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# Analysis of the agricultural and rural development policies of the Western Balkan countries

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# Foreword

The EU integration process is a highly complex process that involves the design and implementation of reforms in a wide range of areas.

Although all of the Western Balkan (WB) countries are at different stages of development, they face similar challenges in policy reform and harmonisation, information systems and economic development, coupled with general underdevelopment and limited institutional capacity, which continue to obstruct the reform processes of the Western Balkans.

In this context, adopting new policy instruments and approximating them to the EU *acquis* in agriculture and rural development requires the development of approaches for agricultural data analysis to shed light on what impacts the adopted policies may have on the farming sector. This will allow better understanding of the effectiveness and efficiency of adopted policies and thus can provide scientifically based support to policy making. More comprehensive knowledge of the effects of individual policy measures on the development of the agricultural sector would allow both national support schemes and the Instrument for Pre-Accession Assistance for Rural Development (IPARD) to be better targeted.

In addition to the policy requirement for integrating the WB countries into the EU, extended regional cooperation is most important for future relations with the EU. It is an essential means of strengthening agriculture and rural development and consequently enhancing economic growth of the region.

The main objectives of the report are to monitor and evaluate the current agricultural policy instruments in the WB countries and to compare them with the EU Common Agricultural Policy (CAP).

The report covers three main aspects in relation to its aims and objectives:

- It provides information on developments in the national agriculture policies of WB countries and compares them with EU CAP policies.
- It provides a cross-country comparative analysis of the national agricultural policy instruments and their effects on the food/farming sector.
- It analyses the state of harmonisation of agricultural policies of the WB countries with the CAP.

The report is a result of continuous work in the region carried out in close cooperation between policy makers and research institutions in the WB countries.

The report provides comprehensive information about and analyses of agricultural policy development in the WB countries to support policy making as well as to give a solid basis for future cooperation and continued dynamic dialogue between policy makers and the research community.

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## List of abbreviations

| | |
|---|---|
| : | Not available |
| AA | Agricultural Area |
| AGMEMOD | Agricultural Member States Modelling |
| AKIS | Agricultural Knowledge and Innovation System |
| AL | Albania |
| APM | Agricultural policy measures |
| ARDA | Agriculture and Rural Development Agency |
| ARDP | Agriculture and Rural Development Programme |
| ARDS | Agricultural and Rural Development Strategy |
| ATTC | Agriculture Technology Transfers Centre |
| AWU | Annual work unit |
| BA | Bosnia and Herzegovina |
| BD | Brčko District |
| CAP | Common Agricultural Policy |
| CAPRI | Common Agricultural Policy Impact Modelling System |
| CEFTA | Central European Free Trade Agreement |
| EAFRD | European Agricultural Fund for Rural Development |
| EAGF | European Agricultural Guarantee Fund |
| EFTA | European Free Trade Association |
| EIB | European Investment Bank |
| EU | European Union |
| FADN | Farm Accountancy Data Network |
| FAO | Food and Agriculture Organization of the United Nations |
| FBH | Federation of Bosnia and Herzegovina |
| FDI | Foreign direct investment |
| FTA | Free Trade Agreement |
| GAO | Gross agricultural output |
| GDP | Gross domestic product |
| GTAP | Global Trade Analysis Project |
| GVA | Gross value added |
| HNV | High nature value |
| IACS | Integrated Administration and Control System |
| IFM-CAP | Individual Farm Model for Common Agricultural Policy Analysis |
| INSTAT | Albanian Institute of Statistics |
| IPA | Instrument for Pre-Accession Assistance |
| IPARD | Instrument for Pre-Accession Assistance for Rural Development |

| | |
|---|---|
| ISARD | Inter-sectorial Strategy for Agriculture and Rural Development |
| JRC | Directorate-General Joint Research Centre |
| LAG | Local action group |
| LARD | Law of Agriculture and Rural Development |
| LARDS | Law on Agricultural and Rural Development Subsidies |
| LEADER | Liaison Entre Actions de Développement de l'Économie Rurale (Links between the rural economy and development actions) |
| LFA | Less favoured area |
| LPIS | Land Parcel Identification System |
| LSU | Livestock standard unit |
| MADA | Mountainous Area Development Agency |
| MAFRD | Ministry of Agriculture, Forestry and Rural Development |
| MAFWE | Ministry of Agriculture, Forestry and Water Economy |
| MARD | Ministry of Agriculture and Rural Development |
| MARDWA | Ministry of Agriculture, Rural Development and Water Administration |
| ME | Montenegro |
| MIDAS | Montenegro Institutional Development and Agriculture Strengthening |
| MK | Former Yugoslav Republic of Macedonia |
| MONSTAT | Statistical Office of Montenegro |
| NARDS | National Agricultural and Rural Development Strategy |
| OECD | Organisation for Economic Co-operation and Development |
| PPS | Purchasing power standard |
| RS | Serbia |
| RSr | Republika Srpska |
| SAA | Stabilisation and Association Agreement |
| SARED | Support to Agriculture and Rural Economic Development |
| SMEs | Small and medium-sized enterprises |
| SO | Standard output |
| SORS | Statistical Office of the Republic of Serbia |
| SWG | Regional Rural Development Standing Working Group |
| SWOT | Strengths, weaknesses, opportunities and threats |
| UAA | Utilised agricultural area |
| UNDP | United Nations Development Programme |
| WB | Western Balkan |
| WTO | World Trade Organization |
| XK | Kosovo under United Nation Security Council Regulation 1244/99, referred to as Kosovo* |

# 1. State of the art and trends of agricultural policy in EU acceding countries from the Western Balkans

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## 1.1 Introduction

Agriculture is an economically and politically important sector in the Western Balkans[1], characterised by structural deficit, underutilised resources and production potentials, underdeveloped agro-food chains, marginalisation of rural areas and, with the exception of Serbia, net trade deficits. These are some of the findings of an extensive study by the Food and Agriculture Organization of the United Nations (FAO) (Volk et al. 2014; here referred to as the FAO study) that attempted to determine common challenges and weaknesses of agricultural policies in the region and to highlight future steps that need to be undertaken to support their approximation to the EU's Common Agricultural Policy (CAP) as part of the EU accession process.

The FAO study also highlighted that, in both the level of support and the composition of agricultural instruments, agricultural policies in the Western Balkan (WB) countries are not on a par with the CAP. However, they are at a level comparable to those of new EU Member States when they were at the equivalent stage of the EU integration process. There was a notable increase in the level of support before the advent of the economic crisis, yet the agricultural policy measures are subject to frequent alterations, resulting in an unstable policy framework necessary to support long-term development of the sector. The predominant form of support in WB countries is coupled direct payments, while rural development policy is rather insignificant (with the exception of farm investment support). There is also a notable lack of more targeted support for the environment, marginal rural areas, knowledge transfer and risk management.

Modern agricultural policy making is based on the policy cycle concept, which relies on the evidence-based approach – monitoring and impact assessment – to identify priorities and limitations of proposed and adopted policies. There is an established strategic programming approach in the region, yet the existing system of regular monitoring and impact assessment is relatively weak without a consistent evidence-based policy cycle. Consistent monitoring, systemisation and adoption of an internationally comparable quantification of agricultural policy measures can make an important contribution to the improvement of policy-making practice, and aid the EU integration process.

Building on these findings, the main objectives of this report are to monitor and evaluate the current agricultural policies in the WB countries and assess the state of their harmonisation with the CAP. This report, like the FAO study, builds upon earlier work conducted in the framework of the 7th European Union research framework programme, "Agripolicy", which attempted to develop a novel analytical tool to support the region's stakeholders and the international community in monitoring and evaluating agricultural policies in WB countries (Volk 2010).

[1] This contribution uses the term 'Western Balkans' to encompass countries of the region at different stages of EU integration: Albania, Bosnia and Herzegovina, Kosovo* (in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence), Macedonia, Montenegro and Serbia.

This work also found a special place within the activities of the Regional Rural Development Standing Working Group (SWG), which made possible further monitoring of agricultural policy in WB countries through the implementation of the project "Analysis of the agricultural and rural development policies in Western Balkan countries", financed by the Directorate-General Joint Research Centre (JRC) of the European Commission. The main goals of this project were to provide analytical support to decision makers in the region by updating agricultural statistics, as well as to deliver qualitative and quantitative monitoring of agricultural policies.

First, this report provides a cross-country comparative analysis of the national agricultural policies and their effects on the food/farming sector in six WB countries: Albania (AL), Bosnia and Herzegovina (BA), Kosovo* (XK), the former Yugoslav Republic of FYR of Macedonia (MK), Montenegro (ME) and Serbia (RS) (the current chapter). Second, this report also provides a country-specific analysis of agricultural policy instruments for each of the six countries considered (country agricultural policy briefs in Chapters 2 to 7). The analyses are based on the agricultural policy measures (APM) methodology developed specifically for this purpose, which provides a common and consistent regional database on agricultural policies (Rednak et al. 2013). Further, to analyse the structure and the development of the agricultural sector in WB countries, regional agricultural statistics were collected and harmonised to make them consistent and comparable across the study countries. It is important to note that this report is a follow-up of the FAO study. Hence, it primarily focuses on agricultural policy developments in the period 2013–2015, after the FAO study ended. In this way, the report brings continuity to the monitoring of agricultural policy, as well as assisting ongoing discussion regarding the key development issues in agriculture and agricultural policy, with a special focus on the EU integration process.

With this contribution we aim to place findings on the national level within the regional context and attempt to elucidate and extend new aspects of the agricultural policy issues that were first addressed in the FAO study. The primary objective is to compare the situation and recent changes in agriculture and agricultural policies based on the results obtained from applying the APM analytical framework[2].

This chapter starts with a brief description of the methodology and then follows it with the analysis of agricultural sector development in WB countries. The chapter also discusses farm structure development, with a special focus on land consolidation and development of small farms, stemming from the finding that some of the agricultural policies in the region place too little emphasis on land reforms and the question of unequal treatment of all types of farms within the direct support systems, which goes against some of the fundamental principles of modern agricultural policy and particularly the CAP. In the section after that, the chapter provides a cross-country comparative analysis of the national agricultural policy instruments in WB countries. Then the chapter continues with a discussion of key CAP harmonisation and adjustment issues in the context of the ongoing EU integration process of the WB countries. It ends with some general conclusions and policy recommendations for policy makers.

## 1.2 Methodological notes

The analyses conducted in this report rely on two common and consistent regional databases developed to study the development of the agricultural sector and agricultural policies in WB countries. The first database contains agricultural statistics, while the second one provides consistent data on APM in WB countries.

[2] In this report, we are focusing on benchmarking the statistics and budgetary transfers in regional context. For more details on the comparison of agricultural policies of WB countries with the EU's CAP, see the FAO study (Volk et al. 2014).

The presentation of the current trends in development of the agricultural sector in AL, BA, XK, MK, ME and RS is based on statistical data collected by national experts. The main data sources were national (or sub-national) statistical offices and other institutions dealing with agricultural statistics in these countries. In this framework, a set of key general, agricultural and trade statistics were collected covering the period 2005–2014. Additionally, data from Eurostat databases were used. Even though most WB countries have made some progress in harmonising their agricultural statistics with the EU's methodology, the collected datasets are mostly incomplete and still not entirely comparable between countries and with the EU. For this reason it was necessary to harmonise statistical data collected from different sources. In this report a selected set of key agricultural indicators are reported and described with the aim of presenting the main profile and trends of WB agriculture.

For the quantitative analysis of the agricultural policies, the APM database is used. The database was compiled by national experts for the six WB countries. In these databases all available information about agricultural policies is gathered at the level of detailed measures, annually. Both the characteristics of each policy measure and budgetary (monetary) transfers executed are collected. The analysis of agricultural support in this report focuses on 2012–2014, although APM databases were compiled for a longer period.

The measures in the APM database are systematised and classified according to a common (uniform) template, which enables cross-country qualitative and quantitative analysis of implemented agricultural policies. According to the APM classification, the specific agricultural policy measures are grouped into three main pillars: (i) market and direct producer support measures; (ii) structural and rural development measures; and (iii) general measures related to agriculture. The APM classification uses the EU concept of policy classification combined with the Organisation for Economic Co-operation and Development (OECD) methodology (OECD 2008). The APM classification is built on a hierarchical principle, with the first level defining the pillar of agricultural policy, the second level defining the policy category and each subsequent level split into a set of sub-categories following the OECD methodology (Rednak et al. 2013).

## 1.3 Situation and trends in WB agriculture

### *1.3.1 Agriculture is an important economic sector in WB countries*

**Table 1.1. Key macroeconomic data in WB countries, 2014**

| | AL | BA | XK | MK | ME | RS | EU-28 |
|---|---|---|---|---|---|---|---|
| Total area (000 km$^2$) | 28.7 | 51.2 | 10.9 | 25.7 | 13.8 | 88.5[a] | 4,467.8 |
| (% of EU-28) | (0.6) | (1.1) | (0.2) | (0.6) | (0.3) | (2.0) | (100.0) |
| Population 1 January (000 inhabitants) | 2,910 | 3,836 | 1,805 | 2,069 | 622 | 7,132 | 506,881 |
| (% of EU-28) | (0.6) | (0.8) | (0.4) | (0.4) | (0.1) | (1.4) | (100.0) |
| Population density (inhabitants/km$^2$) | 101 | 75 | 165 | 80 | 45 | 92[b] | 113 |
| GDP (EUR billion)[c] | 10.1 | 13.8 | 5.5 | 8.5 | 3.4 | 33.1 | 13,924.6 |
| (% of EU-28) | (0.1) | (0.1) | (0.0) | (0.1) | (0.0) | (0.2) | (100.0) |
| GDP per capita (EUR)[c] | 3,468 | 3,605 | 2,935[d] | 3,930[d] | 5,356[d] | 4,635 | 27,325 |
| (% of EU-28 in PPS) | (29) | (28) | (:) | (36) | (39) | (35) | (100) |
| GVA agriculture, forestry, fishing (% of total GVA)[c] | 23.1 | 7.6 | 13.8 | 10.2 | 9.8[d] | 9.7 | 1.6 |

Source: Agricultural Statistics Database, Eurostat.
a Including Kosovo*.
b Without Kosovo*.
c Preliminary data.
d 2013.
:, not available; GDP, gross domestic product; GVA, gross value added; PPS, purchasing power standard parity.

In all study countries, agriculture is an important sector for the national economy. In 2014, the proportion of total gross value added (GVA) generated from the agriculture, forestry and fishing sector accounted for about 23 % in Albania, and between 8 % and 14 % in other WB countries. In most WB countries (except for Albania), the relative economic importance of agriculture in the national economy has a declining trend (Table 1.1).

The rather high proportion of agriculture in GVA in WB countries is closely related to the overall relatively low level of economic development. The gross domestic product (GDP) per capita – measured in purchasing power standard parity (PPS) – stands below 40 % of the EU-28 average in all WB countries (Table 1.2), and considerable changes have not been observed in recent years (i.e. since 2009–2010).

**Table 1.2. Key agricultural data in WB countries, 2014**

| | AL | BA | XK | MK | ME | RS | EU-28 |
|---|---|---|---|---|---|---|---|
| AA (000 ha)<br>(% of EU-28) | 1,201[a]<br>(0.7) | 2,163[a]<br>(1.2) | 288[b,c]<br>(0.2) | 1,263[a]<br>(0.7) | 230[d]<br>(0.1) | 3,507[d,f]<br>(2.0) | 175,815[d,e]<br>(100.0) |
| % AA in total area | 42 | 42 | 26 | 49 | 17 | 45 | 39 |
| % arable land in AA | : | 47 | 59 | 33 | 3 | 74 | 59 |
| % crops in agricultural goods output[c] | 49[f] | 63[e] | 59 | 76 | : | 67 | 56 |
| Average wheat yield (t/ha)[c] | 4.1 | 3.9 | 3.8 | 3.2 | 3.4 | 4.3 | 5.8 |
| Average milk yield (t/dairy cow) | 2.7 | 2.8 | : | 3.1 | 2.9 | 3.4 | 6.4[c] |

Source: Agricultural Statistics Database, Eurostat.
a Total agricultural land (administrative data).
b Utilised agricultural area (agricultural household survey).
c 2013.
d Utilised agricultural area.
e 2010.
f 2012.
:, not available; AA, agricultural area.

Data on agricultural land use are still not comparable between all WB countries and with the EU. In AL, BA and MK these data refer to total agricultural land (mostly based on administrative sources), in XK to agricultural land actually used by agricultural households (based on annual agricultural household surveys), and in RS and ME to utilised agricultural area (UAA) as defined by Eurostat (sample surveys based on Agricultural Census).

In 2015, Serbia revised land use data from 2005 onwards and Montenegro for 2007–2013. According to these data, total UAA in Serbia has a slightly negative trend (the average annual growth rate between 2005–2014 was –0.3 %), while in Montenegro a slight upwards tendency can be noticed (0.5 % average annual growth rate in 2007–2014). In both countries the revised figures are considerably lower than those referring to total agricultural land (old data available up to 2013 and based on administrative sources that were not regularly updated).

According to the data reported in Table 1.2, RS has the largest agricultural area (3.5 million ha), followed by BA, MK and AL (more than 1 million ha each). The remaining two countries (ME and XK) have relatively small agricultural areas: less than 0.3 million ha each. The combined agricultural area of the WB countries is equivalent to around 5 % of the total agricultural area of the EU-28.

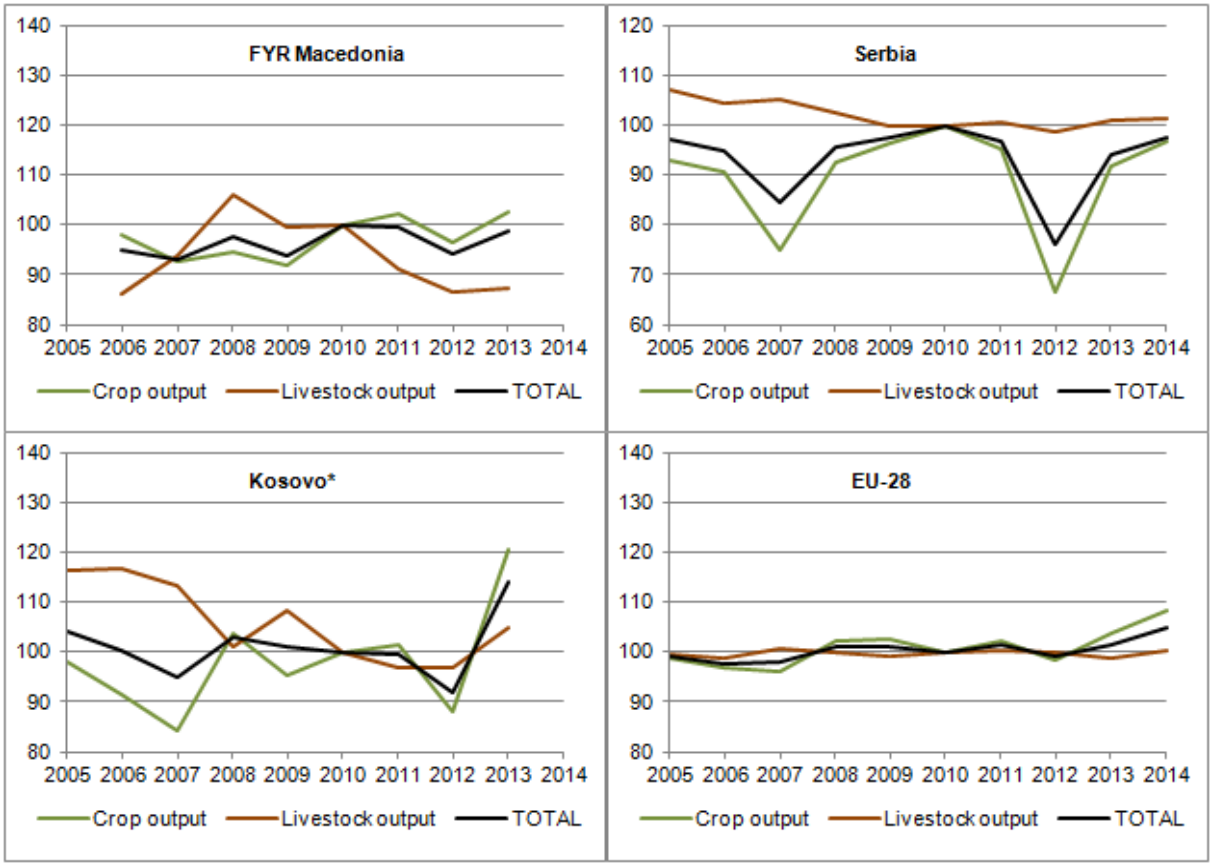
### *1.3.2 Volatile agricultural production*

In most WB countries crop output dominates agricultural production. The contribution of crop output to total gross agricultural output is the highest in FYR of Macedonia (around

76 %) and the lowest in Albania (49 %). For Montenegro there are no reliable data available on production (Table 1.2).

Longer-term data series for aggregate agricultural output development are available only for FYR of Macedonia, Serbia and Kosovo* (Figure 1.1). All these three countries are characterised by large variations in the volume of agricultural production over time, mostly due to variation in crop output driven predominantly by weather conditions.

**Figure 1.1. Agricultural goods output volume changes in WB countries, 2005–2014 (2010 = 100)**




Source: Agricultural Statistics Database, Eurostat.

In FYR of Macedonia and Kosovo* agricultural output as a whole shows an increasing trend since 2006 and 2005, respectively, while in Serbia there is no clear tend observed over a similar period. The positive trend in FYR of Macedonia and Kosovo* is mainly driven by crop output growth. In Serbia, the crop production and total agricultural output follow a similar pattern of high volatility and stagnation. Livestock production generally has a decreasing tendency in all three countries, with some signs of recovery observed only after 2012 (Figure 1.1).

Assessment of production development for other WB countries is not straightforward, as aggregate agricultural output data are not available. Taking into account this data constraint, it seems that in Albania agricultural output generally shows an increasing pattern (for both crop and animal sectors). In Montenegro a clear upward trend is visible in crop production (particularly in potatoes and fruit production), while livestock production mostly shows a decreasing tendency or stagnation, with the exception of a few sectors (e.g. pigs, poultry). In Bosnia and Herzegovina, negative developments prevail in both crop and animal production, with only a few exceptions where growth is observed (e.g. fruit, wine, poultry).

### *1.3.3 Growing agro-food trade*

In all six WB countries, the agro-food sector is an important contributor to the country's total external trade, for both exports and imports. The share of agro-food in total exports varied from 6 % in Albania to 24 % in Montenegro. The same figure for imports is between 8 % in Serbia and 24 % in Kosovo*. The importance of agricultural trade in total trade tends to be significantly greater in WB countries than in the EU-28 (Table 1.3).

**Table 1.3. Percentage of agro-food products in external trade of goods in WB countries, 2014**

| | AL | BA | XK | MK | ME | RS | EU-28 |
|---|---|---|---|---|---|---|---|
| Agro-food exports (% of total exports) | 6.4 | 7.6 | 12.1 | 12.9 | 24.4 | 20.6 | 6.9 |
| Agro-food imports (% of total imports) | 17.0 | 16.8 | 24.3 | 11.7 | 27.2 | 7.8 | 6.0 |

Source: Agricultural Statistics Database.
Note: Preliminary data.

Agro-food trade is constantly increasing over time. Exports are generally growing at a higher rate than imports, resulting in improvement of the export-to-import coverage in most WB countries. This proportion differs considerably by country, with the lowest being in Kosovo* (about 6 % in 2014), followed by Albania (18 %), Montenegro (19 %) and Bosnia and Herzegovina (24 %). In FYR of Macedonia, the percentage is higher (at 75 %), but shows a decreasing trend. Among WB countries only Serbia is a net exporter (i.e. the export-to-import rate is greater than 100 %) of agro-food products, with the rate close to 190 % in 2014.

**Table 1.4. Agro-food export-to-import rate in WB countries (%), 2010–2014**

| | 2010 | 2011 | 2012 | 2013 | 2014[a] |
|---|---|---|---|---|---|
| Albania | 10.2 | 12.0 | 13.4 | 15.7 | 17.9 |
| Bosnia and Herzegovina | 22.9 | 22.6 | 22.3 | 25.1 | 24.2 |
| Kosovo* | 5.1 | 4.7 | 3.6 | 6.0 | 6.4 |
| FYR of Macedonia | 79.3 | 75.0 | 69.9 | 76.4 | 74.6 |
| Montenegro | 11.4 | 11.9 | 12.8 | 12.4 | 19.0 |
| Serbia | 186.6 | 191.9 | 183.3 | 173.8 | 189.0 |

Source: Agricultural Statistics Database.
a Preliminary data.

**Table 1.5. Agro-food trade in WB countries (EUR million), 2012–2014**

| | Exports | | | | Imports | | | | Balance | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014[a] | % increase 2012–2014 | 2012 | 2013 | 2014[a] | % increase 2012–2014 | 2012 | 2013 | 2014[a] | % increase 2012–2014 |
| AL | 83 | 101 | 129 | 55.5 | 618 | 646 | 721 | 16.6 | –536 | –545 | –592 | 10.6 |
| BA | 317 | 351 | 338 | 6.6 | 1,426 | 1,394 | 1,396 | –2.2 | –1,109 | –1,043 | –1,057 | -4.7 |
| XK | 21 | 35 | 39 | 91.1 | 573 | 584 | 616 | 7.6 | –552 | –549 | –577 | 4.5 |
| MK | 470 | 496 | 480 | 2.0 | 673 | 649 | 643 | –4.4 | –203 | –153 | –163 | -19.3 |
| ME | 57 | 56 | 92 | 61.7 | 443 | 454 | 482 | 8.8 | –387 | –397 | –391 | 1.0 |
| RS | 2,084 | 2,078 | 2,295 | 10.1 | 1,137 | 1,196 | 1,214 | 6.8 | 947 | 882 | 1,081 | 14.1 |

Source: Agricultural Statistics Database.
a Preliminary data.

In recent years, the highest increases in agro-food exports have occurred in Kosovo*, Montenegro and Albania; in other WB countries the increase has been more moderate (Table 1.5). Exports from most WB countries are predominantly raw material and rather low-value-added products. Imports increased at lower rates than exports in all WB countries. In BA and MK imports even decreased resulting in improved agricultural trade balances (i.e. smaller deficits) in 2014 compared with 2012. The trade balance also improved in Serbia. In Montenegro the trade deficit remained almost unchanged, while Albania and Kosovo* recorded higher agro-food deficits than in 2012 (Table 1.5).

The main exported products (by tariff groups) in 2014 were oilseeds, prepared meat and edible vegetables in Albania; fats and oils, dairy products, eggs, honey, and edible fruit and nuts in Bosnia and Herzegovina; beverages, milling industry products and edible vegetables in Kosovo*; tobacco, edible vegetables and beverages in FYR of Macedonia; meat, beverages and tobacco in Montenegro; and cereals, edible fruits and beverages in Serbia. The composition of agro-food exports, in terms of leading export tariff groups, did not change much in most WB countries between 2012 and 2014. The most pronounced differences in export composition were in Bosnia and Herzegovina, where sugar and confectionary products were not among the leading export groups in 2014, whereas in 2012 they represented a large proportion of total agro-food exports (18 %). Furthermore, in Montenegro tobacco replaced cereals as the third most exported group of products. In other countries the three largest export tariff groups remained unchanged in 2014 from 2012 (Table 1.6).

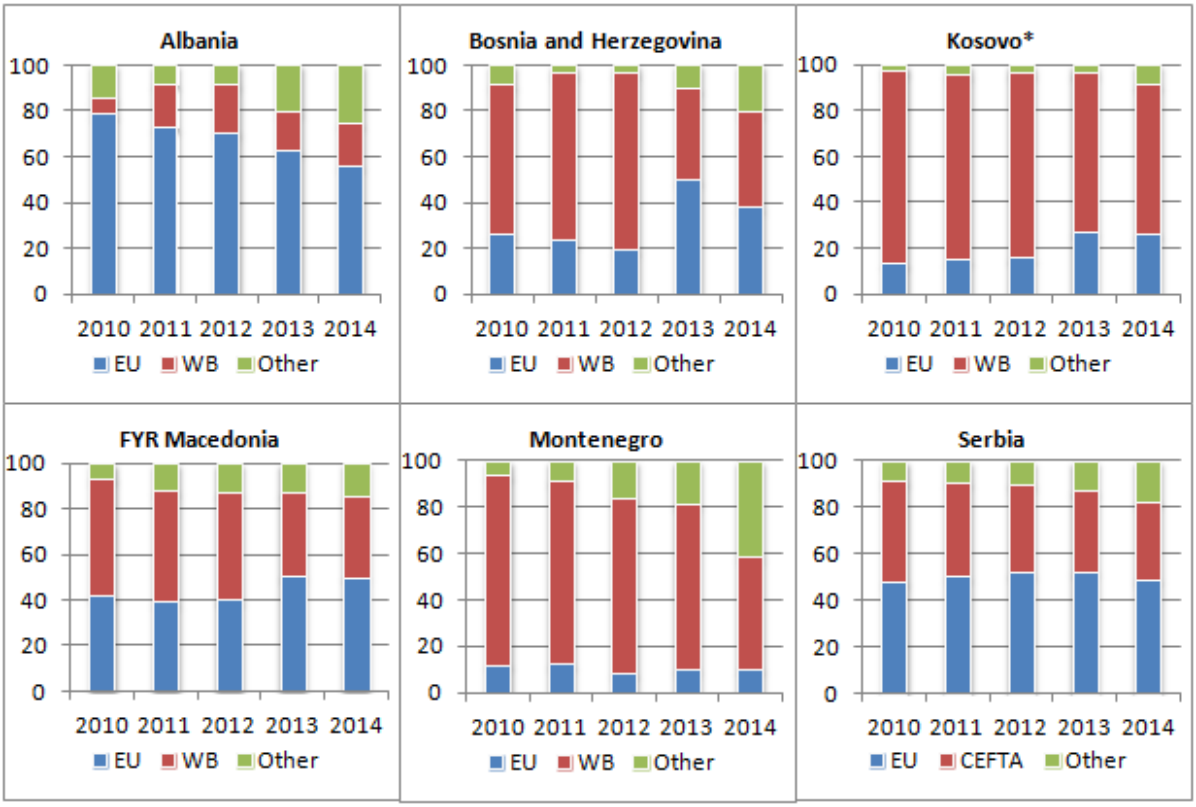
## Table 1.6. Breakdown of agro-food exports by most important tariff groups in WB countries (%)

| | AL | | BA | | XK | | MK | | ME | | RS | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2014[a] | 2012 | 2014[a] | 2012 | 2014[a] | 2012 | 2014[a] | 2012 | 2014[a] | 2012 | 2014[a] |
| 02 Meat | 4.3 | 0.4 | 3.0 | 3.0 | 0.0 | 0.3 | 3.6 | 2.9 | 7.7 | 45.4 | 0.9 | 2.9 |
| 04 Dairy produce, eggs, honey | 4.9 | 0.2 | 15.1 | 10.7 | 0.6 | 0.5 | 1.5 | 1.5 | 0.3 | 0.4 | 3.1 | 3.1 |
| 07 Edible vegetables | 9.3 | 13.6 | 4.1 | 4.3 | 8.8 | 12.5 | 10.9 | 14.4 | 5.8 | 4.7 | 2.4 | 3.0 |
| 08 Edible fruit, nuts | 6.2 | 11.3 | 6.2 | 9.6 | 5.4 | 6.6 | 10.8 | 9.9 | 7.1 | 4.5 | 13.9 | 18.2 |
| 10 Cereals | 0.0 | 0.0 | 0.7 | 5.5 | 0.3 | 1.1 | 1.2 | 0.6 | 0.0 | 0.0 | 24.9 | 20.0 |
| 11 Products of the milling ind. | 0.1 | 0.0 | 1.0 | 1.2 | 26.3 | 16.6 | 0.1 | 0.2 | 3.1 | 2.4 | 2.8 | 2.4 |
| 12 Oilseeds | 25.0 | 22.0 | 0.9 | 1.4 | 2.7 | 3.4 | 0.9 | 0.9 | 0.4 | 0.4 | 2.6 | 2.7 |
| 15 Fats and oils | 2.6 | 0.5 | 12.2 | 14.1 | 0.3 | 0.0 | 2.6 | 2.0 | 6.4 | 3.3 | 7.7 | 5.3 |
| 16 Meat preparations | 22.8 | 19.6 | 7.3 | 7.3 | 0.0 | 0.8 | 4.1 | 3.5 | 5.4 | 3.4 | 1.6 | 2.0 |
| 17 Sugars and confectionery | 0.4 | 0.2 | 18.5 | 5.4 | 0.5 | 0.4 | 1.6 | 1.6 | 0.0 | 0.0 | 6.8 | 5.0 |
| 19 Preparations of cereals | 4.2 | 5.3 | 8.6 | 8.9 | 2.0 | 3.8 | 8.5 | 11.0 | 7.2 | 2.0 | 4.1 | 4.3 |
| 20 Preparations of vegetables, fruits, nuts | 3.7 | 3.8 | 2.3 | 2.7 | 8.6 | 4.4 | 7.3 | 8.7 | 0.3 | 0.1 | 3.9 | 3.4 |
| 22 Beverages, spirits, vinegar | 3.1 | 2.8 | 5.6 | 6.5 | 34.4 | 31.8 | 15.2 | 12.3 | 41.0 | 20.7 | 8.0 | 7.3 |
| 24 Tobacco | 0.0 | 4.3 | 1.6 | 2.5 | 0.2 | 0.0 | 24.4 | 22.8 | 4.0 | 6.4 | 2.7 | 5.8 |

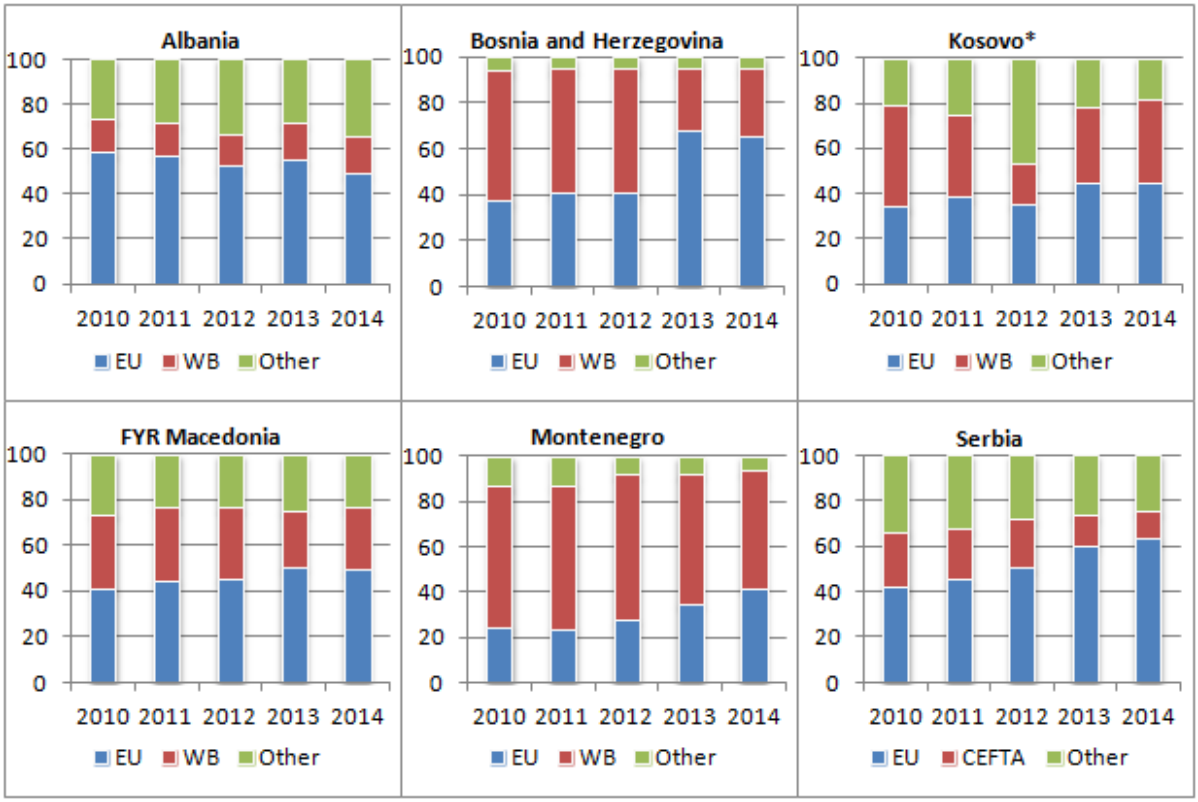
Source: Agricultural Statistics Database.
a Preliminary data.
The three largest export tariff groups for each country are shaded in green.

**Figure 1.2. Regional breakdown of agro-food exports and imports in WB countries (%)**

**EXPORTS**




**IMPORTS**




Source: Agricultural Statistics Database.
2014: preliminary data.
CEFTA, Central European Free Trade Agreement countries.

In 2014, the EU was the most important export destination for Albania, Serbia and FYR of Macedonia, while in other WB countries the highest proportion of exports went to other WB countries (Figure 1.2). Since 2010, the proportion of exports destined for the EU has generally increased, particularly after Croatia joined the EU in 2013. The exceptions are Albania and Montenegro, where a decreasing share of exports to the EU can be noticed along with the increasing proportion of exports destined for other countries (outside the EU and the WB region). However, the share of third countries in the agro-food exports also increased in other WB countries, particularly in last two years reported in Figure 1.2.

Regarding imports, the EU is the most important trading partner for agro-food goods for all WB countries and its importance has been growing since 2010. The exceptions are Montenegro, where imports originating from the WB countries represent the largest share in total agro-food imports, and Albania, where the share of EU imports tends to decline over time (Figure 1.2).

## 1.4 Agricultural policy framework

### *1.4.1 Policy framework 2007–2013*

The abovementioned FAO study offers a comprehensive description of the agricultural policy framework of WB countries for 2007–2013. Agricultural policy planning for this period was based on a set of strategic documents that defined long-term objectives for the future agriculture and rural development in WB countries. The documents themselves generally consisted of extensive situational analyses of the national agricultural sector and policy goal setting, in some cases followed by definitions of key policy mechanisms and an outline of (multi-)annual budgets. As the FAO study has identified, the policy goals defined in the strategic documents varied substantially between countries, but overall the main emphases were food security, farm income improvements and various aspects of competitiveness. However, the priorities and goals for agriculture and for rural development were addressed in the strategic documents separately in most countries without considering links between them.

For the implementation of agricultural policies, WB countries employ national programmes and regulations that consider either annual or multi-annual planning of the specific definition and execution of the adopted measures. However, the annual planning predominates and forms the backbone of WB countries' agricultural policy implementation. Their connection to strategic documents and national programmes is relatively loose, as much room is left for ad hoc pragmatic and sometimes politically motivated decisions.

In the period covered by the FAO study, only some of the WB countries had in place an internationally comparable system for the annual monitoring of policy implementation (e.g. regular "green reports"). Further, impact assessment and policy evaluations were rarely used for practical decision making; this lack has potentially contributed to the instability of agricultural policy in WB countries.

On the other hand, there have been certain shifts in policy implementation with respect to establishing institutions responsible for disbursement of support. Some of the countries have established paying agencies and started to adopt elements of the EU CAP type of institutional organisation. Overall, the agricultural policy framework in WB countries for 2007–2013 contained some elements of a modern policy cycle concept, especially on the side of programming and budgetary transfers, but was deficient in other areas, in particular related to the monitoring and impact assessment of policies.

### *1.4.2 Policy developments in recent years*

The WB countries have adopted the CAP-type programming framework for agricultural policies in recent years. As a result, it was expected that in the period covered by this report (2013–2015) most countries in the region would outline new programming documents to accommodate the multi-annual planning approach applied within the CAP

programming framework. Similarly, the regional economic crisis and in part the ongoing European integration process were expected to induce changes in, among other areas, priorities, programming and adopted policy instruments.

The remainder of this sub-section examines the programming documents of the WB countries adopted in recent years with the aim of identifying their key innovations in terms of goals, priorities and policy mechanisms as well as to determine if there have been any marked changes introduced to the policy instruments and their implementation strategy.

### *Albania*

At the end of 2014, Albania established a new strategic framework for the future development of agriculture and rural areas (Inter-sectorial Strategy for Agriculture and Rural Development (ISARD) 2014–2020). The document prioritises policies that promote the development and growth of agricultural production and targets the improvement of competitiveness, harmonisation of policies and institutional settings with the EU *acquis*, the sustainable use of natural resources and social inclusion of the rural population. The strategic framework also outlines in more detail public intervention in three main policy areas: (i) rural development (with the Instrument for Pre-Accession Assistance for Rural Development (IPARD)), (ii) farmers' and rural infrastructure support and (iii) institutional development and regulatory adjustment to EU standards. The strategic framework does not establish specific policy measures; it only sets the mechanism of their adoption through the annual national action plans. Compared with the findings of the FAO study, the reforms of agricultural policy within the strategic framework are more pronounced in the field of rural development, whereas market and direct support are changed to a lesser extent. According to the detailed country brief by Zhlima and Gjeci (Chapter 2 below), no significant changes took place in the amount and the structure of budgetary transfers to agriculture during the study period (2013–2014). Perhaps most notable are the attempts to introduce animal and area payments and to slightly reduce funding for rural development.

