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A Joint IAAE- EAAE Seminar

Agricultural Economics and Transition: “What was expected, observed, and learned.”¹

Csaba Csaki²

Over fifteen years have elapsed since the early 1990s when the transition from the centrally planned economic system began. During this time agricultural and rural areas of Central and Eastern Europe have undergone profound structural changes. These changes vary widely regarding the extent of transformation and level of success in creating a competitive market and private ownership based food and agricultural system. By becoming members of the European Union, “transition” in its traditional interpretation has been concluded in ten of the Central East European countries. The transition to market based agriculture, however, is far from complete in Southern and Eastern Europe and especially in the CIS countries.

The International and European Associations /IAAE and EAAE/ working with Budapest’s Corvinus University and with a number of other Hungarian institutions organized an inter-conference seminar on the subject of agricultural transition in Central and Eastern Europe and Central Asia. The seminar’s major objective was to discuss and draw conclusions on the role of agricultural policy in the transition process regarding the actual progress and current situation in Central and East European countries, and in the former Soviet States. Also discussed was the contribution of agricultural economics - both from the West and from the East - as a discipline and profession in terms of the agricultural transition process. A specific objective was to identify priorities and means to strengthen the agricultural economics profession in the transition countries and to determine research and educational priorities for the future.

The seminar was attended by 118 participants representing 26 countries from Europe, North America and Asia. The Seminar was the largest professional meeting organized by the two associations in 2007. Over 110 abstracts were submitted and evaluated by the International Program Committee. During two days of meetings, 8 presentations were made during the 3 plenary sessions. 66 papers were presented in the 15 contributed paper sessions in 8 subject categories. Moreover, 15 posters were discussed in the poster session and the findings of a World Bank study on regional distortions regarding agricultural incentives were the subject of a pre-conference workshop. Plenary speakers included Ulrich Koester, Johan Swinnen, Jerzy Wilkin, Zvi Lerman, Eugenia Serova and Jozsef Popp-Gabor Udovetz. At the end of the seminar David Colman, IAAE President, gave a global assessment of the agricultural economics discipline and profession while. Csaba Csaki, a former IAAE President, made summary comments on major issues discussed during the seminar. This paper is based on his closing remarks.

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Agriculture in Central and Eastern Europe after One and Half Decades of Transformation³

Over fifteen years have elapsed since the initial early 1990s transition process away from the socialist system. During this time, Central and Eastern Europe and Central Asia have undergone profound structural changes which vary widely in terms of the amount of transformation in rural areas. In retrospect, it can be seen that the countries that chose to transform their socialized agriculture into a private-ownership and market-based system experienced the most positive economic performance. In 2004 these countries became members of the European Union, leaving transition's classical stages behind. In viewing those developments occurring over the past one and a half decades, it is nonetheless clear that, in most of the region, the initial rosy expectations regarding transformation were overly optimistic and the transition process in agriculture is far more complex than originally envisaged. For instance, it is widely recognized that at the outset of the process the importance of functioning institutions was underestimated. Increased social problems, an alarming growth in poverty, and inequality have also added a new, unexpected dimension to the transition process.

Agriculture, and the rural sector in general, play a more important role in the regional economy than they do in more developed market economies. While the majority of the region's population live in urban areas, a significant portion still lives in rural areas. Of the 412 million citizens in the 27 transition countries in Europe and Central Asia, 143 million (35%) are classified as living in rural areas. Six countries have particularly large rural populations, accounting for slightly less than two-thirds of the total rural population within ECA (transition countries of Europe and Central Asia). These are: Russia (the largest contributor, at 24%), Ukraine (11%), Uzbekistan (11%), Poland (9%), Romania (7%) and Kazakhstan (5%).⁴ In several countries, and particularly in the least developed Central Asian countries (Albania, Bosnia and Herzegovina, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, Uzbekistan), the majority of the population live in rural areas, and this reaches as high as 72% in Tajikistan.

