Food Safety Strategy, the "... *acquis communautaire* provides a regulatory framework for implementation of quality standards, including a monitoring and control system for animal and non-animal products. The Strategy argues for the "incorporation of the quality control in the structure of the new agency as a separate department [that] will help to avoid double controls of food industry operators allow using existing laboratories for quality control."

It remains to be seen how these reform drives will pan out. For now, there is no governmental institution able to certify full conformity with standards abroad that would be recognized or accredited there. The main alternative right now appears to be producer

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certification. In 2010, according to data from the Ministry of Agriculture and Food Industry (MAFI), a number of enterprises had been certified:

- HACCP: ten enterprises;
- GlobalGAP: seven enterprises; and
- “ISO-certified:” 54 enterprises (ISO 9001, ISO 22000).

Certification is handled by private sector organization, such as TÜV from Germany, or SGS, which has an office in Chisinau. According to the SGS, they are also engaged in certifying organic production, acceptable pesticide residues, GMP+ for feed production, and non-GMO products. In many instances the request for certification comes from an importer in the EU.

However, access to technical regulations and especially standards in the (potential) export countries remains an issue. Exporters need to have access to the importing countries written requirements. As noted, right now they are relying on the intermediation function of the traders.

Another issue concerns discrepancies between the quality standards of the Republic of Moldova and the Transnistria region. All exports from Transnistria need to have a certificate of origin from Moldova. There is a conference planned for Odessa, involving producers from Transnistria and Moldova, together with EU representatives regarding quality management.

## Regulatory environment action plan, July-December 2011

During this time period, ACED is planning to carry out an in-depth assessment of key regulatory constraints on the competitiveness of selected value chains, using the CIBER (Competitiveness Impacts of Business Environment Reforms) approach. The targeted value chains in the HVA sector will be selected within the next couple of months.

In the meantime, however, ACED will need to address several broader policy and regulatory issues.

### **(1) Develop a RIA manual focusing on issues related to the HVA sector**

The Ghilotina II Law requires that all new legislation and regulations be accompanied by a regulatory impact assessment (RIA). As noted by several observers, the capacity in the sector, particularly within the Ministry of Agriculture and Food Industry, to prepare appropriate and meaningful RIAs is limited. Drafters of new regulations have been working with the RIA Secretariat in the Ministry of Economy to comply with the requirements of the law, but a relatively high turnover among the staff involved in these efforts makes better written guidance essential.

The RIA handbook will address specifically issues facing drafters of legislation and implementing regulations affecting agriculture, and in particular in the HVA sector. A particular focus will be the slew of new regulations surrounding the implementation of the new food safety agency, and the development of the SPS agency. ACED will work with the RIA Secretariat as well as key staff in MAFI to develop a draft manual that will be used in the RIA training.

Time period: July-August 2011

LOE: 25 person-days

### **(2) Provide RIA training**

Using the (draft) RIA manual, ACED in cooperation with the RIA Secretariat in the Ministry of Economy will offer at least two workshops for staff in MAFI and other agencies concerned on the preparation of appropriate and meaningful RIAs for “normative acts” affecting the HVA sector.

Time period: September-December 2011

LOE: 15 person-days

### **(3) Support a training seminar on plant variety protection for seed breeders and propagators**

As noted in the text, AGEPI is in the process of preparing a seminar for breeders and propagators regarding the benefits of plant variety protection and the role of patents in this process. It is not yet clear what support AGEPI is looking for in preparing and conducting this workshop, but its topic is of considerable interest for ACED. The workshop

apparently is scheduled for September, and preparations will continue over the next three months.

Time period: July-September 2011

LOE: TBD

#### **(4) Prepare an investor roadmap for agricultural projects**

Foreign investors are facing a difficult task in exploring and implementing investment projects in agriculture in Moldova. While MIEPO presents itself as a “one-stop shop” for foreign investors, it provides little actual support and just directs traffic. Investors then need to interface directly with MAFI, and different interpretations and requirements can make the task of pursuing investment opportunities a difficult challenge.

