FINAL WORKSHOP REPORT
on
“SMEs AND SMALL FARMS IN AGRIBUSINESS
IN THE BLACK SEA ECONOMIC COOPERATION REGION”

organized by

ORGANIZATION OF THE BLACK SEA ECONOMIC
COOPERATION (BSEC)
and

KONRAD-ADENAUER-STIFTUNG (KAS)

15 – 18 April 2015
Chișinău, Moldova
SMEs AND SMALL FARMS IN AGRIBUSINESS IN THE BSEC REGION

Edited by

Dr. Antal Szabó

15 – 18 April 2015
Chişinău, Moldova

Published by Konrad-Adenauer-Stiftung
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<td>ACED</td>
<td>Agricultural Competitiveness and Enterprise Development Project</td>
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<td>AIDA</td>
<td>Albanian Investment Development Agency</td>
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<td>ALL</td>
<td>Albanian lek</td>
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<td>AMD</td>
<td>Armenian dram</td>
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<td>ANFES</td>
<td>Azerbaijan National Fund for Entrepreneurship Support</td>
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<td>AZN</td>
<td>Azerbaijani manat</td>
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<td>sh.a</td>
<td>Shoqëri Aksionare, or anonymous company in Albanian</td>
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<td>ASC Union</td>
<td>Albanian Savings and Credit Union</td>
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<td>AZHBR</td>
<td>Agricultural and Rural Development Agency in Albania</td>
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<td>BDSS</td>
<td>business development support service</td>
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<td>BGN</td>
<td>Bulgarian lev</td>
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<td>bn</td>
<td>billion</td>
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<td>BSEC</td>
<td>Organization of the Black Sea Economic Cooperation</td>
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<td>BSTDB</td>
<td>Black Sea Trade and Development Bank</td>
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<td>CC</td>
<td>credit cooperatives</td>
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<td>CEDA</td>
<td>Center for Entrepreneurial Education and Business Support in Moldova</td>
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<td>CEE</td>
<td>Central and Eastern European countries</td>
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CIP Competitiveness and Innovation Framework Programme
CIS Commonwealth of Independent States
CNIPMMR National Council of Small and Medium Sized Private Enterprises in Romania
COSME EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises
CU credit union
DCFTA Deep and Comprehensive Free Trade Area
EAFRD European Agricultural Fund for Rural Development
EAGGF European Agricultural Guidance and Guarantee Fund
EBRD European Bank for Reconstruction and Development
EC European Commission
EFSE European Fund for Southeast Europe
ENPARD European Neighbourhood Programme for Agriculture and Rural Development
EPRS European Parliament Research Service
ERENET Entrepreneurship Research and Education Network of Central Eastern European Universities
ETEAN National Fund for Entrepreneurship and Development in Greece
EU European Union
EUR, € euro, official currency of the eurozone
FAF-DC First Albanian Financial Development Company
FB family business
FDI foreign direct investment
FGCR Rural Credit Guarantee Fund in Romania
FOB free on board
FREDA Fund for Rural Economic Development in Armenia
FRC Romanian Counter-Guarantee Fund
FX foreign currency exchange
GDP gross domestic product
GEL Georgian lari
GNI gross national income
GNP gross national product
GUF German-Ukrainian Fund
GVA gross value added
ha hectare
HACCP Hazard Analysis and Critical Control Points
HDI Human Development Index
ILO  International Labour Organization
INSTAT  Albanian Institute of Statistics
JASMINE  Joint Action to Support Microfinance Institutions in Europe
JEREMIE  Joint European Resources for Micro to Medium Enterprises
KAS  Konrad-Adenauer-Stiftung
KEPA  Business and Cultural Development Centre in Greece
KfW  Kreditanstalt für Wiederaufbau
(German government-owned Development Bank)
LED  local economic development in Armenia
LLC  Limited Liability Company
LSEs  large-scale enterprises
m  million
MAP  Multiannual Programme in the EU
MDL  Moldovan leu
MARDWA  Ministry of Agriculture, Rural Development and Water Resources in Albania
MSME  micro, small and medium-sized enterprise
na  not available
NAAS  National Agricultural Advisory System in Bulgaria
NBFI  Non-Bank Financial Institution
NBG  National Bank of Georgia
NBR  National Bank of Romania
NLC  National Licensing Center in Albania
NLGFSME  National Loan Guarantee Fund for SMEs
NPL  non-performing loans in Romania
NRC  National Registration Center of Albania
PABSEC  Parliamentary Assembly of the Black Sea Economic Cooperation PERMIS BSEC Permanent International Secretariat of BSEC
PDO  Protected Designation of Origin
PGI  Protected Geographic Indication
PRD  Programme for Rural Development in Bulgaria
RAEF  Romanian-American Enterprise Fund
RMCF  Romanian Micro Credit Facility
RON  new Romanian leu
RSD  Serbian dinar
RUB  Russian rouble
SBA  Small Business Act for Europe
SCA  Savings and Credit Associations
<table>
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<td>Savings and Loans Associations in Moldova</td>
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<td>Small and medium-sized agri-processing enterprise</td>
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<td>SME</td>
<td>small and medium-sized enterprise</td>
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<td>SME DNC</td>
<td>SME National Development Center in Armenia</td>
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<tr>
<td>SPM</td>
<td>Social Performance Management</td>
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<td>SRO</td>
<td>self-regulatory organization</td>
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<tr>
<td>TIN</td>
<td>tax identification number in Azerbaijan</td>
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<tr>
<td>TRY</td>
<td>Turkish lira</td>
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<tr>
<td>TTIP</td>
<td>Transatlantic Trade and Investment Partnership</td>
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<td>UAA</td>
<td>utilized agricultural area</td>
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<td>UAH</td>
<td>Ukrainian hryvnia</td>
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<td>UCO</td>
<td>Universal credit organizations in Armenia</td>
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<td>UNECE</td>
<td>United Nations Economic Commission for Europe</td>
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<td>USD</td>
<td>United States dollar</td>
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<td>WIFU</td>
<td>Witten Institute for Family Business</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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PREFACE

Meltem Güney
Executive Manager,
Permanent International Secretariat (PERMIS) of the Organization of the Black Sea Economic Cooperation (BSEC)

Your Excellency, Dr. Tudor Copaci, honourable Deputy Minister of Economy of the Republic of Moldova,
Dr. Colin Dürkop, esteemed Representative of KAS in Turkey,
Mr. Sven-Joachim Irmer, distinguished Representative of KAS in Romania and Moldova,
Dr. Antal Szabó, esteemed Scientific Director of ERENET,

Distinguished participants,
It is a privilege to welcome you, on behalf of the Permanent International Secretariat of the Organization of the Black Sea Economic Cooperation, to the BSEC-KAS Joint Workshop on SMEs and Small Farms in Agribusiness.

I would like to begin by expressing our appreciation to the Konrad-Adenauer-Stiftung for the longstanding support to our Organization. Thanks to their continual support, we have been able to jointly organize over 45 workshops and seminars promoting and encouraging the development of SMEs in our region since 1997.
I would like to also express our gratitude to Dr. Szabó, the Scientific Director of ERENET, who has participated in a great number of these workshops and shared his vast knowledge on the ways and means of supporting the SME sector in the BSEC Member States with the participants.

Today’s workshop will focus on a specific topic, namely, SMEs and Small Farms in Agribusiness, which is one of the key economic sectors in our 12 Member States.

I am confident that through the presentations we will hear and the following discussions, our workshop will help participants explore new and innovative ways in which SMEs and small farms in the agricultural sector can be better assisted to contribute to the overall economy.

Distinguished participants,
SMEs play a significant role in the economic, social and political development of the BSEC Member States. They are essential for the economic growth of our countries. They constitute the backbone of our economies.

BSEC endeavours to develop effective policies and concrete measures to support the sustainable development of the SME sector in our region. Indeed, that is one of the goals outlined in the BSEC Economic Agenda and endorsed by our Heads of State and Government in 2012.

Through its Working Group on SMEs, BSEC has been focusing on high technology, innovation, entrepreneurship and sustainable development, as well as technology parks and incubators. The key objective is to encourage innovative ideas, products, services and processes to help SMEs improve their performance qualities.

Our Organization also strives to bring together businesses, scientific institutions, business incubators as well as private and state institutions from our Member States with the purpose of developing a culture of cooperation through networking. We also support the collaboration of SMEs with large businesses promoting measures to improve production efficiency.

On this occasion, I am pleased to acknowledge that BSEC’s areas of cooperation include Agriculture and Agro-Industry. We have a Working Group dealing with this topic. The vast agricultural potential of the region and
the wide range of prospects it offers for agro-industry were the principal reasons behind the establishment of the Working Group.

Up to now, BSEC has supported two projects in the field of agriculture, with the participation of private and public institutions. One is related to a feasibility study on the economical and environmental benefits of variable rate irrigation in the Black Sea Region. The second pertains to fatty liver incidence in cows in mini dairy farms in the Republic of Serbia, Romania and the Republic of Moldova.

In 2011, we organized our first Meeting of the Ministers of Agriculture in the BSEC Member States. A joint declaration was issued following this Meeting. The Joint Declaration stipulates an ambitious road map to enhance BSEC cooperation in the field of agriculture. It envisages a review of the opportunities for the simplification of export and import procedures for agricultural products among BSEC Member States, which, in turn, can be a crucial factor for the transport of fresh fruits and vegetables where delays can easily lead to the decay and spoiling of goods. Furthermore, the Joint Declaration anticipates cooperation among the Member States’ national genetic banks of plants to secure biodiversity.

More specifically, BSEC’s activities in the field of Agriculture and Agro-Industry are specified in BSEC Economic Agenda 2012. One of the 17 goals targeted in the Economic Agenda is titled “Food Security and Safety”, and is devoted to cooperation in the field of agriculture. Many concrete actions are listed under this title, including:

- intensifying cooperation among the Ministries of Agriculture to increase intra-regional trade in agricultural products;
- improving sustainable rural productivity and enhancing the international competitiveness of the Member States in food and agricultural products;
- harmonizing labelling standards;
- promoting exchange of information, experience and best practices;
- promoting the effective and sustainable use of land resources for agricultural production;
- improving the availability of financial services and credit to farmers and processors, as well as developing appropriate insurance systems against risks in agricultural production;
- strengthening cooperation in the vine-growing and winemaking sectors,
• promoting cooperation among the national genetic banks of plants in the Member States to secure biodiversity;
• simplifying customs formalities and reducing waiting times at border crossing points, particularly for fresh fruits and vegetables;
• exploring possibilities to reduce the gap between production prices and consumer prices;
• ensuring increased food production, price stabilization as well as adequate agricultural income;
• promoting regional cooperation for the sustainable management of fishery resources;
• strengthening cooperation among the reference laboratories, veterinary services and disease control agencies of the Member States;
• enhancing dialogue on biotechnology methods, taking into consideration the issue of genetically modified food products and radiation control of food;
• exchanging experiences and best practices regarding sustainable forest management.

I would also like to seize this opportunity to underline that two of the four related bodies of BSEC, namely, the Parliamentary Assembly of the Black Sea Economic Cooperation (PABSEC) and the Black Sea Trade and Development Bank (BSTDB) have also been promoting the agricultural sector.

For example, PABSEC, which deals with the inter-parliamentary dimension of our regional cooperation process, has issued Reports and Recommendations for its Member Parliaments on “Food Security in the BSEC Member States” (2010), the “Use of Genetically Modified Organisms (GMO) in the BSEC Countries: Economic and Environmental Aspects” (2011), and the “State and Prospects of Fisheries in the BSEC Member States” (2014).

BSTDB, which is the financial pillar of BSEC, is flexible in meeting the demands of its clients in the region, many of whom are small businesses and agribusinesses. BSTDB has financed up to 15 operations in agriculture and agribusiness, with signed loan agreements exceeding EUR 135 million.

Over the years, BSEC has developed a close relationship with the Food and Agriculture Organization (FAO). We very much value this cooperation. We hold regular, targeted consultations with FAO representatives, including its Director General, in order to explore the possibilities of further enhancing the cooperation between our two organizations.
Last year, a FAO-BSEC Business Council High Level Forum on “Engaging the Private Sector in Agri-food Chain Development” was organized in Baku, focusing on increased cooperation for the greater involvement of the private sector in this domain.

Esteemed participants,
The workshop starting today will make – through the conclusions and recommendations that will be adopted by the participants – an important intellectual and practical contribution to the upcoming meeting of the BSEC Working Group on SMEs, which is scheduled to take place on 5-6 May 2015, at our Headquarters in Istanbul.

I would like to conclude my opening remarks by expressing my confidence in the success of this workshop, and by thanking each and every participant in advance for their active and most valuable contributions.
Thank you.
Dr. Tudor Copaci
Deputy Minister of Economy of the Republic of Moldova

On behalf of the Government of the Republic of Moldova, I welcome everyone to the Workshop on “SMEs and Small Farms in Agribusiness” organized by the Organization of the Black Sea Economic Cooperation (BSEC) and the Konrad-Adenauer-Stiftung (KAS), and held here in Chişinău.

The objective of the Workshop coincides with the priorities of the policy, promoted by the Government of the Republic of Moldova, to support local (domestic) producers and investors, and create favourable conditions for the competitive international and external development of enterprises.

In the Republic of Moldova, the small and medium-sized enterprises sector make up 96.7% of all enterprises operating in the national economy.

56% of the total working population are employed in this sector; and the share of Gross Domestic Product from this sector in Moldova is 32.2%.

The development of SMEs contributed to the easing of a number of socio-economic problems. The growth of SMEs has created the necessary conditions for political stability in the country, formed a rational economic structure, reduced unemployment, and increased revenues in budgets at all levels.

The Government of the Republic of Moldova will continue to focus on SME development through the creation of political, fiscal and institutional environments as well as regulatory framework that would foster the development of entrepreneurship. The support and protection of small businesses in the agricultural sector has become a priority in the state’s economic policy.

The Government of Moldova has already undertaken significant efforts to harmonize its trade policies with EU standards. Under the Association Agreement between the European Union and the Republic of Moldova, the Moldovan agri-food sector is an essential one.

In order to export to the European markets and ensure food safety in the Moldovan agri-food sector, further progress must be made in terms of
quality certification, origin of goods, compliance with sanitary and phytosanitary standards, and observance of competition rules. Although EU norms and standards are mostly adopted now, their actual implementation has been a lengthy and costly process, especially in the animal production industry. Compliance with European standards is expensive for small producers. Because of this, the authorities should implement institutional reforms and support the sensitive agri-food and wine sectors.

The EU supports third countries (including candidate and accrediting countries) in accordance with the Common Agricultural Policy (CAP). It does so through a range of instruments including the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD), launched in 2012. The Republic of Moldova joined ENPARD in March 2015.

The Republic of Moldova’s Deep and Comprehensive Free Trade Area (DCFTA) with the EU will benefit both exporters and importers of agricultural products as well as consumers by:

• the improvement in production,
• increasing standards of quality and safety of food products,
• elimination of tariff and non-tariff barriers to trade,
• incentives for foreign and domestic investments, and
• increasing export revenues.

At the same time, DCFTA will condition the number of risks mainly determined by the reduction of agricultural production, increase of production costs, price cutting of some agri-food products (vegetable and animal oils and fats, vegetables and fruits, alcoholic and soft drinks), as well as the compression of the agri-food sector workforce. To minimize the risks and maximize the benefits of DCFTA, national authorities will make considerable efforts to improve the business environment, adjust the quality of infrastructure and enhance reforms in the agri-food sector.

Thanks to fertile land, our strategic location between the major markets of the East and West, our relatively inexpensive labour force and age-old agricultural traditions, investments in Moldovan agriculture are handsomely repaid.

Today, the Government of the Republic of Moldova has a clear vision and understanding of its agricultural problems, and will make efforts to improve the quality and quantity of agricultural products supplied to the market. Because agriculture
is well-developed in the country, and is the main source of employment and income for the rural population, the Government recognizes the development of the agricultural sector as a potential way of fighting poverty and improving the living standards in rural areas, where more than half the country’s population reside.

Dear colleagues,
It is possible and necessary to profit from the agricultural sector in Moldova. But for this to happen, the mentality of the people has to be changed before they will treat agriculture as a potentially lucrative business. Today, agriculture is the one area in the economy where most citizens of Moldova can create their own small business. To make this happen, we have the land and favourable climatic conditions, as well as a new generation to educate on the benefits and profitability of agriculture. Besides, agricultural businesses differ from other businesses because they are profitable as well as socially responsible. This is a noble and largely innovative activity that can be made possible with the use of new technologies.

In this context, I would like to proudly mention that the Workshop on “SMEs and Small Farms in Agribusiness” is significant.

The Workshop will be very helpful to countries where the agri-food sector remains underdeveloped and needs special attention, both from the state and all institutions and organizations involved in its development.

The Workshop today offers participants the opportunity to discuss the prospects and opportunities of development in the agri-food sector. Countries can use the experience of the participants to familiarize themselves with successful SME development strategies in the agricultural business, and implement them in their enterprises and national economy; they will also learn of the risks and mistakes to avoid.

I am convinced that the discussions in the Workshop will reveal all the successes and best practices achieved by entrepreneurs in BSEC Member States. I am also convinced that the discussions today will present new opportunities for development from the European perspective and stimulate the growth of the SME sector in the Republic of Moldova.

I wish everybody success, perseverance and prosperous business.
1. THE EU’S COMMON AGRICULTURAL POLICY

Dr. Antal Szabó
UN Retired Regional Adviser
Scientific Director of ERENET
Corvinus University of Budapest
Budapest, Hungary

ABSTRACT
The introduction summarizes the major challenges faced by small and medium-sized agri-processing enterprises (SMAEs) in CEE and CIS countries. The second part of the paper presents the Common Agricultural Policy (CAP) in the European Union. It presents the historical development of the CAP from 1962 to the present, and outlines the new agrarian policy that has been in place since 2013. In the final part, it highlights the role of the new CAP in the Multiannual Financial Framework for 2014-2020.

Keywords: small farms, agrarian SMEs, agricultural policy, Common Agricultural Policy, CAP, history of the development of the EU agricultural policy, New CAP
JEL Classification: L26, Q00, Q17, Q18, N44

INTRODUCTION
There are 7.28 billion people in the world, as of January 2015. The United Nations estimates that the human population of the world is expected to reach 8 billion people in the spring of 2024. The population growth around the world will impact everyone through the economy and the environment.

Rapid population growth and the commercialization of agriculture has increased the demand for processed agricultural and food products. As a consequence, farmers are excluded from direct participation in markets. Farmers, especially owners of small farms, face pressures from large agricultural enterprises to supply raw materials in required quantities. They also face difficulties integrating into value chains. On the other hand, local agro-industries have to meet the challenges of global and regional competition. This has resulted in overproduction in some advanced agrarian countries. Further complicating production is the need to comply with international environmental and sanitary regulations such as EU directives, which prescribes the shape of the banana and colour of the tomato, forbids
the force-feeding of ducks and geese, outlines methods of slaughtering pigs, limiting the sizes of henhouses, etc.

Small and medium-sized agri-processing enterprises (SMAEs) are responsible for generating a large share of products and services in the agricultural sector, and they play a critical role in increasing the demand for raw materials. They create income and employment in rural areas where the opportunities for employment are often sparse.

SMAEs can play a critical role in creating rural income and employment opportunities, through their demand for raw material from smaller and medium-scale farmers. SMAEs that are appropriately managed can produce high quality products, which can increase export revenues and reduce dependency on imported products.

However, in Central and Eastern European (CEE) and Commonwealth of Independent States (CIS) countries, there are major constraints that must be addressed before the full developmental potential of SMAEs can be realized. First of all, recent global climate changes, especially droughts and floods, require different approaches in cultivation and clever utilization of water resources. Secondly, politically motivated quotas and unfair negotiation of large international organizations, especially transnational corporations (TNCs) like the EU sugar regime giving preference to sugarcane from Latin American countries at the expense of CEE countries, the danger of genetically modified (GM) products and the current Russian food embargo where EU perishable items are damaged, impede the progress of SMEs and SMAEs in global markets. Thirdly, significant EU subsidies to the Western European agricultural sector as well as agribusinesses – whereby over 50% of the EU budget is allocated to EU countries in contrast to Moldova’s 2% subsidy – show the unfair competition of strong economies against the weak CEE and CIS ones. While the Common Agricultural Programme (CAP) issues direct subsidy payments to EU farmers amounting to EUR 720 million in the CEE countries, CEE countries only receive EUR 600 per farm. In contrast, Western European countries receive EUR 4,000 per farm from CAP. This is a great injustice! So much for European solidarity! Last but not least, SMAEs are defenseless against the abuse of power from profit-oriented raw material buyers.

The competitiveness of agriculture and the weakness of the food industry have long been concerns to farmers as well as small and medium-sized en-
enterprises (SMEs). Since the economic crisis, SMEs have faced further challenges in terms of competitiveness, especially in maintaining their market share, having fair business relations and financial viability. Limited access to finance, the uneven quality and volume of supplies from primary producers, and significant arrears in payments from retailers and wholesalers have contributed to the difficulties of the agribusiness sector.

It was a great joke in the socialist centrally planned economy that a peasant had five enemies: spring, summer, autumn, winter, and capitalism. Today, the changing weather during the four seasons remain; but there are also new enemies such as EU directives and quotas, Hazard Analysis and Critical Control Points (HACCP) regulation, fear of GM products, aggressive American marketing policies, and the unknown danger of the Transatlantic Trade and Investment Partnership (TTIP) and its consequences.

WHY IS AGRICULTURE DIFFERENT FROM OTHER SECTORS?

• CONTINUOUS DEMAND
  • food availability indispensable on a daily basis
  • total food demand is income and price inelastic
  • DISCONTINUOUS SUPPLY
  • land and farm labour are fixed in time and space
  • major weather-induced uncertainties
  • biological cycles in production (e.g. beef, olive oil)
  • unexpected shocks (diseases, natural disasters, etc.)

RESULT: VOLATILITY OF PRICES (AND CONSEQUENTLY OF FARMERS’ INCOME)

If we compare the objectives of agribusinesses in the EU, we can make the following statement:

During the 1950s, the major objectives were:
• increase agricultural productivity and profitability to ensure a fair standard of living for farmers;
• stabilize markets and ensure the availability of supplies;
• ensure that supplies reach consumers at reasonable prices.

TODAY, we face:
• Food safety requirements that has to satisfy the needs of the world’s increasing population that is expected to reach 9 billion by 2050;
• Agricultural sustainability and the ability to tackle the challenges of climate change;
• Protection of rural areas and maintenance of agricultural economies.
COMMON AGRICULTURAL POLICY

The Common Agricultural Policy (CAP) is the agricultural policy of the European Union. CAP allows European farmers to meet the needs of half a billion European citizens. Its main objectives are to ensure a decent standard of living for farmers, and to provide a stable and safe food supply at affordable prices for consumers.

Over 77% of the EU’s territory is classified as rural (47% is farmland and 30% is forest). In the 28 EU Member States, there are 12 million full-time farmers and 4 million workers in the food sector. Overall, farming and the food sector make up 7% of all jobs, generate 6% of the EU’s GDP, comprise 15 million businesses and provide 46 million jobs. [1] CAP implements a system of agricultural subsidies and other programmes. It was introduced in 1962 and has undergone several changes since then, and continues to change today.

History of the CAP [2]

CAP is one of the EU’s oldest policies, and is deeply rooted in the European integration project. This policy has been reformed on many occasions, and always tried to match the ongoing political and economic challenges. Its historical development includes the following phases (see the diagram below):

• The early years during the 1960s;
• The crisis years between the 1970s and 1980s;
• The 1992 reform policy;
• Agenda 2000;
• CAP Reform in 2003;
• CAP Health Check in 2008; and finally
• CAP Reform post-2013.
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Source: European Commission, Agriculture and Rural Development, 2015

The following chronological presentation is extracted from the relevant documents and home page of the EU Agricultural and Rural Development.

**3-12 July 1958**

In the spring of 1958, the Conference held in Stresa (Italy) brought together a committee of experts consisting of Members of the European Commission, the six Ministers of Agriculture, representatives from farmers’ unions and national experts. After the conference, the Commissioner for Agriculture, Sicco Mansholt, was asked to draw up detailed proposals. The objectives of this Conference were:

- The need to ensure adequate supplies of food at reasonable prices.
- The need to provide an adequate income to farmers.
- The need to increase agricultural productivity.

**30 June 1960**

The Commission proposed to establish market unity based on the free movement of agricultural products, abolishment of barriers to trade, organization of markets by products as well as the progressively unified and guaranteed limits on prices. It would also ensure Community preference, enable common intervention, set up a European Agricultural Guidance and Guarantee Fund (EAGGF), and establish financial solidarity. This proposal was only aimed at six countries: Belgium, France, Germany, Italy, Luxembourg and the Netherlands.
14 January 1962
Council decisions taken in January 1962 were:
• the organization of six common agricultural markets (cereals, pork, eggs, poultry, fruits and vegetables, and wine),
• the introduction of rules on competition,
• the establishment of a schedule for dairy products, beef and veal, sugar and other measures to assist intra-community trade,
• the establishment of the European Agricultural Guidance and Guarantee Fund (EAGGF) to finance CAP operations, with a Guarantee Section for prices and a Guidance Section for structural measures.

1970s – Crisis Years
In the late 1960s, when the common organizations of markets (COMs) were gradually put into place, the Commission was determined to limit CAP expenditure. The Commissioner, Sicco Mansholt, prepared a Plan named by him to encourage nearly five million farmers to cease farming; so doing would make it possible to redistribute their land and increase the size of the remaining family farms to make them viable and guarantee their owners’ an average annual income comparable to that of the other workers in the region. The plan was rejected by the agricultural community.

1980s – Crisis Years
By the 1980s, the EU had to contend with almost permanent surpluses of the major farm commodities, some of which were exported (with the help of subsidies), and others had to be stored or disposed within the EU.

Between the late 1960s and early 1980s, 70% of the EU budget was spent in support of the agricultural industry, and it resulted in “butter mountains” and “milk lakes”. In July 1983, the European Commission proposed to introduce the production quota system that was already applied to sugar, and extend it to milk to limit the surplus of production in the Community. This system was introduced in 1984.

The 1992 MacSharry reform
Ray MacSharry was the first European Commissioner for Agriculture to work out a meaningful compromise on CAP reform. This reform started the shift from product support (through prices) to producer support (through income support) by issuing direct payments to producers to compensate them for loss of income, without increasing agricultural production as price
support did. This measure was accompanied by lower cereal and beef prices (cereal guaranteed prices were lowered by 35%, and beef prices by 15%).

The reforms were intended to restructure the sector by encouraging farmers to take land out of cultivation and to shift people out of agricultural jobs. Environmental elements were also introduced to encourage sustainable farming practices.

Unfortunately, the 1992 reform also resulted in two main unsolved issues creating financial unsustainability in CAP and bringing imbalance between market support and environmental measures.

**Agenda 2000 [3]**

The Agenda 2000 reform policy established economic, social and environmental goals within a new reformulated set of objectives for the CAP, consistent with the requirements of the Amsterdam Treaty. ¹

Agenda 2000 aimed at giving concrete form to the European Model of Agriculture and preserving the diversity of farming systems throughout Europe, including regions with specific problems, in the years ahead.

Agenda 2000 objectives included:

- more market orientation and increased competitiveness,
- food safety and quality,
- stabilization of agricultural incomes,
- integration of environmental concerns into agricultural policy,
- developing the vitality of rural areas,
- simplification, and
- strengthened decentralization.

In mid-2000s, the EU became the world’s largest importer of agricultural products from developing countries, importing more than the US, Japan, Australia and Canada combined.

Under the "Everything But Arms" agreement, signed on 26 February 2001, the EU has given free market access to the world’s 48 least developed

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¹ The Amsterdam Treaty, amended the Treaty of the European Union and the Treaties establishing the European Communities and certain related acts. It was signed on 2 October 1997, and entered into force on 1 May 1999. It made substantial changes to the Treaty of Maastricht, which had been signed in 1992.
countries. No other developed country has given such openness, commitment and real market access to developing country farmers.[4] However, this agreement and the following quotas on sugar from sugar beet to the advantage of sugarcane caused immeasurable damages to Central and Eastern Europe (CEE), where the protectionist Western European countries closed sugar factories in CEE to save jobs in the old EU countries.

After EU enlargement in 2004 and 2007, two different types of agriculture have been created in the EU and garnered an average of EUR 20,000 in revenue in the old EU countries against the EUR 3,700 in the newcomer CEE EU countries.

**The 2003 Reform**
The June 2003 agreement to reform the CAP introduces major changes to the way it operates and to farmers’ responsibilities.

In future, direct aid to farmers will be made mainly via the one “single payment scheme” (SPS) payment per year, replacing most existing direct aid. Some production-linked payments may also be maintained where necessary to avoid production abandonment. This shift in the emphasis of CAP support towards direct aid to farmers, and away from price support, is accompanied by clearer obligations on farmers to manage their farms in sustainable ways. “Cross-compliance” links direct payments to farmers to their respect of environmental and other requirements set at EU and national levels.

For the new EU Member States, a “simplified approach” was introduced to calculate agricultural support to receive a flat-rate decoupled payment based on farm size, starting at 25% of the average rate for the existing EU Member States. It was the most cynical and unfair attitude against the poor Eastern European newcomers, forcing them to draw comparison to sports whereby they are “like a Hungarian farmer with a rucksack and boots forced to compete in a 100-metre race against a French farmer in appropriate sportswear and running shoes”. There is no existing solidarity, and this is why the newcomer countries lag behind the old EU ones.

On 20 November 2008, the EU Agriculture Ministers accepted the CAP “Health Check”, allowing the possibility of further adjustments of the CAP
in the line with market and other developments. The aim is to address three main questions:

• How to make the Single Payment Scheme more effective, efficient and simple?
• How to render market support instruments, originally conceived for a Community of six Member States, relevant in an increasingly globalized world and an EU of twenty-seven members?
• How to master new challenges such as climate change, growth in biofuels, water management, and biodiversity by adapting to the new risks and opportunities?

WHO BENEFITS FROM CAP?

• 70% of CAP payments tend to go to 25% of the largest and wealthiest farms.
• Large producers received more CAP payments than small producers because CAP had been based on output.
• Example: One of the main beneficiaries of CAP subsidies in the UK after decoupling is the Queen.

Chart 1.
As already highlighted in the introduction, CAP subsidies are mostly free handouts to Member States and their farming communities. CAP absorbs more than 40% of the EU budget, depriving the EU of the renewed momentum it could gain if it became more relevant to the attainment of the priorities of the future. Valentin Zahrnt, a Research Associate at the European Centre for International Political Economy, states, “The stakes are enormous: The CAP budget in 2010 is EUR 57 billion – more than EUR 150 million a day. The total CAP budget for the 2007-2013 financial perspectives runs up to EUR 420 billion. The distributional issue behind CAP reform will become ever more critical over the next years. Public debts will continue to rise and painful spending cuts will make the population more sensitive to wasteful expenditures.” [6]

**General critique of the CAP**

The main problems of the existing CAP can be summarized as follows:

- Costly in terms of EU budget
- Over-production resulting in butter mountains, wine lakes, milk lakes, etc.
- Big, northern European farmers have benefited disproportionately
- Expensive for consumers
- Expensive for taxpayers
- Detrimental for the environment
- Distortions of EU budgetary contributions

**CAP Post-2013 Reform**

After a wide-ranging public debate, the Commission presented a Communication on “CAP towards 2020” on 18 November 2010, which outlined options for the future of CAP and launched the debate with other institutions and stakeholders.

On 12 October 2011, the Commission presented a set of legal proposals designed to make CAP a more effective policy for competitive and sustainable agriculture and vibrant rural areas.

After almost two years of negotiations between the Commission, the European Parliament and the Council, a political agreement on reforming the CAP was reached on 26 June 2013.
After the approval by the European Parliament and the formal adoption by the Council, the four Basic Regulations and the Transition Rules for 2014 were published in the Official Journal on 20 December 2013.

**NEW COMMON AGRICULTURAL POLICY**

CAP reforms started in 2010 with a public debate, followed by the publication of the Commission’s Communication on its vision of agriculture, the challenges and priorities for the future CAP, and finally by legislative proposals, for the first ever overhaul of the entire policy.

New CAP has to be built on the results of 20 years of changing reforms improving production safety, incorporating the environmental requirements and reinforced support for the rural development. The specific feature of agriculture is that it cannot be predicted, unlike industrial manufacturing processes. The following concerns and requirements have been identified:

- economic,
- environmental, and
- territorial.

**WHY REFORM?**

- To update the CAP to an enlarged EU of 28 Member States and tackle the new challenges in agriculture such as:
  - Protection of environment
  - Food safety
  - Innovation
  - Competitiveness in the world market
- To bring the CAP in line with the Multiannual Financial Framework 2014-2020 and new budget requirements.

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3 The Commission tabled four legislative proposals on Direct Payments, Rural Development, the single Common Market Organization and horizontal aspects of the CAP, based on an Impact Assessment and extensive consultation with citizens and stakeholders.
To achieve these long-term goals, existing CAP instruments had to be reformed. The reform therefore focused on the operational objectives of delivering more effective policy instruments, designed to improve the competitiveness of the agricultural sector and its long-term sustainability. Chart 2 illustrates CAP 2013 from challenges to reform objectives.

**Chart 2. CAP post-2013: From challenges to reform objectives**

Source: European Commission, DG Agriculture and Rural Development.

**Chart 3. Challenges for Agriculture towards 2020**

New CAP maintains the two pillars, but increases the links between them, thus offering a more holistic and integrated approach to policy support. CAP comprises two “pillars”.

- The first pillar supports farmers’ incomes. This support is provided in the form of direct payments and market measures, and is entirely financed from the European Agricultural Guarantee Fund (EAGF).
- The second pillar is the support provided for the development of rural areas. This support takes the form of rural development programmes and is co-financed from the European Agricultural Fund for Rural Development (EAFRD).

The Multiannual Financial Framework for 2014-2020 earmarked the following budget for these two pillars:

- Direct payments and market-related expenditure (Pillar 1)
  EUR 277.85 billion
- Rural development (Pillar 2)
  EUR  84.94 billion

**TOTAL** EUR 362.79 billion

New CAP introduces a new architecture of direct payments that is better targeted, more equitable and greener. It offers an enhanced safety net and strengthens rural development. As a result, it is specially adapted to meet the challenges ahead by being more efficient and conducive to competitive and sustainable EU agriculture. This paper has given an overview of the reforms, and outlines the “why and how” of new CAP 2014-2020.

The decision-making process differed from previous reforms, with the European Parliament acting as co-legislator with the Council for the first time. It also took place within the framework of the discussions on the overall EU budgetary framework for 2014-2020 and the Multiannual Financial Framework (MFF), which provides the funds for the disposal of the EU, including CAP. After intensive negotiations, a deal was secured on CAP and MFF in 2013. The new CAP 2014-2020 agreed by the Council and the European Parliament retains most of the essential objectives and approaches proposed by the Commission, albeit with a lower budget than proposed by the Commission.
REFERENCES


2. LESSONS LEARNED: HOW FAMILY BUSINESS RESEARCH CAN SUPPORT SMEs AND SMALL FARMS IN AGROBUSINESS.

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ABSTRACT
The tenor of family business literature is that family businesses are mostly under-researched. Family businesses as well as family agricultural businesses can be defined as enterprises owned by at least one or several families, who considerably govern the firm’s issues. The responsibility of the family is reflected in leadership or board membership in the supervisory board. One very important point which is regularly not included in other definitions is the transgenerational prospect, which means a real family business involves business succession from one generation to the next. Family businesses are owned and determined by one or more families. This co-evolution of family on the one hand, and business on the other hand, leads to the conclusion that family businesses are either very successful or extremely ineffective when agency costs like nepotism, distrust and emotional family conflicts come to the fore.

Family businesses clearly dominate the German economy. Although there is no standardized legal definition of family businesses, around 95% of all German businesses can be defined as family businesses. Family businesses dominate both the industrial and agricultural sectors in Germany. However, the landscape of agricultural family businesses has changed dramatically in the last 40 years. Since the 1970s, the total number of farms has decreased from more than 1 million to less than 300,000 farms. During the same period, the average farmed land has increased from 11 hectares to 60 hectares. The share of employment in the farming sector has decreased to less than one percent in that same period. Indeed, the dramatic structural changes in the agricultural sector are clear. During the last decades, huge numbers of small farms have turned to industrial production with completely changed needs for management.

Today, German farms can be described with the following three characteristics:
First – Almost 100% are individual companies in the ownership of one
person or one family. The property is mostly inherited; as a result, most of the existing agricultural businesses have a long history and a strong link between one family and one farm.

Second – The average size of farms has increased. In more than 90% of farms, the ownership, management and operational control lie in the hands of one person, and the employees are mostly family members.

Third – 60% of the farmed ground lies not in the ownership of the farmer, but is leased from former farmers who are now inactive.

When we consider German family owned agribusinesses, just 30% of all pending transitions are clear and arranged. The number of unresolved and open successions amounts to 70%. In agribusiness families, the wish for an internal family-based succession is particularly strong. However most families have neither a professional succession strategy nor any succession strategy. The consequences are frequently an external reorientation of the descendants due to uncertainty, or in the case of insufficient rules like a simple 50/50 inheritance, conflicts between the heirs mostly lead to the sale of the business and thus a failed succession.

Keywords: family business, transition, succession, conflicts, German agribusiness
JEL Classification: L26, M13, Q18,

1. INTRODUCTION
In this paper, I will ask: What can agribusinesses learn from family business research? Most agricultural companies are family businesses; therefore, they are confronted with similar challenges. Beyond that, the agricultural sector is undergoing a mayor transition. While the size of farms is growing, the number of employees is shrinking. This calls for professionalization in management. Therefore, we should consider applying the results of family business research in this context.

The structure of the paper is fourfold. First of all, I will provide some insights on family business research and the issues that can be gleaned from family businesses. Secondly, I will present some specific insights on German family businesses and German agribusinesses. Building on this, I pick out two important and interesting challenges of family businesses
and show what families can do to cope with this to achieve longevity and
success over generations. Lastly, I will sum up the current developments
in family business research in managing specific challenges and show what
can be learned from this research.

2. FAMILY BUSINESS RESEARCH
When we look into the literature, it becomes very clear that family busi-
ness research is a young field of research. The tenor of family business
literature is that family businesses are mostly under-researched (Klein
2010). Family business research has only been an independent research
area in the recent few decades. Apart from few very early works, the
beginning of the research can be dated to the 1960s and 1970s with the
exploration of the two spheres of family businesses (family and business).
The so-called two-circle model, which integrates family with business, is
the basis of most family business models today.

Since the focus of early family business research originally lay in analyz-
ing negative attributes and the typical problems of family businesses, the
focus in subsequent years shifted to the structural features and function
mechanism of family businesses.

This development resulted in numerous advancements of the original two-
circle model. Most of these models differentiated the systems of family
and business.

Besides the trend towards an analysis of the specific success factors of
family businesses in the more recent past, there is also a differentiation in
the focus of all family business related publications. Most of the a- b- and
c- journal papers are becoming specified. Generally, research interest in
family business remains in the present-day (Sharma 2006), as we can see
a significantly increased number of published journal articles as well as
an increasing number of scientific chairs and institutes all over the world
dedicated to this subject.

The American research landscape can be said to be the nucleus or pioneer
for family business research. One of the most famous family business re-
searchers, Kelin Gersick (1994), offers a four-stage categorization of the
development of family business research:
The first stage covers the first publications until the 1960s. These publications are mostly written from the individual perspective of authors and lack empirical proof.

Whereas in the second stage, more and more articles deal with the topic of succession in family businesses. This scientific discussion resulted in an increasing number of publications. This second stage lasted until the mid-1970s. The third stage is characterized by an emergence of the first scientific communities at the beginning of the 1980s. The United States of America, in particular, became a place where there was growing awareness of family businesses. During the final and fourth stage that began in the 1990s, we can observe the institutionalization of research centres and the first publication of the Family Business Review – a leading journal of family business research that is still relevant today. That means the research area of family business has been established to some extent.

A study by the University of St. Thomas showed that more than 80 research centres were founded in the United States of America in 1996 (Klein, 2003). When we compare this development with the development and current situation in Europe, we see a significant delay. Therefore, according to Gersick (1994), European family business research has yet to reach the fourth stage. In Europe, the development of family business research still stands on the threshold of third to fourth stage.

However the importance of family business in European research has grown steadily. From the political side, we can see that the European Commission (EC) appreciates family businesses as a distinct type of business by financing long-term fundamental research studies like “Overview Study of Family Business Relevant Issues” (Mandl 2008).

When it comes to the question, “what is a family business”, the literature provides a huge amount of definitions (e.g. Chua et al. 1999). Most of the definitions basically point to the interrelation of one or more families with one or more companies. The definition of the oldest German research centre for family businesses, the Witten Institute for Family Business includes exactly this (Witten Institute for Family Business Research 2009). The Witten Institute for Family Business (WIFU) defines family businesses as enterprises owned by at least one or several families who are responsible for governing the firm’s issues. The responsibility of the family is reflected
in leadership or board membership in the supervisory board. One very important point, which is regularly not included in other definitions, is the transgenerational prospect. This means a real family business involves business succession from one generation to the next. The literature does not provide definitions for specific industries like agricultural family businesses, as it mostly concentrates on the abstract characteristics of family businesses.

UNDERSTANDING FAMILY BUSINESSES
To understand what family businesses are and how they work, the so-called three-circle model is a great help (Davis and Tagiuri 1985). This model describes family businesses as social systems consisting of three spheres: the family, the business and the circle of the ownership. Different from non-family businesses, the family and the business are inseparably interconnected. It is very important to understand that each field has its own rules, and the rules are contrary in several categories (Simon et al. 2005). To give you some impression of these rules, I will cite an example. Families gain members when a person is born into a family. Family communication is mainly non-formalized, direct and oral. Transcripts of conversation at the kitchen table are unusual. Every family member has the same relevance and value. There is usually no inequality between family members. The important factor in the family is the unconditional love and bond between the family members. However, the field of business follows completely different rules. Businesses gain members through recruitment and legal contracts. A termination of this legal relationship can happen at any time. Unlike the family, communication in the business is formalized with protocols, mails and letters. At the end of the month, a salary is paid as compensation for work. The important factors in a business are money and performance. The third circle is the ownership circle, which connects the family to the company to some extent. Entrance to the ownership circle is possible through the acquisition of shares; and with the sale or inheritance of shares, people can leave the ownership circle. Communication in the ownership circle is very different from the family circle, as it is totally formalized. The most important factor in the ownership circle is the amount of shares owned.

When we compare the different logic of family and business, it becomes obvious that the rules of these two systems are conflicting and incompatible in several ways. This is especially true in communication when the
question arises as to what is just and fair between families and business. In the context of family, communication is completely different than in a business.

In family businesses, this fact becomes a very dramatic dimension, which can be described in paradoxical situations (Schlippe 2007). Paradoxical situations are defined as circumstances in which a person is confronted with two or more rules that are opposed to each other. In such a situation, following one rule means breaking the other. In family businesses, many family members do not just play one role, like being a family member or an employee in the company, but are both at the same time. I will put this in context with an example. Let’s say a family business is owned by a father because he owns the majority of the shares and works as Chief Executive Office (CEO). When he has to make a decision such as whether his daughter shall become a member of the top management, he is confronted with two decisions: (a) as a father, he wants to support his daughter unconditionally, (b) as an entrepreneur, he has to decide in the interest of the company by considering if his daughter will be a good or a bad manager. Finally, he owns the majority of the shares, and that means he has to decide to increase their value. These paradoxical situations make decisions difficult (Simon et al. 2005). In the event that the daughter is unsuitable for the job, the probability for conflict is much higher than if some external manager unconnected to the family made this decision “against” the daughter.

From this first insight into family businesses, we can see that family businesses are businesses owned and determined by one or more families. This co-evolution of family on the one hand, and business on the other hand, results in potentially incongruous situations (Wimmer et al., 2005), whereby family businesses are either very successful due to specific agency benefits like extraordinary human capital or social capital within the family, or family businesses are extremely ineffective when agency costs like nepotism, distrust and emotional family conflicts come to the fore. As family businesses can either be extremely successful or extremely destructive, they are often called two-faced.

4. THE LANDSCPAE OF GERMAN FAMILY BUSINESSES AND AGRIBUSINESSES
Family businesses dominate the German economy (IfM 2015). Although there is no standardized legal definition of family businesses, around 95%
of all German businesses can be defined as family businesses. German family businesses are responsible for about 50% of the total economic turnover, and they employ more than 60% of all German employees. These numbers show that German family businesses are mainly small and very small businesses, as just 4,000 businesses have an annual turnover of EUR 50 m or more.

Family businesses do not just dominate the industrial sector, but also the agricultural sector in Germany. However, the landscape of agricultural family businesses has changed dramatically in the last 40 years. Since the 1970s, the total number of farms has decreased from more than 1 m to less than 300,000 farms (BMEL 2015). During the same period, the average farmed land has increased from 11 hectares to 60 hectares. Employment in the farming sector has also decreased to less than one percent. These figures clearly show the dramatic structural change in the agricultural sector. In the last decades, many small farms have turned to industrial production with completely changed needs for management. Therefore, the typical German farm today can be described with the following three characteristics (BMEL 2015):

First – Almost 100 % are individual companies in the ownership of one person or one family. The property is mostly inherited. Most existing agricultural businesses today have a long history and a strong bond between one family and one farm.

Second – While the average size of farms has increased, more than 90% of ownership, management and operational control lie in the hands of one person, and most of the employees are family members.

Third – 60% of the farmed land is not owned by the farmer, but is leased from the former farmers who are now inactive.

5. KEY CHALLENGES FOR GERMAN FAMILY BUSINESSES AND AGRIBUSINESSES
I will now come to the challenges presently facing family businesses and family agribusinesses in Germany. There are two main challenges: succession, and the need to handle their inherent conflict potential in a constructive manner.
5.1. Succession

Between 2014 and 2018, approximately 135,000 family businesses in Germany will undergo a business succession process. That is 3% of all German businesses (IfM 2015). Intra-family business succession will still be the dominant mode of succession in family businesses. This means 54% of all business successions will be handled internally. That means just half of all family businesses will remain in the family. Though 90% of all family entrepreneurs prefer an intra-family succession, just 50% of all successions are family internal. The reason for that big gap lies in the fact that most of the predecessors have not arranged their succession (Lutteroth 2004).

Only 22% have set up a succession strategy or have a plan in mind to manage the succession. When we consider the average age of the German predecessors at succession, it is 66 years of age and one of the highest ages internationally. That high age makes it obvious that a huge number of possible intra-family successions will fail due to missing or late concepts.

When we consider German family owned agribusinesses, the situations look quite similar. Just 30% of all pending transitions are clear and arranged. The number of unresolved and open successions stands at 70% (Statista 2015). In agribusiness families, the wish for a family-internal succession is particularly strong. However, most families have neither a professional succession strategy nor any succession strategy. The consequences are frequently an external reorientation of the descendants due to uncertainty; or in the case of insufficient rules like a simple 50/50 inheritance, conflicts between the heirs mostly lead to the sale of the business and thus a failed succession.

Family business research offers an enormous volume of papers and studies examining the transition process, success factors and best practice recommendations on the arrangement of a successful succession process. I will briefly highlight two major success factors that are also relevant for agribusinesses:

First – Create awareness for the different needs of the successor as well as predecessor, and set up an individual succession management to integrate the early and extensive debate of the transition.
Second – A timely involvement of the potential successor is required to build up knowledge and a self-determined attitude towards the transition. Without an intrinsic endorsement of the successor, the likelihood for a successful transition is significantly low.

5.2. Conflict Potential

The second great challenge for each family business is finding a way of dealing with their inherent conflict potential without letting it escalate. Whenever people live together, conflicts are likely to arise. This is very true for family businesses as their members are socially living and working together. The famous statement that family businesses are a “fruitful and fertile environment” for conflicts is hardly surprising for anybody who lives in a family (Harvey and Evans 1994). In the literature, there is no doubt that conflicts, especially emotional conflicts in close relationships, is the top reason of diminishing family firm performance as “a family firm laden with negative affect may devote insufficient attention to business needs, thereby harming the family firm’s performance” (Eddleston and Kellermanns 2007).

In some cases, this conflict would harm the firm’s performance as well as destroy individual relationships and even whole groups and organizations. Such dramatic developments within the context of family business will lead to spectacular conflicts. In these cases, there is usually a “spill over” factor or uncontrolled outburst. When this happens, the families concerned do not manage to bring the conflicts under control within the family system. As a result, the company becomes a venue of potentially uncontrollable conflict dynamics. The destructive and undesirable consequence of this might be the failure of the family business as well as the breakup of both family and company (Großmann 2013).

Unlike the numerous studies on succession, family business research has not offered many studies in the field of conflict management. However, family business research has yielded some substantial and profound insights capable of helping family businesses develop conflict resilience and overcome their destructive conflict potential. I will again present two major success factors that are also relevant for agribusinesses:

First – Learning the specific conditions and rules of family businesses helps the persons involved better understand why they are vulnerable to specific
conflicts. Furthermore, awareness is the basis for any kind of preventive or curative conflict measure.

Second – Build up preventive as well as curative conflict measures like business and family governance systems. These governance systems should be oriented for the specific situation and requirements of a business family. For example, rules of communication, competence education, mediation or coaching can be helpful instruments in dealing with the conflict potential of business families.

6. SUMMARY
Finally, let me briefly wrap up my argument. We have seen that family business research offers multiple perspectives on the professional management of family-owned or family-governed companies. These insights can be applied to agricultural businesses to support their ongoing professionalization. Besides providing general insights into the heart of agricultural family businesses, research results can be used to implement better governmental support and regulation. Research institutes can be particularly useful in identifying efficient policies that could make company succession easier and more successful.

Family business research also offers different management techniques and tools that can be used to handle the multiple paradoxes brought about by the intersection of family and business. Understanding them is crucial to the growth of agricultural family businesses.

In addition to understanding the conflict potential, educating shareholders is a key element in sustainable successions. Family businesses have to develop their members both as beloved children and as top managers and experts. Both elements need special attention and wisdom as well as professional education and early career planning, and are essential to the success of the company, a harmonious family, economic stability and growth.

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3. NATIONAL COUNTRY STUDIES IN THE BSEC REGION
3.1 DEVELOPMENT OF THE AGRICULTURE AND AGROBUSINESS SECTORS IN ALBANIA

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ABSTRACT
For more than two decades, Albania has been implementing and developing its market economy parameters. During this period, whole sectors of the Albanian economy, including agriculture and agro-industries, underwent great changes. As part of Albanian integration in the European Union, the agricultural and agro-industrial sectors have been developed through various policies and reforms in accordance with European standards so as to make them internationally competitive. This paper is a literature review aiming to give a general picture of these two sectors that are of strategic importance in Albanian economic development. This paper will also present a SWOT analysis of both sectors to present their strengths, weaknesses, opportunities and threats. Generally speaking, the problems faced by the Albanian agricultural and agro-industry sectors do not differ from the other countries in the region. Albania has a great number of farms with small capacities, low level of mechanization and technology, poor infrastructure and weak quality standards implementation. However, both the agriculture and agribusiness sectors in Albania have potential to grow. Continuous support through EU programmes and governmental actions can strongly contribute to the further development of these sectors.
3.1.1 ALBANIAN ECONOMY AND INTEGRATION IN THE EU

Diplomatic relations between Albania and the European Economic Community were established in June 1991. In May 1992, the Agreement of Trade and Economic Cooperation was signed. The Stabilization Association Agreement came into force on 1 April 2009, followed by Albania’s request to join the European Union (EU). These incidents mark new, advanced steps in Albania-EU relations. This relationship has moved to the next critical step due to Albania achieving EU candidate status in June 2014.

In the early 1990s, before the establishment of diplomatic relations with the EU and immediately following the collapse of the totalitarian system, Albania was building a democratic society and a market economy. In the 1990s, Albania had an ambitious aim to establish a functional free market system and build the needed infrastructure after the implementation of respective policies. Before the global financial crises, official reports stated that Albania had achieved local economic stability and moved towards a macroeconomic system. Albania’s inflation and budget deficit were comparable to those of EU countries (Bogdani and Loughlin 2007). At the time, Albania was also considered one of the fastest growing economies as it enjoyed real average annual growth rates of 6%, accompanied by rapid reductions in poverty. The world financial crisis was also reflected in the Albanian economy. Thus, after 2008, average growth halved, and macroeconomic imbalances in the public and external sectors emerged. Growth reached 1.6% in 2013, while inflation remained low due to the negative output gap and external inflationary pressures. Unemployment rose from 12.5% in 2008 to 16.9% in 2013. In spite of the growth of imported goods vis-à-vis exports, the trade deficit fell in the last four years. In 2013, exports comprised about 40% of GDP from 33% in 2012 (Table 1). Nevertheless, Albania made progress in becoming a functioning market economy. In the medium-term, Albania should be able to cope with competitive pressures and market forces within the EU (European Commission 2014).
Table 1. Key macroeconomic indicators

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<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tr>
<td>GDP (current prices, million ALL)**</td>
<td>1,143,936</td>
<td>1,239,645</td>
<td>1,300,624</td>
<td>1,335,488</td>
</tr>
<tr>
<td>Annual real growth of GDP (%)</td>
<td>3.4</td>
<td>3.7</td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>14.5</td>
<td>13.8</td>
<td>16.4</td>
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<tr>
<td>Average monthly wage (ALL)</td>
<td>43,627</td>
<td>46,665</td>
<td>50,092</td>
<td>52,150</td>
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<tr>
<td>Headline inflation (%) BoA*</td>
<td>3.6</td>
<td>3.5</td>
<td>2.0</td>
<td>1.9</td>
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<td>Export (million EUR)</td>
<td>1,171.5</td>
<td>1,405.5</td>
<td>1,525.6</td>
<td>1,756.2</td>
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<tr>
<td>Imports (million EUR)</td>
<td>3,254.2</td>
<td>3,647.1</td>
<td>3,524.8</td>
<td>3,475.9</td>
</tr>
<tr>
<td>Trade Balance (million EUR)</td>
<td>-2,082.7</td>
<td>-2,241.6</td>
<td>-1,999.2</td>
<td>-1,719.7</td>
</tr>
</tbody>
</table>

Source: INSTAT, 2014,

*Bank of Albania (BoA), 2014

** Exchange rate: 1 EUR = 140 ALL

3.1.1.1 CHARACTERISTICS AND PROBLEMS IN THE AGRICULTURE AND AGROBUSINESS INDUSTRIES IN ALBANIA

Agriculture

Agriculture is considered one of the key sectors in the Albanian economy. It contributes 19% to GDP. Arable land makes up 24% of the country’s total surface (696,000 ha). As in other Eastern European countries, the fall of communism in Albania brought about the destruction of the agricultural cooperatives, which used to be under state ownership. It also brought an end to the redistribution of arable land to the farmers. (Zhllima and Guri 2013, 18-34). Crops are currently cultivated in 351,0000 farms in the Albania; i.e. in 98% of the total number of farms in the country. 86% of farms combine agriculture with livestock. 45% of farmers are developing orchards. At present, family farms dominate the agricultural sector in Albania. 95% of farmers possess arable land smaller than 2 ha, and the average area of family farms in Albania is 1.2 ha. As these figures show, small-scale farming prevails in Albania. This limits the quantity produced, economic growth and profitability (FAO 2014, 90–92).