In transition countries the share of agriculture in employment and national income is far greater than the average for western developed countries. However, among countries there are substantial variations in the relative size and importance of the agricultural sector. In 2004, which is the latest year for which these statistics are available (Table 1), the agricultural sector contributed about 14% of GDP for the transition region as a whole, ranging from 24% of GDP in Central Asia, 18% in the Caucasus countries to 5% in the EU New Member States (NMS).⁵ Similarly, on average the proportion of the labor force employed in agriculture was 22%, but this varied from as little as 3%-5% in some EU NMS (Czech Republic, Estonia, Hungary, Slovak Republic) to about 13% in European CIS countries (Russia and Moldova) to 30%-40% in the Caucasus and Central Asia and as much as 48% in Turkey.⁶

³ Csáki et al. 2006 was used as a major source of information

⁴ Source: WDI (2002)

⁵ Source: WDI (2006)

⁶ Source: WDI (2002) and Prof. Zvi Lerman, based on official country statistics (<http://departments.agri.huji.ac.il/economics/lerman-main.html>)

Table 1

Share of Agriculture in GDP, 1990-2004, in percent⁷

	1990	1995	1998	2000	2003	2004
Total CEE+CIS	20.5	21.1	17.9	16.2	14.4	14.0
Total CEE (Central and Eastern Europe)	13.8	13.2	12.5	10.8	9.9	10.1
Total CIS (former SU without the Baltics)	27.2	29.0	23.4	21.5	18.9	18.0
New EU Member States (8)	11.3	7.1	5.9	5.1	5.0	4.9
EU Accession Countries (2)	20.5	17.5	17.5	13.5	12.5	12.5
Other CEE (5)	9.5	15.0	14.0	13.8	12.3	13.0
Euro CIS (4)	25.8	18.0	16.5	16.5	12.3	12.3
Caucasus (3)	24.0	40.3	27.0	21.7	19.3	17.7
Central Asia (5)	31.8	28.8	26.6	26.4	25.2	24.0
OECD	3.0	2.5	2.5	2.4	2.3	2.2

Source: WDI, 2006

Regarding the region's share of the world's agricultural resources, the role of the transition region appears relatively significant. The ECA countries comprise 13% of the world's area suitable for agricultural production and 20% of the world's arable land (Table 2). For most main agricultural products the region makes a substantial, but less than proportional contribution to world output. This contribution averages over 10%. However, their contributions to global wheat, meat and milk production is close to 20%. In the early 1990s the ECA countries importance in world agricultural production decreased as a result of the transition. Recently some aspects of crop and livestock production have regained their pre-transition share of world production (Figure 1).

Table 2

Percentages of Arable Land and World Population (2003)

	% of World Arable Land	% of World Population
Total ECA	19.9	8.0
Total CEE	3.4	2.1
Total CIS	15.0	4.2

Source: WDI, 2004

In the 1990s the regional agrarian economy was characterized by a sharp fall in production resulting from the collapse of the socialist system. The negative impact that stemmed from institutional disruption was compounded by a wide variety of changes, including simultaneous reduction in agricultural producer subsidies and in food consumption subsidies, and price liberalization. Other disruptive changes were declining input use, deteriorating machinery stock, and reduced domestic demand which was due to falling incomes. Lower foreign demand also occurred and this was because of the collapse of traditional export markets and of the internal "Eastern Bloc" trading system (CMEA). These combined events instigated the introduction of agricultural reforms but were

⁷ "EU NMS" are Czech Republic, Hungary, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. "EU Accession Countries" are Bulgaria and Romania. "Other CEE" are Albania, Bosnia-Herzegovina, Croatia, FYR Macedonia and Serbia and Montenegro. "European CIS" are Belarus, Moldova, Russia and Ukraine. "Caucasus" are Armenia, Azerbaijan and Georgia. "Central Asia" are Kazakhstan, Kyrgyz Republic, Turkmenistan, Tajikistan and Uzbekistan.

also accompanied by a dramatic drop in the terms of agriculture trade⁸ leading to a significant drop in agricultural output. In 2000s agricultural production started to recover, but output recovery paths have diverged strongly, as with the former decline.

