

# **SFSC NEEDS ANALYSIS IN LITHUANIA**

# 1. What is the current situation with respect to SFSC in my country (specifying from whose point of view)?

***There is still a difference in understanding what a short food supply chain (SFSC) is.***

**Short food supply chain** – the sale of goods from the farmer to the consumer with the participation of a reduced number of intermediaries (the 7.4 km distance that needs to be travelled to purchase the products is the limit: if the distance is greater, carbon dioxide emissions are higher than in the traditional food supply chain) (Report from the Commission to the European Parliament and the Council on the need for a labelling system for local farming and direct sales, 2013).

***In Lithuanian Rural Development Programme 2014–2020 and Law on Public Procurement:***

Short supply chain of agricultural and food products – cooperation of a limited number of small economic operators in the field of supply of agricultural and food products, combining transportation, distribution, marketing, advertising and quality management activities and aiming for the supplied products to reach the consumer quickly (Order of the Minister of Agriculture of the Republic of Lithuania of 17-03- 2016 No. 3D-135 “On the approval of the implementing rules for the activity area “Support for short supply chains and promotion of local markets at the local level” of the measure “Cooperation” of the Lithuanian Rural Development Programme 2014–2020, applicable from 2016” (TAR, 18-03-2016, No. 2016-05345)).

Short supply chain of agricultural and food products (hereinafter referred to as short food supply chain) – the supply of agricultural and/or food products produced and/or processed (including primary processing) by an agricultural entity (or their group) or its members to the market, directly or on the basis of a joint activity agreement, meeting the requirements set for a very small or small enterprise, specified in the Law on the Development of Small and Medium-sized Enterprises of the Republic of Lithuania<sup>1</sup>.

**The characteristics of Short food supply chain in the scientific content are<sup>2</sup>:**

- 1) bases food production, processing, sale and consumption on the principles of local and circular economy;
- 2) functions best at a distance of 50–70 km, as it allows food products to be efficiently grown, produced and consumed in a close area;

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<sup>1</sup> Amended by part of the article: No. XIV-2441, 21-12-2023, published in the Official Gazette on 29-12-2023, i. k. 2023-25934, I-1491 Law on Public Procurement of the Republic of Lithuania (e-tar.lt)

<sup>2</sup> Atkočiūnienė, Vilma; Vazonienė, Gintarė; Kiaušienė, Ilona; Pakeltienė, Rasa. Europos šalių trumpųjų maisto tiekimo grandinių organizavimo gerosios praktikos pavyzdžių analizė ir pavyzdiniai modeliai : mokslo studija 2021, 176 p. ISBN 9786094674891, 9786094674884. doi:10.7220/9786094674891. Prieiga per internetą:

<<https://www.vdu.lt/cris/bitstream/20.500.12259/145333/2/ISBN9786094674891.pdf>>

<<https://doi.org/10.7220/9786094674891>> <<https://hdl.handle.net/20.500.12259/145333>>

<10.7220/9786094674891>. [20.500.12259/145333] [2021] [S003] [K1b] [ai: 0.25, iai: 0.25, na: 4, nia :4, nip: 0, pai: 0.25, piai: 0.25, al: 12.571]

- 3) helps to avoid many intermediaries between the grower and the consumer - usually there is no more than 1 intermediary;
- 4) the producer not only supplies products, but also directly exchanges information with the end consumer about the cultivation, preparation, consumption of products, their value for human health, and impact on nature;
- 5) creates favorable conditions for implementing “business to consumer” (B2C), “business to business” (B2B), “business to public sector” (B2G) and “consumer to consumer” (C2C) models;
- 6) forms a local food system that ensures a sufficient amount of safe, affordable, biologically valuable and sustainable food products for local residents;
- 7) allows to reduce the costs of transporting, storing, preparing for sale and packaging of food products;
- 8) allows us to create value for the consumer, consume biologically valuable and fresh food products that ensure complete human nutrition;
- 9) the basis for a local food system that helps ensure that residents can purchase sufficient quantities of safe, biologically valuable and sustainable food at any time, and especially in times of crisis;
- 10) the "farm to fork" activity has been extended "to the cell of the human body".

