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Investment
Key for development of Serbian agriculture

Loup Brefort
The World Bank Country Manager for Serbia

Agricultural Forum

Food for Europe
Agro-economy of Serbia in the Pre-accession Period

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Financial barriers and incentives (state and commercial) for development of Serbian agro-economy in the pre-accession period
Country Economic Memorandum
Possibilities and Constraints to Export Led Growth
1. **Clarify the role of government**
   - The state must resist pressure to move back into direct involvement with production or processing, but must ensure that it does fulfil the vital functions that only government can perform

2. **Improve the policy process**
   - Stability in policy
   - Policy based on evidence and on analysis of the underlying problems

3. **Revise the agricultural budget**
   - The present agricultural budget is small by international standards
   - Share of the total budget has even declined over the recent years
   - But more urgent and more important than increasing the overall budget is reallocation of the existing resources towards:
     - increasing agricultural competitiveness and
     - preparing the sector for the opportunities and challenges of EU membership

4. **Get rid of ineffective support measures**
   - The area payments scheme should be dramatically scaled down
   - Revision of the milk subsidy scheme with priority to establish national capacity to test all milk to EU standards, combining the best elements of state and private service provision

Source: CEM, 2011
CEM recommendations for agriculture

5. Develop an effective extension service
   • Well performing extension service is very needed
   • Provision of the services which make no effect is a waste of money

• **Timely** information dissemination (every hour) on possible disease occurrence
  • Farmers use it
  • Private

• **Late** (1-3 months) information dissemination on diseases **which already occurred**
  • Nobody use it
  • State

Source: CEM, 2011
6. **Review the agricultural credit programme**
   - The Serbian agricultural credit programme is a relatively large and powerful instrument, and it should be reviewed carefully and necessary actions should be taken to ensure that it really achieves the desired effects.

7. **Improve the supply chains**
   - To get export licence for EU and improve trade efficiency
     - Veterinary and phytosanitary standards that currently serve as major barriers to trade, need to be improved.
   - To comply with international standards
     - Investments in storage, packaging, processing and transport can stimulate exports and transmit benefits right down the supply chain to the small-scale farmer.

8. **Continue on the path of trade liberalisation**
   - One of the prerequisites to long-term export growth is a consistent and predictable trading environment
   - Serbia has already taken major steps to freeing up trade with its major commercial partners
   - Serbia should resist the temptation to apply ad hoc trade bans, licensing systems or non-tariff barriers as quick solutions to short-term problems.
   - Abolition of export subsidies should be carried through, as this is a disruptive and costly practice.

Source: CEM, 2011
9. **Reduce the administrative costs of trade**
   - Importing to, and exporting from Serbia are both time-consuming and expensive processes. Simplifying and cheapening these processes should be a priority for the government.
   - The simplest way: immediately adopt the standard EU procedures that Serbia will have to implement in any case, and discontinue the outdated certificates and laboratory tests.

10. **Reconsider the role of the DCR**
    - The Directorate for Commodity Reserves currently operates with:
      - Mixed roles - stabilization of the market and prices on one hand, and strategic reserves on the other.
      - Twisted logic - when the price is low to pay the producers more, or when the price is high to offer the goods to the customers at lower prices.
      - Special status - the director has the discretionary right to buy, sell, or borrow.
    - Prepare the mechanisms which DCR will need to introduce in order to implement the EU intervention scheme under the CAP’s “Common Market Organisation”.

Source: CEM, 2011
The Importance of Investments

Serbia must increase competitiveness

The best way of increasing competitiveness is through investments in new technology and knowledge
Trade as a indicator of competiveness level

Comparison of total agricultural trade of Serbia, B&H and Croatia with average trade in NMS and EU 15 countries (Aug 2005-2010)

- Bosnia and Herzegovina
- Serbia
- Croatia
- CEFTA
- NMS
- EU-15

Source: Comtrade, ITC, Serbian statistical office,
Trade as an indicator of competitiveness level

Comparison of agricultural trade per ha in Serbia, B&H and Croatia with average trade per ha in NMS and EU 15 countries (Aug 2005-2010)

Bubble size = export per countries

Lower than average world share  
Higher than average world share

Source: Comtrade, ITC, Serbian statistical office,
Investments as a indicator of competiveness level

**Import of tractors in Serbia and Croatia (2004-2010, in mil USD)**

- **Source:** Statistical office of Serbia and Croatia

**Import of pure breed cows in Serbia and Croatia (2004-2010, in mil USD)**

- **Source:** Statistical office of Serbia and Croatia

*Croatia has around three times less arable land and three times lower number of farmers*
Serbia (Croatia as well) have high price variation

Serbia (Croatia as well) cannot export pork meat to EU

Source: TISPUP and STIPS

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**FDI attraction is a quick and efficient way of competitiveness improvement**

- Serbia should increase FDI because they are bringing new technology and access to markets (particularly supermarkets)
- Serbia has failed to significantly develop the food processing sector – attracting FDI is not easy, but it is an effective way to do it
- Serbia should not be reluctant to let foreign investors into its agro-industry or primary agricultural production

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Primary agriculture</td>
<td>7,716</td>
<td>9,357</td>
<td>9,306</td>
<td>15,086</td>
<td>38,227</td>
<td>21,025</td>
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<tr>
<td>Processing industry</td>
<td>239,857</td>
<td>250,483</td>
<td>789,326</td>
<td>366,341</td>
<td>388,478</td>
<td>532,890</td>
</tr>
<tr>
<td>Agro processing industry</td>
<td>78,241</td>
<td>52,307</td>
<td>61,381</td>
<td>96,800</td>
<td>100,362</td>
<td>228,790</td>
</tr>
<tr>
<td><strong>Total FDI</strong></td>
<td>771,116</td>
<td>1,274,589</td>
<td>3,429,762</td>
<td>1,596,986</td>
<td>1,660,467</td>
<td>1,372,475</td>
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<tr>
<td>Share of the agro processing in total FDI</td>
<td>10.1%</td>
<td>4.1%</td>
<td>1.8%</td>
<td>6.1%</td>
<td>6.0%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Share of the primary agriculture in total FDI</td>
<td>1.0%</td>
<td>0.7%</td>
<td>0.3%</td>
<td>0.9%</td>
<td>2.3%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Source: National Bank of Serbia
Access to investment finance

