



Phare

Progress and strategy paper  
**Agriculture**

Series: PHARE

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Progress and strategy paper

# Agriculture

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# Foreword

This paper is part of a series which will cover each of the main areas of Phare activity. It describes the nature of the problems faced in Phare's partner countries during their transition from planned to market economies. It goes on to examine actions undertaken to date, and to assess their impact on the transformation process.

There is clearly a need to ensure that the approach being taken in any given sector is relevant to the longer-term goals of economic transformation. For this reason, these papers also contain the thinking of those responsible for operating Phare on actions for the future and how Phare should contribute to the next phase of the transition.

The papers do not reflect any official position of the European Commission. They have been written by the Phare Operational Units and are intended as a stimulus to discussion for all those involved in the debate on economic transformation in central and eastern Europe.

Alan Mayhew

Relations with central and east European countries

# The Phare Programme

The Phare Programme is a European Union initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of central and eastern Europe rejoin the mainstream of European development and build closer political and economic ties with the European Union.

Phare does this by providing grant finance to support the process of economic transformation and to strengthen newly created democratic societies. Phare also provides grant finance to help countries with Europe Agreements integrate with the European Union.

In its first five years of operation to 1994, Phare has made available ECU 4,283 million to 11 partner countries, making Phare the largest assistance programme of its kind.

Phare works in close cooperation with its partner countries to decide how funds are to be spent, within a framework agreed with the European Union. This ensures that Phare funding is relevant to each government's own reform policies and priorities. Each country takes the responsibility for running its own programmes.

Phare provides know-how from a wide range of non-commercial, public and private organisations to its partner countries. It acts as a multiplier by stimulating investment and responding to needs that cannot be met by others. Phare acts as a powerful catalyst by unlocking funds for important projects from other donors through studies, capital grants, guarantee schemes and credit lines. It also invests directly in infrastructure, which will account for more Phare funds as the restructuring process progresses.

The main priorities for Phare funding are common to all countries, although everyone is at a different stage of transformation. The key areas include restructuring of state enterprises including agriculture, private sector development, reform of institutions and public administration, reform of social services, employment, education and health, development of energy, transport and telecommunications infrastructure, and environment and nuclear safety. Under the Europe Agreements, Phare funding is being used to make laws compatible with European Union norms and standards, and to align practices.

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## Executive summary

The following sector paper presents an overview of Phare activity in the field of agriculture in the central and eastern European countries. Firstly, the current situation and characteristics of the sector are analysed. Despite four years of reform, most countries continue to face downward trends in agricultural production, accompanied by rising imports and, generally, the inability to export. Secondly, the present objectives and agricultural policies of the central and eastern European countries are identified. There is a growing discrepancy between what should be the longer term aims of agricultural reform and the short term agricultural measures introduced lately and most obstacles to reform have not been removed. Thirdly, past and present Phare assistance towards the sector is reviewed, including an analysis of typical Phare projects. So far, two distinct phases have been observed in Phare assistance in this area. In the future, the programme will be concentrating on key issues which have not been resolved or have not sufficiently progressed.

Three basic orientations for future Phare assistance have been formulated. These should be applied in a flexible manner, to take account of each country's specific situation. A brief summary of these orientations is presented as follows:

Policy convergence as a principle and as an item for regular consultation has been referred to in the Europe Agreements. In the first place, this implies that Phare assistance will be oriented towards the establishment of legal and regulatory frameworks and the approximation of European Union laws regarding the functioning of the sector concerned. In the second place, this will require continuation of past assistance, to assist the countries, where necessary, with the establishment of policy advisory units in the ministries of agriculture, accompanied by sectoral studies, which should increasingly investigate issues of complementarity with the European Union market. In the third place, Phare will concentrate on two key reforms: financial and technical assistance towards a functioning land registration, information and sales system which is fundamental for the creation of a market in land; and assistance for demonopolisation, privatisation of state farms and food processing industries.

Productivity and income growth are important socio-economic targets, since large numbers of the population are involved in agriculture in the central and eastern European countries. Phare will contribute to an increased and better use of inputs and equipment, so that the yield potential of crops and livestock can be realised, taking into account ways to safeguard the environment. In addition, assistance will be continued for extension and advisory services likely to increase the productivity in agricultural production, together with the development of appropriate agricultural structures in production and distribution. The development of suitable rural credit and investment financing mechanisms, in cooperation with the international financial institutions, will be an important target for assistance in this context. Finally, regional development concepts and measures for economically depressed areas can be applied to agricultural assistance, inter alia, by supporting relevant rural public infrastructure and services.

Trade is essential to agriculture. Investment in agribusiness and growth of exportable agricultural processed products is a natural development for the central and eastern European countries, though a huge increase of exports should not be expected in the short term. Phare assistance in the future should contribute to realise this export potential, by helping to raise standards in packaging, quality control, marketing, and developing ways of promoting agricultural production and exports. Phare will also examine how the central and eastern European countries can be helped further in exporting to the European Union, in general by financing facilities so that sanitary and phytosanitary regulations can be respected. In addition, ways and means of supporting enterprise-to-enterprise cooperation notably in the processing industry will be developed.



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# Introduction

Since the Phare Programme was launched in 1990, it has established a pattern of operations, from programming to implementation, based on developing the responsibilities of the partner countries. Despite rapidly changing circumstances, e.g. the increase in the number of countries covered, the diversification of sectors, the types of assistance, etc., this approach has proved to be valid and it will continue to provide the operational basis for Phare assistance towards policy reforms in the countries of the region in the future.

A lot of experience has been gained during four years of reform. In agriculture, the range of issues that need to be addressed in the process of reform is broader than may have been foreseen initially and views on priorities have also undergone some revision.

The following paper presents a brief overview of Phare activity in the field of agriculture in the central and eastern European countries. It starts from an identification and analysis of the major problems and issues facing the sector in the central and eastern European countries today and will end with a presentation of future orientations for Phare involvement in agricultural reform in the region.



# Section 1 - Current situation and characteristics of the sector

## Characteristics of demand and supply

In 1993, the macro-economic stabilisation programmes in some of the major central and eastern European countries started to show some positive results, in the sense that the economic decline which has been going on for many years was slowing down or, in some countries, e.g. Poland, being reversed. The statistics for 1993, where available, and the forecasts for 1994 of output and inflation point towards a general improvement of the macro-economic situation, though large differences remain between the countries.

### Demand

Recovery in the non-agricultural sectors will be crucial for the successful adjustment and growth of the agriculture sector in the future. However, there still exist many impediments to agricultural growth, which will be particularly difficult to overcome in the short term. In particular, the pattern of consumption and domestic demand for food and processed food products today in the central and eastern European countries still largely reflects the situation which prevailed before 1990, when agriculture was strongly dominated by the central planning system, whereby the food policy was to supply the population with a predetermined basket of food products at artificially low prices. Food consumption typically accounted for 70 per cent and more of total private consumption expenditure. On average, low value added food items (bread, potatoes, meat), accounted for more than 80 per cent of the protein and more than 50 per cent of the total calorie intake.

### Supply

To a large extent, these consumption patterns still exist and continue to have a strong influence on the domestic supply of food, the agro-processing capacity, and regional land-use in the region. For example, the central and eastern European countries still use a higher proportion of their agricultural land area (until 1990 nearly double) for cereal production and a lower proportion for grass/pasture, compared to the European Union. On average, the major central and eastern European countries produced some 80 million tons of cereals annually (for a population of 96 million), compared with an European Union production of 170 million tons (for a population of 326 million), whereby average yield levels were approximately 30 to 40 per cent lower than in western Europe. In addition, the central and eastern European countries' cropping areas are 50 per cent larger for potatoes, while other arable

crops are relatively less important. There was quite a large livestock sector, as meat production was directed to high levels of consumption, which recently has not been sustainable in relation to domestic production of feed.

### Micro-economic structure

Agriculture and related sectors were, and still are, heavily monopolised, with the ownership of the land and other means of production in one form or another in the hands of the State. Until 1990, private farms occupied only 6 to 10 per cent of the land and were responsible for similar levels of production (except in Poland). More importantly, vertically integrated state farms and farm collectives were responsible for most of the processing and supply-side activities in the sector.

Privatisation and demonopolisation in the central and eastern European countries agriculture sectors has been slower and more difficult than expected. Though private farming has become increasingly important since 1990, substantial problems remain in this respect, particularly in the sectors buying from or selling to primary producers, which are inhibiting further private sector development and increased efficiency in agriculture.