#### **Green procurement also includes purchases from farmers who develop short food supply chains**

Since 2023, Green Procurement has become particularly relevant, covering both the purchase of food products and catering services. A short food supply chain is not treated as "green", but it is worth noting that organic food products, food products with the certified "Quality" mark (National Food Quality System - NKP products) and products with protected indications (geographical indication and (or) protected designation of origin and (or) indication of traditional speciality guaranteed) meet minimum environmental protection criteria.

The Ministry of Agriculture is closely cooperating with the Public Procurement Service (PPS) to achieve the common goal of promoting short food supply chains and their wider inclusion in public food procurement. It is expected that the concept of short food supply chains regulated (nationally) in the Public Procurement Law (PPL) and the possibility of simplified procurement (non-publicised negotiations) for purchasing food using short supply chains will accelerate the development of short food supply chains in Lithuania.

#### **Financial support is provided for short food supply chains**

Order of the Minister of Agriculture of the Republic of Lithuania “On the approval of the rules for the implementation of the intervention measure “Short supply chain” of the Lithuanian Agricultural and Rural Development Strategic Plan for 2023–2027, March 19, 2024 No. 3D-223, Vilnius (Consolidated version from 2024-11-01)

The purpose of the intervention measure is to support horizontal and vertical cooperation between economic entities in creating and developing short supply chains of agricultural and food products. A short supply chain is understood as the cooperation of a limited number of small economic operators in the field of agricultural and food product supply, combining transportation, distribution, marketing, advertising, quality management activities and aiming for the supplied products to reach the consumer quickly.

Short supply chains under the intervention measure can be created and (or) developed according to 3 models:

1. direct promotion of agricultural and food product sales (supported activities under support model 1);
2. promotion of agricultural and food product sales focused on larger-scale sales at the local level (i.e. a short supply chain is developed at the level of several municipalities or several sales channels) (supported activities under support model 2);
3. creation of agricultural and food product sales networks (logistics centers) (supported activities under support model 3).<sup>3</sup>

**For the fifth year, the Ministry of Agriculture has been continuing its initiative to encourage children to eat local, quality food from short food supply chains**

Preschool education institutions are encouraged to feed children with organic and local products of national quality, and the Rules for Supporting the Promotion of the Consumption of Organic Food Products and Food Products Produced in Accordance with the National Agricultural and Food Quality System in Preschool Education Institutions have been adopted<sup>4</sup>.

Since 2019, the national program "*Promotion of the consumption of organic agricultural and food products in preschool institutions*" has been piloted and later implemented throughout Lithuania. Educational institutions are increasingly interested in the possibilities of feeding children with organic products and products produced in accordance with the national food quality (NKP) system. In 2024, 70 kindergartens received support for such feeding - 7 more than in 2023. Funds for this purpose have been allocated by one million more in 2024, a total - 2,130 thousand euros<sup>5</sup>.

The data shows that the support is relevant, educational institutions are willing to participate in calls for applications, and the number of institutions is increasing. If in the first year of the support, almost a thousand children in seven kindergartens in Lithuania were fed with organic products produced in accordance with the National Food Quality System, then in 2023 there were already 10,500 children in 63 educational institutions. In total, in 2023, kindergartens purchased 607,624.96 kg of products for 2,210,841.83 EUR under the rules of support for promoting the consumption of organic and national food quality system food products in preschool educational institutions.

The support covers the price difference resulting from choosing organic products produced in accordance with the national food quality system instead of conventional food products and raw materials. Preschool and pre-primary education institutions that seek to receive support in accordance with the rules undertake to purchase products produced in accordance with the quality systems for at least 60 percent (the maximum amount of support per child per month is 26 euros) or at least 50 percent (the maximum amount of support per child per month is 22 euros) of the total amount of food intended for children's nutrition.

