ROMANIA

BANK LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES IN RURAL AREAS; AN ANALYSIS OF SUPPLY AND DEMAND

ANNEX 1

ROMANIAN BANKS' INTEREST IN THE NEW FACILITY

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The Romanian Commercial Bank (RCB)

1. The largest Romanian bank, with 294 branches across the country and a 30 percent market share. About 45 percent of the bank's lending goes to SMEs.

2. Since 1992, the bank has been heavily involved in various international financing schemes and it has gained good experience in managing them. The experience extends to combining various financing schemes to make them more attractive.

3. For some of the programmes in progress, the funds are exhausted, and new loans are extended based on repayment of the old ones. Long waiting lists are common for such programmes.

4. EBRD supports the bank's privatisation process (owning 12.5 percent of RCB) and is heavily involved in various financing schemes of RCB. The bank is close to the limit of EBRD exposure to a single debtor.

5. RCB would be interested in a new financing scheme earmarked for rural SMEs and appears confident that clients would be able to borrow under usual conditions. Additional training, however, would be welcome.

6. While the bank generally offers larger loan amounts at more favourable terms than other banks, the clients' perception is that RCB is overly bureaucratic and its procedures are not adapted to meet the special features of SMEs. This is thought especially true if the client is also rural.

7. Thanks to its large branch network, RCB has the best means to disburse a large part of the credit facility component over a short period of time. TA could and should be used to simplify RCB's loan application and appraisal procedures. Unless such a pre-condition is specifically inserted in the loan agreement contract between EBRD/EU and RCB, the latter will stick to its current procedures, and the Facility will not make a real difference in the rural SME clientele's perception of and access to bank credit.

"Banca Romaneasca" (BR)

8. The bank has recently been acquired by the National Bank of Greece from its original owner, the Romanian American Enterprise Fund (RAEF), financed by the American Congress. The bank has 26 branches and agencies, mainly in big cities, and its assets account for 1.1 percent of the total assets in the Romanian banking sector.

9. The main focus of the bank is on SMEs (some 95 percent of its total corporate lending) and it participates in many international financing schemes (EU, FMO, IFC, KfW, and the WB Rural Finance Project). BR states that it does not need additional TA for lending to rural

SMEs, but it stands ready to provide TA, i.e. to share its knowledge with other banks and to bid under the Facility for TA provider.

10. Due to its good track record and improved strength after the takeover, BR is able to get external funding at very competitive terms (EURIBOR + 50 basic points). Therefore, the bank would not be interested in the Facility if the terms are less favourable terms or with too many strings attached.

11. BR would be also interested in becoming fund manager for the Facility, in providing TA and training, and in on-lending to other banks and smaller financial institutions (such as credit cooperatives), which would not directly qualify to work with the EBRD but are strong in rural areas.

12. BR is seen by some as more supportive to clients than other banks and somewhat less bureaucratic. However, its lending terms (both duration and cost) are less favourable than those of the larger banks. Besides, delegated loan approval authorities are very limited at branch level, as most of the loan applications are approved at the bank’s headquarters.

Banca “Transilvania” (BT)

13. The largest bank with headquarters outside Bucharest. BT was launched in 1994 as a bank with local ambitions in the Transylvanian region. Over time, the bank has expanded significantly in all aspects: number of branches, territorial presence, capital, volume of assets, and staff. The bank is one of the blue chips noted on the Romanian stock exchange.

14. BT has 105 territorial units and its market share, rapidly growing, had reached 2.8 percent by mid-2004.

15. EBRD is the largest shareholder of the bank with 15% of its share capital.

16. BT has acquired good experience in dealing with SMEs. Apart from the bank’s own resources, 3 dedicated projects are currently implemented by BT using EBRD credit for a total amount of €15 million, while it manages two other projects with German lending resources with a total amount of €15 million. Moreover, BT participates in the WB Rural Finance Project for a total US$10 million, of which US$9 million have already been disbursed.

17. BT is one of the most active banks in the country with an outstanding performance and ambitious plans. With its network and already gained experience, the bank would fit the new Facility perfectly. In fact, the bank stands ready to take part with as much as €10 million, an amount for which the bank’s management is confident to find suitable projects.

18. There remains one point to be checked –exposure to EBRD might already be close to its standard limits. In view of the bank’s potential, though, the FAO team suggests that EBRD should consider accepting BT for the Facility, for an amount consistent with the bank’s performance.

Alpha Bank (AB)

19. The bank is a member of the Alpha Bank Group – an international bank with its headquarters in Greece and listed on the London and New York Stock Exchanges.

20. AB has 19 agencies, of which 7 are in Bucharest, while the remaining are in big cities across the country. With assets worth some €700 million, AB has a greater than 3.5 percent market share.

21. Large companies are its original target, but a couple of years ago it expanded its operations to individuals and small business and it intends to further increase the latter.

22. The bank is already involved in two EBRD financing schemes for SMEs for a total value of €20 million. It also pre- and co-finances SAPARD programmes.

23. While the size of the new facility under discussion is considered rather small, the bank would be interested in taking part in it, for two main reasons: to benefit from the know-how associated with it; and to increase the bank's visibility in the SME sector. However, a final decision is pending on the terms of the facility, and the prior approval of the bank's board.

Robank (RB)

24. It is the smallest among the 5 pre-selected banks, with 14 branches and 0.8 percent of the total assets in the banking system. However, the new owner of the bank, OTP (from Hungary), has ambitious plans to widen its activities and to expand in the next 4 years to as many as 80 branches, while keeping its current focus on small businesses and individuals.

25. The bank currently manages an EBRD loan for export pre-financing and it participates in the WB Rural Finance Project from which it has drawn US$3 million loan funds for on-lending to final borrowers.

26. RB usually lends for the short-term (mostly trade financing), but it would welcome opportunities to expand into investment lending. The current management appears to be largely in favour of such an EU/EBRD facility, provided that it is approved by the new bank's owners. Special training for the staff and TA for developing credit scoring models for rural SMEs would constitute an important "sweetener".

27. In order to be attractive for the final borrower the Facility should allow rural SMEs to buy land and buildings as part of the credit.

28. Moreover, in order to make the Facility attractive to rural SMEs, part of the TA should be earmarked for the final borrower, while the credit should be able to co- and pre-finance other projects, in particular SAPARD.

Miro Bank

29. Notwithstanding an initial focus on urban areas, the recent experience of the bank in agricultural and rural lending (outstanding agricultural loan amount of US$1.2 million and outstanding rural loan amount of US$1.5 million) make it well suited to operations in smaller cities and rural areas and for lending to SMEs, in particular on the lower size end.

30. Moreover, the Miro Bank has become profitable in the last two months and would qualify thus for the new EU/EBRD Facility. It is scheduled to take the name of Procredit next November (like similar banks in other East European countries).

31. The FAO team could not assess the interest of the bank in the Facility, as both the CEO and the second-in-charge were in Germany. However, based on the discussions with the agricultural credit coordinator in Bucharest, FAO suggests to EBRD to consider a possible future participation of Procredit in the Facility, in view of its valuable experience and skills in micro finance and small rural and agricultural business finance.

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ANNEX 2

AGRO-PROCESSING

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AGRO-PROCESSING

1. Existing agro-processing SMEs in rural areas tend to be product orientated and allocate few of their resources to management and networking. Rural SMEs specialise mainly in traditional, rather than hi-tech, production. The following sector and sub-sector analysis offers the key features of each component.

The Food and Beverage Sector

2. This sector represents 26% of total gross agricultural production and 4.6% of GDP. There are 14,509 companies of which 99% are private companies. The sector employs over 240,000 people, representing 5% of the active population.

3. There has been an increase in production of main food and beverage products in 2004 compared to 2000 as follows:

- Milk and related products: 95 %
- Meat and meat products: 21 %
- Oil: 4 %
- Juices and non-alcoholic drinks: 17 %
- Sugar and sugar products: 1 %

4. The average consumption per inhabitant also registered increases in 2004 as compared to 2000 as follows:

- Milk and related products: 17 %
- Meat and meat products: 33 %
- Oil: 9%
- Juices and non-alcoholic drinks : 18%
- Sugar and sugar products: 17%

Legislative framework:

- 57 new normative acts have been elaborated and incorporated in the Romanian legislation to harmonise it with the EU legislation. They enter into application in 2004.

5. Last year, Romanians spent US$24 billion on food, beverages and cigarettes according to the Economist Intelligence Unit. That is, 57.4% of the aggregate household expenses. Estimates see the food market rising to US$30 billion by 2008, which would imply an annual growth rate of 4.6% in USD. The National Statistics Institute data indicates that the overall volume of expenses incurred by the total population of Romania (including indirect expenses made through public institutions – hospitals, schools, etc.) amounted to US$44 billion in 2003, of which US$18.5 billion (42.3%) was spent on food and beverages. While the food & beverage industry has been undergoing significant changes, the primary agricultural sector has remained in a rather rudimentary stage. With 30% of the gross value added created by the processing industry (five times more than in the metallurgical industry, for instance) the food & beverage industry is a core industry in Romania, second only to the oil processing industry, and it accounts for 8% of the

overall economy. In turn, agriculture accounts for a little more than that: 12-15% of the gross value added achieved economy-wide, depending on the weather. Nevertheless, agriculture produces this 12-15% with nearly 4 million people, while the food & beverage industry requires only 170,000 people to produce its 8% share of the gross added value.

6. Last year's trade deficit in the food & beverage sector amounted to €1 billion, that is, 2% percent of the GDP. Moreover, this figure is based on prices as they are at customs checkpoint without VAT and other additions, which means that the actual price paid by the end-used is more or less double. Significantly, processed products (with high value added) accounted for 43% of imports and for only 23% of exports. In other words, Romania exports raw materials and imports finished products in this sector. And the imbalance was even greater in previous years. The food & beverage trade deficit, including raw materials and finished products has averaged 1.4% of the GDP over the past ten years. For comparison purposes, the mineral resources deficit (oil and gas) averaged 3.6% of the GDP in the same time interval. In principle, both the food & beverage and the energy deficit need to be compensated in the aggregate payment balance either by a trade surplus in other sectors or by capital inflows (foreign investments, loans etc). While little can be done to reduce the energy 'bill,' there is plenty of room for improvement in the farming sector and the food & beverage industry: the transition from deficit to surplus is possible, but it is obviously a function of efficient organization of the overall industry, an adequate institutional framework, macro-economic stability and especially the regulations associated with the EU accession.

Grain Milling and Bakeries Subsector

Grains Specification	UM	1995	1996	1997	1998	1999	2000	2001	2002	2003
Cultivated land	Thousand ha	2480,8	1781,7	2406,8	2016,5	1674,1	1937,9	2453,2	2294,5	1454.15
Average production	Kg/ha	3090	1765	2972	2570	2780	2290	3038	1923	1719
Total production	Thousands	7666.5	3143.8	7152.5	5176.6	4659.1	4430.6	7725.4	4 412.6	2436

7. According to data provided by the Ministry of Agriculture only 32 private commercial farmers cultivate cereals on farm areas above 5,000 ha, as follows: Arad 1; Braila 3; Calarasi 10; Dolj 2; Galati 2; Giurgiu 1; Ialomita 4; Olt 2; Teleorman 2; Timis 1; Tulcea 2; Vaslui 1 and Vrancea 1. The total area cultivated by these farms is 294,697 ha.

Corn and Sorghum Specification	UM	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Area	thousand ha	3109.2	3277	3037.7	3128.9	3013.4	3049.4	2947	2894.5	3143.1
Average	Kg/ha	3184	2926	4171	2756	3627	1603	3066	2902	2808
Total production	thousand tons	9923.1	9607.9	12687	8623.4	10935	4897.6	9119.2	8399.8	8826.1

8. Consolidation of the milling and baking sector is in full swing through the development of groups of companies that have recently become active in the field. Competition is on the increase, which makes big operators on the market seek new means of development, either by diversification or by entering new market segments or expanding sales. The number of enterprises that produce milling, bakery, and flower products has increased every year. At present, there are almost 6,500 enterprises, of which over 4,900 are small companies with private capital.

9. In the entire milling and baking industry, investment in new technology has amounted to about US$100 million. At present, the modernised capacity within the milling sector is 4,500 tons/day, in the pasta industry 160 tons/day and in the biscuits industry 180 tons/day. New technology consists mainly of equipment for peeling and milling cereals, automated lines for pastas and biscuits, production lines and equipment for marking and packing the finished products.

10. There is a strong need for significant improvement in the cereal-based processing industry, in order to harmonise the regulations regarding quality requirements and food safety along the entire product chain. This will include the adoption of all EU standards and quality requirements from the stage of agricultural production, collection, transport, processing, packaging and marketing of agro-food products.

11. The *main features* of the milling and bakery industry in Romania are:

- Due to low labour costs, the unit price of bread is about 16 percent lower than in the EU, as Romanian factories are producing bread in higher quantities, having economies of scale advantage.

- Millers and bakers are buying wheat directly from agricultural producers, but only for 2-3 months after harvest. After this period, wheat is bought from wholesalers, associations or producers who keep only small quantities of wheat.

- It is important in order to keep the production constant throughout the year to have raw materials regularly supplied. In this case, the main constraint is the fact that Romanian commodity exchanges for goods are institutions that exist, but do not operate well: some of the big processors prefer to import wheat and corn, as the expenses implied by buying raw materials from domestic sources are too high or the quality of Romanian raw material does not meet their demands.

- Unfair competition on the bread market, due to those operators who sell bread without paying related taxes and fees, which gives very narrow production margins to processors who do pay their taxes and fees.

Fruit and Vegetable Subsector

12. Following the political changes in Romania, the main impact has been the fragmentation of farm production and the increase of the agricultural population, with production levels falling back to that of subsistence for the majority of growers. As a consequence, direct marketing plays a predominant role and the marketing channel at wholesale level is not well established.

Fruit Orchards

Fruit	UM	1995	1996	1997	1998	1999	2000	2001	2002	2003
Area	**Thousand ha**	**225,9**	**218,2**	**214,0**	**211,8**	**208,9**	**195,0**	**195,9**	**188,9**	**200,0**
Average	**Kg/ha**	**4.001**	**7.420**	**6.554**	**4.894**	**4.400**	**3.872**	**3910**	**2732**	**6500**
Total production	**Thousand tons**	**903,7**	**1.619,3**	**1.402,6**	**1.022,4**	**922,3**	**755,0**	**765,9**	**516,3**	**1300**

13. The effective demand in the domestic market is limited to the urban population and there is a high level of seasonal imports due to limited proper storage facilities for local products. Since there is a lack of capital for renewal and adequate maintenance, of the total area of orchards, only about 5% (estimated) are properly maintained. There are cases where progressive farmers are establishing new orchards, but even here the intensity of trees per hectare, as well as the quality and quantity, has been below EU standards. The number of pesticide companies has increased, but not all producers can afford to buy chemicals, because of high prices and lack of information. Also, growers obtain insufficient information about production methods and techniques: there are too few specialists in the agricultural extension service.

14. A further constraint is that taxes are different for commercial individuals and producers: producers do not pay VAT, although prices of inputs bought include VAT (a cost which cannot be deducted). Steps therefore need to be taken to reduce the VAT on agricultural products.

15. Given the fragmented structure of production, direct marketing demand (street markets) plays a predominant role in selling local products. In the urban centres, wholesale activities, which developed followed the political changes, have in the beginning served to import products and they now need to be developed for local products as well. In order to cut the costs of marketing, distribution and transport, to reduce physical losses and to maintain product freshness and quality, the effective operation of well-organised marketing channels should be facilitated. This includes the establishment of producer organisations (in line with the EU regulation 2200/1996) for the assembly of produce in a cost effective way as well as the organisation of appropriate wholesale facilities for the effective execution of the function of bulk marketing and distribution.

16. In general the products of local producers are also not appropriately packaged or protected: the reasons are undoubtedly to minimise costs and can be partly explained by the lack of awareness concerning quality and hygiene.

Fruit Processing

17. At the beginning of the transition period, 100 companies were active as industrial manufacturers in the field of fruit and vegetable processing: 40 enterprises with a capacity ranging from 2,000 to 30,000 tons of finished goods per year could be classified as large processors, while 60 smaller units had a rated capacity of below 2,000 tons per year.

18. The most serious problem in this sector results from the collapse of traditional export markets (Russia, Arabia, etc) as well as the loss of supply sources after the dismantling of collective farms.

19. Many processors cover the supply of raw materials through their own horticultural production, while only relatively few smallholders provide sizable quantities of supply.

20. All companies have the same pattern of production and produce a broad variety of canned fruit and vegetables, thus missing the cost-reducing effects of economies of scale through specialisation, as well as the advantages of a favourable location (e.g. climate, soil, specific raw material quality). In spite of the fierce competition, no attempt has been made to specialise in processing canned fruit or canned vegetables exclusively. The experience from other countries in Eastern Europe clearly shows that specialised factories (e.g. manufactures of apple juice or tomato concentrates) have a better financial performance.

21. The processors are far less able to pay high prices for their crop purchases than operators in the fresh market, because of the larger volume of raw materials required per kilogram of processed output and because of additional costs of production. The difficulty in having to compete with the fresh market is that the processors are forced to pay more for their fresh product purchases than the value of their final products justify (so as to still make a profit). Therefore, all the fruit and vegetable processors suffer from the inability to buy raw material supplies at prices that accord with affordable consumer prices for their end products. An opportunity for many processors will be to improve their product quality in order to substitute imported products (processors are confronted with fierce competition from high-quality imported products) and to penetrate identified export markets with special products.

Vegetables

Vegetables	**UM**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Area	**thousands ha**	**217.3**	**204.9**	**221.6**	**231.7**	**234**	**228**	**235.3**	**242.2**
Average	**Kg/ha**	**12182**	**11488**	**12426**	**12930**	**10944**	**12207**	**11660**	
Total production	**Thousands tons**	**2647**	**2353.9**	**2753.7**	**2995.9**	**2691.8**	**2784.3**	**2743.7**	**3000.0**

22. The major types of vegetables grown in Romania are: tomatoes, onions, cabbages, cucumbers, peppers, tomato peppers, eggplants, watermelons, melons and potatoes (potatoes are included in technical plants, but summer potatoes are included in vegetables). From a climatic point of view Romania is known for the quantity and quality of the production of vegetables and, in former times, in some counties the growing of vegetables constituted a main source of income (e.g. Timis, Dolj, Galati, Braila, Calarasi, Ilfov).

23. A major impact has been the fragmentation of farm production, with production falling back to self- subsistence level for the majority of farmers. In former times the size of a state vegetable farm was between 50 hectares and 3,000 hectares, while currently an average of 5 hectares is classified as a big vegetable grower. There are some exceptions, whereby former state

companies have been taken over by one or more private entrepreneurs. Other exceptions are the cases of horticulture engineers who rent land plots from other private owners or from the state.

Greenhouse Production

24. In 2003 the total area under greenhouses was 1,378 ha. 6 stock companies own about 418 ha with heated greenhouses (the 6 companies are: SC Leoser SA; SC Berser SA; SC Codlea SA; SC Orser SA; SC Agroser SA and SC Leader International SA). There are two crop production cycles and 65% of the costs represent thermo energetic costs. Main cultivated vegetables are: tomato, cucumber, cabbage, pepper and others.

		1991	**2000**	**2001**	**2002**	**Estimates 2003**
Vegetables-Green houses*	Thousand ton	203.5	48.4	49.4	56.9	68.0
Imports, total		58	83	115	87.5	
Exports, total		22	13	25	19.9	

25. In 2003 the Government provided total subsidies (Government Decision 187 of 2003) of Lei 150 billion for a production of 50 thousand tons (heated greenhouse production). By Government decision 1584/2004, the subventions in 2004 increased to Lei 240 billion for a production of 80 thousand tons.

26. SAPARD programmes are currently offering over €27 million for modernising and construction of new greenhouses in Romania (both for vegetables, flowers and others) and it is expected that over 300 ha of greenhouses will be financed in the next 2 years.

Wine Subsector

27. The Romanian wine industry has great growth potential and could become a major agro-food industry in the country. However, current competitiveness is low and the industry faces serious problems due to numerous weaknesses along the whole chain from vineyards and wineries to distribution and trade. Retail sales of wine have decreased in Romania, both in volume and value terms. This reflects the consumer switch to cheaper, lower quality table wine, largely attributed to reduced purchasing power, high excise levels and low wine grape production. In addition, the fast growth of beer consumption and reduced beer excises are responsible for a large reduction in domestic wine sales. The importance of homemade wine increased during the transition period due to the large number of subsistence farm households, land fragmentation, decline in real incomes as well as the slow implementation of economic reforms. Self-consumption accounts for a large proportion of the total wine consumption.

