

Rural Development Programme 2007-2013

**Implementation of the Competitiveness
Strategy**

Work Document



Implementation of the Competitiveness Strategy within the framework of the new Rural Development Programme 2007-2013

Document of the competitiveness work team



Competitiveness concerns will be transversally conveyed by the new Programme in all its Sub-Programmes, Measures and Actions, based on the assumption that sustainable development will only be possible if it manages to balance wealth creation and the promotion of social welfare and a responsible management of natural resources.

Despite this strategic transversal objective, the Programme will have a Sub-Programme that will embody a strategic vision of vertical nature, that is, based on enterprise change and positive performance, by means of adjusted aid schemes whose beneficiaries are enterprises, either individually or integrated in cooperation networks, or associated in common platforms of understanding or development.

Within the framework of the *Improving Competitiveness* Sub-Programme, we aim at reaching the following objectives:

- ✚ Promoting enterprise efficiency by supporting qualification, namely through measures to encourage investment in improving production conditions, innovation and technological adaptation, organization and management, market integration, process certification, training and increasing critical market intervention size.

- ✚ Guaranteeing that the aid or incentive scheme to enterprises acquires coherence and consistency with a view to develop strategic clusters, optimising results and differentiating, via the sector competitiveness, the areas where farmers and the national agri-food sector may obtain a better position within the context of market globalisation. This way, priorities will be established based on market objectives that may be considered as true national goals, for the materialisation of which the Programme (Sub-Programme) will be the perfect policy instrument.
- ✚ Ensuring the participation of policy beneficiaries to encourage business development through adequate, although separate (from the decision point of view), organizational and management methods, that allow the actual establishment of strategic partnerships and sharing responsibilities in results.
- ✚ Introducing innovative instruments and spread the use of others already tested in other sectors that promote a better efficiency in the use of public resources, with a view to leverage more investment based on firmer financing bases and with more chances of success.

Briefly, the above-mentioned objectives may be included in a global competitiveness vision that could be translated, in a simplified although very assertive way, into **“Quality and Effectiveness”**: quality in enterprises and clusters, effectiveness in the public policy of encouraging development.



We aim at achieving the above-mentioned objectives by operationalising the Measures and Actions integrating the **“Improving Competitiveness”** Sub-Programme, whose organizational model is given next:

SUB-PROGRAMME IMPROVING COMPETITIVENESS

Measure 1 Innovation and business development

Action 1
Enterprise modernization and capacity building

Action 2
Small enterprises and territorial sustainability

Action 3
Promoting young farmers' installation

Action 4
Differentiation and valorisation of quality products

Sub-Actions

Farm Holdings

Marketing & Processing Enterprises

Forest Product Enterprises

Measure 2 Entrepreneurial cooperation

Measure 3 Relevant impact projects

Measure 4 Creation and development of new financial and risk management instruments

Measure 1

Innovation and Business Development

This Measure aims at providing incentives to eligible enterprises, farm holdings and processing industries, in order to increase their competitive capacity.

The design of the Measure is based on the following central ideas:

- ✚ An identification of schemes aimed at improving the competitiveness of **strategic clusters** and of schemes overall contributing to qualify enterprises regardless of the cluster they fit in.
- ✚ An identification of the specific segments that by their nature or characteristics recommend better adapted and/or specialised forms of

public support, particularly young farmers' first installation and positive discrimination of enterprises in regulated quality schemes.

- ✚ The introduction of different types of incentives, direct and indirect, using combined models including recoverable and non-recoverable incentives, financing of credit operations, guarantee operations, execution prizes and capital invested in enterprises.
- ✚ Granting incentives to material investment depending on aspects of general qualification and social and environmental accounting of the enterprises, as well as on clear development strategies.
- ✚ Assuming that forestry investment and competitiveness will be made mostly within the framework of countryside management, promoting the integration between agriculture and forestry and creating the conditions for its sustainable management. Within this context, the Measure would intervene only in the area of enterprises related to the harvest, exploitation, marketing and processing of forestry products, including of course cork.



Taking into account the above-mentioned ideas, the Measure would have a profile based on the following **Actions**:

Action 1

Modernization and Capacity Building of Agri-food and Forestry Enterprises

This Action foresees financial incentives to the following [investments types](#) aimed at enterprises related with agriculture, agri-food and marketing and processing of agricultural and forestry products as well as biomass. In these cases, with access restrictions to microenterprises, except for cork.

