



Transition Challenges in Agribusiness

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Initial conditions in agriculture

- The command economy system was characterised by:
 - collective or state ownership of land and farms
 - vertically integrated state-owned agro-companies
 - tight state controls over prices and trade
 - dilapidated infrastructure and controlled distribution channels
 - usually with state Agrobank as the sole financing channel
- Progress in general economic reform has been strongly correlated with progress in agricultural reform



Status of agricultural reforms

	Price & Market	Land reform	Agro-processing	Rural finance	Institutions	Total
CEB	8.5	8.8	9.3	8.3	8.9	8.7
SEE	7.4	7.1	6.9	5.9	6.7	6.8
CIS	6.0	5.7	5.5	4.8	4.1	5.2
Russia	6	5	8	5	5	5.8
Ukraine	7	6	7	6	4	6

Source World Bank 2001. Scale 1-10, with 10 indicating standards of market economy.

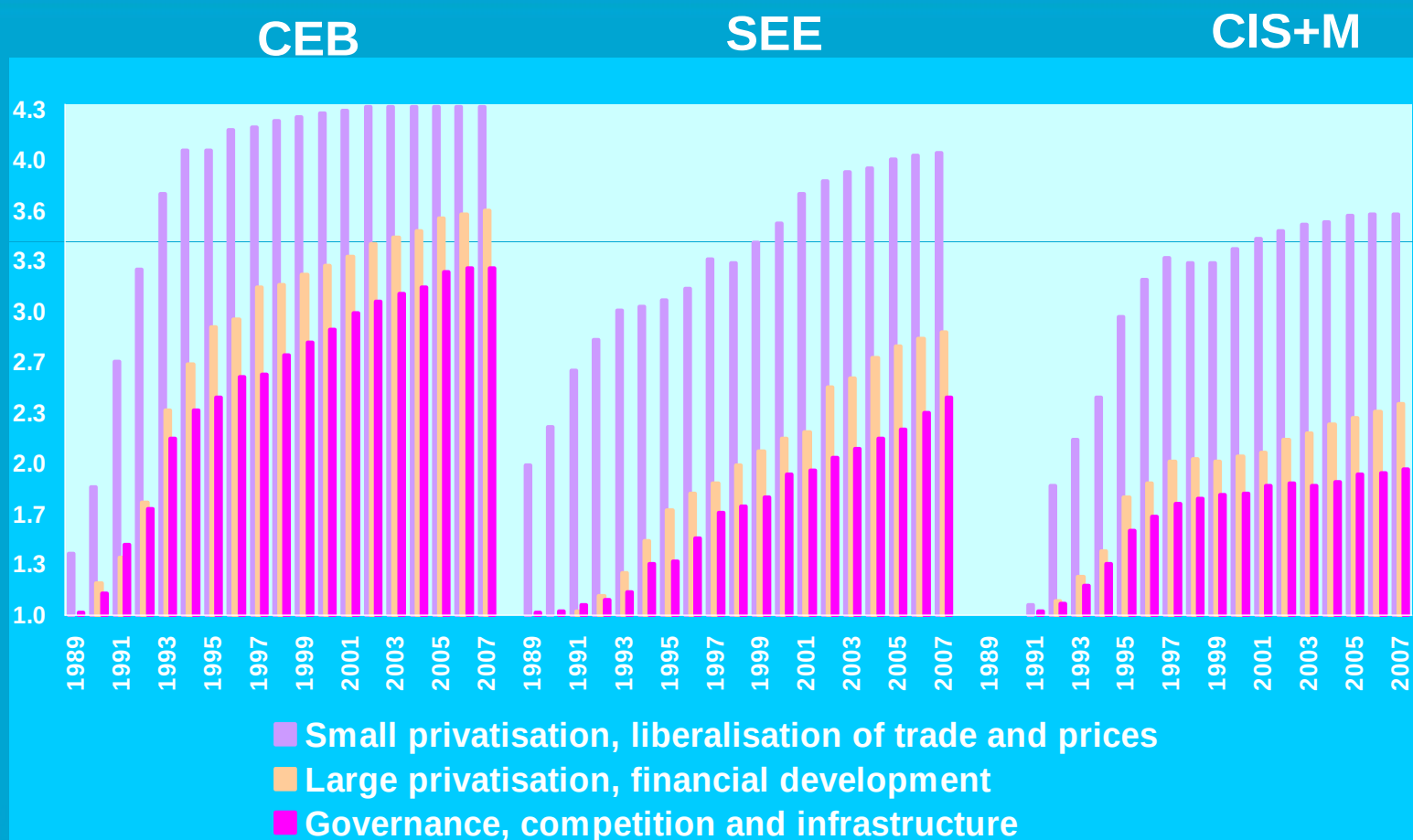


Transition indicators

- Large-scale privatisation
- Small-scale privatisation
- Governance and enterprise restructuring
- Price liberalisation
- Trade and foreign exchange system
- Competition policy
- Banking reform and interest rate liberalisation
- Securities markets and non-bank financial institutions
- Infrastructure reform (Electric power, Railways, Roads, Telecoms, Water and waste water)



Transition progress by phases of reform



Source: EBRD. 4.3 indicating the standards of an advanced market economy.



Transition Challenges

- Incomplete land reform
- Inadequate transport, storage and warehouse facilities
- Lack of professional and technical skills
- Inefficient scale with inefficient vertical coordination
- Low compliance with hygiene and quality standards
- Lack of access to credit for the primary sector
- Lack of adequate financing mechanisms, i.e. agricultural mortgages, leasing and risk-sharing schemes
- Lack of modern retail solutions



