

Study of economic needs and possibilities in the region Of Petresti – Vállaj

The primary implementation area of the project consists of the Petresti-Vállaj area. In Petresti a cross-border business park will be built, while in Vállaj the consultancy centre for local SMEs both from the Hungarian and the Romanian side of the border.

Despite the fact that they are located on the two sides of the Romanian-Hungarian border the two communes share a common history and a common cultural and economical heritage. One of the most important and most specific links between the settlements is that both of them were populated with German settlers after being almost completely depopulated by the intrusions of the Mongolians. In the 1700s German settlers were relocated here, to help the inhabitants of the villages to develop their agriculture and economic life. These German settlers, called Schwaben had an important influence on the economic development of the region and they left their mark on every aspect of the life in these communities. They built churches; they had their own architecture, which can be seen in the villages in the region even in these days.

During the period between 1990 and 2000, many of the descendents of the German settlers returned to Germany, this influencing the economic development of the communities in a negative way. Besides the *migration of the Schwaben* the relatively low level development of the economy of the region is also due to the *poor development of the business infrastructure* of the region (the lack of the business parks in the region) and the *low entrepreneurial spirit* in the region (potential entrepreneurs have no access to economic information and basic consultancy in the domain). These aspects shall be revisited later on in this analysis.

Firstly however a brief summary of the two communes is necessary so that a broader and clearer picture can be drawn of the current economic situation of the area.

Petresti

The lead partner in this project is Petresti, a commune located in Satu-Mare County, 11 km south-east from Carei, near the Hungarian Border. Petresti commune is composed of two villages, Petresti village, which is the centre of the commune and Dindestiu-Mic village. According to the 2002 census, Petresti commune had a total population of 1.683 people, 1415 in Petresti and 268 in Dindestiu-Mic. The total surface of the commune is 236 hectares, and is situated in the north-eastern part of the Plain of the Tisa, more precisely in the Plain of Carei. The absolute altitude of the region is approximately 139 meters above sea level with little variations between 125 and 142 meters. The neighbouring localities are: in the north Foieni commune, in the north-east Carei town, in the east Tiream commune, in the south-east Vezendiu commune, in the south-west Piscolt commune and in the west Sanislau commune.

Vállaj

The project partner is Vállaj commune from Hungary, where a consultancy centre will be constructed and an expositional area will be created too. Vállaj is located in the south-eastern part of Szabolcs-Szatmar-Bereg county, in Hungary, near the river Kraszna. Vállaj is located 67 km from Nyiregyhaza town, 25 km away from Nyirbator town, 9 km from Fabianhaza commune and 11 km from Nagyecsed town. The commune can be reached from the no 457 road, from Nyirbator on a secondary road or by train, through Agerdomajor station.

Economic situation

Focusing on the economic aspect one can easily determine that small and medium enterprises are the **engine of regional development**. They are the partners of large enterprises ensuring their efficiency; and in certain cases they even are the engine of continuous development by permanently supporting innovation and competition. Small and medium enterprises operating in a certain region have an extremely important role in creating a competitive economic structure; a well functioning economy is difficult to imagine without a "healthy small enterprise sector".



This is mostly due to the following reasons:

- A significant percentage of activities can be performed at far lower costs (more efficiently, at smaller transaction costs, with a more flexible organisational structure etc.) in a smaller organisational framework.
- Due to the stronger segmentation of consumer demand, there is increased demand for special produce and services; and small and medium enterprises are the ones to meet this demand.
- The third significant factor belongs to the domain of socioeconomics: employees leaving large enterprises can only find employment at small and medium enterprises.

The importance of supporting enterprises was emphasized by the difficulties of reaching the Lisboa goals as well. EU enterprise policies put special emphasis on promoting innovative small and medium enterprises. The four goals of the Programme Framework is:

1. Promoting the competitiveness of enterprises (especially SMEs);
2. Support for innovation and eco-innovation;
3. Speed up the development of a competitive and innovative information society;
4. Energy efficiency, support for new and renewable energy sources;

Because the special target groups of the project are small and medium enterprises operating in the region one needs to understand the nature of these businesses and the system that is used to classify them. The uniform European categorization distinguishes three types of SMEs; and it also offers a restrictive definition:

- An enterprise is deemed a small and medium enterprise if it meets the following conditions:
 - total number of employees of less than 250;
 - annual net turnover of maximum 50 million Euro, or balance-sheet value of maximum 43 million Euro; and
 - the enterprise meets the independence criteria.
- An enterprise is deemed a small enterprise if it meets the following conditions:
 - total number of employees of less than 50;



- annual net turnover of maximum 10 million Euro, or balance-sheet value of maximum 10 million Euro; and
- the enterprise meets the independence criteria.
- An enterprise is considered a micro enterprise if it has a total number of employees of less than 10 people (2 million Euro turnover).