### *Bosnia and Herzegovina*

The Federation of Bosnia and Herzegovina (FBH) and the Republic of Srpska (RSr) adopted two new strategic development documents in 2015 that define a medium-term perspective for their agricultural policies[3]. Compared with the previous period, the strategies are better structured and introduce better-defined policy frameworks by providing for evidence-based assessment of policies, new policy goal setting, instrument choice, and improved implementation, financial allocation and monitoring. The policy objectives were expanded to new areas in line with the CAP. Alongside the support for production, income and competitiveness, the protection of the environment and climate change are now among the main priorities of the long-term strategy for agriculture. The policy objectives also clearly reflect the intention to align policies with the CAP. This intention is also, though less markedly, evident from the changes introduced to the specific policy instruments. "Non-CAP-like" measures are losing ground in terms of scope and range, while there is greater emphasis on headage and area payments, as well as on various aspects of rural development. In terms of the institutional organisation and programming framework, the new strategies are bringing about a substantial improvement and are attempting to strengthen their adaptation to the EU's CAP requirements.

Yet it is too early for the new elements of the strategy to be fully reflected in the current implementation of agricultural policy. In the country brief in Chapter 3, Bajramović et al. report that some changes introduced to the agricultural policy are heading in the new direction (e.g. the unification of area payments and an increase in investment grants in FBH). However, discrepancies with the new strategy are also observed, particularly linked

[3] There have been no new strategic documents pertaining solely to agriculture in the District of Brčko.

with the type of policy instruments implemented (e.g. increased output-related direct payments). It is important to note that agricultural policies are under extraordinary pressure in Bosnia and Herzegovina as a result of the ongoing economic crisis and the associated reduced availability of agricultural funding.

### *Kosovo**

After broad consultation with stakeholders, Kosovo* adopted a new strategic document for agricultural and rural development (Agriculture and Rural Development Programme (ARDP) 2014–2020) in 2013. The document has a modern structure and is contextually close to the EU rural development priorities. Some of its key priorities include fostering knowledge transfer and innovation, enhancing competitiveness, agro-food chains and risk management, promoting resource efficiency, sustainable agricultural production, forestry land management, addressing climate change, and social inclusion and eliminating rural poverty. The priorities and objectives established are to be achieved through implementation of measures in the frame of national support schemes, Instrument for Pre-Accession Assistance (IPA) II and support from international donors. The actual implementation of the new strategic document is based on the annual budget allocated for agriculture and rural development (Chapter 4).

### *FYR of Macedonia*

At the end of 2014, a new seven-year development strategy (National Agricultural and Rural Development Strategy (NARDS) 2014–2020) was adopted in FYR of Macedonia. It started a new programming period for agricultural policy. A broad spectrum of new priorities were established, related to the restructuring and modernisation of the agro-food sector, food security and food safety, rural development, sustainable development and strengthening human capital. The proposed policy measures resemble in structure those applied within the CAP, with direct payments and rural development being the main ones. However, the proposed direct payments remain fairly diverse in terms of the payment type and the eligible beneficiary sectors, with dominant ones being output payments, and animal and area payments. The support is made conditional upon respecting cross-compliance requirements in an attempt to align the support system with the logic of the CAP. The government of FYR of Macedonia has also adopted the second IPARD programme for 2014–2020. Dimitrievski et al. emphasise in the county brief in Chapter 5 that there has been an significant increase in funding allocated for output-based direct payments (mainly for tobacco), and for area and animal payments in FYR of Macedonia. What concerns the rural development policy is that there is a noticeable increase in support for rural infrastructure.

### *Montenegro*

Montenegro recently concluded the 2007–2013 programming period, and a new strategy for the programming period 2015–2020 was prepared. The adoption of the new strategic document is a condition for the formal opening of accession negotiations with the EU for the chapter on agriculture. Given this, the strategy contains an action plan to gradually harmonise agricultural policy with the EU *acquis*. In the case of direct payments, the emphasis is on the introduction of CAP-like direct payment schemes. Martinović and Konjević report, in their country brief in Chapter 6, the new agricultural policy's strong emphasis on rural development issues. Certain regulatory changes and the strengthening of institutional organisation are also highlighted as key changes to the agricultural policy. Overall, the new strategy is expected to significantly change the scope and the structure of agricultural support compared with the support granted within the 2007–2013 programming period.

### *Serbia*

In 2014, Serbia significantly renewed its strategic framework for agriculture for the new programming period in the Agricultural and Rural Development Strategy (ARDS) for

2014–2024. A particular focus of the new strategy is adapting agricultural policy to the requirements of the European integration process. The strategy has a modern structure (situation analysis, objectives, priorities, political mechanism, budgetary framework and monitoring), a strong developmental focus and a wide array of goals, ranging from support of production, income, competitiveness and environmental protection to rural areas' viability and upgrade of institutional capacities. The strategy also provides for a thorough reform of the policy instruments and gradual adaptation of them to the CAP. More specifically, the direct payments are envisaged to shift towards coupled area payments (and fewer animal premiums), whereas the rural development policy is gaining momentum through the introduction of support for less favoured areas, agro-environmental payments and stronger agro-food development support. Work is under way to prepare and implement the national programme for agriculture and rural development, which will establish the specific policy instruments. The European Commission also adopted the programme of IPARD pre-accession assistance in January 2015.

Overall, the new strategy brings marked reform to the Serbian agricultural policy in comparison with the previous programming period, during which the coupled payments (i.e. direct payments based on output) dominated the support, while the rural development support was insignificant (see Chapter 7). However, it is yet to be seen to what extent the new strategy will be executed and put in practice.

### *Regional overview*

The most obvious development in the area of agricultural policy in the Western Balkans in recent years is the embarkation on an intensive political process to prepare and adopt a medium-term strategy for agriculture and rural development. All study countries[4] have prepared, and most have also adopted and are in the process of implementing, the new strategic frameworks. Most of these documents exhibit visible progress in its content and structure. The objectives of agricultural policy are quite similar between countries and aim to strengthen all three dimensions of sustainable agriculture (economic, environmental and social), with a strong orientation towards supporting production growth and farmers' income. As outlined in the new strategic frameworks, the general objectives of the agricultural policies in the region are largely in line with the EU's *acquis* on agriculture.

The harmonisation of specific policy instruments with the CAP is somewhat less pronounced. All the study countries show ambition towards harmonisation, but there are significant disparities in the degree of the actual adjustment. Serbia and Montenegro have come furthest in this respect, as they have actually put forward plans for the gradual introduction of CAP elements. This is expected to some extent, as both countries have already started the EU accession negotiation process, have completed the screening of the current state of the legal and institutional situation with the European Commission, and have been given clear indications of changes required to be adopted in order to open the negotiations on the chapter on agriculture[5], including clear plans to reform their agricultural policies.

Other WB countries are still in the process of introducing the changes required under the EU *acquis* on agriculture. Some progress is visible, but no clear plan of harmonisation with the CAP has been outlined yet. This could be explained by the less advanced stage of their EU accession processes. Perhaps a more fundamental question arises about whether or not the proposed policy instruments and budgetary allocations are actually conducive to the development of the agricultural sector. The anecdotal evidence suggests

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[4] In Bosnia and Herzegovina the strategic framework was prepared by two key entities; however, discussion on the preparation of a common national document is under way.

[5] In the EU jargon of pre-accession negotiation, they have been assigned as "benchmarks", i.e. tasks to be fulfilled in order to formally "open" the negotiation on the chapter on agriculture. Both countries are in the process of preparing and implementing activities that are expected to make further negotiation possible.

that the proposed policy instruments are still predominantly an outcome of political and interest-motivated choices rather than being designed based on objective criteria.

Overall, the actual implementation of agricultural policies in all WB countries is still far from those outlined in the new strategic frameworks. Because of the economic crisis and the political economic drivers of the redistributive nature of agricultural support, strong path dependency of past agricultural policy patterns persists in the regulatory and institutional settings. A particularly strong path dependency is observed in the political preference for coupled production support rather than rural development. Effective implementation of the strategies already adopted and the strengthening of evidence-based assessment and monitoring of policies are probably the most significant challenges faced by the WB countries in bringing their agricultural policies into line with the EU requirements.

## 1.5 Budgetary transfers to agriculture

As mentioned before, the analyses in this section cover the results of the APM approach for 2013–2014[6]. The primary aim is to assess relevant changes in agricultural transfers compared with the findings of the FAO study, which covered the period prior to 2013.

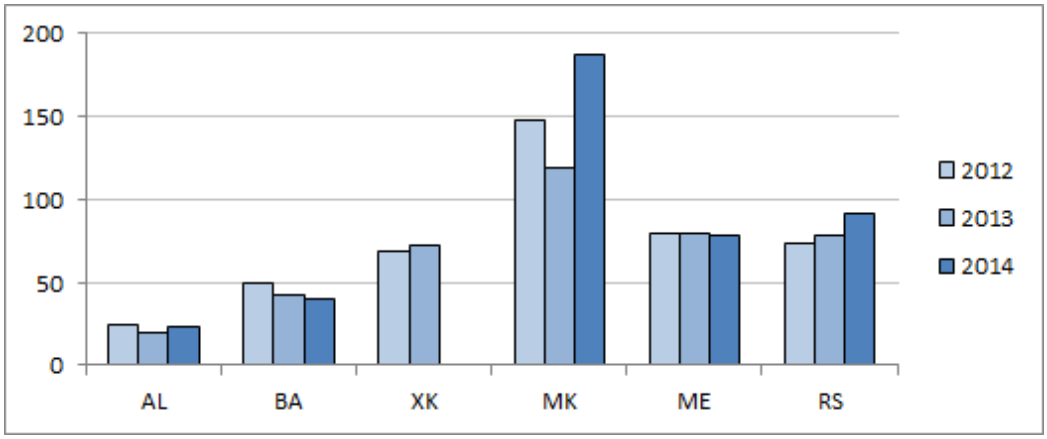
### *1.5.1 Total budgetary expenditures for agriculture*

#### *The relative level of budgetary support to agriculture*

Main conclusion of the FAO study:

> *In WBs, with the exception of FYR of Macedonia, the relative level of total budgetary support to agriculture is rather low compared to the EU-27.*

**Figure 1.3. Total budgetary expenditures for agro-food sector and rural areas in WB countries (EUR/ha UAA), 2012–2014**




Source: APM Database.

The conclusion from the FAO study still stands. In 2014, budgetary support per hectare of UAA amounted to about EUR 23 in Albania, EUR 40 in Bosnia and Herzegovina, EUR 72 in Kosovo* (data for 2013), EUR 79 in Montenegro, EUR 92 in Serbia and EUR 187 in FYR of Macedonia. In 2014, the level of the total support was considerably higher than in 2012 in FYR of Macedonia (after a decrease in 2013), somewhat higher in Serbia, slightly higher in Albania and slightly lower in Bosnia and Herzegovina and in Montenegro. The equivalent figure for the EU-27 was around EUR 480 in 2012, much higher than in WB countries (Figure 1.3).

[6] For Kosovo*, APM data for 2014 are incomplete and therefore not presented at the aggregate level.

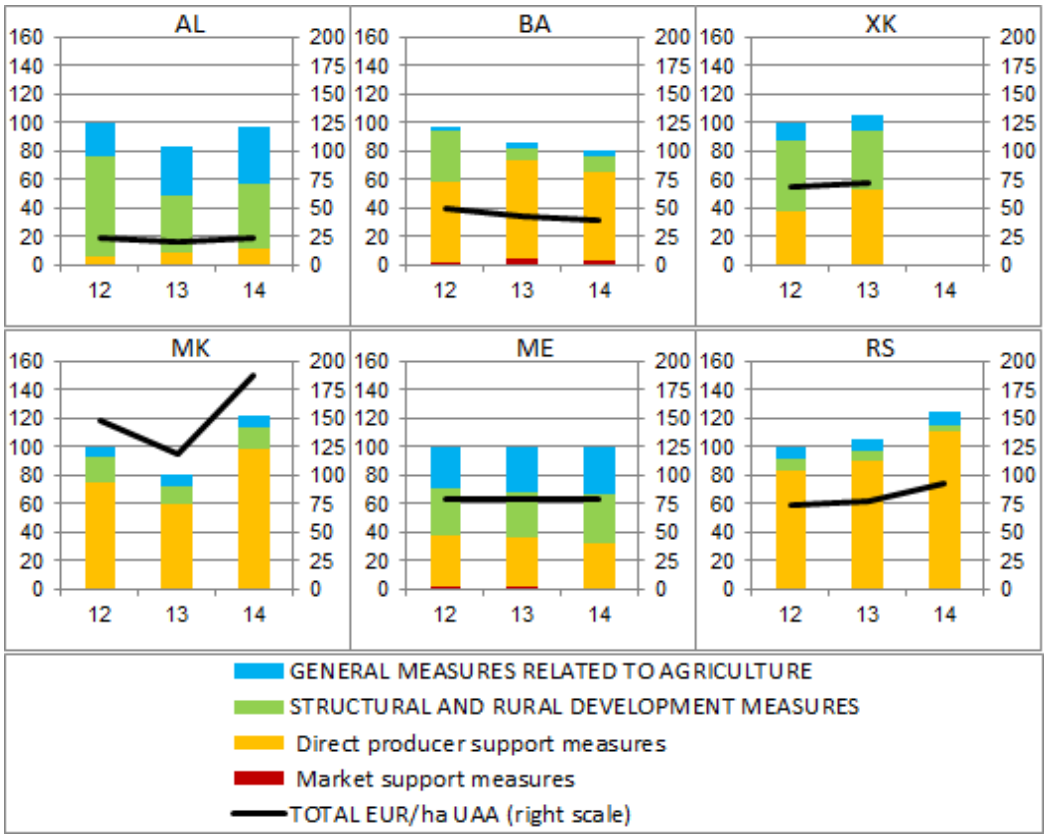
## *The composition of budgetary support to agriculture*

Main conclusion in the FAO study:

> *The composition of the total support to agriculture varies significantly between countries. Generally, it can be noticed that the larger the total budget, the larger also the share of funds for market and direct producer support measures (first pillar measures). Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) generally rank lower than production support, with the exception of Albania and Kosovo*, but the actual amounts in these two countries are fairly low.*

No significant changes in the composition of total budgetary support can be noticed in the study period relative to the period covered by the FAO study. There are changes in magnitude of the total support but not in the composition.

**Figure 1.4. Total budgetary expenditure for the agro-food sector and rural areas by APM pillars in WB countries, 2012–2014 (2012 = 100)**




Source: APM Database.

The share of funds for market and direct producer support measures (first pillar measures) is high in Serbia (close to 90 %), Bosnia and Herzegovina (around 80 %) and FYR of Macedonia (more than 75 % and growing). Lower shares of first pillar funds can be found in Kosovo* (around 50 % in 2013), Montenegro (around 35 %) and especially Albania (around 10 %). In these three countries, the shares of structural and rural development measures (second pillar) and general agriculture support measures (third pillar) are much higher, but the actual amounts (measured by EUR/ha UAA) are relatively low (especially in Albania) (Figure 1.4).

### *1.5.2 Direct producer support measures*

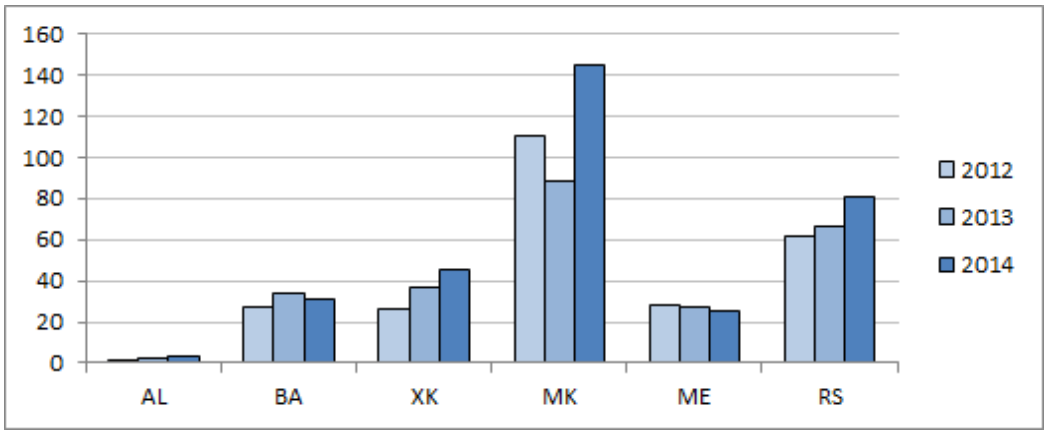
In the context of the first pillar of agricultural policy, the largest proportion of funds by far belongs to direct producer support measures. In 2014, some market support measures (i.e. intervention purchase of agricultural commodities) existed only in Bosnia and Herzegovina and in Montenegro. Because the market support measures are insignificant, detailed analysis is focused only on the part of the first pillar that is related to direct producer support measures.

Main conclusion in the FAO study:

> *Most countries in the region show an upwards trend of funds for direct producer support measures in most recent years (with some fluctuations, particularly in Serbia and the FYR of Macedonia).*

In 2012–2014 the upward trend of transfer allocated to direct producer support continued in all WB countries except for Montenegro. In 2014, the direct producer support measures per hectare of UAA varied from less than EUR 3 in Albania to EUR 145 in FYR of Macedonia. Similar amounts per hectare were recorded in Kosovo* (EUR 45), Bosnia and Herzegovina (EUR 31) and Montenegro (EUR 25). In Serbia the direct producer support measures amounted to around EUR 80 per hectare of UAA. Compared with 2012 figures, in 2014 direct producer support increased considerably in Kosovo*, FYR of Macedonia and Serbia, and was slightly higher in Albania and in Bosnia and Herzegovina, whereas it was slightly reduced in Montenegro (Figure 1.5).

**Figure 1.5. Direct producer support in WB countries (EUR/ha UAA), 2012–2014**




Source: APM Database.

### *The composition of direct producer support measures*

Main conclusion of the FAO study:

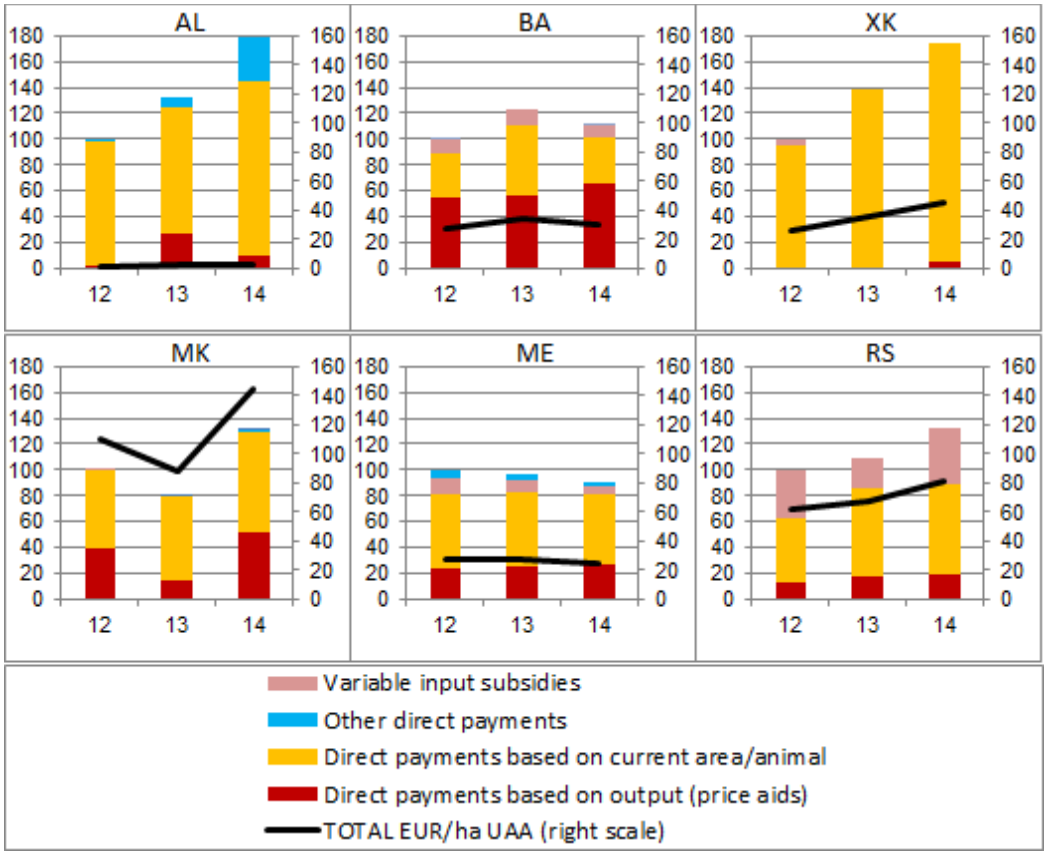
> *Compared with the EU, all WBs have considerably different structure of direct payments. Direct payments per output (price supplements), obsolete in the EU, is very common in Bosnia and Herzegovina and FYR of Macedonia. In Montenegro and Kosovo*, in the recent year also in Serbia, the majority of payments had a form of area and per head payments linked to specific commodities, the form which in the EU has been implemented on larger scale only before the CAP reform in 2003. Generally speaking, it can be said that agricultural policy implemented in WBs is not aligned with the actual agricultural policy in the EU.*

Since 2012, some changes in composition of direct support to producers can be noticed, but there is no sign of a process of their alignment to CAP-like policy instruments.

With the exception of Bosnia and Herzegovina, the animal and area payments are the most important form of direct producer support in WB countries. In Kosovo* virtually all direct producer support is of this type.

Direct payments per output (price supplements) are still present in most WB countries. In particular, Bosnia and Herzegovina and FYR of Macedonia have higher-level output-based subsidies. In these two countries, together with Serbia, this type of support grew as a share of total direct producer support in the study period (Figure 1.6).

**Figure 1.6. Development of expenditure and composition of direct producer support measures in WB countries, 2012–2014 (2012 = 100)**




Source: APM Database.

## *Instability of the direct support policy*

Main conclusion of the FAO study:

> *One of the main characteristics of the direct support policy of all WBs is its instability.*

There are large differences between WB countries in the number of commodities (and commodity groups) that are supported. This number is particularly high in Bosnia and Herzegovina and in FYR of Macedonia (i.e. 21 in 2014). In the rest of the countries covered, this figure varied between five and nine in 2014. The set of commodities (or commodity groups) that receive support is constantly updated, with some new ones being added and some existing ones being removed from the list. As reported in Table 1.7, changes have been observed in the set of subsidised commodities in all study countries and in almost every year of the period covered.

## Table 1.7. Number of supported commodities under direct payment schemes in WB countries, 2005–2014

| | 2005 | 2006 | | | 2007 | | | 2008 | | | 2009 | | | 2010 | | | 2011 | | | 2012 | | | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | A | N | O | A | N | O | A | N | O | A | N | O | A | N | O | A | N | O | A | N | O | A | N | O | A | N | O |
| AL | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 5 | +4 | 0 | 7 | +2 | 0 | 5 | +1 | –3 | 6 | +1 | 0 | 6 | +2 | –2 | 7 | +1 | 0 | 5 | +2 | –4 |
| BA | 23 | 23 | +2 | –2 | 23 | 0 | 0 | 23 | +1 | –1 | 21 | +2 | –4 | 21 | 0 | 0 | 22 | +1 | 0 | 21 | 0 | –1 | 21 | +1 | –1 | 21 | +1 | –1 |
| XK | | | | | | | | | | | 3 | | | 3 | +1 | –1 | 4 | +1 | 0 | 6 | +3 | –1 | 9 | +3 | 0 | 11 | +2 | 0 |
| MK | | | | | | | | 19 | | | 21 | +3 | –1 | 24 | +3 | 0 | 19 | 0 | –5 | 21 | +2 | 0 | 21 | +1 | –1 | 21 | +1 | –1 |
| ME | | | | | | | | | | | | | | | | | | | | 6 | | | 8 | +2 | 0 | 9 | +1 | 0 |
| RS | 8 | 6 | +1 | –3 | 3 | +2 | –5 | 3 | 0 | 0 | 3 | 0 | 0 | 1 | 0 | –2 | 1 | 0 | 0 | 4 | +3 | 0 | 6 | +2 | 0 | 7 | +1 | 0 |

Source: APM Database.
A, number of supported commodities in a year (actual measures); N, change in number: paid in the current year, but not in the previous year (new measure); O, change in number: paid in the previous year, but not in the current year (omitted measure).

Further, the magnitude of the commodity support across specific commodities varies strongly over time in WB countries. Table 1.8 reports the change in support between 2013 and 2014 by commodity (or group of commodities). Support for some commodities in Bosnia and Herzegovina and FYR of Macedonia decreased by more than 50 % (e.g. sheep and goats, barley, cereals, vegetables and horticultural products), whereas for some others it increased by more than 100 % (e.g. eggs, area payments for cereals, oilseed and protein crops) in 2014 relative to 2013. In Serbia, a considerable increase in payments for sheep and goats and for pigs was recorded.

There are several reasons for such a substantial variation in commodity support over time, ranging from possible errors in recording data, through year-to-year payment delays, to frequent changes made to the payment schemes. However, these variations create an uncertain policy environment for farmers and constrain them in their long-term planning of investment and production decisions. The instability of the direct support system seems to persist and remains a key weakness of agricultural policy in the Western Balkans.

**Table 1.8. Changes in the amounts of direct payments by commodity in selected WB countries, 2014 (2013 = 100)**

| | AL | BA | XK | MK | ME | RS |
|---|---|---|---|---|---|---|
| Milk | 130.1 | 110.5 | 123.6 | 98.7 | 107.1 | 110.0 |
| Sheep and goats | 132.4 | 18.7 | 100.1 | 110.6 | 76.1 | 407.9 |
| Cattle | O | 56.9 | | 101.4 | 93.0 | 133.4 |
| Pigs | | 78.5 | N | 114.0 | | 211.2 |
| Poultry | | 110.7 | | 198.5 | | N |
| Other animal products: others | 104.4 | 93.9 | 155.3 | 119.6 | | |
| Eggs | | 253.5 | 95.4 | 228.1 | | |
| Equines | | N | | | | |
| Other animals | | | | 81.5 | | |
| All livestock | | | | | | 0.7 |
| Wheat | | 86.0 | 96.2 | | | |
| Grain maize | | 83.7 | 134.5 | | | |
| Barley | | 40.3 | | | | |
| Cereals | | | | 45.4 | | |
| Rape seed | | 125.4 | | | | |
| Soya | | O | | | | |
| Oil seeds | | 218.0 | 108.2 | | | |
| Tobacco | | 64.8 | | 396541 | 100.0 | |
| Other industrial crops: others | | 26.4 | | | 100.0 | |
| Potatoes | | 73.9 | | | 100.0 | |
| Forage plants | | 94.4 | | N | | |
| Seeds | | 83.9 | | 283.5 | | |
| Other crop products: others | | | | 162.6 | | |
| Cereals, oilseeds, protein crops | | | | 210.8 | 100.0 | |
| All arable crops | | | | 155.6 | | 100.1 |
| Fresh vegetables | O | 133.3 | N | 94.4 | | |
| Other fresh vegetables | | | | | 100.0 | |
| Vegetables and horticultural products | | | | 32.0 | | |
| Dessert apples | | | | 0.0 | | |
| Fresh fruit | O | 144.0 | | 136.3 | | |
| Fruits and vegetables | N | | | | | |
| Grapes | | | 203.7 | 78.5 | | |
| Olives | N | | | | N | |
| Olive oil | O | | | | | |
| Nursery plants | | 145.7 | 78.7 | 62.9 | | |

Source: APM Database.
N, subsidies were paid in 2014, but not in 2013 (new measure); O, subsidies were paid in 2013, but not in 2014 (omitted measure).

### *1.5.3 Structural and rural development measures*

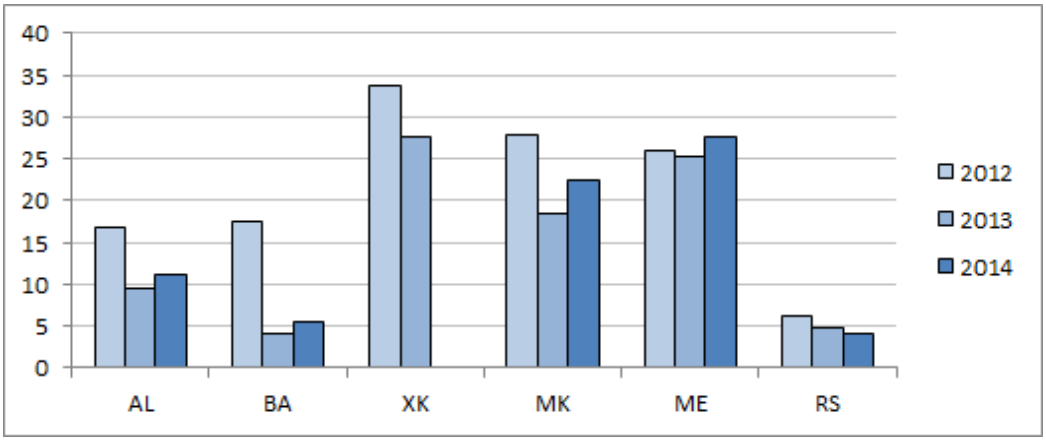
Main conclusion of the FAO study:

> *As a general rule, agricultural budgets are not development-oriented. This statement is based on the low absolute amounts of funds for structural and rural development measures. It is important to note that most of the countries have*

*not experienced noticeable increases in funds for structural and rural development measures in recent years. Only Kosovo* and (until 2009) Montenegro are characterized by more or less constant upwards trend. Albania, Bosnia and Herzegovina, and FYR of Macedonia show fluctuation through the years, while Serbia has even experienced decline.*

The conclusion of the FAO study largely holds also for the study period of the current report. The total value of structural and rural development support reduced in 2014 from 2012 in all WB countries except for Montenegro. The strongest decline was observed in Bosnia and Herzegovina. The amount of structural and rural development support is relatively small, indicating that development orientation of agricultural policies is a low priority in WB countries. In 2014 their value per hectare was EUR 4 in Serbia, EUR 5 in Bosnia and Herzegovina, EUR 11 in Albania, EUR 23 in FYR of Macedonia and EUR 28 in Montenegro. It was EUR 28 in Kosovo* in 2013 (Figure 1.7).

**Figure 1.7. Structural and rural development measures in WB countries (EUR/ha UAA), 2012–2014**




Source: APM Database.

## *Composition of structural and rural development measures*

Main conclusion of the FAO study:

*The bulk of the funds from this policy pillar belongs to the group of measures intended for improving the competitiveness of agriculture, while other two aspects of rural development policy (e.g. the environment and rural economy and population) are given lesser attention.*

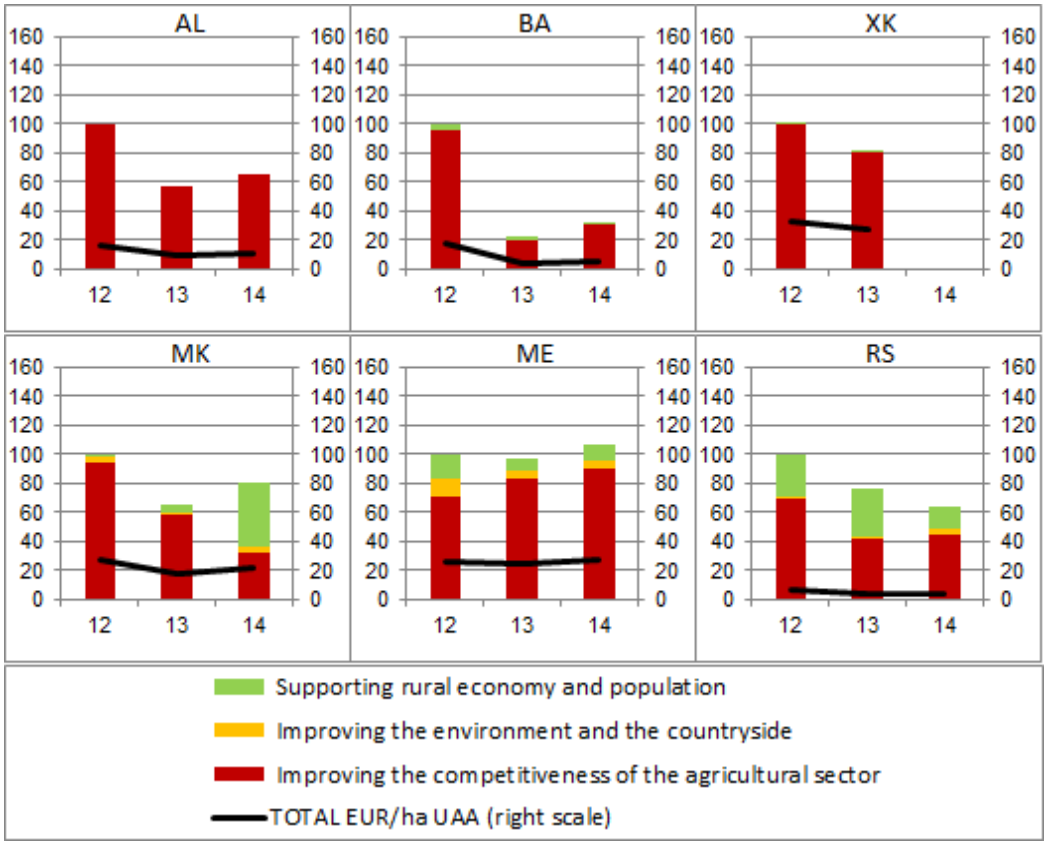
*Funds intended for improving the environment and the countryside are negligible in most WBs. The most challenging question from the perspective of balanced territorial development of WBs is the lack of measures to support less favoured areas (LFA). LFAs are strongly represented in all WBs and are as a rule facing also serious demographic and social problems (depopulation, rural poverty).*

In most WB countries no significant changes in the composition of expenditures for structural and rural development measures were observed in the study period. The conclusions of the FAO study thus still hold. The only exception is FYR of Macedonia, where the composition of the expenditures on structural and rural development measures significantly changed in 2014 in favour of supporting the rural economy and population. This change is largely a result of a significant reduction in investment support (a decrease of almost 50 % or EUR 6 million) and its relocation to supporting the rural economy and population through the programme "Improving the quality of life in rural areas", which received more than EUR 7 million in additional funds in 2014 than in 2013 (Figure 1.8).

Payments for environmental support are insignificant in WB countries. In Albania and Kosovo* they are completely absent. In the rest of the WB countries, the already low level of funds decreased in the most recent years (except for Serbia) (Figure 1.8).

Despite a lower level of funds available for structural and rural development, new measures were introduced in some WB countries. In Bosnia and Herzegovina and in FYR of Macedonia, a type of LFA payment was launched. In Serbia, a new programme to support endangered crop varieties and animal breeds was introduced. However, overall the structural and rural development policies in WB countries maintain their past configuration; no significant change in their composition was introduced in the period covered by this report.

**Figure 1.8. Evolution of expenditure and composition of structural and rural development measures in WB countries, 2012–2014 (2012 = 100)**




Source: APM Database.

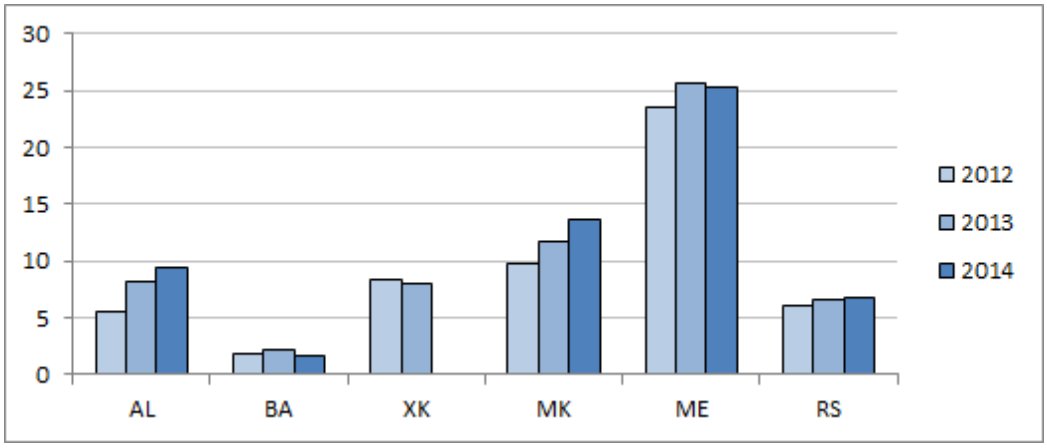
### *1.5.4 General support measures*

Main conclusion of the FAO study:

> *Measures captured by this policy pillar, ... are mostly in the shadow of other agricultural policy pillars.*
>
> *In most WBs, food safety and quality control receives the largest part of funds in this policy pillar. These shares are particularly high in Kosovo*, FYR of Macedonia, and Albania. In Bosnia and Herzegovina, and Montenegro apart from food safety and quality control also the proportion of the budget for research, development, advisory and expert services is relatively high. However, taking into account the overall modest budget for general measures, all these services are supported with fairly low amounts.*

No significant changes in the magnitude and the composition of the general support occurred in the study period compared with the period covered by the FAO study. A more noticeable change occurred in Albania and FYR of Macedonia, where the general support displayed a relatively strong growth in 2014 relative to 2012. In the rest of the WB countries, the general support remained fairly unchanged or decreased slightly over the same period. The value per hectare of the general support is relatively modest; in 2014 it was EUR 25 in Montenegro, EUR 14 in FYR of Macedonia, EUR 9 in Albania, EUR 8 in Kosovo* (2013), EUR 7 in Serbia and EUR 2 in Bosnia and Herzegovina (Figure 1.9).

**Figure 1.9. General support measures in WB countries (EUR/ha UAA), 2012–2014**




Source: APM Database.

## 1.6 Farm structure as a policy issue

The FAO study highlighted the problem of "land fragmentation and bimodal farm structures" among other key development challenges of the WB countries. More precisely, the FAO study outlined the following challenges related to farm structures in WB countries:

> *The history of development, inheritance and land reforms in the socialist and transitional period has led to the particularly unfavourable conditions reflected in farm size and land fragmentation. Small farms predominate, in some areas even in the form of subsistence farms lacking the resources for economically viable production. … In the more favourable flatlands, on the other hand, there is an increasing disparity between small family farms, which are inferior in size and efficiency, and preserved large ex-socialist holdings, now privatized and transformed into large companies. Although the number of these companies is limited, they tend to further expand their size of land and dominate the agricultural production in the regions where they are present, threatening social stability and balance.*

The FAO study also pointed out several shortcomings of the current policy framework regarding the issue of land reform and its approach to small farms. It has also identified a number of key policy recommendations for the future agricultural and rural development policy in the WB countries such as "land consolidation, increase of viable farms' size, improvement of land quality, better water management and better access to agricultural land".

The most recent EU farm structure data show that small average farm size remains one of the key characteristics of WB agriculture (Table 1.9). Although the agricultural sector is extremely diverse, the vast majority of farms are small family farms and are subsistence or semi-subsistence operations in nature (Volk et al. 2014). The proportion of farms smaller than 2 ha is particularly high in Kosovo*, FYR of Macedonia and

Montenegro (above 70 %), and probably also in Albania (Qineti et al. 2015). In Serbia, the proportion is smaller and close to the EU-28 average (around 50 %), but mostly thanks to a more favourable farm structure in the Vojvodina Province (Bogdanov and Rodić 2014).

### Table 1.9. Farm structure in WB countries

| | AL (2012) | BA (2010) | XK (2014) | MK (2013) | ME (2010) | RS (2012) | EU-28 (2010) |
|---|---|---|---|---|---|---|---|
| Number of agricultural holdings (000) | 324.0 | | 129.2 | 170.9 | 48.9 | 631.6 | 12,248 |
| (% of EU-28) | (2.6) | : | (1.1) | (1.4) | (0.4) | (5.2) | (100.0) |
| UAA (000 ha) | | | 257.6 | 315.9 | 221.3 | 3,437.4 | 175,815 |
| (% of EU-28) | : | : | (0.1) | (0.2) | (0.1) | (2.0) | (100.0) |
| UAA per holding (ha) | 2.8[1] | 2.0[a] | 2.0 | 1.8 | 4.5 | 5.4 | 14.4 |
| % of holdings with UAA < 2 ha | : | : | 80[a] | 78 | 73 | 48 | 49 |

Source: Agricultural Statistics Database, Eurostat.
a Data from FAO study (Volk et al. 2014).
:, not available.