ACED should therefore consider developing an investor roadmap for investment in commercial agriculture, in particular the HVA sector. The preparation of this roadmap can draw on recent studies in Moldova and elsewhere, as well as interviews with key staff in the government. Its principal purpose is to guide foreign investors, and to reinforce efforts to structure the investment process in agriculture.

Time period: July-October 2011

LOE: TBD

#### **(5) Explore support for the Product Councils**

The Product Councils can play a major role in the policy dialogue between the private sector and the government, given their mandate and composition. However, while they have been around for two years by now, they have yet to establish themselves as a key institutional mechanism for the policy dialogue. Two of the Councils already established cover areas of interest to ACED (fruits and vegetables). Any support for these Product Councils, however, should be demand-driven.

The task is therefore to monitor the development of these Councils, observe their activities, and ascertain whether any support is warranted.

Time period: July-December 2011

LOE: TBD

## Notes from two roundtables

As part of the preparation of the assessment of the regulatory environment for the HVA sector, ACED conducted two roundtables, in Edinet and Cahul. The roundtables were organized by the local Chambers of Commerce and Industry, in cooperation with the national CCI. While most of the relevant points are reflected in the assessment itself, the brief (raw) notes here will provide a little additional background.

### Edinet round table

There were complaints about the quality of seeds, but no one seemed to blame the certifier. One of the complaints was that there were variations in size, especially for vegetable seeds. Seeds are tested in Chisinau, but not local. Sunflower seeds come from Russia. Local producers/multipliers sell the best seeds abroad, and serve the local market only with poorer elements.

Fertilizer has got expensive. They claimed that the prices of fertilizers have gone up by 100 percent over the last 3 years. They cited weather issues, stressing the need for improved irrigation.

Exports seem to be handled on a hit-or-miss basis, with agents (buyers) acting as intermediaries.

There was a reference to a local laboratory.

Government intervention in the wheat market (forced purchases for food security) was cited as an issue.

The participants also reported that customs typically requires bribery.

With the price of petrol going up, there seemed to a general consensus that the promised subsidies that failed to materialize represent a growing problem. Extension agents from AGROInform and ACSA stressed that there have been promises, but no fulfillment.

There were also further references to the role of traders, in particular the risk-sharing arrangements. One grower reported that she had a forward contract for her farm in terms of volume, but the price was to be determined at that point in the future.

### Cahul round table

The session was rather disorganized. At the beginning, there were three people attending—an operator of a transportation company, a representative of a bakery, and one of a textiles company. There were also two staff members of the local election commission. The CCI manager then roped four students to fill the room. Finally, the local representative of the National Farmers Federation of Moldova (NFFM) showed up one hour into the meeting. Much of what we learned in this session we obtained from him, in a one-on-one after “releasing” the rest of the people.

The transport operator started out by complaining about the use of scanners at the border. He claimed that one of his drivers had developed cancer as a result of passing through the scanners twice a day. He also reported that the restriction of border crossings into the EU had resulted in long waiting times at customs, like two days at the Cahul border crossing point. Apparently the restriction of border crossing points is due to a government decision, although the rationale for these decisions remains unclear.

The representative of the bakery detailed some of the difficulties in complying with new standards, moving from GOST standards to international standards (they mentioned ISO 9001, but also ISO 1100 and 1725, which may be an error in translation).

Moldova Standard, the National Institute of Standardization and Metrology (NSM), issues certificates.

The NFFM in the area has apparently 2,560 members, including associations for vegetables or walnuts. The high prices of inputs, in particular diesel, make it difficult for farmers to compete. According to him, the typical farmer has little contact with markets. Traders (intermediaries) deal with buyers. They in turn get in touch with the association (like vegetables or walnuts) which in turn deal with farmers. In other words, by the time the market information on quality requirements and prices reaches the farmer, it has gone through several channels.