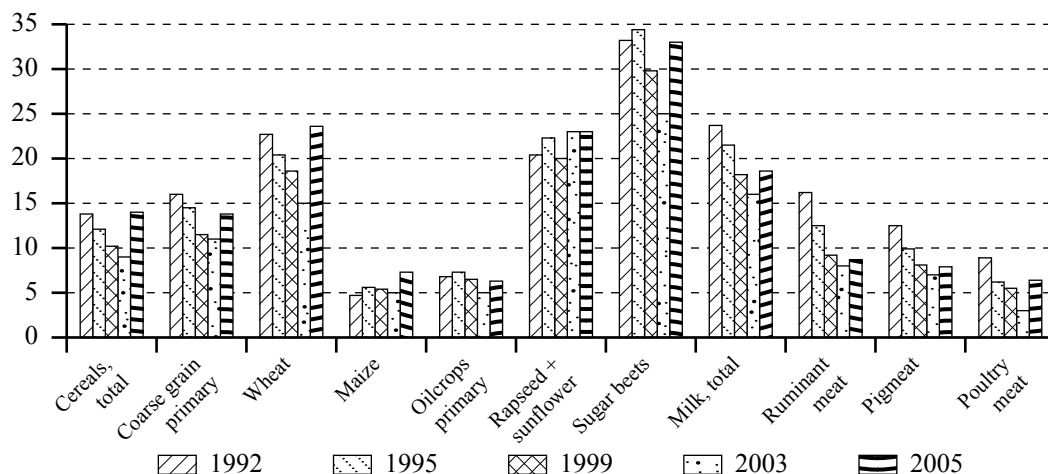


Figure 1: Production of ECA Transition Countries in Comparison to World Production

Source: FAOSTAT, 2006

As a whole agricultural production in transition countries continued to decline from the early 1990s until 2000 (Table 3). Latter years were mainly characterized by the resumption of growth, but with significant annual and inter-regional variations. Since 2001 only the Caucasus and Central Asia region showed consistent growth in agricultural production. In 2004 within the CEEC and CIS there was significant output growth, while in the rest of the 2000 decade there was either modest growth or decline.

Table 3

Agricultural Production Growth Rates for transition countries (%)

	EU NMS	EU Accession Countries	Other CEE	European CIS	Caucasus	Central Asia	Total
1992-1996	-2.8	-1.2	0.4	-4.7	-1.7	-4.6	-3.1
1997-1999	-1.4	1.7	1.3	-3.6	0.4	3.7	0.3
2000-2003	0.1	-2.5	-3.5	2.9	-0.5	3.2	0.7
2004	0.6	-3.9	8.9	-2.8	-5.0	-8.5	-4.5
2005	-0.6	3.9	-8.2	2.9	5.3	9.3	4.7

Source: FAOSTAT, 2006

Overall growth patterns have been different in the major sub-sectors (Table 4). Since 2000 recovery in the crop sector has been very strong, and the cereal sector was a major factor in this growth. On the other hand, the decline in the livestock sector continued, though at a much slower pace than in the 1990s.

⁸ Macours and Swinnen (2000) estimate reductions of 40% to 80% in the terms of trade of agriculture for the countries they analyze.

Table 4

Growth Rates of Agricultural Sub-Sectors in ECA Countries (%)

Year	Agriculture	Crops	Cereals	Livestock
1992-1996	-3.1	-1.5	0.0	-4.5
1997-1999	0.3	-0.3	-0.7	-0.4
2000-2003	0.7	1.8	-1.2	0.9
2004	-4.5	15.5	33.5	1.2
2005	4.7	-2.4	-5.0	-0.5

Source: FAOSTAT, 2006

In these countries serious improvements in performance and efficiency still have to occur. The gap between global agricultural development and regional performance remains very large, particularly with respect to efficiency levels in OECD countries, which is indicated by an international comparison of cereal yields (Figure 2). This gap is particularly large when one considers CIS countries, but is also relevant to some CEE countries, shown by yield levels well below world and especially EU averages. In the mid 1990s agricultural productivity in CEE countries started to grow and is expected to increase further thanks to EU accession, due to both the required economic conditions and because of improved access to capital, technology, and know-how resulting from enlargement. Nevertheless there is no consensus about when and to what extent which these increases in productivity will materialize.

