

Towards the New Delivery Model:

From Croatian National Strategy to CAP Strategic Plan

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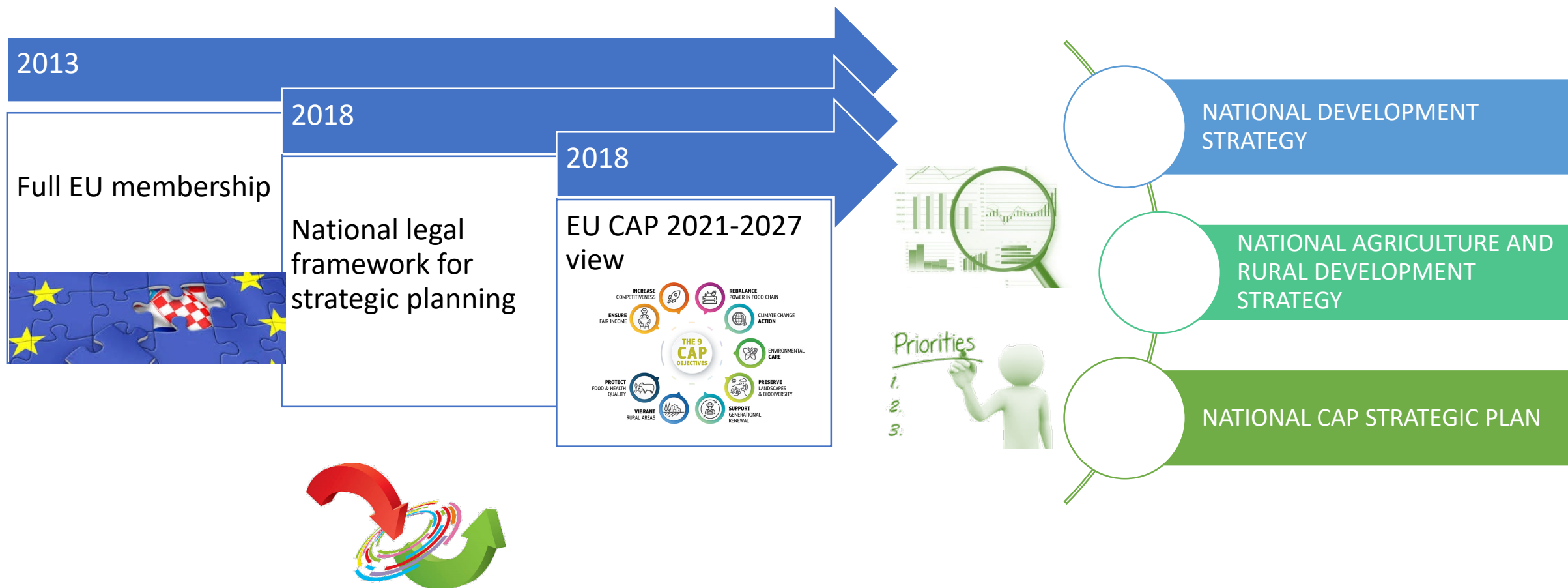
Presentation to the MEETING OF THE EXPERT GROUP FOR MONITORING AND EVALUATING THE CAP
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Outline