28. The Romanian vineyards present a great diversity of wine grape varieties and offer the wine industry the chance to produce a large range of quality wines. Romania has up to 402 different types of wine, of which 11 types are for normal consumption, 42 types are the so-called Superior Wines (VS), 118 wine types are controlled denominations of origin (DOC), and 231 wine types are controlled denominations of origin and grades of quality (DOCC).

Regulatory Context

29. Wine is included, unjustifiably, among alcoholic beverages. The value added tax of 19%, and the high excises (see below) have led to a decline in the consumption of wine in favour of other alcoholic drinks, especially beer and vodka, which have benefited from aggressive and expensive marketing campaigns.

30. The levels of wine excises are:

Vermouth & fortified wine	€2.50 /hl/1 alcoholic degree
Sparkling wine (Champagne type)	€3.0 /hl/1 alcoholic degree
Sparkling wine	€1.0 /hl/1 alcoholic degree
Table wine	€0.60 /hl/1 alcoholic degree

31. The common European market organisation of the wine industry that is envisaged for the near future will have a further impact on the wine market in Romania, as is now happening everywhere on the European market. It is necessary to note, however, that the adopted stabilisation measures, which were meant to reduce the expanding surpluses through the abandonment of wine-growing areas, compulsory and voluntary distillation, and a reduction in the support price of surplus wine, have not proved to be effective. The new measures should be made in line with the WTO regulations and be centred more on adapting the supply to the demand, as opposed to solely financing the reduction of wine production surpluses.

The International Market

32. The international market has similar characteristics to the European one: declining demand and expanding surpluses with a shift towards lower consumption, but of higher quality wines. Though a positive growth trend in markets such as the Far East is evidenced, this cannot counterbalance the decline of traditional markets. The most important elements here are the emerging non-EU wine producers such as Argentina, the United States and South Africa and the East European countries, such as Romania, Hungary and Bulgaria, which have established themselves as important exporters of wine of good quality and price. Some fear that that this trend, supported by the forthcoming measures of the WTO, could have a negative impact on the European wine industry, as a whole, in the near future. However, considering the impending EU enlargement and the inclusion of the above-mentioned East-European countries in the global EU market, the outcome could be just the reverse.

Prospects for the Romanian Market

33. The wine market trend in Romania depends on the following main factors:

- The renovation of vineyards which would lead to improvement of grape varieties and yield increases with a reduction of production costs;

- The establishment of stricter control measures on the production and distribution process, especially with regard to non-standardized bulk products and reduced retail prices;

- Company strategies geared to the improvement of quality, a better organized production process, reduction of production costs, and reorganization of distribution and marketing promotion, both in the domestic and international markets.

34. The domestic market consumption is expected to increase, especially if:

- The current advocacy actions of the WEPA (Wine Exporters and Producers Association of Romania) for the reduction of wine excises is be successful;

- Market controls are enhanced and counterfeit wines are eliminated;

- Marketing systems are improved and better coordinated vertically;

- Sales outlets are multiplied and distribution channels are better structured.

Major Constraints

35. The major identified constraints can be grouped as follows.

At grower's level:

(a) Degradation of existing vineyards (i.e. continuous reduction of the vineyard area; unsatisfactory variety composition of existing vineyards with limited areas planted with high-quality and high-sales potential vines; growth of areas planted with direct producing hybrids; limited new planting area, much below the level needed to maintain the existing vineyard area).

(b) Weak financial position (lack of financial means for the proper maintenance of existing vineyards, required renovation of vineyards, or use of modern agricultural inputs).

At wineries level

Inadequate production facilities characterised by obsolete equipment, use of traditional production techniques and, generally, a low technological level of processing (including storage) with low investments for up-grading existing wineries or establishing new ones.

At policy and business environment level

(a) Lack of an appropriate agricultural credit system, sufficient guarantee funds for rural credit and affordable insurance coverage against unfavourable weather conditions.

(b) Lack of appropriate government financial support to growers, wineries and exporters (with no direct payments to producers; no price support for acquiring the required inputs; no tax breaks for farmers; only limited price subsidies for new planting materials).

36. A series of other constraints have been identified, such as: an unstructured domestic wine marketing system; poor wine quality; poor quality of bottles and poor presentation of the finished product; lack of quality control at each level along the added value chain; lack of consumer education; prevalence of bulk exports instead of bottled wines.

37. In conclusion, greater emphasis should be given by all stakeholders (authorities, growers, distributors, wine producers and exporters) on local market development and on the promotion of exports. Considering that the opportunities to reduce production costs are rather limited (due to the overall situation of the vineyards and wine processing facilities and the need for imported technologies and costs of packaging materials), it is important to exploit fully the international market potential by the concerted efforts of both the corporate sector and governmental authorities. A decisive and positive contribution can be made by the public sector through the implementation of a more effective and integrated policy for the whole wine industry.

Vineyards

38. In terms of total vineyard area and grape and wine production, Romania belongs to the top 10 wine producing countries of the world. Compared with other European countries, Romania holds the following positions:

– 5th position in total vineyard area, i.e. a coverage of 5.8% of the total vine surface in Europe after Spain, France, Italy and Portugal.

– 6th position in grape production, 3.6% of the total grape production in Europe after Italy, France, Spain, Germany and Greece.

– 6th position in wine production, 2.9% of the total European wine production after Italy, France Spain, Germany and Portugal.

39. After 1990, the combination of privatisation and land restitution has led to major changes in the ownership structure of vineyards:

– 2% of the total vineyard area belongs to vine & wine Research Stations and is fully state-owned;

– 77% of the total vineyard area of 180,786 ha belongs to individual farmers (of which 55% through privatization). Average vineyards do not exceed 1 ha in surface area and there is an acute lack of capacity to ensure high-quality grape and wine production. The situation is worsened by the lack of required investment funds and ready access to appropriate credit schemes for financing the uprooting of unsuitable hybrids, vineyard re-conversion and renovation, use of proper grafted vine varieties and other necessary inputs.

– 21% of the total vineyard area, i.e. 46,605 ha, belongs to former state farms, which have the best vines and are subject to privatization.

40. For 2004-2005, the Ministry of Agriculture foresees a slight increase in the vineyard area, which will reach 247,500 ha, of which 129,000 ha are planted with hybrids. It is worth mentioning that, although Romania possesses of a great diversity of high quality vines, the areas planted with hybrids still represent over 50%, a situation which will create difficulties in the forthcoming negotiations with the European Commissioner on Agriculture.

Major Wine Regions

41. Romanian vineyards are spread throughout the country, particularly in the hilly areas, where they benefit most from the favourable climatic conditions, but also in the South, along the Danube River. There are seven major wine regions in the country, namely, Moldova (34% of the total vine area), Muntenia (28%), Oltenia (17%), Dobrogea (10%), Crisana and Maramures (4.6%), and Transylvania (4.5%).

Main Grape Varieties

42. During the last few decades (and especially in the 80's), Romanian vineyards were planted with so-called *mass-production grapes*, as the main orientation was towards quantity instead of quality. The most valuable types of grapes with export demand (e.g. Pinot Noir and Cabernet Sauvignon for red wines, and Chardonnay and Sauvignon Blanc for white wines) were cultivated in smaller areas. Extensive cultures, such as Feteasca Regala and Italian Riesling, however, are cultivated on larger surfaces.

43. The variety composition of Romanian vineyards presents a great diversity and offers the wine industry the chance to produce a wide range of quality wines. Unfortunately, apart from the exported wines, the wines produced and sold on the domestic market are of a mediocre quality, primarily because of the hybrids and the use of obsolete equipment and processing technology in wineries. In addition, local consumers lack the necessary knowledge for appreciating and demanding high-quality wines.

Vine Yields and Farm Inputs

44. The grape yields are generally mediocre, varying between 2 and 11 tons/ha in the case of wine grapes, and between 7 and 18 tones/ha in the case of table grapes. In contrast to the small farms, both the upstream supply of inputs (e.g. fertilizers, chemicals, seeds, machinery) and the downstream processing facilities are based on large scale production methods that were favoured during the Communist era. Although working far below their installed production capacity and most often not profitable, these operators have a virtual monopoly on wine production, thus excluding the small farmers. Land consolidation has been considerably hindered by unclear ownership rights, legal restrictions on buying and selling land, the expenses of land transactions, and, perhaps most of all, the difficulty that small farmers face in obtaining credit. The major constraint on access to credit for small farmers is the refusal of banks to accept farmland as collateral for loans. Indeed, the lack of farm credit facilities and the modest interest from foreign investors has hindered the modernisation of the wine industry and the capitalisation

of vineyard production (as observed in the infrequent use of adequate planting material, fertilisers, chemicals, irrigation and machinery, and in the more intensified use of labour and animal power).

45. Restoring the capacity of existing grafting vine nurseries (200 ha) and creating new ones (700 ha), together with the modernisation of existing grafting capacities (50 million buds) and the production of new ones (30 million buds), represent a high priority in the vine and wine sector for the period 2002-2010, implying the need for significant financial support estimated at Lei 188.8 billion. Most small farmers hire tractor services to work their land and the current ratio of tractors to cultivated land is about 1 tractor for 56 hectares, with a total tractor fleet of about 167,000. Most farms, especially small and medium farms, lack the financing power to purchase new agricultural machinery, despite several government measures taken after 1999 (e.g. OG 36/1999, regarding state support provided to agricultural producers for purchasing tractors, combines, agricultural equipment and machines, as well as irrigation equipment).

Major Constraints

46. The major constraints identified so far at growers' level can be grouped as follows:

Degradation of existing vineyards	• Continuous reduction of area planted with vineyards. • Unsatisfactory variety structure of existing plantations, consisting of large areas planted with high-yield, but inferior quality varieties, and limited surfaces planted with high-quality and high-sales potential varieties, such as Cabernet Sauvignon, Pinot Noir, Chardonnay, Sauvignon Blanc. • Increase of areas planted with HPD (Direct Producing Hybrids). • Slow pace of vineyard renovation, less than 500 ha/year, i.e. about 0.2 % of the total area, significantly less than the 3.5 % per year necessary for maintaining the existing vineyard area.
Financial Constraints	• Lack of financial means of growers for insurance coverage against unfavourable weather conditions or disease due to improper maintenance of the plantations (insufficient spraying, lack of irrigation). • High cost of maintaining and properly operating vineyards (€1,000 – 1,200/ha). • High cost of establishing new plantations (€10,000/ha) • Lack of appropriate government financial support to growers (no direct payments to producers, no price support, no tax breaks). • High cost of inputs for farmers. • Lack of an appropriate farm credit system or sufficient rural credit guarantee funds. • Limited subsidies for supporting the purchase of plant materials from nurseries for new plantations.

Wine Production

47. Romanian wines, like other East European vintages, are widely perceived as cheap and cheerful, suitable for unsophisticated occasions. This reputation has made the selling of high-quality wines at reasonable prices abroad difficult. As one of the world's largest wine producers, Romania has long been present in foreign markets with significant exports to Europe and the US. Wine production in 2003 amounted to 5 million hectolitres, of which a significant proportion was

sold abroad. Exporters have made their profits, however, on volume and narrow margins. Low labour costs in vineyard cultivation have allowed winemakers to export over 1m bottles of wine to Britain this year (at wholesale prices of less than €2 per bottle). On the domestic market, last year, Romanians purchased €40m worth of wine, most of which was produced at home. Imported wines are characterised by high prices, lack of variety and poor value for money. However, per capita annual wine consumption has been losing its share to other alcoholic beverages, down from 27 to 23 litres.

Supply and Demand on the Wine Market, 2001-2004

	UM	Achieved in 2000	Market Years			
			2001	2002	2003	2004
1. Supply – total	'000 hl	**3,317**	**3,310**	**3,340**	**3,670**	**3,850**
Vineyards planted with noble vines	'000 ha	111	111.0	111.5	111.8	111.9
Average yield of noble wine grapes	Kg/ha	5,850	5,860	5,870	5,900	5,940
Total production of wine grapes	'000 to.	649	650	655	660	665
Total production of noble wines	'000 hl	3,247	3,250	3,280	3,610	3,790
Wine imports	'000 hl	70	60	60	60	60
2. Demand – total	'000 hl	**3,247**	**3,250**	**3,280**	**3,610**	**3,790**
Human consumption and processing	'000 hl	2,024	2,050	2,100	2,200	2,300
Wine exports	'000 hl	253	600	650	680	690
3. Final stock	'000 hl	**970**	**600**	**530**	**730**	**800**

Domestic Wine Consumption and Export Availabilities, 2001-2004

Description	UM	1996-2000	Programme			
			2001	2002	2003	2004
Table grapes consumption	'000 tons	116.4	118.0	120.0	122.0	125.0
Table grapes exports	'000 tons	0.14	3.0	3.0	5.0	10.0
Wine consumption	'000 hl	5,710	6,000	6,380	6,500	6,600
Wine Exports	'000 hl	509	600	650	680	690
	Million USD	41.6	49.1	55.3	59.8	62.1

Wine Production Structure (%)

Structure	2000	2001-2004
Red wines	30	79-84
White wines	70	16-21

48. Wine quantities in stock represented 30% of total wine production in 2000 and between 16-21% in the period 2001-2004.

49. The following are the major constraints at the winery level:

Inadequate Production Facilities	• Low technological level of existing wineries and obsolete equipment, mostly organised for mass production with large processing and bottling units – so-called "combinats" – unsuitable for high quality wines. • Low volume of investment in the wine industry for up-grading existing facilities or developing green field projects destined for the high end of the market.

50. Although wine is rarely advertised, some advertising is undertaken for sparkling wines and vermouths, but publicity expenditure is low compared to beer and spirits. By far, white wine dominates the domestic market, both in volume and value terms, followed by red wine and, to a much lesser extent, by rosé wines. Table wines dominated the market over the review period and they are expected to remain dominant for the near future. As many Romanians cannot distinguish between original wines and fakes, products of doubtful origin are still present on the market, with original labels and corks. This may be another reason for the drop in sales through the retail channel and the increased consumption of self-produced products or those purchased directly from small producers.

51. Summarised, the key elements to be taken into account are:

Critical Success Factors	• High quality vine grapes. • New and modern equipment and technology. • Adequate processing methods and know-how. • Appropriate storage facilities.
Limitation Factors	• Grape variety and quality • Inappropriate picking methods and transportation conditions. • Inappropriate storage facilities. • Obsolete and outdated equipment.
Key Issues	• Quality of vine grapes. • Up-to-date level of equipment and technology used. • Appropriate know-how and technical skills.

Marketing and Competition

52. There is free competition in the Romanian wine industry and no single producer dominates the market. Most of the well known vineyards have their own processing facilities and they concentrate on improving their standards in order to maintain existing customers, rather than to strive for new ones. The marketing methods used for wine exports are better adapted to client needs, benefit from more attention and funds, and are carried out in a professional way by qualified personnel. In contrast, the domestic wine marketing system is less structured and lacks vision and coherence. Wine grape growers and, to a certain extent, the wineries are neither aware of the benefits of modern marketing tools nor are they adequately equipped to promote their products in a more efficient manner.

53. Although there have been improvements in wine marketing over the last few years, the wine industry still lags behind accepted standards in other industries. The general public remains to be 'educated', although there is a great reluctance to allocate the necessary funds for this purpose. As a result, consumers cannot differentiate between low and high quality wines, while low purchasing power pushes them towards the lower-end wines (table versus superior wines). As there are thousands of wine producers and wine types, the transparency of different wines is low and it is not easy for the consumer to differentiate specific individual brands from the multitude of competitors. Today, wine marketing is mainly based on the geographical origin (reputation of the wine producing area) and the type of grape variety, and it is imperative to develop brand recognition in Romania. The Government Department for Foreign Trade is promoting a programme called “AURO” – the Romanian Seal of Quality for all Romanian goods and services which distinguish themselves through excellence, and this includes wine.

54. In order to succeed, any marketing strategy which tries to influence consumer tastes and habits should focus on two main aspects:

(a) **A clear market segmentation** based on income level and consumer attitudes and consumption habits, and targeting of special market niches (the “connoisseurs”);

(b) **Better product positioning:** based on type (white, red, rose), taste (dry, sweet, medium sweet), quality (mass, superior, premium wines), age of the premium wines (fresh, matured).

55. The main elements to be taken into account at this level are the following:

Critical Success Factors	• Market segmentation (low income, medium income, high income customers; “connoisseurs”). • Product positioning (e.g. different quality: mass, superior, premium wines). • Targeting.
Limitation Factors	• Lack of brand awareness. • Pricing linked to purchasing power. • Low rate of loyalty to a particular brand.
Key Issues	• Overall decreasing wine consumption level. • Poor understanding of market needs. • Absence of marketing strategies developed by wine producers.

Role of the Wine Exporters and Producers Association

56. WEPA, the Wine Exporters and Producers Association of Romania, was set up in 2001 as a non-profit legal entity, meant to represent, defend and promote members' rights and interests, both locally and internationally. Its creation responded to the wine industry's need to take its development into its own hands, to promote a proper own identity and to offer its members a range of relevant services, such as information and direct advisory services. The need for a dynamic and articulate professional organisation stemmed from the fact that, especially during the last decade, nobody seemed able to stop the vine and wine sector's continuous decline due to the lack of an enabling legal and economic business environment, necessary vision,

strategic planning, cooperation, expertise, funds and, last but not least, an advocacy mechanism of common interests versus government and local authorities.

57. With the new Vine and Wine Law, to which WEPA contributed substantially in close collaboration with well known experts from universities and authorities (i.e. Ministry of Agriculture, Food and Forestry, the Parliament, and the negotiators with the EU), the sector is expected to benefit from long-awaited government promotional measures.

58. WEPA provides information, documentation, and consultancy services to its members and since August 2001 it has been distributing a full-colour, 4-page, monthly Newsletter, which provides useful information on the wine industry worldwide. It also supported the setting up of ONIV - the National Inter Professional Wine Organisation – whose intention it was to group all the professional associations which operate in the Romanian wine industry under the same umbrella, be they from vine growing, wine processing, distribution or trade. In August 2001, WEPA became a member of the Chamber of Commerce and Industry of Romania, and in this capacity it has already benefited from some useful services, primarily in the range of signalled business opportunities.

Recommendations

At Institutional Level

(a) Wine should be defined as an agro-food commodity and not as an alcoholic beverage and the Government should treat it as such and act accordingly;

(b) The production of vine grapes should be included by MAFF on the list of agricultural products of national importance, benefiting from the Government incentive programme for such products; the production of vine grapes and wine production should be financially sustained by the Government, where feasible;

(c) Negotiating of the Wine Dossier with the European Union, in the interest of the Romanian vine growers and wine industry:

- Preserving the existing total vineyard area of 250,000 ha;
- Obtaining a transition period of eight years from the 2007 date of EU accession for the re-conversion of an area of 122,259 ha, which is planted with hybrid vines;
- Allowing a transition period of four years for the putting in place of the vineyard register and cadastre;
- Negotiating a subsidy of €40 million from the EU for the implementation of the vineyard cadastre (more than 51,000 vine plots should be measured on site);
- Negotiating direct support from the EU for re-conversion of the hybrid vines;
- Qualification of Romanian vineyards according to the EU zoning principles;

– Encouraging through tax-breaks the cultivation of ecological and organic wines;

– Support to wine research institutes for special programmes of premium export wines;

– Networking of small farmer wine cooperatives in Romania with similar successful wine marketing organisations in the EU member countries' cooperatives for exchange of experience and development support.

At Fiscal Legislative Level

(a) Changing the current fiscal legislation that penalises viticulture, the wine industry, and the sale and exports of wines;

(b) Consider the feasibility of the government abolishing excise taxes from wine producers;

(c) Wine should not be included in the system of surveillance of products that are liable to excise tax. This should be achieved through the elimination of fiscal stamps on wine bottles, elimination of restrictions on selling of wine in bulk, elimination of the restrictions regarding the compensation payments for wine deliveries – Law 521/2002 and OMF 1111/02.09.2002;

(d) Consider the feasibility of eliminating the para-fiscal tax – a special health fund constituted by a 2 % levy on the turnover of wine producers;

(e) Elimination the restrictions regarding the limited period for cash payments of export sales (the present legislation does not allow the export of wine on credit) – OG 18/1994, BNR/MF instructions 1/1995.