The import-export data in the agricultural sector (livestock included) shows that imports greatly exceed exports. However, in the last four years, there has been an annual decrease in the negative values of the market balance (Table 2). The most exported goods are vegetables like tomatoes, onions and medicinal plants, whereas fruits and cereals such as wheat,
rice and barley form the bulk of the imports. Like other commodities, the key trade partners for the abovementioned goods are the EU and West Balkan countries.

Table 2. Key figures of the Albanian agricultural sector

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution to GDP (%)</td>
<td>16.8</td>
<td>18.0</td>
<td>18.2</td>
<td>18.9</td>
</tr>
<tr>
<td>Average monthly wage (ALL)</td>
<td>38,150</td>
<td>40,570</td>
<td>45,627</td>
<td>47,125</td>
</tr>
<tr>
<td>Employment (%)</td>
<td>45.7</td>
<td>46.2</td>
<td>44.2</td>
<td></td>
</tr>
<tr>
<td>Imports (million ALL)</td>
<td>32,360.2</td>
<td>33,573.1</td>
<td>31,883.2</td>
<td></td>
</tr>
<tr>
<td>Exports (million ALL)</td>
<td>5,451.8</td>
<td>6,565.2</td>
<td>7,273.7</td>
<td></td>
</tr>
</tbody>
</table>

Source: INSTAT, 2014

More than half the Albanian population live in rural areas and engage in agricultural activities. The official statistics for 2014 show that about 43% of the Albanian workforce is employed in the agricultural sector (INSTAT 2015). From 1991 to the present, the rural population has decreased due to local and international migration. Official statistics show that at the end of 1990, 70% of the population lived in villages. Since the majority of those who migrated are young, the reduction of the rural population is accompanied by the reduction of the workforce in the countryside. It also means that the aged population in the rural areas has increased, and the average level of education in the rural areas has decreased. Many young people migrate from rural to urban areas because of greater opportunities for employment and education. Only about 40% of people aged 20-64 in the rural areas have reasonably high levels of higher academic education, while 60% have had junior or senior primary education (MARDWA 2013). This is a weakness in the Albanian agricultural sector, but it could also because Albania has a dense population of young people in both urban and rural areas.

A good number of families with family farms make money not only from farm produce, but also from tourism and remittances. In Albania, about 81% of people make money from remittances. In recent years, there have been a growing number of emigrants who have returned to Albania to invest their money and knowhow in the agricultural endeavours in their local areas. Their homecoming may have been due to the global financial crises, especially in Greece, Italy and other neighbouring countries where
the vast majority of Albanian emigrants are concentrated. According to Gedeshi and Zwager (2012), 16.5% of emigrants consider returning to Albania and 15% intend to invest in agriculture. In fact, remittances are related not only to the abovementioned points, but also with the improvement of living standards and the consumption of high value-added agricultural products (Reed and Skreli 2013, 52-74).

While Albanian farmers make their own decisions according to market conditions, most of their produce is for domestic consumption by the family. By 2000, agricultural production experienced an upswing. In 2012, the agricultural production value reached ALL 186.2 bn. Within the agricultural sector, the main sub-sectors are livestock, and arable plants and vegetables. In 2013, the production of cereals and vegetables increased by 37.5% and 35% respectively. The increase in vegetables production was mainly due to the increase in greenhouse production. Meat and milk production also increased in 2005-2013. In 2013, milk production increased by 5% compared to 2005, and meat production rose by 15%. In 2013, the milk production from cows formed 85% of the total, whereas milk from sheep and goats comprised 7% each. The meat from cattle made up 46% of the total, whereas meat from sheep and goats was 26%, and pork and poultry production was 14% each (Table 3). Most cattle farms in Albania specialize in milk production; cattle farming for meat is less common. Other products contributing to the Albanian agricultural sector include olives, honey and eggs. Olive production increased almost 2.5 times in 2013 compared to 2005. The significant increase in olive production is related to subsidies in the sector, and the fact that there was a marked expansion of plantations stimulated by national support schemes in 2007. Due to the national support schemes, the number of olive plantations has risen by about 60% since 2007.
Table 3. Field crop and livestock production in ‘000 tonnes

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>511.2</td>
<td>507.5</td>
<td>629.9</td>
<td>693.8</td>
<td>701.1</td>
<td>696.8</td>
<td>702.9</td>
</tr>
<tr>
<td>Wheat</td>
<td>260.0</td>
<td>230.9</td>
<td>333.1</td>
<td>294.9</td>
<td>292.8</td>
<td>300.2</td>
<td>294.0</td>
</tr>
<tr>
<td>Vegetables</td>
<td>684.9</td>
<td>687.5</td>
<td>730.0</td>
<td>860.4</td>
<td>890.2</td>
<td>914.0</td>
<td>924.0</td>
</tr>
<tr>
<td>Olives</td>
<td>36.2</td>
<td>30.2</td>
<td>48.0</td>
<td>70.0</td>
<td>65.4</td>
<td>108.0</td>
<td>92.0</td>
</tr>
<tr>
<td>Milk from:</td>
<td>1,076</td>
<td>1,102</td>
<td>1,045</td>
<td>1,070</td>
<td>1,101</td>
<td>1,105</td>
<td>1,131</td>
</tr>
<tr>
<td>Cows</td>
<td>930</td>
<td>956</td>
<td>907</td>
<td>930</td>
<td>955</td>
<td>957</td>
<td>969</td>
</tr>
<tr>
<td>Sheep</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>77</td>
<td>79</td>
<td>81</td>
<td>84</td>
</tr>
<tr>
<td>Goats</td>
<td>71</td>
<td>71</td>
<td>63</td>
<td>63</td>
<td>67</td>
<td>67</td>
<td>78</td>
</tr>
<tr>
<td>Live weight</td>
<td>133</td>
<td>137</td>
<td>143</td>
<td>145</td>
<td>148</td>
<td>150</td>
<td>153</td>
</tr>
<tr>
<td>Cattle</td>
<td>68</td>
<td>69</td>
<td>66</td>
<td>68</td>
<td>79</td>
<td>69</td>
<td>70</td>
</tr>
<tr>
<td>Sheep/Goats</td>
<td>41</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>65</td>
<td>48</td>
<td>40</td>
</tr>
<tr>
<td>Pigs</td>
<td>15</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>17</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Poultry</td>
<td>9</td>
<td>10</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Eggs (in millions)</td>
<td>738</td>
<td>716</td>
<td>811</td>
<td>846</td>
<td>857</td>
<td>887</td>
<td>830</td>
</tr>
<tr>
<td>Honey</td>
<td>1,816</td>
<td>2,114</td>
<td>2,745</td>
<td>2,886</td>
<td>2,898</td>
<td>3,000</td>
<td>3,016</td>
</tr>
</tbody>
</table>

Source: INSTAT, 2014

The field crop and livestock production conditions as well as the basic characteristics of the agricultural sector in Albania were subjected to Strengths, Weaknesses, Opportunities and Threats analyses (SWOT analyses). Albania’s Mediterranean climate and fertile land are strengths of the sector, as both factors facilitate the production of high value agricultural products (Imami et al. 2009), and foster greater profitability and increased chances for export (MAFCP 2011). On the other hand, land fragmentation, smallholding and the informal economy (estimated by CIA to be more than 50%) make for the lack of vertical integration, as well as the weak implementation of relevant quality managements standards and consumer health protection rules. Other problems facing Albanian farmers nowadays are low availability of agricultural machinery, poor infrastructure, lack of credit and market information system. All these problems are reflected in both the quality and quantity of agricultural production.

In addition to actual threats like the ageing of the rural force, shadow economy, urbanization, etc., the lack of land market is also a serious problem. The lack of land market is inexorably linked to perceived land in-
security, as well as the farmers’ limited access to land sale rights, and perceived high costs of formal arrangements and complex administrative procedures (Zhllima and Guri 2013, 18-34; Lusho and Papa 1998; Stahl et al. 2009, 55-64; Zhllima et al. 2010, 56-64). On the other hand, the Albanian agricultural sector offers some good opportunities for further development. In recent years, there has been noticeable improvement in service extension as well as an increase in research capacity in the fields of economy and agriculture in Albania. In fact, the state extension service has been continuously improved in recent years. So far, the state has played the role of an agent institution in implementing agricultural national strategies instead of directly offering assistance in production and marketing to the farmers (Daku 1997). The latter has been and continues to be an object for private operators and donor organizations. The legal recognition of public universities as research and technology transfer centres is an indication of research expansion from which farmers can greatly benefit. Albania integration into the EU and implementation of the Instrument for Pre-accession Assistance in Rural Development (IPARD) offer investors many incentives. The integration process and Albania’s achievement of EU candidate status has encouraged the Albanian government to develop reforms and support policies in the agricultural sector aimed at sustainable development and increasing competitiveness.
SWOT Analyses of the agricultural sector in Albania

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Fertile land and Mediterranean climate</td>
<td>• Smallholdings, land fragmentation and weak land markets</td>
</tr>
<tr>
<td>• High level of remittances</td>
<td>• Low availability of agricultural machinery</td>
</tr>
<tr>
<td>• Large labour force</td>
<td>• Lack of vertical integration</td>
</tr>
<tr>
<td>• Shift towards producing agricultural products with higher profitability and export potential</td>
<td>• Weak enforcement of quality assurance and health standards</td>
</tr>
<tr>
<td></td>
<td>• Poor infrastructure</td>
</tr>
<tr>
<td></td>
<td>• Lack of credit, extension and market information systems</td>
</tr>
<tr>
<td></td>
<td>• Informal markets and taxation issues</td>
</tr>
<tr>
<td></td>
<td>• Decreasing educational profile among the rural workforce</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• EU integration provides incentives and guidelines for sector improvement</td>
<td>• Pervasive shadow economy and corruption at local and national level</td>
</tr>
<tr>
<td>• Government focus on agribusiness sector and land consolidation</td>
<td>• Absence of land markets especially in rural areas</td>
</tr>
<tr>
<td>• High and growing domestic demand for high value, labour intensive products such as fruits and vegetables, and medicinal plants</td>
<td>• Urbanization and cross-border migration of farm labour</td>
</tr>
<tr>
<td>• High demand abroad for agricultural products</td>
<td>• Aging of rural workforce</td>
</tr>
<tr>
<td>• Increased demand on non-traditional tourism development such as farm and countryside tours</td>
<td>• Competition from high quality imports</td>
</tr>
<tr>
<td>• Access to high quality agriculture-related technical and management skills via overseas training</td>
<td></td>
</tr>
<tr>
<td>• Agricultural and economic research capacity growing</td>
<td></td>
</tr>
</tbody>
</table>

Agribusiness industry

The agribusiness sector developments started in the 1990s. When the communist system fell, the state-owned companies were closed. After the state-owned companies were privatized, market economy elements emerged. Currently, all companies operating in the agribusiness industry are privatized. In 2013, there were 2,336 private companies in the agribusiness sector. 90% of these companies are small and medium-sized ones (CEC 2009). Most of the agribusiness companies are located in Central and Western Albania, specifically in Tirana, Fieri, Vlorë and Durrës. Flour and bread production, and milk and meat processing are the key sub-sectors in Albania’s agribusiness industry. These sub-sectors comprise the vast majority of the companies operating in the agribusiness industry;
they also provide the most employment in the sector and bring in the highest levels of investments. In 2013, these sub-sectors made up 80% of all the companies in agribusiness, 60% of the agribusiness workforce and 70% of total agribusiness investments (Table 4). The fact of the matter is that most investments in agribusiness in Albania come from the entrepreneurs’ own savings. However, in 2013, the investment reports underwent noteworthy changes. Thus, there has been an increase in agribusiness companies’ financial access to both Albanian banks and foreign financial institutions in 2015. Specifically, investments financed by banks made up about 29%, which is a noticeable increase from 18% in the previous year. Foreign loans made up 20%, increasing dramatically from 2% in 2012. Investments made from business owners’ own savings in 2013 made up more than 50%, down from 80% in the previous year.

Table 4. Basic figures of the main sub-sectors of Albanian agribusinesses in 2013

| Sub-sector               | Enterprises Number | Employment Number | Investments ALL |
|--------------------------|--------------------|-------------------|-----------------
| Flour and Bread Production | 1,441              | 4,681             | 251,826        |
| Meat Processing          | 108                | 1,610             | 376,348        |
| Milk Processing          | 332                | 1,224             | 277,940        |
| Other                    | 455                | 4,254             | 384,94        |
| Total                    | 2,336              | 11,769            | 1,290,709      |

Source: Self-elaboration based on the statistics of the Ministry of Agriculture, Rural Development and Water Administration (MARDWA).

In general, Albanian companies in agribusiness differ from their European counterparts in that they are small-scale. Thus, they cannot meet the need of local consumers, and this puts their trade balance into the negative. According to data from the Ministry of Agriculture, Rural Development and Water Administration (MARDWA), the import value in 2013 was almost 7 times higher than exports (imports made up ALL 55,216,000, and exports made up ALL 7,946,000). Albania’s key trading partners are Italy and Greece, as well as regional countries like Kosovo, Montenegro, Macedonia and Serbia (Gabeta and Dhimitri 2012).

A SWOT analysis of the food processing industry in Albania shows that it is similar to that of agriculture, and is very dependent on the latter’s development (Table 6). Thus, low level technology and poor infrastructure remain obstacles to further development of the agribusiness sector as
well. The same can be said for competition from imports, and corruption at national and local level. On the other hand, the quality of agribusiness products is strongly related to the quality of the raw materials. Because of the lack of necessary equipment and machinery, agricultural production in Albania does not meet the quality and quantity requirements. Hence, most raw materials are imported because they are cheaper than those produced domestically.

Food safety, the completion of relevant standards and quality certification are broad issues that need proper attention. In Albania, different points related to those abovementioned issues are both weaknesses and strengths in agribusiness. In recent years, there has been an increased awareness of the implementation of quality standards in the food sector. 75% of the representatives of food and beverages companies in Tirana are aware of the need for the implementation of standards and certification to assure quality of their products (Kapaj 2012). There has also been an increasing number of certified agribusiness companies in Albania in recent years. Still, the number of certified companies is small compared to the total number of existing companies in the agribusiness sector. The establishment and operation of the National Food Authority is an added guarantee to healthy food and the implementation of food safety laws.

**SWOT Analyses of the food processing industry in Albania**

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weakness</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Low labour costs</td>
<td>Lack of management experience (enterprises are very young)</td>
</tr>
<tr>
<td>Business orientation and entrepreneurship</td>
<td>Low supply of raw materials due to VAT, exemption of farmers' tax</td>
</tr>
<tr>
<td>Food safety agency established and operational</td>
<td>Low level of technology</td>
</tr>
<tr>
<td>Small-scale production systems</td>
<td>Low law enforcement in food safety</td>
</tr>
<tr>
<td>Weak financial position and lack of access to financing</td>
<td>Certification bodies not accredited, leading to higher certification costs when exporting</td>
</tr>
</tbody>
</table>

**Opportunities**

- Low labour costs
- Consolidation in primary production and trade
- Improvement of product quality
- Certification with quality management systems and hygiene standards

**Threats**

- Competition from imports
- Corruption
- High costs of domestic production
- Infrastructure

Source: GFA, 2010
CONCLUDING REMARKS
It has been 25 years since Albania made the transition to a democratic society and free market economy. During the transition period, the economy as well as the agriculture and agribusiness industries underwent major transformations. These transformations have been continuously encouraged and supported in the framework of Albania’s integration into the EU; it is a process that is rendered all the more important now that Albania has obtained candidate status in the EU.

The characteristics and problems of the Albanian agriculture and agribusiness industry are also visible in the regional countries, especially those with similar historical development. In Albania, agriculture plays a key role in the economy due to the agricultural contribution to GDP as well as the great number of people in the rural areas. The agricultural sector is broadly supported by family farms and small-scale production systems; these elements influence the lack of vertical integration and have resulted in limited access to credit and other problems faced by Albanian farmers today. The problem related to commercialization and marketing of farm produce stems from low availability and poor access of farmers to agricultural machinery and poor infrastructure. Despite these problems, Albanian agriculture still has potential to grow. For example, the large labour force and high level of remittances can strongly contribute to the development of the agribusiness sector. Similarly, incentives and guidelines provided by the EU in the integration process can also ensure that the government is engaged in designing and implementing proper policies to reduce barriers to the development of the sector.

The agribusiness industry plays an important role in the development of the Albanian economy, even though it is different from the agricultural sector. SMEs in Albania are mostly engaged in flour and bread production, and milk and meat processing. While agribusinesses have low levels of technology, weak access to financing, competition from imports and corruption, they also face other problems like the high cost of domestic produce. A key issue in agribusiness and Albanian exports is the implementation of technical regulations and the management of quality standards to guarantee food safety and quality, and facilitate the internationalization of the respective produce. Although important steps have been taken so far, more needs to be done in this respect.
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3.2 SMEs AND SMALL FARMS IN AGribusiness in Armenia

Rshutn Martirosyan  
Expert, National Assembly, Republic of Armenia

ABSTRACT

Agriculture is one of the most important segments in the Armenian economy. Armenia has overcome more than seven decades of state monopoly of land, and privatized the main means of production. Armenia has also instituted a legislative basis for various forms of ownership. The agriculture sector provides approximately 21.0% of GDP. Food processing is one of Armenia’s leading economic sectors, and is a high priority for the government because it provides 6% of GDP.

The characteristics of these two segments will be presented; their perspectives will be described, and suggestions for development will be provided.

Keywords: Armenian agriculture and food sector, agrarian government infrastructure, SME DNC, Fund for Rural Economic Development in Armenia (FREDA)
JEL Classification: O13, L53, Q18

3.1.2 Role and Size of Agribusinesses in Armenia and Food Processing in the Overall Economy.

The agriculture and food sector is one of the most important industries in Armenia’s economy. The agrarian sector is crucial to the country’s economic development, implementation of food safety regulations, and overcoming rural poverty. Armenia is remarkable because it has made unprecedented steps towards agrarian reforms before the collapse of the Soviet Union. After the fall of communism, Armenia overcame more than seven decades of state monopoly of land, and privatized the main means of production. Armenia also instituted a legislative basis for various forms of ownership, liberalized prices, and developed the banking system as well as production and social infrastructures. These reforms were implemented at a time when the economy was still finding its feet, external communication with the outside world was limited and the Artsakh Liberation War was still ongoing. Armenia met those challenges, while maintaining internal stability and developing active political and economic relationships with a large
number of countries and international agencies. Although many problems remain in the agri-food sector, the Armenian President and his government are working on resolving them through the implementation of specially designed agrarian policies.

In Spring 1991, Armenia was one of the first former Soviet republics to realize the importance of the agricultural sector. This realization came prior to the country’s declaration of independence. Upon this realization, the country launched a policy to privatize agricultural land, other means of agricultural production and service infrastructures. As a result, a market-driven liberal economic system has now been established in the agri-food sector. The agri-food sector now has about 340,000 private farms (each of them has about 1.4 hectares of agricultural land), numerous commercial agricultural organizations and a large number of private companies involved in agricultural services, marketing and the processing of agricultural products. Currently, the agricultural sector is one of the most important branches of the Armenian economy because it provided approximately 21.0% of the country’s Gross Domestic Product (GDP) in 2014. Land users in agricultural production are mostly private farmers, who own 71.7% of privatized arable lands, 78.3% of perennial crop areas, and 48.4% of grasslands.

As a result, the private sector produces over 99% of the gross agricultural product. In the country’s new system of economic management, land use has been radically changed. Some changes are the division of cultivated areas into more than 1.2 million plots, and the modernization of agricultural production and service infrastructures. International experience has shown that the development of other industries and the application of intensive technologies in the agriculture sector reduce the number of producers, enlarge land areas per farm, decrease the number of economic entities and increase productivity. These patterns, however, do not have striking implications yet. Therefore, expansion and enhancement of competitiveness in agricultural services and market infrastructures should contribute to effective operations on small land plots. This, along with the development of farm cooperation and land consolidation, is the most effective way to eliminate the constraints caused by small plots of land. To achieve this, the Armenian Government has implemented projects to develop irrigation systems, land improvement, pasture irrigation, integrated pest management, and rural infrastructures.
Due to these pro-agrarian development projects, positive results can be seen in cereal, potato and vegetable production, horticulture and animal husbandry. Companies involved in the production and processing of agricultural products have also expanded their contractual relationships with small and medium-sized entrepreneurs. This has created reliable prerequisites for increasing production volume and the profitability of tomato, fruit, grape, and milk production. As a result of capacity building, application of new technologies, and activation of marketing processes in the grape processing industry in recent years, demand for the raw product has notably increased and new vineyards are planted. These effective management practices, which have been adjusted to the requirements of the export markets, led to a twelvefold increase in the export of alcoholic and soft beverages in 2014 compared to 1996-1998.

During the first years of agrarian reform, the production capacities of animal husbandry were dramatically reduced. The rehabilitation of the production potential in this sector was a costlier and long-term process. Nonetheless, the great market demand for milk, meat, wool and eggs, the expansion of crediting opportunities, the implementation of anti-epidemic measures and improvement of veterinary services have promoted stability in the animal breeding sector, with poultry and pig breeding yielding high development rates. These sectors use modern technologies. In 1991-1997, the use of production capacities and production volume in the agricultural raw product processing system was dramatically decreased. However, starting from 1998, the situation noticeably improved due to additional investments, enhancement of the competitiveness of products, and expansion of export. In 2013, the food industry contributed to 38.3% of Armenia’s gross industrial product and made up 51.8% of output in the overall processing industry. Implementation of policies in agricultural product processing and the increase in export volume has definitely contributed to successful agricultural product marketing and resulted in the enhancement of farm commercialization. Another critical achievement is the economic entities’ change in work ethic and mentality; producers are no longer totally reliant on the government for solutions to their production problems. This has created sufficient economic prerequisites for deepening the reforms in agriculture and ensuring its sustainable development.
Agricultural development, 2008-2014

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added in agriculture, y-o-y % change</td>
<td>3.3%</td>
<td>6.0%</td>
<td>16.0%</td>
<td>14.0%</td>
<td>9.5%</td>
<td>6.2%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Value-added in agriculture, % of GDP</td>
<td>16.3%</td>
<td>16.9%</td>
<td>17.0%</td>
<td>20.3%</td>
<td>19.1%</td>
<td>19.5%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Employment in agriculture, thousand persons</td>
<td>-</td>
<td>-</td>
<td>457.4</td>
<td>457.4</td>
<td>437.2</td>
<td>437.3</td>
<td>437.5</td>
</tr>
</tbody>
</table>

Food processing is one of Armenia’s leading economic sectors and is a high priority for the government. The sector’s strengths include the high quality of local agricultural products, modern production capacity, availability of qualified workers, and relatively low labour costs. Experts consider the Armenian food processing sector to have high development potential, particularly through the promotion of foreign cooperation and investments. Armenia’s food processing industry makes up about 6% of its GDP, or USD 900 m, with an annual growth rate of 10% over the past five years. Exports of Armenian processed foods have been increasing immensely over the last five years at a rate of 30% per annum for all sub-sectors. Investments in the sector amount to about 45% of the country’s total industrial investment. As the sector continues to experience this rapid growth, significant efforts are underway to implement legislative and institutional reforms that will improve the quality and safety of food produced in Armenia as well as boost export volumes and geographical expansion. There are opportunities for manufacturing high value and organic production, processed and unprocessed fruits and vegetables with modern packaging in compliance with international food safety standards.

Armenia’s food processing industry is one of the country’s most vital economic sectors and the driving force for the development of the agricultural sector.

According to the Republic of Armenia’s Law on Agriculture and Agriculture Collective Farms:

- An agricultural farm is a self-organized independent unit of agricultural food production based on public ownership.
• A collective agricultural farm (also known as a cooperative) is an independent agricultural food production unit, based on collective ownership.

3.2.2. SECTOR DEVELOPMENT PERSPECTIVES AND SUGGESTIONS TO GOVERNMENT AND LOCAL AUTHORITIES

• Agriculture and village perspective development visions include:
  1. Development and integration of commercial agricultural organizations, cooperatives and family farms with market infrastructures through application of intensive technologies.
  2. Stable food security of the population and meeting demands for raw materials in agriculture processing through realistic combinations of food security interests and comparative advantage of external trade of agriculture and food products.
  3. Increase of gross agricultural product due to increase in labour productivity, comparative reduction in the number of people employed in agriculture and use of part of the surplus workforce in non-agricultural areas such as agriculture service and trainings.
  4. Processing of produced raw agricultural materials at SME production units.
  5. Production of high value-added agricultural products in the plant cultivation and animal husbandry intra-branch structure.
  6. High level of food security of the country’s population, ensuring self-sustainability for basic foodstuff, reduction of rural poverty and migration.

• Industrialization is the key approach to modern agriculture development, as it means increased productivity, better compliance with agro-technical requirements, and effective application of modern technologies and management systems.

The following can address this issue:
  1. Farms’ resource potential should be put to improved use so that production will be intensified. One example of this is making full use of arable land so as to increase crop production and improve animal productivity.
  2. Promotion of non-agricultural employment, crafts and processing of agricultural products should occur in tandem with the creation of agricultural services and agro-tourism in rural areas.
• In the future more importance will be attached to the support given to seed production development, pedigree animal husbandry, implementation of state-supported programmes in those spheres, as well as the improved quality of plant protection and veterinary assistance mechanisms. To solve the problems associated with the development of cattle breeding and cropping, the following should be implemented:

1. Public assistance projects in primary seed production, renewal of plant breeds and seed provision.
2. Complex measures to ensure that plants are protected against pests.
3. Technical recovery of presently operational artificial insemination stations in the Republic of Armenia and full utilization of their capacities.
4. Widespread application of artificial insemination, training specialists in this field and exchanging experiences with other experts in this field.
5. Development and implementation of projects controlling unexpected agricultural animal deaths. To do this, it is important to implement activities aimed at the prevention of unexpected animal deaths. Strategic measures should also be revised for that purpose. This can be done by taking into account international experience and applying it to local conditions.

• To improve designated use of arable lands, it is important to:

1. Implement programmes introducing targeted subsidies earmarked for land cultivation in most unfavourable areas; continue subsidizing prices of the most important resources used in the sector, as well as improve the mechanisms for their implementation.
2. Improve servicing of agricultural equipment.
3. Implement projects for the mutual utilization of segmented lands by applying different motivating techniques such as loans, grants, state programmes and so on.
4. Carry out measures to convert degraded land areas into plots suitable for agricultural turnover
5. Found field protecting forests in communities.

• To address the problem of coordinated and targeted use of natural feeding areas particularly pastures and hayfields, the following should be done:

1. Develop programmes to improve the effective use of natural feeding areas.
2. Implement schemes to coordinate the effective use of pastures and hayfields.
3. Implement state-supported programmes to irrigate pastures as well as road rehabilitation to ensure access to and from pastures.
4. Promote the creation of “cooperatives of pasture users” and supporting their activities.

- Agriculture policy should envisage the improvement of business forms. In particular, the policy of encouraging and promoting cooperation should be adopted. The four directions below are most appropriate for the development of cooperation:
  1. Improving and supplementing the legislation.
  2. Applying mechanisms for the economic promotion of cooperation development.
  3. Improving farmers’ awareness of the principles and advantages of cooperation.
  4. Creating institutional structures promoting the development of cooperation in agriculture.

- Marketing of agricultural products can be improved in the following ways:
  1. Development of regulated wholesale markets of agricultural products, collection spots, and promotion of activities through agricultural product marketing information centres.
  2. Creation of agricultural product fairs in big Armenian cities and ensuring that they carry out their activities properly.
  3. Establishing long-term and mutually beneficial contractual relationships between processors of agricultural products and their producers.
  4. Promoting the export of agricultural products.

- The following activities would improve agriculture production and technical services:
  1. Continue negotiations with international companies producing and supplying agricultural machinery in order to provide agricultural businesses with affordable adequate machinery under leasing mechanisms. In particular, leasing prepayment and interest subsidizing mechanisms should be applied.
  2. Local representation of international agricultural machinery produc-
ing companies, and structures/agencies dealing with maintenance and assembling of agricultural machinery should be created.

3. Promote the creation of structures for joint use of agricultural machinery in rural areas.

- For the effective use of agricultural resource potential, special focus should be given to the creation of greenhouses in farming entities. The following activities are planned in this regard:
  1. Provision of tax privileges for the import of main equipment and construction materials needed for the creation of greenhouses.
  2. Provision of affordable targeted loans for the creation of greenhouses for farmers.

- One of the key challenges faced by agriculture is improvement of the registration and census system. The following should be done to address the problem:
  1. Implementation of a general agriculture census programme aimed at the collection of reliable information on the structure of agriculture, particularly farming lands, number of animals, agriculture machinery, farming structures, human and material potential, as well as reliable information of their use broken down according to marz (region) and community.
  2. Improve the registration system by implementation a general agriculture administrative register.
  3. Implementation of an agricultural animal recording, inventory and numbering system.

- The development of stable agriculture requires an improved irrigation system that can be achieved through the following:
  1. Using a gravity-based water supply system instead of a pumping one.
  2. Implementing new irrigation technologies that will save water. One such technology that will do this is drip irrigation.

- Instituting a system of guaranteed prices for key agricultural products is one of the forthcoming goals in agriculture. The following activities must be done if this goal is to be achieved:
  1. Mechanisms for the implementation of a system of guaranteed prices for key agricultural products should be developed.
  2. Legislation ensuring the application of guaranteed prices should be adopted and enforced.
• Modern technologies are needed in seed production, animal breeding and the processing of agriculture products. Modern technologies can be implemented in those fields through these methods:

1. Providing affordable target loans.
2. Implementing competition grant programmes.
3. Promoting modern technologies in credit programmes.
4. Technical modernization and the upgraded application of leasing mechanisms should be in line with the specifics of agriculture.

• The food safety system has to be further developed. Some ways of doing that are:

1. Revising legislation to promote the implementation of relevant actions and encourage the exchange of food security, veterinary and plant health information at the interstate and international levels. I recommend that this should be done with the cooperation of the Customs Union.
2. Customizing food safety standards, as well as international and interstate veterinary and phytosanitary standards through the implementation of safety systems, procedures and principles.
3. Implementation of proper food production hygiene and manufacturing practices. This can be done through an analysis of risk sources by the hazard analysis and critical control points (HACCP) system. Another way of ensuring quality is for the state to support and implement the ISO 22000 food safety management standard.
5. Ensure that all workers in charge of food safety go through proper training and education.
6. Construction and utilization of slaughterhouses across the country.
7. Improve regulations regarding genetically modified organisms (GMOs) through legislation to ensure that consumer rights are protected and that there are no threats to human life, human health, animals and biodiversity.
8. Development and implementation of monitoring programmes to control the use of pesticides, hazardous organisms, veterinary methods, allergenic substances, food additives and GMOs in imported and locally produced food.
• Improving access to credit can help to address the challenges faced by agriculture. Access to credit can be improved through the following activities:

1. Improvement of mechanisms subsidizing interests. This will lead to better access to credit. Also, programmes specially targeting businesses and specific zones should be implemented.

2. Credit programmes targeting modernization, technical upgrades and the improvement of food safety levels should be implemented.

• The following should be adopted to mitigate agriculture risks:

1. Introduction of an insurance system. Before such a system can be adopted, a programme evaluating insurance-related risks in the agricultural sector should be implemented. After insurance-related risks are evaluated, mechanisms for the introduction of an appropriate insurance system should be developed. After an appropriate insurance system has been formulated, it should be implemented through the phase-by-phase approach.

2. Hail protection stations and other institutions protecting areas from naturally occurring phenomenon should be expanded. The effectiveness of hail protection stations should be improved. These stations should also be supported by the implementation of other hail protection measures.

• Rural development has to be improved as well. To that end, non-agricultural jobs should be created to increase the share of non-agricultural incomes in the rural population. Non-agricultural jobs that will accomplish this are jobs related to the processing of agricultural products and agriculture servicing.

• To improve the effectiveness of the non-agricultural job sector, the following steps should be taken:

1. There should be targeted and consistent investments in road building so as to connect border villages to regional centres.

2. A regular electricity supply at a relatively low cost is a must. To achieve this, alternative energy sources must be utilized in mountainous and border villages. Some examples of alternative energy sources in rural areas are solar power, gravity, underground cables and water mills.

3. Special agriculture machinery suited to mountainous landscapes should be purchased. The government should also look into developing, maintaining and assembling these machineries in the country.
4. Small nature-friendly farms processing agricultural products by packaging, freezing and storing should be established.
5. Small businesses such as carpet weaving, embroidery, pottery, wood carving, ceramics and handicrafts should be set up.
6. Small domestic service centres should be renovated and opened.

- The following are needed to boost agriculture product processing and exports:
  1. Simplified customs clearance for imports.
  2. The state should develop an Armenian trademark. Only goods deemed competitive by the state should have this trademark.
  3. The state must support and fund attractive pavilions at international exhibitions to exhibit Armenian goods.
  4. Long-term loans should be provided under state guarantees.
  5. Simplify documentation used in agriculture goods production and processing. I recommend creative accounting to exclude false documentation and the forced acquisition of goods.
  6. Products of food processing companies in Armenia should be marketed in foreign countries. This can be done by creating a structure to support the export of these products.
  7. Armenian operations should be regulated so that they align with European standards at border crossing points.

- The implementation of the activities above will improve agricultural productivity and constant absolute employment rates. If these activities are implemented, productivity in the agricultural sector should twice exceed the levels of 2014 by 2021. Also, related sectors in agriculture will definitely improve and non-agricultural employment in the rural areas will increase.

3.3.3. AGribusiness and SME Support Institutions in Armenia

MINISTRY OF AGRICULTURE
The Armenian Ministry of Agriculture is an executive body that develops and implements the government’s agriculture and forestry management policies. The main goals of the Ministry are developing and implementing the economic policy of the government of Armenia in the agri-food sector, supporting the marketing activities of local producers, promoting produc-
tion, boosting exports, and ensuring the continuous development of the food processing sector.

To achieve these goals, the Ministry has developed sector-related programmes and is carefully monitoring their implementation. To further develop policies in the agricultural sector, the Ministry has developed projects to introduce advanced technologies and innovation, and monitor their implementation.

The Food Processing Sector Development Department, a subdivision of the Ministry of Agriculture, is responsible for assisting food processing companies, scientific institutions and agricultural support centres to ensure that they operate efficiently. The main functions of the Department are:

- Elaborating food-processing development state policies;
- Providing support in the procurement of agricultural raw materials for processing;
- Developing strategic plans, concepts, legal and other acts based on complex analyses, relevant predictions, and studies of international experiences in agribusiness; and,
- Coordinating the activities of scientific centres, colleges and agricultural support centres operating within the purview of the Ministry of Agriculture.

**MINISTRY OF ECONOMY**

The Armenian Ministry of Economy is an executive body that elaborates the economic development policies of the government of Armenia.

The main goals of the Ministry are to increase competitiveness and promote sustainable economic development, as well as ensure the security of the Armenian economy through the development, implementation, coordination and evaluation of economic policies. To achieve these goals, the Ministry is committed to the following:

- Developing economic policies and strategies;
- Ensuring balanced regional economic development;
- Promoting investments, a knowledge-based economy, entrepreneurship and innovation;
- Ensuring access to efficient markets; and,
- Improving the business environment of the country.

The Investment Policy Department, a subdivision of the Ministry of Econ-
omy, is responsible for developing policy and regulating investment activities. It performs the following functions:

- Elaborating investment policy and supporting its implementation;
- Creating a legislative platform for an investment-friendly environment;
- Elaborating bilateral investment treaties;
- Elaborating legislation regarding free economic zones (FEZs) and implementing state policy on FEZs;
- Coordinating “one-stop shop” services in FEZs for FEZ residents;
- Organizing the collection and promotion of investment projects;
- Maintaining a statistical database of foreign investments;
- Coordinating the implementation of public investment programmes funded by international financial institutions such as the Armenian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Japanese International Cooperation Agency (JICA), and the Facility for Infrastructure Development (ORIO);
- Drafting public-private partnership (PPP) related laws and legal acts;
- Submitting relevant proposals and comments to improve and expand PPP in the investment area;
- Coordinating and supporting PPP project implementation;
- Maintaining a data management system for PPP projects; and,
- Implementing PPP-related activities pursuant to legislation.

SME DEVELOPMENT NATIONAL CENTER

The SME Development National Center (SME DNC) was established in 2002 by the government of Armenia and provides state support to small and medium-sized enterprises in the country. SME DNC carries out its activities through a network of regional branches and representative offices in all ten marzes (regions) in Armenia. SME DNC is governed by a Board of Trustees headed by the Minister of Economy. Members of the Board of Trustees include the Ministers of Finance and Agriculture, Deputy Minister of Economy, Executive Director of the SME DNC, and Presidents/Directors of several private companies.

SME DNC’s duties are to:

- Ensure effective dialogue between SMEs and the government
- Increase the efficiency and competitiveness of SMEs
- Ensure the availability of business development services to SMEs
- Expand SMEs’ access to finance
- Promote innovations as well as R&D activities of SMEs
• Assist the establishment of new SMEs
• Support internationalization of SME activities

SME DNC actively cooperates with a number of international and foreign organizations. To date, it has developed and implemented joint support programmes with USAID, the United Nations Development Programme (UNDP), the United Kingdom Department for International Development (UK DFID), Japanese International Cooperation Agency (JICA), and Organization for Security and Cooperation in Europe (OSCE). In January 2014, SME DNC implemented the “Partnership for Rural Prosperity” project that is funded by USAID. This project aims to improve Armenia’s business environment by promoting competition, developing small and medium-sized enterprises, and upgrading the infrastructure in 150 communities.

SME DNC is also a member of the Enterprise Europe Network, an organization that serves as a “one-stop shop” for SMEs, providing free information and practical advice on market opportunities, and EU relevant legislative and regulatory requirements for export purposes. The Enterprise Europe Network helps SMEs find suitable business partners through its business and technology cooperation database. It also provides information on tender opportunities and supports international networking.

THE FUND FOR RURAL ECONOMIC DEVELOPMENT IN ARMENIA (FREDA)
The Fund for Rural Economic Development in Armenia (FREDA) was established on 8 January 2009 as part of the “Rural Finance” component of the “Farmer Market Access Programme in Armenia”, a joint activity between the government of Armenia and the International Fund for Agricultural Development (IFAD). FREDA invests in rural SMEs by providing innovative financing instruments as well as capital and management assistance, while enabling the enterprises to improve their competitiveness.

The Fund’s priority sectors are:
• Food processing and canneries;
• Milk processing;
• Winery and fish farms; and,
• Fish processing.

Equity investment amounts range from AMD 20 m to AMD 200 m.
FREDA is governed by a Board of Trustees headed by the Prime Minister of the Republic of Armenia.
AGRIBUSINESS SMEs AND SMALL FARMS IN AZERBAIJAN

Dr. Sabit Bagirov
President, Entrepreneurship Development Foundation
Baku, Azerbaijan

ABSTRACT

The development of the non-oil sector of the economy, including the agricultural sector is one of the priorities of the government of Azerbaijan. For this reason, the government has adopted a number of regional development programmes as well as the decision to subsidize the producers of agricultural products, develop the infrastructure of agricultural production, and allocate preferential loans and other measures. This article describes the role of the agricultural sector in the economy and in employment. It also describes the definition of the agricultural sector entities. The article also provides information on the goods produced, the output of crop and livestock production, and the role of SMEs and individual entrepreneurs. The article concludes with recommendations for the government.

Keywords: agribusiness, definition of agrarian SMEs, small farms, state policy, Azerbaijan
JEL Classification: G20, G30, Q14, Q18

3.3.1. ROLE AND SIZE OF AGRIBUSINESSES IN THE COUNTRY’S OVERALL ECONOMY

Traditionally, the agricultural sector in Azerbaijan is second to the oil industry. Today, things have changed because this sector is a priority for the government. This is despite the fact that the agricultural sector’s share of GDP is only about 5.3% (Diagram 1). However, it should be noted that the agricultural sector’s share of non-oil GDP is more than 10 percent. Development of the agricultural sector is important for the government, as it will reduce the role of oil in the national economy. In recent years, the growth rate of the non-oil sector of the economy has outperformed that of the oil industry. This is due to a significant increase in the number of enterprises processing agricultural products. As a result, the government declared 2015 to be the “Year of Agriculture”.
According to the State Statistical Committee, 4,432,000 people lived in villages in 2014; this is 47% of the total population of the country. However, the actual number of the rural population is lower because many villagers have either left for the Azerbaijani capital of Baku or migrated to other countries (Russia, Kazakhstan, Ukraine and others) in search of higher income.

3.3.1.1. Employment in the agricultural sector
Diagram 2 shows the structure of employment in the economy of Azerbaijan. As seen in the diagram, 37.1% of the economy’s total workforce was employed in the agricultural sector in 2013.

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3.3.1.2. Suitable lands for agricultural production

The size of land suitable for the production of agricultural products is as follows:

- Suitable lands for agricultural production, total = 4.8 m hectares;
- Suitable lands for agricultural production, per capita = 0.50 hectares (in the present). In 1970, the per capita suitable land for agricultural production was 0.81 hectares.

There are two reasons accounting for the reduction in the size of suitable land:
1) the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline, and
2) the construction of other facilities such as roads, bridges, industrial plants, etc.

The government is currently working on two new irrigation projects, which will increase the suitable lands for agriculture by more than 10,000 hectares.

3.3.1.3. Products of the agricultural sector

Azerbaijan’s agricultural sector produces roughly equal volumes of plant
and animal products. The volume of crop production is AZN 2,629 million,\(^7\) and the volume of livestock production is AZN 2,615 million.

Table 1 presents the dynamics of crop production. The data in this table shows significant changes in the structure of crop production in the last 23 years.

**Table 1. Crop production (1990-2013)\(^8\) in 1000 tonnes**

<table>
<thead>
<tr>
<th>Years</th>
<th>Cereals and dried pulses</th>
<th>Cotton</th>
<th>Tobacco</th>
<th>Potatoes</th>
<th>Vegetables</th>
<th>Watermelons and melons</th>
<th>Sugar beets</th>
<th>Sunflower seeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1,413.6</td>
<td>542.9</td>
<td>52.9</td>
<td>185.2</td>
<td>856.2</td>
<td>67.5</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>1995</td>
<td>921.4</td>
<td>274.1</td>
<td>11.7</td>
<td>155.5</td>
<td>424.1</td>
<td>41.9</td>
<td>28.1</td>
<td>0.7</td>
</tr>
<tr>
<td>2000</td>
<td>1,540.2</td>
<td>91.5</td>
<td>17.3</td>
<td>469.0</td>
<td>780.8</td>
<td>261.0</td>
<td>46.7</td>
<td>3.7</td>
</tr>
<tr>
<td>2005</td>
<td>2,126.7</td>
<td>196.6</td>
<td>7.1</td>
<td>1,083.1</td>
<td>1,127.3</td>
<td>363.8</td>
<td>36.6</td>
<td>16.1</td>
</tr>
<tr>
<td>2010</td>
<td>2,000.5</td>
<td>38.2</td>
<td>3.2</td>
<td>953.7</td>
<td>1,189.5</td>
<td>433.6</td>
<td>251.9</td>
<td>15.5</td>
</tr>
<tr>
<td>2011</td>
<td>2,458.4</td>
<td>66.4</td>
<td>3.6</td>
<td>938.5</td>
<td>1,214.8</td>
<td>478.0</td>
<td>252.9</td>
<td>19.6</td>
</tr>
<tr>
<td>2012</td>
<td>2,802.2</td>
<td>57.0</td>
<td>4.3</td>
<td>968.5</td>
<td>1,216.2</td>
<td>428.0</td>
<td>173.8</td>
<td>19.7</td>
</tr>
<tr>
<td>2013</td>
<td>2,955.3</td>
<td>45.2</td>
<td>3.5</td>
<td>992.8</td>
<td>1,236.3</td>
<td>429.8</td>
<td>187.9</td>
<td>17.7</td>
</tr>
</tbody>
</table>

There are three reasons for the structural changes in crop production. These reasons have mostly to do with the fact that things changed after the country gained independence. Firstly, after the country gained independence in 1991, the government of Azerbaijan shifted its policy priorities and food sovereignty became a major state concern. Secondly, post-independence Azerbaijan had weaker or severed economic ties with other post-Soviet countries, and this necessitated a change in crop production for domestic consumption. Thirdly, the country’s transition from socialist economy to market economy led to the emergence and strengthening of the private sector, and the increased value of commercial profit, profitability and payback period.

\(^7\) As of 1 May 2015, the exchange rate of the Azerbaijani Manat is 1USD = 1.05 AZN.

Table 2 presents data on livestock production.

**Table 2. Main animal products (1990-2013)**\(^9\) in 1000 tonnes unless otherwise stated

<table>
<thead>
<tr>
<th>Years</th>
<th>Meat (in slaughtered weight)</th>
<th>Milk</th>
<th>Eggs, million units</th>
<th>Wool (greasy weight)</th>
<th>Cocoons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>175.5</td>
<td>970.4</td>
<td>985.3</td>
<td>11.2</td>
<td>4.9</td>
</tr>
<tr>
<td>1995</td>
<td>109.4</td>
<td>826.5</td>
<td>455.8</td>
<td>9.0</td>
<td>1.1</td>
</tr>
<tr>
<td>2000</td>
<td>153.6</td>
<td>1,031.1</td>
<td>542.6</td>
<td>10.9</td>
<td>0.1</td>
</tr>
<tr>
<td>2005</td>
<td>205.0</td>
<td>1,251.9</td>
<td>874.6</td>
<td>13.1</td>
<td>0.1</td>
</tr>
<tr>
<td>2010</td>
<td>253.8</td>
<td>1,538.2</td>
<td>1,178.6</td>
<td>15.6</td>
<td>0.01</td>
</tr>
<tr>
<td>2011</td>
<td>263.7</td>
<td>1,622.3</td>
<td>1,011.0</td>
<td>16.2</td>
<td>0.004</td>
</tr>
<tr>
<td>2012</td>
<td>285.6</td>
<td>1,719.6</td>
<td>1,226.7</td>
<td>16.5</td>
<td>0.003</td>
</tr>
<tr>
<td>2013</td>
<td>297.9</td>
<td>1,820.5</td>
<td>1,401.5</td>
<td>16.8</td>
<td>0.001</td>
</tr>
</tbody>
</table>

The data in this table shows the significant change in the structure of livestock production in the last 23 years. The reasons for this change are the same as in the case of crop production.

**3.3.1.4. Agricultural productivity**

Table 3 shows the state statistical data on crop productivity, while Table 4 shows the data on livestock productivity.

**Table 3. Agricultural productivity (2013)**\(^{10}\) Quintal / ha:

<table>
<thead>
<tr>
<th>Crops</th>
<th>Cotton Blend</th>
<th>Tobacco</th>
<th>Potato</th>
<th>Vegetables</th>
<th>Grapes</th>
<th>Tea</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.5</td>
<td>19.3</td>
<td>28.4</td>
<td>152</td>
<td>154</td>
<td>91.5</td>
<td>12.0</td>
</tr>
</tbody>
</table>

**Table 4. Livestock productivity (2013)**\(^{11}\)

<table>
<thead>
<tr>
<th>Annual milk yield per cow and water buffalo (beginning of the year)</th>
<th>Average wool sheared per sheep</th>
<th>Average number of eggs per laying hen in agricultural enterprises, unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,381</td>
<td>2.1</td>
<td>247</td>
</tr>
</tbody>
</table>

**3.3.1.5. Capital investment**

In 2013, the volume of capital investments in the agricultural sector amounted to 574 million AZN. This is not a small sum, even though it does not seem large when compared to the huge investments in the oil sector and in infrastructure (roads, bridges, warehouses, etc.).

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\(^9\) Ibid.

\(^{10}\) Ibid.

\(^{11}\) Ibid.
Capital investment in the agricultural sector in 2013 was not large when compared to other sectors, as it only amounted to 3.2% of the total investment to the economy.

Capital investment in the agricultural sector in 2013 was not large when compared to other sectors, as it only amounted to 3.2% of the total investment to the economy.

### 3.3.2. DEFINITION OF AGRARIAN SMES AND SMALLHOLDERS

The State Statistical Committee of Azerbaijan used the following definitions:
- Agrarian enterprises and other organizations;
- Individual entrepreneurs;
- Family farms and households

It should be noted that companies and individual entrepreneurs have tax identification numbers (TIN), while family businesses and households do not.

Number of businesses (actors) of the agricultural sector: 4,194
- Enterprises, total: 1,337
  - State enterprises: 238
  - Kolkhozes: 2
  - Cooperatives: 72
  - Other private: 1,025
  - Services organizations: 523
  - Individual entrepreneurs: 2,334

According to the State Statistical Committee, there were 439 food production enterprises in Azerbaijan in 2013. Of these, 362 were small businesses, and 77 were medium and large enterprises.

110 enterprises also engaged in the production of alcoholic beverages; of these, 89 were small businesses. Only 8 enterprises made tobacco products, and six of them are small enterprises.

Table 5 presents the criteria for small enterprises in Azerbaijan (according to the decision of Cabinet of Ministers, 2009).
Individual entrepreneurs produced most of the crops and livestock. In crop production, these entrepreneurs’ share was 95.4%. In livestock, their production share was 90.7%. Tables 6 and 7 show the share of agricultural enterprises/organizations and other producers (individual entrepreneurs, family and households) in the production of certain types of crop and livestock production.

**Table 5. Definitions of SME in Azerbaijan**

<table>
<thead>
<tr>
<th>Sector of activity</th>
<th>Average annual number of employees</th>
<th>Annual Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry and Construction</td>
<td>&lt;50</td>
<td>≤ 500 thousand AZN</td>
</tr>
<tr>
<td>Agrarian</td>
<td>&lt;25</td>
<td>≤ 250 thousand AZN</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>&lt;15</td>
<td>≤ 1 million AZN</td>
</tr>
<tr>
<td>Retail trade, transport, services and other activities</td>
<td>&lt;10</td>
<td>≤ 250 thousand AZN</td>
</tr>
</tbody>
</table>

**Table 6. Share (in %) of agricultural enterprises/organizations and other producers (individual entrepreneurs, family and households) in the production of certain types of crops**

<table>
<thead>
<tr>
<th>Cereals and dried pulses</th>
<th>Cotton</th>
<th>Tobacco</th>
<th>Potatoes</th>
<th>Vegetables</th>
<th>Watermelons and melons</th>
<th>Sugar beets</th>
<th>Sunflower seeds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural enterprises and other organizations</td>
<td>8.12</td>
<td>9.07</td>
<td>2.86</td>
<td>0.89</td>
<td>3.14</td>
<td>0.88</td>
<td>25.60</td>
</tr>
<tr>
<td>Private owners, family peasant farms and households</td>
<td>91.88</td>
<td>90.93</td>
<td>97.14</td>
<td>99.11</td>
<td>96.86</td>
<td>99.12</td>
<td>74.40</td>
</tr>
</tbody>
</table>

**Table 7. Share of agricultural enterprises/organizations and other producers (individual entrepreneurs, family and households) in the production of livestock.**

<table>
<thead>
<tr>
<th>Meat (in slaughtered weight)</th>
<th>Milk</th>
<th>Eggs, million units</th>
<th>Wool (greasy weight)</th>
<th>Cocoons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural enterprises and other organizations</td>
<td>19.03</td>
<td>1.79</td>
<td>40.12</td>
<td>2.38</td>
</tr>
<tr>
<td>Private owners, family peasant farms and households</td>
<td>80.97</td>
<td>98.21</td>
<td>59.88</td>
<td>97.62</td>
</tr>
</tbody>
</table>

---

13 Ibid
Table 8 shows the state statistics of the production volumes of basic food and beverages in the agricultural sector, produced by both companies and individual entrepreneurs.

Table 8. Manufacture of basic food and beverages (2013)\(^\text{14}\)

<table>
<thead>
<tr>
<th>Products</th>
<th>2013</th>
<th>Products</th>
<th>2013</th>
<th>Products</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat, thsd. ton</td>
<td>284.6</td>
<td>Natural tea, thsd. ton</td>
<td>7.5</td>
<td>Mineral water, thsd. dkl</td>
<td>6,353</td>
</tr>
<tr>
<td>Sausage, thsd. ton</td>
<td>6.0</td>
<td>Caviar, ton</td>
<td>0.1</td>
<td>Cognac, brandy, thsd. dkl</td>
<td>132.5</td>
</tr>
<tr>
<td>Dairy butter, thsd. ton</td>
<td>21.9</td>
<td>Confectionery, thsd. ton</td>
<td>47.7</td>
<td>Champagne, thsd. dkl</td>
<td>16.3</td>
</tr>
<tr>
<td>Cheese and curd, thsd. ton</td>
<td>47.3</td>
<td>Salt, thsd. ton</td>
<td>32.0</td>
<td>Wine, thsd. dkl</td>
<td>835.5</td>
</tr>
<tr>
<td>Flour, thsd. ton</td>
<td>1,438</td>
<td>Iodized salt, thsd. ton</td>
<td>27.5</td>
<td>Vodka, thsd. dkl</td>
<td>844.9</td>
</tr>
<tr>
<td>Bread and bakery products, thsd. ton</td>
<td>1,181</td>
<td>Fruit and vegetables, tinned, thsd. ton</td>
<td>153.3</td>
<td>Beer, thsd. dkl</td>
<td>5,215</td>
</tr>
<tr>
<td>Semi-skimmed milk 1%-3%, thsd. ton</td>
<td>830.2</td>
<td>Fermented tobacco, thsd. ton</td>
<td>2.1</td>
<td>Margarine products, thsd. ton</td>
<td>24.5</td>
</tr>
<tr>
<td>Milk and cream of more than 6%-20%fat, ton</td>
<td>4,559</td>
<td>Compound feeds, thsd. ton</td>
<td>6.5</td>
<td>Macaroni products, thsd. ton</td>
<td>7.2</td>
</tr>
<tr>
<td>Vegetable oils, thsd. ton</td>
<td>100.2</td>
<td>Soft drinks, thsd. dkl</td>
<td>26,658</td>
<td>Ice-cream, thsd. ton</td>
<td>0.5</td>
</tr>
<tr>
<td>Sugar, thsd. ton</td>
<td>423.1</td>
<td>Cigarettes, bn unit</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of the study among 9,579 households (0.5% of the total number of households in the country) in 2014 made it possible to estimate the total volume of agricultural production by households: \(^\text{15}\)

- meat (including poultry) - 66.9 thousand tonnes
- milk - 180.5 thousand tonnes
- dairy products - 46.8 thousand tonnes
- bread - 30.5 thousand tonnes
- Fruit and vegetable preserves - 5.2 thousand tonnes
- fruit and grape alcohol - 60.4 thousand dekalitres
- wine - 36.6 thousand dekalitres

It should be noted that the role of households in food production has been decreasing for several reasons. Firstly, urbanization means fewer households are engaged in food production. Secondly, the low competitiveness of households vis-à-vis companies with industrial methods of production, marketing, advertising, etc. means they are less likely to work at food production from home. Households are often only competitive in the field of product quality.