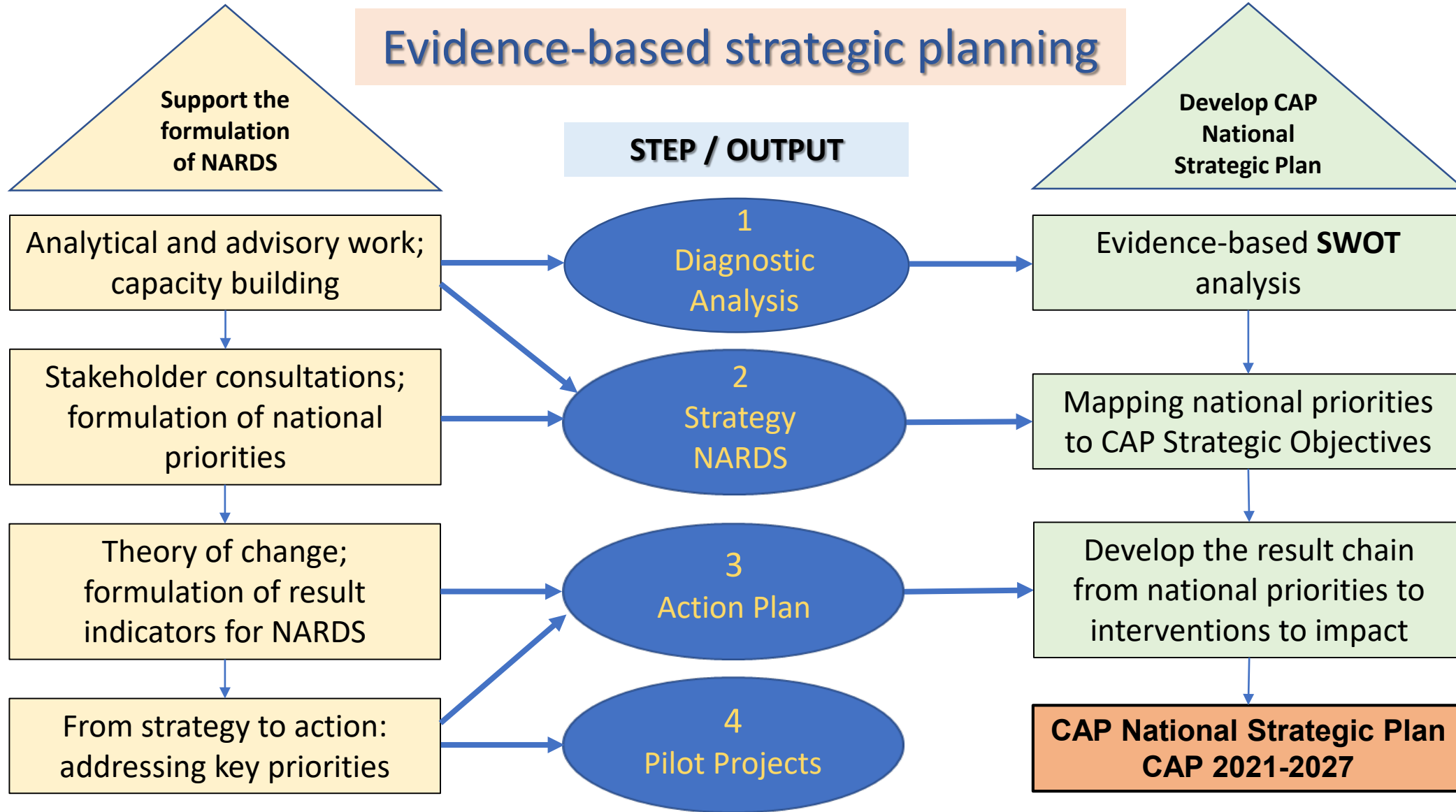
- **Setting the stage for developing a National Strategy**
Bernardica Bošnjak
- **Evidence-based strategic planning: the process**
Svetlana Edmeades
- **Diagnostic analysis and strategy formulation**
Demetris Psaltopoulos and Philip Van der Celen
- **From NARDS to a CAP National Strategic Plan**
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- **Q&A**



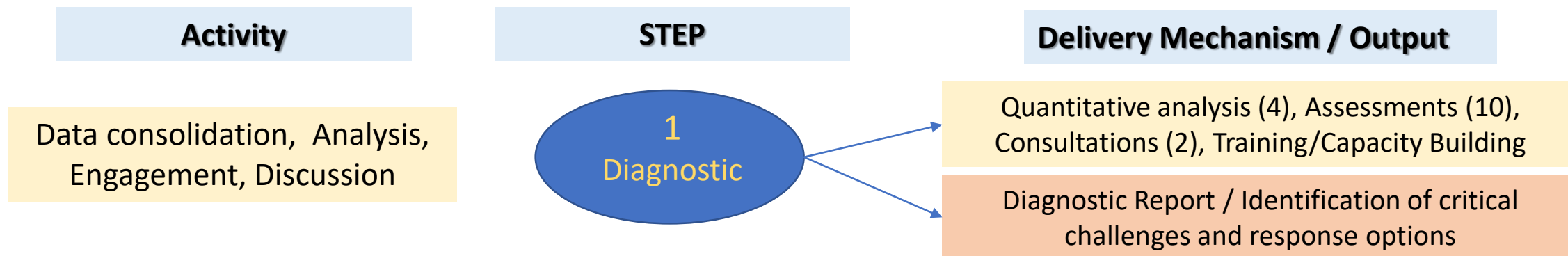
Setting the stage for developing a National Agriculture and Rural Development Strategy (NARDS)



