



CHALLENGES AND PRIORITIES FOR INVOLVEMENT OF PRIVATE SECTOR IN AGRI-FOOD CHAIN DEVELOPMENT OF THE BSEC REGION

Olena Borodina

2014

This publication has been produced with the assistance of the Black Sea Economic Cooperation Business Council and Food and Agriculture Organization of the United Nations (FAO). The contents of this publication are the sole responsibility of the author and can in no way be taken to reflect the views of the BSEC BC or FAO.

The designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of the Organization of the Black Sea Economic Cooperation or Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by BSEC or FAO in preference to others of a similar nature that are not mentioned.

Table of Contents

1. EXECUTIVE SUMMARY	1
2. INTRODUCTION	4
3. CONTEXT OF PRIVATE SECTOR PARTICIPATION IN AGRI-FOOD CHAIN DEVELOPMENT	7
3.1 Organization of the Black Sea Economic Cooperation: BSEC	8
3.2 Overview of agro-industry development of BSEC members: conditions, institutional environment and general national trends	10
4. THE POSITION OF THE PRIVATE SECTOR IN AGRI-FOOD SECTOR DEVELOPMENT IN THE BSEC REGION	18
4.1 Success stories of private sector participation in the development of the agri-food industry	18
4.1.1 Turkey: integrating small wheat producers into value added chain with the help of a private processing company	18
4.1.2 Azerbaijan: integrating small grape producers into the wine production value chain through a public private partnership	19
4.1.3 Serbia: integrating seasoning pepper producers into VAC	20
4.1.4 Ukraine: integrating small milk producers into global dairy Danone value chain	20
4.1.5 Bulgaria: integration of small farmers into the organic value chain	21
4.2 SWOT-analysis of participation of SMEs in value-added chains development in BSEC countries	22
4.3 Lessons and considerations	23
5. ISSUES AND CHALLENGES FOR DISCUSSION	25
5.1 Challenges for SME participation in AFC	25
5.2 Challenges for agri-food industry companies	25
5.3 General challenges and constraints in the business environment	25
5.4 Priorities for private sector involvement in the development of agri-food chains	26
5.4.1. The role of agri-business	26
5.4.2. Increasing the potential of SMEs	26
5.4.3. Partner relation and collective action	27
5.4.4. Logistics systems	27
5.4.5. Cooperation with BSEC Business Council and scientific centres	27
5.5 Discussion issues	28
5.6 Problems in the region that touch the development of AFCs	28
6. CONCLUSIONS AND RECOMMENDATIONS	30

List of abbreviations

AFC – agri-food chain
BSEC - Organization of the Black Sea Economic Cooperation
BSEC BC - Black Sea Economic Cooperation Business Council
CSR – Corporate social responsibility
EBRD – European Bank for Reconstruction and Development
ENPI – European Neighbourhood and Partnership Instrument
FAO – The Food and Agriculture Organization of the United Nations
F&B –Food and Beverage Industry
GCP – Government Cooperation Program
GDP – Gross Domestic Product
ICT – Information and Communication Technologies
IFC – International Finance Corporation
OECD – Organization for Economic Co-operation and Development
OJSC – Open Joint Stock Company
SAPARD - Special Accession Programme for Agriculture and Rural Development
SME - Small and medium enterprises
SWOT - Strength, Weaknesses, Opportunities, Threats
TNC – Transnational Corporation
UN – The United Nations
UNDP – United Nations Development Program
USD – United States Dollar
VAC – Value Added Chain
WTO – World Trade Organization

1. EXECUTIVE SUMMARY

In developed countries, globalization and strengthening of integration processes in the economy provide the possibility to increase incomes, a wider range of high quality food products and improved accessibility of food for all parts of society. However, in some countries, globalization processes are causing intensification of disparities, decreasing competitiveness and increasing poverty. And this is not only true of poor countries but also those which actively participate in international production and trade.

In this context the report presents analysis of selected issues associated with private sector engagement of AFCs in BSEC countries and defines priorities for intensifying these processes in order to contribute to improving compatibility, decreasing poverty and increasing food security in the region. The research goal was to define the status of the private sector in the agri-food industry of 12 BSEC countries and to identify the private sector involvement status of AFC development, against the backdrop of the transformation from central-planning agri-food complex to market oriented agriculture, where all AFC nodes are equal participants and co-authors of the development process.

Debates on private sector participation in AFC development and defining priorities on widening and deepening these positive processes in agriculture and the agri-food industry were supported by concrete existing political initiatives and regional cases as well as concrete proposals and recommendations from representatives of BSEC countries.

Challenges for private sector involvement in AFC development are based on the identification of three types of challenge: challenges for the primary node in the chain; namely, agricultural producers; challenges for processing and retail companies and common obstacles connected with the business environment. A challenge typology was used to develop the priorities of private sector involvement in AFCs and the preparation of recommendations for chain participants.

Ten out of twelve BSEC countries have lasting experience of centralized planning in agriculture. As a result of deep long term market reforms there, they have now formed new transaction schemes in agri-food production and turnover, which are based on private initiatives and business interests, and the needs of internal and external markets. These schemes are formed on principles of VACs that are fully controlled by the private sector, including big agri-food corporations that have free access to global markets.

Based on the historical role of the private sector in agri-food production it is possible to divide BSEC countries into three groups:

Group 1: Greece, Turkey, Bulgaria and Romania. These countries have strong historical links with the EU. Greece has been an EU member since 1981, while Bulgaria and Romania had centrally planned economies, which were transformed into market oriented economies over a 20-year period, which allowed them to join the EU in 2007, Turkey is an associate EU member with great experience in building up AFCs on the basis of the engagement of small and medium-sized farms and processing enterprises.

Group 2: Russia, Ukraine and Moldova, are were leading agricultural republics of the former USSR, which have great agricultural potential and relatively short history of private sector participation in AFCs and a strong ex-soviet approach to agri-food management and state policy.

Group 3: Albania, Armenia, Azerbaijan, Georgia and Serbia also have some heritage from centrally planned systems. These countries have relatively small potential with regard to available arable land compared to the first two groups. Fragmentation of agricultural production, a large number of small and medium-sized

producers and the dispersion of farms in these countries requires considerable investment for the creation and development of AFCs.

The problem of poor integration among SMEs in agricultural production is present in almost all BSEC countries, and requires action from other chain actors. State interventions are also required to attract SMEs into chains in order to ensure sustainable development in the sector. Successful experience in the sphere of creating and developing AFCs from five countries in the region demonstrates different approaches to resolving this problem. For instance, in Turkey, the engine of chain integration and involvement of small wheat producers was a processing company; in Azerbaijan the integration of small grape producers into the wine-making value chain was done through a public-private partnership; in Serbia integrating seasoning pepper producers into an AFC was facilitated by a private processing company; in Ukraine integrating cow dairy milk producers into the Danone global value chain was organized via a marketing cooperative; while in Bulgaria small farmers found a solid partner in the organic value chain on their own initiative.

This report presents the typology of challenges of private sector engagement in VACs; namely, the challenges for the primary node of the chain; the challenges for processing and trade companies; and common challenges related to the business environment. By summarizing the problems that were identified as well as case studies from different BSEC countries it was possible to formulate lessons learned and further discussion points.

Firstly, *representatives of the private sector are generally conservative and do not actively absorb and implement new approaches. They are more active in integrating themselves into business relations already tested by their “neighbours” (more actively after testing by relatives, friends, etc.)*

Secondly, *the active position of the private sector representatives in widening value added chains is revealing when these chains are initiated by formal and informal rural leaders (community or social groups) with high creditability at local level.*

Thirdly, *the trust of conservative representatives of the private sector in the agri-food industry will increase when agri-business provides financial support.*

Fourthly, *cooperation of agri-food processing companies with small producers becomes more attractive than cooperation with large-scale producers as SMEs are more flexible and able to adopt quickly or change their production structure based on market demand.*

Fifthly, *Small producers have more potential than large companies in organic production. Therefore, through creating value added chains with SMEs, agri-food companies will have the opportunity to do business more effectively, diversify production, reach out to more customers and increase their own profits.*

The following are priority directions for private sector engagement into AFCs:

- The private sector should create different sources of income from participation in AFCs for all stakeholders on the basis of transparent, fair and effective cooperation.
- The agri-food industry should initiate the engagement of SMEs into VACs. It is unlikely that private sector alone will initiate these processes. Business will create “new business models” oriented towards the creation of partner relations between agri-business and small producers.
- In practice, agri-business considers high service costs caused by work with small producers to be an obstacle. For large companies it is physically and organizationally difficult to cooperate with small producers because of high transaction costs. This is why it is possible to increase the position of small producers on the basis of group participation. The advantages of group participation are obvious to both sides.

- Capacity building for small and medium-sized producers in the form of training and education is very important, as is increasing access to financial resources and other production inputs, as well as information and telecommunications.
- Small-scale farmers should not consider agri-food industry enterprises as an obstacle to competitiveness. Joint efforts are needed to develop models oriented not at CSR but at providing inclusive businesses in an intensely competitive environment. Developing partnerships between businesses and small-scale producers requires collective action.
- Agri-businesses should ensure that participants engage in fair cooperation, understanding the essence of chain processes, and possibly providing a lobby for legislative changes to share this practice. Businesses also need to work together in order to guide state policy.
- Public-private partnerships are needed to create logistics storage facilities for wholesalers to store agricultural raw materials and products and to support decreasing per unit cost of final products in AFCs and thus increase efficiency.

It was generally agreed that cooperation with SMEs is an additional real business opportunity, not a threat to business practices and the integration of small agricultural producers into AFCs may increase productivity and incomes and rural areas. The issue that still requires attention is whether it is possible to resolve structural problems in the agri-food sector of BSEC countries through AFC development alone, or whether additional wider and systematic political decisions on the level of governmental rural development programs are required.

The issues which partly correlate with the topic of this report and could influence the development of agri-food industry are as follows. The Black Sea region has not become a region with strong and intensive cooperation in agriculture and the agro-industry sector. Promising potential for integration has been discarded due to increasing competitiveness between different groups of member countries. Large countries such as the Russian Federation, Ukraine, Romania and Turkey have an equal opportunity to play the role of regional leader. This competitiveness has some historical precedents, but it is also up-to-date and topical.

In spite of the problems which significantly impede the process of integrating AFCs in the Black Sea region, cooperation (both, bilateral and multilateral) in the sphere of agriculture is continuing to develop thanks to its high potential and interest from a variety of players in the region. Building logistics and transport infrastructure will significantly simplify physical access to joint agri-food value-added chains and improve their effectiveness.

2. INTRODUCTION

Agricultural production in the BSEC countries has strategic importance in a globalized world. Agricultural land that is available for production is a strategic resource that is equal to gas, oil, minerals or water and should be fully used in the global scale as the world is suffering from food shortages. Currently, all BSEC countries have significant potential to increase agri-food production without impacting the environment, meaning that the goods they produce will always be in high demand.

In the past 20 years, BSEC countries have registered remarkable growth in agricultural and food production. Agriculture in the BSEC countries, unlike other sectors of the economy, continues to demonstrate growth in complicated circumstances of global economic recession and financial crisis. This has been achieved thanks to the efforts of private entrepreneurs, family farms and small-, medium- and large-scale agricultural enterprises. The private sector provides food security and makes its input to reducing rural poverty via responsible and productive investments, increasing efficiency and job creation.

The private sector in agriculture of BSEC countries provides nearly 100 percent of agricultural production and raw materials. In recent years, a significant evolution in productivity, technologies and mechanisms of governmental support for agricultural companies and family farms has taken place in the region. However, there is still considerable fragmentation of farm land and a large proportion of SMEs have poor production facilities and limited resources.

