



FRIDGE

Development of food industry SME competitiveness for better potentials in growth

Report on self-assessment of the regional policies

Tolna County Development Agency

May 2020

1. Regional Policies and SMEs of food and drink sector in Tolna County

This study is based on four pillars:

1.1. **Main financial instruments – policies** that support SMEs of food and drink sector and especially those that promote competitiveness and exports

1.2 **Key actors of the support system** whose position and interactions are critical for the subject of the project (competitiveness and exports of regional food and drink companies)

1.1. Main Financial Instruments and policies supporting the food sector in Tolna County

1.1.1. Supporting policies

Specific policy instruments and ultimately, calls for proposals and other policy interventions are based on a complex web of policy documents: interconnected strategies, plans, roadmaps building upon each other and reinforcing specific elements, creating a policy basis for action. A review of food industry specific strategies is followed by the policy instruments that deal with food industry.

1.1.1.1 Irinyi Plan

The increase of industrial output is an extremely important objective of the Hungarian economic policy. The Government strive to advance this economic sector with intervention in line with the re-industrialisation strategy and objectives of the European Union. A complex set of tools assist re-industrialisation and the development of the Hungarian industry. Not limited to only support for direct investment, new indirect instruments are explore, such as economic regulation, which are at least equally important. The Irinyi Plan was created considering that this deregulation approach is not well known about for certain actors, a consistent and clearly understandable legal environment is a crucial element of success.

The key points of the Plan are increasing added value in the industrial production, manufacturing more competitive products, increased effectiveness of related services, enhanced mobility of industrial actors within the EU, better and more educated workforce, advancing resource-efficiency of industrial activities.

Taking into account a selected set of criteria with regards to external (trends of global industry development, exportability, FDI attractiveness, delocalisation potential) and internal

(energy consumption, added value, effect on the job market, share of Hungarian-owned businesses) factors, a few sectors were identified to focused on, such as the automotive industry, manufacturing of specialized machinery, health industry including tourism, **food industry**, green industry (including manufacturing of bio fuels, forestry, waste management, RES), the ICT sector and defence industry.

The Government declared food industry a strategic sector. A medium and long-term food industry development strategy (to be discussed in the next chapter) had been prepared to enhance the competitiveness of the sector and in the same time the local conditions, traditions and the diversity of available domestic agricultural raw materials to react to the challenges. New trends appear on the market with more segmented consumer groups and a constant and long-lasting increase in demand for good-quality food products.

The strategy intends to promote the balanced development of the sector, with special attention to the food processing activities of agricultural producers, family farms and small producers, the improvement of the technical, technological and quality standards of micro, small and medium-sized food industry enterprises and the operation of large companies with sustainable development and capability of producing safe and competitive mass food products. The fundamental objectives of the strategy for all types of enterprises include the improvement of competitiveness, an increase in the number of employees in the food industry and the preservation and increase of the rural jobs directly linked to agricultural raw material production in Hungary. During the course of the planning of programmes co-financed by the European Union between 2014 and 2020, the Government pays special attention and allocates large amounts to the food industry.

Product development, compliance with the criteria of authentic certificates of excellence and geographic origin protection, and design of corporate and regional brands are extremely important. Apart from supporting competitive small enterprises, the conditions required for the survival of micro and small enterprises not capable for development but capable for maintaining themselves and their direct environment should also be put in place. The growth of medium-sized enterprises must be supported, helping them become competitive and rationalise their product range as well as produce higher-quality products that can cover special needs. Apart from diversification, the encouragement of networking among companies and clusterization is also very important in order to better organise production. Apart from the healthy nutrition of the Hungarian population, the restoration of the Hungarian vegetable and fruit exports is an important objective associated with the Eastern Opening programme, a plan to increase exports in the extra-EU Eastern markets.

The Irinyi Plan being a broad strategy only outlines possible actions and does not determine specific actions. Foreseen actions are competitive and/or complex tendering using multiple policy instruments to initiate a structural change in specific companies and to address several challenges at once and earmarked development funds (elaborate later in the second chapter) are mentioned as possible intervention to reach the aforementioned goals.

1.1.1.2 Hungarian medium and long term food industry development strategy 2014-2020

The most specific policy document dealing with food industry is the “**Hungarian medium and long term food industry development strategy 2014-2020**”, which takes into account the special nature of food industry in terms of having access to the five big EU funds with CAP funds being more restricted due to their nature but still very important in the sector. The **vision** of the strategy foresees the following goals for 2020:

- “Hungarian food” means safe, high quality and verified quality products;
- Smaller, family owned SMEs are a vital part of the regional food chain, providing for food security, producing traditional artisan food, cover specific local needs, and contribute to local employment so rural areas can and will maintain their population;
- Bigger companies are aligned to market conditions and embedded in the local market by buying local raw materials produced by local agricultural businesses, provide for the needs of the national market while maintaining a healthy export share;
- Producers are aligned in vertical and horizontal integrations and exploit these possibilities on a local, regional and national level;
- Hungarian food industry companies carry out R&I activities increasing their competitiveness contribute to an increasing share of healthy, innovative and knowledge-intensive products;

This vision already acknowledges a few of the crucial issues that need to be addressed and also underpins a broader outlooks with regards to the industrial actors’ contribution to local economy and job market.

The **social policy objectives** of the strategy are the following:

- Providing for food security with domestic products;
- Supporting public health with appropriate products;
- Creating and maintaining workplaces;
- Conserving the environment by sustainable use of production capacities;
- Contributing to the goals of the national economy.

To assist in reaching the broader aims (vision and social policy aims) of the strategy, these were translated into a set of specific goals. Specific tools and instruments were assigned to each **specific goal**, of which a selected extract can be found below.