At the Business Organisational Level

(a) Encouragement and support of wine growers associations by the Government by considering the feasibility of adopting legislation that exempts such associations from paying VAT on the buying of inputs and the selling of grapes and wines;

(b) Sustaining business organisations such as associations of producers, traders, and exporters;

(c) Institution and capacity building support for the National Inter-Professional Organisation for Wine and the Wine Council;

(d) Setting up of a Wine Promotion and Marketing Centre as a public/private partnership initiative;

(e) Creation of a Romanian Wine Fund, based on the contributions of wine growers and wine producers, and government support of the "Romania Fund" for setting up specific standards of production and, in general, for the promotion of Romanian wines;

(f) Encouraging the twinning of EU-Romania at the level of business organisations for a better implementation of the "acquis-communautaires" in the wine industry.

At the Marketing Promotional Level

(a) Implementation of the common brands/seals of excellence for quality wines – the AURO brand project. Establishing the standards, the criteria for qualification, a control system, a management system of the brands, the specific launching and the general promotion of brands at international level;

(b) Issuing a Vineyards Map of Romania with specification of major wine regions in Romania;

(c) Editing and publishing a Wine Atlas of Romania;

(d) Editing and publishing promotional materials for the general promotion of Romanian wines – brochures, vineyard map folders, CD-ROMs, video-cassettes, documentary films, etc.;

(e) Development by WEPA of a Romanian wine portal with links to the Internet sites of all the major wineries of Romania and with as second step the creation of a wine industry intranet;

(f) Promotion of Romanian wine tourist itineraries in conjunction with food, folk art and music events;

(g) The launching by WEPA together with the Ministry of Tourism (possibly also with the Ministry of Culture) of the project : Romania Wine Land/ Wine Routes of Romania;

(h) Supporting the Wine Brotherhood of Romania, the Sommeliers Association and the Wine Tasters Association and involving them in wine promotion at local and international level;

(i) Institutionalisation of wine promotion events such as the Wine Olympics, Regional and National Wine Queen Contests;

(j) Encouraging and supporting the creation of Romanian wine clubs at local and international level;

(k) Wine courses and encouraging TV channels to broadcast on wine related topics;

(l) Special educational and training programmes for wine consumers with particular emphasis on young and adult segments of the population.

Milk and Dairy Subsector

Milk		2001	2002	2003	2004
Total animals	Thousands heads	2,800	3,878	3,000	3,150
Average production	litre/head	3,014	3,230	3,260	3,280
Total production, of which: commercial Subsidies, % of total production	Thousands hl Thousands hl %	51,000 10,156 9.8	52,761 10,815 14.2	54,800 10,950 15.0	56,000 12,180 19.5

Agricultural Support Policy

59. In order to balance the domestic production prices with the EU prices several subsidy programmes have been adopted, such as:

	2001	2002	2003	2004
OUG nr. 29/2000	Lei 500 /l			
OUG nr. 18/2002		Lei 1,400 – 1,800 /l (summer - winter)	Lei 1,400 – 1,800 /l (summer- winter)	Lei 1,400 – 1,800 /l (summer- winter)
Law 442/2002		Lei 1,680 – 2,160 /l (summer- winter)	Lei 1,680 – 2,160 /l (summer- winter)	Lei 1,680 – 2,160 /l (summer- winter)

60. Milk production is the second most important agricultural enterprise activity after meat production. The overall market value increased from €300 million in 2002 to €305 million in 2003 (bulk prices, imports included). In terms of end-user prices, the market value amounted to €290 million in 2002. The market concentration rate has been increasing over the past few years, with the top 10 players now holding 55%.

61. The number of cows used for milk production decreased slightly during 2002, but reached 1.6 million at the end of 2003; mostly (98 percent) in private ownership. Farm households with 1-2 milk cows hold the majority of the total production (about 80 percent). Farms supplying milk to dairy processors can be classified into three groups: large farms with more than 100 cows (most of them formerly state owned farms); medium-sized farms averaging 50 heads; and small farmers with up to 10 milk cows.

62. The milk market recovered during the 2001-2003 period, following a serious slump in the mid- 1990s. Less than 40% of the milk produced in the reference period was in line with EU quality norms (some three quarters of the Romanian national milk producers are not respecting the tight sanitary requirements imposed as part of Romania's EU accession process: milk quality is a serious limiting factor for dairy processors, because of the high bacteria content caused by insufficient cold storage facilities and the use of unsuitable sanitation and milk handling practices).

63. The appreciation of the EU currency to the national currency and increased local consumer purchasing power acted in a contradictory way last year, and therefore the estimated production value for 2003 is similar to that seen in 2002, accounting for 5.2% of the GDP. The milk processing industry processes a mere 1.2 million tons per year from a total gross production of some 5 million tons (Romania produced 5.1 million tons of milk last year or 240 litres per capita). Milk production has risen by 30% in the past ten years, while processed milk dropped by 65% due to the dismantling or decline of large state owned farms and milk processing plants. The explanation for this reduction is the following:

(i) The prices offered by dairy processing plants are lower than the milk production costs.

(ii) The average selling price on the free market is higher than the prices offered by processors; furthermore, payment is made immediately in cash.

(iii) The high percentage of sales on the peasant market can be explained by the fact that small producers, lacking financial means, prefer to receive immediate payment.

64. There are regional dairy companies (most of which are former milk processing plants), countrywide companies and new start-ups. Because of their limited financial capacities, local processing companies generally compete in the regular or average quality market segments, while they avoid the demanding and specialised market niches (e.g. fruit yoghurts and desserts). This means that their rate of differentiation is low. While the dairy retail sector has developed significantly in the past few years, the farming sector has not benefited from much investment. As a result the bargaining power of retail companies dealing with producers is rising. The present atomised structure of the milk farming sector has led also naturally to low productivity: per capita milk production stands at 2,620 litres, half of that registered in the EU and lower than the average of the other EU accession countries. This is due to the lack of modern technology and the few large dairy farms. Another key difficulty stems from inadequate milk collection from producers.

65. The declined production of processed dairy products is determined by various causes, both objective and subjective, along the production-processing chain, such as:

- Lack of legal documents (setting out quality standards) in line with those existing in the European Union. These should include all the parameters of raw milk as well as protect brand names used in the marketing of milk and dairy products.

- Low quality of raw milk and consequently low processing productivity.

- Lack of financial support for the appropriate storage of perishable dairy products.

– High VAT (19%) – not at the same level as in certain Western European countries. Lower VAT will result in the reduction of milk sold directly to the population on the free (black) market under inadequate hygiene and sanitation conditions. More raw milk entering the commercial processing and sale circuit will also more than compensate the state for the lowering of the VAT percentage.

Livestock and Meat Processing Subsector

66. In Romania, more than 95% of meat consumption is represented by pork (60%), poultry (25-28%), beef (8-10%), and mutton (3-4%).

67. The average consumption of beef per inhabitant of 7-9 kg is far below the European average (about 25-30kg), even considering that the veterinary and sanitary conditions of the last few years have generated a dramatic drop in beef consumption in Europe. Traditionally, beef in Romania was never much in demand and cattle is mainly raised for milk production. Only those animals that are no longer efficient, as far as the production of milk is concerned, are finished of in slaughterhouses.

68. Supply of raw meat to the meat processing industry is a core problem, as domestic meat is often more expensive than imported meat. The market value (evaluated in bulk prices) amounted to €625 million in 2002 and decreased to €580 million last year. If evaluated in end-user prices, the market value amounted to €820 million in 2002. The market concentration rate is approximately 31%, held by the top ten meat companies – smaller than the 55% rate in the dairy industry and approximately the same as the rate in the baking industry (among of the lowest in the economy).

69. As part of the required classification of all food processing plants for the EU accession, slaughterhouses and meat processing factories will have to adopt restructuring strategies as of 2005 until the end of 2006 in compliance with the new regulations and norms. Due to a shortage of necessary investment funds, but also due to poor management and the absence of good industry practices, today only 10 slaughterhouses and 10 meat processing plants fulfil the conditions imposed by the EU norms and are authorised to export their goods to EU member countries (based on non-compliance, 93.7% of the slaughterhouses and 88% of the meat processing units are in fact threatened with closure). Today, most of the investment funds designated for restructuring of facilities is obtained from the SAPARD grant financing. The current situation is:

– Hygiene is the main issue confronting slaughterhouses and meat processing plants.

– 380 small red meat slaughterhouses (beef/horse/game meat) do not have any restructuring programmes (67.8%).

– 364 small red meat processing plants are without restructuring programmes (63.8%).

– 10 small slaughterhouses (chicken processing units) do not have any restructuring programmes (24.5%).

Cattle and Beef market

		2001	2002	2003
Total number of animals	Thousands	2,800	2,878	3,000
Total production of meat	Thousands tons	295	318.6	366
Average weight	kg/head	208	258	330
Minimum weight accepted for subvention	kg/head	-	380	400
Total subventioned quantity	Thousands tons	-	45.6	25.0

70. Support programmes are directed towards encouraging cooperatives and farm associations to increase production for sale and to improve breeding and meat quality. Special subsidy programmes of the Romanian Government are the following:

	2001	2002	2003	2004
HG nr 54/2002		Lei 4,000 /Kg (Lei 182.4 billion)		
HG nr 1556/2002			Lei 4,000 /Kg (Lei 100 billion)	
HG nr 416/2003			Lei 6,000 /head (Lei 804,000)	Lei 4,000 /kg (Lei 60 billion)

71. During the period that followed the political changes of December 1989, the keeping of cattle faced a number of problems that have together determined the following decline:

(a) Co-operative farms were dissolved and the cattle and other livestock were divided among the members.

(b) State farms without the periodic financial support that they used to get in order to cover their losses, faced severe cash problems that led their management to slaughter animals or to sell them to cattle raising farm households.

(c) Cattle owners agreed to sell young cattle at any weight and age, attracted by the cash payments of intermediaries. The need for money convinced many people to give priority to the selling and to pay less attention to the renewal of their livestock.

(d) The system of artificial insemination became disorganised, which has had a negative impact on the productivity of both milk and meat production.

(e) Lack of organisation on the part of cattle raisers (associations or co-operatives) kept them away from modern knowledge about specialised animal breeds for meat production, feeding conditions, shelter, market information, etc.

(f) The absence of a system for cattle identification, similar to the one applied in the EU, has led to disorganised trading and the loss of tax income due to the failure to register the considerable quantities of meat sold, and even live animals.

(g) A lack of financial resources for investments in machinery and equipment needed for the preparation of fodder for the winter period.

(h) Restrictions on the required export weight of young bulls prevented farmers from selling their animals at will. However, since these administrative rules were difficult to control, it generated only corruption with the authorities unable to stop the export of young animals.

Pork Market

		2001	**2002**	**2003**	**2004**
Total number pigs	Thousands	4,447	5,058	5,600	6,000
Total meat production	Thousand tons	613	634.9	640	650
Average weight	kg/head	117	119	109	110
Minimum weight for subventions	kg/head	-	90 – 110	90 – 110	90 - 110
Total subventioned meat production	thousand tons	-	160	109	110

72. Special subsidy programmes of the Government in order to balance the production costs of pork are the following:

	2001	**2002**	**2003**	**2004**
HG nr. 585/2001 (genetic source)	Lei 28.2 billion			
HG nr. 756/2002 (genetic source)		Lei 0.24 billion		
HG nr 54/2002		Lei 4,000 /Kg (Lei 640 billion for 160 thousands tons)		
HG nr 1556/2002			Lei 4,000 /Kg Lei 7,000 /kg (Lei 624 billion for 109 thousands tons)	Lei 7,000 /kg (Lei 770 billion for 110 thousands tons)
HG nr 416/2003			Lei 400,000 /head (Lei 46 million)	

73. Pork ranks first in total meat consumption and accounts for 60% of market demand. Traditionally, it is by far the most preferred type of meat among Romanian consumers. Recently, however, mainly due to low purchasing power, the consumption of pork has gone down, although its share in the total meat consumption levels has remained the same. The campaign against the consumption of pork due to sanitary problems, however, has not affected Romanian consumers. Official production statistics do not include the home consumption of pigs (which is common in most rural areas and even small towns during Christmas), or the slaughtering of household animals and the selling of meat outside organised markets.

74. Heavy investments are needed for the restructuring of production facilities and equipment in order to comply with the EU regulations regarding high production quality standards and sanitary norms for safe consumption. Of course, investments should be made only in those enterprises which have a good chance of achieving European standards. In fact, some 9-10 large slaughterhouses and probably 40-50 smaller ones could efficiently cover the domestic demand for pork, both from a quantitative and geographic distribution point of view.

75. Major constraints are:

(a) Most pigs are kept in constructions that have long since exceeded their useful life, which results in low productivity and animal losses due to poor sanitary and veterinary conditions.

(b) The animal feed supply in Romania is of uncertain quality due to the lack of an adequate control system and corresponding legislation.

(c) The quality of the genetic animal material produced in the country is rather poor, as it is mainly meant for small farms.

(d) There are few commercial, medium-sized pig farms (with 100-1,000 heads) which specialise either in rearing or fattening activities and the majority of small farms are characterised by high sanitary, veterinary and environmental risks and a low economic performance.

(e) High price fluctuation of pigs occurs during the different periods of the year, due to a lack of correspondence between supply and demand on the market. Furthermore, the poor quality of the domestic supply directs the demand of pork processing plants towards imports.

(f) The lack of a system of carcass classification does not stimulate quality nor eliminate from the market products that do not meet required standards.

(g) The low utilisation rate of the installed production capacity of larger slaughterhouses results in a low disposal of financial resources which are needed for the required upgrading and adaptation to the EU regulations and norms.

(h) The lack of adequate market mechanisms and price information puts pig farmers in a poor negotiation position as compared to traders and processing plants, and results in low farm gate prices.

Poultry Market

		2001	2002	2003	2004
Total number of poultry	Thousands	71,413	77,379	80,000	82,000
Total meat production	Thousands tons	363	431.6	455	465
Average weight	kg/head	1.7	1.8	1.9	2.0
Total subsidized meat production	Thousands tons		100	140	150

76. Special subsidy programmes of the Romanian Government are the following:

	2001	2002	2003	2004
HG nr. 585/2001	Lei 31,896 billion			
HG nr. 756/2002		Lei 38,404 million		
HG nr 54/2002		Lei 3,000 /Kg (Lei 300 billion for 100,000 tons of meat broiler)		
HG nr 1556/2002			Lei 3,000 /Kg Lei 4,000 /kg (Lei 524 billion for 140,000 tons of meat broiler)	Lei 5,000 /kg (Lei 750 billion for 150,000 tons of meat broiler)
HG nr 416/2003				

77. Poultry consumption ranks second in the total meat consumption of Romania and with 12-13 kg consumed annually per inhabitant, it represents 25% of total meat consumption. Most of the consumption is of chicken (around 75%), with the remainder from hen and turkey meat. Around 2/3 of the total chicken production is obtained from small farm households which use 80% for self-consumption and sell the remaining 20% on the market. Most chicken shelters are old and create serious sanitary and veterinary risks, while the technology used does not correspond with the ecological trend promoted by the EU.

ROMANIA

BANK LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES IN RURAL AREAS; AN ANALYSIS OF SUPPLY AND DEMAND

ANNEX 3

NON-FARM RURAL ECONOMIC ACTIVITIES

ANNEX 3

NON-FARM RURAL ECONOMIC ACTIVITIES

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ANNEX 3

NON-FARM RURAL ECONOMIC ACTIVITIES

1. In order to assess the potential demand for technical assistance and credit by non-farm rural enterprises, in 2003 the Competitiveness Component of USAID and the Enterprise Development and Strengthening Program of CHF carried out studies of four selected economic sectors, each made up largely of rural economic activities: glass and ceramics, wood and furniture, textiles and apparel, and tourism. The assessment studies address various aspects such as location, enterprise structure, sales and export potential, competitive advantages, investments and financing, and services from business support organisations.

Glass and Ceramics

Location

2. Major clusters of enterprises have been developed in locations that have deposits of raw materials: sand and alkaline, and, in former times, also near forests where wood was obtained to be used to heat the furnaces for glass melting. These areas can be found in or near: Tirgu Jiu, Buzau-Scaieni, Dorohoi, and a number of locations in Transylvania, including Tarnaveni, Turda, Sibiu, and Medias. The largest producers of container glass are located in Bucharest and Sighisoara.

3. For ceramics, the major industrial activities of sanitary and tabletop ceramic and porcelain production are located in Transylvania, specifically in Cluj Napoca, Alba Ilulia, Sighisoara and further north in Baia Mare. An additional centre for porcelain production is located in Curtea de Arges. The bulk of traditional Romania ceramics are produced in four centres: Suceava, Horezu, Corunt, and Bahia Mare.

Enterprise Structure

4. According to industry experts of the Ministry of Commerce and Trade, in the combined activities of glass and fine ceramics there are 44 large enterprises, 55 small and medium-sized enterprises and 221 micro-enterprises. A typical firm of micro, small and medium size may have the following features:

5. Micro-enterprise: up to 10 employees engaged in the production of decorative traditional ceramics. This assessment does not consider these firms, since the study focuses on SMEs and, based on experience in the 1990s of support programmes for artisans, it was concluded that traditional potters are not in a strong position to grow through exports.

6. Small enterprise: up to 50 employees and owned by a former worker of a state-owned company. The plant is typically located adjacent to the owner's home and the firm may have up to 10 years of incremental growth, usually self-financed. Equipment is bought second-hand. Export contacts are made through the Chamber of Commerce and attendance at trade fairs is a common goal, since entrepreneurs believe that attendance will give them access to new markets. Managing their cash flows and energy costs are the top priorities for these firms.

7. Medium-sized enterprise: between 50 and 250 workers and owned by a former manager of a state-owned company. At the smaller end of the scale, the plant may still be located on the owner's land and additional land is available for expansion, but capital is needed for

building and equipment. The firm has successfully expanded its production capacity to meet demand; owners and managers regularly attend trade fairs; and the main concerns are the issues of pricing, cost containment, and foreign competition.

Sales Estimates

8. In Romania, the glass sector reaches annual sales of over US$190 million, while the ceramics sector is about half that size with US$116 million. In both segments, close to half of the sales come from tableware products. Tableware products of glass and ceramics are largely exported, while products that are used for industrial or construction purposes are sold on the domestic market or are sold to multi-national manufacturers who may then export the finished goods.

Glass Sector [1]
Sales in USD 000s

Glass	1999	2000	2001	2002	Export Assumptions
Tabletop	75,934.8	73,329.5	68,790.6	78,041.8	80%
Flat	20,328.8	29,109.8	37,704.0	48,371.4	50
Container	17,983.0	27,694.0	41,053.0	35,765.0	10
Technical	Na	14,400.0	17,200.0	17,200.0	25
Other – Fibre Glass	9,386.7	9,794.9	10,963.6	11,887.8	100
Total Sales	123,633.3	154,328.2	175,711.2	191,266.0	

Source: Romanian Foreign Trade Centre and team analysis.

Ceramics Sector
Sales in USD 000s

Ceramics	1999	2000	2001	2002	Export Assumptions
Tabletop - Porcelain and Ceramic	53,071.8	55,010.5	55,960.3	57,472.7	80%
Industrial	3,686.3	3,813.1	4,523.9	4,374.2	20
Construction	1,271.80	1,492.10	1,440.50	1,784.70	0
Sanitary	34,929.3	32,819.0	39,891.4	53,077.2	50
Total Sales	92,959.2	93,134.7	101,816.1	116,708.7	

Source: Romanian Foreign Trade Centre and expert team analysis. For the industrial segment, the Ministry of Finance website.

[1] Total sales for these sectors are not recorded in Romania. Therefore, these sales are estimated based on export data from the Romanian Foreign Trade Centre and the Shorebank's best estimate for the proportion of sales that are exported. The expert team's export estimates are based on information obtained from interviews with twenty-four firms and estimates from leaders Business Support Organizations. They may underestimate sales, particularly in the glass container and ceramic construction segments on which activities the evaluators did not focus their inquiry.

9. Based on the sales and employment estimates, the annual productivity (annual sales/ employee) in the combined sectors is approximately US$8,310.

10. This compares favourably to other sectors: in tourism the labor productivity is US$5,172, in textiles it is US$6,000, in wood products US$7,029, in information technology it is US$9,560, while the overall average labor productivity in Romania is estimated at US$5,296.[1]

Exports

11. The tableware glass sector in Romania experienced three consecutive years of negative growth from 1999 to 2001. In 2002, however, the segment's exports did grow, surpassing the sales of 1998.