Within the agri-food industry in the majority of BSEC countries, the private sector plays a key role in generating demand for inputs produced and delivered by small and medium-sized farmers. Agri-processing SMEs with some investments and good management produce high quality branded products, which may be exported and thus reduce import dependency on the domestic market.

At the same time, there are many challenges that need to be addressed for the full use of potential of the private sector in the agri-food industry. In this regard, the role of government in creating an enabling environment for the private sector to be able to optimize its role in rural development and facilitation of VAC is growing.

The agri-food sector is comprised of complex value added chains, which include agricultural production, processing and trade. These cover a wide variety of economic activities related to agricultural production and processing (starting from fodder and technical crops and ending with state support of agriculture), logistics and retail trade of final products. Agricultural production is the first node in a wide AFC of added value.

Achieving efficiency in AFC is the main development goal, which is achievable with private sector engagement. Under increasing competition in all nodes of AFC it is very important to remove all barriers and guarantee fair distribution of value added formed in the process of activity of the chain. This can be reached through facilitating dialogue inside the chain among private sector representatives and then among the public and private sectors as a whole.

The **main aims** of this study are to identify challenges and priorities for private sector engagement in AFC development in the BSEC region, to analyse best practices of partnership between private agri-food enterprises and small and medium-sized agricultural producers in different BSEC countries and to outline ways and mechanisms for further development of cooperation in the sphere of private sector engagement in AFCs.

To achieve the outlined goals the following tasks were accomplished:

- The context of private sector participation in AFC development was summarized for all 12 BSEC countries retrospectively;
- The role of the private sector in the development of the agri-food industry was analysed by looking at practices in different BSEC countries;
- Common problems in the sphere of private sector engagement for AFC development were defined and approaches for resolving this problem were prioritized.

The executive summary of this report includes information about the general purpose of research and the methodology used. It presents the main findings and proposed approaches to enhancing AFC development with private sector engagement.

The “Context of private sector participation in AFC development” section outlines the concept and importance of the value chain approach to agri-food sector development and shows the similarities between the agri-food industries in BSEC countries in terms of political influences on the structure of agriculture in recent years. This section provides a brief profile of the agri-food sector for every member country and a general presentation of the legislative background and opportunities for the private sector in access to finance, markets and infrastructure. It defines the common and national trends in the development of the agri-food sector in BSEC countries in the context of their ability to integrate the private sector into the policy decision making process.

The “Role of the private sector in the development of the agri-food industry in the BSEC region” section outlines the importance of a methodological approach to defining the role of the private sector in agri-food industry development on the basis of AFC analysis. It also sets out some case-studies and the experience of different countries within the BSEC in effective private sector participation in the development of the agri-food industry based on location, history, origin and practical results for the private sector. This Section includes an analysis of the importance of the private sector for the development of the agri-food sphere from the viewpoint of employment, incomes and access to markets. It also provides a SWOT (strengths, weaknesses, opportunities and threats) analysis of private sector engagement in the development of the agri-food sector. It summarizes regional initiatives, reveals some lessons for private sector engagement in the development of the agri-food sector and directions which can trace its participation position in the future.

The “Issues and challenges for discussion” section consolidates and analyses the ideas of authors, experts, consultants and representatives from the private sector in various BSEC countries, which were obtained during the “Engaging private sector in agri-food chain development” forum held on 20 February 2014 in Baku, Azerbaijan. This section includes different viewpoints and paradigms about the role of different representatives of the private sector in the development of the agri-food sphere and defines the main points still under discussion.

The conclusions and recommendations section presents the overall results of the research. The resources and opportunities for cooperation of the private sector in BSEC countries in the development of AFCs are assessed and general recommendations for developing fair and profitable relations among AFC participants are set out.

Three methods of data collection were used for research, justification of conclusions and proposals; namely, preliminary theoretical research, actual research and case studies. Sources of information have been reviewed and organized in the bibliographical list. The main sources of the statistics used as a basis for this analysis have been extracted from databases of UNIDO, the WB (doing businesses ranking – see Annex 6), FAO (FAOSTAT), European Commission (EUROSTAT), WTO, UNCTAD and IFC, among others. The main sources for analytical work on policy briefs were gathered from countries’ official web-sites and

reports and countries' briefs of international organizations and agencies as EBRD, FAO (for instance EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT COUNTRY BRIEFS), OECD, UNDP, SAPARD, UNDAF etc. Information for BSEC EU Eastern Partnership countries (Armenia, Azerbaijan, Ukraine, Moldova, Georgia) was also obtained from countries and regional reports of the FAO project "Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries, FAO Regional Office for Europe and Central Asia (REU), FAO Project No. GCP/RER/041/EC, EU Project No. ENPI 2012/298-262". Missing information for Bulgaria, Romania and Greece was extracted from countries' websites, EUROSTAT, provided by FAO and BSEC BC country presentations and figures of Bulgarian and Romanian experts.

Actual research for the final preparation of conclusions, recommendations and discussion issues was formulated as the summary of opinions of experts, representatives of the private sector, NGOs, consultants and scientists from the round table held at the "Engaging private sector in agri-food chain development" forum, as well as from other official information sources.

The FAO cooperative development project and on-line materials for BSEC countries members was used for case study preparation.

3. CONTEXT OF PRIVATE SECTOR PARTICIPATION IN AGRI-FOOD CHAIN DEVELOPMENT

Inventions and innovations in the spheres of technology, finance and knowledge, management systems in global agriculture and the food industry influence the sector and result in on-going transformations. In these circumstances the role of the private sector in the development of agri-food systems is increasing.

The private sector in agriculture and the agri-food industry includes enterprises, companies and firms of many sizes and with varying ownership structures. It covers all branches of the food system from producer to customer, including services like financing, investments, insurance, marketing and retail. The private sector is made up of a wide spectrum of enterprises: from farmers' organizations, cooperatives and SMEs to the largest international corporations.

AFCs represent mutually advantageous communications between producers, processors and service groups, which are united in the goal of increasing efficiency and creating added value. AFCs integrate added value by connecting sources of inputs with the dynamics of food demand via market cooperation among different actors producing and selling processes products. AFC formation means the establishment of business contacts that promote cooperation between chain participants with the goal of creating products demanded by customers and providing support for small farmers in establishing long-term, stable links with markets to sell produce with higher added value. Every AFC participant pursues certain financial interests and can make decisions and take obligations which influence the value of finished goods for the consumer (Figure 1.).

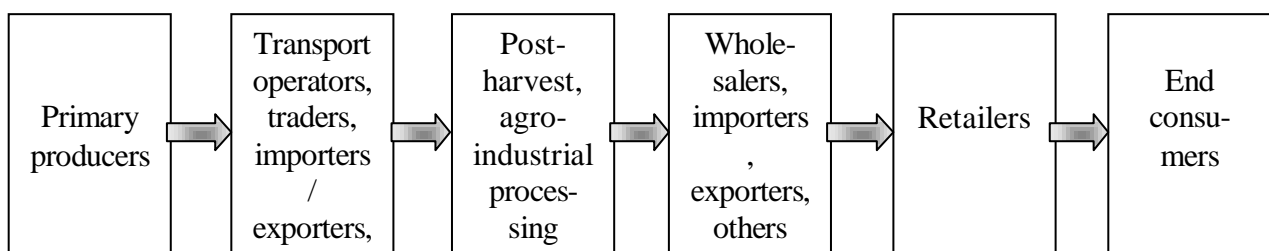


Figure 1. Structure of agri-food chain (AFC)

The VAC based analysis approach allows for 1) the division of political actions required for improving the situation in the agri-food sphere on sectoral and macroeconomic levels; 2) the definition of the main limitations that hinder various structures in the agri-food sector and prospects which will open for them at different levels of agricultural production. Analysing VACs provides the possibility to define which measures should be implemented in the area of agri-food policy between governments and the private sector. If the authorities communicate proposed socio-economic policy measures to the general public and get feedback from the private sector, this could help them to understand the influence these measures would have on the economy as a whole and on rural areas in particular. At the same time, the authorities participating in private business projects could increase the efficiency of implemented measures.

Using VAC methodology has made it possible to investigate the role of retail trade, which is the major engine of the food industry, and to increase quality according to the requirements and preferences of final customers. At the same time, this approach could analyse vertical and horizontal links among structures in different VAC nodes, which could support the distribution of technologies and innovations. Chain analysis makes it possible to detect and remove obstacles in different chain nodes for fair distribution of added value received during economic operations. This is achievable through organizing dialogue among private sector representatives within the chain as well as between the public and private sectors.

When studying different VACs it is possible to detect the effect of “mutual prosperity”. For instance, developing fertilizer production under a programme for innovative technologies (not due to the stimulation of demand from farmers) may support an increase of productivity in agriculture and raise the quality of products delivered for processing.

Implementing the VAC concept could positively influence employment in the agri-food sector via open access to markets for small farmers and establishing business links with small and medium-sized processing enterprises. AFCs are also an instrument for consolidating small farmer chain participants. Participation in chains allows them to achieve economies of scale during purchasing of inputs and through consolidated sales. It allows them to introduce new production, new technologies and logistics, as well as establish more effective business processes and organizational relations. It also helps them integrate retail chains. As a result, SMEs can become the main creators of new employment opportunities in rural areas, and they can also contribute to improving food security. Effectively functioning AFCs may play a key role in decreasing poverty.

In recent decades AFCs have changed significantly; including through globalization, increasing competition, the necessity to increase efficiency of production and the development of new forms of cooperation and concentration in different nodes of the chain. Major changes on the supply side include growing concentration in retail trade, processing and agricultural production nodes, as well as the increasing role of production standards and food safety. Major changes on the demand side are related to changes in the demand structure of foodstuffs and the preferences of consumers in both developing countries and high income countries connected with urbanization, changing ethnic diversity and increasing incomes and healthy food choices.

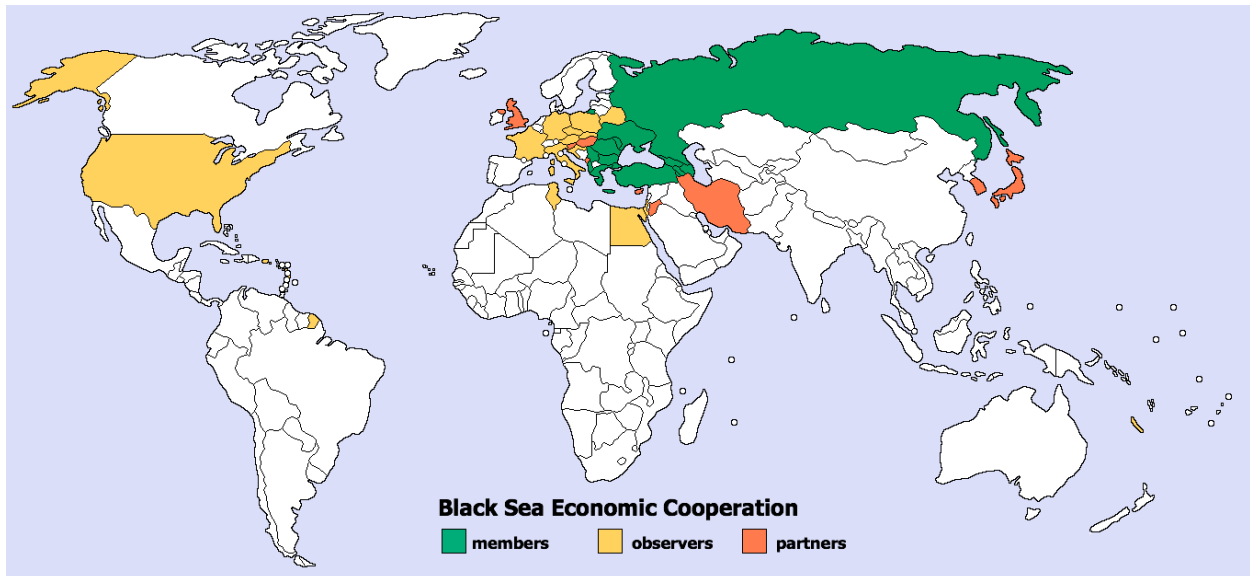
3.1 Organization of the Black Sea Economic Cooperation: BSEC

Due to their favourable geographical position, and other important factors, the 12 BSEC countries have access to additional new perspectives and possibilities in developing agri-food chains (see Picture 1).

