

Evaluation of the effectiveness and efficiency of measures under the 2014-2020 Lithuanian Rural Development Programme to promote the organisation of the food supply chain, including the processing and marketing of agricultural products, animal welfare and risk management in agriculture

Summary

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The assessment was carried out by JSV "ESTEP Vilnius" in accordance with the Contract No 8P-24-114 of 9 July 2024 with the Ministry of Agriculture of the Republic of Lithuania.

Lithuanian Rural Development Programme 2014–2020 (RDP) Priority 3 “Promoting food chain organisation, including the processing and marketing of agricultural products, animal welfare and risk management in agriculture” was planned to be implemented with €185.9 million and by the end of 2023, €162.3 million (87 % of the planned allocation) had been approved and €105.3 million (57 % of the planned allocation) had been paid. During the period 2014-2023, 311 projects were completed to improve the competitiveness of agricultural producers by supporting the processing of agricultural products, the organisation of short supply chains, the application of quality systems and the promotion of cooperation (focus area (hereinafter–FA) 3A) and 6 502 projects/applications improving the competitiveness of agricultural producers by improving farm risk management (FA 3B). Overall, the support was efficient and effective, although some issues were found in the interventions concerning the organisation of short supply chains, the promotion of quality systems, farmers' advise services and the establishment of agricultural risk management funds.

Key findings in relation to FA 3A "Improving the competitiveness of primary producers through better integration of primary producers into the agri-food chain by applying quality systems, adding value to agricultural products, promoting local markets and using short supply chains, producer groups and their inter-branch organisations"

The objective of the FA 3A investments was to increase the competitiveness of agricultural producers and better integrate them into the agri-food chain. The evaluation confirmed that RDP support under FA 3A increased the competitiveness of agricultural producers. The most positive impact was achieved through RDP support under sub-measure 4.2 "Support for investments in processing, marketing and/or development of agricultural products. Both in terms of the dynamics of the performance indicators (sales revenue, net profit, sales revenue from the production of new products) of the enterprises that carried out projects under sub-measure 4.2, and in terms of the beneficiaries' own opinion, the implemented projects have had a positive impact on the competitiveness of the enterprises, on the improvement of the economic performance of the enterprises, and on the increase in the quantity, quality and variety of the products produced. These results were confirmed by a counterfactual impact assessment analysis, which shows that the RDP support resulted in an increase in revenues of €2.0 million for crop production enterprises, €4.9 million for meat processing enterprises, and €8.2 million for fruit, berry, vegetable and mushroom processing enterprises, compared to the situation if the enterprises would not have made the investments funded by the RDP. Despite the support received, the performance of dairy processing enterprises is lower compared to other enterprises engaged in the same activity that did not receive RDP support in the 2014-2022 programming period, but for this activity, the small number of cases of the group of enterprises under study does not allow to draw conclusions at this stage and it is recommended to repeat the evaluation once all projects have been completed.

Other RDP measures aimed at increasing the competitiveness of farms by increasing value added have also been implemented with a fair degree of success, but only on a scale that has not been large enough to have a significant impact on the sector's performance and development. RDP support for the processing and marketing of products from agricultural holdings (sub-measure 4.1 "Support for investments in agricultural holdings") has led to an increase in the economic size of holdings, indicating that support for this activity has been well targeted and has produced tangible benefits. Increased volume of processing of agricultural products helped farmers to move from primary production to higher value-added production, which increases their profitability and competitiveness on both domestic and foreign markets. When assessed the indicator of sales revenue, which reflects the impact of projects on the financial capacity of the operator, it is concluded that support for projects aimed at increasing sales revenue has mixed results. Half of the projects analysed were well planned and contributed significantly to improving the financial performance of the entity, while half faced challenges such as changes in market conditions, insufficient focus on marketing or weaknesses in operational management, resulting in less efficient use of the support. Despite the success of the projects

and their contribution to improving the competitiveness of the farms, only a small proportion (0.04 %) of all agricultural holdings received support.

The success of the funded projects on cooperation between small farms (sub-measure 16.3 "Support for cooperation between small operators"), as measured by the monitoring indicators, shows that cooperation is an effective tool to address the problems of small farms, but the number of small farms benefiting from RDP support is very small (0.02 % of all small holdings), and that the sub-measure therefore makes a limited contribution to the overall sustainability and competitiveness of the agricultural sector. Cooperation between agricultural operators, thereby strengthening their competitiveness and improving their position in the food supply chain, is also promoted by supporting the creation of producer organizations (hereinafter-PO) (measure M09). Monitoring results show that in each year of implementation of the business plan, the value of the production sold by all the beneficiary POs is almost twice as high as planned. This shows that the activities of the POs are effective and have a significant positive impact on their economic viability and the development of local markets.