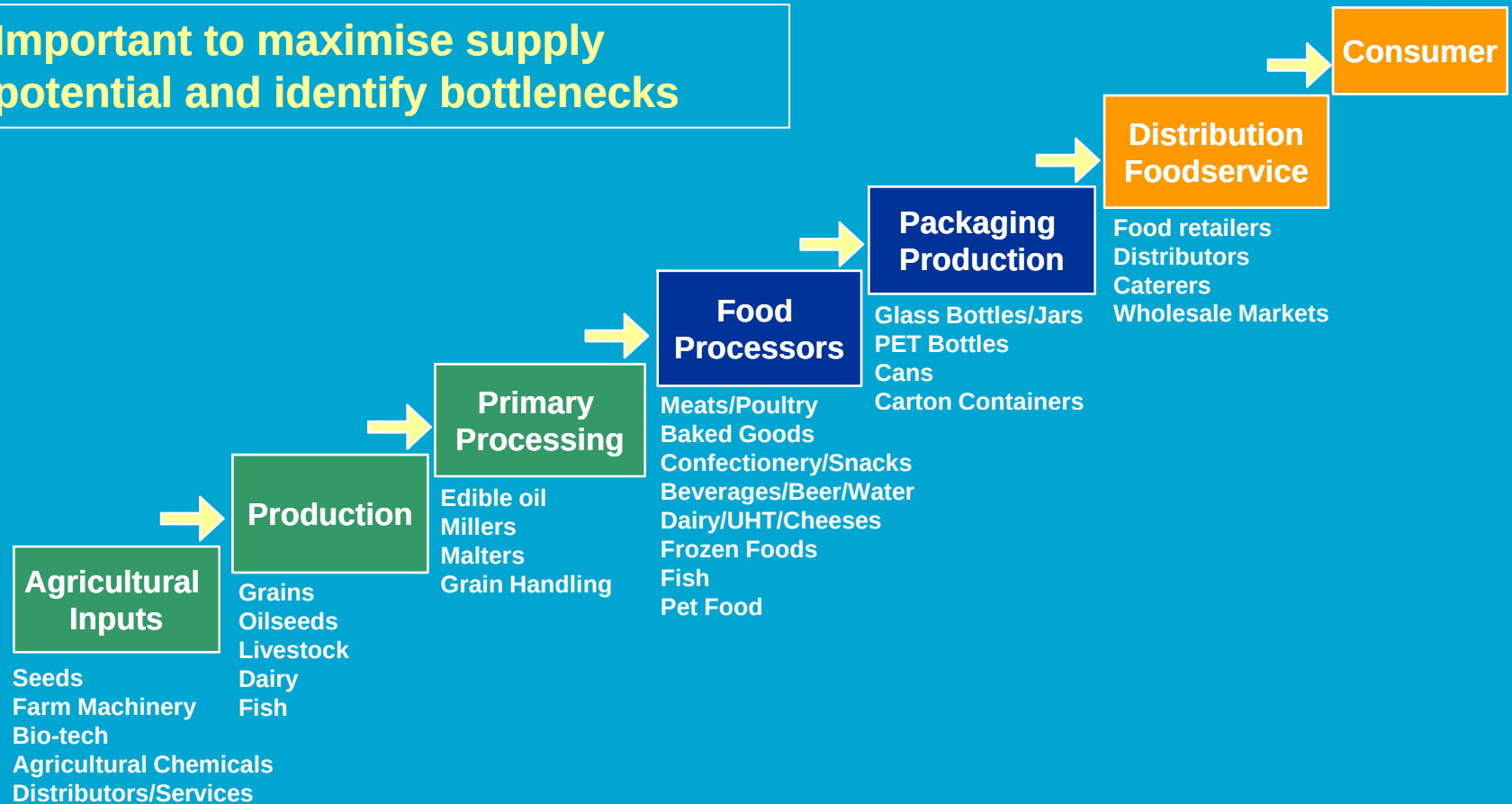
Tradability of land

- **Private land ownership continues to be a contentious issue, even in advanced countries**
 - **Full:** Bulgaria, Croatia, Estonia, Georgia, Romania, Slovakia, Slovenia
 - **Full except foreigners:** Armenia, Czech Republic, Hungary, Kazakhstan, Kyrgyz R, Latvia, Lithuania, Moldova, Poland
 - **Limited *de facto*:** Albania, Mongolia, Russia, Ukraine
 - **Limited *de jure*:** Azerbaijan, Belarus, Bosnia, Macedonia, Montenegro, Serbia, Tajikistan, Turkmenistan, Uzbekistan



Investment along the value-chain

Important to maximise supply potential and identify bottlenecks



Transition gaps: primary production

Agricultural Inputs



- Low land tenure and undeveloped land markets constrain own feed production
- Collaterallisation of agricultural land does not work, land cadastres and land titling have not been introduced universally
- High land fragmentation leads to insufficiently small sized farms
- Optimal land size varies significantly by country (latest development towards the north american model)
- Irrigation systems are largely out of date and underinvested

Production



- Below efficient sized farms lead to lower yields and low productivity
- Outdated equipment and production inputs such as fertilisers significantly reduce efficiency
- Difficult access to finance, e.g. Warehouse receipt financing is underdeveloped

Primary Processing



- Privatisation of primary processors has not been completed everywhere
