EU ACCESSION AND CROATIAN RURAL COMPETITIVENESS

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ABSTRACT:

Croatia has just entered the negotiation phase for accession into the European Union. It now appears almost inevitable that Croatia will enter the EU. This will mean increased competition, and requirements for Croatian businesses and communities, especially in the rural context. The readiness and appropriate response of Croatian agriculture and rural communities must be analyzed and disseminated thoroughly now in order to prepare for this future. The authors believe that despite numerous hurdles many opportunities exist for Croatia to achieve rural competitiveness. Basic indicators of progress in rural development will be calculated or evaluated, particularly the improvement in the rural economy (performance of agricultural and non-agricultural activities), development of markets (improvement of accessibility), sustainable management of the resource base, policy and governance (decentralization, institutional framework). SWOT (strengths, weaknesses, opportunities and threats) analysis will be used for comparing Croatian readiness and response to EU accession and case studies will highlight positive examples. Other Southeastern European countries will also be used as a basis of comparison. Finally, conclusions will be made and recommendations proposed for increasing Croatian competitiveness and preparation for EU accession.

1. INTRODUCTION

The Republic of Croatia has, in 2005 become a candidate for membership in the European Union; it is hoping to become a full member as early as 2009. As the momentum builds and the country edges closer to this goal the authors are struck with the question of readiness. Is Croatia prepared? Specifically, are their rural communities prepared to enter the EU and enter not just as a member but as an able member that will feed its own population, compete with
other EU countries and using the EU as a base, export its agricultural products to the world? The authors of this paper believe that despite serious limitations, Croatia has opportunities to achieve competitiveness, due to some positive elements including access to new EU funds, positive transformations in policy making, and some competitiveness of Croatian farms, as well as through budding initiatives in development and education which could be transferred to other areas for overall rural competitiveness.

The paper addresses four key areas of rural development; development indicators and programs, EU policies and expected legal changes in rural development, rural financing and entrepreneurship, and education. In each section, initial conditions will be laid out, problems revealed and compared, some positive elements explored and recommendations proposed. Cases will be used to explore elements of competitiveness from specific initiatives and areas within the Republic of Croatia. The last part of the paper will give conclusions and suggestions for future areas to explore and immediate development needs.

2. METHODOLOGY

This paper uses as the definition of competitiveness, the idea of systemic competitiveness. Systemic competitiveness is the interaction between four elements of competitiveness: Micro-level competitiveness (managerial competencies, entrepreneurial strategy, interaction between suppliers, producers, customers), Meso-level competitiveness (education policy, structural policy, regional policy), Meta-level competitiveness (socio-cultural factors, value orientations, basic configurations of political, legal and economic organizations, strategic and policy capabilities), and Macro-level competitiveness (budgetary policy, competitive policy, trade policy, etc).

Specifically the paper will analyze systemic competitiveness within the context of four areas of rural development: government policies toward rural areas, general agricultural competitiveness, business activities and development, and the role of education in rural competitiveness.

Although competitiveness is not the general macroeconomic problem, the government has an important role in the creation of an adequate foundation and macroeconomic framework within which producers and firms (or farms) can compete. Competitiveness should be based on increasing productivity and business efficiency, as well as the increased quality of products, services and innovations (Škuflić, 2000). In achieving this, government can help with subsidies and a favorable national currency rate, but particularly by arranging a clear and consistent legislative framework. What the Croatian government did in creating the framework for rural development and competitiveness was shown on the basis of a secondary resources analysis (literature and official documents review). The estimation of the general agricultural competitiveness was based on a competitiveness study that used the Domestic Resource Cost (DRC) indicator as a method. DRC compares the opportunity costs of domestic production to the value added it generates (Koester et al., 2001). The numerator is the sum of the costs of using domestic primary resources - land, labor and capital (non-internationally traded inputs) valued in terms of shadow prices. The denominator is the value-added (value of output minus tradable input costs per unit of output) in border prices. Business aspects in rural areas as well as the role of education in achieving rural

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competitiveness are reviewed and estimated by economic indicators as a result of previous economic analysis.

At the end of each segment competitiveness is analyzed by comparing strengths, weaknesses, opportunities and threats (SWOT tables). Case studies are used to highlight positive examples of Croatian rural competitiveness. The studies are used in part to make recommendations for future opportunities in the development in the competitiveness of Croatian agriculture.

3. BACKGROUND

3.1. About Rural Development Issues in General

Recent research into rural development stresses that this issue has to be developed in Europe for both scientific reasons and its contribution to policy decision making. For this reason, researchers describe and analyze what is at stake in significantly extending the profession's interest toward rural economics, understood as the economics of rural areas (Léon, 2005). In this process, Kostov and Lingard (2001) contributed with a specific approach indicating that human behavior in general and economic behavior in particular is better thought of as a process of reducing uncertainty through risk defusing operators, that is, risk management. Considering that environment (i.e. the rural economy) is characterized by uncertainty (often high risk, not well structured and irreducible), those authors suggest that development (and rural development) can be viewed as a continuous process of evolution of the available risk management operators. In other words, risk management is defined as a positive model of economic and social behavior, including its social dimensions which introduce both complexity and structure into the process of rural development (Kostov and Lingard, 2003). The reason for proposing such a concept authors gave in the fact that rural development has become an increasingly popular concept. It has been identified with terms such as 'integrated', 'multifunctionality' and 'sustainability'. Without entering into definitional nuances, they have noted that these concepts were ‘fuzzy’ (Kostov and Lingard, 2001). The use of such concepts leads to greater risk awareness. The well defined aims of agricultural policy vanish and the ‘second pillar’ of the CAP has to be managed in a much broader context. Namely, rural development is traditionally associated with agriculture, but the recent policy shift towards integrated rural development reflects the complex linkages and interactions within the system of overall rural development. Putting too much emphasis on agriculture and ignoring its linkages to the rest of the economy could result in analytical bias, so Kostov and Lingard (2001) argued for a synergy approach to rural development, which incorporates both traditional network and institutional analysis and focuses on working mechanisms and processes rather than the ends in rural development. They repeatedly stress the need for fostering cooperation between public and private actors to achieve sustainable development. The need of interaction between policies and the strategies of farmers and other local actors in creating new institutions in rural territory governance was recognized already by Esposti and Sotte (1999), while Arzeni et al. (2001) discussed about the emergence of new enterprises and farms in rural areas that introduce new activities to achieve economic effectiveness and competitiveness. All mentioned observations and conclusions were the starting point for our analysis in which we tried to analyze some of these elements in achieving Croatian rural competitiveness.
3.2. Experiences of the New Member States in Rural Competitiveness

EU enlargement was (and is) one of the greatest challenges facing the old EU Member States, and perhaps even more challenging for the new member states (NMS from Central and Eastern European Countries – CEECs). Expansion changed the average outlook of the EU – spatially, economically, socially, and politically. All of the experiences of the NMS have shown agricultural and rural issues to be some of the most difficult accession issues to resolve. The rural sector in CEECs have faced considerable changes during the transition and accession period, in their attempts to adjust to the Common Agricultural Policy’s (CAP) standards and practices which have also been changing over time.