To achieve the objectives of FA 3A, the aim was also to promote the involvement of farmers in quality schemes (measure M03). Although 92% of the funds allocated to this measure have been paid by the end of 2023, the implementation of the measure cannot be considered a success as the amount of the planned RDP support for the measure has been reduced and also, more than half (53 %) of support paid and the number of farms supported are for continuing RDP commitments from 2007-2013. The lower demand for the measure is due to the temporary suspension of the collection of applications for participation in the national quality scheme due to notification procedures, due to the fact that the costs eligible under the measure do not correspond to the demand of participants in the quality schemes, and due to the fact that participation in the agri-food quality scheme does not pay off initially due to the additional requirements, and that not all producers are willing to take on the additional costs without being sure of the pay-offs.

RDP support for the development of short supply chains (sub-measure 16.4 "Support to promote short supply chains and local markets at local level") has also had a positive impact on increasing competitiveness. The support received has helped local farmers and processors to engage quite successfully in direct supply and in meeting market needs. 56 farmers and 32 enterprises are involved in the 26 projects under implementation. In the completed projects, 29 points of sale have been set up, most of them online shops, on-farm direct sales and periodic points of sale (fairs, exhibitions). The involvement in direct sourcing and sales has had a positive impact on project promoters' sales revenues, but has not in all cases ensured the long-term sustainability of results. An analysis of public procurement information system data shows that almost one third of beneficiaries are involved in public procurement and have concluded contracts with contracting authorities. It should be noted that beneficiaries with legal personality are more active in public procurement. This shows that beneficiaries are quite active in strengthening local supply chains, but more attention should be paid to increasing the activity of natural persons.

There has also been a recent decline in applicants' interest in sub-measure 16.4. The evaluation identified several possible reasons. These include uncertainty in the market due to the economic situation, lack of trust in partners or cases where project partners cannot be found. Agricultural entities also expressed the view that the conditions and requirements for applying for support seem too complex for potential applicants and that they lack the marketing knowledge to successfully develop a short supply chain. Taking this into account, it is proposed to strengthen partnerships between farmers, local businesses and consumers (e.g. through farmers' open days, through the organisation of various tastings). Also, through measures that can encourage participation in short supply chains, such as marketing training (including mentoring schemes), financing common logistics and storage systems that reduce costs and risks for farmers. Another important measure is to stimulate consumer demand for short supply chains.

5 measures had a direct impact on the promotion of co-operation and other forms of co-operation in contributing to the promotion of competitiveness or the search for competitiveness-enhancing solutions

in the various agricultural sectors (1.2 "Support for demonstration projects and information activities", 16.1 "Support for the creation and development of EIP Action Groups", 16.3 "Support for cooperation between small operators", 16.4 "Support to promote short supply chains and local markets at local level" and M09 "Establishment of producer groups and organisations"). 16.3, 16.4 and M09 are aimed at promoting cooperation through co-investments contributing to increased competitiveness. Sub-measures 1.2 and 16.1 implement projects seeking innovative solutions that can contribute to improving the competitiveness of farms and enterprises in the agri-food sector. In terms of participation, the contribution of measures to encourage cooperation and collaboration between agricultural operators is limited. Measures promoting cooperation involved 502 agricultural or agricultural-related entities, of which 460 are natural persons (representing 0.3 % of all natural persons owning an agricultural holding), 34 are legal persons (representing 3 % of all legal persons owning an agricultural holding) and 8 scientific institutions.

The horizontal measures (M01 "Knowledge transfer and information activities" and M02 "Advisory services, farm management and farm relief services") also contribute to the objectives of FA 3A, albeit more indirectly. The results of the monitoring of the demonstration projects (sub-measure 1.2) show a relatively high dissemination of the results of the demonstration projects (more than 3.000 people participated in seminars, field days and conferences of the 9 completed projects), but the data from the survey of the beneficiaries and the agricultural operators show a lower uptake of the results of the demonstration projects in farms. The main reasons are that, firstly, not all farmers participating in the dissemination events can use the results of the demonstration tests because they are not relevant to the farm's activities. Secondly, the introduction of innovative solutions requires both financial and human resources and the results are not used on farms due to the lack of these resources. Farmers are also provided with advisory services (M02), but the contribution to achieving the objectives of the priority is very low (only 15 beneficiaries participated). The low level of implementation of the measure is due to three main reasons: (1) a high proportion of beneficiaries are enterprises, which are ineligible as beneficiaries under measure M02 as they do not meet the requirements for SMEs; (2) for projects contributing to FA 3A, one of the types of eligible costs is general costs, which include advisory services and that reduces the need for consultations under M02; (3) from the perspective of the FA 3A, the monitoring model for the implementation of the measure itself is not entirely appropriate. The measure contributes to all RDP priorities horizontally, but the advice topics themselves are not clearly linked to the RDP priorities or focus areas. In this context, some of the advisory services, in particular on improving the competitiveness of farms, farm management, accounting, relates not only to FA 3A but also to FA 2A, which makes it difficult to assign it to only one of these areas.