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<sup>3</sup> <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/af236d50e62f11ee9fddedfc979ae62a9/asr?positionInSearchResults=0&searchModelUUID=5bf87f0c-ff0a-490c-9982-edb7d5094346>

<sup>4</sup> LR žemės ūkio ministro 2019-04-30 įsakymas Nr. 3D-267

<sup>5</sup> [https://www.15min.lt/naujiena/aktualu/lietuva/daugeja-darzeliu-vaikus-maitinanciu-ekologiskais-produktais-patenkinti-ir-vaikai-ir-ju-tevai-56-2198490?utm\\_medium=copied](https://www.15min.lt/naujiena/aktualu/lietuva/daugeja-darzeliu-vaikus-maitinanciu-ekologiskais-produktais-patenkinti-ir-vaikai-ir-ju-tevai-56-2198490?utm_medium=copied)

## **Food sales situation in Lithuania**

The majority of food sales and distribution are made up of long, traditional food supply chains, representing a network of food-related organizations in which products move from producers to end consumers. According to the State Data Agency, in 2023 the retail food market in Lithuania totaled 6.7 billion euros and grew by 8.1 percent overall over the year. The largest share of the retail food market – 77.2 percent – is occupied by the trade chains „Iki“, „Lidl“, „Norfa“, „Rimi“ and „Maxima“. „Maxima“ has the largest market share among all five companies. 22.8 percent of the retail food market is shared by regional and smaller chains in the province.<sup>6</sup>

The food market is dominated by the market power of large retail chains, which they use or can use to demand various discounts and benefits in long-term contracts with suppliers: fees for advertising, marketing, market entry services, deferrals of payment terms, etc. Only a very small proportion of local farmers sell their produce through large retail chains.

### **Problems for farmers and consumers:**

Large retail chains and long food supply chains dominate the country. The activities of small farmers are less profitable. Small farmers face strong competition in the market, their bargaining power when selling their products on the market is low. Farmers are not inclined to cooperate, do not combine their available resources, etc.

There is weak consumer trust in farmers. Consumer needs for products grown in the local market are not met, and their production on farms is decreasing.

A significant part of consumers, when choosing food products, do not give preference to health-friendly products from local and/or Lithuanian farmers/producers.

### **How can we start solve the problems:**

- increase the attractiveness of agricultural activities and strengthen cooperation;
- increase the value of local products and strengthen the bargaining power of farmers when selling products on the market;
- not only strengthen consumer attitudes towards healthy eating, but also promote the provision of local agricultural and food products by public sector institutions;
- direct government decisions when forming economic policy towards increasing the purchasing power of the population;
- promote health-friendly, local products.

### **The problem of organizing local food systems and short food supply chains:**

- Organizing short food supply chains is more of a private matter, depending on the development strategy chosen by farms, the knowledge and competence of the farmer.

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<sup>6</sup> 80 proc. prekybos maistu rinkos – penki didieji prekybos tinklai (08-08-2024), <https://www.lrt.lt/naujienos/verslas/4/2335354/80-proc-prekybos-maistu-rinkos-penki-didieji-prekybos-tinklai>

- Organizing local food systems is more of a public matter, depending on the partnership of the public, private and civil sectors, the knowledge and competence of stakeholders, and the favorable legal and political environment.
- The narrow range of local food products, low supply and high cost price indicate the lack of sustainable economic niches in rural and urban areas, the low level of entrepreneurship of rural residents and farmers, and the traditional approach of those organizing public catering, poor understanding of the local economy.
- Small and medium-sized farms do not recognize their competitive advantages, and local government institutions are not responsible (accountable) for the development of the local economy.

## 2. What is the ideal or desired situation with respect to SFSC in my country (specifying from whose point of view)?

### **Problem areas for the creation of SFSC and the development of local markets**

1. There is a lack of organizational and technological innovations that would be tested and implemented in SFSC.
2. Low biological value of production produced by small and medium-sized farms.
3. The food chain and local markets for biologically valuable plant products are not developed.
4. Local markets are “closed” to the production of small and medium-sized farms, relations with consumers are not developed.
5. In rural areas, the possibilities for the effective use of local resources have not been analyzed in detail, and the potential for the production of biologically valuable products is especially poorly used.
6. Strengthening farmers' entrepreneurship does not meet current challenges, which require expanding and diversifying farm activity opportunities and maximizing the added value of production.
7. Weak cooperative ties among farmers and underdeveloped networking, especially in disseminating good practices in implementing innovations.