### Terms of trade in agriculture

On average, the central and eastern European countries recorded lower yield levels and used lower levels of fertilisers and agrochemicals than the European Union. Since 1990, use of these inputs has declined sharply, as agricultural producers have suffered from deteriorating terms of trade due to the rapid rise in the costs of production relative to farm gate prices and farmers have sought to reduce the variable costs of production in response to the cost-price squeeze. In general, the level of mechanisation in state and collective farms was not significantly inferior to European Union levels, but practical benefits were seriously reduced by lack of reliability, unavailability of spare parts and other structural problems. As the terms of trade deteriorated, this equipment, which is now too large for smaller private farms or too fuel-inefficient, is an added constraint on production by the sector. Likewise, there has been a substantial reduction in livestock numbers as feed prices rose. Yields though, e.g. for cereals, are on average only 30 to 40 per cent lower in central and eastern European countries than in the European Union and it is expected that about half of this gap could easily be closed through successful economic reforms.

### Gross output

As a result of a series of cumulative adverse developments, as described above, considerable decreases have occurred in gross agricultural production. Growth rates of output in agriculture, which were already very modest in the years leading up to 1990, turned negative subsequently, with e.g. rates of - 2 to -13 per cent (Bulgaria), - 6 to - 9 per cent (Romania), - 10 to - 12 per cent (Poland) and - 4 to - 20 per cent (Hungary) annually.

For example, between 1989 and 1992, wheat production by the major central and eastern European countries declined by as much as 29 per cent. Similar trends are observed for other food and agricultural products. This is illustrated in the table below.

A severe drought in 1992, as well as the loss of the Russian market, certainly contributed to the dramatic decline in agricultural output in the central and eastern European countries. But, as can be observed, the loss in output can also be attributed to a considerable reduction of the areas sown to many crops in 1992. In addition, it can be assumed that the reduced use of inputs has also been responsible for some of the reductions in yields that

have occurred since then. Clearly, this downward trend will have to be reversed to avoid that the central and eastern European countries will eventually become net importers of food. In this respect, preliminary estimates of gross cereals production in 1993 point towards a considerable improvement compared to 1992 in Poland and Romania, while the downward trend continues in most other countries.

Statistics since 1990 should however be interpreted with considerable caution. In the old system, data were extracted from administrative records through the vertically integrated system of ministries, agencies and state farms or collectives. Since then, with the advent of private farming, the statistical system has not yet been able to cope with the new tasks and not enough use is yet made of agricultural surveys to be able to estimate also privately produced output.

In the past, Phare in a number of cases financed supply programmes (of farm inputs, equipment and consumables) and the European Commission delivered food aid, in order to assure or to support minimum levels of food production and supply.

Table 1: Indicators of gross agricultural output and land use for major central and eastern European countries (CEECs)<sup>1</sup>

Indicators	1986-1989 <sup>2</sup>	1990	1991	1992	% <sup>3</sup>
Wheat production (mios T)	32.1	34.3	31.4	22.8	- 29.0
Wheat area sown (mios ha)	8.2	8.1	8.2	6.9	-15.9
Other cereals <sup>4</sup> prod.(mios T)	48.2	43.2	51.5	39.8	- 17.4
Other cereals area (mios ha)	13.6	13.1	13.8	12.9	- 5.2
Meat <sup>5</sup> production (mios T)	6.6	6.7	6.5	6.0	- 9.1
Dairy <sup>6</sup> production (mios T)	30.9	30.7	27.5	24.5	- 20.7

Source: OECD, USDA, Eurostat

Notes to table: 2 = Annual average for the period 1986-1989;

3 = % change between 1989 and 1992;

4 = Coarse grains;

5 = Pork and beef;

6 = Milk and butter

<sup>1</sup> Figures in this table refer to the six major CEECs (Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovak Republic), for which statistics are more readily available. Similar trends are observed in the other countries (notably Albania, Estonia, Latvia and Lithuania)

## Trade and relations with the European Union

### Trade with the European Union

The effective loss of the central and eastern European countries' trade with the rouble zone has been a major shock to their agriculture sector, compounded by Russia's insistence on world prices in hard currency for energy and raw material supplies. Central and eastern European countries trade with other blocs has risen to compensate but only partially. These shocks have been particularly brutal for Estonia, Latvia, Lithuania, Bulgaria, Hungary and Poland, whose agriculture and food exports to Russia generated a large proportion of the rouble earnings needed to balance the trade account in the past.

Because of the severe drop in the levels of agricultural production in the central and eastern European countries, together with loss of the Russian market for some countries, exports of agricultural products (including processed products) from the region as a whole decreased.

With the 12 European Union Member States however, agricultural exports of the major central and eastern European countries actually went up by 10 per cent between 1989 and 1992. This is shown in Table 2 below.

Imports of agricultural products from the European Union by these major central and eastern European countries

have risen more rapidly and, for the 6 countries concerned, increased by 66 per cent over the same period, so that the surplus in their trade balance with the European Union for agricultural products decreased from ECU 874 million in 1989 to ECU 301 million at the end of 1992 (indications for the first ten months of 1993, for which statistics were available at time of going to press, indicate that this trend is continuing)<sup>1</sup>. Total imports of agricultural products from the European Union by the major central and eastern European countries amounted to ECU 2 billion, whereas their exports amounted to ECU 2.3 billion. The same tendencies, though less pronounced, can also be observed in overall trade, where the trade balance with the European Union has turned from a surplus for the central and eastern European countries to a substantial deficit at the end of 1992 ( ECU 2.5 billion).

In the top five of categories of product imported by the European Union from the countries concerned, agricultural and processed agricultural products ranked third in 1992 with 12 per cent, behind textiles (17 per cent) and base metals (16 per cent). In the top five European Union exports to the 6 countries, agricultural products ranked fifth with 9 per cent. Total imports from the major central and eastern European countries of agricultural products in 1992 represented just under 3.8 per cent of the European Union's total agricultural imports. The central and eastern European countries have in many cases been unable to fill the (limited) quotas offered under the Europe Agreements, whereas the European Union's exports have increased significantly.

Table 2: Trade and agricultural trade of the European Union with the major central and eastern European countries <sup>1</sup>

Trade (billion ECUs)	1989	1990	1991	1992	% <sup>2</sup>
Overall Exports <sup>3</sup> of CEECs	12.1	12.9	16.1	18.9	+ 56.4
Overall Imports <sup>4</sup> of CEECs	11.5	12.0	17.5	21.4	+ 86.1
Overall Trade Balance	+ 0.6	+ 0.9	- 1.4	- 2.5	
Agro-exports <sup>5</sup> of CEECs	2.1			2.3	+ 9.5
Agro-imports <sup>6</sup> of CEECs	1.2			2.0	+ 66.7
Agro-Trade Balance	+ 0.9			+ 0.3	

Source: Eurostat

Notes to table:

1 = Same CEECs as in Table 1;

2 = % change between 1989 and 1992;

3 = Total Exports of the major CEECs to the EU;

4 = Total Imports of the major CEECs from the EU;

5 = Agricultural Exports (CN 1 to 4) of the major CEECs to the EU;

6 = Agricultural Imports of the major CEECs from the EU.

<sup>1</sup> The reversal of the agricultural trade balance for the first ten months of 1993 is particularly striking (440 million ECU). Extrapolating these figures would mean that the EU's exports tripled over the four year period while the CEECs' exports increased only by 9%.

### Relations with the European Union

The European Union supports the process of political and economic reforms in the central and eastern European countries in several ways. For agriculture, an important category of support measures consists in facilitating market access to the European Union. As of October 1988, the European Union concluded General Trade and Economic Cooperation Agreements with a number of countries in the region. These have in the meantime been replaced by Europe Agreements for Poland, Hungary, the Czech and Slovak Republic, Romania and Bulgaria. Pending the ratification of these agreements by the Parliaments of the Member States' and the central and eastern European country concerned, these agreements and the trade-related provisions of these agreements entered into force by way of Interim Agreements (in the meantime, the Europe Agreements with Poland and Hungary have been ratified, and entered into force on 1 February 1994). Trade relations with Albania, Estonia, Latvia and Lithuania are governed by the Trade and Economic Cooperation Agreements, which entered into force in the first half of 1993. New trade agreements, modelled on the Interim Agreements, are being negotiated with the Baltic States, with a view to entry into force on 1 January 1995.

The Europe Agreements have a common framework, adapted to the specific situation of each country. In addition to trade and commercial and economic cooperation, however, they also cover many other aspects of economic activity, political dialogue or cultural and financial cooperation. The agreements have been concluded for unlimited periods, with transition periods of ten years and aim at the reintegration of the central and eastern European countries.

