



FRiDGE
Interreg Europe



European Union
European Regional
Development Fund

Action Plan

FRiDGE seeks to give food industry SMEs a competitive edge by providing industry stakeholders with policy inputs on productivity, market reach and capacity building.

www.interregeurope.eu/fridge

FRIDGE Action Plan of Hungary

May 2022



TCDA
TOLNA COUNTY
Development Agency

Nonprofit Public Ltd.

**Interreg
Europe**



European Union | European Regional Development



*Sharing solutions for better
regional policies*

Part I – General information

Project: **FRiDGE (PGI0583)**

Partner organisation: **PP1 Tolna County Development Agency (TCDA)**

Other partner organisations involved (if relevant): N/A

Country: **Hungary**

NUTS2 region: **HU23 (South Transdanubia)**

Contact person: **Mr Balázs KISS**, managing director

email address: kiss.balazs@tmfu.hu

phone number: +36-70-9470830

Ms. Veronika SZABÓ, senior project manager

email address: szabo.veronika@tmfu.hu

Part II – Policy context

The Action Plan aims to impact:

<input checked="" type="checkbox"/>	Investment for Growth and Jobs programme
<input type="checkbox"/>	European Territorial Cooperation programme
<input type="checkbox"/>	Other regional development policy instrument

Name of the policy instrument addressed: **EDIOP - Economic Development and Innovation Operational Programme 2014-2020**

Part III – Details of the actions envisaged

ACTION 1 – Supporting small- and medium size food industry SMEs with additional activities in call for applications supplementing productivity and growth

1. The background

The FRiDGE project focuses on the competitiveness of food SMEs, which the project aims to improve by focusing on three main pillars:

- 1) increasing production capacity, acquiring new equipment and reviewing financing solutions,
- 2) access to local and international (EU and non-EU) markets for local products; market acquisition through non-innovation-based product development,
- 3) increase productivity to achieve better positions in competition with non-EU markets.

In order to help the food and drink sector maintain its position on the world market, the partnership seeks to contribute to the promotion of best practices between regions and the exchange of experiences between regions through the development of relevant operational programs and regional policies.

In project FRiDGE each partner have prepared the **Analysis of the regional food and drink industries**, so Tolna County also elaborated a comprehensive analysis outlining the most important numbers characterizing the performance and the capabilities of the food sector in Tolna County, whereas different sub-sectors were introduced in a descriptive character with regards to the most important features and key players.

In 2018 in Hungary, the biggest part of the food production industry, 75.5%, were micro-enterprises out of the 4526 companies, whereas 17.0% were small businesses, 6.1% of them were medium-sized enterprises, and 1.4% of them were large companies. In Tolna County these numbers are even more characteristic, where a significant part of the production value is produced by the few large companies present, and the rest are mostly micro SMEs with a limited geographical coverage or artisan/niche products. Among the – published – 100 largest tax-paying businesses in the county, three enterprises operating in the food processing industry in recent years.

At the same time, the ability of the sector to generate income is limited, and instead of a product quality competition, there is price competition between the companies. They do not utilize their export capabilities due to lacking knowledge and expertise in this area.

In general, the vast majority of companies in the sector are micro- and small enterprises producing for the local market. However, it is important to keep in mind that micro- and small enterprises play a significant role in local employment, covering innovative and niche markets, and producing specialities. For most artisanal food processors, this is not their sole source of livelihood, but is rather an income-supplementing activity. These producers however often do not appear in official statistics, there is a certain grey area in this regard.

According to the negative tendencies described in the SWOT analysis the SMEs are in a vulnerable position opposed to large companies and wholesalers, retailers, the volume of their production and also the value-added index is low, therefore the competitiveness of the sector leaves as a lot to be desired. There is lack of automation, robotization, digitalization, and other modern technologies, cold stores, storage, and logistics capacities, there is no widespread quality assurance system, and there are only few unique, personalized products and services. The lack of skilled labour was identified as both a weakness and a threat in the SME survey based on the response of some 120 food industry SMEs across the six regions. The results of the survey are generally consistent through all regions, meaning the smaller food industry SMEs face similar challenges with regards to growth and market strategies.

The FRiDGE project partners have conducted 20 surveys in their own regions with regards to **SME competitiveness factors** and the results (120 surveys from 6 EU regions) were analysed by the Ghent University. The results reveal that the participating regions face the same problems; the bottlenecks of the productivity are in the scale of production, pricing and payment conditions and workforce skills. The barriers of the market innovation are mainly financial (high costs, lack of own financial resources, long pay-off periods), but the lack of qualified personnel is also general. The governmental bureaucracy and the insufficient government support seem to have an impact on willingness to apply for tenders.