The Organization of the Black Sea Economic Cooperation was founded on 1 May 1999 based on the Agreement for Black Sea economic cooperation of 25 June 1992. The BSEC Headquarters are located in Istanbul. The members of the organization are Azerbaijan, Albania, Armenia, Bulgaria, Greece, Georgia, Moldova, Russian Federation, Romania, Serbia, Turkey and Ukraine. The region is full of different natural resources, productive agricultural land and favourable climatic conditions. It has a strong production basis and highly-qualified labour force. The



BSEC region has total population of 330 million people. A significant share of the population of BSEC countries live in rural areas and gain their incomes from agricultural activities (see Annex 4). BSEC includes countries that are involved in other strongly developed international institutions, but this does not affect the Black Sea Economic Cooperation project, which has a lot of potential. BSEC is subject to interest from current members, other countries and the international community (see Picture 2)¹.



Picture 2 Countries: members, partners and observers of BSEC

The specifics of the organization are as follows. Firstly, BSEC has fully concentrated its activities on the economic aspect of integration, without touching on the spheres of policy and security. Trade was not identified as the only aspect of the background of integration, but production was also included. This is reflected in the sectoral approach to the common economic problems within the region.

Secondly, BSEC is based on equal economic cooperation, taking into account the interests of all countries, including their willingness to strengthen food security of individual members and the Black Sea region as a whole, and to improve welfare in rural areas based on the involvement of small and medium-sized agricultural producers in agri-food chains.

Thirdly, independent countries in the Black Sea region (excluding the Russian Federation) expect to be able to fulfil EU integration interests (and be integrated into EU markets) through regional integration. Turkey, Ukraine, Georgia and Moldova pay special attention to the BSEC as their BSEC membership increases their status in negotiations regarding EU accession.

¹ Partner countries: United Kingdom, Hungary, Jordan, Iran, Cyprus, Republic of Korea, Slovenia, Montenegro, Japan. Observers: Austria, Belarus, Germany, Egypt, Israel, Italy, Poland, Slovakia, USA, Tunisia, France, Croatia, Czech Republic.

3.2 Overview of agro-industry development of BSEC members: conditions, institutional environment and general national trends

During the period when the majority of BSEC members had centrally planned economies (excluding Turkey and Greece) a unified system for purchases and distribution of agricultural products was created, based on a network of procurement offices at district and region level, including a system of consumer unions. After the collapse of Soviet power and further privatization of trading organizations, the whole system disappeared because major suppliers in this system were kolkhozes and sovkhozes (state collective enterprises), in which rural households partly participated. During the first post-reform years, governments attempted to revitalize the old system, based on centrally planned and managed sales and purchase approaches. However, due to the enormous corruption within the old system, it was unable to satisfy the modern market, food safety and security requirements. Market reforms in BSEC countries currently support the creation and formatting of new systems of purchases, distribution and sales of agricultural products, with a strong emphasis on private initiatives, business interests, the domestic market and external buyers. These new systems are formed on the principles of VACs and are fully controlled by the private sector, including large players and could influence local and international agri-food companies. More information regarding the role of the agri-food sector in the economies of member countries can be found in Annex 3.

According to the historical aspects of forming agri-food chains in the BSEC region, we can divide countries into three groups (see Picture 3).

According to the volumes of agricultural and food production, the main group is Group 2 (see Diagram 1 and Diagram 2), but countries from Group 1 quickly increased gross agricultural produce between 2008 and 2011, with a relatively low scale of productive land.

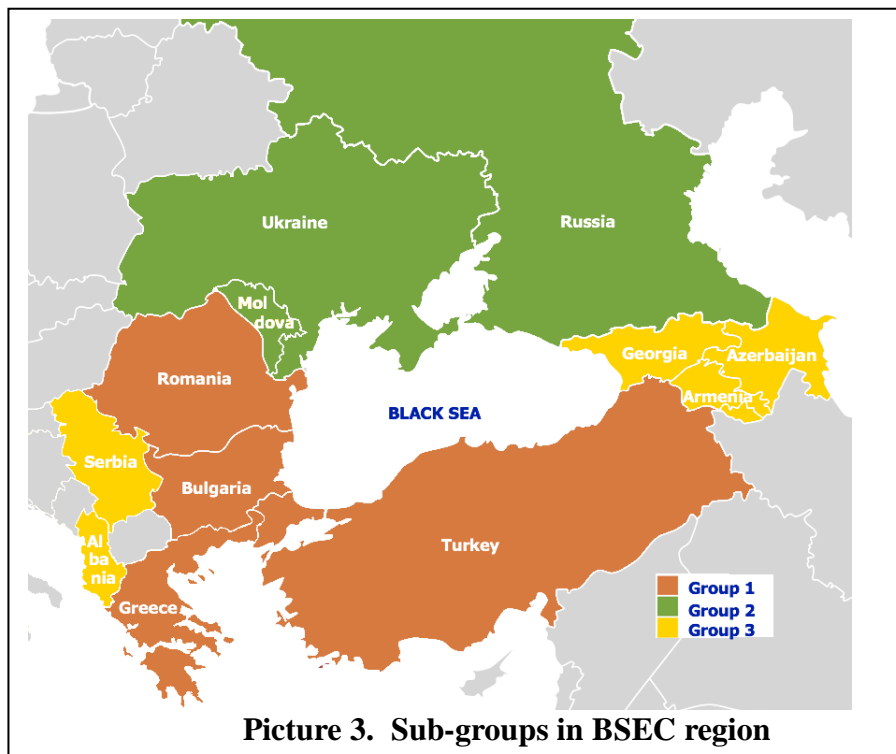


Diagram 1. Total agricultural production in the BSEC region, 2011 (according to FAOSTAT)

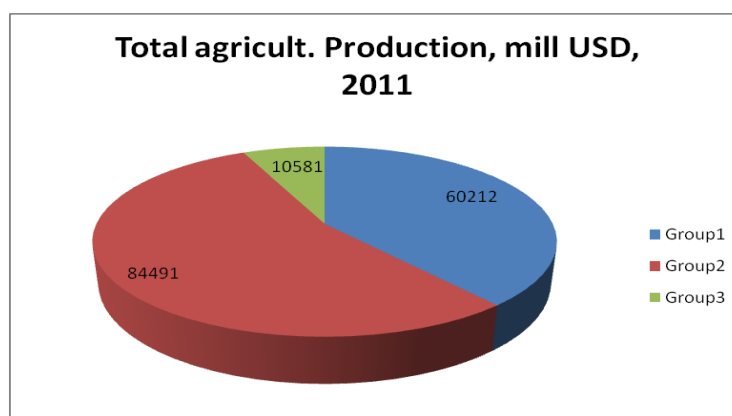
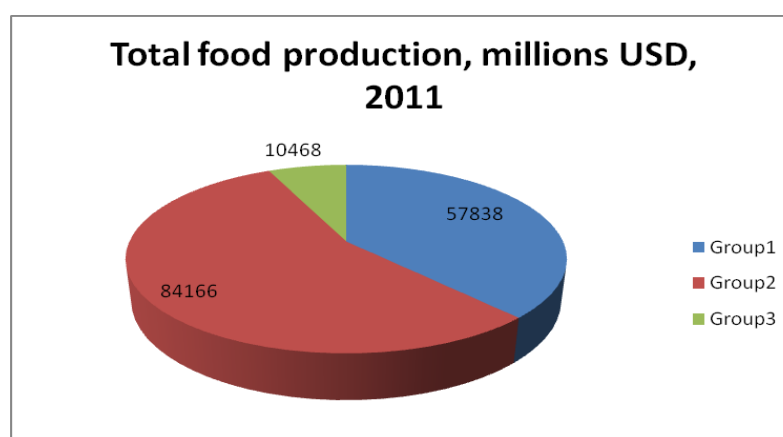
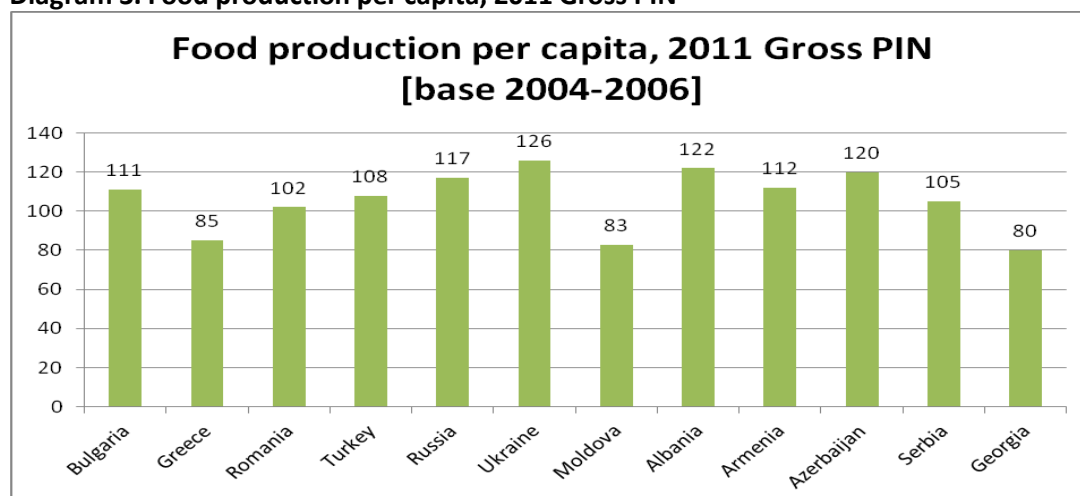


Diagram 2. Total food production in the BSEC region, 2011 (according to FAOSTAT)



According to FAOSTAT, in the same year per capita food production in BSEC countries varied between USD 80 in Georgia and USD 126 in Ukraine (see Diagram 3). Additional information regarding the top commodities in export and production values can be found in Annex 8 and Annex 7 respectively.

Diagram 3. Food production per capita, 2011 Gross PIN



Source: FAOSTAT, FAO of the UN, Accessed on August 9, 2013.

<http://faostat.fao.org/site/612/default.aspx#ancor>

The first group of countries (Bulgaria, Greece, Romania, Turkey). Greece has been a member of the EU since 1981, Bulgaria and Romania recently joined, and Turkey is an associate EU member. This group of countries develop processes of Black Sea cooperation in the context of European integration. They aim is to use the benefits of EU collaboration, firstly through initiating their own projects in the agri-food sector with the involvement of financial possibilities of international organizations, including the EU.. All the countries in this group (with the exception for Greece) are net exporters of food products (see Table 1).

Table 1. Annual food export and import by groups and countries (million USD).