The natural conditions for farming in the CEECs have had some common characteristics throughout the accession process: the fragmentation of the farm structure is the most common weakness, as well as a dual farm structure with a high share of small holdings. With regard to this, Sarris et al. (1999) discussed the efficiency and stability of the dual production structure in the medium term and concluded that large, recently emerged corporate and co-operative farm structures may not be stable because of conflicts inherent in co-operative production under current ownership structures. The few large individual private operators that have emerged may soon face restructuring problems, while the, younger, relatively small-scale farmers appear to have major and as yet unexploited production potential.

The principal changes appeared in land ownership (privatization and the splitting up of large co-operatives) and markets of agricultural goods (consumer prices have increased, but the prices of agricultural inputs have increased by even more). The decline in agricultural production was particularly pronounced in the livestock sector, having a negative impact on agricultural incomes, but a positive one on environmental protection, biodiversity and landscape diversity.

Numerous analyses have shown that rural living standards in the CEECs are significantly below those of urban areas, and many people, who live in rural regions of the NMS, and especially those in predominantly rural regions, are poor according to the level of GDP per capita relative to that of the EU-15.  

Rural areas are characterized by ageing of the population and migration, and have a population density that is markedly below the national average (41-59%), which induces both less incentives for investment as well as difficulties in providing sufficient infrastructure. The level of educational attainment amongst the rural population is, in all NMS, lower than the standard of the respective total populations, and the quality of rural education is estimated, in general, as lower than in the towns. Another serious issue in rural areas is the long-term unemployment and underemployment, which is a feature of the small farm structure in the majority of rural regions.

The overall economic performance of regional economies in the CEECs is mostly dependent on the industrial and service sectors not on the agricultural sector. Agriculture is the primary source of output in most rural regions, however growth for the countries has been most commonly associated with a fall in agricultural and industrial output and a rise in the output of services (with some exceptions). Agriculture is also usually the sector with the lowest wage rates. Social payments are the main source of income for around one third of the rural households in some countries (Estonia, Lithuania, Poland), and there are very few self-
employed people outside of agriculture. In most countries' rural area investments in agriculture are too small to generate future growth.

Some other research shows that the overall economic recovery of the CEECs was not transmitted to agricultural production, nor to their internal markets, but into demand for transformed products and their net imports from the EU (Pouliquen, 2001). The rather low effective competitiveness of agricultural sectors in these countries is related to the relatively weak productivity of labor and land. Also, the lack of institutions in rural areas among the NMS contributed to the slow pace in agricultural recovery and the limited success of agricultural credit programs. This resulted in only a few products in which CEECs achieved international competitiveness (measured by DRC), and these from crop production rather than from livestock farming (Frohberg and Hartmann, 1997; Gorton and Davidova, 2001).

For a number of the NMS, easier access to EU markets after enlargement has been seen as an opportunity for improvements in technologies used in agricultural production and the more wide dissemination of environmentally-friendly practices as well as in the development of organic production. At the same time, major challenges face the agro-food sector in the implementation of the quality and sanitary standards as part of the acquis communautaire and due to the increased competition in domestic markets.

To solve the manifold rural problems detailed above, policy instruments to support agriculture and rural development have been developed and implemented in the NMS, taking into consideration a convergence of agricultural policy instruments toward those of the EU. However, changes in the use of policy instruments and the level of support for different commodities have led rather to high policy and market risks for farmers, and as a result have not led to the expected increase in production.

Another solution for NMS in helping improve rural competitiveness is their more recent access to a variety of additional measures of support. These new policies will be financed by the SAPARD funds, and help to further implement the regulations of the acquis communautaire. The larger share of these funds will be aimed at improving farm business and overall agricultural sector competitiveness while a smaller share is predicted for agro-environmental programs.

3.3. Recent Research on Rural Areas in Croatia

The overall economic situation in Croatia has been marked by economic growth and stability. The average annual GDP growth in year 2003 was 4% while the inflation rate of 1.8% was the lowest of all transition countries. Economic growth has been induced by public investments and growing personal consumption that have increased imports and induced a negative trade balance.

The economic situation is also characterized by high regional disparities in development. There exists a 14 fold difference between the county with the largest GDP (The City of Zagreb) and the poorest county (Lika-Senj). Unequal regional development has been caused by various elements out of which transition and war were the most recent causes. Unequal regional development has also negatively impacted competitiveness. In order to alleviate these disparities less favored areas and war affected regions are subject to higher subsides.
Croatia has three different climate types (continental, mountain and Mediterranean) due to its interesting geographical position. This has resulted in wildlife diversity, various livelihood and economic conditions and a great potential for agricultural production. Indeed, the agricultural sector employs 7% of total labor force and has a 10% share in total GDP, foreign trade and employment, agriculture is an important sector in Croatian economy. With much of Croatia's population living in rural areas, the rural sector represents a substantial part of the national economy. Unfortunately, these inherent qualities and relative importance of rural areas have not yet been translated into increased international competitiveness especially in agricultural products as seen in the fact that Croatia is a net importer of food products (importing half of its food requirement). Moreover, although agriculture is the mainstay of the rural economy, it is not necessarily the main source of family income: only 15% of rural households rely solely on farming for its livelihood, as most farms are too small and their productivity too low to provide an adequate living.