12. In flat glass, there has been a surge in production and exports as a result of the increased capacity at Romania's only float line facility (Ges, in Scaeini). Growth in the export of float glass indicates that there are good external markets for sales expansion from the installed production capacity.

13. Container glass production has been in decline in Romania for most of the last decade, with production falling from 319 thousand tons in 1989 to just over 100 thousand tons in 2002.[2] Increases in imports for the flat and container segments support the conclusion that flat and container glass production is far below the necessary level to meet domestic needs: flat glass imports grew by 176% between 1997 and 2002, while container glass imports increased by over 300% over the same period.[3]

Glass Sector Export Sales in 000 USD	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Tableware and decorative	59,753.0	61,505.4	60,747.8	58,663.6	55,032.5	62,433.4
Flat	16,799.6	13,758.7	10,164.4	14,554.9	18,852.0	24,185.7
Container	7,985.7	6,303.5	1,798.3	2,769.4	4,105.3	3,576.5
Technical	na	na	na	3,600	4,300	4,300
Other - Fibreglass	7,599.3	8,720.7	9,386.7	9,794.9	10,963.6	11,887.8
Total	$ 92,137.60	$ 90,288.30	$ 82,097.20	$89,382.80	$ 93,253.40	$106,383.40

Source: Romanian Trade Centre, 2003; Ministry of Commerce and Trade for technical glass.

14. In the ceramics sector, export growth has been driven by sales in the sanitary segment, which have grown by 50% over the last four years. In the tableware segment, total exports have grown only 8% over four years. The composition of sold tableware products has also changed with ceramic tableware taking some share of the total from porcelain and decorative items.

[1] Paul Klein, "Growth and Competitiveness in the Romanian Textile, Wood, IT and Tourism Sectors," 2003.
[2] Ministry of Commerce and Trade, 2003.
[3] Romanian Foreign Trade Centre data, 2003.

Ceramic Sector Export Sales in 000 USD	**1999**	**2000**	**2001**	**2002**
Tableware	42,457.5	44,008.4	44,768.2	45,978.1
Industrial	737.3	763.6	904.8	874.8
Construction	1,271.8	1,492.1	1,440.5	1,784.7
Sanitary (incl. bath tiles)	17,464.6	16,409.5	19,945.7	26,538.6
Total	61,931.18	62,673.59	67,059.22	75,176.23

Sources: Romanian Trade Centre, 2003. National Commission for Planning, 2003, Ministry of Finance website for industrial ceramics (Assumed exports are 20% of the total sales).

15. According to industry insiders, until recently, the Romanian law prohibited individual firms from entering into direct export negotiations. The law required exporting companies to have a license - and licenses were not granted easily. The licensed export companies therefore became the primary communication channel with the end customer and the official seller of huge quantities of Romanian glass for export; large glass and porcelain companies continue to rely on export companies for 60-80% of their total export sales.

16. While large firms have been slow to develop export skills, many SMEs are exporting directly. While there are still many outstanding challenges, SMEs appear to be capable of managing all the basic issues that are related with export, including price negotiations, freight options, packaging, and various payment options.

Investments and Financing

17. In the SME segment, some indebted producers were hurt by the hyper-inflation in the mid-90s, and they are very cautious about taking loans to finance expansion. This reluctance may be warranted in some cases, particularly in the case of younger firms that do not have a stable client base. However, barring a complete deflation of the glass or ceramic tableware markets (which does not appear very likely), firms with a proven track record and strong client relationships may want to consider increasing their debt leverage.

18. Many firms also expressed confidence that they could gain access to loans if they needed them. The strongest producers have already established strong banking relationships and, as one entrepreneur stated, “Banks are hunting good borrowers now.” Interest rate expectations of interviewed entrepreneurs are around 12%.

19. Growth requires investments. Without a change in marketing strategy in the short-term (which is strongly recommended), one may assume that many Romanian firms will continue to compete for a price-sensitive market share. In an inflating cost environment, these firms are not likely to have sufficient cash flows to make the required investments for growth from own funds. Debt or equity capital will therefore be needed.

20. Capital needs differ according to the size of the firm. Due to the capital-intensive character of glass and ceramics production, the level of capital needed for both equipment upgrades and kiln/furnace maintenance tends to exceed US $100,000.

Firm size	Expansion capital needed
Small	US$100,000 - US$250,000
Medium	US$100,000- US$1,000,000
Large	Up to US$5,000,000

Competitive Advantages

21. Although low wages and subsidised energy costs make Romanian glass and ceramics products attractive from a price perspective right now, that advantage will evaporate as soon as China becomes active in both sectors. A more sustainable advantage for SMEs is the execution of a well-defined market niche strategy or product line differentiation (e.g. high price/quality products versus medium and low). For example, high quality decorative tableware glass largely centres on skills and on an advanced position on the learning curve of glassware production. Skills for which Romanian firms are known include: blowing of glass of large dimensions, quality glass painting, many-layered coloured glass, and acid-etching techniques.

22. In comparison to Chinese producers of decorative glass, Romania has a lead in terms of quality, but this is changing fast. Industry experts estimate that Chinese producers need 3-7 years to learn to blow glass of the same quality as Romanian firms.

23. In industrial glass, current SMEs do not have a discernable comparative advantage over competitors and, in fact, they are hampered by semi-obsolete equipment;[1] however the applications for industrial glass are various, and end-use industrial customers (like automobile or small appliance manufacturers) often require outsourcing on a regional basis, so it is possible that substantial and sustainable markets will continue to exist for some Romanian producers.

24. The products that appear to be competitive on export markets under current conditions, in terms of price and quality, are:

Glass	# SME	Ceramics	# SME
French nouveau glass products	10-20	Ceramic tableware	0-1
Art glass of various types	6-10	Porcelain tableware	5-10
Painted/decorated glass	20-40	Porcelain decorative*	60 +
Processed flat glass	0-1	Electric insulators	1-2

* The competitiveness for SMEs in this segment is currently under considerable pressure. The segment is vulnerable to aggressive Chinese competition on the domestic market and limited trade name recognition for Romanian products on the external market. Exports of porcelain products for instance have declined by almost 1/3 over the last 3 years.

[1] For flat glass production, the technological standard is the *float* technique whereby panes of glass are drawn across the surface of a bath of tin. Romanian flat glass is almost exclusively produced using a *drawn* glass technique. There is one float glass production line in Romania, the Ges plant in Scaieni.

Business Services Organisations (BSOs)

25. There are four primary business services organisations for glass and ceramics producers in Romania. Efforts to coordinate commercial activities through these trade and professional associations appear to have been undergoing substantial changes over the last few years. New organisations have been formed, cooperative marketing efforts are being tried and changes in leadership have occurred.

	Members	Dues/Quarterly	Service Focus
Union of Ceramics Producers	35 firms 36 indiv.	Large: Lei 3.5 million Medium: Lei 1.5 million Small: Lei 750,000	Feasibility studies and other market research as requested by members.
Association of Glass Producers	32	Large: US$300 Medium: US$150 Small: US$100	Strategy formulation.
STICEF	36	NA	Labor negotiations.
Union of Fine Artists	5,000	US$1.50	Artist promotion.

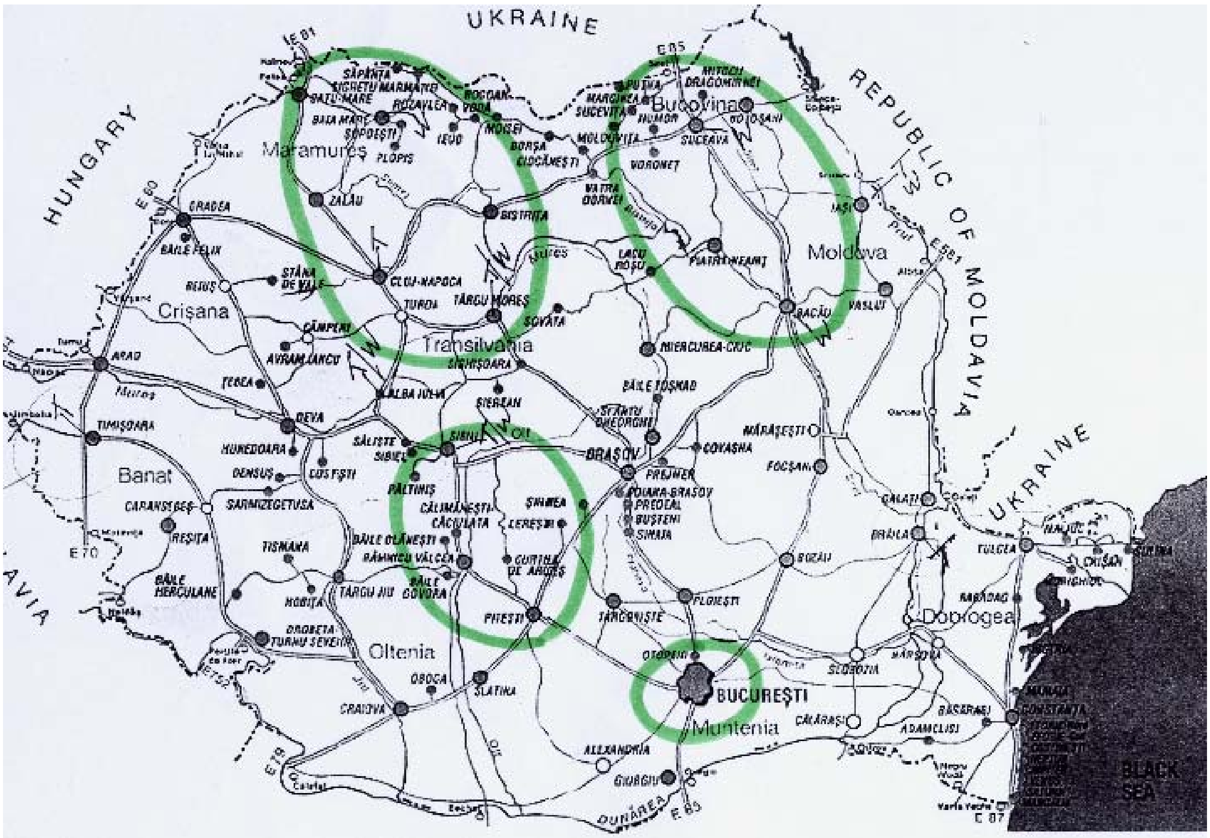
26. Although each organisation has membership fees, the value of provided services is not clearly perceived by member firms. Fewer than 10% of the interviewed firms could give concrete examples of valuable services provided to them by the industry organisations. At the same time, the organisations have an impressive depth of knowledge about various issues facing the sectors. Their ability to attract paying members and to organise relevant services that members value, is, however, less evident.

Wood and Furniture

27. In 2002, furniture production stood at US$731 million, of which exports totaled US$474.2 million (5.6% of the total Romanian exports), generating a net contribution of US$415.5 million to the national trade balance.

Location

28. As most of the forests are in the northern and central part of the country (mainly spruce, fir, oak, beech), two regions show a significant concentration of wood processing and furniture manufacturing operations: the NE area from Suceava and down through Iasi to Bacau and, respectively, the NW area from Baia Mare and Satu Mare and down through Cluj to Targu Mures. Besides these areas, and less dependent on the availability of wood in the same region, a significant concentration of furniture facilities can also be found around Pitesti in the South, and of course around Bucharest, the capital city, which concentrates one third to one half of almost any type of economic activity in the country.



Enterprise Structure

29. There are now more than 8,000 small and medium-sized companies that operate in the sector. 85% of the wood-cutting and processing, and 95% of the furniture manufacturing companies are micro-enterprises or small or medium-sized companies. Most of the companies in the sector are located far away from the main urban areas.

30. Additionally, some large companies set up by foreign investors have had a significant impact on the development and production of new value-added products in Romania. The tendency is to establish new micro-, small- or medium-sized enterprises, while at the same time to divide existing large companies into smaller, more flexible and more efficient units. Foreign direct investment has in some cases been directed at the implementation of new, modern sawdust or woodchip collection and recycling facilities, and this trend is likely to continue. Recycled wood products are cost-effective and have a high local demand. In addition, international (mostly EU) special programmes are likely to contribute to the co-financing of upgrading of facilities, which will have a positive impact on the environment. The investments realised during 1990-2002 totaled US$1.526 billion, of which US$920 million came from foreign capital. Some large production capacities were started, or are currently being started, by foreign companies during 2003-2004.

31. The number of SME's in the wood and furniture sector is expected to grow. To reach the optimum size of a furniture manufacture, it is necessary to employ around 150-250 employees and to be able to cope with sufficiently large orders that will keep the operational costs to a minimum and exploit the flexibility of the production capacity to a maximum. However, these firms suffer from a lack of sufficient management skills, modern processing equipment and access to markets.

Sales and Profitability

32. The dynamics of furniture production (expressed in equivalent USD) over the past 12 years is presented in Figure 1 below. In 2002, wood processing, excepting furniture, reached a production volume of Lei 23,827 billion (2.5% of total national production). The level of labour productivity of the Romanian wood processing and furniture industry (produced units per worker in a period of time) remains significantly lower (1.5 – 2.0 m3/person) than similar indicators in the EU countries. However, the wage level "compensates "for the difference, as the average monthly net salary varies from US$70.00 to US$200.00 equivalent. It can be assumed that with training and the introduction of new technology, productivity will grow in the future.

Figure 1. Romanian Furniture Production

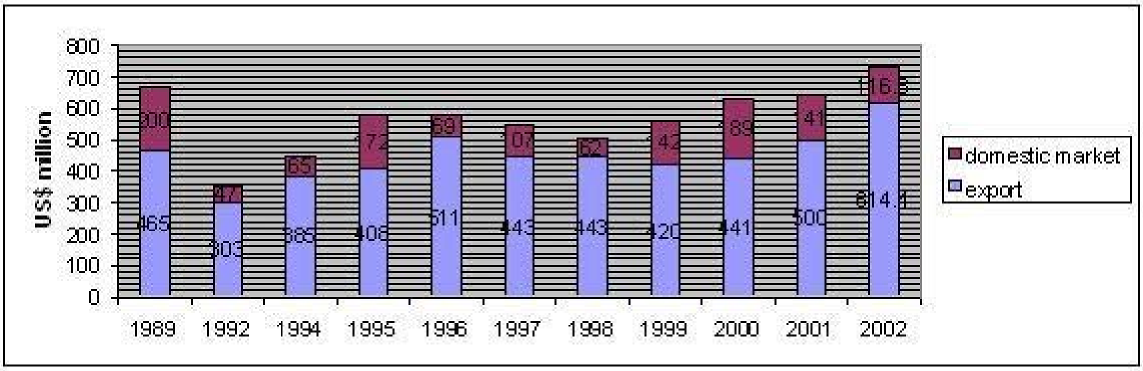
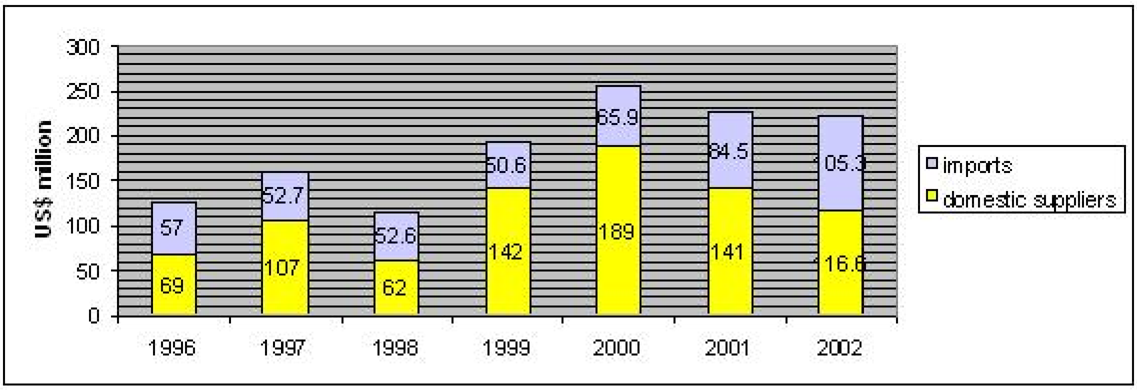


Figure 1. Romanian furniture production



33. With appropriate levels of support, significant results can be achieved quickly. In order to increase furniture production from US$614 million in 2002 to US$1.120 billion in 2010 (as planned), growth should occur in all areas of the sector, for example an increase in the volume of processed round wood of approximately 1.3 million cubic meters will be necessary. The number of people employed in the forestry sector and wood industry is expected to grow to 75,000 in 2004 and to keep growing in the following two years due to an expected increase in volume of work and new production capacities in forestry. The furniture industry currently employs some 104,000 people and is expected to generate approximately 15,000 new jobs by 2010.

Exports

34. Export of wood products other than furniture, mostly timber, only represents 30-35% of total production; the rest is absorbed by the domestic market for use in other products, furniture, construction, etc. The volume of export of these products increased from US$554.7 million in 2001 to US$625.4 million in 2002.

Exports of wood products, including furniture and others, in US$ million in 2001 and 2002:

Exports	**2001**	**2002**
Wood products, except furniture	554.7	625.5
Furniture	500	614.1
Other wood products	10.3	10.6
Cellulose, cardboard, paper	80.5	105
Total	1145.5	1355.2

35. Exports of furniture from Romania have real potential witnessed by their significant growth following re-entry into markets like the USA and the Former Soviet Union (FSU). These markets have an estimated potential of US$250 million and US$150 million worth of furniture imports from Romania respectively, with little of that potential currently reached (approximately only US$22 million of exports to the USA and US$7 million to the FSU). Growth of the respective shares of Romanian furniture exports is expected to be as high as 30% over the next few years.

36. Additional exports will most likely be based on the most competitive products such as high-end solid oak and beech “antique” furniture, high-end solid walnut and cherry bedroom and dining room furniture, bentwood chairs, solid oak and beech panel bookcases and bedroom furniture, and chipboard and fibreboard office furniture.

37. The greatest potential for expansion of exports depends primarily on an increase in production. Most of the mills surveyed are currently exporting a great percentage of their production and can not export much more without investments in additional production capacity[1].

1 According to the USDA, timber in Romania is being cut at a rate less than that authorised by the government i.e. at half the rate of growth. This indicates that there is sufficient raw material supply for a considerable amount of additional production. In addition to this, the installation of more efficient machinery will result in better utilisation of the raw materials.

Development and support is required of both production and marketing, especially for entering into new markets and developing appropriate distribution channels. Government Ordinance no. 120/2002 allocates resources to support the export efforts of some economic sectors, among which wood and furniture have top priorities. The adoption of the EU *acquis communitaires* will bring a number of benefits as well as implying additional costs. Potential benefits include free access to the vast market of the European Union, favourable access to markets of third countries with which the EU has agreements, increased attractiveness of Romania for foreign investment in the wood and furniture sector, and structural financial aid programmes after Romania's accession to the EU in 2007.

38. The expected costs are related, among others things, to the need for restructuring and modernising of the wood and furniture industry in order to comply with European norms such as the Directive 94/62 EEC on waste management; the Directive 88/378 EEC on wood packaging waste, and the adoption and harmonisation of more than 87 % of the European standards regarding wood and wood products. The additional exports will demand additional production of furniture, and this in turn will make new investments attractive. Moreover, more European companies are expected to outsource production to countries in Eastern Europe, especially to Romania. Therefore, investments will be needed for upgrading existing production facilities as well as for establishing new ones.

Investments and Financing

39. The challenges that the SME's in the wood and furniture sector face include taxation, better economic performance, access to financing, fair business practices and transparency in the regulatory business environment. Interviews with SMEs and related associations in the wood sector show that access to financing, already generally difficult and expensive, is especially difficult for SMEs since commercial banks do not accept a good business plan as an important guarantee for a loan and they tend to over-collateralise. Small wood harvesting enterprises, however, mostly use old equipment and technologies and they do not possess large fixed assets and find it very difficult to get access to adequate bank financing. As for any other industrial sector in Romania, financing is both difficult and expensive. Easier access to financing would increase companies' capacity to invest in larger areas of forest for wood production, expand timber inventories, acquire more modern harvesting and drying equipment, and carry out market research and trade promotion.

40. In order to successfully compete on international markets with differentiated and high value products, the Romanian wood and furniture sector needs in particular to invest in R&D. Development of new, high-quality products, responding to the specific demands of certain markets can only be achieved through market research that requires financing. Production facilities where foreign investment is present often have state-of-the-art technology, but obsolete equipment is still widely used. Especially frequent are inefficient wood harvesting and sawmill equipment and inadequate drying facilities, especially in plywood and multi-layer wood product companies.