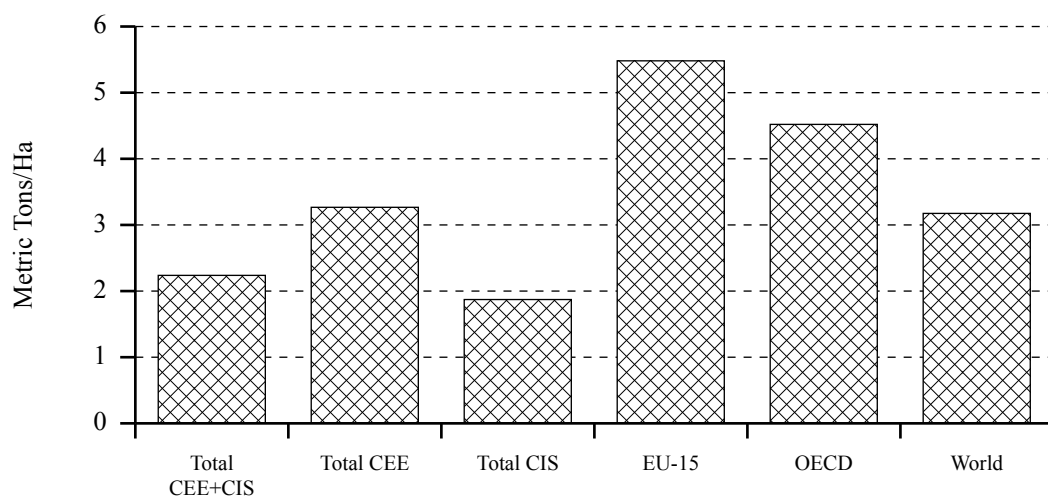


Figure 2: Comparison of Cereal Yields, in tons per ha, average for 2000-2005

Source: FAOSTAT, 2006

In recent years agricultural technology levels haven't improved much and cannot yet be considered adequate. In general, the decline in the terms of trade and the reduction in agricultural output prices have led to a radical decline in input use in agriculture. As for the region as a whole, the use of fertilizer inputs has remained more or less unchanged at only about 20% of pre-reform levels. An upward trend is apparent in the EU NMS and some large farms in Ukraine and Russia. A wide and growing divergence between CIS and CEE countries is also evident in terms of agricultural machinery availability.

By and large, the region’s agrarian trade is steadily becoming integrated with international and European agrarian trade. This process is, however, not problem free as outside the EU internal trade is often distorted by protectionism and policy induced non-tariff barriers. In the great majority of the countries concerned, a liberal agrarian trade policy is also helping integrate the region’s countries into world agrarian markets. Many of the CIS countries are either WTO members or have their admission pending. In recent years the inherent obligations of impending EU membership and partnerships have impacted heavily on many CEE and European CIS countries’ trade policies.

Overall Lessons of the Reform Process

The relative inefficiency of agriculture is one of the major challenges facing the countries of the former Soviet Union and Central and Eastern Europe. During the socialist era, agriculture and food production were determined by government planning, regardless of efficiencies or comparative advantage. Input provision was often dominated by a few state-owned firms enjoying a monopoly. Likewise, a few inefficient state buyers with strong monopolistic power dominated marketing channels. The large-scale livestock and crop cooperatives were unsuited to market-based private agriculture. Creating viable private farming based on private ownership of land, and allowing market trends to determine levels and types of production have been some of the most difficult hurdles of the transition period.

In 1990-91 the region began creating market economies based on private property. The members of the agricultural economics profession both from the West and from the East were very active in providing advice and assistance to the countries in designing and implementing measures required for transition. In every country the most important basic elements of the reform process have been:

- the liberalization of prices and markets, the creation of a market-compatible system with conditions consistent with a macro agrarian economy;
- the privatization of land and transformation of the inherited economic structure;
- ending monopolization and privatizing food processing and trade in agricultural products and capital goods;
- the creation of a functioning rural bank system; and
- the establishment of an institutional structure and system of state administration vital to market economies.