\(^\text{14}\) Ibid.
\(^\text{15}\) Ibid.
3.3.3. THE ROLE OF STATE INSTITUTES

3.3.3.1. State policy supporting producers of agrarian products
The main state institutions regulating the agricultural sector are:
• Parliamentary Committee of Agrarian Policies;
• Presidential Department for Agrarian Policy Issues;
• Cabinet of Ministers;
• Ministry of Agriculture.

State policy supporting producers of agrarian products include the following components:
1) Exemption from all taxes, except land tax;
2) Subsidies to producers of wheat;
3) Subsidies for fuel and lubricants;
4) Subsidies for fertilizers;
5) Concessional loans;
6) Improvement of breeding livestock;
7) Support for the development of large agricultural enterprises;
8) Access to modern technology and equipment through preferential leasing;
9) Consultations.

3.3.3.2. Taxation of agricultural producers
Producers of agricultural products are exempt from all taxes, except land tax. According to experts’ estimates, the exemption from most taxes has allowed agricultural producers to save more than AZN 1.5 bn. But tax exemption has negative effects, namely:
   a) reducing the quality of accounting for agricultural production;
   b) reducing the quality of state statistical information;
   c) losing incentives to increase efficiency and competitiveness.

3.3.3.3. Subsidies for producers of agricultural products
In order to support producers of agricultural products, the government of Azerbaijan provides them with the following subsidies.

Government decision No. 32, dated 15 February 2007, approved rules of providing annual cash support from the state budget in the amount of AZN 40 per hectare to pay for fuel and lubricants. In this decision, rules on the preferential sale of fertilizers were also approved (70% of the cost, but more than AZN 80).
Government decision No. 181, dated 16 November 2007, approved rules of providing annual cash support from the state budget in the amount of 40 AZN per hectare for wheat production.

Table 10 shows the subsidies for the production of wheat, and for fuel and lubricants in 2007-2014.

Table 10. Subsidies for the production of wheat, and for fuel and lubricants

<table>
<thead>
<tr>
<th>Year</th>
<th>For fuel and lubricants, thousand AZN</th>
<th>For production of wheat, thousand AZN</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>42,191.4</td>
<td>20,212.1</td>
</tr>
<tr>
<td>2008</td>
<td>53,791.6</td>
<td>29,680.9</td>
</tr>
<tr>
<td>2009</td>
<td>59,838.9</td>
<td>22,924.9</td>
</tr>
<tr>
<td>2010</td>
<td>55,513.6</td>
<td>23,413.2</td>
</tr>
<tr>
<td>2011</td>
<td>52,776.3</td>
<td>25,189.5</td>
</tr>
<tr>
<td>2012</td>
<td>56,741.1</td>
<td>24,890.5</td>
</tr>
<tr>
<td>2013</td>
<td>57,404.7</td>
<td>20,153.5</td>
</tr>
<tr>
<td>2014</td>
<td>51,829.4</td>
<td>17,051.1</td>
</tr>
<tr>
<td>Total</td>
<td>430,087.0</td>
<td>183,516.4</td>
</tr>
</tbody>
</table>

According to a government decision dated 25 June 2007, farmers also receive subsidies for growing and marketing seeds and seedlings in their first and second reproductions. The total subsidies in this area in 2007-2014 were AZN 45,768.7 thousand.

All these subsidies are enjoyed by all producers. The system distributing these subsidies is quite transparent and includes public participation in the decision-making process. The government is currently working on the idea of subsidizing crops that are traditionally grown in every region of the country.

3.3.3.4. Concessional loans

Two state institutions give soft loans for agricultural production:
1) State Service for Management of Agricultural Projects and Credits under the Azerbaijan Ministry of Agriculture;

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17 Ibid.
18 See http://agrocredit.gov.az/en
19 See http://anfes.gov.az/en/
Concessional loans by the State Service for Management of Agricultural Projects and Credits under the Azerbaijan Ministry of Agriculture are given for:

1) Production and processing;
2) Reclamation of irrigated lands;
3) Modernization and development of the food sector (including storage);
4) Agricultural machinery and chemicals;
5) Pilot projects;
6) Other projects

Table 9 shows the types of preferential loans issued by the State Service for Management of Agricultural Projects and Credits under the Azerbaijan Ministry of Agriculture.

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Amount, AZN</th>
<th>Grace period of loan repayment (only interest is paid in this period), month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro loans</td>
<td>&lt; 1000</td>
<td>12</td>
</tr>
<tr>
<td>Small loans</td>
<td>1000 – &lt; 20000</td>
<td>18</td>
</tr>
<tr>
<td>Medium loans</td>
<td>20000 – &lt; 50000</td>
<td>18</td>
</tr>
<tr>
<td>Big loans</td>
<td>50000 – &lt; 200000</td>
<td>24</td>
</tr>
</tbody>
</table>

Loans are issued by agent banks. The State Service for Management of Agricultural Projects and Credits issues loans via agent banks at the annual percentage rate of 2%. Agent banks have the right to add no more than 5%. Thus, entrepreneurs and farmers get loans at an annual interest rate of not more than 7%.

As it was noted before, concessional loans are also given by Azerbaijan National Fund for Entrepreneurship Support (ANFES). Concessional loans from ANFES are for the creation of:

- livestock complexes for the production of meat and milk;
- green supermarkets (farm shops);
- agro-parks;
- enterprises to process fruits and vegetables;
- large farms;
- feed production enterprises;
- greenhouses;
• market gardens (with different kinds of fruit) and cultivation of seedlings;
• others.

96.3 % of all loans are directed to the development of SMEs in the agrarian sector. The total sum is more than AZN 180 m. It is equal to 21% of ANFES’s total loans. Concessional loans by ANFES are presented in Table 10.

**Table 10. Concessional loans by the Azerbaijan National Fund for Entrepreneurship Support (ANFES)**

<table>
<thead>
<tr>
<th></th>
<th>Amount, AZN</th>
<th>Loans are granted for periods up to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small loans</td>
<td>5,000 – 50,000</td>
<td>3 years</td>
</tr>
<tr>
<td>Average loans</td>
<td>50,001 – 500,000</td>
<td>5 years</td>
</tr>
<tr>
<td>Large loans</td>
<td>500,001 – 10,000,000</td>
<td>10 years</td>
</tr>
</tbody>
</table>

The interest rate on ANFES loans is fixed at 1%. While authorized credit institutions can add their margin to ANFES interest rates, these should not exceed 5%.

### 3.3.3.5. Commercial loans

Producers in the agricultural sector can also obtain commercial loans. As of the end of September 2014, commercial loans were provided by 44 commercial banks and 160 non-bank credit institutions in Azerbaijan. 113 non-bank credit institutions are credit unions (CUs). Of these 113 CUs, 46 are financed by international humanitarian organizations, and one is the Limited Liability Company known as AZERPOÇT.

Other international organizations financing credit institutions in Azerbaijan are:
• Agricultural Cooperative Development International / Volunteers in Overseas Cooperative Assistance (ACDI/VOCA);
• Adventist Development and Relief Agency, Azerbaijan (ADRA Azerbaijan);
• FINCA Azerbaijan; Norwegian Humanitarian Enterprise (NHE);
• Norwegian Refugee Council (NRC);
• Mercy Corps (through other INGOs);
• Oxfam, Great Britain;
• International Organization for Migration (IOM);
• Save the Children;
• World Vision International (WVI).
The 46 credit institutions financed by international humanitarian organizations have 209 branches across the country. Credit unions do not have branches in the regional areas.

Other institutions such as banks, credit unions, and credit institutions financed by international humanitarian organizations also provide microcredit to the agricultural sector. Their microcredit schemes differ slightly from those offered by ANFES and the State Service for Management of Agricultural Projects and Credits. For example, AccessBank issues microcredit ranging between USD 100 to USD 30,000. Such credit forms are normally issued for up to 60 months with monthly interest rates ranging 1.58% to 2.75%. Real estate (house, apartment, residential premises, land), vehicles and equipment are used as collateral.

### 3.3.3.6. Leasing in the agrarian sector

In 2004, the government created the Agroleasing Open Joint-Stock Company. 20 100% of the shares are owned by the state. Currently, Agroleasing is subordinate to the Ministry of Agriculture. Agroleasing has branches in all regions of the country. In some areas, there are warehouses supplying agricultural machinery and fertilizers.

Leasing terms: 20% of the cost is paid at the beginning, and the rest within 10 years.

Agroleasing is also engaged in buying and selling fertilizers, seeds, and animals to farmers at reduced prices.

Since its establishment, Agroleasing has leased more than 150 sets of processing equipment, 39 sets of cold rooms, 19 drip irrigation systems, 13 sets of feed conversions, 19 sets of equipment for the poultry industry, 17 sets of equipment for greenhouses, and 33 sets of fruit processing equipment.

Main leasing terms: 20% of the cost is paid at the beginning, and the rest within 10 years.

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20 See http://agrolizing.gov.az/en
3.3.4. RECOMMENDATIONS FOR THE GOVERNMENT

Suggestions on institutional reforms for the future development of the Azerbaijani agrarian sector are presented below:

1) Improve statistical accounting in agriculture. There is a lot of information on the agricultural sector on the website of the State Statistical Committee. However, this data is collected largely from interviews and is based on the observations of local representatives of the agency. It is difficult to judge the reliability of the information, when agrarian producers are exempt from tax and there is no guarantee of clear accounting.

2) Implement a system of patent taxation by product in the agricultural sector. It would be appropriate to complete the period of tax exemption of agricultural producers. This will improve the quality of accounting and statistics in this sector. This will also improve the competitiveness of manufacturers. The implementation of such a system is particularly important in light of Azerbaijan’s expected accession to the World Trade Organization (WTO).

3) Set up a new system of definitions for businesses according to European criteria. Following the European criteria of definitions will allow Azerbaijan to compare the development of its micro, small and medium businesses with that of other countries. It will also allow more accurate analyses of the role of small businesses in GDP.

4) Institutional reforms in Agroleasing. I think it would be right to privatize this company, as it would contribute to the creation of other similar companies. Competition in this field is very important.

5) Exemption from import duties for equipment, machinery, fertilizers, seeds, vaccines, etc. for the agricultural sector.

6) Creation of an agricultural bank. The creation of such a specialized bank with the participation of public and private capital would save time and money that would have otherwise been spent on the examination of the agricultural sector’s investment projects. This also has a positive impact on the conditions for the allocation of loans (interest, repayment terms, collateral).

7) The elimination of monopolistic activities in the agricultural sector. This is especially important in the production and processing of cotton and tobacco. In addition, it is important to eliminate the monopoly in the procurement of agricultural products in most regions of the country. These monopolies dictate prices to manufacturers and carry out
purchases at much lower prices than market prices. This situation reduces the interest of producers of agricultural products. One possible solution to this problem is the creation of a purchasing cooperative of producers.

8) Exemption from land tax, if it is used for the production of agricultural products.

9) Promote the establishment of an effective National Association of Farmers.

10) Creating insurance fund loans for the agricultural sector.

11) Complete state registration of land ownership. This will contribute to the creation of a land market, improve the collection of taxes, the use of landed property as collateral for obtaining of loans, as well as promote the efficient use of land.

3.4 DEVELOPMENT OF SMALL AGRICULTURAL FARMS IN THE REPUBLIC OF BULGARIA (2014-2020)

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ABSTRACT
The author presents the characteristics of small agricultural farms in Bulgaria. It describes the changes in the structure of small farms following the country’s accession to the EU. The author presents the characteristics of these two segments, describes the perspectives, and provides developmental suggestions to the government and local authorities. The author also conducted a SWOT analysis of Bulgarian small farms. Supporting the development of small agricultural farms is an important objective of the developmental policy for the rural regions in Bulgaria. Finally, this paper presents the EU sub-programmes prioritizing the development of rural regions.

Keywords: definition of small farms, family businesses in agriculture, National Agricultural Advisory System, SWOT analyses of small farms, priority sub-programmes in agricultural development.

JEL Classification: O13, L53, Q18
3.4.1. DETAILED DESCRIPTION OF THE STATE OF SMALL AGRICULTURAL FARMS

3.4.1.1. National definition of a small agricultural farm
For Bulgarian national policy purposes in 2014-2020, the state has defined small agricultural farms by economic size and registration:

- A small farm is defined as one that has a small economic size ranging from EUR 2,000 to EUR 7,999 in standard output (SO)
- A small farm’s owner (i.e. the farmer) must be registered with the state, in accordance with the Agricultural Producers Assistance Act.

This definition enables the state to identify small farms with development potential and direct funding to them. This is the reason why the SO threshold begins at EUR 2,000. In Bulgaria, most farms have SOs at that level. In fact, the majority of farms in the country have a very low degree of market orientation. The smallest farms often have no development aspirations, and plan to withdraw from the agricultural sector.

The upper SO threshold of EUR 7,999 ensures that funding is directed to farms with limited economic resources and structural problems. In Bulgaria, young farmers tend to have very small farms, and they only meet the upper SO threshold upon the receipt of funding.

3.4.1.2. Number and spatial distribution of small farms
There are 85,770 small farms in Bulgaria that fit the state’s definition; they represent 23.2% of all farms in Bulgaria.21 Almost all small farms operate as natural entities or sole proprietors, and only 520 farms are legal entities. 69.3% of all small farms have an SO of up to EUR 3,999; the remaining 30.7% have an SO ranging between EUR 4,000 and EUR 7,999.

59% of all small farms at the NUTS 2 level are located predominantly in rural regions, and 41% of small farms are in the intermediate regions, which coincide with the average distribution of all the farms in Bulgaria (Figure 1). NUTS is an acronym for Nomenclature of Territorial Units for Statistics.

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3.4.1.3. Utilized agricultural land and total standard output of small farms
Small farms utilize 203,930 ha, or approximately 5% of the total agricultural land in Bulgaria.

3.4.1.4. Specialization and economic situation of small farms
In 2010, 40.7% of small farms had a mixed output of both plants and animals; 32.7% of small farms specialized in animal production; and 26.6% of small farms specialized in growing plants.

The years following Bulgaria’s accession to the EU brought substantial changes to the small farms specializing in production. The number and share of small farms specializing in animal production and mixed farms have decreased significantly, whereas farms specializing in growing plant plants have increased (Figure 2). The number of farms specializing in growing plants has increased by 25% in 2007-2010, making up 11% of all small farms.

Figure 2. Dynamics of small farms by production type

Source: Department of Agrostatistics, MAF.
Very few small farms are developing non-agricultural activities related to the farm. Unfortunately, this is typical of all farms in Bulgaria.

3.4.1.5. Workforce in small agricultural farms
Due to the decreasing number of farms, there has been a strong decline in agricultural employment levels. As a result, many small farms have to put in more effort to stay in production.

Small agricultural farms are mostly family businesses. 99% of small farms employ their own family members. Typically, a farm employs two people – the owner and his/her spouse.

There are very few farm owners with education in farming or relevant agricultural qualifications. This is true for farmers throughout the country. Only 0.7% of farmers have a university degree in agriculture; 3.1% have primary education; and the remaining 96.2% have no agricultural education, just practical experience.

Practical experience, maintenance of agricultural traditions and permanent employment are some of the advantages of small farms. Other virtues of small farms are the owners’ and workers’ high level of motivation, patience, readiness to work hard, and long-term thinking.

The increased migration of the workforce from the rural regions to the cities, as well as the harsh work conditions and low income in the agricultural sector has significantly reduced the labour supply in agriculture. This explains the farmers’ difficulties in finding qualified seasonal labour.

3.4.1.6. Market orientation and small farms’ access to markets
The share of market-oriented farms has been increasing in recent years. The share of small farms using more than half their production for personal consumption has halved.

The small farms in the plant growing sector sell predominantly to wholesalers, and livestock farms sell mostly to processors. The higher distribution costs as well as the market power of intermediaries and processors hinder small producers from receiving the best market price. The small shipments and varying quality of production further worsens the market positions of these small farms. The lack of skills and lack of knowledge of
market trends as well as limited awareness of the market situation and production marketing aggravate small farms’ weak market positions by decreasing the farmers’ ability to respond to market trends expediently and adequately.

The lack of long-term contracts with processors and wholesalers is also a serious problem for small farms.

The expansion of the territorial coverage, density and market share of the large supermarket chains are problems for small farms in recent years too. The small farms are unable to issue regular deliveries of large shipments on their own, and they consequently lose their market position.

Small farms are also subject to unfair competitive practices such as unregulated import of agricultural products of poor quality and low market prices.

In spite of the policies supporting groups and organizations of producers, they are uncommon in the country because producers are unwilling to unite and because they receive very little support for their initiative and creativity. There were only 3 recognized organizations of producers at the end of 2012. The lack of efficient organizations for producers prevents small farms from benefiting from European funding opportunities and further compounds their market positions.

Direct sales from producers are still underdeveloped in Bulgaria. Most produce are sold through direct sales via informal channels. The development of direct sales is obstructed by the legislative framework, which places high demands on producers, limits their output, limits the share of livestock production that can be offered for direct sale, and defines the regions where their goods can be sold. Local foods and direct sales have also been very poorly integrated into the strategies to develop tourism.

3.4.1.7. Investments and access to external funding
Small farms mainly rely on their own resources to finance their current expenditures and investments. They have low creditworthiness, due to the high risk of agricultural activity and the lack of assets that can be used to secure loans. The high cost of credit against the income they gain from agricultural activities further limits small farms’ ability to obtain external
funding. On the other hand, small farms’ low levels of debt indicate that they are stable and have high autonomy in making investment decisions.

Small farms have limited development because they rely on their own financial resources. Due to the shortage of domestic financial resources, small farms are discouraged from investing in land purchases, agricultural equipment and diversifying in new activities. Their lack of adequate funds and inability to purchase equipment and diversify their activities hinder small farms from applying for investment grants. This is because all investment grant schemes require pre-financing of the investments.

The main source of working capital in agricultural farms is the income accumulated in the previous years. As production is dependent on the weather and the four seasons, small farms have irregular cash income and frequent liquidity problems, which adversely affect their productivity.

3.4.1.8. Access to information, consulting services and transfer of innovations

Agricultural advisory services
The agricultural advisory system in Bulgaria is primarily based on the activity of the National Agricultural Advisory System (NAAS). NAAS specializes in providing consulting services, up-to-date information and training to farm owners.

NAAS conducts a wide range of information events – seminars, lectures, discussions, thematic meetings, workshops and participation at stands in international and national fairs.

Transfer of technologies
The Agricultural Academy is a state research organization responsible for the implementation of scientific and applied research in the field of agriculture, fisheries and aquaculture, and the food industry.

Putting scientific knowledge and achievements to practice is a priority of the Agricultural Academy. Bureaus for scientific service, which carry out applied scientific consultation as well as design and marketing activities, have been established within the institutes and experimental stations of the Agricultural Academy. The promotion of innovation is carried out through demonstrations, open farm days, seminars and conferences, and publishing activity.
3.4.1.9. Lessons from the funding of small farms, 2007-2013

In 2007-2013, the development of the small farms was funded through several policy measures of the Rural Development Programme 2007-2013 (RDP). RDP promoted the restructuring and cooperation of farms, and facilitated their access to information, training and consulting services.

“Policy Measure 141: Assisting semi-market farms undergoing restructuring” by the RDP is important because it aims to restructure semi-market farms by increasing their viability and market orientation. This policy measure supports farms of small economic size (1 to 4 economic units) by giving them financial assistance in the amount of EUR 1,500 annually for a maximum period of 5 years.

According to data from the ongoing evaluation, farm owners who have received funding believe that the policy measure has been instrumental in the modernization of their enterprises, expansion of their activities, and entrance into a competitive market. Assessments of the effectiveness of the policy measure show that the assistance offered is inadequate for the restructuring of farms. It also indicates that additional funding is needed from RDP if agricultural farms are to modernize and diversify their activities.

Another RDP policy measure targeting small farms is “Policy Measure 143: Providing advisory and consultation services to the agricultural sectors in Bulgaria and Romania”. It aims to facilitate agricultural farms’ access to RDP funding and ensure their compliance with EU requirements and standards. NAAS has been appointed to enact this policy measure in the country. This scheme offers farm owners a full set of advisory services from NAAS and informs them if they are eligible to apply for assistance in the four RDP policy measures. The advisory services provided include preparation of a business plan, filling out the application for assistance, advice on maintaining the land in good agricultural and ecological condition, tips on overcoming environment problems, and education on the importance of environmental protection in the agricultural sector.

Small agricultural farms can apply for investment help through “RDP Policy Measure 121: Modernization of agricultural farms” and “Policy Measure 311: Diversification of non-agricultural activities”. These two policy measures are designed to counter small farms’ lack of experience in preparing
projects. As mentioned earlier, small farms have great difficulty in ensuring the pre-financing of their investments because they rely on their own financial resources. Small farms often face difficulty in preparing their investment projects, compiling proper project documentation and managing their administrative burden.

The implementation of these policy measures has shown that the application procedures must be simplified and the administrative burden reduced before small farms can gain access to assistance.

“Policy Measure 142: Forming organizations of producers” has a very low budget absorption rate because of the lack of interest, which, as indicated, is mainly due to the difficulties in getting small farms to cooperate with one another. It also highlights the lack of mutual trust among farmers as well as the farmers’ lack of knowhow in managing a marketing organization.

3.4.2. SWOT ANALYSIS
A SWOT analysis evaluates the strengths, weaknesses, opportunities and threats in a project or business.

Strengths
Based on the SWOT analysis, the following strengths can be seen in Bulgarian small farms:

- High level of motivation, flexibility and independence in the management of activities and decision-making.
- Typical Bulgarian traditions are maintained in the production of farm produce. This is very desirable to Bulgarian consumers.
- High quality production is the main aim of the production process.
- Natural resources are protected in the production process.
- Communication with the local communities throughout the production process.
- Maintenance of the rural way of life.
- An established advisory system exists in the fields of agriculture, science, education and training.

These strengths have positively affected the viability and stability of small farms, and contribute to the sustainable development of Bulgaria’s rural areas.
Weaknesses
The weaknesses of small farms identified in the SWOT analysis result in lower productivity, higher costs, lower competitiveness and lower income for the small agricultural farms. For simplicity’s sake, the weaknesses are divided in the following three groups:

Competitiveness and viability of the farms
- Outdated equipment and low level of mechanization in production.
- Inefficient scale of production.
- Inadequate specialization in industries resulting in declining market competitiveness.
- Age and education of farm managers render the small farms uncompetitive. This is because farm managers are either too old or too young. Farm managers also do not have sufficient agricultural education.
- Shortage of skilled labour.
- Missing or poorly maintained irrigation infrastructure.
- Insufficient working capital.
- Low creditworthiness.

Market positions, and vertical and horizontal cooperation
- Goods produced are not diverse and vary in quality.
- Output is low.
- Output lacks standardization.
- Insufficient cooperation among producers.
- Poor integration between agriculture and the processing sector.
- Underdeveloped system of trade for local products.
- Short supply chains.
- Restrictive regulatory framework for direct deliveries.

Transfer of knowledge and innovations
- Insufficient utilization of information, consulting services and training.
- Farms located far from regional centres have difficulty accessing agricultural advisory services.
- The system to transfer technologies to small farms is underdeveloped.
Opportunities
There are two main opportunities:

- Consumers’ growing interest in the origins of farm produce.
- Increasing consumer interest in nutrition.

Bulgarian consumers’ growing interest in nutrition and the origins of the food consumed is an opportunity for small farms. Through the successful implementation of value-added strategies based on quality of produce, place of origin and biological control, small farms will have new channels of direct sales for their local foods.

Other opportunities that small farms can exploit are:

- Consumers’ growing interest in alternative tourism services.
- Expansion of social services, including care for the elderly and the disabled.

Threats

- Unstable market prices
In recent years, the market for agricultural products is characterized by large fluctuations, which makes the management of income from sales of agricultural production a rather difficult task. This is because it increases risk and reduces the desire for investments.

- Increase in the prices of resources
Prices of basic industrial resources have increased significantly in recent years. As this trend is expected to continue, small farms with very low degree of returns are at risk.

- Increase in the market share of supermarket chains
The increase in the market share of supermarket chains has led to the reduced demand for produce from small farms, as they are unable to provide regular deliveries in sufficiently large quantities.

- Increased competition from large agricultural farms
The increased market power of large agricultural farms has resulted in higher prices. Small farms with limited financial abilities are affected by this as it limits their access to land and labour resources.

- Global climate change
The increasing global temperature will lead to a change in the specialization of agricultural farms. This will result in a shift in agricultural practices and better risk management.
3.4.3. DESCRIPTION OF STRATEGY
3.4.3.1. Justification of the selected objectives, priorities and focus areas

Objectives and priorities
Supporting the development of small agricultural farms is an important objective in the policy developing the rural regions in Bulgaria. The support is manifested in:

- Guaranteeing that small farms have adequate access to resources for development.
- Stimulating the development of specialized services for small farms. Some of the specialized services developed for small farms are information and training, advisory services and transfer of innovations and technologies.
- Reducing the administrative burden in the application process through the adoption of a simplified business plan. This is especially suitable for small farms because it takes a decentralized approach to implementation.
- Increased public awareness of the role of small farms in the protection of vital urban and rural communities. This will ensure the preservation of the natural environment. It will also conserve biodiversity.
- Increasing public commitment to ensure the sustainable development of small farms.

The strategic objectives of the thematic sub-programme in this area are:

- Support the restructuring of small farms.
- Make sure that the small farms remain vital and relevant to the economy.
- Ensure the sustainable development of small farms.

These strategic objectives would be accomplished through interventions in two priority areas:

- Facilitating the restructuring and modernization of small farms.
- Stimulating the cooperation and integration of small farms in the agricultural and food chains.
Figure 3. Objectives and priorities of the thematic sub-programme, and contribution to EU priorities for the development of rural regions

This sub-programme also contributes to the other EU priorities in the development of rural regions.

It directly contributes to Priority 1 by providing small farms with access to specialized knowledge and training. It also facilitates the transfer of innovations to the small farms’ production process.

It contributes to Priorities 4 and 5 by improving small farm owners’ knowledge and increasing the investments to small farms. This will result in the sustainable management of natural resources because resources will be utilized more efficiently. In addition, the development of a waste treatment system will preserve the quality of the water and soil used in agriculture.
The sustainable development of small farms also helps preserve employment and sources of income to households in the rural regions. This will contribute to the continued viability of rural communities. This also directly contributes to Priority 6 where the emphasis is on developing a balanced economy in the rural regions, maintaining employment levels and social inclusion.

Logic behind the interventions

Priority 1 – Facilitate the restructuring and modernization of small farms

This aims to increase productivity, standard output and add value to small farms. This will be achieved by addressing the following priority needs of small farms:

• improved access and use of information
• improved access to advisory services and training
• upgrading and expansion of the factors of production
• improved production methods
• diversification of activities

To restructure and modernize small farms, the following are required:

• development of physical capital
• diversification of economic activities
• development of human resources
• access to knowledge

In order to obtain those requirements, there are three sub-objectives under this priority:

1. Improve the transfer of knowledge
2. Upgrade and expand the factors of production and production activities
3. Stimulate the development of non-agricultural activities

Priority 2 – Promote cooperation and integration of small farms into the agricultural and food chains.

To achieve this, small farms must be given help in establishing long-term relationships with the markets, improving the quality of their products, and taught how to market themselves and their produce in line with increased global competition. This will enable them to exploit new market niches. Integrating small farms into the agricultural and food chains would
improve their market position, and enable them to increase production and improve their income. Such integration and cooperation are also essential to the stimulation of small farms’ innovativeness, as it will attract investment. This will be a great improvement in the lot of small farms because they are currently limited by the uncertainty of the markets and market conditions.

Building long-term relationships with the manufacturing industry, cooperating with manufacturers in agricultural servicing, and developing prospective markets or new market niches also fall within the framework of Priority 2.

Other interventions in the Rural Development Programme (RDP) 2014-2020 will contribute to the development of small farms in the following ways:

- A significant number of small farms operate in regions that are far from regional centres and cities. Because of this, they are able to contribute to the maintenance of rare and local animal species. Since rare and local animal species are conserved by small farms by dint of their rural location, they will receive additional RDP funding, which is geared towards the development of agriculture in less populated areas.

- RDP will stimulate productivity and improve the quality of produce because it also seeks to develop aquaculture infrastructure.

- By attracting investments to the countryside, the quality of life in the rural regions will improve. This will, in turn, contribute to the stability of small farms by reducing the incentives for emigration among young people.

- Enlivening the territories and improving communication within the agricultural communities through the implementation of the LEADER approach (Liaison Entre Actions de Développement de l’Économie Rurale or “links between actions of rural economic development” in English) will ensure the effective implementation of all the measures of the sub-programme.
3.5 SUSTAINABLE AGRICULTURAL COOPERATIVES AS KEY SOLUTIONS IN GEORGIA

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ABSTRACT
To contribute to the state’s development of policies regenerating the rural areas in Georgia, this paper will delve into the distinctive challenges and opportunities of entrepreneurial development in rural locations. My research is based on a literature review of best practices published both locally and internationally. As the majority of the world’s agricultural lands are managed by SMEs, SMEs also produce most of the world’s food. More sustainable SMEs dedicated to successful farming and agribusinesses are needed to ensure global and regional food safety and security, nurture and protect the natural environment, as well as end poverty, unemployment, rural youth migration, undernourishment and malnutrition. These goals can only be achieved if public policies support SMEs’ increased productivity and sustainability. In other words, policies supporting the innovation of SMEs must be enacted within a system that recognizes their diversity and the complex challenges they face.

Keywords: Georgia, agricultural cooperatives, sustainable development, credit cooperatives
JEL Classification: Q01, Q13, Q17, Q18

3.5.1. COUNTRY PROFILE: GEORGIA
3.5.1.1 Overview
Georgia is a traditionally agricultural country with ancient traditions of farming. Nearly half the population reside in rural areas, where low input, subsistence and semi-subsistence farming is a major source of livelihood. An increasing share of agricultural land is left unused. To remedy this, legislation in favour of agricultural cooperatives was adopted in July 2013 by almost unanimous decision, for it only received one vote against it. This legislation in favour of agricultural cooperatives included:

- A Law on Agricultural Cooperatives
- Amendments to the Entrepreneurship Code whereby ground provi-
sions for the status of “agricultural cooperative” were established

- Amendments in the Tax Code providing numerous tax incentives to agricultural cooperatives such as exempting them from profit tax on primary production and processing, as well as from property tax, land tax, tax on dividends, tax on leasing, etc.

- Amendments to the Law on Grants entitling agricultural cooperatives as the only profit making entity able to receive grants without being taxed on incomes.

Total area = 6.97m ha
Agricultural lands = 3.03m ha
Arable land = 0.802m ha
Perennial plantations = 0.26m ha
Meadows & pastures = 1.97m ha
GDP at purchasing power parity (PPP) in 2012 = USD 24.86 billion
Agricultural share of GDP = 9.3%
GINI (2008) = 41.3
GNI PPP (2011) = USD 5,600 per capita
HDI 0.743 Rank (2011) 97th
ISO 3166-2:GE
Population (2011) = 4.5 million

The European Union (EU) and Georgia have signed an Association Agreement based on common values to deepen their political and economic relations. Georgia is a leading country in the region in its European aspirations, largely due to its commendable progress in democratic development and good governance. Overall, this association process is focused on democracy, rule of law, human rights, good governance and economic development. In order to further EU-Georgia relations, a number of areas need to be improved, including agriculture and trade, to bring Georgia in line with EU standards. Georgia has made a concerted effort to improve quality of life for its citizens, working to overcome complicated historical, geo-
political and national governance issues. Georgia is often considered a leading example in these areas for the region. For about a decade, Georgia has maintained a clear objective to associate more closely with the EU as part of its development strategy. As part of its association agreement with the EU, Georgia signed the Deep and Comprehensive Free Trade Area (DCFTA) in June 2014. In July 2014, the Georgian Parliament unanimously ratified the EU-Georgia DCFTA. Trade in agricultural products between the EU and Georgia has been limited in recent years. DCFTA is an instrument used to enhance Georgia’s trade and economic growth. Georgia will achieve this by bringing its legislation closer to that of the EU. The DCFTA will also contribute to removing existing barriers on the trade of goods and services between Georgia and the 28 Member States of the EU. Ideally, this agreement will create opportunities for big and small Georgian businesses to trade with the EU, and for European businesses to invest in Georgia.

The process of drafting and considering the Law on Agricultural Cooperatives started in July 2012, as a result of recommendations made in a sector assessment conducted by the Food and Agriculture Organization (FAO) and financed by the EU (Project No. ENPI 2012/298-262). In addition to the adoption of the law on agricultural cooperatives and establishment of a special administrative and supervisory body within the Ministry of Agriculture (MoA), the legislation also constitutes part of a set of necessary preconditions for the receipt of the second tranche of the ENPARD programme component of support to the state budget. The special working group established by the Donor Coordination Group (DCG) on Agriculture included Oxfam, United Nations Development Programme (UNDP), Mercy Corps, CARE and PiN (the current ENPARD consortia lead agencies). A series of consultations had been conducted in all 9 regions of Georgia, involving almost 2,500 farmers and local non-governmental organizations (NGOs) such as Association for Farmers Rights Defense (AFRD), ELKANA, Eastern Partnership NGO, and national platform member organizations, as well as
local governments, private sector entities and other relevant stakeholders. Consultations were held with the participation of the EU, the DCG special working group member organizations, a head of staff of the Parliamentary Committee for Agrarian Affairs and the representatives of the legal department of the Georgian Ministry of Agriculture.

Parliamentary elections held in October 2012 brought changes to the government, and the new leadership of the Ministry of Agriculture expressed strong commitment to further drafting of the legislation. Consequently, the MoA established a larger working group comprising DCG members and local experts from the Ministry of Economy and Finance, Ministry of Regional Development and Infrastructure; and later, the Chairman of the Parliament’s Agrarian Committee joined the process. It should be highlighted that the government and parliament demonstrated unprecedented openness and willingness to consider the opinions and needs of civil society with regard to the legislation on agricultural cooperatives. As a result, all aspects of the draft bill had been considered in detail. It also reflected all the relevant aspirations of a wide range of stakeholders. Further advocacy efforts for adopting the law continued on the level of the Parliamentary Committee for Agrarian Affairs. This committee should be lauded for opening its floor to all stakeholders interested in the legislation on agricultural cooperatives.

At the outset of the Agrarian Parliamentary Committee hearings on the legislation, the DCG working group expressed special concern towards the section of the draft law on the supervisory body for agricultural cooperatives. Initially, the committee proposed that the Ministry of Agriculture should be assigned the responsibility of establishing a membership-based legal entity of private law. In short, it was originally proposed that MoA should be responsible for granting and cancelling the status of the cooperatives, monitoring their activities and implementing the support measures. This proposal was made because it was feared that assigning these responsibilities to a private law association with members who were in the cooperatives would create a conflict of interest. Indeed, international experience and that of the EU member countries have shown that overseeing a legal entity and implementing support tasks are state functions. In the end, however, the Parliamentary Committee for Agrarian Affairs proposed that it would be better for a state agency or similar entity with legal mandate to register the cooperatives, monitor their functions, and
provide them with technical support. This revised proposal was much better aligned with international standards and practices for cooperative legislation. As a consequence, the voice of civil society was strongly backed by the EU and other members of DCG, and the appropriate amendments were made in the draft legislation.

The legislation was adopted in July 2013 almost unanimously, with only one vote against it. The legislation favouring agricultural cooperatives included:

- A Law on Agricultural Cooperatives
- Amendments to the Entrepreneurship Code whereby ground provisions for the status of “agricultural cooperative” were established
- Amendments in the Tax Code providing numerous tax incentives to agricultural cooperatives such as exempting them from profit tax on primary production and processing, as well as from property tax, land tax, tax on dividends, tax on leasing, etc.
- Amendments to the Law on Grants entitling agricultural cooperatives as the only profit making entity able to receive grants without being taxed on incomes.

Agriculture has changed and developed in the last three years. Food and fibre productivity soared due to new technologies, mechanization, increased use of innovations, specialization, and government policies maximizing production. These changes allowed fewer farmers with reduced labour demands to produce the majority of the food and fibre. Although these changes had produced many positive effects and reduced many risks in farming, there have also been significant costs. Prominent among these are topsoil depletion, groundwater contamination, the decline of family farms, continued neglect of the living and working conditions for farm labourers, increasing costs of production, and the disintegration of economic and social conditions in rural communities. A growing movement has emerged in the past two decades, questioning the role of the agricultural establishment in promoting practices that contribute to these social problems. Today, this movement for sustainable agriculture is garnering increasing support and acceptance within mainstream agriculture. Not only does sustainable agriculture address many environmental and social concerns, it also offers innovative and economically viable opportunities for growers, labourers, consumers, policymakers and many others in the entire food system. Sustainable agriculture integrates three main goals: environmental health, economic profitability, and social and economic equity.
My research indicates that there are currently three specific challenges affecting rural areas, which have implications for entrepreneurship:

- Declining employment opportunities in primary industries (mainly agriculture), as a result of structural change, intensified by changes in policy resulting from reviews in the Regional Strategies for Development and the opportunities given by the Agency on Agricultural Cooperatives. SMEs in rural areas need to take steps to stimulate economic activity with employment-generating potential in the Georgian countryside.

- An ageing population, associated with an out-migration of young people and an in-migration of retired people; in some cases, this combination affects the supply of potential entrepreneurs.

- Difficulties in maintaining a critical mass of facilities to support economic development, including a range of agribusiness services.

New opportunities identified by the Ministry of Agriculture in the Strategy for Agricultural Development of Georgia 2015-2020 supports:

- Increased demand for rural amenities on the part of urban residents;
- Sources of economic success, such as dynamic SME clusters; and
- Development of diversified agro-industries such as agricultural cooperatives and agro-tourism.

Nationally, agriculture remains an important yet declining sector in terms of GDP contribution. In 2011, agriculture represented 8% of GDP, down from 8.4% in 2010 and 9.4% in 2009. Agricultural output can be broken down into a few major categories: livestock (beef and lamb, pork, chicken), grains, vegetables, fruits, grapes/wine, and nuts. Primary international investments have been in tangerines, mandarins and nuts. In sum, Georgia is a net importer of food, including wheat and cereals. This sector provides an important safety net for the rural population, with some 53% of the labour force employed in agriculture. 95% of farmers are small farmers, typically cultivating around 1 ha of land and owning an average of 2 cows. The slow pace of agricultural modernization, coupled with land abandonment, has also meant that rural poverty has proved persistent.

The overall objective of the Capacity Development of the Ministry of Agriculture is to improve the competitiveness of the agricultural sector in Georgia through improved policymaking and effective implementation of the Strategy for Agricultural Development.
**Specific Objectives:**
State policy on the improvement of SMEs in rural areas will contribute to increased food production in Georgia and reduce rural poverty. In so doing, state policy would also achieve the following:

- Improve the efficiency of the MoA so as to enable it to manage policy measures arising from the Strategy for Agricultural Development
- Support the implementation of EU agriculture and rural development support programmes in Georgia
- Assist the MoA in implementing specific components of the Strategy for Agricultural Development that are directly targeted by the EU’s ENPARD Georgia Programme
- Improve overall donor coordination in relation to development, and implementation of agriculture and rural development programmes across Georgia

The Ministry of Agriculture as well as other Ministries, Government Agencies and Agricultural Service Providers will be the main partners of the programme. Farmers, farmers associations, rural families as well as other private sector stakeholders will be the ultimate beneficiaries. ENPARD’s expected results include the strengthening of cooperation amongst small farmers and improved performance of the institutions engaged in agriculture.

The levels of Georgian food production and the rural poverty index will be used as the key indicators of progress. The budget modality includes a combination of budget support, grants and technical assistance to the Georgian government, and projects co-financed with international organizations.

The overall budget of ENPARD Georgia is EUR 52 million (including the EUR 12 million EaPIC top-up), and it will be used as follows:

- EUR 24.5 million for budget support (including an additional EUR 6.5 million EaPIC top-up). The transfer to the Georgian state budget will be allotted in four single tranches, if the general and specific conditions set out in the Financing Agreement are met.
- EUR 15 million in grants, to support the establishment of small farmers’ business-oriented organizations. Grant contracts are awarded to NGOs through a call for proposals. This latter scheme is now complete.
• EUR 3 million as a contribution agreement that is part of a UNDP joint sub-programme supporting agriculture in the Adjara region.

• EUR 2 million in technical assistance. Technical support will train institutions engaged in agriculture and enhance the capacity building process that is strongly supported by the EU.

• EUR 2 million as a contribution agreement that is part of a joint programme between the Georgian Ministry of Agriculture and FAO. This will enable the Ministry of Agriculture to develop the capacity needed to carry out the Strategy for Agriculture and implement its action plan. This is a very significant component of ENPARD, since it will improve the competitiveness of the agriculture sector in Georgia. It will improve both policymaking and the effective implementation of the Strategy for Agricultural Development.

• EUR 3 million in grants to support rural development pilot schemes. Contracts are awarded to NGOs through a call for proposals (as part of an EaPIC top-up measure, autumn 2014).

• EUR 2.5 million in technical assistance to support the Agricultural Cooperatives Development Agency (ACDA), as part of an EaPIC top-up measure, autumn 2014.

The European Union has been engaged in the agriculture sector in Georgia since the 1990s. EU assistance to the Georgian agricultural sector initially began as food security budget support programmes; more recently, this assistance has been channelled through projects implemented by international organizations and/or NGOs. The current European Neighbourhood Policy (ENP) Action Plan also sees agriculture as a priority for Georgia for it specifies one of its priority lines for action, and sets out the need to enhance agricultural production and rural development. Furthermore, the modernization of agriculture constitutes the basis for a developed food safety system, which is, in turn, a key element in the negotiation of the EU-Georgia Deep and Comprehensive Free Trade Area (DCFTA).

The activities of the Agricultural Cooperatives Development Agency (ACDA) were supported through the bolstering of its capacity building, awareness campaign and development of a long-term strategy. The initial concept paper for the organization of extension services was developed and presented to MoA management. In collaboration with the MoA, the market information system for the collection of product prices at the municipality level was initiated to support SMEs. The project supported the MoA in
demonstrating the satisfactory progress towards accomplishment of the general and specific conditions of the ENPARD programme. As a result of these activities, the second tranche payment was fully disbursed to the general budget. The project contributed actively towards the finalization of EaPIC top-up, as a result of which, the total ENPARD portfolio was enhanced by an additional EUR 12 million. In addition, ad hoc support was rendered to MoA in the formulation of specific policy measures stemming from the Strategy and Action Plan.

Currently, the regulatory and legislative environment is very much in favour of developing business-oriented farmers groups and cooperatives. As described above, the legislation not only provides the general institutional framework for developing cooperative enterprises, but also taxation policies and incentives to “tempt” farmers (and non-farmers) to form cooperatives and obtain the status of “Agricultural Cooperative”. The irrelevant nature of Soviet legacy as well as the poor social and physical capital in rural areas vis-à-vis the fact that over one thousand (1,009 as of 26 June 2015) agricultural cooperatives had been established in the country between March 2014 and June 2015 demonstrate that the establishment of the overwhelming majority of these groups were drawn in by the potential access to cheap capital and assets. In other words, most of these agricultural cooperatives were formed in the expectation that they would gain access to cheap working capital and assets. These cooperatives were not formed because they had the initiative and motivation to start sustainable and economically viable mutual businesses grounded in the operational principles of a cooperative organization. This is especially evident when the average number of members in each agricultural cooperative is analyzed. Between March 2014 and June 2015, each agricultural cooperative had an average of 7 members. This is a very low number of members for a business-oriented cooperative organization. It demonstrates that currently registered cooperatives do not exceed the circles of the enterprise owner’s family and relatives. In addition, a number of officially registered cooperatives are suspected to represent “hidden limited companies (LTDs)” that have taken the form of a cooperative to gain access to numerous tax incentives and state support schemes. This is particularly evident in cooperatives where distribution of shares is extremely unequal to the point where one or two individuals dominate because their share in the capital exceeds 70%-80%. Finally, the overview of cooperatives by sub-sectors shows that there are very few cooperatives oriented towards a specific
service or commodity. Most cooperatives cover a wide range of agricultural activities and numerous value chains, thereby revealing the dual facts that their organizations lacked clear business focus and were probably established as “cooperatives” to gain access to benefits. The experience of groups of Western European producers shows that common elements in successful commercial farmer organizations are the maintenance of simple, clear and measurable objectives, financial transparency, production of market-led commodities, and the development of specific commodities (wool, lamb, cheese, mechanization, brand, etc.) so as to cater to specific buyers. Benefits to members are primarily determined by their use of the group rather than the capital they invest. Rather than trading in their own right, many act as agents who provide services to members or sell their produce for them in return for a service fee. Regrettably, these initial “success elements” are not largely represented in the majority of agricultural cooperatives registered in Georgia.

Agricultural Cooperatives in Georgia: From Kolkhozes to Agricultural Cooperatives

Georgia has improved the agribusiness environment for all enterprises, including agricultural cooperatives and other SMEs, by simplifying administrative regulations, reducing the tax burden, subsidizing capacity building for agricultural cooperative members, facilitating free trade with the EU, promoting privatization campaigns and initiating a policy partnership platform to facilitate a national lifelong entrepreneurial learning concept. Georgia’s agricultural cooperative development measures are recognized as one of the most successful parts of the state policies on agrarian reform. Georgia’s Small Business Assessment (SBA) shows high scores for responsive administration and access to finance. Key policies are in place for the greater development of women’s entrepreneurship. A lack of data compromises Georgia’s performance, particularly in the indicators addressing start-up and SME growth training.

Some priority actions for Georgia are the adoption of a more strategic approach for SME development. Georgia can do this by identifying strategic directions and objectives for future development, and taking into consideration specific SME needs in important sectors of the economy such as agribusiness, food processing and manufacturing, packaging, sorting, storage, agro-tourism, etc. It can also systematically apply Regulatory Impact Analysis to assess the positive or negative impact of regulatory changes
in the SME sector. Both the public administration and the private sector would benefit from an increase in public private consultations. Another priority area is the provision of information on foreign market requirements and export possibilities for SMEs, as well as consultancy services and innovation support schemes through active policy measures. The state should also develop a national quality infrastructure to train providers so as to further strengthen the competitiveness of Georgian SMEs. Further support should also be given to a national lifelong entrepreneurial learning strategy that is built on the promotion of education and entrepreneurial culture. A systematic approach to tracking small business skills should also be developed, as this will result in a more efficient and responsive training market.

A short statistical review and survey of Georgia’s agricultural SME sector was carried. The investigation revealed that in spite of SMEs making up a considerable number of agribusinesses in Georgia, their contribution to the country’s economy and macroeconomic indicators (turnover, output, value added, national income, etc.) is rather insignificant. There are less people employed in this sector in Georgia than in the other European countries. The Georgian SME sector is not very economically efficient because SME labour productivity is 2-3 times lower than the country’s national average. Although European integration is a recognized strategic course in Georgia, the EU’s political principles and tools have yet to be introduced in the country, and relations between the taxpayers and the state still fail to meet European standards. Hence, it is necessary to bring the national legislation in line with the EU, and ensure that national SME criteria and definitions are in line with the other EU Member States’. To that end, Georgia should develop a new legislation providing financial and non-financial assistance to SMEs. This legislation should give preference to novice businesspersons, ensure accessibility to credit resources, and have simplified mechanisms. Agriculture is traditionally one of the leading sectors of the Georgian National Economy. Agriculture in Georgia has been one of the greatest beneficiaries of reforms since 2012. Indeed, it is one of the priority areas of the new Georgian government.

Georgia is a country in the Caucasus region of Eurasia. It is located at the crossroads between Western Asia and Eastern Europe. Its entire western border lies along the Black Sea, while its northern region shares a long common border with Russia. Georgia has a population of about 4.5 million (2012), and its capital is Tbilisi. The country was a part of the Soviet
Union until it gained independence in 1991, but thereafter, it faced serious economic troubles in the 1990s in its struggle to adopt the free market economy through structural reforms. However, its international economic standing greatly improved in 2007, with the rapidly growing tourism industry making a significant contribution to its economy. The country still has persistent poverty in its rural areas. Georgia is administratively divided into nine main regions and two autonomous republics. The regions are sub-divided into 69 districts.

Agriculture has benefited tremendously from liberal trade regimes such as free trade agreements (FTAs) and generalized system of preferences (GSP+) agreements with Georgia’s major trading partners. Likewise, Georgia has been a member of the World Trade Organization (WTO) since 2000, and has access to non-traditional markets and protection from dumping. In 2010, the agriculture sector including hunting, forestry and fishing accounted to GEL 1.52 billion, 8.4% of the total GDP. About 53% of the workforce is employed in agriculture. Major crops grown are corn and winter wheat. Fruits grown include apples, wine grapes, peaches, nectarines, pears, oranges, tangerines, mandarins and clementines. Vegetables grown include potatoes, tomatoes and garlic. Among the livestock reared, cattle, pigs and sheep are the most common. The country’s main agricultural exports are wine and processed tea. Georgia has hundreds of grape varieties, and has been producing high-quality wines for centuries.

Source: GEOSTAT.ge

Georgia has 22 microclimates because it is an intensely mountainous country, covered by many interconnected Caucasus mountain ranges. It enjoys a variety of climates including warm, humid, sub-tropical zones along the Black Sea coast, cold and wet alpine climate in the high mountains, and arid environment in the steppes. These diversified microclimates allow for a more extended than normal harvesting season and a wide range of

| Figure 1. STRUCTURE OF GDP (as percentages) |
|---|---|---|---|---|---|---|---|---|
|   | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014* |
| Agriculture, hunting, forestry and fishing | 12.8 | 10.7 | 9.4 | 9.4 | 8.4 | 8.8 | 8.6 | 9.4 | 9.2 |
| Industry | 17 | 16.5 | 15.5 | 15.4 | 16.1 | 17.1 | 16.7 | 17.3 | 17.1 |
| Construction | 7.9 | 7.8 | 6.4 | 6.5 | 6.1 | 6.7 | 7.8 | 6.7 | 7.3 |
| Trade | 15.6 | 14.8 | 16.2 | 15.1 | 16.8 | 16.9 | 16.7 | 17.3 | 17.4 |
| Transport and communication | 13.2 | 12.1 | 11 | 11.2 | 11.5 | 10.5 | 10.6 | 10.5 | 10.5 |
| Other branches | 33.5 | 38.1 | 41.5 | 42.4 | 41.1 | 39.9 | 39.5 | 38.8 | 38.5 |

Source: GEOSTAT.ge
growing conditions. Soils of volcanic origin are located in the river valleys, which tend to be quite fertile and reasonably easy to cultivate. Agriculture and agribusiness account for 9.2% of GDP and 17.5% of trade volume.

The development of the agricultural sector has not been a high priority area of past Georgian governments. According to the European Union, numerous problems and challenges faced by Georgia such as capital disinvestment, the Russian embargo, absence of a functioning agricultural research education extension system, lack of a well-functioning land market, poor irrigation systems and other infrastructures, and widespread impact of livestock diseases have resulted in the reduction of agricultural production by 20% since 2005. Even though agriculture’s economic value has been in steady decline, it still remains an important safety net for the rural population in terms of food security. The present government has taken several bold steps to revive the agricultural sector such as inviting foreign

| Figure 2. ANNUAL CROP PRODUCTION IN HOLDINGS OF ALL CATEGORIES (thsd. tonnes) |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                  | 2006             | 2007             | 2008             | 2009             | 2010             | 2011             | 2012             | 2013             |
| Wheat            | 69.7             | 74.9             | 80.3             | 53.9             | 48.4             | 96.8             | 80.7             | 81.0             | 50.2             |
| Barley           | 30.6             | 40.3             | 49.3             | 19.9             | 23.3             | 30.3             | 20.7             | 35.0             | 31.5             |
| Oats             | 1.3              | 1.6              | 2.9              | 4.2              | 2.0              | 0.7              | 1.6              | 3.4              | 5.6              |
| Maize            | 217.4            | 295.8            | 328.2            | 291.0            | 141.1            | 269.6            | 267.0            | 363.9            | 347.2            |
| Haricot beans    | 7.6              | 10.5             | 11.6             | 10.2             | 5.8              | 8.9              | 9.6              | 10.5             | 8.7              |
| Potatoes         | 168.7            | 229.2            | 193.4            | 216.8            | 228.8            | 273.9            | 252.0            | 296.6            | 216.2            |
| Melons           | 37.8             | 73.5             | 52.8             | 43.7             | 40.9             | 42.8             | 38.7             | 66.4             | 85.9             |
| Hay of perennial grasses | 25.8 | 8.8              | 30.2             | 23.0             | 25.9             | 48.5             | 31.9             | 38.4             | 37.2             |
| Hay of annual grasses | 26.5 | 20.5             | 5.0              | 14.              | 11.2             | 18.1             | 5.0              | 2.7              | 6.7              |
| Vegetables       | 179.7            | 190.3            | 165.0            | 170.3            | 175.7            | 185.8            | 198.5            | 204.8            | 190.9            |
| Of which:        |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Tomatoes         | 69.9             | 80.2             | 62.6             | 51.4             | 56.0             | 61.5             | 63.9             | 75.0             | 65.1             |
| Cucumbers        | 19.4             | 20.3             | 18.6             | 30.9             | 28.6             | 25.5             | 38.7             | 31.5             | 30.6             |
| Red beets        | 3.5              | 10.9             | 3.1              | 3.6              | 4.3              | 3.4              | 4.6              | 7.7              | 5.1              |
| Cabbages         | 35.5             | 34.3             | 41.9             | 39.6             | 27.1             | 35.2             | 34.5             | 26.0             | 23.3             |
| Peppers (capsicum, paprika) | 4.6 | 4.3              | 5.8              | 3.2              | 3.3              | 5.6              | 3.8              | 4.0              | 6.8              |
| Garlic           | 3.0              | 3.1              | 2.3              | 2.4              | 5.7              | 5.0              | 5.7              | 7.2              | 6.5              |
| Onions (dry)     | 16.0             | 12.1             | 11.1             | 10.2             | 19.0             | 14.5             | 17.8             | 17.0             | 18.1             |
| Greens (including green onion) | 8.0 | 7.4              | 5.2              | 8.3              | 9.1              | 11.4             | 10.1             | 12.7             | 8.4              |
| Carrots          | 1.2              | 2.8              | 5.6              | 4.1              | 5.5              | 8.5              | 2.9              | 9.9              | 11.4             |
| Eggplants        | 11.6             | 13.0             | 5.1              | 10.2             | 11.4             | 11.2             | 10.6             | 6.7              | 10.3             |
| Other vegetables | 7.0              | 1.9              | 3.7              | 6.4              | 5.7              | 3.8              | 3.9              | 7.1              | 5.5              |

Source: GEOSTAT.ge
investors and experienced farmers from countries like India to buy and develop arable land because most Georgian farmers have not been able to do this for various reasons.