41. Forestry and wood harvesting are currently the components with the lowest levels of investment and, accordingly, the lowest levels of technologies and productivity. Investments in the forestry sub-sector will lead to higher quantities of wood supply and a better use of wood in product lines that are currently hardly accessible or under-utilised, as well as bringing about a significant increase in the quality of the harvested wood. This, in turn, will ensure higher added value for the excess timber that will become available in larger quantities for export to foreign furniture manufacturers, as compared to the current situation in which most of the exported timber is of low quality or is sold at low prices for construction.

Business Support Organisations

42. Business support services are available from local chambers of commerce, international business or economic development programmes funded by the US Government, the EU and European governments, and private consulting companies. Apart from some minor local employers' associations, there are two major national employers' associations, and one regional association which group together companies in the wood and furniture industry: ASFOR – the Association of Employers in the Forestry Sector; APMR – the Romanian Association of Furniture Manufacturers and PROFOREST – the Association of Foresters in the Bacau County. Some local chambers of commerce like the ones in Iasi, Suceava, Bacau, Neamt Targu Mures, Sibiu, and Constanta provide support services to wood and furniture companies in their respective counties, which include access to information on national and international financing schemes, support for the participation in trade promotion events, and general advocacy.

43. Although the current impact of business support services on the improvement of the overall business environment is still low, it is growing. The main reasons for the low impact are two-fold: the culture of actively seeking and implementing business advice is still young in Romania, and consequently, the range and effectiveness of available support services still needs a good deal of strengthening. Over the past three years, the different business support organisations in the sector, with support and guidance from international programmes, have significantly grown both in membership and in strength and are now accumulating credible and well-structured information on the industry. Some have also initiated strong partnerships with similar organisations abroad and they now provide a wider range of valuable business development and advocacy services to their member-companies.

Textiles and Apparel

44. The textiles industry in Romania is a US$2.76 billion dollar industry[1], which grew by 30% from 2001 to 2002 and is expected to increase at a higher rate than the average GDP growth in the near future[2]. Romanian fabric production units. however, have been slow to adapt their supplies to the needs of a growing number of SME garment manufacturers. In fact, since the bolts produced by the fabric makers were too big for SMEs to handle, those enterprises decided to purchase fabrics from abroad. Only lately have the Romanian fabric producers begun to modify the size of the bulk fabrics that they supply in response to the needs of the smaller garment producers.

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1 2002 data derived from the National Institute of Statistics.
2 CEEBIC Romania Country Commercial Guide 2003.

45. Today, clothing production is very much based upon contract production for companies in Western European countries. Clothing is produced on an outward processing basis (OP) known as the “LOHN” system. Under a typical LOHN transaction, a Western European producer ships fabrics and clothing designs to a Romanian factory which then transforms the raw materials into finished apparel, which is exported back for sale. The system has ensured the survival of many Romanian textile companies to date, but recently it has led to a decreasing profitability of the Romanian companies.

Enterprise Structure

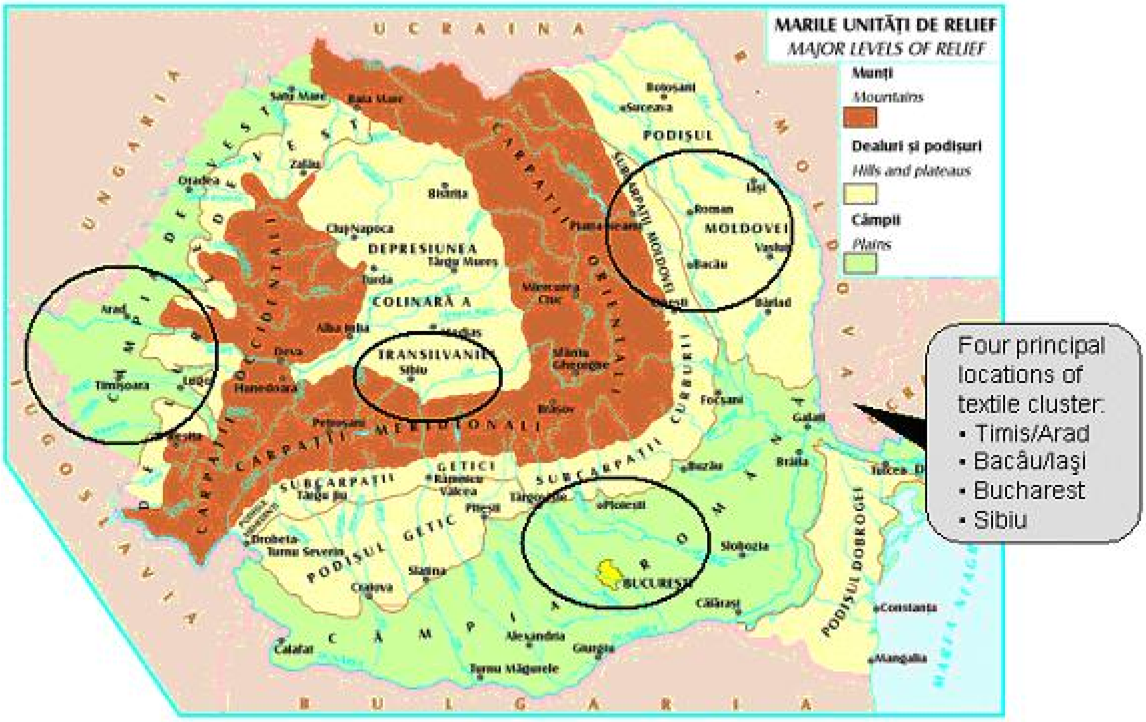
46. There are approximately 4,724 enterprises in garment and textile production[1.] Of these, 3,300 are small and medium-sized enterprises.[2] Approximately 70% of companies which are active in the textile sector are SMEs.[3] SMEs in the sector employ 50-60% of the total of 460,000 employees in the whole sector.[4] Currently, the majority of SMEs in the textiles industry are engaged in the production of garments as opposed to the production of textiles. There is a growing trend for existing large companies to break down their operations into smaller and more flexible and efficient units. SMEs often specialise in only one or two parts of the production process, and they outsource the rest. They remain small and flexible and are able to adapt to the rapidly changing needs of fashion in the clothing industry.

47. The growth of SMEs in the textiles industry may offer a competitive advantage to Romania. Increasing differentiation at the clothing shop and store level requires many small-to-medium enterprises which are sub-contracted exclusively by these stores and produce clothing under strict codes of secrecy. The need for secrecy about new fashion or product lines can only be maintained if the garments are made in factories that are devoted to one retail company. The clothing manufacturing industry in Romania has followed this development trend with a moving away from large factories, which employ a thousand or more people, to small units of 100 or less workers. SMEs can provide the agility, fast delivery and security that specialty clothing stores now demand.

48. Smaller enterprises with a multi-skilled workforce and up-to-date computer assisted design and computer assisted manufacturing CAD/CAM facilities, including Internet connections to the main consumer markets in the world, should be given priority in the allocation of investment and training funds.

[1] Federation of Employers Associations in the Light Industry.
[2] Federation of Employers Associations in the Light Industry.
[3] Estimates based on interviews with government agencies, SMEs and BSOs.
[4] Estimates of the expert team based on interviews with government agencies, SMEs and BSOs.

Geographic Location



Source: Team Analysis, Interviews
37

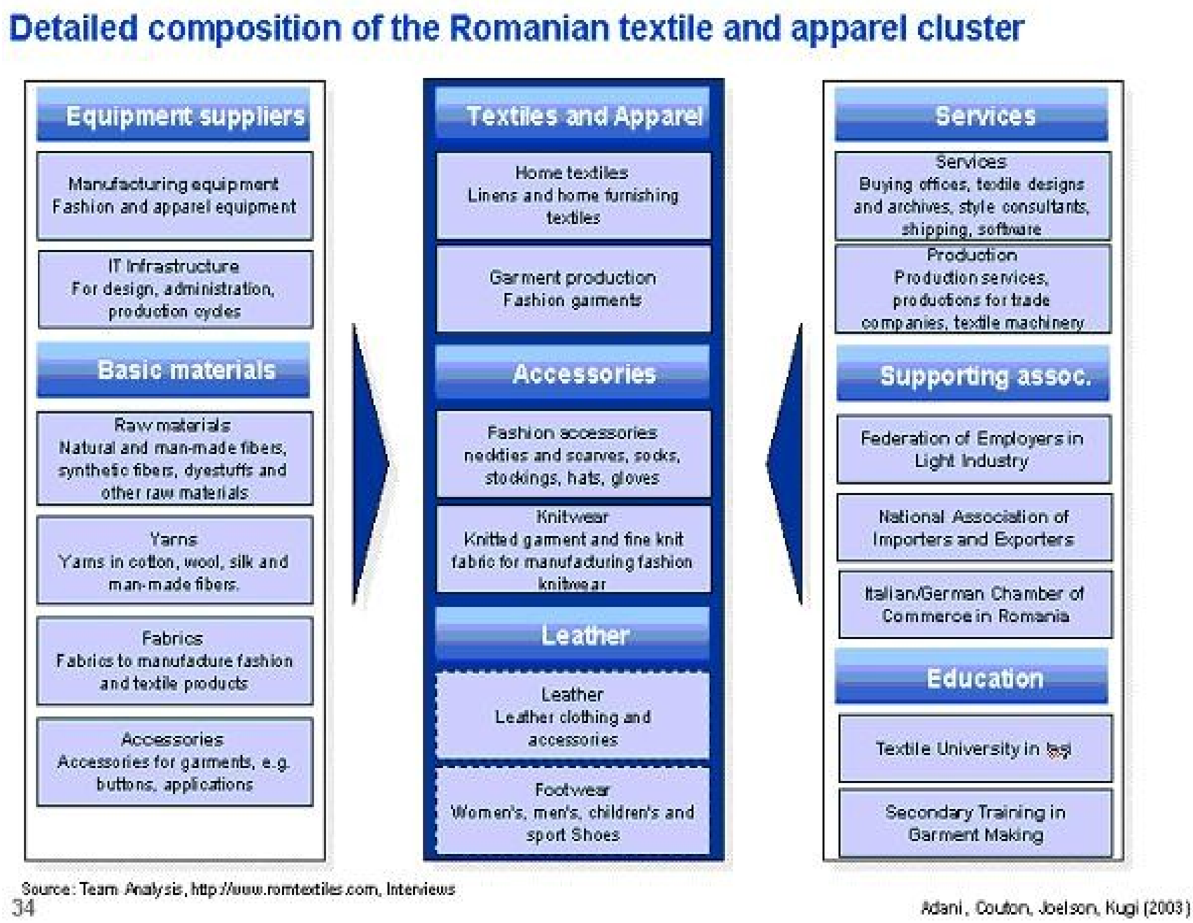
Adani, Couton, Joelson, Kugi (2003)

49. Production levels of the various textile products are listed below:

Production Level, 2001 (Romanian Statistical Yearbook)

Products	***Value***	***m.u.***
Cotton and cotton-type yarns	29,000	tons
Wool and wool-type yarns	10,000	tons
Flax and hemp yarns and flax- and hemp-type yarns	4,000	tons
Cotton fabrics	154,000,000	sqm
Wool fabrics	17,000,000	sqm
Flax, hemp, and jute fabrics	200,000	sqm
Silk fabrics	25,000,000	sqm
Unwoven textiles	14,000,000	sqm
Cotton knitwear	5,000,000	pieces
Wool knitwear	20,000,000	pieces
Silk knitwear	10,000,000	pieces
Socks and stockings	138,000,000	pairs
Textile clothing	47,103	billion Lei

50. Some examples of major industry segments and their interaction and integration are presented in the chart below.



Sales and Profitability

51. Textiles have been an important and profitable industry for Romania. From 1996-2000, on average, the growth rate was 7.1% p.a. Productivity per employee has also increased. The table below shows the changes over the years in the both textiles and garment sub-sectors.

Textiles		**1989**	**1992**	**1994**	**1996**	**2000**	**2001**	**2001 of 1989**
Textiles - total production	US$ mil	2,357	1,064	924	1,170	939	1,004	42.60%
Cotton	US$ mil	*753*	*329*	*267*	*379*	*201*	*214*	28.42%
Wool	US$ mil	*586*	*269*	*229*	*259*	*189*	*202*	34.47%
Hemp & flax	US$ mil	*223*	*82*	*74*	*56*	*33*	*30*	13.45%
Silk	US$ mil	*197*	*84*	*67*	*67*	*50*	*48*	24.37%
Knitwear	US$ mil	*598*	*300*	*287*	*409*	*466*	*510*	85.28%
Export	US$ mil	382	149	200	263	424	505	132.20%
Import	US$ mil	455	454	672	1135	1,790	2,042	448.79%
Textile supplies for garments	US$ mil	*199*	*316*	*494*	*906*	*1,470*	*1,690*	849.25%
Imported textiles supplies	US$ mil	*256*	*138*	*178*	*229*	*320*	*352*	137.50%
Balance (export minus import of textiles)	US$ mil	126	11	22	34	104	153	
Employees	Thousand	412.4	328	221	189	95	94.5	22.91%
Profit on turnover	**%**	**12.6**	**5.6**	**2.3**	**1**	**0.5**	**5.5**	**43.65%**

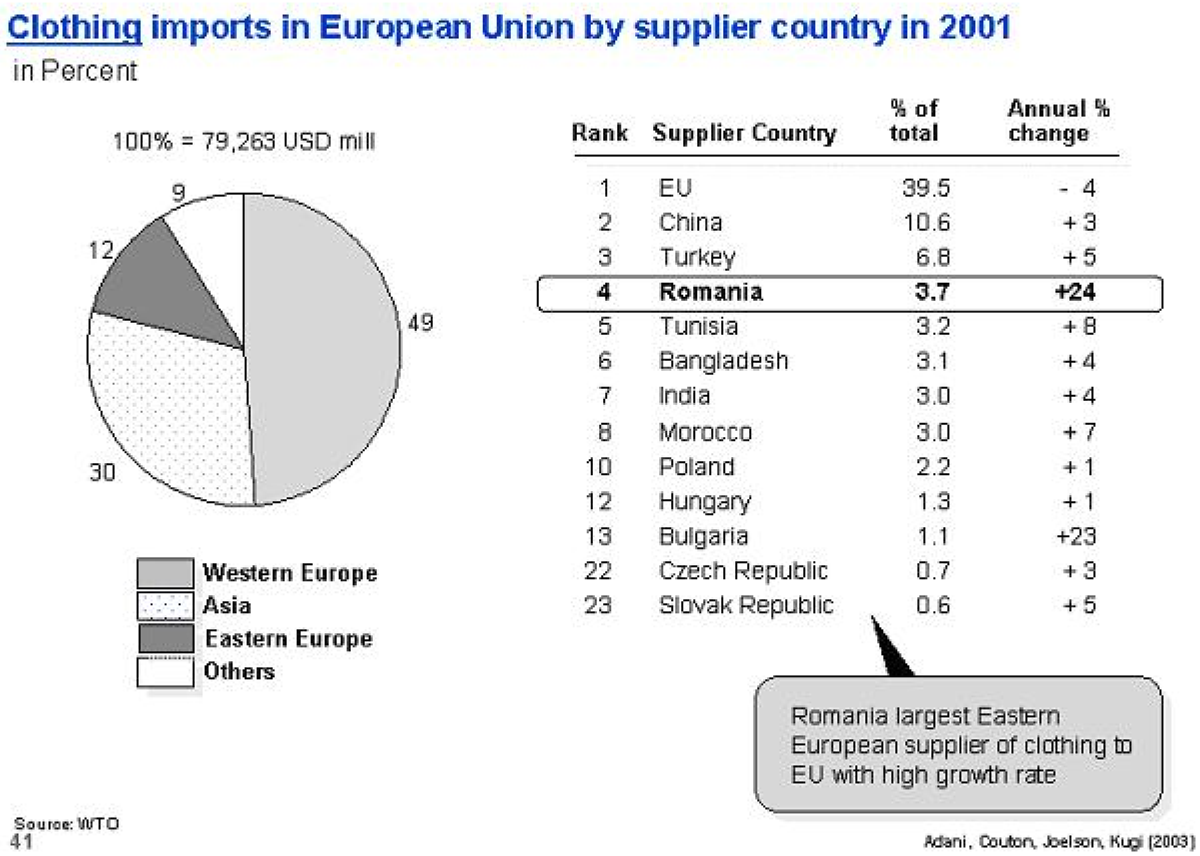
Garments		**1989**	**1992**	**1994**	**1996**	**2000**	**2001**	**2001 of 1989**
Garments- total production		1,643	627	1,337	1,821	2352	2,763	168.17%
Textile garments	US$ mil	1543	557	1,277	1,771	2310	2,720	176.28%
Leather & fur garments, gloves	US$ mil	100	70	60	50	42	43	43.00%
Export	US$ mil	649	429	908	1,436	2082	2,493	384.13%
Import	US$ mil	239	385	593	1,072	1728	2,040	853.56%
of which "Lohn" supplies	*US$ mil*	*212*	*360*	*557*	*1,026*	*1662*	*1,973*	930.66%
Balance	US$ mil	410	44	315	364	354	453	
Employees	Thousand	247.3	206	208	203	261	262.4	106.11%
Profit on turnover	**%**	**15.2**	**19.1**	**11.4**	**15.7**	**9.8**	**11.9**	**78.29%**

52. According to estimations of the Ministry of Planning and Development (2003), the textiles and garment industry is expected to have a growth rate of 9-10% until 2010, significantly higher than the estimated 5.6% growth of the overall Romanian economy. Footwear and leather goods are also expected to grow at a rate of 7%, while the knitwear and the fur and leather garments sub-sectors are expected to grow at a rate similar to that of the economy average. Growth is also expected for the spinning and weaving sectors at a rate of approximately 4%. Growth of employment in the textiles industry is also expected for the future.

Exports

53. Garment exports, based on key product imports (in US$ million), show a dynamic growth rate of 36.01% in 2001, as compared to 1999, while imports grew by 34.25%.[1] Exports of textiles overall, of textile products, and of the apparel sector in Romania grew significantly[2]: exports of textile products in 2001 were US$505 million and exports of textiles, fur, and leather wearing apparel in the same year amounted to US$2,493 million. As the industry moves into the 21st century, the links between customers and manufacturers will grow even closer. For instance, computer-based technology permits the rapid transfer of data, including design sketches, around the world. Therefore, if the Romania garment exports are to remain competitive, they will need to increase their technological capabilities.

54. Romania has the potential to expand the production and export of clothing in the short to medium term, more so through the local and Eastern European markets than in Western Europe. A development plan for exports from the sector has been formulated with the input of key stakeholders. The plan calls for an average increase in the value of exports from the textiles sector of US$120 million every year until 2010.



Rank	Supplier Country	% of total	Annual % change
1	EU	39.5	- 4
2	China	10.6	+ 3
3	Turkey	6.8	+ 5
4	**Romania**	**3.7**	**+24**
5	Tunisia	3.2	+ 8
6	Bangladesh	3.1	+ 4
7	India	3.0	+ 4
8	Morocco	3.0	+ 7
10	Poland	2.2	+ 1
12	Hungary	1.3	+ 1
13	Bulgaria	1.1	+23
22	Czech Republic	0.7	+ 3
23	Slovak Republic	0.6	+ 5

1 FEPAIUS.
2 FEPAIUS.

55. Hundreds of flexible, small- and medium-sized companies, and some 450 major suppliers of accessories and services, make up an increasingly strong cluster that can challenge most of the world's dominant suppliers. According to Wolfgang Limbert, programme coordinator of the German organisation IBD/GTZ, there is no doubt that Romania in the near future will strengthen its position as a main garment maker for Europe.

56. According to figures, if the average price per minute of CMT-priced goods presently offered by Hong Kong garment manufacturers is about US$0.32 and that of Chinese mainland CMT producers is US$0.05, Romania's offer stands at US$0.09. Currently, Romania and other Central and Eastern European countries can export garments to the EU duty and quota free, which is an important advantage compared with the competitor Chinese mainland and Hong Kong firms. CMT prices in Romania are significantly lower than in Poland (US$0.16) and Hungary and the Czech Republic (both US$0.18). Although they are slightly higher than in neighbouring Bulgaria (US$0.08), Moldavia (US$0.07), Ukraine and Belarus (US$0.06). In these countries the garment industry clusters are less well developed than in Romania.