Group 1	Food (excl. fish) imports, 2011	Food (excl. fish) exports, 2011	Net (+/-) = export - import, 2011
Bulgaria	2 249.0	3 560.6	1 311.6
Greece	6 214.2	4 040.5	-2 173.7
Romania	4 248.8	4 414.9	166.1
Turkey	8 507.3	12 287	3 779.7
Subtotal	21 219.3	24 303	3 083.7

These countries have important experience in creating agri-food chains, which can be used by other BSEC members. The important role in this group belongs to Poland, which not only developed a market-oriented agricultural sector model, but also successfully implemented it. This model can be attractive to other countries that have small and medium scale agricultural production. In spite of the fact that the majority of the state budget in Turkey comes from tourism activities, the agricultural sector remain significant: over 60 percent of the self-employed population work in agriculture. This sector has a 25.5 percent² share in value added (9 percent according to the World Bank³) and the share of agricultural and food products in total exports was 7.9 percent in 2008⁴. Turkey is the third largest country in BSEC (after the Russian Federation and Ukraine) in terms of its share of arable land (almost 25 million hectares). Approximately 85 percent of Turkey's cultivated land is used for grain production while 14 percent of its arable land is irrigated, which is mostly located in the western part of the country. Gardens cover 10 percent of land, while oil-yielding crops account for 7 percent and cotton for around three percent. A stable expansion of corn, sugar beet, potato, hazelnut, olive and tea production has been observed in the country.

In 2008, the food and beverage industry in Turkey⁵ employed 288 600 people (or 11.4 percent of the entire manufacturing labour force). Employment increased between 2001 and 2009, as did labour productivity. In 2009, there were 34 781 operating entities (or about 10.8 percent of all manufacturing enterprises), most of which were private small or medium-scale enterprises. Between 10 and 12 percent of food processing enterprises are relatively modern and large in size. The number of enterprises was unstable between 2003 and 2008. The capacity utilization rate is around 70 percent for the food and beverage sector. Important sub-sectors include the pastry and milling industries, biscuits, processed fruit and vegetable products, sugar and confectionery, chocolate and cocoa products, vegetable oil, meat and meat products, pulses, tobacco products, tea products, non-alcoholic drinks, ready-made food and baby food. The bakery sub-sector accounts for the majority (65 percent) of food and beverage companies in Turkey. According to the Federation of Food and Drink Industry Associations of Turkey, bottled water is the most produced drink in the Turkish beverage industry, accounting for around 50 percent of production

² Eastern Europe and Central Asia Agro0Industry development country brief, Turkey, FAO, REUP, 2012

³ <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS>

⁴ http://www.economy.gov.tr/upload/sectoralreports/Turkish_percent20Agricultural_percent20and_percent20Food_percent20industry.pdf

⁵ Eastern Europe and Central Asia Agro industry Development Country Brief: Turkey, FAO REUP

capacity. Anadolu Efes Beraşılık ve Malt Sanayii A.Ş. (the Anadolu Group and Efes Beverage Group), which is Turkey's largest producer of soft drinks and beer, with diversified operations, from bottled water to functional drinks and carbonates has been rated 228 out of the top 250 consumer product companies globally, with net sales of USD 2 772 000 and 9.4 percent annual growth in 2010. According to Euromonitor data, Ülker is Turkey's leading packaged-food company, followed by Unilever (UK/Netherlands) and Kraft (US).

The share of food and beverage industry exports of **Greece's** total foreign trade was 16.28 percent in 2011. The EU is the major export destination for Greek food and beverage products, accounting for 31 percent of the country's export activity. Food and beverage enterprises represent around 23 percent of total manufacturing enterprises, with 16 695 companies active in Greece in 2009. Of these, 893 are industrial companies with a prominent domestic and international presence and the rest are SMEs. Sales amount to EUR 9.74 billion, accounting for 26.2 percent of total manufacturing and the industry employs 91 847 people, accounting for 22.9 percent of total employment in manufacturing.⁶

Bulgaria and Romania had highly developed industrial agriculture until the middle of the 1990s. Even though the value of food production in the region is much lower than that seen at the beginning of the 1990s, the sector in Bulgaria and Romania gives has higher average production than the EU 16 countries.

Experts⁷ analysing the trends in development of the food and beverage industry in the Balkans have defined three types of historic economic development in the sector:

1. As Greece has been an EU member-state for many years, the Greek economy is very closely integrated with the European economy.
2. Bulgaria and Romania had better performance in their agricultural development until the end of the 1980s. Ongoing political, social and economic changes over the last decade of the 20th century, such as privatization and liquidation, mean that the sector slowed down at the beginning of 21st century.
3. Turkey has been a fast-developing economy in the region for the last decade. It has the biggest potential for development according to the presence of vast undeveloped regions in the country.

While Bulgaria is attempting to revitalize its food processing industry, Romania remains in quite a deep crisis. Filon Toderoiu stated that "Romania went through the transition and pre-accession period with a very rudimentary agrarian structural endowment, excessive land fragmentation and an unclear land tenure or land ownership status representing constraints to the technical, organizational and managerial progress factors. The unrestricted manifestation of these factors would also make it possible for our country to experience the situations characteristic of countries with modern economies and agricultural sectors, in which a decreasing number of holdings and labour input are able to increasingly provide the necessary agri-food products for the population, under increasingly restrictive competitiveness conditions".⁸

The second group of countries (Ukraine, Russia, and Republic of Moldova). These countries have significant natural potential for development of their agri-food systems, although they have ineffective management systems influenced by former soviet institutions. For almost 20 years the agri-food sectors in these countries have been functioning in crisis conditions, which on the one hand has caused significant losses in the quality of production inputs, including land, and as a result has decreased the effectiveness of

⁶ <http://www.chinagoabroad.com/en/article/greek-food-and-beverage-sector-natural-choice>

⁷ Comparison of Industrial Dynamics of Food and Beverage Industry in Bulgaria, Romania and Greece// Diana Kopeva, Nikolay Shterev, Dimitar Blagoev, Congress Change and Uncertainty, Zurich, EAAE, 2011

⁸ Filon Toderoiu. The Romanian Agri-Food Economy - performance reductive effects after five years of EU membership// Agricultural Economics and rural development. 2012, № 1. – p. 25-47, Bucharest

production and competitiveness. On the other hand, this has helped agriculture and food producers to adapt to functioning in stressful conditions. In this group, Ukraine and Moldova are net exporters, while the Russian Federation is net importer of food products, meaning that the group as a whole is net importer (see Table 2).

Table 2. Annual food export and import by groups and countries (million USD).

Group 2	Food (excl. fish) imports, 2011	Food (excl. fish) exports, 2011	Net (+/-) = export - import, 2011
Russia	28 179.1	7 653.7	-20 525.4
Ukraine	3 744.5	11 360.5	7 616.0
Moldova	427.7	685.9	258.2
Subtotal	32 351.3	19 700.1	-12 651.2

To the development of exports has contributed to different projects of international financial organizations (see Box 1).

Box 1 Development of the wine sector in the Republic of Moldova

A significant investment in the wine sector is being provided by the European Investment Bank (EIB), which includes EUR 75 million to finance the development of the quality of the Moldovan wine industry. The loan will address the structural weaknesses of the Moldovan wine industry, from vineyards to final packaging and distribution of wine and will finance projects of small and medium sized enterprises that are active in this sector. This includes local growers, winemakers and associated industries such as bottle production. The EIB funds will be exclusively available for investments related to the production of bottled quality wines of "Protected Designation of Origin" or "Protected Geographical Indication". The funding will not to be used for any expansion of Moldova's wine growing area. This project will be implemented between the beginning of 2011 and the end of 2014.

Source: FAO assessment of Agriculture and Rural Development in East Partnership countries. Moldova, 2012

The geographical position of Ukraine, its large population and its significant agricultural potential create impartial conditions for mutual interest of BSEC countries for developing cooperation in the sphere of agriculture. Ukraine currently has the largest investment projects in the BSEC region (along with Turkey, Greece and Serbia). Agriculture is an important sector of the Ukrainian economy. In recent years, the amount that agriculture contributed to GDP was 11 percent on average, and it has observed continuous increases in production and export potential. Due to recent rapid growth in the exports of grains, oil-seeds and oil, Ukraine has become one of the world's leading exporters of agriculture products. During the process of re-structuring agriculture on the basis of processing and trading, enterprises have been created in vertically-integrated structures with closed production cycles. Through merging they become holding-type corporations, which now have well-organized closed value-added chains based on vertical integration and some have actually monopolized agri-food chains. Small and medium-sized enterprises have very limited access to profitable markets.

In 2009, the food and beverage industry in Ukraine⁹ employed 431 000 people (or 20.3 percent of effective labour force). In 2009 there were 6 398 enterprises operating in the food and beverage industry (or about 14.6 percent of all enterprises), 65 percent of which were private small or medium-scale enterprises. Recently, agro-holdings have begun to play an important role in agro-industrial vertical integration. The most important sub-sectors of the food industry are dairy processing, oil extraction,

⁹ Eastern Europe and Central Asia Agroindustry Development Country Brief: Ukraine, FAO REUP

confectionery, sugar refining, flour milling, starch and molasses production, meat canning and vegetable production and processing.

The agri-food sector in the **Russian Federation** is widely diversified and contributes 9 percent of GDP. It accounts for 3.4 percent of main production funds on average and 10 percent of employed effective labour. The country is willing to use and strengthen the role of BSEC agricultural development in its southern regions, coast regions and tourist centres. One of the projects in this relation could be the creation of an international Black Sea tourist zone, where effective agri-food chains could be created, involving small and medium-sized producers, processors and the agro-industry. This would have a significant positive impact on the socio-economic situation in the region and could help encourage full regional cooperation in the framework of BSEC.

In 2009¹⁰, the food and beverage industry in Russia employed 1.3 million people (or 16.4 percent of the total labour force). Employment levels have been unstable over time and in 2001 employment was half the 2000 figure, although in 2005 it was almost double the 2004 figure. Labour productivity increased significantly between 2000 and 2008 but declined by 14 percent in 2009. The food and beverage industry includes more than 30 sectors with 56 200 operational enterprises (or about 13.6 percent of the total number of manufacturing enterprises). The biggest Russian food manufacturers are: Baltika Brewery Company, Unimilk, "United Confectionaries", "Cherkizovo" and the "Efko" Group of Companies. Among the most well-known foreign food manufacturers in Russia are Kraft Foods and PepsiCo, which invested heavily in the WimmBillDann company in 2010-2011. Important sub-sectors include meat processing, which has average annual growth of 15 percent in terms of value and dairy with average annual growth of 7 percent, as well as bakery, fish preserving and the vegetable oil industry. There is a trend to increase production of premium products and traditional soft drinks. The industry is still in recovery mode, supported by real GDP growth, growing consumer demand and consumption. Food processors continue to implement new production technologies and often build their production facilities close to a source of raw materials. International food processors are actively investing in the local food processing industry and most foreign companies have decided to move their production to Russia in order to reduce costs, meaning that imports of consumer-ready products have decreased. Consolidation among the leading food processing companies is a strong trend, allowing access to technical knowledge, strengthening companies' images in the market and access to cheaper financing. For example, WimmBillDann and Unimilk maintain the dominant positions in the Russian dairy market. Of the 50 fastest growing consumer product companies in 2010, WimmBillDann Foods (OJSC, Russia) is ranked 30th with net turnover of USD 2.6 billion and net sales growth of 19.2 percent in 2010. PepsiCo acquired 66 percent (USD 6.2 billion) of this company, which was the second largest deal among food companies in 2011. Also in 2011, Danone took over Unimilk. As observed by EBRD, more local players have established their presence in the market, driven by the growing demand for consistent food supply of higher quality, and these players are becoming stronger. For example, a number of large, vertically integrated agro-processors have been established in the grain and oilseed sector (e.g. Victoria Group, Yug Rusi, Astarta). These have been able to grow effectively due to important backward linkages to the primary agriculture sector.

In the **Republic of Moldova** the agri-food sector accounts for 15 percent of GDP and together with the agro-industry ensures 60 percent of export income. Around one third of the population is employed in agriculture. As in Ukraine and the Russian Federation, large-scale companies prevail in Moldova, but the scale of operation is smaller (average size of land use is over 1 000 ha). Priority spheres of agriculture in Moldova are grape and wine production, fruit production and processing, livestock production and dairy production. One of the national priorities for the economy is tobacco production. Tinned fruits and vegetable production account for a significant share of Moldova's national economy. In 2009, the food and beverage industry in Moldova¹¹ employed 32 400 people (or 39.7 percent of the entire labour force).