**Figure 3. Livestock and Poultry numbers (at the end of the year in thousand heads)**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Cattle, of which: Cows</td>
<td>1,080.3</td>
<td>1,045.5</td>
<td>1,049.4</td>
<td>1,128.8</td>
<td>1,278.0</td>
</tr>
<tr>
<td>Pigs</td>
<td>591.2</td>
<td>560.6</td>
<td>561.6</td>
<td>602.4</td>
<td>665.2</td>
</tr>
<tr>
<td>Sheep and Goats</td>
<td>343.5</td>
<td>88.4</td>
<td>110.0</td>
<td>204.3</td>
<td>204.8</td>
</tr>
<tr>
<td>Poultry</td>
<td>789.2</td>
<td>769.4</td>
<td>654.1</td>
<td>742.7</td>
<td>919.6</td>
</tr>
<tr>
<td></td>
<td>5,400.7</td>
<td>6,582.2</td>
<td>6,521.4</td>
<td>6,159.1</td>
<td>7,272.6</td>
</tr>
</tbody>
</table>

Source: GEOSTAT.ge

At the core of the political and economic transformation of any country in transition (CIT) are creation of the private sector, development of entrepreneurship, and establishment of small and medium-sized enterprises (SMEs). They are considered the principal driving forces in economic development. SMEs stimulate private ownership and entrepreneurial skills, as they are flexible and can quickly adapt to changing market demand and supply situations. They generate employment, help to diversify economic activity, and significantly contribute to exports and trade as well. SMEs also play an important role in innovation and high technology business. Due to their flexibility and creativity, many SMEs became large businesses.

The three transition economies of the South Caucasus – Armenia, Azerbaijan and Georgia – lie to the south of the principal Caucasian mountain range, and are situated on the crossroads between Europe and Asia. Due to their location, they have absorbed the culture of both, and are unable to decide with whom they have greater affinity. After 1917, all three countries were absorbed by the Soviet Union and were put through 70 years of centrally planned economic rule under Soviet management. Together with other post-Soviet republics, they gained independence in 1991. According to the United Nations Economic Commission for Europe (UNECE) statistics, SMEs became the national focal points of these countries in 2003. The SME sector includes around 120,000 incorporated enterprises with juridical personalities. The SME sector employs only about 640,000 people, in-
including 240,000 self-employed persons and craftsmen. The total number of employees in the SME sector is less than 11% of the total workforce in all economic units. In the meantime, there are officially 480,000 unemployment people. In the last three years, Armenia has developed a promising state enterprise development policy with clear aims and objectives. Azerbaijan has been emphasizing the importance of large enterprises, and the share of number of employees compared to total number of employees in the whole economy is very modest. Following the Rose Revolution of 2003, Georgia began developing a transparent government entrepreneurship policy. In the last decade, tremendous progress has been made in the transformation and transition process towards a market economy.

However, inadequate framework conditions and the unfavourable macro-economic environment in the Caucasian region continue to impede entrepreneurship and private sector development. In order to facilitate the transition process, attention must be paid to creating better framework conditions for entrepreneurship and SMEs. Having identified the capabilities of SMEs in stimulating economic growth, the next emphasis should focus on the creation of a business-friendly environment and good governance so as to encourage the development of a market economy. The present publication outlines the characteristics of the SME sector in the Caucasus transition economies, provides information on SME definitions, highlights the major legislative measures and laws, summarizes the support measures for SMEs, provides SWOT analyses of the SME sector, and finally, presents the statistics on SME sector in these three countries. The UNECE Secretariat believes that cooperation among the Caucasian countries could lead to the easing of tensions in the region and contribute to the welfare of all nations living in a multiethnic environment.

SMEs are well-known drivers for job creation and economic growth. As the SME sector is important to the creation and functions of the Georgian market economy, it is one of the priorities in the state’s economic policy.

On 12 July 2013, the Parliament of Georgia enacted the Law of Georgia on Agricultural Cooperatives. According to the Georgian Law on Entrepreneurs, which regulates the general norms on the establishment and operation of cooperatives, a cooperative is a legal entity based on the labour activities of its members or established for the purpose of developing industry and increasing incomes from industrial activities. Agricul-
tural activities are defined as any industrial work or service on agricultural land involving the production, reproduction, labelling, packing, conserving, transporting or realization of vegetable and animal goods. Cooperatives that are granted the status of “agricultural cooperatives” are subject to various privileges such as tax concessions, preferential credits and grants, consultations from the state, and collaboration in development projects and programmes.

There have been great efforts to promote the institutional base of the SME sector, increase the efficiency of the SME support system, and improving the investment environment. Over the last years, the number of registered legal entities has increased and this trend is continuing, indicating society’s high entrepreneurial activity. Not too long ago, the meaning and importance of cooperatives had been ignored or misunderstood in Georgia. Then, farmers considered cooperatives to be a return to the collective farms (Kolkhoz) of the Soviet era. However, through the support of EU and FAO experts and various international organizations, the Georgian Ministry of Agriculture has dramatically increased the level of awareness on cooperative related topics. The status of cooperatives is much more dynamic now, since an appropriate legislation on cooperatives has been passed, an effective Agricultural Cooperatives Development Agency (ACDA) was launched, and hundreds of farmers have adopted cooperative status. The following initiatives played crucial roles in the development of cooperatives in Georgia:

- The Law of Georgia on Agricultural Cooperatives, enacted on 12 July 2013
- The Agricultural Cooperatives Development Agency (ACDA), a legal entity of public law, was established to ensure that the status of agricultural cooperatives was granted, terminated and monitored in accordance to state programmes
- The Strategy for Rural Development in Georgia 2015-2020 was developed by the Georgian Ministry of Agriculture
- Strategy for the long-term functioning of the Agricultural Cooperatives Development Agency (ACDA) was developed by ENPARD and FAO

The Strategy for Agriculture Development, an ENPARD initiative, states that farmers’ groups have the same beneficial rights as cooperatives created and based in geographic locations.
The Agricultural Cooperatives Development Agency (ACDA) provides support in the following ways:

- Preparing pre-registration proceedings
- Creating by-laws
- Providing consultation to the agricultural cooperatives within its competence
- Developing a database related to the activities of agricultural cooperatives
- Training human resources for agricultural cooperatives and supporting their capacity building
- Cooperating with the International Co-operative Alliance, international organizations and cooperative unions of other countries

The European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) has organized various skill development and capacity building trainings and seminars, directed towards the improvement of management skills (particularly for taxation, food safety, financial management) of cooperative members.

The regional extension centres launched by the Georgian Ministry of Agriculture keep constant contact and provide feedback to cooperative members in various regions of Georgia.

Grant programmes implemented by the Ministry of Agriculture and ENPARD have provided cooperatives with agriculture equipment and technical assistance. For example, beehives and honey processing equipments were provided to newly opened cooperatives; motor blocks (mini tillers) and hand sowers were also provided as part of a co-financing project, where the state offered agricultural cooperatives a 23% discount; assistance was also given to a hazelnut drying factory project in Darcheli, West Georgia.

MagtiCom, one of the biggest mobile communications companies in Georgia, initiated corporate client services for cooperatives.

The EU-Georgia Business Council organized seminars and forums on deep and comprehensive free trade areas (DCFTAs) in Batumi, Gori, Telavi, Tbilisi and Signagi. The EU-Georgia Business Council also organized conferences and expositions in Brussels, where 5 Georgian agriculture coop-
eratives presented their products and signed several export agreements with European retailer companies.

According to the National Statistics Office of Georgia and the National Agency of Public Registry, there are currently 1,062 registered agriculture cooperatives in Georgia. There are 79 registered agricultural cooperatives in Kakheti, 164 in Kvemo Kartli, 48 in Mtskheta-Mtianeti, 73 in Shida Kartli, 86 in Samegrelo-Zemo Svaneti, 65 in Guria, 125 in Adjara, 208 in Samtskhe-Javakheti, 95 in Imereti, 87 in Racha-Lechkhumi, and 32 in Tbilisi.

There are 24 agriculture cooperatives founded by women, with a total number of 142 female beneficiaries. There are 10 agriculture cooperatives established by internally displaced persons and refugees, with a total of 63 beneficiary farmers.

<table>
<thead>
<tr>
<th>Figure 4. OUTPUT OF AGRICULTURE IN TOTAL: (current prices, GEL m)</th>
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<tbody>
<tr>
<td>Output of agriculture, total</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Plant growing</td>
</tr>
<tr>
<td>Animal husbandry</td>
</tr>
<tr>
<td>Agricultural services</td>
</tr>
</tbody>
</table>

Source: GEOSTAT.ge

<table>
<thead>
<tr>
<th>Figure 5. SHARE OF PLANT GROWING, ANIMAL HUSBANDRY AND AGRICULTURAL SERVICES IN AGRICULTURAL OUTPUT (as percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output of agriculture, total</td>
</tr>
<tr>
<td>-------------------------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Plant growing</td>
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<tr>
<td>Animal husbandry</td>
</tr>
<tr>
<td>Agricultural services</td>
</tr>
</tbody>
</table>

Source: GEOSTAT.ge

On 27 June 2014, Georgia, Moldova and Ukraine signed Association Agreements (AA) with the European Union (EU). These agreements aim to foster economic development, long-term stability, efficiency and predictability in businesses. AAs are also the basis for the creation of deep and compre-
hensive free trade areas (DCFTAs), which, in turn, will create new trade opportunities, boost foreign direct investments, economic modernization and create new jobs in these three countries.

DCFTAs will fundamentally change the business rules and regulations within each country. The changes will affect not only exporters to the EU, but all companies too, as the domestic business environment will also need to be aligned with EU standards. These changes may be particularly challenging for SMEs, which may need extra skills and more financial resources to adapt.

**DCFTA will:**

- Improve SMEs’ access to finance, enabling them to make the necessary investments to increase their competitiveness.
- Allow SMEs to integrate into global value chains by becoming business partners of foreign direct investors.
- Enable SMEs to comply with new sanitary, phytosanitary, technical and quality standards, as well as with environmental protection measures, thereby benefiting local customers and boosting exports to the EU and beyond. The DCFTA Facility for SMEs will reach tens of thousands of SMEs and their hundreds of thousands of employees, suppliers and service providers in Georgia, Moldova and Ukraine. The DCFTA Facility for SMEs is designed to support SMEs in making the changes required so that they benefit from the new business opportunities.
- The unprecedented investments that the DCFTA Facility for SMEs will inject into the real economy will also contribute to improvements in the business environment. The local banking sectors, business services for SMEs, trade and quality infrastructure, and the overall business climate will benefit greatly from the Facility. Thus, the DCFTA Facility for SMEs will create a virtuous cycle of growth and contribute to significant job creation.
Figure 6. Output of Agriculture in Georgia

Source: GEOSTAT.ge

Figure 7. Annual Crops by Region

Source: GEOSTAT.ge

Investors can benefit from the rising consumption in the local market. The local market is also complemented by duty-free access to approximately 900 million markets through free trade agreements (FTAs) with Turkey, CIS countries and other EU countries.
The DCFTA Facility for SMEs has four main instruments:

- Risk sharing instruments to improve credit conditions for SMEs by reducing the risk for European and local financial institutions in lending to them.
- Currency hedging to allow SMEs to borrow in local currency at accessible rates.
- Investment incentives to reduce investment costs by providing incentives for SMEs to upgrade their technology and production/service processes in order to comply with EU standards and regulations.
- Technical assistance via a range of specifically designed projects will be available to support SMEs and other stakeholders (business support institutions) by identifying investments complying with DCFTA requirements. This will help prepare business and financing plans to get bank credit, identify new market opportunities opened by the DCFTA, as well as foster improvements in the regulatory and policy environments of Georgia, Moldova and Ukraine.

The DCFTA Facility will be accompanied by communication activities to raise SMEs’ awareness of the support available to them and educate them on how to make best use of it.

<table>
<thead>
<tr>
<th>Figure 8. AVERAGE ANNUAL FOOD PRICES (GEL/kg)</th>
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<tr>
<td></td>
</tr>
<tr>
<td>Beef</td>
</tr>
<tr>
<td>Pork</td>
</tr>
<tr>
<td>Boiled sausage</td>
</tr>
<tr>
<td>Frozen fish</td>
</tr>
<tr>
<td>Tinned fish, 0.250 kg</td>
</tr>
<tr>
<td>Sunflower oil, 1 litre</td>
</tr>
<tr>
<td>Fresh milk, 1 litre</td>
</tr>
<tr>
<td>Imeretian cheese</td>
</tr>
<tr>
<td>Eggs, 10 units</td>
</tr>
<tr>
<td>Sugar</td>
</tr>
<tr>
<td>Wheat flour</td>
</tr>
<tr>
<td>Bread (of high quality flour)</td>
</tr>
<tr>
<td>Rice</td>
</tr>
<tr>
<td>Macaroni</td>
</tr>
<tr>
<td>Potato</td>
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<tr>
<td>Cabbage</td>
</tr>
<tr>
<td>Onion</td>
</tr>
<tr>
<td>Apple</td>
</tr>
<tr>
<td>Haricot beans</td>
</tr>
</tbody>
</table>

Source: GEOSTAT.ge
Agricultural SMEs are at risk from the fragmentation of agricultural land, with the average private holding in the country being only 1.25 hectares. The consolidation of small plots into larger and more efficient commercial farms has been impeded by an inefficient system of land registration and poorly defined property rights. Restrictions on the purchase of agricultural land by foreigners and foreign-owned businesses have also precluded potentially productive investment in the sector. While the Constitutional Court struck down a law banning land purchases by foreigners in June 2014, a new draft law will allow private foreign persons and foreign companies established in Georgia to purchase plots of up to 100 hectares. While land fragmentation is a problem in Georgia, it should be borne in mind the average private plot in Armenia is 1.3 hectares, barely larger than the Georgian average. Land fragmentation appears to be an obstacle to the growth of Georgia’s SME sector, but it does not appear to be a decisive one. The lack of growth in both Georgia’s agricultural and non-agricultural SMEs can be explained by their difficulty in obtaining financing. The average interest rate spread in Georgia, with the difference between the interest paid on deposits and the interest charged on loans, is 11.3%. This means the average interest rate spread in Georgia is the highest in the former Soviet republics, and it is significantly higher than the average spread of 7.3% in Armenia. This, in turn, means that the cost of borrowing outstrips the incentive to save, with the result being that an entrepreneur in need of financing to buy land and equipment or hire employees is faced with very high borrowing costs. In Armenia, this problem occurs too, but on a smaller scale.

The Strengthening Extension and Advisory Services (SEAS) will support the efforts of the Georgian Ministry of Agriculture (MoA) in further developing its recently implemented public agricultural extension and advisory service system. A major component of the SEAS project will include the development of staff training, mentoring, and continuing education programmes for MoA employees charged with working directly with farmers to improve agricultural knowledge and technology transfer. The overall project objective will be accomplished through the use of activity-funded technical advisors who will work closely with MoA in developing and implementing a multi-year strategy to enhance the capacity of MoA leadership and relevant field employees to provide effective, public funded agricultural extension and advisory services to the farmers in Georgia. These activities will contribute to USAID’s overall goal of improving agricultural
productivity and rural incomes through more effective delivery of information on best practices to farmers throughout the country. The University of Illinois is the lead institution in this two-year activity.

The Agriculture Cooperatives Development Agency (ACDA), which is in charge of granting and terminating the status of individual cooperatives and monitoring their activities, believed these attempts resulted in the approval of 264 agricultural cooperatives.

Other activities considered for implementation were the two-week mentoring sessions during the summer of 2014, where a three-person faculty team shadowed MoA employees as they made farm visits or conducted educational programmes. The three-person team would then provide feedback to MoA employees on education delivery techniques and technical subject matter training. Demonstration plots and research trials will be a part of this mentoring effort. To improve management leadership in MoA, an educational outreach system comprising a two-week fellowship programme to the US or some other location to observe extension management models should be considered.

Expected results from the activities conducted as a result of the agreement include:

1. MoA leadership will evaluate various aspects of the organizational and management structure for the new agricultural information outreach and extension system, and make adjustments as needed for the system to become more effective.
2. MoA employees directly involved in outreach activities to farmers will increase their subject matter knowledge of producing commodities important to their region.
3. MoA employees directly involved in outreach activities to farmers will understand modern educational methods and approaches, enabling them to better transfer subject matter knowledge to farmers and agribusinesses.

SEAS will support the government of Georgia’s renewed interest in agriculture as an important sector of the economy. This is in line with the US government’s interests in supporting the MoA in its new initiatives, for the US government has responded positively to the Georgian Ministry of Agriculture’s request for assistance in improving its extension and advisory services for the benefit of small and medium-sized farm operations.
Favourable domestic conditions and strong external demand supported Georgian economic growth in the first half of 2015. This demonstrates that regional economic tensions have yet to adversely affect Georgia. The large Russian market, which opened up for Georgian products in July 2013, helped increase exports, particularly of wine. Greater consumer and business confidence gave a boost to manufacturing and trade sectors. In addition, the construction sector benefited from renewed public infrastructure projects and resumption in business related investments. The agricultural sector grew at a relatively modest pace compared to industry and services.

Georgia’s economic growth is projected to average 5.5% per year over the medium-term, based on greater policy certainty, improved market access, and strong structural reform implementation. Medium-term growth prospects depend on a number of factors including improved economic ties with the EU and the robust reform programme outlined in the government’s development strategy, which will support growth in private investment. Growth prospects depend on Georgia’s ability to leverage the DCFTA and AA with the EU, which will improve market access and encourage foreign direct investment (FDI).

Net FDI is likely to amount to 6.3% of GDP on average, while the national savings rate is expected to increase to 20.5% of GDP by 2017.

Georgia’s public debt remains sustainable. Total public sector debt fell from 38.7% of GDP in 2010 to 32.2% in 2013, due to continued fiscal consolidation efforts. About 80% of public debt in 2013 was external, and dominated by bilateral and multilateral debt.

Located on the shortest route between Europe and Asia, Georgia’s transport system is a key link in the historic “Silk Road”. The government’s commitment to rehabilitating main, secondary and local road networks has intensified in response to the global economic downturn, as road rehabilitation will improve access to markets and services, and create short-term employment through civil works.

Georgia has a developed, stable and reliable energy sector, but efforts are required to improve the efficiency in domestic energy use. The most promising source of additional energy generation is hydropower and the government is focused on securing private investments for construction of
new hydropower stations. Currently, only 12% of Georgia’s hydropower potential is utilized.

Georgia has also adopted a State Strategy for Regional Development to create a favourable environment for regional socio-economic development and improve living standards. The government has flagged regional disparities, poverty and unemployment as key priorities for intervention in “Georgia: 2010”, its new Socio-economic Development Strategy.

One of the potential drivers of economic growth in cities and regions is tourism, which recently saw rapid growth in Georgia, and has become an important source of job creation. The number of visitors to the country increased from 560,000 in 2005 to 5 million in 2013, with 6.3 million expected in 2015. An integrated and demand-driven approach to regional development has been designed with the support of the National Bank of Georgia, and is currently seen as critical in spurring growth and job creation in historic cities and cultural villages.

The Country Partnership Strategy (CPS) for the fiscal years 2014-2017 was approved by the World Bank Board of Executive Directors in May 2014. The new CPS envisages a new lending envelope of about USD 1.18 billion, which is roughly 30% higher than the programme delivered under the previous CPS (USD 823 million in the fiscal years 2010-2013). Georgia graduated from the International Development Association (IDA) at the end of the IDA16 Replenishment period.

Since Georgia joined the World Bank in 1992, a total of 62 projects comprising approximately USD 2.27 billion of IDA credits, grants and International Bank for Reconstruction and Development (IBRD) loans have been provided to the country. The current portfolio consists of 11 active investment projects and one development policy operation totalling an estimated USD 848 million.

E-Agriculture will bring automation to legislative reporting. Farmers can submit all required reports, such as data in their farm management solution, with a single click. Data is automatically stored and processed for cooperative usage. As a result, cooperatives are completely relieved of painful manual processing and can focus on more relevant things like analyzing the data, and providing better and higher quality support to changing the
way that farmers produce food. Furthermore, all possible errors during manual processing will disappear when automated reporting is used. Automation of legislative reporting brings significant time and financial savings to farmers, cooperatives and governments. It also guarantees the highest possible data quality. This E-Agriculture solution provides cooperatives with an integrated communication centre for managing two-way communication with farmers. There are two main communication tools: notifications and collaboration. Notifications are used for sending targeted news and all relevant information to farmers. Cooperatives only need to create a notification text and choose the target group of farmers who should receive the notifications. Once selected, notifications will be distributed to farmers via several channels: e-mail, notifications in farm management solution, and push notifications in mobile applications. Farmers can reply to the news and pose questions to the cooperatives through their farm management solution. Through E-Agriculture, agricultural cooperatives can easily control the entire communication flow. Target options for notifications are crops and geographical locations, allowing agricultural cooperatives to choose to notify only farmers from specific regions or those who cultivate specific crops.

SMEs have lower productivity and less capital facilities than large enterprises. There is a disproportion in the sectoral and regional structures of small entrepreneurship. While 70% of SMEs are in trade and services, the number of small enterprises in the processing industry, construction, transport and communication has been temporarily increasing in recent years. Small enterprises are mostly concentrated in the capital, Tbilisi. This situation is relevant to the countries in transition. In some industrial regions (Autonomous Republic of Adjara, Imereti, Kvemo Kartli, etc.), favourable conditions are created for the development of small entrepreneurship. However, the same cannot be said for the highland regions of Tsalka, Samtskhe-Javakheti, Mtskheta-Mtianeti, Racha-Lechkhumi, and Svaneti. Consequently, the implementation of priority support measures in the highland regions of Georgia is an urgent issue.

While SME quality has been growing inadequately vis-à-vis SME numbers, SMEs have come to play an increasing role in creating a new economy. In particular, small enterprises already produce more than 20% of GDP and almost a fifth of the value added. Small entrepreneurship covers a third of total entrepreneurial employment. Presently, however, small enterprises
still have a very low share in the country’s exports. Large and medium enterprises’ capital facilities and productivity are also rather low at 63% and 48.8% respectively. In the SME sectoral structure, trade and service remain the basic fields. About 71% of small enterprises are in service and trade, and they employ 54.7% of the entrepreneurial workforce. Additionally, 98.2% of trade and service companies are small. Small entrepreneurs prefer to set up businesses in trade and services because they need less capital investment and are relatively low risk activities. It should be noted that there is an increasing number of SMEs in construction, communication and the processing industry. SMEs in these fields cover important parts of the entrepreneurial capital and create jobs for highly qualified specialists.

**Figure 9. Agribusinesses in the total economic output**

Source: GEOSTAT.ge

At the beginning of 2013, there were 84,239 enterprises in the country. Of these, 15,218 enterprises registered in 2011. As can be seen, the number of enterprises registering in 2011 is significantly more than the 10,649 enterprises registering in 2010 and the 7,294 enterprises registering in 2009. Individual enterprises make up the majority of entrepreneurial activity. The number of individual enterprises has increased from 29,152 to 49,952 (171.4%) in 2009-2012. This is the result of the simplification of registration and account reporting procedures for individual enterprises. It should be emphasized that the number of individual enterprises is 60% of the total number of legal business entities, and 99.9% of individual com-
panies are small enterprises. This situation shows that SMEs are the main factors of entrepreneurial activities in the country. According to surveys, the number and quality of SMEs have improved in Georgia. In particular, the share of SMEs in the total number of active enterprises is permanently growing. At the beginning of 2013, 90% of SMEs were medium-sized businesses, making up 7.4% of all active enterprises. SMEs generated the bulk of total employment in the entrepreneurial sector and 20% of ready-made products. However, the SME sector could not reach the desired levels because of some general macroeconomic and specific factors.

**RECOMMENDATIONS:**

- Agriculture development in Georgia is deeply correlated to the complex technical, economic, social and political support of SMEs in rural areas. These forms of support to rural SMEs have to overcome and reduce both poverty and hunger in order to meet the UN’s Millennium Development Goals.

- It is very important to support innovation, knowledge and technology transfer to agricultural cooperatives (both horizontal and vertical cooperatives) and other SMEs. Several EU programmes aim to address exactly this issue, the most notable of which is Horizon 2020. Horizon 2020 and its SME instrument will allow SMEs to directly apply to European projects, structural funds, etc. These EU programmes will be complemented by national and regional schemes as well as private initiatives such as crowdfunding, credit cooperatives, foundations, etc. Cooperation among regions should be increased so as to facilitate the implementation of such programmes.

- The creation of credit cooperatives to finance the sector is a great challenge. However, so doing would improve production in Georgian farms. The creation of credit cooperatives would also strengthening competition in the banking market.

- Several good practices and success stories from developed countries can be widely used to achieve efficient innovation marketing for SMEs. Some of these good practices are E-Agriculture software, retail marketing, public procurement and the development of a corporate image.

- Credit cooperatives have great opportunity to draw on its comparative advantage as a multi-sector lending institution and as the single largest donor to Georgian agriculture, to help ensure a coordinated and multifaceted approach to agricultural cooperatives in Georgia.
• Establish realistic goals to expand and better extend services and rural advisory services. In so doing, the need to increase productivity of rain-fed agriculture through improvements in land quality, agrobiodiversity conservation, climate-smart agriculture, organic farming as well as water and drought management will be recognized.

• Design efficient mechanisms such as public-private partnerships so that farmers are provided with critical input on fertilizers, water, credit and seeds.

• Support the development of marketing and transport infrastructure.

• Increase the quantity and quality of produced food as well as the analytical work on agriculture. The findings of these analytical studies should be used as the basis for policy advice and lending.

• Strengthen monitoring and evaluation (M&E) to ensure the reporting of project activities in various agro-ecological zones and for different crops and farmer categories, including women.

• Develop a system to coordinate agriculture activities in a country with road access, market proximity, and soil conditions.

• Develop land management systems and agro-ecological zoning (AEZ).

• Dissemination of knowledge materials and implementation of training programmes on adaptation measures and good agricultural practices to vulnerable regions in Georgia.

• Promote and help the funding of SMEs.

• Promote real European economic integration.

• Rural development is one of the identified priorities for the country. Given the importance and contribution of agriculture to national employment, GDP and employment, it is likely to remain a priority.

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3.6 SMES AND SMALL FARMS IN AGRIBUSINESS: THE GREEK EXPERIENCE

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ABSTRACT
Agriculture and the agri-food sector play a vital role in the Greek economy. Small farm size and land fragmentation are important structural problems not only in Greece, but also in the Southern European countries. The aim of this paper is to examine the role and prospects of small farms and SMEs in the agribusiness sector in the Greek economy. Basic EU benchmarks
are employed to draw the sector’s profile, and its competitiveness is assessed. Low competitiveness is estimated. A number of opportunities are pinpointed, especially with regard to internationalization, innovation and technology introduction, and effective marketing strategies. Funding opportunities mainly from the EU and targeting small farms and SMEs are examined. This paper will also analyze the way in which the Common Agricultural Policy (CAP) has evolved over the years to meet changing economic circumstances and citizens’ requirements. Suggestions to entrepreneurs and state are offered as well.

Keywords: agribusiness, small farms, Greece, SMEs, competitiveness, European Union, farm size, CAP, branding
JEL Classification: Q100, Q130, M13

3.6.1 COUNTRY PROFILE: GREECE
3.6.1.1 Overview
Located at the crossroads of Europe, Africa and Asia, Greece forms the southern extremity of the Balkan Peninsula in Southeast Europe. Her territory includes more than 3,000 islands in the Aegean and Ionian Seas, only approximately 100 of which are inhabited. Mount Olympus is the highest point in the country.

Greece is one of the cradles of European civilization, as her ancient scholars made great advances in philosophy, literature, medicine, mathematics and astronomy. Ancient Greek city-states were pioneers in developing democratic forms of government.

A population of 11,290,067 is mainly concentrated in the capital of Athens and other major cities like Thessaloniki, Patras and Heraklion. Greece joined the European Economic Community (now the EU) in 1981, and became the 12th member of the European Economic and Monetary Union in 2001.

3.6.1.2 Agriculture at a glance
Agriculture is the primary sector of the Greek economy. Agriculture in Greece has historically played an important part as a sector of economic activity, and as a factor in maintaining social and economic cohesion. This primary sector accounts for 3.3% of the country’s economy in terms of total gross value added (GVA), and for 12.2% of total employment. This is higher than the European average both in economic terms (1.7% in EU-
Agriculture is the 5th largest contributor to the country’s economic output (McKinsey & Company, 2012). The food and beverages sector, which is closely linked to agriculture and farming, is one of the main drivers of economic growth for Greece. The sector has an outward orientation with the export of agricultural products accounting for 16.7% of the total value of exports in 2014 (Foundation for Economic and Industrial Research Reports 2013 and 2015).

Table 1. Key Agricultural Data

<table>
<thead>
<tr>
<th>Share of agriculture to GDP in % *</th>
<th>3.3 (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees in agriculture **</td>
<td>1,212,720 (2010)</td>
</tr>
<tr>
<td>Total number of agricultural SMEs</td>
<td></td>
</tr>
<tr>
<td>Total number of farmers ***</td>
<td>723,010 (2010)</td>
</tr>
<tr>
<td>Average size of land per farmer in hectare ****</td>
<td>4.8 (2010)</td>
</tr>
</tbody>
</table>

Remarks:
(*) Gross Value Added in agriculture, forestry and fishing / Gross Value Added of Total Economy
(**) People working on farms (Regular Labour Force)
(*** ) Agricultural Holdings
(****) Average Area per Holding
Source: Eurostat, 2015

The size of Greece’s 723,010 holdings is predominantly small, with 52% of holdings having less than 2 hectares (Eurostat 2015). This is mainly due to differences in climate, topography, soils and production infrastructures.

Figure 1. Characteristics of Rural Areas in Greece

Source: European Commission, 2014
The age structure of the farming community in Greece is, on average, older than in the EU-28: only 6.9% of farmers are under 35 years of age (7.5% in EU-28), while 33% are older than 64 (30% in EU-28) (See EC 2014). The age structure has not changed for years now, a sign of an old and ageing population.

In terms of agricultural output, most Greek farming involves crop cultivation, followed by mixed agricultural and breeding activities, with animal production holding the smallest part in GVA and employment (Greek Ministry of Agricultural Development Report 2011, 2).

In 2010, Greece was the European Union’s largest producer of cotton (183,800 tonnes) and pistachios (8,000 tonnes); she also ranked second in the production of rice (229,500 tonnes) and olives (147,500 tonnes); third in the production of figs (11,000 tonnes), almonds (44,000 tonnes), tomatoes (1,400,000 tonnes) and watermelons (578,400 tonnes); and fourth in the production of tobacco (22,000 tonnes).

Crop cultivation has been and remains the largest sub-sector of the primary agricultural sector, accounting for 62% of GVA and 80% of agriculture employment. Before the global economic crisis, crop cultivation had been seriously challenged and overall production had declined by more than 15% (McKinsey & Company 2012).

Permanent grassland and meadows account for 21.6% of total utilized agricultural area (UAA).

During the 1990s, permanent crops expanded. The exception to this growth was vines, since vine cultivation faced a serious contraction during this period. Within the same period, farms with annual crops were significantly reduced and the areas with annual crops were not decreased proportionally. These changes resulted in an increase in the average farm size, except in the case of permanent crops (including vines). The overall trend is marked by an intensification pattern, while irrigated land (in other words, intensive crops) is cultivated by a smaller number of farms that increased in size (Klonaris et al. 2012, 1-20).
3.6.2. SMALL FARMS IN AGROBUSINESS

3.6.2.1 Small farms’ profile

The literature exhibits a large degree of uncertainty over the definition of small farms, and it is unclear where the dividing line between small and large farms should be drawn. In the political debate, the notion of “small farms” goes hand in hand with ideas of disadvantage, risk of poverty, lack of opportunity, and the need for support. The clarification of the definition of “small” should be of utmost importance for policymakers, given the heterogeneity and variety of farms. Small farms promote regional economic development by supporting rural communities, and better preserving the landscape and countryside (Hubbard 2009, 2-11).

Map 1. Predominant Farm Area in the EU

Source: EPRS, 2014
In Greece, as in other southern and eastern regions of the EU, small farms of up to 5 hectares represent more than 90% of all farms; while medium farms averaging 5 to 50 hectares and large farms with more than 50 hectares represent the remaining 10%. In fact, 69% of all farms in EU-28 have a surface of less than 5 hectares and collectively represent 7% of the EU’s agricultural area. (EPRS 2014).

Greek farms are also small, both in physical size and in economic terms. In most of the regions in Greece, more than 95% of farms are defined as economically small farms and have an economic output of less than EUR 25,000. Economically small farms represent 86% of all EU farms, but their combined output of EUR 11 bn accounts for only 13% of the economic output from all EU farms (EPRS 2014).

Map 2. Number of Economically Small Farms as Percentage of all farms
Source: EPRS, 2014
Small farms are associated with low income groups reliant on limited resources, produce grown mostly for their own consumption, and lack of economic viability. Many farmers and farm workers in Greece pursue agriculture as a part-time activity; and agriculture is characterized by seasonal labour peaks, where large numbers of workers may be hired for a relatively short period of time (Eurostat 2015). The average labour input per holding is 0.6, a figure relatively low and characteristic of the small, family-owned, labour unintensive character of the farms, which results in relatively low productivity and competitiveness.

3.6.2.2 Output and specialization of small farms
Whilst average output of economically small farms (less than € 25,000 of economic output) is rather homogeneous in Greece as in the other EU Member States, the output of small area farms (less than 5 ha) is more diverse, depending, among other things, upon the farm’s product specialization (EPRS 2014).
Smallholdings show the greatest diversity in their activities. They tend to either specialize in the production of permanent crops (vineyards, fruit trees and olives) or field cropping; or they practice a range of different activities, including a relatively high share of mixed cropping or crop and livestock farming. As the size of the farm’s agricultural area grows, the share of holdings specializing in field cropping and grazing livestock increases, while permanent crops, granivores and mixed farming activities become less important (EC 2013, 26-27).

Of all farms specialized in cereal production in the EU-28 countries, 54% are small area farms. Small area farms account for a high proportion of farms specializing in horticultural production, vineyards and orchards (81%, 73% and 76% respectively). In Greece, small farms are predominant among orchards, as well as those producing vegetables, vineyards and cereals (EPRS 2014).

3.6.3. SMEs IN AGRIBUSINESS
3.6.3.1 EU Definition of SMEs
Although there are a series of other considerations to be taken into account, the central definition of SMEs according to the Commission Recommendation of 6 May 2003 (2003/361/2003) focuses on the average number of employees during the financial year, net turnover and balance sheet total.

Medium-sized enterprises are defined as enterprises employing more than 250 persons and have either an annual turnover not exceeding EUR 50 m or an annual balance sheet total not exceeding EUR 43 m.

Small enterprises are defined as enterprises employing less than 10 persons and have either an annual turnover or an annual balance sheet total not exceeding EUR 10 m.

Microenterprises are defined as enterprises employing fewer than 10 persons and have an annual turnover or annual balance sheet total not exceeding EUR 2 m.
3.6.3.2 SMEs in Greece

Micro, small and medium-sized enterprises (MSMEs) play a central role in the Greek economy. They are a major source of entrepreneurial skills, innovation and employment, accounting for 72% of value added and 86% of employment. These proportions are considerably larger than the rest of the EU for which MSMEs contribute to 58% value added and 67% of employment (EC 2014b).

The Greek SME sector is more heavily based on microfirms than most other European countries, accounting for about 46% of the added value generated by the SME sector. This is higher than the EU average of 37%. They also provide 64% of all SME workplaces in the business economy (EC 2014b).

The main problems faced by Greek SMEs are social and insurance charges, taxes, administrative difficulties and bureaucracy, difficulty in finding seed capital, fear of business failure, lack of business knowledge and skills, and finally, difficulties in transforming the family business (Zaridis et al. 2015, 559-66).

With real GDP in 2013 estimated to be almost 23% below its 2008 level, due to the financial crisis, Greek SMEs have borne the brunt of the economic crisis in recent years. In that period, SME employment fell by 27% or more than 630,000. Almost one in four SMEs existing in 2008 closed down, reducing the total volume of business, measured in added value, by a third of its 2008 levels (EC 2014b).

3.6.3.3 SMEs in Greek Agribusiness

SMEs in Greek agribusiness mostly refer to food processing formations, which in a few cases involve vertical structures. Food processing is one of the largest industries in Greece, generating a gross value added (GVA) of €5.9 bn in 2011. About 15,300 companies were active in the sector in 2010, according to the Annual Industrial Survey of EL.STAT (National Statistical Service of Greece). The industry consists mainly of SMEs, as almost two out of three firms in the sector are sole proprietorships. About 96,600 individuals were employed in the industry in 2012 (OECD 2014).
3.6.4. Competitiveness of Greek small farms and SMEs in agribusiness

3.6.4.1 The Greek Economy in 2009-2014

The Greek economy went into recession in 2009 due to tightening credit conditions and Athens’ failure to address a growing budget deficit. As a result, about 13,100 jobs in the sector have been lost since 2008. Production has been falling steadily throughout the recession, recording an average contraction rate of 2.8% per year between 2008 and 2012. During the recession, households have been less willing to cut their expenditure on fresh food products than other manufactured goods (OECD 2014).

As a consequence, consumer power has diminished, the prices of energy and raw materials have increased, and constant new taxes have been burdening households and companies. Liquidity has been very limited, and the high levels of uncertainty have led to limited access to finance, which has been confined to limited bank loans, limited profitability and heavy reliance on common agricultural policy (CAP) subsidies.

3.6.4.2 Greek Agribusinesses’ competitive profile

As mentioned earlier, Greek agribusiness comprises mostly of microenterprises, few of which have vertical structures. The production process is characterized by limited efficiency and low productivity, with very limited penetration of new technologies or innovations in the production process or new crops.

Access to market has also been limited. These small agricultural companies usually sell their produce in bulk and without branding, thus missing the opportunity to benefit from the good brand name that Greek products have for their quality. Instead, they sell to manufacturers or large intermediaries, who benefit by charging a high premium on the low prices they paid for buying commodities or high quality intermediate products (McKinsey & Company 2012).

As a result of the above, Greek agribusinesses demonstrate low competitiveness. This fact is intensified by the family, non-professional and seasonal character of agribusinesses, which, in their numerical majority, comprise non-educated, aged and ageing farmers, with very limited entrepreneurial character.
3.6.4.3 SWOT Analysis of the Greek Agribusiness Sector

The SWOT analysis is a very useful tool for understanding the particularities of the agribusiness sector, and setting the stage for the proposal of new approaches that will positively contribute to the development of the sector.

First, the sector’s strengths will be considered. Greece is a country with rich biodiversity that is 10 times that of Europe, as the country has a broad range of flora and fauna. Greece has a temperate climate, favourable for the cultivation of a variety of crops and hosting animal production, while her mountain forests are home to high quality aromatic herbs. Greece disposes an impressive availability of high quality raw materials that can form the basis for crop cultivation and the food processing industry.

In spite of the broad availability of good quality resources, the Greek agribusiness sector lacks structural mechanisms and infrastructure, a major contributor to its weaknesses. Large-scale, modern productive capacity is limited to relatively few food processing industries, and is not a characteristic of SMEs or farms. Crops and raw materials are sold in bulk to intermediaries and large food processing companies, and a relatively limited number of cases of product innovation have been identified. This reality contributes to the low competitiveness of the sector. Low competitiveness is further intensified by the non-professional profile of Greek farmers, who have a family and seasonal approach to farming instead of an entrepreneurial one, resulting in low productivity, low efficiency and lack of vision in production. The latter is also a result of the limited link of Greek primary production to local market needs and even more limited access to international markets – which could be strong supporters of the sector. The limited access to the international market and lack of efficient mechanisms promoting Greek output is also evident in the Greek trade balance. The Greek trade balance of final and intermediate products is at a deficit, with only the intermediate products running a trade surplus, mostly due to commerce with non-EU countries (EU Commission 2011). The ageing and insufficiently educated and specialized farming population also do not contribute positively the sector’s prospects.

Within this context, Greek agribusinesses face a number of threats. One of these threats is the fact that food technologies in other countries are developing the ability to produce products similar and competitive to “tra-
ditional” Greek ones. In addition, instabilities in the global food chain, coupled with the trade balance deficit of the sector, raise food security considerations for the country. The instability and insecurity wrought by the economic crisis are deterrents to domestic and foreign investment. Furthermore, the primary sector will also have to face challenges related to climate change and the rise in prices of traditional energy resources in the coming decades.

On the bright side, there are a large number of opportunities that the Greek agribusiness sector may explore. The country has a vibrant and educated pool of people looking for new employment. As a result of the economic crisis, an estimated 1 million educated young people are looking for new employment. The large number of young and educated jobseekers is a possible growth engine for the sector. Also, educating current and prospective new farmers would tap into the sector’s potential.

The effective marketing of products is another opportunity for Greek agribusinesses. Effective branding strategies can generate positive changes in sales and income, enabling Greek SMEs to tap into the potential offered by the European markets’ increasing preference for fresh and quality food, and international trends boosting the popularity of products like “Greek-style yogurt”. A considerable opportunity also lies with the product portfolio of protected designation of origin (PDO) and protected geographic indication (PDI) goods. Greece has more than 50 products awarded with PDO or PDI status (such as Krokos Kozanis, Fava Santorinis, Mastiha Chiou, etc.), but the country has not tapped into this opportunity in the same way Turkey has done with its “miracle” hazelnuts and Spain has done with its chorizo (Endeavor Greece 2013).

Another opportunity lies with the growing demand of new niche markets, as Greece is already the producer of herbs and superfruits like walnuts, berries, pomegranates and kiwis. As these herbs and superfruits are relevant for Greece and already showcase success stories, they can serve as exports or import substitution. New market trends such as gluten-free products or ready-to-eat meals also form opportunities for Greek SMEs. A significant opportunity also exists in conjunction with tertiary production and the tourism sector, which is one of the strongest sectors in Greece. Integrating agribusiness production and agro-tourism with the tourism sector would promote the output of agribusiness as well.
Finally, subsidies and funds originating from national and international programmes create opportunities for the introduction of new technologies and scientific approaches to all phases of the sector’s value chain (from the field to the shelf), and would educate the people working within it.

3.6.4.4 Seeds of Change

In spite of the difficulties faced by the sector, select cases are leading the way to a new era of Greek agribusiness development. More new ventures have been launched in the past 5 years than in previous decades, and more than 640 of them are in the agro-food and food processing sector, a sector with high development potential. A variety of business models are emerging: disintermediation, farmer-to-consumer models, food and beverage retail chains, products for the food and beverage portfolio, and food and beverage single product. Out of the ventures adopting such business models, only 1% can be characterized as truly high impact, in the sense that they have the potential to more effectively nurture jobs and revenues than their peers (Endeavor Greece 2013).

In this context, new company profiles also emerge: produce that are acknowledged “national champions” are gradually moving into dominant positions in different product categories such as snails, balsamic vinegar and mushrooms. These national champions mainly have an export orientation. Farms and SMEs have also begun to focus on niche markets and product innovation by cultivating new crops such as blueberries, pomegranates, aromatic herbs, snail farms, gluten-free products, and micro-breweries just to name a few. Industrial players have shifted to primary production mainly for the substitution of imports. Producers or manufacturers then proceed to integrate vertically in order to control quality and production, and improve their offerings and delivery.

A very interesting trend is that of collaboration. Farms and SMEs have collaborated to form formal or informal networks to perform certain activities (such as transportation and product delivery) in their value chain more effectively. Cooperatives also appear to support agricultural SME growth. Old and new cooperatives of producers have standardized certain processes (collection, packaging, exports) in order to tap into niche or growing markets. Such cooperatives have managed to grow significantly and deploy product development strategies. Some of them have gained access to Venture Capital Funding (worth millions of Euros) in order to expand their facilities, and have very successfully revamped their business models.
In sum, ventures in the Greek agribusiness sector are growing. The sector is witnessing the flowering and growth of a high number of new companies, offering both single products and portfolios of products. While these ventures in the Greek agribusiness sector are still fragmented, they are already demonstrating revenue traction. A significant number of SMEs are scaling up, achieving significant revenues, and offering larger portfolios of products. In some cases, these SMEs’ expanded portfolios of produce include national champions at a product level and select food retail ventures. Notably, these innovating ventures mostly stem from the food processing sector, with successful ventures in the primary sector also emerging. Although these examples do not represent the majority of the SMEs in the sector, they certainly form a trend that needs to be supported.

3.6.5. SUPPORT TO AGRIBUSINESS AND SMALLHOLDER FARMERS

3.6.5.1 EU support to agriculture, especially to small farms

3.6.5.1.1 CAP and Rural Development Programme, 2007-2013

For more than twenty years, the two pillars of the EU Common Agricultural Policy (CAP) have been through successive reforms to increase market orientation for agriculture, provide income support and safety net mechanisms for producers, improve the integration of environmental requirements, and reinforce support for rural development.

Pillar 1 contains subsidies for income support to farmers (“direct payments”) and market measures (“common market organizations”). Pillar 2 budgets support for the rural development programme (RDP). It is intended to support socio-structural and more targeted environmental measures as well as rural development for farmers and rural dwellers.

Total public expenditure of the Greek national RDP (2007-2013) accounted for EUR 4.7 bn, with the European Agricultural Fund for Rural Development (EAFRD) contribution varying considerably among the following axis.

The measures of Axis 1 aimed at improving the competitiveness of the agricultural and forestry sector by further modernization of production as well as by improving the quality of agricultural production and reducing regional disparities. Measures linked to more sustainable land use and protection of the environment were grouped around Axis 2. Such measures also helped prevent the abandonment of agricultural land used. The ob-
jective of Axis 3 was to preserve a living countryside through the maintenance and improvement of the social and economic fabric via the generation of new employment opportunities as well as improved access to basic services and infrastructure. The LEADER approach (Liaison Entre Actions de Développement de l’Economie Rurale or “links between actions of rural economic development” in English) was designed to help rural populations improve the long-term potential of their local areas (EC 2014).

3.6.5.1.2 CAP and Rural Development Programme, 2014-2020
The new CAP (2014-2020) introduces a new architecture of direct payments that are better targeted, more equitable, greener and capable of strengthening rural development. In fact, new CAP is moving to a more land-based approach in response to the challenges facing the sector. Its three long-term objectives are defined as viable food production, sustainable management of natural resources and climate action, and balanced territorial development (EC 2013b). In 2014-2020, new CAP is going to invest more than EUR 19.51 bn in Greece’s farming sector and rural areas (EC 2014).

New CAP (2014-2020) will offer Member States with many small farms, the possibility of developing sustainable “pathways of development” for farming communities. Under Pillar I, there will be a simplified, optional, direct payments regime for small farms. In the rural development programmes, possible ways of supporting small farms include restructuring and modernization, tackling generational renewal, measures for food chain integration, and other revenue generation opportunities. Environmental priorities, such as methods of collective nature conservation services, can also be tailored for small farmers. Involving farmers in decision-making processes promotes local commitment to development actions, as this ensures support is tailored to local need. The challenge, therefore, will be to improve links between small farmers and the administrations to ensure that benefits are realized. Effective knowledge transfer between stakeholders will be further developed through increased use of social media, whilst traditional networking tools will continue to be needed.

3.6.5.2 EU financial instruments for SMEs, 2014-2020
SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one
of the European Commission’s priorities for economic growth, job creation, and economic and social cohesion.

**Figure 3. EU Financial Instruments for 2014-2020**


Of all the available EU financial instruments for 2014-2020, Horizon 2020 and COSME are the most appropriate to finance SMEs.

Horizon 2020 is the financial instrument aimed at securing Europe’s global competitiveness. With a budget of EUR 80 bn, the new programme for research provides various funding opportunities for innovative SMEs and technology transfer by supporting research in SMEs, enhancing their innovation capacity, and supporting market driven innovations. Grants are targeted to innovative SMEs of all types, so long as the enterprise has a strong ambition to develop, grow and internationalize (Koch 2014).

The Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME) programme aims to encourage the competitiveness of European enterprises. With SMEs, current and potential entrepreneurs, and business support organizations as its main targets, the programme will provide better access to finance, deliver business support services and promote entrepreneurship in order to create an environment favourable to SME creation and growth.
3.6.6. CONCLUSIONS AND RECOMMENDATIONS

The agribusiness sector, acting in an increasingly competitive and highly volatile environment, has to become more market oriented in order to meet the current demands of the globalized economy. With new modern SME agri-food producer organizations as a driving force, market orientation philosophy should form the basis for any regional agricultural effort (Katarachia et al. 2011, 103-13).

A mentality shift away from the CAP-reliant “employee mindset” to one where farmers and agribusiness entrepreneurs take initiative is much needed.

The formulation of a national strategy supporting Greek branded products is imperative. The needs of the international market should first be understood so as to ensure that the national strategy supporting Greek branded products efficiently promotes exports and takes into account food security considerations.

The organization of support services to entrepreneurs, farmers and SMEs is essential, as it would provide resources such as technical assistance, access to capital, land and building, and regulatory guidance. Initiatives by the state and industry associations need to provide education and channel investments into high value adding sectors in order to encourage the growth of high impact ventures, and create a multiplier effect for the sector and the Greek economy.

Establishment of income stabilization measures should be considered. Such a tool could provide compensation payments to small farmers suffering from a severe loss of income. The instrument should not guarantee a certain level of revenue, as it varies with the income level over time; it should instead be aimed at minimizing excessive income variability (Klonaris et al. 2012, 1-20)

In order to implement funding programmes more efficiently, more effort should be made to ensure the continuity of initiatives. This will ensure that the results are built on actions already undertaken by entrepreneurs and the lessons they have learnt. Access to information should be simple. It is important to keep the implementation of financing measures as simple as possible. Coherence between policies should be considered.
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3.7. SMALL AND MEDIUM-SIZED AGRI-PROCESSING ENTERPRISES OF THE REPUBLIC OF MOLDOVA ON THE ROAD TO EUROPE – CHALLENGES AND PERSPECTIVES

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ABSTRACT
Agriculture and the processing industry are important activities in the Republic of Moldova, as they define national economic growth and social development. The main indicators of the agricultural sector and its developmental directions are presented in this article. The structure of agriculture in Moldova is described; and the strengths and weaknesses of agribusinesses in the country are emphasized. This article will also analyze small and medium-sized enterprises (SMEs), list the main elements of state policy supporting SMEs, and emphasize the main directions of SMEs’ current development in agriculture and the processing industry.

Keywords: agriculture, processing industry, small and medium-sized enterprises (SMEs), support policy of agricultural enterprises
JEL Classification: Q13, Q18, L66, K23
3.7.1 ROLE OF AGRICULTURE IN THE ECONOMY OF THE REPUBLIC OF MOLDOVA

3.7.1.1 Short historical outlook
The agricultural sector has played an important part in the social and economic development of the Republic of Moldova for several years. The agricultural sector has traditionally been able to flourish because of advantageous weather conditions and fertile soil in the country. A significant part of the country’s population historically lives in rural areas and is engaged in the agricultural sector, mainly in social production and home gardens.

In the 1990s, privatization and the reorganization of large state and cooperative agricultural enterprises (collective and state farms) took place. As a result, the land was divided into small plots and distributed to inhabitants in rural areas. Consequently, there were hundreds and thousands of farm owners with no knowledge as to the running of their farms as businesses under market conditions. This quickly led to negative consequences for both agriculture and the economy as a whole. Nevertheless, the reforms carried out in the economy of the Republic of Moldova in recent years have laid the foundations for the development of agribusinesses. The process of land consolidation began; and entrepreneurs who already had business skills, some of whom had been trained abroad, appeared. Due to state and foreign financial support, the agricultural sector’s access to financial resources was improved, and opportunities of using modern equipment and technology increased. Despite these improvements, the situation of the agricultural sector continues to be unstable and complicated.

3.7.1.2 Agriculture’s contribution to Moldova’s economic development
In 2014, the share of agriculture in Moldova’s GDP was 12.8% (Figure 1). Industry made up 14.1% of national GDP, and about 40% of GDP came from the food industry, which is dependent on agricultural raw materials (Government of the Republic of Moldova 2014).
The share of agriculture in GDP is determined by several factors, including weather conditions. For example, agriculture’s share in GDP was only 11.2% in 2012 because of drought; and agriculture contributed to 12.3% and 12.8% of GDP in 2013 and 2014 respectively because of good weather (Figure 2).

**Figure 1. Moldovan GDP structure in 2014, %**
Source: National Bureau of Statistics (NBS), Moldova

**Figure 2. Structure of Moldova’s GDP, 2012-2014, in %**
Source: NBS
While agricultural output is dependent on the weather, the results of agricultural activity contribute significantly to changes in GDP. Thus, the poorer agricultural output during the drought in 2012 led agricultural GDP to decline by 2.5%, and the good yields during the fine weather of 2013 led agricultural GDP to increase by 5% (Figure 3).

The agricultural sector in the Republic of Moldova affects not only GDP indicators, but also employment. According to the National Bureau of Statistics (NBS), the number of employees in the agricultural sector in 2014 increased to 361,100, or 30.5% of the national workforce. The number and percentage of employees in the agricultural sector are much higher than in other sectors. The number of employees in the key sectors of the national economy, including agriculture, is presented in Table 1.

![Figure 3. Contribution of Agriculture to GDP growth/decrease in 2012 and 2013, in %](source: NBS)
Accordingly, the number of people involved in agriculture is analogously related to other types of activities, as clearly presented in Figure 4.

Table 1. Population involved in agriculture (in thousands of people)
Source: NBS, 2015

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, hunting, pisciculture</td>
<td>422.4</td>
<td>408.6</td>
<td>388.6</td>
<td>333.7</td>
<td>314.7</td>
<td>323</td>
<td>303.3</td>
<td>337.9</td>
<td>361.1</td>
</tr>
<tr>
<td>Industry</td>
<td>161.3</td>
<td>158.1</td>
<td>163.4</td>
<td>155.4</td>
<td>145.8</td>
<td>153.2</td>
<td>150.9</td>
<td>142.4</td>
<td>145.6</td>
</tr>
<tr>
<td>Construction</td>
<td>67.3</td>
<td>75.7</td>
<td>82.8</td>
<td>72.9</td>
<td>67.5</td>
<td>66.8</td>
<td>70.2</td>
<td>65</td>
<td>66.4</td>
</tr>
<tr>
<td>Wholesale and retail, Hotels and restaurants</td>
<td>196</td>
<td>197.9</td>
<td>208.9</td>
<td>217.4</td>
<td>213.4</td>
<td>223</td>
<td>209.3</td>
<td>211.4</td>
<td>202.8</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>65.3</td>
<td>68.7</td>
<td>70.8</td>
<td>68</td>
<td>63.7</td>
<td>67</td>
<td>70.5</td>
<td>73.2</td>
<td>67.7</td>
</tr>
<tr>
<td>Public administration, Education, health and social assistance</td>
<td>256.7</td>
<td>250.5</td>
<td>248.2</td>
<td>248.6</td>
<td>250.7</td>
<td>250.2</td>
<td>247.2</td>
<td>235.6</td>
<td>230.9</td>
</tr>
<tr>
<td>Other activities</td>
<td>88.3</td>
<td>87.8</td>
<td>88.4</td>
<td>88.4</td>
<td>87.6</td>
<td>90.4</td>
<td>95.5</td>
<td>107.2</td>
<td>110.3</td>
</tr>
</tbody>
</table>

Accordingly, the number of people involved in agriculture is analogously related to other types of activities, as clearly presented in Figure 4.

Figure 4. Distribution of employment according to activity (in thousands of people)
Source: NBS, 2015

A dynamic analysis of employment in agriculture shows an annual reduction of this coefficient in 2006-2012. There was a significant increase in employment in 2013-2014, even though there were fewer workers than
in 2006-2008. Employment changes in 2007-2014 compared to 2006 is presented in Figure 5.