### **Ideal local food system (LFS) model:**

1. Includes locally organized network activities, in which the entire system operates at the scale of a specific administrative unit, including agriculture, food production, processing, sales, creation and maintenance of access to consumption, consumption itself and rational use of secondary resources and waste.

2. At least 3 business models are widely used: business to consumer (B2C), business to business (B2B), business to public sector (B2G).
3. Cooperative and single-farm SFSC are being developed.

**When developing LFS, it is necessary to:**

- a) apply various models, implement pilot projects, participatory food supply chains;
- b) assess the localization of farms and food production enterprises;
- c) assess the level of production concentration;
- d) assess the geographical location of the area, the number and density of population, transport infrastructure.

### **3. How to get from the current to the ideal or desired?**

**It is very important to expand and develop the market for local products by preparing and implementing food and nutrition strategies in municipal level.**

**LFS could be developed according to 3 models:**

- 1) Community-based local food system model
- 2) Multifunctional center-based local food system model
- 3) Food sharing centers (space, HUB):
  - 3.1) Food sharing centers (spaces, HUB) are managed by farmers developing SFSC, focusing on coordinating the marketing and distribution of local fresh produce.
  - 3.2) HUB helps farmers supply local produce to various consumer groups and wholesale customers or households.
  - 3.3) The centers could carry out primary processing and preparation of produce for sale

Business to Consumer (B2C) – this business model is usually associated with retail trade, as transactions are concluded between business organizations and individual consumers directly or using IT.

Business to Business (B2B) – one of the most popular business models, when business processes take place between two business entities.

Business to Public Sector (B2G) – business relations and processes take place with state, government institutions.

Business for the public sector is a “lowest cost” model. The company can establish business relationships with government institutions. Concentrated demand. The B2G model guarantees small producers steady orders and income, because the government institutions become the buyer of the production, since the products produced by farmers would be offered to local kindergartens, schools, hospitals, etc. However, it should be noted that in order to sign a

contract with “government institutions”, it is necessary to overcome numerous procedures and meet high requirements. Economic entities seeking to sell to state institutions or state-owned enterprises must participate in public procurement tenders. The complexity of the sales procedure depends on the value of the specific purchase, the specifics of the goods or services, and the Law on Public Procurement of the Republic of Lithuania (Public Procurement Agency, 2021).

## **4. Who should do what? When should they do it? With what resources and in whose interest?**

The following groups of users are interested in the development of SFSC: Municipal administration and its enterprises, Public catering establishments (schools, kindergartens, hospitals), Public health centers, Tourism and information centers, Cafes, restaurants, and shops

The following groups of producers are interested in the development of SFSC: Farms and agricultural enterprises, Agricultural producers and processors, Households, Local community organizations.

### **For farmers with limited production resources, it is vital to:**

- 1) switch to more valuable crops, produce high-value-added, innovative, locally produced products that are created using a zero-waste production strategy;
- 2) establish themselves in new market niches and, by forming a local economy, establish direct relationships with consumers of their products;
- 3) choose business models and strategies that would reduce the devastating impact of global competition on small and medium-sized farms;
- 4) cooperate and actively participate in value chains, change the proportions of economic value sharing between agriculture and other participants in the food supply chain to their (farmers' and consumers') benefit;
- 5) expand the local food market in order to meet the growing demand for organic, fresh, personalized, locally produced food;
- 6) diversify the product range and customer segments, apply not only "business-to-consumer" ("B2C"), but also "business-to-business" ("B2B") and "business-to-government" ("B2G") sales models.

### **The main present challenges:**

- Few initiatives exist where producers develop relationships with customers through direct communication in short food supply chains.
- The role of local government is still not active in promoting local farmers.
- In order better to meet the needs of the customers, the farmers should sell agricultural products by introducing short food supply chains in the markets (96%), in mobile fairs (90%), directly in their farms (86%), through an online network (40%).