The necessity of approaching the target area and its economy in joint, cross-border manner is the main reason why a business park would be a proper investment in the region, along with a consultancy centre both contributing to the development of the economy of the involved settlements and of the cross-border region. The entire project focuses on two main problems identified in the region, issues that will be discussed in more detail in the following sections. These issues are:

- Low level of entrepreneurial activities;
- Lack of quality business infrastructure and other professional services.

Economic needs

Petresti had a Local Development Strategy made, for the 2007-2013 period. The identified problems in this Development Strategy are presented below:

- Poorly developed infrastructure
 - Poor development of the utilities infrastructure
 - The telecommunications infrastructure is poorly developed
 - Transportation underdeveloped
- Uncompetitive economy
 - Agriculture not as much developed
 - Industry underdeveloped due to the lack of a proper business park
 - Tourism poorly developed, due to the weak promotion activities and the lack of modernized accommodation facilities
 - Low number of SME's in the region
- Underdeveloped service sector
 - Lack of cultural, sport and leisure activities
 - Health-services not enough developed
 - Social services less developed
- Local educational system is unsatisfactory
 - Poor educational infrastructure
 - Lack of trained specialists
 - Absence of training programmes

The presented problems can be identified both on the Romanian and Hungarian sides of the border but looking at the business sector and environment of the project's target area as a whole, we must underline that SME's in the Petresti-Vállaj region can be characterised by:

- lack of entrepreneurship in the region,
- incapacity of businesses to maintain on the market for a long period of time,
- small percentage of foreign capital in the businesses, including capital originating across the border,

- acute shortage of capital affecting especially small businesses,
- lack of business counselling services, accessible both from geographical point of view and affordability,
- barriers in the way of cross-border business opportunities for SME's, including lack of proper business infrastructure,
- lack of the basic business infrastructure.

For these common problems, common solutions shall be provided, to help the development of the entire region. On the other hand, these communities have been linked historically, culturally and economically for a long period and this is why a common approach for solving the problems of economical development in the area is viable and can be achieved. The common history, the common culture and the long-term economical relationships between the communities help to achieve the common point of view in the matter of how a problem shall be resolved and there are no cultural differences between the communities, although they live on two separate sides of the border. The construction of a business park and the consultancy centre can be a good solution for the SME's in the region and will resolve the problems of the SMEs mentioned above.

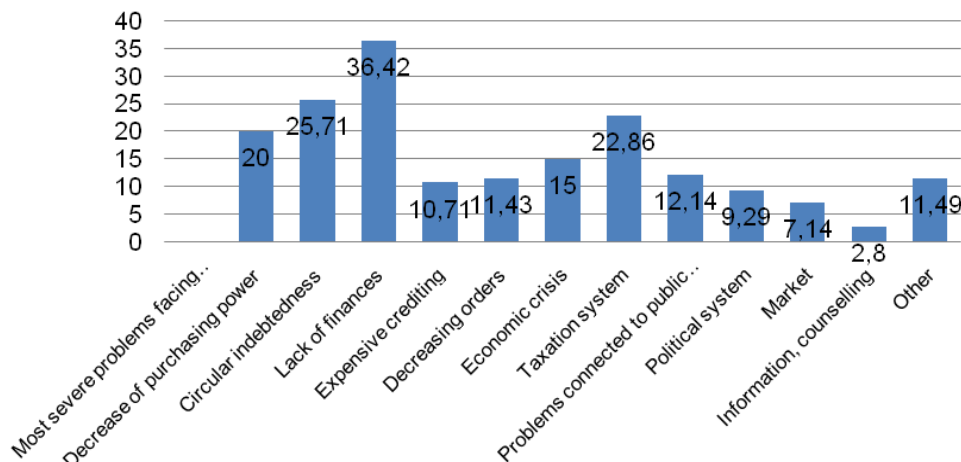
Demand analysis

A significant part of enterprises were established after 2000 both in Romania and Hungary. We can observe different trends in the case of the two countries in the time distribution of establishing enterprises: there was a powerful trend in Romania in the 90s, which did not exist in Hungary; however after 2000 we can observe an increase of entrepreneurial spirit in Hungary. The crisis had significantly different effects on the two sides of the border: the number of registered enterprises declined significantly in 2008/2009 in Romania; and it increased significantly in Hungary. The different trends are probably caused by different legal and economic measures implemented in the two countries and not in the cultural and economic differences existent within the region.