1. Land and factory infrastructures
2. Equipment purchase
3. Plantations and production structures
4. Infrastructures and equipment for treating waste and effluents (new enterprises)
5. Marketing equipment (product preparation for the market) and processing

6. Other material investments
7. Auditing and implementation of certification and quality control systems
8. Design and development of technological equipment and tools
9. Acquisition and development of organizational and management systems
10. Acquisition of knowledge and training credits
11. Diagnosis and strategy studies and evaluations
12. Trademark and package creation
13. Design, studies and participation in collective advertising actions (access and logistics costs)

In terms of pure operational logic, it is admissible to create Sub-Actions for the different types of enterprises (Agricultural, Agro-industrial and Forestal).

Differences regarding enterprises integrated in strategic clusters and not in other clusters will be materialised by means of [financing forms](#) and of [management organization](#).

The differentiation between investments in strategic clusters and investments in other clusters is basically measured by the following aspects:

- Better financing conditions, through a more extensive use of the non-recoverable incentive system.
- Possibility of submitting production investment plans through upstream marketing or processing enterprises and/or producers' organisations, establishing objectives, scheduling resources application, scrutinizing results through a convenient public/private monitoring system and awarding performance prizes. This is the solution that may be adopted and that may best serve to support investments in small farms that contribute to the performance of a strategic cluster.
- Access, eligibility and selection criteria defined within the framework of a Cluster Strategic Plan to be agreed among the corresponding professional families.
- Monitoring of the Cluster Plan execution by an inter-professional commission.

A. Other Clusters

Financing forms

The indicated Groups are used to differentiate support schemes, according to the investment typology and to the investors' dimension and strategic interest.

Farm holdings:

Group I – Simplified applications. Material investments up to a certain amount. Subsidised credit line to purchase tractors and agricultural implements, as well as agricultural buildings not directly productive. Non-recoverable and recoverable incentives to innovative material investments, investments in harvesters, the environment and in animal welfare. Obligation to fulfil minimum access requirements. Registration book for investment execution and unique visit at the project closure. Agreements with financing credit institutions in preferential conditions to make available the referenced credit line.

Group II – Immaterial investments, regardless of their dimension – recoverable and non-recoverable incentives in a 50/50 ratio, except innovation and training, where the ratio would be 30/70.

Group III – Investments higher than a certain amount - recoverable incentives, business and investment plan, monitoring, payment by execution stages.

Note: We admit the possibility of having grouped applications, although subject to the limits, typology and responsibilities of each promoter. There can be a positive discrimination in financing conditions, in case of their integration in specific programmes or investment plans.

Marketing and Processing (including forestry, namely forest exploitation within the regulatory eligibility limits):

Group IV – Simplified applications. Material investments up to a certain amount. Subsidised credit line. Minimum access requirements. Registration book for investment execution and unique visit at the project closure.

Agreements with financing credit institutions in preferential conditions to make available the referenced credit line.

Group V - Immaterial investments, regardless of their dimension – recoverable and non-recoverable incentives in a 50/50 ratio, except innovation and training where the ratio would be 30/70.

Group VI - Investments higher than a certain amount - recoverable incentives, business and investment plan, monitoring, payment by execution stages.

B. Strategic clusters

Group VII – Support or generic material investments – 5 to 7 years recoverable incentives; investments in plantations (including greenhouses) and specialised or innovative equipment – recoverable and non-recoverable incentives in a 50/50 ratio.

Group VIII – Immaterial investments – non-recoverable incentives.

Applications in these clusters should comply with technical specifications defined within the framework of public-private partnership monitoring structures, representing professional and strategic interests within the cluster and also enabling to monitor the results with a view to adjust the trajectory.

These clusters should also define the possibilities to finance:

- a) enterprises and producers' groups to develop an investment plan for producing raw materials in farm holdings of associates, partners and/or based on solid contract agreements. These investments would be financed through investment funds, made up partly of capital of the enterprise itself, partly risk capital, partly bank capital and partly public capital (recoverable incentives). They comply with a market strategic plan and with concrete result objectives, as well as with a permanent monitoring and evaluation methodology. The awarding of performance and achievement prizes may be foreseen.

b) Grouped producers' applications

Action 2

Small enterprises and territorial sustainability

As mentioned above, competitiveness is viewed within the framework of the Programme under a wider perspective, including what may be called territorial competitiveness, which is measured by the performance of each territory in supplying and valorising its resources and opportunities. If the previously described Action 1 contributes in a consistent manner to territorial competitiveness, since the supported enterprises are almost always located in the countryside, its objectives are closer to sector competitiveness with a view to create the conditions for success within the context of international competition, particularly that from outside the EU.