Investments and Financing

57. Over the past eleven years, an equivalent of US$1,335 million have been invested in the Romanian textiles and apparel industry, of which US$720 million investment has been financed by companies from their own resources (including 31 million of state guaranteed loans), and US$615 million from foreign direct investments.

58. Below are presented some of the investment projects that the government planned for 2003. The figures following each project represent the estimated value of the investment in million US$[1]:

S.C. STOFE BUHUSI S.A. – BUHUSI Production and distribution of a diverse range of semi-finished and finished products: washed wool, wool and type carded yarns, etc.	Modernisation of spinning and weaving section	7.2
S.C. TRAINICA S.A. Pucioasa Cotton and cotton-type yarns and fabrics, garments.	Modernisation of the weaving and spinning mill	4.0
S.C. MEDIMPACT S.A. Medias Manufacturing and trading of leather goods.	The increasing of production capacity for saddler articles	0.7

59. Romanian textile and garment SMEs have limited access to the financing which they need, in particular, for making investments to increase their technological capabilities. In fact, access to capital is one of the most serious constraints to the growth of the SME textile industry sector in Romania.

1 Ministry of Industry and Resources.

60. Virtually no external funding, apart from some limited venture capital, is available for new start-ups. Conventional bank lending for the expansion of existing SMEs is virtually non-existent, due to lingering conservatism on the part of banks in the light of the serious bank crisis in the late 1990s. Although some funding is available from entities such as the Romanian American Enterprise Fund, they only scratch the surface of the current need for capital. The lack of access to capital is exacerbated by a limited knowledge of modern business principles. There appears to be a general need for basic training in the development of business plans, the keeping of financial statements, the preparation of budgets, and the analysis of cash flow.

61. In general, bank loans are difficult to obtain, as banks have high collateral requirements which far exceed the value of the loans. Moreover, loan repayment periods are short and the financing of long-term investment with loans of a longer maturity is almost non-existent. Financing is inadequate to ensure the continued development of textile companies. Garment companies, especially SMEs, do not have the own funds to buy the new equipment needed in order to increase their design and cut capabilities. While having the most modern equipment may not be crucial at the moment, due to low labour costs, in a short time it will become a major constraint.

62. Financing resources need to be directed towards investment projects that will give a high return on the invested capital and expert advice will be needed to ensure the profitability of planned investments. During 2003, a team of textile consultants visited several textile companies and observed that managers often demanded financing for investment projects that appeared not to be very profitable. For instance, some textile factory owners wanted to invest in new and more modern equipment, but the use of such machinery would require the factory to purchase higher grades of yarns and fibres in order to ensure that the machines would not breakdown. In fact, modern machines work at a faster rate and require better yarns so that they will not jam. The consultant team visited one factory where a good portion of the new equipment was down because of the problem that lower quality yarns had been fed through high-speed modern Italian equipment. The team explained that Romanian garment companies can refurbish some of their older equipment at much lower costs instead of replacing it with modern equipment. They also met one factory owner who had been able to repair and upgrade existing equipment for US$1,000, rather than purchasing new equipment which would have cost him US$100,000.

63. In another example, one factory manager suggested that he needed financing to buy additional space for expansion. However, the factory was working on only one shift, although it was stated that there was sufficient skilled labour available in the area. The consultants suggested that rather than investing in additional space, the factory could have a second shift and hire more labour, resulting in the same increase in production at a much lower required level investment and financing. Instead, available financing should be directed towards the purchase of CAD/CAM technology, which is important for companies which want to break with the LOHN system. As garment operations become more sophisticated, companies need to invest much more in the design part of the process. Creating unique and exciting designs quickly is an important way to remain competitive in the fashion garment business.

Business Support Organisations

64. During the past seven years, and especially the last three, an increasing number of employers' associations have been formed as an alternative to the traditional employees'

associations. These associations represent the views of enterprise managers and investors and their focus is on promoting increased growth and productivity in the sector. There are now six national associations which represent the whole industry and the various sub-sectors: ROMCONF; OCIMM (small and medium-sized garment manufacturers); TEXTILANA (wool industry companies) TRICONTEX (companies in the knitwear sub-sector); APPC (socks and stockings manufacturers); PINC (leather garments, footwear, and other leather products manufacturers).

65. The six associations have formed a Federation of Employers of Light Industry in Romania, FEPAIUS. This federation has been one of the strongest and most successful representative organisations of the private sector in Romania over the past three years, and it has over 300 member companies. The number might seem low as compared to the total number of companies which are registered in the sector, but they account for 62% of the current production volume and the exports of the sector. Also important for the industry are some local chambers of commerce like the ones in Iasi, Braila, Sibiu, Timisoara, Targu Mures, and Bucharest.

66. Business support services are available from three categories of organisations: local chambers of commerce; international business or economic development programmes funded by the US government, by the EU and European governments, and private business consulting companies.

Tourism Industry

67. The tourism industry in Romania is a US$600 million industry which is expected to grow by 4.3 percent over the next 5 years. Romania offers a wide range of tourism products from cultural visits to historical sites to beach vacations at the Black Sea to mountain areas and the Danube Delta.

Enterprise Structure

68. There are approximately 10,147 companies in the tourism industry. Of these, 3,127 provide accommodation for tourists with a capacity of 287,268 beds. Approximately 80% of the companies which are active in the tourism sector are SMEs. While large state-owned companies have traditionally employed many of the approximately 100,000 people engaged in tourism, recently, many smaller private enterprises have emerged in the sector. SMEs often operate tourism agencies, small hotels, restaurants, and “bed and breakfast” facilities. The Black Sea Coast, in particular, is dominated by large, state-owned and formerly state-owned companies, while SMEs are scattered throughout the country. SMEs dominate the rural tourism industry, which caters to tourists who are interested in spending modest amounts of money for accommodation facilities in places that are not crowded and still unspoiled.

69. SMEs in the tourism sector have different backgrounds. Many small enterprises were formed by private entrepreneurs with small amounts of capital. Others, especially micro-enterprises, are family-owned and -operated businesses such as bed and breakfast facilities. Often the families who run these places have other sources of income in addition to the renting out of rooms. In rural and eco-tourism, almost 100% of the companies are SMEs which were started with small amounts of own capital and they are mostly family-owned and -operated businesses. Finally, some SMEs were started by the privatisation of ex-state companies.

70. All the types of SMEs that are found in the tourism sector share similar weaknesses, but for different reasons. SMEs that were formed through privatisation may have more disposable capital, but they were often purchased and managed by people who had no previous experience in the tourism industry. Many of these new tourism managers have experiences in other industries and they invested the profits that they gained in other economic activities in tourism. They often lack industry specific knowledge and know-how.

71. Many of the SMEs that were formed during the privatisation process required relatively low capital investment. Domestic investors who had good access to information and an ability to assess the risks of investments purchased many of these ex-state properties. The modest selling prices were certainly an incentive to domestic investors, but meant also that the State collected small amounts of money from the privatisation process. Also, foreign know-how was generally not infused into these companies.

72. Up to now SMEs in tourism have failed to coordinate their efforts in order to attract foreign tourists. A coordinated effort, however, will be needed to raise awareness about towns and regions which are unknown to tourists who live outside Romania. Foreign tour operators capture much of the value in the tourism market. Major tour operators abroad, especially in Europe, book tour packages for their clients. Some of these major European tour operators who serve Romania are Neckerman from Germany and Thomas Cook from Scandinavia. Local tour operators capture another piece of the foreign tourist market, but they rely heavily on foreign partners for clients. The foreign and local tour operators have a strong bargaining power over smaller hotels and pensions. The possible role of Business Support Organisations in bypassing such operators and connecting tourists directly with SMEs would enable local small enterprises to capture more of the value of each transaction.

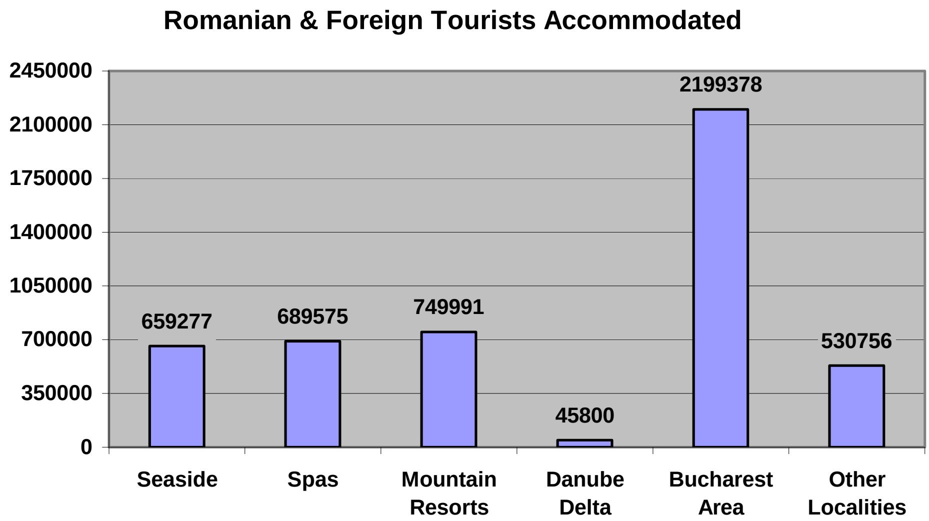
Competitiveness

73. There are several tourist products that have good potential to be of interest to foreign tourists, to create jobs in small and medium-sized enterprises and to attract foreign direct investments. A recent USAID study identified the following as the main products that are able to compete on the market in terms of attractiveness:

- Cultural tourism - The cultural spots in Romania are attractive and fairly unique.
- Health spa tourism - Romanian spas offer access to clean mineral water sources at modest prices.
- Rural and eco-tourism - Romania has expansive and unspoiled nature, often close to cultural attractions.
- Urban tourism – For instance, the city of Bucharest has many sites of architectural interest, fine museums and cultural entertainment, while Brasov, in Transylvania, has a beautiful town square with historic buildings surrounding it.

Location

74. The figure below presents the location of tourist accommodation in the main tourist areas:



75. While all the above listed products and locations have some attraction for foreign tourists, of the six products listed, four are more attractive for foreigners and have the highest potential for growth: cultural tourism, adventure tourism, spas and health tourism, and city tourism. Romania's main competitor in beach and cultural tourism is Bulgaria, while Hungary and the Czech Republic are main competitors for city tourism. Eco- and rural tourism, as well as spa and health tourism, are products which offer more opportunities for growth and which would need investment and financing. Rural tourism is offered in many areas of Romania but is concentrated mainly in the hilly and mountainous regions, the Black Sea coast and the Danube Delta. This type of tourism offers modest accommodation facilities in the rural areas of Romania which allow a more leisurely pace of life in the nature.

76. Rural tourism established itself as a tourism product only after the collapse of communism in 1989, but already today it can provide accommodation to 10,000 tourists with stays in smaller family-owned boarding houses. At present, there are 4,000 such tourist and agro-tourist boarding houses in Romania. Many domestic tourists are also interested in rural tourism, because it is generally less costly than other tourism products.

77. Eco-/Adventure tourism is located in the numerous mountains and forests all over Romania and around the Danube Delta. Many of the mountainous areas are virgin lands, still untouched by pollution, with abundant fresh air and beautiful sites. The mountainous regions, most notably the Carpathian mountain range, offer good quality ski resorts and a full programme of winter sports. Main leisure activities consist of hiking, hunting, and fishing. There are also numerous caves in the area, some with easy access and others more suitable for people interested in adventure tourism and sports. Tourists in mountainous areas stay either in hotels, motels, hostels, villas or at camp sites. This type of tourism has some overlap with rural tourism.

78. There is also tourism along the Danube, including the Danube Delta which, although not well known to foreigners, is a unique natural reservation area of 5,640 square km. The reed islands, inland lakes, oak forests, lianas and creepers, and desert dunes make the Delta shelter an ideal natural area for more than 300 species of birds. Fishing, hunting, and bird watching are major activities in the Delta, which has a great potential for growth.

79. Cultural tourism is focused around four locations: the painted monasteries of the Bucovina region; the castles and houses in the Maramures region and in Transylvania; and the art galleries and historical and contemporary sites in cities such as Bucharest. The main cultural attraction in Romania is the group of painted monasteries located primarily in the Bucovina region. These monasteries, which exhibit beautiful iconography on their outer walls and which are under the special protection of UNESCO, are considered as sites which belong to the cultural heritage of Europe. Visits to Maramures also offer displays of old Romanian folk traditions and festivals. Transylvania is noted for its rich multi-ethnic heritage, as it has been home to a mix of Germans, Hungarians and Romanians for hundreds of years, especially when the region formed part of the Austro-Hungarian Empire. Numerous ancient sites with medieval fortresses and castles are dotted over the Transylvanian region. Some of the sites that attract most tourists are the Bran or “Dracula” castle and the castle/fortress in Sigisoara.

80. Health/Spa tourism: currently, there are over 70 health resorts in Romania. Many of these places are located near the more than 3,000 mineral water springs that are found in the country. In addition to providing mineral water springs, the resorts also offer therapeutic mud and other spa treatments.

Tourism Market Structure

81. The Romanian tourism market is characterised by a relatively small number of large players with 3-4 star hotels – mostly located in Bucharest and the Black Sea region – and large numbers of independent smaller players offering 2-star or modest motels, pensions, guest houses and bed & breakfast rooms. The larger players compete with each other for a market share of the foreign tourism, while the smaller tourist facilities cater to a completely different market segment and, in general, do not compete with large foreign tourism operators or large, high quality hotels.

Turnover and Profitability

82. According to the National Institute of Statistics (NIS), the number of incoming tourists in Romania in 2002 was 4,793,700, approximately 2.9% lower than in 2001. Revenues of the tourism industry in 2002 were US$4.7 billion, while the World Travel and Tourism Council (WTTC) estimated that tourist revenues in 2003 would grow by 6.6%. The WTTC also projects a 4.3% real growth rate per annum in the period from 2004 to 2013. Some of the most profitable companies in the tourism industry are located in the major resort areas. According to the Romanian Statistical Yearbook, in 2000, 93,000 people were employed in tourism, which represents 1.15% of the total Romanian labour force. This figure refers to direct employment in tourism. The WTTC estimated also that in 2003, the tourism industry would generate 116,174 direct jobs, while generated indirect employment would be 466,093. In 2002, 1,032,900 tourists arrived from EU member states, which accounts for 21.5% of the total number of foreign tourists. Between 2001 and 2002, the number of EU tourists increased by 5.3%.

Foreign Tourists

83. In terms of export readiness of the tourism sector, there are several areas which need to be improved. First, significant efforts must be made by both public and private sector players in order to promote Romanian tourist products to foreigners. Second, foreign tourist market players need to improve their customer services and quality products in order to attract and retain foreign tourists. Third, infrastructural improvements, in particular of roads, are required to provide better and easier access to the main tourist attractions.

84. Although the Romanian tourism market has the potential to be competitive, it is currently not competitive in marketing its products. In particular, the low level of ICT technology makes tourism less competitive: Romania has the second lowest rate of computer use in Europe, second only to Albania. Outside the capital of Bucharest, computer availability and access to the Internet are scarce. In fact, without the existence of a more sophisticated network of tour operators and also smaller hotels with access to the Internet, the ability to take advantage of online promotions and reservations will not be captured.

Investments and Financing

85. Many SMEs are unable to get the necessary financing to refurbish their accommodation and to make other necessary investments. Excessively high bank loan collateral requirements are one of the main barriers to accessing external financing resources which can complement own funds. Romania should develop its private tourism sector (including rural tourism) by increasing its share of traditional and large tourism markets (Germany, Hungary), while at the same time it should try to widen the breadth of its international markets. In order to better promote tourism, regional promotion & visitors bureaus should be set up in each county and should work together with local communities, the county tourism industry, chambers of commerce and other interested parties in promoting regional tourism. Such centres should also have information offices at border points.

Business Support Organisations and Business Service Providers (BSOs and BSPs)

86. A fairly large number of BSOs and BSPs are active in the tourism industry. While their number may seem impressive, in reality, only a few BSOs and BSPs really represent their members or provide valuable and effective support services. The following is a list of the most important BSOs and BSPs in the tourism sector:

- The National Association of Rural, Environment-Friendly and Cultural Tourism
- The Association of Travel Agencies
- The Bed & Breakfast Association
- The Romanian Hotel Industry Federation
- The Tourism Employers' Federation

87. The Bed & Breakfast Association was only formed in 2002, but seems to have emerged at the right moment. There are over 10,000 beds in the B & B sector and the B & B Association has as its mission the service of the needs of B&B owners. In order to increase the business volume of its members, the Association has started a professional and effective, interactive online reservation system. Each member must be fully licensed and operate in a legal and ethical manner. Member accommodation must also possess the relevant classification of its premises. The prices of members' B & B accommodation are set individually, but must be related to the level of classification that each premise has. The listing by classification and price make it easier for foreign tourists to use the B&B website. In addition, to provide its members with Internet listing, the B & B Association provides quality training aimed at raising the standards of the members.

88. The National Association for Rural, Environment-Friendly and Cultural Tourism (ANTREC) is a non-profit association that identifies, develops and promotes Romanian rural tourism. ANTREC was established in 1994 and has 30 branch offices throughout Romania. There are 3,250 members, including guesthouses and agro-tourism boarding houses, in 800 locations and the ANTREC network includes 1,965 units of rural accommodation. While the membership numbers may seem impressive, it should be noted that not all members are "active". Also, ANTREC offers its members only a very narrow range of rural tourism promotional services and it will be necessary to widen its focus by creating additional business through the development of an effective online reservation system.

ROMANIA

BANK LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES IN RURAL AREAS; AN ANALYSIS OF SUPPLY AND DEMAND

ANNEX 4

SME PROFILES

ANNEX 4

SME PROFILES

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ANNEX 4

SME PROFILES

4.1 Service Sector – the Motel Laonis

Region / County Registration Location
Timis county; Mandruloc village (1,200 inhabitants), between the towns Arad and Deva.

Legal Status – Management Structure
SRL – Limited Liability Company with two partners (husband and wife).

Subscribed (Paid-in) Capital
Initial capital was Lei 2,000,000; it has now been increased to Lei 75,000,000.

Starting Year
The family started from scratch, investing in the motel from 2002, finalising the construction of the facility in November 2003. The motel was then ready to open in 2004.

Number of Permanent / Seasonal Employees
The family employs three more staff all year round (5 in total).

Main Activities and Services Offered
This is a full-service 14-room motel that offers bed & breakfast service[1], cable television and private baths, light buffet, laundry service, telephone/email/fax and a 30-person conference room[2].

Assets Owned
The family owned the land and the house in which they live nowadays; extra space owned and available next to their house was utilised to build the motel. The company does not own the motel, but pays a monthly rent (below market price) to the individual to whom the motel is registered (in this case husband and wife).

Financing Strategies and Loan History
Loan (micro finance) amounts to only 3% of the initial capital needed. Personal savings originate from the previous activity carried out by the husband (a transportation company in 1994 and a second-hand vehicle dealer business during the same period).

- Initial investment was the following: €300,000 for construction. Repayment is expected to be completed over the next 5 years.

- Furnishings were acquired through commercial credit from suppliers, with only 30% paid in advance (a 10% discount would have been applicable if total payment had been made in cash).

- Loan was made available by a Credit Agency (CHF) / friends / own capital.

[1] Prices of rooms with breakfast included are the following: Single = €20, Double = €35, Triple = €50.
[2] A web site has also been implemented (www.motelioanis.home.ro)

1. The amount and conditions made available by the CA were:

Loan amount	US$ 10,000
Period	24 months
Interest rate	16%
Collateral required	Land + car
Value of Collateral (estimated at market price)	120% (covers loan + interest)

Past Cash Flow - Projected Liquidity

2. The following table shows the cash flow comparison based on balance sheet data (which is the only financial statement required by law in Romania) between the pre-micro lending period (on a 6-month basis) and future projections during the loan availability year. There was no data available on the present economic & financial health of the company; therefore we will not examine the profitability of the business.

Table 01 LEI ('000)

Items	**Jan - June 2003** (pre-lending)	**July 2003** (loan start)	**Aug - Dec 03** (projection)
Initial balance	3,009	17,723	-
Gross Income	2,310,901	133,531	1,895,870
Fixed expenses	663,306	143,720	1,404,814
Investments (ex. machinery/car/office space, etc)	196,881	0	363,000
Loan payments (Banks or CA)	0	0	51,161
Variable expenses	1,436,000	0	0
Total cash flow	17,723	7,534	76,895

3. This forecast cash flow statement predicts that there is enough money coming into the firm to pay all of its expenses.