The medium-term strategies for the future agricultural policy, as outlined in the new strategic documents (Chapters 2 to 7), have recognised the problems of the fragmented land structure, the dominance of small farms and sluggish structural changes. However, the policy challenges related to farm size and farm structure are not straightforward. On the one hand, small farms are important for the territorial and social cohesion of rural areas. On the other hand, there is a general perception in the region that small farms tend to reduce the overall efficiency of agricultural production[7]. Dimitrievski et al. report (see Chapter 5) that the need for land consolidation as an instrument of agricultural policy has been recognised by decision makers in FYR of Macedonia with the adoption of the National Strategy for the Consolidation of Agricultural Land for 2012–2020.

While the medium-term strategies may be (re)acquainting themselves with the problem of farm structure, the current agricultural policies of WB countries do not possess effective measures to address this challenge. Bogdanov has stressed for Serbia (Chapter 7) that agricultural policy has no adequate tools to deal with the farm structural changes:

> *The farm-restructuring process in Serbia took place spontaneously and slowly, with an unclear message delivered by the government to the farmers and investors on the desired direction of its development from the welfare point of view. ... Measures of support for acceleration of structural changes were poorly chosen and occasionally implemented (flat-rate incentives for "passive" farmers with the aim of activating the land lease market, subsidised interest rates for long-term credits, etc.).*

The same is true of the entire WB region.

Poorly functioning land sales and rental markets are another constraint that limits farm structural change in WB countries. A direct consequence of poorly developed land markets is the reduced possibility for farmers to use land as collateral to obtain credit, which otherwise could contribute to the development of the agricultural sector. Often basic elements of land institutions, such as property right enforcement and land registration, are underdeveloped in WB countries. As argued by Bajramović et al. for Bosnia and Herzegovina (Chapter 3), "Weak legislation regulating and enforcing property rights, and indecisiveness in the choice of the system of land registration, slow down the

[7] The connection between farm size structure and productivity is not unequivocal. In practice, individual small farms can be economically successful, yet, in connection with the socio-economic structure of these farms (in terms of education and age structure), claims that larger farms tend to be more economically successful seem to be valid.

modernisation, digitisation and restoration of the cadastre and land registry, which is a basic requirement for land markets to develop". Institutional regulation of land consolidation is difficult to implement from the political-economy point of view, particularly because it is administratively and financially demanding and thus hardly possible during the ongoing financial crisis.

A further constraint on small farms' development is their unequal treatment in accessing direct payments. The rules regulating the disbursement of direct payments are usually biased towards large farms, while small farms are restricted from accessing them. Often, only farms that sell output through the official marketing channels are eligible for direct payments; this directly excludes small farms from benefiting from them. Such discriminatory policies significantly contribute to the economic underperformance of small farms. This practice is contrary to the CAP philosophy, which treats all farms equally, while it recognises the developmental problem of small farms by introducing targeted schemes for small farms (e.g. small farmers scheme, modulation).

The promotion of small farms or farm structural change can be also addressed through the support measures targeting agro-food chains and producer organisations. There are relatively few support measures of this type available in the region. Some examples sporadically adopted in the region (e.g. the World Bank's Montenegro Institutional Development and Agriculture Strengthening programme) show that such support generates potential benefits to small farms (personal information from the field).

Overall, some of the key policy recommendations related to the support of small farms and farm structural change include adoption of land legislation, land consolidation, land registration, fairer distribution of agricultural support, better-targeted rural development measures and establishment of database systems to be used for policy monitoring (e.g. soil databases, land market data).

## 1.7 The EU integration process in agriculture

The experiences of past European integration processes show that agriculture is one of the most challenging sectors, covering some of the most complex issues that need to be negotiated and agreed during the accession process. Overall, the accession process can be split into four main interdependent activities: (i) legal harmonisation; (ii) upgrade of implementation and institutional capacity; (iii) policy reform and economic adjustment; and (iv) accession negotiations (Erjavec 2007). The accession negotiations were fundamental and formed the backbone of the political interplay between EU and WB political representatives, representing a means of transmitting information between the two parties.

The studied WB countries are at different stages of the accession process[8]. Two of the candidate countries are waiting for the official opening of the negotiations on the chapter on agriculture (RS and ME), two are waiting for the start of the negotiation process (AL and MK) and two are potential candidates (BA and XK*). In the field of agricultural policy[9], the key issues of the accession process include:

- implementation of IPARD;
- harmonisation of the legal framework for the implementation of agricultural policy;
- institutional capacity building (programming capacity, paying agencies, the Integrated Administrative and Control System (IACS), execution of horizontal regulations, etc.);
- implementation of policy reforms to accommodate the CAP-like policy instruments into agricultural policies (direct payments, rural development and common market organisation).

[8] For more details see http://ec.europa.eu/enlargement/countries/check-current-status/index_en.htm.
[9] Chapter 11 of the negotiation process.

The WB countries are implementing these elements of the accession process with varying intensity. The next section discusses in more detail the progress made in these four areas by WB countries.

### 1.7.1 IPARD: funding with limitations

The IPARD programme is currently the key EU pre-accession support in the field of agriculture. Its main objectives are to provide assistance for the implementation of the *acquis* concerning the CAP and to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate countries[10]. Thus the IPARD programme represents an opportunity for WB countries to obtain financial support to adapt and reform their agricultural policies as well as to provide support to the agricultural sector and for rural development. However, FYR of Macedonia is the only country from WB countries with a more extensive experience (i.e. for the financial period 2007–2013) in implementing the IPARD programme.

Experience from FYR of Macedonia indicates that the IPARD programme was only partially successful in being an effective instrument for pre-accession support in the field of agriculture and rural development. The lengthiness of all the procedures regarding the setting up and accreditation of the necessary institutional framework, low levels of absorption of funds (due to programming, administrative and financial constraints)[11], and the inefficiency of WB countries' public administration were some of the main limitations that did not permit full use of the programme in WB countries.

The fundamental problem lies within the WB countries, as the implementation of the IPARD programme appears to be a serious challenge for their local institutions and public administration. Usually WB countries have difficulties in organising human, institutional and financial resources to fully implement the IPARD programme. The entire process is often hampered by low quality and poor performance of decision makers, state administrators and policy makers, which is reflected in, among other things, the long time it takes to adopt the institutional framework and low levels of absorption of the programme funds. To address the obstacles to the implementation of IPARD, it is desirable to organise a workshop or working group with a brief to examine all gaps and identify solutions to improve the functioning of the IPARD programme in WB countries.

### 1.7.2 Sometimes weak motivation for legal harmonisation

The harmonisation of the legal framework for the implementation of the CAP comprises the adaptation of all four legal sets of EU regulations (legal basis for direct support, common market organisation, rural development and financing of the CAP)[12]. Most of the important tasks (mainly the setting up of the required institutional framework) are a matter of competent policy execution after accession, while only some demand actual harmonisation before accession itself. The latter include the adoption of various quality standards, such as rules regulating viticulture and winemaking and organic production, as well as the demanding veterinary and phyto-sanitary standards in the field of food safety, which are also relevant in the context of direct payments, as they are a component of the cross-compliance requirements.

This report does not assess in detail the progress in the field of legal harmonisation. However, based on the expert knowledge from the region, it can be concluded that many areas of agricultural policy are already (or at least partially) harmonised and/or their final adaptation is planned. Nevertheless, a major shortcoming of the adopted legislation is

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[10] For more information, see http://ec.europa.eu/agriculture/enlargement/assistance/ipard/index_en.htm.

[11] In Macedonia, only 7 % of the total IPARD funds available were used during the programming period 2007–2014 (see Chapter 5).

[12] http://ec.europa.eu/agriculture/direct-support/index_en.htm; http://ec.europa.eu/agriculture/markets/index_en.htm;http://ec.europa.eu/agriculture/rural-development-2014-2020/legislation/index_en.htm; http://ec.europa.eu/agriculture/cap-funding/index_en.htm.

that the actual implementation in practice lags behind. The amount of harmonisation and implementation is rather strongly dependent on pressures coming from the negotiation process, in response to signals of the enlargement strategy pursued by the EU institutions. Any setback to the accession process takes its toll, weakening the motivation of the WB countries, and pressure on them, to achieve fuller harmonisation. Serbia and Montenegro are at a stage of the process at which positive political signals from the EU and improved internal coordination of political processes can speed up harmonisation, bringing it to its final phase.

### *1.7.3 The serious constraints of institution building*

The most challenging task of the accession process is achieving the necessary institutional changes capable of implementing the CAP-like policy instruments. The modernisation and strengthening of state ministries and the establishment of paying agencies and all the necessary databases, administration and control systems are serious expenses to any country acceding to the EU; this is even more pronounced for WB countries because of their weak state administration, financial constraints and often insufficient (or even non-existent) political understanding of the process and its requirements. Institution building is administratively, financially and professionally challenging, and demands extraordinary effort and political will from the WB countries.

In the field of rural development, the IPARD alleviates the burden somewhat by playing an important role in facilitating the transfer of institutional patterns and experience from EU Member States. Establishing the institutional settings for the implementation of direct payments is a more challenging process, demanding large investments and changes in the mode of operation, which can be credibly built during the pre-accession period only if they are also used to implement the national measures. A key element of this process is setting up the Land Parcel Identification System (LPIS), as it is essential to make possible the adoption and implementation of the CAP-like area payments and other related measures. This institution building is impossible without external assistance, and the results of past projects indicate that even large external projects do not necessarily lead to successful institution building. A further challenge of pre-accession institution building in WB countries is human resource constraints and lack of organisational skills in the public administration.

### *1.7.4 Political will for policy reform*

The main pre-accession requirement in the field of adjusting and reforming national agricultural policies is the establishment of an institutional framework able to implement the CAP in its entirety after EU accession. It must be recognised that it is hardly possible to build the institutions and to harmonise the legislation in the field of agricultural policy without gradually moving the national instruments in the direction of the CAP. The benefits of a gradual move towards CAP-like policy instruments during the pre-accession period for both the public administration and the stakeholders are that they become accustomed to the CAP system of payments and institutional setting and gain knowledge about them.

The previous EU accession process encountered difficulties in implementing the CAP. This led the EU to introduce a requirement for candidate countries to draw up a clear strategy and an action plan to reform agricultural policy measures during the pre-accession process, to be prepared at the time of accession. This step requires considerable political will, given the financial, human resource and political economy constraints faced by WB countries. At the same time, an extensive understanding of CAP, as well as an effective public administration, is needed to adopt an adequate model of agricultural policy measures that is both politically and economically viable and in line with the set objectives. Such plans are only just beginning to be adopted in the WB countries; Montenegro and Serbia (see Chapters 6 and 7) have come the furthest in this respect.

Overall, our analysis suggest that the strategic documents adopted (or under preparation) defining the long-term objectives for future agriculture in the WB countries

are a step in the right direction in terms of envisaging policy reforms in line with accession requirements. The key challenge is whether these documents will actually be implemented and the extent to which policy makers will pursue the set objectives, priorities and chosen instruments. Past experience has shown that this was not always the case; often the set objectives were not followed when it came to their implementation. However, if the objectives as set in the strategic documents are put into practice, it will give a signal of real political commitment and WB countries will probably meet the accession requirements.

## 1.8 Policy conclusions and recommendations

The analyses highlight some general conclusions and policy recommendations relevant to national experts dealing with agricultural policy, as well as international institutions, especially the European Commission. The fundamental recommendations to modernise agricultural policy in WB countries were already stressed in the FAO study and continue to be valid in this report. The main aim of this section is to clarify the relevant ongoing developments in the region and put them into the context of the situation and changes in regional agricultural policy after 2013.

### *1.8.1 Some positive changes and the necessity of agricultural development*

The key external factors that affected the regional situation in agriculture during 2013–2015 were the catastrophic floods of 2014 in several WB regions, the Russian food embargo, the accession of Croatia to the European Union in 2013 and the consequent changes in external trade regimes in the region. General economic developments tended to contribute adversely to the agricultural sector's development because of the prolonged economic crisis, as the region has not fully succeeded in reversing the negative economic performance, although some positive signs have been observed. Each of these factors had different impacts in different WB countries. Bosnia and Herzegovina seems to be the most affected, having endured significant consequences of floods on agricultural production in 2014 and the negative effect of closing some trade channels with Croatia.

Although no major shift in production and farm structure was observed over the study period, we can notice an improvement in the foreign trade balance of the WB region, which was mainly driven by stronger export performance. There were also observed the first traces of agro-food production growth prompted by the past investments in agro-food chains, which stimulated the development of the agricultural sector and exports. It is difficult to quantify how stable this trend is, given that the agro-food sector of the WB region is just emerging from years of stagnation. Considerable additional investments and coordinated policy actions need to be undertaken to make the growth of the agro-food sector economically sustainable. However, this is challenging to achieve because of the ongoing economic stagnation of the region.

In this report we have also covered issues related to farm structural change, land consolidation and the functioning of land markets. The poorly developed land markets in the region lead to some adverse effects on the development of farm structure in particular and rural development in general. There is an ongoing process of concentration of land ownership into the hands of a small number of individuals, while the farm structural changes are sluggish. This calls for more policy actions in strengthening land markets and structural adjustments. The establishment of a modern land policy is a key prerequisite in this direction and requires a great deal of knowledge, political will and a competent state administration. A key requirement in this respect is the adoption of fair public policy, particularly when allocating direct payments that avoids distorting competition and unequal treatment of different farm types.

### *1.8.2 Lack of stability and consistency in policy*

In the period covered by this study no pronounced changes were observed in the structure and volume of the budgetary allocation for agricultural policy in the region. The

past trend of increase in funding for agricultural policy has largely been brought to an end as a result of the economic crisis. In their selection of measures, the WB countries are adhering to the course set in previous years, and there are also attempts to introduce new measures, moving towards coupled production support. Yet the agricultural policy measures are subject to frequent changes, resulting in an insufficiently stable policy framework. The instability of the policy framework generates uncertainty for producers and limits their ability to make long-term production decisions. The absence of targeted development policies remains another weakness of agricultural policies in the region, as the dominant political pragmatism is failing to respond to developmental challenges faced by the agricultural sector.

The adopted strategic policy documents defining the long-term objectives for future agriculture show that policy makers are aware of the key challenges faced by the agricultural sector and rural areas. However, the key policy weakness is choosing and adopting the appropriate measures for addressing the identified needs and challenges. The redistributive role of the state is far more pronounced than its developmental role when it comes to the specific adoption and implementation of policy measures. In addition, the region has problems in establishing an efficient analytical and programming system that can provide support to policy making.

Overall, the new strategic documents are an important step towards greater stability and consistency of the agricultural policy framework in WB countries. However, its specific application in practice is a question for future policy actions and it remains to be seen to what extent the implementation will follow the outlined planned direction, or if there will be a real shifts in the quality of agricultural policies in the region.

### *1.8.3 Political decisions needed to strengthen the WB countries' European integration process*

We have attempted to evaluate the state of and trends in the European integration process in agriculture in WB countries. We have pointed out several areas that limit the strength of the WB countries' European integration process, such as the slow adoption of the IPARD pre-accession support due to various political and administrative constraints, the stagnation in the harmonisation of the legal framework and institutional building, and the lack of clear action plans for agricultural policy reform that would ensure the ability to accommodate the CAP-like policy instruments. An important factor that could enhance the accession process of WB countries would be a clear signal about the actual EU accession prospects of WB countries. This could provide a strong stimulus to the efforts for some countries in the region, particularly those at a more advanced stage of the accession process.

The remarkable turnover of agricultural ministers in the region is also a significant shortcoming constraining long-term European integration, as it prevents the accumulation of knowledge and skills in this challenging but politically important sector. Politically stronger coordination and governance of European affairs in WB countries, including human resources, financial and institutional upgrading, are a must for further improvement in progress towards accession. The state administration urgently needs better leadership and initiative from government officials to address the administration's deficiencies in organisational skills and governance.

The key outstanding issues in the European integration processes lie in the field of agricultural policy reform. Institution building, harmonisation of legislation and IPARD represent a major challenge for WB countries. Regarding policy reform, we will reiterate some of the suggestions made in the FAO study that still continue to be valid:

- A clear action plan for agricultural policy reform needs to be set up in WB countries that will establish a strategy for the gradual adaptation and harmonisation of domestic agricultural policies to the CAP requirements.

- Those elements of the CAP need to be introduced first that make sense from the perspective of supporting agricultural development and have a long-term orientation, such as strengthening rural development.
- In parallel with institutional capacity building (i.e. IACS and LPIS), direct payments need to be introduced that are consistent with the CAP.
- The policy measures currently in place that are incompatible with CAP need to be gradually abolished and a strategy plan needs to be prepared for their smooth phasing out without major shocks to stakeholders and the administration. Only those measures should be preserved that can be transformed into CAP-like instruments and are expected to generate long-term economic and environmental benefits.

### *1.8.4 Strengthening policy analysis and an evidence-based policy approach*

This report has pointed to some of the shortcomings of agricultural statistics and their use to support policy making in the region. Regardless of the differences across individual WB countries, it was expected that statistics would be further adapted to European standards by introducing additional indicators, greater availability and use of survey results and a further general increase in data quality. These expectations have been only partly met. Experience shows that the improvement of statistics depends to a large extent on user requirements and needs, in particular those of ministries and academia, which are its main users. Excellent knowledge and a solid interpretation of basic statistical indicators are the first and fundamental steps to applying the available statistics for monitoring and analysis of agricultural policy. Here, more progress and commitment are needed, including in academic circles.

There has not been substantial progress in establishing a stable and robust system of analytical support for agricultural policy in the region. Again, there is a low level of awareness of the problem, which lies not only in the weak and variable demand, but also in the very limited supply. There is a need for long-term decisions, permanent monitoring, impact assessments, and investment in human resources, international comparability and cooperation. Serious efforts are needed on both demand and supply sides. Each country may have its own system of analytical support; what is important is that it be constantly operational and that cooperation between line ministries and academicians be established. These decisions must be made in all WB countries and at the same time the analytical units in the ministries must be strengthened. The ministries also need to increase awareness of the usefulness of evidence-based policy making. These shifts in the demand-side decisions need to start at the highest ministerial level and be followed up by the administration staff to maintain and develop the system of analytical support.

Despite the observed difficulties in using the basic statistical information for policy making, scientifically based analytical support demands the availability of relatively complex capabilities and skilled human resources to be able to deliver meaningful impact assessments of agricultural policy – including assessments in the area of the European integration process. It is therefore necessary to develop modelling tools and approaches and to support participation in international consortia of different analytical tools (e.g. Agricultural Member States Modelling (AGMEMOD), the Common Agricultural Policy Impact Modelling System (CAPRI), the Global Trade Analysis Project (GTAP), Individual Farm Model for Common Agricultural Policy Analysis (IFM-CAP)) to help transfer the necessary knowledge and experience to the local research community. Examining the possibility of introducing various modelling approaches in the WB countries can be an important step in that regard and deserves special attention. Junior researchers especially can contribute to this in collaboration with established researchers.

### *1.8.5 Final comments and future tasks*

The agriculture and rural areas of WB countries are at an important turning point. On the one hand, there are signs of growth and progress in development trends in agriculture and the rural areas; on the other hand, there are also indications of sustained stagnation in certain key areas of rural development. The agricultural sector and rural areas are in need of investment and better-targeted policy instruments. The choice of instruments is not a simple task, given the financial constraints, and demands a great deal of knowledge and understanding of the problems of agriculture and rural areas. European agricultural policy offers a model to define more efficient policy instruments in WB countries, but automatically copying patterns without adapting them to the political economic and agronomic regional context may not be successful if local considerations are not taken into account.

Political commitments regarding the EU accession process must be translated into agricultural policy reforms through decisions regarding the key issues of agricultural development and adequate institution building. The establishment of analytical support in line ministries and academic and research institutions is necessary to further strengthen evidence-based policy support that can contribute to improving the decision-making process.

To conclude, we present a range of agricultural policy issues that merit attention and may support the common effort to improve the efficiency of agricultural policy and stimulate growth in the agricultural sector and rural areas:

- adoption and implementation of land and tenancy reforms;
- addressing the constraints faced by small farms and unequal allocation of policy support;
- strengthening support for stimulating the development of modern agro-food supply chains;
- adoption of a support system for LFAs in line with the CAP;
- strengthening support for creating producer organisations;
- introduction of risk management instruments;
- enhancing the future development of agricultural knowledge and innovation system (AKIS);
- implementation of democratic and transparent agricultural policy decision-making processes;
- modernisation of the rural finance system.

# 2. Albania: agricultural policy brief

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## 2.1 Economic development

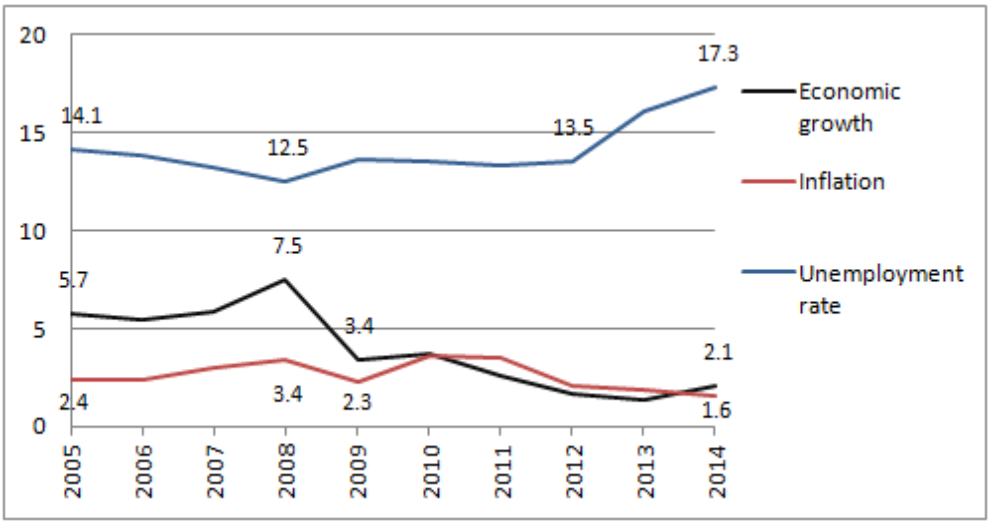
Albania experienced a period of slowing economic growth, which started in 2009 and bottomed out in 2012–2013. During 2014, Albania seemed to be recovering from the sharp deceleration of economic growth that the 2008 financial crisis triggered (with GDP growth increasing from 1.4 % in 2013 to 2.1 % in 2014) (Figure 2.1). However, because the population has been shrinking at the same time as GDP has been growing, although at a lower rate than in the past, the GDP per capita has risen since 2005 (Table 2.1). The growth was mainly driven by the recovery of demand in the private sector.

**Table 2.1. Albania: economic context, 2005 and 2014**

| | 2005 | 2014 |
|---|---|---|
| GDP (EUR million) | 6,561 | 10,092 |
| Population (million) | 3.0 | 2.9 |
| Land area (km$^2$) | 28,748 | 28,748 |
| Population density (inhabitants/km$^2$) | 105 | 101 |
| GDP/capita, PPP (EUR) | 5,201 | 7,301 |
| Foreign trade as % of GDP | 36.0 | 61.5 |

Source: Agricultural Statistics Database – Albania, 2015.
PPP, purchasing power parity.

**Figure 2.1. Albania: main macroeconomic indicators (% increase since previous year; % unemployment), 2005–2014**




Source: Agricultural Statistics Database – Albania, 2015.

During recent years inflation has not exceeded 3.6 % (the target inflation level); it started declining in 2012 and continued to do so until 2014, when it fell to 1.6 %. During the same period, unemployment rate increased, reaching 17.3 % in 2014, the highest level in the past 10 years. The increase in unemployment led to a shrinking of household income and a rise in poverty. After rapid decreases during the second decade of transition, the poverty rates reversed during 2008–2012, increasing from 10.2 % to 13.6 % in urban areas and from 14.7 % to 15.3 % in rural areas.

During 2009–2013, foreign direct investment (FDI) inflows slowed to 1.7 % per annum and remittances declined from 10.8 % of GDP in 2009 to 6.6 % in 2014. External debt increased since 2009, albeit remaining at a manageable 36.7 % of GDP in 2014. Public debt also increased from 55 % of GDP to 71 % of GDP during the same period. The fiscal deficit reached a peak in 2014, at 5.6 % of GDP. Large public debt and large fiscal deficits have been created by the high level of government spending, low tax revenue collection and widespread tax evasion arising from a highly informal economy.

## 2.2 Agricultural development

Agriculture remains one of the most important sectors in the Albanian economy. In 2014, agriculture continued to contribute one fifth of the country's GVA, and around half of employed people were employed in agriculture (Table 2.3), the highest proportion[13] of all the countries in the region (see Chapter 1).

The annual real growth rate of the agricultural sector's GVA has been significant since 2005, registering an increase every year, including 8.0 % in 2013 and 6.0 % in 2014. However, labour productivity in agriculture measured by GVA per employee is only about half of the overall productivity in economy (about EUR 4,500 per employee and EUR 8,700 per employee respectively). In 2014, output volume growth recovered after the rapid decline in 2013 (mainly due to high floods), whereas prices were stagnant because of the overall downward pressures on prices in the economy.

The contribution of the sector to the international trade balance has been slightly deteriorating in terms of its share of total exports and imports. However, the agro-food export-to-import proportion within the sector has improved (Table 2.3).

### Table 2.2. Albania: agriculture in the economy, 2005 and 2014

| Indicators | 2005 | 2014 |
|---|---|---|
| % of GVA | 20.6 | 20.1 |
| % of employment | 58.2 | 49.0 |
| Agro-food exports (% of total exports) | 7.9 | 6.4 |
| Agro-food imports (% of total imports) | 20.3 | 18.7 |

Source: Agricultural Statistics Database – Albania, 2015.

There are about 352,000 agricultural holdings in Albania, which operate on about 1.2 million ha of agricultural land. Despite a slight increase in farm size witnessed in recent years, the agricultural area per holding in the country is still very low, at only 2.8 ha. Agricultural area in Albania includes the available, rather than the used, pastures and meadows, which indicates that the average farm size measured in UAA would be even smaller. Pastures and meadows are still mostly state managed and only partly rented out to the livestock farmers.

[13] Both figures should be treated cautiously; given the high level of informality that characterises the agricultural sector, and gaps in agricultural information systems, the GVA and employment rates cannot be very accurate.

Agriculture structures have slightly deteriorated since the arable land share has decreased. Of the total area of 2,875,000 ha, about 1,201,000 ha is agricultural land (Table 2.3). However, agriculture land statistics have changed very little for years (Figure 2.2), partly for lack of an agricultural census and absence of updates from the Immovable Property Registration Office.

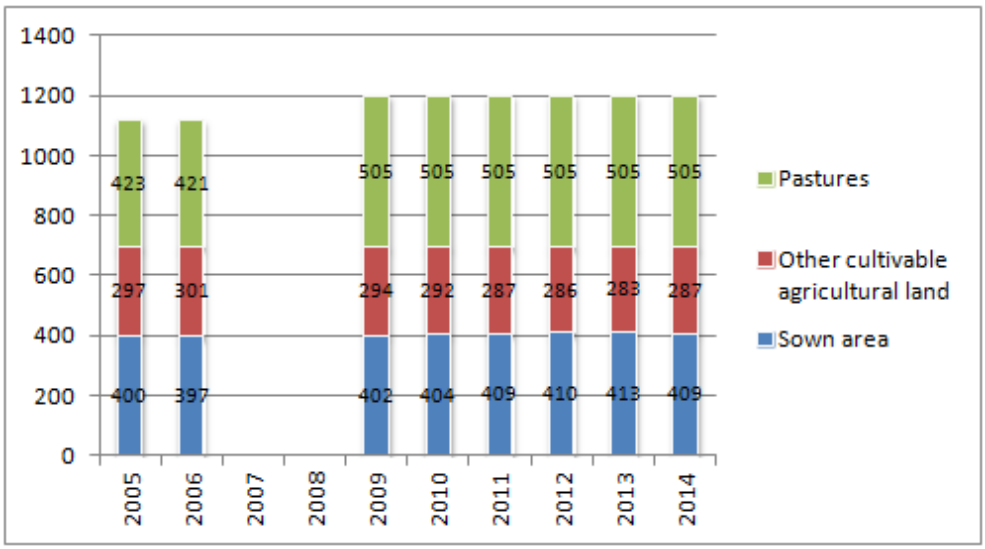
Despite the lack of statistics on agriculture structures, the performance of some sectors has improved (Table 2.3). The Ministry of Agriculture, Rural Development, and Water Administration (MARDWA 2013) reports increasing yields of cereals, vegetables and dairy products.

### Table 2.3. Albania: characteristics of the agricultural sector, 2005 and 2013

| Indicators | 2005 | 2013 |
|---|---|---|
| AA (000 ha) | 1,120 | 1,201 |
| % of arable land in AA | 36 | 34 |
| % of crops in total agricultural production | 40.7 | : |
| Average wheat yield (t/ha) | 3.2 | 4.1 |
| Average milk yield (t/dairy cow) | 2.163 | 2.722 |
| Factor income per annual work unit (EUR) | : | : |
| Agro-food export-to-import rate (%) | 11.2 | 17.9 |

Source: Agricultural Statistics Database – Albania, 2015.
:, not available; AA, agricultural area.

### Figure 2.2. Albania: agricultural land by main categories (000 ha), 2005–2014



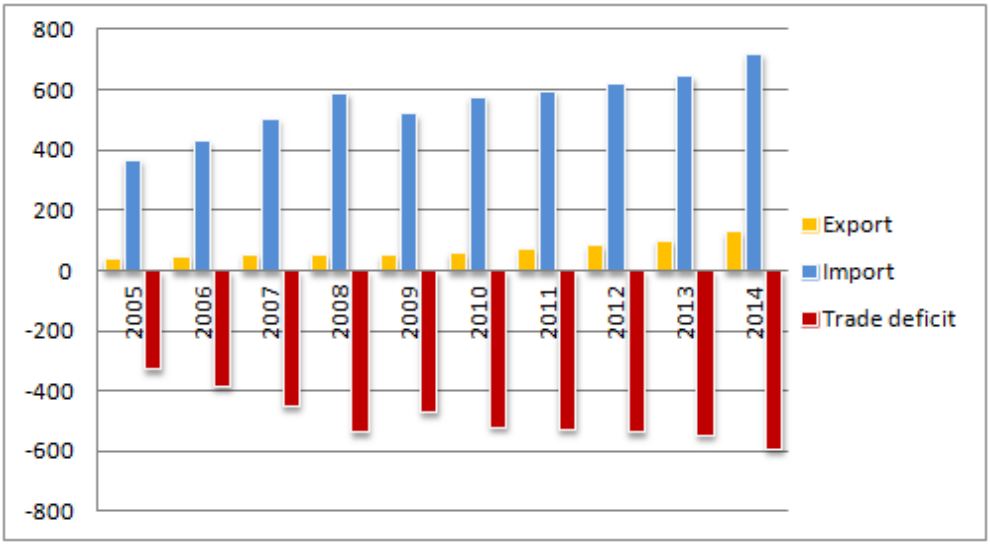

Source: Agricultural Statistics Database – Albania, 2015.

In 2014, agro-food imports made up about 18.7 % of total imports of goods, while the contribution of agro-food products to total exports was 6.4 %. During 2005–2014, Albanian agro-food exports increased significantly – on average 14 % per year – reaching EUR 128.9 million in 2014. Imports, on the other hand, have been increasing on average by 8 % per year. The export-to-import proportion improved from 11.2 % in 2005 to 17.9 % in 2014, since exports increased more than imports in that period.

## Table 2.4. Albania: Main developments on agricultural markets between 2005 and 2014

| Category | Traditionally, the country is | Since 2005, production has | Significant changes |
|---|---|---|---|
| Cereals | Net importer | Increased | Exports are insignificant compared with imports. A significant increase in production of circa 25 % was recorded in 2008 compared with 2007, and since then production has been slightly increasing |
| Sugar | Net importer | No significant trend | Exports have increased considerably, but remain insignificant compared with imports. Imports, on the other hand, have decreased since 2005, although no clear trend appears during the years between |
| Oilseeds, oils and fats | Net exporter | No significant trend | Albania is a net exporter. Medicinal and aromatic plants, especially sage, make up the highest proportion of this group. Production figures are unreported because this sector is highly informal. Sage recently suffered a drastic price cut due to market diversion and supply surpluses |
| Fruit and vegetables | Net importer | Increased | Exports reveal a significant positive trend, especially in 2010. In that year exports more than doubled compared with the previous period. Imports began decreasing in 2011. Production has been constantly increasing. In some products the country is achieving self-sufficiency |
| Wine | Net importer | Decreased | Imports increased continuously during the observed period, while exports remain insignificant compared with production or imports |
| Potatoes | Net importer | Increased | Despite the insignificance compared with imports or production, exports almost doubled in quantity in 2013 compared with 2012 |
| Tobacco | Net importer | Increased | Despite the increase in recent years, exports remain lower than imports. During the observed period, production grew at a slow pace. The government neglects this product in terms of financial or non-financial support |
| Beef and veal | Net importer | No significant trend | Albania does not export beef and veal, except for a modest amount delivered in 2005 (only 16 t). Production has been slightly increasing, while imports have been decreasing constantly except in 2013 |
| Pig meat | Net importer | No significant trend | Like almost all meats, Albanian exports no pig meat. Imports fell slowly, starting in 2008 |
| Sheep and goat meat | Self-sufficient | Increased | Imports have been slightly increasing in recent years, but have always been less than production, making up only about 1 % of the total supply. This is why we have considered Albania self-sufficient in these meats |
| Poultry meat | Net importer | Increased | Production almost doubled over the period 2005–2009, and then stagnated until 2014. Imports experienced a drastic decline in 2006, and returned to the previous level in the following years. Exports are almost non-existent |
| Milk and milk products | Self-sufficient | Increased | Imports halved during 2005–2007, and began increasing again in the following years, reaching their highest level in 2013. After several years, Albania started exporting dairy products in modest quantities varying from 200 to 600 tons. Safety criteria keep the country from realising any potential access to external markets except Kosovo* |

**Figure 2.3. Albania: agro-food trade (EUR million), 2005–2014**




Source: Agricultural Statistics Database – Albania, 2015.

The main categories of exported agro-food are "Oilseeds and oleaginous fruits" and "Meat preparation". The main recipients of agro-food exports are EU members, mainly Italy, Greece and Germany. Despite the overall increase and diversification of agro-food exports, the trade deficit continues to increase compared with 2005 (Figure 2.3).

## 2.3 Agricultural policy development

### *2.3.1 Agricultural policy frame and implementation*

MARDWA performs its functions on the basis of three main policy documents: the National Strategy for Development and Integration 2014–2020, the Mid-Term Budget Programme, and sector, sub-sector and cross-cutting strategies, which set detailed mid-term and long-term policy objectives, the main measures, the monitoring tools and the costs of implementation of policies. MARDWA's short-term policies are detailed in the yearly programme and the relevant activities in the yearly action plan. Since 2005 it has used the Integrated Planning System, which represents a set of operating principles to ensure that government policy planning and monitoring as a whole takes place in an efficient and harmonised way.

Implementation of the cross-cutting Inter-Sectorial Strategy for Agriculture and Rural Development (ISARD) 2014–2020 is coordinated by MARDWA, in collaboration with other ministries, notably the Ministry of Education and Sciences, the Ministry of Health and the Ministry of Economic Development, Trade and Entrepreneurship. Its main legal framework is the Law on Agriculture and Rural Development adopted in 2007, which regulates the programming of policy measures related to agriculture and rural development, provides for public advisory services for agriculture, research and training, and provides for the setting up of an information database. It also lays down the legal basis for the national support schemes, which are set out annually in the National Action Plan, and defines the institutions responsible for the implementation of agriculture policy by establishing the Agriculture and Rural Development Agency (ARDA).

ISARD 2014–2020 was adopted in 2014. ISARD 2014–2020 integrates both agriculture and rural development into one strategy. ISARD defined "an efficient, innovative and viable agro-food sector capable to sustain the competitive pressure and meeting the requirements of the EU market through a sustainable utilization of resources and viable rural areas providing economic activities and employment opportunities, social inclusion and quality of life to rural residents" (MARDWA 2014). Thus, the strategic framework

guiding the implementation of agricultural and rural development is also linked with Albania's status in the context of EU integration.

More specifically, ISARD provides for interventions in three policy areas: (i) rural development policy; (ii) national support schemes for farmers, development of rural infrastructure and ensuring equal opportunities; and (iii) institutional development, implementation and enforcement of the EU regulatory requirements.

ISARD 2014–2020 has four priorities: (i) enhancing farm viability and competitiveness of agriculture and food processing, while progressively aligning with EU standards; (ii) restoring, preserving and enhancing ecosystems dependent on agriculture and forestry; (iii) balanced territorial and economic development of rural areas to promote social inclusion; and (iv) transfer of knowledge and innovation in agriculture, forestry and rural areas.

## Table 2.5. Albania: main agricultural policy instruments and measures, 2005 and 2014

| | Implemented | Since 2005, the support has | Significant changes |
|---|---|---|---|
| Market support measures | Not significant | No significant trend | There is no significant market support |
| Variable input subsidies | Yes, occasionally | Decreased | Decreased and ceased to exist after 2007 |
| Direct payments based on output | Yes, regularly | No significant trend | Increased from 2009 to 2012 and then became insignificant in 2012. Fluctuations have been witnessed over the years. Support rose again in 2013 and then decreased in 2014. The majority of the subsidy is linked to payment per litre of milk produced and organic olive oil produced. In 2014 the olive oil scheme ceased to exist and another scheme of support appeared for fruits and vegetables delivered to collection and processing points |
| Direct payments based on area/animal | Yes, regularly | Increased | Has increased greatly. Payments for animals, such as for registered or pure breeds, with focus on small ruminants, have been the main contributor to growth |
| Decoupled direct payments | Not implemented | No significant trend | There are no decoupled payments and no similar scheme |
| On-farm investment support | Yes, regularly | Decreased | An upward trend is verified in the first five years, achieving a peak in 2010. From 2010, a decreasing trend is verified, due to the reducing support for plantations (mainly olives and other fruits) and a reorientation towards drip irrigation systems and new heating systems for greenhouses |
| Food industry support | Yes, occasionally | No significant trend | Fluctuations have been witnessed over the years. Since 2008 the scheme has changed every two years. The latest development of the scheme is the payment of 50 % of the value of investments in storage and processing infrastructure |
| Environment-related payments | Not implemented | No significant trend | No environmental measures were implemented during these years |
| Rural area support | Not implemented | No significant trend | No support of the rural economy and population was recorded during these years |
| General support measures | Yes, regularly | Increased | The main measures are focused on food safety. Budgets rose in 2014 based on other measures of general support provided by technical assistance projects |

A national scheme for support of agriculture and rural development is enforced every year by a decree of the Council of Ministers. The implementation of the national action plan is the responsibility of the ARDA and the Rural Development Directorate within MARDWA under the supervision of the Inter-Ministerial Committee for Agriculture and Rural Development. The National Scheme of Support during 2013 was implemented through 23 schemes. Twenty of them are direct benefit schemes from the Fund of the Programme for Agriculture and Rural Development. The other three encourage lending to the agro-processing sector, investments in agricultural machinery and promote cooperation in establishing agricultural cooperatives. Priority is given to the mountain areas by using different criteria (e.g. smaller area, number of cows, sheep, goats, etc.). In 2014, 21 schemes were applied, of which 19 were direct benefit schemes, one scheme encouraged lending to the agro-processing sector and investments in agricultural machinery and one was an investment scheme, supporting 50 % of investment costs.

Since 2011, Albania has designed the IPARD Programme (2011–2013) and established an IPARD operating structure. The IPARD Paying Agency, within the structure of ARDA, is gaining accreditation to become the body responsible for implementing the IPARD Programme. Efforts are still needed to complete the preparation for the accreditation of the whole IPARD Management and Control System, including the activities of the National Authorising Officer, the national fund, technical bodies and the audit authority.