There has been little difference between countries in terms of what needs to be done. The initial advice regarding required transition measures was definitely appropriate. However, there are major differences among countries when it comes to the pace of achievement and the manner of implementation. The progress achieved by individual countries on the path to creating market based agriculture has been quite diverse. A World Bank analysis identifies four groups of countries in the region based on a 1 to 10 scoring system reflecting progress from a centrally planned system to a full-scale market economy.⁹

Obviously the highest scores were achieved by the 8 **new EU member countries** prior to their 2004 accession to the European Union. These countries successfully completed all the major transition tasks by the time of accession. According to the year 2006 analysis, countries belonging to the **advanced reformer group** (total reform score above 7.0) continued their progress in reform-

⁹ Source: Csáki et al. 2006

ing their agricultural policies. It is not surprising that this group is led by the two recent EU member countries, Bulgaria and Romania. However, it should be mentioned that – according to World Bank indicators – their preparedness level is less than that reached by the EU-8 countries prior to accession. In this group we also find Albania, Armenia and the Kyrgyz Republic, which implemented significant reforms in the late 90s but since then have not progressed any further. Progress in Serbia and Montenegro is quite remarkable, but still not surprising when one considers the history of this country.

The performance of the **moderate reformer group** (total reform score below 7.0 and above 5.0) is less homogeneous regarding the direction of change. In 2005 Bosnia-Herzegovina, the Russian Federation, Ukraine and Moldova made measurable progress in their agricultural reforms. Azerbaijan and Georgia lost significant ground, underlining the slowdown in the reform progress during the last year. The **slow reformer group** (total reform score below 5.0) also includes Tajikistan which, during recent years, has backtracked on many significant reforms. Belarus and Turkmenistan have initiated little change in their agricultural policy framework and basically have a rather low degree of market-oriented reforms. However, Uzbekistan has made measurable progress in rural finance and institutions.

Regarding the individual country groups, some further observations can be made:

- Potential EU membership has accelerated reforms in EU accession and candidate countries, notably in Romania, Bulgaria, and Croatia which were lagging somewhat behind the new EU member countries. The CEE agriculture policy agenda is characterized by efforts to complete the transition, to cope with increased social problems in rural areas, and to adjust to an evolving CAP. Unfortunately, facilitating increased competitiveness has often been stymied by farm lobby demands to provide immediate protection in the agricultural sector and to provide income transfers to farming populations.
- Although there are some positive exceptions, in the CIS countries the reform process has generally proceeded at a much slower pace. In most countries distortions remain in the production, pricing, and marketing of “strategic” products, and the planned economy’s system of institutions and instruments has not yet been fully dismantled. Only moderate progress in agricultural reforms has been achieved in the core CIS countries (Russia, Ukraine, Kazakhstan), although recently measurable progress has been achieved. Some of the smaller CIS countries such as Armenia, Azerbaijan, and Georgia had accelerated the reforms in the few years prior to 2005, but since then had not taken further steps. At the lower end of the reform scale, Uzbekistan also made some progress. On the other hand, nearly a decade after the beginning of the transition, Turkmenistan, Tajikistan and Belarus have basically remained planned economies.

Beyond these broad patterns, a few major statements can be made regarding the general experience of the transition process so far, which were also confirmed by the seminar deliberations. Overall, the reform results have not yet met initial expectations. The relatively rapid growth of production that characterized the Chinese reforms has not occurred. This has been because the transformation of the economic structure has proved far more complex than originally envisaged and because in most countries the pace of reforms has been, at best, uncertain. Specifically the following can be stated:

- Transforming the economic structure has been difficult. This is largely because the basic building block of farming, the private farm, has not been fully developed. In the CIS to a large extent the inherited large-unit structure has survived the changes.

- The introduction of the legal and institutional framework needed for the smooth operation of markets has also proved to be a highly complex and politically difficult task, and arguably still constitutes one of the largest obstacles to the sector’s growth. It is widely recognized that, at the outset of transition, the importance of functioning institutions was underestimated. In the years to come, the reform of institutions will determine the sustainability of agricultural development in the ECA region. However, this problem has had implications well beyond the transformation of the agricultural sector.
- Many issues related to land markets remain unresolved, particularly in CIS countries, and this compounds the sluggishness of the change process in agricultural structures.
- Surprisingly, the most progress has been achieved in price and market liberalization, but there remains a substantial lag in solving agriculture’s financing problems, and in the liberalization of agroprocessing and input supply, and in the area of institutional reforms.
- In all countries the process of agricultural reforms has been strongly influenced by day-to-day politics. Very often politics have been and still are determining the pace and extent of reforms, and this at the expense of economic rationality. In general, there is a lack of a carefully considered, long-term strategy, and an objective and realistic evaluation of the economic consequences of the different possible solutions. This means that the short-term economic costs associated with the transition process have been greater than necessary, even in the most advanced countries. Generally, the best progress has been achieved in countries that have undertaken radical and rapid reforms, and this despite short-term adjustment difficulties. In most cases, the desire for a gradual approach indicates a lack of will; and this is especially true in the CIS countries.
- More generally, the pace of transformation of the agrarian sector and the rural economy is lagging behind the rate of changes in the economy as a whole. As in western countries, the farm lobby has often stymied increased competitiveness in the agricultural sector by seeking immediate protection for the agricultural sector and income transfers to farming populations.