- Stable financing:
 - access to loans, promoting alternative fundraising methods, setting up a system to help firms in difficulty, setting minimum reserve requirements;

- Innovative and effective enterprises:
 - Technical modernization (higher added value, increased environmental friendliness), increased competitiveness with regards to sectoral structure, promoting R&D&I activities and knowledge-transfer (H2020, OP funds, increasing transfer along the quadruple helix, consultancy services for SMEs);
- Up-to-date knowledge of employees:
 - Training of the management employees for increased efficiency, reshaping formal education;
- Increased vertical and horizontal integration to the food chain:
 - Integrated analysis of specific chains and supporting value chain approach, establishing regional processing capacities, stimulating joint efforts to market access and other forms of cooperation;
- Stimulating market reach:
 - Assessing the market position of the Hungarian food products and promoting Hungarian food as a whole, increasing consumer awareness and building trust;
- Supportive business environment:
 - Coordination of different policy instruments, unified, business-friendly administrative procedures and legal environment

The Strategy already indicates and makes connections to specific policy instruments which are reviewed in the following chapter, namely the TOP-1.1.1-15-TL1 “Development industrial areas and industrial parks” and the TOP-1.1.3-15-TL1 „Development of the local economy” call for proposals are specifically linked to “Increased vertical and horizontal integration to the food chain” specific goal or the EDIOP 1.2.6-8.3.4-16 (“Support for complex investments of medium-sized companies in the food industry with a combined loan product”) linked to the “Innovative and effective enterprises” specific goal. There are several more call for proposals based on the Hungarian medium and long term food industry development strategy 2014-2020.

1.1.1.3 Integrated Rural Development Programme of Tolna County

The **Integrated Rural Development Programme of Tolna County** deals with regional development issues and channels local needs to the Territorial and Settlement Development Operation Programme. It is different therefore than the “Hungarian medium and long term food industry development strategy 2014-2020” in terms of having a territorial focus rather than a sectoral one. The overall purpose of the IRDP is to assist the

territorial actors (all County Councils, excluding Pest County) to plan the announcement of TSDOP call for applications based on the resources allocated to its planning authority.

The Programme also outlines the activities and responsibilities of the County Council in implementing the Territorial and Settlement Development Operational Programme by providing a roadmap and administrative requirements on the list of recommended projects for the MA's approval. The Programme therefore identifies a set of goals complying with those in the TSDOP. The specific goals of the Development Programme are:

- Sustainable development of local economy and tourism, increasing employment,
- Transport development,
- Supporting environmental sustainability,
- Improving public services,
- Supporting sustainable settlement development,
- Supporting community cooperation and initiatives,

The set of goals outlined in the IRDP is aligned to the TSDOP as it establishes the allocation of funds in the County rather than developing specific, unique aims and goals.

1.1.2. Policy instruments and financial sources for food industry development

With regards to financial support, there are two main pillars of supporting SMEs in the food industry sector which are the following:

1.1.2.1 Domestic sources allocated to SMEs, including food industry companies by line Ministries, such as

1.1.2.1.1 Large Enterprise Investment Support

This scheme supports large enterprises (more, than 500 employees) and SMEs that as a result of the investment will grow over 500 employees in total becoming a large enterprise, thus no longer be eligible for financial support from OPs. In 2015, food companies received a total of HUF 1.3 billion from the program coordinated by the Ministry of National Economics (Ministry of Finance as of 2020). In 2016, HUF 8.7 billion was tied to food companies from the scheme. Based on the contracts concluded in 2017, food industry companies received HUF 2.9 billion.

1.1.2.1.2 The Earmarked Scheme for Investment Promotion

Grants based on specific government decisions: **The Earmarked Scheme for Investment Promotion** managed by the Ministry for Foreign Affairs and Trade. Between 2014 and 2016, food industry companies received HUF 23.0 billion from the support granted within the

framework of the scheme. During 2017, a total of HUF 19.8 billion in subsidies related to the food industry was announced. Investments made by start-up companies and SMEs were supported if they have reached a minimum investment amount. While in the most developed counties generally should've reached 20M EUR, in less developed counties, such as Békés, Nógrád and Szabolcs-Szatmár-Bereg, 5 M EUR is a sufficient amount to be eligible. Other requirements include an increase in the number of jobs offered by the company (ie addition of new employees, while the number of old workplaces remain the same). The concept of start-up investments have also changed over time: previously only brand new facilities, or expansions and product diversification were eligible for funding, from 2014 and onwards purchasing assets belonging to an establishment that had been closed or will be closed is also considered as start-up investment. From 2019, creating new jobs is no longer a requirement due to the low unemployment rate, a minimum amount of increase in income was set as a benchmark instead.

1.1.2.1.3 *National Farm Development Programme*

Hungary – especially the Great Hungarian Plain is dotted so-called “tanya”, a type of farm and individual settlement, generally located a few kilometres from each other. The potential beneficiaries can be local municipalities or municipality associations, church organizations, civil organizations operating homestead caretaker services, primary producers and sole proprietors producing less, than 6000 EUR standard output equivalent. These producers can apply for erecting buildings and purchasing equipment for livestock farming and meat processing for a maximum of 3 million HUF.

1.1.2.1.4 *Hungarian Development Bank Working Capital Loan Program*

Hungarian food companies that meet the criteria of but not constitute as SMEs may participate in the Loan Program and can apply for a minimum of 5 million, a maximum of 500 million HUF loan with a preferential interest rate tied to EURIBOR rather than BUBOR (which is usually considerably higher) which is also comes with a maximum of 60% interest subsidy provided the Ministry of Agriculture. The advantages apart from having a lower interest rate than its conventional counterparts is that there is no owner's equity requirement.