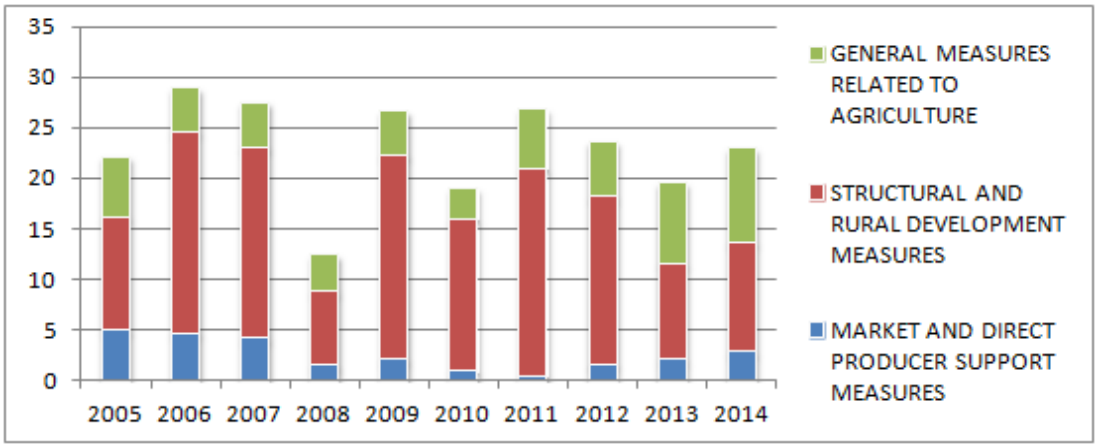
During 2015, a grant scheme was being introduced as a complementary scheme to IPARD. The Agriculture and Rural Economic Development Programme grant scheme in principle supports only investments below IPARD thresholds, small farmers and small and medium-sized enterprises (SMEs) in disadvantaged mountainous areas.

The project "Sustainable Development of the Albanian Olive Sector" is financed to the tune of EUR 3.0 million under a bilateral agreement between Italy and Albania. In 2016 it is expected to introduce a measure of support to the olive sector, aiming to conserve diversity and promote environmental sustainability.

### *2.3.2 Budgetary support to agriculture*

During 2013–2014, the budgetary support to agriculture in the country experienced minor changes. In 2013, the overall budgetary support decreased, and then in 2014 it increased to approximately the same value as in 2012 (Figure 2.4). In 2014, the total budgetary support amounted to EUR 22.9 million or EUR 19.2 per hectare of UAA. Despite the rising but highly fluctuating trend in the period 2006–2011, during the subsequent three years the overall budgetary support stabilised at similar values to those recorded in 2005.

**Figure 2.4. Albania: budgetary support to agriculture (EUR million), 2005–2014**



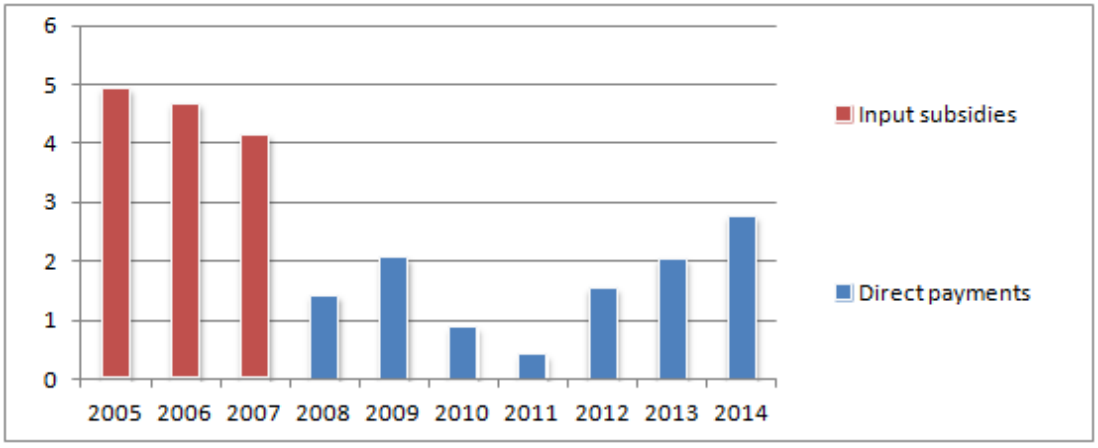

Source: APM Database – Albania.

Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) were much higher than direct producer support. The third pillar increased in share during 2014 mainly because of disbursements from donor projects. Low lobbying power in agriculture sector, high presence of donors' projects and low overall budget values make direct producer support in Albania less prominent than in other countries.

The direct producer support measures in the country continue to be very modest (less than EUR 2.4 per ha). Moreover, in terms of overall proportion of total budgetary support it is weak, although it has recovered to 9.8 %. In Albania the majority of funds allocated for direct producer support are given to the animal sector.

The country is an interesting case among the Western Balkans, since the subsidies for variable inputs are very modest (Figure 2.5). Weak advocacy by agro-processors and input suppliers might be the main factors of this trend. This feature helps the country orient itself towards EU-like schemes.

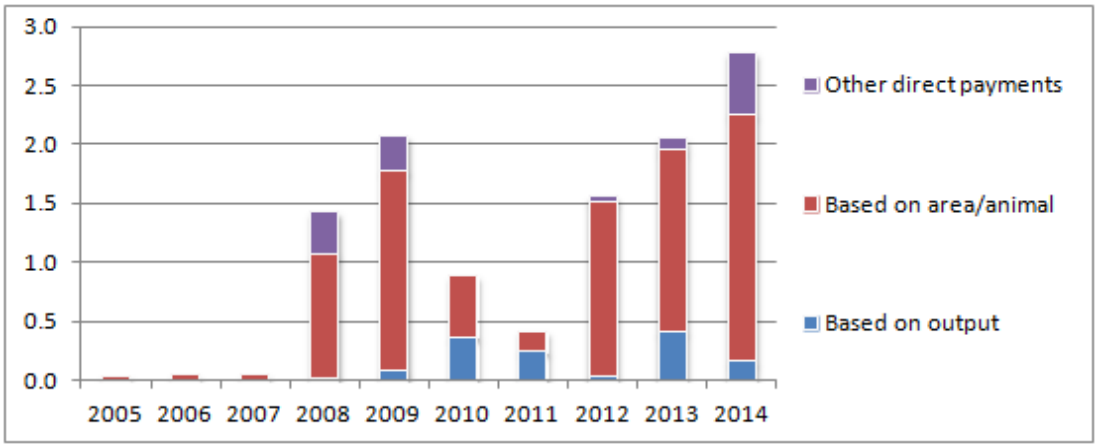
**Figure 2.5. Albania: breakdown of direct support measures (EUR million), 2005–2014**




Source: APM Database – Albania.

The composition of direct producer support measures generally did not change much throughout the years in question. Decoupled payments do not exist, although they form a high proportion of the CAP.

**Figure 2.6. Albania: breakdown of direct payment to producers (EUR million), 2005–2014**




Source: APM Database – Albania.

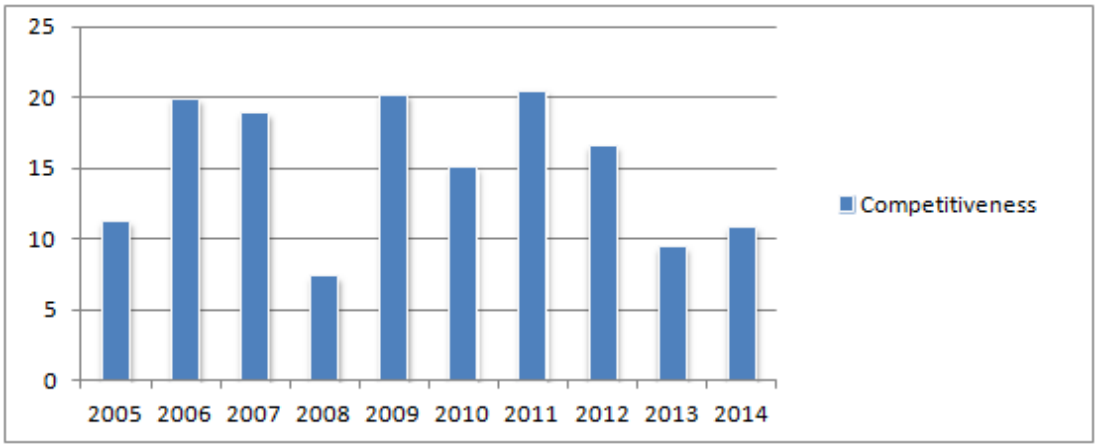
The majority of payments were by area and/or per animal, and linked to specific commodities, a form that is shrinking rapidly in Member States (Figure 2.6). The scheme has significantly increased during the years. Payments for animals, such as for registered or pure breeds, mainly focused on small ruminants, have been the main contributor to its growth.

Albania also makes output-based direct payments (price supplements), with large year-to-year changes in supported sectors such as for milk, organic olive oil, and fruits and vegetables.

Within the rural development measures, no funds target the support of rural economy and population. Funds intended to improve the environment and the countryside are negligible too. Policy awareness of the environmental situation in rural areas is still very low. Waste management is very poor and extraction of natural resources remains uncontrolled (EC 2014a).

Supports for increasing competitiveness are modest (Figure 2.7). Despite overall fluctuations, a relative decrease is witnessed in recent years. From 2010, a decreasing trend is registered caused by the decline of support for plantations (mainly olives and other fruits) and a reorientation towards drip irrigation systems and new heating systems for greenhouses.

**Figure 2.7. Albania: breakdown of structural and rural development measures (EUR million), 2005–2014**

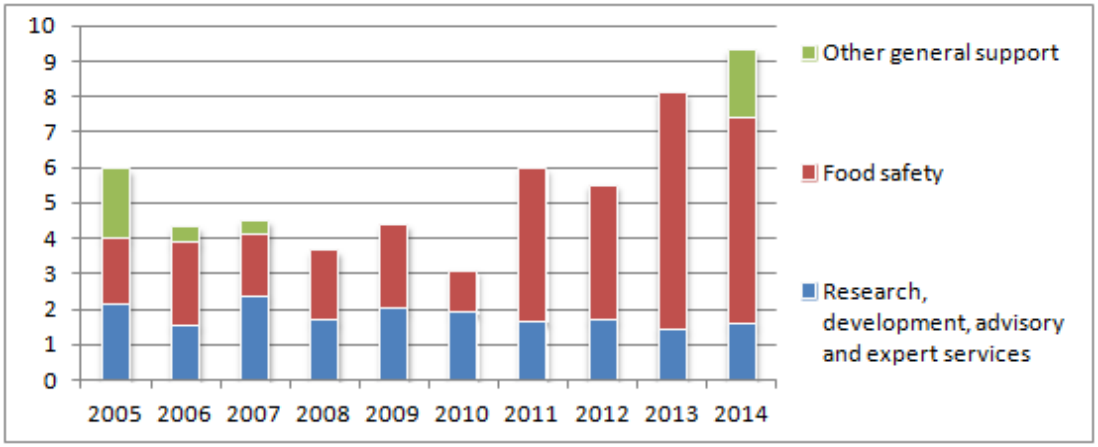



Source: APM Database – Albania.

Data on general support measures consist of general support to agricultural research and development, advisory and extension services for agriculture, public financing of measures in the field of food safety and food quality (veterinary and phyto-sanitary measures) and other measures of a general character. Budgeting for these measures increased (Figure 2.8).

For general support measures, the increase in funds is driven by the support provided for food safety, also financed from EU donor projects. The budgetary funds for knowledge generation and its transfer to agricultural producers are more or less constant, indicating little awareness of the importance of knowledge for the development of agriculture.

**Figure 2.8. Albania: breakdown of general measures related to agriculture (EUR million), 2005–2014**




Source: APM Database – Albania.

## 2.4 Farm issues

### *2.4.1 Farm structure*

The large number of subsistence and semi-subsistence farms is particularly characteristic of Albania. However, farm structure data are partial and have not been updated in the last two years. MARDWA administrative statistics currently declare that the number of farms is about 350,000, and the Albanian Institute of Statistics (INSTAT) also published this number, which is based not on the census but on an expert estimate using previous administrative and farm structure survey data from MARDWA (Table 2.6).

During 2013–2014, the availability and reliability of data deteriorated. Institutional factors are the main determinants of this situation. In 2012, in the aftermath of the Census of Agriculture Holdings, a decision of the Council of Ministers delegated the collection and processing of agricultural statistics from MARDWA to INSTAT. Therefore, farm surveys and administrative data collection apparatus ceased to exist in the ministry.

**Table 2.6. Albania: main farm structure data, 2012**

| Area (ha) | Number of farms | Percentage |
|---|---|---|
| 0.1–0.5 | 70,195 | 20.00 |
| 0.6–1.0 | 89,661 | 25.55 |
| 1.1–2.0 | 142,084 | 40.49 |
| 2.1 and more | 48,976 | 13.96 |
| **Total** | **350,916** | **100.00** |

Source: MARDWA administrative data.

According to the Census of Agricultural Holdings 2012, 98.2 % of the 303,802 agricultural holdings in Albania are family farms. However, census results have not been made public by INSTAT or used for statistical purposes by MARDWA. During 2013 and 2014, only few key performance data from the regional directories of MARDWA were made available to INSTAT. At the beginning of 2015, another government decision transferred the primary data collection service back to MARDWA, but INSTAT will retain responsibility for methodology issues.

The continual institutional changes hampered donors' efforts to improve agricultural statistics and harmonise them with EU requirements. Census data should form the basis for the creation of a farm register – a process that will require further financing. Farm

structure statistics are not updated. Economic accounts for agriculture are not available and no major steps are taken to establish a farm accounting data network. Such concerns are also presented in the EU progress report of 2014. The statistical department needs organisational restructuring and more staff to improve data collection and processing capacities. This restructuring and allocation of human resources for the system of analytical support is required to ensure evidence-based policy programming and decision making.

### *2.4.2 Policy related to farm issues*

The national support schemes are also formulated to tackle the constraints faced by the small farmers. The minimal limits for support in some measures, particularly area or animal payments, are friendly to the current structure of the farms. The average plot area in Albania is 0.25 ha. Support is given for plantations of fruit, medicinal and aromatic plants of at least 0.2 ha. Animal support is more restrictive but still the minimum eligibility limits are maintained at relatively low levels, such as 10 head of cattle and 50 head of small ruminants. Attention is given to the upgrading of olive groves and investments in drip irrigation of olive groves, vineyards and citrus plantations with a lower limit of 0.5 ha. During 2013, small farming was also supported through investments in beehives and in harvesting of nuts and pomegranates. Moreover, during 2013, the national support scheme provided support for farmers' groups registered as Agriculture Cooperation Associations, offering them the possibility of partial co-financing of investments. In 2014, support for farmers' groups and for harvesting of nuts and pomegranates ceased.

No estimates are available to evaluate the ease of small farms' access to the national support scheme. It is known that access to IPARD is very demanding for small farms. A modest proportion of potential applicants become beneficiaries. No figures about the dimensions of the beneficiaries' farms are given; therefore, it is impossible to evaluate how far the scheme is oriented towards small farmers. Payment for planting olive groves, protection of olives from olive fly, cultivation of medicinal and aromatic plants, and payments for farms breeding more than 100 registered sheep/goats were the measures with the greatest number of beneficiaries, which is a proxy for being easier to apply for than other schemes. A guarantee fund and an insurance scheme for farmers are also being studied for the near future.

Germany and Denmark have also cooperated to establish a programme of agricultural support, Support to Agriculture and Rural Economic Development (SARED). The programme provides support to selected value chains: (i) medicinal and aromatic plants, (ii) fruits and nuts, (iii) small ruminants and (iv) rural tourism. The support comprises a combination of investment capital, facilitation and technical assistance to build the capacity of farmers and agro-business in disadvantaged mountainous areas. SARED's focus is to support the efforts of the Government of Albania to expand its assistance to poor farmers and agro-businesses in mountainous areas. The overall objective of SARED is to increase the viability of the rural economy in disadvantaged mountainous areas. The total budget is EUR 13.2 million for a four-year implementation period. Implementation started in June 2014. SARED is easily accessible to small farmers, thanks to relatively friendly eligibility criteria. For example, the investment and assistance support is granted to farmers or groups of farmers with a minimum of 30 head of small ruminants or 0.1 ha of land cultivated with fruits, and there are limited administrative requirements when applying for this support.

## 2.5 EU integration process

Albania's road to achieving sustainable agriculture and rural development is related to key issues, which have not yet been attained. It falls short of general institutional requirements for EU membership, despite the progress witnessed in recent years. Albania was granted the status of EU candidate country in June 2014 and is currently increasing its efforts to harmonise with the EU. MARDWA has established the Agricultural and Rural

Development Agency (ARDA), which will serve as the paying agency for IPARD support and the establishment of the managing authority responsible for defining the IPARD measures. The support expected from the EU combined with the national contribution under IPARD is EUR 92 million during 2016–2020. The consolidated draft IPARD-2 programme has been submitted to European Commission for internal consultation.

IPARD-like measures are oriented towards modernisation of farms, particularly through the adoption of EU standards for processing and marketing of agricultural and fishery products. Other measures are required to increase the competitiveness of agriculture. Structural challenges of the sector regarding product quality and productivity, export promotion and access to finance as well as land rights and consolidation are not included in the ISARD. These challenges are reflected in the strategies and action plans of other ministries and are administered by a fragmented administrative and institutional structure.

Land management reforms need to be continued at a faster pace. A land consolidation strategy is being adopted based on a previous cooperation with the UN FAO programme. Further steps are necessary to institutionalise this intervention. Moreover, land rights concerns need to be addressed especially in the north-east area of the country, where the revival of customary rights has clashed with land-titling procedures. Investments in these areas could be hampered by lack of land titles and inadequate land ownership documentation.

Efforts are required to support balanced territorial development, especially measures to support LFAs. Although Albania has a high proportion of LFAs, the Mountainous Area Development Agency (MADA), responsible for administrating the support for LFAs, has seen a reduction in the available funding and its responsibilities.

Regional development is not progressing as expected. Rural poverty is increasing, rural–urban disparities are widening and a trend of rural depopulation has continued in the last ten years. The 2012 Population Census identified for the first time that more people in Albania lived in urban than rural areas. Rural poverty in 2012 followed an upward trend since 2008, very different from the downward trend experienced since 2002. Regional policy is also facing new challenges. Albania is undergoing a significant regional development reform, transforming the country from a very fragmented structure of 374 local government units to approximately 61 local government units. This territorial restructuring is prompting a financial and fiscal reform that will push for decentralisation of some administrative and financial functions. An overall legal and institutional change will need to be undertaken before a clear regional agriculture policy can be redesigned.

## 2.6 Strengths and weaknesses of Albanian agriculture

### *2.6.1 General strengths and weaknesses*

Table 2.7 explains the main strengths and weaknesses in the agriculture and rural development sector in Albania as well as related to agriculture and rural development policy.

The main points reflect some major gaps revealed relative to the EU state of the art. The description is based on a group of factors in terms of availability of resources, current business environment, existing powers, opportunities for diversification and relevant policies for the sector (Table 2.7).

## Table 2.7: Albania: strengths and weaknesses of the agriculture and rural areas and related policies

| | Strengths | Weaknesses |
|---|---|---|
| **Resources** | - Commercial farms growing rapidly and increasing production<br>- Family labour available – approximately 45 % of the workforce works in agriculture<br>- Low labour costs and abundant general agriculture skills<br>- Unused and clean natural resources, which are a potential for diversification | - Very high land fragmentation<br>- Poor utilisation of natural resources<br>- Farm buildings and machinery missing or in bad condition<br>- Machinery considerably behind technical innovations<br>- Lack of technically qualified human capital<br>- Lack of own capital and loan security<br>- Overutilization of natural resources in some areas<br>- Undeveloped logistical infrastructure (transport, market, water, energy) in rural areas |
| **Business environment** | - Existing market access to local or regional consumers, which have preferences for traditional and locally processed products<br>- Growing purchasing power of the consumers<br>- Good experience in overcoming deficits in infrastructure | - Low purchasing power of consumers<br>- Undeveloped processing industry<br>- Highly informal SME sector<br>- Weak support for the implementation of hygiene standards<br>- High competition from the informal sector<br>- Weak partnership and lack of cooperation<br>- Weakly integrated food chains<br>- Difficult market access from remote rural areas<br>- Lack of property rights enforcement due to weak documentation and informal development |
| **Competences** | - Experience in operating in difficult environment<br>- Experience in processing traditional products<br>- Strong entrepreneurship, doing business on own initiative<br>- Network of wholesale market improving<br>- Milk processing part of most small farms<br>- Strong motivation to improve quality of life and income | - Low level of knowledge of new technology and hygiene standards<br>- Poor implementation of hygiene standards<br>- Informal sector provides little experience in professional management skills<br>- Professional marketing knowledge missing<br>- Investments still limited, because of the very fragmented structure of primary production and lack of a real land market<br>- Post-harvest facilities and services still extremely inadequate, but first investments being made<br>- Inadequate legal framework for food safety and insufficient enforcement of existing legal provisions<br>- Barrier to entrance in a relatively open market: there is little space for small operators and no enough resources to build large ones; large foreign producers are too competitive in some areas to leave space for local enterprises to grow<br>- Land market not working, because of still uncertain property rights |

| | Strengths | Weaknesses |
|---|---|---|
| **Diversification** | - Specific know-how and management skills: success especially in non-farming sector entering rural business, mostly rural tourism, with previous experience i that specific business<br>- Product diversification successful when responding to actual market demand (i.e a specific need from an already identifie buyer)<br>- Orientation to domestic market preference for traditional and "farm-made" products<br>- Improved communication network in rural areas | - No investments in environment protection, also because the legal framework is incomplete and not enforced<br>- Business-driven investments often poorly planned<br>- For niche products, a need to address international markets, as domestic market niches are quite small<br>- Important potential for rural and farm tourism, but market (both demand and supply) quite immature<br>- Most rural households already farming part-time: need specialisation<br>- Specialisation/integration vs diversification of rural HH a complex choice: relevant policies must be developed in parallel, but for now Albania has access to IPARD only for competitiveness (i.e. specialisation)<br>- Few ideas, due to scarce knowledge; farmers quite conservative<br>- Scarce understanding of concepts of traditional and typical product among all stakeholders (decision makers, producers, consumers)<br>- Perception of consumers that quality (identified with traditional products) alternative to food safety (identified with "industrial" food products)<br>- Depopulation of inner areas and ageing population in some areas with higher potential for non-food agro-business |
| **Agriculture and rural policy** | - EU integration a key objective and alignment with the EU CAP regarded as major opportunity to modernise agricultural policy<br>- Medium-term strategic documents adopted, where agriculture and rural development priorities are defined<br>- Alignment of legislation and procedures progressing since ARDA is ready and likely to be accredited during the second half of 2016<br>- Trend of increasing funding and direct producer support still not covering a high proportion of overall support<br>- Minimum thresholds low and criteria do not exclude small farmers from support<br>- Inclusive approach to direct payments, especially on support given for olives, small ruminants and medical and aromatic plants; the last has also a huge environmental effect<br>- Focus on improving competitiveness of agro-food sector, providing support for on-farm investments and irrigation infrastructure, being accessed by small farmers | - Country objectives revealed at ISARD still not reflected in the support measures<br>- Level of budgetary funds for structural and rural development support generally low<br>- New objectives related to social cohesion for rural population, diversity and maintaining environment still not well developed<br>- No input subsidies but Albania still provides support based on the quantity of products sold and per animal and per area payments; although motivated by the country's need to expand production, compensate for increasing costs and provide an impetus for formalisation, these measures are not compliant with CAP<br>- LFA support not high on policy support agenda; MADA shrinkage is putting at risk the role of agro-environment measures and support to LFAs; SARED is substituting some elements but still territorial approach is limited<br>- Among the measures for rural development policy, investment support for agricultural holdings predominates, but they are limited in availability and scope for all producers and sectors; number of beneficiaries in some schemes very low<br>- Production and income risk management and production insurance mechanisms undeveloped<br>- Infrastructure projects as well as projects linked to general improvement of the services formulated through the Regional Development Fund, which lacks the focus and direct connection with agricultural and rural development agencies; regional reforms are opening discussions for a broader vision of the local government units towards agriculture<br>- Short-term changes in the national support measures structure (nine new measures introduced in the last two years); promotion of the organisation of producers in producer groups or cooperatives ceased during 2014; high diversification of funding support may be related to the large number of challenges in the sector<br>- Most sub-sectors in Albania based on very fragmented farming structures; direct income support to small farmers lacking harmonisation with other measures from other ministries and programmes promoting non-farm activities; marketing standards and quality policy measures still not according to EU requirements |

### *2.6.2 Institutional concerns related to financial support*

Support to investments is hampered by the weak development of the rural financial institutions and the overloaded system of advisory services. Limited support is granted to farmers in mountainous areas where land reform is carried out on the basis of customary practices and land titling has not been formally adopted.

The administration and control of direct payments is one of the key requirements. Albania has no farm register and an LPIS is also not available. Italy is cooperating in further efforts to improve the LPIS. Animal identification systems are functioning, although some specific needs make market and price support measures very limited in scope.

CAP-like coupled animal and area payments are still not possible, given the lack of IACS and other administrative tools as a basis for the implementation of such payments.

The system of monitoring the national support scheme needs to be designed to effectively complete the agricultural policy cycle. Evidence-based policy making is undermined by the undefined status of the statistical office regarding agricultural statistics and the slow start of the FAO project on establishing the Economic Analysis Unit.

Financing of general services for agriculture (veterinary and phyto-sanitary services, and partly support for agricultural research, extension and expert services and institutions) represents the smallest part of the total agricultural budget.

## 2.7 Recommendations

The analysis in this chapter showed various current structural and policy disadvantages in Albania. The gradual opening of the Albanian economy to the EU and the rest of the Western Balkans will be a challenge in terms of competitiveness. To orient the agriculture policy to properly address these challenges, the Albanian government needs to address the following issues:

- The national support scheme should make the measures more compliant with IPARD and similar to the CAP-like portfolio of schemes. Short-term support measures should be avoided. Consistency from one year to the other will encourage application and increase farmers' experience in the procedures. New measures should promote rural development and social cohesion, introduce environmental benefits and apply a criterion that gives operators an incentive to apply safety and quality criteria. Institutional arrangements have to be activated rapidly. The administrative capacity and instruments for governing animal and area payments (IACS, LIPS, registers, etc.) should be developed accordingly. Evidence-based policy support needs to be put in place to assist policy making.
- Land reform must be adopted to alter the adverse structural developments occurring in agriculture caused by weak definition and protection of land ownership rights and a dysfunctional land market.
- Agriculture research needs to reorient towards a problem-solving agenda. Further financial support is required in this direction. Although the proportion of research expenditure devoted to agriculture in Albania is not known, the annual funding for Agriculture Technology Transfers Centres (ATTCs) has not exceeded EUR 2.3 million (including salaries, operational expenses and investments) in the last few years. Moreover, the proportion of extension service funding in the overall expenditure of the MARDWA has been shrinking over the years, accompanied with a reduction in human resources. ATTCs' work needs review, and financing requires an innovative approach to increase collaboration among public and private institutions, services and organisations involved in agricultural research and technology transfer.

- The extension service needs a new role in the future rural development strategy and challenges in Albania. The policy changes implied by the ISARD 2014–2020 require introducing changes in various areas such as policy priorities, institutional framework, technical skills and other (human and financial) resource allocation for the extension service. In the absence of a comprehensive approach regarding the role and the objectives of agricultural advisory services there is a risk that the trade-offs between various policy objectives (e.g. maintaining or increasing productivity together with ecosystem services) and time horizons (short-term objectives regarding income and longer-term objectives regarding sustainability) will fail to be accurately balanced by the advisory services. Private–public partnerships are required in some fields of advisory services to improve their effectiveness.
- The country has to address critical issues in upgrading infrastructure in remote rural areas. Eligible programmes need to be adopted based on ISARD, such as investment in community roads, local access to roads of particular importance for local economic development, access to farm and forest land, energy supply, waste and water management, and local access to information and communication technologies. Further cooperation is required with the Ministry of Public Work and Transport and the Interior Ministry to coordinate and provide investment support for the development of rural roads.
- Further interventions have to be made to enforce food safety by enforcing the fragile rule of law and increasing consumer awareness. MARDWA should address law enforcement through cooperation and communication between competent authorities in the food safety system at central level, as well as between central authorities and field offices in charge of implementing legislation. Steps need to be taken so that all support granted is compliant with the relevant national minimum standards in force in the fields of environmental protection, public health, animal and plant health, animal welfare and occupational safety. Albania needs to assess carefully which "minimum standard levels" are best suited for agricultural sector development and align its support system on the basis of these requirements. For example, for small-scale agricultural producers (e.g. direct sales), different minimum food hygiene and food safety conditions may apply in accordance with the EU requirements.

Policy efforts should also address these issues by creating a general favourable economic environment, strengthening market institutions, creating better access to both public and private funds, developing integrated value chains, enhancing large-scale investments through public and private partnership, focusing on nature conservation and environmental protection measures, and maintaining sustainable rural livelihoods by giving special focus to women and young people.

# 3. Bosnia and Herzegovina: agricultural policy brief

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## 3.1 Economic development

The complex political and economic system and state structure established by the General Peace Agreement of 1995 significantly limits economic development and the transformation of Bosnia and Herzegovina into a modern and functional European state (Sadiković 2015, Pejanović 2013, Terry 2013). The macroeconomic indicators show that the socio-political and economic crisis has deepened in the recent period compared with 2008, not only because of the influence of negative regional and global developments, but also because of the lack of political will to proceed with the necessary structural reforms. In 2014, as in previous years, Bosnia and Herzegovina continued to show the least progress among countries in the region in European integration processes, especially with regard to adoption of legislation. The lack of an efficient coordination mechanism for EU integration issues continues to adversely affect the relations between BA and the EU, including the allocation of financial support from the EU side.

### Table 3.1. Bosnia and Herzegovina: economic context, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| GDP (million EUR) | 8,655 | 13,827 |
| Population (million) | 3.8 | 3.8 |
| Land area (km$^2$) | 51,197 | 51,197 |
| Population density (inhabitants/km$^2$) | 75.1 | 74.7 |
| GDP/capita, PPP (EUR) | 2,252 | 3,606 |
| Foreign trade as % of GDP | 88.4 | 92.0 |

Source: Agricultural Statistics Database – Bosnia and Herzegovina, 2015.
PPP, purchasing power parity.

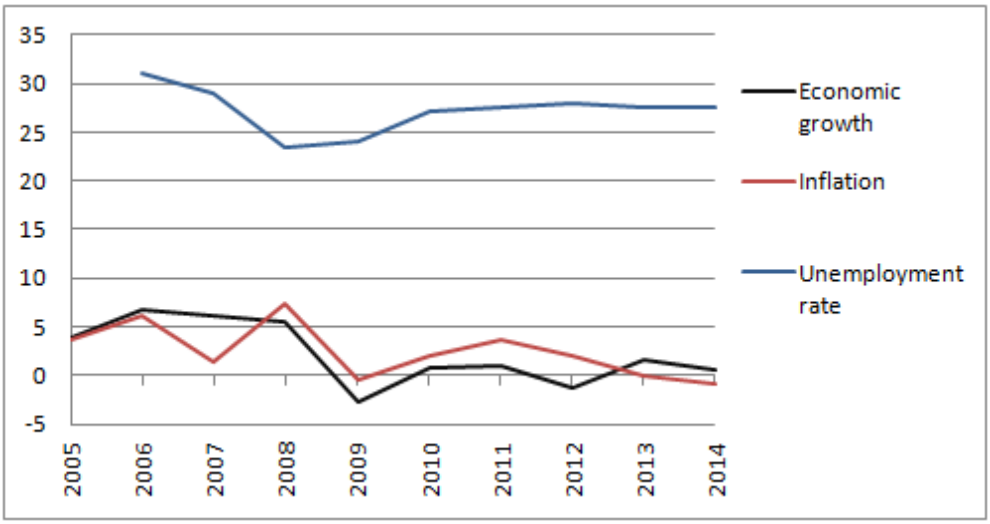
Despite the lack of progress in the EU accession process and macroeconomic stagnation in recent years, BA has made significant progress compared with 2005. GDP increased by nearly 60 % between 2005 and 2014 (Table 3.1). Significant growth was also registered for GDP per capita, reaching a value of EUR 3,606 in 2014, but still it is far below the EU level and lower than most of the other WB countries.

The recovery and strengthening of the economy in EU countries was accompanied by the intensification of FDI. Despite the difficult economic situation and political uncertainty in BA caused by the elections and the establishment of a new government in 2014, there was a significant increase in FDI, amounting to EUR 422 million (most going to the mining and energy sectors).

The global economic crisis had a significant impact on the economic development of BA from 2009 onwards. Only in 2013 did real GDP growth reach a positive value, amounting to 1.6 %. The slow growth in EU, the reduction of world commodity prices, deflation, floods and the unfavourable hydrological situation in hydropower plants were among the

most important factors that adversely influenced economic growth in Bosnia and Herzegovina in 2014. Despite all these effects, BA achieved very modest, yet positive real GDP growth in 2014, amounting to 0.6 %.

**Figure 3.1. Bosnia and Herzegovina: main macroeconomic indicators (% increase from previous year; % unemployment), 2005–2014**




Source: Agricultural Statistics Database – Bosnia and Herzegovina, 2015.

BA is characterised by stability of the national currency (convertible mark). In 2013 and 2014 deflation was recorded (–0.1 % and –0.9 %, respectively), driven mainly by external factors such as declining international oil and food prices. The high unemployment rate, the highest among the WB countries, is still the biggest economic problem in Bosnia and Herzegovina (Directorate for Economic Planning 2015). The unemployment rate reduced only slightly over the last decade or so (from 31.1 % in 2005 to 27.5 % in 2014).

## 3.2 Agricultural development

Agriculture is an important sector in BA's economy. It makes up large proportions of the total GVA, employment and trade (Table 3.2). Although economic activity contracted during the study period, 2005–2014, as a result of numerous socio-political and economic factors, the share of agriculture in the GVA creation is still relatively high (7.6 %), albeit lower than in 2005 (10.6 %). The sector is particularly important in contributing to employment. The agricultural sector represented 17.1 % of total employment in 2014, reduced from 20.6 % in 2005 (Table 3.2).

**Table 3.2. Bosnia and Herzegovina: agriculture in the economy, 2005 and 2014**

| | 2005 | 2014 |
|---|---|---|
| % of GVA | 10.6 | 7.6 |
| % of employment | 20.6 | 17.1 |
| Agro-food exports (% of total exports) | 6.1 | 7.6 |
| Agro-food imports (% of total imports) | 17.6 | 16.8 |

Source: Agricultural Statistics Database – Bosnia and Herzegovina, 2015.

The agro-food trade development shows a slightly divergent development pattern. The sector's proportion of total exports increased from 6.1 % in 2005 to 7.6 % in 2014, while

its proportion of total imports decreased from 17.6 % to 16.8 % over the same period (Table 3.2).

Bosnia and Herzegovina is characterised by relatively favourable climate conditions for agricultural production, while land abundance is relatively low in proportion to the population, at 0.56 hectares per capita for the total agricultural area and 0.26 hectares for arable land. Out of the total 2.16 million hectares of agricultural land, 46.7 % is intensive arable land. Statistics show that as much as half of arable land of the highest quality (50.2 % in 2014) is not cultivated at all. Crop production dominates the total agricultural production, representing 63.2 % of total agricultural production in 2010 (Table 3.3).

### Table 3.3. Bosnia and Herzegovina: characteristics of the agricultural sector, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| AA (000 ha) | 2,164 | 2,163 |
| % of arable land in AA | 47.5 | 46.7 |
| % of crop in total agricultural production | 63.9 | 63.2[a] |
| Average wheat yield (t/ha) | 3.1 | 2.9 |
| Average milk yield (t/dairy cow) | 2,174 | 2,781 |
| Factor income per annual work unit (EUR) | : | : |
| Agro-food export-to-import rate (%) | 11.7 | 24.2 |

Source: Agricultural Statistics Database – Bosnia and Herzegovina, 2015.
a 2010 (last official data).
:, not available; AA, agricultural area.

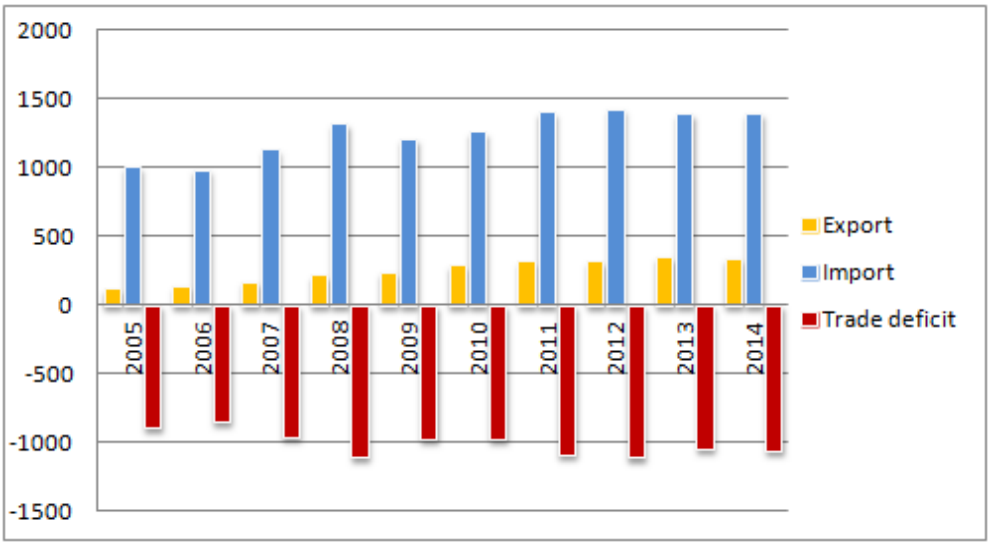
One of the major problems of agricultural production in BA is low productivity, expressed in terms of output obtained per hectare (yields). Inefficient and limited production, smallholdings, poor farm equipment and insufficient technical and technological knowledge among farmers are some of the factors that place BA at the bottom of the European rankings when it comes to attained yields of agricultural products.

There are no observed significant changes in production and yields for most arable and vegetable crops in BA in the last 10 years (e.g. wheat yields of 3.1 t/ha in 2005 versus 2.9 t/ha in 2014). The year-to-year yield changes are a result of climatic and weather conditions in a given year rather than of increased productivity. The exceptions include selected crops such as berry fruits, which have increased yield and production greatly in recent years. Except for poultry, and to some extent also milk, animal production in BA has stagnated over the recent period, showing no significant signs of growth. Agricultural production was further affected by severe floods in May 2014, which led to a significant production decline for both crop and livestock sectors.

BA has an unfavourable trade balance of agricultural and food commodities. Total exports from the agricultural sector in 2014 represented EUR 338.4 million, accounting for 7.6 % of BA's total exports. Agricultural imports were significantly higher, amounting to EUR 1.395 billion in 2014, or 16.8 % of BA's total imports. Figure 3.2 shows that exports from the agro-food sector increased steadily throughout the observed period and in 2014 they were 2.9 times as high as in 2005. The coverage of imports by exports of agro-food commodities recorded significant growth in the study period: it increased from 11.7 % in 2005 to more than twice that figure in 2014, when it reached 24.2 %.

The main export agro-food goods include dairy products (tariff group 04), preparations of cereals (19), edible fruit and nuts (08) and meat preparations (16)[14]. The most important imported agro-food goods include beverages (tariff group 22), cereals (10), miscellaneous edible preparations (21), sugars (17) and residues and waste from the food industries (23).

**Figure 3.2. Bosnia and Herzegovina: agro-food trade (EUR million), 2005–2014**




Source: Agricultural Statistics Database – Bosnia and Herzegovina, 2015.

The majority of imported agro-food goods originate from the EU (65.0 % in 2014), followed by the WB countries (29.6 % in 2014), and the rest of the world represented only 5.4 %. The most important foreign trade partners of BA in food among EU countries are Croatia, Slovenia, Hungary, Germany, Italy and Austria. Among WB countries, Serbia and FYR of Macedonia are the most important trading partners, and Turkey among other European countries. For agro-food exports, the most important destination market in 2014 was the WB countries (41.0 %) – among which Serbia and FYR of Macedonia are predominant – followed by the EU (37.8 %) and the rest of the world (21.2 %).

Table 3.4 presents the main features of the development of the main agricultural markets in Bosnia and Herzegovina in 2005–2014.

[14] The tariff groups 17 (sugars and sugar confectionery) and 15 (animal or vegetable fats and oils) were ignored, as these products are re-exported, not produced (sugar beet) or produced in modest amounts (oilseeds) in BA.