Moreover, the following lessons can be drawn from those countries at the forefront of transformation:

- The general economic upswing will likely assist governments to undertake agricultural reforms. The greatest progress has been made in transforming the sector in those countries where the general economic recovery has also begun.
- Progress in the non-agricultural segment of the rural economy is of key importance toward agriculture’s recovery. In the great majority of those countries at the forefront of the reform process, it has been the rural economy’s upswing related to agriculture that has allowed a substantial reduction in the numbers of people employed in agriculture, and also an improvement in the efficiency and competitiveness of agriculture itself.
- An important factor toward the success of the reform process is consistency when introducing reforms and the combined implementation of parallel steps in areas related to reforms.
- Progress in reforming the overall economy has strongly affected agricultural transition thanks to improvements in the stability of the reform process, an increase in access to capital, technology and know-how, and stimulation of private initiatives and the entrepreneurial climate.

Critical issues regarding transition and the current situation

Although there are continuing differences in the progress of reforms and in the situation in the agriculture sector, the presentations made during the course of the seminar confirmed that there are a number of common issues which relate to the whole region

a) Liberalization of market and trade policies has been implemented to a much greater degree in CEE countries as compared to CIS countries.

In most CEE countries, the macro-economic environment for agriculture is characteristic of market economies has been developed. The prices and the regulatory system are basically open to world market influences. Agricultural policy developments are fully determined through EU membership or by the process of EU accession. However, state intervention in both price formation and trade policy remains much more direct in the majority of CIS countries. It is noteworthy that in most of these countries, agriculture is still net-taxed and suffers serious losses due to current price policy and trade restrictions (especially export controls and taxes), which prevent it from competing in world markets. This occurs despite frequent statements in support for agriculture. It would appear that governments are still trying to make agriculture provide cheap food for the urban population. In Russia there has been significant progress toward a more liberal agricultural policy. Unfortunately, in Ukraine, interference by the national and regional authorities in the agricultural sector has increased.

b) EU accession has had a tremendous impact on new member countries' agriculture sector. Predictions regarding this impact were not fully accurate.

EU agricultural policies and the geographical proximity of one the largest single market for agricultural products in the world have a continual impact upon agricultural and trade policies in all the countries of the region. Obviously the greatest degree of EU influence can be observed in those countries which recently become EU members or which are in the process of accession. Prior to their joining the EU, several forecasts were made regarding enlargement's impact on the first large group of CEC countries' agriculture sector. This topic involved many seminars and discussions, and predictions were not fully accurate. A number of papers discussed the initial EU membership experiences in the NMS. On the whole consumers and agricultural producers both in the EU-15 and NMC benefited from enlargement. The tremendous impact which bigger markets and increased competition would have on prices and supply were not adequately foreseen. In every NMC introducing the CAP has increased farmers income and farm profitability. However, the impact experienced in the individual countries depended on how well-prepared the country was for EU membership and on pre-accession agricultural policies. Post-accession progress has been less satisfactory in those countries which in the pre-accession period focused on price and income support rather than targeting structural efficiency improvement and competitiveness in the agricultural sector allowing it to fully profit from the EU market.

c) In most Central European countries privatization of land and the related reorganization of large farm units have almost been completed. However, privatization still remains a relevant subject in most CIS countries. But currently issues that go beyond privatization are in the forefront.

At the seminar several papers discussed the outcomes and lessons of land reform and land privatization. In the CEE countries, land privatization based on some form of restitution is largely approaching completion. A mixture of small and large units characterizes the new farm structure.

