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Romania Agribusiness Development Program (RADP)

QUARTERLY ACTIVITY AND FINANCIAL REPORTS

October 1, 2006 – December 31, 2006

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INTRODUCTION

Although activities during the quarter were curtailed by the year-end holidays, important progress was nevertheless felt in all sectors during the last quarter. A RADP sponsored study tour for key Romanian environmental officials no doubt helped Smithfield obtain the environmental approvals to begin building their farms, while independent hog farmers came back from EUROTIER with information and ideas about new technologies. The Association of Eco-Tourism continued its campaign to inform the public and tour operators about the potential for expansion of eco-tourism in Romania. Apicola Bacau and Apicola Deva finished the installation of their new processing units and gave demonstrations at opening events which were attended by local government officials, the National Honey Association and USAID. At the end of the quarter, RADP and USAID held a retreat to map out plans for the remaining four months of technical implementation of the project.

I. Activities and Accomplishments during the Reporting Period

A. Livestock/Processing Sector

The key focus of livestock/meat processing activities during this last quarter continued to focus on making producers more aware of new and improved production methods and in meeting new, stricter EU standards for health, safety and the environment. The project is working at several levels and with different groups, including Smithfield, small and medium independent producers and on national issues at the country level.

Collaboration with Smithfield

Financial Analysis of the Smithfield Program – Smithfield has found it very difficult to identify producers or investors for their contract farmer program. In talking with independent producers, there is not a good understanding of the contract grower program and producers also voice concern about the potential returns for such a large investment. During the last quarter, RADP provided the services of an agricultural finance specialist to review and provide recommendations on the financial viability of the current contract. This activity was undertaken in collaboration with the USAID/USDA ADAPS project. Although the return on investment (est. 10.3%) and the internal rate of return (est. 9.5%) are respectable, the high initial cost of the investment (€1.6 million), the long-term nature of the investment (20 years to pay off the investment) and the normal risky nature of agriculture have probably combined to make potential investors and local banks reluctant to invest. We are waiting to see how Smithfield will react to analysis.

Environmental U.S. Study Tour – Last quarter we reported on the study tour to the U.S. for officials which oversee Romania's environmental control agencies. While in the U.S. the officials met with environmental protection officials of the State of Virginia, EPA and USDA officials in Washington, D.C. and visited Smithfield farms in North Carolina and Iowa to inspect U.S. methods of waste removal. In part as a result of the trip and a clearer idea of how industrial hog production and waste management can be handled so as to limit negative impacts on the environment, this past quarter Smithfield was granted the necessary environmental approvals to begin

building their production facilities. Thirteen in Arad County and twenty in Timis County are currently under construction.

Marketing Tour to Eurotier Tradeshow – In mid-November, RADP assisted eight participants from two hog producers association and several larger independent producers to participate at the Eurotier Agriculture Tradeshow in Hanover, Germany. Of particular interest to the participants were the new high tech equipment now available: liquid feeding systems; micro chips which “sense” nutritional requirements; and improved stall grills from plastic. Participants were also able to visit several German hog farms and shared ideas on feed recipes. As a result of the tour, one participant has already arranged to buy improved breeding stock from a Hungarian supplier he spoke with at Eurotier.

Farm Inspections – For over a year now, RADP has been providing the services of Professor Ion Tibru from the Faculty of Veterinary Medicine at the University of Timisoara to area hog producers to assess the readiness of farm operations to meet EU and new Romanian legislation concerning health, safety and environmental requirements. Last quarter this activity was expanded to Bihour County and five producers benefited from these inspections.

Sector Level Activities

CSF Prevention Campaign – Last quarter RADP helped plan, organize and begin implementing an information campaign to inform small ‘backyard’ hog producers of Government of Romania’s new policy on CSF control/eradication. Backyard farmers are of concern, since they generally have few if any biosecurity controls to protect their 2 or 3 pigs, thus posing a threat as a source of contamination to larger producers. Within days of final passage of the new legislation, the RADP Communications Consultant had developed and begun implementation of a media campaign comprised of press conferences, posters and flyers, and TV and radio spots to inform the public of the vaccination campaign. Within the first three weeks, which included the Christmas and New Year’s holidays, over a million pigs were vaccinated. The campaign will continue through January.