Evidence-based strategic planning



Evidence-based strategic planning



- **Sector Context**

- **Economic performance**

Structural transformation of agriculture

- **Agricultural policy**

Efficiency (input use), Effectiveness (impact) and Equity (distribution) of public spending in agriculture and rural development in Croatia

- **Potential**

Diagnostic Analysis: Economic Performance

Key structural challenges remain inhibiting the transformation process of agriculture

- Improvements in agricultural productivity since EU accession have been slow
- Investment gaps in capital, technology and R&D/AKIS persist
- Low productivity is weakening the competitive position of Croatia's agricultural sector
- Fragmented production structure / constraints to market and credit access for small producers and agri-businesses
- Climate variability is important for agricultural productivity in Croatia



Diagnostic Analysis: Agricultural Policy

Croatia devotes a lot of public resources to the agriculture sector => 1.3% GDP

- Croatia has opted to steer both EU and national funds towards direct payments
- The share of direct payments in farm incomes in Croatia is high (40%)
- Most of income support in Croatia is decoupled; but coupled support is still widely used
- Absorption of RD funds has considerably improved in the last 2 years (33%), but variations in the uptake of different measures remain



Diagnostic Analysis: Agricultural Policy

- **Efficiency:** The technical efficiency of Croatian farms is low (0.30), despite the evidence of high scale efficiency (0.82); there is also a polarization phenomenon.
 - Subsidized farms underperform non-subsidized ones; limited capacity of decoupled payments to yet induce efficiency improvements; even more limited for coupled payments; **RD support on investments matters a lot for improving technical efficiency**; IACS RD support does not
 - Small farms are technical efficiency champions, but transitioning to larger production units is a challenge (medium farms do not perform well)
 - Drivers: Age of farmers has negative effects; size influences negatively when farms grow from small into medium; and positively when they grow from medium to large



Diagnostic Analysis: Agricultural Policy

- **Effectiveness:** Can be improved by stimulating technical change
 - Increase in TFP between 2014 and 2016 (4.5% yr) => driven by technical and scale efficiency, not technical change; significant polarization
 - Medium farms seem to be catching up; **RD support (investments) matters for improving effectiveness, especially if it induces innovation;**
 - Unrecorded factors such as human capital, social capital, institutions, public goods and infrastructure are those mostly affecting TFP growth
 - Decoupled payments positively affect TC and TEC
 - Productivity paradox: in the short run, adoption of new technology might result into significant adjustment costs, mainly attributed to organizational and human factors
 - Important economy-wide effects of public spending: Output - Pillar 1 => 2.2 / **Pillar 2 => 3.4** ; Job creation - Pillar 1 => 5.9 / **Pillar 2 => 9.4**



Diagnostic Analysis: Agricultural Policy

- **Equity:** Public support in agriculture is not equitably distributed = **problem!**
 - Total support is highly concentrated (7 of 21 counties: 60% of support); Pillar 1 even more
 - Support per capita is very uneven (rates for 8 counties exceed national average by 60% to 530%); Pillar 2 even more
 - Support does not target counties with low GDP per capita and high shares of population at risk of poverty; especially for Pillar 2

Improving the efficiency, effectiveness and equity of spending can significantly contribute towards accelerating the transformation of agriculture in Croatia