**Figure 5. Changes in population employed in agriculture in 2007-2014, compared to 2006 (in %)**
Source: NBS (2015)

### 3.7.1.3 Structure of agriculture production

Crop production is predominant in the agricultural sector of the Republic of Moldova. As crops are especially vulnerable to weather phenomena, their annual yields vary. In the drought years of 2007, 2009 and 2012, crops in Moldova were catastrophically affected (Figure 6). Although livestock is less prominent in the Moldovan agricultural sector, it is characterized by greater stability. Despite this greater stability, livestock was also affected in the drought years as more animals were slaughtered in times of crisis (Government of the Republic of Moldova 2014).

**Figure 6. Structure of agriculture production in the Republic of Moldova in 2001-2012, in %**
Source: Government of the Republic of Moldova, 2014
In 2013, crops formed 72.3% of Moldovan agricultural produce; of these, 28.9% were cereals and 22.3 % were fruits and vegetables (Figure 7).
A big part of agricultural production (90%) is represented by seven products: cereals, grapes, vegetables, fruits, pork, milk and poultry. The production of nuts and honey are of particular value because these two products have been successfully exported to the EU and other markets in the last decade. Due to their demand, resistance to pests, diseases and drought, and due to the limited resource requirements for their cultivation, nut plantations grew from 4,000 to 11,000 ha in 2000-2011. The export of honey in 2000-2012 almost doubled due to weather conditions and limited capital needs (Government of the Republic of Moldova 2014).

However, foreign trade in agricultural production has generally been in negative balance since 2006 (Figure 8).

Figure 7. Structure of agricultural production, 2013, in %
Source: NBS, 2014

Figure 8. Foreign trade with agri-food products
Source: NBS, 2013
The development of agriculture is possible in Moldova due to widespread farming and the country’s efficient use of its agricultural lands. Utilized agricultural areas make up 88.6% (1940.1 thousand ha) of the 2188.5 thousand ha of agricultural land in Moldova. The share of arable land from the total area of agricultural land is 73.0% (Table 2).

<table>
<thead>
<tr>
<th>Type of land</th>
<th>thousand hectares</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural lands – TOTAL</td>
<td>2188.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Utilized agricultural area</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- arable land</td>
<td>1416.6</td>
<td>65.0</td>
</tr>
<tr>
<td>- permanent crops</td>
<td>199.2</td>
<td>9.3</td>
</tr>
<tr>
<td>- pastures and natural hayfields</td>
<td>324.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Abandoned agricultural lands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- arable land</td>
<td>178.3</td>
<td>8.2</td>
</tr>
<tr>
<td>- permanent crops</td>
<td>70.1</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Table 2. Use of agricultural land
Source: Based on NBS, 2011

3.7.1.4 Problems of agribusiness and agricultural state policy
The reduced instability and competitiveness of agricultural production are not only due to the weather, but also due to the practice of extensive agriculture in Moldova and the country’s poor adaptation to market economy conditions. Agricultural enterprises are characterized by a low usage of modern agricultural technologies (anti-hail devices, modern systems of irrigation), limited use of drought-resistant varieties and so on. The lack of market mechanisms and infrastructure support for agricultural enterprises also contribute to the low competitiveness of Moldova’s agricultural production. Tools for the reduction of risks are poorly developed, and there is a lack of innovative insurance systems in agriculture. Table 3 shows a SWOT analysis of the Moldovan agricultural sector vis-à-vis its national agricultural strategy and the development of rural areas for 2014-2020.
### Table 3. SWOT analysis of agricultural lands

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tradition and experience in wine, fruit and vegetables production</td>
<td>Low-quality crops and low productivity of land throughout the country</td>
<td>Improve land productivity through use of new technologies</td>
<td>Reducing the opportunities for foreign investment</td>
</tr>
<tr>
<td>Increase of agricultural productivity</td>
<td>Fragmented and inefficient animal production, limited amount of feed and a lack of quality pastures</td>
<td>Increased access to foreign direct investment, financial resources and technical support for the development of the agricultural industry</td>
<td>Soil degradation and reduced productivity of agricultural lands</td>
</tr>
<tr>
<td>Significant share of lands in private ownership</td>
<td>Dual and fragmented structure of agricultural land. Small scattered areas owned by the same owner</td>
<td>Development of domestic agricultural markets</td>
<td>Increasing the land area excluded from agricultural use</td>
</tr>
<tr>
<td>Unsuccessful experience in growing crops and crop rotation</td>
<td>Small area of irrigated land</td>
<td>Development of land market</td>
<td></td>
</tr>
<tr>
<td>Poor funding of agri-food sector and limited access to capital and credit</td>
<td>Positive trade balance of the agro-industrial sector</td>
<td>Creating a favourable climate conducive to the consolidation and analysis of agricultural land</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dependence of import of actual goods in agriculture, and inability to access qualitative actual goods</td>
<td>Special procedures and conditions for trade with the EU through autonomous trade preferences and the Deep and Comprehensive Free Trade Area (DCFTA)</td>
<td>Increasing trade barriers</td>
</tr>
<tr>
<td>Structure of agri-food product industry weak, due to the low cost of exports and the high costs of imports.</td>
<td>Lack of facilities for the processing of agri-food products</td>
<td>Increasing competition in foreign markets</td>
<td></td>
</tr>
<tr>
<td>Presence of well-functioning system of advisory services</td>
<td>Outdated system of agricultural education, isolated consultation services, and low efficiency research in the field of agriculture</td>
<td>Strengthen the exchange of experience and knowhow with EU and CIS countries</td>
<td></td>
</tr>
<tr>
<td>High demand for agricultural products from developed markets in the EU and CIS</td>
<td>Lack of consistency in the supply of raw materials</td>
<td>High and growing demand for niche products and environmental products in foreign markets</td>
<td>Rapid increase in prices of agricultural products</td>
</tr>
<tr>
<td></td>
<td>Poor post-harvest infrastructure, and poor implementation of EU food safety standards</td>
<td></td>
<td>Rising prices for actual goods in agriculture</td>
</tr>
<tr>
<td>Weak structure of farmers’ organizations</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Government of the Republic of Moldova, 2014

There are also external factors negatively affecting the activities of agricultural producers such as rising production costs, and the increasing cost
of fuels, equipment and tools that increase soil fertility (Government of the Republic of Moldova 2014). Moldovan agricultural producers are also affected by the economic crisis in its neighbouring countries, the EU and the world.

State agricultural policies have been undertaken by the government of the Republic of Moldova. These policies are specially designed to support the agricultural sector. The main policy documents directly or indirectly impacting the development of agriculture are as follows (Government of the Republic of Moldova, 2014):


To elaborate and implement the policies promoting the development of agriculture and rural areas, the following state institutions are involved (Government of the Republic of Moldova 2014):

1. Ministry of Agriculture and Food Industry, including:
   o Agency for Payments and Intervention in Agriculture
   o Agricultural Information Centre
2. Ministry of Economy
3. Ministry of Regional Development and Construction
4. Ministry of Environment
5. Ministry of Transport and Road Infrastructure
6. National Food Safety Agency
7. Agency Moldsilva
3.7.2. FEATURES OF AGRICULTURAL ENTERPRISES

3.7.2.1. Prevailing organizational and legal forms, and the size of agricultural enterprises

The Moldovan agricultural sector is composed of two major sub-sectors:

- **Large companies** are mainly centred in the corporate sector. These are large-scale agricultural companies specializing in the production of low value-added crops (cereals, oilseeds, sugar beet), and employing limited labour force because their agricultural operations are highly mechanized.

- **Small businesses including small and medium-sized enterprises (SMEs), peasant farms and household land in private property.** Small farms, especially subsistence and semi-subsistence farms generate a limited surplus of high value-added crops (fruits, nuts, grapes, vegetables, potatoes).

Enterprises are limited companies (LTD). Cooperatives and joint-stock companies account for less than 1% of all economic agents; only a small number of them belong to big businesses. Peasant farms dominate over 99% of the agricultural sector, the majority of which is represented by households with landholdings of less than 5 ha. Thus, most agricultural enterprises in Moldova are SMEs (Table 4).

<table>
<thead>
<tr>
<th>Owners of agricultural lands</th>
<th>2006</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>392,077</td>
<td>402,283</td>
</tr>
<tr>
<td>Agricultural cooperatives</td>
<td>239</td>
<td>233</td>
</tr>
<tr>
<td>Joint-stock companies</td>
<td>116</td>
<td>170</td>
</tr>
<tr>
<td>Limited liability company</td>
<td>1342</td>
<td>2038</td>
</tr>
<tr>
<td>Peasant farms, <strong>Including area:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>bigger than 100 ha</td>
<td>186</td>
<td>7,276</td>
</tr>
<tr>
<td>from 50 to 100 ha</td>
<td>105</td>
<td>524</td>
</tr>
<tr>
<td>from 10 to 50 ha</td>
<td>746</td>
<td>1,794</td>
</tr>
<tr>
<td>from 5 to 10 ha</td>
<td>3,307</td>
<td>3,958</td>
</tr>
<tr>
<td>from 1 to 5 ha</td>
<td>239,494</td>
<td>240,824</td>
</tr>
<tr>
<td>Less than 1 ha</td>
<td>146,542</td>
<td>145,466</td>
</tr>
</tbody>
</table>

**Table 4. Main organizational and legal forms in agriculture**

Source: Based on V. Moroz and A Ignat, Probleme de dezvoltare a sectorului agro-alimentar din Republica Moldova, Chişinău: Institutul de Economie, Finante si Statistica, 2011, p.3
The agricultural census in Moldova shows that most agricultural enterprises are SMEs. According to its preliminary results, there are 903,000 households in Moldova and the average size of agricultural land is 2.5 hectares, which is usually divided into three plots. The average area of one plot is 0.85 ha (Government of the Republic of Moldova 2014).

The share of households and small farms in the total volume of crop and animal agricultural production are presented in Figures 9 and 10.

In crop production, most households and small businesses (more than 50%) focused on growing potatoes (85.2%), vegetables (84.8%), grapes (72.5%), grain maize (65.0%), and leguminous crops (61.0%). Crops such as sugar beets, sunflowers and tobacco are mainly produced by large farms (Figure 9).

![Figure 9. Households and small farms in the total volume of crop production, 2013, in %](image)

Source: NBS

Households and small businesses dominate all important types of production in livestock production (see Figure 10). Most of these enterprises produce wool (98.6%) and milk (97.1%).
Since most agricultural enterprises in the country are SMEs, we will discuss the main features of this sector in the Republic of Moldova.

### 3.7.2.2. Legislation and Contribution of SMEs to the Republic of Moldova

In the Republic of Moldova, SMEs are defined by three quantitative criteria: average annual number of employees, annual sales revenue, and total annual balance sheet assets. Economic subjects such as natural persons engaged in entrepreneurial activities, may also be categorized as SMEs if they meet the following criteria (Table 5):

<table>
<thead>
<tr>
<th>Size of SME</th>
<th>Number of employees, persons</th>
<th>Sales revenue, million MDL*</th>
<th>Balance sheet assets, million MDL*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>&lt; 3</td>
<td>&lt; 3</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>&lt; 25</td>
<td>&lt; 25</td>
</tr>
<tr>
<td>Medium</td>
<td>&lt; 250</td>
<td>&lt; 50</td>
<td>&lt; 50</td>
</tr>
</tbody>
</table>

Table 5. SME definition in Moldova

On 15 May 2015, € 1 = 20.25 MDL

Source: Parliament of the Republic of Moldova, 2006

While Moldova’s SME definition significantly differs from the EU’s by cost criteria, it matches the EU’s definition in number of employees. This allows for comparison between the SME sector of Moldova and the EU.
The basic laws regulating the development of SMEs in the Republic of Moldova were adopted in the first half of the 1990s. Thus, the Law on Entrepreneurship and Enterprises (1992):
- Specifies the basics of entrepreneurial activity.
- Stipulates that an enterprise of any organizational and legal form (depending on the number of employees and other criteria) can be an SME.

- Specifies SME definition.
- Determines the basic forms of SME support.

SMEs in Moldova have a significant impact on the national economy. According to national statistics, 97.4% of enterprises are SMEs. This reveals that most Moldovan businesses are private enterprises. Moldovan SMEs employ 56.9% of the country’s total labour force, and they contribute to 65.5% of investments in the country (Table 6).

<table>
<thead>
<tr>
<th>Key indicators</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of SMEs in total number of enterprises</td>
<td>97.4</td>
</tr>
<tr>
<td>% of SME employees in total number of employees</td>
<td>56.9</td>
</tr>
<tr>
<td>% of gross investments, absorbed by SMEs</td>
<td>65.6</td>
</tr>
<tr>
<td>% of profit before taxation, obtained by SMEs</td>
<td>48.6</td>
</tr>
<tr>
<td>% of SMEs in GDP</td>
<td>32.0</td>
</tr>
</tbody>
</table>

Table 6. SMEs’ contribution to the economic and social development of Moldova in 2013
Source: NBS, 2015

3.7.2.3. State support policies for SMEs in the Republic of Moldova
The Moldovan Ministry of Economy oversees the development of policy regulating and supporting the SME sector as well as policies related to their implementation. Most state policies related to SMEs are implemented by the Organization for the Development of Small and Medium-sized Enterprises.

Moldovan state policies supporting SMEs are reflected in the Small and Medium-sized Enterprise Sector Development Strategy 2012-2020, which determines the main priorities of state support for SMEs, the targets who receive state support, the types of enterprises who will receive support and so on. Agribusinesses that are SMEs also fall under the purview of the

The following state programmes supporting SMEs have been implemented:

- **National Programme for Youth Economic Empowerment (NPYEE)** is designed for young people aged 18-30 years, who want:
  - to start or expand their own business in rural areas,
  - to develop a business in agriculture, manufacturing or agricultural rendering services.

There are three components in NPYEE: (1) free enterprise training and consulting; (2) preferential loans of up to 300,000 MDL, 40% of which are non-refundable grants; (3) post-financing monitoring.

- **National Programme for the Attraction of Migrants’ Remittances into the Economy of the Republic of Moldova (PARE 1+1)**. Migrant workers and/or their first-degree relatives, who want to invest in launching and/or developing their own business, are the targets of this programme. This programme is also designed for peasant farms.

There are four components in (PARE 1+1), namely: (I) information and communication, (II) training and enterprise support, (III) business financing and Rule 1+1, and (IV) post-financing monitoring and programme appreciation.

State programmes supporting agricultural enterprises have also been introduced. Some examples of these are:

- **Moldova Agriculture Competitiveness Project (MAC-P)**. Its objective is to render the agri-food sector more competitive by supporting the modernization of the food safety management system, and facilitating farmers’ access to sales markets. It is funded by the World Bank, the International Development Association (IDA), and the Swedish International Development Cooperation Agency (SIDA). MAC-P is operational in 2012-2017 and has a total budget of USD 28.4 million.

- **Grant Assistance for Underprivileged Farmers (2KR)**, which has been in operation since 2000, is a programme funded by the Japanese government. It aims to ensure that local agricultural producers with limited financial means have access to agricultural machinery. In the first half of 2014, 453 agricultural machines and equipment costing 190.9 million MDL were purchased under this scheme.
3.7.2.4. Moldovan SMEs in Agro-industries
According to statistical data, there is a growing number of SMEs in the country. There are also an increasing number of agro-industrial enterprises, as they accounted for 7.7% of SMEs in 2013 (Figure 11).

![Figure 11. Rising number of agro-industrial enterprises among SMEs in 2009-2013, thousands.](source: NBS, 2015)

Agricultural enterprises and SMEs in the food and beverage industry make up 5.2% and 2.4% of agribusinesses respectively (Figure 12).

![Figure 12. Agro-industrial SMEs in total number of SMEs, %](source: NBS, 2015)

More people are employed in the agro-industrial sector than in the other agriculture-related enterprises. While agricultural enterprises employ 15.9% of the labour force, the food and beverage industry only employs 12.0% of the national workforce (Figure 13).
Figure 13. Share of employees in agro-industrial enterprises among SMEs, %

The food and beverage industry make 23.1% of the income generated by SMEs, while other agricultural enterprises make half that income (Figure 14).

Figure 14. Income of agro-industrial enterprises among SMEs, %
Source: NBS, 2015

3.7.2.5. Role of innovation in the development of modern agricultural SMEs

Modern innovative tools are important to the improvement of agribusiness SMEs’ competitiveness. Innovative activities for agribusinesses and agriculture-related SMEs supported by state policies include:
- Technology transfer projects
- Science and technology parks

The state funds 50% of the cost of technology transfer projects and the private sector funds the remaining 50%. There were 22 technology transfer projects implemented in 2013. Of these, 10 projects were related to agricultural biotechnologies, soil fertility and food security. A total of 4,291,000 MDL went into these 10 projects, with the state budget investing 2,013,600 MDL and private sources investing 2,277,400 MDL. The 22 technology transfer projects in 5 strategic directions received investments totalling 6,822,000 MDL. Agricultural biotechnologies, soil fertility and food security constituted about 63% of total investments in these 22 technology transfer projects. Due to these technology transfer projects, innovative production in 2013 made 40.1 million MDL. This meant that a profit of 9.3 MDL was made for every 1 MDL invested.
One example of the successful implementation of a technology transfer project is presented in Box 1.

**BOX 1. Technology Transfer Project – Optimizing grape production technology**

**Period of project:** 2013  
**Project manager:** Dr. Cara Serghei  
**Executive authority:** SC “Tomai-Vinex” SA (joint-stock company)  
**Strategic Direction:** Agricultural biotechnologies, soil fertility and food security

**Argument:** The Republic of Moldova has favourable soil and climatic conditions for the development of viticulture and winery. Since the Russian embargo, one of the current problems of modern viticulture is the elaboration and improvement of advanced technology for the cultivation of vineyards, the main task of which is to obtain stable and high quality crops.

**Innovation:** It will be carried out on 8-year-old vine stumps with dual horizontal cordons (Moldovan with two strains). This will result in hanging growth of sprigs and the introduction of a new leading system of vine stump growth whereby they develop vertically. This new technology will improve the photosynthetic activity of grapevine plants. This will ensure the rise of the foliar index and increase the photosynthetic potential of the foliar area. Once active photosynthesis is achieved with RFA rating, the productivity of the vine stumps will be improved.

The proposed technology also means the possibility of a future mechanized vine maintenance system through modern technology. The following labour intensive processes will be eased when this mechanized vine maintenance technology is implemented: vine cuttings; gathering between the rows of grapevines; removing the shoots growing from underground stems; processing the soil between vine rows; sowing of fertilizers and loosening of soil; use of mechanical harvesting combines.

**Essence:** It is a progressive technology in the cultivation of vineyards that will ensure a stable crop yield of very high quality.
Funding from the state budget: 250,000 MDL
Co-financing funds: 250,300 MDL

According to the Parliament of the Republic of Moldova in 2007), a science and technology park has been instituted. This science and technology park is a group of legal entities and physical persons coming together as partners. This science and technology park will host organizations specializing in science and innovative development, bodies in fields of innovation and technological transfer, and economic agents specializing in the improvement of scientific results and innovations.

Innovative SMEs would be able to carry out innovation projects under the guidance of this science and technology park. There are currently three active science and technology parks in Moldova: one for general technology and sciences, one for nanotechnology, and one for agriculture. The ecologic and intensive agriculture science and technology park is known as “INAGRO”.

“INAGRO” was created in 2008 on the site of a scientific production complex belonging to the Institute of Plant Protection and Ecological Agriculture of the Academy of Sciences of Moldova. The “INAGRO” science and technology park infrastructure includes building complexes and structures located in an area of over 15 hectares. It also has agricultural land covering an area of 92.5 ha. “INAGRO” is a subsidiary of the Scientific Production Complex located in the Cahul district of Moldova.

In 2013, there were 13 residents in “INAGRO” carrying out innovation projects related to agriculture and the food industry. The state budget allocated 7.9 million MDL for the development of the park in 2008-2013. The innovative production volume of “INAGRO” in 2008-2013 was 66.4 million MDL. This meant that for every 1 MDL invested by the state, the park received about 8.4 MDL profit, and the state received about 20 million MDL from the taxes paid by “INAGRO” residents.

The areas of activity and main characteristics of the “INAGRO” science and technology park are presented in Table 7.
Table 7. Main characteristics of ""INAGRO"" science and technology park

The abovementioned examples prove the importance of innovation development and the role of state support in this process.

3.7.2.6. Development of a green economy as part of agricultural SME activities
Moldovan SMEs are increasingly interested in developing a green economy. For example, SME participation in the development and maintenance of a green economy was analyzed in interviews conducted as part of the pilot project, EaP Green. EaP Green is short for “Greening Economies in the Eastern Neighbourhood” whereby the European Union’s Eastern Partnership (EaP) countries are assisted in their transition to green economies. EaP Green is mostly funded by the European Commission (EC), and jointly implemented by the Organisation for Economic Co-operation and Development (OECD), the United Nations Environmental Programme (UNEP), the United Nations Industrial Development Organization (UNIDO) and the United Nations Economic Commission for Europe (UNECE). The pilot survey study of Moldovan SMEs for EaP Green was titled, “Promoting better environmental performance of small and medium-sized enterprises”. The National Institute for Economic Research (NIER) in Moldova conducted this

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<tbody>
<tr>
<td>- ecological agriculture</td>
<td>13</td>
<td>MDL 7.9 m</td>
<td>about MDL 66.4 m</td>
</tr>
<tr>
<td>- agricultural biotechnologies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- production processing</td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• implementation of innovative technologies such as storage and freezing of fresh fruits and vegetables, • preservation, drying and sublimation of fruits and vegetables</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• implementation of new processing methods • implementation of modern techniques in marketing and selling agricultural produce</td>
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</table>
study by organizing a survey of SMEs in the country in 2014. Interviews were conducted with 400 SMEs in this study; 100 of which were agricultural SMEs. The study showed that almost a third of agricultural SMEs offered green products or services, specifically:

- 53% offered products and services with environmental features
- 5% were awarded an eco-label

A primary problem for agricultural SMEs producing or meaning to produce green products or services is the contradiction between the need for support and virtual assistance received. 61% of the agricultural SMEs interviewed stated that they required external support such as financial incentives, 39% of agricultural SMEs said they wanted assistance in identifying potential markets or customers for green products or services, and 32% of agricultural SMEs expressed their wish to have better access to finance. Of all the agricultural SMEs interviewed, 40% received no support for the production of green products or services, 27% benefited from private funding from banks or friends and relatives, 10% relied on public funding, and 30% benefited from assistance or technical support given by the government or business associations (Figure 15).

Figure 15. Support available and needed for the introduction of green products or services

The Ministry of Economy is in the process of developing specific policy measures to support the greening of SMEs. For example, the Action Plan on the implementation of the SME Sector Development Strategy for 2015-
2017 provides especially for the greening of SMEs:

- Reasoning and development of proposals promoting “green” practices in SMEs.
- Issuing grants to support SMEs’ implementation of energy efficient projects. The responsible authority in this field is the Business Advisory Service of the European Bank for Reconstruction and Development (EBRD). The target groups of this strategy are companies interested in drafting technical documents that will significantly impact energy efficiency. Companies in the target group should be desirous of transferring to more efficient energy sources, and deploying new technologies that will conserve both energy and the environment.
- Encouraging the implementation of quality management systems as well as integrating the Moldovan SME sector into European and international standards. This is especially important because Moldova’s DCFTA with the EU states that its national standards have to be at least 75% of European standards in the fields of construction, waste processing, vehicle construction, chemical and pharmaceutical production and so on.
- Facilitating SMEs’ access to information via the “Enterprise Europe Network”. This can be done by making sure Moldovan SMEs are aware of their social and environmental responsibilities. When Moldovan SMEs obtain information from the “Enterprise Europe Network”, they will be indirectly encouraged to adapt to European business culture and consciously assume social and ecological responsibilities.

3.7.3 MAIN RESULTS AND CONCLUSIONS

Agribusinesses play an important role in Moldovan economic and social development because they avail themselves to clement local weather conditions, fertile soils and a traditionally agricultural rural workforce.

Agriculture contributed to 12.8% of national GDP in 2014. Industry contributed to 14.1% of GDP in 2014. The food and beverage sector, which relies on agricultural raw materials, made up 40% of industry’s total GDP in 2014.

72.3% of the Moldovan agricultural sector grows crops that are susceptible to extreme climate conditions. Although fewer agricultural enterprises are in animal husbandry, animal production is more stable than crop production.
Currently, the agri-food sector in the Republic of Moldova is dependent on extensive farming. The agri-food sector and agriculture are inadequately adapted to the market economy because very few agricultural enterprises use modern technologies. Agricultural enterprises also have very little support from market mechanisms and infrastructure.

In recent years, a small number of Moldovan agricultural products have been exported to the EU. Nuts and honey are among the Moldovan produce exported. There has also been a negative balance of foreign trade in the country since 2006.

There are many enterprises of different sizes in the Moldovan agricultural sector. Most Moldovan agricultural enterprises are SMEs.

7.7% of agro-industries are SMEs; of these, 5.2% are agricultural enterprises, and 2.4% are food and beverage enterprises. The agricultural sector employs a large percentage of the labour force. 15.9% of the workforce is employed in agricultural enterprises, and 12% are employed in the sector of food and beverage.

Moldova has implemented several policies supporting SMEs, as reflected in the Small and Medium-sized Enterprise Sector Development Strategy 2012-2020, which determines the main priorities of state support for SMEs. This strategy also makes sure that government programmes supporting SMEs will likewise assist agricultural SMEs. Due to this strategy, Moldova has implemented many state programmes supporting SMEs and agricultural enterprises.

One way that agricultural SMEs can develop is through an ecological economy. SMEs are not competitive because they need more support and assistance than they receive. Many SMEs, including agricultural SMEs need financial aid, assistance in identifying potential markets or customers for green products or services, and better access to finance. Unfortunately, large numbers of agricultural SMEs do not receive support for the production of green products or services.

Innovation is important for increasing the competitiveness of modern agro-industrial SMEs. State support of innovative activity has occurred through the establishment of technology transfer projects as well as sci-
ence and technology parks. There are successful businesses in Moldova that have implemented technology transfer projects and worked with science and technology parks affiliated with Moldovan Academy of Sciences.

The initiative of Moldovan businesspeople, their increasing knowledge and experience, as well as the state’s introduction of new innovative and modern methods of control and production will improve the domestic and international business competitiveness of the country.

REFERENCES


***

Comparative table

<table>
<thead>
<tr>
<th>Indices</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of agriculture to GDP in % *</td>
<td>12.2</td>
</tr>
<tr>
<td>Total number of employees in agriculture, thousand people</td>
<td>52.3</td>
</tr>
<tr>
<td>Total number of agricultural SMEs, thousand enterprises</td>
<td>394.7</td>
</tr>
<tr>
<td>Total number of farmers, thousand people</td>
<td>337.9</td>
</tr>
<tr>
<td>Average size of land per farmer in hectares*</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source:


3.8 SMEs AND SMALL FARMS IN AGribusiness IN Romania

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Vice-Dean, Petru Maior University
Faculty of Economics, Law and Administrative Sciences
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Marketing Project Manager, eMAG
Bucharest, Romania

ABSTRACT
The paper presents the current situation of agribusiness SMEs and small-holder farms in the overall framework of the agro-industry in Romania. Nowadays, the Romanian market economy coexists with large-scale traditional agriculture. In Romania, agribusinesses are identified with rural entrepreneurship. However, there are also enterprises centred on agricultural activity registered in the urban areas. After 40 years of collectivized agriculture and intensive industrialization, there is a large, identifiable gap between urban and rural areas. Romanian agriculture is characterized by many social and economic problems due to the excessive fragmentation of the land. The economic output of economic activities in the rural areas is very low. In this study, several aspects of agribusinesses will be analyzed. We will first look at the role of agribusinesses in the overall national economy; then, we will examine the structure of agribusinesses as defined by law. We will also delve into the government’s support of agribusinesses. Challenges and barriers to the development of agribusinesses will also be considered, and policy suggestions to government and local authorities will be formulated.

Keywords: agribusiness, agriculture, Romania, agrarian SMEs, smallholder farmers, employment, economic development, government regulation and policy
JEL Classification: Q1, Q28, J82

3.8.1 ROLE AND SIZE OF AGribusinesses IN THE COUNTRY’S OVERALL ECONOMY
3.8.1.1 Historical background
In the interwar period (1918-1940), agriculture was the mainstay of the Romanian economy. During that period, Romania was known as the “breadbasket of Europe”. Today, however, agriculture in Romania is associated with extreme poverty. The differences between Romania’s situation in
the interwar period and the present-day is startling, given that agriculture still plays a great part in the Romanian economy. How are these differences possible? What are the causes? Is Romania able to face the challenges? Can Romania eliminate or reduce the barriers to having a competitive and efficient agricultural system? Why is agriculture so important for Romania?

In order to analyze these questions, a historical overview of Romanian agriculture is needed (Figure 2). The agrarian reform of 1921, recognized as the most radical reform in Eastern Europe, transformed Romania into a country of smallholders. In 1930, 79.3% of the population lived in rural areas, and agriculture contributed 38% to GDP. During that time, agriculture was affected by continuous structural changes and its effects have permanently influenced farming activities since. Agriculture’s share in GDP has been decreasing constantly (Figure 1), while 45%-50% of the population still resides in rural areas.

**Figure 1. Agriculture’s share in GDP**
Source: Romanian National Institute of Statistics (INS), 2014

**Figure 2. Historical overview on Romanian agriculture**
Source: Own construction
Three very important milestones can be identified in the transformation of Romanian agriculture. The first occurred in 1962 when collectivization was finalized; the second occurred after the reform and restructuring process started in 1989; and the last occurred in 2007 when Romania joined the EU and new possibilities were created.

The post-collectivization phase, the intensive industrialization and the subsequent events in the last 40 years had negatively impacted the entrepreneurial intensity of the rural population (Figure 3). As a result, traditional villages suffered structural changes (Mihalache and Croitoru 2011).

Rural communities in Romania have experienced changes which are impacting the demographical and occupational values of the population. (Rural-Antreprenor, n.d.). Romania is rich in biodiversity but the lack of education, poor infrastructure, heavy concentration of the primary sector, very low labour productivity, poor level of investments, extremely high at risk of poverty or exclusion (AROPE) rate, and lack of reforms in agriculture and rural development, present great challenges to rural development.

**Figure 3. Entrepreneurial intensity, SMEs and economic development**

The improvement of rural development and agricultural productivity hinge on obtaining the managerial knowhow of overcoming competition in the single European market, boosting growth in the organic sector, optimizing
and improving land management, encouraging information and marketing activities, and increasing the competitiveness, innovation and opportunities in entrepreneurship.

The main branches in the evolution of agricultural production where 1 euro = 4.42 RON (according to http://www.cursbnr.ro/), is presented in Table 1.

*Romanian RON m

<table>
<thead>
<tr>
<th></th>
<th>Total*</th>
<th>Vegetal*</th>
<th>Animal*</th>
<th>Services in agriculture*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>46 539</td>
<td>27 958</td>
<td>18 186</td>
<td>395</td>
</tr>
<tr>
<td>2010</td>
<td>64 452</td>
<td>43 488</td>
<td>20 407</td>
<td>557</td>
</tr>
<tr>
<td>2011</td>
<td>76 509</td>
<td>54 180</td>
<td>21 784</td>
<td>545</td>
</tr>
<tr>
<td>2012</td>
<td>64 259</td>
<td>40 169</td>
<td>23 555</td>
<td>535</td>
</tr>
<tr>
<td>2013</td>
<td>80 250</td>
<td>54 744</td>
<td>24 833</td>
<td>673</td>
</tr>
</tbody>
</table>

**Table 1. Evolution of Romanian agricultural production**
Source: Romanian National Institute of Statistics (INS), 2014

**Figure 4. Role of agriculture in the national economy**

**3.8.1.2 Facts**

Romania has a very high potential for agricultural development. Large-scale practice of traditional agriculture exists side by side with the market economy in Romania (Member States Factsheets – Romania 2015). Reconsidering the role of agriculture in the national economy must be a national priority. Based on Laws 350/2001 and 351/2001 touching on the administrative division, 87.1% of the country is rural and 47.2% of the population live in rural areas.
According to the Organisation for Economic Co-operation and Development (OECD), 59.8% of Romania is rural and 45.5% of the country’s population live there; 39.4% of Romania falls into the intermediate area between urban cores and peripheries, and 43.9% of the national population live there; and only 0.8% of Romania is urban and only 10.6% of the population live there.

Romania makes up of 6% of the EU’s total surface. Romanian land in ownership is 0.41 ha per inhabitant; double that of EU-27 where it is 0.21 ha per inhabitant. Importantly, 55% of Romanian land is totally organic. Agricultural activity in Romania has very low impact in the country (Figure 5).

![Figure 5. Characteristics of agriculture](image)
Source: INS, 2014; Member States Factsheets - Romania, 2015

**3.8.1.3 Dimension of agribusinesses**

While Romanian agribusinesses are concentrated in the rural areas, there are registered enterprises in the urban areas focusing on activities related to agriculture. Moreover, Romania has the largest number of farms in EU, which can also be considered agribusinesses.

The following types of enterprises in Romania can be labelled as agribusinesses:
- Enterprises registered in urban areas focusing on activities related to agriculture.
- Rural entrepreneurial enterprises that engage in both agricultural and non-agricultural economic activities.
- Romanian farms that are registered officially as enterprises or as farms in the national register of farms.

To evaluate the dimension of agribusinesses, we analyzed the evolution of economic entities with legal personality in the Romanian rural areas (Table 2).

<table>
<thead>
<tr>
<th>Year</th>
<th>Rural</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>114.396</td>
<td>547.306</td>
<td>661.702</td>
</tr>
<tr>
<td>2009</td>
<td>110.286</td>
<td>516.271</td>
<td>626.557</td>
</tr>
</tbody>
</table>

**Table 2. Evolution of economic entities with legal personality in rural areas**

There are very few SMEs in rural areas, as only 17.6% of SMEs are registered in the countryside. The main problem is that over 60% of the rural economy is the primary economy.

A general overview of agribusinesses in Romania cannot be done without analyzing the activities of these businesses through the Classification of Economic Activities in the European Community (NACE) and the Romanian Classification of National Economic Activities (CAEN). An analysis of Romanian agricultural enterprises’ activities through NACE/CAEN can be seen in Table 3.

<table>
<thead>
<tr>
<th>Year\Enterprises</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1722</td>
<td>201</td>
<td>27</td>
</tr>
<tr>
<td>2011</td>
<td>2061</td>
<td>205</td>
<td>28</td>
</tr>
<tr>
<td>2012</td>
<td>2170</td>
<td>228</td>
<td>24</td>
</tr>
</tbody>
</table>

**Table 3. Agricultural enterprises’ activity analyzed by CAEN/NACE**

Source: INS, Romania in Cifre 2014; and IMM 01/2014

It can be observed that the rural areas produce a very low level of economic activity. The rural area contributes to only 6% of GDP and includes 28% of the active population. On the one hand, agriculture makes up the largest share of GDP in Romania (Figure 6); on the other, Romanian agricultural labour productivity is at the lowest level.
3.8.2 DEFINITION OF AGRARIAN SMES AND SMALLHOLDER FARMERS. STATISTICS ON AGROBUSINESSES AND SMALL FARMERS IN ROMANIA.

3.8.2.1 Agrarian SMEs

Agribusinesses in Romania are defined as businesses conducting entrepreneurial activities in rural areas. A business registered in the urban areas and conducting economic activities in the urban areas can be considered an agribusiness if it meets all the CAEN criteria. Thus, as long as they meet CAEN requirements, private entrepreneurs and legal persons registered officially as conducting agricultural-related economic activities in the urban areas can potentially be classified as agribusinesses.

Private entrepreneurs performing economic activities without legal personality are governed by Law 300/2004, which states that authorized persons wishing to sustain independent business activities must be registered with the National Trade Register Office.
According to Government Emergency Ordinance (GEO) 44/2008, groups conducting independent business activities must fall into one of the following categories:
- authorized Natural Person (PFA)
- individual enterprises / sole proprietorship
- family enterprises / family-owned business

Citizens of the Romanian state and citizens of any European Member State can be natural persons. These persons can be authorized to conduct independent business activities, which must be registered with the National Trade Register Office. Authorized natural persons do not have legal personality.

Family-owned businesses (FA) can be set up by a natural person as long as the business comprises members of his/her family (wife, husband, children over 16 years of age, and other relatives related up to the fourth degree). Family-owned businesses do not have legal personality.

The entrepreneurial activities registered officially as legal persons are businesses. After Romanian regulation came in line with EU ones, it was decided that only 2 types of people can set up businesses in the country – private entrepreneurs and legal persons. These 2 types of people can only set up one of 4 types of enterprises. An agribusiness (AB) can be any of these 4 types of enterprises. Figure 7 explains the two types of people and 4 types of enterprises they can establish.

Figure 7. Entrepreneurial entities that can be classified as agribusinesses, according to field of activities
Source: Own construction
SMEs in Romania are defined by the Law of SMEs no. 346/2004, Government Ordinance no.27/2006 and European Commission Recommendation 2003/361/EC. We will give you the definition of the different SMEs in Romania one by one:

- **Microenterprises** are defined as businesses that have 0-9 employees and an annual gross turnover or total assets that are not more than EUR 2 million.

- **Small enterprises** are defined as businesses that have 10-49 employees and an annual gross turnover or total assets that are not more than EUR 10 million.

- **Medium-sized enterprises** are defined as businesses that have 50-249 employees, an annual gross turnover of EUR 50 million and total assets worth EUR 43 million.

### 3.8.2.2 Smallholder farmers

Most farms in Romania are subsistence holdings. Law 31/1990 and Law 36/1991 define a farm as an agricultural society that is formed by family associations either through verbal or written agreement. Farms can function as commercial agricultural companies, i.e. as structures with legal personality, as a private limited liability, as a business with unlimited variable capital, and as an enterprise with variable associates (See Bianu et al. 2014).


### 3.8.2.3 Statistics on agribusinesses and small farmers in Romania

Next, we will analyze the role and size of farms as agribusinesses in the overall national economy. In Romania, the total agricultural surface is 13,306,000 acres.

An agricultural holding is defined as single technical and economic unit under single management, and performing agricultural activities by using agricultural areas for animal breeding or crop cultivation in a way that preserves good farming and environmental conditions (See INS, “Press
Release 308/2014”). This can be done as either a main or secondary activity (See FSS 2013).

The structure and numbers of agricultural holdings eligible for the Common Agricultural Policy (CAP) are presented in Table 4 (Agrostar 2012). Although there are over 1 million agricultural holdings in Romania, 79.80% of them have only 1-5 acres each. This means 79.8% of Romanian agricultural holdings actively use (or exploit) 1-5 acres of farmland each. This also means the majority of Romanian agricultural holdings only use 19.2% of the total arable land exploited. Only 1.26% of agricultural holdings make use of 50% of the country’s arable land.

![Table 4. Structure and number of agricultural holdings eligible for CAP](image)

**Table 4. Structure and number of agricultural holdings eligible for CAP**
Source: Ministerul Agriculturii, 15 May 2014

The total area exploited for agriculture in Romania is 9,947,700 acres. This is less than the 13,306,000 acres of farmland in the country. There are many agricultural holdings that are ineligible for CAP (Jitea and Pocol 2014). Table 5 presents the distribution of agricultural holdings according to their share of the total agricultural surface.
An analysis of the longitudinal data shows that the number of agricultural holdings did not change meaningfully throughout the years. Figure 8 presents the total number of agricultural holdings distributed in the country’s total agricultural surface and their share of the average arable surface. As can be seen in Figure 9, agricultural holdings with legal personalities are large farms that are registered officially as enterprises. These large farms’ average usage of land cannot be compared to the average land area used by smallholder farms. The majority of smallholder farms are without legal personality.

Source: INS, Press release 308/2014

Table 6 presents the numerical and dimensional evolution of agricultural holdings with and without legal personality. In Romania, the number of agricultural holdings registered as enterprises (including SMEs and large businesses) is very low.
Table 6. Numerical and dimensional evolution of agricultural holdings
Source: INS, Press release 308/2014

Table 7 shows the classification of agricultural holdings according to their economic size. The economic size of agricultural holdings is defined by the European Commission (EC) in decision 99/725 CE. Based on this EC decision, economic size is abbreviated as ESU. In accordance with EC decision 99/725 CE, we take 1 ESU to be equal to 1.200 euro for 9 types of general activity, 17 principles and 50 special ones.

Table 7
Source: Eurostat

The economic output of agricultural holdings with legal personality is significantly higher than that of smallholder farms. An analysis of the distribution of agricultural holdings based on their economic output reveals that the size of an agricultural holding is positively correlated to its turnover.

CE 1242/2008 states the minimum threshold for each EU country each year. In 2010, the 1859/82CEE regulation determined that the minimum threshold for Romania was EUR 2,000. The distribution of agricultural holdings by their economic size is presented in Table 8.
Table 8. Distribution of agricultural holdings by their economic size

<table>
<thead>
<tr>
<th>Economic size (Euro)</th>
<th>Number of AH (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,000 - 8,000</td>
<td>915,600</td>
</tr>
<tr>
<td>8,000 – 25,000</td>
<td>100,700</td>
</tr>
<tr>
<td>25,000 - 50,000</td>
<td>13,390</td>
</tr>
<tr>
<td>50,000 – 100,000</td>
<td>6,440</td>
</tr>
<tr>
<td>100,000 - 500,000</td>
<td>5,430</td>
</tr>
<tr>
<td>&gt; 500,000</td>
<td>720</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,041,280</strong></td>
</tr>
</tbody>
</table>

There were 3,859,000 agricultural holdings in Romania in 2010 (see Table 5). However, as seen in the analysis of their economic size in Table 8, they eventually decreased to 1,041,280. In Romania, 73% of agricultural holdings have economic outputs under the minimum threshold of EUR 2,000. This indicates that a very high number of semi-subsistence farms exist. In fact, this shows that there are 2,817,720 semi-subsistence farms in Romania (Luca 2007).

As there are a very large number of smallholder farms in Romania and very few large farms, this creates a structural imbalance that has impacted agriculture and its competitiveness at the national level and in international markets (See Ministerul Agriculturii și Dezvoltării Rurale Direcția Generală Politici Agricole și Strategii, 15 May 2014).

Official data on enterprises in Romania do not totally reflect the presence of agribusinesses. This is because official data take agribusinesses into account only if they meet the following criteria:
- they are enterprises established by a legal person
- they are enterprises registered in the urban and rural areas, and are officially registered as performing agricultural-related activities

Official data also do not reflect the existence of all agribusinesses in the country because as long as the agribusinesses fit the abovementioned criteria, they will be analyzed against their entrepreneurial activities. This analysis is not totally accurate because it does not take into consideration
the following:
- agribusinesses’ economic size or the size of their land
- whether they are an officially registered business with the state or simply a small farm registered in the national farm register
Thus, official data is lacking in this respect. As a result, there is insufficient information on the role and performance of agribusinesses in the national economy.

A brief analysis is presented for 2010 because, at this moment, this is the last year for which official statistics exist in all studies. This fact does not reduce the validity and credibility of the analysis presented, as the data reflects:
- the present situation
- the fact that there are no significant changes in agricultural entrepreneurial activities

3.8.2.4 Size of agribusinesses in the overall country economy – Occupation and Employment
Agriculture’s important role in the national economy is reflected in the number people employed in the agricultural sector. The high number of people employed in the agricultural sector is reflected in official data. After 1930, agriculture’s share in Romanian GDP decreased significantly from 38% to 6%. However, the total Romanian population residing in the rural areas remained at about 50%. The inequalities between urban and rural areas are emphasized in Romania, as the rural and urban populations do not have equal opportunities. Economically, the rural areas lag behind the urban ones. Because of this, Romanian policymakers are motivated to make things more equal between the urban and rural areas.

An overview of the rural population, its occupation and unemployment based on recent official data is presented in Figure 10.
Romania has high levels of employment compared to the other EU countries (Figure 11). Romania has high levels of employment because the rural population are mostly engaged in farming for personal survival. However, this fact is not reflected in GDP and it does not result in significant economic output because 88.5% of the rural population are in the informal sector (households, small farms, trade). This explains why the rural unemployment rate is lower than the urban one.

The Romanian population nationally engaged in agriculture (in accordance with agricultural activities outlined in CAEN) is four times higher than the EU average.

Figure 11. Self-employment rate in transition countries, Sweden (EU leader by GEDI) and EU-28, 2007-2012
3.8.2.5 Evolution of occupation and employment in rural areas

Employment in the rural areas remained more or less unchanged in 2010-2013 (Figure 12). The employment and unemployment levels in the rural areas remain more or less the same. Because rural employment in the informal sector (households, small farms and trade) remains constant, we cannot expect the rural agricultural-based farms to improve their economic output. Figure 12 also presents the distribution of the rural population working in both agriculture and enterprises.

This indicates that the majority of officially registered economic entities engaged in agricultural activities are without legal personality. In other words, most of the officially registered agricultural-based entities are not SMEs. Instead, these entities are performing entrepreneurial activities as private entrepreneurs (see Figure 7), which, in turn, explains the very high self-employment rate of 49.64%.

![Occupation in rural area](image)

**Figure 12. Employment in the rural areas**

Source: “Furnizorii de formare profesională și servicii de stimulare a ocupării,” IES, 2013; INS, Romania in Cifre 2014; and Anuarul Statistic 2012

There were 437,042 active SMEs in the country in 2013, and 3% of them were registered as engaged in agriculture-related activities. Out of the 14,394 registered enterprises, only 31 were large enterprises in agriculture.
Detailed figures of SMEs in agriculture are given below:
- 12,353 are microenterprises
- 1,806 are small enterprises
- 204 are medium-sized enterprises

SMEs in agriculture make up 3.3% of all SME salaries, which is 3.7% of the total turnover. (Barta 2013)

The size of agribusinesses in the overall economy and the role of agriculture in the national economy, as recorded in official data, are presented in Table 9.

<table>
<thead>
<tr>
<th>Share of agriculture to GDP in %</th>
<th>5.6%</th>
<th>(INS, 2014)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employees in agriculture</td>
<td>2.6 m (19% of population)</td>
<td>(INS 2014)</td>
</tr>
<tr>
<td>Total number of agricultural SMEs*</td>
<td>14,363</td>
<td>(2013, FPP)</td>
</tr>
<tr>
<td>Total number of agricultural large enterprises</td>
<td>31</td>
<td>(2013, FPP)</td>
</tr>
<tr>
<td>Total number of farms</td>
<td>3,630,000</td>
<td>(2013, Figure 8)</td>
</tr>
<tr>
<td>Average size of land per farmer in hectare</td>
<td>3.60</td>
<td>(2013, Figure 8)</td>
</tr>
</tbody>
</table>

Table 9. Role of agriculture in the national economy

3.8.3 ROMANIAN GOVERNMENT VS. LEGISLATION, FINANCING AND MARKET REGULATION ISSUES

The Ministry of Agriculture, Forestry and Rural Development recognizes the importance of agriculture and its relation to rural development. Through the years, many strategic programmes were created and adopted. These include agricultural land policies and policy measures for farm structure adjustments (Luca 2014).

The following different measures of land policy were adopted:
- Creation of agricultural associations (Law 36/1991)
- Land lease (Law 16/1994)
- Privatization of state farms (Law 268/2001)
- Acquisition of agricultural land by foreigners (Law 312/2005; Law 17/2014)
- Policy measures for farm structure adjustment (Law 247/2005; GEO 43/2013).
The National Rural Development Programme (PNDR) 2014-2020 formulates the priorities for the next period in agricultural development.

Some recently adopted regulations pertaining to financing and market regulation issues are as follows:

- Law no. 37/2015 creates the foundation through which the country can better adapt to the EU’s CAP. This would make it easier for Romanian farmers to apply for national and European funds. The law also outlines a series of innovative solutions. The law aims to promote an efficient and transparent administration of European funds, and simplify applicants’ access to different grants. In accordance with the law, application procedures will be simplified through the introduction of an online application system, a database with price references, and online acquisition procedures. As part of the simplified application process, there will be a shorter evaluation period before winning applicants are notified.

- Priority Axis 4.1 – Investment in agricultural development encourages investment in new technologies, more efficient equipment, fixed assets, and modernization of small and medium-sized farms in order to increase their competitiveness. These are non-refundable European grants totalling EUR 205.7 m.

- Priority Axis 6.1 – Support for young entrepreneurs to start up businesses in agriculture and become farmers. They will receive 100% non-refundable European funds totalling EUR 111.2 m.

**CAP 2015-2020**

Table 10 shows the new structure of direct payments introduced for Romania in March 2015.

<table>
<thead>
<tr>
<th>Single area payment</th>
<th>Redistributive payment</th>
<th>Green payment (agricultural practices beneficial for climate and environment)</th>
<th>Young farmers payment</th>
<th>Coupled support</th>
<th>Support in areas with natural constraints</th>
<th>European Agricultural Guarantee funds (direct payments for farmers under CAP)</th>
<th>National funds</th>
</tr>
</thead>
</table>

**Table 10. New structure of direct CAP payments**
Some of the most important changes are:

- **Redistributive payment**, which will stimulate payment aiming to enhance the creation of associations, collaborations in agriculture, and the development of a middle class in agriculture. The value of grants is dependent on the size of the farmer’s land. In general, grants will be given for land that is 1-5 ha in size. The exact breakdown of funds will be EUR 170 per ha. Farms that are 5-30 ha in size, will receive EUR 215 per ha.

- **The Young Farmers Scheme**, which will encourage young farmers below the age of 40 to own land that is not more than 60 ha. Successful applicants of this scheme will receive funding for 5 years (2015-2020) as well as additional payment of 25% more than the assistance provided to farmers above the age of 40.

- **Simplified scheme for small farmers to improve their efficiency**. Small farm owners receiving a maximum of EUR 1,250 per year will be included in a database of smallholders. All smallholders in the data will be exempted from different sanctions and controls, thereby allowing them to take advantage of simplified administrative procedures (such as pre-filled applications and less yearly checks on eligibility) when applying for single area payments.

Agricultural holdings that are 2-50 ESU in economic size are recognized by the Government Emergency Ordinance (GEO) no. 43/2013 as family farms. This regulation was introduced to support and encourage the development of family-owned enterprises, facilitate farmers’ access to grants, encourage financial institutions to give loan guarantees to farmers so that they can acquire land, increase agricultural production and purchase agricultural equipment. To this end, the Ministry of Agriculture and Rural Development signed agreements with OTP Bank and CEC Bank to finance family-owned businesses.

The Black Sea Trade and Development Bank (BSTDB) has also provided a total of EUR 52 million to three agribusiness projects in Romania. Romania makes up a third of BSTDB’s agribusiness portfolio.

In 2013, BSTDB granted a EUR 15 m loan to the Agricover Group, while the remaining amount went to financing Romanian farmers. BSTDB granted a EUR 7 m loan to Patria Credit for further loans to SMEs active in the agriculture sector. In 2012, BSTDB provided a EUR 30 m loan to the Olympus Fabrica de Lapte company.
3.8.4 CHARACTERISTICS OF SMES AND SMALL FARMS IN AGRIBUSINESS

In 1989, only 14% of the Romanian agricultural area was in private ownership. After 1990, private ownership of agricultural land grew so rapidly that private land ownership rose to 96% in 2013.

Romanian agriculture is characterized by many social and economic problems stemming from the excessive fragmentation of land that presently is broken up into 40 million parcels. The rural areas of Romania, where most agricultural activities take place, are affected by structural changes and its effects.

Farming is the basic occupation of people in the rural areas. Farming is important for rural communities and the people who live in them. To improve the rural agricultural landscape, the government has to support and implement policies in favour of agriculture. By doing so, the state will create confidence in farming, engender favourable conditions for agricultural production, create a conducive environment for farming, and assure people in rural areas that farming is not a sign of poverty.

Young people in Romania do not see farming as an attractive profession. To change this mindset, the ratio of young and old people in the rural areas must be improved significantly. Fundamental farming skills are not learned from the pages of a book, but are passed down from one generation to the next; thus, young people should be taught the value of maintaining agricultural traditions. If successfully done, old Romanian villages will be conserved, their traditions preserved, their economic value boosted, and their populations’ wellbeing assured.

To create better conditions for modern farming, the encouragement and sustenance of innovativeness in agriculture must also become a priority issue. Before pro-innovation policies are formulated, it should be borne in mind that 97.5% of farm managers have only practical experience and no agricultural education or training, and that more than 2 million semi-subsistence farms are ineligible for CAP.

Present-day farming is characterized by two extreme poles (Figure 13). On the one hand, farmers working in fields surpassing 100 acres make up only 0.4% of the total number of farms in the country; on the other hand, 90% of farms are family farms of 1-10 acres each (Page and Popa 2013).
Figure 13. Analysis of bipolar farming

The advantages of large farms are well known, but small farms, specifically family farms, are crucial to the economic vitality of the rural areas. As large farms are located in the poorest areas in Romania, they are associated with rural poverty.

These aspects are very important, and require deep analysis so as to understand where, when and which conditions are:
- advantageous to the formation of large farms
- useful to reducing the large numbers of semi-subsistence farms
- most likely to transform semi-substance farms and render them eligible for CAP payments
- essential to increasing rural vitality for the wellbeing of the rural population
- able to reduce the disparities between the well-off and the poor
- able to create cohesion among agricultural producers

Entrepreneurial spirit must be cultivated, training sessions have to be formulated and launched, and best practices in agricultural management and production must be thoroughly implemented. Education must be concentrated on entrepreneurship to engender such entrepreneurial spirit in the agricultural sector and the SME sector.

Romania is characterized by necessity-driven entrepreneurship, which does not produce economic development (see Figure 14). As seen in Figure 15, current Romanian entrepreneurs are unable to recognize the opportunities offered by the market (Szabó and Herman 2014).
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Romania is characterized by necessity-driven entrepreneurship, which does not produce economic development (see Figure 14). As seen in Figure 15, current Romanian entrepreneurs are unable to recognize the opportunities offered by the market (Szabó and Herman 2014).
Romanian entrepreneurship is also of very low quality compared to the GEDI data of EU countries, as seen in Figure 16. GEDI measures productive entrepreneurship.

![Figure 16. Quality of Romanian entrepreneurship](image)

**Figure 16. Quality of Romanian entrepreneurship**
Source: Own calculations based on GEDI data and Eurostat database (2013)

Interestingly, only 21% of this unproductive entrepreneurship is in the rural areas. Turnover in the rural areas is 9.7 times lower and the profitability is 8 times lower. Agricultural villages are characterized by lack of human capital because 2.7 million farmers are over 65 years old and Romania has the highest number of farm managers with no agricultural training or education in the EU.

Thus, an environment conducive for entrepreneurship must be fostered and enhanced in the rural areas.
Swot analysis of SMEs and small farms in agribusiness

3.8.5 TRANSFORMATION OF AGRIBUSINESSES FROM FAMILY-OWNED, SMALL-SCALE PRODUCTIONS TO LARGE FIRMS EMBEDDED IN PRODUCTION AND DISTRIBUTION CHAINS

Our brief analysis of the SME sector so far shows that enterprises engaged in agricultural activities present a unique sector that is ripe for growth and development. This fact is due to their integration in distribution chains for a large market of consumers (Barta 2013).