Almost all the agricultural land has been privatized and a significant portion is used by individually managed smaller farms. Existing large- scale farming has undergone significant changes as it now privately owned and adapted to market economy conditions. In some countries, the legal status of land ownership is not yet completed. Establishing land registries and a viable land market remain priority issues. In a few countries there is a heated ongoing debate regarding land ownership by companies and foreign nationals.

Although land ownership in key CIS countries (Russia, Ukraine) has formally been transferred into private hands, larger farms still remain intact. Land leasing has meant that particularly in Ukraine and Russia an increasing number of large corporate farms have emerged. In these countries the role of independent private farming remains relatively small, not least because of undeveloped market relations. Often, the policy climate in these countries openly discriminates against individual private farms. Due to the high political and economic sensitivity toward the land reform issue, radical changes have been carried out in only very few countries of the former Soviet Union. This is the case in Armenia, Georgia, and Kyrgyz Republic where independent private farming now dominates. In Uzbekistan and Tajikistan private ownership of land is still constitutionally prohibited and the current leasehold arrangements contribute to uncertainty.

d) Though regional agriculture offers a huge potential comparative advantage in many areas, the utilization of this potential is constrained by limited competitiveness in the farming sector.

The region has good potential for agricultural production .This potential is still underutilized. Definite progress can be observed in some of the NMCs which were able to increase both production and exports, while in the CIS agricultural production still has yet to recover. There are a number of impediments limiting regional farm competitiveness and these were also discussed in the seminar. In CEE countries fragmented land ownership and a lack of effective farm consolidation together with restrictions on land ownership and land markets remain serious hurdles. Many of these countries suffer from the "small farm/large farm" dilemma. The future of family farms and corporate farms is not clear. In the CIS countries a dearth of essential public goods and a shortage of financing and capital coupled with an absence of a transparent support policy framework represent major obstacles.

e) Privatization and modernization of agroprocessing and input supply have made progress in most countries but not in some CIS countries.

In the new EU member countries privatization of the agricultural environment was done following the general principles of privatization, which were already in place in the 90s. Some lag can be observed in Romania, Bulgaria and the countries of the former Yugoslavia. In several of the new EU member countries, significant foreign direct investment (FDI) has gone into modernizing the agroprocessing sector. On average the share of total FDI directed to the agro-food sector is around 15%, with the vast majority of the agro-food FDI going to the agro-industry rather than primary agriculture. Investments have been attracted by relatively cheap labor costs and integration in the EU market, but also by the extent of liberalization and transition to a market economy. Combined with agroprocessing industry privatization, there has been a significant increase in vertical sectoral integration. This process, which has often been motivated by foreign investment, has been varied in form and has sparked improved access to capital, inputs, and technology for farms. To ensure a regular flow of high quality raw materials, agribusiness firms have introduced arrangements to encourage farmers toward greater production and better marketing. These firms have also tried to eliminate constraints which have hurt economic activity since the onset of the transition. Foreign companies have played a leading role in developing these arrangements.

In most of the CIS countries a less effective solution was adopted for privatizing the food industry and agricultural input suppliers. Unlike other areas of the economy, during food industry privatization priority was given to agricultural producers. They were awarded majority ownership of specific branches either on favorable terms or entirely free of charge. Contrary to expectations, this solution did not result in new, well-capitalized owners and better conditions for agricultural producers. In fact, the food industry's technological decline accelerated and a complicated ownership structure made it extremely difficult to involve foreign capital. However, over the last few years progress in privatizing and removing monopolies in the agroprocessing industry has brought about restructuring and increased efficiency in the food processing sector. In Russia and Ukraine thanks to restructuring the ownership system there has been a nascent recovery in the food industry.

f) Rapid restructuring of food and agriculture markets and major restructuring of food retail system is occurring.