Diagnostic Analysis: Agricultural Policy

- **Structural Analysis:** Agri-food generates significant economy-wide effects
 - These effects are in decline due to import penetration
 - Economy-wide job-creation capacity: High for agriculture; low (and declining) for food processing
- **Farm Income Dependence on Subsidies:** Croatian farm income is highly-dependent on support (compared to EU average) and especially on Pillar 1
 - Dependence has been declining due to an increase in farm incomes
 - There are sub-sectors with very low dependence (pigs, poultry, horticulture, wine, fruit)
 - There is a convergence of income dependence between different farm types



Potential

• Improving productivity

- **Target direct (decoupled) payments:** They will only have the intended effect (income smoothing) and induce economic impacts if provided to poorer/smaller producers
- **Coupled support:** Reconsider the share of coupled subsidies in the support envelope and their sectoral distribution
- **Target interventions:** Combine targeted decoupled payments with targeted RD support which promotes farm investments and innovation
- **Better leverage of RD support:** Prioritization could be better aligned to market needs to enable capital accumulation or provision of public goods; focus on results in addition to degree of absorption:
 - Capital accumulation (investment measures), R&D / innovation / knowledge transfer (non-investment measures) => incentives for diversification & value addition
- **Mainstreaming climate actions into production decisions** is a smart development approach and an economic opportunity for Croatia

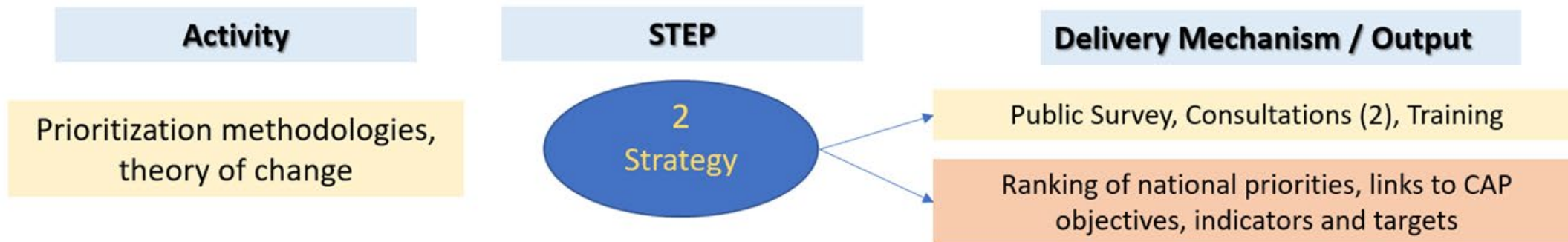
Potential

- **Strengthening competitiveness**

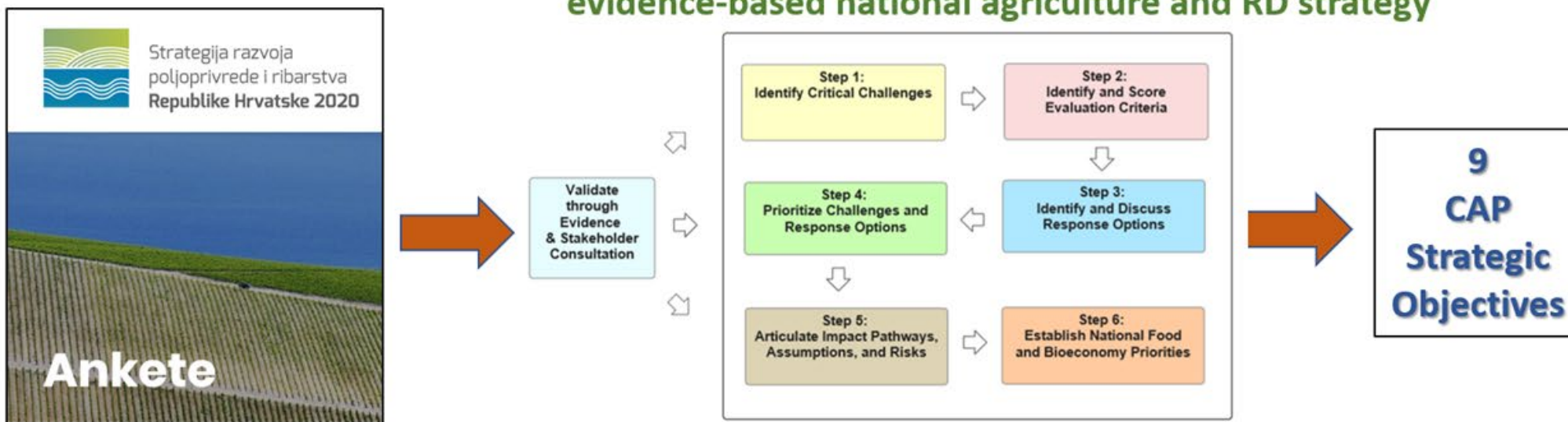
- **Integration:** Maximize economy wide effects through building stronger linkages across the agri-food value chain and beyond
- **Organization:** Stimulate horizontal coordination (among producers) – focus on product qty/qlty, markets / digital approaches
- **Reducing the costs of doing business**
- **Expanding access to private finance** to leverage public resources
- **Exploring the opportunities of the bioeconomy** in Croatia