A FRiDGE partner (Technical Educational Institute of Western Macedonia) has identified a call for proposal from Greece, called **COMPETITIVENESS TOOLBOX**, which had an aim to upgrade and improve the micro and small enterprise's competitive position in the internal and external market.

The SCALE UP call for proposal is funded by the **Operational Program “Competitiveness, Entrepreneurship & Innovation” (EPAnEK)**, which was one of the seven Sectoral and thirteen Regional Operational Programs of the Partnership and Cooperation Agreement (NSRF) for the period 2014-2020.

EPAnEK covers the whole of Greece and has a 4.67 billion Euros public expenditure budget (3.65 billion Euros EU contribution). The pivotal strategic objective of EPAnEK is to enhance the competitiveness and extroversion of enterprises, to facilitate transition to quality entrepreneurship, while at the same time advancing innovation and growth of domestic added value. The Operational Programme Competitiveness, Entrepreneurship & Innovation occupies a central position in the country's efforts to create a new production

model that will lead to development and will strengthen the competitiveness of the Greek economy by leveraging private financing.

The new model brings to the fore productive, competitive and outward looking sectors of the economy, such as tourism, energy, agri-food, the environment, the supply chain, information and communication technologies, health and the pharmaceutical industry, creative and cultural industries, materials – construction.

The Competitiveness Toolbox call for proposal supported the micro and small enterprises with 1-49 employees. **The amount of non-refundable support** that can be applied for **was from 20.000 up to 200.000 euros**, provided that a business plan with budget is applicable.

The co-financing rate is 50% to 65% depending on the exports volume of the beneficiary.

Among the eligible actions were:

- Machinery – Equipment up to 100% of the total budget of the business plan
- Products/Services/Procedures certifications up to 100% of the total budget
- Packaging – labelling– branding up to 25% of the total budget
- Digital marketing expenditures
- Legal services- technical studies
- Means of transportation
- Salary expenditure for newly employed personnel

<https://www.interregeurope.eu/policylearning/good-practices/item/3511/competitiveness-toolbox/>

Another FRiDGE partner (Flanders' Food & ILVO) has identified the Ghent-based Food Pilot project as a Good Practice. The Food Pilot is an application and analysis centre founded by Flanders' Food and ILVO. The food processing industry can use the Food Pilot facilities to develop and test new products and processes for a certain fee. The Food Pilot assists companies, labs and policy makers with agri-food challenges, such as product development, process optimization or troubleshooting in case of production-related technical problems. Through co-creation, they offer solutions **based on advice, lab analyses and/or pilot trials** on semi-industrial processing equipment. The Food Pilot offers an integrated package of services ranging from the first innovative idea to a successful end-product. The client can choose support for one, several or all of the steps in an innovation process, accompanied as desired by a project-specific package of testing, analysis and advice. Based on the high number of companies and products involved, this Good Practice underpins the importance of consultations and professional assistance within the sector involving using test equipment to optimize recipes, processes and such. This is a largely missing part in the previous call for applications and given the limited expertise especially of smaller companies, support is very much needed in this regard.

A **Report on self-assessment of the regional policies** was also prepared in each region in project FRiDGE. Examining the EDIOP call for applications there is only a few that is focusing on food industry SMEs, and in particular for micro or small enterprises.

In TOP (Territorial and Settlement Development Operational Programme) the beneficiaries are exclusively the municipalities, so the enterprises cannot apply for funds.

The Rural Development Programme financed by the CAP offer calls that support food industry, but because of the ANNEX1 the food processing enterprises are excluded from funding.

In general the subsidies 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.

2. Action 1 – Supporting small- and medium size food industry SMEs with additional activities in call for applications supplementing productivity and growth

The Economic Development and Innovation Operational Programme 2014-2020 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 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 (released in 2016) applications specifically addressed the actors of the food and drinks sector. The constitutional change and the opening Common Market posed a major challenge for the industry, where several sub-sectors fell behind in terms of technology and productivity, let alone an outdated product range. Investments into new machinery and equipment are vital to keep the sector on its feet. Non-specific economic development tenders were often unreachable for food and drink industry actors as they could not meet the requirements of the calls.

Based on the feedback from the sector and the experience of the EDIOP MA, therefore a specific call was released to mitigate this situation and to provide the very much needed push to help them get back on track. The development of this support scheme was the result of stakeholders, such food industry SMEs, the National Chamber of Agriculture (membership is mandatory for food and drink industry SMEs) and sectoral associations providing feedback and lobbying for a new call to be launched.