- Quality standards are low (in particular in the primary meat processing sector where only a very small number of slaughterhouses have HACCP across our region)



Transition gaps: processing

Food
Processors



- Processing suffers partly from low quality locally produced inputs
- Old, substandard equipment, low quality control and little adherence to international standards (i.e. HACCP or ISO)
- Low monitoring and enforcement standards

Packaging
Production



- Low traceability of produce and little enforcement of traceability
- Low competitiveness in the packaging sectors
- Low percentage of private label products



Transition gaps: distribution

Distribution Foodservice



- Specialised distribution is underdeveloped
- Rail infrastructure assets, esp. wagons, are rapidly depreciating
- Computerised logistics systems are still rare
- Little know-how transfer from processors to independent distributors

Wholesale



- Underdeveloped specialised wholesalers
- Limited number of distribution centres
- Quality storage and wholesale is lacking
- Little quality control on the wholesale level

Retail



- Outside CEB competitive foreign retailing only exists in the capitals
- Retail hygiene and quality standards are very heterogeneous and lag behind international standards, especially in rural areas.
- Computerised logistics is still not very widespread



Transition gaps by region

	CEB	SEE	WCIS	CA/CIS
Primary production	+	++	++	++
Processing	+	+	++	+++
Distribution	+	++	++	+++