4. The figures below show the previous economic state of the company (expressed in LEI '000):

Current assets as of July 2003	2,027,950
Current debts (liabilities) as of July 2003	1,318,536
Current ratio	1.54
Profit / Loss as of July 2003	879,089

5. The working capital ratio (current ratio) indicates if a firm has enough short-term assets to cover its immediate liabilities and is therefore technically solvent. A ratio between 1.2 and 2.0 is sufficient; this Company seems to be comfortably in this area and should therefore have no trouble in repaying creditors (short-term obligations)[1].

6. Actual figures weren't available through the accounting practice but, according to the interview carried out, these are the average amounts for 2004:

Table 02 LEI ('000)

	Actual / average monthly
Gross Income	250,000
Expenses	85,000

7. The table below suggests a future prospective of the business and results acquired:

Strengths and opportunities	The company has recently been certified ISO 9001 compliant. The demand for local / foreign tourism is growing and apparently there are not many local competitors yet. The occupancy rate calculated is around 65%.
Weaknesses and threats	They would like to request non-reimbursable funds but access has been meandering and time consuming.
Future investment expectations	Acquire more space and equipment to develop a restaurant: this would mean rearranging space where the kitchen area is (no need to build an extension). The whole investment would amount to US$80,000 (Investment Capital only).

4.2 Production Sector – Dan Paper LTD

Region/County Registration Location
Timis county; Covasint village, near Arad town.

Legal Status – Management Structure
LTD – Limited Liability Company with two partners (husband and wife).

Subscribed (Paid-in) Capital
Initial capital was Lei 2,000,000 ; it has now been increased to Lei 75,000,000 .

[1] An access of current assets over current liabilities acts as a buffer against losses that may occur in selling inventory, collecting accounts receivable or liquidating current investments. In general, a business with less inventory and more collectible accounts receivable can operate safely with a lower current ratio than a company having a high percentage of current assets in inventory: the quality of the current assets and the nature of the current liabilities must therefore be considered (ex. work-in-progress inventory has a higher realisation risk than finished goods). Data gathered in the field makes these in-depth analyses inapplicable at this stage.

Starting Year
The owner started from scratch in 1998 when the house basement was set up for the activity. The owner previously acquired sector knowledge when he was working in a printing house.

Number of Permanent / Seasonal Employees
The Company employs 16 permanent staff (including husband and wife).

Main Activities and Services Offered
This is a printing house offering a wide range of products: notebooks, posters, small magazines, etc. Clients are spread over 4 counties including bookstores, individuals and accounting firms. In 2002, the company was the 3rd reseller in the whole county for school products. Approximately 30 more medium-sized companies operate in the same sector. The company has lately expanded into distributing stationery like pencils, rubbers etc. The production is partially based on orders (20%) and on spontaneous demand (stock is therefore traced). The paper bought by the company is Romanian (approx. 25 tons every 20 days).

Assets owned
Land, house and second-hand machinery.

Financing Strategies and Loan History
Personal savings originate from the previous activity carried out by the owner (worked in Germany for a printing house).

- Initial total investment needed to finance equipment and working capital was: DM 55,000 (Deutsche Mark). Amount was supplied using personal savings.

- Managed to obtain a credit line from Banc-Post of Lei 35 million (credit capital); commission was due every quarter, although not breaking into the amount: he therefore decided to close the line. Credit was given to this entrepreneur only because he had promised a job to one of the bank staff.

- Commercial credit with main suppliers is 60 days (while 30-45 days credit is provided to his resellers).

- Initial loan was made available by a Credit Agency (CHF): the company obtained 4 loans during the 1999 period up to now, plus five short-term loans, mainly to finance investment capital.

8. The amount and conditions made available by the CA concerning the last loan in 2003 were:

Loan amount	US$ 20,000
Period	24 months
Interest rate	14%
Collateral required	House
Value of Collateral (estimated at market prices)	120% (covers loan + interest)

Past Cash Flow - Projected Liquidity

9. The following table shows the cash flow comparison based on balance sheet data (which is the only financial statement required by law in Romania) between the pre-micro lending period (on a 6-month basis) and future projections during the loan availability year. There was no data available on the present economic & financial health of the company; therefore we will not examine the profitability of the business.

Table 01 LEI ('000)

Items	**Jan - June 2003** (pre-lending)	**July 2003** (loan start)	**Aug - Dec 03** (projection)
Initial balance	17,060	21,010	10,588
Gross Income	1,647,117	232,131	3,008,418
Fixed expenses	1,032,641	113,020	1,370,490
Investments (ex. machinery/car/office space, etc)	162,270	31,565	397,719
CHF Loan payments	300,980	32,020	377,174
Bank loan payments	21,776	5,948	110,335
Variable expenses	125,500	60,000	720,000
Total cash flow	21,010	10,588	43,288

10. This forecast cash flow statement predicts that there is enough money coming into the firm to pay all of its expenses.

11. The figures below show the previous economic state of the company (expressed in LEI '000):

Current assets as of July 2003	2,227,714
Current debts as of July 2003	369,773
Current ratio	6.02
Profit / Loss as of July 2003	- 40,529

12. The Current ratio is greater than 2, in which case the enterprise can meet its liabilities 6 times over: too much money may be tied up in non-earning ways. Investments for a longer period should therefore be considered.

13. Actual figures weren't available through the accounting practice, but according to the interview carried out, these are the average amounts for 2004:

Table 02 LEI ('000)

Actual / average monthly	
Gross Income	200,000 – 800,000
Expenses	Approx 80% of Income
Wages	Approx 10% of Income
August 2004 Turnover	650,000

14. The table below suggests a future prospective of the business and results acquired:

Strengths and opportunities	Continue product diversification and market expansion.
Weaknesses and threats	The demanding of higher quality products has now become more noticeable: improving the machinery is seen as a necessity. Leased equipment still has a high cost compared with second-hand machinery (ratio is 1:5).
Future investment expectations	Acquire new or second-hand equipment to meet EU standards: this would mean a total investment of US$ 100,000 (the purchase of two second-hand machines has been postponed). Labour conditions for employees are perceived as a need, and must be strengthened.

4.3 Transport Sector – Auxerre Trans LTD

Region / County Registration Location
Timis county; Lugoj town (49,860 inhabitants).

Legal Status – Management Structure
LTD – Limited Liability Company: 2 partners (husband and wife).

Subscribed (Paid-in) Capital
Initial capital was Lei 2,000,000.

Starting Year
Started the activity in 1997; the owner was previously working in trading stores.

Number of Permanent / Seasonal Employees
The Company employs 12 permanent staff (including husband and wife, 8 drivers and 2 administrative personnel).

Main Activities and Services Offered
This is an International Carrier company; goods are transported mainly throughout Italy, Germany and Poland (toys, second-hand parts, wood and construction material, non perishable goods). Annual contracts with clients make up 70% - 80% of the turnover.

Assets Owned
At the moment the total fleet is 5 trucks.

Financing Strategies and Loan History
Personal savings, originated from previous activity, helped the company buy one second-hand truck in 1997. Trucks are all leased for 4 years (leasing will end next year): the down payment is between 10% – 15%. The initial value of each truck is approx. €70.000: after 4 years the remaining value is 20%.

- Commercial credit is 45 days (after transportation).
- Obtained a lease line from Raiffeisen Bank for 1 truck (the other trucks are under different leasing institution agreements).
- Commercial credit with main suppliers is 60 days (while 30-45 days' credit is provided to the company resellers).
- Loan was made available by a Credit Agency (CHF): the company obtained a loan to finance working capital.
- Further un-quantified funding for working capital was provided by Tiriac Bank.
- Same-day transactions made possible by opening savings account in the same bank used by clients (Raiffeisen Bank).

15. The amount and conditions made available by the CA concerning the last loan in 2002 were:

Loan amount	US$15,000
Period	24 months
Interest rate	15%
Collateral required	2 Vehicles
Value of Collateral (estimated at market price)	120% (covers loan + interest)

Past Cash Flow - Projected Liquidity

16. The following table shows the cash flow comparison based on balance sheet data (which is the only financial statement required by law in Romania) between the pre-micro lending period (on a 6-month basis) and future projections during the loan availability year. There was no data available on the present economic & financial health of the company; therefore we will not examine the profitability of the business.

Table 01 LEI ('000)

	Jan - June 2002	July - Dec 2002	Jan – Dec 2003
Initial balance	32,987	119,848	188,755
Income	8,167,927	8,712,454	21,101,272
Fixed expenses	3,729,394	5,414,885	11, 970,008
Investments (ex. machinery/car/office space, etc)	1,426,708	1,584,609	5,106,646
CHF Loan payments	198,000	198,000	287,100
Bank loan payments	853,685	636,922	1,921,547
Other expenses	1,873, 279	809,131	1,821,000
Total cash flow	973,533	825,677	2,105, 273

17. This forecast cash flow statement predicts that there is enough money coming into the firm to pay all of its expenses.

18. The figures below show the previous economic state of the company (expressed in LEI '000):

Current assets as of December 2002	1,417,910
Current debts as of December 2002	709,543
Current ratio	2.00
Profit / Loss as of December 2002	252,219

19. This current ratio is at the most desirable level: the enterprise can meet its liabilities twice over. There is assurance that current liabilities can be paid.

20. Actual figures weren't available through the accounting practice, but according to the interview carried out, the table below shows examples of average amounts for 2003:

Table 02 EUR

Actual / average monthly	
Gross Income	40,000
Fuel Expenses	6,000
Wages	5,000
Insurance per truck (also covering goods)	300 – 400
Phone expenses	1,000
2003 Turnover	Lei 15 billion
2004 expected Turnover	Lei 20 billion

21. The table below suggests a future prospective of the business and results acquired:

Strengths and opportunities	Company is situated in a favourable location in the vicinity of the border and of the region in which it is registered.
Weaknesses and threats	No ISO certificate was ever granted (ex. ISO 9002 certificate in 'Domestic and international road transport, forwarding and logistics'). All authorisations (licenses) must be obtained in Bucharest: with the EU accession licences will be abolished and only a general one-time license from the Romanian government will be needed.
Future investments expectations	Main investment in the near future will be renting a garage. All trucks are EURO 3 compliant: in order to meet the EU EURO 4 requirements new trucks should be bought / leased.

4.4 Commerce/Trade Sector (Shop)- Solar M&M LTD

Region / County Registration Location
Timis county; Lugoj town (49,860 inhabitants).

Legal Status – Management Structure
LTD – Limited Liability Company: 2 partners (husband and wife).

Subscribed (Paid-in) Capital
Initial capital was Lei 2,000,000.

Starting Year
1999.

Number of Permanent / Seasonal Employees
The company employs 6 permanent staff and 1 part-time accountant.

Main Activities and Services Offered
This is a multi-purpose shop with more than 140 product categories, mainly household articles. The Company has 3 sales outlets: the shop visited, plus a second store reselling electrical appliances and a third commercial space which is not yet operational.

Assets Owned
The family owns the space due to a US$30,000 pre-emption which occurred in 1999: the entrepreneur (the wife, in this case) worked from 1965 in the cosmetic / porcelain sector, and acquired and privatised the shop from the previous commercial space owner.

Financing Strategies and Loan History
Loan (micro finance) amounts to only 3% of the initial capital needed. Personal savings originate from the previous activity carried out by the husband (a transportation company in 1994 and a second-hand vehicle dealer business in the same period).

– Loan was made available by a Credit Agency (CHF) / friends / own capital.

– RDB (Romanian Development Bank): financed initial investment with a US$30,000 loan supplied in 2 months and provided 3 loans (US$8,000 each) for the recurrent production (working capital). The collateral required was the apartment, car and land.

– Commercial credit from suppliers is 45 days (approx. 140 suppliers in total).

22. The amount and conditions made available by the CA were:

Loan amount	US$15,000
Period	24 months
Interest rate	15%
Collateral required	Apartment
Value of Collateral (estimated at market price)	120% (covers loan + interest)

Past Cash Flow - Projected Liquidity

23. The following table shows the cash flow comparison based on balance sheet data (which is the only financial statement required by law in Romania) between the pre-micro lending period (on a 6-month basis) and future projections during the loan availability year. There was no data available on the present economic & financial health of the company; therefore we will not examine the profitability of the business.

Table 01 LEI ('000)

	Total 2003 (pre-lending)	**Jan 2004** (loan start)	**Feb - Dec 04** (projection)
Initial balance	127,523	56,360	26,291
Income	11,518,793	616,210	12,094,733
Fixed expenses	925,097	563,444	972,850
Investments	5,292,111	0	5,470,874
CHF loan payments	176,250	14,670	501,870
Bank Loan payments	4,847,011	68,165	4,822,787
Other expenses	349,487	0	300,559
Total cash flow	232,610	40,961	553,954

24. This forecast cash flow statement predicts that there is enough money coming into the firm to pay all of its expenses.

25. The figures below show the previous economic state of the company (expressed in LEI '000):

Current assets as of January 2004	3,017,681
Current debts as of January 2004	889,950
Current ratio	3.39
Profit / Loss as of January 2004	82,563

26. The current ratio is greater that 2, in which case the enterprise can meet its liabilities nearly 3.5 times over: too much money may be tied up in non-earning ways. Investments for a longer period should therefore be considered.

27. Actual figures weren't available through the accounting practice, but according to the interview carried out, these are the average amounts for 2003:

Table 02 LEI ('000)

Actual / average monthly	
Net Income	Lei 181 million
Expenses	Lei 85,000
2003 Turnover	Lei 800 million

28. The table below suggests a future prospective of the business and results acquired:

Strengths and opportunities	This is the only shop of its kind in town. The economy is gradually growing, thus families feel the need to renovate their homes using better quality products; plus the country is facing a major boost in the amount of construction, which is expanding the real estate market.
Weaknesses and threats	None emerged
Future investments expectations	Open the third shop; working capital will be acquired through commercial credit. Buy a Van.

4.5 Calarasi County Chamber of Commerce

29. During a joint meeting in the Calarasi Chamber of Commerce, Industry and Agriculture between the FAO team and some 10-15 agro-processing SMEs, each enterprise gave a short briefing:

- Vegetable and Fruit Processing SME (Name?): Located in a small city of 30,000 inhabitants. Established in 2003 with operations starting in August, 2004. Canning of local vegetables. Number of permanent workers has already increased from 20 to 40. Received a bank loan equivalent to US$20,000 from BCR. Planned annual turnover of €500,000.

- Fructopan fruit and vegetable processing enterprise in Mitreni (Inhabitants?): The SME has a flourmill (80% of the enterprise's total annual turnover); a vegetable and fruit processing plant (annual turnover of US$1 million; an export contract with a French company for the past 10 years); and a 6.5 ha farm for the biological cultivation of fruit and vegetables, plus a greenhouse. Total of 12 permanent workers plus seasonal workers (50-60). Planned investments: expanded plus continuous processing (currently, seasonal) throughout the year plus packaging equipment for flour products.

- Meat Processing Donald SRL (veal + pork): 64 permanent workers. Meat imported from Western European countries. Annual turnover of US$2 million. Existing slaughterhouse needs US$200,000 investments in restructuring and modernisation of the slaughter and processing facilities in accordance with EU norms – to be financed with own capital. Bank loans depend on collateral and good business plans are not taken into consideration. Co-finance of bank loans is needed with other funding sources.

- Farmer: has rented 1,000 ha in the commune. Started in 1994; in 2000 obtained ecological certificate for exports. Production: wheat, barley, sunflower, peas. Annual turnover of €1 million. Has had during the last 2 years contracts with a Dutch company (not satisfactory and suspended, resulting in unused product stock) and a Greek company. 12 permanent workers. Received over 50 bank loans (See the previous preferential subsidised Government credit programmes). BCR bank services are rather prompt and the farmer considers the Rural Credit Guarantee Fund effective. Last received bank loan of €275,000 at favourable conditions from the Oiko Bank in the Netherlands, used for the financing of storage facilities. Due to production failures (limited irrigation capacity!), rescheduling is needed of loan repayments. Investment plans: animal production; cultivation of alfalfa; irrigation modernisation; new plant for the processing of alfalfa pellets to be used for animal feed. The farmer intends to apply for a SAPARD investment grant for agricultural machinery.

- Agrosud: livestock farm (100 milk cows, 700 sheep, 200 goats) with shelter facilities for an additional 1,000 animals; vegetable cultivation (1,000 ha rented land); and a private slaughterhouse for cows, pigs and sheep (Investment plan to modernise the slaughterhouse in order to comply with the EU standards). Applied for a SAPARD investment grant, but the minimum required investment amount of €600,000 was too big and the farmer did not have sufficient own capital and bank loans to co-finance the investment; 52 permanent workers (for the past 5 years). Annual turnover of €1 million. Last bank loan from BCR is still outstanding and Lei 2.8 billion (less than US$100,000) has to be repaid next year. Bank loan collateral problem: 120-160% of the value of the bank loan. Used the Rural Credit Guarantee Fund, but considers that the commission fee of 2-6% is too high, while instead of having to pay the guarantee in advance, it should be allowed to be paid in monthly instalments. The view is that SAPARD is not meant for farmers, but for banks and foreign investors. Farmers also need technical assistance for the preparation of good business plans, in particular, in the case of loan applications to banks for investment finance.

4.6 Agro-Processing: Cramel SRL – Vineyard plus Winery

Region / County location
Recas: small village in the Timis County.

Legal Status – Management Structure
SRL – Limited Liability Company. Management: One British plus two Romanian partners (former management staff of the privatissed state wine farm).

Starting Year
Privatisation started in1998 and lasted until 2000.

Number of Permanent / Seasonal Employees: 150 permanent, plus seasonal workers.

Main Activities and Services Offered
Winery: processing, storage, bottling, large cellar, tasting facilities and sales shop. Annual wine production: 5 million litres with 4 million bottles in 2003. Exports: 75% of the annual production; worldwide (UK, USA, Canada, Asia).

Assets owned
750 ha vineyards with 15-20 ha renewal per year. Modern technology and equipment from Treviso, Italy are used.

Financing Strategies and Loan History
A first SAPARD grant of €725,000 received for modernisation of facilities and equipment. Investments will be completed in March, 2005. A second SAPARD application of €250,000 for the renewal of vineyards is under process.

30. The table below presents investment plans and constraints:

Investments plans	The company has several home banks: BRD and Raiffeisen Bank, with no particular preference. No long-term investment loans received from banks. The company would be interested in the Facility for financing of required investments, in particular for the renewal of the vineyards and vineyard/winery equipment, provided there is not too much time delay in receiving bank loans.
Weaknesses and threats	SAPARD procedures take more than 8 months.

4.7 Agro-Processing: Lioprest SRL – Cheese Making

Region / County Registration Location
Calarasi city; Calarasi county

Legal Status – Management Structure
SRL – Limited Liability Company: One family entrepreneur with a previous trading background of import/export of animals during the period 1990-95.

Starting Year
1998

Number of Permanent / Seasonal Employees
32 permanent employees, of which 14 work in the visited, small but efficient cheese processing plant (working in two shifts).

Main Activities and Services Offered
Multi-activity company: cheese processing and vineyard/winery (only sold on domestic market). Purchase of raw milk: 10 tons of milk per day, which is collected from an average distance of 70 km. Production: 25 tons of cheese per month (mostly soft cheese, both from cow and goat milk). Selling of cheese: 10% local and 90% in Bucharest.

Financing Strategies and Loan History
A first investment loan from the Tiriac bank in 1998: US$100,000 (50% of the total investment costs) obtained in 1 week's time; collateral: 200% of the loan value, consisting of mortgage of the factory (US$160,000) and other guarantees (US$40,000). Loan maturity: extended from 1 to 2 years. Initial bank commission fee of 1% and charging of current bank lending rate.

- Value of investments in equipment: €300,000.
- Annual turnover of about US$1 million

31. The table below suggests investment ideas and strong points and constraints of the business:

Strengths and opportunities	The only cheese processor in the county, with good traditional product quality. Full compliance of the plant with EU standards.
Weaknesses and threats	Not interested in SAPARD grant investment finance, as allocation is considered political (*Note*: Not known if the enterprise was maybe not eligible for SAPARD finance).
Investments plans	Planned investments over 2 years: factory in another location, plus new equipment with an estimated total investment value of €1 million.

4.8 Agro-Processing: Prodinpest SRL – Fish Processing

Region / County Registration Location
Calarasi city; Calarasi county

Legal Status – Management Structure
SRL – Limited Liability Company: two families as partners. Background of partners: commercial/legal and technical (former employee of ex-state fish company).