The Europe Agreements are important for the agriculture sector of the central and eastern European countries. In this respect, the preferential treatment and the progressive establishment of free-trade areas should be mentioned, and the fact that previous quantitative restrictions are abolished. The Agreements also include the provision that "regular consultations will be initiated on the strategy and practical modalities of their respective policies", "taking account of the need for increased harmony" between the agricultural policies in the European Union and the associated country.

The European Council meetings in December 1992 (Edinburgh) and June 1993 (Copenhagen) agreed that cooperation with the central and eastern European countries should be broadened and deepened, making full use of the dynamic character of the Europe Agreements and assistance programmes. The Council

recognised the goal of eventual membership of the European Union for the Associated central and eastern European countries when they are able to satisfy the conditions required. The Heads of State further declared that future cooperation should be geared to that objective and that the Union should in the meantime accelerate its efforts to open up its markets to central and eastern European country products.

Commercial exchanges and external trade are particularly relevant for their efficiency effects on growth and development of the agricultural sector in the national economy. In this respect, the Europe Agreements could have a significant effect for the sector as a whole in the central and eastern European countries, because of the potential for market access, the abolition of trade restrictions, and, as a result, the potential for growth of exports and production which they imply. Until now, however, this potential has not been realised. In fact, as mentioned, agricultural exports to the European Union by the central and eastern European countries grew by only 10 per cent between 1989 and 1992, whereas their agricultural imports from the European Union increased by 66 per cent.

The weak performance of the central and eastern European countries agricultural exports so far has been partly due to special circumstances in the central and eastern European countries (drought in 1992, foot and mouth disease, swine fever) and partly to the implementation of minimum price measures by the European Union to protect against the low price imports from the central and eastern European countries. But the reallocation of resources from productive uses for exports to domestic utilisation, as a result of the changed terms of trade, accompanied by the uncertainties surrounding production, storage and distribution in the central and eastern European countries, must also have been a reason for their lack of success.

Though statistics for the first nine months of 1993 continue to confirm the trends described above, it should however be expected that central and eastern European country exports of agricultural products will increase in the medium term, since they have potential access to one of the biggest markets in the world, at a time when their labour costs are low. They also have the potential to realise major productivity and yield improvements through the addition of relatively limited amounts of inputs, and, especially, a better organisation of the sector as a whole, together with the pursuit of coherent market-oriented objectives and policies.

## Section 2 - Present objectives and agricultural policies in the partner countries

### The importance of the sector in the economies

Until recently, the pursuit of agricultural policies by the central and eastern European countries has not always received the attention and priority which this sector would merit, in view of its importance in the national economies concerned. This is still to a degree the result of the agricultural policy of the period before 1990, which implied that surplus resources should be extracted from the farm sector to sustain a rapid expansion of industry. This policy generally led to a stagnation of output and an exodus of labour from farming (though, as far as employment is concerned, not as much as has been observed in e.g. the European Union Member States). Since 1990, the uncertainties surrounding ownership of land and the means of production, the continued monopolistic character of the upstream and downstream activities, together with the deterioration or collapse of distribution and other structures, have been among the major reasons why the downward trend in output and employment has not yet been reversed.

Overall, however, agriculture still remains an important sector in the economies of the countries concerned. In terms of output, Agricultural Gross Value Added represents between 8 (Czech Republic) and 20 per cent (Hungary) of overall GDP, compared to a typical 3 to 5 per cent in most Member States of the European Union. This is illustrated in Table 3 below.

Agriculture also remains an important source of foreign exchange for a number of countries in the region which are net exporters of agricultural products. In terms of employment, agriculture represents between 11 (Czech Republic) and 28 per cent (Poland) of total employment in the region, compared to 2 to 9 per cent in most European Union Member States. If upstream and downstream activities were taken into account, however, it is likely that up to 30 per cent of the population in these countries depend on agriculture for their income, though for the time being statistics should be treated with caution, because of the problems experienced by the central and eastern European countries in rebuilding their statistical system.

It is important to emphasise in this context the social aspects of agriculture during the transition phase. As structural adjustment progresses in the central and eastern European countries, the upward trend in unemployment seems to be continuing, although at a somewhat slower pace than before, and this is causing concern. In 1993 it was as high as 17 to 20 per cent in Poland and Hungary. In this respect, it can be assumed that the agriculture sectors of the central and eastern European countries have had a moderating and cushioning effect, in that they have probably been absorbing a considerable amount of otherwise unemployed or underemployed labour, generally in the form of small scale production on (private) agricultural plots. Policy-makers of the central and eastern European countries have not always readily recognised the important socio-economic role which agriculture could play in the economy.

Table 3: Share of agriculture in the economy for selected countries

	PL	HU	CR	SR	BU	RO	ES	LA	LI
% of GDP <sup>1</sup>	16	20	8	8	14	20	20	16	18
% Employ <sup>2</sup>	28	18	11	14	12	28	13	18	18

Source: OECD, FAO

Notes to table:

1 = percentage share of agriculture GDP in total GDP;

2 = percentage of total employment. Data largely refer to the year 1990.

It should also be noted that many state farms also produced non-agricultural outputs.

Statistics for Albania, Slovenia and FYROM were not available.

## Policies developed and implemented by the central and eastern European countries

In the first years of transition, agricultural policies were relatively ad hoc in the central and eastern European countries while immediate (supply) problems hindered the coherent definition of economic and social objectives. Since 1992, the countries more advanced in the transition process (Poland and Hungary) began to formulate a more comprehensive set of agricultural policies to guide and implement their agricultural reform in the future and published detailed formal statements of future objectives and policies. On the other hand, the Czech Republic to date has not made a priority of agricultural reform nor has it produced a statement of its intentions towards the sector. Expert assistance has been provided by Phare and other donors, often in the form of a joint effort, to assist these countries in the formulation of their strategy. This process is still on-going in other countries, where Phare started later, notably in Estonia, Latvia, Lithuania and Albania, but also in Bulgaria and Romania.

There is however a growing discrepancy between what should be the longer-term aims of agricultural reform in the central and eastern European countries - the development of efficient and internationally-competitive agricultural production based on private-sector initiative and free-market prices - and the short-term agricultural measures introduced lately, which are increasingly becoming interventionist in nature. The international environment for the sector, characterised by "managed trade", is certainly one explanation for this development, as is the desire of these countries to join the European Union and to harmonise agricultural policies with those of the European Union's Common Agriculture Policy.

### Land ownership

Some issues have not been solved by most, if not all countries, or have not sufficiently progressed. One of the biggest obstacles to future economic growth and progress on reform, not only in agriculture, remains land ownership and land restitution. As a result of 45 years of socialist economy, the land-title records in many cases have to be totally reconstructed and the land registration and information systems rebuilt from scratch. More importantly, central and eastern European countries' governments have a difficult balance to strike between equity and efficiency in agriculture. On the one hand, many governments are convinced that a fair share of property needs to be assured for each individual in the

course of changing the ownership of land, complicated further by the fact that the historic rights of former land owners need to be recognised and their property therefore needs to be returned. On the other hand, this policy might lead to excessive fragmentation of agricultural assets and land, which would be counterproductive for the sector and would lead to further considerable drops in agricultural production. Governments in the region have to take many politically difficult decisions on farm sizes, types of ownership or voluntary cooperation, inheritance laws, and mechanisms of restitution or compensation. However, the development of a well functioning market in land will be essential for the development of an efficient agricultural sector in the central and eastern European countries on the basis of private sector initiative.

### Privatisation and demonopolisation

It appears that private farming is slowly becoming more important in all the countries concerned. However, the privatisation of state farms and collectives and demonopolisation of the upstream and downstream activities has been much slower and more difficult than originally anticipated. The sheer scale of the task, concerns over large-scale shedding of labour in rural areas, the possibility of foreign influence and ownership and the use made of state enterprises to execute or support government policies, have been among the main reasons for the lack of progress in privatisation of agricultural enterprises. In many cases this has also been accompanied by continued interventionist policies and heavy subsidies for state enterprises, often conflicting with the need for monetary austerity or with what the national state budget could afford. Whilst this might have been justified, as mentioned earlier, in order to assure essential food supplies in the early stages of transition or to cushion the social effects of adjustment, it will be necessary in the medium term to achieve effective competition, so that the private farmer and agro-industrial enterprises receive correct price signals from the markets. Otherwise, the sector will not develop and central agricultural and food objectives will not be achieved.

