

# Investing in large farming versus establishing linkages with small farmers

*International Food and Agribusiness Management Association  
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**SEEDDEV**

**South East Europe DEvelopment**

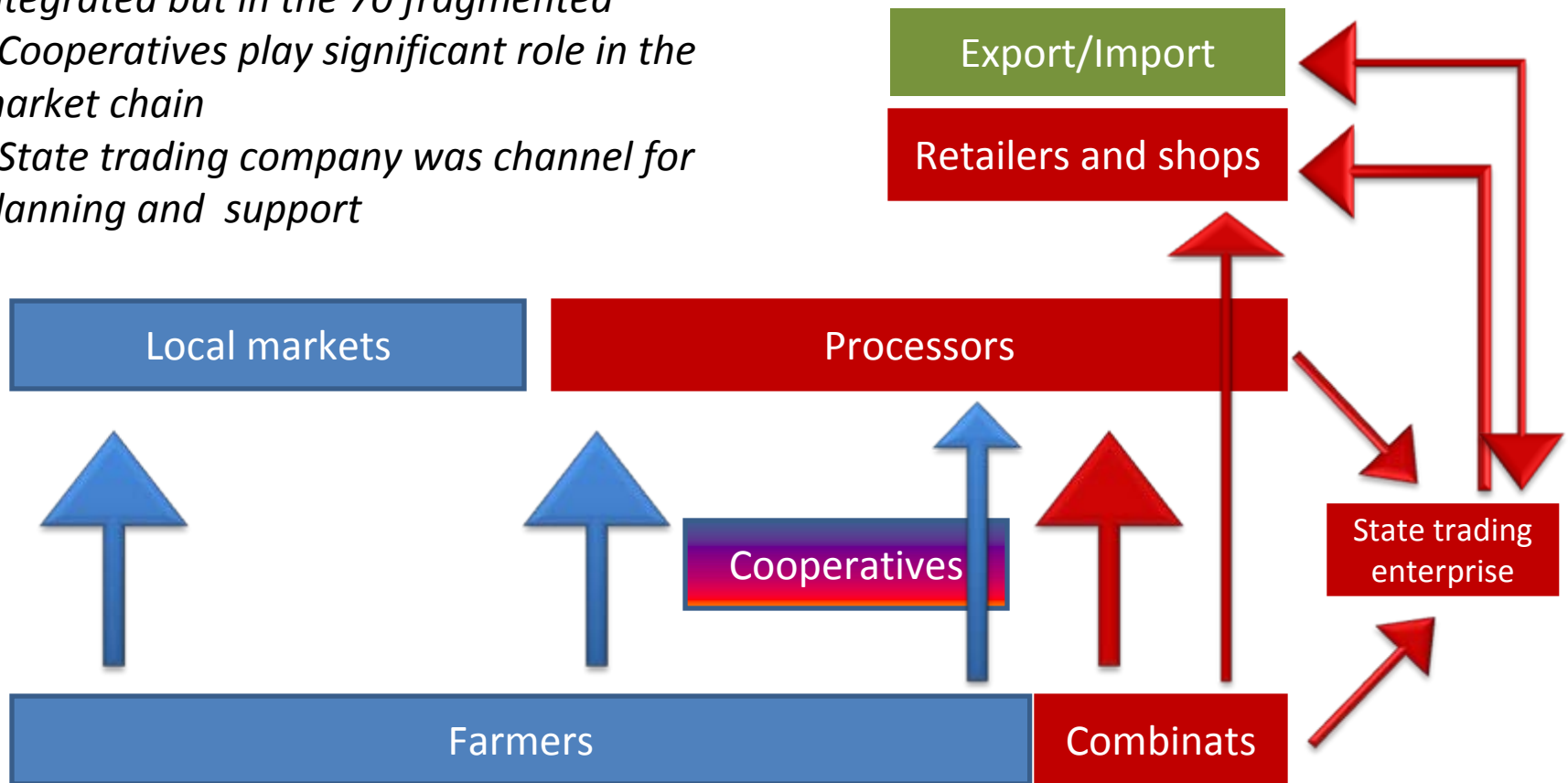
# ***Transition = 'marketisation', liberalisation, de-bureaucratisation, privatisation (Sachs)***

- Former Yugoslavia
  - Around 85% of land was privately owned by small farmers, 15% state owned combinats
  - Developed cooperatives system
  - Processing industry was part of the state economy and state owned
  - Sales have been organized through the state owned retail chains
  - State trading enterprise
- The transition process of the 90s
  - Privatization of combinats and processing capacities
  - Enlargement of private land holdings
  - Closures of state trading enterprises
  - Opening of supermarkets and retail shops
  - Decay of large number of cooperatives.
- Today results
- Largest retailers = biggest producers

