

**ORGANIZATION
OF THE BLACK SEA
ECONOMIC
COOPERATION (BSEC)**

**KONRAD
ADENAUER
STIFTUNG
(KAS)**

**WORKSHOP ON
“SMEs AND SMALL FARMS IN AGRIBUSINESS”**

Chisinau, 16-17 April 2015

Summary Proceedings

1. The Workshop on “SMEs and Small Farms in Agribusiness” was held in Chisinau, the Republic of Moldova, on 16-17 April 2015. It was jointly organized by the Organization of the Black Sea Economic Cooperation Permanent International Secretariat (BSEC PERMIS) and the Konrad-Adenauer-Stiftung (KAS) in Turkey.

2. On the first day of the Workshop, welcoming statements were delivered by H.E. Dr. Tudor COPACI, Deputy Minister of Economy of the Republic of Moldova; Dr. Colin DÜRKOP, Head of the Konrad-Adenauer-Stiftung (KAS) for Turkey; Mr. Sven-Joachim IRMER, Resident Representative of the KAS for the Republic of Moldova and Romania; Ms. Meltem GÜNEY, Executive Manager of the BSEC PERMIS; and Dr. Antal SZABO, Scientific Director of ERENET, UNECE ret. Regional Adviser on Entrepreneurship and SMEs.

2.1. H.E. Dr. Tudor COPACI, Deputy Minister of Economy of the Republic of Moldova, welcomed the participants of the Workshop. He underlined the priorities for further developing agribusiness in the Republic of Moldova, focusing on the creation of an enabling business environment as well as fiscal issues. He provided information on the opportunities for agricultural investments and the Government’s vision on how to improve the quality and quantity of SMEs in the agricultural sector through national strategies.

2.2. Dr. Colin DÜRKOP, Head of KAS for Turkey, welcomed the participants of the Workshop on behalf of KAS. He underlined that this constituted the 46th BSEC-KAS Joint Workshop on SMEs organized over the past 18 years. Emphasizing the significance of the theme of the Workshop for the countries of the region, he stated that the conclusions and recommendations to be formulated at the end of the Workshop will be submitted to the BSEC Member States for policy guidance and follow-up. He also announced that, as in previous workshops, KAS will publish a book based on the papers to be submitted by the participants

regarding their presentations. He further expressed his appreciation to the BSEC PERMIS as well as to the ERENET.

2.3. Mr. Sven-Joachim IRMER welcomed the participants of the Workshop as the Resident Representative of KAS for the Republic of Moldova and Romania.

2.4. Ms. Meltem GÜNEY, Executive Manager of the BSEC PERMIS, welcomed the participants of the Workshop on behalf of BSEC. She provided information on the activities and priorities of BSEC for the development of SMEs, agriculture and agro-industry in the Black Sea region. The text of opening statement of Ms. GÜNEY is attached as Annex I.

2.5. Dr. Antal SZABO, Scientific Director of ERENET, stated that the rapid growth of the world population which has reached approximately 7.28 billion in 2015 and the commercialization of agriculture is increasing the demand for processed agricultural and food products. He underlined that the major constraints hindering the development of SMEs in agribusiness are (i) climate change; (ii) unfair negotiation of large international organizations (iii) the indirect impact of the current Russian food import ban; and (iii) EU subsidies in Eastern Europe. He expressed gratitude to BSEC, KAS, the ERENET members, ESBA and the International Investment Center for the preparation of and the participation in the Workshop.

3. The Workshop was co-chaired by Dr. Colin DÜRKOP, Head of KAS for Turkey; Ms. Meltem GÜNEY, Executive Manager of the BSEC PERMIS; Dr. Antal SZABO, Scientific Director of ERENET, UNECE ret. Regional Adviser; Dr. Fikret N. ÜÇCAN, Vice-President of the Turkish Foundation for Small and Medium Businesses (TOSYÖV); and Prof. Dr. Alexandru STRATAN, Director of the National Institute of Economic Research of the Republic of Moldova.

4. The Workshop was attended by the representatives of the following BSEC Member States:

Republic of Albania
Republic of Armenia
Republic of Azerbaijan
Republic of Bulgaria
Georgia
Hellenic Republic
Republic of Moldova
Romania
Russian Federation
Republic of Serbia
Republic of Turkey
Ukraine

The list of participants is attached as Annex II and the Program of the Workshop is attached as Annex III.

5. Prof. Dr. Alexandru STRATAN, Director of the National Institute of Economic Research of the Republic of Moldova and Dr. Steffen GROßMANN, Consultant Corporate Restructuring SME Struktur Management Partner GmbH, Cologne, Germany, addressed the Workshop as lead speakers and delivered keynote presentations on the “Strategic Direction of Entrepreneurship Development by High Value Added Agribusiness Activities in the Republic of Moldova and in the EU”.

5.1. Prof. Dr. Alexandru STRATAN, in his presentation, pointed out that the agri-food sector is based on extensive farming and is insufficiently adapted to market economy conditions. He stated that agriculture has less than 20% share in the GDP of Moldova, with 27.8% of the workforce employed in agribusiness. He informed the participants that the institutional framework consists of the Ministry of Economy and the Organization for Development of SMEs and that a National Program for Economic Empowerment has been launched by the Ministry of Economy to encourage business start-ups in rural areas and in agriculture. Prof. Dr. STRATAN also provided information on the Pilot Project on “Promoting better environmental performance of SMEs” which entailed a survey of 100 agri-SMEs.