Within this perspective, if small and very small enterprises are not mobilised into cooperative, associative or entrepreneurial integration forms or are not inserted in very specific, niche segments, based on differentiated products, they will hardly contribute to sector competitiveness objectives. However, they play an important role in maintaining the countryside and keeping up activities that contribute to the social, economic and environmental balance of specific regions, often at serious desertification risk.

It is within this logic of strategic thought that Action 2 is foreseen, providing means of support to small and very small farmers and enterprises, aiming at improving their standards of living, that is, maintaining and/or modernizing production conditions.

Therefore, through a microcredit system (whose outline, features and *modus operandi* should be deepened), under conditions to be negotiated with banking institutions that would be exclusively or preferentially associated with the Programme, small amounts, without interest and with credit guarantees, would be made available in a simple and complete way for small material investments.

The definition of the beneficiaries and of the credit amounts would be made according to regional criteria that would take into account the following parameters: type of activities, territory profile, farm size.

It is also considered that the microcredit system proposed may be complemented, in predominantly rural situations and/or regions at risk of desertification, or in other situations/regions that may be identified, with direct payments within the framework of the *Countryside Management Sub-Programme*, with a view to offset territorial handicaps and/or to compensate services rendered in maintaining, managing or valorising areas with strong environmental constraints.

Action 3

Promoting young farmers' installation

Although we believe that young farmers, as defined in Community regulations, while investors should not be differentiated from all other investors, we assume that a farm's installation implies a set of complementary costs and includes specific constraints that should be positively discriminated by means of support and incentives.

However, experience has shown that granting support in an unarticulated way and disregarding factors that strongly affect the farm's performance and its eventual success is not a positive thing. This, together with the reiterated use of succession models detached from the reality and with no guarantees of reversal, leads us to base this Action on the following assumptions:

- ✚ Previous registration of installation intention
- ✚ Training and mentoring
- ✚ Monitoring and evaluation system
- ✚ Integrated and consolidated financing solutions
- ✚ Performance prizes

Therefore, the framework and incentive package to young farmers' installation would incorporate:

- a) Quarterly enrolment periods for young farmers to facilitate their identification and registration, as well as the follow-up and monitoring scheme, thus leading to a better management of the application process. At this stage, an evaluation of the applicant profile would be made, after enquiring his/her abilities and analysing

the “installation project” as regards namely the farm plan and the investment to be made.

- b) Aid to training (based on four elements: initial training, probation, specialised additional training and retraining) through support granted to farmers’ organizations, recognised and accredited by the Ministry of Agriculture. This aid would involve: 1 - aid to the aspirant young farmer during the whole training period (travels, stays and grant), 2 - aid to farmers’ organizations (preferably, they should be organizations; other situations may be admitted although subject to the Ministry accreditation) involved in providing training and following-up trainees, including during the probationary period, 3 - aid to farmers-mentors as a day/month remuneration, 4 - aid to young farmers after installation to attend probations or specialised training courses. This entire aid framework would be created within the scope of an Installation and Compromise Plan, which would include co-management by a farmers’ organization and the regional ministerial services.
- c) An exploitation and investment plan.
- d) Non-recoverable financial incentives to purchase up to 50% of the basic production potential.
- e) A credit line for treasury or for investment self-financing (subject to regulatory limitations for maximum aid amounts).
- f) Guarantees to ensure covering the self-financing component and the treasury component.
- g) Support to bank solutions to house financing.
- h) Non-recoverable incentives to immaterial investments at the maximum allowed rate.
- i) Aid to purchasing or renting entitlements or quotas, in case this is considered eligible by Community regulations.
- j) Access to land exchanges.
- k) Performance prize materialised in two elements:
 - Money prize

- Approval of investment consolidation project with recoverable and non-recoverable in a 50/50 ratio or according to the investment typology

Action 4

Differentiation and valorisation of regulated quality products

We believe that some of the above-mentioned assumptions regarding young farmers also apply to farm holdings and industrial units that produce products with specific characteristics (PDO, PGI, Organic, other) and that therefore these should not be treated in terms of support to infrastructures and equipment differently from other enterprises.

However, we consider that although they do not make up a typical cluster, they can create a specific cluster that should be treated in the same way as strategic clusters, that is, with more advantageous incentives than those granted to enterprises in other clusters.