1.1.2.2 **European Funds distributed through Operational Programmes**

7 Operational Programmes are responsible for the distribution of ERDF and Cohesion Funds. EAFRD is distributed through the Regional Development Programme. The 7 Operation Programmes are the following:

- Competitive Central-Hungary OP
- Economic Development and Innovation OP
- Environmental and Energy Efficiency OP
- Human Resources Development OP

- Integrated Transport OP
- Public Administration and Civil Service Development OP
- Territorial and Settlement Development OP

An overall of 12,000 billion HUF (approximately 40 billion EUR) of funding is available in the 2014-2020 EU programming period. Relevant policy instruments of this period in terms of food industry are the Economic Development and Innovation OP and the Territorial and Settlement Development OP, respectively.

From a management perspective, the Managing Authorities of different OPs are assigned to legally separate bodies even if located in the same Ministry.

1.1.2.2.1 Economic Development and Innovation Operational Programme

The programme aims to stimulate the economies of the less developed regions in Hungary. Its most important priorities are the competitiveness of small-and medium sized enterprises, research and innovation, and employment. The programme also aims to develop the tourism industry, enterprises' energy efficiency, and information and communication technologies. Moreover it stimulates the use of financial instruments to cover other objectives, like increasing renewable energy production and improving the energy efficiency of households and public buildings. The Programme focuses on different main priorities:

- Increasing the competitiveness and productivity of SMEs
- Research, technological development and innovation
- Infocommunication developments
- Energy
- Employment
- Competitive labour force
- Tourism
- Financial instruments

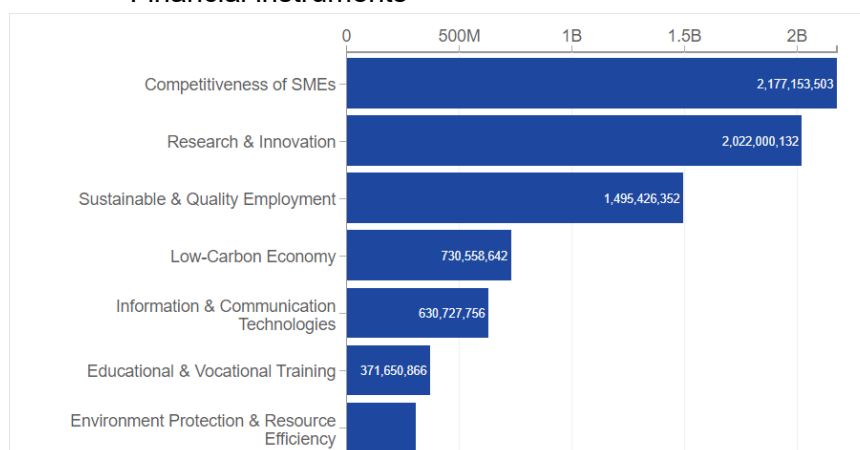


Figure 1.: Allocation of EDIOP funding by priorities

Based on information until the 31st of December, 2017, 421 awarded grants were received in the case of applicants with NACE classification belonging to food industry accounting for a total of 31.2 billion HUF. The number of contracts in force was 382, the contracted amount was 26 billion HUF and the actual payment was 16.5 billion HUF.

Examining the EDIOP sources on the basis of development direction (so the development will be in the food industry, even if the company itself is not included in these NACE codes), 588 subsidies were granted, to which an amount of 42.4 billion HUF is connected. The number of contracts in force was 530, the contracted amount was 33.9 billion HUF, and the actual payment was 20.4 billion HUF.

The EDIOP 1.2.6-8.3.4-16 (“Support for complex investments of medium-sized companies in the food industry with a combined loan product”) call for applications specifically addresses the actors of the sector. The purpose of the call is to strengthen the development, role and market position of medium-sized food processing enterprises, to support investments leading to job retention, and to reduce regional disparities by supporting complex investments, jointly providing non-repayable aid and a soft loan as a grant. regional catching-up and strengthening the local economy. The supported investment must lead to an increase in capacity for which there is a real market demand and improve technological readiness, competitiveness and resource efficiency. Based on data available on the 31st of December, 2017, 72 applications were received from food industry companies, and the requested support shows a value of around HUF 52.7 billion. As of today, there are two Beneficiaries (milling industry and meat industry) in Tolna county accounting for a total of 508 million HUF.

Supported projects in Tolna county:

Applicant's name: "GOF HUNGARY" Gabona-, Olajos és Fehérje-növények Termelését Koordináló Korlátolt Felelősségű Társaság

Project title: **Complex development of flour production technology at "GOF HUNGARY" Kft**

Settlement: Dunaföldvár

Description: The project involves the development or construction of renewable energy technology: The biomass boiler purchased during the project will heat the mill building and utilize the waste material from the technology as fuel. Based on this, the energy demand of the buildings within the plant will be partially covered by the production of renewable energy.

The decision support system will be able to process and analyze data directly from sensors located on the production line, production machines or equipment control. The decision maker gets instant information about several points of production.

Applicant's name: BÁT-GRILL Baromfifeldolgozó Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság

Project title: **Expansion and technological modernization of the processing plant of BÁT-GRILL Kft**

Settlement: Bátaszék

Description: With the implementation of the investment, the company upgraded almost its entire technological line. They did not deal with the utilization of renewable energy sources for the present investment, as they were able to significantly reduce our energy consumption by recycling the waste heat from refrigerators during their previous investment. Thus, in the present investment, they were able to focus on modernizing the technology. With the

expansion of the building, these technological processes will be placed in a suitable environment, more transparent processes will improve the efficiency of management, creating improved working conditions for employees.

The EDIOP 1.2.1-15 call for applications is not a specific call, however food industry companies can apply for funding. This call includes activities such as:

- buying new production equipment,
- property purchases and infrastructure investments for operating new equipment,
- ICT-investments including hardware and software,
- Improving accessibility,
- Improving working conditions for the disabled.