These problems in agriculture and rural areas, as well as the government’s role in the arrangement of economic relations in these sectors are topics that have been raised in domestic research for a long time, and have been observed from different social and economic aspects. During the last decade, researchers stressed numerous problems limiting economic development, and especially within rural areas: inherited problems of agricultural land in the context of privatization, land records, the system of inheritance, markets, taxation etc. (Žimbrek and Žutinić, 1996; Franić and Žimbrek, 2003, Franić et al., 2003). Dolanjski et al. (2003) gave special attention to the problem of land fragmentation as the most important limitation in the organization of profitable agricultural production, which disables the more rapid development of the total agricultural sector in Croatia. Moreover, Štambuk (2003) criticizes domestic rural policies – or more specifically – the absence of developing concepts and principles, unclear developing goals and impatient politicians and policy-makers. However, despite difficult political and economic conditions imposed on rural areas after the Second World War and dramatic changes that often have not been marked by progress (Župančić, 1993, 2000), some "survival" elements have been stressed. Piližota (1999) stresses the advances of geographical position, climate and agro-ecological conditions, as well as the farm structure, particularly in the eastern part of Croatia, where the farm and food system takes a predominant position and has an opportunity to use these advantages and compete on markets by recognizable ecological, ethnic and regionally specific products. The natural capital of Croatian rural areas is recognized also by Lay (2002), who recommends the network of these values with the purpose of creating the value added sustainable economy, based on "bio-economic" activities, such as ecological agriculture, eco-tourism, the sustainable management of water, forests, flora and fauna etc. The authors offer possibilities of diversification activities in rural areas (Njegač and Toskić, 1998), and – as positive examples – stress the incentives to social and economic heterogeneity, including knowledge and experiences of the local population, and the existence of (although rare) concrete development projects that take into account special qualities of rural areas (Štambuk, 2002; Žutinić et al, 2005).

With the beginning of the EU accession process at the end of the 1990s, Croatian rural areas' underdevelopment became even more obvious. Researchers warned of widespread differences between the level of development and the arrangement and protection of rural areas in the EU in comparison with those in Croatia. Searching for reasons for such a situation, researchers have also pointed to the historical background, economic, socio-cultural and spatial elements, as well as the legislation and an educational system burdened by archaic stereotypes (Kušen, 2003). Even at the beginning of the 1990s, Štambuk (1993), stressed the complexity of
defining the concept of rurality as a social phenomenon, and divided them into two basic
groups of rurality elements: (1) basic material suppositions – land, landscape, agricultural
and other activities and (2) individual and social elements, such as individuals, the family,
the village – rural community etc. Although even at that time it was suggested to use the
results of this analysis in economic and political decisions on rural development, a whole
decade later Kušen (2003) stresses the gap between Croatian and European standards in the
problem approach. Searching for solutions, authors often remind the real and potential actors
of rural development: vital family farms and farm producers (Župančić, 2002; Franić et al,
2003), and farm co-operatives as a factor of stability and competitiveness for small family
farms (Tratnik et al, 2005). Above all, authors stress the increasing role of education in a
modern world and its direct link with social and economic development. Countries that wish
to speed its development, decrease poverty and increase competitiveness, has to accept
education as the key resource (Strugar and Cindrič, 2004).

4. RURAL COMPETITIVENESS IN CROATIA

4.1. Government policies toward rural areas

As rural development was becoming an important element of the Common Agricultural
Policy of the European Union, Croatia's rural development policies and programs also needed
to be consistent with EU policy. Croatian agricultural adjustment to the strict European
standards began by adopting the Strategy of Croatian Agricultural Development in 1995,
stressing the role of family farms in agricultural development. Price policy reform was
initiated in 1998, in conjunction with the reform of trade policy required for WTO
membership. To compensate farmers for the reduction of import protection and associated
floor (producer) prices, area payments were introduced for most major crops. The number of
crops eligible for support thus increased, and a further 15 perennial crops were introduced to
receive subsidies for establishment. Direct price subsidies for crops and all input subsidies
were terminated.

There is widespread recognition that the rural economy is more than just agriculture. Despite
this, there has been no agricultural strategy for rural development based on a broader
framework for improving the livelihoods of rural people and achieving equitable and
sustainable economic growth. The first legal step in solving this problem was adopting the
Law on agriculture (2001), giving the Ministry of Agriculture and Forestry a mandate for
rural development. However, a wide range of initiatives continued to be implemented by other
ministries and the international community. Many of these initiatives were poorly
coordinated, geographically limited and driven by institutions with an urban bias. Finally an
FAO and the MAF project that organized a series of stakeholder meetings to create awareness
of rural development issues resulted in a mid-term Rural Development Strategy. Through this
participatory process, a strategy was formulated to help align Croatia's rural development
program with comparable policies and institutions in the EU, as well as to serve as a stepping
stone towards integration. This document was one of the most relevant base documents in
preparing the National Rural Development Plan, which is the major programming instrument
for the EU's Special Accession Program for Agriculture and Rural Development (SAPARD).
Measures adopted within the National Rural Development Plan for Croatia for the period
2005-2006 are directly and indirectly regulated by forty laws and three strategies, dealing
with three main fields: (1) agriculture, fishery and forestry, (2) environmental protection and
(3) zoning and infrastructure.
Standards that have to be respected in business and especially in agricultural and rural business are additionally governed by other legal provisions (on crafts, cooperatives, land books, property and property rights etc.). Since agriculture is one of the most sensitive sectors in the process of accessing to the EU, further regulations governing the development of the agricultural and rural sector should be harmonized with those of the CAP in order to attain a common end: increased competitiveness of agricultural producers and agricultural products. Further adjustments are expected in more detailed analysis and comparison of each individual law with its key operational measures and control of their fulfillment, as well as in harmonization with the EU standards (regarding CMOs, international trade, state support and aids, environmental protection, food production and marketing standards etc.).

In the area of institutional support quite a lot has been done through the foundation of the agricultural extension service\(^3\), the market information system in agriculture\(^4\), farm register\(^5\), the Agriculture Research Council and agencies (such as SAPARD agency, Food agency). Further institutional developments have to be carried out both at the central government, ministerial and regional levels. The main objectives of these actions, regarding the RDS, should be (i) a better coordination of activities which aim at support of different aspects of rural development, (ii) a better streamlining of available resources and (iii) an increase in the efficiency of existing institutional settings. However, achieving these goals, together with continuous harmonization with the administratively complicated CAP requires further improvements in the institutional and regulation systems. Some suggestions in this process go toward the foundation of new agencies in the field of agricultural interventions and payments, integrated administration and control system (IACS), agencies in the field of rural development coordination, veterinary and phytosanitary control.

Recent developments in Croatian relations with the EU enable Croatia to use the pre-accession programs for structural and rural development (Phare, ISPA, SAPARD). The most important activities in Croatia were connected to the SAPARD program. These new circumstances give rather high chances to invest in agriculture and the rural economy, helping structural problems to be solved and competitiveness improved in production that lags behind European averages. At the same time, pre-accession funds will be a test for Croatia which will hopefully demonstrate the country’s success in achieving goals set by policy makers, and especially in co-operation skills, between producers, between producers, services, local and state administrative bodies and between other stakeholders in the rural development chain.