# *Simplified market chain in the Western Balkan*

## **Tito's time (up to the 90)**

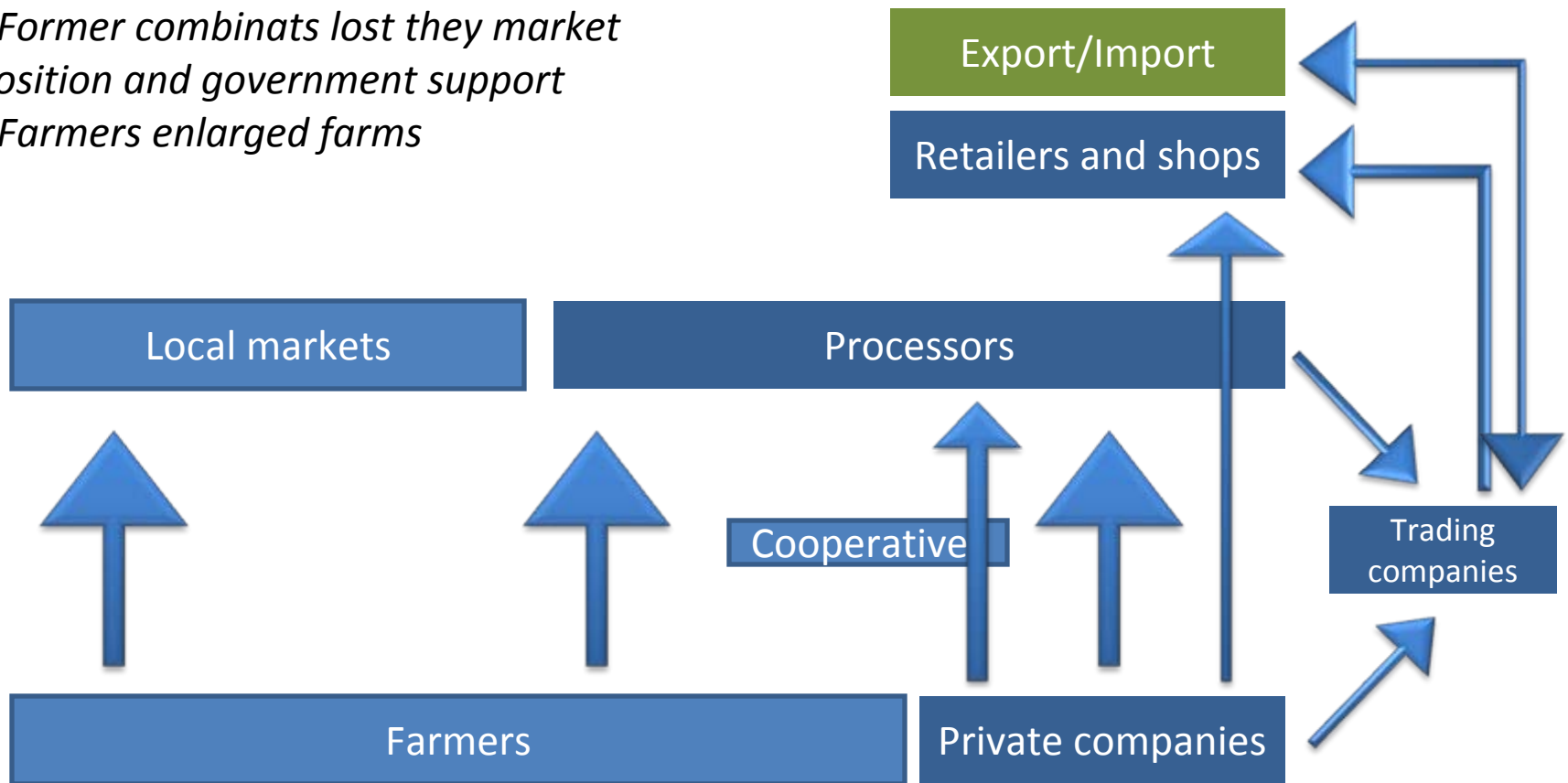
- *Small scale farmers mainly produce for local markets and local processors*
- *State companies are initially vertically integrated but in the 70 fragmented*
- *Cooperatives play significant role in the market chain*
- *State trading company was channel for planning and support*



# *Simplified market chain in the Western Balkan*

## **Transition time (mainly during 90)**

- *All state enterprises were privatized*
- *State trading company was canceled*
- *Cooperatives lost farmers confident*
- *Former combinats lost they market position and government support*
- *Farmers enlarged farms*