The maximum non-refundable grant amount is 500 million HUF with a maximum intensity of 50%. 14 applications were granted funding in Tolna County (out of the total of 498 applications), account for a grant amount 2,37 billion HUF, and only one of the Beneficiaries operate in the food industry (bakery).

The EDIOP 1.2.2 (“Expanding production capacities of micro, small and medium-sized enterprises”) call for applications is very similar to the call described above, there are two notable differences:

- the EDIOP 1.2.2 call supports increased online presence,
- the maximum grant amount is 50 million HUF with the same intensity of maximum 50%.

The maximum non-refundable grant amount is 50 million HUF with a maximum intensity of 30%, the maximum loan amount is 135 million HUF and should be more than the non-refundable part. Businesses in Tolna county were awarded 51 grants out of the total of 1402 accounting for a 1,2 billion HUF, of which 4 bakeries operate in the food industry.

The EDIOP 1.2.3-8.3.4-16 (“Expanding production capacities of micro, small and medium-sized enterprises with combined loans”)

looking similar, however it provides funding for different activities, such as:

- Buying new machinery and equipment,
- Establishing new buildings or modifying/refurbishing existing ones and implementing new or different building services,
- ICT-investments including hardware and software,
- Publicity activities in connection with the project,
- Implementing technologies using renewable energy sources.

Businesses in Tolna county were awarded 26 grants out of the total of 957 accounting for a 807 million HUF, of which 1 bakery operates in the food industry.

EDIOP 5.1.3-16 “Stimulating social enterprises” is a different call aiming at providing for incentive and stability for companies with a social purpose. Potential Beneficiaries are social enterprises, such as: social cooperatives, non-profit companies, foundations, church organizations. The supported activities are the following:

- Hiring new, disabled employees,
- Participating in exhibitions and fairs,
- Marketing activity to reach new markets,
- Buying of marketing tools,
- Employment of technical staff implementing specific action related to the project goals,
- Developing new products,
- Improving quality of services.

This call for applications supports various projects in terms of goals and activities. There are very different organizations from social cooperatives operated by Municipalities in less developed, rural areas of the country to social enterprises dealing with specific target groups (minorities, disabled). Ultimately 171 proposals were awarded grants of which 3 is located in Tolna county, accounting for a total of 158 million HUF, and only one social enterprise deals with food industry, a chocolate factory.

1.1.2.2.2 Territorial and Settlement Development Operational Programme

A spiritual successor to the ROPs of the 2007-2013 period. These OPs are managed by a It is a centralised OP in the sense that there is only one OP that incorporates the territorial development objectives of all regions. Funding is managed in a decentralised manner by the counties, urban counties and by communities (in the case of community-led local development (CLLD) programmes). The County Councils are a part of the decision-making process as they prepare and accept a list of project for the MA (Ministry of Finance) for approval. The main priorities of the OP include: 1) economic development and job creation; 2) improvement of the framework conditions of entrepreneurship (e.g. through improvement of public services, for example health and transport services; development of settlements' infrastructure; elimination of segregation and human resources development); 3) switch to a low-carbon economy; and 4) development of cities' and settlements' identity, cohesion and satisfaction through CLLD programmes. Policy measures related to innovation-specific objectives include support to the development of industrial parks and incubators, SMEs' market-oriented innovation and to their investment in technology upgrading. Prioritised industries include tourism and food industry and to a certain extent also eco-industries.

The TOP-1.1.1-15-TL1 “Development industrial areas and industrial parks” call for proposals is directly aimed at developing new industrial parks and refurbish/extend existing ones.

The supported activities are the following:

- Developing new industrial, technological and scientific parks,
- Developing new industrial areas, refurbishing existing ones,

From the total of 129 granted applications 5 is located in Tolna County and one is connected strongly to food industry in the frame of which project an industrial park was established to process herbs for non-medicinal use. This project accounts for a total 300 million HUF financial support.

The TOP-1.1.3-15-TL1 „Development of the local economy” is call for applications for developing the so-called agricultural logistic centres. This is a quite specific intervention the building infrastructure is provided by the TOP-1.1.1.-15-TL1 projects and within the framework of the tender, the building engineering equipment necessary for the operation of the building were be developed, including drying, ventilation, freezing equipment, heating and hot water supply systems, air conditioning in the warehouses and office spaces, and a renewable energy systems.

The supported activities are the following:

- Supporting local producer reach markets, by
 - Establishing new local farmers' markets,
 - Refurbishing existing farmers' markets,
- Supporting local Municipalities to develop infrastructure for communal catering by
 - Building a new specific building for that purpose,
 - Refurbishing an existing one,
 - Develop infrastructure for a local kitchen and food preparation facilities
- Supporting local produces to reach markets by establishing an agricultural logistic centre, including
 - Infrastructure for For post-production operations (storage, refrigeration, sorting, washing, packaging) construction of infrastructure related to logistic operations (warehouses, cold stores),
 - Transformation, extension, modernization, restoration, renovation of existing buildings, implementation of necessary building engineering investments (eg. expansion of storage capacities).

Out of the applications 10 were awarded grants in Tolna county, accounting for a total of 2,4 billion HUF, including the development of 2 cold storages (1 fruit processing and 1 oilseed processing centre), 4 market halls.

1.1.2.2.3 Rural Development Programme (CAP)

The Rural Development Programme financed by the CAP offer calls that support food industry. The Rural Development Programme (RDP) for Hungary was formally adopted by the European Commission on 10 August 2015, and last modified on 9 September 2019, outlining Hungary's

priorities for using the € 4.2 billion of public money that is available for the 7-year period 2014-2020 (€ 3.4 billion from the EU budget and € 737 million of national co-funding).