Evidence-based strategic planning



Using priority-setting and theory of change methods for developing evidence-based national agriculture and RD strategy



Survey: Results

TOTAL # of respondents (online survey): 1,930

Affiliation, by primary activity	# of respondents
Agricultural production	1,753
Food processing	162
Food distribution (wholesale, retail, logistics)	213
Association of food manufacturers or retailers	38
University and research institutions	16
Public administration	36
Consultant	44
Governmental organization or Local Action Group (LAG)	33
Other	154

Gender	# of respondents
Male	1,449
Female	481

Age	# of respondents
< 40 years	676
40 - 60 years	917
> 60 years	337

Experience	# of respondents
< 5 years	321
5 - 10 years	295
> 10 years	1,314



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Survey: Results

Priority Responses*	Key Challenges for Croatian Agriculture (top 3) (*8 priorities per respondent)
1,201	1. To raise productivity levels in the <u>agri</u> -food sector
1,566	2. To improve the business environment for producers and agribusiness SMEs
946	3. To promote greater innovation in the <u>agri</u> -food sector
1,151	4. To increase the production of high-value crops
1,109	5. To foster expanded and better integrated markets for Croatian <u>agri</u> -food products
1,444	6. To strengthen the links of small producers and agribusiness SMEs (small- and medium-sized enterprises) with domestic and international markets
1,111	7. To manage the vulnerability and exposure of the <u>agri</u> -food sector to increasing climate change risks
961	8. To reduce waste, pollution, and GHG emissions emanating from the <u>agri</u> -food sector
1,111	9. To maintain healthy soils and protect Croatian water resources
1,309	10. To promote growth and employment in lagging rural areas
1,182	11. To promote interest in <u>agri</u> -food sector opportunities among Croatian youth
777	12. To improve the delivery of technical support and advisory services for agricultural producers and agribusiness SMEs
116	13. To promote the productive use of private and state-owned agricultural land
576	14. To strengthen the development impacts of EU and national support programs for agriculture and rural development



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Stakeholder Consultations: Scoring Evaluation Criteria (CAP Strategic Objectives)

Table 7. Weighting of Evaluation Criteria (CAP Objectives) by Stakeholders

Nine (9) CAP Objectives*	Zagreb Consultation (n = 53)	Osijek Consultation (n = 24)	Overall Weights of Evaluation Criteria (n = 77)
1. Support farm income and food security	.14	.14	.14
2. Increase competitiveness; focus on R&D, technology	.13	.13	.13
3. Improve farmers' position in value chains	.14	.16	.15
4. Contribute to climate change adaptation & mitigation, sustainable energy	.08	.11	.09
5. Improve efficiency & sustainability of natural resource management	.10	.10	.10
6. Protect biodiversity, ecosystem services, habitats, landscapes	.07	.07	.07
7. Attract young farmers; promote rural business development	.16	.15	.16
8. Promote broad-based rural economic development	.11	.08	.10
9. Improve agricultural responses to broader societal requirements	.06	.06	.06
Total Weight	1.00	1.00	1.00