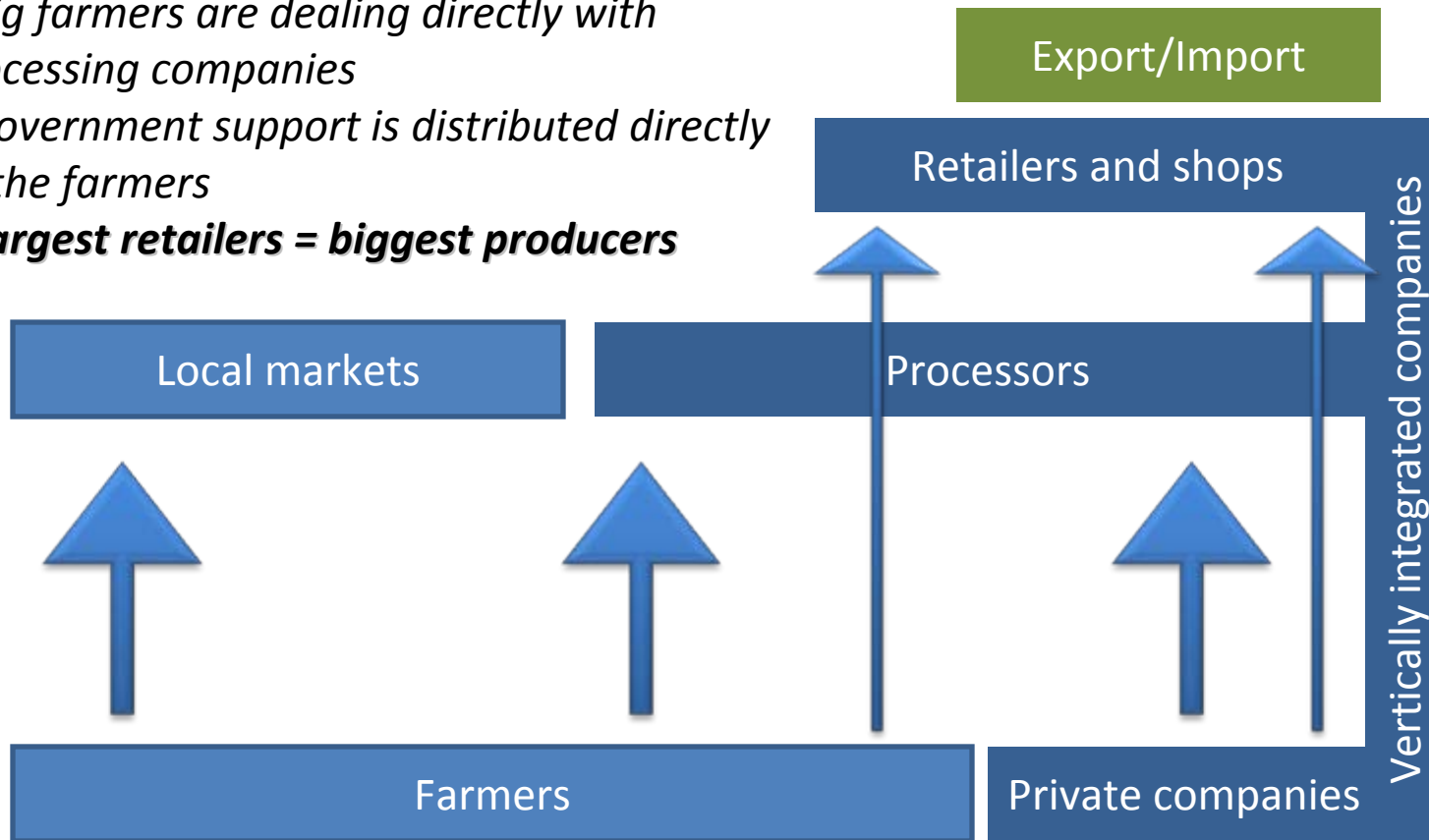


***Basic structure stayed the same, only the state ownership was replaced by the private capital.***

# *Simplified market chain in the Western Balkan*

## **Post transition time (today)**

- *Biggest local retailers through privatisation process bought combinats, processing facility and shops*
- *Big farmers are dealing directly with processing companies*
- *Government support is distributed directly to the farmers*
- ***Largest retailers = biggest producers***



# *The closer look at the market*

## **Delta Holding - Serbia**

- Advertising,
- Financial and insurance services,
- Real estates,
- The biggest retail sale chain of clothes and cars,
- Production of bicycles,
- Chemical and pharmaceutical products,
- Owns the biggest chain of shops covering the entire trade market with small shops of 400 m<sup>2</sup> up to big supermarkets with over 12000 m<sup>2</sup> of sales area.
- The company Delta Agrar d.o.o.owns companies which use
- 15.910 ha of land for their production activities,
- Five of their cattle-breeding companies produce over 100.000 fed pigs and 7000 heifers a year.
- Meat is being processed in their own slaughterhuse,
- Largest mill in Serbia
- Production inputs are supplied by "Delta Hemija" company which has 37% share in the market of pesticides and herbicides.

# *The closer look at the market*

## **Company Matijević – Serbia**

- The second land owner in Serbia is with 17.720 ha of land
- largest meat industry
- Own pork and beef production
- Network of 85 retail sale shops which sell 95% of their own products.

## **“Agrokor” – Croatia**

- 31.000 employees
- The leading retail chain “Konzum”
- Largest Croatian producers of mineral water,
- Largest producer of ice-cream
- Oil production,
- Margarine and mayonnaise,
- Meat producer
- Just PIK Belje, the biggest agricultural facility, produces 160.000 fed pigs per year
- 2007, Agrokor received 14.4 million euros of subsidies for primary production which was 4,5% of totally subsidized money in Croatia

***What are the reasons and consequences of failure to integrate small producers into modern supply chains in the Western Balkan?  
Why retailers and processing companies are so heavily involved into production?***

- 1. Economic reasons**
- 2. Failure or unwillingness of the state to fully establish the market suitable for small producers, and for their integration into the market chain**
- 3. Heritage of previous times and possibilities through privatization**
- 4. Individual capacities and retailers and farmers' expectations**