Hungary's RDP is putting emphasis on actions related to restoring, preserving and enhancing ecosystems, promoting food chain organisations and risk management in agriculture and promoting social inclusion, poverty reduction and economic development in rural areas. Almost 600 000 ha agricultural land is expected to come under management contracts supporting biodiversity, better water management and soil management. In addition, 104 000 ha of forests will come under management contracts mainly for protecting biodiversity. The RDP will support 1 624 investment projects related to processing activities and a further 6 538 to improve the competitiveness of farmers. Young farmers and short supply chain will have dedicated sub-programs, under which 3 000 young farmers and 3 900 farms will receive targeted support. Hungary's RDP will contribute to social inclusion and economic development in rural areas by bringing improved services to 68% of the rural population. 2 600 investment projects will receive support to increase energy efficiency in the agricultural and food processing sector. Hungary has put particular emphasis on innovation when selecting operations and 3.6% of RDP public expenditure is earmarked for actions that foster innovation and cooperation including projects under the European Innovation Partnership.

Main focus areas are:

- Knowledge transfer and innovation in agriculture, forestry and rural areas
- Competitiveness of agri sector and sustainable forestry
- Food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture
- Restoring, preserving and enhancing ecosystems related to agriculture and forestry
- Resource efficiency and climate
- Social inclusion and local development in rural areas

The four major RDP measures in budgetary terms (total public funding) are:

- € 1 380 million allocated to measure 4 (Investments in physical assets)
- € 757 million allocated to measure 10 (Agro-environment-climate)
- € 305 million allocated to measure 6 (Farm and business development)
- € 278 million allocated to measure 7 (Basic services in rural areas)

The VP-4.2.1-15 „Value enhancement of agricultural products, increasing resource efficiency in processing” is a call for applications concerning agricultural producers, and non-agricultural micro and small business. Eligible activities are the following:

- Procurement of new machinery and equipment,
- Establishing new buildings,

- ICT development concerning production management, internal register systems, etc.
- Increasing energy efficiency (insulation, refurbishing heating, domestic hot water and cooling systems, lighting modernization, etc.)
- Increasing resources efficiency in terms of saving raw material, water, energy, increased utilization of by-products and waste, modern packaging technologies, waste water management and installing metering and controlling systems to achieve increased energy and resource efficiency,
- Installing RES systems and utilizing RES in production.

12 project were approved accounting for a total of 1,28 billion HUF. Meat processing plants, fruit klins, cold storage, jam production plant and truffle processing plant were supported.

The VP-4.2.2-16 „Supporting product development and increasing energy efficiency in wineries” is a call for application specifically aimed at wineries. This is the most frequented call with 45 approved projects from Tolna County alone from a total of 444. Eligible activities are the following:

- Purchasing, refurbishing viticulture and viniculture machinery capacities,
- ICT development concerning production management, internal register systems, etc.
- Increasing energy efficiency (insulation, refurbishing heating, domestic hot water and cooling systems, lighting modernization, etc.)
- Increasing resources efficiency in terms of saving raw material, water, energy, increased utilization of by-products and waste, modern packaging technologies, waste water management and installing metering and controlling systems to achieve increased energy and resource efficiency,
- Installing RES systems and utilizing RES in production.

The 45 approved projects account for a total of 3,45 billion HUF.

The VP-4.2.2-18 „ Value enhancement of agricultural products in processing” is a call for application concerning agricultural producers, and non-agricultural micro and small business. The maximum amount for individual applicants is 500 million HUF (200 million HUF for wineries) and 1,5 billion for collective applications (500 million HUF for applicants for wineries). The potential applicants are companies from the eligible NACE code range of C10 and C11 – food and drinks industry. Eligible activities are the following:

- Purchasing new machinery, production capacities and technologies,
- Building new buildings for the capacities,
- Purchasing, refurbishing viticulture and viniculture machinery capacities (for wineries),

- Increasing energy efficiency (insulation, refurbishing heating, domestic hot water and cooling systems, lighting modernization, etc.)
- Increasing resources efficiency in terms of saving raw material, water, energy, increased utilization of by-products and waste, modern packaging technologies, waste water management and installing metering and controlling systems to achieve increased energy and resource efficiency,
- Installing RES systems and utilizing RES in production.

The 32 approved projects account for a total of 4,2 billion HUF. The majority of those are aimed at wineries, development of a meat plant, oilseed processing plant, cheese factory, fruit processing plant and a juice factory are among the supported applications.

The VP2-6.3.1-16 „Development of small farms/manufactories” is a call for small businesses to modernize their product lines and/or create traditional artisan products. The maximum support is 15,000 EUR, which is 100% non-refundable. The potential applicants had to commit to reach at least 6000 EUR of standard output in agriculture or a turnover of at least 6000 EUR with regards to sales of agricultural and/or annex 1. activities from the fourth year from signing the Subsidy Contract. The 28 approved projects account for a total of 130 million HUF. Beneficiaries are vegetable and flower producers, cheese manufactories, fruit and juice plants.

1.1.3. RIS 3 strategy in Hungary

RIS3 strategies aim to enhance innovation capacities of the member states on different territorial/administrative levels by special attention given during the elaboration of such strategies to involvement of local actors, taking into account the full process of innovation including product development and by taking into account regional differences and local peculiarities. As the current RIS3 strategy was created in conjunction with the 2014-2020 Operational Programmes, it serves as a complementary document entailing specialization directions.

With the discontinuation of ROPs regional RIS3 strategies were ultimately not used as a basis for identifying key issues and preparing corresponding call for proposals at a regional level.

The National RIS3 strategy identified key issues and target areas, such as:

- Advanced technologies in the vehicle and other machine industries
- ICT and information services
- Sustainable environment
- **Agricultural innovation** (agriculture, forestry, hunting, aquaculture and water management, horticultural technologies, agricultural biotechnology)
- Clean and renewable energies
- Healthy society and wellbeing
- Inclusive and sustainable society

- **Healthy local food** (food processing, locally produced and processed food of high added value)

The RIS3 identified the Rural Development Programme as a key policy instruments in connection with the thematic priorities (“Strengthening of cooperation between the stakeholders in agribusiness and certain stakeholders in research and innovation, and the food chain”, „Agricultural innovation”) and national smart specialization directions concerning food industry.