### Economic policy

While, as mentioned above, a number of countries in the region have since 1992 made formal statements about their objectives and policies for agriculture, most central and eastern European country governments still have insufficient economic, trade and private enterprise business data to decide rationally which of their domestically produced commodities in the sector have

or could have comparative economic advantage, relative to the European Union Member States. The situation is often further complicated by the lack of the institutional capacity at ministries of agriculture to set, develop and manage agricultural policy, and to coordinate it with other institutions of government, who pursue other, sometimes conflicting, policy objectives. If, in view of future relations with the European Union, central and eastern European countries' governments were advised to develop support measures, this should be encouraged only if based on accurate assessment of farm or enterprise income and expenditure data and rational consideration of the economic, social, environmental, fiscal and other costs and benefits of using resources in this way.

#### **Rural finance**

Many other micro-economic problems continue to exist and contribute to the slow growth of agricultural production and exports, such as: low prices and low land values; lack of appropriate modern equipment and agro-chemicals; inadequate distribution channels and infrastructure; little or no infrastructure facilities for exports. In addition, whereas state enterprises in the agricultural sector sometimes continue to benefit from capital assistance, through subsidies, as mentioned above, the private farming sector has very often been deprived of the needed start-up capital, in part due to the lack of rural financing. The banking sector, itself the subject of restructuring, is generally not geared to or interested in the small-scale problems of farming and the small lines of credit which would normally be associated with this type of industry. However, the advent of rural banking will be needed to give a further incentive to the growth of private farming, similar to the developments which took place in the European Union Member States in this respect some decades ago.

## Section 3 - An overview of Phare activity in the field of agriculture

### Overall principles of the assistance

The Phare Programme of aid to the central and eastern European countries supports the process of policy reform and the transition to a pluralist democracy in a market-oriented economy. The programming and implementation of assistance in the agriculture sector follows the general principles of Phare.

Each year, as part of a policy dialogue, the priorities of assistance for agriculture programmes are determined by the national authorities concerned, in close consultation with the European Commission, taking into account the general guidelines and nature of the programme. Individual sector and horizontal programmes in agriculture, reflecting these priorities, are subsequently designed in detail and approved following consultation with the Member States of the European Union.

In general, these programmes vary according to the pace of reform in each country, the priorities and strategy for change and the availability of other sources of external assistance. Phare may thus be involved in supporting a wide range of reforms in agriculture and Phare inputs may vary from technical assistance and training to equipment, supply programmes for equipment and consumables, fund financing and small credit lines.

In the first three years of Phare (1990-1992), annual Indicative Programmes were agreed each year, while countries needed to build up their capacity to develop reform policies and to set priorities for external assistance. As the partner countries established aid management and coordination offices, both at the national and at the sectoral level, including agriculture, Phare has been able to assist the relevant national authorities to establish a policy framework and operational capacity to enhance coordination and management of external assistance.

Since 1993, based on new guidelines, the agriculture assistance programmes have become multi-annual in nature, and will permit the national authorities in the partner countries to start programming Phare aid from a longer-term perspective.

In major partner countries, large-scale assistance programmes in agriculture are managed locally by the ministry or designated implementing authority through a system of advance payments and the operation of Programme Implementation Units, who develop their own management capability and perform procurement and contracting according to established procedures. As such, this decentralised system has had important consequences for the organisational behaviour in the agriculture ministries, agencies, or organisation in charge of a particular sectoral programme and helped to build up a local management capacity - both administratively and substantively - within the organisation concerned.

## Main areas and objectives of Phare assistance in agriculture

Between 1990 and 1993, a total of nearly 416 million ECU was committed by Phare for agricultural reform and development in the region, including assistance for improvement of land cadastres but excluding food aid. The principal beneficiary has been Poland (170 million), followed by Romania (76 million ECU), Hungary (69 million ECU), Bulgaria (51 million ECU), and Albania (25 million ECU). Estonia, Latvia and Lithuania received between 5 and 7 million each. Only relatively small amounts have gone so far to the Czech Republic, the Slovak Republic, Slovenia and FYROM. Table 4 presents Phare commitments by country. It is recalled that this constitutes grant assistance only.

Overall, agriculture sector assistance programmes accounted for about 12.5 per cent of total Phare assistance (3.33 billion ECU) committed so far for the

above countries. These figures do not include balance of payments assistance, which the Commission has provided to a number of countries in the form of loans, or the amounts of food aid which at various times have been delivered to some of the countries in the region, e.g. Estonia, Latvia, Lithuania and Albania, and which were mainly supplied from European Union stocks. The figures do not include either the proceeds from sales of European Union-funded supplies (counterpart funds) or revolving funds created by the repayment of loans from credit lines. These additional resources provided local currency which the partner governments could use to alleviate social hardships caused by the pace of economic adjustment or for the implementation of further reforms related to agriculture or other sectors; the use of these counterpart funds was usually the subject of an agreement with the governments concerned, as part of the overall strategy and direction of Phare support in agriculture and other sectors.

Table 4: Phare commitments (grants) by country (million ECUs)

Countries	1990	1991	1992	1993	Total
Poland	100	17	23	30	170
Romania	0	39	32	5	76
Hungary	20	13	5	30.5	68.5
Bulgaria	16	25	10	0	51
Albania	0	0	15	10	25
Estonia	0	3.2	0.35	1.25	4.8
Latvia	0	1.25	0.75	5	7
Lithuania	0	1.5	0.6	5	7.1
Czech Republic	0	0	2	0	2
Slovak Republic	0	0	1	3	4
Slovenia	0	0	0	0.2	0.2
FYROM	0	0	0	0.3	0.3
<b>Total</b>	<b>136</b>	<b>99.95</b>	<b>89.7</b>	<b>90.25</b>	<b>415.9</b>

Table 5 provides a breakdown of Phare assistance by type of support in agriculture. Over the period covered, supply programmes (both machinery and consumable supplies) have accounted for approximately 32 per cent of total agricultural assistance while establishment of credit lines and rural credit guarantee funds have amounted to 16 per cent.

Technical assistance has been the major component of Phare assistance in the agriculture sectors and Phare has been the major donor in the region in the field of technical assistance financing. This assistance has been spread amongst a number of categories, related mainly to the provision of advice on strategic planning, project implementation and coordination, land reform and extension and banking services. Many of these support and assistance measures have been provided in close coordination and consultation with other major donors in the region, notably the International Financial Institutions.

Since the programme was launched in 1990, Phare assistance towards agricultural reform in the central and eastern European countries gradually developed into a wider range or type of support measures. In retrospect, two phases can be observed in the development of Phare assistance in agriculture so far. In the first phase, when

Phare started in a country, help was largely concentrated on (a) supply programmes to maintain essential levels of national food production and consumption; (b) the establishment of initial agricultural reform strategies and policies to help the government decide on the structure and balance of production and supply; and (c) support for agricultural project implementation, for supervision capabilities in line ministries and for coordination of foreign assistance to the sector.

In the second phase, Phare assistance developed further into strengthening or building key sector institutions and mechanisms needed to implement structural reforms, notably: development of rural banks and financial institutions and provision of rural credit guarantee funds; development of business advisory, extension and marketing services for private farmers and entrepreneurs; and establishment of land sales and land-registration mechanisms and improvements of land cadastres; privatisation of upstream and downstream industries and farms. It is foreseen that future Phare assistance in agriculture (the third phase) will concentrate on a number of issues which have not yet been resolved (e.g. land markets), or have not sufficiently progressed (e.g. exports, privatisation), while taking into account each country's specific situation.

Table 5: Phare commitments (grants) by type (million ECUs)

Type of Support	1990	1991	1992	1993	Total
Farm input supply programmes	84.6	34.0	12.5	0	131.1
Initial reform strategies	1.8	9.6	4.85	5.3	21.55
PIU and aid coordination	1.1	6.05	6.9	8.92	22.97
Land Register, policies, laws	2	10.55	12.1	15.8	40.45
Banks	3.7	3.5	8.0	14.3	29.5
Rural Credit/Guarantee funds	37.0	7.0	12.0	10.0	66.0
Business/Extension Services <sup>1</sup>	4.3	21.5	19.45	12.43	57.68
Privatisation/Restructuring	0	7.2	11.65	6.7	25.55
Other <sup>2</sup>	1.5	0.55	2.25	16.8	21.1
Total	136.0	99.95	89.7	90.25	415.9

Notes to table 5: 1= Business, Farm Association, Extension, Marketing Services;

2 = Assistance for development of compatible food standards, legislation, market regulation, and regional development measures

## Principles and guidelines of agricultural assistance programmes

The specific scope and nature of some of the agricultural programmes funded by Phare require a more detailed analysis, because of the impact which they have had on the agriculture sector in some countries of the region. These programmes were developed gradually over time in a number of countries and individual country's circumstances and operational experience in the field resulted in a refinement of their structure and content. The following paragraphs present five types of programmes and actually reflect presently applied principles and guidelines.