EU Standards for the Swine Industry – The National Association of Hog Producers worked with RADP last quarter to develop an information bulletin on new Romanian and EU requirements for hog producers. The task has been made more complicated as the regulations and legislation have been constantly changing as Romania tries to bring its legislation in line with that of the EU. The draft bulletin has been completed and we have begun to try to reduce it to a more readable format. Once completed, a series of workshops will be held throughout the country in collaboration with national and regional producer associations, the Ministry of Agriculture and ANSVSA.

B. Wine Sector

Marketing and promotion continued to be the focus of RADP activities during the last quarter.

Wine Catalogue – Work continued on the development of the wine catalogue which will serve as an advertising and promotional tool for export quality wines. The taking of pictures has been completed for several months. However, progress has been slow, in part because of the failure of the smaller wineries to provide written materials on their operations and wines for

inclusion in the catalogue. At the request of WEPA the format of the catalogue was revised from the original concept.

Wine Journalist – One of Britain’s more influential wine journalists, Caroline Gilby, was invited to visit Romania to experience and hopefully write about Romania’s wines. She visited five wineries and a special wine tasting event was held in Bucharest at the completion of her trip, so that another six wineries could also participate. Ms Gilby also provided written feedback to each of the wineries about the facilities she visited and the wines she tasted.

London Wine Tasting Event – RADP collaborated with the Ministry of Economy and Commerce and WEPA to hold a special wine tasting event in London. The event was hosted by the Romanian Ambassador at his residence. Invitees included the key wine importers, wholesalers and retailers to taste and learn about Romanian wines. RADP provided the services of wine journalist Gilby who presented the wines at the event.

C. Tourism Sector

Collaboration of the Brasov Tourism Association continues to be a concern. Although a key recommendation of the Brasov Tourism Strategy was to create the association, it has been slow to start and to begin playing a role in promoting Brasov tourism. Despite the considerable assistance provided thus far, RADP’s relationship with the Director has remained strained. Of key concern as the project winds down, is the sustainability of the Tourism Website and whether the information points, requested by the county will actually be built. A meeting was held with the President of the County Council to raise Project concerns, but no noticeable improvement resulted.

Progress in working with the Association of Eco-Tourism, on the other hand, has been excellent. The first group of tourism operators has been certified, Retezat National Park was approved into the EU’s Protected Areas Network (PAN), and membership in the association has almost doubled in the past year.

Tourism – Brasov County

RADP assistance in Brasov County tourism during the quarter focused on training and marketing and promotion:

Brasov County Tourism Website. The Tourism Website was launched during the quarter and during its first three months of operation tallied over 40,000 hits from 2500 distinct users. Additional content was added during the quarter and work started on having pages translated into several languages. Several meetings were held with the Brasov Tourism Association, who had promised to take over the maintenance of the website. Unfortunately there has been no action taken thus far.

Tourism Information Centers – Training of staff at the six information centers continued during the quarter. Workshops were held in four town centers to teach about the role of information centers, working with the public and how to obtain, organize and present promotional/informational materials. Audits were also conducted of the six centers with which RADP is working to identify what is still needed in terms of equipment and training to

make the centers more productive. The CHF tourism staff participated in some of the training programs.

FAM Tours – Several familiarization or FAM tours were organized for RADP tourism partners during the quarter. APDT staff were assisted to visit tourism sites throughout the county so that they would have first hand knowledge about the products they are expected to promote. In similar fashion pension operators from several villages also visited tourism sites, so that they would be better able to inform and assist their clients in visiting the area.

Agro-tourism Assessments and Training. RADP assessed the potential and obstacles of initiating or expanding agro-tourism in three communities: Vama Buzaului, Sinca Veche and Poina Marului. The project provided assistance in creating a website for Vama Buzaului, helped develop brochures and participated in “clean-up” campaigns in an effort to make the villages more attractive for agro-tourism.

Tourism Information Development – As an on-going activity, RADP continued to provide assistance in developing and improving existing promotional materials for firms and communities. A brochure was developed for Vama Buzaului

Information Points – Although the bids for the construction for tourism information maps to be installed at rest stops at the entrance (exit) to Brasov were obtained last quarter, there was no action by APDT or the County to obtain approvals from the Ministry of Transportation for construction of the maps/rest stops. The need for these approvals was brought up with both APDT and the County Council.

Ecotourism

AER, RADP’s main partner for eco-tourism development, was very busy during the quarter, both in promoting eco-tourism and in preparing for attendance at nine international tradeshows planned for early next year.