1.2. Matrix of Financial Support for food and drink businesses

Financial Instrument	Objective	Priority sectors	Fields/Territorial context	Structural Funds	Utilization rate estimation by food and drink businesses in Tolna County
Economic Development and Innovation Operational Programme	The most important priorities are the competitiveness of small-and medium sized enterprises, research and innovation, and employment. The Programme also aims to develop the tourism industry, enterprises' energy efficiency, and information and communication technologies.	<p>Increasing the competitiveness and productivity of SMEs</p> <p>Research, technological development and innovation</p> <p>Infocommunication developments</p> <p>Energy</p> <p>Employment</p> <p>Competitive labour force</p> <p>Tourism</p>	National	<p>ERDF</p> <p>ESD</p> <p>CF</p>	High
Territorial and Settlement Development Operational Programme	The Territorial and Settlement Development Operational Programme is the follow-up of regional operational programmes (among others of the North Hungary OP) for the budgetary period 2014-2020.	<p>Economic development and job creation</p> <p>Improvement of the framework conditions of entrepreneurship</p> <p>Development of settlements' infrastructure</p> <p>Switch to a low-carbon economy;</p> <p>Development of cities' and settlements' identity, cohesion and satisfaction</p>	National with county level fund allocation and project preparation	<p>ERDF</p> <p>ESD</p> <p>CF</p>	High

Rural Development Programme (RDP) 2014 – 2020	Hungary's RDP is putting emphasis on actions related to restoring, preserving and enhancing ecosystems, promoting food chain organisations and risk management in agriculture and promoting social inclusion, poverty reduction and economic development in rural areas.	<p>Knowledge transfer & innovation</p> <p>Competitiveness</p> <p>Food chain & risk management</p> <p>Ecosystem management</p> <p>Resource efficiency & climate</p> <p>Social inclusion & local development</p>	National	EAFRD	High
Large Enterprise Investment Support	This scheme supports large enterprises (more, than 500 employees) and SMEs that as a result of the investment will grow over 500 employees in total becoming a large enterprise, thus no longer be eligible for financial support from OPs.	Not applicable	National	-	No data
The Earmarked Scheme for Investment Promotion	Investments made by start-up companies and SMEs were supported if they have reached a minimum investment amount based on individual Government decisions	Not applicable	National	-	No data (more than 50 billion HUF nationally)
National Farm Development Programme	The purpose of the Programme is to enable distant homesteads to function and to attract farmers to operate in these individual farms	Not applicable	National	-	No data
Hungarian Development Bank Working Capital Loan Program	The Loan Program provides a discounted loan to SME-like companies, increases investments and innovation capacities	Not applicable	National	-	No data

1.3. Identification of key actors

The identification of the key actors, their position and interactions in the support system is critical for the self-assessment of regional policies. The criteria for the selection of the key actors was the relevancy to the subject of the project (i.e. they aim to support competitiveness, exports etc.).

The identified key actors are:

- Managing Authority of EDIOP 2014-2020 – Ministry of Finance
- Managing Authority of TSDOP 2014-2020 – Ministry of Finance
- Managing Authority of RDP 2014-2020 – Ministry of Agriculture, Deputy State Secretariat for the Implementation of Agricultural and Rural Development Programmes
- Tolna County Council preparing a list of application for approval in TSDOP
- Hungarian Chamber of Agriculture, Department of Food Industry
- Tolna County Chamber of Industry and Commerce (county level, mainly responsible for organization of dual education, EEN contact, application consultancy)

1.3.1. Managing Authorities

1.3.1.1 Specific Deputy State Secretariats are responsible for the implementation of Operational Programmes and for fulfilling the role of Managing Authority:

- Managing Authority of EDIOP 2014-2020 – Ministry of Finance, Deputy State Secretariat for the Implementation of Economic Development Programmes
- Managing Authority of TSDOP 2014-2020 – Ministry of Finance, Deputy State Secretariat for the Implementation of Regional Development Programmes

The MAs operate in the frame of the Ministry of Finance and act as the MA and an IB in the same time. The 272/2104. (XI.5.) Government Decree determines the tasks of a Managing Authority as the following:

- Develops the Operational Programmes,
- Developing calls for applications, creating an evaluating and monitoring system for selecting proposals and following their progress;
- Ensures the compliance with horizontal principles, and collects data with regards to their effect;
- The decree also appoints organizations and positions responsible for relevant policy areas whom with the MA works together when carrying out specific tasks.

The Managing Authorities also take part in interregional cooperation programmes, such as Interreg Europe either by themselves, or by delegating staff members to projects cooperating with other Hungarian beneficiaries.

1.3.1.2 The Managing Authority of the Rural Development Programme

The Rural Development Programme is different from the Operational Programmes in terms of being funded by the EAFRD and also being supervised by the Ministry of Agriculture. The operation of the Rural Development Programme is quite similar to the OPs and is regulated through the 272/2104. (XI.5.) Government Decree with the differences due to being financed by the EAFRD duly addressed.

1.3.2. Tolna County Council

The County Council is the only regional authority in Tolna County having a legal mandate to contribute to the Operational Programmes for the time being. The Territorial and Settlement Development Operational Programme is a centralized OP addressing the needs of territorial actors and supports development actions taken by local Municipalities. To reach this objective, the County Councils are involved as a “territorial actor” according to the 272/2104. (XI.5.) Government Decree.