The global economic crisis is presently the economic and social context determining the everyday conditions of enterprises operating in the action area. Enterprises surveyed stated the following most pressing problems in their case:



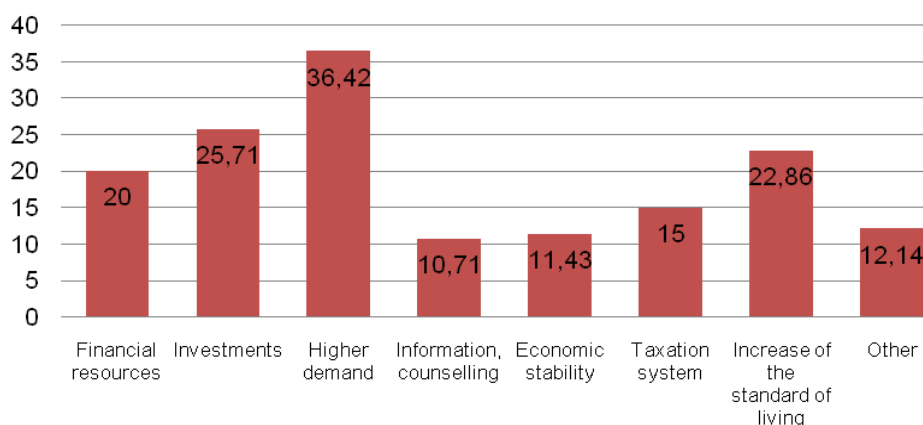
Most severe problems facing enterprises



The most serious problem, which they specify most often, can be classified in the category of financial problems, such as the lack of finances (36%), circular indebtedness (26%), decrease of purchase power (20%) and high-cost loans (11%). The range of problems caused by the system are added to the above, such as problems caused by the tax system (23%), public administration (12%) and by the political system (9%).

Similarly to the problems specified, necessities are also linked to financial aspects. Almost one third of enterprises surveyed consider investments as the most important factor for their business; one fourth of them struggle with the lack of financial resources.

What do enterprises need most at the moment?



In the field of business services, local entrepreneurs have hardly any knowledge about anything except mandatory accounting services (*they have heard about project management, but only a few have used such services*). Connected to this topic we observe that besides relative un-apprehensiveness the real objectives and reasons of these services is unknown; and most enterprises use their own resources and rather try to succeed by themselves.

Requirements concerning the support structures for enterprises within the project area can be grouped in two categories: on the one hand consultancy especially connected to projects, but also legal and financial consultancy too.

The second category concerns support to build business relations. More than half of the polled parties specified that they would need support to establish relations both within the country and abroad.

From the data provided above we can conclude the following: the SME's in the region have a problem with financing their activity and all the businesses have been strongly affected by the financial and economical crisis. The businesses have no collaboration with cross-border partners, although they share common history and common values, based on their common German history. This lack of partnership has an effect on their results too, not collaborating with a partner from across the border, they loose a significant percentage of the potencial market they could reach. The lack of cross-border cooperation has two distinct causes in our point of view, first of all there are few opportunities for the SME's from the region to get to know each other and to establish business relations.

If the SME's would have more opportunities to get to know each other-for example if they had the opportunity to move in into a common space they would more easily establish relations with each other and the scale of collaboration would increase significantly. On the other hand if they had the possibility to go on small-regional fairs and expositions, the opportunities would increase also to find a business partner. The lack of a propper infrastructure is the main cause that the upper enumerated problems appear and with a business park in the region and a center, where small expositions and fairs can be organised would help significantly the development of cross-border cooperation.

Another problem identified is the lack of proper business consultancy in the region. The demand is there, the SME's would like to have more information about project implementation, financial and legal consultancy too. There should be a consultancy center established, with consultants in various economic, financial, legal domains and their purpose should be to help the SME's in the region with any information they need.