## Table 3.4. Bosnia and Herzegovina: main developments in agricultural markets between 2005 and 2014

| Category | Traditionally, the country is | Since 2005, production has | Significant changes |
|---|---|---|---|
| Cereals | Net importer | Decreased | BA is a pronounced net importer of cereals, especially of wheat. Average wheat production is 225,000 t. Domestic production meets around 30 % of domestic needs. Total production of cereals has tended to decrease slightly in recent years and it is highly dependent on climate and weather conditions. Significant drops in production took place in 2007 and in 2012. As far as cereals' import value is concerned, modest unstable growth has been recorded, while import volume has been modestly decreasing |
| Sugar | Net importer | No significant production | There is no sugar beet production in BA, so the country is a net importer of sugar. The average imports amount to EUR 85.6 million and 198,000 t. The highest import value was recorded in 2011 (EUR 133.8 million) and it has been decreasing since then. However, BA is a significant sugar exporter (average EUR 27.7 million). This refers to re-export, which is proven by data that changes in sugar imports were almost equally reflected in the changes in sugar exports over 2005–2014 |
| Oilseeds, oils and fats | Net importer | No significant production | BA realises very modest production of oilseeds, on average 11,000 t, mainly of soya bean. Regardless of existing budgetary support, production of oilseeds has a downward trend. In 2006, production was 16,700 t, in 2011 8,300 t, and in 2012 only 7,300 t. Average imports of oils and fats in the observed period were 65,500 t. Imports was particularly high in 2012–2014 (in 2014, 90,000 t and EUR 77 million). Despite low domestic production, BA exports significant amounts of oils and fats (on average EUR 28 million). In recent years, a significant increase in exports was recorded, so in 2014 they amounted to EUR 47.7 million. As in the case of sugar, oil and fat exports are, in fact, re-exports; over the whole 2005–2014 period, changes in oil and fat imports were almost equally reflected in the changes in exports |
| Fruit and vegetables | Net importer | No significant trend | During the observed period, fruit production in BA saw modest growth, while vegetable production showed no noticeable trend. Yields in both fruit and vegetable production varied significantly as a reflection of climate conditions (the lowest production in 2012 and 2014, the highest in 2013). BA is still a net importer of fruit and vegetables, but positive trends are evident in the production of both. Unlike vegetables, where almost identical growth was recorded for both imports and exports, a decrease in the fruit trade deficit is evident. If imports of bananas and citruses, which BA does not have the conditions to produce , and which account for 55 % of total fruit imports on average, were excluded, it could be said that during 2010–2014 (except in 2012) BA was a net exporter of fruit |
| Wine | Net importer | No significant trend | Although there are no official statistics on wine production in BA, experts estimate that it takes place in approximately 3,200 ha of vineyards, with total average production of 22 million kg of grapes and 15 million litres of wine. There is no trend in wine production, as it varies according to unstable yields that are significantly dependant on climate conditions. This was particularly the case in 2011, when a remarkable decrease in production was recorded. The autochthonous varieties Zilavka (60 %), Blatina (25 %) and Vranac (15 %) dominate the wine production structure. BA is a net wine importer, mainly from nearby countries in the region (Croatia, FYR of Macedonia, Serbia and Slovenia). BA imports, on average, EUR 14 million (8.85 million litres) of wine, while exports are much lower, approximately EUR 2.8 million. BA's average trade deficit in wine is EUR 11 million |
| Potatoes | Self-sufficient | Decreased | Potatoes are one of the few commodities in which BA is self-sufficient. However, total potato production has been declining; from 458,600 t in 2005 it decreased by 35 %, to only 300,000 t in 2014. Production is highly dependent on weather conditions, since production uses a poor level of agro-technical measures, no irrigation and traditional varieties. Imports are mainly of seeding material and show an upward tendency (the highest level of imports was in 2013, EUR 7.5 million, 23,500 t) |

| Category | Traditionally, the country is | Since 2005, production has | Significant changes |
|---|---|---|---|
| Tobacco | Net importer | Decreased | BA is a net importer of tobacco. It imports 2,200 t a year on average, which amounts to EUR 6.1 million. Total production has a trend of continuous decline, so it decreased by 2.6 times from 4,400 t in 2005, to only 1,700 t, which was the average production for 2010–2014. Besides, a significant decrease in tobacco imports has been recorded, and in 2012 and 2013 BA had foreign trade surpluses in tobacco. The general trend of decreased need for tobacco is explained by decreased market demand, due to continuous raising of prices as part of the constant efforts to harmonise BA's excise tax policy regarding cigarettes with EU excise policy. On the other hand, the increasing consumption of chipped tobacco, purchased mainly on the black market with no statistical record, cannot be ignored |
| Beef and veal | Net importer | Decreased | BA is a pronounced beef and veal net importer despite favourable natural conditions for cattle rearing. Production has been decreasing; it was halved from 23,600 t in 2005 to 11,400 t in 2014. The meat is mainly sold fresh on the domestic market, which leaves meat processors almost completely dependent on imports. Beef and veal imports increased significantly from 10,200 t in 2006 to 32,500 t in 2014. Domestic production still cannot compete with imported meat prices, which average EUR 2.5–3.0 per kg |
| Pig meat | Net importer | Increased | BA pork production had a pronounced upward trend until 2011, and since then it has been significantly decreasing. On the other hand, the import of pork has been constantly increasing. The highest imports was registered in 2014 (12,600 t or EUR 29.5 million). Import growth is associated with the development of meat processing, despite the tendency of a slight increase in prices |
| Sheep and goat meat | Net importer | No significant trend | Despite very favourable natural conditions for sheep and goat meat production, it is still insufficient, so BA is a pronounced net importer. Domestic production has no clear trend, with 1,800 t of registered production (in slaughterhouses). BA imports 1,100 t on average with a notable upward trend |
| Poultry meat | Net importer | Increased | Production of poultry meat grew steadily until 2012, but slight decreases were registered in 2013 and 2014. This is one of the few animal production categories in which BA has almost achieved self-sufficiency. The rapid growth is explained by the decrease in purchasing power of consumers and their shift towards cheaper meat. It can also be explained by the development of the meat-processing industry and its alignment to international markets, primarily to the regional market including Croatia. Imports are still significantly higher than exports, and show marked fluctuations from year to year. The average annual imports amount to EUR 13.3 million, and exports to EUR 4.8 million. Exports, unlike imports, showed constant growth until 2012, and a slight decline was registered in 2013 and 2014. Similar to milk and dairy products, this was due to decreased exports to Croatia after its accession to the EU |
| Milk and milk products | Self-sufficient | No significant trend | BA has almost reached self-sufficiency in fresh milk and fresh dairy products, but it is still a significant net importer of butter, dairy spreads, cheese and processed cheeses. Total milk production had a pronounced upward trend until 2008, when it achieved the largest production (759 million kg), and after that a significant decline in production took place until 2012, when the minimum production (672 million kg) was registered. This decrease is a result of the declining trend in the number of dairy cows, despite the increase in the average milk/cow yield. BA's export of milk and dairy products had been increasing until 2012 (EUR 47.8 million in 2012), and then it decreased as a result of losing the Croatian market because of its accession to the EU. Imports of dairy products had a similar upward trend until 2012, when the maximum import (EUR 87 million) was registered. There is an interesting and significant difference between quantity and value of trade in these products. Throughout the study period, imports of these products were higher in value than exports, while in terms of volume this difference almost entirely disappeared in 2009, and since 2012 exports have exceeded imports. This shows that BA's dairy industry is characterised by an unfavourable structure of milk processing with a low proportion of products with a long shelf-life (cheese, butter, milk powder) or added value |

## 3.3 Agricultural policy development

Agricultural policy is carried out at several levels of the government administration in BA because of the complex political system implemented in the country. Each separate regional entity of BA has jurisdiction over the agricultural policy in its territory. That is, there are two separate ministries of agriculture, water management and forestry in the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RSr) and, along with the Division for Agriculture within the Government of Brčko District, they are the most important institutions in charge of adopting and implementing agricultural policy in BA. For FBH the administration of agricultural policy is further split to cantonal level (to 10 cantonal ministries) as a result of which policy measures may differ between cantons. In both BA regional entities (i.e. in FBH and RSr) agricultural support is also allocated at the municipal level, but these transfers are generally low compared with the overall size of national support (Bajramovic et al. 2014).

The highest, state-level, government of Bosnia and Herzegovina has limited authority in the area of agricultural policy. The state has jurisdiction only over foreign trade policy (including for agricultural trade). The state level of government does not have jurisdiction over other areas of agricultural policy (e.g. direct payments or rural development). Therefore, there are no strategic and programming documents directly related to the programming/design of agricultural policies at the state level.

In **FBH**, the main strategic document used for the creation of agricultural policy in the analysed period was a medium-term strategy for the agricultural sector's development in FBH (2006–2010). The main strategic orientation in this document was the development and structural transformation of agriculture. In mid-2015 the FBH parliament adopted the medium-term development strategy for the agricultural sector in FBH for 2015–2019, which established a new approach to FBH's agricultural and rural development policy. Strategic objectives of the strategy are (1) the development of agriculture and related sectors, together with raising the technical and technological level, more efficient use of available resources and orientation to meet the demands of the modern market; (2) providing conditions for stronger generation of stable income within the agricultural sector and improvement of the quality of life for the rural population; (3) sustainable management of natural resources and adaptation of agriculture to climate changes; (4) alignment of the institutional and legal framework and agricultural policy with the CAP, taking into account the level of the sector's development in FBH. The funds needed to implement the strategy are estimated at EUR 373.8 million, which indicates the sector's development orientation. The funds are planned to come from federal and cantonal budgets, IPARD funds and WB and European Investment Bank (EIB) loans.

Globalisation and liberalisation of agricultural trade, climate changes and integration processes, particularly those within the World Trade Organisation (WTO) and EU, are identified as major external challenges facing the sector. Internal challenges identified in this document are underutilisation of available resources (land and capital), small scale of production, poor productivity and technological transfer, inadequate access to the market for agricultural and food products, low competitiveness of the sector, environmental issues, rural development, and the incomplete institutional and regulatory framework.

Future agricultural policy in FBH will continue to be based on three pillars contained in the measures of market-price policy, direct payments (Pillar I), structural measures and measures of rural development (Pillar II) and measures related to general services to agriculture (Pillar III). Definition and elaboration of the measures/pillars were done on the principle of multi-year budget planning, which was introduced in FBH practice for the first time. Harmonisation of agricultural policy with the CAP is one of the main orientations of the new strategy.

A programme of rural development of FBH for 2015–2020 has also been created. The document is in the process of adoption and should soon become official for this part of FBH's agricultural policy. Objectives are divided into groups according to the measures and are in content very close to the EU rural development axis from 2007–2013. The

budget for implementing the programme is estimated at EUR 150 million for the seven-year period for which the programme is designed. Budgets of the FBH and cantons, IPARD funds and WB and EIB loan are planned as sources of funds required to implement the programme.

The main strategic documents used to create agricultural policy during 2005–2014 in **RSr** were "Strategy of Agriculture Development in Republika Srpska until 2015" and "Strategic Plan for Rural Development in Republika Srpska for the Period 2009–2015". The documents set the strategic objectives that should lead to increasing production with better use of resources, increasing productivity and restructuring of agriculture. In 2014, a new strategic document has been adopted: "Strategic Plan of Development of Agriculture and Rural Areas in Republika Srpska 2015–2020". It has similar objectives to those of the previous period, with more attention to the rural development. This strategic document, like the one in FBH, emphasises the need for convergence and gradual harmonisation of agricultural policy with the CAP, gradual introducing measures applied in EU countries, with no new divergent measures. The strategy also envisages upgrading the system of legislation and institutions necessary to carry out the process of European integration in the agricultural sector successfully. The definition and elaboration of the measures has been done by the principles of multi-annual budgetary planning (as in FBH) following the principles of stability, consistency, transparency and traceability. The estimated budget required to implement the strategy amounts to EUR 920 million for the whole period 2015–2020 and EUR 153 million per year, which shows the development orientation of RSr's agricultural policy.

The new strategic documents for the agricultural sector in both BA entities, with defined objectives, measures and mechanisms of action, made a significant step forward and they can almost be described as a strategy shift. The documents are made in a modern manner, thoroughly weighing all the elements of the policy cycle: planning, implementation, monitoring and evaluation. The highlighted approach of convergence and harmonisation of each entity's agricultural policies with the CAP and clear commitment to reform policy, to establish and strengthen legislative and institutional framework to modernise agricultural administration, are particularly encouraging.

There was no strategic document exclusively targeting agriculture and rural development[15] in **Brčko District** (BD) in the analysed period, but issues related to sector were treated within the overall strategic document (Development Strategy of BD).

Budgetary transfers, agricultural policy measures, rural development policy and criteria to support producers are under the exclusive competency of the entity/cantonal ministries of agriculture, e.g. the Division for Agriculture within the Government of Brčko District. In fact, it can be said that the agricultural policy of BA does not exist, but only the aggregation of policies at entity and cantonal levels, with no coordination so far (Erjavec et al. 2010, Bajramovic et al. 2014). Therefore, this report will focus on analysing the agricultural policy of each administrative level.

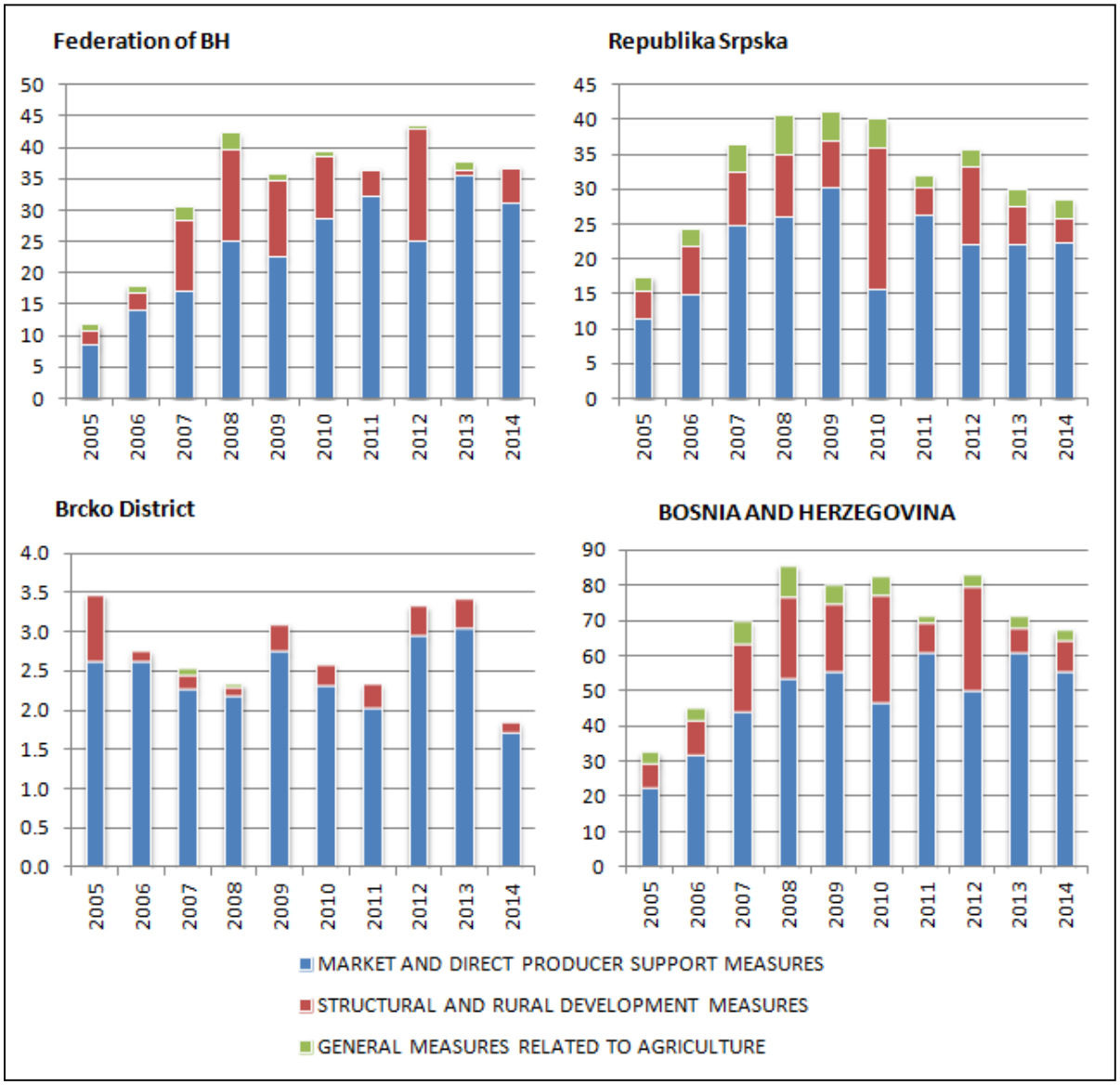
[15] In fact, a document entitled "Strategy for Agriculture, Food and Rural Development in Brčko District for the Period 2008–2013" was produced; however, it was never submitted to the official adoption procedure.

## Table 3.5. Bosnia and Herzegovina: main agricultural policy instruments and measures, 2005 and 2014

| | | Implemented | Since 2005, support has | Significant changes |
|---|---|---|---|---|
| Market support measures | FBH | Yes, regularly | Increased | Although certain funds are allocated for measures that can be classified as market support measures, an active and real mechanism of competitive pricing policy has not been established in FBH. Intervention purchase was implemented in 2008 and 2011. Continuous support for processors in 2005–2014 was implemented on the cantonal level. Export support was introduced in 2012. Since 2011 the implementation system has been revised |
| | RSr | Yes, regularly | Decreased | Little importance attached to these measures, with modest budgetary funds allocated for them. Measures continuously present until 2011. No allocation in 2011 and 2012, reintroduced in 2013. The main measures are market intervention, emergency needs (unclear to what they refer) and intervention ransom. Mostly the same sectors were covered during the entire period of observation |
| | BD | Not implemented | | |
| Variable input subsidies | FBH | Yes, regularly | Increased | The measure was implemented at cantonal level. It includes subsidies for artificial insemination (continuously), breeding animals (only in 2008), fuel (2011 –2014) and short-term loan interest (2014) |
| | RSr | Yes, regularly | Increased | The main measures are subsidies for fuel and mineral fertilisers (introduced in 2008). Purchase of seed and planting material was subsidised only in 2005 and 2007 |
| | BD | Not implemented | | |
| Direct payments based on output | FBH | Yes, regularly | Increased | The main measure of support, with the largest proportion of payments being for the milk premium. Premiums for certain products have increased, but milk remained the most supported product (EUR 0.07–0.15 per litre). Since 2011, the implementation system has been revised. Since 2011 almost all crop production has been supported by area (ha) instead of output |
| | RSr | Yes, regularly | Increased | The main measure of support to agriculture. Milk premiums dominant during entire observed period. Since 2010, premium for milk has been linked to the class/quality of milk. Rate for determining the amount per output unit for most products is variable |
| | BD | Yes, occasionally | | In 2005 and 2006 this was the only support to producers. 2007 and 2008 were transitional years, with gradual introduction of payments based on area/animal, which in 2009 became the only form of direct support. The main supported products were milk and cereals |
| Direct payments based on area/animal | FBH | Yes, regularly | Increased | One of the most important measures in FBH. Since 2011, most of the premiums for crops have been replaced with payment per hectare. In addition, the system of implementation has been changed, introducing regulations on eligibility for support. Obligation to sell products as precondition to receive support has been introduced in FBH for most production, since 2011 |
| | RSr | Yes, regularly | Decreased | The second most important measure. Since 2009, there is no fixed support per unit, but the support is calculated on the basis of applications for support and of the amount of approved funds for given production |
| | BD | Yes, regularly | Increased | The most important support to production, and the only direct one since 2009. Both number of products covered and implementation system (criteria) remained almost unchanged |

| | | Implemented | Since 2005, support has | Significant changes |
|---|---|---|---|---|
| On-farm investment support | FBH | Yes, regularly | Increased | The measure in force since 2005. The main measures are investments for the modernisation of agricultural holdings. Allocated funds varied considerably from year to year, and were particularly significant in 2006–2009. In 2011–2014 there was no funding from the federal budget, and funds from cantons were very modest. Since 2011, the system of implementation has been revised |
| | RSr | Yes, regularly | Decreased | The measure in force since 2005. The main measures are investments for the modernisation of agricultural holdings. Allocated funds are quite modest and vary from year to year |
| | BD | Yes, regularly | Increased | The measure in force since 2005. Almost the only measure of the second pillar of agricultural policy. The main measures are investments for the modernisation of agricultural holdings. Allocations vary from year to year |
| Food industry support | FBH | Yes, regularly | Decreased | The measures in force since 2005. The main measures are certification (continuous measures since 2009), construction and equipping of the food industry (an important measure until 2009, when it was abolished; reintroduced in 2014) |
| | RSr | Yes, regularly | Increased | Modest allocation for this measure. The measure was in force during the entire period of observation. The main measures are certification and equipping |
| | BD | Yes, occasionally | No significant trend | Support was implemented in one year (2007) and it was related to investments in the processing industry |
| Environment-related payments | FBH | Yes, occasionally | No significant trend | The measure was implemented in 2007 and 2008 (when budgets were the most stable) and refers to payments to farmers in LFA. Since 2009 it has not been applied any more |
| | RSr | Not implemented | | |
| | BD | Not implemented | | |
| Rural area support | FBH | Yes, occasionally | No significant trend | The main measures are diversification of rural economy, support to rural infrastructure, renovation of villages, and conservation of autochthonous species and breeds. These measures were in force during 2007–2011, since when they have not been implemented. The system of implementation was not changed while measures were in force |
| | RSr | Yes, occasionally | No significant trend | This group of measures is in force, with variations in the implementation of particular measures. No continuity in any measures, but each was implemented in some years (diversification implemented 2009–2012; support for rural infrastructure implemented 2006–2010, not implemented in 2011, reintroduced in 2012–2013, and not implemented in 2014) |
| | BD | Not implemented | | |
| General support measures | FBH | Yes, regularly | Decreased | Very modest allocations, particularly in 2011–2014. Measure is related to plant control, research, development and inspection services. Veterinary control was part of the third pillar (support from the cantonal level) until 2010, when it was withdrawn. Situation is similar with technical assistance, which was in force until 2008. Since 2011, implementation system has been revised |
| | RSr | Yes, regularly | Increased | The main measures are control of animal health, plant protection and food control. Measures intended to support research and development, infrastructure, training and professional work are within measures too. Extension service was supported only in 2009 |
| | BD | Yes, occasionally | No significant trend | These groups of measures were implemented only in 2007, when funds were allocated to support extension and advisory work |

**Figure 3.3. Bosnia and Herzegovina: development of budgetary support to agriculture (EUR million), 2005–2014**




Source: APM Database – Bosnia and Herzegovina, 2015.

The total budget allocation in FBH was steadily growing until 2008; since then it decreased until 2013, and in 2013 and 2014 remained stable at an average of EUR 37 million. Measures of Pillar I dominate in the structure, particularly direct payments, while the general measures for agriculture were very modest in the period 2011–2014, annually accounting to less than EUR 3 million (in 2014 only EUR 0.26 million or 0.7 % of the total agricultural budget).

With the exception of 2012, direct payments recorded continuous growth from 2005 to 2013, and total allocation for this purpose increased from EUR 8.21 million in 2005 to EUR 31.53 million in 2013. Payments based on output predominated by 2008 and were mainly related to milk, tobacco and arable crops. From 2009 until 2013, the structure of direct payments changed, so payments based on area/animal (from 2011, almost all plant production) predominated. In 2014, an unreasonably high increase in premiums per litre of milk from EUR 0.09 to EUR 0.15 took place, so payments based on output became dominant again, making up 55 % of direct payments.

Unlike RSr, there is no significant support to variable inputs in FBH. It mainly comes from the cantonal level and only in 2013 and 2014 did it exceed EUR 1 million, making 3–5 % of the total direct payments.

Support for structural and rural development measures in FBH has the most pronounced variations from year to year. It was mainly related to increasing the competitiveness of the agricultural sector and on-farm investments. This approach obviously shows that agricultural budgets do not have a development component (this is the only pillar of the policy that contains a developmental aspect) and the allocations for rural development depend mostly on the current governments and their understanding of this part of the policy. The last administration obviously did not understand it, so allocations for this pillar were cut in the last few years of the analysed period; thus they accounted for only 2.3 % of the total budgetary support in 2013 and 15.4 % in 2014.

The total agricultural budget in RSr grew steadily until 2009 (EUR 41.22 million). Since 2009 it has been declining, so in both 2013 and 2014 it was below EUR 30 million. Making up an average of two thirds of the total budget for Pillar I, market support measures and direct payments are the largest part of support to agricultural producers in RSr.

Direct payments, including support for variable inputs, showed continuous growth until 2009, when they amounted to EUR 28.35 million, and then, after a sharp decline to a modest allocation of EUR 11.9 million in 2010, this type of support stabilised between EUR 21 million and EUR 22 million in 2011–2014. In the structure of direct payments, payments based on output make up the largest part, which in 2012–2014 was on average 70 % or around EUR 15 million. Most of these payments are for the milk sector. Unlike FBH, a large part of direct support to producers in RSr relates to subsidies for procurement of variable inputs, in which reimbursement for oil, fertilisers and seed dominates. In some years, such as 2011, it made up 60 % of the total direct support. In 2012–2014 this accounted for 13–20 %.

Like the situation in FBH, structural measures and rural development measures in RSr varied the most from year to year, and were mainly for improving agriculture's competitiveness and support for villages. During 2005–2014, the allocations for this pillar increased steadily until 2010 (except in 2009), when the highest amount (EUR 20.34 million) and proportion of the total agricultural budget (50.6 %) were achieved. It then decreased in 2013 and 2014, when it accounted for only 15 % of the total agricultural budget. As in FBH, it is obvious that the agricultural budget in RSr does not have a development component, considering the pronounced variability in both absolute and relative terms of allocations for rural development.

General measures concerning the sector had greater support in RSr than in FBH, so during 2012–2014 they accounted for 7–9 % of total agricultural budget. Finally, regulations for classification of holdings to commercial and non-commercial ones were introduced in 2013. Under those regulations, those holdings that choose to be classified as commercial ones are obliged to pay retirement and health insurance.

Serious budgetary transfers for agricultural sector in Brčko District began in 2005 and from then until the end of 2013 they were within the range of EUR 2.3 million to EUR 3.5 million. On average, 90 % of the total funds were allocated for implementing Pillar I measures, and the rest for rural development measures, while support for Pillar III did not exist, except symbolic amounts in 2007 and 2008.

Direct payments have been predominant, and since 2009 they have been based only on area (crop production) and on head of cattle (animal production). The agricultural budget was drastically reduced in 2014 to only EUR 1.8 million.

## 3.4 Farm issues

There is still no comprehensive picture of farm structure in BA[16], because the last agricultural census took place in 1960. Based on limited data on agricultural holdings and their structure, obtained from the agricultural pilot census in 2010[17], the average area of used land is 1.97 ha per holding with on average four plots per holding on family farms, which is considerably less than in the EU-27 (14.3 ha)(Eurostat 2015).

Disregarding the lack of statistics on the number, size and structure of farms in BA, problems such as farm size, and dual structure of farms certainly exist. BA's agriculture is still dominated by small farms, fragmented into small plots of land. In addition, minefields, a post-war problem, further complicate the situation and lead to partial or complete abandonment of production and housing in certain areas of the country. According to research within the United Nations Development Programme (UNDP 2013) report on human development in BA for 2013, half of all rural households are engaged in agriculture a little or not at all, 36 % of rural households have "small farms" that meet a considerable part of their needs for food, and fewer than 1 % of households may be classified as "commercial farms" and be eligible for IPARD measures to improve agricultural production and marketing activities. The unfavourable size and structure of farms is certainly one of the challenges confronting ministries of agriculture in both entities and imposes itself as one of the most important strategic issues to be addressed in the future.

Erjavec et al. (2014) identified a number of key objectives for future agricultural and rural development policy in WB countries, including land management reforms. One way to solve problems is developing the land market. Problems related to non-functioning or poor functioning of the land market in BA limit and slow down the restructuring of the sector. Weak legislation regulating and enforcing property rights, and indecisiveness in the choice of the system of land registration, slow down the modernisation, digitisation and restoration of the cadastre and land registry, which is a basic requirement for land markets to develop. In addition, the state of the land market reduces its value, and the possibility of using it as collateral to guarantee loans. Although there is a law on agricultural land, there are no official databases and administrative levels do not exchange data on the conversion of agricultural land use. Inadequate and uncontrolled administrative procedures for changing the use of agricultural land lead to significant and permanent loss of this scarce resource, usually land of the best quality.

The abovementioned problems strongly limit the growth, restructuring and modernisation of the sector. Therefore, it is necessary to establish and strengthen the regulatory and institutional framework, to initiate a joint initiative of all responsible institutions to contribute to a more rational use of land, protection and improvement of land quality, and land development (agro and hydro ameliorations, land consolidation). Therefore, agricultural policy should support the creation of systems for land management, and in particular, the establishment of facilitating mechanisms (digitised databases of soil, LPIS, systematic data on land supply and demand, a coordinating body for agricultural land (all administrative levels), modernisation of cadastre land registers etc.), as well as the definition of long-term land policy.

## 3.5 EU integration process

The Stabilisation and Association Agreement (SAA) between Bosnia and Herzegovina and the European Union came into force on 1 June 2015, thus creating conditions for

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[16] It was announced that the results of the first post-war population census in BH would be published in June 2015, including a preliminary assessment of farm numbers. Unfortunately, for certain (political) reasons the publishing of results was postponed until further notice, which made it impossible to give the first official data on the number and size of farms in BH in this report.

[17] Agricultural pilot census was conducted by the three statistics agencies in BH (national and two entity agencies) in October 2010 within IPA 2007.

discussion about submitting BA's application for EU membership and obtaining candidate status. After the new administration was created (at the beginning of 2015), BA authorities clearly expressed desire to unblock the stalled EU integration process, to take serious steps forward and to work on reforms, particularly on important economic reforms and reforms of the social security system, as well as on those relating to the rule of law.

Both formal and essential implementation of the accession process and adaptation of agricultural policy to the CAP in BA are still at unsatisfactory stages. Agricultural policy in both BA entities considerably differs from the CAP, in both the range and structure of measures, so the policy applied is far removed from the EU model. In both BA entities, direct payments per output make up a large part of direct payments, whereas they hardly exist in the EU countries. Modest transfers for rural development measures almost completely pertain to Axis 1 and investments in agricultural holdings, while Axis 2 and environmental preservation measures, as a mandatory part of the CAP, practically do not exist in BA.

A special problem for rural development policy in BA is the failure to establish necessary institutions for IPARD structures at the state level that would enable draw-down of IPARD funds. A new approach to EU integration could solve this problem and allow the country and its entities access to significant resources to adapt and improve the agricultural sector, but will create the opportunity to establish essential elements of the CAP administrative framework as well.

In addition to the established differences in the scope and structure of the measures, there are still many other gaps between the agricultural policies of BA (i.e. of its entities) and the CAP. Issues related to agro-environment are insufficiently treated and poorly supported. Besides, numerous legislative documents are lacking, while those that do exist need to be harmonised with EU standards and regulations. The most important features of the rural areas of the country, such as the poor social status of small agricultural holdings and pronounced poverty, are being solved inadequately and slowly. Although there are many LFAs in the country, these areas have been and still are neglected as subjects for support from agricultural policy makers in both BA entities. General services in agriculture are poorly supported and take a very small part of the budget (especially in FBH). This is particularly worrying because there is a serious lack of innovation in the sector in both BA entities. Furthermore, knowledge transfer, advisory services and extension services are at an unsatisfactory low level.

Generally speaking, the process of EU integration in agriculture comprehends harmonisation of legislation, building and strengthening institutions, and the reform of agricultural policy as a whole. Therefore, the institutional and legal framework needs to be radically restructured, to be the basis for modern, flexible and sector-oriented agricultural administration at all levels. Priority should be given to creation of a precise operational plan for taking over the *acquis* and to the adoption of missing laws and working out a plan to establish missing institutions and mechanisms necessary for the efficient management of the sector that can support its further development. This will help in overcoming delays in restructuring processes, and EU accession.

Strengthening of administration and agricultural policy is important, but not the only element of successful preparation for EU accession. The success of this process depends, first of all, on the restructuring and modernisation of agriculture and agro-business. Only a competitive food production chain can contribute to sustainable development and to the success of the approach. It is the task and responsibility not of states/entities exclusively, but of the whole sector. Economic and academic institutions have responsibilities in that process as well.

New strategic documents for developing the agricultural sector were adopted in both entities, and for rural development in RSr. Both documents highlighted a clear commitment to European integration and have defined measures for gradual and rational adjustment to the CAP. Judging from the positive evaluations by scientists and

practitioners, and also by the EU delegation to BA, the only task facing the sector is to implement the proposed measures fully.

## 3.6 Strengths and weaknesses of agriculture

Bosnia and Herzegovina is characterised by diversity of agro-climatic zones, which allow diversified crop production. Unused natural resources are available for the development of agriculture. This is primarily intensive arable land, which is only partly used (50 %), and grassland areas that are favourable for the development of animal production.

The quality and availability of human capital is a key to improving any economic sector. Although unemployment is a major problem in BA, the availability of the labour force in agriculture is limited by low population growth, pronounced rural–urban migration and underdeveloped transport infrastructure. These problems in some areas even prevent the use of resources and contribute to the chronic problems of agriculture: low productivity and slow restructuring of the sector (Nikolić et al., 2014). The quality of human resources is determined by the age and educational structure of the population, which is very unfavourable in rural areas. As for physical capital, existing facilities in both animal and plant production are old, technologically outdated, energy-inefficient and not adapted to the requirements of reducing the negative impact on the environment. Another big problem of almost the entire BA agricultural sector is low productivity, both per production unit and per farm. Low productivity is the main cause of low competitiveness, especially in the domestic market. Of course, the low productivity of agriculture is a consequence of the lack of clear specialisation, primarily in crop production, but also of poor technical equipment of farms and high dependence on weather conditions. Progress in productivity in some production (milk, fruit) is noticeable, but this process is still very slow.

The structure of the food industry is very unfavourable, as micro and small enterprises dominate it. This industry works with a very low level of capacity utilisation and it is much more production than market oriented. BA continues to be a net importer of agro-food commodities with a very prominent trade deficit, which is another indicator of the undeveloped agriculture and food production value chains. Weak horizontal and vertical integration is also one of the important characteristics of the sector. The low level of market orientation, lack of ability to deliver quality, quantity and ensure consistency and underdeveloped value chains endanger access to markets and contribute to the low competitiveness of the sector. The development of the sector is also limited by underdeveloped logistics and other economic activities.

The network of public and private institutions and organisations, based on life-long education and research institutions, which would enable efficient transfer of knowledge, technology and information and form the basis for innovation and modernisation, has not been established yet. Besides, there are neither plans for strengthening and development of the existing advisory services nor cooperation and coordination among the parts of those services.

## Table 3.6. Bosnia and Herzegovina: strengths, weaknesses, opportunities and threats (SWOT) analysis of agriculture sector

| S – Strengths | W – Weaknesses |
|---|---|
| - Agro-climatic conditions allow diverse plant production<br>- Available uncultivated arable land and unused natural grassland allow development of both plant and animal production<br>- Abundance of forests and uncultivated areas rich in forest, wild, medicinal and aromatic plants<br>- Available labour force<br>- Available water resources for irrigation<br>- Preserved autochthonous livestock breeds and varieties of fruits and grapes<br>- Tradition of on-farm production and processing (jams, juices, brandy, cheese)<br>- Some branches have shown competitiveness (wine, soft fruits, fish, greenhouse production)<br>- Growing awareness about standards in production and the need for their introduction into practice<br>- Growing awareness of the need for modernisation of institutions<br>- Increasing motivation for cooperation and coordination<br>- Existence of successful, export-oriented companies<br>- Existence of an internationally recognised certification company<br>- New, modern strategic development document adopted in both BA entities | - Pronounced fragmentation and high share of very small farms<br>- Low yields and low labour productivity in entire primary sector<br>- Poor technical and technological capacities of a large number of farms<br>- Unstable yields and high price fluctuations<br>- Lack of use of agricultural machinery<br>- Low level of farmers' knowledge of technology, marketing and management<br>- Use of non-certified seeds in crop production<br>- Low proportion of total arable land irrigated<br>- Unspecialised, dual production<br>- Lack of horizontal and vertical cooperation<br>- Unfavourable age, educational and social structure of the rural population<br>- Depopulation of rural areas and brain drain<br>- High dependence on imported inputs and intermediate goods<br>- A poor trade balance in most agricultural and food commodities<br>- Inadequate agricultural statistics and underdeveloped IT and analytical systems<br>- Inefficient extension and advisory services (particularly in FBH)<br>- Unavailable public services<br>- Uneven territorial distribution of processing capacities<br>- Food industry technologically outdated, inefficient and uncompetitive<br>- Low level of adaptation to market requirements<br>- Underutilised capacities in food industry<br>- Institutional and legal framework not compliant with EU practices and standards |
| **O – Opportunities** | **T – Threats** |
| - Available EU pre-accession funds for agro-sector and rural development<br>- Agriculture defined as a development priority in the country<br>- Increase in global demand for food<br>- Growing needs of food industry for raw material<br>- Access to regional markets through the Central European Free Trade Agreement<br>- Trend of growth in products with a mark of quality and origin, and in demand for them<br>- Strengthening of complementary economic sectors (tourism and catering)<br>- EU integration processes moving agriculture up political agenda | - Global climate change<br>- Poor management of water resources possibly leading to floods or droughts<br>- Unsynchronised development of other sectors with development of agriculture, which may influence further depopulation and underutilisation of natural resources<br>- Political instability and poor business environment threatening FDI<br>- Corruption<br>- Grey economy<br>- Reduced donor funds<br>- Development policies insufficiently harmonised with the EU *acquis*<br>- Lagging behind in EU integration<br>- Lack of credit lines tailor-made for agriculture<br>- Inadequate border control allowing entry to commodities of suspicious origin and quality<br>- Bad economic situation and reduced purchasing power<br>- Underdeveloped communication infrastructure, especially in rural areas<br>- Inability of local authorities to take responsibility<br>- Poor image of BA due to recent war, political instability and economic underdevelopment |

What are the steps necessary for changes? The first is to have a clear vision of the agricultural sector's development, as well as a firm commitment to the European integration processes and adjusting to the CAP. After that, it is necessary to follow already settled objectives of agricultural policy in both main entities, summarised as follows:

- the development of agriculture and related sectors by more efficient use of available resources, which requires a further rise in the technological level of production;
- increase and stabilisation of income in agriculture and improvement of the quality of life in rural areas;
- stronger horizontal and vertical integration;
- sustainable management of natural resources and adaptation of agriculture to climate change;
- reduction of rural poverty and problems of small farmers;
- harmonisation of the institutional and legal framework and agricultural policy with the CAP, respecting the level of development of the agricultural sector in Bosnia and Herzegovina.

It is quite certain that improving the institutional and legislative framework and strengthening administration at entity and state levels will be key issues for the development of the agricultural sector in the coming period. Establishing the adequate administrative framework and systems necessary for the implementation of the CAP are among the key requirements that a candidate country must meet before joining the EU. Among other shortcomings in the administrative and institutional infrastructure in BA, the entities and Brčko District, a special problem is weak or non-existent development of IACS, which will, with the advancement of EU integration, become a requirement for full implementation and enforcement of direct payments to agriculture. Establishment of a database, LPIS, a system of identification that will be able to ensure compliance with the standards of product safety and quality, marketing, size and packaging, labelling rules, analyses and controls, monitoring, etc. is necessary.

The most important suggestion to agricultural policy makers in BA could be summarised as follows (Erjavec et al. 2014): there are no obvious alternatives to a decisive development orientation. In this regard, European integration and adoption of the CAP objectives and instruments may serve as a good motive and catalyst for change. The CAP is a demanding and moving target, but has the potential to introduce an active and positive attitude towards agriculture and functioning as both a development model and a benchmark.

Changes to agricultural policy announced in both entities, which could be called a policy shift, are encouraging. There are numerous similarities between the entities' new sector development strategies in objectives, mechanisms of action and proposed measures, that can be seen as the first necessary steps towards creating equal business conditions for all BA farmers. It remains to be seen how far the strategic documents can be put into practice, to what extent the planned budgets are realistic and whether or not domestic administrations are persistent in their full implementation.

# 4. Kosovo*: agricultural policy brief

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## 4.1 Economic development

Kosovo* is a lower middle-income country that has experienced solid economic growth since 1999. It is one of only four countries in Europe that have recorded positive growth rates every year since the global financial crisis started in 2008 with the exception of 2014.