### Supply programmes

The initial supply programmes, financed by Phare in some countries, included imports of animal feed ingredients, crop protection chemicals, tractor- and farm-machinery spare parts, and other basic agricultural inputs. The fundamental objective was to assist the partner country in its efforts to sustain essential minimum levels of production and consumption during the initial period of disruption of the economy and the distribution system as a result of the reform process. An added objective, however, was to promote as early as possible the advent of private farming and private enterprise in agriculture.

In an attempt to meet both objectives, a number of principles and operational guidelines were subsequently followed. Firstly, as far as possible, non-state organizations were involved in the first-hand importation and internal distribution in the partner country, and supplies were sold at prices as closely as possible to world-market prices or at freely-determined (non-subsidised) prices. Secondly, in a number of cases, sales on the domestic market were organised by public auction or open tender or were "market-tested" on a regular basis through auction or tender, in order to give possible private entrepreneurs an opportunity to compete. Thirdly, the National Aid Coordinator - not the ministries of agriculture or the traditional state procurement or state import agencies - was in charge of the organisation and execution of the supply programmes.

As a rule, Phare provided the technical assistance needed to organise auctions and competitive tenders, set up the accounting and reporting systems, assist with the distribution, and train the national counterparts. Technical assistance was also provided so that environmental and other safeguards could be observed at all stages in the distribution chain and safety-in-use instructions were made available to the final customer.

Sales of the supplies in the domestic market generated local-currency counterpart funds, which were collected, accounted for and managed by the national authorities, on the basis of prior agreement in the form of a Memorandum of Understanding, usually concluded with the National Aid Coordinator. This included also agreement, in the form of Indicative Programmes, on the subsequent use of the counterpart funds, whereby the aim was to disburse the funds as quickly as possible, given the high inflation rates in most countries during the initial stages of the reform. Generally, the funds were used e.g. to alleviate the social consequences of the restructuring (through additional social assistance to special target groups of the population), or for the local currency purchase, as appropriate, of additional inputs, or e.g. for further programmes of support, in the sense that priority was given to paying the local expenses of projects and programmes whose foreign currency costs were being met from regular Phare assistance. If necessary, technical assistance was provided to help implement the programmes.

### Initial reform strategies

In the beginning of the reform, Phare financed expert assistance to help the countries formulate initial reform strategies, undertake economic sector studies and assist with project implementation and coordination in agriculture. In this, as in many other areas, Phare assistance was coordinated and co-implemented as far as possible with the reviews and assistance of the World Bank, the EBRD, and other major multilateral or bilateral donors towards the sector. This sometimes took the form of joint task forces, missions and reports or studies. In this sense, complementarity was achieved, in that the technical assistance provided by Phare on a grant basis has often been instrumental in mobilising loan financing by the international financial institutions for restructuring of agricultural sectors in the countries concerned. Phare grant financing and assistance for project implementation units in the ministries of agriculture, which assist in project execution and aid coordination for the sector as a whole, should be seen from this perspective as well.

For Phare, an added dimension was that the provision of external experts and advisory services would support national experts and counterparts from the ministries of agriculture and national agricultural research institutes in the analysis and development of competitive commodity sector policy and institutional and structural reform options in agriculture. The basic objective was thus to help establish as quickly as possible a national policy capability to manage the transition to a market-economic agricultural sector, which would become internationally competitive in

the long run, while taking into account the need to preserve, over the short run, minimum economic activity and employment levels to sustain the overall reform process.

The precise composition of the sectors being reviewed, was agreed with the recipient and varied from country to country. However, particular attention was paid to ensuring that foreign expert provision would result in on-the-job training of national counterparts, which, together with in-country training and training abroad, was needed to refocus and augment the level of technical competence of national experts and officials. The latter activity was ideally undertaken in the context of organisational reform, i.e. establishment of a coherent set of responsibilities especially concerning the role and functions of the ministries of agriculture in national economic management, together with management of ministerial staff.

#### **Land reform**

In many cases, Phare assistance is currently being provided to assist the partner governments in accelerating the redistribution of land through privatisation or restitution of formerly collectivised land. The objective is to provide much needed equipment, training and technical assistance, in order to speed up the process of land registration and issuance of titles, which would provide legal security for farming activities, to help establish uniform cadastral services, to set up nationwide land information systems and promote the development of land markets, and, often, to provide a basis for taxation.

In many cases, equipment is being provided to accelerate land measurement by surveying, mapping, registration, etc. since a number of the central and eastern European countries had not updated land records for a long time, or had based their records in the past on land use rather than land ownership. Technical assistance and training, in the form of a training-the-trainers programme, is needed to enable the recipients to use the often technically-advanced equipment for surveying and mapping and to correctly collect, store, retrieve and interpret data. Advice is also offered on how to overcome legal constraints and gaps in legislation, particularly in relation to land-lease law, land valuation methods, land consolidation and sales policies. It has also emerged that public awareness campaigns are required to create a better understanding by the public that the land redistribution process will inevitably take time, given the complexity of the problems involved.

The aim of the assistance is to arrive at a nationwide cadastre system, which would eventually meet the requirements of many different users. This implies close cooperation between the responsible institution and a series of ministries (Agriculture, Finance, Justice, Public

Works, Defence, etc.) who all have to release relevant information so as to ensure that the various information flows can be combined into one system. It implies also that the most suitable institutional structure needs to be created to manage the system afterwards and that the partner government will allocate sufficient human and financial resources to perform the various tasks at every stage of the creation and development of the system. In some cases, counterpart funds can be used to pay some of the operational costs during the initial phases of assistance, but generally the lack of recurrent-cost financing of the system by the partner governments has proved to be a serious bottleneck in speeding up land registration and reform programmes.

#### **Privatisation**

Experience to date shows that, provided the basic legislative and regulatory framework has been put into place, privatisation of smaller units of state property in agriculture (e.g. small cooperatives) has proceeded relatively smoothly. Progress however tends to be much slower for large state farms and enterprises, for a number of reasons: the cost of acquiring these units (especially at prices reflecting historic investment) is often beyond the means of domestic buyers; the government is not prepared to allow the market to set the price, is not prepared to withdraw from control or influence over procurement or other so-called "state functions", particularly when they relate to food security, or is afraid that public monopolies might be replaced by private ones; and foreign investors are reluctant to buy and invest when the legal environment is unclear (e.g. concerning property rights), when there is significant overcapacity in the sector, or when unrealistic labour force or other conditions are likely to be imposed. Indeed, in this respect, privatisation in agriculture is no different from privatisation in any other sector of the economy.

Phare's fundamental objective is to introduce effective competition as quickly as possible in the farm sector and in the upstream and downstream industries. State farms, cooperatives, and state-owned or state-directed enterprises involved in commercial agricultural activity should therefore be restructured and privatised so that, firstly, commercial activities are separated from non-commercial ones, whereby the latter should be terminated, transferred to a separate agency, or transferred to the municipal services; and, secondly, large farms or dominant trading enterprises are reformed or broken down into separate, smaller, units, where feasible, thereby ensuring that "green field" private enterprise could also enter the market, or that the new units do not acquire or are left with exclusive trading or other rights within their territory.

As a rule, purely commercial activities should preferably be privatised as completely and as quickly as possible. In this case, maximisation of revenue from privatisation sales should not be an objective, and government restrictions on foreign participation should be minimised, as should be preferences for the existing work force or management. Government action to restructure certain sectors before privatisation might, however, be essential, particularly when (i) the Government explicitly aims to maintain a strategic level of agricultural production, distribution or storage capacity (in any event less than 100 per cent of normal domestic demand), or (ii) there is significant long-term over-capacity in the sector (e.g. in upstream or downstream activities). In the latter case, it will be necessary to find a solution allowing the least efficient enterprises to be closed down and the social costs absorbed. In some cases, this might require audit, valuation and management reviews, preferably on a sector-by-sector basis. This might also require additional assistance prior to privatisation, and the preparation of business plans and other measures to improve profitability and attractiveness for investment or purchase in both the short and long term. In smaller central and eastern European countries, attention should be paid to ensuring that public monopolies are not simply replaced by private ones and that adequate anti-monopoly or regulatory measures are introduced to accompany the privatisation process.