*top 4 highlighted



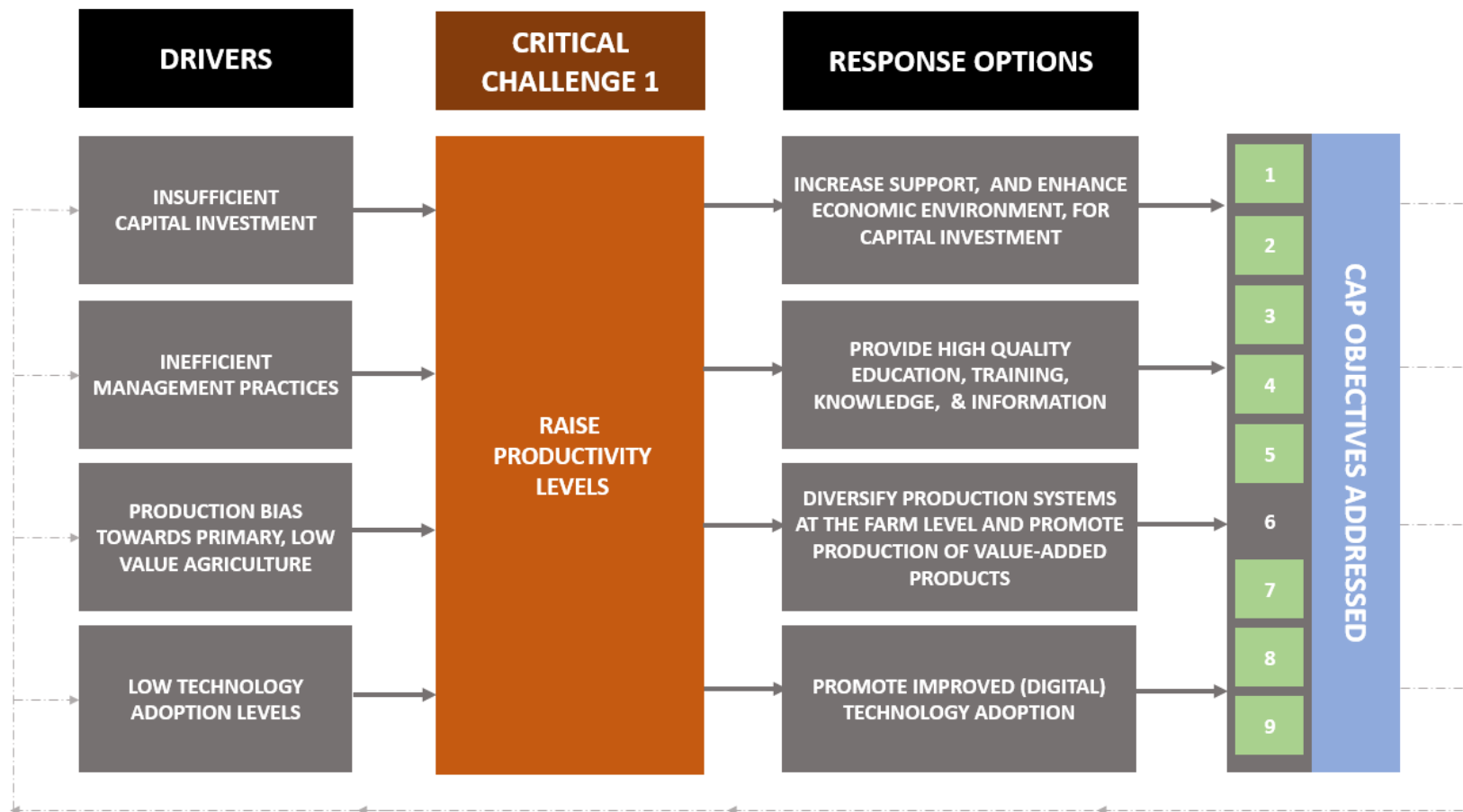
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Stakeholder Consultations: Mapping national priorities to CAP Strategic Objectives