Association Strengthening – AER is a very young organization and a key part of RADP’s assistance has been to help strengthen the organization and enhance its ability to represent its members and eco-tourism. During the quarter, AER with RADP assistance organized and/or attended a series of meetings and workshops, the focus of which were to inform and promote eco-tourism and eco-tourism principles both within and outside of Romania:

- *Eco-tourism in the Danube Delta* – A workshop to discuss and plan for more eco-tourism in the Danube Delta was held with AER partners, Friends of Nature, GTZ and RADP.
- *Carpathian Eco-Region* – A workshop was held in Zarnesti to develop a strategy for the Carpathian Eco-Region. In addition to AER and other Romanian organizations, the workshop attracted participants from other Carpathian countries, Ukraine and Poland. The workshop resulted in an agreement for joint promotion and common branding for the Carpathian Mountains/region.

- *Ski Development in Bucegi Nature Park* – RADP’s eco-tourism specialist attended the public meeting on a proposed ski development in the park. He raised concerns about the possible negative environmental impacts from the proposed development.
- *Presentations on Eco-Tourism* – Presentations on eco-tourism were also made at several venues during the quarter: presentation on Eco-tourism at the Bucharest Tourism Show in October; lectures on eco-tourism for Clubul Montan Apuseni and the Milvus NGO; presentation of eco-tourism and guiding in Brasov.
- *Mini-tradeshow in Sibiu* – Held in conjunction with the AER AGM, AER members and the opportunity to learn about the ecotourism products developed through the fifteen grants from the Doen Foundation. RADP provides counterpart funding and training to the Doen project.

Certification - In September the first seven applicants for eco-tourism certification were inspected. This past quarter five were officially approved. Two were not approved; one was not officially registered as a pension and the second did not have an approved waste disposal system. During the quarter the National Tourism Authority also approved AER’s recommendation for its certification procedures and has promised to help get it officially approved by the Government. The certification board is comprised of member from the National Parks Service, World Wildlife Fund Romania and AER.

National Parks Partnership

Retezat Strategy and PAN Park Admission – During the quarter the Retezat development strategy was completed as part of its application to become a member of the PAN Park network. Workshops were held with park staff and with the larger community to explain, debate, and improve the draft. The strategy was finalized, submitted and Retezat was formally approved for membership in the Protected Areas Network. PAN park administration members, in approving Retezat’s application also praised the strategy and requested (and received) Park approval to use the strategy as a model for future applicants.

Caliman Product Development – Two workshops were held with Caliman Park staff and tourism partners surrounding the park. A product development workshop was held to create a nature trail for the “Seven Apostles” Trail. The workshop included a classroom theoretical portion on what is needed for such a trail and a practical portion to actually walk and detail the improvements and changes needed. A second workshop was also sponsored by RADP to develop the 2007 action plan for tourism development in the park.

Promotion and Marketing

Preparation for Tradeshow Attendance – During the first quarter of 2007, AER will attend nine international tradeshows. During the quarter RADP and AER finalized plans for attendance at the shows.

Promotional Material – RADP continued assistance to AER during the quarter to AER to develop and improve promotional materials in preparation for attendance at tradeshows next year.

Photo Database – The two photographers continue to work to fill gaps in seasonal pictures needed for promotional efforts. RADP will also assist in developing a database for storing and sorting the pictures for easy retrieval and use.

D. Honey Sector

A major milestone was reached in the honey sector last quarter, as the processing units were completed in both Bacau and Deva. Hopes remain alive also that with RADP assistance the Mormon Church may fund up to four additional processing units, including one in Apicola Arad, a RADP partner association.

Processing Units – Work begun almost a year ago was completed during the quarter with the final installation and inauguration of honey processing units in Apicola Deva and Apicola Bacau. Opening ceremonies in each city were led by the respective Presidents of the County Council, city Mayors and the Directors General of Agriculture. USAID also participated at both events.

Training Workshop – Following the installation of the processing unit, RADP organized a three day training session to review the procedures for operating and maintaining the processing equipment.

Assistance to the Mormon Development Program – The Church of the Latter Day Saints has a development fund. They are interested in replicating our work in Bacau and Deva by funding additional processing units in four other localities, one of which is Arad where RADP is already working. The initial proposal for four processing units was not accepted due to funding constraints. The proposal will be resubmitted and will include funding for only three units and transportation, but no funding for modifications of the buildings. RADP continues to provide assistance to the Mormon delegation in Romania by providing information on the processing units and projected impacts.