The County Council elaborates an Integrated Territorial Plan which takes into account the development needs local communities and settlements. These ITPs are based on preceding documents: the county-level analysis of the current situation, the County Development Concept, a County Development Programme which all have different content requirements. The ITP in turn is applied when announcing call for applications. The County Council can help applicants and Beneficiaries providing for developing the proposals and assuming project management roles. The General Assembly of the County Council also adopts an indicative list of recommended proposals to the Managing Authority.

1.3.3. Hungarian Chamber of Agriculture, Department of Food Industry

The Chamber of Agriculture has no direct impact on the development policies according to the 272/2104. (XI.5.) Government Decree. Their contribution to food industry related development policies is limited to providing professional opinion to Hungarian Member State positions and development policies, such as OPs. The membership is mandatory in the Chamber and following the initial opposition the legitimacy and coverage of the organization makes it a very important player in gathering and representing the opinions and views of its members.

The Chamber also undertakes the role to host information events, and as such calls for proposals concerning food industry were also addressed in specific events for food companies. The Chamber operates a network of food industry coordinators, publishes information booklets on a regular basis.

1.3.4. Tolna County Chamber of Industry and Commerce

The Chambers of Industry and Commerce are decentralized economic development organizations of historical importance as well as continuously adapting to new challenges. The Tolna County Chamber was established only in 1995 as the territorial division of Chambers was regional before.

The tasks of the chamber are not directly related to institutional development policies, however there are specific public functions and additional services only Chambers offer in Hungary, such as:

- organization of vocational education (examinations, issuing degrees, registering apprentices, etc.),
- specific administrative tasks related to export activities (issuing ATA carnets for example),
- intellectual property protection,
- building international business relations (involving Enterprise Europe Network),
- financial consultancy with special regards to the Széchenyi Card Programme, a low-interest, state-subsidized loan facility for micro, small and medium-sized enterprises,
- document authentication.

Membership is not mandatory, however a registration is for all business entities, therefore the Chambers collect information on local businesses.

There are other organizations dealing with food industry to certain extent (LEADER LAGs, the State Secretariat for Food Chain Supervision, their impact on the mainstream support of food industry SMEs increasing competitiveness is relatively low and the food & drinks sector is not a priority for most of them. For example the LEADER LAGs are dealing more with local tourism and local communities therefore their effect on the sector is negligible.

1.4. Mapping actors and their functions in the support system

	Managing Authorities	Tolna County Council	Hungarian Chamber of Agriculture, Department of Food Industry	Tolna County Chamber of Industry and Commerce
Function 1: Technical consulting		<ul style="list-style-type: none"> - Project preparation for potential beneficiaries applying for TSDOP funds 	<ul style="list-style-type: none"> - Offers consultation on demand - Releases detailed information publications about food industry (labelling, quality standards, etc.) 	<ul style="list-style-type: none"> - Offers assistance in intellectual property protection - Organizes B2B meetings
Function 2: Resource mobilization	<ul style="list-style-type: none"> - Responsible bodies for the implementation of EDIOP, TSDOP and the RDP including releasing call for applications, monitoring, ensuring effectiveness 	<ul style="list-style-type: none"> - The Council elaborated the ITP for the county-level TSDOP fund allocation, involving virtually every Municipality in the County - The General Assembly makes a decision on the list of applications to be supported for the TSDOP MA 	<ul style="list-style-type: none"> - Information on calls for proposals 	<ul style="list-style-type: none"> - Supervision of vocational education, especially apprenticeship
Function 3: Fostering networking and partnerships				<ul style="list-style-type: none"> - Supporting internationalization by organizing B2B meetings - Providing access to EEN - Channelling foreign trade opportunities
Function 4: Information gathering and dissemination	<ul style="list-style-type: none"> - During planning, mandatory public activities were done and the OPs were submitted for public opinion - Delegating staff members for interregional and transnational projects if needed 	<ul style="list-style-type: none"> - The Council elaborated the ITP for the county-level TSDOP fund allocation, involving virtually every Municipality in the County and gathering local initiatives to be built in 		<ul style="list-style-type: none"> - Channelling foreign trade opportunities - Providing information and organizing participation in fairs and exhibitions
Function 5: Commercialization				<ul style="list-style-type: none"> - Channelling foreign trade opportunities

	Managing Authorities	Tolna County Council	Hungarian Chamber of Agriculture, Department of Food Industry	Tolna County Chamber of Industry and Commerce
Function 6: Branding and legitimation			- Issuing and authenticating specific documents of origin	- Issues certificates of origin for exporting goods and products