¹⁰ Eastern Europe And Central Asia Agroindustry Development Country Brief: Russian Federation, Fao REUP

¹¹ Eastern Europe And Central Asia Agroindustry Development Country Brief: Moldova, Fao REUP

However, employment figures have been unstable over time, as has productivity. In 2009, there were 1 478 enterprises (or about 33.9 percent of all manufacturing enterprises), most of which were private, small or medium-sized enterprises. Processing units in sub-sectors such as dairy, meat, fruit and vegetables and wine production are situated close to the raw material production areas. Important sub-sectors include wine and cognac, tinned fruit and vegetables and vegetable oil production. Moldova has 151 000 hectares of vineyards and produces 14.7 million decilitres of wine and cognac at 193 enterprises, 97 percent of which are privately owned.

The dynamics of the recent changes in the agri-food industry of this group of countries confirm the intensive process of merging and takeover of small and medium-sized producers, which has resulted in increased monopolization in the agri-food market. A significant part of food production is controlled by a small number of large companies, including well-known brands. In the process of re-structuring in the food sector, processing companies are forced to invest in direct production of raw agricultural products in order to increase the quality of raw materials to required standards. In wholesale and retail trade, the trend of disappearing domestic-produced groups of goods has been observed. These goods are being replaced by imported products. Serious negative consequences are accompanying the development of small and medium-sized enterprises in processing and trade spheres. Supermarket networks have huge power over producers, processors and other participants in the agri-food chain.

The third group of countries includes (Albania, Armenia, Azerbaijan, Georgia and Serbia). In Albania, Armenia, Azerbaijan, Georgia and Serbia not much agricultural land is available (as for example in Turkey, Ukraine or Russia), but at the same time their agri-food potential allows them to export agricultural products annually for USD 4 395 000 000 (according to FAOSTAT data). At the same time, all of the countries in this group except for Serbia are net importers of agricultural products (see Table 3).

Table 3. Annual food export and import by groups and countries (million USD).

Group 3	Food (excl. fish) imports, 2011	Food (excl. fish) exports, 2011	Net (+/-) = export - import, 2011
Albania	629.7	30.2	-599.5
Armenia	4 145.3	1 334.3	-2 811.0
Azerbaijan	1 014.2	571.4	-442.8
Serbia	839.0	2 232.2	1 393.2
Georgia	896.5	227.4	-669.1
Subtotal	7 524.7	4 395.5	-3 129.2

Source: FAOSTAT

According to FAO country information on **Albania**:¹² "In 2009, the food and beverage industry was made up of 2 547 enterprises (33.6 percent of all manufacturing enterprises), 78 percent of which operate in the bread and flour industry; 11 percent in the dairy sector, 6 percent in beverages and 5 percent in meat, fish, fruit and vegetable processing. Most of these enterprises are privately owned, are small or medium-sized and are located in the Tirana prefecture".

In 2009 in **Armenia**,¹³ approximately 827 enterprises were operating (or about 37 percent of the total number of manufacturing enterprises), most of which were small or medium-scale private enterprises. The number of enterprises increased by 2.2 times compared to the 2000 figures and the output of these enterprises increased threefold during the same period. Important sub-sectors include alcoholic and non-

¹² Eastern Europe And Central Asia Agroindustry Development Country Brief: Albania, FAO REUP

¹³ Eastern Europe And Central Asia Agroindustry Development Country Brief: Armenia, FAO REUP

alcoholic beverages, preserved fruits and dairy processing. Wine, brandy and cheese production are the largest part of the food processing industry and those with the best potential are dried fruits and fish products made using local resources.

In 2009, the food and beverage industry in Azerbaijan¹⁴ employed 22 400 people (or 22.6 percent of the manufacturing labour force). Employment in the sector increased by 80 percent between 2003 and 2009. Labour productivity declined by 12 percent in 2009 following steady growth up until 2008. In 2009, 555 enterprises were in operation (or about 26.3 percent of all manufacturing enterprises), 99.8 percent of which were private small or medium-scale enterprises, located in the capital or in the main regional centres. Bread producers and bakeries as well as confectionery and soft drinks producers made up a large proportion of these. Processing units in sub-sectors such as dairy, meat, fruits and vegetables and wine tend to be situated closer to the areas in which the raw materials are produced.

In 2009, the food and beverage industry in Georgia¹⁵ employed 20 500 people (or 31 percent of the manufacturing labour force), although this level has not remained stable over time. Labour productivity increased significantly between 2001 and 2009. In 2009, there were 2 324 enterprises operating (or about 36.7 percent of total number of manufacturing enterprises), most of which were private, small or medium-scale enterprises. SMEs generated more than 30 percent of total food, beverage and tobacco industry output in 2008. Processing units in sub-sectors such as dairy, meat, fruit and vegetables, and wine production are situated closer to the raw material production areas.

In 2009, the food and beverage industry in Serbia¹⁶ employed 72 400 people (or about 22 percent of the entire manufacturing labour force), 43.3 percent of which worked at large enterprises, 35 percent at medium-scale enterprises, 15.5 percent at small-scale enterprises and 6.2 percent at micro-scale enterprises. Since 2003, employment has been decreasing by 7.4 percent a year on average. In 2009 there were 3 361 enterprises operating in the food and beverage industry (or about 19.6 percent of all manufacturing enterprises), 75.4 percent of which were private micro-scale enterprises, 22.7 percent small or medium-scale enterprises and 1.2 percent of large enterprises (with average numbers of employees of 9, between 10 and 249, and above 250 respectively). Large food and beverage enterprises represent about 12 percent of all large entities in Serbia. Important sub-sectors include vegetable and fruit processing, olive oil and wine production, the flour and cereal industry and meat and dairy processing. Serbia's most export-oriented food products are: raspberries, apples, corn, truffles, juices, concentrates, purees, jams, frozen and dried fruit, fresh and smoked pork and beef and other high quality produce. Its major organic products are frozen fruits, fruit juice and concentrates, jams, pasteurized and frozen vegetables, mushrooms and marmalades.

¹⁴ Eastern Europe And Central Asia Agroindustry Development Country Brief: Azerbaijan, FAO REUP

¹⁵ Eastern Europe And Central Asia Agroindustry Development Country Brief: Georgia, FAO REUP

¹⁶ Eastern Europe And Central Asia Agroindustry Development Country Brief: Serbia, FAO REUP

4. THE POSITION OF THE PRIVATE SECTOR IN AGRI-FOOD SECTOR DEVELOPMENT IN THE BSEC REGION

Globalization and the international system have a considerable institutional influence on the agri-food system in BSEC countries. In practice, globalization plays an important role in increasing capital and informational flows, foreign direct investments and global economic integration, thus underpinning the industrialization of agriculture and vertical integration in agri-food systems.

To determine the role of the private sector in developing the agri-food industry it is important to concentrate on the analysis of agri-food chains, which allow us to assess not only relations between all parties within the chain, but also provide information regarding economic and social benefits and losses for all parties. Once one cell in the chain stops functioning, this means the chain as a whole can no longer function effectively.

Analysis of the role of the private sector in the development of the agri-food sector through the management of value-added chains allows for strategies for achieving development goals to be developed, and allows low-income farmers and households to become involved in the process of receiving added value benefits.

In BSEC countries, a significant part of the private sector is involved in agricultural activities and the livelihoods of a large part of the rural population come from farming. The creation of close connections between small-scale farmers and agri-food enterprises will guarantee sustainable development of their businesses, and will allow access to profitable markets for small private entities. As of now, access to profitable markets for the private sector in BSEC countries is quite limited.

4.1 Success stories of private sector participation in the development of the agri-food industry

Integration of the private sector into modern chains of input supplies (materials, technologies, capital and sales management) increases productivity in the private sector, which can have a positive effect on rural livelihoods. Success stories can be identified in all BSEC countries. The research described regional examples of private sector involvement into the development of agri-food chains in five countries, two of which belong to Group 1 (Turkey and Bulgaria), two to Group 3 (Serbia and Azerbaijan) and one to Group 2 (Ukraine). The case-studies describe successful examples of SME involvement in agri-food chains in different spheres of agriculture; namely, processing and production of grains, grapes and wineries, fresh vegetables, milk and dairy products and organic products.

4.1.1 Turkey: integrating small wheat producers into value added chain with the help of a private processing company

Background:

In Turkey, cereals have traditionally topped the list in terms of total agricultural production. Wheat and flour producers in Turkey are favoured by government support. One of the support activities is the Rural Development Investment Support Program of the Ministry of Food, Agriculture and Livestock. The milling company “Dost Gıda” received 50 percent of its eligible expenditure for 2010 through this programme. Dost Gıda Corporation is the leading wheat flour, pasta, semolina and durum flour producer in Turkey. Dost Gıda was founded in the 1920s and works in the grain value added chain, buying wheat from local farmers at the farm gate and through stock exchange to mill and produce pasta. Generally, farmers prefer cash payments and sales on farm gates, as raw material prices change very rapidly and paying by bank transfer and after payment under such conditions may lead to financial losses for farmers.

Drivers of value chain development:

- Private food processing company “Dost Gida”, which is ready to transfer part of its governmental support to farmers, as the company is interested in better quality wheat for processing.

The chain was financially supported by the Government via the Rural Development Investment Support Program in 2010. This program is open to all food processing companies, but not all of them use it due to a lack of information. The processor is also required to make investments in its own production facilities and throughout supply chain.

Results:

Farmers: small-scale farmers in the area have a guaranteed sales market and reasonable prices, thus giving them more opportunities and more potential, as processors are much closer to farms and ready to buy from the farm gate or at spot market, which decreases transaction and logistics costs for farmers.

The processing company: Dost Gida started its operations in 1975 in Corum province, processing 100 tonnes of flour a day. With constant renovations and investments, the company increased its milling capacity to 350 tonnes per day and its pasta production capacity to 120 tonnes per day. At the same time, the processing company is interested in installing a packaging line to make a higher-quality final product (macaroni). This would guarantee food safety, longer shelf life and hygiene. At the same time the company is interested in exporting products. The guaranteed supply chain from local farmers is very supportive for companies' business.

4.1.2 Azerbaijan: integrating small grape producers into the wine production value chain through a public private partnership

Background:

Wine-making is a very traditional activity in Azerbaijan and both the Government and the private sector are very interested in bringing this tradition to life and increasing the export of high-quality wine and wine by-products from Azerbaijan. “Agro Azerinvest” is private company, founded by “Gilan Holding” in 2004. The company makes a significant contribution to the revival of the former glory of Azerbaijani wine-making using the latest progressive research and development achievements in this field.

Drivers of value chain development:

Wine-making is one of the processor-driven sectors of the agricultural economy of Azerbaijan. The private company “AzerAgroinvest” decided to provide funding and support farmers in Gorangoy district, as grape production and wineries require significant capital investments.

Through National Fund for Entrepreneurship Support under the Ministry of Economic Development, the Government prepared a special investment programme to support grape production in the Goranboy district. This was supposed to cover the cost of 25 hectares of technical and table grapes for 49 preliminary selected small-scale farmers who were to participate in the project.

Expected Results:

The demand for wine and cognac products is growing dynamically. The Company “Agro Azerinvest” is developing. Currently, more than 50 percent of its production is exported to various destinations, including Russia, Ukraine, Kazakhstan, and Belarus. On the domestic market the company's products are sold in elite supermarkets, hotels, restaurants and duty free stores.