Stakeholder Consultations: Results

Challenges (and Response Options*)	Zagreb Consultation (n = 34)	Osijek Consultation (n = 20)	Overall Scores of Challenges & Response Options (n = 54)
1. Improve access to credit & finance, and improve business environment for agri-food sector	67.3	75.6	70.2
2. Connect producers and agri-food businesses to markets	70.0	75.1	71.8
3. Raise productivity levels	70.9	70.1	70.6
4. Manage climate risks and promote low emissions production	61.7	69.9	64.6
5. Improve natural resource management	66.7	73.0	68.9
6. Attract investment, jobs and youth to rural areas	74.8	78.5	76.1
7. Transfer knowledge, information & technologies to producers and agribusiness	78.3	80.9	79.2
8. Enhance the development impacts of public expenditures under the CAP	70.9	70.3	70.7
9. Productively mobilize state-owned and private agricultural land resources	73.4	71.4	72.7



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Survey & Stakeholder Consultations: Summary

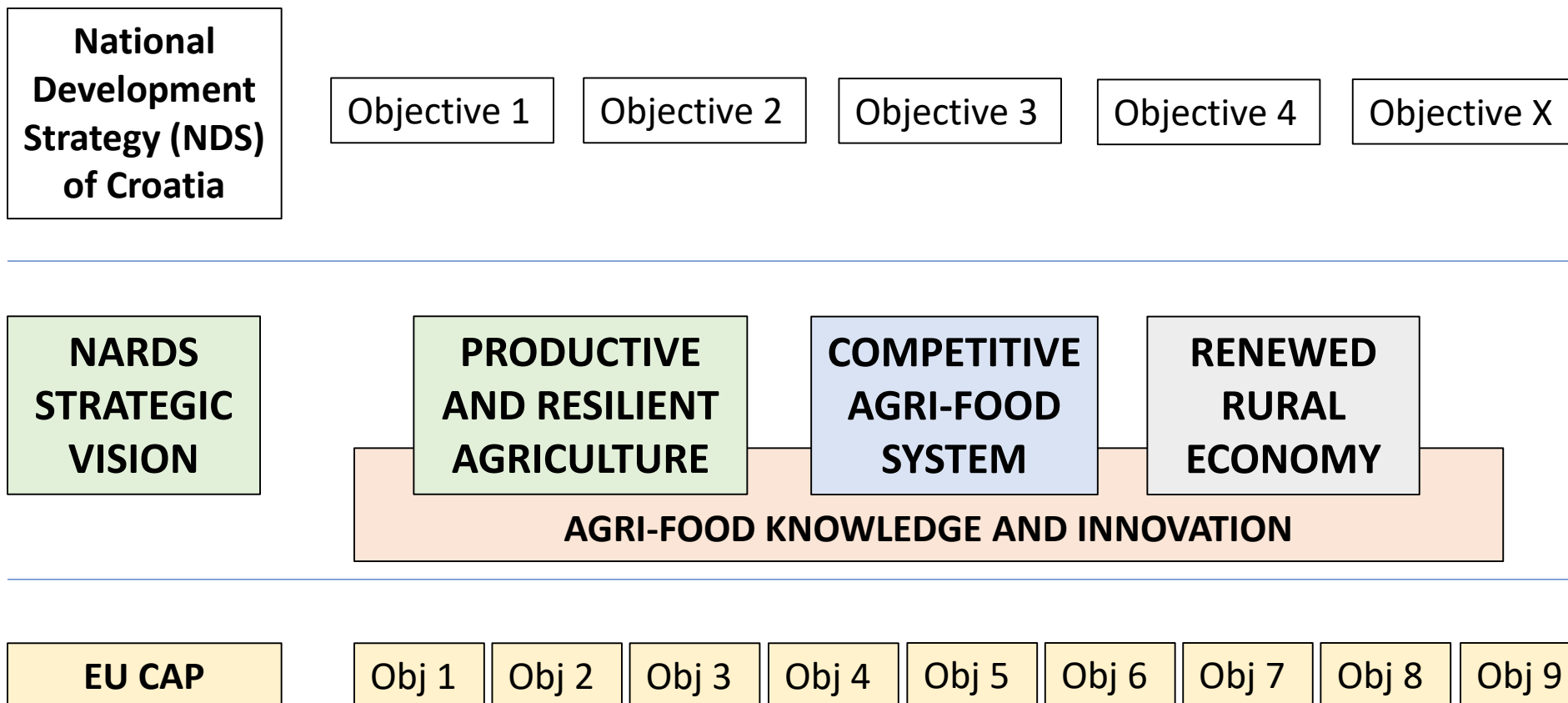
Emerging priorities

- **Enhancing productivity and strengthening rural economic development**
 - including promoting rural business development by such measures as attracting investment, jobs and youth to rural areas, supporting rural growth and employment, and notably, promoting opportunities for youth in the agri-food sector. The broad prioritization of these two general areas emerges as a strong consensus from the different stakeholder-based exercises
- **Enhancing the business and economic competitiveness of Croatian agriculture**