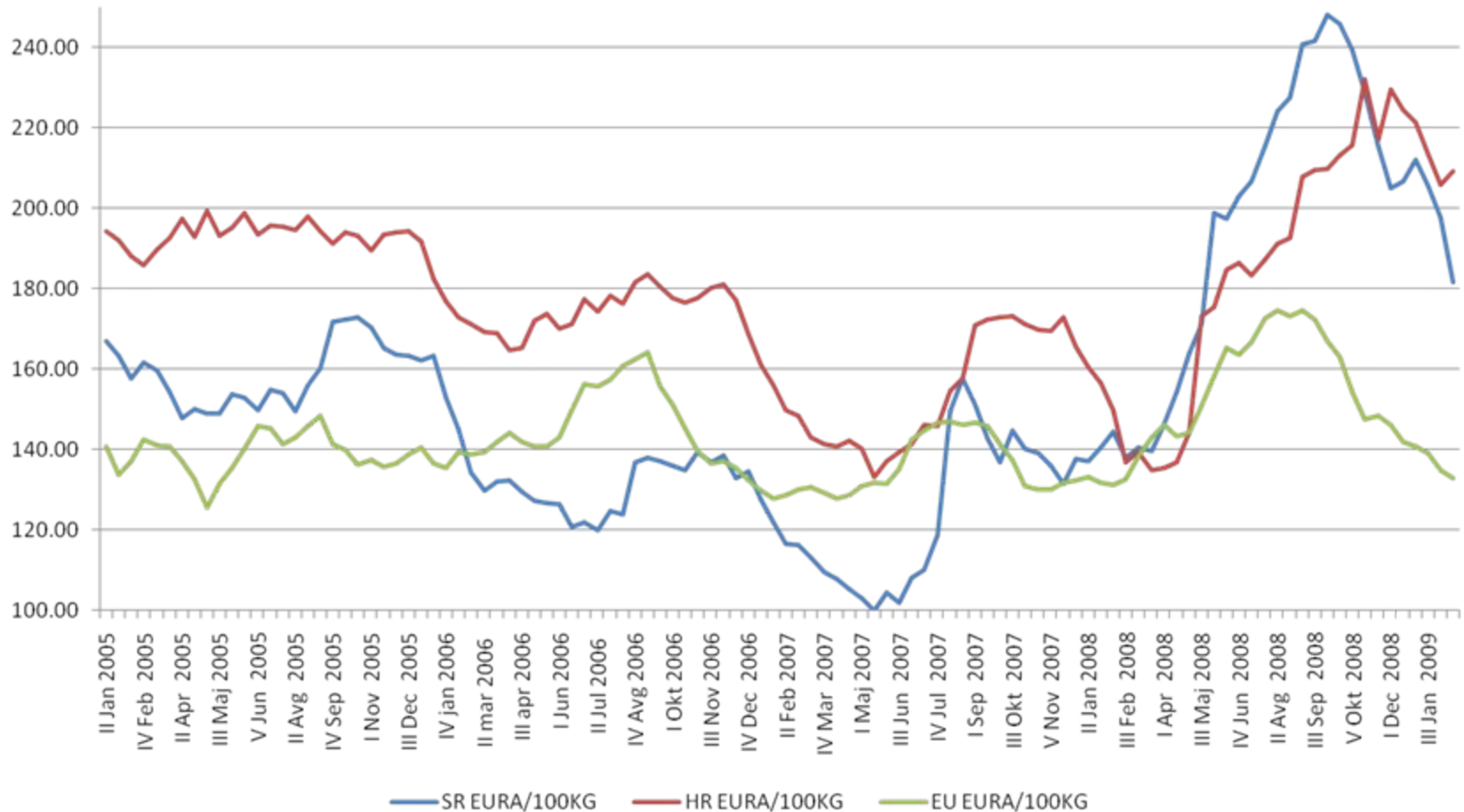


# 1. Economic reasons

# *Minimizing of the risks related to compliment with standards, significant variation in prices, insufficient supply or orientation towards other buyers*

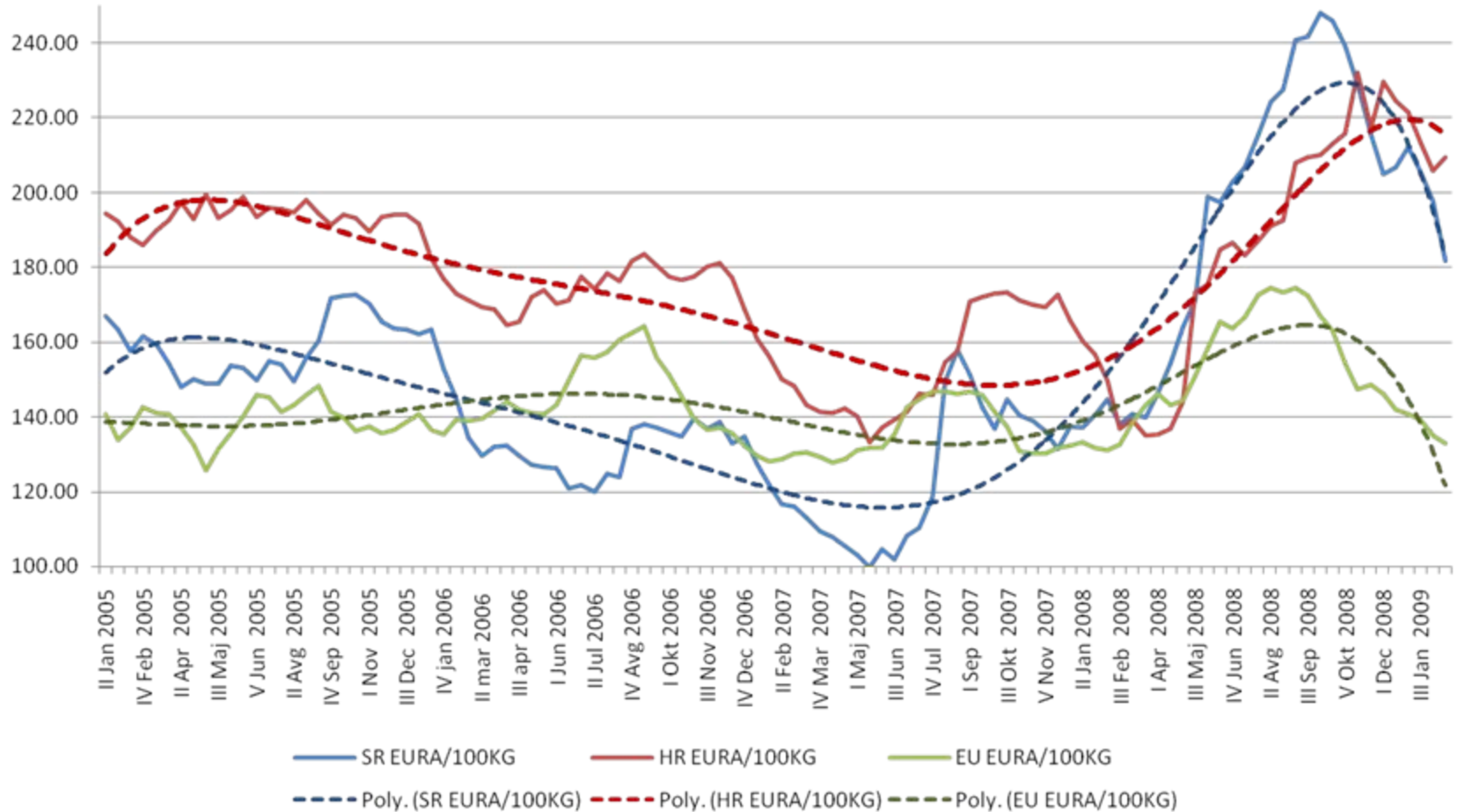
- **Standards enforcement**
  - Standard implementation costs
    - Probably higher
    - But less risky
- **Often insufficient supply**
  - Secure supply when production is lower
- **Price variation**
  - Significantly higher price variations
    - Technically undeveloped production and therefore high variations in yearly production
    - Heavily dependent on weather conditions
    - High tariff protection
    - Small storage capacities
    - Strong internal competition.