Part of the FA 3A measures also contribute to the development of innovative technologies. Innovation is implemented in the 3 investment measures assessed: 4.1, 4.2 and M09. In terms of type of innovation, technological process innovations are the most common (65 % of projects), which is why RDP support has contributed more significantly to productivity growth, reduction of production costs and improved labour productivity. Technological progress contributes directly to the competitiveness and sustainability of the sector. For most investment projects, innovation is understood as the acquisition of new and modern machinery or equipment. The acquisition of this machinery or equipment constitutes an innovation at farm/enterprise level, as the beneficiaries did not have equipment of a similar type and efficiency before receiving support. However, the projects do not involve the creation of new equipment or technology. Projects implemented under sub-measures 1.2 and 16.1 "Support for the creation and development of EIP Action Groups" contribute more to the introduction and dissemination of innovations at national level. Demonstration and EIP projects develop new technological, product or process type solutions. These projects aim to develop innovative solutions that enable agricultural operators to improve their performance.

Key findings in relation to FA 3B "Supporting the prevention and management of farm risks"

The objective of FA 3B is to increase the competitiveness of agricultural producers by improving farm risk prevention and management. This objective was pursued through three different types of

measures: support for investments in the introduction of biosecurity measures in the livestock sector (M05 "Restoration of the production potential of agricultural holdings affected by natural disasters and catastrophic events and implementation of the corresponding preventive actions"), reimbursement of insurance premiums for crops and livestock (17.1 "Insurance premiums for crops, animals and plants"), and to encourage farms to manage risks by setting up agricultural risk management funds (17.3 "Income stabilisation measure (agricultural risk management funds)").

The implementation of FA 3B has been relatively successful. The most significant contribution to achieving FA 3B is made by the reimbursement of crop and livestock insurance premiums (82 % of the budget of FA 3B or 12 % of the budget of Priority 3 is planned for this activity). The number of applicants applying for livestock and crop insurance reimbursements is increasing (the number of applicants increased from 432 to 1 437) and the area of insured crops is steadily growing (the share of insured crops in total declared crops has increased from 4 to 12 %). The number of insured livestock is also increasing, albeit with fluctuations, with the number of insured livestock accounting for about a quarter of the total number of livestock and the number of insured poultry accounting for about two thirds. The increase in the number of crops and livestock covered by the RDP means that the support is making the agricultural sector more sustainable and less vulnerable to adverse factors (e.g. drought, frost, disease). In addition, the strengthening of insurance schemes contributes to farmers' confidence and financial stability, allowing them to plan for long-term expansion and investment and to spend more on expansion and modernisation, thus ensuring the sector's future growth and competitiveness.

Investments in introducing biosecurity measures on farms have also been successful. The support has had a positive impact on increasing the competitiveness of farms. Although the funding for the measure was reduced and the measure did not meet the expected demand from potential applicants, the projects funded have been implemented successfully and the planned performance indicators measuring the average annual number of livestock have been met and exceeded for most projects. Investing in biosecurity measures helps to make farms and agribusinesses more competitive by ensuring healthy livestock, reducing disease risk, enhancing product quality and increasing confidence. The share of poultry reared on farms and enterprises supported under measure M05 has been steadily increasing as a proportion of the total number of poultry reared in Lithuania (3 % in 2020 and 18 % in 2023). The share of pigs in the total number of pigs reared in Lithuania has also increased steadily (2 % in 2020 and 10 % in 2023). The increase in the number of livestock on farms or enterprises receiving support shows that these farms can achieve higher production volumes and be more competitive on both domestic and foreign markets. Beneficiaries also view the support positively and most of them see a significant impact on the reduction of the spread of infectious diseases in farmed animals within the enterprise and on the reduction of losses incurred by the enterprise as a result of outbreaks of infectious diseases.

A new sub-measure supporting the establishment of risk management funds was launched in 2022. It should be noted that this activity has not yet attracted the interest of farmers. As the analysis shows, this is due to a number of economic, administrative and practical reasons. Although some farmers are not interested in the instrument or do not consider it useful and relevant, some farmers are not sufficiently well informed about the possibilities and money available for risk management funds. Farmers also lack confidence as to whether risk management funds actually provide benefits, as the compensation from the funds may be lower than the losses incurred, or the rules of the funds themselves may be complex and unclear. Farmers worry that payments will not cover real losses, or that aid funds will be too slow or unable to provide effective support when needed. The cost aspect of risk funds is also important. Farmers, especially smaller ones, may find it too expensive to set up and participate in farm risk management funds. Despite the fact that these funds help to protect against natural disasters, diseases and other adverse factors, the compulsory premiums and administrative costs can be high, so some farmers decide that they can cope with the risks themselves, without any additional financial commitment, either by using other risk management tools (such as insurance or the choice of appropriate technologies) or by making use of national measures to compensate for losses incurred.