### **Rural credit**

In order to improve the agricultural credit system in the country and to overcome the reluctance of commercial banks to lend to small agricultural entrepreneurs, Phare has been providing financial assistance in the form of rural credit guarantees for medium and long-term loans aimed at private farmers and agri-businesses who lack sufficient collateral and do not possess reliable accounting and performance records. The objective is to promote private-sector development in agriculture during the initial period of transition by facilitating the mobilisation of capital assistance for small and medium-sized enterprises in farming and related sectors of processing, marketing and distribution, to enhance complementarity with the loans of International Financial Institutions by providing guarantees to available credit lines, and to stimulate an emerging agricultural credit culture in general.

Technical assistance needs to be provided to help set up the institutional and legal framework for the creation of a Credit Guarantee Fund with participating banks, who have a wide network of branches in rural areas. This implies the drafting of the Fund's statutes, mode of operation, accounting systems, management structures

and composition of the boards of directors, which should include participants from the Government on the one hand (ministries of finance, agriculture, etc.) and the private sector on the other (participating banks, farmers associations, agri-business representatives). A considerable amount of training of various kinds is required for agricultural loan officers and other officials of the new institution in relation to credit appraisal, portfolio management, accounting, and Fund management. Publicity and promotional campaigns also need to be organised at regular intervals to inform the target groups of the existence, possibilities and techniques of the guarantee scheme.

It has to be made clear that farmers and entrepreneurs have to apply to participating rural commercial banks for loans, in the normal way, and at the going market interest rates. The Fund should cover only a percentage (e.g. maximum 60 per cent) of losses on each guaranteed loan and payable interest, after deduction of the value of the collateral, and borrowers should pay a small premium for the guarantee provided. In principle, participating banks should be shareholders in the Fund by providing capital in local currency, but the Fund should be held in foreign currency in a bank selected through internal tender procedure and giving the best possible interest rates and services. The Fund itself should be revolving, in that income should be generated through payment of interest on outstanding capital, as well as guarantee fees to be paid by the participating banks and warranty fees paid by the borrowers.

## Section 4 - Future orientations

The following section starts from three basic strategy priorities on which Phare agricultural assistance in the central and eastern European countries will be based in the future. These principles will in each case be translated into operational guidelines by identifying the type of projects that should eventually receive Phare funding in agriculture, taking into account the nature and general guidelines of the programme. It should, however, be emphasised from the beginning that these orientations will have to be adapted in a flexible manner on a country-by-country basis in the future.

It should also be recognised that the infrastructure and incentive systems created under the old Communist regime cannot be rectified overnight without high social, political and economic costs. During the early stages of the restructuring process, therefore, there is a need for more government involvement in the economy than would normally be the case in some European Union Member States. Indeed, the central and eastern European countries have to strike a balance and maintain sufficient reform momentum by preventing that the social cost increases to a point where popular support for the reforms would be lost.

These should, however, be short-term policies while the macro-economic and micro-economic framework for a well-functioning market mechanism is being created. Phare will therefore support policy reforms and programmes of assistance in the countries concerned to ensure that this dichotomy which has developed in policy is clarified, and that operations in the agricultural sectors of the central and eastern European countries are consistent with modern market-economy principles. This will eventually call for less government involvement in the sector, similar to the situation which prevails in the European Union Member States.

### Policy convergence

Policy convergence as a principle and as an item for regular consultation has been referred to in the Europe Agreements, which can be considered as the preparatory phase towards membership of the European Union. In the long run, one of the most important preparations for accession and membership will be the development and convergence of policies in the central and eastern European countries and the European Union in many different areas. Issues in agriculture will be a major item in any accession negotiations.

Policy coordination in agriculture will clearly be an important future step and will have to take as its starting-point the policy existing on each side. Reflection is only

just beginning within the European Union as to the development of the common agricultural policy and the extent to which it will be reformulated to take account of the agriculture sectors of the associated central and eastern European countries.

Policy convergence is the first principle on which future Phare assistance in agriculture will be based. In the first place, this implies that it will be oriented towards helping the central and eastern European countries establish the required legal and regulatory frameworks and policies in the sector. This will also involve approximation of the central and eastern European countries laws regarding the functioning of the sector (e.g. phytosanitary, quality, packaging, hygiene, and other food production, consumption and export standards) to those of the European Union.

In the second place, policy convergence will require continuation of past assistance in a number of cases, to assist Governments to formulate a coherent set of agricultural policies. Phare will thus continue to finance technical assistance for the establishment of policy advisory units in the ministries of agriculture and for sectoral reviews. As regards agricultural sector studies, the notion of comparative advantage in the central and eastern European countries has often implied that a comparative analysis was undertaken of various local commodity sectors. This mostly concentrated on the strengths and weaknesses of production in e.g. the five principal sub-sectors (i.e. cereals, meat, dairy, horticulture, and sugar) in relation to the possible development of the country's domestic market. Building on these results, in the future, there will be a need to look at sectoral reviews from a different angle, notably by taking into account (i) any complementarity between the central and eastern European countries market and the European Union market, covering, where necessary, the entire food chain (from primary production through secondary production to distribution, exports and imports), and (ii) as a result, the formulation of alternative policy scenarios including the relative merit of various agricultural support measures. More attention than in the past will, however, be devoted to the institution building aspects of the assistance, so that ministries of agriculture eventually possess the institutional capacity to set, develop and manage policy, in coordination with other institutions of government. This might imply, in addition to restructuring of the agriculture sector as such, the restructuring of the ministries themselves.

In the third place, Phare will continue to concentrate on assisting the governments of the region in the implementation of key reforms, without which it is unlikely that agricultural growth and development will be

realised. Two key issues stand out in these reforms: assistance for demonopolisation, privatisation of state farms and food-processing industries; and the creation of a market in land and the development of land registration and sales mechanisms, policies and laws.

A functioning land registration, information and sales system will be fundamental for the creation of a market in land, not just for the agricultural sector, but also for industry (e.g. for privatisation of land assets). This is obviously connected with the land-restitution problem, which has been the topic of a political debate in many countries. It is likely that additional Phare funding will be requested by most countries, mainly to finance computer, digital mapping and database equipment. Whilst there is a clear need to help the authorities speed up processing of the large backlog of land registry claims, further Phare assistance should ideally be more conditional and should only be given in association with support for re-evaluation and, if necessary, change of the policy and legal framework applying to land sales, leasing, restoration of historic rights, land use and consolidation, particularly in the agriculture sector.

Although difficult to measure, it appears that private farming is becoming more and more important in all central and eastern European countries, but many factors are still an impediment to the development of this new type of ownership, notably: the general lack of farm management expertise as against narrow technical skills; the upstream and downstream sectors remain quite monopolised in practice, even if ownership has changed; the general lack of capital, of small-scale farm equipment and of rural finance; lack of macro- and micro information, notably on food balances, price fluctuations, outputs and use of inputs, together with farm-management data. Phare assistance in the agriculture sector would concentrate on removing impediments to growth of privately produced output.

## Productivity and income growth

The agriculture sector continues to occupy an important place in the economies of the central and eastern European countries. Large numbers of the population (up to 30 per cent) are involved in and draw their major source of income from agriculture (including upstream and downstream activities) in the central and eastern European countries and will continue to do so for a long time. In addition, agriculture is an important source of domestic savings with which domestic investment can be financed, also in other sectors. As already mentioned before, the sector continues to provide a social safety net for many people.

Growth in income and productivity in the agriculture sector are therefore important targets in themselves. In many cases, the yield potential of crops and livestock has not been realised because of distortions in the economic incentive structure and because of shortages of appropriate inputs of all kinds, or the inefficient use of inputs and supplies. Rising input prices have already dictated a more rational use of resources. As distribution channels will become more demonopolized and liberalised, it is expected that an increased and better use of inputs and equipment will lead to rising yields. There is however also the concern that, as the system is decentralised and agro-chemical use grows, substantial amounts of technical assistance and regulation will be required concerning ways to safeguard the environment, the food supply and the health of agricultural workers.

As has already been the case in the past, Phare will support the development of extension and other advisory services likely to increase the productivity in agricultural production. Often, the lack of an effective extension service is one of the most serious constraints to expanding private farm output. Phare assistance will continue to be provided to redesign and implement a new approach to disseminating information to farmers. In addition, agricultural research can be improved in several areas. This includes restructuring of the research institutes, as well as ensuring that research findings are readily made available and can find their way to the farmers' fields.

As experience in the European Union Member States has shown, improvements and development of appropriate agricultural structures and systems can be an important source of income and productivity growth in the sector. Improving the quality of farm management, increasing the quality of agricultural products, or introducing better accounting systems in agricultural production are examples, which, as a result of the common agricultural policy, have contributed to increased efficiency in agriculture in the European Union. Future assistance from Phare could help develop similar policies for the central and eastern European countries.