# Price variation



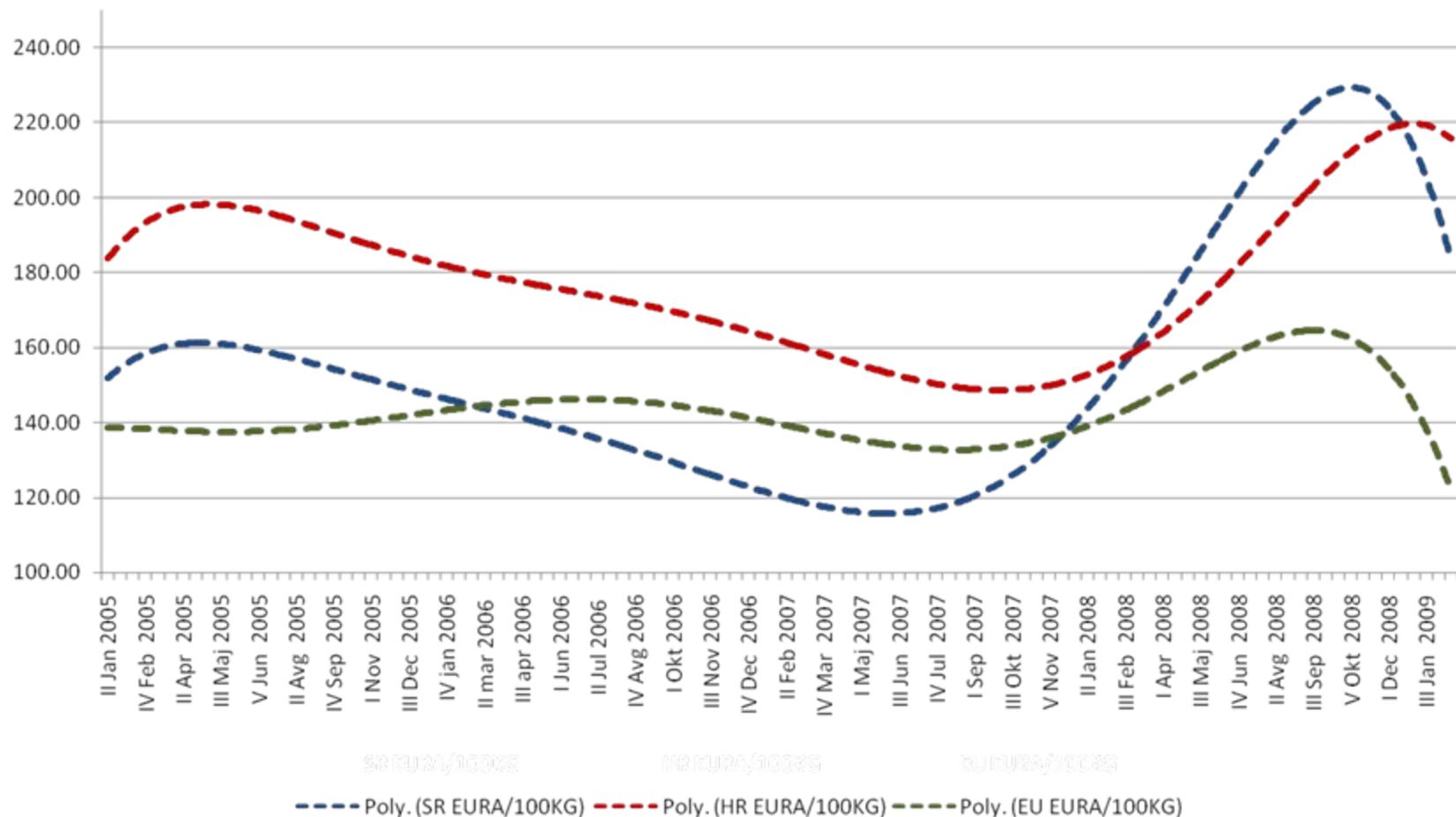
*Comparison of the live weight pork price Serbia, Croatia and EU (EUR/100Kg)*

# Price variation



*Comparison of the live weight pork price Serbia, Croatia and EU (EUR/100Kg)*

# Price variation



**Comparison of the live weight pork price Serbia, Croatia and EU (EUR/100Kg)**

# ***Low investment capacity of small farmers, and high investment capacity of the companies***

- Significant achievements made on the rural credit market to small and medium farmers in the Western Balkan countries
- But still far away to the credit access of big companies and retailers
  - Diverse activities
  - High turnover
  - Investment capital from their own profit from other activities
  - Access to International financial institutions
  - ...