The beneficiaries of the project are 49 selected farmers with total cultivated land of 25 ha in Goranboy district. On average, each farmer should invest AZN 83 399 (USD 106 921) into the project. However, for many small-scale farmers this amount is unrealistic and to resolve this issue, Agro Azerinvest decided to support farmers and provide them with the necessary funding. For participating in the project SMEs that establish grape production will provide long-term business with guaranteed market channels or increase

existing business and their production facilities through capital investments provided by the Government and the private company.

4.1.3 Serbia: integrating seasoning pepper producers into VAC

Background

The tradition of growing, seasoning and milling pepper in the Horgos region of Serbia has been developing for more than 200 years. The food processing company “Vitamin” was founded in 1947. Today Vitamin is one the largest dried vegetable processors and it has a long tradition in cooperation with family farms. In the beginning, the initiative for cooperation came from the producer side, but during last decade it has become quite common for SMEs to contact processors and discuss possibilities for cooperation. Vitamin cooperates with local farms covering an area of 50-100 km radius.

Drivers of value chain development:

Vitamin has fully supported the development of the chain starting from providing inputs, a flexible payment scheme and guaranteed market channels for local farmers. On the basis of successful experience of their friends and relatives, now more and more farmers are interested in participating the cooperation program.

Results:

Farmers have a guaranteed market channel and fixed prices. Normally, farmers only know the sales price after harvesting, but in this case they have a defined sales price indicator. This helps them to improve cash flow planning for their businesses. There is a beneficial payment scheme for farmers: 50 percent upon delivery of the product and 50 percent 60 days later. Farmers are eligible to ask for advance payments in the event of problems with liquidity during the growing period. Processors provide seeds in advance. Pepper production is labour intensive and thus employment for participants of the program in rural areas is guaranteed.

As a result of cooperation, Vitamin has guaranteed supply of seasonal peppers for further production and can easily forecast production and potential sales volumes.

4.1.4 Ukraine: integrating small milk producers into global dairy Danone value chain

Background:

Due to the dramatic and continuous decline in dairy cow numbers since independence, the production and supply of high-quality raw milk in Ukraine is a constant problem for milk processors. On the other hand, the underdeveloped market with power largely in the hands of traders and poor logistics infrastructure (bad roads, lack of available transportation options, etc.) reduce the possibilities for achieving good prices for small private household with 1-2 cows. This situation is especially negative for remote households in distant villages. At the same time, in Ukraine, as in the majority countries of BSEC region, more 50 percent of dairy herds are concentrated in small private households.

Drivers of value chain development:

In this case there are two major drivers of value chain partnership:

International NGO “Dobrobut Gromad” (former Heifer International) has supported cooperative development in the region and provided investments for milk collection points in villages, as small private households cannot do that without external capital support.

Danone Dnepr, Ukrainian branch of global TNC Danone has provided good market conditions for small milk suppliers - long term contract and market-fair prices for supplied milk.

Results:

The following results have been achieved as a result of value chain development:

- Opened eight milk collection points in villages of Razdolnenskiy rayon, AR Crimea.
- All milk collection points are equipped with milk tanks and field laboratories for express individual milk testing; in addition, Danone provided cold storage milk transportation trucks to ensure the quality of final delivered product.
- Private household connected to the VAC obtain reasonable prices for raw milk according to tested quality.
- Due to premium prices from Danone, private households started to gain more money for their development and welfare.
- Households have a guaranteed market channel and sustainability.
- Households have a guaranteed input channel (feeds) via value chain.
- Rural infrastructure in villages was renovated via investments from processor.

4.1.5 Bulgaria: integration of small farmers into the organic value chain

Background:

Organic production is a growing trend in Bulgaria with strong export orientation on developed EU markets and the premium segment of the domestic market. Traditionally, Bulgaria has exported a lot of canned vegetables and has a long tradition of healthy food, such as traditional dairy products like yogurt. While shepherds are widespread in the countryside, organic sheep milk it is quite a unique product for Bulgaria. At the same time, organic production is a very interesting and promising way of integrating small-scale dairy farmers to value chains. The organic sheep farm “Agrobusiness 88” Ltd. in Skravena was established in 2006. It has developed from a small family sheep farm where output was primarily used for household consumption. At some point, household management decided to start organic production, based on the fact that there was no other organic sheep farms in the region and that there was potential demand for Bulgarian organic milk and dairy products on both local and international markets.

Drivers of value chain development:

The private company “Kondov ecoproduction”, a Danish supported cheese producer, had been looking for reliable supplier of organic sheep’s milk. This company supported the household with proper organic certification, training and advice, including veterinary information, best practices and up-to-date knowledge about organic market, access to specialized business links and professional organizations, etc. Business relations with Kondov ecoproduction Ltd. (the state of a bilateral trade) have had a profound effect on development and entering the market for “Agrobusiness 88” Ltd. The markets for organic farm products in Bulgaria have been underdeveloped (in the sphere of wholesale, retail and farm-gate trade). Kondov ecoproduction Ltd has provided a secure long-term marketing contract for the farm’s milk, which has led to effective growth and immediate integration into the international value chain. It needs to be mentioned here that a significant role in developing the cooperation belongs to the entrepreneurship talent of Mr. Rumen Romanov, head of the “Agrobusiness 88” Ltd.

Results of the partnership:

The small sheep farm significantly improved its facilities and operations. It rented more farmland and hired more staff (two owners, seven hired employees, five hectares of own land, 120 ha of leased land). Now it is a mid-size farm with stable operations and ownership, a clear management structure and a veterinary specialist. The sheep herd increased from 30 in 2005 to 480 in 2010. The farm has certified organic status and the private household was legally registered as “Agri-business 88” Ltd. and went from self-consumption status to a market oriented enterprise. The farm obtained a sustainable market with guaranteed payments from the processor.

Kondov ecoproduction Ltd obtained a guaranteed supply of sheep's milk for processing and making cheese.

4.2 SWOT-analysis of participation of SMEs in value-added chains development in BSEC countries

The SWOT-analysis of the participation of SMEs in VACs in the BSEC region is based on the previous sections of this report and generalized expert opinions from different countries received at the Forum. This analysis is a structured description of the situation in the sphere of private sector participation in the development of agri-food value-added chains in a particular market atmosphere. The SWOT-analysis paints a full picture of the current situation in the agri-food sphere in BSEC member countries and provides possibilities for developing further strategies regarding the involvement of the private sector in the development of the agricultural sector. The SWOT-analysis does not provide any final decisions, although it does summarize information on private sector participation in the development of agri-food chains in the BSEC region using different sources, opinions and expert estimations from the position of strengths, weaknesses, opportunities and threats.

Strengths:

- Broadening the food market capacity in BSEC countries due to stable growth of the population income and welfare;
- BSEC member countries have similar natural and climatic conditions, resource potential, transit and logistic possibilities;
- Mutual interest of agricultural producers and agro-industrial enterprises in establishing long-term beneficial contract relations.

Weaknesses:

- Weak financial conditions of agricultural producers;
- Limited institutional possibilities for achieving significant progress in increasing the role of production standards food safety;
- A lack of agricultural knowledge, lack of informational support and a lack of trust among participants of agri-food VAC;
- Underdeveloped market and production infrastructure;
- Worsening of social problems in rural areas;
- Lack of support for the private sector through the system of rural advisory service.

Opportunities:

- The availability of a significant share of agricultural land allows organic food products to be produced and exported;
- Forming competitive regional mega-clusters for food production in the framework of BSEC using the experience of member countries, which have long-term successful examples of private sector involvement in agro-industrial development;
- Increasing agricultural export possibilities to EU markets;
- Strengthening competitive positions through transition to innovative private enterprises in the agri-food sector;

Threats:

- Broadening the expansion of large-scale producers especially trans-national corporations, which tend to monopolize markets and resources;
- Increasing competition from EU producers on specific markets (milk and dairy products, fruits, pork, etc.), which decrease the attractiveness of investments in development of cooperation with SMEs;
- Irreversible changes in the social and demographic sphere in rural areas of BSEC member countries, which are largest in the scale of land-use and gross agriculture production (Ukraine and the Russian Federation).

4.3 Lessons and considerations

Small and medium-sized agro-processing enterprises can play a central role in creating rural income and employment opportunities, including through the demand they create for raw material supply by smaller and medium-scale farmers in less developed parts of the BSEC region. SMEs that are appropriately capitalized and managed can produce high quality branded and labelled products, which can increase export revenues and reduce dependence on imported products.

But there are also major constraints that must be addressed in order to imply the full developmental potential of private sector and agro-industry. One of the roles of governments is to create enabling environments for the private sector to optimize its role in rural development.

This could be further enhanced by facilitating dialogue and collaboration between the public and private sectors in developing supportive policies. The state should facilitate public discussions with the private sector regarding proposed changes and realize how proposed changes can influence the economy as a whole and the sectors within it. At the same time, the participation of state bodies in private business projects can increase the effectiveness of changes. Thus, cooperation between governments and the private sector can effectively remove existing barriers and achieve significant results.

The case-studies for five BSEC member countries can be summarized with the following lessons:

Firstly, representatives of the private sector are usually conservative and do not actively absorb and implement new approaches, including searching for new markets, new technologies or new business relations with enterprises in the processing sector. They are more active in integrating into business relations that have already tested by their “neighbours” (and by relatives, friends, etc.)

Secondly, the active position of private sector representatives in widening value added chains is revealing in the case of initiation of these chains by formal and informal rural leaders (community or social group) with high creditability at local level.

Thirdly, trust between conservative representatives of the private sector to agri-food industry representatives increases when financial support comes from the agri-business side, as a lack of trust prevents the private from sector to investing (also, SMEs often experience absence of investment funds).

Fourthly, against the backdrop of increasing competition as a result of entering international agriculture and food markets, enterprises have been forced to look for new markets that are more orientated towards the final customer. Taking into account that customer preferences constantly change, the production basket should change accordingly. And thus, for agri-food processing companies it becomes more attractive to cooperate with small producers than with large-scale producers as SMEs are more flexible and able to quickly adapt or change production based on market demand.

Fifthly, the role of the private sector in creating value added chains in the area of organic production and organic raw materials is growing and becoming more important. Rapid development of the market for organic products is creating new business opportunities for agri-food companies and SMEs. The potential of small producers in organic production are much greater than that of large companies. Therefore, through creating value added chains with SMEs, agri-food companies will get the opportunity to do business more effectively, diversify production, reach out to more customers and increase their own profits.

In terms of intensifying the processes of private sector engagement in value-added chains, special attention should be paid to the following directions in the future:

- The development of production and informational infrastructure;
- Supporting the development of long-term contractual relations among participants of VACs;
- Assessing internal and external markets;
- Developing training programmes for the private sector;
- Organizing training processes for representatives of the private sector;
- Increasing quality and food safety in VAC;
- Combining consultation with real financial aid;
- Facilitating the involvement of all players in the process of receiving necessary services for overcoming difficulties in chain functioning;
- Creating specific organizations that will support the creation and development of value-added chains;
- Organizing a coordination and arbitration system for value-added chains to solve operational issues regarding functioning and prevention (solving) any conflicts between participants;
- Exchanging experiences on the study of stakeholders for involvement in VACs;
- Defining ways to involve the poorest representatives of the private sector.

All of these directions will be analysed in more detail in the following section of the report. They are outlined based on a summary of the opinions and proposals of the experts from Albania, Azerbaijan, Bulgaria, Serbia, Romania during the Forum “Engaging private sector in agri-food chain development” (20 February 2014, Baku, Azerbaijan). During the round table on “Challenges and priorities for involvement of the private sector in agri-food chain development”, which was held during the Forum, major research problems were discussed with experts from different BSEC countries.