The development of a vigorous private sector and a more competitive environment will require creation of new business ventures and the improvement of existing farms. A major constraint to these developments so far has been the lack of credit and investment financing. A related constraint is the lack of expertise in the identification, planning and analysis of such undertakings. Phare will assist the countries concerned with technical assistance and other support to ensure that rural financing mechanisms are put into place so that farmers have access to credit and that capital can be mobilised for investment in agriculture. This also includes support for the

establishment and development of business advisory services in rural areas.

In some countries in the region, there are considerable regional differences in land use and soil fertility, sometimes imposed under the old command system, sometimes the result of natural developments. These regional differences are, in many cases, accompanied by disparities in levels of rural income and unemployment. In future Phare assistance in agriculture, more attention will also be devoted to the introduction of regional development concepts and policies for economically depressed areas. As applied to agriculture, this would mean, firstly, that in some countries a number of underdeveloped regions would be identified and selected for further support and that agricultural development programmes with clear priorities and strategies would be formulated and implemented on a decentralised basis. Secondly, in these programmes, specific emphasis should be placed on: (i) the development of relevant rural public infrastructure and public services (e.g. irrigation and water management, access roads, municipal land-use services); (ii) special support measures for private farming (e.g. through creation of rural development funds); and the promotion of micro-enterprises in rural upstream and downstream industries.

## Trade is essential to agriculture

Trade and exports are essential for the development of the agriculture sector in the central and eastern European countries, as has been the case in the European Union Member States. The drought which prevailed in 1992, together with the structural deficiencies already referred to in previous sections, created the need for some short-term food imports. In the medium term, production can be expected to return to more "normal" levels, which would not require imports of basic food commodities. If the trend for lower domestic consumption continues, this should result in increased export availabilities. In the long term, however, as real incomes rise as a result of successful economic reform, and consequently higher growth (as seen already in Poland), domestic demand for food and especially high value-added processed food products, can be expected to increase. A huge, across-the-board increase in agricultural exports from the central and eastern European countries to e.g. the European Union should therefore not be expected, though it might occur in the case of specific, individual products.

External trade is extremely important for the effects which it can have on the efficiency, growth and development of gross production in the agriculture sector. In this respect,

the Europe Agreements have been a significant step forward for the sector as a whole, because of the potential for market access, the abolition of trade restrictions, and, as a result, the growth of exports and production which they imply in the medium term.

As a result of the recent GATT round, there will be a further liberalisation of trade, including trade with the central and eastern European countries. The GATT agreement on agriculture provides for the tariffication of non-tariff measures, a commitment to reduce internal support, to reduce subsidised exports and to preserve and increase market access; in addition more discipline will be required on sanitary and phytosanitary measures.

The trade agenda is and will be a major item in European Union relations with the central and eastern European countries and pressure will increase to open up markets further, though the central and eastern European countries have so far been unable to fill the limited quotas offered. There exists, however, a lot of potential. It can also be expected that the central and eastern European countries will not merely be suppliers of raw materials to the European Union, particularly since investment in agribusiness and growth of exportable agricultural processed products is a natural development. The central and eastern European countries have potentially access to one of the biggest markets in the world, at a time when their labour costs are low and they have the potential to realise major productivity increases by the addition of relatively small amounts of inputs, and, especially, by a better organisation of the sector.

Phare assistance in the future should contribute to realising this export potential in the central and eastern European countries. In the first place, this requires that continued assistance will be provided, as in the past, for general sectoral studies on comparative advantage, especially in countries which have not yet established a policy framework. Phare financed studies in the future will become more specific and more concrete and will soon address the question of the export potential of selected processed products, together with the improvements to be made to the food processing industry. Packaging, quality control, the maintenance of quality standards in production, food hygiene, the use of modern marketing techniques and other ways of promoting the central and eastern European countries agricultural production and exports should be more closely examined by Phare, as should be the general standards and organisation of the processing facilities, which need to be based on private-sector initiative, as referred to earlier.

In the second place, Phare will also examine how the central and eastern European countries can be helped

further in exporting to the European Union, notably by helping to establish satisfactory border controls, improving communication facilities for pre-notification, by supplying diagnostic and laboratory equipment for testing and, in general, by financing facilities so that sanitary and phytosanitary regulations can be respected.

Facilitating exports of raw materials from the central and eastern European countries would be a short-term policy. In the long term, the countries concerned should be able to export processed agricultural products with higher value added. Firms and companies of the European Union are already investing considerably in the processing industry, and this joint venture process will continued to be supported by Phare in the future, inter alia, through financing of feasibility studies and pre-investment funds for the development of selected industries. In this respect, Phare could also provide assistance for enterprise-to-enterprise cooperation, with the objective of helping individual private agro-industry enterprises in the central and eastern European countries to establish their own distribution and marketing networks and other services needed for the successful development of the sector concerned. In close cooperation with, for example, trade and industry associations in the European Union Member States, Phare could provide promotional, pre-investment and training funds, which could be expected to lead to closer cooperation between private enterprise in the east and in the west. Given the size of Phare funding in general, initial assistance would have to be limited to a particular number of upstream (e.g. fertilisers, agrochemicals, agricultural machinery) or downstream industries (e.g. dairy industry), or to a particular number of countries (e.g. Poland, Hungary, Czech and Slovak Republics).



# Annex I - Areas covered by Phare support

## Main areas of Phare activity in agriculture 1990 - 1993

Type of Support	Albania	Bulgaria	Czech . Rep	Hungary	Poland	Romania	Slovak Rep.	Slovenia	Estonia	Latvia	Lithuania
Farm input supply programmes	■	■			■	■				■	
Initial reform strategies	■	■		■	■	■			■	■	■
PIU and aid coordination	■	■		■	■	■	■		■	■	■
Land Register, policies, laws	■	■	■	■	■	■	■		■	■	■
Banks	■	■		■	■	■			■	■	
Rural Credit/ Guarantee funds	■	■		■	■	■					
Business/ Extension Services	■	■		■	■	■		■	■	■	■
Privatisation/ Restructuring	■	■		■	■	■	■			■	■

■ Areas covered by Phare support

## Annex II - Programme summary sheets

### Albania

- emergency agricultural inputs (pesticides, seeds, fertilisers, veterinary drugs, etc.) for distribution to newly-established small private farmers and to state farms, with the main aim of avoiding a further decline in agricultural production
- equipment and spare parts to improve and accelerate the distribution of agricultural inputs and food products
- establishment of Programme Implementation and Coordination unit to assist Ministry of Agriculture with sectoral aid coordination, policy advice and implementation of the programme
- technical support (through business advice and training) and financial support (through credit) for the accelerated privatisation of 500 small and medium food/agroprocessing industries/factories over 3 years
- assistance for land-market survey and mapping, in the form of equipment, staff training, meeting overall survey and map-production costs
- provision of satellite imagery and know-how for national land-use documentation and strategy
- know-how and credit line for the provision of mechanisation equipment for smallholders
- project on rural poverty alleviation, consisting of rehabilitation of basic rural infrastructure, including irrigation networks. Know-how for policy of rural credit mechanisms through the Village Credit Funds
- support and technical services for private smallholders, credit lines for smallholders, traders of agricultural inputs and other small enterprises
- know-how transfer and operating costs for Project Management Unit (PMU).

### Bulgaria

- know-how transfer to Ministry of Agriculture. This was geared towards agricultural policy seminars, sectoral studies on sugar and oil seeds, initiating land reform and restructuring veterinary services, training in marketing
- agricultural supplies (seeds, agrochemical, animal feed, etc.)
- know-how transfer to agricultural commercial bank
- establishment of a Programme Management Unit (PMU)
- setting up of an agricultural credit line
- assistance on Land Reform (consultancy, training, equipment, hard- and software)
- transfer of know-how to the agro-processing industry. This produced sectoral studies for the dairy, meat, fruit and vegetable and feed milling industry. Circa 200 audits of state-owned enterprises and a strategy for privatisation of the sector completed
- support for the development of a market information system & statistics. (A Market Information and Advisory Centre, an Agricultural Export Promotion Centre, an Agricultural Statistics Department within the National Statistics Institute, and a Food Monitoring Unit within the Ministry of Agriculture have been established)
- support for the Ministry of Agriculture, including know-how transfer in the fields of agricultural research and extension, education and training. Supply of equipment for regional offices
- establishment of a Policy Analysis Unit
- know-how transfer for rural banking
- a complete farm census was carried out, and a "training-the-trainers" programme for extension organised
- assistance for restoration of property rights
- speeding up privatisation and/or restructuring of state-owned agricultural enterprises through support on policy decisions, gathering relevant financial data, restructuring- and marketing plans and actions, and cooperation with financing organisations to execute hands-on privatisation
- market development to provide tools for market harmonisation for the livestock and the fruit and vegetable channels through support to inter-professional organisations and advice on market management facilities
- public relations campaign
- general technical assistance facility.