The purpose of the call was 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 investments led to an increase in capacity for which there was a real market demand and improved technological readiness, competitiveness and resource efficiency. Based on data available 60 applications were supported, and the grants account for a total of 19,5 billion HUF, or roughly 56 million EUR.

This scheme provided a successful example of sector specific support call for applications. A second, similar call is planned to be launched in 2021 capitalizing on these experiences, but with a small difference in terms of the funding provided within the call as the 2014-2020 period allows little room to manoeuvre and based on the feedback from beneficiaries, who found the administration of the loan difficult to manage. Due to these reasons, the new call does not contain a loan, but includes a revolving fund where a refundable subsidy turns non-refundable when specific conditions are met.

The core and most important element of this Action Plan is to support the Managing Authority to promote new projects under the EDIOP-1.2.12 “ **Support for complex investments of medium-sized companies in the food industry**” call for proposals by expanding the range of supported activities within the call for proposals.

Therefore we suggest that the eligible actions should be extended by **advisory services and training programmes**.

- The importance of **advisory services** in the food sector is well represented in the Food Pilot project and centre of our Belgian FRiDGE Partner, where the base of any development or investment comes from the experts of the sector through counselling.
- The training programmes are crucial for the producers who very often lack management and marketing skills according to the interregional SME FRiDGE survey, and specific trainings would also have a gap filling effect on the labour market. As the Analysis of the regional food and drink industries showed, skilled labour shortage is definitely a difficulty in the food and drink sector as well, while at the same time skilled labour can be the driver of productivity.
- The technical and professional advisory should be done by companies who are credible and experienced within the food sector. A pool of advisors can help companies who need orientation in this regard.

According to the feedback given by beneficiaries, the responses to the SME survey, another key point of assisting SMEs to take the opportunity is to provide quick evaluation and short response times. Instead of standard procedures, a simplified procedure could include continuous evaluation based in a first come, first serve manner. This could be especially helpful given that the relatively low number of potential beneficiaries means that the resources assigned to this call for proposals is most likely to be enough to support all applications reaching the required amount of points to be supported.

The means of achieving these improvements was to include these activities as part of the a new call for applications, that also was specific to food industry. Apart from changes compared to the previous call (1.2.6-16), modifications were recommended by TCDA as well building on the exchange of experience process taking

place in FRIDGE and capitalizing on the willingness of the Managing Authority to cooperate to such extent with the project.

The call for applications determines a list of mandatory and optional activities – the core activity is procurement of new machinery, implementation of new technologies which should reach at least 20% of the costs incurred within the individual projects. Optional activities already included ICT-developments (for a maximum of 50% of the costs) and investments into building stock (for a maximum of 50% of the costs), RES-installation (for maximum 50%) and technical assistance related to new technologies (for a maximum of 30%).

Our recommendation was based on exchange of information related to the new call, it was to **include verified advisory and training services into the new call** as an optional activity that can be supported by the policy instrument. The MA was open to our idea as there were other calls that successfully included these actions in a similar fashion, and a list of verified service providers already existed. Building upon the results of FRIDGE the necessity of this addition was validated based on the SME survey showing that training is a well-founded activity that should be supported by the call for applications.

3. **Players involved** (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

Ministry of Finance: Managing Authority for Regional Development Programmes, Deputy State-Secretariat of Economic Development Programmes

- Responsible for implementing the suggestions of this Action and releasing the new call including the recommendations made by TCDA. The call should be released in a similar fashion to the previous, EDIOP 1.2.6 call with a national coverage. Territorial considerations also can be applied in favour of less developed regions.

IFKA Nonprofit Ltd.: The Information for Businesses online information centre can be used by Beneficiaries to choose from an expansive list a qualified contractor offering expert advisory in several fields. The qualifications include a point-based evaluation based several aspects, such as availability of experts, references in the field they are offering advisory in, the number of years they are working in their sector, have relevant certificates, etc. Based on the number of criteria that are considered with regards to the quality of their services, beneficiaries will be able to choose reliable, trustworthy advisors in a very easy way.

4. **Timeframe**

- 2020.10-11. Internal meetings to discuss potential actions in the frame of the EDIOP 2014-2020 Policy Instrument
2020. 12. Draft Action Plan sent to the Managing Authority for consideration
- 2021.01.18. List of optional activities amended and lengthened in the call for applications
- 2021-2022 Monitoring of the action plan, in particular the popularity of the additional activities implemented

e) **Costs** (if relevant)

No costs are directly associated with the implementation of the action as it includes the addition of further activities to the call for application EDIOP 1.2.12-16.