5. ISSUES AND CHALLENGES FOR DISCUSSION

In order to achieve the goals of research and make it comprehensive, some issues, problems and priorities for engagement of the private sector in AFC development in the BSEC region were provided for discussion by experts, agri-business representatives and agricultural producers during FAO BSEC Business Council High Level Forum “Engaging private sector in agri-food chain development” (20 February, 2014, Baku, Azerbaijan). Forum participants presented different viewpoints on concepts and practice of involvement of the private sector for the development of agri-food value added chains. Summing up the main results of discussions presented in the following points. Challenges that hinder private sectors’ engagement in VAC are typical for all nodes of chains:

5.1 Challenges for SME participation in AFC

The main obstacles to private households engaging in AFC in the near future are connected with following:

- a) Lack of reliable information about markets and finance for doing business activity;
- b) Small volumes of production and non-harmonized technologies for formation wholesale lots;
- c) The inability of small producers to satisfy requirements for quality, delivery terms and volumes;
- d) Deficit of trust and ability to start collective action for obtaining economic gains not only for individuals but for all members of a chain;
- e) Lack of quality inputs and production process mechanization assets.

5.2 Challenges for agri-food industry companies

Vertically integrated agri-food enterprises are not interested in cooperating with small-scale farmers for following reasons:

- a) Increase of transaction costs. Processing companies find it more attractive to deal with a small number of big suppliers than with a large number of small, disorganized households;
- b) Low economic efficiency in the value added chain. SMEs being dispersed over a wide area and the low added value they produce make engaging with the private sector in AFC unprofitable for agri-food companies;
- c) The need of extra capital investments. For connecting small producers into AFC some extra investments are needed; small farmers usually experience a shortage in their own financial resources and have limited ability to attract external capital;
- d) Higher production costs for chain development per product unit. In comparison with big producers small-scale farmers require more assistance from processing company in calculation per production unit.

5.3 General challenges and constraints in the business environment

The main findings regarding obstacles in the business environment can be summarizing in the following points:

The absence of long-term and stable relations between producers and potential customers and the low level of contractual obligations. Relations within AFCs are contractual by nature. Unprofessional (low quality) contracts and further non-fulfilment of obligations by contract sides are often observed. Thus, in such cases all chain participants make losses;

- a) Unfavourable institutional environment, in which the expectations of buyers and sellers are not met due to delays with delivery, payment, and quality. Also, effective protection of interests and reimbursement of losses are not guaranteed;
- b) Active informal institutional approaches of former institutes from centralized economies and agriculture management, which the majority of BSEC countries worked under during the socialist period (lack of trust and inability to account for common gain of all actors in chain, provide clear understanding of collective gain);
- c) Undeveloped production, service, information and social infrastructure in rural areas make it difficult to establish stable and long-term relations in the private sector among agricultural producers and processing and trade companies. This situation also influences the price increase for products in AFC and decreases its competitiveness.

5.4 Priorities for private sector involvement in the development of AFC

The private sector should generate various sources of income from participation in AFC for all stakeholders on the basis of transparent and effective cooperation. Taking into account the complexity of creating added value in the competitive environment of developing agri-food markets and technologies in BSEC countries, it is crucial to form AFCs which not only correspond to new requirements, but are also sustainable in the long-term. Only commercially sustainable business models for chains can have a long-term effect on the rural economy.

5.4.1. The role of agri-business

Enterprises in the agri-food industry should initiate the engagement of small and medium-sized producers in AFC. It is quite unlikely that a disconnected private sector would be able to initiate or facilitate these processes. Business entities may develop “new business models” oriented towards the creation of new partner relations between agri-business and SMEs. In practice, agri-businesses experience high transaction costs when cooperating with small and medium-sized producers (farmers and households) in rural areas because the supply base is fragmented (large number of suppliers), which requires extra capital investments for reasonable cooperation on a commercial basis. It is important to ensure proper contractual agreements and collective participation in this process. Contractual agreements should be transparent between all AFC participants. It is necessary to ensure equal profits for producers from increasing market prices and support producers in preventing market risks. In practice, the basic principles of contractual agreements are not widespread in relations with the private sector in AFCs. Due to limitations on the legal provision in placement of contracts between private producers and agri-business companies, it is practically impossible to establish contract relations. However, it is common to conclude contracts between farmers’ cooperatives or other business bodies like brokers that represent farmers, which can solve this problem. There needs to be of some kind of brokerage between big agri-business and small producers in order to minimize inequity of relations. This is necessary in the framework of new business circumstances. Contract relations do not remove the requirement for market brokers. So far, as retail trade in all BSEC countries is competitive and profitable, companies are not eager to spend time and money on integrating with SMEs as it is very expensive. Trade companies currently do not have the physical and organizational capacity to cooperate with SMEs due to high transaction costs, including costs for billing, logistics and quality inspections, etc. In this context it is well worth strengthening positions of small producers in their relations with retailers on the basis of group participation. Advantages of group participation are obvious for both sides.

5.4.2 Increasing the potential of SMEs

Building AFCs requires specific knowledge and experience from SME representatives, and it is very important to obtain and transfer technical and business knowledge. Education is needed to resolve the

problem of reliability of SMEs in AFCs, because when some nodes do not fulfil their purposes, the whole chain will be unsuccessful.

All BSEC countries experience limited access to financial resources for small-scale private producers. This is a key obstacle for their participation in dynamic agri-food markets. It is very important to overcome this barrier through the development innovative financial products and support its accessibility for small farmers and rural entrepreneurs.

Reducing ICT costs in rural areas may also increase the number of users. This will make it possible to create information platforms managed via mobile phones. With its support, it is possible to resolve the problem of geographical remoteness of farmers from information networks and provide up-to-date information about market prices, weather, etc. It will also simplify the development of electronic forms of market exchange, which could have a transformational influence on increasing farmers' participation in AFCs.

5.4.3. Partner relation and collective action

Small farmers should not be considered an obstacle to the competitiveness of agri-food enterprises. Joint actions are needed to develop model of engagement for small farmers. These actions should respond to the main challenge of how to pass from corporate social responsibility to inclusive business under intensive competition. Building partner relations between agri-business companies and small producers requires collective action from agri-business itself. One of the directions in this sphere is the development of a *Code of good business practice in building AFCs*. Examples of good practice should include fair payments to small producers, transparent contracts with farmers' organizations, premium payments for farmers' products, and reserving shelves for farmers produce in retail supermarkets. These practices should be adopted at industry level and applied at different levels for every node of the supply chain. This creates a platform for implementing different methods of interaction between chain participants. Agri-business should encourage participants to engage in fair cooperation and understanding the nature of chain processes, and lobby for legislative changes to increase this practice. Businesses should work together to direct governmental policy in this sphere.

5.4.4. Logistics systems

About one third of all agricultural products are lost or wasted due to underdeveloped, uncoordinated and ineffective logistics. In light of this, the use of cold storage facilities with a large capacity for primary agricultural products and foodstuffs, which in ambient conditions rapidly spoil, become critical. This will help resolve one of the main tasks for all nodes in AFCs; namely, decrease aggregated costs calculated per unit of final product. If this can be achieved then the incomes of chain participants, food security in BSEC countries, and the competitiveness of products on global agri-food markets can be increased.

5.4.5. Cooperation with BSEC Business Council and scientific centres

Limitations of opportunities for AFC development stimulate the private sector to cooperate with the BSEC Business Council, scientific and educational institutions, in order to unite the efforts and resources for great sector development. Enterprises may obtain significant benefits from relations with institutions and organizations with which they can work together on equalling interests of small suppliers and modern agri-business.

5.5 Discussion issues

It was generally agreed that establishment relations with small producers propose real opportunities for business, and this cooperation should not pose a threat to business practices. The integration of small producers into modern AFCs could considerably increase productivity and incomes in the private sector. But the following issues are still under discussion:

- Can the involvement of the private sector in AFCs resolve all (or the majority of) structural problems in agriculture in BSEC countries, including unemployment (official or hidden)?
- Which political actions require more attention – economic or social?
- Can the involvement of the private sector in AFCs significantly increase incomes of rural households or considerably influence poverty levels in rural areas in the BSEC region?
- Does the use of non-court procedures in legal regulation of relations within AFCs enable chronic problems of relations among all actors of AFC in agrarian sector to be resolved?
- Is it possible to reach real growth of trust among actors of AFC and if so, how?
- Is it reasonable to stimulate involvement of the poorest representatives of the private sector in AFCs, or is it better to concentrate resources on the involvement of commercial farmers, who are fully market oriented? Is it reasonable to engage semi-commercial households, which provide only their surplus production for the market?

5.6 Problems in the region that touch the development of AFCs

Among the main questions that are connected with the topic of the report and could influence the development of the agri-food sector and AFCs, the following should be mentioned. Until now, the Black Sea region has not had a strong and intensive cooperation in agriculture and the agro-industry sector. Great potential for integration has been discarded due to increasing competitiveness between different groups of member-countries. The leading countries are the Russian Federation, Ukraine, Romania and Turkey, which are all able of taking the role of regional leader. This competitiveness has some historical precedent, but is very much topical and up-to-date.

Firstly, BSEC members have quite different levels of economic development. The three biggest economies (the Russian Federation, Ukraine and Turkey) have 80 percent share of total BSEC GDP, while the five smallest countries (Albania, Armenia, Azerbaijan, Georgia, Moldova) have a 1 percent share. In turn, the impact of economic potential of BSEC on overcoming crisis events in economies of member countries are quite weak and cannot solve existing problems in the agricultural sector at regional level through cooperation, interactions and exchange of practices.

Secondly, in the majority of member countries the background of democratic development in various spheres (economic, political, etc.) is weak and there are difficulties with the rule of law, including a lack of transparency in decision-making regarding state support for agricultural producers, the creation of an enabling environment (in social and economic sectors) for rural women and other unprotected groups of the rural population, including poor households.

Thirdly, problems and contradictions in relations between particular countries in the region could create some barriers to forming shared value-added chains. Challenges that could influence the effectiveness of cooperation are connected with the existence of territorial claims and the lack of practical solutions. The political confrontation between the Russian Federation and Turkey, the Russian Federation and Ukraine and the trade wars between the Russian Federation and Ukraine are examples of this. The aggravation of relations between BSEC member countries in the context of existing local conflicts (Turkey and Greece, Azerbaijan and Armenia, territorial claims of Russian Federation in Ukraine, Georgia and Abkhazia conflict, etc.) is a significant barrier to effective regional cooperation in the agri-food sector.

Fourthly, the specifics of the region and the orientation of many countries towards economic transformation and integration into the EU structure pose a number of problems, the solution to which will not only determine the further activity of the organization but will also influence the region as a whole. The majority of countries within the region have outdated, poorly structured and unprotected agricultural sectors. The achievements of BSEC member countries in creating regional sales markets for agricultural products and developing cooperation in the agri-food sector remain insignificant.

In spite of the problems that are significantly impeding the process of integration of agri-food value-added chains in the Black Sea region, cooperation (both, bilateral and multilateral) in the sphere of agriculture continues its development due to its high potential and interest from all participants in the region. One of the organization's major, strategic development projects is the joint transportation system. This project is very important in forming an international agri-food space. It will allow the creation of a single transport system in the Black Sea region in the form of railway and highway lines around the Azov-Black Sea basin with radial beams to sea ports and large economic centres. The creation of logistics and transport infrastructure will significantly simplify physical access to joint agri-food value-added chains and improve their effectiveness.

6. CONCLUSIONS AND RECOMMENDATIONS

The agri-food sector in the countries in the BSEC region has strategic importance in a globalized world. Agricultural land available for production is a strategic resource of that is of equal significance to gas, oil, minerals or water and should be fully used in the global scale as world suffers from food shortages. On the current stage all BSEC countries have a lot of potential to increase agri-food production without impacting the environment, meaning that the goods that are produced will always be in demand. In the context of further globalization, all twelve BSEC countries can reveal new perspectives and possibilities for developing agri-food chains

In spite of the problems that are significantly impeding the process of integration of agri-food value-added chains in the Black Sea region (competition for regional leadership, different levels of socio-economic development of members, problems in bilateral relations and frozen conflicts, etc.), economic cooperation (both, bilateral and multilateral) in the sphere of agriculture and agri-food continues to develop due to the potential in the sector and interest from all participants in the region.