For reasons of limited financial resources and also because wine has financing alternatives in support granted through either ICEP or VINI PORTUGAL, which is self-financed by professional taxes, we believe this Action should not be applied to wine.

Nevertheless, admitting that this restriction may be too severe, wine eligibility for this Action may be considered, although through recoverable incentives.

In contrast, we admit that this Action may cover quality products to be created by means of specific regulations and that go beyond those foreseen in Community regulations.

This Action would be aimed at creating, reinforcing or consolidating sector and entrepreneurial competitiveness, and therefore it is based mostly in designing mechanisms and granting support to activities such as:

- a) Studies, information collection and preparation of application procedures for typified products, including forestry products as for instance cork;
- b) Designing marketing and advertising strategies for such products;
- c) Designing and manufacturing packages and physical and virtual media for information and advertising, including the creation of sales networks;
- d) Creating enterprise or collective brands;
- e) Acquiring specialised advisory services;
- f) Organizing and providing equipment to quality certification and guarantee structures;
- g) Participating in advertising actions either individually or in cooperation among enterprises, as well as in internationalisation initiatives;
- h) Information Actions and Participation Costs in food quality regimes, under specific Community regulations.

The mentioned activities would have the following type of incentives:

- 1) non-recoverable incentives for those referred in subparagraphs a) to e)
- 2) non-recoverable and recoverable incentives in a 50/50 ratio with success prizes for activities in subparagraphs f) and g).

Support beneficiaries may be enterprises or farmers' groups, namely those that have been assigned the management of Designations or other quality regimes by the applicable legislation.

Measure 2

Entrepreneurial Cooperation

This innovative Measure aims at encouraging cooperation among enterprises in the same cluster, reinforcing the bonds between raw material producers and processors and between enterprises with a view to develop common areas and businesses.

The following areas stand out:

- 1) **Internationalisation:** definition of strategies, organisation of actions, logistics implementation, participation in marketing and advertising initiatives, decrease in “entry barriers”.
- 2) **Vertical coordination:** design, implementation and monitoring of production and sales plans among producers and users (processing), introduction of monitoring and control systems for integrated production plans, adoption and expansion of new technologies or organizational and management procedures.
- 3) **Reaching critical size:** enterprise merging, concentration, cooperation, incorporating assets or not, aiming at new markets, preferably in exporting or improving the efficiency of enterprises in existing markets and obtaining the necessary competitiveness gains. Situations of entrepreneurial cooperation to provide a sizable supply can also be included.
- 4) **Technological cooperation:** design and development of investment, research or development projects in scientific and technological areas, namely through partnerships with knowledge centres, aiming at launching new products, installing more qualified and efficient procedures and others.
- 5) **Strategic cooperation:** studies, planning and development of placement and differentiation strategies (at cluster level), diversification, target definition, business models, governance and organization, productive innovation. Also included are works and studies for analysing and implementing sustainable forestry certification processes, as well as associated information processing and control systems.
- 6) **Environmental cooperation:** studies, strategy development, creation of specialised enterprises undertaken by the promoters, investment in collective equipment of effluent pre-treatment or treatment and waste collection.

The beneficiaries of the current Measure would be enterprise associations, complementary groups of enterprises, consortiums, development associations and others congregating financial, technical and organizational resources of several enterprises (only SME and microenterprises in the case of forestry enterprises).

Financial support will be provided through different forms, admitting:

- a) non-recoverable and recoverable incentives in the activities referred in items 1), 2), 4), 5) and 6). There may be performance prizes according to the results (changing recoverable incentives into non-recoverable incentives);*
- b) capital investments by societies specialised in activities referred in item 3).

* The ratio between recoverable and non-recoverable incentives would be established according to specific criteria, having as a major concern profitability and reproducibility. Examples are the criteria associated with “innovation incorporation”, “enterprise size” and “information availability”.

Measure 3

Relevant Impact Projects

In certain situations, the problems presented and the most convenient public support solutions imply a broader and more intervening approach, which cannot simply fall within the scope of the immediate objective of individually considered enterprises.

This has to do with the relevant impact that investments and/or interventions may have, measured in terms of unequivocal economic indicators, namely on factors such as: employment, added value, environmental valorisation, exports increase, competitiveness improvement.