The transformation process from family-owned, small-scale farms to large firms embedded in production and distribution chains is very slow. Some of the challenges or barriers to this transformation process are as follows:

- mentality of smallholders
- citizens have low interest in green products
- social impact associated with consumption choices
- citizens have a lack of awareness on environmental issues and green products
- competition from multinational companies that operate on reduced costs
- local entrepreneurs cannot meet the challenges presented by multinational companies

Strengths
- resilience
- tradition
- rural communities that protect the environment and look out for the welfare of animals

Weaknesses
- inadequate use of operation and production assets, especially human capital and institutional resources
- lack of knowledge in marketing and capitalizing on own goods

Opportunities
- biodiversity
- traditional farming landscapes
- traditional products
- Amendment of CAP rules

Opportunities
- biodiversity
- traditional farming landscapes
- traditional products
- Amendment of CAP rules

Threats
- small and fragmented structure which has negative impact on economic performance and its development
- lack of education
- lack of markets for goods
- lack of access to information
- no internet connection
- general lack of entrepreneurial culture
- lack of entrepreneurial network
- opportunities are insufficiently recognized
- lack of creativity
- inability to sell to large market chains.

There are an increasing number of agribusinesses able to develop and become competitive. Their success is dependent on the quality and quantity of their products, the capability of the entrepreneurs and/or farmers to recognize opportunities, the entrepreneurs and/or farmers overcoming fear of failure, the entrepreneurs and/or farmers willing to take risks, capacity for innovation, access to information, as well as the entrepreneurs’ and/or farmers’ level of education.

At present, Romanian production is less than 50% of that in EU-27. Agribusinesses in the country need a favourable and stable environment for development.

3.8.6 DEVELOPING AGRIBUSINESSES SO THAT THEY ARE MORE INDUSTRIALIZED, MORE COMPETITIVE, MORE TECHNOLOGICAL AND MORE MANAGERIALLY INTENSIVE

Agribusinesses in Romania encompass a very large variety of entrepreneurial entities engaged in agricultural activities, ranging from semi-subsistence farms to large enterprises. Unfortunately, agribusinesses do not receive equal opportunities for industrialization, funding, development and the improvement of competitiveness.

To better understand these unequal opportunities, let us look at the example of semi-subsistence farms. Semi-subsistence farms are private entrepreneurs. Because they are so small and their managers lack education, information and knowhow in recognizing opportunities, it is almost impossible for them to develop.

There is much potential for agribusiness growth in Romania, but much of it remains unexploited. Furthermore, there are many barriers to the development of agribusinesses. Agricultural holdings are very small and fragmented in Romania. This can negatively affect their economic performance and development. Their small and fragmented nature also means that they inadequately use their operational and production assets, especially human capital and institutional resources. The country is characterized by
poor infrastructure and suffers from a lack of knowledge in marketing and capitalizing on its own goods.

Development of agribusinesses will only be possible when there are structural changes in the economy. These structural changes must take into account the geographical and demographic factors of the country, the business culture of the region, as well as environmental and historical factors.

Some agricultural sectors are very resistant to change due to their culture and lack of knowledge and education. As a result, it is harder to encourage people in those sectors to start businesses and register them as legal entities. For example, sheep farmers have never organized themselves into legal entities and cannot obtain funding. New criteria must be defined to allow them access to European and national funds.

The government is essential in the development process, as it has the power to facilitate or stall the whole process. Adequate strategies, policies and regulations are needed for the development of agribusinesses.

### 3.8.7 NEW CHALLENGES FOR AGRIBUSINESSES – NEW DEMANDS FOR HEALTHY AND ENVIRONMENTALLY FRIENDLY PRODUCTS

Traditional products can contribute significantly to economic growth.

Only one Romanian product has received the European agricultural product quality status of Protected Geographical Indication (PGI). Magiunul de la Topoloveni received PGI status under the EU agricultural product quality policy in April 2011.

In a world where there is increasing demand for healthy and environmentally friendly products, agribusinesses face many challenges. Some of these challenges can be overcome through the implementation of the following measures:

- strategic orientation for the sustained development of mountainous areas that make up 30% of Romania
- creation of short food supply chains in rural areas by promoting and selling products closer to their point of production
- launch a national campaign to inform consumers of products from the mountainous regions
- encourage manufacturers and farmers working in mountainous regions to modernize and develop
3.8.8 GOVERNMENT SUPPORT FOR AGRIBUSINESSES AND SMALLHOLDER FARMERS
The Romanian government supports agribusinesses and smallholder farmers through national policies that are in line with EU policies.

It is well known that agricultural policy at the EU level does the following:
- helps farmers produce sufficient quantities of food for Europe
- ensures food safety through traceability
- protects farmers from excessive price volatility and market crises
- helps farmers invest in the modernization of their farms
- sustains viable rural communities with diverse economies
- creates and maintains jobs in the food industry
- protects the environment and animal welfare.

The Romanian government should stimulate productivity and growth. In 2012, the agro-alimentary industry in Romania made 61% of the national turnover. 29.2% of the country’s agro-alimentary businesses were registered as commercial entities and 16.5% were registered as agricultural enterprises because of the great resources of raw material and favourable government policies facilitating access to business and financial services (Barta 2013).

3.8.9 COMPETITIVENESS OF AGRIBUSINESSES AND SMALL FARMS
Agribusinesses in Romania cover a very large variety of agriculture-related entrepreneurial entities of different sizes, with very different characteristics, different levels of development and different performance parameters.

There are more than 2 million farms that are less than EUR 2,000 in economic size and managed by farmers over the age of 65 who have only practical experience and no agricultural education. These small semi-subsistence farms are not competitive, and are unable to efficiently tap into resources. This results in negative side effects for rural economies and the farmers’ welfare.

On the other hand, Romania has a bipolar farm structure whereby large competitive farms coexist with small farms that only produce for their own
consumption. Most of these large farms are competitive (Top 50 fermieri 2013).

Only a limited number of small farmers invest in new technologies and equipment. As the majority produce only for their own consumption, they neither invest in their lands nor generate market offers.

3.8.10 SUGGESTIONS TO GOVERNMENT AND LOCAL AUTHORITIES

Romania has great agricultural potential, as approximately half its population lives in rural areas and over 80% of the country is still rural. In order to exploit this potential, adequate policies producing high economic output are needed.

Government policy measures must treat agriculture and agribusinesses as priorities. Some suggestions to government to this end are:

- Microcredit needs to be sustained and improved, as approximately 3 million agricultural holdings do not receive grants or European non-refundable funds
- Farming of agricultural land and livestock should be stimulated in order to transform subsistence farms into commercial ones
- National strategies incorporating small and medium-sized farms into value chains need to be promoted
- Capital access must be improved
- A new generation of young farmers should be fostered
- Market access should be facilitated
- Investment in agriculture should be boosted
- Investment in infrastructure should be strengthened
- Investment in human capital should be expanded
- Entrepreneurial activities in rural area should be encouraged

CONCLUSIONS

The published statistics do not define agribusiness. We studied all the activities connected with agriculture based on the definition of agribusinesses published in Merriam-Webster dictionary: “an industry engaged in the producing operations of a farm, the manufacture and distribution of farm equipment and supplies, and processing, storage, and distribution of farm commodities”.
Agribusinesses in Romania vary because they can be semi-subsistence farms or large enterprises; and their activities may either be registered officially or only noted in the national farm register. The opportunities for these different types of agribusinesses in industrialization, access to funds, development and competitiveness are not equal.

Agribusinesses in Romania have enormous potential, but they face robust challenges in improving their performance. Moreover, their role and perspectives can vary. Some of them are open to development possibilities, but some of them exist only to help their owners survive.

In order to encourage the development of agribusinesses, policies need to improve their competitiveness, national strategies must be introduced to incorporate small and medium-sized farm into value chains, capital access must be improved, internationalization must be encouraged, and a new generation of young farmers must be created.

In Romania, farmers are able to survive and develop their long-term activities because they are connected to their land.

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3.9 Agribusiness SMEs and Small Farms in Russia

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Abstract
Agribusiness is the largest interdisciplinary entity in Russia, as it includes more than 10 industries, and aims to produce and process agricultural raw materials. It affects the interests of almost the entire population and directly influences 38.7 million citizens living in rural areas. The agribusiness sector employs more than 18 million people in different agricultural organizations, enterprises, farms and private households in 155,000 settlements. The major agricultural produce in Russia are grains, sugar beet, sunflower seeds, potatoes, vegetables, livestock, poultry, milk, eggs and wool.

To be considered a small business, an agricultural entity cannot employ more than 60 people and must have a turnover that is no more than RUB 800 m (USD 15 m).
In August 2014, Russia introduced an embargo on food imports in retaliation to the sanctions imposed by the United States, Australia, Canada, the European Union and Norway. This decision had an important influence on agribusinesses, including small farms and SMEs, as it is connected to the Russian government’s priorities of food independence and import substitution.

Government support is reflected in the State Programme for the Development of Agriculture and Regulation of Agricultural Commodities Markets 2013-2020. This state programme is one of the most effective methods of controlling raw materials and food supply through the development of target indicators of economic activity. Action plans or road maps detailing the measures facilitating the Concept of Internal Food Aid Development in the Russian Federation as well as the import substitution process in agriculture in 2014-2015 were approved in 2014.

The participation of the World Trade Organization (WTO) as well as international and interregional cooperation through the Eurasian Economic Union (EEU) and Shanghai Cooperation Organisation are essential to the future of agriculture development.

This paper is based on literature, experiences in various Russian projects, case studies, business orientations and participation in several conferences.

Keywords: agriculture, Russian Federation, small business, farms, state programme
JEL Classification: Q1

3.9.1 ROLE AND SIZE OF AGROBUSINESS IN THE COUNTRY’S OVERALL ECONOMY. STRUCTURE OF AGRICULTURAL PRODUCTION
Agribusiness is the largest interdisciplinary entity in Russia, as it includes more than 10 industries, and aims to produce and process agricultural raw materials. It affects the interests of almost the entire population and directly influences 38.7 million citizens living in rural areas. The agribusiness sector employs more than 18 million people in different agricultural organizations, enterprises, farms and private households in 155,000 settlements.
Agriculture contributed to 3.8% of Russian GDP; and together with the food processing industry, it contributed to 7% of GDP.

There are 10 million people employed in the agriculture and food industry in Russia, accounting for 15% of the total labour force. Additionally, 23.5 million people are employed as individual farmers or work in family farms.

The major agricultural produce in Russia are grains, sugar beet, sunflower seeds, potatoes, vegetables, livestock, poultry, milk, eggs and wool.

### 3.9.2 DEFINITION OF AGRARIAN SMEs AND SMALLHOLDER FARMERS

For many years, Russia had been a country with a mixed agrarian sector. Private farms, as small businesses in rural areas, only began to develop in the last decade of the twentieth century. The definition of SMEs and smallholder farmers is stated in the federal legislation of the Russian Federation:


**Article 3. Subjects of small business**

Small businesses are understood to be commercial organizations with authorized capital from the Russian Federation, public and religious organizations or associations, and charitable funds not exceeding 25%. More than 25% of a small business cannot belong to entities that are not small businesses. Small businesses that are in industry cannot employ more than 100 people; and small businesses in agriculture cannot employ more than 60 people.

Individuals engaged in entrepreneurial activities as a legal entity are also regarded as small businesses in Russia.

Microenterprises are defined in the federal law of 24 July 2007, No. 209-FZ, “On the development of small and medium enterprises in the Russian Federation”. That federal law states that the average number of employees in a microenterprise in the preceding calendar year cannot exceed 15 people.

**Article 1. Definition of a peasant (farmer’s) entity**
1. The peasant (farmer) entity (hereafter, the farm) is an association of citizens bound by kinship and (or) in-law relations in joint property ownership. The farm carries out production and other economic activities (production, processing, storage, transportation and sale of agricultural products), based on their personal involvement.
2. The farm can be created by one citizen.
3. The farm can conduct business without registering as a legal entity.

**STATISTICS ON AGRIBUSINESS AND SMALL FARMERS IN RUSSIA**
According to the key statistics by the Russian Ministry of Agriculture in 2014, growth in agricultural output was 3.7%, including 5% growth in crop products and 2.1% growth in livestock products.

The food and processing industry continued on its upward trend with 2.5% growth in 2014, compared to 0.6% growth in 2013.

In 2014, RUB 188.7 bn was allocated for the implementation of state programmes, including over RUB 151.3 bn for agricultural production and rural social development programmes.

The subsidy adjusted the profitability of agricultural producers in 2014 by bringing it up to 7.3%. Agricultural profitability without subsidies was 5.2%. The share of profit-making agricultural organizations has grown by 2.1%, for a total of 84.1%, which coincides with a 3.9% reduction in the total number of farms.

The average monthly wages in the agriculture, forestry and hunting sectors amounted to RUB 17,600 (increasing by 11.1%). Unemployment in rural areas also dropped by 11%.

Acreage for crops in all categories of farms in the Russian Federation totalled approximately 79 million ha, including 46.2 million ha planted with cereals and pulses (increasing by 0.9% compared to 2013).
### Table 1. Statistics on Agribusiness and Small Farmers in Russia

<table>
<thead>
<tr>
<th>Statistics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of agriculture to GDP in %</td>
<td>3.8</td>
</tr>
<tr>
<td>Total number of employees in agriculture</td>
<td>33 million</td>
</tr>
<tr>
<td>Total number of agricultural SMEs</td>
<td>18 million</td>
</tr>
<tr>
<td>Total number of farmers</td>
<td>23.5 million</td>
</tr>
<tr>
<td>Average size of land per farmer in hectare</td>
<td>81</td>
</tr>
</tbody>
</table>

#### 3.9.3 GOVERNMENT VS. LEGISLATION, FINANCING AND MARKET REGULATION ISSUES

The main federal executive body for farms and agribusinesses in Russia is the Ministry of Agriculture (Minselkhoz), which is responsible for:

1. Drafting and implementing government policy and legal regulation in agriculture and related industries, including livestock farming (such as the breeding of domesticated fish species listed in the State Register of Protected Breeding Achievements), veterinary services and pharmaceuticals, crop production, phytosanitary control, soil improvement and fertility, regulation of farm produce, raw materials and foodstuffs markets, the food and food processing industry, the production and distribution of tobacco products, and the sustainable development of rural areas.

2. Drafting of state policy and legal regulation in the fisheries industry, including fishing and fish farming (aquaculture), conservation of water biological resources, the manufacture, processing and sale of fish and other products from water biological resources.

3. Drafting and implementing of state policy and legal regulation in the field of land relations (in the case of farmland), ensuring state monitoring of such land; providing state services related to agriculture, including the sustainable development of rural areas.

A large number of farms turned out to be unprofitable after 2006, when the Russian government put into practice the first large-scale Agricultural Development Programmes (such as the Priority National Project «AIC Development»), and when the agricultural industry received huge grants and subsidies for development.
Imperfect price regulation in the agricultural market played a crucial role at that time. As a result, all the indicators of agricultural production showed that farms did not compare favourably to agricultural organizations with different legal forms. Due to low production profitability, farmers could not afford to buy high-quality seeds. This resulted in low crop yields. In the years of good harvest, farmers could not sell their products due to excess supply. Consequently, models of direct interaction from producers and consumers are of utmost importance (Kravchenko et al 2014).

In August 2014, Russia introduced an embargo on food imports in retaliation to the sanctions imposed by the United States, Australia, Canada, the European Union and Norway. This decision had an important influence on agribusiness, including small farms and SMEs, as it is connected to the Russian government’s priorities of food independence and import substitution.

Food independence refers to the ability of the country’s agrarian sector to provide an assortment of manufacturing, storage, processing and delivery services of principal foodstuffs to the population for the maintenance of an active, healthy life. Food safety is not provided if a foodstuff manufacturer makes less than 75%-80%, according to physiological norms of a food.

An action plan or road map on measures facilitating the import substitution process in agriculture in 2014-2015 was approved in October 2014. It calls for the improvement of regulations related to food security and accelerated import substitution in the Russian Federation.

The Concept of Internal Food Aid Development in the Russian Federation was also approved in 2014.

3.9.5 CHARACTERISTICS OF SMEs AND SMALL FARMS IN AGRIBUSINESS. SWOT ANALYSIS
Characteristics of SMEs and small farms in agribusiness
There are about 35,000 small farms comprising up to 60 workers and with turnovers of up to RUB 800 m (USD 15 million) registered in Russia. Of these, 24,500 are microenterprises with up to 15 workers and turnovers of up to RUB 120 m (USD 2 million).

The sown area is about 19 million hectares, and it increased to 6 million hectares in 2007-2014 at a rate of almost a million hectares per year.
If production from individual and family farms is taken into account, then Russian farmers had produced 90% of potatoes, 88.5% of vegetables, 55.6% of milk, and 69.1% of meat (beef) for slaughter domestically in 2013.

This sector keeps 62.2% of cows as well as 90.6% of sheep and goats in the Russian Federation.

Grain production reached an important milestone in 2014. For the first time, the proportion of farm production in the Russian grain harvest exceeded 25.4%, with sunflower seeds making up 29.5% of the total harvest.

Production of livestock and poultry for slaughter in live weight had increased by 10% for farmers in 2014. Since 2009, the number of cows in Russia had almost doubly increased by more than 500,000. The number of sheep and goats in farms also doubled since 2009, reaching 8,642,000. There has been, unfortunately, a twofold reduction in the number of pigs in farms since 2007.

**SWOT analysis**

According to recent research (Soldatova et al. 2011, 786-87), the SWOT analysis of Russian agriculture in the post-Soviet period is as follows:

**Strengths**
- With 10% of the world’s arable land, of which approximately 35 million hectares reportedly lie fallow, Russia has enormous potential for expanding agricultural production.
- Russia’s population of approximately 140 million people provides a vast market for agricultural products.

**Weaknesses**
- Decades of collective and state farming with little incentive to maximize production have left Russian agriculture with poor yields by international standards.
- Creaking Soviet-era infrastructure increases costs and makes expansion into new areas difficult.
- Many farmers lack the skills to run a profitable business without government aid.
**Opportunities**

- Poor yields can be improved through the introduction of farming practices that increase production.
- Large and efficient corporate farms are beginning to emerge, as there is much opportunity for further expansion.
- Rising disposable incomes in the long-term will allow Russians to spend more on food.
- Agricultural expansion could substantially benefit from Putin’s latest land reform legislation. This means that for the first time since 1917, Russia will permit the trading of national farmlands. This could go a long way to attracting the types of investment that can help Russia fulfil its vision of being a major agricultural player.
- Foreign investment is playing an increasingly important role in the development of the agri-food industry.

**Threats**

- The rural population is declining rapidly with many young people heading to the cities.
- Much of the country suffered from environmental degradation in Soviet times, which, if not dealt with, could threaten agricultural production in the future.
- The government has been threatening to reassert its former role in directing agriculture and has signed the United Grain Company into being. However, the full implications of this development are as yet unclear.
- The global recession has taken its toll.

3.9.6 DEVELOPING AGribusinessES SO THAT THEY ARE MORE INDUSTRIALIZED, MORE COMPETITIVE, MORE TECHNOLOGICAL AND MORE MANAGERIALLY INTENSIVE

Production capacity is among the most important factors determining agricultural producers’ competitive advantage. Production capacity is measured by quantitative and qualitative performance indicators. They characterize the market opportunities of the company in terms of market share, improve product quality and enable price manoeuvring to determine potential competitiveness. After production capacity is analyzed, businesses would then implement determined marketing strategies.
Capacity building and competitiveness in agribusinesses and small farms are influenced by the following factors in a dynamic market:
- Competition within the industry
- Threat of substitutive goods and services from abroad
- The ability of the processing industry to dictate their conditions
- Lack of storage facilities
- Threat of new competitors
- Unused land and outdated agricultural machinery
- Problems in reaching direct buyers and/or getting access to chain stores.

Productivity can be increased through use of organic manure in the creation and maintenance of fertile soils, use of better seeds and breeds, planting new crop varieties, as well as applying new integrated production and post-harvesting practices.

An example of an innovative new way of production in Russia is one that links crop production to dairy farming. Here, dairy cows need feed from crop producers and produce manure, which crop producers need to fertilize their lands. This makes it possible to diminish the use of chemical fertilizers, obtain high quality output, practice intelligent crop rotation and introduce cold-resistant crops (Donkers 2014, 122).

If the farmer uses old-fashioned technologies and tools, the market is lost. Even organic farmers need to follow modern technological trends, as organic food needs modern technology and equipment to grow crops, and avoid the use of chemical fertilizers and pesticides.

3.9.7 NEW CHALLENGES FOR AGRIBUSINESS FROM NEW DEMANDS FOR HEALTHY AND ENVIRONMENTALLY FRIENDLY PRODUCTS
Although organic production in Russia is still low, it is increasing. Certification is not well developed in Russia. In large cities like Moscow, Saint Petersburg, Yekaterinburg and Novosibirsk, organic products are available. In most cases, organic products are imported and are very expensive. Various Russian communities are active in organic production. For example, organic producers in Kaliningrad are involved in livestock farming, milk and dairy production, cultivating fruit trees and collecting wild berries. The milk of the native Chiorno-Piostrye breed cows is used for cheese, butter and ricotta. An ecological village producing good quality food has been
created. Wild and farmed fruits are used to make non-alcoholic beverages, spirits and ciders. An association of organic producers in Moscow helps farmers to obtain certifications and improve their organization at a national level (Donkers 2014, 107).

**Production of organic food products opens up the following broad perspectives:**
- Expansion of product range
- Ability to take a free market space
- Access to a target audience with an above-average income
- More likely to attract foreign investment (due to the growing popularity of organic foods)
- Gaining the interest of the retail market through high yields and establishing networks in the market
- Create a favourable image of the company.

**Problems:**
- Fertilizers and protection of crops
- Storage and Retail
- Certification
- Lack of government support programmes for organic producers

**3.9.8 GOVERNMENT SUPPORT TO AGRIBUSINESS AND SMALLHOLDER FARMERS, ESPECIALLY IN FACILITATING ACCESS TO BUSINESS AND FINANCIAL SERVICES, AND PROMOTING AGRICULTURAL, INDUSTRIAL AND INNOVATION POLICIES**

Russia’s accession to the World Trade Organization (WTO) and the need to ensure the competitiveness of agricultural products were the main prerequisites for updating small business entities in the agrarian sector of the economy. The main instrument of agricultural policy is direct subsidies per hectare of production; these subsidies are without any limitation in production volumes and prices.

Since 2013, the Russian government has been practicing “unrelated” subsidies to maintain the profitability of agricultural producers.

The second most important form of support for agricultural development is a programme of loans secured by future production (or future harvests).
The State Programme on Agriculture Development is one of the most effective methods of controlling and supporting economic activity through the development of target indicators.

**State Programme for Development of Agriculture and Regulation of Agricultural Commodities Markets 2013-2020**

The federal budget of Russia allocated RUB 2,126,219,899.6 m (USD 35,436,998.3 m) for the implementation of the State Programme for the Development of Agriculture and Regulation of Agricultural Commodities in 2013-2020.

**Expected results of the Programme with economic indicators**

- Increase the share of Russian food products in food resources to the following levels by 2020:
  - grain, up to 99.7%
  - beet sugar, up to 93.2%-3.93%;
  - vegetable oil, up to 87.7%
  - potatoes, up to 98.7%
  - meat and meat products, up to 91.5%
  - milk and dairy products, up to 90.2%
- Increase agricultural production in all farm categories by 2020 so that they exceed the 2012 production rate of 24.8%
- Increase food products by 32.5%
- Providing a 3.1% average annual growth rate of investment in fixed capital in agriculture
- Increase the average level of profitability of agricultural organizations to no less than 10%-15% (including subsidies)

**Sub-programme – “Development of small farms”**

The federal budget allocation for the implementation of the “Development of small farms” sub-programme was RUB 114,280.25 m (about USD 2 bn) for the period between 1 January 2013 and 31 December 2020.

- Objectives: maintenance and further development of agricultural and non-agricultural activities of small farms; improving the quality of life in rural areas.
- Tasks: creation of conditions to increase the number of small businesses; more efficient use of agricultural lands; improving the incomes of the rural population.
• Expected results: creation of 14,000 farms by 2020 so that full-time jobs will be provided for 42,150 people in the rural areas; implementation of the programme to create livestock farms in 2020 so as to increase milk production in farms to 675,000 tonnes; increase agricultural production of small farms by 7.4%.

Four main directions of the “Development of small farms” sub-programme:
1. “Support for farmer start-ups”
2. “Development of family-based livestock farms”
3. “State support of loans to small farms”
4. “Registration of land ownership for farmers”

It is worth mentioning that apart from per hectare subsidies to agricultural producers laid down by the State Programme for Agricultural Development, there are also a number of other support measures in the Russian Federation. Some of these additional support measures are:
• Subsidization of interest on credit and loans,
• refunding partial costs,
• purchase of elite seed varieties,
• state support for greenhouse crops, and
• implementation of economically significant programmes in all Russian regions.

Productivity can be increased through use of organic manure for the creation and maintenance of fertile soils, use of better seeds and breeds, planting new crop varieties, and applying new integrated production and post-harvesting practices.

An example of an innovative new way of production in Russia is one that links crop production and dairy farming (Donkers 2014, 122). Here, dairy cows need feed from crop producers and produce manure, which crop producers need to fertilize their lands. This makes it possible to diminish the use of chemical fertilizers, obtain high quality output, practice intelligent crop rotation and introduce cold-resistant crops.

3.9.9 SUGGESTIONS TO GOVERNMENT AND LOCAL AUTHORITIES
The following are some suggestions for government and local authorities in improving the Russian agribusiness sector.
**WTO participation**
- develop economies by enhancing trade and eliminating barriers
- entails raising standards of living in the countryside
- creates a competitive environment for a more intensive development of the agricultural sector
- contributes to the improvement in the quality of food products by introducing high standards and competitiveness in agribusiness
- helps to preserve natural heritage due to widespread use of environmentally sound technologies in agriculture

**Regional and intergovernmental cooperation in the field of agribusiness**
While Russia’s current political situation is quite complicated, the country may relax its embargo on food from some EU countries (Greece, Hungary, Cyprus) due to the continuing lack of local food products, especially cheese, fresh vegetables and fruits.

Joint projects between Chambers of Commerce and other business associations, international exhibitions and forums, as well as academic mobility of universities within the Eurasian Economic Union and Shanghai Cooperation Organisation can strengthen the international development of the agricultural sector and show new trends. For example, China and Russia agreed to launch a USD 2 bn investment fund to develop joint agricultural projects in the two countries, and set up a free trade zone between their key farming belts: Heilongjiang and Russia’s farm belt in the Amur region.

Regional and intergovernmental cooperation in agribusiness is also dependent on labour migration, especially from former Soviet Union countries like Kyrgyzstan, Uzbekistan, Tajikistan, Kazakhstan, Armenia, Azerbaijan, Belarus, Moldova and Ukraine.

**Suggestions:**
- work on a detailed calculation of all possible risks to agricultural countries
- forecast different variants of the agro-industry situation
- prepare case studies of adequate measures to disseminate best practices of state activities so as to support the agricultural sector
- establish an international Internet platform for informational support of the functions and development of agro-industries in WTO coun-
tries; calculate the contribution of young people to the agricultural development of rural areas.

CONCLUSIONS
The modern agrarian economy enables SMEs to enhance their business activities. Government policies and the food embargo in Russia have allowed farms to grow rapidly and increase their production volume every year.

However, it is necessary to develop a farm policy that will allow farms to become economically stable in the mixed agrarian economy. Thus, at the present stage of development in the Russian agricultural sector, there is an increased demand for domestic products. The state supports the demand for domestic goods in many ways, with big agro-industrial enterprises receiving the lion’s share of state assistance and small businesses in the rural areas receiving very little.

Thus, the government should take measures to improve the effectiveness of small business operations in the rural areas. It is necessary to revise the amount of financing, and develop organizational and economic mechanisms that will contribute to improving small farms’ access to credit, ensure higher availability of social and engineering infrastructure, develop counselling services in the rural areas, disseminate innovative technologies and marketing and legal assistance, as well as support cooperation between farmers and private households.

Improvements in these areas will help determine Russia’s economic reform strategy and shape agrarian policy, thereby enabling the state to develop target programmes for small enterprises in the agricultural sector.

REFERENCES


3.10 DEVELOPMENT OF SMEs AND SMALL FARMS IN AGRIBUSINESS IN SERBIA

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ABSTRACT
Small and medium enterprises and small farms are recognized as important factors in the development of agribusinesses in the Republic of Serbia. The wealth of natural, human and material resources which have not been effectively exploited in agribusiness, as well as agribusiness’ significance in the economic development of Serbia are opportunities for SME development. Due to their national importance, this paper is about SMEs and small farms in agribusiness in the Republic of Serbia. Long-term inadequate agrarian policies in the agricultural sector have led to uncompetitive and inefficient agrarian production, decrease in the number of entities in agribusiness, small households, and insufficient government support in agribusiness development.
This paper will present the current situation of SMEs in agribusiness and outline the problems threatening their development through a SWOT analysis. The SWOT analysis will showcase the strengths, weaknesses, opportunities and threats faced by agribusiness in the Republic of Serbia. In accordance with the results of the SWOT analysis, this paper will conclude with recommendations and suggestions to the government. Adopting these recommendations and suggestions would ensure that some opportunities in the agribusiness sector are transformed into strengths, and some existing weaknesses and threats are reduced or eliminated.

Keywords: agribusiness, SMEs, small farms, development, SWOT analysis
JEL Classification: Q13, 013, R28

3.10.1 ROLE AND SIZE OF AGROBUSINESS IN THE COUNTRY’S OVERALL ECONOMY

Structural adjustments that occur as a result of the transition process in most developing countries can cause changes in overall GDP, domestic and foreign investment, employment and public finances. Entities, whose level of economic activity vary in accordance with their capacity to absorb transition effects and adapt to changes, are experiencing the effects of structural changes as well. An analysis of the developing countries that have successfully undergone the transition process indicates that small and medium-sized enterprises are a stable source of job creation. They perform an important social function because they absorb the labour surpluses resulting from the state-owned enterprises’ transition to socially-owned ones (Eric, Beraha, Duricin et al. 2012, 9). In the Serbian economy’s transition process, it is vital that the agro-industry sector is developed. As the only sector with surpluses in foreign trade, agribusiness contributed to 30% of GDP in 2013 and is recognized as a generator of Serbian economic development. This demonstrates that adequate development of the SME sector can lead to positive economic progress.

The concept of agribusiness in the Republic of Serbia was used for the first time in 1960. At the time, agribusiness was understood as a modern system of food production and distribution. The Law on Agriculture and Rural Development (Sluzbeni glasnik RS br. 41/2009 i 10/2013) defines two aspects of agriculture:

- Primary agricultural production – is defined as the area where pri-
mary plant and animal products are produced, finished or processed for specific human needs.

- Modern agriculture or agribusiness – is the sum of all operations related to the production and distribution of agricultural inputs, and production operations at the farms including the processing and distribution of agricultural raw materials and products (Zakić and Stojanović 2010, 110).

In modern agriculture, there are four main sectors related to the production and distribution of food and agricultural products:
- sector of agricultural inputs (also known as the pre-farm sector),
- sector of agricultural production (also known as the farm sector),
- manufacturing sector (production of agri-food products), and
- service sector.

The modern concept of agrarian production implies cooperation and coherence between the different agrarian activities and participants. This ensures efficiency in production and distribution of products, more efficient use of available resources, and the increase in satisfied customers of agri-products. Apart from the development of primary agricultural production, which is the basis for improving the quality of food products, it is necessary to develop distribution of products and improve the quality of the labour force responsible for the production and service processes in agribusiness. The main actors and subjects in agribusiness, who should establish adequate cooperation with one another, can be divided into the following categories:

1) Activities of agribusiness – The modern agriculture sector consists of basic activities such as production, distribution, exchange and consumption of goods. Financial activities that occur as a result of interaction with banks and other financial institutions are also considered part of agribusiness activities.

2) Agrarian subjects – Agrarian subjects are individuals or organized groups of individuals who make their own decisions to use available resources in agribusiness and carry out the risk of failure. They can be divided into three categories: (i) governmental institutions, (ii) public agricultural enterprises in state ownership, and (iii) SMEs and small farms in agribusiness. As preferences and goals of agrarian subjects are not similar, governmental institutions creating programmes for agribusiness development should take into account the different interests of each participant.
3) Agrarian institutions – Agrarian institutions have a duty to provide a legal framework for agribusinesses. They also have to implement a system of checks and penalties to ensure that all agriculture-related subjects and activities are in accordance with the law. Since agrarian governmental institutions are confronted with the dichotomy between different subjects and their preferences, their main goal should be the management of agribusiness so as to ensure that agribusinesses maintain an acceptable self-sufficiency in the production of healthy food, make optimal use of natural resources, and maintain a balance between different areas of interests. The most important agrarian institutions in Serbia are the Ministry of Agriculture and Environmental Protection, Directorate for Agrarian Payments, Directorate for Agricultural Land, Directorate for Agricultural Inspection, Agricultural Extension Service, the Serbian Environmental Protection Agency (SEPA), etc.

4) Resources – Renewable and non-renewable sources are used when different tasks are performed. They can be divided into natural, human and material resources. Natural resources are critical to agribusinesses. The availability and quality of natural resources affect food production and determine the success of the food in the market. Production activities cannot be carried out without human resources with appropriate knowledge and skills. Less labour would be employed in agricultural production if the material resources were of better quality.

Agricultural land is highly utilized in the Republic of Serbia. Quality land is very important to the development of primary agricultural activities like farming and vegetable growing. Table 1 provides an overview of the utilized agricultural land in Serbia, as presented in the “Census of Agriculture 2012” by the Statistical Office of the Republic of Serbia.

<table>
<thead>
<tr>
<th>Land</th>
<th>Total ha</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arable land</td>
<td>2,513,154</td>
<td>73.1</td>
</tr>
<tr>
<td>Meadows and pastures</td>
<td>713,242</td>
<td>20.7</td>
</tr>
<tr>
<td>Fruit plantations</td>
<td>163,310</td>
<td>4.8</td>
</tr>
<tr>
<td>Vineyards</td>
<td>22,150</td>
<td>0.6</td>
</tr>
<tr>
<td>Kitchen gardens and nurseries</td>
<td>25,055</td>
<td>0.7</td>
</tr>
<tr>
<td>Other permanent crops</td>
<td>512</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,437,423</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

**Table 1. Utilized agricultural land in the Republic of Serbia, 2012**

The total land area used for agricultural activities is 3,437,423 ha. Agricultural land makes up 70% of total utilized land, while 30% remains forested. Arable land makes up the largest share of agricultural land at 73.1%. Cereals are produced on 68% of land, while wheat takes up of 24% of land. Meadows and pastures occupy 20.7% of utilized land. Fruits are produced on 4.8% of land. Vineyards take up only 0.6% of land. Due to the weather conditions in Serbia and the consequences of drought, irrigation is very important to the development of agriculture. Only 3% of total agricultural land in Serbia is irrigated, and the structure is given in the following table.

<table>
<thead>
<tr>
<th>Land</th>
<th>Total ha</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arable land</td>
<td>84,858</td>
<td>85.05</td>
</tr>
<tr>
<td>Meadows and pastures</td>
<td>602</td>
<td>0.60</td>
</tr>
<tr>
<td>Fruit plantations</td>
<td>13,344</td>
<td>13.37</td>
</tr>
<tr>
<td>Vineyards</td>
<td>215</td>
<td>0.22</td>
</tr>
<tr>
<td>Other permanent crops</td>
<td>754</td>
<td>0.76</td>
</tr>
<tr>
<td>Total</td>
<td>99,773</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Table 2. Irrigation of total utilized agricultural land in the Republic of Serbia, 2012.**


Table 2 presents the irrigation of agricultural areas in Serbia. According to “Census of Agriculture 2012”, 85.05% or 84,858 ha of arable land is irrigated, while only 0.6% of meadows and pastures are irrigated. These findings are shocking when Serbia’s water resources are taken into account. More than 250 square kilometres of Serbian territory is occupied by lakes with areas larger than 4 square kilometres. Flowing rivers take up 4,338 kilometres in Serbia, and some of them have international watercourses vital to the development of river transport. Channels flow through more than 939 kilometres of Serbia. These water resources represent tremendous potential for the development of an irrigation system in the future, which would improve the quality of agricultural production and ensure the protection of crops during periods of drought.

Another important resource in agriculture is human resource or labour. The use of available resources cannot be effective without an adequate labour force to deploy them to their full potential. In numerous educa-
tional institutions in Serbia, students learn about the different aspects of agribusiness such as the fact that modern methods of production can improve both yields and financial results. The Republic of Serbia has 5 faculties of agricultural studies, 3 agricultural high schools, 10 institutes of agriculture, and more than 30,000 agricultural engineering graduates with different specialties. These agricultural institutes and faculty members are involved in numerous scientific research projects, including research with a large number of regional research institutions and educational organizations. Almost every region in Serbia has its own chamber of commerce monitoring and enforcing national agricultural legislation, as well as offering advisory services and assistance to farmers.

<table>
<thead>
<tr>
<th>Share in %</th>
<th>1-2 persons</th>
<th>3-4 persons</th>
<th>5-6 persons</th>
<th>7 and more persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>100.00</td>
<td>68.62</td>
<td>27.06</td>
<td>3.97</td>
</tr>
</tbody>
</table>

Table 3. Total labour force in agricultural holdings in Serbia in 2012, in %


Table 3 shows the total labour force in agricultural holdings in the Republic of Serbia, according to “Census of Agriculture 2012”. 69% of agricultural holdings have one or two employees, while 27% of agricultural holdings have three or four employees. Females make up 43% of all employees in agricultural holdings, while 17% of family holdings are owned by women. 94% of agricultural holdings are managed by their owners, while few employees are hired as managers.

Next to human resources, material resources are also very important for the quality of agricultural products. Mechanization is the main material resource in modern agricultural production. Mechanization is used for the production of cereals, fruits and vegetables. The tractor is the main machine used for agricultural production. In the Republic of Serbia, 50% of all holdings own a tractor. As 95% of all tractors in the country have been in use for more than 10 years, it can be concluded that mechanization in the Serbian agricultural sector needs updating. Inadequate mechanization is often due to the lack of financial funds for investment.
3.10.2 BUSINESS INDICATORS OF SMES AND SMALL FARMS IN AGRIBUSINESS

The Statistical Office of the Republic of Serbia uses several indicators to measure the development of SMEs in agribusiness. It takes into consideration the number of enterprises, number of employees, total turnover, and gross value added (GVA). The most recent available data is for 2013, and it is published in reports by the Statistical Office of Republic of Serbia

<table>
<thead>
<tr>
<th>Entities</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>5,525</td>
</tr>
<tr>
<td>Small</td>
<td>917</td>
</tr>
<tr>
<td>Medium</td>
<td>307</td>
</tr>
<tr>
<td>(\Sigma) SMEs</td>
<td>6,749</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>9,490</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16,239</strong></td>
</tr>
</tbody>
</table>

Table 4. Number of SMEs in the agribusiness sector in 2013
Source: “Report on SMEs and Entrepreneurs in 2013,” Ministry of Economy and Regional Development, and National Agency for Regional Development

There are 6,749 SMEs in the agribusiness sector. Entrepreneurs make up 9,490 of all agribusiness entities. These SMEs and entrepreneurs come together to make a strong agricultural sector, as they form a total of 16,239 companies in 2013. SMEs comprise 7.24% of the agribusiness sector. Entrepreneurs in agribusiness make up 4.27% of the total number of entrepreneurs in Serbia. Together, they form 5.15% of the total number of SMEs and entrepreneurs in Serbia. Table 5 presents the main development indicators of small and medium enterprises and entrepreneurs (SMEEs) in agribusiness in Serbia.

<table>
<thead>
<tr>
<th>CHARACTERISTICS</th>
<th>SHARE in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of SMEEs in the agribusiness sector against total number of SMEEs in Serbia</td>
<td>5.15</td>
</tr>
<tr>
<td>Share of SMEE employees in the agribusiness sector against total number of employees in SMEEs in Serbia</td>
<td>8.2</td>
</tr>
<tr>
<td>Share of total turnover of SMEEs in the agribusiness sector against total turnover of SMEEs in Serbia</td>
<td>12.22</td>
</tr>
<tr>
<td>Share of gross value added in SMEEs in the agribusiness sector against total amount of created gross value added in SMEEs in Serbia</td>
<td>10.47</td>
</tr>
</tbody>
</table>

Table 5. Characteristics of SMEEs in the agribusiness sector in Serbia in 2013, in %
Source: “Report on SMEs and Entrepreneurs in 2013,” Ministry of Economy
Small and medium enterprises and entrepreneurs (SMEEs) employed 85,915 persons in 2013. Individually, entrepreneurs employed 20,908 people and SMEs employed 65,007 workers. Employees of agribusiness SMEEs in 2013 made up 8.2% of the total number of employees in SMEEs in Serbia. This means a significant number of SMEE employees work in the Serbian agribusiness sector. Total turnover also shows the development of the agribusiness sector. The total turnover of SMEEs in agribusiness was EUR 6,093 million; EUR 5,443 m of which came from SMEs and EUR 650 m came from entrepreneurs. SMEEs in the agribusiness sector made 12.22% of the total SMEE turnover in Serbia in 2013. Agribusiness SMEEs’ contribution to gross value added (GVA) in Serbia can be calculated from existing national GVA. In 2013, SMEs in agribusiness created EUR 755 m of GVA, while entrepreneurs created EUR 125 m of GVA. Agribusiness SMEEs contributed to 10.47% of GVA made by all SMEEs in Serbia in 2013.

### 3.10.3 Changing Agribusiness in the Republic of Serbia

The characteristics of agribusinesses in Serbia have been changing over time, in line with the transition to the market economy and new market demands. Prior to the transition period, the so-called Soviet model of industrialization dominated in the Republic of Serbia and economic development was based on this model (Zakić and Stojanović 2010, 237). The Soviet model involved intensive development of industries, at the expense of agricultural development. Policymakers of the time believed that it was better to invest more intensively in the development of industry because of higher investment in this sector and their desire to stimulate national productivity growth and employment. The effects of higher investments in agriculture were insufficiently explored at that time. This pro-industry development model has left a lasting impact on domestic agriculture, which still faces problems such as an uncontrolled exodus of people from the rural areas to the cities, primary agriculture that lags behind modern technological trends, and the lack of a common production strategy encompassing all aspects of agribusiness. Given that the number of agribusiness companies has varied over time according to changing business conditions, the number of SMEEs and small farms in Serbia in 1953-2012 are presented in the following table.
Table 6. Structure of the agrarian sector in Yugoslavia, 1953-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>SMEs, entrepreneurs and cooperatives</th>
<th>Small farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>7,566</td>
<td>1,260,553</td>
</tr>
<tr>
<td>1969</td>
<td>1,066</td>
<td>1,149,021</td>
</tr>
<tr>
<td>1981</td>
<td>1,774</td>
<td>1,198,433</td>
</tr>
<tr>
<td>1991</td>
<td>1,550</td>
<td>1,175,706</td>
</tr>
<tr>
<td>2002</td>
<td>1,059</td>
<td>778,891</td>
</tr>
<tr>
<td>2012</td>
<td>3,000</td>
<td>628,552</td>
</tr>
</tbody>
</table>

Inadequate agricultural policy and population migration from rural areas to urban ones have led to a reduction in the number of enterprises and small farms in agribusiness. A significant decrease occurred in the last decade of the twentieth century, when the number of small farms fell to 778,891. According to “Census for Agriculture 2012”, their numbers continue to decrease.

When Serbia began the transition towards a market economy, there were different entities in the agricultural sector – small farms that are traditionally oriented, SMEEs and cooperatives in primary agricultural production that are entrepreneurially oriented, and SMEEs in agro-industrial production that are industrially organized. Their characteristics are gradually adapting to new structural changes in the country. Modern primary agricultural production is the main activity of small farms, which is one part of agribusiness SMEEs and cooperatives in Serbia. Unlike other agribusiness enterprises in the EU, Serbia agribusiness SMEEs and cooperatives are less efficient due to underutilization of natural and human resources. The average size of owned land in the EU is 17.7 ha, while it is 3.5 ha in Serbia. This indicates the excessive fragmentation of land in Serbia as well as its inadequate use, which has resulted in uncompetitive production and more expensive products. The number of residents who are fed by an active farmer in EU is 26, while this number is 6 in Serbia. Countries in the region like Romania, Bulgaria and Hungary have more residents who are fed by an active farmer, as these figures are at 8, 16 and 9 respectively.

Because of low productivity in primary agricultural production and small agricultural farms, Serbia has fewer competitive products in international markets. SMEEs in agro-industry also have problems in production, especially in the utilization of installed capacities. Less than 20% of installed capacity is used in the agro-industry, compared to the 80% usage in the
tobacco industry, and the over 50% usage in the alcohol and oil industries. Poor utilization of capacity utilization can increase the production costs of products, and lead to more expensive and less competitive products.

Changes in agriculture in Serbia primarily stem from new trends in the market. The current market trend is the demand for healthy and environmentally friendly food. These changes are related in the structure of the product range and the mode of production. Intensive development of organic production in Serbia would enable the country to meet this trend. Thus, the production of organic produce is an opportunity for Serbia’s agribusiness sector. Serbia should exploit this opportunity because 80% of its land is uncontaminated. With so much unspoiled land, Serbia can potentially make a significant contribution to the supply of organic agricultural produce. The “Law on Organic Production” was adopted in 2011 to encourage the development of organic produce in the country. Most of the land in Serbia is dedicated to organic vegetables. Also, there have been recent developments in organic livestock production.

![Table 7. Organic production in Serbia, 2012](source: Serbian Chamber of Commerce, and National Association for Organic Production (Serbia Organica))

<table>
<thead>
<tr>
<th>Categories</th>
<th>Share of organic land in total land</th>
<th>Categories</th>
<th>Number of livestock and poultry (organic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop production</td>
<td>41.31%</td>
<td>Large livestock (cattle, horses, donkeys)</td>
<td>230</td>
</tr>
<tr>
<td>Fruit production</td>
<td>46.36%</td>
<td>Small livestock (sheep, goats, pigs)</td>
<td>983</td>
</tr>
<tr>
<td>Vegetable production</td>
<td>4.77%</td>
<td>Poultry (chickens, ducks, geese, turkeys)</td>
<td>3,600</td>
</tr>
<tr>
<td>Pastures and meadows</td>
<td>7.57%</td>
<td>Beehives</td>
<td>4,394</td>
</tr>
</tbody>
</table>

Although SMEEs in organic production receive grants and support under the country’s legal framework, lack of cooperation among small producers and poor development of agricultural cooperatives have resulted in Serbia’s inability to offer competitive agricultural products to the international market. These problems are the consequences of unresolved property and legal issues related to the grey economy, inadequate access to capital markets (SMEs vs. large companies), and inadequate agrarian policies in previous years. Lack of support for the development of cooperatives, small farms and SMEs in agribusiness has rendered them incapable of competing
with large production and distribution chains. This, in turn, has negatively impacted the competitiveness of agribusiness in Serbia.

### 3.10.4 COMPETITIVENESS OF AGribUSINESS AND SMALL FARMS

Although Serbia has significant natural and human resources, quality land for agricultural production and rich water resources, agribusinesses in the country are not competitive. The intensive development of industry in past years has led to the agribusiness sector's low competitiveness. The competitiveness of agribusinesses is further hampered by inadequate agricultural policies, low productivity and low efficiency in use of resources. The agricultural sector is significant for Serbia’s foreign trade balance, as the country is a net exporter of agricultural and food products. The volume of foreign trade activities indicates the competitiveness of the sector (Pantić, Filimonović 2013, 582). Agribusinesses have contributed 23% more to Serbia’s exports than imports in recent years. The country exports 80% of primary agricultural products and imports 65% of primary agricultural products. A lot of raw materials are exported, with wheat making up 21% of exports and fruits making up 17%. As Serbia does not produce many expensive products, the country’s agricultural sector exports much of its raw produce. Grains, fruits and nuts, sugar, fats and oils, and beverages have been Serbia’s major export products for years. They form 60% of all agribusiness exports. Serbia has a varied structure of agricultural imports. Fresh fruits, various food products, tobacco and tobacco products, animal feed, coffee, tea, spices, chocolate and cocoa are Serbia’s main imported products. These goods make up 40% of all agricultural products imported.

<table>
<thead>
<tr>
<th>Entities</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>89,623</td>
<td>43,009</td>
</tr>
<tr>
<td>Small</td>
<td>210,173</td>
<td>93,053</td>
</tr>
<tr>
<td>Medium</td>
<td>462,781</td>
<td>237,405</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>7,628</td>
<td>14,442</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>770,205</td>
<td>387,909</td>
</tr>
</tbody>
</table>

*Table 8. Export and Import Indicators of SMEs in the agribusiness sector in 2013, EUR*

Source: “Report on SMEs and Entrepreneurs in 2013,” Ministry of Economy and Regional Development, and National Agency for Regional Development
Exports of SMEEs in agribusiness total EUR 770,205. Medium enterprises export 60% of SMEE agro-products, while entrepreneurs export only 1%. SMEEs in agribusiness imported materials totalling EUR 387,909. Medium enterprises imported 62% of agriculture-related materials, while entrepreneurs imported 4%.

While agro-exports are important in the international market, it is not the only indicator of competitiveness in the economy. To show the competitiveness of agribusinesses in Serbia, we conducted a SWOT analysis. This SWOT analysis presents the strengths and weaknesses of agribusinesses, outlines potential opportunities for the development of agriculture-related industries, and identifies the threats hindering the achievement of better results in domestic and foreign markets.

Table 9. SWOT analysis of agribusinesses in the Republic of Serbia
Source: Independent authors’ research

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
</tr>
</thead>
</table>
| • Natural resources  
• Educated labour force  
• 80% of land is uncontaminated  
• Processing capacities are installed  
• Geostrategic position | • Coarsening of farms  
• Improving production  
• Development of multifunctional production  
• Development of cooperatives  
• More extensive organic production  
• Better use of land |

<table>
<thead>
<tr>
<th>WEAKNESSES</th>
<th>THREATS</th>
</tr>
</thead>
</table>
| • Small agricultural households and holdings  
• Poor demographic structure of the rural population  
• Poor use of water resources | • Export restrictions  
• Insufficient government support to agribusinesses and agricultural holdings |

Agribusinesses in Serbia have many strengths that could be used to improve competitiveness. The most important strength is the abundance of available resources that has yet to be effectively utilized. First of all, the wealth of natural resources and educated labour force are potentials that can improve the competitiveness of agrarian products. As 80% of usable land is uncontaminated in Serbia, organic production can further develop in the country. At the same time, the technological capacity of small farms and SMEEs ensures economical use of limited natural resources. Also, the geographical position of Serbia in the middle of the Balkans is of strategic importance. Situated at the crossroads between East and West, Serbia’s infrastructural character is significantly shaped by both Eastern and Eastern influences and market demands. Despite these potential factors of development, agribusinesses in Serbia are weak because land fragmenta-
tion has resulted in agricultural farms possessing only an average of 3.5 ha of arable land. As these small farms are unable to make use of economies of scale, their products are more expensive. Long-standing industrial development at the expense of agriculture and agricultural policy has led to the migration of the young away from the rural areas into the urban centres. The upshot is that the rural population is now mostly composed of ageing or aged persons. It is necessary to protect crops from climatic conditions and recurrent dry periods with improved irrigation. However, the significant water resources in Serbia are inadequately utilized as only 4% of arable land is irrigated.

Development of cooperatives in Serbia has been lacking in recent years. Although they can contribute much to the development of agriculture by consolidating the structure of small farms and improving the methods of production, the government has yet to adopt the document to determine the directions for their further development. The development of cooperatives is an opportunity because cooperatives can improve the competitiveness of agribusinesses by making them more efficient. Organic production can be significantly developed through better utilization of available land, farming of quality land and employing the educated labour force. Despite numerous strengths and opportunities with the potential to improve the competitiveness of domestic agribusinesses, there are many threats facing the sector as well. These threats can endanger the development of agribusiness growth opportunities in Serbia. The lack of adequate state support casts doubt on the ability of very small SMEEs and farms to survive, as they already face financial difficulties in the market. Serbia is also unable to meet international quality standards. This leads to export restrictions and means that the country will find it hard to export to the international market.

3.10.5 GOVERNMENT SUPPORT TO SMEES AND SMALL FARMS IN AGRIBUSINESS. SUGGESTIONS TO GOVERNMENT AND LOCAL AUTHORITIES

Based on the SWOT analysis, it is clear that a great deal can be improved in the agribusiness sector if existing government support programmes are adequately implemented. However, existing state support programmes are not enough. There is still much to do if the Serbian government and local authorities are to transform opportunities into strengths and elimi-
nate weaknesses and threats. To facilitate the growth of the agribusiness sector in the country and reduce its weaknesses, we have conceptualized a few suggestions for the government and local authorities.

The government of the Republic of Serbia has formulated special programmes to support the development of entrepreneurship and the SME sector in all segments of the economy, including agribusiness. These programmes include financial support through short-term loans under favourable conditions, subsidies, consultation, and employee training and marketing. We will cover these programmes one by one.

- National Agency For Regional Development. This agency has come up with an SMEE Competitiveness Programme designed to provide support to SMEs’ implementation of international quality standards so that their business process, products and services are improved. To make the most of opportunities, production and development of multifunctional production should be improved. Once production is improved, the produce will be of better quality. This will, in turn, reduce the export restrictions on Serbian agro-products.

- Fund for the Development of the Republic of Serbia. Several programmes have been created in this fund, and all of them aim to improve agribusiness SMEs’ access to funds. These include credit for beginners who are new to the idea of starting and running their own business, start-up credit for entrepreneurs, and credit for the development of entrepreneurship. Better use of land will improve both product yield and productivity. Something also must be done to attract young people back to the rural areas so that they work in agribusinesses. To do that, SMEs should draw on the Fund’s many programmes to invest in technology and achieve economies of scale that will lead to greater efficiency in agricultural production.

- The Ministry of Economy in association with the European Bank for Reconstruction and Development (EBRD). The Programme Supporting SMEs in Serbia is funded by the Instrument for Pre-Accession Assistance (IPA) and EBRD, in conjunction with the Serbian Ministry of Economy. Support offered consists of business counselling, mentoring, various types of training for employees, organization of study tours and visits to companies. Through this support programme, agricultural production can be improved, land will be put to better use, and the poor demographic structure of the rural population can be attenuated.
Ministry of Agriculture and Environmental Protection. The Ministry of Agriculture and Environmental Protection (MAEP) is the main state authority with the ability to improve the competitiveness of SMEEs and small farms in agribusiness. MAEP offers support through two programmes. The first programme aims to develop the planting of cherries, strawberries, raspberries, blackberries and blueberries by investing in the purchase of new machinery and equipment for irrigation and protection of plants from weather conditions and pests. The second programme implements international standards for farms, cooperatives and SMEEs. Implementation of international standards in agribusiness can reduce or eliminate export restrictions, which will, in turn, strengthen international cooperation and improve Serbia’s economic position. Both programmes can do this, as they aim to improve production.

