

Study regarding the Consulting Services in relation to the National Rural Development Program

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Abstract

Study objective: This study shows how important is to access European Funds in order to increase the added value of the agricultural products.

Research methodology: case study, statistical analysis.

Findings: The result shows that the accessing of European funds is very important for Romania in order to achieve its development targets.

Practical implications: It is needed to accelerate the implementation of the State diagram centered on the regional development stimulation by investments directed to ways of processing agricultural products to obtain non-agricultural products.

Originality/Value: The study presents a concrete case study that is representative for highlighting the importance of accessing European Funds.

Keywords: European funds, agro-food products, agriculture, consulting services.

Introduction

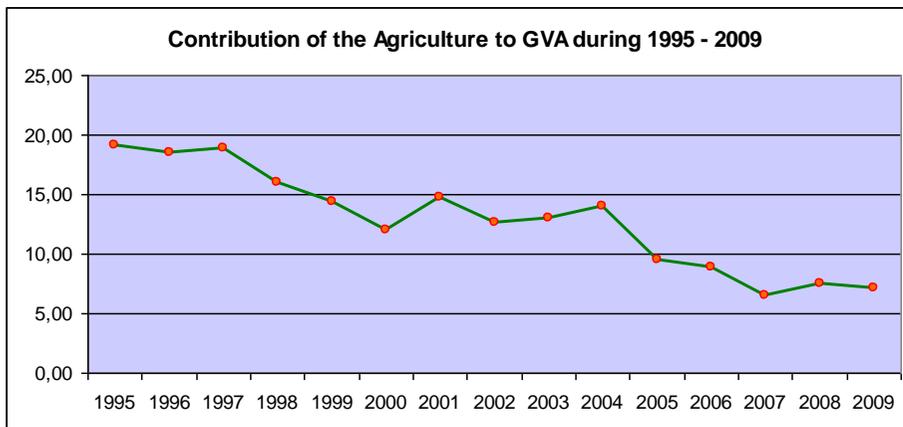
Romania enjoys an important yet underexploited development potential. With an area of 238 thousand km² and a population of 19 million inhabitants, Romania is the second largest new member state, after Poland. It accounts for 6% of the total EU area and 4% of its population.

Investments and competitiveness in Romania still need to be improved in order to accelerate economic growth and secure income convergence with the EU. In 2005, Romania accounted less than 1% of the Community GDP, with the GDP per capita growing rapidly but still only

representing 34% of the EU25 average (NSI – Romanian Statistical Yearbook, 2006). These gaps are diminishing as a result of the integration into the EU. The Romanian economy is growing faster and the GDP per capita is catching up. After significant falls towards late 90s, the Romanian economy vigorously resumed its growth starting with 2000 and registered an average rate of about 5% per year. The peak was reached in 2004, with a GDP growth rate of 8.5% against the previous year.

The agriculture - as a main economic sector - has a descending trend. Despite this, Romania is one of the Central and Eastern European countries with the least significant fall in agricultural production since the transition began. Agricultural output (as measured by Gross Agricultural Output, GAO), has remained relatively constant since 1980. The situation was particularly difficult in 1992, when the cooperative farms were broken up and the sector suffered from adverse weather conditions. During the first year of transition, the Gross Value Added (GVA) in agriculture declined less than of the industry. But since 2000, the industrial sector has enjoyed a continuous growth, while the agricultural sector has experienced significant fluctuations due to its sensitivity to droughts. Agriculture contributed 14.06% to the total GVA in 2004 (down from an approximate contribution of 20% during 1990 - 1995), while the primary sector (agriculture, forestry and fishery) contributed with 14.1%, down from 16.03% in 1998.

As we can observe from the chart below, from 2004 to 2009 there was an almost constant decreasing of the agriculture contribution into the GVA, getting a minimum of 6.51% in 2007.



Source: National Institute of Statistics – Romanian Statistical Yearbook, 2010

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A growing agro-food trade deficit mirrors the decrease of competitiveness. The structural changes that occurred over the transition period transformed Romania into a net importer of agro-food products. The agro-food trade deficit reached 1.3 billion euros in 2005, with exports of 673.3 million euro and imports of 2,021.9 million euro.

The deterioration of the agro-food trade balance is largely due to a poorly performing food industry. In 2005, the produces/sectors for which there was a positive balance of trade (totaling 430 million euro), were: barley, wheat, maize, livestock (cattle, sheep, horses), sunflower and soybean oil, wines, cheese, honey, canned meat and meat products, pressed sunflower seeds and nuts. Regarding the products for which there was a negative balance of trade (totaling 1,779 million euro), more than half of that (1,041 million euro) came from products from which the domestic production does not cover consumption, examples are: live pigs and pork, flowers, fresh vegetables out of season, orchard fruit, sugar, malt, lard, canned fruit and vegetables, hops, tobacco.