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3 HZPSS – Hrvatski zavod za poljoprivrednu savjetodavnu službu (Croatian Bureau for Agricultural Extension Service).
4 TISUP – Tržišno-informacijski sustav u poljoprivredi (Market Information System in Agriculture).
5 Upisnik poljoprivrednih gospodarstava – Farm register.
Case Study: Positive example of government action: An expert project financed by the MAFWE into strawberry production

http://www.hzpss.hr/infhzpss/vip/2003/0124028h.doc

Despite obvious developing limitation due to a lack of co-operation between administration bodies and farmers in the field, there are some positive examples proving that things can be changed. One of these is the activity of the Council for the Research in Agriculture, a professional body consisting of representatives from the Ministry of Science, Ministry of Agriculture, Agricultural Extension Service, Universities and farmers. The basic task of this body is to stimulate the process of knowledge transfer from scientific institutions to the family farms, through the Agricultural Extension Service, on the farmers' initiative and for their practical demands. One of the projects recently financed by the Council Fund was testing the different direct sale models of farmers’ products, among them – strawberries at the peasant market. The reason for such a project was to search for possibilities in increasing farm income for small-size family farms under the new circumstances of strong competition imposed by growing imports and large market chains. The model has been tested in the case of strawberry sales at five locations in Zagreb county, during a two month period in 2002. The marketing concept was based on the advantages of "domestic" strawberries and an exclusive sales point "peasant market" – in regard to imported strawberries and usual (conventional) sales places, as in the case of city markets. Peasant markets must be organized on special locations in the County towns, out of existing retail markets, because it enables the consumer to differentiate between the producers' supply and the traders' supply. Ten producers, members of the "Strawberry ring" association, were selling at five peasant markets in Zagreb County. On average, 11.6 t of strawberries were sold per producer (about 60 kg per day, at the rather high selling price of more than 15 kn/kg). Total selling costs were about 2,000.00 kn per producer. The costs of the peasant market organization (stands and promotional material) were an additional 2,500.00 kn, but were paid for by the County. Choosing to sell on the peasant markets, the strawberry producers have realized considerably higher revenue then if they sold through conventional avenues. With regard to whole-sales, the revenue is higher by almost 60 thous. kn, or more than three times as much. With regard to the city markets, the revenue is higher by about 20 thous. kn, and the sales costs are markedly less. This case confirmed that, by the direct sale activities on domestic markets, farmers can achieve higher prices and income, and additional employment for the family farm members. This model is particularly applicable for small-size farms, while bigger producers have difficulties in the co-ordination of selling activities and usual farming tasks. The demand is present for developing direct sale of peasants' products in Croatian market, and a part of Croatian consumers have strong preferences toward this sales channel. The tested models are suitable for large Croatian cities, but also for smaller towns. However, the precondition is co-operation of all services (science institutions, ministries, extension services). When starting direct sale, farmers need professional help in the organization of the business, and this job should be done through the competence provided for under the extension service. The Ministry of Agriculture, Forestry and Water Management already develops special programs for additional farmers' education (on markets, management, marketing, law, catering), improves the legislation for regulating such activities, introduces models of support to direct sale and marketing preparation of farms products. Some of these programs are officially included in domestic rural development programs and in the SAPARD program for Croatia as well.

Table 1: SWOT Analysis of Croatian Government Policies Toward Rural Areas

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<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<td>[-</td>
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<tr>
<td>• rather high educational level and &quot;western&quot; experience of the government staff</td>
<td>• weak co-operation between ministries in competence, between central and local administration and between policy makers and farmers</td>
</tr>
<tr>
<td>• positive actions in legislation harmonization to the CAP standards</td>
<td>• lack of information at local levels on rural development programs and financial means for co-funding</td>
</tr>
<tr>
<td>• good existing models of rural areas support (capital investments for commercial farmers, income support for older farmers, rural development models)</td>
<td>• inefficient legislation implementation in practice, lack of control and sanctions</td>
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<table>
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<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<td>[+</td>
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<tr>
<td>• increasing possibilities for implementation of positive examples in the field (pilot-projects, as shown in the box)</td>
<td>• disorientation in the strict administrative procedures and short time for foundation administrative services</td>
</tr>
<tr>
<td>• using the pre-accession funds for farms and rural infrastructure</td>
<td>• further CAP reforms that will limit Croatian possibilities for adjustment and benefit from accession funds</td>
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4.2. Agricultural Competitiveness

The total area of agricultural land in Croatia is 3,155,690 hectares out of which 66% are privately owned (2,089,253 ha). The rest of it is under state ownership (1,066,437 ha or 34%). In the agricultural land structure, the largest share of arable land are gardens (46.4%), then pastures (36.6%), meadows (12.9%), orchards (2.2%) and vineyards (1.9%). Family farms cultivate about two thirds of agricultural land. Furthermore, family farms possess the largest area of orchards and olive-groves (96%), followed by vineyards (92%), meadows (84%), arable land (80%) and pastures (40.5%). The rest of the land is generally owned by the state and used by companies either in state or private ownership ( Croatian Statistical Bureau).

Agriculture production significantly decreased due to the war and market economy transition. The plant production has been increasing continually since 1995, but cattle production is still 30% lower than in 1990. The largest share in the total value of agricultural production is in crops and most cereals, while livestock production contributes to 40 percent of the total value of agricultural production. Both plant and livestock production is characterized by low yields (according to international standards) and low quality. In most agricultural products Croatia has not reached a self-sufficient level yet.

The Competitiveness study conducted in 2001 confirmed low competitiveness in the majority of agricultural products. Except for poultry and eggs productions, other livestock productions are above the competitiveness line (measured by the DRC ratio). In plant production only maize, rapeseed, vegetable, and some types of apples were considered as competitive on the world market.

Due to an analysis of Croatian agricultural competitiveness (Koester et. al., 2001) "The competitiveness of Croatia's agriculture is hampered by a series of structural constraints, sector policy issues and macroeconomic factors, many of which are mutually reinforcing. Structural issues confronted by the sector include: small farm size and highest levels of land fragmentation, thin land markets, and problems with ownership and management structures among the agro-kombinats and agro-processors which are not conductive to efficiency and competitiveness. Sector policy issues pertain to the inappropriateness of rural credit programs and institutions, the need to refine price and trade policy, and the lack of efficiency and transparency in commodity markets."