 - including specific elements such as building stronger linkages across the sector, increasing sector productivity, strengthening value chains, especially for high-value products, and more effectively connecting producers and agri-food businesses to markets, including both domestic and international markets
- **Transfer of knowledge, information and technologies to producers and agribusiness**
- **Productively mobilize state-owned and private agricultural land resources**

Quantitative approach (diagnostic analysis) and qualitative approach (survey/stakeholder consultations) yield very similar results regarding critical challenges and potential responses



Formulating the **NARDS**



From NARDS to the CAP SP

STRATEGIC
VISIONING

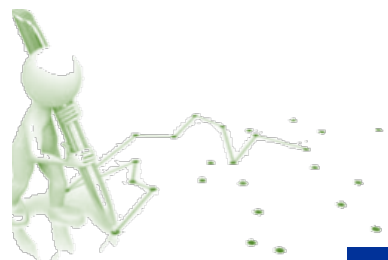
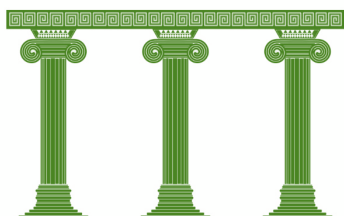


ANALYSING PROBLEMS, DRIVERS, & RESPONSE OPTIONS



CAP SP

NARDS



SWOT ANALYSIS

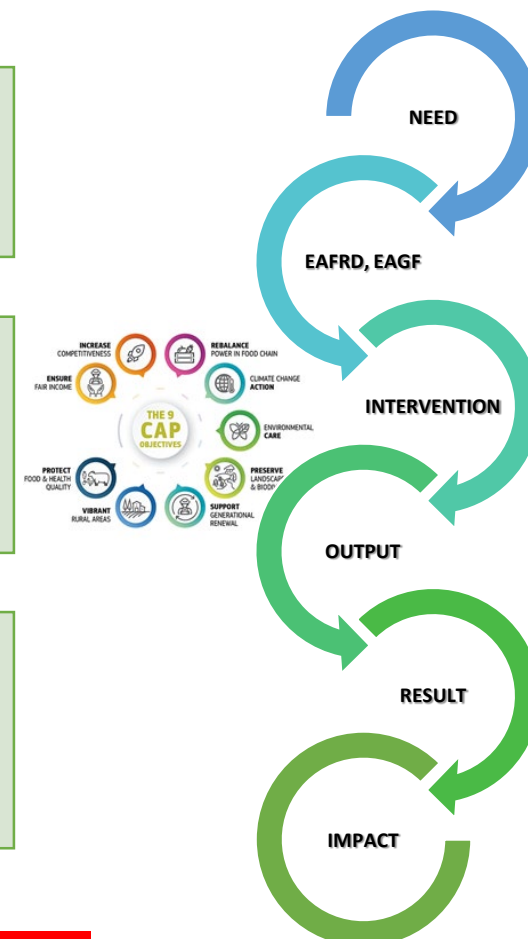
- Based on the current situation
- Done for each SO (+additional requirements)

NEEDS ASSESMENT

- Identification by Linking to SWOT Elements
- Prioritisation & Ranking by Linking to CAP Objectives & Stakeholder Priorities

INTERVENTION STRATEGY

- Selection of the interventions and financial allocations (+expected output)
- Targets for result indicators



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Additional info...

- Internal reorganisation (in the Ministry of Agriculture)



- High-level Officials Committee to monitor the preparatory process (decision making, up-to date info, stakeholders consultations)



Thank you for your attention!

Hvala!