## **The main opportunities of the farmers markets**

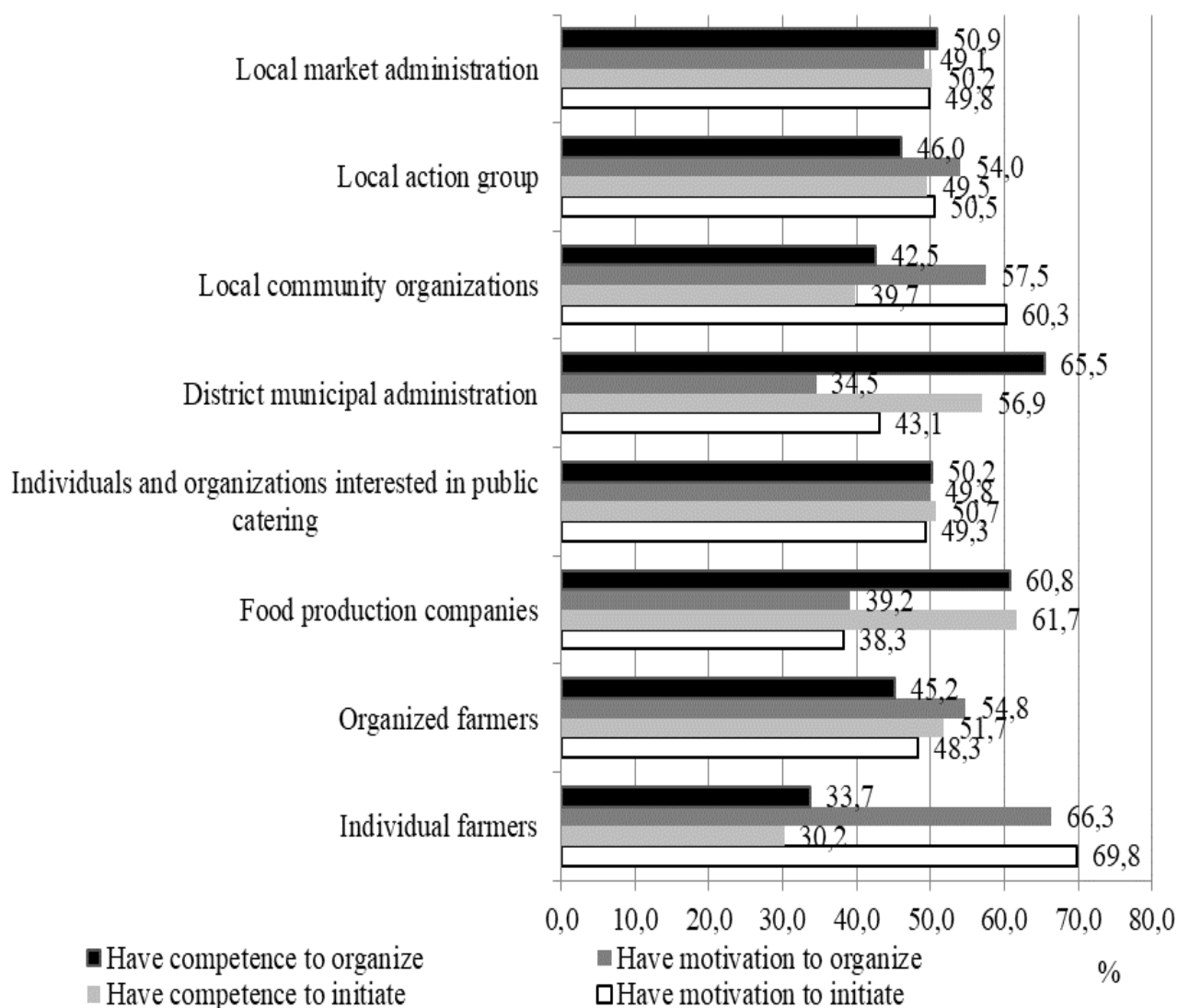
- There is an increasing interest in the possibilities to move food production from industrial production (especially from the farmers' self-government organizations), i.e., a long food supply chains to short chains in Lithuania.
- Lithuanian extension, local and national government and non government organisations have to create the organization mechanism and to support the development and sustainability of farmers markets because they shorten the supply chain and increase access to fresh, local food.