Number of Permanent / Seasonal Employees
The company employs 17 permanent workers (half women) and 1 part-time accountant.

Main Activities and Services Offered
Supply of raw fish: 30% fresh local fish and 70% imported fish from N. Europe.
Production: 20 tons of processed fish per month and 13 tons of fresh fish per month. Wide product assortment with different packaging modes (jars, plastic, cellophane) and with company labelling.

Assets Owned
Own transport vehicles for the distribution of the products in 6 different counties.

Financing Strategies and Loan History
A SAPARD investment grant application would not be successful due to the collateral problem (lack of sufficient fixed assets) of 50% bank finance. For this reason, the entrepreneurs suggested that the new EU/EBRD Facility explore the possibility of leasing (no collateral required) and suggested the Motoractive Leasing SA a company which operates in the county.

32. Turnover in 2003: €1 million with as clients: 10 supermarkets (annual contracts) and many smaller retailers.

33. The table below presents ongoing and future investment plans:

Investment plans	For its new location, the company has just bought the large abandoned buildings (7,000 square metres) of an ex-state meat factory in Calarasi, close to the current plant. The site is in the process of gradually being refurbished with refrigerators, cooling stores and new fish processing facilities and all will be brought up to EU standards. For the required investments own capital will be used, while a loan of €500,000 is sought.

4.9 Agro-Processing: Aldis SRL - Meat Processing

Region / County Registration Location
Calarasi city; Calarasi county.

Legal Status – Management Structure
SRL – Limited Liability Company owned by one family (husband and wife).

Starting Year
1991

Number of Permanent / Seasonal Employees
700

Main Activities and Services Offered
Started as a small meat processing plant (200 square metres) operating only in Calarasi county; now an impressive large and modern enterprise complex (18,000 square metres), selling nationwide. Is not an SME but a large enterprise (700 permanent workers) with an annual production of 18,000 tons of processed meat for the domestic market. Uses German machinery. Imported meat is used as raw material.

Financing Strategies and Loan History
Bank finance from the home bank, BCR. An application was made to SAPARD for an investment grant of €2 million, which was not approved because the location of the factory in the Calarasi city is not rural. In general, SAPARD procedures are bureaucratic and take too much time. High investment made in up-to-date technology and equipment like refrigerators and cold stores and with production facilities for processing, seasoning, smoking, storage (aging + curing), packaging and labelling. Owns a large and well-equipped truck fleet for a countrywide distribution network (in 30 counties and with 32 warehouses in large cities). Currently in the process of installing own slaughterhouse facilities (depended before on another slaughterhouse in Calarasi, Donald SRL).

34. The table below presents results achieved and ongoing investments:

Strengths and opportunities	It is the foremost company in the county and it has national coverage. Very high hygiene standards and modern facilities.
Investments	Restructuring of the existing factory according to EU standards will be completed by the end of 2004.

4.10 Farming and Agro-Processing: Agrosud SRL

Region / County Registration Location
Calarasi county; Oltenita town (45,000 inhabitants): enterprise headquarters and slaughtering/processing facilities plus a farm in the Spantov commune.

Legal Status – Management Structure
SRL – Limited Liability Company

Subscribed (Paid-in) Capital
Lei 50,000,000,000

Starting Year
1994

Number of Permanent / Seasonal Employees
52 permanent workers

Main Activities and Services Offered
This is an agribusiness/farm enterprise: dairy animal and vegetable farm and a slaughterhouse (for goats, cows, pigs and sheep). The company pasteurises, packs and sells milk on the Bucharest market. Goat's milk is also processed to make cheese. Vegetable production is more profitable than animal farming and for this reason the company intends to extend this activity in the near future.

Assets owned
- 20 bulls
- 110 milk cows (1,000 litres milk/day)
- 500 sheep
- 110 goats
- Slaughterhouse
- Dairy farm (capacity for 1,000 animals)
- Stables
- Transport vehicles
- Agricultural machines
- The company is renting 900 ha with a 49-year concession.

Turnover

Year	*Annual turnover (thousand Lei)*	*Annual turnover (equivalent Euro)*
2001	56,788,439	2,183,113
2002	47,792,923	1,529,569
2003	38,182,766	1,006,452

Note: 83% of the annual turnover comes from production and the remaining 17% from trading.

Financing Strategies and Loan History
Last loan amounted to Lei 2.5 billion from the Banca Commerciale Romana.

35. The table below presents the results of the business and investment plans:

Strengths and opportunities	Develop and improve the animal farming business.
Weaknesses and threats	A major issue in the county is the chain development of animal feeding – processing – selling. Applied for SAPARD investment grant without result.
Investment plans	Financing required for refurbishing of space for 1,000 additional goats (worth €300,000). Other necessary investments, worth €250,000, for: ■ Fixing stables and irrigation system ■ Renting of 866 ha of additional land (contract for 49 years) ■ 200 cows ■ 2,000 pigs ■ Machines (worth €100,000)

4.11 Organic Farming and Agro-Processing – Fructopan SRL

Region / County Registration Location
Calarasi county, commune of Mitreni (4,500 inhabitants)

Legal Status – Management Structure
SRL – Limited Liability Company

Subscribed (Paid-in) Capital
Information not available

Starting Year
1990

Number of Permanent / Seasonal Employees
12 permanent workers (plus temporary workers during peak production seasons).

Main Activities and Services Offered
Processing of organic horticulture (jars of beans, tomatoes, peppers, cucumbers, egg plants).
Grain and corn flour mill.

Assets Owned

- Flour mill (160sqm) –estimated value Lei 5 billion
- Vegetable preservation factory: 6,000 sqm land (estimated value: Lei 103 million), building (Lei 7 billion), equipment and machines (Lei 530 million), truck (Lei 100 million), thermo-isolated car (Lei 100 million)
- 4 greenhouses
- 7.5 ha land for crop cultivation (Lei 130 million)
- 1 ha land (Lei 12 million)
- Note: Forest land surrounding the farm which provides protection against possible crop diseases (is not property).

Financing Strategies and Loan History

Personal savings from a previous activity (shop) were used for the start-up of the business.

- Loan of Lei 7,000,000 in 1991 from Banca Agricola (without the need to provide collateral).
- Lei 66 million provided in 1992 from Banca Agricola for building the mill.
- Lei 400 million in 2001 from Banca Comerciala Romana for building the vegetable processing factory.

36. The table below presents the market perspectives of the enterprise:

Strengths and opportunities	The Romanian market will become increasingly interested in organic products. No competitors in the county at this time.
Weaknesses and threats	Production is seasonal. The company has only one contract with a French distributor who decides which products should be processed. At the same time, primary ingredients like oil and lemon are bought from the French contractor. The Romanian final consumer on the domestic market is not yet prepared to pay extra costs for organic food and all production is for export.

37. ***Investment plans:*** Machine for closing jars plus concentration machine (EU standards): €150,000. Other future investment ideas are: micro heating plant; another warehouse; small tractor.

4.12 Agro-Processing - CPF Tomato SRL

Region / County Registration Location

Calarasi county, Oltenita town (45,000 inhabitants)

Legal Status – Management Structure

SRL – Limited Liability Company

Subscribed (Paid-in) Capital
No information available

Starting Year
2003

Number of Permanent / Seasonal Employees
20 permanent workers

Main Activities and Services Offered
This is an agro-processing plant: tomato/compote (CAEN Code 1533) with a daily production capacity of 20,000 jars.

Assets Owned
The enterprise owns the plant and warehouse and all machinery.
Thermo electric micro-plant.
2,007 sqm of land.

Financing Strategies and Loan History
Last loan in 2003 was from Banca Commerciale Romana under the special National Employment Agency Program (ANOFM Calarasi); amount and conditions of the loan were:

Loan amount	US$20,000 (Lei 600,000,000)
Period	3 years
Interest rate	5.0475% /year
Collateral required	House and savings deposit

38. Proposals to improve the financial services are:

– Lower interest rates for investment loans

– Accept product inventories as collateral

39. No actual accounting figures were made available, but estimated average results for 2004 are:

Average / monthly	
2004 planned Income	€12,000
2004 planned expenses	€10,000
2004 estimated profit	15% of Income

40. The table below presents the situation of the business and investment plans:

Strengths and opportunities	Only 1 competitor in the same county. The entrepreneur will start with concentrate juice processing.
Weaknesses and threats	Need to diversify production assortment.
Future investments expectations	Hire 20 new employees. Necessary investments are: ■ Water filter ■ Refurbish the warehouse ■ Buy an adjacent building for the administrative office. An initial investment amount of €150,000 would be needed.

ROMANIA

BANK LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES IN RURAL AREAS; AN ANALYSIS OF SUPPLY AND DEMAND

ANNEX 5

SURVEY OF SMEs IN RURAL COMMUNITIES

ANNEX 5

SURVEY OF SMEs IN RURAL COMMUNITIES

1. A survey was carried out of SMEs in rural communities between 10 and 25 August, 2004. The sample was chosen at random, primarily from among clients of banks and credit cooperatives. This has undoubtedly biased the perception of bank credit received by the respondents as compared to the general situation of SMEs in rural areas, but the aim was to get a better insight into bank credit on the part of clients. The survey was not intended to get statistically representative responses, as the main objective was to assess the potential demand for credit and the perception of the relationship between banks and entrepreneurs who are seen as more active in their communities. A second objective was to evaluate the extent to which SMEs are accustomed to observing standard requirements for obtaining bank loans and to provide adequate business plans for their intended investments and all other required documents.

2. Questionnaires were used for 102 entrepreneurs in 23 out of the 41 counties in Romania. In most cases, the respondent was the manager/owner of the business. 93 questionnaires were validated (in 9 cases, the answers proved to be highly inconsistent and they were therefore annulled) and they are distributed as follows:

- 56 in 10 counties in the Transylvania and Banat regions (the western part of the country) – subsequently referred to as “Region I”.

- 28 in 9 counties in Muntenia, Oltenia, and Dobrogea (the southern part of the country) – referred to as “Region II”.

- 9 in 4 counties in Moldova (the north-eastern part of the country) – referred to as “Region III”.

3. This distribution observes, to a certain extent, the degree of development by region (except the capital city and the surrounding area) with regions II and III as the recognised poorer areas in the country.

4. The age structure of the enterprises, as far as the duration of the economic activity performed is concerned, is presented in Table 1. A quarter of the respondents started their business in the last 3 years, almost a third between 1996 and 2001, and 41 percent before 1996. Three percent of the respondents did not answer the question.

5. The legal status of the enterprises is presented in *Table 2* below:

6. It can be remarked that the respondents did not make a clear distinction between the type of business (e.g. farm, company, cooperative, other) and the legal status of the enterprise (single owner, association, registered company and different legal types of companies).

7. The main activities of respondents are summarised in *Table 3*. As some respondents are engaged in more than one activity, the number of answers is higher than the number of respondents.

8. Most respondents are engaged in agricultural activities or agro-processing. Mention should be made though that, in our sample, the structure by activity does not observe the statistical distribution in the country, since non-agricultural rural business holds a larger share in

the sample. However, such a distribution may be closer to the effective demand for credit that comes from rural SMEs.

9. Table 4 shows the number of respondents who are engaged in more than one activity. In most cases, the second activity is trade – mainly in the same field as their primary activity.

10. The subscribed capital of the enterprises is generally low and understates their real strength. In our sample, the average per respondent is slightly above €20,000 – an amount that may be indicative of the minimum loan size to be extended to final borrowers under the Facility. However, the picture is different when taking into consideration the turnover of the same enterprises. The average in the sample is €178,000 in the first half of 2004, with the following territorial distribution:

- Region I: €229,000;
- Region II: €71,600;
- Region III: €38,000.

11. It should be mentioned that 29 percent of participants did not respond to the question regarding the subscribed capital, while 16 percent did not respond to the question on turnover in the first half of 2004. For the previous years, the non-response rate was even higher, which proves that the managers show little interest in financial data or at least are reluctant to share this information with outsiders.

12. The structure of the respondent enterprises, by group size, can be summarised as follows:

13. 81 percent of the respondents reported that they employ permanent workers (meaning that the remaining 19 percent have either no employees or did not respond), while 44 percent also have seasonal workers – a quite common feature in agriculture. The average number of permanent employees is 23.6, while the number of seasonal workers is 12.1 (when applicable). The size structure of enterprises by number of permanent employees and by region is presented in Table 6.

14. As far as the financial accounts of the enterprises are concerned, the respondents declared that they kept balance sheets (81 percent), profit and loss accounts (76 percent) and annual reports (69 percent). However, only 50 percent of respondents carried out a business plan, and none declared that their accounts had been audited. The territorial structure of responses is detailed in Table 7.

15. Assuming that all business plans are adequately calibrated for eventual bank loan applications (a hypothesis which is rather heroic in itself), the maximum number of loan applications for the financing of intended investments that could be produced by the SMEs is 50 percent of the sample. Such a proportion is significantly lower than the proportion of SMEs which have already filed a loan application (81 percent of respondents) or intend to apply for a new loan (74 percent of respondents). It is not surprising, therefore, that there are quite a few managers who complain that their loan applications are not approved. It appears that the proportion of loan applicants who have distorted views regarding the loan application procedures is rather high. Such a situation seems to justify the need for specific TA to be directed at SMEs.

16. An important part of the survey is devoted to questions on the demand for credit and the credit history of the respondents. In 2004, 40 percent of the respondents were granted at least one loan from a bank, credit cooperative or micro finance institution. Most respondents did not specify the exact source of the loan, but they stated subsequently that they primarily had bank loans in mind. The average loan amount was equivalent to €58,000. The table below indicates the currency nomination of the loans that were received in 2004.

17. In previous years, the number of respondents that were extended loans was lower. The overall tendency is favourable, since SMEs have become less reluctant to work with banks and other financial institutions.

18. The answer to the question on loan repayment leads to the same conclusion: all respondents, representing 62 percent of the sample, declared that they had observed the repayment schedule. This response is at odds with the long-established view held by banks that rural borrowers show less financial discipline. Even if the sample is not statistically correct, and some of the respondents may have omitted to mention minor repayment incidents (such as delays shorter than one month), it appears that rural clients have become more reliable customers of banks and other financial intermediaries.

19. 29 percent of respondents declared that they did not apply for a loan. Considering that the most frequent reason given came from 100 respondents, the following structure is not surprising: the main reasons invoked are that applying for a loan takes too long or involves a lot of red tape (100) and interest rates (plus bank fees) are too high (89). The incidence of loan maturities being shorter than envisaged and the impossibility to comply with the collateral requirements of banks come lower (59 for each). The third group of reasons refers to the lack of confidence that a bank loan application will be approved (41) and a reluctance on the part of SMEs to incur debts (37). The last group of reasons includes insufficient profitability to be able to repay the principal loan amount plus interest (22), the lack of knowledge regarding the loan application procedures, or a sufficient level of own income sources (15 for each). Table 9 gives details regarding the geographical distribution of each reason.

20. This distribution represents mostly perceptions rather than actual causes. Thus, it is likely that “in real life” the insufficient profitability to repay credit has a higher incidence on the decision not to apply for a loan. However, it is worth noting that the most significant cause for not applying is the cumbersome loan application and approval process, while high interest rates come second.

21. The average size of the requested loans slightly exceeds €120,000 for loans both in local and foreign currency, and it matches the envisaged indicative size of the loans to be provided under the Facility. Table 10 provides a breakdown of the loan applications by region.

22. If the responses to the questionnaire were converted into actual loan applications, then the 93 SMEs included in our survey stand ready to request some €6.8 million credit, mostly for investment purposes. Such numbers should, of course, be considered very cautiously, as long as a good number of the applicants continue to face various barriers before their plans come to fruition. However, the responses give a good indication that rural SMEs are becoming more market orientated and are ready to capture investment opportunities that come forth from a growing demand for their output, both locally and abroad.

Questionnaire for the evaluation of SME activity, size, and investment intentions

Date: ________/ 2004 Starting time: ________ Ending time: ________

Surveyor: ___________________________________
Region: ___________________________________
Municipality: ___________________________________
Distance from the nearest commercial centre: ___________________________________

Banks present in the nearest commercial centre: ___________________________________

Respondent's name: ___________________________________
Position in the enterprise: ___________________________________
Profile: ___________________________________

Type	**Family business**	**Company/Firm**	**Cooperative**
	Farm	**Other**	

1. GENERAL INFORMATION

1.1. Description of the enterprise

Legal status:
- **Sole traders**
- **Partnership**
- **Registered Company; type: ___________________________________**

What is the management structure of the company (describe)?:
____
____

Subscribed (Paid–in) Capital (in Euro or local currency): ____________________________

Year when started activities: ___________________________________

Financial history:
- **What type of records company has:**
  - **Balance sheet? Y / N**
  - **Income statements? Y / N**
  - **Annual reports? Y / N**
  - **Business plan? Y / N**
- **Have the accounts been audited by external/internal auditors (choose one)?: External / Internal**
- **If audit was done externally, which is the firm that audited those accounts (put name):**

____

For how many years back have accounts been audited (put number of years): ____________

Number of permanent employees: __________________________________

Number of seasonal employees: __________________________________

Main activities:

Agro-Processing ………………………………………..
………………………………………..
………………………………………..
Agricultural production Cereals
Cereals for fodder
Oil crops
Wine
Fruits
Vegetables
Dairy products
Meat

Agri-Tourism

Manufacturing ………………………………………..

Textile ………………………………………..

Services (hairdressers, garages...) ………………………………………..

Other

2: ASSETS OWNED

How many of the following assets does the company own?
Info collected from questions
Asset Owned Value when acquired / Purchase Price (Euro): Replacement Value:
How was the item acquired?
1 = cash
2 = credit
3=other If credit, what was the source of the loan?
1=supplier
2=relative or friend
3=money lender
4=trader
5=financial institution:………………
6=other:

Time Period of Loan (months)
1. Land
2. Buildings
3. Plant(s)
4. Equipment/ Machinery
____
____
____
____

5.Motor vehicles
____
____
____
____

6.Shop/Workshop

2. Farm equipment (if enterprise is farm)

Tractor
Trailer/cart
Plough
Weeder
Harrower
Other
(Specify)_________

3. LOAN HISTORY

Please provide information on loan applications by company during the past three years. It would be particularly interesting to know if they applied and if they already benefited from any support from any of EU-funded credit lines (in case of agri-sector, particularly SAPARD programs).

YEAR Institution that was approached?
1= commercial bank (name of the bank)
2=moneylender
3=other financial institution (name)
……………….. For what purpose was the loan intended?
1= working capital investment (<12 months)
2= longer-term investment (>12 months)
3=repay other debt What was the size of the loan?
What was the interest rate of the loan?
Repayment schedule / term of repayment Collateral used by the bank

2004

2003

2002

3.1 If no applications are listed above, why not? …..- please circle as many as necessary
1 = Own income sources sufficient (do not really need loans)
2 = Reluctant to get into debt
3 = Interest rates too high
4 = Term too short
5= Do not have enterprises that would make a sufficient profit to repay the loan
6= Did not satisfy collateral requirements imposed by the bank
7= Not aware of the application process; do not know how to apply
8 = Application process too time consuming or bureaucratic
9= Do not believe loan application would be approved (no collateral, do not trust the financial institution)
10= Other (specify) ……………………………………………………………………………………………..

3.2 If one or more loans have been received from the same source, please complete the following table:

Loan Size of Initial Loan (R) Has the borrower since taken out more loans of the same type?
1=yes
2=no If yes, what was the size of the most recent loan? (R) To what use was the initial loan put? To what use was the most recent loan put?

3.6 Repayment

3.2.1. Have there been any events that made it difficult for the borrower(s) above to maintain loan repayments? Yes / No

3.2.2. If yes, what? ____________________________________
____

3.2.3. What were collateral requirements: ____________________________________
____
____
____

SECTION 4: SUGGESTIONS FOR IMPROVEMENTS OF FINANCIAL SERVICES

4.1. What have been the main problems with your present sources of financing?
……
……………………………………………………………………………………………….

4.2. Is there interest/demand for more/different kind of loans (long-term, short-term/working capital etc.) in the banks? Yes/No;

4.3. If yes, for which purpose?..

4.4. How/from which income source would you repay an additional loan?
……………………………………………………………………………………………………….

4.5. How should loans be improved to better suit your needs:

Frequency of repayment……………………………………………………………………..

Term…………………………………………………………………………………………….

Collateral……………………………………………………………………………………….

Interest………………………………………………………………………………………….

Technical assistance in preparation of loan applications and business plans ……………………………………………………………………………….

Other…………………………………………………………………………………………….