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**Csáki, Cs.; Forgács, Cs.; Milczarek-Adrewjewska, D. and Wilkin, J. (eds.):  
Restructuring market relations in food and agriculture in  
Central and Eastern Europe: Impacts upon small farmers<sup>1</sup>**

Matthew Gorton<sup>2</sup>

This volume contains a selection of papers presented at a regional seminar of the Regoverning markets project “Changing Agri-Food Markets - Impacts upon Small-Scale Farmers”. The regoverning markets project is funded by, amongst others, the UK’s Department for International Development (DFID), the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID). The objective of the project is to understand the restructuring of agri-food supply chains in a wide range of post-socialist and developing countries, with a particularly focus on the participation of small-scale producers and policy measures to improve their inclusion in ‘modern markets’. This book presents the findings for Central and Eastern Europe.

The volume is divided into three parts. Part 1 presents the overall framework and is comprised of two chapters. The first chapter by Vorley and Proctor details the overall objectives of the project and emerging findings. The authors conclude that many of the drivers of the restructuring of agrifood systems are inevitable but that policy initiatives can aid the inclusion of small-scale producers. However inclusion typically depends on subsidised external support and that ‘market forces alone generally do not lead to inclusion’ (p.27). This is followed by observations at the regional level (Central and Eastern Europe) by Csaki and Forgacs. The latter detail changes in farm structures since 1990, noting the persistence of ‘hundreds of thousands or even millions of small farms’ (p.37) in the region. Csaki and Forgacs are, however, pessimistic about their future prospects. Small farms face a rapidly changing environment, particularly concentration in food processing and a revolution in retailing stemming from the emergence of largely foreign owned retail chains. The changes in the market environment are thought to be adverse for small farms because transaction costs favour larger farms, small farms struggle to make sufficient investments to meet the needs of buyers and are typically unwilling to enter into co-operative arrangements to improve their bargaining position and attractiveness of market offerings (p.43). Producer organisations, which in some countries act as key intermediaries between international buyers and small scale producers are typically weak in the region. European and national support has most helped larger producers to improve their competitiveness and ‘there is some evidence that public policies...may even worsen the situation for small farms’ (p.47).

Part two is comprised of a very detailed and extensive study of the Polish dairy sector by Milczarek-Andrzejewska, Malak-Rawlikowska, Falkowski and Wilkin (pages 55 to 148). The authors note that during the EU pre-accession period the number of commercial dairy farmers and processors decreased markedly. To understand the process of restructuring in greater depth qualitative interviews and focus groups were conducted with key actors (producers, retailers, wholesalers etc). These interviews highlight three key trends: greater specialisation in milk processing, the impact of supermarket chains on margins and assortment demands, and the preference of wholesalers and retailers for larger suppliers. Farmers regard herds of between of 15 and 30 cows as currently optimal in the Polish context. Co-operation between farmers in both sales and renting machinery is rare. The main reason uncovered for this was a lack of mutual confidence and ‘farmers’ mentality’ (p.104).

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<sup>1</sup> Agroinform, Budapest, 2008

<sup>2</sup> School of Agriculture, Food and Rural Development, Newcastle University, UK, matthew.gorton@newcastle.ac.uk

In addition, 397 dairy farming households were surveyed concerning their activities in the years 2001 and 2006. On the basis of this farms were classified into four groups (a) *always modern* (producers who supplied a dairy company directly in both 2001 and 2006), (b) *always traditional* (farms supplying milk to a collection point in both 2001 and 2006); *changed channel* (those that switched from traditional in 2001 to modern in 2006) and *not-survived* (those that stopped selling milk after 2001). The data indicate that always modern farms have significantly larger herds, greater specialisation and have made significantly larger investments. Those that had changed channel were more indebted which may reflect the costs of gaining access to modern supply chains. The growth in agricultural revenues of those that had changed channel or always been modern grew at a significantly higher rate than always traditional farmers.

Econometric evidence on the determinants of market channel choice suggest that unearned income is negatively related to the propensity to 'modernise' while the access to external funds (credit) is, in contrast, positive and highly significant. Human capital and households' initial physical capital endowments were found to be insignificant in explaining channel choice. The authors conclude that 'entering the modern marketing channel seems to be conditioned by the exogenous rather than endogenous factors' (p.128). Finally collaboration between farmers was also found to be minimal: only 1 farmer out of 323 still operating in 2006 was co-operating on the marketing of agricultural products.