The best way to define the role of the private sector in the development of the agri-food industry is the special emphasis on value-added chain analysis. This not only enables relations between all actors to be assessed but also provides an understanding of economic and social gains and losses for all actors within the chain.

In BSEC region countries, a significant part of the private sector is involved in agricultural activities and a large part of population make their livelihoods from agriculture (according to FAOSTAT the rural population in BSEC region countries accounts from between 26 percent and 51 percent of the total). The creation of sustainable links between farmers and agri-food companies could provide farmers with access to attractive markets and could ensure stable and sustainable development for businesses in general. Current research shows that in the majority of member countries access to attractive markets for SMEs in the private sector is still limited, even though there have been some great success stories.

Integration of the private sector into modern input supply chains (including technologies, capital and sales management) could increase productivity in the private sector, which in turn could positively influence rural livelihoods. Successful experiences in this sphere can be found in all BSEC region countries.

The SWOT analysis confirms the great potential of the agri-food sector in terms of successful integration of the private sector in VACs. There are also some threats for SMEs in terms of further concentration of primary agricultural production, processing, transportation, logistics and retail segments of VACs by global players from US and EU.

Small and medium-sized agro-processing enterprises can play a critical role in creating rural income and employment opportunities, including through the demand they create for raw material supplies in less developed parts of the BSEC region. SMEs that are appropriately capitalized and managed can produce high quality branded and labelled products, which can increase export revenues and reduce reliance on imported products.

Facilitating dialogue and collaboration between the public and the private sector in developing supportive policies is crucial. The state should facilitate public discussions with the private sector regarding proposed changes and understand how proposed changes can influence the overall economy and particular sectors of the economy. At the same time, the participation of state bodies in private business projects can increase the effectiveness of changes. Thus, cooperation between governments and the private sector can effectively remove existing barriers and achieve significant results.

The mid and long-term perspectives for intensification of processes of private sector engagement into value-added chains should pay attention to following directions:

- **Support development of long-term contractual relations among participants of VACs.** In this regard, the following concrete actions should be implemented: 1) organization of workshops which enable stakeholders to network and inform each other about problems within VACs, which will build and develop trust among them; 2) provision of consultations during development of contracts, which will decrease the possibility of non-fulfilment of contractual terms of delivery, payments and time frames. Supporting organizations may also help to establish commercial relations in VACs by providing microcredit.
- **Assessment of internal and external markets.** A clear vision of reliable sales channels for processors is a basis for the development of VACs. Which local products demand domestic market? What possibilities for export exist?
- **Development of training programmes for the private sector.** Agro-technological and other trainings for farmers are an effective method of VAC development. Such trainings provide farmers with necessary information on the exact characteristics and requirements of products that are most valuable to processors, and how best to respond to crop diseases, pests and insects, and how to deal with financial institutions in preparing business plans and obtaining credit, etc.
- **Provision of organizational support for representatives of the private sector.** Which training models are most effective: 1) training centre; 2) field school for farmers; 3) Involvement of processors for farmers training? How can effective participation of private sector representatives in trainings be ensured?
- **Increasing quality and food safety in VACs.** Targeting training questions in terms of quality and food safety are very important. It is also important to harmonize production technologies with farmers and agricultural consultants, on one side, and processors and retailers on the other.
- **Combining consultations with real financial aid.** Depending on the selected support option for VAC development it is possible to use following approaches: 1) advisory service selects input supplier for private sector and 2) system based on guarantees in which farmer selects input supplier.
- **Facilitating involvement of all players in the process of receiving necessary services for overcoming difficulties in chain functioning.** It is necessary to encourage all players to participate in the process of creating added value, to follow contracts and guarantee proper compensation for their efforts.
- **Creating specific organizations that** will support the creation and development of value-added chains. Such organizations should support interconnection between chain participants by providing necessary information, learning and training. They should also support the development of potential for providing high-quality consulting services in rural areas.
- **Organizing a coordination and arbitration system** for value-added chains to solve operational questions regarding their functioning and to prevent (or resolve) any conflicts between participants.

- **Ensuring that experiences and best practices are shared in order to benefit stakeholders involved in VACs.** Study tours provide stakeholders the possibility to learn how developed VACs function. The study-tour organization process needs to concentrate on the following questions: For whom? How? How best practices will be shared? Where?
- **Defining ways to involve the poorest representatives of the private sector.** Very often territorially remote (isolated) SMEs possess the highest level of knowledge in practical methods of agricultural crop production. For the long-term prospects of development, care should be taken not only to include this kind of farmer into VACs, but also to detect other types of economic activities which can provide additional possibilities for sustainable means for living for this type of private sector representative.

BIBLIOGRAPHY

1. AGRICULTURE IN THE EUROPEAN UNION STATISTICAL AND ECONOMIC INFORMATION REPORT 2012, European Union, Directorate-General for Agriculture and Rural Development, December 2012
2. Alexandri Cecilia, ANALYSIS OF PRICE TRANSMISSION ALONG THE AGRI-FOOD CHAINS IN ROMANIA, Institute of Agricultural Economics, Romanian Academy, Bucharest
3. Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries: The Republic of Azerbaijan, FAO Regional Office for Europe and Central Asia (REU), FAO Project No. GCP/RER/041/EC, EU Project No. ENPI 2012/298-262
4. Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries Georgia, FAO Regional Office for Europe and Central Asia (REU), FAO Project No. GCP/RER/041/EC, EU Project No. ENPI 2012/298-262
5. Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries: The Republic of Moldova, FAO Regional Office for Europe and Central Asia (REU), FAO Project No. GCP/RER/041/EC, EU Project No. ENPI 2012/298-262
6. Assessment of the Agriculture and Rural Development Sectors in the Eastern Partnership countries Ukraine, FAO Regional Office for Europe and Central Asia (REU), FAO Project No. GCP/RER/041/EC, EU Project No. ENPI 2012/298-262
7. Data & Trends of the European Food and Drink Industry 2012
8. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF AZERBAIJAN, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
9. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF GEORGIA, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
10. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF REPUBLIC OF MOLDOVA, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
11. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF RUSSIAN FEDERATION, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
12. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF SERBIA, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
13. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF TURKEY, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

14. EASTERN EUROPE AND CENTRAL ASIA AGROINDUSTRY DEVELOPMENT
COUNTRY BRIEF UKRAINE, Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
15. Enabling environments for agri-business and agro-industry development in Eastern Europe and Central Asia, Proceedings of FAO Workshop Budapest, Hungary 30 November - 2 December 2006, Edited by Stjepan Tanic Regional Office for Europe and Central Asia FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, ROME, ITALY
16. Farm Structure Survey in Greece – 2007, EUROSTAT, Statistics in Focus, 96/2009
17. FAOSTAT Country Profiles <http://faostat.fao.org/CountryProfiles> (Investigated data for all 12 BSEC countries)
18. FAO Statistical Yearbook 2013, World Food and Agriculture, Food and Agriculture Organization of the United Nations, Rome, 2013
19. Food and Beverage Industry Global Report, IMAP, 2010
20. Food Industry in Bulgaria, Project “Promoting the advantages of investing in Bulgaria”
BG 161PO003-4.1.01-0001-C0001
21. Grapes Wine Agri-business handbook, Investment Centre Division, FAO, 2009
22. Hrabrin Bachev, A case of integration of organic dairy sheep farm in value chains in Bulgaria, Institute of Agricultural Economics, Sofia, December, 2010
23. Humphrey John, Memedovic Olga, Global value added chains in the agrifood sector, UNIDO, Vienna, 2006
24. Jacques H. Trienekens, Agricultural Value Chains in Developing Countries: A Framework for Analysis International Food and Agri-business Management Review Volume 14, Issue 2, 2011
25. Kemal Ejup, Report on "PROMOTION OF SMALL AND MEDIUM ENTERPRISES IN THE BLACK SEA REGION", Text adopted by the 15th General Assembly in Tirana on 7 June 2000
26. Kopeva Diana, Shterev Nikolay, Blagoev Dimitar, Comparison of Industrial Dynamics of Food and Beverage Industry in Bulgaria, Romania and Greece, Paper prepared for presentation at the EAAE 2011 Congress Change and Uncertainty Challenges for Agriculture, Food and Natural Resources August 30 to September 2, 2011 ETH Zurich, Zurich, Switzerland
27. Mapping Global Value Chains, OECD, Trade and Agriculture Directorate
Trade Committee, TAD/TC/WP/RD(2012)9, 2012
28. Millns John, Agriculture and Rural Cooperation Examples from Armenia, Georgia and Moldova, FAO Regional Office for Europe and Central Asia, Policy Studies on Rural Transition No. 2013-2
29. Nedret Durutan Okan, Cuneyt Okan, An overview of cooperatives in Turkey, FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition No. 2013-3
30. Online materials about TARIŞ OLIVE AND OLIVE OIL AGRICULTURAL COOPERATIVE SALES UNION.

31. Otiman, Acad. P.I. COMMON AGRICULTURAL POLICY OF EU 2014-2020 AND THE STRATEGY FOR AGRICULTURE AND RURAL DEVELOPMENT IN ROMANIA HORIZON 2014 – 2020 – 2030, Xith Conference European Rural Development Network Centru de Dezvoltare rurală – General Berthelot – 3 octombrie 2013
32. Plamen D. Mishev, Zornitsa Stoyanova D, Supply Chain of Organic Products in Bulgaria, Paper prepared for presentation at the 113th EAAE Seminar “A resilient European food industry and food chain in a challenging world”, Chania, Crete, Greece, date as in: September 3 - 6, 2009
33. Ruerd Ruben, Maja Slingerland and Hans Nijhoff, AGRO-FOOD CHAINS AND NETWORKS FOR DEVELOPMENT Issues, approaches and strategies, Wageningen University and Research Centre (WUR), P.O. Box 9101, 6700 HB Wageningen, The Netherlands
34. Slavova Dilyana, Bulgarian Agriculture Realities and Opportunities, Brussels, October 2012
35. The importance and contribution of the agri-food sector to the sustainable development of rural areas, DG AGRI, Brussels, 3 September 2007 TV D(2007) (DEV-RU) 27295
36. Toderoiu Filon, INTERNAL COMPETITIVENESS EROSION OF THE ROMANIAN AGRI-FOOD SECTOR EROSION “CATALYZED” BY THE ECONOMIC-FINANCIAL CRISIS, Institute of Agricultural Economics, Romanian Academy
37. Turkish Business in the BSEC region, Foreign Economic Relations Board of Turkey, Istanbul, 2005
38. TURKISH FOOD & BEVERAGE INDUSTRY REPORT, Deloitte & Republic of Turkey Prime Ministry, July 2010
39. UNCTAD World Investment Report 2013 GLOBAL VALUE CHAINS: INVESTMENT AND TRADE FOR DEVELOPMENT
40. Webber Martin and Labaste Patrick, Building Competitiveness in Africa’s Agriculture A GUIDE TO VALUE CHAIN CONCEPTS AND APPLICATIONS, The World Bank, Washington DC
41. Zivkov Goran, Association of farmers in the Western Balkan countries, FAO Regional Office for Europe and Central Asia Policy Studies on Rural Transition No. 2013-1
42. Роман Коринец, СЕЛЬСКОХОЗЯЙСТВЕННАЯ ОБСЛУЖИВАЮЩАЯ КООПЕРАЦИЯ В УКРАИНЕ, ФАО Региональное бюро по Европе и Центральной Азии, Исследования по политике перехода сельского хозяйства No. 2013-6