For major crops, output is unstable and well below potential. Roughly two-thirds (69%) of the cultivated area (NSI, 2006) is devoted to cereals, mostly wheat and maize. For both crops, the surface fluctuated greatly over the transition period, to reach now levels that are slightly higher than in the late 80s. Over 2000-2005, the average yield for wheat was 2,508 kg/ha, while for maize it was 3,150 kg/ha. This is below pre-transition levels and, according to experts, only reflects 40% of the wheat and respectively 39.4% the maize agronomic potential

Food industry in Romania is the main market for primary sector products. The number of food industry enterprises has increased during the 1998-2006 period with 585 units, to approximately 11,000 today. The percentage share of the food industry within the processing industry has been relatively high, of about 12% from the value of the industrial production in 2005, but in a gradual decrease, with 4% compared to 1998, which means that the food sector, along with the entire processing sector is going through a restructuring period.

The production of the main food products has had different evolutions during the referred period. Thus, there have been registered growths in (physical) production for some groups of products, such as: meat, cheeses and fresh milk products, edible oils, fruit and vegetable cans, milk, wheat and rye flour.

Under these circumstances, micro-enterprises and small and medium sized enterprises, especially those with a good position (which produce as well as process raw materials), play an important part in the production of higher value-added products.

The improvement of raw material quality and the restructuring of the agricultural and food units have become main objectives during Romania's pre-accession to the European Union. The Commission has granted a transition period until the 31st of December 2009, for the milk and meat processing units, in order to be aligned to the Community hygiene requirements and to improve the raw materials quality. That way, it is possible to obtain products that are eligible for the intra-Community exchanges. Moreover, consumers' demand for higher quality products has been increasing in the following period.

Thus the situation in June 2007 regarding the securing of observance in the meat production and processing (red meat and poultry) shows that from a total of 425 units, 123 units are classified according to the European Union regulations and are authorized for intra-Community exchanges; 302 units have received approval for the transition period until 31.12.2009.

In the milk and dairy sector, the total number of units is 259, out of which 52 units are classified according to the European Union regulations and authorized for the intra-Community changes and 207 have received approval for the transition period until 31.12.2009.

The deficit of the trade balance of agro-food products, of approximately 1.3 billion Euro (for the year 2005), as well as an analysis of the structure of food product exports shows that there is a higher percentage of unprocessed products as compared to the processed ones due to their poor competitiveness.

Food industry companies are still under-specialized, with low productivity, low use of innovations, inappropriate technical level and incompliance with the Community standards. The use of renewable energy sources is an alternative for reducing production costs and increasing economic efficiency for processors.

Improved marketing is also a prerequisite for increased competitiveness. Therefore, the increase and development of a system for collecting and storing raw materials, mainly promoted by associative structures (e.g. producer groups) has become an urgent need in order to meet market requirements of product quality and quantity.

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Companies have difficulties in managing the waste products resulted from productive activities. In order to mitigate the negative impact of waste on the environment, processors must exercise more care in making investments, in order to increase the added value of resulted sub-products.

During 2000-2006, a financial aid amounting 379.51 million euro (public funds) was granted through measure 1.1 “Improvement of processing and marketing of agricultural and fishery products” of the SAPARD Program for setting up and modernization of processing and marketing units for agricultural and fishery products. Most investments targeted the implementation of the Community acquits requirements needed to be met by the accession date.

Out of the 202 investment objectives made as part of measure 1.1 “Improvement of processing and marketing of agricultural and fishery products”, in new objectives and upgrades, 85 belong to the “Meat and eggs” sector, 48 to the “Milk and dairy products” sector, 27 to the “Cereal” sector, 24 to the “Wine” sector”, 17 to the “Vegetables, fruit and potatoes” sector and 1 to the “Oilseeds” sector. Thus, a number of 2,232 employment places have been created, the majority of them in the meat (1,243) and milk (515) processing sector.

Although the food industry has benefited during the pre-accession period of financial support through the SAPARD Program and also through national programs; this sector continues to have lack of consistency with the Community standards, with the international quality management systems and with the Hazard Analysis and Critical Control Point (HACCP).

The agro-food processing sector plays an important role not only regarding the creation of new opportunities for labor force placements, but also in the nutrition and public health.

A large number of rural communities from forest-rich areas rely significantly on the processing of wood and non-wood forestry products. As different from wood, which is the main forest product rewarded by the existing markets, non-wood forestry products may include seeds, fruits, leaves, resins, tannin, mushrooms, medicinal plants or the like. However, the sector of harvesting and processing forestry products is not well developed, as enterprises involved are often small-sized and limitedly equipped, so that further investments are needed to meet EU standards on product quality, environment protection and

occupational safety. The existing units for the processing of forestry products are facing problems caused by outdated harvesting, transporting and processing machineries, low added value of the products and low volume of sales, which impact directly on the labor productivity and the general socio-economic output. In addition, there is limited use of the waste material resulting from processing operations (e.g., sawdust) for energy purposes, which create additional environmental problems. Thus, there is need to invest for purchasing equipments and machineries to improve the production technologies, which will increase the added value and the quality of forestry products, as well as the general efficiency of this economic activity.

It is foreseen that an increase of the added value of forestry products at the micro-enterprises level, will lead to an increase of the contribution of the forestry sector to the local and regional rural economy.