Organic Certification – Following RADP assistance last year, additional beekeepers began their certification process this year. During the quarter 96 received their first year or “conversion” year approval (Arad 20; Iasi 30; Dva 16; Bacau 30). Of the 84 assisted last year, 81 received their final certification this past quarter.

Study Tour to Bulgaria – RADP organized and implemented a study tour to Bulgaria, so that partner beekeepers in Romania could visit and discuss their work with their counterparts. The ten member team met with officials of the Bulgarian Ministry of Agriculture and associations to learn how they collaborate in developing and implementing policies affecting the sector. The Romanians also visited several cooperatives to learn how processors have developed and are now implementing their HACCP plans, good marketing practices and ISO standards. Visits to several independent processors also provided new ideas on ways to market their products.

Preparations for Biofach Tradeshow – Last year representatives of Apicola Bacau and Apicola Deva attended Biofach, Europe’s largest organic tradeshow. In 2007 members of all four of RADP’s partner associations (including Iasi and Arad) will attend. During the quarter, RADP began planning and organizing for attendance. RADP and Apicola Bacau were finally successful in the advocacy campaign to obtain tradeshow assistance from the Ministry of Economy and Commerce. This year the Ministry will fund the booth at Biofach for the honey producers. In addition, during the quarter RADP assisted in updating brochures for Bacau and Deva and developing logos and business cards for Iasi and Arad.

E. Other Activities during the Quarter

Investment Promotion – For the past several months, RADP Investment Specialist Juliet Zavon has been researching and writing a series of articles on investment opportunities in Romanian agriculture. The articles highlight the recent growth in agricultural production and underscore the advantages of Romania: abundant fertile land; skilled and relatively inexpensive labor; and the advantages from Romania’s accession to the European Union. Two articles were previously published. Three more were published this past quarter: Feed International: “*Joining the EU: Romania Accesses Its Feed Future*”; Implement & Tractor: “*Snapshot of a Fast-Growing Market – Business is Booming in Romania*”; and an article in The Organic & Non-GMO Report on Romania’s growing organic agriculture.

Advocacy Training Workshop – Advocacy training was targeted as an important part of the Project’s policy agenda. Last quarter RADP organized a two-day advocacy training workshop for associations with which the project works. Nine associations and twenty-five participants learned about planning and implementing an advocacy campaign and drafted plans for an advocacy campaign on an issue of their choosing. The three honey producers associations worked together on a campaign to encourage increased domestic consumption of honey; the three hog producers associations chose to advocate for a continuation of government producer subsidies after EU accession; the two wine associations developed a draft campaign for better enforcement of regulations on wine quality; while AER’s campaign was to promote a better awareness of the need for protecting the environment. RADP’s Advocacy Specialist, Glenn Patterson, then spent a day with each of the associations to provide additional one-on-one assistance in further refining the campaigns.

Project Closeout & Team Retreat – Work continued in planning for an orderly closeout of the project. The full RADP team was joined by the RADP CTO for a two-day retreat to discuss, plan and set timelines for activities which will need to be undertaken over the next several months. Among the activities and issues discussed were: final requirements for technical assistance and funding from the Strategic Activity Fund; disposition of project equipment and materials to partner organizations; deadlines for obtaining final indicator data; and planning of the final project report and a close-out event.

II. Activities Planned for Next Quarter + (January – April 2007)

RADP technical activities are scheduled to end in April of this year. Much of the next several months will be spent finishing up the many on-going activities and in preparing for an orderly project close-out.

A. Livestock/Meat Processing

EU Regulations for the Pork Sector – RADP will continue work started last year to develop an informational bulletin for hog producers which will lay out the new stricter requirements on animal health and safety, environmental regulations, and subsidies. The informational pamphlet will be used in a series of workshops to be held around the country to better inform hog producers of the new requirements. The National Hog Producers Association is assisting in development the written materials and the Association, ANSVSA, and the Directors General of Agriculture will lead the workshops. If resources permit, RADP may also organize special workshops on biosecurity.

CSF Campaign – Phase I of the information campaign which started last quarter targets the approximately 2 million ‘backyard’ farmers who raise a few pigs for home consumption. Vaccination of their animals is mandatory, but free. The information and vaccination campaigns will continue through January. Next quarter the project will also provide assistance for Phase II, which is scheduled to begin in March and which will target commercial producers and focus on the bio-security measures required to protect their animals.