5.2. Dr. Steffen GROßMANN provided information on family businesses which dominate the German economy, including the agricultural sector. Around 95% of all German businesses are family businesses. The landscape of agricultural family businesses has changed dramatically during the past 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. Dr. GROßMANN stated that the German farms can be described today by the following three characteristics:

- Almost 100% are individual companies in the ownership of one person or one family and the property is mostly inherited. In more than 90%, the ownership, management and operational control lies in one hand, whereas most of the employees are family members.
- The average size of the farms has increased.
- 60% of the farmed ground lies not in the ownership of the farmer, but is leased by former farmers who are inactive now.

In agribusiness families, the wish for an internal family succession is particularly strong, however, most families have no succession strategies. The consequence is frequently an external reorientation of the descendants.

6. An exchange of country experiences concerning SMEs and small farms development took place. The representatives of the BSEC Member States made presentations which addressed:

- (i) The role and size of agribusiness in the overall national economy;
- (ii) Characteristics of SMEs and small farms in the agribusiness;
- (iii) Description of the problems faced by agri-SMEs and small farms, as compared to large economic entities;
- (iv) Challenges experienced by SMEs and small farms in the face of healthcare and ecosystem requirements;
- (v) Issues of competitiveness and internationalization of agribusinesses;

(vi) The extent of government support extended to agri-SMEs and small farms.

Question and answer sessions were held after the presentations.

7. On the second day of the Workshop, presentations on “Best Practice in SMEs and Small Farms in Moldova” were made by Mr. Petru MALERU, Director of the Agency for Intervention and Payments for Agriculture (AIPA) of the Republic of Moldova; Mr. Petru STRATAN, Manager at “DACFRUCT” Ltd.; Mr. Stefan SANDIC, President of “SANDIC Group”; Mr. James G. HERNE, Chief of Party “ACED Moldova”; and Ms. Iulia IABANJI, General Director of the Organization for Small and Medium Enterprises Sector Development of the Republic of Moldova.

Final Discussions and Conclusions

8. The following points were made in conclusion:

8.1. Over the course of twenty-five years since the transformation from the centrally planned economies to market economies, most of the BSEC Member States have undergone important political and economic changes with a large scale transformation also in rural and agricultural sectors.

8.2. 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 agroindustry into a market-oriented one based on private ownership.

8.3. 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.

8.4. The initial expectations for transformation in the majority of the region were optimistic, while the actual transition process in agro-industry was more complex than originally envisaged.

8.5. Today, agriculture in general continues to play an important role in the economies of the BSEC Member States.

8.6. 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.

8.7. The majority of small farmers have practical experience without special training, education or knowledge in agribusiness.

- 8.8.** A great part of the BSEC agricultural sector is composed of two main sub-sectors:
- The corporate sector comprising large companies are specialized in the production of low value-added crops (cereals, oilseeds, sugar beet, etc.) and employ a limited labor force due to the high level of mechanized agricultural operations.
 - The individual sector that includes peasant farms and household land in private property comprising small farms generate 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.
- 8.9.** Average incomes in agro-industry are the lowest and also unpredictable in most of the national economies of the BSEC Member States.
- 8.10.** Young people do not perceive farming as an attractive occupation.
- 8.11.** 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 level of investment are additional challenges faced by small farmers in most of the countries of the region.
- 8.12.** The density and market share of large supermarket chains create a challenge for small farms to penetrate their products into the market.
- 8.13.** 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.
- 8.14.** 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.
- 8.15.** 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 them being small businesses, including agribusinesses. The BSTDB has up to now financed 15 operations in agriculture and agribusiness, with signed loan agreements exceeding 135 million Euros.

Recommendations

- 9.** The following recommendations were made:
- 9.1.** The BSEC Member States are urged to formulate and promote integrated national agricultural strategies and programs.
- 9.2.** Governments should assist in stimulating cooperation and integration of small farms into the more comprehensive supply chain.

- 9.3.** Governments should adopt a definition of small farms in order to effectively implement national strategies to promote the development of agribusiness.
- 9.4.** Governments should eliminate monopolistic activities in the agricultural sector.
- 9.5.** Access to finance in agroindustry should be improved by creating special agricultural loan and insurance schemes.
- 9.6.** Subsidizing certain agricultural activities of small farms and SMEs should remain as an integral part of the economic policies of the BSEC Member States to strengthen agroindustry.
- 9.7.** The development of quality measures in agroindustry should be considered a priority for improving competitiveness.
- 9.8.** Implementing a system of patent taxation should be considered for agricultural produce.
- 9.9.** Governments should exempt land tax if it is used for the production of agricultural products.
- 9.10.** To exchange experiences and to better identify the success factors in agribusiness, a more direct and regular dialogue should be established between policy makers and agribusiness managers.
- 9.11.** Governments should extend free basic consultancy services to small farms and SMEs in agribusiness to help them make the best of their limited resources.
- 9.12.** The Governments are urged to subsidize fees related to notary and property registration where a group of small farmers decide to join their plots.
- 9.13.** 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.
- 9.14.** Innovative strategies and best practices in attracting young and women entrepreneurs to agribusiness should be replicated in the BSEC Member States.
- 10.** The participants expressed their deep gratitude to KAS for its support and financial contribution for the realization of the Workshop, and to the BSEC PERMIS as well as the competent authorities of the Republic of Moldova for the warm hospitality extended to them during the Workshop in Chisinau.