The first serious research on competitiveness in Croatian agriculture has tried to compile as much as possible the agricultural activities. However, considering great regional differences, it was not expected to give all the answers and to provide clear insights in Croatian advantages. The results of this study show that, despite poor technical performance in some sectors, the major problems come from markets (whether for inputs or outputs) not operating effectively. The impact of this can be seen in results of the Domestic Resource Cost (DRC) ratio for each sector. Most ratios are greater than 1, indicating that the value of domestic resources used in production is greater than the value of the output produced when measured at world market prices. Of course, a single DRC ratio cannot represent the comparative advantage of an entire sector, and the numbers should be regarded as approximate guides rather than infallible absolutes. It is salutary, however, that the data for these estimates came from the better private farmers. Most Croatian farmers are considerably less competitive than these.

6 Production of maize, oilseed rape, apples, eggs and poultry meat resulted with the DRC less than 1, while rather high numbers of the DRC were calculated for sugar industry, pigmeat and dairy production (2-5).
4.3 Business Aspects in Rural Areas

Although beginning from different standpoints, it seems that CEEC’s today share most of the same crucial problems regarding rural areas. From a microeconomic perspective, the primary problem is how to generate enough income for a decent life, vitality and sustainability of rural households. This problem is closely connected with the growth and stability of their business activities. In order to respond and solve this problem of income generation all actors involved and their respective constraints should be taken into account.

The majority of rural populations are farmers. Farm capacities are small and fragmented (agricultural land), technologically outdated (machinery) and old, without appropriate training to adopt new concepts and management tools (human resources). Constraints for development are also the lack of inadequate extension advice, limited negotiations and bargaining skills and inefficient market information and intelligence.

The business sector must take a more active role in rural employment, vertical integration (especially having in mind the growth of supermarkets and hypermarkets), meeting quality standards and in production volumes. Can and how will rural businesses reach satisfying levels of competitiveness and sustainability? And how can business in rural areas respond to turbulent changes and exploit new market opportunities (during and after EU accession)?

Three types of business entities are involved in agricultural production in Croatia: (1) family farms, (2) trade companies and enterprises and (3) cooperatives and crafts. From the legal point of view trade companies, enterprises and cooperatives are legal entities while other types can only be treated as physical persons. Unlike in most CEE countries, Croatian agriculture wasn’t predominantly organized in large, collective farms. Despite that fact, large farms (usually called agrokombinats-AK) used to play a very important role in a few ways: as a source of employment for the local population, as a link between the small scale farms and the market and as R&D institutions. Their monopolistic position in distribution and marketing, financing privileges and achievement of economies of scale did not help them to reach business efficiency. High levels of protection helped AKs to maintain inefficiencies in organization and management. Hence, the main problems AKs faced was low profitability, excess capacity, over employment, debts, difficulties in adapting to market conditions, old-fashioned management and uncertainty over land ownership. The majority of AK’s are privatized today. The privatization process was (and still is) very slow and Croatia lacked a clear privatization strategy. During the privatization process the AKs received no FDI at all (Njavro et al. 2003).

The cooperative type of organization is still hampered with its socialistic legacy. Cooperatives could help small family farms to surmount problems of competitiveness, entrance to markets, credit access and bargaining power. Advances have been neglected for a long time but, fortunately it seems to be recognized and a number of western types of cooperatives are increasing. Government programs and international donor organization efforts have certainly helped.

The farm structure is dominated by a large number of small-scale, fragmented family farms. The number of family farms and their structure varies by sources and purposes of data collection. In general, statistical data and information about family farms are very scarce. Farm business data collection system (Farm Accounting) actually does not exist. These create obstacles for any kind of analysis and comparison. According to the Agricultural Census
2003, the number of agricultural holdings were about 448 thousand. The farm's structure, while at the beginning of the transition period different from other countries, now shares similar development problems as in other transition countries. According to the type of farming, (Njavro, 2001) most farms are of mixture of crop-livestock (19.27%), mixed livestock (23%) and mixed cropping type (5%) (Sample size 892 farms). Almost 70% of farms, according to the economic size of farming, are of very small and small type. Analysis regarding regions did not show any significant differences in specialization and location in the economic scale of farming.

Research about farm profitability (Par, 2002) illustrated higher profitability on farms with mixed productions as the result of lower farm resource value. Average farm income to asset ratio (r1) on family farms with livestock production was 6.58% and average net household income to asset ratio (r2) was 17.32%. The fact that resources were not optimally used is illustrated in the r1 and r2 numbers being very small and in small economic size classes. Namely, they are higher then those in upper economic size classes. The fact that the profitability indicator r1 on family farms with mixed production (mixed livestock holdings: 8.47% and mixed crop-livestock: 7.58%) is higher then the same indicator on specialist farms (specialist grazing animals: 4.05% and specialist granivores: 6.51) could be explained with insufficient production efficiency and insufficient capacity use. At the same time, the indicator r2 is higher on specialised livestock farms which is the result of incomes from other activities inside and outside of the household.

Researchers conclude that crop productions in Croatia are burdened with high input costs, generally fertilizer and plant protection materials (Par and Njavro, 2003.). At the same time, Croatia has lower yields then other EU countries. Results have confirmed assumed facts that when compared with the EU, input cost levels in Croatia are higher. Costs of fertilizers, when compared with other countries that were observed were higher. For example, the cost of fertilizer in wheat production in Croatia was 194 Euro per hectare which is significantly higher compared with Germany, Denmark, France or the Netherlands (Graham 2002). Almost the same situation existed in the case of seed and plant protection material costs (despite a relatively developed seed industry).

Because of the results mentioned, the total variable costs in crop production in Croatia were higher then it was in the case for the selected EU countries. At the same time, the value of production in wheat, maize, barley, soy and sugar beet production was low (with the exception of soy) which was primarily the result of low yields per unit of production. It is important to mention that the sale or market prices were higher or at the level of EU prices. An extreme example is wheat production, characterized by low yields and the highest prices
when compared with EU countries. All the comparisons mentioned suggest a purely social policy of implementing subsidies, instead of for economic incentives to increase yields.

**Graph 2: GM in wheat production, Croatia and EU countries (in Euro)**

![Graph 2](image)


It should be noted that the same period characterized processes of concentration and reinforcement (not at a satisfactory level or with the desirable speed) of “vital family farms”. These are specialised and market oriented farms, some of which operate as companies or crafts. These family farms possess significant resources and are managed by educated, mainly younger farmers. Economic results of family farms show the importance of non-agricultural sources of income in the households. The share of off-farm income in the total household income (Njavro, 2004) was above 50%.