On-farm Inspections – Farm inspections will continue in Bihor County next quarter.

Attendance at Biofach – Three producers from Arad and Bihor producers associations will accompany RADP team member Sandu Buha to Biofach in Nuremberg, Germany in February. The producers are interested in learning more about the potential and methods for producing organic meat.

B. Wine Sector

Wine Catalogue – Work will continue, and hopefully be completed on the development of the wine catalogue.

Marketing Training/Workshop – A workshop is scheduled for early next quarter on firm level marketing and sales.

C. Tourism Sector

Brasov County Tourism

Most of project resources and staff time will be devoted to on-going activities:

Brasov Website – Major activities will be adding content and ensuring the sustainability of the website.

Tourism Information Development – As an on-going activity, RADP will continue to provide assistance in identifying, creating and improving existing promotional materials for firms and communities.

Agro-Tourism Development – Follow up assistance will be provided to Poiana Marului, Sinca Veche, and Vama Buzaului in developing their communities as agrotourism destinations.

Product Development – Assistance will continue to be provided to individual tourism operators in developing new products for both international and domestic tourism.

Information Points – At this point we are unsure whether we will continue to fund the information points. The Brasov Association and the County Council have yet to obtain the approvals for the selected sites. Early in the quarter we will meet with officials to see whether this activity will continue.

FAM Tour for Tourism Journalists – A FAM tour for Romanian journalists will be organized so that they can become more familiar and hopefully write about tourism opportunities in Brasov County.

Ecotourism

Promotional Material – RADP will provide assistance to AER and AER members to develop and improve promotional materials in preparation for attendance at tradeshows this year. RADP will also assist with developing a website for AER.

Photo Database – The two photographers currently filling in gaps in pictures needed for promotional efforts will continue. RADP will also assist in developing a database for storing and sorting the pictures for easy retrieval and use.

Preparation/Attendance at Tradeshow – RADP will assist AER and its members to attend the following tradeshows over the next several months:

- Netherlands Jan. 9 – 14
 - Vienna Jan. 11- 14
 - Stuttgart Jan. 13 – 21
 - Zurich Jan 25 – 28
 - London Feb. 1 – 4
 - Brussels Feb 8 – 12
 - Berlin Mar. 7 – 11
 - Paris Mar. 15 – 18
 - Goteborg (Sweden) Mar. 22 - 25
- With a possible attendance in Dublin.

Eco-Tourism Workshops – RADP will provide assistance for the following AER sponsored workshops:

- *Follow up Assistance for the Retezat Development Strategy* –
 - Translation of the Strategy into Romanian

- Workshop on branding and marketing for Retezat.
- Common branding for GEO and Retezat marketing
- *Product Development/Green Management Workshop in Calim*
- *First Aid Training* – For AER staff, members and National Park personnel.

Review and Recommendations on Tourism Legislation – RADP will assist AER to review and identify needed modifications in tourism legislation to bring it into line with the philosophy of eco-tourism. As an example, under present legislation pensions and restaurants are not legally allowed to purchase products from local farmers.

D. Organic Honey Sector

Attendance at Biofach – RADP will again lead a delegation of Romanian beekeepers to Biofach in 2007. During the quarter, the Project will assist in preparations for attendance: logistics, promotional materials, samples, and in contacting potential buyers of their products.

Marketing Assistance – Over the past year RADP has started marketing training for the Apicolas. We have assisted them to determine costs of production at the beekeeper level and assist with some direct marketing. Next quarter (April) RADP will sponsor a final marketing workshop to cover the following issues:

- Determination of basis price (including processing costs) for floor prices of negotiations.
- Customer service – we have noticed differences in how Bacau and Deva deal with clients, ECOCERT, etc. Both need improved client relationships, for different reasons (one is too aggressive/ seeming less than honest, while the other is too passive).
- Packaging, marketing and comparative advantage – knowing who to approach with what and how to “package” and sell it.

Assistance to the Mormons as required.

E. Other Activities

Foreign Direct Investment – Finalize the remaining articles and see whether we can possibly re-start the paid advertisement.

Project Closeout – Continue work on developing and begin implementing the closeout plan to ensure a smooth end of the project.

- Disposition plan for Project equipment and materials
- Success stories – photos
- Final report cost estimates
- Plan and implement a final event at the end of April