Section 3 consists of five case study chapters. The first paper by Banaszak and Beckmann evaluates the implementation of legislation to support producer groups in Poland. For the Wielkopolska province, the authors identified 55 functioning and 19 disbanding producer groups from which in depth interviews were conducted with a selection of leaders from both categories. The availability of subsidies was a major motivation for the establishment of 22 per cent of producer groups. Other critical motives were the low level of prices received by farmers, a lack of bargaining power and poor individual marketing. Functioning groups identified that members had benefited from increased bargaining power, higher prices for their output and better market information. Fifty per cent of producer groups which failed were established by the extension service and none of those classified as successful were established by this agency. This suggests that policy implanted networks are more likely to fail where local leadership and drive is absent. The authors conclude policy assistance for producer groups should be geared to 'identifying local leaders and providing management training for them' (p.163) rather than taking over entire functions.

Bachev and Manolov present a case study of small-scale dairy farm inclusion in the Plovdiv region of Bulgaria. Specifically they consider the activities of "Dimitar Madzarov" Ltd. dairy, which was established in 1991. The firm has approximately 1000 farms which supply it with milk, of which five per cent were sampled for the study. The authors conclude that three factors have been critical for inclusion:

- a) investment in relation-specific capital to suppliers such as good reputation, storage and collection facilities;
- b) effective communication, incentive, sanction and payment systems;
- c) interlinking of milk supply with provision of credit and services by the dairy (p.197).

These factors are similar to those identified by Swinnen (2005). Bachev and Manolov suggest that the model could be up-scaled and replicated elsewhere.

Bakucs, Fertő and Szabó examine in detail the Mórakert purchasing and service co-operative, located in Mórahalom. This successful fruit and vegetable co-operative was the first officially acknowledged producers' organisation in Hungary (p.207). The authors attribute the success of

Mórakert to the screening process of potential members, the enforcement of strict rules on quality and quantity of produce sold, and effective leadership which has engendered trust between management and members. It appears that the co-operative has been able to overcome problems common to others by effectively enforcing obligations on members to fulfil agreed contracts with the co-operative. In return the co-operative helps farmers sell their horticultural products, purchase inputs at favourable prices and ‘offer long term security’ (p.236). The authors conclude, therefore, that ‘one of Mórakert’s secrets is that they have developed a very efficient private contract enforcement mechanism’ (p.246).

Juhász and Kürthy examine another Hungarian co-operative, that of Avium agricultural and Aviam 2000 poultry processing. Like Mórakert it is a purchasing and marketing co-operative, which was established in 1993 with the objective of reducing farmers’ costs and improving their sales performance. In assessing the performance of Avium, the authors identify three success factors:

- a) the personality of the president, who acts as the “central motor”, and his personal and professional connections;
- b) the founding of a processing co-operative by members of the agricultural co-operative to exploit the advantages of vertical co-ordination;
- c) extending activities to cover wholesaling so that they can provide a full assortment of poultry products to retail partners (p.293-4).

However, the co-operative does not supply multinational retail companies, as this would require accepting lower prices. This means that the co-operative is dependent on small independent retailers and butchers, who are losing market share to the main chains. Opportunities for replicating Avium’s business model may be limited as the niche for small-medium sized processors is limited.

The final chapter by Serova focuses on small-scale tomato producers in the Astrakhan region of Russia. She identifies that smallholders in Russia are ‘almost fully excluded from the mainstream food chain and participate mostly in local traditional markets’ (p.302). Unfortunately, local markets do not provide sustainable incomes and producers are detached from value-added opportunities in Moscow and Saint Petersburg. To overcome this gap a ‘dispatcher system’ of trucks to link Astrakhan with key markets has emerged. However, the dispatcher system acts outside of sanitary inspection controls and is ‘undoubtedly shadow economy activity’ (p.318). This has led to attempts to shut it down. Serova argues that this is a mistake and that public policy should focus on including such activities in the legal economy. However this may not be a simple task. Serova’s case study illustrates that in countries where the informal / black economy is significant, inclusion of small-scale producers may face additional obstacles.

Overall the volume provides a detailed set of cases on the fortunes of small-scale farmers in Central and Eastern Europe and looks at the ability of a range of public and private initiatives to improve their position in restructured supply chains. Several common themes concerning leadership, enforcement mechanisms and service quality are identified. The book would benefit from an index and a concluding chapter evaluating the lessons from the region. It is nevertheless an important and illuminating collection of papers that is useful to both academics and policy makers.

## Reference

1. **Swinnen, J.** (2006). When the market comes to you or not: the dynamics of vertical coordination in agro-food chains in Europe and Central Asia, Washington D.C.: World Bank Publications