**Graph 1: Share of off-farm income in the total household income by regions**

![Graph 1](image)

Source: Njavro, 2004

The Agricultural Census revealed that about 6% of households were involved in other income generating activities. At the Mediterranean region that share is higher than 10%. The less developed counties, like Sisak-Moslavina, Vukovar-Sirmium and Karlovac, had a lower share (about 2%) of other activities.
Rural enterprises require efficient financial services and the Croatian financial sector has constantly grown and developed in quality and quantity terms. Today, it is a highly competitive and innovative market that has already reached EU standards. Commercial banks (mainly in foreign ownership) are the sector’s major players. Networks of bank branches bring financial products to almost every corner of Croatia. Despite the fact that the market is highly competitive and efficient, credits to agricultural enterprises are still scarce. High risk, collateral policy, unsolved land market and contract enforcement regulations are the main constraints.

In order to improve the supply of agricultural loans, the national government (alone or with local authorities) intervened heavily in the past. Recently, in the process of agricultural policy reform, the model of capital investments, one of the reform’s pillars, has been established. It is aimed at encouraging the development of business relations between commercial banks and farmers. The model can be understood as assigning of capital from the government budget for 20 to 25 per cent of total investment and loans attained from commercial banks. The appearance of subsidized credits is nevertheless still evident; examples are the operational plans of government (operational plans for the development of cattle production, pig production and permanent crops). These agricultural policy actions should encourage investments in specified agricultural enterprises, their modernization and achievement of economics of scale. It should contribute to farm competitiveness before, during and after EU accession.

In mobilizing savings and providing flexibility and safe savings for rural populations, savings and loan cooperatives could have an important role. They are currently relatively unimportant, as their place in financial market regulations are not very clear. Significant changes could be expected in the near future. Other aspects of rural finance, like insurance, leasing and trade finance are scarce.

To improve competitiveness of rural areas in enterprise development, a wide range of programs have been launched. These programs have been initiated by different ministries of government (The Ministry of Agriculture, Forestry and Water Management, the Ministry of Economy, Labor and Entrepreneurship, the Ministry of Science and Technology, the Ministry of Sea, Tourism, Transport and Development) as well as local governments, non-profit agencies and others. The main features of the programs, however, are a lack of coordination and inefficient communication with aimed clients.
This case presents an example of a farm that survived and progressed during the transition period. The case is not typical for Croatia but perhaps it can be expected in the near future? The current situation with the EU accession has introduced a new business environment, market opportunities and risks too. How do you define a farm’s strategic goals in order to sustain and develop?

The farm is placed not far from Zagreb which provides it with relatively good infrastructure and access to the market. The Farm operates as a limited liability company involved in crop and fruit (apple) production, animal food processing, drying and storing facilities and agricultural inputs retail business. The Farm is typically a “family business” run by educated agronomists. A formalized organization scheme of the farm business does not exist but the farm’s enterprises form partly profit centers. Management responsibilities are divided based on farm enterprises.

Before the nineties the Farm was “classical”, part-time mixed crop-livestock type farms. With the beginning of the transition the former socialist type of agricultural company was replaced with a private business. Then an apple orchard was planted. Apple production was the only enterprise for three years when fodder plant facilities were launched. Soon after that drying facilities and a warehouse for grains were finished and additional hectares of arable land for grain production were obtained (bought and leased). Also, new hectares (6 in total) of apple orchards were planted. Most of the apple production is marketed directly on the wholesale markets while in animal feed production vertical integration chains have been created. The Farm organizes contract productions of poultry and pig fattening on treenine farms. About 70% of produced animal feed go through that channel.

The average Farm asset increased sharply in the relatively short period of eleven years. Its current level of assets is about half a million Euros. Revenue trend analysis also shows a significant increase and, more importantly, a constant trend. Except during the year 2001 when apple production went down because of weather conditions, revenues in other years went up almost linear. Seven permanent employees work on the Farm at the moment. The current level of production would be unreachable without external financial sources. The Farm relied on government and commercial bank loans. The debt to asset ratio is now about 70%.

In many things the Farm is above the average family farm in Croatia and shows a good example of on-farm enterprise diversification and vertical integration of production on a farm. Strategies that took the Farm to its present position are of a dual nature. One is an attempt to avoid risks in a single-activity (e.g. only apple production) and the second is to retain as much profit as possible in the chain from field to market. Strengths or the positive sides of business are the level of education and farmer’s management skills, short distance to about one million consumers in Zagreb, existing business relationships, and recognized product quality by consumers. To continue growth (or maybe stabilization is needed) additional investment is necessary. The situation with vertically integrated chain from arable crops, animal feed to poultry, pigs or beef meat is unclear (at least for the author). Beside its own fattening capacities and meat processing unit, the chain from the field to market is practically closed. Its own animal fattening capacities could offer better cost control and cost reduction, better monitoring of technology and quality standards. On the other hand, market uncertainties caused by pig’s cycles, imports and livestock epidemics are a serious risk. Strong competitiveness is present in that sector and the majority of market share have been occupied by large domestic or international companies. Quality standards are high and becoming even stricter. Strategic alliances, market segmentation or market niche in such a competitive environment is a challenge and a condition of survival.

Plans for expanding apple production exist but the Farm is faced with some limitations. Limitation for growth is an imperfect land market that seriously slows down acquiring new hectares. Also cooling and storing facilities are scarce which force farmer to sell after harvest when the price is low. Nevertheless, lately some progress occurred. The Farm joined newly formed co-operative which should organize fruit storing and contract agreements with hypermarkets chains.