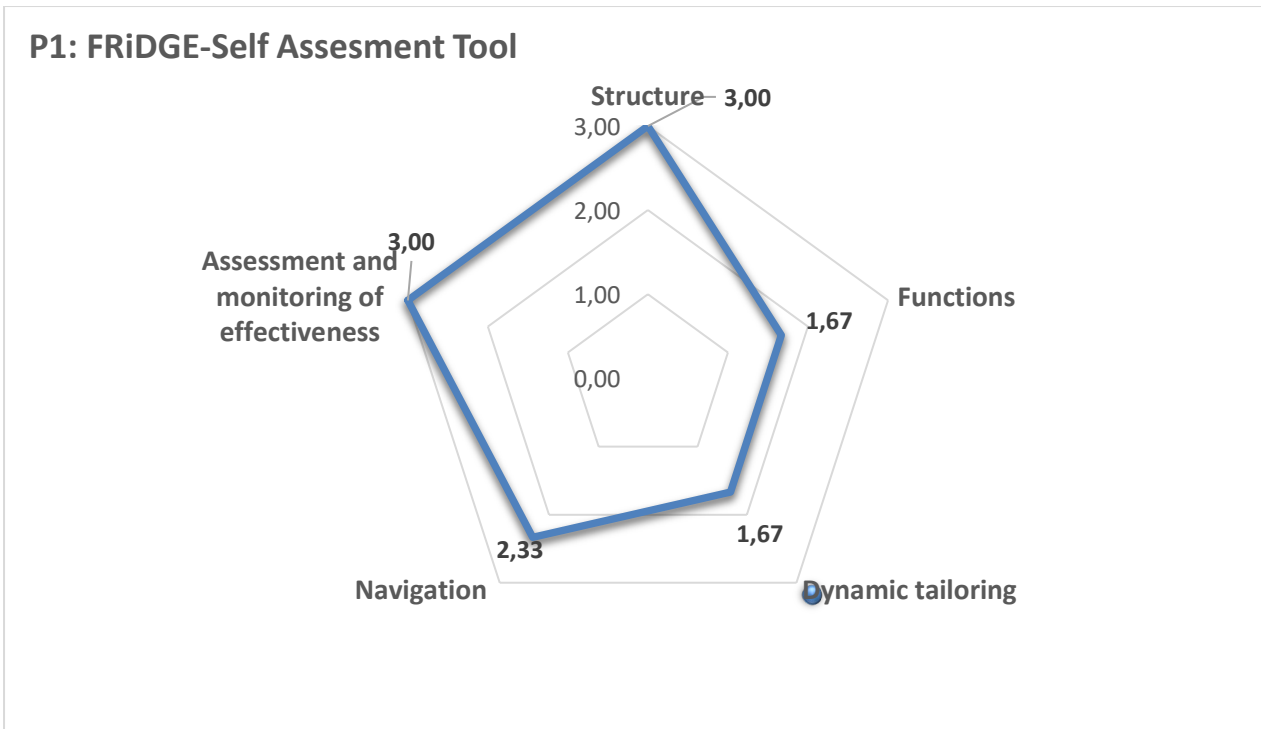
1.5. Assessing the support system

The final step of the assessment of the regional policies dealing with SME competitiveness and to what extent does it address food industry specifically includes a questionnaire in which you respond to questions/statements either as individuals or in a group under the key areas suggested.

All questions were answered and a spider diagram was automatically generated. The results for the region of Tolna County are:

Question	Total points	Total Questions	Average Points
Questions 1-3	7	3	3,00
Questions 4-9	11	6	1,67
Questions 10-12	6	3	1,67
Questions 13-15	11	3	2,33
Questions 16-17	3	2	3,00

The spider diagram generated is the following:



Analyzing the results

1. Structure: 3

A mix of established support organizations existing more than 10 years in the system and newly organized support organizations are in place. The dependence of funding is also varying, from not applicable in practice for MAs of OPs as they are part of their respective Ministries and organization receiving funding for specifically tasks related to implementing policy instruments. On the level of OPs considerable synergies are planned which are not necessarily effective, and the key actors generally know about each other and exchange experience on a case-by-case basis.

2. Functions: 1,67

The support mainly consists of a different mixture of non-refundable support and/or loans, guarantees, soft interventions are not really sought after and not offered on a wide scale. Most call for applications are not specifically tailor-made for food industry, but usually are aimed at SMEs generally. In terms of competitiveness, investment into new machinery and buildings are predominant. For the 2014-2020 programming period numerical indicators became dominant mostly, therefore applications also mostly deal with a more formalized set of goals.

3. Dynamic tailoring: 1,67

The support system is not focusing particularly on the food sector except one call (the EDIOP 1.2.6-8.3.4-16 (“Support for complex investments of medium-sized companies in the food industry with a combined loan product”).

4. Navigation: 2,33

With regards to understanding the support types and offerings, it can be quite overwhelming, however most applicants seek the consultancy of professional when preparing for an applications. There are some funding opportunities that can be undetected by some of the applicants. Most of the smaller companies are not applying for funds.

5. Assessment and monitoring of effectiveness: 3

Most calls themselves focus on only a few selected goals, and if we take into account that the financial support for economic development are not income replacement allowances, a combined approach using different funding sources can yield valuable and sustainable results. Dealing with a large number of applications and setting up appropriate monitoring systems result usually in monitoring intermediate aspects mostly.

2. Conclusion

The support system and development interventions underwent a major change in the new 2014-2020 programming period. Regional development institutions were disbanded and ROPs were discontinued, and their place was only partly taken by the TSDOP.

The amount of funding can be considered suitable taking into account the low capital absorption capabilities of most SMEs. There is a huge gap between the large companies and SMEs – the less populous category is the middle sized companies in the sector. To mitigate this issue, a specific call was announced for food industry SMEs and a little more, than 70 proposals were supported.

Regional and national actors are working in a semi-complimentary manner with some overlaps and some inadequacies in education system and business consultancy are present. Tolna County is missing a powerful local brand to boost sales and enhance cooperation between companies. Value chains are often malfunctioning in terms of specific actors are in an overpowered situation basically single-handedly setting prices therefore cornering producers. There is still a significant gap to close in terms of productivity, added value which requires significant capital to be done, however the price-sensitive domestic market is unable to sustain mass-production of certain products. Boosting export activities can mitigate this issue, however the European market is quite saturated, there are no easy entry points. Artisan products are easy to access, however the informal economy is quite strong is specific product lines with home-made products deemed higher quality than those which are available in supermarkets.

The most basic deficiencies and gaps in the food and beverages industry are identified in the following areas with regards to the support system:

Capital absorption

While the larger companies can and will apply for funding, smaller companies are not able due to lack of management skills and lack of knowledge about specific funding opportunities.

Export activities

No specific financial support exists for aiding export activities, consultancy and other services are provided for larger companies by the Hungarian Export Promotion Agency however and other institutions, the EEN for example through the local Chambers of Commerce. A definite gap exists between large companies and SMEs as well as there are significant differences between companies with a competitive range of product and those who are mainly focusing on the domestic market.