Taking into account the current national situation, the support granted by the before mentioned measure will encourage investments in the processing and marketing of agro-food and forestry products (wood and non-wood), with the purpose of increasing the value of products by means of observing the quality and food safety conditions, as well as adjusting to the market requirements. In addition, in order to optimize the agro-food and forestry sectors, the processing of agricultural and forestry products should be made, as far as possible, in the local areas where the products are obtained, in order to avoid additional expenditures with transportation and also the increase of gas emissions.

Case study

In order to show the positive relationship between the accessing of the European Funds and the economic growth, we choose in our study a firm that applied to such a source of financing and benefited from consultancy during the entire procedure.

Midanif is a company founded in 2001. Work is done in Carpinis village, commune Carpinis in Timis county, at a distance of 28 km from Timisoara. Its main activity is the manufacture of cocoa, chocolate and other sugar products.

Midanif identified an opportunity to diversify the business activity, namely the production of wafers and cornets for ice cream.

To finance the investments required, the Midanif management team decided to apply for a grant.

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As the main customer of new products would be another company, a famous ice cream maker owned by an acquaintance, the Midanif management have consulted with him; he recommended contacting a consultant.

The recommendation was made based on an earlier collaboration between the companies, to obtain a grant which did not materialize into a consulting contract because of the quite long period of time from submission to obtain funding grant, in contrast with the relatively urgent need for investment capital to potential clients.

The management team had a first meeting with the general manager of a consultancy company, in which it was established that the activity for which they wanted to invest is eligible for the National Rural Development Programme (NRDP).

In the second meeting, preliminary aspects of the proposed project were discussed.

Based on an approximate description of the production flow, the activity of producing ice cream waffles was identified as being eligible in the State Aid Scheme no. N578/2009. The customer was explained by the consultancy team that he could get a financial support grant covering 50% of the eligible investment. To evaluate the approximate value of support, it was discussed each proposed investment, compared with the list of eligible expenses under the scheme. Also, it was explained how they establishes the consulting fee and that they need a technical consultant (design firm) to prepare documentation for the construction component of the investment.

For the first phase, the information provided was enough to create an overview of the project, so Midanif management team have requested a period of analysis.

It was recommended Midanif to establish investment location and to contact at least three suppliers of equipment for production of wafers, in order to obtain bids to estimate their cost.

The third phase of consultancy mission had four fulfilled objectives:

1. determining eligibility based on company documents provided by client;
2. analysis of the selection criteria that the project proposed by the client could perform, with recommendations for its amendment in

order to obtain a score as good as possible and thus a real chance to obtain the grant;

3. estimated value of the project and analysis of private co-financing capacity of the investment based on information about the company's financial situation.

4. negotiating the consultancy contract for the development and implementation of the project.

It was discussed a detailed list of documents needed to prepare documentation for funding and establishing responsibilities to these documents for each party involved - the Midanif and consultant.

Along with the publication of the beginning of the project application session, there was also published on the website of the Paying Agency for Rural Development and Fishing (PARDF - implementing agency of National Rural Development Plan) the final version of the Guidelines for Applicants for State Aid Scheme No. N578/2009.

The deadlines initially set with both the Midanif and the consultant's project team were reviewed and they concluded that they can meet the deadline for completion of the project, recovering the delay during the project preparation.

Together with the project team and with the help from the design team chosen by the Midanif company, they were able to submit the project during the submission session from July 2010 (in fact the only one of that year), one day earlier than the deadline they have initially proposed.

In November 2010, the project was completed with some clarifications requested by the experts of the Regional Payments for Rural Development and Fisheries 5 West Timisoara, and in February 2011, the client received from the PARDF, the notification of the project selection.

Midanif was just an example regarding the accessing of European Funds in Romania. There are a lot of many other companies who are eligible and can follow the same procedure in order to receive the necessary grant.

The situation of grants submits is presented in the following table:

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Measure	Submitted projects		Selected projects		Contracts		Payments (Euro)
	Nr.	Public Value	Nr.	Public Value	Nr.	Public Value	Public Value
123 and State diagram	1337	1.164.860.300	928	750.037.474	682	499.720.419	119.120.604

The table shows that until 2010 there were many submitted projects on this sector. There were selected 928 projects out of 1.337 proposed projects that mean a percent of 69.40% from the total number of proposed projects. There were also 682 projects signed for financing. Regarding the payments, 23.83% of the public value was paid till the present time.

As far from Midanif, its project was selected and meanwhile it is passing through the implementation process.

Conclusions and recommendations

The main purpose of this study was to determine the importance of accessing European Funds for increasing the added value on agricultural and agro-food products. The result of this study shows that it is very important for the economy (from the financial point of view, from labor market and processing prospective etc.) that potential economic agents would access European funds.

It is needed to accelerate the implementation of the State diagram centered on the regional development stimulation through the process of investing in agricultural products to obtain non-agricultural products. The consultancy service is important in this process.

It is also needed to eliminate the differences between the other European states in the agro-food sector, by stimulating the implementation of new technologies and activity diversification.

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