# ***More favorable prices on local markets and in local butcheries***

Price on the local markets > wholesale ≈ supermarkets

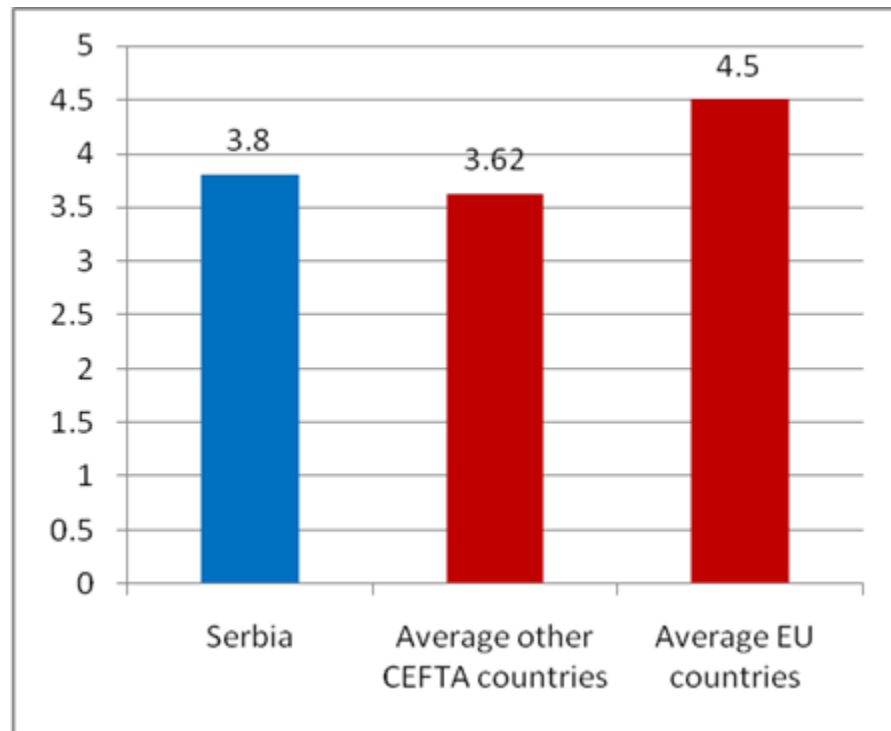
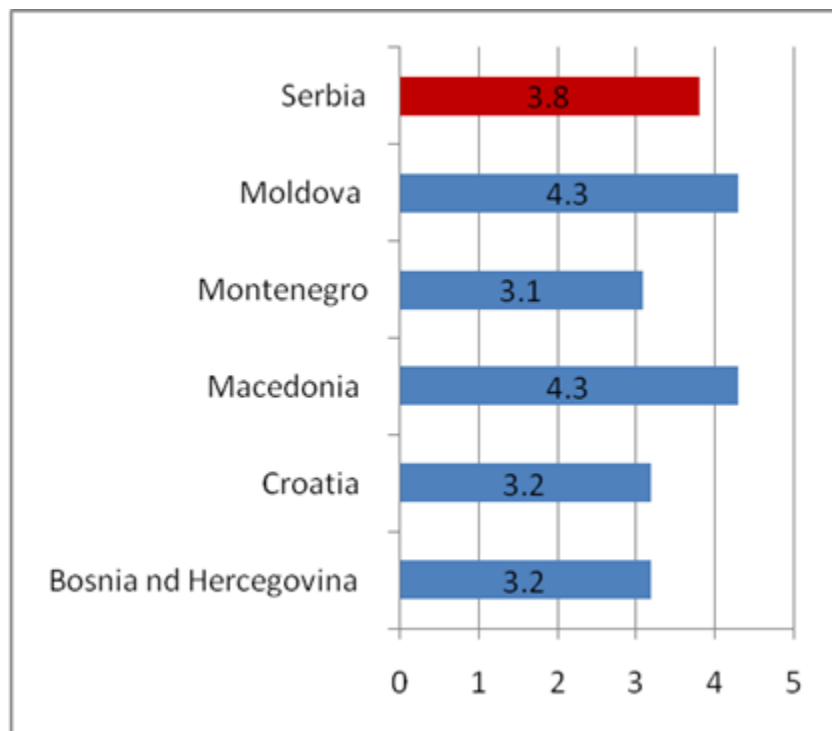
<b><i>Product</i></b>	<b><i>Prices (RSD)</i></b>			<b><i>Index</i></b>		
	<b><i>12 main local markets</i></b>	<b><i>4 wholesale markets</i></b>	<b><i>DELTA* supermarket*</i></b>	<b><i>12 main green markets</i></b>	<b><i>4 wholesale markets</i></b>	<b><i>DELTA supermarket</i></b>
Onion	38.2	25.1	26.5	100	65.7	69.4
Cabbage	23.4	14.3	12.7	100	61.1	54.3
Potato	33	21.7	26.5	100	65.8	80.3
Tomato	72.2	56.7	63.6	100	78.5	88.1
Lettuce	23	19.8	21.1	100	86.1	91.7

***Comparative prices of different vegetables on local markets, wholesale markets and in supermarkets during 2006 and 2007 in Serbia***

# 2. Policy failure and legal environment establishment failure



# ***Legal environment and contract enforcement***



***Legal enforcement in the Balkan Countries: World Bank, Doing Business Report***

## ***Undeveloped support institutions and infrastructure***

- Support institutions are different among countries but generally not on the EU 15 level
- Infrastructure development in the Western Balkans today = Western Europe in the 19XXs

# 3. Historical heritage and possibilities through privatization process

# *Historical heritage and possibilities through privatization process*

- Vertically integrated chains were typical for former Yugoslavia (common that combinates included both production and processing capacities)
- Company was sold as one unit
- Maintain and continue with the concepts of socialism.
- Farmers after market economy was fully established, have continued with same practice
- ***Basic structure stayed the same, only the state ownership was replaced by the private capital***

# Individual capacities and retailers and farmers' expectations

# *Benefit expectations from the EU integrations*

- EU support policy
- Higher price and access to EU market
- Land price increase
- ... other EU accession benefits

# ***Benefit expectations from the EU integrations***

## ***– land price and pillar 1 support***

<b>Company new owner</b>	<b>Former company</b>	<b>State land</b>	<b>Bought land</b>	<b>Total</b>
<b>MK KOMERC</b>	Panonija, Vršac	4,151	2,321	6,473
	Agrounija, Indija	4,871	3,700	8,571
	Labudnjača, Vajska	3,445	1,469	4,914
	Đura Strugar, Kula	2,038	2,507	4,545
<b>Roksanda Kostić</b>	Vojvodina, Novo Miloševo	4,650	1,131	5,781
<b>Jaroslav Stupavski</b>	Elan, Izbište	1,686	692	2,379
<b>Total</b>		<b>20,842</b>	<b>11,820</b>	<b>32,662</b>
<b>DELTA M</b>	Jedinstvo, Apatin	3,546	3,283	6,829
	Napredak, Stara Pazova	3,711	3,470	7,181
	Podunavlje, Čelarevo			
	Kozara, Banatsko Novo selo	1,042	858	1,900
	Seme, Sombor			
<b>Total</b>		<b>8,299</b>	<b>7,611</b>	<b>15,910</b>
<b>IM MATIJEVIĆ</b>	Ravnica, Bajmok	2,387	2,225	4,612
	Bezdan, Sombor	2,010	1,561	3,571
	Zlatica, Lazarevo	2,137	1,313	3,450
	Galad, Kikinda	1,609	1,027	2,636
<b>Total</b>		<b>8,143</b>	<b>6,126</b>	<b>14,269</b>