The SWOT analysis and different support programmes for agribusiness SMEEs and small farms show that government support is not uniform and that some areas receive more support than areas; this must be eliminated if the overall state of agribusinesses in the country is to improve (USAID 2013, 40). Why do some areas receive more support than others? This is because local authorities in Serbia also have a certain degree of autonomy in providing support. To make sure that support in other fields related to agribusiness is given, we suggest that agricultural and SMEE policies should be adapted according to the needs of the region. Our recommendations and suggestions to government and local authorities are based on the SWOT analysis in Table 9. These recommendations and suggestions can be divided in two groups:

- Recommendations and suggestions related to improving the legal framework for agribusiness. Implementation of these recommendations and suggestions can transform some opportunities into strengths, and reduce or eliminate some existing weaknesses and threats.
- Recommendations and suggestions related to improving the formulation of agrarian policies. Implementation of these recommendations and suggestions can remedy the threats of insufficient government support to agribusiness and agricultural holdings.

The legal framework for agribusiness SMEEs and small farms in Serbia is complex. On the one hand, it consists of laws and strategies regulating
activities in agriculture. On the other, it aims to direct the development of future agribusiness SMEs and farm activities. In 2010-2015, a number of laws and strategies were adopted. The laws and strategies complying with EU regulations are:

- Law on Agriculture and Rural Development (adopted in 2010),
- Law on Livestock (adopted in 2010),
- Law on Food Safety (adopted in 2010),
- Law on Organic Production (adopted in 2011),

Although the legal framework seeks to improve the lot of agribusiness SMEs and small farms, the SWOT analysis shows that many significant opportunities remain unused. As a result, agribusiness development is slow and uneven. To reduce potential threats and weaknesses, a more modern legal framework should be applied to agribusinesses. Our recommendations and suggestions related to the improvement of the legal framework for agribusiness are:

- Law on Agricultural Cooperatives. Agricultural cooperatives can improve the business activities of SMEs and small farms in Serbia. Cooperatives would be able to increase the negotiation position and market power of their members. Cooperative members would have better direct and indirect access to finance, which can lead to improved conditions for business activities in the market. Cooperatives will also coarsen farms, and improve the efficiency and productivity of small agricultural households and holdings.

- Improve leasing regulations. Leasing has numerous advantages for agricultural SMEs and small farms that lack collateral for credit. As many farmers have limited or no collateral and credit history, leasing is the best way to ensure that they acquire the funds for new machines. With new leasing regulations for farmers in agribusiness, their production will improve and they will make better use of land. Since small farms have an average area of 3.5 ha utilized land, better machinery can improve productivity and ensure the efficient use of resources.

- Improve banking regulations. Banking regulation is one important change that can be made in the near future. Most small farms do not have collateral that can be used to secure a loan. Houses and facilities in rural areas are unattractive and unacceptable properties for
creditors because the sale of these rural properties would not allow them to collect their debts. We propose a new programme of loans to small farms and SMEEs in agribusiness that is based on warehouse receipts and stored products. The lack of financial funds could also be eliminated with the development of microfinance, a modern way of financing businesses (Erić, Đuričin, Pantić 2015, 316). Through better access to funds, organic production can be improved and land will be put to better use. New banking regulations would also increase investment in agribusinesses and lead to the development of rural areas. Once there is investment in rural-based enterprises and the rural areas are developed, young educated people would be more likely to live there and start their own businesses. This would, in turn, reduce the poor demographic structure of the rural population.

- Adoption and implementation of a legal framework for irrigation and drainage. Poor use of water resources in Serbia can be reduced or eliminated through the adoption of a legal framework for irrigation and drainage. Although there are lakes and flowing rivers in Serbia, just 3% of utilized agriculture land is irrigated. Damage from drought is exacerbated by the lack of irrigation. This can be seen in the most recent drought in Serbia in 2012, where the estimated damage was EUR 1.5 bn.

- Adoption and implementation of a legal framework for employment in rural areas. If a legal framework for employment in rural areas is adopted, young people will be encouraged to stay there and engage in agricultural activities. Part of this legal framework should focus on improving road and telecommunication infrastructure, connection with major cities, and availability of adequate and modern living conditions. When these infrastructures are improved, the outflow of young people from the villages will be reduced. This will have the added benefit of preventing the problem of rapidly ageing rural households.

- Adoption and adherence to a legal framework for the better implementation of standards in food production (GAP, ISO, Halal, etc). With adoption of international standards in food production, domestic products can be exported and sold in foreign markets. This will ensure good agricultural practices (GAP) and eliminate export reduction. Implementation of such a new legal framework will not only ensure that Serbian agribusiness products meet all international standards; it will give also rise to many positive effects such as improved agricultural production, development of organic production, and international marketability of Serbian agriculture-related goods.
As the SWOT analysis and USAID Business Enabling Project of 2013 show, it is possible to improve inadequate Serbian agrarian policies through the adoption of recommendations and suggestions. Some of the recommendations and suggestions that Serbia should adopt are:

- Establishment of an Agro Sector Financing Data Initiative. As macroeconomic and microeconomic agribusiness data are not available in Serbia, the formulation and implementation of new agrarian policies and legislation are stymied. All relevant agrarian institutions should cooperate to create a unique database for agribusinesses.
- Putting agribusiness policy in the right context. When agribusiness policy is adopted and implemented, it should be separate and distinct from rural and social policies. This will make it easier to achieve set development goals.
- Establishment of an Agribusiness Council and Intergovernmental Working Group on Agribusiness Development. The Agribusiness Council should provide a sustainable legal framework to facilitate public-private dialogue so that policymakers, lenders, and other participants in agribusinesses can discuss the most efficient ways of improving agribusiness SMEEs’ competitiveness.
- Increasing the capacities of the Directorate for Agrarian Payments and the Ministry of Agriculture. Cooperation between the Ministry of Agriculture and Directorate for Agrarian Payment should be intensified to enable them to deal with issues like high inflation, extreme illiquidity and high exchange rate volatility. Transparent timing of payment for agribusiness SMEEs and small farms is important, especially during periods of macroeconomic instability and bad weather when great damages are often dealt to agribusinesses.
- Increasing the agricultural budget. In the last few years, the agricultural budget in Serbia has been insufficient for the development of agribusinesses. As a result, the agribusiness sector had been unable to reach its potential.

These suggestions and recommendations to the government of the Republic of Serbia seek to reduce and eliminate the threats and weaknesses outlined in the SWOT analysis of Serbian agribusinesses. The main threat to the development of agribusiness SMEEs and small farms is insufficient government support. So far, state support to all areas of the agribusiness sector is wanting. If our recommendations and suggestions are followed, the legal framework for agribusinesses will be improved, agrarian policies
will be strengthened, government support for agribusinesses will increase, and threats to the development of agribusinesses will be reduced or eliminated.

**CONCLUSION**

Although SMEs and small farms in agribusiness are recognized as factors of economic development in Serbia, their current role in the economy is underestimated. Inadequate agrarian policies and poor government support in the past few years have resulted in poor rural development, a population migration from villages to the cities, and indifference towards the importance of cooperatives. This paper investigated the current status of SMEEs and small farms in agribusiness by analyzing available data and the main problems they face.

Foreign trade balances indicate both the competitiveness of agribusinesses as well as their significant export potential. The primary agricultural products are in demand in foreign markets, even though small farmers lack the financial resources to invest in production and adequate mechanisms that could influence the prices of these products. Cooperatives can overcome the problems of small farmers by significantly improving their competitiveness. The researchers of this paper conducted a SWOT analysis to determine the strengths, weaknesses, opportunities and threats in the development of Serbian agriculture. Natural and human resources as well as quality of arable land were identified as strengths, while the poor demographic structure of rural areas is a weakness. Although the development of cooperatives and new forms of production (such as organic produce) are opportunities for agribusiness SMEE expansion, this potential is threatened by insufficient government support. Despite the opportunities and strengths inherent in agriculture, the agricultural sector cannot properly develop without improved government support. Therefore, the authors suggest the improvement of the legal framework and the creation of adequate agrarian politics. With the adoption of these recommendations, opportunities in the agricultural sector can be converted into strengths, and weaknesses and threats could be eliminated or reduced.

**REFERENCES**


3.11 AGRIBUSINESS IN TURKEY

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Small and Medium Enterprises Development Organization (KOSGEB)

ABSTRACT
Although Turkey is blessed with favourable geographical conditions and climate, and deemed to be one of the leading countries in the field of food and agriculture, the Turkish manufacturing industry still holds the majority share in total industrial production value. Accordingly, the number of firms in agribusiness has increased dramatically compared to the last decades. The sub-sectors that have the highest number of firms in agribusiness are the food/beverages and textile industries. On the other hand, as in many countries, SMEs play a crucial role in economic and social life in Turkey. In this regard, development and promotion of SMEs is acknowledged as one of the main targets of the government. With effective policies, well-established coordination among public institutions and continuous dialogue with the private sector, the role of SMEs has grown dramatically in the Turkish economy in recent years. The country is one of the largest exporters of agricultural products in the Eastern Europe, Middle East and North Africa (EMEA) region. As part of its targets set for the agriculture sector, Turkey aims to be among the top five producers globally by 2023.

Key words: agribusiness firms, SMEs, EMEA, Turkey
JEL Classification: Q12, Q13, L26

3.11.1 PRESENT SITUATION
Although Turkey is blessed with favourable geographical conditions and climate, and deemed to be one of the leading countries in the world in the field of food and agriculture, the Turkish manufacturing industry still holds the majority share in total industrial production value. The share of manufacturing in total industrial production value in recent years was more than 80%. Agribusiness takes place within the manufacturing industry and makes important contributions to it. The share of agribusiness in manufacturing is about 50%-60%, and it follows a fluctuating course. The fluctuation in agribusiness production occurs because of economic considerations and the specific characteristics of the agricultural sector.
The agricultural sector has contributed a great deal to the economic development of Turkey. Agriculture is a central part of the Turkish economy, accounting for around 9% of the overall gross value added (GVA) and about a quarter of the labour force. Major produce include fruits, vegetables and cereals. Turkey has a large and growing food and agriculture industry.
The strengths of the food and agriculture industry include the size of the market in relation to the country’s young population, a dynamic private sector economy, substantial tourism income and a favourable climate.

Turkey has a population of 76 million people and is growing with rising income levels. This makes Turkey one of the largest markets in its region, and the changing consumer habits of the younger generation boost domestic consumption.

However, neither the compelling effect of agribusiness over the development of the agricultural sector, nor the regressive effect of the agricultural sector over agribusiness can be realized thoroughly. The reason for this lies in the weak integration between the agricultural and agribusiness sectors. Broken productions and lack of technological cooperation impede development. This situation limits the development of both agribusiness and the agricultural sector, thereby preventing agribusiness from becoming sufficiently effective within the inner dynamics of the agriculture sector. However, the Turkish agribusiness sector has the capacity to resolve
the many problems in the agriculture sector. Furthermore, when agribusiness performs its functions, the state’s burden in regulating agriculture will diminish, and it will be possible for the state to carry out its agricultural policies in a better way. For this reason, the main policy behind the realization of the present potential of agribusiness is geared towards the efficient integration between the agricultural sector and agribusiness.

However, Turkey lacks the medium-sized farms needed to develop arable land for the expansion of agricultural exports. This is, in part, due to a history of government-sponsored urbanization schemes drawing people from the rural areas to the cities.

While major Turkish business conglomerates are investing in agribusiness projects, the industry is a decentralized collection of mostly small family-owned farms.

Land ownership laws make it difficult for non-Turkish investors to buy farmland. However, in other areas of the economy, the government has indicated an increased willingness to ease the way for international investors in recent years. For instance, the government has expressed willingness in opening major infrastructure tenders to foreign bidders in the future. Thus, it may be surmised that solutions could be found vis-à-vis Turkish land ownership laws in the years to come.

Source: “Food & Agriculture in Turkey,” Investment Support and Promotion Agency of Turkey
The restructuring efforts that began in the early 1980s, alongside a series of reforms including privatizations and the reduction of trade barriers in the agriculture sector, resulted in a domestic market that is an integral part of the world economy today.

The number of firms in agribusiness increased dramatically compared to the last decades. The sub-sectors that have the highest number of firms in agribusiness are the food/beverages and textile industries. Licenses that encourage investment are mostly given to textile as well as food and beverage enterprises in the agribusiness sector. This has led to an increasing number of firms in both sectors.

The rate of increase is about 40% for the textile industry, and 60% for the food and beverages industry. Despite the relatively low share in the total number of firms, the leather industry has seen the highest increase where the number of leather-related enterprises more than doubled. The food/beverages and textile industries are the two leading sectors increasing the production value of agribusiness in recent years. However, the share of this sub-sector in the production value of agribusiness is quite low. When the food/beverages, leather and textile industries are put together, they appear to have an important place within agribusiness. Agribusiness export has increased in the last two decades. The textile industry is most active in export, followed by the food and beverages sector. Although the increase in the paper and wood industries is much higher than the textile and food/beverages sectors, their relative contribution to total export is quite low.

Over the past decade, the government sought to rebrand Turkey as an attractive emerging market with an ideal geographic position. As a consequence, there is now a steady flow of foreign capital into the country. However, further changes to the regulatory environment may be needed before medium-sized enterprises with the potential to boost agricultural exports can be created.

As a direct result of increased foreign capital into the country, Turkey's food industry has registered steady growth in recent years, with Turkish consumers becoming increasingly demanding, driven by the multitude of choices offered by mass grocery retail outlets. Rising disposable income
and changing consumption patterns, along with the increase in the number of females in full-time employment, have all led to a surge of interest in packaged and processed food such as ready-to-eat meals and frozen foods.

About 30% of agricultural products are turned into half-processed and processed products in agribusiness. After the global and national financial crises, the value of production in the Turkish agricultural sector underwent a negative transformation. There have also been important developments in agribusiness in terms of the number of firms, production and export. The textile and leather, and food and beverage industries are the driving force in Turkish agribusiness.

![Turkey has positive net trade from agribusiness](image)

Source: “Food & Agriculture in Turkey,” Investment Support and Promotion Agency of Turkey

In addition to this, Turkey is the world leader in the production of dried figs, hazelnuts, sultanas/raisins and dried apricots. It has the largest milk and dairy production in the region. In addition, Turkey has an estimated
total of 11,000 plant species, whereas the total number of species in Europe is 11,500.22

3.11.2 FUTURE EXPECTATIONS
Turkey is becoming one of the largest markets for baked goods with its bread – an important element of the Turkish diet. However, Turkey can also be a lucrative market for other agribusiness products in the dairy sub-sector. As dairy products like milk, yoghurt, cheese, kefir and ayran (a drink made of yoghurt and water) form an integral part of the traditional Turkish diet, the dairy product industry has much growth potential in Turkey too. Traditionally, artisan, unpackaged products have dominated the Turkish dairy market, holding back widespread growth, but these same products also render the Turkish dairy product industry potentially attractive to investors.

Source: “Food & Agriculture in Turkey,” Investment Support and Promotion Agency of Turkey

This potential positions Turkey as one of the top options for the regional headquarters and supply centre of top global players. In the EMEA region,

Turkey has a strong dominance in the production and exportation of many agricultural products such as hazelnuts, dried apricots, sultanas and dried figs. In addition, Turkey’s food industry is much better developed than its neighbouring countries’. Given these factors, the country is one of the largest exporters of agricultural products in the Eastern Europe, Middle East and North Africa (EMEA) region, while its trade balance is significantly positive. With growing exports, the Turkish agro-food industry has recorded a trade surplus of USD 5.6 bn in 2014.

Source: “Food & Agriculture in Turkey,” Investment Support and Promotion Agency of Turkey

Turkey has much to offer potential agro-food investors, as the Turkish government’s support mechanism includes favourable regulations, tax structure, as well as competitive labour force and investment incentives.

Given that most Turkish food is produced in accordance with Muslim dietary laws, Turkey has a potentially untapped market waiting just to its south.

Turkey offers significant investment opportunities, especially in the agribusiness sub-sectors of fruit and vegetable processing, animal feed, livestock, poultry, dairy and functional food, aquaculture, as well as in the agriculture-related infrastructure development of cold chains, greenhouses, irrigation and fertilizers.
As part of the targets set for the agriculture sector, Turkey aims to be among the top five producers globally by 2023. Turkey’s ambitious vision for 2023 envisages other grandiose targets including:

- USD 150 billion gross agricultural domestic product
- USD 40 billion agricultural export
- Becoming one of the top five countries in terms of agricultural production
- Increasing irrigable area from 5.4 million hectares to 8.5 million hectares
- Ranking number one in fisheries when compared to the EU

3.11.3 SMALL AND MEDIUM-SIZED ENTERPRISES IN TURKEY

3.11.3.1 Contribution of Turkish SMEs to the Economy

As in many countries, SMEs play a crucial role in economic and social life in Turkey. In this regard, development and promotion of SMEs is acknowledged as one of the main targets of the government. With effective policies, well-established coordination among public institutions and continuous dialogue with the private sector, the role of SMEs has grown dramatically in the Turkish economy in recent years.

While Turkey continues its efforts to increase the competitiveness of its SMEs through implementation of effective policies, it also explores the means of enhancing bilateral and multilateral cooperation in this area. In this context, Turkey actively participates in the cooperation efforts of international and regional organizations. Furthermore, relevant Turkish agencies, especially the Small and Medium Enterprises Development Organization (KOSGEB), actively initiate partnership and cooperation agreements with relevant institutions in other countries to enhance cooperation in this field.

SMEs play an important role in the economies of almost all countries. Thus, they are deemed to be the engine of all kinds of economies. They contribute to the creation of jobs, economic growth, raise output, etc. SMEs are also a major source of technological innovation and new product development. Moreover, SMEs, with their high turnover and adaptability, play a vital role in addressing regional and sectoral imbalances in a country’s economy. Furthermore, SMEs’ easy access and exit to markets renders economies more flexible and competitive. SMEs tend to employ poor
and low income workers. In fact, SMEs are sometimes the only source of employment in poor regions and rural areas. Self-employment is the only source of income for many of the poor; hence, SMEs play a particularly important role in developing countries where poverty is most rigorous.

SMEs usually provide products and services that big competitors do not for one reason or another. Perhaps it is because the marketplace is too small. SMEs deliver that which no one else seems to want to deliver; and in many cases, they do it very well. SMEs also play an indispensable role as subcontractors in the downsizing, privatization and restructuring of large companies. Globalization of business has increasingly drawn SMEs into global value chains through different types of cross-border activities. Many entrepreneurs have recognized the opportunities offered by this process; thus, gaining access to global markets has become a strategic instrument for their further development. Small businesses’ access to global markets can help SMEs to achieve prospectively high growth.

SMEs continue to play a vital role in all countries in the twenty-first century. A stronger SMEs sector is critical to the establishment of sustainable economic growth. According to 2011 figures, Turkey has assumed a stronger status in the global scene. The Turkish economy has been expanding by 5%-8% each year since 2011, becoming one of the fastest growing economies worldwide. With such growth, GDP in Turkey neared the USD 850 billion mark at current prices in 2014, maintaining Turkey’s rank as the world’s 16th largest economy and 6th in Europe. Behind this dynamic success story is the fact that Turkey has ensured political stability with a strong government and a strong opposition.

Like in other developed or developing countries, SMEs are the backbone of the Turkish economy. Because SMEs make up a large proportion of Turkish enterprises, SMEs are a very important source of employment and investments. They also contribute immensely to value creation in the country. According to the Turkish Statistical Institute (TURKSTAT), more than 99% of enterprises are SMEs and more than 76% of the workforce is employed by SMEs in Turkey. SMEs’ share in total turnover is nearly 63.3%, and SMEs’ share in total exports was around 60% in recent years. Thus, Turkish SMEs and the services they offer accounted for more than 50% of value-added. While SMEs impact the economy in terms of employment, they also make a remarkable contribution to capital investment, value-added and Turkish exports.
Owing to SMEs’ major role in the Turkish economy, the government regards enhancing their competitiveness and increasing their capacities for job creation as the main policy objectives in short, medium and long-term programmes and strategies.

### 3.11.3.2. Problems of Agribusiness SMEs in Turkey

Despite their importance, SMEs have some weaknesses and constraints, such as the poor grasp of technology; inadequate R&D and innovation; low usage of bank credits; insufficient access to finance; insufficient credit guarantee system; inadequate usage of modern marketing techniques; unawareness of quality and trademark concepts; insufficient educational levels; lack of capital for high technology investments; lack of institutionalization; low level of cooperation; lack of harmonization with global standards, etc. Because of their small size, SMEs usually lack management capacity, have generally poor capacity, and are often in the position where they “don’t know what they don’t know”.

Globalization of the economy has also altered the challenges faced by these enterprises. Starting up a new business and getting the required capital is a challenge, as is finding the right kind of finance to expand an established business. The main challenges encountered by SMEs doing business in Turkey are listed below:

**Technology**

SMEs in Turkey suffer from insufficient knowhow and low level of technology. Lack of technical skills prevents SMEs from accessing the benefits of cost advantages. A substantial proportion of Turkish SMEs targets the national or local markets. Because of inadequate funding for cooperative projects, interaction between universities and the industry is weak. 89% of Turkish manufacturing SMEs are in medium-low and low level industry sectors.

**Innovation**

SMEs’ low level of technology is concomitant with weakness in innovation. Undertaking research and development, and putting innovative ideas into practice is often much harder for SMEs than for large firms. The business sector’s share of total R&D expenditure is around 40%. Although the number of SMEs conducting R&D is increasing, it is hard to say whether these innovative activities are sufficient to enable them to upgrade to technology intensive industry sectors.
Finance
Financial difficulties are endemic for most SMEs. SMEs wish to improve their technological capacity and modernize their plants, however; this cannot be attained because of the difficult access to credit and equity. Investors and banks often avoid financing start-ups or young SMEs due to the risks involved. Today, the proportion of bank credits used by SMEs is 27% in Turkey. Financing tools like credit guarantees, venture capital and business angels are neither sufficient nor accessible.

In addition, as most SMEs owners/managers have technical or engineering backgrounds, their knowledge of finance and accounting is rather limited. The most plausible solution to this problem is to employ professional managers. However, researches reveal that SME managers are unwilling, and in some cases, unable to delegate their managerial responsibilities to professional managers.

Labour
Tax, compulsory employment and social security expenditures are very important cost components for employment. The cost of skilled employees is high for SMEs.

Administrative Burdens
The cost and complexity of administrative procedures constitute an important problem for SMEs. The business climate in Turkey still needs more simplified SME-friendly legislation. Business registration costs and time needed to start a business must be reduced to improve the business climate. Turkey ranked 63rd in the World Bank Doing Business Report, due to ease of starting a business in 2015.

Information and Communication Technologies
Information and communication technologies are essential for SMEs because of the high cost and lack of qualifications.

Marketing and Export
Most Turkish SMEs are active only in domestic markets. Part of the problem for SMEs is identifying the available opportunities and the rules for cross-border business. Many SMEs also lack the capital to go abroad.
Entrepreneurship
Entrepreneurs are business-minded people who can pick up a good idea and turn it into a business. Turkey has huge entrepreneur potential, but Turkish entrepreneurs are afraid to fail in business. This fear is mostly due to lack of knowledge in setting up a business plan. Another problem for entrepreneurs is finance at the start-up level.

Environment
Demand for environmentally friendly products and services are increasing, but environmental legislation is becoming more complex, and the costs are getting higher. Lack of information, insufficient expertise, and scarcity of resources make it difficult for SMEs to comply with environmental legislation.

3.11.3.4 OVERALL DESCRIPTION AND FUTURE PLANS OF THE SME SUPPORT SYSTEM, STRUCTURE, POLICIES AND PROGRAMMES IN TURKEY
As stated previously, SMEs face particular problems due to their small size and limited resources. In order to make up for these weaknesses and constraints, quite a good number of government agencies have been established in Turkey to implement programmes in various intervention areas in need of improvement. The Ministry of Science, Industry and Technology of Turkey, the Small and Medium Enterprises Development Organization (KOSGEB), the Scientific and Technological Research Council of Turkey (TÜBİTAK), Regional Development Agencies and other governmental or non-governmental organizations have programmes focusing on various areas related to SMEs activities. They not only promote entrepreneurship; they also offer the possibility of collaborations between universities and industry. Undoubtedly, their general purpose is to boost SMEs’ competitive so as increase SMEs’ share in economic and social development.

Due to the great number of institutions and organizations lending support to SMEs, there is a visible lack of harmony between them. To solve this problem, action plans have been formulated to provide a suitable investment climate for SMEs. These plans aimed to coordinate the implementation of SME policies on the national level. In this context, Turkey’s first “SME Strategy and Action Plan” was prepared in 2003 in accordance with the commitment envisaged in the European Union Accession Partnership
Document published in that same year. In the EU Accession Partnership Document, Turkey was obliged to commit to the preparation and implementation of a national SME strategy. Turkey did exactly that with its 2003 SME Strategy and Action Plan. Currently, preparation of the fourth SME Strategy and Action Plan (SSAP), which will cover the terms between 2015 and 2018, is ongoing under the coordination of KOSGEB.

In Turkey, KOSGEB (which is affiliated to the Ministry of Science, Industry and Technology) is the main body executing the policies regulating SMEs. There are presently 3.2 million SMEs, according to Turkey’s business registers. To date, the number of SMEs registered in the KOSGEB database has exceeded 750,000.

KOSGEB allocated more than USD 1 bn to SMEs in last ten years. In late 2010, KOSGEB set up eight different support programmes, which are generally project-based, to promote SMEs. These programmes take into consideration the basic needs of SMEs and aim to disseminate entrepreneurship culture in society.

One of Turkey’s main problems is the poor business environment of the last decade. Therefore, access to finance is one of the major priority areas for SME policies. In the early 2000s, banks sought to safeguard themselves, first by purchasing government bonds and then by making loans to large businesses, and only occasionally to smaller industrial enterprises. Thus, few SMEs secured credit. Small businesses were, therefore, forced to seek funds elsewhere in the economy. To overcome the banking system’s apparent inability to provide funds supporting SME investment and related infrastructure investments, a number of targeted investment credit interest support programmes were established by KOSGEB. Through these programmes, loan interests of SMEs, that have obtained credit from banks in contractual agreements with KOSGEB, are paid by KOSGEB. Thus, SMEs have been able to utilize bank credit under favourable conditions. More than 200,000 SMEs have benefited from KOSGEB’s credit interest support programmes. In total, these SMEs used credit from 17 banks that had contracts with KOSGEB. These programmes created a total credit volume of USD 7 billion.

As Turkish SMEs had difficulty in finding collateral, the Credit Guarantee Fund (KGF) was established to overcome this issue in Turkey. The Turkish
market is rapidly growing and Turkish SMEs have increasing opportunities to enhance their business activities in core sectors. SMEs are now exposed to greater opportunities for expansion and diversification across sectors.

By the end of 2014, the current SSAP period came to an end. As a consequence, the preparation period of a new SSAP (covering 2015-2018) began in July 2014. Previous SSAPs showed the weak coordination among related organizations and indicated that the support system of SMEs is still not supplementary. There were also several duplicated or similar programmes with unclear effects.

KOSGEB aims at increasing the number of SMEs that follow technological advancements closely and have international competitive power. In order to strengthen cooperation and collaboration between Turkish SMEs and others, and to exchange experiences on SMEs with other SME-related institutions, KOSGEB is working with its counterpart institutions and international organizations in many countries such as:

- Arab League
- Black Sea Economic Cooperation (BSEC)
- Conference on Interaction and Confidence Building (CICA)
- Developing Eight (D-8)
- Economic Cooperation Organization (ECO)
- Organisation for Economic Co-operation and Development (OECD)
- Organisation of Islamic Cooperation (OIC)
- United Nations (UN)

From the beginning of 2014 to the present, “Experience Exchange Programmes” were organized for 20 delegations from different countries and international organizations; also, hundreds of enterprises from Turkey were able to take part in many business trips to more than 50 countries due to KOSGEB support. In this context, KOSGEB has opened new cooperation opportunities for SMEs that are beneficial to all participating enterprises.

a. Situation of KOSGEB Model
KOSGEB has been established as an “affiliated organization” of the Ministry of Science, Industry and Technology on 20 April 1990 under Law No. 3624. KOSGEB was established to meet the social and economic needs of
Turkey by:

- Increasing the number and effectiveness of SMEs
- Improving SMEs’ competitiveness
- Ensuring industrial integration in conformity with economic development

The service and industry sectors are the target group of KOSGEB. Elementary agriculture and farmers are not supported by KOSGEB if they are unrelated to trade or industry. Since they are industrialists or traders at the same time, most of the small and medium-sized agribusiness companies may be supported by KOSGEB according its regulations.

KOSGEB’s main objective is to improve production quality, capacity, market share, contribution to export and added value of the SMEs which are flexible, more open to innovation, more entrepreneurial and creative.

The mission of KOSGEB is to increase the share of SMEs in economic and social development by providing qualified services and support to improve SMEs’ competitive power and disseminate entrepreneurship culture.

KOSGEB’s vision is to be a model organization in the world through the effective formulation and implementation of SME and entrepreneurship policies. In so doing, KOSGEB encourages SMEs to undertake an important role in the global market.

KOSGEB is one of the major organizations executing SME policy in Turkey. The bodies under the organization of KOSGEB are the General Assembly, Executive Committee and the KOSGEB Presidency. KOSGEB is chaired by the President and is mainly composed of policymaker units, service providers and internal supporting units. KOSGEB has 88 Service Centres, 43 Technology Development Centres and 14 Business Development Centres. The target group of KOSGEB is SMEs, which are defined as “Enterprises, which have less than 250 employees and whose annual net sales revenue or annual financial balances sheet is under TRY 40 million”. KOSGEB has started to support SMEs in sectors other than manufacturing (trade and service sectors), due to an amendment made in law in May 2009. Sectoral and regional priorities of services and support given by KOSGEB to SMEs are determined by the Council of Ministers.
KOSGEB services and support can be classified under 4 main headings:

A. Support provided within the scope of “KOSGEB Support Programmes Regulation”
B. KOSGEB Finance (Loan Interest Rate) Support
C. KOSGEB Laboratory Services
D. Information and Guidance Support

Through KOSGEB Laboratory Services, specific services created in KOSGEB’s laboratories are provided to SMEs in the areas of metal, plastics, rubber, textile and environment.

One of the most important activities, in the context of Information and Guidance Support, is making announcements to SMEs whenever there are calls for projects within the scope of EU Funds. Similar announcements will be made when SME-related services of other national organizations are offered. Guidance is also given to SMEs so that they benefit from a variety of other institutional support.

Lastly, KOSGEB implements its most common and most important SME-related support as part of the KOSGEB Support Programmes Regulation. There are many such programmes. Some of them are named below:

- Cooperation-Collaboration Support Programme
- Entrepreneurship Support Programme
- General Support Programme
- SME Project Support Programme
- R&D, Innovation and Industrial Application Support Programme
- Emerging Enterprises Market SME Support Programme
- Loan Interest Rate Support Programme
Table 1. Categorization of Support Programme

<table>
<thead>
<tr>
<th>Support Programme</th>
<th>Field</th>
<th>Target Group</th>
<th>Developing Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation-Collaboration Support Programme</td>
<td>Business Combination</td>
<td>Equal Access to All SMEs</td>
<td>All Stage Business Support Programme</td>
</tr>
<tr>
<td>Entrepreneurship Support Programme</td>
<td>Start-Ups</td>
<td>Equal Access to All SMEs</td>
<td>Start-Ups Support Programme</td>
</tr>
<tr>
<td>General Support Programme</td>
<td>Mixed</td>
<td>Equal Access to All SMEs</td>
<td>All Stage Business Support Programme</td>
</tr>
<tr>
<td>SME Project Support Programme</td>
<td>Mixed</td>
<td>Equal Access to All SMEs</td>
<td>All Stage Business Support Programme</td>
</tr>
<tr>
<td>R&amp;D, Innovation and Industrial Application Support Programme</td>
<td>Technology (R&amp;D) Innovative Start-Ups</td>
<td>Equal Access to All SMEs</td>
<td>Start-Ups Support Programme</td>
</tr>
<tr>
<td>Emerging Enterprises Market SME Support Programme</td>
<td>Finance</td>
<td>Equal Access to All SMEs</td>
<td>All Stage Business Support Programme</td>
</tr>
<tr>
<td>Loan Interest Rate Support Programme</td>
<td>Finance</td>
<td>Equal Access to All SMEs</td>
<td>All Stage Business Support Programme</td>
</tr>
</tbody>
</table>

Table 2. Situation of registered SMEs by development stage

<table>
<thead>
<tr>
<th>Number Of SMEs (Total)</th>
<th>Start-Ups (Less Than 5 Years)</th>
<th>Growth (5 ~ 9 Years)</th>
<th>Stagnation (10 ~ 19 Years)</th>
<th>Re-Take-Off (More Than 20 Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>488,190</td>
<td>72,181</td>
<td>161,450</td>
<td>162,739</td>
<td>91,820</td>
</tr>
<tr>
<td>%100</td>
<td>%14.8</td>
<td>%33.1</td>
<td>%33.3</td>
<td>%18.8</td>
</tr>
</tbody>
</table>

In the KOSGEB Database, SMEs are classified in accordance with the direction laid out in the Statistical Classification of Economic Activities in the European Community (NACE Rev.2). NACE23 consists of a hierarchical structure whereby there is a first level consisting of headings identified by an alphabetical code (sections), a second level consisting of headings identified by a two-digit numerical code (divisions), a third level consisting of headings identified by a three-digit numerical code (groups), and a fourth level consisting of headings identified by a four-digit numerical code (classes). According to this classification, there are 488,190 confirmed

SMEs from 13 different sections. These SMEs are categorized by development stage and main sectoral groups\textsuperscript{24} in Table 3 below. The highest cell frequency belongs to SMEs in the trade sector that are in the stagnation period (14.9%).

Table 3. Situation of registered SMEs by development stage and sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Start-Ups</th>
<th>Growth</th>
<th>Stagnation</th>
<th>Re-Take-Off</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>21,142</td>
<td>37,944</td>
<td>40,337</td>
<td>26,002</td>
<td>125,425</td>
</tr>
<tr>
<td>Services</td>
<td>9,825</td>
<td>27,929</td>
<td>28,424</td>
<td>15,396</td>
<td>81,574</td>
</tr>
<tr>
<td>Trade</td>
<td>22,507</td>
<td>68,608</td>
<td>72,630</td>
<td>40,922</td>
<td>204,667</td>
</tr>
<tr>
<td>Other</td>
<td>18,707</td>
<td>26,969</td>
<td>21,348</td>
<td>9,500</td>
<td>76,524</td>
</tr>
<tr>
<td>TOTAL</td>
<td>72,181</td>
<td>161,450</td>
<td>162,739</td>
<td>91,820</td>
<td>488,190</td>
</tr>
</tbody>
</table>

KOSGEB has just one support for all its support programmes. In other words, each programme does not have a specific support budget. Also, KOSGEB does not make any selections in support programmes for spending its funds. This means the main determinant for funding in KOSGEB is the SMEs’ demands.

Between July 2010 and February 2015, KOSGEB supported 68,093 different SMEs with the total sum of TRY 1.1 billion. The distribution of budget realizations by support programmes is shown below in Table 4. It is clear that the General Support Programme has received the most benefit at 38.5%, and the Entrepreneurship Support Programme is second at 23.8%. These budget realizations of the two programmes constitute almost two-thirds the total amount of support. However, the average amount of support for the General Support Programme is the lowest by far.

\textsuperscript{24} The SMEs in the various sectors of Table 3 are listed below.

Industry: B- Mining and quarrying, C- Manufacturing, D- Electricity, gas, steam and air conditioning supply, E- Water supply; sewerage, waste management and remediation activities
Service: I- Accommodation and food service activities, M- Professional, scientific and technical activities, N- Administrative and support service activities, S- Other service activities
Trade: Wholesale and retail trade; repair of motor vehicles and motorcycles
Other: F- Construction, H- Transportation and storage, J- Information and communication, R- Arts, entertainment and recreation
Table 4. Budget Realizations by Support Programmes

<table>
<thead>
<tr>
<th>Support Programme</th>
<th>Number of SMEs</th>
<th>Amount of Support (TRY)</th>
<th>Average Amount of Support (TRY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation-Collaboration Support Programme</td>
<td>182</td>
<td>60,710,638</td>
<td>333,575</td>
</tr>
<tr>
<td>Entrepreneurship Support Programme</td>
<td>16,910</td>
<td>267,435,632</td>
<td>15,815</td>
</tr>
<tr>
<td>General Support Programme</td>
<td>49,617</td>
<td>432,445,093</td>
<td>8,716</td>
</tr>
<tr>
<td>SME Project Support Programme</td>
<td>2,899</td>
<td>127,434,730</td>
<td>43,613</td>
</tr>
<tr>
<td>R&amp;D, Innovation and Industrial Application Support Programme</td>
<td>2,412</td>
<td>235,885,551</td>
<td>34,761</td>
</tr>
<tr>
<td>Emerging Enterprises Market SME Support Programme</td>
<td>12</td>
<td>642,328</td>
<td>53,527</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>68,093</strong></td>
<td><strong>1,124,553,972</strong></td>
<td><strong>14,705</strong></td>
</tr>
</tbody>
</table>

Sectoral distribution of budget realizations is shown below in Table 5. For all support programmes, the first sectors are same vis-à-vis “Number of SMEs” and “Amount of Support”, with the exception of the “R&D, Innovation and Industrial Application Support Programme”. The highest beneficiary ratio of the “R&D, Innovation and Industrial Application Support Programme” falls into the “Other” sector (71.6%). Overall, the highest ratio is valid for the “Industry” sector (72.2%).
Table 5. Budget Realizations by Sector

<table>
<thead>
<tr>
<th>Support Programme</th>
<th>Industry</th>
<th>Services</th>
<th>Trade</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of SMEs</td>
<td>Amount of Support (TRY)</td>
<td>No. of SMEs</td>
<td>Amount of Support (TRY)</td>
</tr>
<tr>
<td>Cooperation-Collaboration Support Programme</td>
<td>139</td>
<td>49,774,830</td>
<td>16</td>
<td>4,085,211</td>
</tr>
<tr>
<td>Entrepreneurship Support Programme</td>
<td>5,042</td>
<td>87,038,866</td>
<td>5,950</td>
<td>98,983,742</td>
</tr>
<tr>
<td>General Support Programme</td>
<td>23,696</td>
<td>248,277,480</td>
<td>5,904</td>
<td>45,869,282</td>
</tr>
<tr>
<td>SME Project Support Programme</td>
<td>1,519</td>
<td>68,588,451</td>
<td>406</td>
<td>17,219,738</td>
</tr>
<tr>
<td>R&amp;D, Innovation and Industrial Application Support Programme</td>
<td>1,463</td>
<td>170,212,529</td>
<td>356</td>
<td>27,017,123</td>
</tr>
<tr>
<td>Emerging Enterprises Market SME Support Programme</td>
<td>8</td>
<td>392,790</td>
<td>2</td>
<td>153,155</td>
</tr>
</tbody>
</table>

Table 6 shows the amount of support by programme and development stage. The most popular programme for SMEs is the General Support Programme. This is followed by the Entrepreneurship Support Programme, then the R&D, Innovation and Industrial Application Support Programme.
Table 6. Amount of support by development stage in TRY

<table>
<thead>
<tr>
<th>Support Programme</th>
<th>Start-Ups</th>
<th>Growth</th>
<th>Stagnation</th>
<th>Re-Take-Off</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation-Collaboration Support Programme</td>
<td>52,897,958</td>
<td>6,764,574</td>
<td>394,135</td>
<td>653,970</td>
<td>60,710,638</td>
</tr>
<tr>
<td>Entrepreneurship Support Programme</td>
<td>259,962,307</td>
<td>7,184,256</td>
<td>277,524</td>
<td>11,545</td>
<td>267,435,632</td>
</tr>
<tr>
<td>General Support Programme</td>
<td>49,621,355</td>
<td>119,416,618</td>
<td>153,861,086</td>
<td>109,546,033</td>
<td>432,445,093</td>
</tr>
<tr>
<td>SME Project Support Programme</td>
<td>6,780,759</td>
<td>38,984,619</td>
<td>50,419,552</td>
<td>31,249,801</td>
<td>127,434,730</td>
</tr>
<tr>
<td>R&amp;D, Innovation and Industrial Application Support Programme</td>
<td>53,406,875</td>
<td>65,820,120</td>
<td>70,153,103</td>
<td>46,505,453</td>
<td>235,885,551</td>
</tr>
<tr>
<td>Emerging Enterprises Market SME Support Programme</td>
<td>0</td>
<td>98,405</td>
<td>296,542</td>
<td>247,381</td>
<td>642,328</td>
</tr>
<tr>
<td>TOTAL</td>
<td>422,669,254</td>
<td>238,268,592</td>
<td>275,401,942</td>
<td>188,214,183</td>
<td>1,124,553,972</td>
</tr>
<tr>
<td>RATIO in %</td>
<td>37.6</td>
<td>21.2</td>
<td>24.5</td>
<td>16.7</td>
<td>100</td>
</tr>
</tbody>
</table>

REFERENCES


SMALL FARMERS IN AGRICULTURE AND RURAL LIFE – FACTS AND POSSIBILITIES

Cem Ali Birder
Toprak Ana

ABSTRACT
This paper presents the priorities of the Turkish agricultural corporations and highlights the Toprak Ana website as an e-commerce platform for agricultural products from small farmers. It emphasizes the possible transition from capitalism to eco-rationalism. Finally, the author presents three projects managed by him.

Keywords: transition from capitalism to eco-rationalism, Toprak Ana, Mother Earth project, Raising Empathy for Agricultural Learning (REAL) project, Two Buildings project
JEL Classification: A13, O13, Q13, R20

3.11.1 INTRODUCTION – THE ROLE OF AGRICULTURAL CORPORATIONS
Small farmers around the world have been losing their productivity and competitiveness against large agricultural corporations and the bigger businesses in the food industry.

The ever diminishing numbers of small farms and subsequent migrations of the rural population to towns and cities have resulted in not only social problems in the city, but also in the ruin of rural cultures and traditional productions.

The agricultural corporations and the food industry prioritize boosting their financial profits. As a result, seeds are made hybrid, the variety of produce in the market has decreased, and hundred years of work by small farmers is disregarded. Therefore, the culinary culture of the world is impoverished. Even though environmental and health risks caused by chemically treated food products have increased the demand for organic produce, the high value of the latter has not enabled it to develop a market solution that is favourable to both consumers and suppliers. An expansive sale mechanism enabling consumers to buy their organic and natural products di-
rectly from the producers is still minimal. In addition, the prevailing model of organic farming in most developing countries is based on monoculture (i.e. the production of one crop) and export-only strategies. Therefore, this method of organic farming does nothing to remedy to the erosion of biodiversity, local seeds and local culture.

Nature friendly communities can adopt self-sustained production methods by using local seeds. People with social, cultural and environmental values, and people who place happiness before economic concerns are the sources of presently unscaled richness for our countries and the planet. This richness also depends on the extent to which “we” protect and respect the traditions and customs of our small farmers all around the globe. We have a lot to learn from the rich cultural heritage they have accumulated for centuries. It is also our responsibility to provide them with education and training for their development. The use of technology on behalf of our traditions, small farmers and biodiversity is important for the growth of organic and self-sustained farming.

The website – www.toprakana.com.tr – introduces small farmers to a larger public, and serves as an e-commerce springboard for their products.

With the help of a map, users are able to pinpoint small farmers all over the country. On each allocated location, the small farmers introduce themselves, their farming methods and their products. Thus, farmers can present their products as trademarked goods, and the consumers are able to buy their organic products directly from them.

Taking into consideration the world’s decreasing energy sources, climate changes, increasing food prices and ever growing consumer anxiety in accessing healthy products and food, the Toprak Ana project aims to achieve the following:

1. Trademarking of small farmers and their produce
2. Freedom of pricing
3. Competitiveness of organic products through e-commerce
4. Sales without an intermediary
5. “Farmers” guarantee our food safety and local seeds
Regardless of geography, rural development is not solely an issue of economics. Social-cultural heritages, traditional lifestyles, and definitions of happiness are all motivational aspects of farming. Food produced by farmers practicing such values can create strong ethics, health and sustainability. Small farmers can generate positive results in the future. In this respect, I have the opportunity to present my three projects. These projects consider the possible transitional phase from Capitalism to Eco-rationalism as summarized in the table below:

<table>
<thead>
<tr>
<th>Capitalist Approach</th>
<th>Eco-rationalist Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Highly populated cities</td>
<td>Balance between the rural areas and the cities</td>
</tr>
<tr>
<td>2 Industrial food encouraged</td>
<td>Traditional food encouraged</td>
</tr>
<tr>
<td>3 Economy based on maximum profit and less public values</td>
<td>Economy built on ethics and ecology</td>
</tr>
<tr>
<td>4 Attractive (and sometimes misleading) credit systems for SMEs and small farmers</td>
<td>Sustainable economic, agricultural and social systems for SMEs and small farmers</td>
</tr>
<tr>
<td>5 Intelligence (technology, health, etc.)</td>
<td>Wisdom (technology, health, etc.)</td>
</tr>
<tr>
<td>6 More consumption</td>
<td>Less consumption</td>
</tr>
<tr>
<td>7 Globalized economy, standard education, fast information flow</td>
<td>More local economy, more local education, slower and clean information</td>
</tr>
<tr>
<td>8 More static, centrally controlled and tonal</td>
<td>More dynamic, diversified and atonal</td>
</tr>
<tr>
<td>9 Contradictions ignored</td>
<td>Less contradiction</td>
</tr>
<tr>
<td>10 Weak solutions when crisis happens</td>
<td>Solutions before crisis</td>
</tr>
</tbody>
</table>

### 3.11.2 PROJECT #1: “MOTHER EARTH” (IN TURKISH, TOPRAK ANA)

The website – www.toprakana.com.tr – introduces small farmers to a larger market, a public discussions platform, and an e-commerce springboard project.

With the help of a list and a map, users are able to locate small farmers all around the country. At each allocated location, small farmers introduce themselves, their farming methods and their products. Thus, farmers can present their products as a trade commodity, and the consumers are able to buy their organic or natural products directly.
Taking into consideration decreasing energy sources, climate change, increasing food prices and ever growing consumer anxiety on access to healthy food products, the project aims to achieve the following:
1. Trademarking of small farmers and their produce
2. Freedom of pricing
3. Competitiveness of organic products through e-commerce
4. Sales without an intermediary
5. Improve the competitiveness of small farmers and SME farmers.

The Toprak Ana project has been running since 2009, and is based on the “good, clean and fair” principles of Slow Food.

Slow Food, for the uninitiated, is a global grassroots organization founded in 1989 to prevent the disappearance of local food cultures and traditions. It has since grown into a global movement involving millions of people in over 150 countries. See http://www.slowfood.com for more information.

3.11.3 PROJECT #2: RAISING EMPATHY FOR AGRICULTURAL LEARNING (REAL)
REAL is a web-based information exchange system of good agricultural practices. REAL stands for Raising Empathy for Agricultural Learning, and it aims to raise and promote agricultural information sharing. Through REAL, manufacturers in any given location can share both information and knowledge areas in the project network.
This is an example of how REAL works:

- Information A (from any farmer connected to REAL): In June, sprayed 3 times per week, 1/10 water ratio of Nettle Compost Water helps decrease risk of Apple Codling moth by 80%.
- The Reliability Approval Committee checks the information and rates it according to a Reliability Index (RI). The information will then be put up with corresponding literature, practices and related information databases along with its rating; e.g. Information A, RI 70%.
- Anybody connected to REAL can retrieve this rated information and can make further comments for further evaluation (causing the RI rating to increase or decrease).

The REAL project aims to develop more sustainable agricultural practices and clean outputs through the exchange of agricultural information that is:
- Free
- Practical
- Reliable

When shared globally, REAL would be able to develop dynamic communities with common goals, hopes and future strategies that would both serve local economies and social-ecological values.

This project is not practically running yet.
3.11.4 PROJECT #3: “TWO BUILDINGS”

Most important projects for the sustainability of rural life and rural employment make the standard error of formulating and implementing purely economic solutions. This only serves to engender the impression that a “quick and easy consumption” society is the order of the day. As a result, “happiness” in simple village life gives way to the glittering promises of a convenient life in a dream city. Once the notion that “city dwellers are the ones who earn the most money” takes root in the minds of the villagers, some people will leave the countryside in pursuit of riches. This then culminates in a population migration from the rural areas to the big cities.

Since most projects seeking to sustain rural life and employment only concentrate on strengthening the local economy, they are unable to support the development of the village, as well as other important needs in the village that are essential to a happy, peaceful and colourful life. Unable to strengthen the importance of the traditions and ways of life in the village, these economically-based rural development and sustainability programmes indirectly cause young people to leave their villages.

The “Two Buildings” project aims to boost the local economy by utilizing the traditional values of social power to render the village socially and economically viable. It will do so through two houses:

1) The Village House, where social and educational activities take place.
2) The Production House, where finished traditional and value-added products are made.

In other words, “Two Buildings” is a model to enhance rural life with rural people. The project has been running at Besik Köyü in Bayramiç, in the Çanakkale Province of Turkey since 2013. 25

1) Village House – for children’s library, workshops, meetings, seminars, entertainment, cinema, etc.

2) Production House – for traditional and value-added food production according to hygiene and quality standards.

25 See http://besikkoy.blogspot.de/ for more information.
The project helps sustainability of:
1. Eco-friendly agriculture
2. Traditional food
3. Collective memory, and
4. Rural life

Where the happiness of the villagers is a major concern. Happiness, according to the Merriam-Webster dictionary online, is “a state of well-being and contentment; a pleasurable or satisfying experience”. By sustaining traditional ways of life, agriculture and collective memory, villagers would be able to remain happy.

Eco-friendly agriculture is a form of localized farming in which farmers’ methods do not interfere with ecological balance and ethics. This pays attention to the happiness of agricultural life (of trees, vegetables, animals, etc.) by ensuring that farming involves:
• Bio-diversification and use of local genetic material
• Less chemicals and less output
• Less intervention (less pruning, less tilling, etc.)
• Less environmental damage

Eco-friendly agriculture may result in less productivity in terms of quantity, but the produce will be of higher quality, more delicious, healthier, more durable, etc. In this method of agriculture, the ecological parameters do not change.

Traditional food is a local, historical method of food production in which food material is based on local seeds or local genetic material, and local cooking techniques and recipes are used. In cooking locally produced food,
traditional cooking materials and utensils are used. In producing traditional food this way, local produce and food become value-added products with:
1. Competitiveness
2. Longer shelf life (compared to commercially grown fresh products)

Traditional food is delicious, healthy and competitive, due to its socio-cultural assets.

Collective memory is constructed, shared, and passed on to young generations by the elderly. In this process, men and women generate different types of information and varying methods of transmission. Collective memory transmitted includes information on:
- Agriculture
- Health
- Food (recipes, cooking, preserving, sharing, community building, etc.)
- Housing

Both the young and the old in the village are bound by their collective memories of rural life, as these memories affect how they interact as well as where and how frequently they interact.

Rural Life is the local, historical way of living. It encompasses local culture, habits, entertainment and rituals. However, rural life must also be integrated with global facts; and be both adaptive and resilient at its convenience. It is a slower lifestyle that is less focused on consumption, and more centred on self-sufficiency with local social values.

In sum, the two buildings in the “Two Buildings” project complement each other in all the vital characteristics mentioned above.
3.12 UKRAINIAN AGRICULTURE: THE ROLE OF SMES IN POLICY TARGETS AND REALITY

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ABSTRACT
Since early 2014, Ukraine has been undergoing turbulent and challenging times. The government was abruptly changed; the country’s territorial integrity was put under threat and accompanied by numerous deaths, causalities, internal displacement of people, destruction of infrastructure, economic downturn and various devastating social consequences. To pull through the tumultuous situation, Ukraine called for international support. As part of the support offered, the international community requested that Ukraine speedily implement wide-ranging reforms in all economic spheres. Agriculture was one of few economic sectors that demonstrated growth over the last few years, as it is potentially attractive for investors. Therefore, the government created 24 working groups to implement reforms in agriculture.

This article consists of two parts. The first part delves into policy targets by summarizing the work process where problems and possible solutions are discussed by the abovementioned 24 working groups. These 24 working groups worked on agricultural policy in 8 sub-spheres, namely: approximating Ukrainian legislation to the EU’s; deregulation of the agricultural sector; improving production environment; market organization; food security; developing agricultural policy in science, education and innovation; developing rural territories and managing agricultural resources; as well as reforming state support and tax mechanisms in agriculture. The second part will demonstrate the agricultural business development possibilities in a challenging policy environment by describing two business cases in Ukraine: production of pellets and production of walnuts.
3.12.1. POLICY TARGETS

On 15 March 2015, the Ministry of Agrarian Policy and Food of Ukraine published the Strategy for Agriculture and Rural Development 2015-2020. The objectives of this strategy are the improvement of the sector’s competitiveness and ensuring that the development of Ukraine’s rural territories is in line with European and international standards. In particular, the strategy aims to do the following:

(1) To approximate Ukrainian agricultural legislation to the EU’s. The emphasis here will be on food safety, sanitary and phytosanitary measures, as well as other key points in the government action plan 2014-2017 implementing the EU-Ukraine Association Agreement (on quality issues, organic agriculture, genetically modified organisms (GMO) labelling, trade standards for seeds, reproductive material, animal products, etc.)

Box 1: State of affairs in the approximation of legislation

As a member of the World Trade Organization (WTO) since 2008, World Animal Protection Organization since 1994, Codex Alimentarius Commission since 2004, International Plant Protection Convention (IPPC) since 2006, and European and Mediterranean Plant Protection Organization (EPPO), Ukraine has already passed many policy measures to protect animals and plants in accordance with the WTO sanitary and phytosanitary (SPS) agreement. Ukraine was spurred to approximate SPS measures in its legislation because it wanted to maximize its agriculture and food export capacity for the EU market. Rankings for countries implementing SPS measures are graded as A, B and C, where A indicates the best adherence. The EU has given Ukraine’s approximation of SPS measures in its legislation a B grade. However, Ukraine still has many legislations that are not in line with the EU’s; these include improving on the limited qualified human resources, lack of practical knowledge, difficulties in optimizing the laboratory network, etc. Legislation in sub-sectors capable of bringing added value, etc. should be a priority for the Ukrainian government if it is to ensure that the country conforms to EU regulations.
(2) To deregulate the agricultural sector. Here, the government aims to address (and review) the issues in which the government interfered more than it should. After this review, the state plans to implement reforms governing state property and the activities of state enterprises.

Box 2: Some facts on state regulation of the agricultural market

Ukraine is rated 96 by the World Bank in ease of doing business. Ukraine is ranked at about the same level for its gross national product and purchasing power. Much research has shown the link between the regulatory environment of doing business and corruption levels, national income, investment attractiveness, economic stability, etc. Ukrainian agricultural market players find current administrative procedures unnecessarily complicated, and they circumvent them by paying bribes to officials. These same agricultural market players also pointed out that they experienced delays in the transportation of products due to procedural obstacles and that these delays resulted in the spoiling of their food products. Other problems faced by Ukrainian agricultural producers are high market monopolization, unfavourable investment climate, etc. On 2 April 2015, the President of Ukraine signed the Law of Ukraine to improve the ease of doing business in the country. The Law of Ukraine will deregulate economic activity in order to improve the country’s ease of doing business ranking. In particular, the Law of Ukraine will deregulate agriculture by stimulating rational use of agricultural land and improving lease relationships. The Law also eases the procedure of opening and running businesses, decreases administrative burden and state bodies’ influence on business entities, better protects the rights of investors, and improves the financing mechanism of the State Registration Service.