We identify some of those possible situations:

- ✚ Areas or zones with environmental problems that, in order to be solved in a coherent and efficient way in terms of public resources, imply collective or integrated solutions within a requalification and strict monitoring plan foreseeing for instance: investments in farms and other enterprises, centres for collecting and treating waste or effluents; encouragement and support to business relocation with support to site search and reinstallation.

- ✚ Areas or zones with infrastructural problems, needing programmed and coordinated investments, in search for the best solution. For instance: investments in draining, capturing, distributing or recycling water, preparing soils, etc.
- ✚ Large-sized investments with a view to launch new strategic clusters of integration and valorisation of agricultural production, namely in new irrigated areas or having in mind the conversion of areas and activities with a decisive impact or emerging markets. Included in this group may be conversion projects for agricultural regions affected by substantial policy changes.
- ✚ Agro-industrial investments in strategic areas that ensure relevant and sustained employment and may unequivocally contribute to improve competitiveness in external markets or to socially and economically structure a certain sector.

This Measure is also justified by the forms of support and specific administrative and technical requirements demanded by the referred interventions, which ultimately involve a case-by-case evaluation, with a subsequent design of the instruments that best enable the success of the operation and/or the coordination of systems already foreseen in Measures and Actions contained in this Document.

Among these requirements we can mention:

- ❖ Previous intervention or business plan
- ❖ Strategic plan
- ❖ Specifications and Code of commitments
- ❖ Co-responsibility in follow-up and monitoring
- ❖ Cooperation between departments
- ❖ Public-private partnership

The support instruments, either isolated or combined, may include:

- ❖ Non-recoverable incentives
- ❖ Recoverable incentives
- ❖ Capital participation

The combination model and the levels of public participation would be defined within a specific negotiation process between the Public Administration and the Promoters.

Measure 4

Creation and development of new financial and risk management instruments

This Measure mostly aims at deepening a process initiated within the 3rd Support Framework, through AGRO, to make available to the sector support opportunities by means of a new generation of financial instruments, which are more agile, generate more responsibility, are more sparing in using resources and have a higher reproducibility.

With these instruments, it will be possible to encourage:

- 1) enterprise capitalisation
- 2) entrepreneurial development
- 3) financing of investments in sustainable conditions
- 4) modernisation of production processes
- 5) creation of new innovative enterprises, namely in the field of management and quality monitoring and control
- 6) creation of high technology enterprises
- 7) internationalisation
- 8) resizing and enterprise merging
- 9) management development and modernisation processes
- 10) procedures of business risk coverage not foreseen in traditional coverage
- 11) access to real estate for the start up of new farm holdings (young farmers' first installation) or better and more efficient use and exploitation of misused potentialities.

It will be eligible to public financing, through this Measure:

- a) the creation and reinforcement of risk capital funds, national and/or regional
- b) the creation and reinforcement of mutual guarantee and counter-guarantee funds
- c) the participation of enterprises in mutual guarantee societies (start-up stage)

- d) the creation and reinforcement of forestry land funds
- e) the constitution or equity investment in fund managing societies
- f) the creation of rural real estate funds
- g) the creation of Investment Funds
- h) the participation of enterprises in Mutualist Funds for Natural Disasters
- i) the creation of Technological Development Funds in partnership with Universities and Knowledge Centres.

As regards real estate funds, with agricultural or forestry heritage, it should be mentioned that their eligibility in terms of public co-financing, via FEADER, may require a case-by-case notification according to their public relevance. However, it is possible to find solutions that do not involve public co-financing, but only the valorisation of the existing heritage.

Within the framework of the analysis of the problems related to land structure and the needs of resizing, it was suggested that, perhaps through the "service support" area, an evaluation was made of the interest in supporting the creation of "Land Mediators", capable of dynamising plot resizing, particularly in the countryside.

Safeguarding all the competition rules and the rules regarding non public financing of the financial system, the mentioned instruments, both the most common ones and those that would be the most innovative ones in absolute terms (as it is the case of the so-called Mutualist Fund for Natural Disasters), may:

- ❖ play a key role in boosting a market dynamic, demanding more capacity and qualitative resources from the beneficiaries, consolidating the enterprises investment plans and providing them enough room for technological or market upgrading.
- ❖ provide stability to extraordinary aid interventions resulting from unpredictable phenomena, with vast and harmful effects, while integrating beneficiaries in financing and solution management.
- ❖ make available a land bank based on public heritage that may allow access of young people to the agricultural activity in better conditions, as well as the development of pilot-projects of innovation and technological development.