# ***Benefit expectations from the EU integrations***

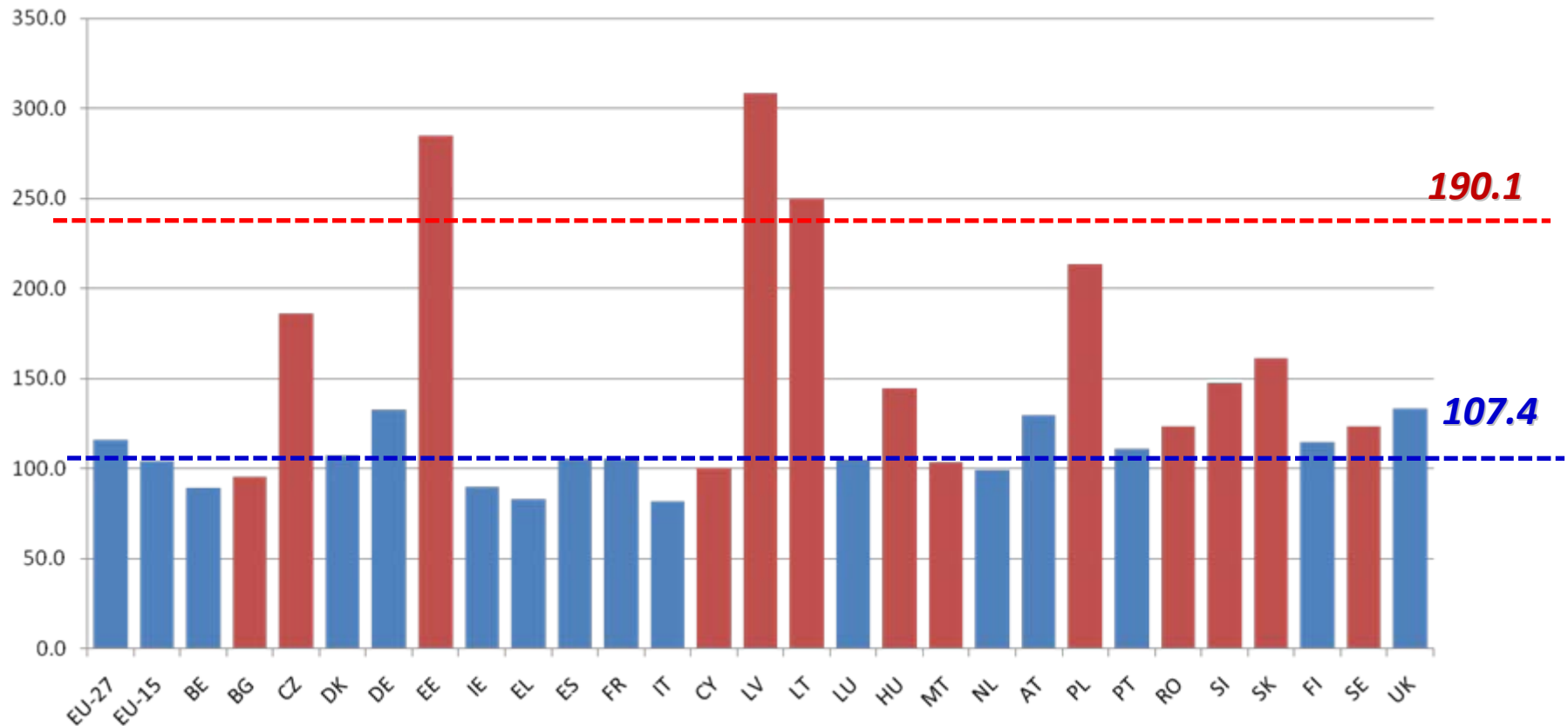
## ***– EU support policy***

<b>YEAR 2006</b>	<b>Total mill EURA</b>	<b>%</b>
<b>1 AGRICULTURE</b>	<b>49,798.8</b>	<b>46.7%</b>
<b>2 STRUCTURAL ACTIONS</b>	<b>32,399.3</b>	<b>30.4%</b>
<b>3 INTERNAL POLICIES</b>	<b>9,013.7</b>	<b>8.5%</b>
<b>4 EXTERNAL ACTIONS</b>	<b>5,186.2</b>	<b>4.9%</b>
<b>5 ADMINISTRATION</b>	<b>6,699.7</b>	<b>6.3%</b>
<b>6 RESERVES</b>	<b>127.6</b>	<b>0.1%</b>
<b>7 PRE-ACCESSION STRATEGY</b>	<b>2,276.7</b>	<b>2.1%</b>
<b>8 COMPENSATION</b>	<b>1,073.5</b>	<b>1.0%</b>
<b>TOTAL EXPENDITURE</b>	<b>106,575.5</b>	<b>100.0%</b>

<b>1. AGRICULTURE</b>	<b>49798.8</b>	<b>46.7%</b>
<i>Direct aid</i>	<i>34.051.3</i>	<i>32.0%</i>
<i>Export refunds</i>	<i>2.493.6</i>	<i>2.3%</i>
<i>Storage</i>	<i>756.9</i>	<i>0.7%</i>
<i>Rural development</i>	<i>7.709.6</i>	<i>7.2%</i>
<i>Other</i>	<i>4.787.3</i>	<i>4.5%</i>