Based on: Njavro, M. (2004): Approaches to farm/household income diversification for improved livelihood in Croatia, in Food and Agriculture Organization of the United Nations: Farm Commercialization and Income Diversification on the Road to EU Accession, Proceedings of FAO Workshop, Prague, Czech Republic
Table 2: SWOT Analysis for Rural Enterprises and Rural Finance

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>WEAKNESSES</th>
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<tr>
<td>[+</td>
<td>[-</td>
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<tr>
<td>Bio-ecological resources and tradition</td>
<td>Low competitiveness and low profitability of family farms</td>
</tr>
<tr>
<td>Emerging entrepreneurs</td>
<td>High costs of agricultural inputs</td>
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<tr>
<td>Relatively developed infrastructure</td>
<td>Small and fragmented farms, technologically outdated</td>
</tr>
<tr>
<td>Some cases of profitable transitions of farms and the presence of “vital family farms”</td>
<td>War damages</td>
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<tr>
<td>Saving potential of rural population (e.g. remittances)</td>
<td>Lack of markets and problems in their access</td>
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<tr>
<td></td>
<td>Lack of interest of banks to become engaged in family farm lending</td>
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<td></td>
<td>Small range of rural finance instruments</td>
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<td></td>
<td>Uncoordinated support activities of government and public institutions and many interest groups</td>
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<td></td>
<td>Inefficient legal framework and unsolved land problems (lack of land register)</td>
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<td></td>
<td>Lack of training in rural finance and credit management, experience in EU support funds</td>
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<tr>
<th>OPPORTUNITIES</th>
<th>THREATS</th>
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<td>[+</td>
<td>[-</td>
</tr>
<tr>
<td>Traditional products (origin)</td>
<td>Inefficient administration</td>
</tr>
<tr>
<td>Tourism</td>
<td>Weak coordination among responsible authorities (planning, development)</td>
</tr>
<tr>
<td>Different support programs (governmental, EU, NGO’s and donor organization) that aimed at rural areas</td>
<td>Lack of adequate skills and instruments for risk management</td>
</tr>
<tr>
<td>Foreign direct investments</td>
<td>High risk aversion of farmers and fear to apply for bank credit</td>
</tr>
<tr>
<td>Access to EU and other support funds</td>
<td>Lack of profitable investment opportunities in agriculture</td>
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<tr>
<td>Relatively well developed infrastructure (number of bank branches)</td>
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4.4. The Role of Education in Achieving Rural Competitiveness

The educational competitiveness and competencies in rural areas in Croatia are dramatically lagging behind its urban areas. Data from the Census 2001 showed that nearly 70 percent of the urban population has finished secondary or tertiary education. At the same time in rural areas only 48 percent of inhabitants finished secondary or tertiary education, while more than 25 percent of the rural population did not complete primary school. Drop out rates from education in rural areas are much higher in as well: nearly 20 percent of pupils leave secondary school before completion. Furthermore, census data showed that in all 21 counties the share of people without any education is much higher in rural areas compared with urban ones. In some rural areas, the percentage of the population older than 15 years of age without any education is 3-4 times higher than the respective ratio in urban areas of the same county (e.g. Zadar County or Karlovac County). In Zadar County or Šibenik-Knin County every 12th adult person living in rural areas has not finished any school (even primary!).

The rural regions are especially disadvantaged with regards to the share of persons with medium- or higher education, e.g. a secondary level of vocational education, high school, or a university degree. In some counties, coefficients showing the proportion of the population with a higher level of education living in rural areas are only a quarter of those living in the urban part. Preschool education is especially underdeveloped in rural areas (OECD, 2001). It is underdeveloped in terms of affordability and also quality. In addition, low quality and weak enrolment are results of insufficient support from the Ministry of Education or local
authorities and from a lack of public awareness regarding the importance of preschool education (comp. OECD, 2001, p.22). In particular, high costs of pre-school education, longish distances to pre-school and a lack of transportation prevent many children from taking part in pre-primary programs. After a change in the law in 1993, the functioning of preschool education became decentralized, and some of the municipalities had a big problem in financing due to low fiscal capacity.

A number of rural areas because of migration now have lectures organized in small schools with only two to three children per grade. This situation results in a gradual increase in the number of multi-grade classrooms in rural areas. It is not a problem per se, however, as multi-grade classrooms are very common in rural schools, the situation can lead to a lower quality of education due to insufficient preparation of teachers for multi-grade teaching. In addition, schools in bigger villages or smaller cities often have too many pupils per class and “too many” classes. Concerned schools are numerous and must work in two shifts (morning and afternoon). Other information collected through visits to schools demonstrates that for rural areas, the quality of education is affected by the following factors:

Curricula and textbooks and school hours in general do not consider enough the local culture, rural life and the rural economy. Teachers are generally not prepared to include knowledge about rural and local aspects. Outdoor activities including working in a school garden depend a lot on the teacher’s time, interest and capabilities. A primary school teacher’s salary is low and teachers do not get any salary or non-salary incentive by working in rural or remote areas. Higher educational programs for lower “qualification” professions in agriculture (an agriculturalist, florist, etc.) and agricultural technicians (general and specialist) are offered by six agricultural and around twenty secondary schools. Most of these schools have no appropriate facilities for practical class work; however, this is gradually improving.

The education of agricultural experts of different specialties is organized in two colleges as a university undergraduate, postgraduate and doctorate studies (Faculty of Agronomy in Zagreb and Faculty of Agriculture in Osijek) and as a professional course lasting two years (Polytechnic College in Križevci and in Požega). The distribution of higher school institutions is also questionable in terms of affordability especially for working students.

Opportunities for informal education are especially underdeveloped in rural Croatia. Informal educational institutions are mostly located in large cities (Zagreb, Split, Rijeka, Osijek). Informal education in rural areas could be closely connected with extension services offered in agriculture but the actual link is not yet fully developed. In 1997 the Croatian Agricultural Extension Institute (CAEI) was founded as an independent government institution specialized in advisory work. CAEI provides Croatian family farms and other users with free services, for improvements in agricultural production, development, reconstruction and reservation of all rural areas in the Republic of Croatia. Stimulating and providing expert advice to family farms on capacities and quality increase, modernization, technology development, more effective use of resources, mutual cooperation and education are some of the most important strategy determinants of CAEI for future development. (www.hzpss.hr) But, experience from Phare project in Central and Eastern European Countries shows that there are only state run services without the user pay element which tend to supply a range of services which extension officers feel best able to provide but which are not necessarily those which farmers want. Extension services should offer educational support in those important underdeveloped areas of knowledge among Croatian farmers as well.
A comparison of the situation regarding urban – rural educational differences in Croatia with the same in the EU25 comes up with similar problems but on a different scale. Generally it could be said that the situation in the old 15 member states (OMS) is better off regarding those differences than in NMS where the situation varies to a great extent and is similar to the Croatian situation. Bryden, 2003 in EU Rural development conference stated “As to the quality of education, and life long learning, much remains to be done to secure equality with urban areas in both existing and new member states. Rural people’s employment opportunities and future incomes will be increasingly restricted if they do not have equal educational and continuing learning opportunity from pre-school to retirement. The norm in the EU 25, and it is especially the case in the new member states, is that educational attainment is lower in rural than in urban populations. This is especially true of higher education and continuing education”.