It is very important to expand and develop **the market for local products**. With the help of partnership principles, the market for local products can be expanded:

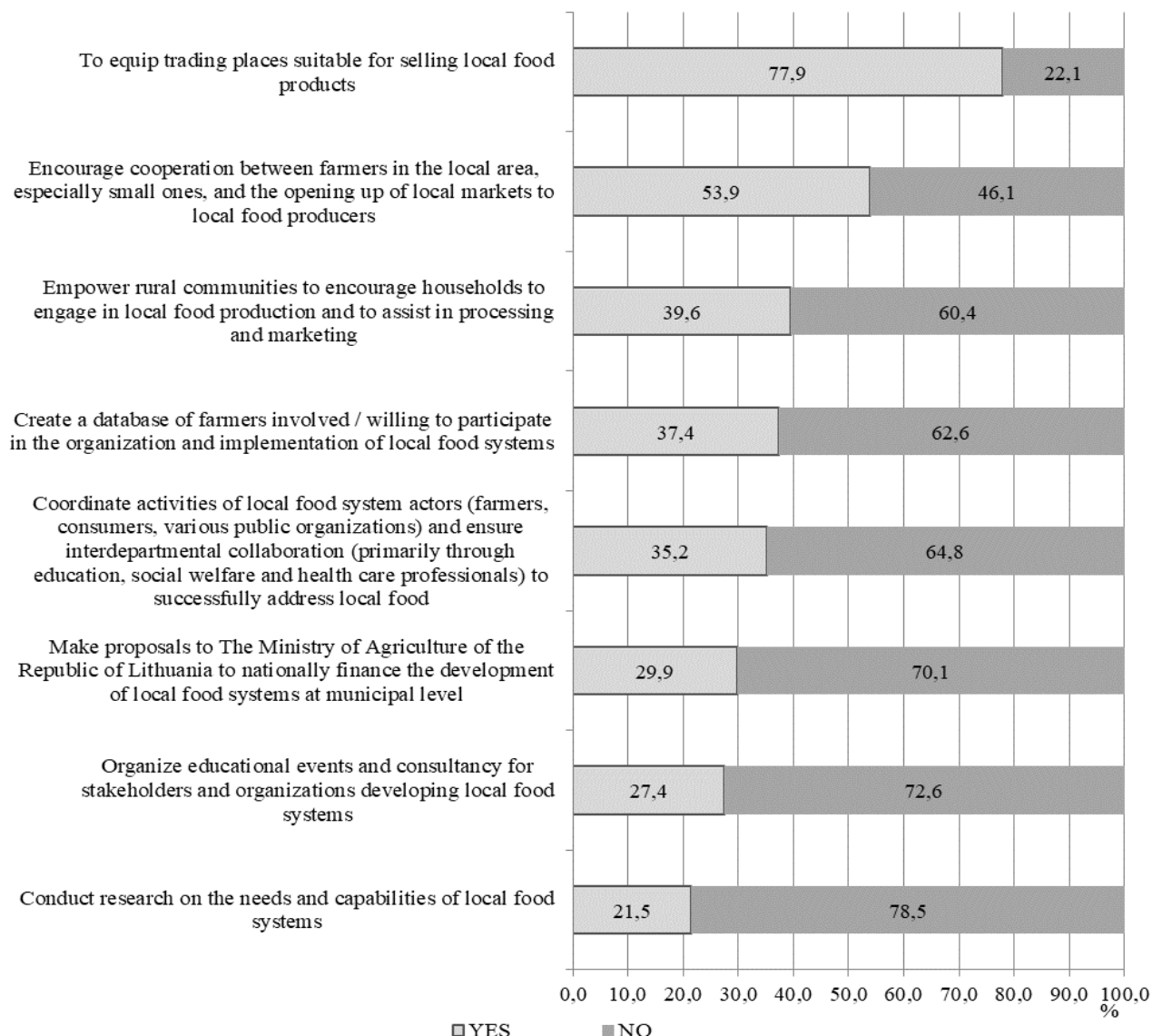
- 1) Expand and deepen the range of biologically valuable local products by encouraging farmers to certify and label products (organic or products produced according to the national agricultural and food quality system), introduce traditional (fermentation, drying, etc.) and new product processing, waste-free production technologies, introduce new products to the local market (functional food, cricket products, etc.).
- 2) Constantly communicate and educate consumers and producers.
- 3) Form direct interactions between the consumer and the producer in the process of co-creation of value, test products.
- 4) Encourage local residents to enrich their diet with seasonal foods that are matured in natural, not artificial, conditions, characterized by useful substances and a rich variety of vitamins.
- 5) Develop the needs of consumers and producers to replace imported products with local seasonal products.
- 6) Creating a self-regulating model for the introduction and dissemination of innovations, which consists of three subsystems (producers; a cooperation-based collaboration mechanism that helps align the expectations and goals of the producer and consumer; consumers) accelerates the formation of SFSC and the development of local markets