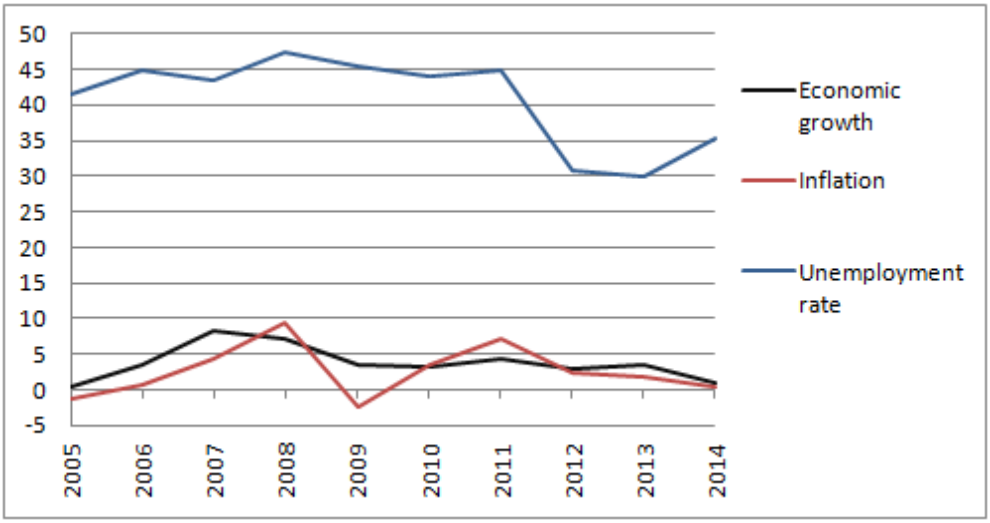
External imbalances are high and economic activities are predominantly concentrated in the service sector, in particular retail and wholesale trades. Reliance on remittances and direct/indirect support from donors has declined, but remains significant.

### Table 4.1. Kosovo*: economic context, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| GDP (EUR million) | 3,003 | 5,485 |
| Population (million) | 2.070 | 1.805 |
| Land area (km$^2$) | 10,908 | 10,908 |
| Population density (inhabitants/km$^2$) | 190 | 166 |
| GDP per capita, PPP (EUR) | : | : |
| Foreign trade as % of GDP | 40.4 | 52.2 |

Source: Agricultural Statistics Database – Kosovo*, 2015.
:, not available; PPP, purchasing power parity.

### Figure 4.1. Kosovo*: main macroeconomic indicators (% increase since previous year; % unemployment), 2005–2014




Source: Agricultural Statistics Database – Kosovo*, 2015.

The economy has expanded on average by around 3 % over the last few years. Growth is mainly driven by domestic demand, with strong increases in government consumption and investments, including construction. Exports of goods and services have increased, but still cover only about a third of total imports. The production base remains extremely narrow. Agriculture, mostly semi-subsistence, contributes about 14 % to value added in the economy. Manufacturing is limited, and is concentrated on the extraction of raw materials, which also dominates the export of goods.

Despite this, the economic situation is challenging, and the economy provides few employment opportunities, particularly for women in rural areas and the young. While almost two-thirds of the country's population are of working age (15–64 years old), this group is expected to increase rapidly during the next 10 years, since Kosovo* has the youngest population in Europe. However, the lack of job prospects strains social cohesion and encourages emigration.

Public sector salaries are the most important source of income in Kosovo*, followed by wages from private sector businesses and remittances. High remittance inflows have an important impact on the labour market, as they tend to increase the minimum wage, and reduce incentives to work. Differences in wages are observed for those of active working age, with women generally paid less than men. Clearly, not enough jobs are being created to reduce labour market pressures. In addition, the economy is largely based on sectors that rely on low-skilled labour.

## 4.2 Agricultural development

The average contribution of the agriculture, forestry, hunting and fishery sector to GVA in 2006–2014 was 15.4 %. When we consider the contribution of the agriculture sector to GVA and the estimated employment rate in agriculture, it gives an impression of a sector with good efficiency rate. However, this figure (2.6 %) covers only formal employment in the agriculture sector. The agriculture sector has great potential to provide employment opportunities and generate income for people living in rural areas. The annual growth rate of the GVA of the agriculture sector showed a positive trend from 2005 to 2014.

### Table 4.2. Kosovo*: agriculture in the economy, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| % of GVA | 13.6 | 13.8 |
| % of employment | : | 2.6 |
| Agro-food exports (% of total exports) | 13.9 | 12.1 |
| Agro-food imports (% of total imports) | 24.8 | 24.3 |

Source: Agricultural Statistics Database – Kosovo*, 2015.
:, not available.

The amount of land at the disposal of farming is relatively small. According to the 2013 Agricultural Household Survey, 49 % of households have less than 1 ha each. The number of small farms increased by 3.6 % from 2007, while the area they farmed increased by 11.7 %. Over the same period, the number of large and specialised farms increased by 255 and the area they farmed increased by 4,168 ha.

Kosovo* is not a significant agricultural hub, and production, processing and trade are largely focused on local consumption/subsistence. Its value chains are limited, and service delivery is constrained by limited resources.

The most important crops for agricultural production in Kosovo* are cereals, predominantly wheat and maize. Even though statistics show an upward trend in area cultivated with wheat, and slight increases for other crops such as maize, fruits and vegetables, the average yields per hectare are far below those of EU countries. Low yields are mainly due to lack of knowledge of modern production techniques and disease

treatments, because advice and training are poorly targeted, as well as poor access to good-quality inputs.

### Table 4.3. Kosovo*: characteristics of the agricultural sector, 2005 and 2013

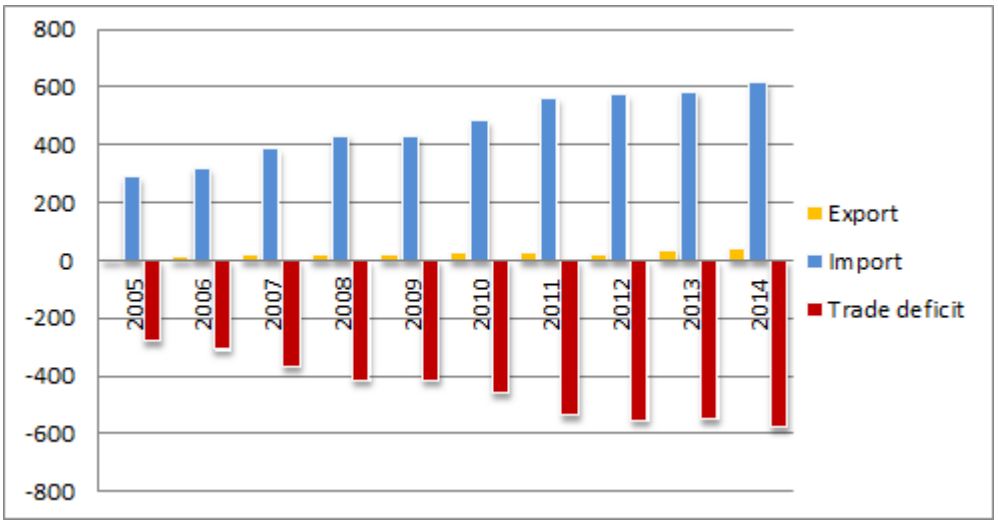
| | 2005 | 2013 |
|---|---|---|
| AA (000 ha) | 265 | 297 |
| % of arable land in AA | 52.3 | 57.6 |
| % of crops in total agricultural production | 50.9 | 59.0 |
| Average wheat yield (t/ha) | 3.9 | 3.8 |
| Average milk yield (t/dairy cow) | : | : |
| Factor income per annual work unit (EUR) | : | : |
| Agro-food export to import rate (%) | 2.7 | 6.4 |

Source: Agricultural Statistics Database – Kosovo*, 2015.
:, not available; AA, agricultural area.

In general, agricultural output prices showed a significant increase in 2013–2014. The prices for rye, barley, potatoes, peppers, pears, table grapes and nuts showed the highest price increases between 2013 and 2014. Prices for livestock products increased significantly faster than those for crop products. Among agricultural inputs, the highest price increases was recorded for fertiliser and other soil improvers and for animal feed.

For several years Kosovo* has faced a negative trade balance, which is dominated by imports and significantly lower level of exports, resulting in a high trade deficit for the country. The proportion of agro-food exports in total exports of goods increased slightly in the last two years studied (2013–2014). The share of agro-food imports in total imports of goods also increased to 24 %, which is considerably higher than the exports of agro-food products.

### Figure 4.2. Kosovo*: agro-food trade (EUR million), 2005–2014




Source: Agricultural Statistics Database – Kosovo*, 2015.

Free trade has been shown to increase the negative trade balance for total exports and imports of goods as well as for agro-food products specifically.

The most important agro-food export commodities are edible fruits and nuts, preparation of vegetables, edible vegetables, products of the milling industry, and beverages, spirits and vinegar.

The import value of agro-food products in 2014 was EUR 616 million, which is 6 % higher than the import value recorded in 2013. The export value of agro-food products in 2014 increased by 13 % from the previous year (to EUR 39.4 million). More than 70 % of the import value for agro-food products comes from dairy products, cereals, meat and beverages.

**Table 4.4. Kosovo*: main developments on agricultural markets between 2007 and 2014**

| | Traditionally, the country is | Since 2007, production has | Significant changes |
|---|---|---|---|
| Cereals | Net importer | No significant trend | Slightly increase in cultivated area and export in 2014. Considerable decrease in quantity imported and market price |
| Sugar | | No significant production | |
| Oilseeds, oils and fats | | No significant production | |
| Fruit and vegetables | | Increased | Exports increased considerably, but imports remain high and were still increasing in 2013–2014. Slight increase in fruit production in contrast to vegetable production. Significant increase in prices, particularly for fruits |
| Wine | | No significant production | |
| Potatoes | | Decreased | Significant decrease in the cultivated area as well as production, following significant price increases, especially in 2013 |
| Tobacco | Net importer | No significant trend | Imports have been increasing since 2007. Kosovo* does not export tobacco |
| Beef and veal | Net importer | No significant trend | Constant increase in quantity and price of beef imports, while exports are almost non-existent |
| Pig meat | | No significant trend | Like most agricultural products, the prices for pig meat increased continuously during 2007–2014 |
| Sheep and goat meat | | Increased | Significant increase in prices for lamb. Slight increase in size of sheep and goat flocks |
| Poultry meat | | No significant trend | Significant increase in prices for poultry meat, especially in 2013 and 2014 |
| Milk and milk products | | No significant trend | No significant increase or decrease in prices for milk and milk products |

## 4.3 Agricultural policy development

### *4.3.1 Agricultural policy framework*

Kosovo's* Agriculture and Rural Development Programme (ARDP) is the overall and holistic implementation framework that guides the development of the agricultural and rural development sector in Kosovo* towards modernisation and approximation to EU standards. A major part of the ARDP is the Rural Development Grant Programme, which co-finances – through provision of matching grants – various private sector investments.

The rural development policy of Kosovo* 2014–2020 will be oriented according to the new strategic directions of the EU rural development policy, by taking into consideration the experiences gained during the implementation of ARDP 2007–2013.

The stated objectives of ARDP 2014–2020 were closely based on IPA II strategic policy objectives but also focused on and reflected the country's strategic objectives for development, and the specific needs of the Kosovo* agro-food sector, forestry and rural

areas. Kosovo's* Rural Development Programme 2014–2020 focuses on the following six priorities (MAFRD 2013a):

1. fostering knowledge transfer and innovation in agriculture, forestry and rural areas;
2. enhancing competitiveness in all types of agriculture and enhancing farm viability;
3. promoting food chain organisation and risk management in agriculture;
4. restoring, preserving and enhancing ecosystems dependent on agriculture and forestry;
5. promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors;
6. promoting social inclusion, poverty reduction and economic development in rural areas.

The overall objectives of ARDP 2014–2020 were defined as follows:

*– to develop competitive and innovation-based agri-food sector with an increased production and productivity capable of producing high quality products and meeting the EU market standards, contributing to the security and safety of the food supply, pursuing economic, social and environmental goals by fostering employment and developing human and physical capital;*

*– to protect natural resources and environment in rural areas, addressing the challenges of climate changes by achieving sustainable and efficient land use and forestry management and by introducing agricultural production methods which preserve the environment;*

*– to improve the quality of life and diversify job opportunities in rural areas by fostering employment, social inclusion and balanced territorial development of those areas.*

(MAFRD 2013a)

The strategic objectives of ARDP 2014–2020 will be achieved by implementing the rural development priorities and measures under IPA II and the national support measures addressing income, land use and irrigation infrastructure financed by the national budget and donor initiatives. Table 4.5 presents selected measures that will be implemented in Kosovo*, categorised under four priorities of the EU IPA II for rural development.

### Table 4.5. Selected measures to be implemented in Kosovo* in 2014–2020

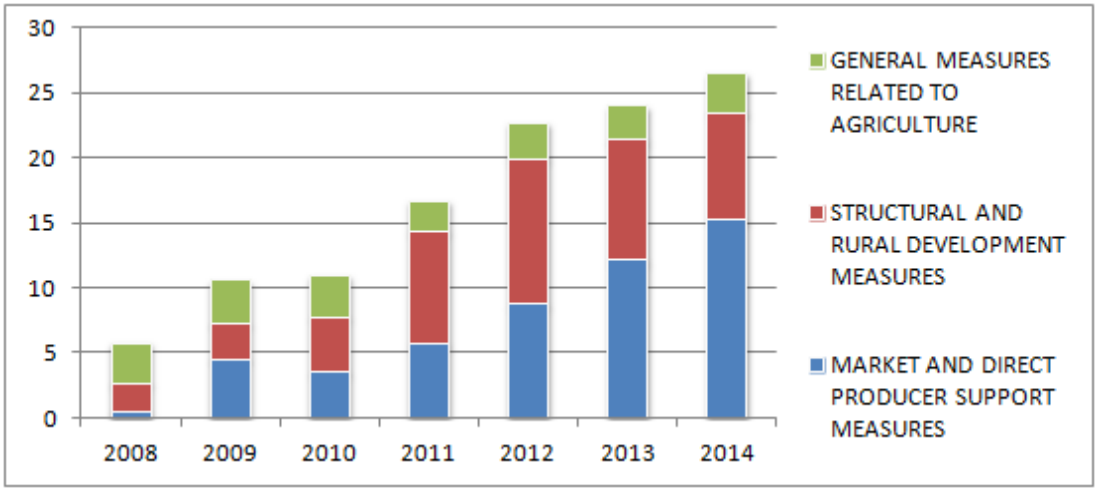
| Priorities | Measures |
|---|---|
| Enhancing farm viability and competitiveness | Investments in the physical assets of agricultural holdings<br>Investments in the physical assets of the processing and marketing of agricultural and fishery products |
| Restoring, preserving, enhancing ecosystems | Agro-environmental measures and organic farming<br>Establishment and protection of forests |
| Promoting social and economic inclusion | Farm diversification and business development<br>Preparation and implementation of local development strategies – Liaison Entre Actions de Développement de l'Économie Rurale (Links between the rural economy and development actions, LEADER) |
| Transfer of knowledge and innovation | Improvement in training<br>Advisory services<br>Technical assistance |

Source: MAFRD (2013a).

### *4.3.2 Budgetary support to agriculture*

From 2008 to 2014, the total budget allocated for agriculture and rural development was increased. The recent investments and increased attention from the government in the form of grants and subsidies have been too small to make a meaningful impact in terms of increasing the agriculture's share in the country's GDP.

**Figure 4.3. Kosovo*: budgetary expenditures for agriculture and rural areas (EUR million), 2008–2014**




Source: APM Database – Kosovo*, 2015.

The aim of the direct support measures within ARDP was to increase agricultural production and farmers' income and to improve the competitiveness of the agriculture sector relative to other sectors and to imports. The amount of the total budget allocated for direct payments increased significantly in 2013–2014 and several new direct payments were introduced.

Direct payments started in 2008 with the support of fuel for harvesting as input subsidy. Such support was not given in 2013–2014. No other input subsidies, such as for fertiliser and pesticides, were implemented in 2008–2014. From 2012 to 2104 payment was given for areas sown with wheat seed, certified by Ministry of Agriculture, Forestry and Rural Development (MAFRD) inspectors, and the minimum eligible area was 10 ha/farm.

Among direct payments the only support measure was direct payments based on current area/animal. Direct payments for seedlings and poultry were introduced in 2013–2014. Farmers who applied had to meet the following criteria: (i) they must have a minimum of 0.50 ha of agricultural land (owned or rented); (ii) the area of the rented land must be contracted for at least two years; (iii) the farmer must produce a minimum of 5,000 and a maximum of 100,000 seedlings of fruit trees grafted onto vegetative rootstock. Payments for poultry were transferred to all farmers who had at least 2,400 laying hens in production. Payments were made per animal. The amount of the payment was categorised depending on the number of poultry (2,400–10,000, EUR 0.50/head; 10,000–20,000, EUR 0.40/head; more than 20,000, EUR 0.30/head).

In 2014 other direct payments were introduced for vegetables in open fields, milk quality and production of sows. In total 23 different vegetables were subsidised and the minimum criterion to benefit from this payment was 0.2–0.5 ha planted with vegetables. Most of the beneficiaries for such payment were farmers cultivating peppers, watermelons and potatoes. The number of applicants active in the production of sows was relatively small. All farmers who had a minimum of two sows in active production were supported. Calls to apply for payments for milk quality were announced every three months. Payments were given for three different classes, with different amounts for extra, first and second class.

## Table 4.6. Kosovo*: main agricultural policy instruments and measures, 2008 and 2014

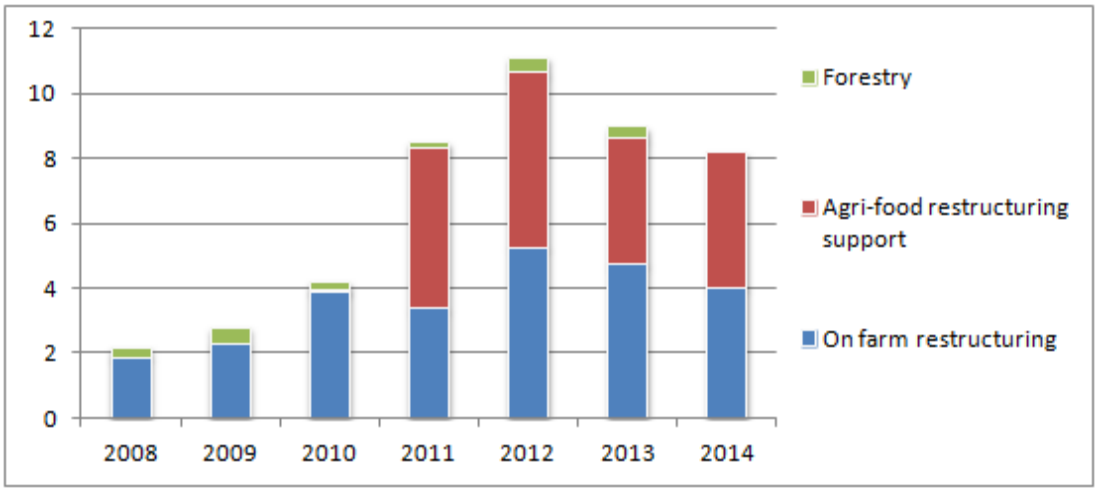
| | Implemented | Since 2008, support has | Significant changes |
|---|---|---|---|
| Market support measures | Not implemented | | |
| Variable input subsidies | Yes, regularly | Increased | The budget allocated for such measures increased significantly in 2012–2014. The support was mainly given for fuel and seedlings. Support for fuel for harvesting was omitted in 2013–2014 while support for seedlings was implemented only in those years |
| Direct payments based on output | Not significant | No significant trend | The implementation of the direct payments based on output started just recently. "Milk quality" is the first measure, introduced in 2014. There are three categories for subsidised milk quality: extra class, first class and second class. Calls for applications are made every three months, and payment is also made every three months |
| Direct payments based on area/animal | Yes, regularly | Increased | These payments were implemented from 2009. The allocated budget increased significantly in the last three years studied. The support was increased mainly for dairy cows, sheep and goats, wheat, and vineyards. In 2013, to some extent, and 2014 Kosovo* introduced direct payments per head of poultry and sows as well as for cultivated area with vegetables in open fields |
| Decoupled direct payments | Not implemented | | |
| On-farm investment support | Yes, regularly | Increased | On-farm investment support was regularly implemented and budget allocated for such support was constantly increasing. The overall aim was to improve agricultural household structure by increasing production and improving quality. In 2014 new sub-measures for cereals, greenhouses, beekeeping and the meat sector, including broilers, were introduced. In 2014, support was also given for land improvement and land consolidation |
| Food industry support | Yes, regularly | No significant trend | Support was given for construction of centres for collecting, packaging and storing agricultural products. The measures cover dairy, meat, grains, fruits and vegetables, bottled water, wine and beer. Support is meant to improve the use of agricultural products by enhancing the production of higher value added, establishing collection centres, introducing hazard analysis critical control points for food safety, and bringing production lines and related facilities up to the requirements of the EU |
| Environment-related payments | Not implemented | | |
| Rural area support | Not significant | No significant trend | Implemented since 2010. Support was given for public and private projects that have an impact on improving the rural population's living conditions. The budget allocated for it was significantly lower in 2014 than in 2013 |
| General support measures | Yes, regularly | Increased | The budget allocated to development of vocational training to meet rural needs and research increased significantly in 2013–2014. This measure was implemented through capital projects, and aims to develop rural areas by advancing advisory services |

More than 95 % of the total budget spent on rural development measures was concentrated on competitiveness and 1–2 % on rural economy and population. No funds were allocated for the environment and countryside in 2013–2014.

Out of the total budget spent on competitiveness, more than 80 % concentrated on farm-restructuring support (restructuring of the physical potential in the agro-rural sector, land consolidation, managing water resources for agriculture and other on-farm support) and 10–20 % on forestry support (improving natural resource management). The structure of the budgetary expenditure on competitiveness did not change in 2013–2014 compared with the two previous years. Within on-farm investment support, new sub-measures

were introduced in 2014 in support of investments in greenhouses, beekeeping, cereals and the meat sector (fattening of calves and broilers). The amount paid for these sub-measures is relatively small compared with the amount for other sub-measures implemented between 2008 and 2014.

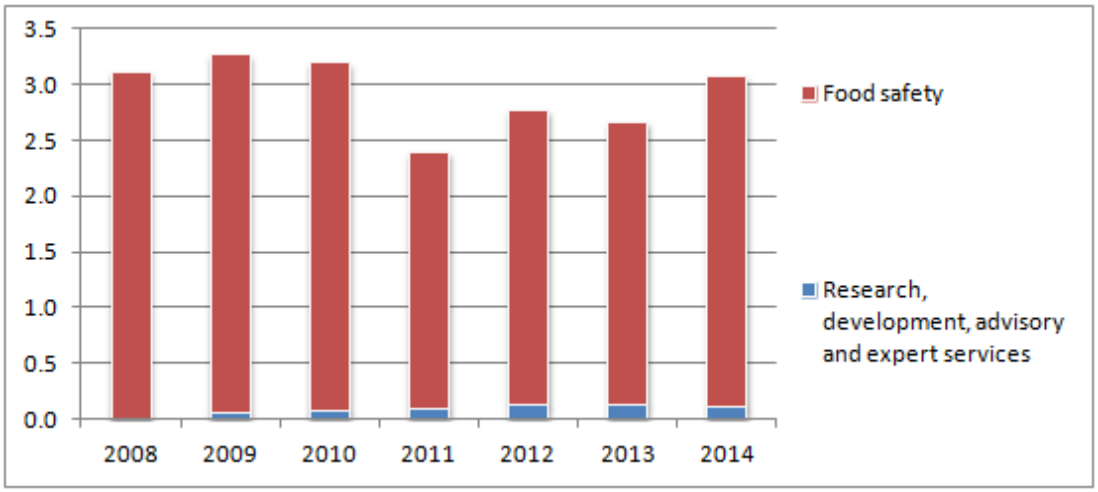
**Figure 4.4. Kosovo*: breakdown of measures related to competitiveness (EUR million), 2008–2014**




Source: APM Database – Kosovo*, 2015.

From 2009, MAFRD started to support public and private projects that had an impact on improving the living conditions of the rural population. Beneficiaries were local action groups (LAGs) registered in Kosovo* according to the principles of Liaison Entre Actions de Développement de l'Économie Rurale (Links between the rural economy and development actions, LEADER). LAG managers were responsible for applying for and implementing the projects that involved rural communities. The budget allocated for such support decreased significantly in 2014 compared with the previous year. In 2013, support was given to 15 LAGs implementing agricultural infrastructure projects such as improvement of schoolyards, parks, graveyards, riverbeds, bridges of shared interest and rural roads. Farm diversification and alternative activities in rural areas and improvement of rural infrastructure and maintenance of rural heritage were first implemented in 2014, although the budget allocated for such support was relatively small.

**Figure 4.5. Kosovo*: breakdown of general service support to agriculture (EUR million), 2008–2014**




Source: APM Database – Kosovo*, 2015.

More than 95 % of the budget spent on general services went on food safety, particularly veterinary and phyto-sanitary services, and a small percentage of the funds was spent on research and development, advisory and expert services (Figure 4.5). The budget expended on vocational training did not increase during 2013 and 2014. According to the mid-term evaluation report, vocational training measures contributed to increased agricultural production, more efficient use of farm inputs and more specialised farm activities (MAFRD 2012).

## 4.4 Farm issues

Kosovo* has an unfavourable farm structure, with an average UAA per holding of 1.5 ha, fragmented into seven plots. According to preliminary data from the 2014 census of agriculture, the average UAA per holding is 2 ha. Kosovo* has the lowest UAA per agricultural holding of any EU or WB country, except Malta. The size of the farms is a serious challenge to overcome in increasing productivity.

Crop diversification is a common strategy used by family farms to minimise risks that might come from crop failure and to stabilise family incomes for survival. Supporting farmers and increasing their incentives to lease public land for agricultural use at affordable costs would be a way of increasing the productivity and competitiveness of small farmers. Increasing agricultural production is very difficult without increasing production capacities through land cultivation and increasing farm sizes. Improving storage facilities would raise small farmers' net income from production and also improve their competitiveness. The support given for constructing centres for collecting, packaging and storing agricultural products stopped completely in 2013–2014.

Previously Kosovo* did not have any specific policy measure or subsidy targeting groups of small farms. In 2013–2014 a small budget was allocated for land consolidation, which is very relevant considering the current situation: farms are small on average and fragmented in many plots; the market for land is weak, with limited transparency in land tenure; and it is unclear who has the right to use communal land. An effort to support this measure could be used to reach several objectives that are set out in the new strategy of ARDP 2014–2020. This could also increase investments in irrigation systems and output of crops.

## 4.5 EU integration process

The new programming document for agriculture and rural development in Kosovo* was adopted based on the EU rural development concept. Measures of the ARDP 2007–2013 that give direct support to producers correspond in some sense to Pillar I measures under the CAP, and the measures supporting rural development are similar to the CAP Pillar II. The programming document with planned supported measures was implemented based on the annual budget allocation for the agriculture and rural development sector. The allocation of the total MAFRD budget to the various measures in ARDP 2007–2013 followed the general agricultural and rural development objectives only partly (MAFRD 2012).

Because of unfavourable farm structure and inefficient use of the production factors, yields of the agricultural outputs in Kosovo* are much lower than EU average yields. In general, the agriculture and food-processing sector is facing difficulties in developing food distribution chains, marketing, and quality, veterinary and phyto-sanitary standards comparable to the EU standards. On average the agricultural output producer prices are significantly higher in Kosovo* than in EU countries. This indicates that Kosovo's* producers are still not very competitive on price. A negative agro-food trade balance has been reported and growing over the past few years. An agricultural trade strategy must be developed based on market analysis; thus local producers and processors could better exploit market opportunities and also stabilise employment and income.

In general, rural areas in Kosovo* have a low level of economic development, which leads to a high unemployment rate. Reducing the dependency of the rural workforce on

agriculture and developing supplementary income activities for rural livelihoods remains one of the most challenging tasks. To reduce outmigration or poverty in rural areas, job opportunities have to be created by supporting the diversification of agricultural activities such as processing traditional local food products and niche products as well as by encouraging business initiatives to become active in providing rural services.

Small workshops should be also organised in which female entrepreneurship is encouraged. Economic development in rural areas should be encouraged through continuous improvement of infrastructure such as electricity, roads, water supply, waste disposal and broadband internet.

The budget allocation and the level of support to agriculture and rural development from 2007 to 2014 was relatively low compared with other WB countries and EU countries. An increase in agricultural competitiveness should be accompanied with an increase in the budget allocation for agriculture. Competitive agriculture requires updated knowledge, information and management services. Further training, advice on technical and farm/business management subjects and information on the agricultural market in accordance with country-specific needs are prerequisites for growth in production of agricultural outputs and increasing the sector's efficiency and competitiveness.

Promotion of agricultural research will help the development of sustainable production systems, particularly in view of new challenges such as climate change, biodiversity, rising food prices and bio-fuels. Even though for several years there has not been unanimity within the CAP about optimisation of the policies and instruments targeting agro-environmental payments, Kosovo* should initiate agro-environmental payment schemes offering support for sustainable use of natural resources, in particular for sustainable land use practices in high nature value (HNV) farming. A commitment to support HNV farming will improve provision of positive externalities and environmental services by farming practices.

More attention should be given to LFAs. As most farms (94 %) are very small – up to 4 ha – ways should be found to deal with the development of these farms. To strengthen the production and marketing of small farmers in Kosovo*, supporting the creation of producer organisations based on the EU idea of a single common market organisation would be the most important measure for the fruit and vegetable sectors. Because of high variation in production and price fluctuations, Kosovo* should initiate risk prevention and risk management mechanisms by subsidising insurance premiums.

Kosovo* needs to benchmark its current policy against international best practice, at the same time as aligning itself with EU policy. With the Stabilisation and Association Agreement (SAA) Kosovo* is entering a new phase of the integration process. Therefore, more efforts should be made to improve inter- and intra-ministerial coordination, as well as strengthening human resources in terms of more targeted, long-term individual training courses on the EU including the CAP, languages and negotiation skills.

## 4.6 Strengths and weaknesses of agriculture

Table 4.7 shows strengths and weaknesses of the agriculture sector and rural areas in Kosovo*.

## Table 4.7. Kosovo*: strengths and weaknesses of the agriculture sector and rural areas

| Strengths | Weaknesses |
|---|---|
| - Good climatic and soil fertility conditions, especially for vegetable and fruit growing<br>- Agricultural production intensified due to increased interest in agricultural production and the support given to the sector in terms of direct payments and grants<br>- Rural areas have big potential for cheap labour force and intensive agricultural production of vegetables in particular<br>- Support given to agriculture by MAFRD and other donors has significantly contributed to the introduction of new production technologies<br>- Improved quality of and productivity in livestock products, cereals and vegetables<br>- Increased consumer awareness and demand for domestic agricultural products<br>- Increased government recognition of the importance of the agriculture sector and its performance<br>- Rich natural resources, good natural conditions and varied landscapes<br>- Cleaner and less stressful environment and lower living costs in rural areas<br>- People's willingness to improve rural situation | - Lowest GDP per capita<br>- Persistent poverty, particularly in rural areas<br>- High unemployment rate, especially in rural areas<br>- Significant lack of rural infrastructure, specifically water supply, waste management and recycling of waste<br>- Poor public services in rural areas (health care, transport and kindergartens)<br>- High land market prices<br>- Lack of cooperation between farmers, public institutions, and private and public sectors<br>- Financial constraints to undertaking on-farm investments<br>- Outdated machinery and technical equipment<br>- Conservative farmers resistant to applying new technology<br>- Low educational level of farmers (many with no more than primary education)<br>- Very low subsidies in comparison with other countries in the region<br>- Lack of an appropriate rural credit system providing credit to farmers on good conditions, with longer grace periods and lower interest rates<br>- Insecure land ownership, land rights not clearly allocated to an owner<br>- Little progress through the programme on land consolidation<br>- Small farms and fragmented land resulting in low productivity<br>- Lack of storage facilities<br>- Low processing capacity<br>- No long-term contracts between farmers and processors |

# 5. FYR of Macedonia: agricultural policy brief

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## 5.1 Economic development

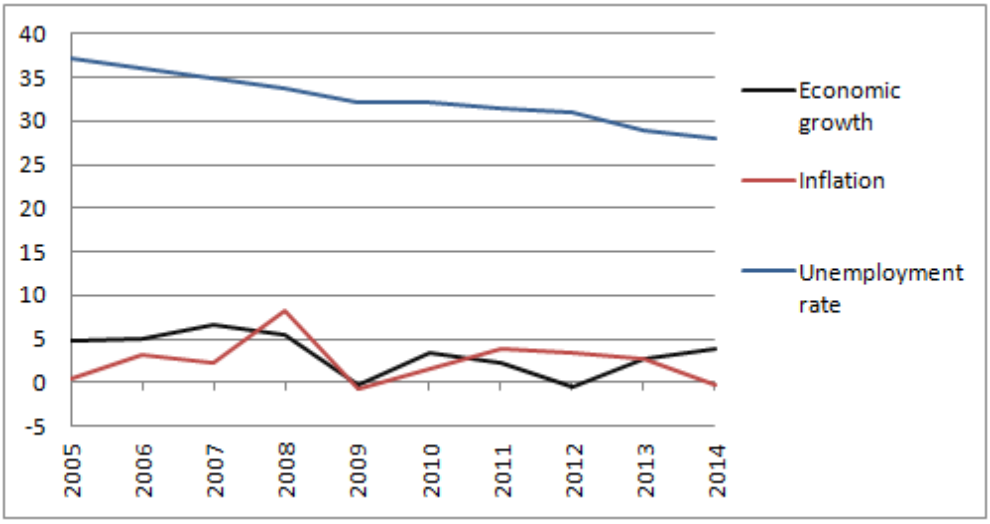
FYR of Macedonia is a landlocked country in south-eastern Europe with an area of 25,713 km$^2$ and a population of about 2 million inhabitants, resulting in a population density of around 80 inhabitants per km$^2$. During the last 10 years, FYR of Macedonia's overall economic performance shows growth; GDP was EUR 8.5 billion in 2014, which is 70 % higher than in 2005. Presented per inhabitant in PPS, the GDP increased by 38 % from 2005 to 2013 (Table 5.1).

### Table 5.1. FYR of Macedonia: economic context, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| Population (million) | 2.04 | 2.07 |
| Population density (inhabitants/km$^2$) | 79.2 | 80.5 |
| GDP (EUR million) | 5,032 | 8,534 |
| GDP/capita, PPS (EUR) | 6,900 | 9,500[a] |
| Real GDP growth (%) | 4.7 | 3.8 |
| Unemployment rate (%) | 33.8[b] | 28.0 |
| Trade balance (EUR million) | –961 | –1,762 |
| Foreign trade as % of GDP | 84.5 | 107.9 |

Source: Agricultural Statistics Database – FYR of Macedonia, 2015.
a 2013;
b 2008 (earliest available according to same methodology).

### Figure 5.1. FYR of Macedonia: main macroeconomic indicators (% increase since previous year; % unemployment), 2005–2014




Source: Agricultural Statistics Database – FYR of Macedonia, 2015.

The global economic crisis has influenced the economy of FYR of Macedonia as well. Although a separate set of fiscal and monetary measures for maintaining macroeconomic stability has been applied, the economic crisis has resulted in a small decrease in GDP (–0.4 % in 2009 and -0.5 % in 2012). The macroeconomic indicators show a recovery of the FYR of Macedonia's economy in 2013, with an increase in real GDP of 2.7 %, followed by 3.8 % in 2014. Figure 5.1 shows the inflation rate between 2005 and 2014. It ranges from -0.8 % in 2009 to 8.3 % in 2008.

The high unemployment rate hinders the development of the FYR of Macedonia's economy and is considered one of the crucial factors for the high poverty rate. The unemployment rate shows a slow decrease over the years, and in 2014 it was 28 % (Table 5.1). The negative trade balance is becoming more evident over the years, and in 2014 it reached to a deficit of EUR 1,762 million. Foreign trade as a share of GDP shows an increase, meaning that the country has become economically much more sensitive to global trade.

## 5.2 Agricultural development

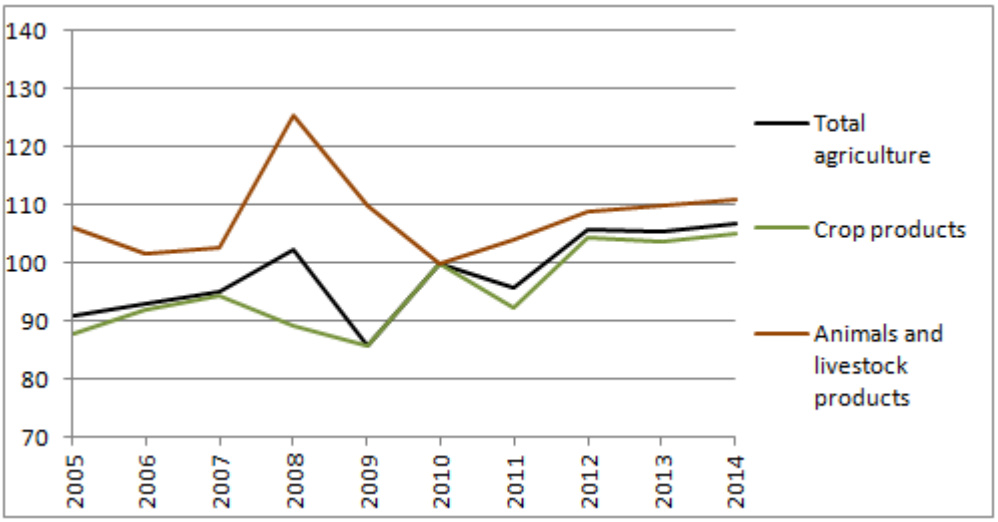
Agriculture significantly influences the FYR of Macedonia's economy, contributing around 11 % in total GVA and providing employment for about 19 % of the population (Table 5.2). Gross agricultural output (GAO) amounted to EUR 1,385 million in 2013, which is an increase of 22 % since 2005.

**Table 5.2. FYR of Macedonia: agriculture in the economy, 2005 and 2014**

| | 2005 | 2014 |
|---|---|---|
| % of GVA | 11.3 | 10.2 |
| % of employment | 19.5 | 18.5 |
| Agro-food exports (% of total exports) | 16.7 | 12.9 |
| Agro-food imports (% of total imports) | 13.1 | 11.7 |
| Agro-food export-to-import rate (%) | 80.7 | 74.6 |

Source: Agricultural Statistics Database – FYR of Macedonia, 2015.

**Figure 5.2. FYR of Macedonia: real agricultural producer price growth, 2005–2014 (2010 = 100)**

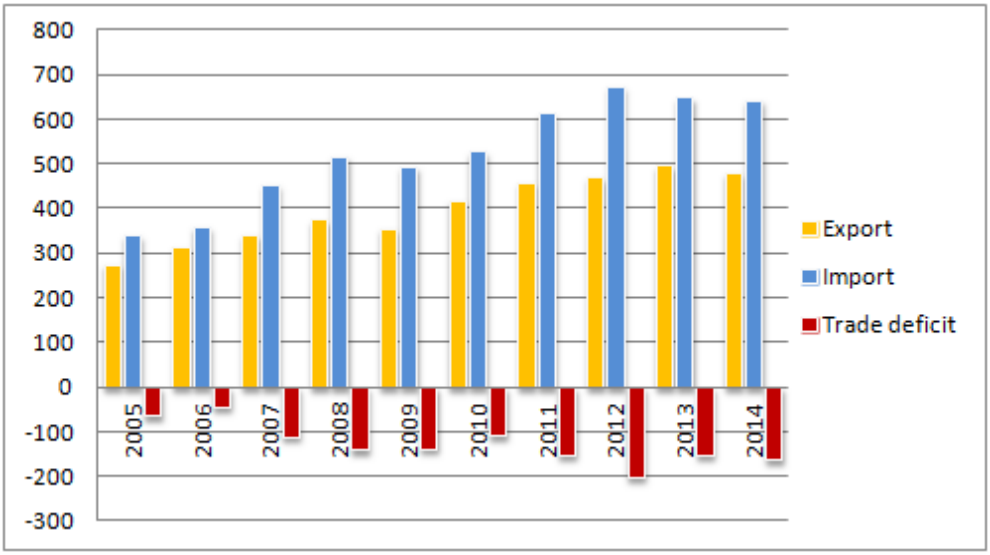



Source: Agricultural Statistics Database – FYR of Macedonia, 2015.

Agricultural producer price indices show a continuous increase during the last 10 years. Between 2005 and 2010, livestock prices show much higher variations than crop prices; later, prices stabilise and show a slight upward tendency (Figure 5.2).

Concerning trade, FYR of Macedonia is a net agro-food importer, with a constant negative trade balance during 2005–2014 (Figure 5.3). The country is a net exporter for only a few commodities, such as some fruits and vegetables, wine, tobacco and lamb. The agro-food trade shows an upward trend over the years; in 2014 it was double that of 2005. Liberalisation, especially in the agro-food sector, has resulted in higher imports than exports, thus deepening the negative trade balance. The trade deficit reached its highest level in 2012, at about EUR 202 million, with a decrease in the following years and a deficit of EUR 163.4 million in 2014 (Figure 5.3).

**Figure 5.3. FYR of Macedonia: agro-food trade (EUR million), 2005–2014**




Source: Agricultural Statistics Database – FYR of Macedonia, 2015.