The last decade has seen major changes in markets in terms of regional agricultural producers. In most of the countries a *retail revolution* is taking place. Getting products from the farm field to the consumer is becoming vertically integrated. Product chains now control every element of these systems. Some of the farms, especially small ones, are finding it hard to join newly emerging chains and to participate in the restructured markets. EU enlargement has caused increased regional specialization in the processing industry and the creation of regional procurement systems within the retail sector. To adjust to these new circumstances farmers need to engage in cooperative and collective action in terms of marketing while the public needs to support and facilitate the process. Presentations at the seminar provided several examples of emerging value chains in the region and cases of successful marketing cooperation among farmers in restructured markets.

g) Lack of agricultural financing continues to be one of the most serious constraints to agricultural growth

In many CEE and CIS countries there is still a major problem. Since 1994 in the CEE countries the financing of agriculture has improved considerably, but still remains relatively weak. The new private financing institutions require enhanced managerial building and are financially vulnerable. During recent years, however, a significant share of the banking sector has become foreign owned, which has improved efficiency and profitability. The creation of an agriculture-oriented rural banking network has been in progress, which has brought about budding agricultural credit co-operatives and financial institutions specializing in rural areas.

However, in the great majority of CIS countries the rural financial system is not yet fully adjusted to the market based privatized agriculture which exists in developed countries. The emerging private banks, however, are providing increased financing to the agricultural sector. In the countries where agricultural transformation is the most advanced (Armenia, Georgia, and Moldova) there is a nascent system of agricultural credit co-operatives and a growing number of loans extended by the processing industry

h) Institutional reforms proceed slower than all other reform areas throughout the region.

Since 1995 in CEE countries institutional reforms have accelerated, stimulated by the EU accession challenges. However, despite these tangible developments, the agriculture institutional system requires further transformation. Priority still must be placed on effective integration into the common market and to operation of the EU Common Market Organization. In addition to technical

and human capacity building in public administration, further qualitative development is required in practically all areas of the institutional systems for market-oriented agriculture, including consulting, training, and research.

In several CIS countries a mildly restructured institutional system of the former centrally planned economy still exists and hinders sectoral transformation. In other CIS countries, the state has not assumed an alternative role, but merely withered away. A general economic recession and disruption have meant the state has been unable to fulfill some of the key roles in developing a market economy. Thus, the operation of the institutional system has been fundamentally disorganized, and this problem extends to enforcing the rule of law, collecting taxes, and establishing the basic conditions for macro-economic stability. Underpaid and unmotivated civil servants often indulge in corruption. Training and research centers suffer from severe financial problems. In some countries they receive little or no financial support from the government budget. However, overall regional institutional stability, accountability, and efficacy appear to be improving, and in some individual countries there has been major headway.

Agricultural economics in the region

The seminar provided an opportunity to assess the status of the agricultural economics profession as well as progress in research and education regarding regional agricultural economics. Presentations made by regional authors demonstrated how recent changes' impacted on the profession. Research in agricultural economics is becoming more empirical but largely remains descriptive and provincial. Quantitative methods of analysis are used more frequently and effectively. Researchers from the region now more often use surveys and sophisticated statistical analysis methods. Initial signs of integration between general and resource economics are evident as well as an increased level of multidisciplinary activity. Rural development problems are traditional research subjects in Central Europe but represent a new area of research in the CIS countries. In most of the countries agricultural economists continually support policy making through analysis and projections.

Agricultural economics within the region remains in an early phase when it comes to integration with its mainstream OECD counterpart. The new generation of CEE agricultural economists is in the forefront of change and is becoming visible at international conferences and projects. Unfortunately, the names of authors from the region are rarely found in major international journals and at high profile international meetings. There are, however, more participants from the region in Western European agricultural economics PhD programs, but few at US universities. In EU-15 countries EU enlargement presented new opportunities for joint projects and for various forms of training. The IAMO in Halle is instrumental in changing the profession at the regional level by conducting research on regional problems. This is done with the participation of CEE scholars and by training numerous PhD students from transition countries.

Future priorities for the regional agricultural economics are:

- Greater integration into mainstream developed agricultural economics,
- Increased emphasis on empirical analysis, use of analytical approaches and advanced methods of policy analysis and projections,
- Opening towards rural development problems and multidisciplinary activity,
- Quality improvements when teaching subjects of agricultural economics, including changing the curricula,

- Upgrading local PhD programs and facilitating graduate study focusing on the cream best young generation scholars,
- Strengthening quality requirements and controls in agricultural economics research,
- Maintaining traditional relations including information among regional agricultural economists.

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The seminar revealed the strength of the European agricultural economics profession, specifically in Central and Eastern Europe. The presented papers and subsequent debate spurred numerous useful conclusions and lessons for policy makers, academics, and researchers.

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