Economic Possibilities

The economic development possibilities are multiple in the region, but the *lack of the basic business infrastructure* and the *lack of proficient consulting services* bottlenecks the fostering of business sector, and thus the development of the economy in the region. The proximity to the Hungarian border constitutes a good opportunity for attracting foreign investment in the region, but the first issue that has to be solved is that of the underdevelopment of infrastructure in the region

The development plan of Petresti Commune is presently being developed. Based on previous focus group discussion we can be sure that operation of the business park and the consultancy centre will be an important part of the local economic strategy. The project plays an organic part within the goals of the Euro-region. The development strategy of Satu-Mare County presents the importance of business parks included in priority no 1.3 among project portfolios concentrating on the area of competitiveness. The development strategy for 2007 to 2013 of the North-Western Development Region specifies them as enterprise development support structures in intervention priority no. 1.1.1. The importance of supporting enterprises was emphasized by the difficulties of reaching the Lisbon goals. EU enterprise policies put emphasis on financing SMEs and creating beneficial conditions for the collaboration between SMEs (cross-border), enterprise innovation, development of enterprise culture, economic and administrative reform and reducing bureaucratic obstacles

Direct beneficiaries

The direct beneficiaries of the present project will be the local or micro-regional SMEs from the two communes, and the possible investors, who will have access to a business park, basic economic infrastructure and business consultancy. A large variety of specific local target groups will benefit from the project results¹:

- Local SME's of the target area - 19 companies
- Industry – 1 business
 – 7 businesses
- Commerce and tourism – 8 businesses
- Other categories – 3 businesses
- The two local governments of Petresti and Vallaj.

Indirect beneficiaries

The indirect beneficiaries of the present project are: the inhabitants of the region, who will have more opportunities to find a job in their home region and will not be forced to go to the neighboring cities to look for a job. The local population of the two communes, Petresti and Vallaj, consists in 2.600 inhabitants, respectively 1.683 people in Petresti Commune and 917 people in Vallaj Commune. Other indirect beneficiaries may be: the local population of other settlements from the involved cross-border micro-regions, other organizations directed especially by public law that will use the elaborated best practices of the project (especially through the website of the project).

The added value to all target groups is reflected into the socio-economic generated benefits, as well as into the strengthened cooperation between the two communities. For the two partners, the added value of the project represents increasing the management capacity and also attractiveness of the target area including additional sources for the local budgets by attracting new investors. The new created services are a strong premise for an economical sustainable development in the target region. The project will contribute to the improvement of economic

¹ More information on the target group can be found on the following website:
http://www.listafirme.ro/harta/satu_mare_petresti.htm



life in the two communes. The indirect beneficiaries will have online-access to the project. The project will generate effects on long term for all beneficiaries, by improving the quality of socio-economic life and by raising the living standard of people and also by offering best practices for other entities.

Cross border beneficiaries

The project fits into the Priority Axis 2 “Strengthen social and economic cohesion of the border area”, Key area of intervention 2.1 “Support for cross-border business cooperation”, being directly related to action 2.1.1 “Development of business infrastructure”. The investment is in line with the cross-border business facilities improvement targets of the Hungary-Romania Cross-border Co-operation Programme. Findings of the analysis regarding the actual business infrastructural conditions and socio-economic background of the target area, as well as needs identified on both sides of the border reveal that the improvement of cross-border business infrastructure is a common demand seeking for joint solution. The project is also in line with the overall objective of the HURO CBC Programme

The cross-border nature of the project is highlighted right from the project generation and project development phase as well as its impact. Thus it is emphasized by the need for implementation of the project on both sides of the border. The SMEs in the Petresti-Vallaj region can be characterised by:

- Lack of entrepreneurship in the region
- Incapacity of the business to maintain itself in the market for a long period of time
- Small percentage of the foreign capital in the businesses in the region
- The small business suffer from acute shortage of capital
- Lack of business counselling, accessible both from geographical point of view as well as from affordability view.

The SME's do not have access to cross-border business opportunities. The presented problems can be identified both on the RO and HU sides of the border and for these common problems, common solutions shall be provided, to help the development of the entire region. On the other hand, these communities have been linked historically, culturally and economically for a long period, this is why a common approach for solving the problems of economical development in the area is viable and can be achieved. The construction of a business park and the consultancy centre can be a good solution for the SME's in the region and will resolve the problems of the SMEs mentioned above.