## Czech Republic

- provision of local area networks of personal computers for 52 District Offices of the Czech Office for Cadastre. This was a prelude to know-how transfer to help with the design and organisation of the nationwide cadastre system and further equipment for digital mapping.

## Estonia

- assistance for a review and implementation of national agricultural policies
- programme and project implementation and aid coordination at Ministry of Agriculture
- assistance for Land Registration
- assistance for rural banking
- provision of know-how and training for programme and project implementation and aid coordination at Ministry of Agriculture
- know-how transfer and equipment for farm advisory services and extension services, improved livestock efficiency, and improved promotion of agricultural trade.

## Hungary

- establishment of a Rural Credit Guarantee Fund
- know-how transfer and studies for agricultural extension, reorganisation of Land Registration Offices, market information, strengthening of quality control of agricultural products, promotion of good agricultural practices, development of a rural commercial network, strengthening of the rural financing network, Programme Management Unit
- studies on agricultural insurances, agricultural research strategy, milk sector strategy, wine export, integrated rural development, rural banking
- know-how transfer and equipment for land registration development
- assistance in the form of studies and audits for privatisation of agro-industry
- assistance for privatisation of state farms and transformation of cooperatives
- establishment of a Mutual Assistance Fund to provide deposit insurance, as part of the integration of the savings cooperatives network
- replenishment of Rural Credit Guarantee Fund, and funding of adviser, are programmed for 1994
- agricultural credit channels: replenishment of Mutual Assistance Fund (in 1994)
- investment and promotion: know-how transfer for loan applications (1994)
- animal health and quality: support, training and know-how transfer to complete health network, border checkpoints, and improve disease control (1994).

## Latvia

- assistance for review and implementation of national agricultural policies
- programme and project implementation and aid coordination at Ministry of Agriculture
- know-how transfer, planning expertise and training to review and implement national agricultural policies
- assistance for extension and statistical services
- fisheries restructuring: provision of know-how for fisheries restructuring studies
- technical support for development of agriculture advisory services and for agricultural finance company and rural credit facilities
- supply programme of feed additives and vaccines
- assistance for restructuring livestock sector
- assistance and equipment for land registration, demonopolization, privatisation of state enterprises.

## Lithuania

- assistance for review and implementation of national agricultural policies
- provision of know-how, planning expertise and training to review and implement national agricultural policies
- provision of know-how and training for programme and project implementation and aid coordination at Ministry of Agriculture
- know-how for plant production project
- assistance programme coordinated with counterpart fund, from which substantial funds are allocated towards agricultural projects (equipment for advisory services, crop insurance for rape seed production, maize for silage making) and rural enterprises
- extension services: training of trainers and provision of necessary equipment and teaching materials
- arable crops: provision of know-how to improve production and utilisation efficiency either as alternative animal feed (grass) or alternative raw material (flax) for the textile industry
- livestock projects: provision of assistance to increase efficiency of feed utilisation in animal production, including the poultry sector
- land registration equipment and know-how
- restructuring/privatisation: support for investigation of sub-sectors, enterprises, preparation of restructuring options, elaboration of business plans, and training of Lithuanian staff.

## Poland

- supply programme of feed concentrates and associated know-how (1990)
- know-how transfer to establish Programme Implementation Unit, bank training, training advisory centres. The first regional cooperative bank was licensed in November 1990 and became operational in May 1991. Credit Line lending guidelines and qualifying standards were agreed in March 1992
- credit line (for private sector investments or for joint ventures, to support activities related to agricultural production and its direct valorisation i.e. processing, storage, packaging, etc.)
- supply programme of plant protection products (1990)
- know-how for internal distribution (in cooperation with US-funded Foundation for Development of Polish Agriculture)
- strengthening environmental monitoring capabilities
- transformation of rural cooperatives: "institution building" project identified in co-ordination with the World Bank. The Foundation for Rural Cooperatives (FRC) commenced its activities early 1992, established network of 12 regional centres to deliver its services
- cooperative banks: training of Polish bank staff advisers and auditors to the cooperative Bank structure, also provides policy advice to government
- extension services training: provide training for rural development personnel and support the farmer committees and other institutions through a limited number of pilot projects
- policy support to the Ministry of Agriculture
- cooperative banks: training and know-how to the cooperative banks (in bank procedures, internal audits, advisory services for clients, etc. + long-term expert)
- state farm privatisation: assist Agricultural Property Agency (APA) and 14 regional offices (through training, know-how, purchase of equipment) in the privatisation of 1400 ex state farms
- land information system: technical services (national survey of Poland by low level aerial photography), expertise for training and policy support in Land Information/Registration, equipment for the main geodetic and cartographic documentation centre, to facilitate processing and storage of mapping and LIS data

- improvement of rural financing services: know-how to set up the Credit Guarantee Scheme and ECU 5 million to constitute the Fund
- pilot capital fund for employment generation in ex state farms: special grant scheme in combination with bank loans for farmers in regions of high structural unemployment and high concentration of state farms
- assistance and studies for the following World Bank structural adjustment projects: monitoring capabilities to access foreign markets; effective protection of food processing industry; training on agricultural and food marketing; promotion of micro enterprises; feasibility studies/production orientation
- policy formulation and European integration: provision of a pool of advisers from European Union to assist Ministry of Agriculture in policy formulation and integration issues. Know-how for the following World Bank projects: quality management in the dairy sector; legal framework for trade agriculture commodities; sub-sector inter professional organisation; improving land consolidation system; fostering and improvement of land cadastre operation
- rural infrastructure for water management : pilot rural water management project to reduce farm water pollution, in small basins of some rivers.

## Romania

- establishment of a Policy Advisory Unit, and a one-year agricultural strategy. In cooperation with the World Bank, EBRD, USAID and French and German Governments, a medium-term strategy for the transition in agriculture has been developed. It is intended that the PAU should concentrate policy advice on some selected topics related to medium-term strategy
- study for restructuring of the agro-industries
- assistance for land reform / land registration
- establishment of a Programme Management Unit
- import programme for animal feed and feed additives (1991)
- Support to private farmers covering: import of tractor spare parts, imports of agricultural machinery, feasibility study on the UTB Tractor Factory, livestock sector study
- critical import supplies for the agro-industries, covering consumables, spare parts, and associated know-how
- support to land reform : provision of know-how and training for land information system and equipment, know-how for agricultural crop forecast system
- support for establishment of private distribution channels, including marketing distribution and market information system
- assistance for privatisation of agro-industries
- programme for development of private farmers (sub-projects : extension service, education and research, mountain farming)
- establishment of a Rural Credit Guarantee Fund (capital)
- training for agricultural banking, RCGF and fund management
- establishment of a farmers and agribusiness consultancy service
- provision of equipment (total stations, personal computers, workstations, aerophotogrammetric camera etc.) with software for speeding up the land reform and re-distribution of land of the former collective farms
- know-how for establishing a nationwide land information system and for cadastre modernisation, land evaluation, legal advice to improve relevant legislation etc. Training for data processing and managing staff for cadastral information handling, survey staff, archive and production personnel etc.

## Slovak Republic

- provision of know-how for sector review on secondary production (food processing industry) covering 5 sub-sectors: meat, cereals, sugar, horticulture, dairy
- provision of equipment and know-how for agricultural information system/statistics
- review of existing food quality standards
- pilot aerial photography and digital mapping for Cadastre Office
- provision of know-how for cadastre organisation
- provision of computer equipment for digital mapping at Cadastre Office
- establishment of a Policy Advisory Unit at the Ministry of Agriculture
- pilot projects in the field of information and other support services for private farming and rural enterprises or to implement results of the previous item
- land consolidation efficiency review and pilot projects are programmed
- land cadastration office procedural changes: provision of know-how to help with design and implementation of nation-wide cadastre system
- provision of appropriate equipment and technologies for pilot cadastre, digital mapping and measurement systems using GPS and GIS, printing and publication of maps and cadastre outputs
- training of staff of the Cadastre Office in new technologies and procedures.

## Slovenia

- transfer of planning know-how for the establishment of the Jable Estate as a centre of excellence for agricultural research, education training, and extension activities at the country-level
- expertise in areas such as
  - environment, landscape, protection of soils
  - new technologies for sustainable agriculture and
  - assessment of economic and management implications of alternative technologies.





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