- Own capital
  - Generated in agriculture
  - Generated outside of agriculture
- Commercial banks
- Government support
- Donor support
Investment from own capital

• Between 2005 and 2010, EU27 real agricultural income per worker is increased by 10.0% on average
• EU farm incomes grew 12.6% in 2010 compared to 2009
  – The largest growth was seen in Denmark (+56.6%), Estonia (+46.3%), the Netherlands (+39.0%), France (+34.4%), Sweden (+28.4%), Ireland (+27.5%), Bulgaria (+26.7%), Latvia (+24.8), Belgium (+24.7%) and Germany (+22.4%).
  – Income dropped 3.5% in Greece and Romania and 6.4% in the UK.
• In 2010 agricultural output at producer prices increased by 5.4%, mainly due to
  – Increase in crop production (+5.9%) - accounting for 50% of output
  – Increase in and animal production (+2.0%), accounting for 40% of the overall EU output
• Pillar One and Pillar Two payments made up 42% of farm incomes last year - compared to 39% in 2008

What about Serbia?
No data, income did not increase 10% annually in the last five years like in the EU → Less possibility for investments by using own capital

Source: Eurostat

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Investment from commercial banks

NEED

- I don’t need credit
- I don’t take credit (fear, don’t like..)
- I have other source of financing
- ...

DEMAND

- No credit history
- No collateral
- No experience in business plan preparation
- Expensive cost of credit and collateralization
- High interest rate
- ...

OFFER

- No experience with agro landing
- Expensive evaluation of agro credit
- Expensive access to farmers through branch network
- Bad experience with agro landing
- Unstable production
- ...

REALIZATION

- Portfolio of 230 million Euros and 53 thousand agro clients

SUBSIDISED

- Cheep access through donor funding EBRD, KfW
- Access from other sectors, savings...
- Cross border
- ...

POSIBILITIES

- Around 10% of total number of clients are subsidized

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**Investment from commercial banks**

Total portfolio of agricultural credits (left, in Euros) and number agricultural clients (right)

Portfolio at Risk in 90 days (PAR90) for all banking sector including ProCredit Bank

**One bank - Pro Credit Bank - has 49.7% of market share and 1.5% PAR 90**

**Other 51.3% of the credits are more than 35% in PAR 90**

Source: Credit biro run by Serbian Bank Association
Investment supported by the Government

Distribution of Serbian agrarian budget by type of measure (planned, not spent)

Source: Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia;
Investment supported by the Government

Share of the rural development support in overall support in 2010

Serbia: 12
Croatia: 14
EU 27: 32
NMS: 43

Distribution of the support type in Croatia in 2004 and 2010 in total value (left, Euros) and percentage (right, %)

Serbia allocating significantly lower support to the investment and rural development comparing other countries – in both terms: total and share of the total

Source: Ministry of Agriculture, Forestry and Water Management, Republic of Serbia; Ministry of agriculture, fisheries and rural development of Republic of Croatia, EUROSTAT,
Investment supported by donors

- Donors significantly contributed to the creation of better policy, institutional set up but also on-the-farm investment.
- Great expectation from EU IPARD funds
  - Croatia and other NMS experience
    » Contracted: 62% (49 projects) utilized: 48% (37 project), Number of tenders: 4
    » NMS: utilization from 95% (Latvia) to more than 99% (others)
    » Romania 87%, Bulgaria 72,4%
    » Average project value funded by EU: Croatia 326.572 EUR, Romania 228.864 EUR, Latvia 151.558 EUR, Bulgaria 123.846 EUR, Slovakia 86.119 EUR, Hungary 62.121 EUR, Slovenia 31.116 EUR
  - Number of projects from 559 in Slovenia up to 22.775 in Poland
  - Issues: When will Serbia be able to develop EU accredited system for utilization of funds? How big IPARD funds will be? How successful utilization will be?...

Source: Ministry of agriculture of Croatia and SAPARD monitoring and evaluation in different countries
World Bank support to the agriculture sector in Serbia

- Irrigation and Drainage Rehabilitation Project (IDRP – US$73M)
  - Support to high priority rehabilitation of drainage and irrigation infrastructure
  - Support investments in flood control
  - Improve water resource management and strengthen the associated water resource management institution and policies
World Bank support to the agriculture sector in Serbia

• Serbia Danube River Enterprise Pollution Reduction Project (DREPR – US$9M GEF and US$5.5M SIDA)
  – Support to Policy and Regulatory Reform,
  – Investment in Nutrient Reduction,
  – Water and Soil Quality Monitoring, Public Awareness Raising and Replication Strategy
The World Bank support to the agriculture sector in Serbia

• Transitional Agriculture Reform Project (STAR - Euro 12.5 M IBRD, US$ 4.5M GEF)
• Main objective is to enhance the competitiveness of Serbian agriculture.
  – Improve and strengthen the Government of Serbia system for transparently delivering rural development investment grants and evaluating their impact;
  – Improve the knowledge and capacity of agricultural producers and processors to make the best use of these funds
  – Improve management of the Stara Planina Nature Park, including its flora and autochthonous livestock breeds, in partnership with local communities and other stakeholders.