Agro-food products made up 12.9 % of total exports in 2014, whereas they were 11.7 % of total imports. The export value of agro-food products was EUR 479.6 million in 2014, an increase of 75 % since 2005. According to the total export value, the major tariff groups in 2013 and 2014 were tobacco and manufactured tobacco substitutes (25 %), beverages, spirits and vinegar (13 %) and edible vegetables, plants, roots and tubers (13 %). Tobacco, wine and vegetables are the most important exported agro-food products. The import value of agro-food products was EUR 643.0 million in 2014, an increase of 89 % compared with 2005. The major import tariff group in 2013 and 2014 was meat and edible meat offal (16 % of the imported agro-food products).

The agricultural area, about 1.263 million ha, covers almost half of the total land area; 32.7 % of agricultural land is arable and 64.2 % is permanent grassland. Although the majority is grassland, crop production has characterised FYR of Macedonia's agriculture, contributing 76 % of total agricultural production (Table 5.3).

Livestock production remains generally uncompetitive because there is insufficient capacity for production of animal feed and farmers are dependent on imported feed (MAFWE 2015). The unfavourable variety and breed structure results in low yields. For instance, the average wheat and milk yields in 2014 were 3.75 t/ha and 3.14 t/head, respectively, and were respectively 22 % and 35 % higher than in 2005.

The FYR of Macedonia's agriculture is characterised by a dual structure, dominated by small farms with a high level of land fragmentation. The average size of the UAA per holding is very low (1.9 ha), and almost 60 % of holdings operate on less than 1 ha of land. The average holding has 2.14 livestock standard units (LSUs), and 24.6 % of the total number of households has less than one unit. The standard output (SO) per holding

is EUR 4,825, whereas half of the holdings have an SO of less than EUR 2,000. This is because individual agricultural holdings produce 86.9 % of the total SO.

### Table 5.3. FYR of Macedonia: characteristics of the agricultural sector, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| AA (000 ha) | 1,199 | 1,263 |
| % arable land in AA | 37.4 | 32.7 |
| % crops in total agricultural production | 78.5 | 76.1[a] |
| Average wheat yield (t/ha) | 3.07 | 3.75 |
| Average milk yield (t/dairy cow) | 2.31 | 3.14 |

Source: Agricultural Statistics Database – FYR of Macedonia, 2015.
a 2013.
AA, agricultural area.

Land capacities and other natural resources are not fully utilised. The agriculture of FYR of Macedonia faces many other weaknesses that hinder its development, such as outdated equipment and technology, low level of productivity and lack of added value agricultural products. In addition, there is a lack of seasonal labour, increased ageing and outmigration of the rural population, and a low level of education and management skills among the rural population. Moreover, the lack of own capital and access to financial resources, weak level of agro-food integration, and low level of integration of research in the development of agriculture limit the development of the sector.

### Table 5.4. FYR of Macedonia: main farm structure indicators, 2013

| | 2013 |
|---|---|
| UAA per holding (ha) | 1.85 |
| Holdings with UAA < 1 ha (% of total) | 58.2 |
| LSU per holding | 2.14 |
| Holdings with LSU < 1 (% of total) | 24.6 |
| SO per holding (EUR) | 4,825 |
| Holdings with SO < EUR 2,000 (% of total) | 58.2 |

Source: Agricultural Statistics Database – FYR of Macedonia, 2015.

Table 5.5 presents the main developments in the agricultural markets. The crop production capacities are generally stable, except the area under cereals, which shows a decrease.

In terms of production volumes, a significant increase appears in vegetable production, whereas grape production shows a decrease.

Livestock production shows an increase in output, especially significant in pig production. Although there is a significant decrease in flock sizes for sheep and poultry, their production outputs have increased.

As regards trade, imports have increased much more than exports for almost all tariff groups (especially meat and edible meat offal; dairy produce, eggs, natural honey; animal or vegetable fats and oils; and miscellaneous edible preparations).

Only a few tariff groups show bigger increases in exports than in imports.

## Table 5.5. FYR of Macedonia: main developments in agricultural markets

| | Traditionally, the country is | Since 2005, production has | Changes in price, production and trade, 2014 compared to 2005 |
|---|---|---|---|
| Cereals | Net importer | No significant trend | - Price: increased, especially for maize<br>- Production: slight decrease (although there is a decline in area under cereals)<br>- Trade: increase in imports and exports of cereals, and more significantly in exports of preparations from cereals |
| Sugar | Net importer | Decreased | - Production: after 2008, no production of sugar beet because of the low output prices and increased imports of raw sugar<br>- Trade: constantly increased imports over the years until 2014, when imports fell by 13 % from 2013 |
| Oilseeds, oils and fats | Net importer | Decreased | - Price: increased<br>- Production: decreased; already very low sunflower production (because of the low world market price and increased imports of raw sunflower oil)<br>- Trade: constantly increased imports (EUR 8.8 million in 2005; EUR 17.8 million in 2014) and exports (EUR 1.8 million in 2005; EUR 4.2 million in 2014) |
| Fruit and vegetables | Net exporter | Increased | - Price: increased, especially for some fruits (apricots, peaches, grapes)<br>- Production: increased; slight increase in fruit production (14 %) and more in vegetable production (40 %)<br>- Trade: increased imports of vegetables and fruits and nuts; constant increase in exports of fruit, vegetables and preparations thereof (slight drop in fruit export in 2014, –11 %) |
| Wine | Net exporter | Decreased | - Price: increased price of wine grapes<br>- Production: slight reduction in area, but more decrease in production (–26 %); increased production of bottled wine[a]<br>- Trade: increased exports[a] |
| Potatoes | Self-sufficient | No significant trend | - Price: increased<br>- Production: stable |
| Tobacco | Net exporter | No significant trend | - Production: stable<br>- Trade: constant increase in imports and exports until 2013; decrease of 20 % and 10 % (respectively) in 2014, compared with 2013 |
| Beef and veal | Net importer | Increased | - Price: increased<br>- Production: increased; in terms of quantity, it is the major livestock commodity<br>- Trade: import of fresh and chilled meat and lower quantities for the meat-processing industry[a] |
| Pig meat | Self-sufficient | Increased | - Price: increased<br>- Production: increased<br>- Trade: imports of chilled and frozen pork for the meat-processing industry[a] |
| Sheep and goat meat | Net exporter | Increased | - Price: slightly increased<br>- Production: significant increase in lamb<br>- Trade: net exporter of lamb, slight export decrease |
| Poultry meat | Net importer | Increased | - Price: decreased<br>- Production: increased production, but it covers only 20 % of the domestic demand[a]<br>- Trade: imported as frozen meat[a] |
| Milk and milk products | Net importer | Increased | - Price: increased<br>- Production: increased production of milk and dairy products[a]<br>- Trade: constantly increased import of milk and milk products |

Source: Agricultural Statistics Database – FYR of Macedonia, 2015; a, MAFWE (2014).

## 5.3 Agricultural policy development

Agricultural policy development is characterised by adjustments towards the CAP of the EU. The EU integration process has brought positive changes in legislation and institutional capacities. The CAP objectives have been adopted as goals of the national agricultural policy and strategy for agriculture and rural development. In addition to the systemic establishment of policy through sets of laws, strategies, programmes and long-term plans, there is an increased budget for agriculture to achieve the objectives set in them. Nevertheless, there is a need for certain adjustments of some policy measures. Adjustment of the national policies towards the European policies would continue up to their full compliance and full EU membership. The dynamics and scope of this process of adjustment largely depend on progress in the accession process and the beginning of accession negotiations (MAFWE 2014).

Among the institutional capacities, the newly established institutions, such as the Agency for Financial Support of Agriculture and Rural Development and the Food and Veterinary Agency, have strong organisational systems, whereas others, such as the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and the National Extension Agency, have improved their capacities in the process of adjustment. In spite of everything, their main challenge remains the consistent implementation of the legislation and its amendments due to the changes in the CAP, and strong pressure from the local stakeholders.

The adjustment of the agricultural policy towards the CAP started more intensively after FYR of Macedonia gained the status of candidate country for accession to the EU, in 2005. The first more serious systematic and structural changes in this direction occurred in 2007 when the Law of Agriculture and Rural Development (LARD), the National Agricultural and Rural Development Strategy (NARDS 2007–2013) and the IPARD Programme (2007–2013) were adopted. The harmonisation of the national agricultural policy continued, and the current LARD (from 2010), which serves as a legal framework for the country's agricultural policy, is much more in line with the EU principles. The latest NARDS (2014–2020) defines new specific objectives, trying to follow the needs of the sector: (i) restructuring and modernisation of the agro-food sector; (ii) market regulation, organisation of the food chain and improvement of the quality of agricultural products; (iii) improving the living conditions and conditions for economic activities in rural areas; (iv) continuous access to knowledge and investment in human capital in agriculture; (v) making the food safety system fully functional; and (vi) sustainable management of natural resources and mitigation of the effects of climate change (MAFWE 2014). In addition, many implementing documents have been adopted, such as annual and multi-annual programmes for financial support of agriculture and rural development from the national budget and from IPARD funds (2007–2013).

The main aspects of further adjustment to the CAP are identified in NARDS 2014–2020: gradual "decoupling" of direct payments; increasing rural development measures; expansion of agro-ecological measures and cross-compliance; supporting young farmers; supporting small family farms; establishment of cooperatives; vertical integration; introducing market boards; minimum quality standards; mitigating the impact of climate change; waste management; and improving energy efficiency (MAFWE 2014).

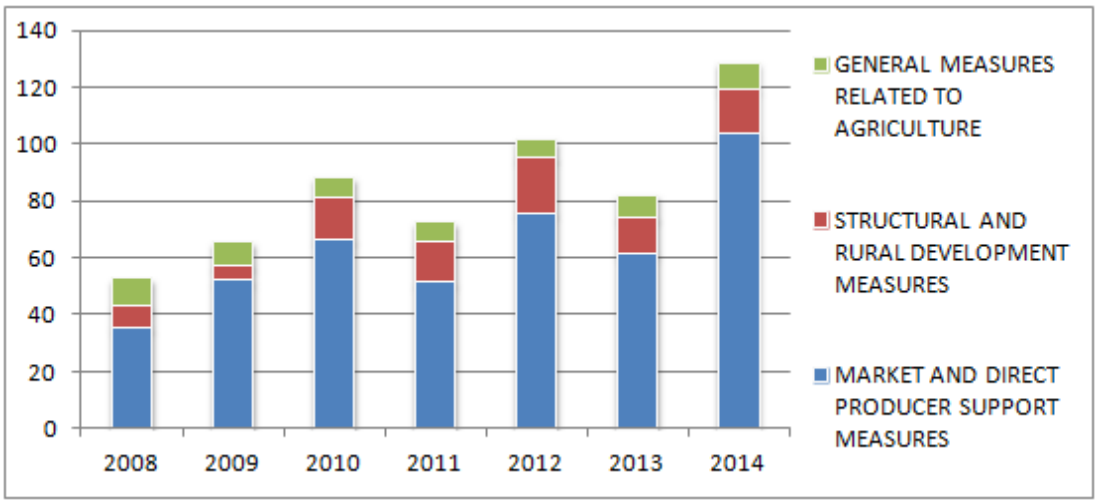
### *5.3.1 Budgetary transfers to agriculture*

Budgetary support to agriculture from national budget has increased significantly (Figure 5.4); the budget transfers in 2014 (EUR 128.7 million) are more than doubled compared with 2008 (EUR 52.7 million). The main instruments of agricultural policy are direct payments. Rural development measures and general support to agriculture take only a relatively small share of the agricultural budget. Regulations, support to agricultural markets and state aid are introduced for emergencies only.

Direct payments are distributed per unit of agricultural product and per area of agricultural land or head of livestock. They are conditional on cross-compliance measures

(which are being gradually introduced in compliance with the CAP regulation) to ensure the production of safe and healthy food and protection of the environment. In the implementation, direct payments have been the major form of support throughout the whole period. In recent years, direct payments have moved from payments per output to payment per capacity. The main sectors supported according to output are tobacco and milk, whereas grape production is supported according to area and sheep production is supported per head (see Table 5.6). Concerning the small size of farm structure of FYR of Macedonia, the payment varies depending on the size of the farm. On the other hand, very small farms (less than 0.2 ha or 0.3 ha, depending on the sector) are excluded from the list of eligible beneficiaries.

**Figure 5.4. FYR of Macedonia: development of budgetary support to agriculture (EUR million), 2008–2014**




Source: APM Database – FYR of Macedonia, 2015.

The rural development policy has four priority areas and four instruments to support them: agricultural competitiveness, agro-environmental protection, rural economy and local development. Among them, increasing competitiveness, either by on-farm investments or by support for agro-food restructuring, has attracted most interest from farmers. During 2013 and 2014 there was a significant increase in support for rural areas and their population, in terms of supporting basic infrastructure, services and village renewal. Agro-environmental support and LFA support remain of little interest to agricultural producers, accounting for only 5 % of the rural development budget.

The budget for general support in agriculture was stable in absolute values during the study years, and does not follow the upward trend of the total agricultural budget. The largest share of this budget goes to veterinary and food quality control, whereas knowledge transfer is much less represented. In 2014, there was a dramatic increase in support for technical assistance to promote the programme.

Several studies and reports reveal the positive role of the national extension agency in delivering information about the supporting programmes and measures, and helping farmers in the process of application (Kotevska and Martinovska Stojceska 2015, Pringle et al. 2014). Considering its role in this process, increasing the budget of the national extension agency should be considered as well, because the current budget spent on the national extension agency is not enough to contribute considerably in the process of modernisation of agriculture.

Table 5.6 gives a more detailed overview of the changes in the latest year (2014) from the earliest year that allocates the budget expenditures in detail (2008).

**Table 5.6. FYR of Macedonia: main agricultural policy instruments and measures, 2008 and 2014**

| | Implemented | Since 2008, support has | Significant changes |
|---|---|---|---|
| Market support measures | Not implemented | | |
| Variable input subsidies | Yes, occasionally | Decreased | In 2008, input subsidies were used to reimburse fuel costs in crop production. In 2014, the budget for input subsidies was less than a quarter of the expenditure in 2008 and was intended for purchasing breeding animals and off-farm services |
| Direct payments based on output | Yes, regularly | Increased | Most of this form of support is given for tobacco: 79 % in 2014, which is twice the amount in 2008. The second highest share goes to milk: 16 % in 2014, which is a slight decrease from 2008. The direct payments for grapes (23 % in 2008) have been shifted into payments by area. The other sectors with increased support are fresh vegetables and seeds |
| Direct payments based on area/animal | Yes, regularly | Increased | Compared with 2008, the allocation of support in the grape sector has increased dramatically (to EUR 12.9 million). The sheep sector shows four times as much support, reaching EUR 12.7 million in 2014. The cattle sector, which has been very little supported, has a subsidy of EUR 6.8 million. The other sectors also show some increases in the budget transfer, but these are not very significant because the overall levels are lower than for others |
| Decoupled direct payments | Not implemented | | |
| On-farm investment support | Yes, regularly | No significant trend | In absolute values, on-farm investment support shows no significant change; it is at a level of EUR 3 million. This is decreasing as a proportion of rural development support, from about 80 % in 2008 to about 50 % in 2014 |
| Food industry support | Yes, regularly | Decreased | Support to the food-processing industry was lower in 2014 (EUR 0.2 million) than in 2008 (EUR 0.7 million) |
| Environment-related payments | Yes, regularly | Decreased | The budget for environment-related payments decreased from EUR 3.6 million in 2008 to EUR 0.8 million in 2014. In 2008, 90 % of those payments were for supporting LFAs, whereas in 2014 this support was only about 40 %. Agro-environmental measures do not show significant changes in absolute values (about EUR 0.5 million) |
| Rural area support | Yes, regularly | Increased | Rural area support was not implemented in 2008. In 2014, this budget item amounted to EUR 8.5 million, spent on basic infrastructure, village regeneration, maintaining traditional features, rural tourism and renewable energy |
| General support measures | Yes, regularly | No significant trend | The largest proportion of general support expenditures are related to veterinary and food quality control, decreasing slightly in 2014 compared with 2008. The expenditure on extension is similar, whereas there is increased use of funds for technical assistance |

Source: APM Database – FYR of Macedonia, 2015.
Note: The implementation of the annual programmes spreads over the subsequent few years, so budget transfer is presented by actual expenditure per year.

### *5.3.2 Instrument for Pre-Accession Assistance for Rural Development*

IPARD is an additional source of funds for rural development. The total available budget from IPARD for 2007–2014 was EUR 64.3 million (of which EUR 48.2 million was from the European funds). The IPARD programme focuses on three measures: (i) M101, investments for restructuring and modernisation of agricultural holdings; (ii) M103, investments for restructuring and modernisation of the processing and marketing of agriculture and fishery products; and (iii) M302, diversification and development of rural economic activities. In the implementation of IPARD I, the major point of note is the low level of absorption (only 7 %). Measure M101 was the most used, M103 was of

decreasing interest and there was no interest in M302. The fruit sector has been the major beneficiary, for both primary and secondary production.

Regarding the low level of absorption, the evaluation of the IPARD programme (Pringle et al. 2014) revealed some of the issues that hinder this process. The procedure is evaluated as highly costly and time-consuming to obtain the extensive documentation (estimated at 81.7 pages on average), especially to obtain certificates and three-bid offers from suppliers. Access to finance is another problem that requires more attention. Although most of the investments have been co-financed with bank credits, only two banks offer credit on more favourable terms and fewer than half of the applicants are aware of a bank that does. In addition, only a quarter of the applicants have been informed about the cross-compliance requirements, and mostly only in regard to food safety and environmental considerations.

From today's perspective, IPARD I was a learning process. The feedback about the calls has resulted in several modifications of the programme to adjust and facilitate the procedure. Alongside the problems, beneficiaries notice positive changes at farm level, in the processing industry and among consultants involved in this process (Pringle et al. 2014). Many applicants (80–90 %) consider their investment successful in terms of meeting their initial objective. Progress is observed in their awareness of the need for and objective of such support measures.

The accreditation of the additional measures from the IPARD II programme and establishment of institutional conditions to support investment will, it is hoped, improve the absorption of the IPARD funds in the next period.

### *5.3.3 Policies related to farm issues*

The high fragmentation of agricultural land is a structural weakness of the agricultural sector of FYR of Macedonia that has a negative effect on its productivity, efficiency, costs and incomes from agricultural activity, and hence its competitiveness. The need for consolidation of agricultural land as an instrument has been recognised with the adoption of the national strategy for consolidation of agricultural land for the period 2012–2020. In the period until 2020, it is intended to create conditions for land consolidation and implement consolidation processes with different difficulties in implementation.

Given the complex nature of the process, the consolidation is planned to be introduced in phases, gradually increasing the volume and complexity of the applied policy instruments. After providing the legal and institutional conditions, the first phase is planned to focus on simple, small to medium-sized projects for voluntary land exchange, pilot application of more complicated small-scale instruments, and awareness raising among farmers. The implementation of more complex projects on larger areas with higher infrastructure investments is planned for the later phase. The funding of this policy is planned to be covered by national or European funds for rural development and, for the most part, is considered state aid in agriculture and rural development. To prevent further fragmentation of agricultural land, the legal ban on the physical division of parcels smaller than 2 ha continues to be operational.

The land consolidation process started with pilot projects in two consolidation areas. It is still in the phase of preparatory activities; thus, there are no results to use for a progress or impact assessment.

## 5.4 Policy recommendations

The general recommendation for the development of agricultural policy is about its structure. So far, direct payments have dominated in the composition of budgetary support to agriculture. It is imperative to increase the funds for rural development support and general support in agriculture, and the least harmful way would be by increasing their share of the total budget.

Direct payments, in their current coupled form, do not properly address the weaknesses of the agricultural sector or use its potential rationally. In addition, the process of adjusting the national agricultural policy towards CAP requires transformation of the support in a decoupled form. Gradually replacing the current form of support with a decoupled form will prepare farmers and will avoid serious disturbances to the sector. An important stage, which would be hard to implement, is the cancellation of production coupled support for the sectors that are not supported in the EU, such as pig, poultry and vegetable production. This process should be assisted with information about other forms of support available for them.

Increasing the proportion of rural development support is a necessary step to make the sector more competitive in the global agricultural market. The current state of the sector and rural areas requires more intensive improvement of agricultural holdings and the rural infrastructure. This support would better address some of the weaknesses of FYR of Macedonia's agriculture, such as the discrepancy between the available and utilised production capacities, and outdated equipment, technology and know-how. Investments on farms should be complemented with other rural development measures for infrastructural development or meeting quality standards that would additionally increase their competitiveness. Support for young farmers is expected to change the age and educational structure of farmers, and consequently induce entrepreneurial behaviour and change the breed and variety structure and the level of application of new technologies.

General support of agriculture focuses mostly on food safety and quality. This institutional system of control is important aspect of the European market. Nevertheless, education and extension have an important role in disseminating information and helping farmers. Farmers recognise the role of extension agents, so this medium should be further developed and expanded, with proper institutional and financial support. Strengthening the relation between extension and the education and research institutions on specifically identified issues would emphasise their role.

However, other aspects are important for the successful implementation of the policy. Small farm size and high land fragmentation hinder the potential for using economies of scale and thus improving productivity in the sector. One of the solutions is full application of the land consolidation strategy, with continuous impact assessment and improvements in the process to obtain better results.

Economic associations of farmers are important for improving the market position of small farmers. Recent research shows that networking of farmers increases their readiness to apply for rural development support (Kotevska et al., 2015). In addition, further strengthening of relationships in the marketing chain and greater vertical integration in the sector will improve the institutional functioning of the market and indirectly support the development of the primary sector as well.

An important obstacle to any investment activity and higher absorption of national or IPARD funds for rural development is access to finances. Therefore, this problem deserves special attention in planning and programming. The government could ensure improved access to diverse sources of finance (bank or informal credit products) by developing mechanisms such as collateral, guarantee funds and subsidised commercial interest rates, to encourage banks to get more involved in rural credit and investments in rural areas. Another possibility is the creation of a formal financial institution for rural development support.

The role of analytical and research capacities is not strongly recognised and introduced by policy makers as a necessary step for ex post or ex ante analysis of the policy measures. In this context, it is very important to strengthen the relations between policy makers and the research community, especially in analysis of agricultural policy. Instead of occasional analysis before preparing some strategic documents and short-term programmes, a continuous impact assessment on a basis of well-established methodology can bring evidence-based adjustments. Such an approach would improve the analytical capacities of the policy-making institutions as well.

Last but not least, the policy decision makers have to create more stable and predictable policy frameworks and implement what they have adopted. They must avoid frequent changes in the strategic and multi-annual documents and, above all, in the annual implementation of programmes. This is important for the process of implementation, but also for measuring the real impact of the programmes.

# 6. Montenegro: agricultural policy brief

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## 6.1 Economic development

When Montenegro formally declared its independence in 2006, it was still in a state of economic transition. After the European Council granted it candidate country status, Montenegro entered the process of negotiations to join the EU in June 2012. The main feature of the development of Montenegro since gaining its independence has been the influence of high inflows of FDI, resulting in the growth of domestic consumption. The government has, consequently, undertaken several measures to liberalise Montenegro's trade regime.

**Table 6.1. Montenegro: economic context, 2005 and 2014**

| | 2005 | 2014 |
|---|---|---|
| GDP (EUR million) | 1,815 | 3,425 |
| Population (million) | 0.623 | 0.622 |
| Land area (km$^2$) | 13,812 | 13,812 |
| Population density (inhabitants/km$^2$) | 45 | 45 |
| GDP/capita, PPP (EUR) | 7,483 | 12,710 |
| Foreign trade as % of GDP | 77.8 | 62.7 |

Source: Agricultural Statistics Database – Montenegro, 2015.
PPP, purchasing power parity.

Montenegro's economy is predominantly based on services. Most consumption goods are imported. A large deficit in the balance of trade is recorded, with imports of goods in excess of 50 % of GDP and exports around 15 %.

There have been significant fluctuations in the development of the country's economy since 2006. Until 2008, there was a boom period, with recorded GDP growth of 8.7 %. However, a recorded decline of 5.7 % in 2009 reflected the double-dip recession, and the euro area crisis (an additional 2.5 % decline in 2012) resulted in the outlook of the economy remaining flat.

## 6.2 Agricultural development

### *6.2.1 The role of agriculture and resources*

Agriculture is one of the most important sectors in Montenegro and is a significant source of employment and income for some of the most vulnerable segments of society, especially in the north, its mountainous part, where there are few other opportunities for employment. About 37 % of Montenegro's population lives in the rural areas and it is assumed that about 70 % of the total income of these people is from agricultural activities (MONSTAT 2010). Agriculture accounts for around 10 % of GDP in Montenegro, a relatively high proportion.

## Table 6.2. Montenegro: agriculture in the economy, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| % of GVA | 10.5 | 9.8[a] |
| % of employment | : | :[b] |
| Agro-food exports (% of total exports) | 18.7 | 24.4 |
| Agro-food imports (% of total imports) | 19.1 | 27.1 |

Source: Agricultural Statistics Database – Montenegro, 2015.
a 2013.
b According to the Statistical Office of Montenegro (MONSTAT) data for the first quarter of 2015, in total 6.9 % of employees were in agriculture.
:, not available.

Agricultural production in Montenegro is quite diverse. It has a large number of different branches of agriculture as a result of various environmental conditions in different regions. Thus, in the coastal region the cultivation of olives, citruses and other subtropical fruits predominates, in the central part fruit and vegetables are grown, and the meat, milk and eggs production are also significant. Karst areas are represented by livestock, mainly goats, while in the northern part potato production, horticulture and extensive cattle and sheep breeding are dominant.

According to the 2010 agricultural census, agricultural land in Montenegro accounts for 22.3 % of the total area (309,241 ha; 0.5 ha per capita). In Montenegro, a total of 48,870 agricultural holdings are registered, of which 48,824 are family farms. Most of the utilised agricultural land is meadows and pastures (94.1 %). The UAA of family farms makes 68.8 % (212,724 ha) of the total available land, with an average area of 4.4 ha of utilised agricultural land per family farm. The average farm has 6.3 ha of available agricultural land, putting Montenegro ahead of neighbouring countries.

## Table 6.3. Montenegro: characteristics of the agricultural sector, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| UAA (000 ha) | 222[a] | 230 |
| Arable land as % of UAA | 2.5[a] | 3.1 |
| Crops as % of total agricultural production | : | : |
| Average wheat yield (t/ha) | 2.4[a] | 2.9 |
| Average milk yield (t/dairy cow) | 2.403 | 2.908 |
| Agro-food export-to-import rate (%) | 34.6 | 19.0 |

Source: Agricultural Statistics Database – Montenegro, 2015.
a 2007.
:,not available.

Several factors affect the structure and volume of agricultural production. Problems that make Montenegrin agriculture relatively uncompetitive include fragmented farms, low volumes of primary production, the underdeveloped processing sector, the lack of a skilled labour force, the unfavourable age structure of farmers, the low level of application of modern production technologies, the underdeveloped rural and general infrastructure, the relatively high cost of inputs (including feed, which is mainly imported), and lack of purchase and storage capacities.

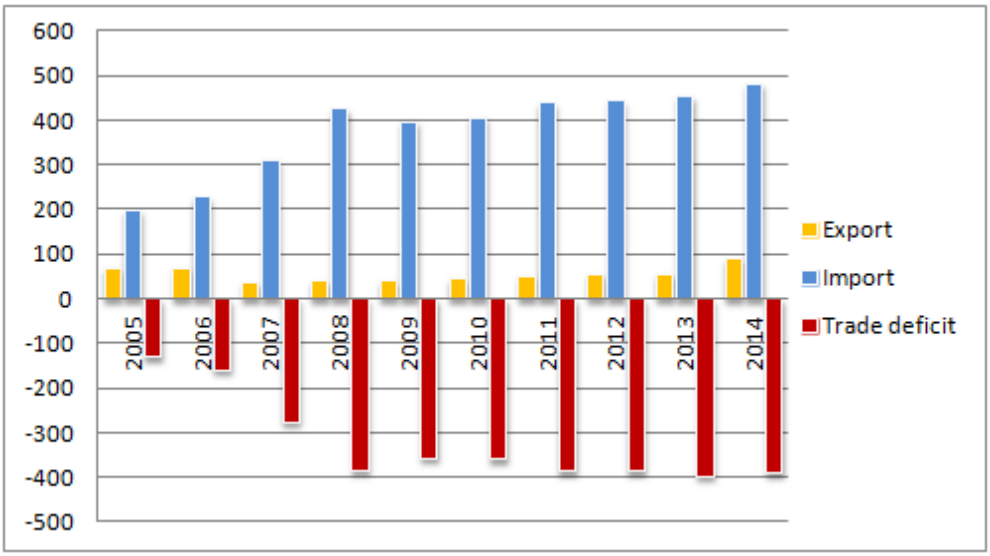
### *6.2.2 Agro-food trade and production changes*

Montenegro became the 154th member of the WTO in April 2012. Since becoming a WTO member, Montenegro has had a fairly liberalised export–import regime. Montenegro ratified the Central European Free Trade Agreement (CEFTA) in 2007, and free trade

agreements (FTAs) with European Free Trade Association (EFTA) countries in 2012, the Russian Federation in 2000, Ukraine in 2011 and Turkey in 2008, as well as the SAA with the EU under the interim agreement on trade and trade-related issues in 2008.

Montenegro is a net importer of agricultural and food products, facing a trade deficit. Although the deficit has declined over the last years, there is still a relatively low rate of coverage of imports by exports.

**Figure 6.1. Montenegro: agro-food trade (EUR million), 2005–2014**




Source: Agricultural Statistics Database – Montenegro, 2015.

In 2014, agricultural products accounted for 29.4 % of total exports and 27.1 % of total imports. The coverage of agro-food imports by exports amounted to 20.55 %, 6.8 percentage points higher than in 2013 (MARD 2015a).

Montenegro's main trading partners continued to be CEFTA countries and the EU. Serbia is still the most important partner in total trade, with 42 % (EUR 203.5 million) of imports and 17 % (EUR 16.9 million) of exports.

For years foreign trade has been dominated by certain groups of products. Almost 50 % of total imports in 2014 are from six product groups. Over the years, fresh, chilled and frozen meat has been the highest percentage of total imports. In 2014 it amounted to 21.4 % of the total. The highest amounts are of fresh pork. Dairy products accounted for 8.2 % of the total imports of agricultural products in 2014. Most of them were cheeses (36.4 %) and non-concentrated (ultra-heat-treated) milk (31.6 %). Cereals and products of the milling industry, such as flours, starches and other cereal preparations, make the third biggest group of imported products, with a total value of EUR 31.6 million in 2014, forming 6.5 % of total imports.

Similarly, some products dominate total exports. These are primarily wine, meat products and beer. The development of the wine industry and the meat industry has influenced the growth in exports of wine and meat products. In addition, beer and tobacco products have an important place in exports. Data relating to the structure of arable land in Montenegro point out the insufficient utilisation of existing resources and constraints such as soil structure and fragmentation that make it impossible to develop crop production faster. At the same time, in addition to these constraints, there is a problem related to inadequate agricultural practices and crop varieties, the seasonal nature of production, etc., which combine to directly affect productivity and continuity of supply.

**Table 6.4. Montenegro: main developments on agricultural markets between 2007 and 2014**

| | Traditionally, the country is | Since 2007, production has | Significant changes |
|---|---|---|---|
| Fruit and vegetables | Net importer | Increased | |
| Wine | Net exporter | Increased | |
| Potatoes | Net importer | Increased | |
| Tobacco | Net exporter | No significant trend | |
| Beef and veal | Net importer | No significant trend | The value of imported beef in 2014 was EUR 12.1 million. Beef is imported from the Netherlands, Austria and Serbia. The number of cattle decreased by 25 % between 2007 and 2012 and increased by 10 % in 2014 compared with 2012 |
| Pig meat | Net importer | Increased | In accordance with the free trade agreements that Montenegro has with the EU and Serbia, the tariff rate on imports of fresh pork is 0 %. Import substitution for pork makes economic sense if the price per kilo of fresh pork in Montenegro is below EUR 2.30 |
| Sheep and goat meat | Self-sufficient | No significant trend | The number of sheep decreased by 8 % between 2007 and 2014. The number of goats increased by 28 % in the same period |
| Poultry meat | Net importer | Increased | Fresh poultry meat mostly imported from Croatia, Bosnia and Herzegovina, Serbia, Germany and Brazil |
| Milk and milk products | Net importer | Increased | |

## 6.3 Agricultural policy development

### *6.3.1 Agricultural policy framework*

Initial changes in agricultural policy started at the beginning of this century, by freeing agro-food processing from price controls. After adopting its agriculture and rural development strategy (Strategy for Development of Food Production and Rural Areas) in July 2006, Montenegro started a process of gradual introduction of policy measures similar to those applied in the EU. A national programme for food production and rural areas was adopted for 2009–2013 to implement the strategy. Government measures for the development and implementation of agricultural policy are implemented through the annual agriculture budget. With the aim of developing agriculture and rural areas in the context of the overall priorities of Montenegro to pursue a policy of joining the EU, the Strategy for the Development of Agriculture and Rural Areas 2015–2020 was enacted in June 2015.

Direct support is granted for crop production, dairy and livestock production. These payments are not in accordance with the EU rules. During the accession process, reforms focusing on the decoupling of payments from production will be gradually introduced and will be based on rights per eligible hectare[18].

Montenegro's rural development policy was structured according to the EU policy in 2007–2013. Measures to strengthen the competitiveness of producers form the largest set of measures (11 out of 17). Support for investments in agricultural holdings was

[18] A detailed description of the current situation and the plan for harmonisation with EU legislation is given under the Action Plan for Chapter 11 issued by the Government of Montenegro.

intended to implement programmes for grants in accordance with IPARD requirements with the aim of modernising production, achieving standards in the field of environmental protection, animal health and welfare, increasing quality, hygiene and food safety, and linking the agriculture and tourism sectors. Measures for the sustainable management of natural resources relate to the conservation of genetic resources in agriculture, organic production and sustainable use of mountain pastures. There are also measures for the diversification of economic activities in rural areas and for the restoration and further development of villages and construction of infrastructure.

Support for general services to agriculture is earmarked for services of public interest such as education, research, development and analysis, improving livestock programmes, the programme of professional and advisory services in livestock production, and the programme of measures for the quality control of products. These amount to 5 % of the total agricultural budget for 2014.

In the Montenegrin rural areas, specific social policies prevented many farmers engaged in agriculture from exercising their right to a pension. Therefore, a special support to holders of agricultural households lacking other sources of income is provided through social transfers to the rural population. This type of support targets the most vulnerable rural households and thus contributes to decreasing poverty in rural areas.

### *6.3.2 Budgetary transfers to agriculture*

The proportion of the total budget of Montenegro devoted to agriculture has decreased from 3 % in 2001 to less than 2 % in 2005 and onwards. Close to 22 % of the budget is related to direct support measures (Table 6.5) for livestock and crop production. Since 2011 the measures, within the rural development component, have dedicated close to EUR 7 million to improving the competitiveness of primary agriculture and processing, as well as environmental protection and improving living conditions in rural areas.

Distribution of agricultural budget by specific pillars of agricultural policy and by purpose under the pillars is presented in the Figures 6.2-6.5, using the APM approach.

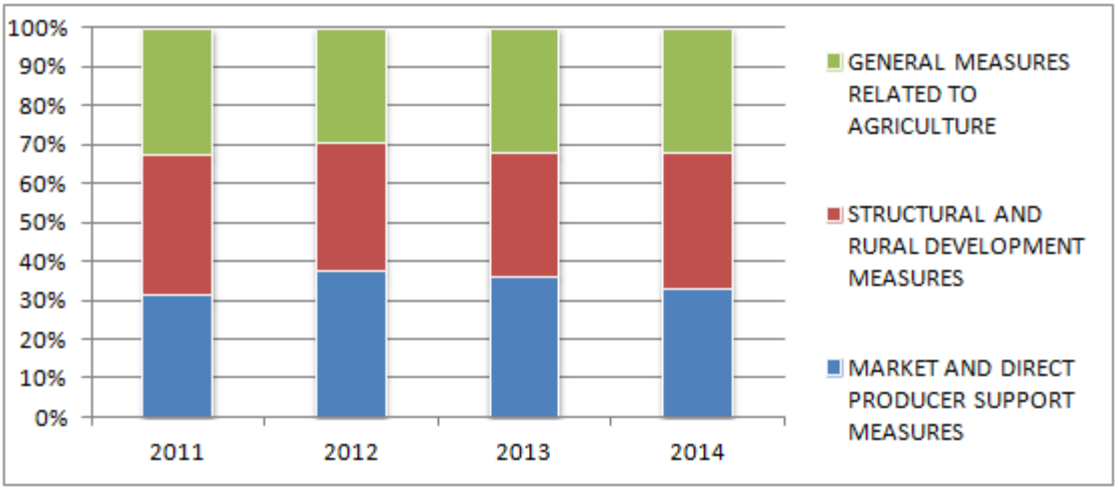
**Table 6.5. Montenegro: budgetary allocations for agriculture by measure groups (EUR 000), 2008–2015**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Market price policy measures** | **3,709** | **5,304** | **5,082** | **5,710** | **6,520** | **6,183** | **5,448** | **6,130** |
| Direct payment schemes | 2,734 | 4,309 | 4,312 | 4,688 | 5,553 | 5,333 | 4,951 | 5,630 |
| Beekeeping support | 40 | 235 | 230 | 182 | 182 | 200 | 147 | 148 |
| Market stabilisation measures | 935 | 760 | 540 | 840 | 785 | 650 | 350 | 350 |
| **Rural development policy measures** | **6,053** | **5,946** | **4,743** | **6,615** | **5,838** | **5,615** | **6,581** | **8,013** |
| Axis 1: strengthening the competitiveness of agriculture | 4,222 | 4,241 | 3,210 | 4,070 | 4,090 | 4,815 | 5,631 | 6,980 |
| Axis 2: support to sustainable natural resources management | 432 | 625 | 853 | 929 | 800 | 340 | 378 | 440 |
| Axis 3: improving the quality of life and diversification of economic activities in rural areas | 1,399 | 1,080 | 680 | 1,616 | 948 | 460 | 572 | 593 |
| **General services and social transfers in agriculture** | **4,684** | **6,002** | **7,722** | **6,951** | **6,708** | **6,760** | **6,728** | **7,143** |
| **Fishery** | **18** | **315** | **1,124** | **171** | **171** | **214** | **250** | **300** |
| **Veterinary and phyto-sanitary programme** | **221** | **2,150** | **1,720** | **1,670** | **1,337** | **1,540** | **1,422** | **1,390** |
| **TOTAL** | **14,685** | **19,717** | **20,391** | **21,117** | **20,574** | **20,312** | **20,429** | **22,976** |

Source: Ministry of Agriculture and Rural Development.

When analysing the budgetary support, the slight increase in the funding can be observed, more or less evenly distributed between market and direct producer support measures, general service support measures and rural development measures (Figure 6.2), with on average the highest percentage allocated to market and direct producer support.

**Figure 6.2. Montenegro: composition of budgetary support to agriculture, 2011–2014**

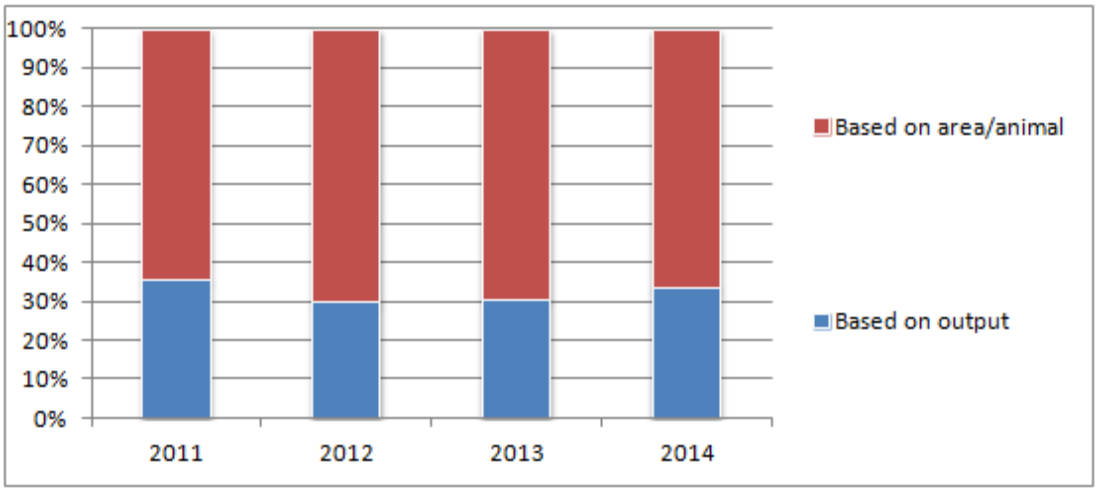



Source: APM Database – Montenegro, 2015.