# *Benefit expectations from the EU integrations – EU support policy*

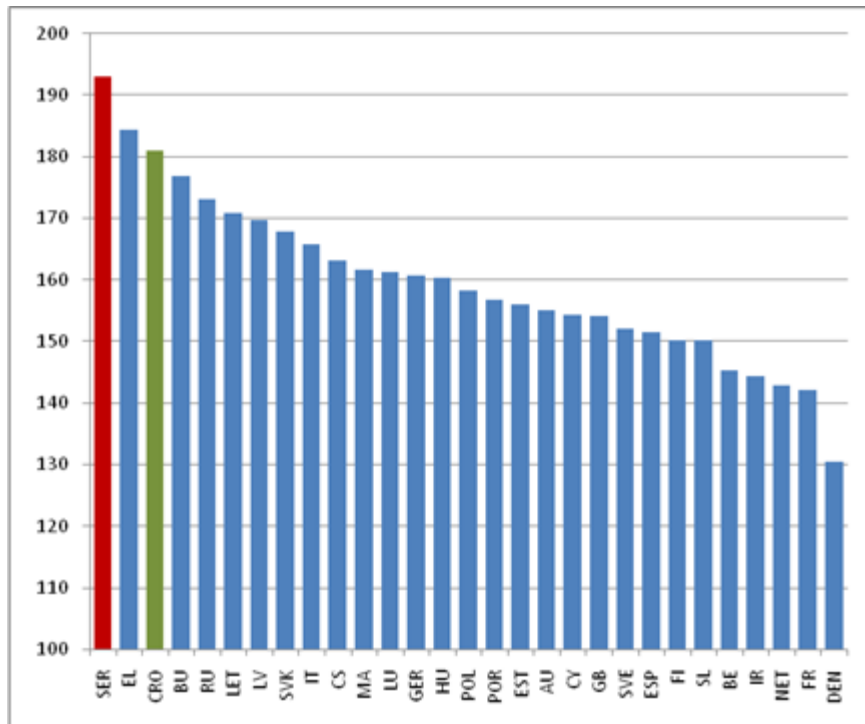


*Framers income increase from 2000 in the EU countries (2000 = 100)*

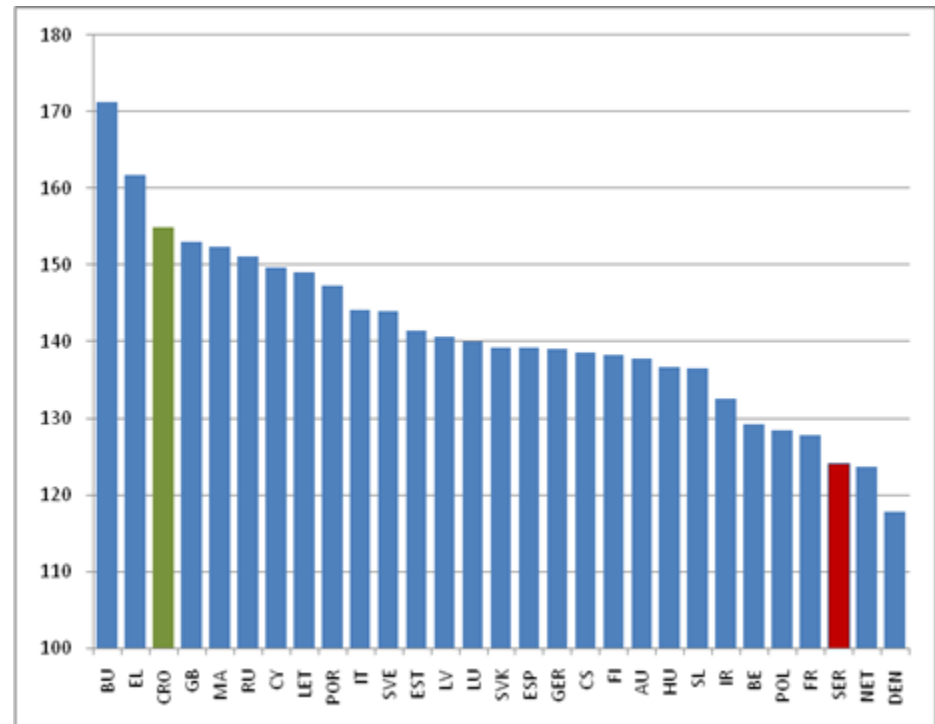
# Benefit expectations from the EU integrations

## – Price and competitiveness

Average price for fed pigs in the EU countries, Serbia and Croatia in 2008



Average price for fed pigs in the EU countries, Serbia and Croatia in 2007



# Habits and capacities of small producers

PRODUCE AND STATE WILL BUY



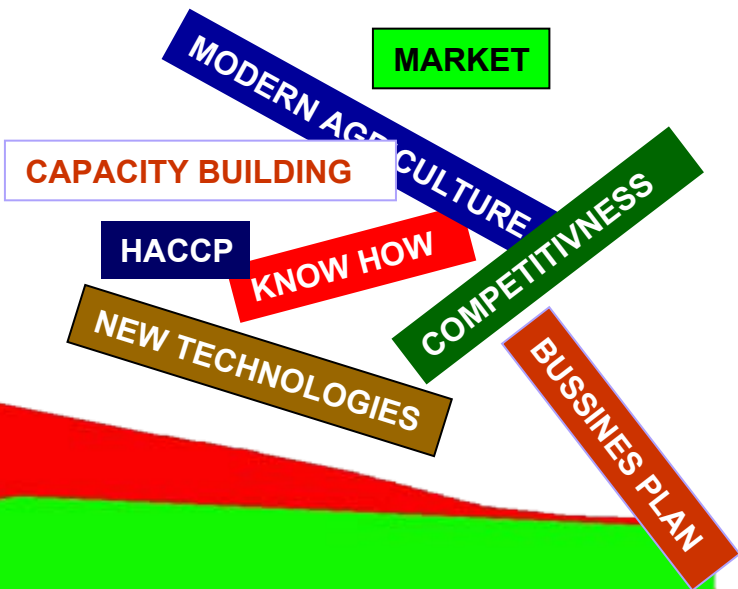
POLJOPRIVREDNA PROIZVODNJA

State planed agriculture

Market oriented agriculture

Titovo vreme

Danas



# Conclusions

- Western Balkan countries did everything according transitional theory
  - *Transition = 'marketisation', liberalisation, de bureaucratisation, privatisation (Sachs)*
- Are these processes negative and dangerous?
- Challenges related to development of market chains, in the following period:
  - *integration of small producers into modern market supply chains,*
  - *growing competition in processing industry by creating of the enabling and attractive investing environment,*
  - *implementation of the EU standards*