Multiplying effects

On one hand, the business centre and consultancy centre will contribute to the development of micro-regional economy because it is an opportunity offered to SMEs operating in the action area to develop their activity. This will create new workplaces. The business park environment is clearly conducive to the cross-fertilisation of ideas and networking, catalysing the entrepreneurial process and by facilitating networking, alliances and collaboration between firms. On the other hand, the cross-border cooperation and project management competences of the Partners will improve; these will be useful while implementing other EU-funded projects. Moreover, in order to multiply the best practices developed, the partners will offer access to their experiences through a PM Blog written on the project website.

Furthermore, the enterprises moving into the park will create more and more workplaces in the medium term. These workplaces will have a positive effect on the standard of living of the families of workers on the long term, as they will be able to cover their necessities from the wages received for their work. Local residents characteristically make their purchases locally, therefore higher revenues will automatically induce an increase of demand in the entire region and the positive effects will be felt by local SMEs, which can sell more products and will have more resources to develop their enterprises; and this in turn can induce the creation of new workplaces. On the other hand those companies who benefit from consultancy will operate more efficiently and will generate more profit. Part of this profit creates the opportunity for further investments and the other part of the profit increases the standard of living of the owners because SMEs characteristically use local capital and this will induce another local increase of demand. The infrastructure supporting economic collaboration created through this project may have a significant sustainable impact on the development of CBC area.

Public benefit

The project was initiated to meet the common necessities identified in the Petresti-Vallaj region without the goal to obtain profit and seize assets; the target group are Romanian and Hungarian SMEs operating in the action area; who are the engines of development and the biggest employers in a healthy sustainable economy. The broadest / indirect target group are

the population of the program area, who are the medium and long term beneficiaries of the improvement of competitiveness of the SME sector; as local enterprises producing European-level products and services can provide stable employment conditions in the region. The tax revenues of the local administration will also increase and this will improve the financial stability of the communes within the action area; which is the essential basic condition of developments of infrastructure. The free access to borders, finding solutions to common problems and solving them is a common success. The final beneficiary of the project will be the population of the entire border region, besides the two communities involved. That is because the results for the cooperation process will reach to the entire population, through an adequate dissemination (the project site). The project has a public utility

Equal opportunities

We will take the required measures during the project to prevent discrimination on gender, racial and ethnic origin, religion or faith, disability, age or sexuality in different stages of the implementation of the initiative. The project manager is responsible for compliance with the equality of chances requirements during implementation; and the director of the park and centre will oversee this process in the operation period. Enterprises managed by women and enterprises specialized in meeting the necessities of women will receive special attention in the project; and we undertake that min. 10% of SMEs moving into the park will meet these criteria. Furthermore, 20% of future employees will be women while focusing on improving accessibility and quality of life and labour market position for disabled people will also be our priority.

Statistics prove that 10% of the population of the action area is ethnic Roma; Roma entrepreneurs and Roma people wishing to start an enterprise will receive special attention during the operation of the park and consultancy centre.

Conclusion:

We can thus conclude that the infrastructure and service package to be developed is an efficient tool to strengthen economic cohesion and competitiveness in the project area. Our particular goals for the sustainability period:

- **Increase the entrepreneurial willingness in the two communities**

With the help of the proper business infrastructure and the proper know-how and support, more and more potential entrepreneurs will have the courage to open their own business and to establish business relationships with the existing SME's in the region and the firms present in the business park

- **Increase the cross-border cooperation between the communities**

The existing businesses will have the opportunity to get to know each other on various trainings, conferences, fair, exhibitions and they will have the opportunity to collaborate and strengthen their business relationships.

- **Establishing new workplaces in the region**

The main goal of establishing a business park in any region is to attract firms in the business park with various opportunities and these firms will hire personnel from the adjacent region and so, the unemployment rate in the region will drop significantly and the economic development of the region will increase.

- **Increase the number of registered mixed capital enterprises, and the number of enterprises performing active foreign trade**

The Consultancy Centre will provide continuous information about cross-border economic opportunities to Romanian and Hungarian enterprises operating in the region; and this shall strengthen the interregional network of relations of SMEs. Also, taking everything into account, one can see how the economic needs of the region give way to the possibilities enumerated in this document and also that these investments would significantly help the region catch up to its neighbouring counterparts.