## **Who should initiate and organize the local food system?**

The study showed that LFS could be organized by the district municipal administration, local food producers, local communities (Fig.1, Fig.2).



**Fig.1. The role of key actors / stakeholders initiating and organising the local food system, 2018 (percentage)**



**Fig 3. Distribution of respondents' opinion on the question “How can local authorities contribute to the development and maintenance of the local food system?”, 2018 (percentage)**

#### Organisation of local food system

- Organising the local food system means creating, exchanging, communicating and cooperating in a short food supply chain between food consumers and stakeholders (agricultural service providers, local government, governmental and non-governmental organisations, agricultural producers, caterers and processors).
- The aim is to promote a healthy lifestyle and environment, and to facilitate the cultivation, production, processing and marketing of local food products in a given geographical area. It has been established that the local food system is very diverse: *households, agricultural and food producers, kindergartens, schools, hospitals, cafes, markets, food banks, food processing companies, community organisations, tourism firms, farmer’s organisations, public health offices, and district municipal administrations.*

- The potential areas of cooperation in the food system can be distinguished: accessing and sharing resources; improving operations; maintaining relations with consumers; and the sustainability and resilience of farms.
- After the study of the need and condition of local food systems organization in pilot municipalities (2018) (Pakruojis, Jurbarkas, Molėtai and Radviliškis), the main problem of LFS organization was identified - there is no initiator to organize LFS.

## Conclusions

1. Strengthening the coherence of the LFS can localize sustainable development, as most development and environmental issues are addressed at the regional and local levels.
2. The growing demand for fresh, natural high-quality food, produced in the consumers' places of residence, encourage farmers, especially small and medium-sized, to produce higher added-value agricultural and food products, sell them directly to the consumers, and thereby to increase their income.
3. More resilient cooperation between farmers, scientists and advisers within the chain of production and realization should be implemented, as well as the state's support should be more active. Collective action needs good facilitation, and can stimulate innovation in ways that contribute to smallholder market integration and poverty reduction.
4. The resilience of the local community would increase if the community regained the ability to "control their own food", giving priority to locally grown food. Various programs, food and catering strategies would provide opportunities to bring schools, hospitals, public and private sector organizations and local farms together.
5. The LFS is an ecosystem for the development of short food supply chains.
6. The organization of the short food supply chain is a more private matter, depending on the development strategy chosen by the farms, the knowledge and competence of the farmer.
7. The organization of local food system is a more public matter, depending on public-private partnerships, stakeholder knowledge and expertise, and a favourable legal and political environment.
8. LFS is the social infrastructure of short food supply chains, which includes a set of objects, activities and their processes, rules and strategies to ensure the sustainable use of agricultural and food resources in the production and marketing of local products, bio-waste management, building links, responsibility, health and well-being between producers and consumers in a given area.