However, since the beginning of 2015, amendments to the Tax Code of Ukraine and other legislative acts have increased the fiscal burden on the population, middle class and SMEs. Excise taxes, land taxes, taxes for real estate were increased; taxes for bank deposits and war tax have recently been introduced. Payers of single tax and private entrepreneurs had to pay additional property taxes as well as increased taxes on dividends. Only charity organizations implementing projects to support internally displaced people are tax exempted; other non-governmental organizations (NGOs) have to pay a tax from now on. According to the State Budget Law 2015, overall income of the state budget is expected to increase because of the additional expense of value-added tax (VAT) for the goods pro-
duced or imported to Ukraine, cash reimbursements (totalling UAH 15.8 billion), expense of income tax (UAH 2.3 billion), and import duties (UAH 2.1 billion). Against the backdrop of the economic downturn, these developments create additional survival challenges for SMEs.

On the other hand, there are legislative amendments aimed at increasing the transparency of the Ukrainian economy. Among them are the so-called tax compromises launched in April 2015, proposals that legal entities pay hidden income and VAT taxes in the amount of 5% of the accumulated tax debt, introduction of obligatory official labour contracts, establishment of “white” wage payments and increased social security, introduction of electronic VAT administration, easing registration procedures, etc.

Agricultural producers, in particular, are included into a special fourth group of people who pay single tax. These people are simply called “the fourth group”. The fourth group used to pay fixed agricultural tax before it was cancelled. Single tax used to be 3%-5% for VAT payers; it was now reduced to 2%. Single tax used to be 5%-7% when VAT was not paid; it was now lowered to 4%. Also, the agricultural sector was granted preference in property taxation, as it received tax exemption for non-residential property used in agricultural activities. This meant that small buildings at markets, and buildings used for small businesses were exempted from property tax. Grain and technical crops exporters are exempt from VAT until 31 December 2017. Grain and technical crops producers, however, still have to pay VAT. An additional import tax of 10% was introduced on 25 February 2015 for live animals, products of animal and vegetable origin, foods and other produce of 1-24 groups. This additional 10% tax is temporary and will last for 12 months.

Another aspect to note is the relationship between state-owned and privately owned companies. More than 1,800 registered state companies have a share in agriculture. The state has a 5%-100% share in 56 corporations; the largest of which are the State Food and Grain Corporation, and the State Agrarian Fund. While the state often artificially creates preferences for state-owned companies, these companies frequently incur losses. There have been a number of cases where attracted loans under state guarantees were used ineffectively. For instance, state agricultural enterprises owe about USD 1 bn in loans to the state budget that they are unable to repay; this amount is much more than the total sum of budget
allocated tax privileges to the whole agricultural sector, or about 17 years
of ministerial budget profile.

(3) To improve the production environment (i.e. land market reform, ac-
cess to finance, modernization of production and processing capacities,
infrastructure and logistics).

Box 3 : General agricultural production environment
Access to finance. According to ministerial data, 75% of agricultural com-
panies are unable to expand and innovate because they have limited ac-
cess to finance. Most agribusinesses practice internal financing whereby
they are funded from their own capital. About 60% of agribusinesses
fund themselves from the profits they had accumulated in previous years,
whereas 13% of agribusinesses fund themselves from shareholder capi-
tal. External financing has been very limited even before the current eco-
nomic, financial and political crisis in Ukraine. Before the crisis, only 28%
of external financing could be accessed via bank loans and 11% came via
supplier trade credit. Now, the banking system is in a very poor state and
it is almost impossible for agricultural SMEs to access bank loans. About
half of all agricultural producers sell more than 80% of their crops right af-
ter harvest because of the urgent need to refill their working capital. SMEs
are the most vulnerable category here, as they have very limited access
to short-term loans to refill working capital and almost no access to long-
term loans. Even though agricultural holdings are equally unable to obtain
long-term loans, they succeed in attracting short-term loans. Currently,
many market players including international financial institutions (IFIs)
see agricultural crop receipts as good instruments of decreasing the gap
between demand and supply for external financing.

Land market. 69% of Ukraine or 41.6 million ha of the country is agricul-
tural land. Of this 41.6 million ha of agricultural land, 32.5 million ha is
arable land. About half the arable land in Ukraine and a third of the world’s
stocks is black soils. With the annexation of Crimea and the start of the
armed conflict in Donetsk and Luhansk oblasts, the stock of Ukrainian ag-
gricultural land started to decrease. Land reform that has been ongoing for
two decades in Ukraine needs to be stepped up. To date, land reform has
(i) reallocated 30.8 million ha of Soviet collectivized farm (kolkhoz) land
to private owners and converted 10.7 million ha to state property, and (ii)
improved agricultural legislation so that it now consists of the Constitution
of Ukraine, Land Codex, and relevant laws such as those on land lease, state land cadastre, land management, land evaluation and land protection. However, the Moratorium on the Sale of Agricultural Land is still in place. Cadastre, property rights registration and protection systems are complicated and incomplete. There is still a high imbalance between the interests of small landholders and landlords. Annual land degradation has reached more than 500 million tons of land (or about USD 5 billion). Land property is highly fragmented to the extent that there are now 6.92 million land owners; and 84.5% or 20.3 million ha of their land is leased by agricultural enterprises that increase transaction costs. There is also poor administration and public involvement in the agricultural sector, as well as visible high corruption (i.e. existence of black markets for land sales, bribes, lack of transparency, inefficient or no use of many land plots). Also, agricultural holdings are very influential in Ukraine so much so that their land bank is continuously growing. For instance, the largest Ukrainian agricultural holding owns 670,000 ha of land, and the top 10 largest agricultural holdings own over 3 million ha of land collectively. Since the agricultural holdings hold the bulk of the land, opportunities for the development of agricultural SMEs are decreased.

Technical capacity. Machinery in the Ukrainian agricultural sector is outdated, and low in quantity and quality. To replace the outdated agricultural machinery, Ukraine annually needs to spend UAH 35 billion to renew about 40,000 tractors and 7,000 combine harvesters for grains. Ukraine’s processing capacity is also outdated and insufficiently adapted to the efficient processing of crops and livestock. Due to the high transportation and storage costs, the agricultural sector is unable to deliver these crop and livestock products to final consumers. This is more so because the Ukrainian agricultural sector is export-oriented.

Infrastructure and logistics. About two-thirds of grains is delivered to ports via railway, a third is via auto transport, and only 3% via rivers. Grain and oilseeds total storage and daily load capacities are continuously growing; today, they constitute about 36 million tonnes and 1.5 million tonnes respectively. About 15% of storage capacity is state owned. Before the start of the conflict, Ukraine had 16 state-owned sea ports and 7 privately owned ones. The logistic costs are about 30% higher in Ukraine than the other countries in the world because of the inefficiency of logistics in Ukraine. The quantity of wholesale and local markets, as well as
information infrastructure is insufficient to meet the household and SME demand. Small farmers and households produce up to 80% of the market share of raw milk and cattle meat, about 50% of pork, and above 20% of fruits and vegetables; however, the infrastructure to effectively and transparently sell their produce is not properly developed. Much of the existing equipment is outdated, and the low quantities of elevators and storages for agricultural produce are very ineffective. In fact, 86% of grain bunkers are state-owned. Access to railway transportation is complicated for a number of reasons. Firstly, rail transportation wagons are approximately 26 years old. Secondly, there is very low turnover for wagons (9-13 per day in Ukraine compared to the 55 per day internationally). Thirdly, the government has very little incentive to develop private railway transportation because the tariff for private wagons is higher by USD 3-7 per tonne. Fourthly, there are low loading and unloading railway port capacities. Other forms of transportation woes also highlight the poor infrastructure for effective selling of agricultural produce. For instance, rules in auto transportation are frequently disregarded and overloading by more than 55% is the norm. As a result, goods vehicles carry an additional 38 tonnes per truck. The situation is worsened by the fact that there is a seasonal lorry deficit. Regulation obstacles impede the transportation of agricultural produce too, as import barriers have doubled the transportation costs today. Due to outdated river infrastructure, low height of bridges, shallow bottomed waterways and frozen waters, there is limited access to river transport as well. Quarantine, veterinary, sanitary and phytosanitary control of agricultural produce is also corrupt. Agricultural producers have to struggle against an absence of market information infrastructure, and overall indifference towards the development of agricultural cooperatives.

(4) To develop agricultural policy in the spheres of science, education and innovation. The objective here is to integrate agricultural research, education and consulting services so that they better fit and impact the agricultural sphere. This would allow the agricultural sector to be in a better position to respond to global challenges, develop good analytical tools for agricultural monitoring and reporting, provide market transparency, and increase the effectiveness of national expenditures for agricultural research and education.
Box 4: Contribution of the National Academy of Sciences of Ukraine to agricultural research and innovation

The National Academy of Sciences of Ukraine includes 48 research institutions and 4,400 scientists. Applied research is concentrated in 152 state farming enterprises with 12,500 employees. The Academy owns 449,000 ha of land, including 364,000 ha of arable land. The Academy also has a large number of animal breeds, i.e. 32,800 cows and bulls, 22,900 pigs and 9,900 sheep. The Academy has contributed 95% to the local agricultural innovations in crops, 67% to winter wheat, 90% to breed cows, and 75% to pigs. The Academy coordinates 11 scientific world-class entities and 44 different programmes for agricultural research that annually produces about 1,500 papers in agriculture. However, national agricultural science, research and education in Ukraine is very bureaucratic because of its inefficient organizational structure and the heavy influence of its Soviet past.

(5) To contribute to agricultural management and marketing. The objective here is to review current mechanisms of state support and price regulation, eliminate inefficient mechanisms, support economically justified policies, and improve food safety and security by reforming both the State Food Reserve and State Agrarian Fund.

Box 5: General agricultural management and marketing

Food security. According to the Global Food Security Index (GFSI) in 2014, Ukraine ranked 52 out of 109 countries. Specifically, Ukraine was 50th in food affordability (+3 positions since 2012), 65th in food availability (-20 positions since 2012), and 42nd in food quality and safety (+2 positions since 2012). In 2014, Ukraine appeared to be one of the ten countries where food security declined the most since 2013. Therefore, despite Ukraine’s status as a net exporter of food (especially in grain and sunflower seeds exports), certain vulnerable population groups with low income can suffer from hunger. Until today, Ukraine has not developed a comprehensive food security strategy or policy. The government still focuses on goods and their prices (but not on people), and may unexpectedly intervene when a food security risk appears. For instance, when bread, flour and wheat prices kept increasing in the country despite grain export restrictions, the government intervened through grain export quotas and taxes.
Food prices are administratively controlled (mostly on the local level), and the upper limits as well as control over margins (no more than 20% allowed) are present. Also, the State Agrarian Fund may intervene with spot or forward contract purchases and sales, and collateral grain purchases. The State Food Reserve purchases a list of agricultural products as well. In general, market principles are not upheld during state interventions.

Market organization. 30% of gross agricultural production (GAP) is generated by households on 38% of arable land, 45% by agricultural enterprises on 44% of arable land, 8% by smaller farmers on 13% of arable land, and 1% by state enterprises on 2.5% of arable land. Household production dominates in milk, cattle meat, potatoes, vegetables and fruits, while agricultural enterprises prevail in export-oriented crops production such as grains, sunflower seeds, rapeseed, and sugar beets. Farmers are mostly involved in crop production where they grow grains, sugar beets, sunflower seeds, rapeseeds and soy beans.

As of 2014, 78% of agricultural produce is sold to traders and retailers, and 15% to processing enterprises. However, certain products such as milk and its by-products, sugar beets, fruits and berries, and live cattle are mainly sold to the processing industry. Despite the growing network of supermarkets, Ukrainians prefer to purchase food from small food stores and markets.

Ukraine exports about 28% of its agricultural production and 27% of food. At the same time, the agriculture and food industry rely highly on the import of raw materials. External delivery of goods is mainly done via sea transport infrastructure, whereas supply via railway and auto transport is preferred in domestic delivery of goods. Storage capacity is improving, even though its quality is still low (see Box 3). Also, small producers have difficulties accessing modern resources and technologies, as well as finance and long-term contracts. Additionally, they face high competition from large agricultural enterprises (e.g. agricultural holdings). Membership in business associations (that are quite active in the market) and agricultural production cooperatives (still in the early stages of development at only 1% of GAP) can help them to better protect their interests.

Ukraine has 16 free trade zones, as well as a deep and comprehensive free trade area (DCFTA) with the EU that will be implemented in January 2016.
Today, average import duty rate is 3.8% for industrial products and 9.2% for agricultural products. 40% of agricultural imports are tax-free, 20% are taxed up to 5% and 30% with 5%-10% rates. Animal and milk products, as well as grains and sugar are the most protected. During DCFTA negotiations, Ukraine agreed to eliminate export duties within 10 years. As of 2014, export taxes for agricultural products remained for cattle and sheep at 20%, and for (false) flax and sunflower seeds at 10%.

(6) To reform state support and tax mechanisms in agriculture. The aim here is to provide more transparent, simple and effective state support and taxation system in order to maximize use of the available budget for the benefit of agriculture.

Box 6: State support and tax mechanisms in agriculture
Taxation. As Box 2 has illustrated, there are two direct taxes in agriculture: (i) income tax for agricultural producers (rarely used), and (ii) single tax which replaced the earlier fixed agricultural tax (FAT). Agricultural producers belong to a separate group called “Group 4 single tax payers”. As long as agricultural producers are categorized as belonging to Group 4, they are free from income tax and property tax. Group 4 agricultural producers also do not have to pay agricultural land tax and do not have to pay tax for buildings and constructions used in agricultural production. In 2014, the single tax was increased by 12-21 times, and its base (the base for FAT) was changed from its normative land value of 1995 to its current value. This significant increase in single tax in 2014 meant that the total sum of the single tax paid by agricultural producers is higher than income tax accumulated and paid. However, agricultural producers prefer to pay single tax to avoid the troublesome administrative procedure.

Indirect taxes include special regimes for VAT and subsidies. In general, Ukrainian agricultural producers pay 20% of VAT. However, export of grain and technical crops are exempted from VAT. Agricultural producers are exempted from VAT payments in 2004-2017. Because they are exempted from VAT payments in 2004-2017, they can accumulate it and use it for their own purposes. When an agricultural producer has land and constructions/buildings but does not use them for agricultural production, he must pay property taxes for these unused properties. Additionally, agricultural producers have to reimburse pension costs, and pay excise taxes for alcohol and spirits, tobacco and alternative motor fuel.
State support. In 2010-2012, only 8% of gross agricultural production was used for subsidies in Ukraine (as compared to 12% in OECD countries). On the other hand, fiscal support for agriculture in Ukraine amounts to 2% of GDP, while it is 0.34% in the Organisation of Economic Co-operation and Development (OECD) countries. However, this data is not very useful because it does not tell researchers and analysts if such support is beneficial to agricultural producers. There have been many cases where VAT is not reimbursed to grain and oilseed exporters. When this happens, producers and traders end up with lower sale prices. To factor in state support of agricultural producers, we have recalculated the statistics above through cost-benefit analysis. Our recalculation revealed that gross agricultural production is 3% in Ukraine and approximately 30% in OECD countries. In our cost-benefit analysis, we based our recalculations on the estimates presented in the ministerial working group’s reports on the effectiveness of state support mechanisms in agriculture and agricultural reforms. Agricultural producers in Ukraine look askance at state support in agriculture because of the many non-transparent schemes and high corruption levels. SMEs are often overlooked in state support mechanisms and policies. The reform of state support mechanisms and policies is still ongoing, and has to be in accordance with WTO guidelines on subsidies. This means Ukraine’s agricultural reforms must be committed to the reduction of trade-distorting domestic support. Ukraine must also be committed to government-funded subsidies that do not distort trade and do not involve price support. However, neither of this can be seen in Ukraine in 2015. The only agriculture-related subsidy thing that has happened in 2015 involves the State Budget allocating a smaller sum to the State Agrarian Fund. The reduction of the sum allocated to the State Agrarian Fund in 2015 means that agriculture will receive the lowest level of state support in 10 years. It is expected that this will reduce corruption.

(7) To develop rural territories. The objective here is to create policy mechanisms for better living so as to overcome negative institutional, economic, ecologic, demographic, social, cultural, etc. aspects that define and influence poverty levels and the rural population’s quality of life. Policy mechanisms for the development of rural territories in Ukraine will be implemented through three pillars: (i) support of small farmers, (ii) improving the quality of life in rural territories, and (iii) reforming local self-governance in rural territories.
**Box 7: Topical issues of rural development**

Small farmers. There are 40,700 small farms in Ukraine, including 8,100 (20%) farms with less than 10 ha of cultivated arable land and 4.2 million households with average land plots of 1.5 ha. Together, they provide about 50% of gross agricultural production in Ukraine, including 97% of potatoes, 82%-86% of vegetables, fruits and berries, 80% of milk, and more than 40% of meat. In most cases, they supply produce to the domestic market. Households are usually small family-owned businesses. As Ukrainian legislation does not provide legal, economic and social grounds for these households to become agricultural producers, this limits their participation in the agricultural market and prevents them from accumulating pensions. In particular, they face an unfavourable institutional environment such as deprived status, low prospective development, unfair treatment due to preferences for large agricultural producers, individualistic work approach and lack of policy influence. These small farms and households also face economic discrimination due to the absence of special programmes supporting their competitiveness, limited access to state support, complicated access to finance, as well as poor access to land resources, production inputs and sales channels. These small farms and households in the rural areas need help to overcome their social-demographic limitations of low education, low professional capacity, low labour potential and social insulation. Due to the absence of programmes for the development of human and social capital, youths in the rural areas are not motivated to become farmers. There are also visible gaps in legislation for the rural areas resulting in an absence of state, regional and local rural development programmes, and uncompetitive rural households.

Life in rural territories remains very poor, as the wages in rural territories are only 69% of the Ukrainian average. The incomes of rural households are 25% lower than city ones. The income from agricultural household production is decreasing, as it fell from 30% in 2000 to about 11% in 2013. Thus, 23% of rural households live under the poverty level. Access to high quality medical and educational services is absent, and the level of death is 40% higher in the rural areas. The high level of labour migration to the cities break up families, lead to uncared for children, spread alcohol and drug addiction, and social unrest. Only about 30% of the rural population has access to district water supply, and the uncontrolled landfills are growing.
Challenges for rural self-governance. Due to low government attention to rural territories, the rural population do not believe they can improve their situations. Therefore, they lack leadership abilities and do not want to expend effort to solve their own problems as a community. Also, local governors tend to solve the issues on a central level without community involvement, and local budget money is not used transparently. While the policy to support agriculture and rural development often goes hand in hand, it has to be separated.

(8) To manage agricultural resources. The aim here is to manage agricultural resources in a sustainable way so as to account for ecological effects, efficient usage, and development of bioenergy.

Box 8: Current use of agricultural resources
Water resources. Although Ukraine is rich in water resources, many of its regions still have difficulty accessing an uninterrupted (drinking) water supply of good quality. The quality of water used in agricultural production does not meet hygiene and sanitary standards. The anti-flooding constructions and technologies are not always effective, as agricultural producers often suffer from seasonal floods. Water cleaning facilities are absent in most of the rural territories, and the water used in agricultural production tends to be highly contaminated. The irrigation systems are outdated and energy inefficient.

Land resources. There are no economic stimuli for rational use of land resources. Therefore, about 20 million tonnes of humus and about 500 million tonnes of land are lost to erosion annually. There are many gaps in the legislative control systems.

Use of pesticides, nitrates and application of ecological standards. Ukrainian enterprises purchase about 100,000 tonnes of pesticides annually because it only produces 6,000 tonnes domestically. About 20% of pesticides come from the black market. The level of nitrates in underground and surface waters of Ukraine is high. Ukraine aims to conserve agriculture, but there are still many gaps in legislative control systems. Thus, principles of efficient land cultivation are among the secondary objectives for agricultural producers.
Organic agriculture in Ukraine is in its initial stage of development, and there is already 4 million ha employed for this enterprise. There are about 200 certified organic agricultural producers in the country. Ukraine’s domestic organic market has been developing since 2008, and organic products (mostly milk products and groceries) are sold via supermarkets. Most organic agricultural producers export their products such as grains, oilseeds, beans, berries, mushrooms, nuts and medical herbs. The majority of organic producers are certified according to EU or US organic legislation because Ukrainian legislation for organic produce is still under development.

Forestry and bioenergy. Ukraine’s total area is 603,600 square kilometres; of which, 71% is agricultural land and 18% is forest (10.4 million ha). There are three types of forested regions in Ukraine: Polissya (6 oblasts), forest steppe (10 oblasts) and steppe (9 oblasts). About 50 government bodies and community organizations manage the forest sector in Ukraine. Specifically, the State Forestry Agency manages about 73% of forests, local state bodies manage about 13% and village councils manage about 8%. About half of Ukraine’s forests are artificially created and therefore require tighter supervision.

Wood stocks are estimated to be at 2.102 million cubic metres, and increasing annually at about 25 million cubic metres. As only 66% wood stocks were used in 2013, the stock has continually been growing. The biomass stock is 24.5 million tonnes oil equivalent (toe) and annual consumption is about 6%. Ukraine can potentially produce 33 million toe of solid biofuel. At present, Ukraine annually produces about 200,000 tonnes of pellets, with up to 97% of them going to the EU market. About 30 enterprises are active in this industry. Bioethanol can be produced at 16 factories in Ukraine. The annual domestic demand for bioethanol is about 250,000 tonnes, and half its producers are satisfied with domestic production. Annual demand for biodiesel in Ukraine is 250,000 tonnes. Even though the country has constructed 14 plants and can potentially produce 50,000 tonnes more, the plants do not work at full capacity. The biogas potential is about 3 billion cubic metres per year. Ukraine has the potential to produce 32 billion cubic metres of biogas from animal and plant residues. There are 11 biogas plants in the country, and 9 of them are operational.
Fish production. The fishery industry urgently needs modernization. The
demand for fish is growing so rapidly that most of the fish in the country
is imported. In 1991, Ukraine imported 5% of all its fish. By 2014, Ukraine
imported 95% of its fish. Fish production in local waters decreased to 1%,
the fish yield from the sea has decreased to 5%. This is due to poor ad-
ministration of the government and the small budget allocations for this
industry.

24 working groups with the involvement of different stakeholders (includ-
ing international organizations) were created by the government to reform
these eight spheres of agricultural policy.

3.12.2. REAL BUSINESS CASES
Practical cases are best suited to demonstrating the state of affairs, and
challenges and problems faced by agricultural producers in Ukraine. There-
fore, we are going to describe two different kinds of businesses.

Production of pellets. Pelleting is a way of making use of biomass residues
that would otherwise remain unused. Biomass pellets are often produced
from wood residues (the most widely used pellets are wood pellets) or ag-
ricultural crop waste. Pellets can replace fossil fuels; thus, cutting green-
house gas emissions and creating the conditions for sustainable economic
development.

Domestic demand for pellets in Ukraine is not extensive at the moment.
However, due to high demand for pellets in the EU, the production of fuel
pellets is annually growing in Ukraine. Until 2010, the Ukrainian pellet
market grew quickly. Production reached about 624,000 tonnes in 2010.
Then, the EU introduced new quality standards that created new challeng-
es for Ukrainian producers. Since Ukrainian pellet producers took some
time and ability to adapt to these new European standards, their market
growth decelerated. In 2015, pellet production in Ukraine is expected to
reach about 707,000 tonnes, of which about 636,000 tonnes or 90% will
be exported.
Box 9: How will implementation of the Free Trade Area with the EU influence Ukrainian SMEs

Small and medium-sized industrial enterprises in Ukraine trade with the European Union less than larger enterprises. In 2014, the Institute for Economic Research and Policy Consulting conducted a survey among 314 industrial firms. This survey showed that only about 17% of medium-sized enterprises and 3% of small ones operated in European markets. Unlike the big enterprises, SMEs expect fewer gains from the Ukraine-European Union Association Agreement and Free Trade Area (FTA). In particular, only 39.3% of medium-sized firms and 35.9% of small ones believe they will benefit from the introduction of the FTA with the EU. For the most part, SMEs do not expect any changes in Ukraine’s broader access to the European market. Thus, the prospect of deteriorating trade relations with Russia is less hazardous for small and medium firms than large ones.


Since 2010, sunflower seed pellets came to dominate Ukrainian pellet production. However, sunflower seed pellets were supplanted by wood pellets in 2013, as wood pellet production reached about 377,000 tonnes in 2013. The main buyers of Ukrainian pellets are Poland, Germany, the Czech Republic, Italy and Austria. Straw pellets are mostly used as technical fuel to heat industrial enterprises and combined heat and power stations (CHPs). Wood pellets are used to heat private houses, cottage districts and partial enterprises. Large CHPs prefer to make direct contracts with the producer, while rayon and local boiler houses and smaller CHPs use market intermediaries who can guarantee supply continuity. Private households use different sales channels.

As expected, the world demand for wood pellets in 2014-2020 will grow about 1.7 times, from 27 million tonnes to 47.3 million tonnes per year. In the EU, the demand will grow 7% annually and reach 23.8 million tonnes by 2020. The EU is a net importer of pellets. The average price of pellets in the EU is about EUR 146 per tonne. In Ukraine, the average price of pellets is EUR 105 per tonne. The EU average price for pellets remains the highest and is expected to further grow. These developments create tremendous incentives for Ukrainian pellet producers and suppliers to expand their networks.
Usually, new companies operate for about 6-10.5 years in the Ukrainian market before ceasing activities or selling their businesses. Among the largest failure factors for companies in the country are (i) unstable and poorly established feedstock supply, (ii) incorrect placement of production facilities, and (iii) poor connection to the EU market. There are 5 big players in the pellet market with annual production capacity ranging from 9,600 tonnes per year to 75,000 tons per year, and market shares ranging from 2.7% to 11.5%. The production facilities are, in most cases, situated in Polissya (see Box 8).

Most pellet producers sell their produce via large traders, who purchase small quantities from different producers before exporting large amounts to the EU. The average price for exported pellets is EUR 85-120 per tonne, depending on the quality and terms of trade. Domestically, the price of pellets does not exceed EUR 80 per tonne. The unit cost of pellets produced in Ukraine does not exceed EUR 60 per tonne. The payback period can last up to a year or longer, depending on initial investment.

Previously, fossil energy tariffs in Ukraine were low and did not motivate consumers to use alternative fuels. The situation has been rapidly changing since 2014. Now, private consumers (who have individual or cottage district heating) are thoroughly studying about alternate heating sources. On average, the efficiency of a pellet boiler is 95%, a wood-fired boiler 60%, and a coal boiler 75%. However, a pellet boiler costs EUR 3,000-5,000, which is 50% more than the cost of a fossil fuel boiler.

The main challenges for pellet producers in Ukraine are continuous feedstock and buyers’ availability. The competition comes not from the appearance of new pellet producers on the market, but from substitutes such as unprocessed wood, fossil fuels, etc. Ukrainian producers’ main issue is meeting European high quality requirements and strict standards.

Production of walnuts in Ukraine. The world production of walnuts is annually growing, and Ukraine is no exception. In 2013-2014, Ukraine produced 95,000 tonnes of walnuts, 75,000 tonnes of which were exported. A slight decrease in yield is expected in 2015, due to the crisis in the country. However, Ukraine will still remain among the world’s top 8 leaders in the walnut market, taking second and fourth place respectively in the ratings of main walnut exporters and producers.
Walnut production in Ukraine is spread throughout the country. Various regions have been producing walnuts and hazelnuts for many years. Ukraine’s climate conditions and soil are suitable for growing nut trees. About 85% of all walnuts harvested in Ukraine are produced by small private family farms. During Soviet times, walnuts were produced by collective farms. Some of them still bear walnuts, though at much lower yields.

Starting from 2009, Ukrainian agrarian enterprises began developing walnut orchards for commercial purposes. The size of walnut plantations range from 0.5 ha to 100 ha. The total walnut planted area in Ukraine reached over 3,500 ha in 2014. Some regions, especially in central and southern Ukraine, require irrigation to ensure expected yields, while orchards in the northern part of the country may not match the walnut yield of plantations in cooler climates.

New walnut orchards are expected to bear fruit 5-7 years after planting. When walnut trees start fruiting, the yields are low. However, they increase gradually and the trees will reach their prime when they are between 15-20 years of age. While new walnuts orchards have been planted since 2009, older orchards from the Soviet period are gradually being cut down thereby offsetting an overall growth in production. Average yields of the newly planted trees (upon maturation) are expected to be higher than that of the older stock.

Although seeds of Ukrainian origin are mostly used, some new seed varieties from Moldova and Belarus have been imported to meet the growing demand. Harvest season in Ukraine varies from year to year, depending on climate conditions and proper production techniques. Most of Ukraine’s walnut producers do not even treat trees for diseases. However, with growing competition, newly established producers pay greater attention to production technologies (beyond irrigation) to increase growing efficiencies. Some of the activities undertaken by new walnut producers include research, investment in nurseries to improve genetic stocks, and the application of fertilizers and pesticides.

By and large, walnut production in Ukraine remains a labour intensive business with the majority of walnuts harvested by hand or through rudimentary nut picking devices used by previous generations of growers. Other businesses dependent on walnut production are those that deal in the sale of:

- walnut wood for furniture (for the local market and exports),
- treated leaves for medicinal use and walnut preserves (made from green/young nuts),
- walnut oil (especially for the EU market).

The domestic market in Ukraine has also generated some demand for walnut oil as both a gourmet food and a key ingredient in the premium segment of natural cosmetic products.

Walnut consumption varies from year to year. Depending on the economic situation in the country, local consumers may choose from a variety of tree nuts (almonds, cashews, pistachios, etc.) that are widely available in local retail outlets and are more expensively priced than walnuts. In addition, domestic chocolate producers and other candy manufactures use walnuts in their recipes. Many of these confectionary products are exported.

Walnuts are not only widely available in the marketplace; they are exported in large quantities as well. One can purchase walnuts easily in food stores around the country or in farmers’ markets. Walnuts are sold in-shell as well as shelled. Large industrial-sized purchases of walnuts are also common in the food processing industry and export enterprises.

The price of walnuts in Ukraine fluctuates over the growing season, dropping to the lowest point shortly after harvest and rebounding during winter and the spring holidays when stocks are dwindling (usually in the late spring). No data is collected on walnut prices at the national level in Ukraine.

In most cases, the export of walnuts is managed by private enterprises. A business association cum industrial group, the Ukrainian Tree Nut Association, was established several years ago to assist entrants to the walnut market. The Ukrainian Tree Nut Association serves as a consultant to growers in various stages of the business cycle, and has had some success in raising production standards in orchards and targeting export markets around the world. Large quantities of walnuts from Ukraine have been sold to the EU and Middle East countries.

Walnut production is not expected to receive support from the national government. Instead, the state budget traditionally provides subsidies to crops with higher priority in the agricultural sector (such as grain and sugar) and livestock production.
4. BEST PRACTICES IN AGROBUSINESS SUPPORT IN MOLDOVA

4.2 4.1 MOLDOVAN ANNUAL AGRICULTURAL SUBSIDY PROGRAMME

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ABSTRACT
This article reflects on some aspects related to the main issues of the subsidy process. It will also consider the main areas of Moldovan investments, as well as describe the support measures and their objectives in assisting investments in agriculture.

Keywords: agricultural subsidy programme, Agency of Intervention and Payments for Agriculture (AIPA), agricultural grant
JEL Classification: O13, Q12, Q17

Moldova has an annual agricultural subsidy programme that allocates millions of Euros for investments in agriculture. These grants are provided through the Agency of Intervention and Payments for Agriculture (AIPA) and offer real opportunities for the rural Moldovan economy to become more competitive and reach its full potential in the country. AIPA has had great success in the implementation of investment measures due to the subsidy applicants, and the tenacity with which AIPA seeks to ensure that agricultural producers receive all the money earmarked for their financial support.

Subsidy funds ensure that Moldovan farmers and processors are gradually prepared for the EU market. This has two main benefits:
1) ensuring that Moldovan farmers and producers provide competitive products.
2) avoiding the negative effects to Moldovan producers and the national economy if the country did not economically, institutionally and legally prepare for EU integration.

Thus, farmers are encouraged to direct their work towards increased productivity and competitiveness by modernizing production technology, refurbishment, equipment and post-harvest infrastructure and processing.
In order to facilitate access to the European market and generate competitive products, government support subsidies are given to farmers and compensations are annually provided to farmers through support measures in various areas of agriculture.

Competitive agriculture is central to achieving this objective. Therefore, the agricultural sector needs modern technologies, equipment and machinery, innovations in farming and post-harvest infrastructure development, as well as training programmes for farmers in the adoption, assimilation and implementation of these new technologies. Agriculture remains a key sector of the country’s economy, accounting for 13% of GDP, 50% of total exports and 28% of the labour force. This confirms the continued manpower resources for the sustainable development of agriculture.

In 2010, there were no common criteria for distributing agricultural subsidies, which were managed by several institutions – the Ministry of Agriculture and Food Industry, Ministry of Finance, ÎS Moldresurse and the State Agency of Moldavian Water Resources. Irregularities in the distribution of grants, in particular, the lack of transparency in granting them, were the main reasons for the creation of AIPA.

Thus, the criteria for grants distribution as well as their organization and operation are regulated by AIPA, with subsequent amendments and annual regulations on the distribution of the fund subsidy.

The current system of subsidizing the agricultural sector is one of the catalysts for increased investment in the sector. The subsidy system is made more attractive when subsidy policies are developed according to limited financial means, and objectives and actions. This is proved by the annual increase in the number of grant applications and investment volume.

Support measures subsidizing the agricultural sector are based on the strategic development priorities that require investments. These development priorities are: thorough modernization of the wine sector; restructuring and modernization of dairy and animal genetic resources; creating modern infrastructure associated with storage, cleaning, sorting and packing food.

In 2010-2014, grants have been awarded to various areas of agriculture, which are as follows:
Measure 1 – “Boosting lending from financial institutions to farmers”. The overall objective of this measure aims to increase agricultural productivity and competitiveness by providing farmers with access to financial resources and reviving loans to farmers from commercial banks, microfinance organizations, and savings and loan associations.

Measure 2 – “Stimulating agricultural production risk insurance”. This measure subsidizes insurance premiums for farmers, based on insurance contracts of production risks in agriculture.
Measure 3 – “Stimulating investment for planting perennial plantations, including antifreeze systems and hail protection installations, deforestation of perennial plantations and wine promotion”. The overall objective of the measure is to increase productivity and competitiveness as well as to protect production risks in fruit producing sectors like grapes, berries and aromatic crops.

Measure 4 – “Investment Incentives for vegetable production on protected land (greenhouses, solariums, tunnels)”. The overall objective is to enhance the productivity and competitiveness of the cultivation of vegetables on protected land (greenhouses, solariums, tunnels).
Measure 5 – “Stimulating investments and purchasing of machinery, equipment and irrigation systems as well as antifreeze systems and hail protection equipment”. Under this measure, investments aim to increase the productivity and competitiveness of the agricultural sector. Other aims include encouraging improved access to technical producers, agricultural equipment and irrigation systems.
Measure 6 – “Stimulating investment for the endowment and technological renovation of livestock farms”. The overall objective is to increase productivity and competitiveness by ensuring food safety. Food safety can be assured by stimulating the organization and technological renewal of livestock farms, and introducing technologies adapted to local conditions.
Measure 7 – “Stimulating purchasing of breeding animals and their genetic fund maintenance”. The overall objective is to increase productivity and competitiveness as well as improve food security by boosting livestock.
Measure 8 – “Stimulating investment for infrastructure development and post-harvest processing”. The overall objective of this measure aims at increasing the competitiveness of the overall performance of enterprises by improving the processing and marketing of agricultural products. Support under this measure is granted to investments aiming to introduce and develop technologies and processes for new agricultural products. Support under this measure is also granted to investments aiming to render enterprises more competitive by modernizing equipment, processes and technologies for processing.
Measure 9 – “Stimulating agricultural land consolidation”. The overall objective is to reduce the fragmentation of agricultural land. This measure will ensure that farmlands are optimized and farm sizes are increased.
Measure 10 – “Stimulation of irrigation”. The overall objective is to increase irrigated farmlands and increase their productivity.

In conclusion, Moldova is taking small steps forwards, but concrete measures such as the subsidization of farmers and AIPA’s work will contribute significantly to the advancement of the rural environment in Moldova.

In the last three years, the subsidy mechanism has undergone some changes in accordance to the best practices and experiences of EU countries. Consequently, new practices are needed to further improve the subsidy system. These new practices should take into consideration the Republic of Moldova’s accession commitments to the EU and properly manage EU funds in the development of the country’s agro-industrial and rural sectors.
4.2 SUCCESS STORY OF THE SANDIC GROUP – “FAGURAS DE AUR” LTD

Stefan Sandic26
Director, “FAGURAS DE AUR” LTD
Chişinău, Moldova

ABSTRACT
This paper summarizes all the stages in the beekeeping business in the village of Şipca. It also highlights the main goals and achievements of “FAGURAS DE AUR” LTD.

Keywords: beekeeping business, Rural Community Integrated Economic Model
JEL Classification: Q12, Q17, R1

4.3.1 INTRODUCTION
Mr. Stefan Sandic is the sole founder of the company, “FAGURAS DE AUR” LTD. The company was registered in the State Chamber of Registration

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26 This paper is compiled by Olesea Bordan, consultant from the Ministry of Economy of the Republic of Moldova. It is based on the PowerPoint (PPT) presentation of the author and the home page documents from International Fund for Agricultural Development (IFAD) and other files.
of the Republic of Moldova on 24 August 2010, and the company office is in Șipca village, in the Șoldănești district of Moldova. The company was founded with the aim of setting up a beekeeping business in the village of Șipca.

When Mr. Sandic graduated from the State Agrarian University of Moldova in 2005, he and his wife travelled to the United Kingdom (UK) on a summer programme for students. It was a great opportunity for them to witness and learn the methods of UK farmers.

In 2006-2010, Mr. Sandic worked as a production manager in the corrugated packaging company, Rigid, in the UK. Mr. Sandic was also enrolled in the Academy of Business and Technology in the UK in 2005-2006, where he took a business English course.

At the moment, “FAGURAS DE AUR” LTD has 600 beehives and beekeeping equipment. Together with another 3 beekeeping companies from Șipca village, Mr. Sandic plans to form a cooperative for the honey production of a total of 1,300 bee families.

**Products and services of “FAGURAS DE AUR” LTD**

The fields of activity of “FAGURAS DE AUR” LTD are as follows:

- Beekeeping and hives production
- Horticulture
- Vegetable
- Zootechnics
- Treatment services of agriculture crops
- Resource Centre

**“FAGURAS DE AUR” LTD has the following products and services:**

- Producing very good, almost organic honey,
- Ecological honey,
- Beeswax,
- Pollen,
- Propolis, and
- Royal jelly.

The company also provides pollination services to fruit and vegetable growers, and raises queens and bees to sell to other farmers.

In addition to the maintenance of bees and extracting honey, “FAGURAS DE AUR” LTD began providing pollination services to multiannual plantations
in 2012. The annual income volume of these services in 2012 amounted to MDL 100,000 (about EUR 6,000). “FAGURAS DE AUR” LTD has also signed a pollination contract with the “Forever” company to pollinate 1,000 ha of sunflower seeds.

4.3.3 PLANS FOR THE FUTURE
The company plans to introduce a new service – aerial treatment and fertilization of plants. For this purpose, a light aeroplane was purchased. This project costs more than EUR 50,000.

Despite the existing constraints such as imports exceeding exports, massive migration and low birth rate, work force quality, start-up mentoring and public-private partnership, the company aims to implement the following Rural Community Integrated Economic Model:

Then, unlike most young Moldovans, he and his wife returned to the family farm because they had scrimped and saved enough money to start their own business back home. On returning home, they decided to start a small company in beekeeping, which he had studied at university. As his grandfather and parents had worked with bees, Mr. Sandic and his wife are continuing in their footsteps and are actively developing the family business.
4.3.2 CREATION AND DEVELOPMENT OF “FAGURAS DE AUR” LTD
When Mr Sandic returned home to Moldova in February 2010, he decided to create his own business in the field of beekeeping.

Thus, in October 2010, “FAGURAS DE AUR” LTD received an investment loan totalling MDL 299,600 (about EUR 17,500) from the National Programme for Youth Economic Empowerment. This credit was used to purchase 280 beehives and frames. In 2011 and 2013, two other grants of MDL 200,000 (about EUR 12,000 and EUR 14,900 respectively) were received for purchasing beehives, beekeeping inventories and a Mobile Laboratory for extracting honey in the field.

In this context, the vision of “FAGURAS DE AUR” LTD for the next 5 years is as follows:
- Beekeeping
  - Packaging and batching
  - Beekeeping biological material production
  - Logistical support for new beekeepers
- 100 eco-products for 100 clients including
  - Fridges
  - Packaging houses
  - Facilities for drying fruits and herbs
  - Registered trademark
- Recreation Centre for Agro-tourism

The company is convinced of its motto, “Everything you do, do it in time! Knowledge... Family... Business...”

REFERENCES
See https://sandicstefan.wordpress.com/despre-mine/background/

See https://sandicstefan.wordpress.com/
When Stefan Sandic finished his studies at the State Agrarian University of Moldova, he and his wife travelled to the UK on a summer programme for students. “It was our first time in the UK, and a great opportunity to see and to learn how UK farmers work,” said the native Moldovan.

Then, unlike most young Moldovans, he and his wife returned to the family farm. They had scrimped and saved enough money to start their own business back home. “After that, we decided to open a small company with our family, in the field I had studied at the university — beekeeping,” he said. “It’s our family business. My grandfather worked with bees, my parents, too; and now, me and my wife.”

Then, a friend told them about an IFAD grant. They applied, and thanks to the grant, were able to open the beekeeping business last year. Stefan, who is now 30, and his wife, who is 26, bought 300 hives. They were able to expand to 500 hives this year. “In our area, there are a lot of farmers who need pollination of crops, like sunflowers, and there is a lot of forest,” said Stefan. “We are getting very good honey; almost organic, ecological honey.”

After last year’s high temperatures, which caused problems across the region, this year has been a good one. The young farmer and his wife are now focusing on building a brand, and buying processing equipment, so that they can market their honey directly to Europe. “Now, we have the bees; we have the knowledge; and the next and last step is a small production facility to process honey to EU standards,” he explained. “It’s the last step for our business. If we get this, it will be very good.”
In Moldova, where as much as 90% of the country’s fiscal resources are concentrated in the capital, the Sandics’ story is unusual. “People in the village are poor,” the farmer explained. Getting a regular bank loan for small-scale agricultural projects is next to impossible. “If you are looking for a loan, it is very expensive,” said Sandic. “The processing plant costs about EUR 100,000. In Moldova, you can only get this loan for 5 years. In Europe, you can have a loan for 25 years.”

As a result of conditions like these, Moldova is suffering from an acute brain drain. “Young people in our country – they finish their education and they leave, to Europe or Russia,” said the beekeeper. In addition to his full-time job, Sandic helps manage other rural businesses, and is so well acquainted with the problems in the Moldovan countryside that he has been asked to give presentations on the topic in the capital. “If you go to the villages, there are no young people. It is terrible. There are only old people, and lots of drunks. It is very, very difficult to work in the village.”

4.3 MOLDOVA’S ASSISTANCE TO THE HIGH VALUE AGRICULTURAL SECTOR: ACED PROJECT

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ABSTRACT
The paper summarizes the project purpose, main goals and achievements of the Agricultural Competitiveness and Enterprise Development Project that had been financed by the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC) in Moldova.

Keywords: high value agriculture, Agricultural Competitiveness and Enterprise Development Project, ACED, USAID, Millennium Challenge Corporation, YouTube channel to promote agriculture
JEL Classification: F13, L25, O13

27 This paper is compiled by Dr. Antal Szabó, Scientific Director of ERENET, on the basis of the PowerPoint (PPT) presentation of the author and the home page documents from DAI and ACED.
INTRODUCTION
The need to diversify export markets is broadly accepted throughout Moldova. The Agricultural Competitiveness and Enterprise Development Project (ACED) supports this imperative, including the improvement of Moldova’s sanitary and phytosanitary standards, and ensuring that Moldova has the ability to comply with international food safety standards. The project — co-funded by the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC) — aims to improve Moldova’s high value agriculture sector by working in value chains for produce such as tomatoes, table grapes, tree fruits and nuts, and fruits and vegetables. ACED has a broad and ambitious mandate to increase incomes and generate jobs in rural Moldova. Monitoring and evaluation play essential roles in tracking the progress of ACED and evaluating its impact in an integrated manner, allowing for ongoing learning, programme adjustments, and discussion with the donors.

The ACED Project has a total of USD 17,009,990 in funds, including USD 12,809,990 from USAID and USD 4,200,000 from the Millennium Challenge Corporation.

PURPOSE OF ACED PROJECT: “...to develop markets for Moldovan High Value Agriculture (HVA), and to provide training to upgrade production and the ability to meet buyer requirements as well as to foster the development of competitive enterprises in the Transnistrian region of Moldova...”

HVA produce includes agricultural crops and products with high economic value per hectare, such as:

- Fruit crops, including apples, table grapes, plums, cherries, peaches and others
- Vegetables, including tomatoes, peppers, cucumbers, cabbages, etc.

Commodity crops, such as grains and oilseeds are not considered HVA crops.

The agricultural value chain comprises all the individual steps involved in the production, harvesting, processing and marketing of agricultural products, including:

- Primary production
- Harvesting and storage
- Sorting and grading
• Processing and packaging
• Marketing and distribution

ACED’s assistance is grouped into four separate “activities” or steps in the value chain:
1. Market linkage development
2. Production training and demonstrations
3. Value chain technical assistance
4. Business environment reforms

ACED also uses local subcontracting to develop the capabilities of local Business Service Providers (BSP). The consulting company, Business Intelligent Services (BIS), has updated the “ACED Guide: Road Map for Investors in Moldovan High Value Agriculture” in July-August 2013, at the request of ACED. This guide was initially developed by BIS under contract to ACED in September–December 2011. It can be downloaded in PDF format from the ACED website (www.aced.md), and is available via electronic mail by writing to info@aced.md, or can be found at the ACED Office in Chișinău (Kentford Building, 3rd floor), all free of charge.

ACED is a nationwide project, but it prioritizes farmers and agribusinesses in the areas that will be affected by the MCC/MCA Irrigation Rehabilitation Programme. Significant assistance to the MCC/MCA areas began in mid-2014, in advance of the first irrigation systems coming into operation in late 2014 or early 2015.

ACED’s target indicators:
• Increasing domestic and export sales
• Improved production and handling
• Access to finance for famers
• Improved business environment
• Improved farmer incomes
• Phytosanitary and food safety testing
ACED’s progress to date:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Year 4 Value</th>
<th>LOP Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales due to ACED assistance</td>
<td>USD 24.6 m</td>
<td>USD 21.0 m</td>
</tr>
<tr>
<td>Exports due to ACED assistance</td>
<td>USD 19.4 m</td>
<td>USD 15.0 m</td>
</tr>
<tr>
<td>Number of producers trained, including women</td>
<td>5,676</td>
<td>4,300</td>
</tr>
<tr>
<td></td>
<td>1,946</td>
<td>-</td>
</tr>
<tr>
<td>Improved practices adopted</td>
<td>1,841</td>
<td>2,800</td>
</tr>
<tr>
<td>Investment in Moldova HVA</td>
<td>USD 11.9 m</td>
<td>USD 15.0 m</td>
</tr>
</tbody>
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Reasons for optimism:
- Moldova’s rich agricultural heritage
- Good soils and climate for HVA production
- Extensive local partner network (NGOs and BSPs)
- High level of interest from value chain participants
- Good cooperation with the Moldovan Ministry of Agriculture
- Complementary with other agricultural projects

Moldovan HVA challenges:
- Moldovan HVA is essentially unknown outside of the Russian and CIS markets
- The post-harvest infrastructure in Moldova still remains inadequate for market needs
- Significant competition from other producers (i.e. Poland and other large EU producers)
- Potential negative impact of a Russian ban on Moldovan fruits and vegetables (possible in September 2015?)

ACED Organizes Forum for Vegetable Producers
Cahul (30 June 2015) – The Agricultural Competitiveness and Enterprise Development Project (ACED), funded by USAID and MCC, organized a Regional Forum of Vegetable Producers in the city of Cahul, on 26 June 2015. The event gathered 60 agricultural entrepreneurs, national consultants and representatives of the Cahul district administration.

The forum focused on several important topics for Moldovan farmers, who are transitioning to high value agriculture and, in this regard, could benefit from ACED’s technical assistance. The activity plan included presentations and debates on new vegetable hybrids and schemes of fertilization for
early vegetable production (Irrigata Crop Service SRL); methods of protection of tomatoes and cucumbers in protected areas (Syngenta SRL); modern greenhouse construction (Cofealm SRL); equipment for irrigation of vegetable plantations (NaanDan Jain SRL). Alexandru Bejan, ACED’s vegetable production specialist, reviewed the newest innovations in vegetable production in protected areas, which have been implemented thanks to American support.

In the second half of the day, the participants visited two local agricultural enterprises that produced vegetables in order to see their experience in cultivating new hybrids of tomatoes, peppers and eggplants in Moldova. They also had a chance to study the construction of greenhouses, boiler houses, and fertigation system. According to Oleg Stiopca, coordinator of the ACED training programme:

“The Regional Forum of Vegetable Producers in Cahul was an excellent occasion to promote the new agricultural technologies in vegetable growing and the opportunities offered to Moldovan farmers via the training and technical assistance programme.”

More than 5,700 agricultural producers have participated in the ACED training programme since it launched in April 2011 through the assistance of USAID and the Millennium Challenge Corporation. Of the agricultural producers who attended the training programme, 1,800 have implemented the innovations learned from ACED in their own farms; and the overall area of fields covered by the innovative activities is 6,524 ha. 28

**ACED Launched on YouTube**

Chișinău (2 July 2015) -- The Agricultural Competitiveness and Enterprise Development Project, funded by the United States Agency for International Development (USAID) and the Millennium Challenge Corporation (MCC), launched its own channel recently on the popular web portal, Youtube.com. The “Proiectul ACED” (ACED Project) Channel will be an additional means that ACED will use to publicize and promote its training, marketing, and technical assistance programmes.

The first files uploaded to ACED’s channel on Youtube.com were reports

and TV programmes produced by Moldovan television stations on ACED Project activities. Users who subscribe to the ACED channel will be able to watch these reports of activities supported or organized by ACED, including seminars for agricultural producers, demonstration events, study tours and trade shows. Should there be technical possibilities, ACED may organize a live broadcast of its activities in the future.

For the link of the ACED channel on YouTube, see https://www.youtube.com/channel/UCoNXH3Zf7qUicWJQKGm-Gzg/videos.
5. FINAL DISCUSSIONS AND RECOMMENDATIONS OF THE WORKSHOP

5.1 CONCLUSIONS

The following points were made in conclusion:

5.1.1 Over the course of twenty-five years since the transformation from centrally planned economies to market economies, most of the BSEC Member States have undergone important political and economic changes with large-scale transformation also in the rural and agricultural sectors.

5.1.2. Looking back on the past, it is acknowledged that those countries which have registered the greatest level of economic development are those which have chosen to transform their agro-industry into a market-oriented one based on private ownership.

5.1.3. The basic elements of the reform process experienced in most of the countries of the region included the following:

- Privatization of land;
- Liberalization of prices and markets;
- Demonopolization and privatization of food processing and trade;
- Adjustment of the institutional structure, state and local governance;
- Creation of agricultural and rural support structures, including loan systems.

5.1.4. The initial expectations for transformation in the majority of the region were optimistic, while the actual transition process in the agro-industry was more complex than originally envisaged.

5.1.5. Today, agriculture in general continues to play an important role in the economies of the BSEC Member States.

5.1.6. Small farms in the BSEC region have an average of 1-10 hectares of land with traditional crops of grain and mixed farming; and their grown income is nearly half of the national average.

5.1.7. The majority of small farmers have practical experience without special training, education or knowledge in agribusiness.

5.1.8. A great part of the BSEC agricultural sector is composed of two main sub-sectors:
• The corporate sector comprising large companies specialized in the production of low value-added crops (cereals, oilseeds, sugar beet, etc.) and employing a limited labour force due to the high level of mechanized agricultural operations.
• The individual sector comprises peasant farms and household land in private property, including small farms generating a limited surplus of high value-added crops (fruits, nuts, grapes, vegetables, potatoes, etc.) and value-added processed foods that are mostly sold in open-air agricultural markets.

5.1.9. Average incomes in the agro-industry are the lowest and also highly unpredictable in most of the national economies of the BSEC Member States.

5.1.10. Young people do not perceive farming as an attractive occupation.

5.1.11. Poor harvests, increased international competition, strict health and environmental standards, negative impact of climate change, droughts, poor irrigation and infrastructure as well as outdated machinery and low levels of investment are additional challenges faced by small farmers in most of the countries in the region.

5.1.12. The density and market share of large supermarket chains create a challenge for small farms, as they find it difficult for their products to penetrate into the market.

5.1.13. There are significant trade barriers of tariff and non-tariff character and quotas resulting especially from the EU Common Agricultural Policy (CAP), which aim to secure the price structure.

5.1.14. The current food import ban of the Russian Federation has indirectly had a negative impact on the small farms in most of the BSEC Member States.

5.1.15. As a positive contribution to the finance alternatives for the agricultural sector in the region, the Black Sea Trade and Development Bank (BSTDB), which is one of the four related bodies of BSEC, is flexible in meeting the demands of its clients in the region, many of whom are small businesses, including agribusinesses. BSTDB has presently financed 15 operations in agriculture and agribusiness, with signed loan agreements exceeding EUR 135 million.
5.2. RECOMMENDATIONS

The following recommendations were made:

5.2.1. The BSEC Member States are urged to formulate and promote integrated national agricultural strategies and programmes.

5.2.2. Governments should assist in stimulating cooperation and integration of small farms into the more comprehensive supply chain.

5.2.3. Governments should adopt a definition of small farms in order to effectively implement national strategies to promote the development of agribusiness.

5.2.4. Governments should eliminate monopolistic activities in the agricultural sector.

5.2.5. Access to finance for agro-industry should be improved by creating special agricultural loan and insurance schemes.

5.2.6. Subsidizing certain agricultural activities of small farms and SMEs should remain an integral part of the economic policies of the BSEC Member States to strengthen agro-industry.

5.2.7. The development of quality measures in agro-industry should be considered a priority for improving competitiveness.

5.2.8. Implementing a system of patent taxation should be considered for agricultural produce.

5.2.9. Governments should exempt land tax if it is used for the production of agricultural products.

5.2.10. To exchange experiences and better identify the success factors in agribusiness, a more direct and regular dialogue should be established between policymakers and agribusiness managers.

5.2.11. Governments should extend free basic consultancy services to small farms and SMEs in agribusiness to help them make the best of their limited resources.
5.2.12. Governments are urged to subsidize fees related to notary and property registration when groups of small farmers decide to join their plots.

5.2.13. To encourage small farms to engage in the production of more niche and competitive products such as organic ones, governments are invited to subsidize the expenses related to issuing the necessary certificates.

5.2.14. Innovative strategies and best practices in attracting young people and women entrepreneurs to agribusiness should be replicated in the BSEC Member States.
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