The following case study and further recommendations are summarized in the SWOT table below, and are perhaps good examples of methods in which to solve these differences and to create better educational possibilities, practices and competitiveness in a rural context. This increased educational competitiveness could then hopefully be transferred to overall rural development in Croatia.

<table>
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<tr>
<th>Positive Example Christian Relief Initiative – An Educational and Development Initiative</th>
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| While it is the case that many rural Croatians are not adequately educated this case, among others, shows that there is a willingness and ability to learn present. Christian Relief Initiative (CRI) is a private non-profit organization registered in Croatia. Part of their motivation for starting the non-profit came from a desire to do something culturally relevant in Croatia. Seeing a need for agricultural development the organization focused on promoting family agriculture in 2001. Projects were located in the rural areas of upper Dalmatia (Kenin, Benkovac, Drljc, and Zadar) and south-east of Karlovac, Petrinja and Knjač near the Bosnian border. The selection process was accomplished through applications and a series of interviews. The criteria for selection was selective (20% of all applicants); successful applicants were generally unemployed or underemployed, had a wife and family, had a limited number of animals, fairly young in age, open, and have some land. Around 40 families were interviewed for each project and 5-10 selected. Originally the organization started out with a group of pig farmers and two projects for goat farmers (for cheese and milk). After contacting the local authorities and church leaders, they would select the families and import the animals. Each family was given about 10-15 goats or pigs and were required to pay back 20% of the costs of the animals after a year and a half. The other requirement was that for 18 months the families had to meet with the organization for educational purposes. Each month two professional staff members, a veterinarian and an experienced agriculturist, as well as various agricultural speakers would give seminars on the health of the animals, tax laws, upkeep of the barns, the local market for their products, etc. The seminars also focused on the character of the business person, emphasizing that good business meant having good character as well. Not only did they receive technical support from the professionals they received community help and aid from the others involved (frequently families would bring their children to the gatherings).

The results of this two year investment were beyond expectations. Some families involved went from near poverty levels to incomes that were at least average or more for Croatia. Driven by this success CRI began more projects including cow projects, a fishing project and more goat projects (10 projects in all with 6 completed projects as of 2006). Most families have repaid the costs required. Also, all of the repayment to the organization has been invested back into the rural community by purchasing more animals. Some other positive externalities of the project have been an improvement in not just the houses of the participants but in barns and other capital purchases. Also, a few of the projects have been made up of both Serbian and Croatian participants establishing a bridge between the two communities, unifying them in their common desire for economic development. The total cost of all projects has been about $300,000. This has been approximately a $3,000-$5,000 (18,000-30,000 kunas) investment per family.
Table 3: SWOT Analysis on Rural Education

<table>
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<tr>
<th>STRENGTHS [+]</th>
<th>WEAKNESSES [-]</th>
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<tbody>
<tr>
<td>▪ relatively good school network and school infrastructure</td>
<td>▪ lack of affordability of the educational programs and institutions directed to rural educational needs</td>
</tr>
<tr>
<td>▪ relatively solid elementary programs</td>
<td>▪ lack of informal education possibilities in rural areas</td>
</tr>
<tr>
<td>▪ existence of positive examples in rural educational development and innovation with relatively minimal investment</td>
<td>▪ lack of managerial, financial and marketing educational program offered to farmers</td>
</tr>
<tr>
<td>▪ existing extension service infrastructure</td>
<td>▪ lack of cooperation at horizontal and vertical levels in planning educational needs and programs in congruency with market needs and technology trends</td>
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<thead>
<tr>
<th>OPPORTUNITIES [+]</th>
<th>THREATS [-]</th>
</tr>
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<tr>
<td>▪ the development of the educational programs which will promote a combination of mass agricultural production with specialized traditional and ecological products for the needs of the Croatian tourist sector and export</td>
<td>▪ entering more competitive EU markets</td>
</tr>
<tr>
<td>▪ use of the EU cohesion funds to develop educational infrastructure and personnel in rural areas</td>
<td>▪ lack of rural policy coordination, implementation, evaluation and financing resources</td>
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<tr>
<td>▪ diversification of educational degrees according market needs and EU standards</td>
<td>▪ relatively small level of public awareness of the importance of educational development and opportunities in rural areas</td>
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<tr>
<td>▪ the development of rural tourist destinations and the creation of specific rural tourist educational programs</td>
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5. CONCLUSION

The problems of accession to the EU appear to be insurmountable and Croatia seems to be far behind in achieving rural competitiveness. The authors site problems related to Croatia’s transition war, reorientation, building a market economy, as well as more current problems like lack of proper linkages between policy makers and farmers and farmers to markets, low competitiveness and profitability of predominately small Croatian rural enterprises, lack of financial opportunities for growth, lack of education and educational opportunities, etc. These problems seem only further compounded when combined with the changes necessary for EU accession and the threat of increased competition that is likely to result. However, appearances can be deceiving, and within the context of Europe, a longer time horizon, and a view of the opportunities available the situation does not appear overwhelming.

Transformation and economic growth is occurring in Croatia albeit slowly and it is reassuring to view Croatia’s current situation not compared to the old member states (EU 15) but rather compared with the continuing struggle of the new member states in their “accession” to EU markets. Many similar problems in rural competitiveness continue to plague the NMS (e.g. EU policy implementation, differences in rural and urban educational standards, problems with sustainability in agriculture). Accession to the EU for Croatia will by no means end the transformation in its rural competitiveness and can be seen within the context of the NMS experiences, as a longer process.
If Croatia were to seize on some of the opportunities mentioned in the text, as well as the increased aid and access through accession to the EU they can very well be extremely competitive in its rural areas. Its natural resources and capabilities to grow in terms of its food production and exports are evident. And not only that, the authors’ demonstrate through their analysis and case studies that it is not impossible for the weaknesses in Croatia to be overcome; Croatia’s government and researchers can coordinate successfully with farmer needs, profitable farms can grow throughout difficult circumstances and in a highly competitive environment, and many Croatian farmers are willing to undergo extended educational and development programs in order to achieve sustainable farm incomes. Moreover, access to EU accession funds, and the immediacy of change prompted by competition are motivating factors to adapt, hopefully profitably, to EU markets.

This research should be continued well beyond the point of accession and evaluated according to how well these current seeds of opportunity are utilized. Also, other elements of systemic competitiveness like monetary policy, value orientations, technology policy, import-export policy, etc., should be evaluated, combined with the elements in this paper, and then implemented continuously in order to bring Croatia to the forefront of rural competitiveness in Europe and on the global market.

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