Direct payments (Figure 6.3) relate mainly to the payments per animal, by area or based on the quantity of the product, which is not in line with the current CAP measures. The producers are not obliged to fulfil cross-compliance conditions and the IACS/LPIS systems are not applied to managing and auditing direct payments. Payments per animal are limited to households with more than four cows or heifers, more than 40 sheep or more than 30 goats. On the other hand, the average number of cows per farm in Montenegro is 3.5. This measure should be reconsidered and the threshold should be decreased to give an incentive to small farmers too.

Support based on the quantity of the product targets the milk production sector, namely the producers that distribute their milk to the registered dairies. The vast majority of farmers are unable to deliver the milk they produce to the dairies, for numerous reasons, and are not eligible for this support.

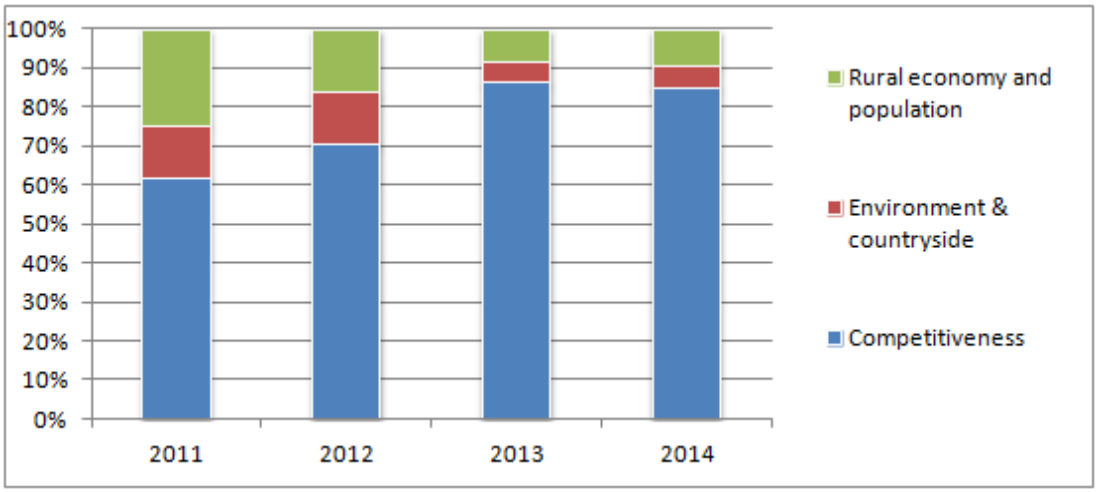
**Figure 6.3. Montenegro: composition of direct payments to producers, 2011–2014**




Source: APM Database – Montenegro, 2015.

Figure 6.4 shows the distribution of the structural and rural development funds. On-farm investments (competitiveness) predominate and are supported mainly through the Montenegro Institutional Development and Agriculture Strengthening (MIDAS) project.

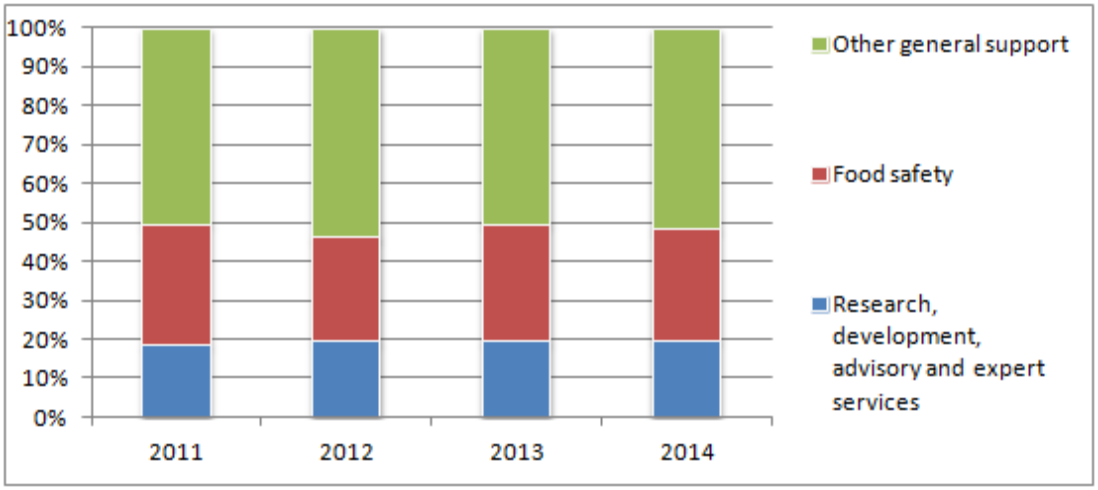
**Figure 6.4. Montenegro: composition of structural and rural development measures, 2011–2014**




Source: APM Database – Montenegro, 2015.

General service support measures (Figure 6.5) make up a decreasing proportion of the total budget but social transfers (15 % of the total budget), operational support to veterinary and phyto-sanitary services (8 %) and general services to agriculture (7 %) are still significant parts of the overall budget structure.

**Figure 6.5. Montenegro: composition of general service support measures, 2011–2014**




Source: APM Database – Montenegro, 2015.

## 6.4 Farm issues

The 2010 census of agriculture listed 48,870 agricultural holdings, of which 46 are business entities that perform agricultural activity. Altogether they have 221,298 ha of utilised agricultural land or 4.5 ha per holding on average. According to the census, the workforce in agriculture was 47,043 annual work units (AWU, corresponding to the work performed by one person working on an agricultural holding on a full-time basis for one year). Of the total of 48,824 family farms, 28,987 (59.4 %) have less than 1 AWU. 56 % of family farms with SO up to EUR 4,000 also have less than 1 AWU.

**Table 6.6. Montenegro: main farm structure indicators, 2010**

| | 2010 |
|---|---|
| UAA per holding (ha) | 4.5 |
| Holdings with UAA < 1 ha (% of total) | 55.2 |
| LSU per holding with LSU | 3.6 |
| Holdings with < 5 LSU (% of total) | 82.9 |
| SO per holding (EUR) | 2,575 |
| Holdings with SO < EUR 2,000 (% of total) | 64.6 |

Source: Agricultural Statistics Database – Montenegro, 2015.

Breeding livestock is a very important agricultural activity in Montenegro. The census of agriculture in 2010 covered 32,675 of agricultural holdings that bred livestock, and they make up 66.9 % of the total number of agricultural holdings in Montenegro. 75.4 % rear cattle and have 3.3 head of cattle on average.

## 6.5 EU integration process

In December 2013, the Government of Montenegro adopted a programme for Montenegro's accession to the EU, covering 2014–2018. The accession programme defines the dynamics of the adoption of the *acquis*, the dynamics of strengthening administrative capacities and institutional development. The new Strategy for the Development of Agriculture and Rural Areas 2015–2020 was enacted in June 2015. The strategy, along with the action plan for its implementation, is the prerequisite for the opening of Chapter 11 (agriculture and rural development) in the accession process.

The new strategy is the main basis for the harmonisation of national policies with the CAP in the context of the process of integration with the EU. Harmonisation with EU standards will continue in parallel with the alignment of the legal framework, institutional capacity building and skills of the private sector to comply with the requirements. The strategic objectives for the development of agriculture and rural areas for 2015–2020 are defined as follows (MARD 2015b):

- Develop an effective, innovative and sustainable agro-food sector that provides healthy, high-quality, specialised food products based on the added value of natural resources and traditional production methods, which is able to meet the demands and resist the pressure of competition on the EU market.
- Develop economic activity and create jobs in rural areas with special emphasis on the development of a high-quality tourism offer and a short supply chain in the production of high-quality products and services, while at the same time respecting the cultural heritage and sustainable use of natural resources.
- Promote rural development and social services to improve the quality of life in rural areas, to reduce migration of rural population to urban areas.

To achieve the set goals, policies will be implemented and national policies will be harmonised with the CAP in the context of the EU integration process.

In the framework of the CAP, the market for agricultural products is govern in such a way that there are clearly defined minimum quality standards, and rules for the import and export of products and market interventions, defined under the common market organisation of the EU. The official position is that, in this area, Montenegro cannot be fully harmonised with the EU *acquis* before accession. A law on market organisations is planned for 2016. In this context, the new law on wine will be adopted. It is also necessary to adopt the new law on alcoholic beverages and the law on establishing the agency for payment, both of which have been drafted. In accordance with the amendments to the *acquis* for organic farming and quality policy, the Ministry of Agriculture and Rural Development (MARD) will enact the changes to the national regulations governing this area.

Montenegro currently does not have the IACS as defined by the *acquis*. Controls are undertaken through a computerised system: animal register, databases related to plant production (crop, tobacco, vegetable and greenhouse), grape and wine producer register, olive register and register of agricultural insurance policy holders. However, these databases are not integrated. On-the-spot checks are carried out for livestock and crop-related payments. One of the objectives of the World Bank's MIDAS project is to set up linked information systems.

Currently there is no LPIS. A regulation allowing the establishment of a farm and land parcel identification system has been adopted, so the full introduction of direct payments (irrespective of production) will take place gradually until the date of accession.

Montenegro does not have a Farm Accountancy Data Network (FADN). The Law on Agriculture and Rural Development lays down the establishment of an accountancy data system on selected agricultural holdings based on the following criteria: type of production, size and regional distribution. The 2010 agricultural census provides a good basis for establishing the FADN system.

Investments should be directed towards improving capacities and hygiene standards, the treatment of waste from slaughterhouses and industry, and field of specialisation on the supply side.

The paying agency will be responsible for managing the funds of the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). Currently, the Directorate for IPARD payment is responsible for the implementation of rural development measures, especially for the allocation of the grants component, which is being financed by the MIDAS Project.

Considering the results achieved so far, it can be seen that significant improvement has been made in harmonising legislation. However, the administrative capacities for the successful implementation of the laws and regulations are still not sufficient and have to be significantly strengthened.

For the full implementation of EU standards, it is necessary to establish administrative structures in MARD, to strengthen the extension services and to train and inform agricultural producers about EU standards, application process and eligibility criteria relating to different support schemes.

## 6.6 Strengths and weaknesses of agriculture

As can be seen from the SWOT analysis (Table 6.7), future rural development policy measures are needed to improve the structure and economic situation in the agricultural sector by supporting the development of economically sustainable farm production.

Taking into account the structure of agriculture in Montenegro, many small farms face difficulties in terms of long-term economic sustainability. Therefore, measures should be created to allow pooling of these farms into associations or groups of producers in order to strengthen their position on the market and to influence the diversification of activities on farms.

As stated in previous sections, along with the fact that agriculture is a very important sector for the Montenegrin economy, it is obvious that Montenegrin agriculture needs further investments. These are related to the strengthening of administrative and other capacities in order to increase the quantity as well as the quality of agricultural production.

Finally, it is important to emphasise some of the key directions for future development of the integrated agro-food production sector in Montenegro. In addition to all of the abovementioned structural and legal changes, it is necessary to emphasise the innovative component, which includes fostering the research and development sector and improving the innovation potential in the country. Another important component, taking into account the relatively low competitiveness of Montenegrin agro-food products, is to

stimulate stronger cooperation between producer organisations, especially in standardising product quality, paying special attention to organic farming and geographical indications.

Finally, branding Montenegro as an environmentally friendly state could stimulate sustainable production and stronger links between agriculture and tourism by focusing on domestic (local) food. Thereby, the tourist offer will be enhanced by the safe supply of traditional food products of a standard and high quality.

## Table 6.7. Montenegro: SWOT analysis of agriculture sector

| Strengths (S) | Weaknesses (W) |
|---|---|
| - Trend of increasing development and tourism<br>- Suitable climate for diversified production<br>- Good quality of soil<br>- Low level of soil contamination<br>- Richness in diversity<br>- Tradition of agricultural production<br>- Suitable conditions for organic production<br>- Relatively cheap workforce<br>- Growing potential of domestic and regional markets<br>- Development of SMEs<br>- Expanding of market without trade barriers | - High import rate<br>- Small size of agricultural holdings<br>- Seasonal production<br>- Insufficient application of modern technologies and innovations<br>- Old machinery<br>- Lack of standardised product quality<br>- Unsuitable age structure of farmers<br>- Low level of cooperation between the producers' associations<br>- Undeveloped institutional capacities for project support<br>- Poor water and wastewater management<br>- Low level of expertise and knowledge<br>- Lack of knowledge of the EU standards<br>- Little connection between the farmers and the processing industry |
| **Opportunities (O)** | **Threats (T)** |
| - Growing demand on the domestic market<br>- New trends in tourist demand<br>- Growth in the market for organic products<br>- Availability of national and EU aid<br>- Positive international market trends<br>- Cultural and historical heritage<br>- Implementation of quality and safety standards | - High import dependence<br>- Grey market<br>- Poor competitiveness due to high input costs<br>- Continuous increase in production costs and trend of decreasing prices for agricultural products<br>- High costs for reconstruction and modernisation<br>- Lack of training in food safety and quality<br>- Lack of conformity to the EU standards<br>- Underdeveloped consumer preference for domestic products<br>- Complicated access to funds for farmers (credit) |

# 7. Serbia: agricultural policy brief

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## 7.1 Introduction

This report analyses the most important characteristics of Serbian agriculture from the perspective of the relative importance of the sector to the national economy, recent trends, the sector's output and foreign trade, main developments in key sub-sectors and the basic characteristics of farm structure. Special attention is paid to agricultural policy in terms of policy framework, the structure of budgetary support and progress towards EU integration.

The analysis covers 2005–2014, focusing on recent years. The analysis of the agricultural sector is based on national statistical data provided by the Statistical Office of the Republic of Serbia (SORS). Data on executed budgetary transfers are collected from the Ministry of Agriculture, Forestry and Environmental Protection.

The report is organised as follows: section 7.2 gives an overview of the macroeconomic environment. Section 7.3 deals with agriculture's contribution to the country's economy, and production characteristics and trends of key markets, including international trade. Section 7.4 starts with a description of Serbian agricultural policy concepts and frameworks, and then analyses the scope and structure of budgetary support by pillars and group of measures. The basic elements of farm structure are analysed in section 7.5, including policy issues related to farm restructuring. The report ends with a discussion and conclusions, together with the author's view of the key aspects of policy directions in the next period.

## 7.2 Economic development

During the reviewed period, 2005–2014, the Serbian economy has had cyclical developments. The positive economic trends started to falter in the second half of 2008 with the spill-over of negative effects of the global economic crisis.

After a modest recovery from the global recession and weak GDP growth in 2011, Serbia entered a second recession in 2012. There were some positive developments in 2013 (which pointed to recovery from economic downturn in 2012), but in 2014 the negative trends of the main macroeconomic indicators continued.

### Table 7.1. Serbia: economic context, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| GDP (EUR million) | 21,103 | 33,059 |
| Population (million) | 7.456 | 7.147 |
| Land area ($km^2$) | 88,361 | 88,499 |
| Population density (inhabitants/$km^2$) | : | : |
| GDP/capita, PPP (EUR) | 7,400 | 9,800[a] |
| Foreign trade as a share of GDP (%) | 57.1 | 80.6 |

Source: Agricultural Statistics Database – Serbia, 2015.
a 2013.
PPP, purchasing power parity.

Economic activity experienced a flood-related recession throughout most of 2014. The effects of floods were heavily concentrated in the main productive sectors (i.e. agriculture, industry, trade and mining), resulting in a notable real decline in GDP by 1.8 %. Besides the reduction in GDP, the decline is recorded in other macroeconomic indicators as well. These include growth in public debt, stagnation of the budget deficit and indicators of foreign trade.

After two years of stability, in 2014 the national currency rose against the euro (3.7 %). Inflation was maintained at a lower level (2.9 %) than in the previous year, as was the unemployment rate, which reached its lowest level since the beginning of the crisis (18.9 %).

## 7.3 Agricultural development

The contribution of agriculture to the Serbian economy in terms of the sector's share in GDP, employment and trade balance is considerable. The share of agriculture in the relevant macroeconomic indicators in 2014 mainly remained at the level of the previous year. In 2014 agriculture contributed to GVA by 9.7 %, which was 0.3 percentage points higher than in the previous year, but substantially lower than at the beginning of the observed period.

The importance of the sector for Serbian foreign trade is reflected in the fact that agriculture is the only sector in the Serbian economy with a positive trade balance. Foreign trade in agricultural and food products in 2014 accounted for 13.6 % of total foreign trade, which is 1.2 percentage points more than the previous year. This increase was primarily caused by a 10.5 % growth in exports.

### Table 7.2. Serbia: agriculture in the economy, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| % of GVA | 12.0 | 9.7 |
| % of employment | 23.3 | 21.9 |
| Agro-food exports (% of total exports) | 20.3 | 20.6 |
| Agro-food imports (% of total imports) | 7.4 | 7.8 |

Source: Agricultural Statistics Database – Serbia, 2015.

Employment in the agricultural sector declined until 2013, in terms of both the number of people employed (from 636,000 in 2005 to 492,000 in 2013) and the proportion of agriculture in total employment (from 23.3 % to 21.3 %). In 2014 there was a slight increase in the number of people employed in agriculture: it rose by 3.7 %, to 21.9 % of total employment.

### Table 7.3. Serbia: characteristics of the agricultural sector, 2005 and 2014

| | 2005 | 2014 |
|---|---|---|
| AA (000 ha) | 3,608 | 3,507 |
| % of arable land in AA | 73.5 | 74.3 |
| % of crops in total agricultural production | 62.3[a] | 66.9 |
| Average wheat yield (t/ha) | 4.0 | 3.9 |
| Average milk yield (t/dairy cow) | 2.6[a] | 3.4 |
| Factor income per AWU (EUR) | : | : |
| Agro-food export-to-import rate (%) | 117.6 | 189.0 |

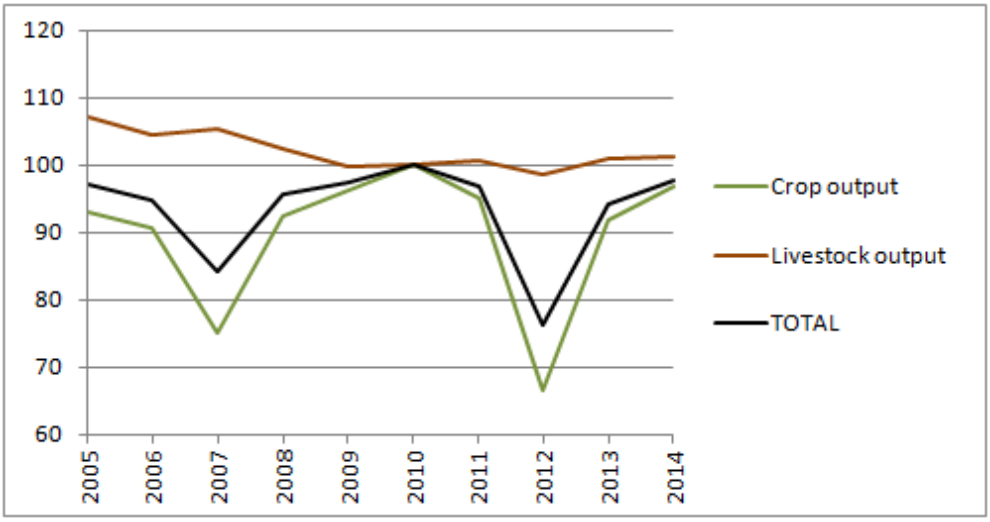
Source: Agricultural Statistics Database – Serbia, 2015.
a 2006.
:, not available; AA, agricultural area.

Serbia is endowed with substantial agricultural land resources, in terms of both its size and the quality of soils. The 2012 agricultural census recorded 3.861 million ha of agricultural land, of which 3.437 million ha (89 %) is UAA. Annual changes in the amount of UAA are in the range of ±1 %.

Agricultural output is dominated by crop production (66.9 %) and between 2005 and 2014 it was characterised by an oscillatory trend caused by large variations in crop yields. Despite the spring floods in 2014, the yields of major crops (maize, oilseeds and sugar beet) recorded record highs, resulting in crop production increasing by 5.6%, and GAO by 3.8 %. The highest production growth in 2014 was recorded in maize and soybean production, while a fall in production occurred in potato, fruit, vegetables and grapes.

Livestock production was maintained at the level of the previous years. After a slight growth in livestock production in 2013 (about 2 % more than 2012), during 2014 it kept the same level of production as in the previous year (+0.4 %).

**Figure 7.1. Serbia: agricultural production indices, 2005–2014 (2010 = 100)**




Source: Agricultural Statistics Database – Serbia, 2015.

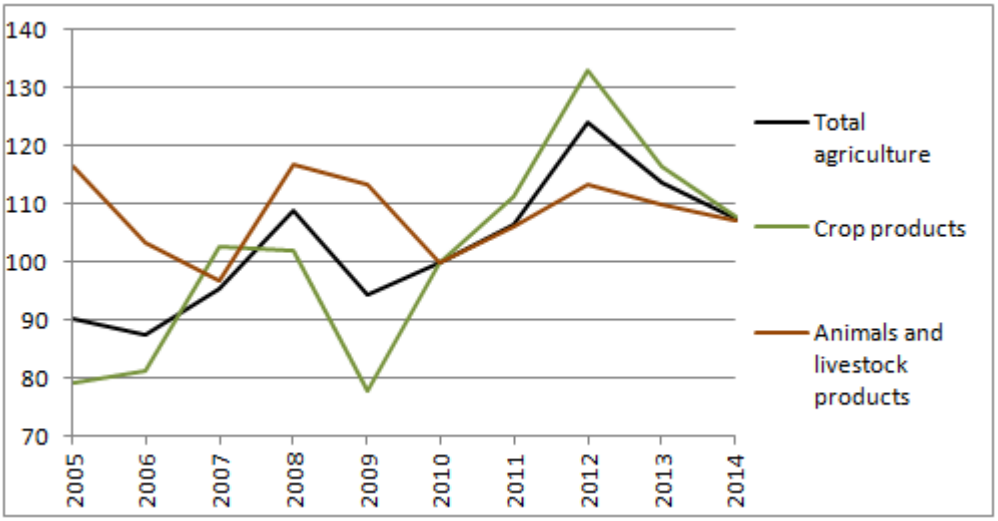
Real price indices of agricultural products during 2005–2014 indicate oscillation and decline in the last two years. In 2014 the prices of agricultural products dropped from the previous year, but their level, in real terms, remained above that of 2010. Compared with 2013, the prices of agricultural products were nominally lower by 2.7 %, and 5.6 % in real terms.

Prices of plant products fell in both real (4.8 %) and nominal terms (7.7 %), while the prices of livestock products remained more stable (0.4 % up in nominal terms, 2.5 % down in real terms).

In plant production, the largest real price increases were recorded for vegetables (25–30 % compared with 2013) and some fruits (apples 5 %, pears and plums 35 %, table grapes 51 %), which are mostly attributable to the impact of floods on the reduction of supply. On the other hand, prices of oil seeds (except sunflower), cereals and sugar beet were lower than in the previous year (2–25 %).

Prices of livestock products remained stable compared with the previous year. A slight increase of 7 % was recorded in veal and lamb meat prices, while the price of raw goats' milk fell significantly, by 14 %.

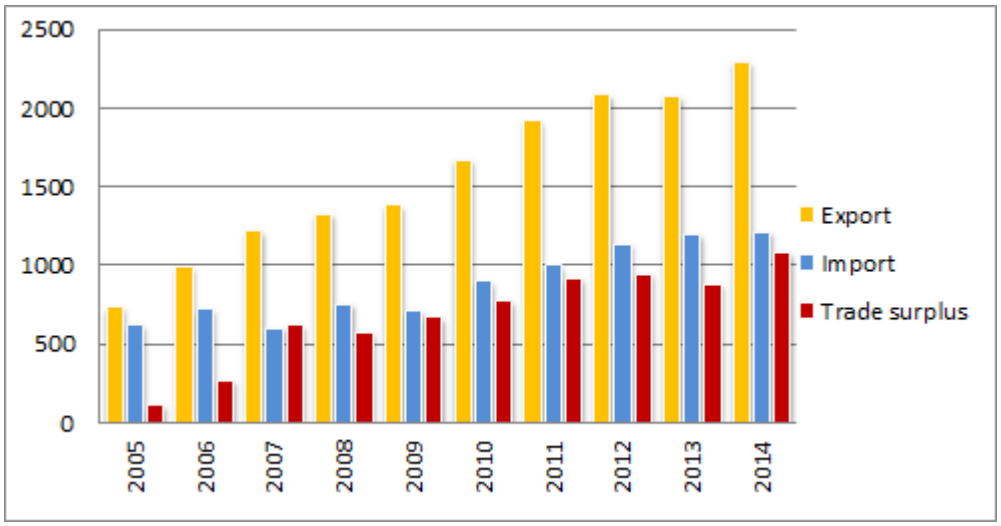
**Figure 7.2. Serbia: real agriculture output price indices, 2005–2014 (2010 = 100)**




Source: Agricultural Statistics Database – Serbia, 2015.

Foreign trade in agricultural and food products in 2014 amounted to EUR 3.509 billion and was 7.2 % higher than in 2013. In 2014, exports of agriculture and food products continued to grow, resulting in maximum trade surpluses of EUR 1.081 billion in 2014 (22.6 % higher than in 2013). The import coverage ratio of agro-food products in 2014 amounted to 1.89.

**Figure 7.3. Serbia: agro-food trade (EUR million), 2005–2014**




Source: Agricultural Statistics Database – Serbia, 2015.

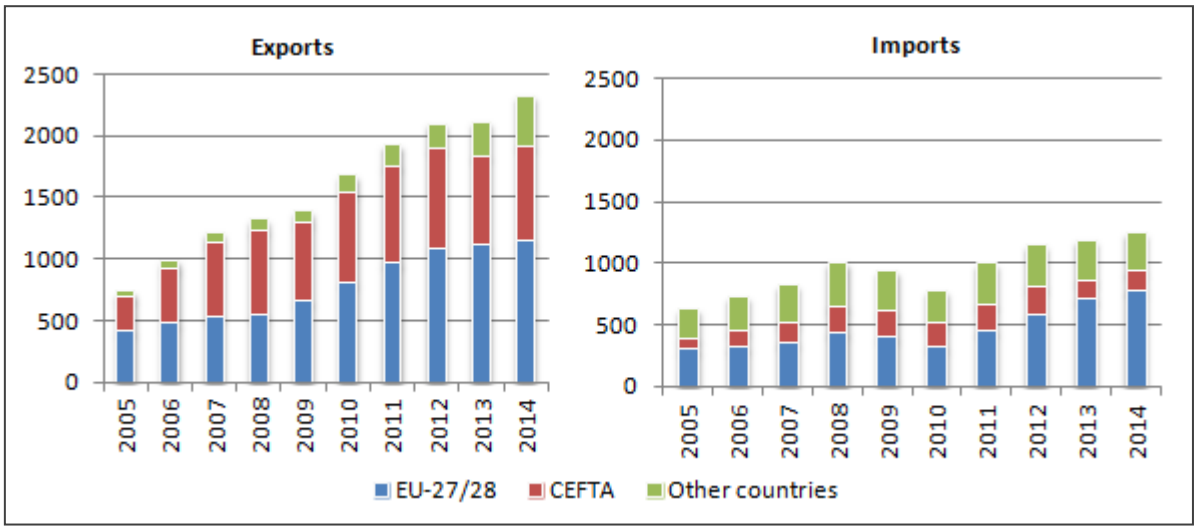
The main export destinations of agriculture and food products are EU countries (49.1 % of total exports in 2014), followed by the CEFTA countries (33.3 % of exports) and other countries (17.6 % of total exports).

The composition of imports according to origin in 2014 was as follows: EU countries 63 %, other markets 25 % and CEFTA countries 12 %. As regards top trading partners, the largest amounts of exports were to Bosnia and Herzegovina (16.5 %), Romania (12.2 %) and the Russian Federation (10.2 %).

Because of international trade sanctions that the European Union and the United States implemented against the Russian Federation in early 2014, the Russian market is

becoming increasingly important for Serbian exports. The import side is dominated by Croatia (8.9 %), Germany (6.6 %) and Italy (6.6 %).

**Figure 7.4. Serbia: agro-food exports and imports by main markets (EUR million), 2005–2014**




Source: Agricultural Statistics Database – Serbia, 2015.

The main groups of agricultural products in exports in 2014 were cereals (19.8 %), vegetables (17.9 %), beverages (7.2 %), tobacco and tobacco products (5.7 %), animal and vegetable fat and oil (5.2 %), and the food products (5.0 %). The import side in 2014 was dominated by fruit (10.8 %), miscellaneous food products (7.9 %), tobacco and tobacco products (6.9 %), fodder (5.7 %) and chocolate and cocoa (5.9 %).

**Table 7.4. Serbia: main developments in agricultural markets between 2005 and 2014**

| | Traditionally, the country is | Since 2005, production has | Significant changes |
|---|---|---|---|
| **Cereals** | Net exporter | No significant trend | The average area under cereals in Serbia is 1.78 million ha, with production of 9 million t. Maize dominates the structure of cereals, making up on average 56 % of total area and 66 % of total grain production. Drops in production were recorded in 2007 and 2012, caused by adverse weather conditions, resulting in both smaller yields and poorer quality (particularly in 2012). The average yields in 2005–2014 were 6 t/ha, with a record high of 7.52 t/ha in 2014.<br>Serbia's exports of agro-food products are dominated by cereals, about 17 % on average. The value of exports had an upward trend until 2012, when it peaked (EUR 519 million). In 2013 it decreased because of the poor quality of maize. However, the exports of wheat diminished the effects of the decline in maize exports, since they increased threefold, making wheat the highest-ranking export in 2013. Record production of maize in 2014 led to renewed growth in exports of cereals, reaching EUR 459 million, i.e. 20 % of total agro-food exports |

| | Traditionally, the country is | Since 2005, production | Significant changes |
|---|---|---|---|
| **Sugar** | Net exporter | No significant trend | In 2010–2014, the area under sugar beet varied between 60,000 and 71,000 ha. Floods in the spring of 2014 had no impact on this production. In 2014, yields reached a peak of 54.7 t/ha, because of which, despite the slight decrease in harvested area, production reached a record level. The sugar beet market is unstable, with variations in the purchased quantities, prices and market intermediaries. Record production in 2014 brought many problems. The prices of sugar beet in 2014 decreased compared with 2013 (from EUR 40 to EUR 30/t), but prices contracted between sugar refineries, buyers and producers were still high in comparison with the price of sugar on the domestic and international markets. To minimise losses, sugar refineries and buyers avoided contractual obligations, which led to instability of the market during harvest season. Besides, processing was delayed by bad weather conditions, which caused poorer quality and contributed to increased losses in production. Serbia is a net exporter of sugar (about 200,000 t per year). The average value of export is EUR 130 million, with a slight upward tendency in 2010–2013. A significant decline in the value of exports was in 2014, as a result of falling international sugar prices combined with record stocks |
| **Oilseeds, oils and fats** | Net exporter | Increased | The area under oil crops in Serbia ranges between 320,000 and 360,000 ha, with average production of over 900,000 t. Oilseed production has a pronounced positive trend, reaching a maximum of 1.1 million t in 2014. The most important crop is sunflower, occupying 45 % of the total oilseed area. Sunflower production in 2013 and 2014 reached a record amount of about 510,000 t. This growth is a result of a rise in yields, which in 2014 reached a peak of 3.2 t/ha. The area under soybeans is about 5,000 ha, and since 2009 has been declining. In spite of the decrease in harvested area, record yields in 2014 (3.5 t/ha) led to the highest production. Rapeseed production in 2010–2014 varied from 20,000 t to 44,000 t, with no prominent trend. The fall in oilseed prices in 2013 extended into 2014, in line with developments in the global market. A slight rise of 4 % was recorded only for sunflower prices. Foreign trade in the sector of oilseeds, oils and fats is extremely unstable, with pronounced growth trends in both exports and imports. A positive trade balance was achieved in 2011, 2013 and 2014. In 2014, external trade was marked by record exports of sunflower meal and record imports of soybean meal. Foreign trade in the sector is highly influenced by domestic purchase prices and prices on the relevant international markets, mostly Hungarian |
| **Fruit and vegetables** | Net exporter | No significant trend | Orchards in Serbia occupy 167,000 ha (4.7 % of agricultural land) with an average production of 1.2 million t of fruit. The largest amounts are of plums, raspberries and apples. In 2010–2014 fruit production varied greatly, from 930,000 t to 1,541,000 t. Visible production trends exist only for some fruits: production of peaches, cherries and blackberries is growing, while production of raspberries has consistently fallen since the record high of 2011 (32 % less in 2014). Starting from 2012, prices of most fruits are decreasing.<br>The area under vegetables is constantly declining (from 80,000 ha in 2005 to 66,000 ha in 2014). The average vegetable production is about 1 million t, with declines in years affected by extreme weather conditions (2007, 2012 and 2014). The prices of most vegetables increased in 2014, which is attributable to the impact of spring floods. Exports of fruits and vegetables in 2014 reached a record value of EUR 290 million, which is 85 % higher than average for 2005–2014. Considering the downward trend in the production of vegetables and steady production of fruit, export growth is assumed to be a result of a decline in domestic consumption due to a fall in standard of living |
| **Wine** | Net exporter | Decreased | Area of vineyards and grape production have both been falling since 2010, and reached a minimum of 21,000 ha and 122,000 t in 2014. External trade has a negative balance, in terms of both value and quantity of wine. The wine trade deficit is EUR 12 million. The import of bulk wine from FYR of Macedonia is increasing, since some large wineries from Serbia invested in or bought certain large wineries with vineyards in FYR of Macedonia. These vineyards and winery are used primarily as a raw material base, since the wines imported are processed and bottled in Serbia |

| | Traditionally, the country is | Since 2005, production | Significant changes |
|---|---|---|---|
| **Potatoes** | Net importer | Decreased | Potato area, yields and production are decreasing. Production reached its minimum, 578,000 t, in the drought of 2012 and, after recovering in 2013, dropped by 23 % in 2014.<br>Starting from 2007, Serbia has had a constantly growing trade deficit |
| **Tobacco** | Net importer | No significant trend | Tobacco is grown on 5,000 ha. The production reached a maximum of 10,500 t in 2014. Thereafter, there was a decline in the area under tobacco, with oscillations in production.<br>The trade balance was positive for the first time in 2014 (EUR 45.3 million) |
| **Beef and veal** | Net exporter | Decreased | The number of cattle sharply declined during 2005–2014 (17 %), reaching a minimum at 913,000 head in 2013. In 2014 the number of cattle increased slightly, by 1 %. The percentage of cows in the total herd was also reduced from 56 % in 2006 to 50 % in 2014. Beef and veal production is also falling in line with the decline in cattle numbers. In 2005–2014, meat production ranged from 70,000 t to 100,000 t, with the highest level in 2009 and the lowest in 2013.<br>The external trade balance is positive, but with a pronounced downward trend since 2007. The maximum exports, EUR 27.3 million, were achieved in 2007, whereas in 2014 they were just EUR 6.6 million. Imports of beef first exceeded EUR 0.5 million in 2013, and in 2014 reached EUR 2.3 million |
| **Pig meat** | Net importer | Decreased | The total number of pigs has tended to decrease in recent years. In 2014, the total number of pigs was 3.2 million, representing a decline of 3 % from the 2009–2013 average. The number of sows has consistently decreased, reaching the minimum of 346,000 in 2014 (11 % of total pigs).<br>After the record high prices in 2013, in 2014 prices fell, mostly because of the large increase of imports. The production of pig meat oscillates, with an obvious negative trend. In 2014, pig meat production was 258,000 t, slightly more than in the previous two years. Serbian exports of pig meat are low, because of the restrictions on exports in the EU market. The value of exports has varied from EUR 0.05 million in 2005 to EUR 5.9 million in 2012. In 2014 exports rose sharply to 44,000 t. Imports have a continuous upward tendency, peaking at EUR 36 million in 2014. In 2010–2014 the value of imports jumped fourfold |
| **Sheep and goat meat** | Self-sufficient | Increased | Following a slight decrease in the number of animals in 2009–2011, sheep farming has recovered in recent years and is continuing growth that was seen at the beginning of the study period. In 2014 the number of sheep was 1.7 million, which is 8 % higher than in the previous year. In contrast, the number of goats is constantly decreasing, reaching a minimum at 219,000 head in 2014. The annual production of sheep meat is growing in line with the growth of the herd size. The production of sheep meat increased from 20,000 t in 2006 to 30,000 t in 2013. The trade balance is mostly positive, with an upward trend since 2012. The external trade in sheep meat is unstable. The maximum value of exports was EUR 0.5 million, recorded in 2008 and 2014. The trade surplus of EUR 0.2 million in 2014 was among the highest recorded in the whole period |
| **Poultry meat** | Self-sufficient | Increased | The number of poultry reached a peak of 22,800 in 2009. Then it decreased to 17,200 in 2014, close to the level at the beginning of the period observed. Annual production of poultry meat is about 94,000 t and has an upward trend. Besides sheep meat, poultry meat is the only livestock product with continuous growth during the observed period. The export of poultry meat is constantly growing. The maximum export value, EUR 9.2 million, was reached in 2014. The value of imports was lower than EUR 0.5 million until 2011. In 2011–2013 the value of imports exceeded the value of exports for the first time, causing a negative trade balance. The trade balance in 2014 was slightly positive (EUR 0.3 million) |
| **Milk and milk products** | Net exporter | Decreased | The number of dairy cows fell by 28 % between 2006 and 2014. The minimum herd size was in 2013 (429,000), and remained about the same in 2014 (437,000). The decline in milk production is also continuous. In 2006–2013, production fell by 10 %, but it slightly increased in 2014 (to 1.5 million t or by 2.9 %). The record exports value, EUR 62.6 million, was in 2014 (from EUR 7.5 million in 2005). The imports varied from EUR 6.9 million in 2006 to EUR 41.8 million in 2012. The trade balance has been positive since 2006, with a maximum value of EUR 26.7 million in 2014 |

## 7.4 Agricultural policy development

### *7.4.1 Agricultural policy concept and framework*

Over the last few decades, agricultural policy in Serbia has been subject to heterogeneous and complex pressures: political and economic instability, the need to lessen the negative side effects of weather conditions, and from the second half of the 2000s global market disturbances. In such a setting, the priorities and mechanisms of agricultural policy were selected in a predominantly pragmatic manner, rather than in compliance with strategic documents. Generally, agricultural policy has been driven largely by the need to accelerate productivity growth, while the wider public interests and securing public goods remained of secondary importance (Bogdanov 2014).

In recent years there has been some progress in preparing and adopting legal and strategic documents that define the direction of Serbian agricultural policy for the period ahead. Current agricultural policy is based on several documents governing the implementation of agricultural and rural development support:

The Law on Agricultural and Rural Development Subsidies (LARDS) (Official Gazette, no 10/2013) defines the types of agricultural and rural development subsidies (direct payments, rural development measures and special grants), eligibility requirements and minimum amounts per subsidy.

The Agricultural and Rural Development Strategy for 2014–2024 (ARDS) (Official Gazette, no 85/2014) defines the direction of Serbian agricultural and rural development over the next 10-year period, considering the EU integration process. The following development goals are defined:

i) increasing production stability and producers' income;
ii) increasing competitiveness and adjustments to the requirements of the domestic and international markets;
iii) ensuring the sustainable management of natural resources and environment;
iv) improving quality of life in rural areas and poverty alleviation; and
v) enhancing public policy management and improving institutional framework for agricultural and rural development.

In January 2015, the European Commission adopted the IPARD for Serbia, which paves the way for the EU to support Serbia's rural development over the next six years. Of the various support measures offered to pre-accession countries by the EU under the IPARD, the programme is built around six measures: (i) investments in physical assets of agricultural holdings – grants for farmers producing milk, meat, fruit and vegetables (43 % of the IPARD 2014–2020 allocation); (ii) investments in physical assets for processing and marketing of agricultural and fishery products for micro, small and medium-sized enterprises processing milk, meat, fruit and vegetables (36 %); (iii) agro-environmental measures – for organic farmers and growers (5 %); (iv) implementation of local development strategies (3 %); (v) development of private rural tourism facilities (10 %); and (vi) technical assistance (3 %).

Although the policy objectives and key priorities of ARDS and IPARD are in line with CAP framework and reflect the national priorities, their realisation remains problematic. The main factors contributing to this are different dynamics in legal and policy framework adjustments and lack of horizontal coordination between various agricultural policy mechanisms[19].

[19] For example, according to LARDS, the National Programme for Agriculture and Rural Development has to define the course of mid-term policy developments, but this document is still in preparation; and ARDS sets out basic safety-net intervention mechanisms, but LARDS does not.

### *7.4.2 Budgetary support to agriculture*

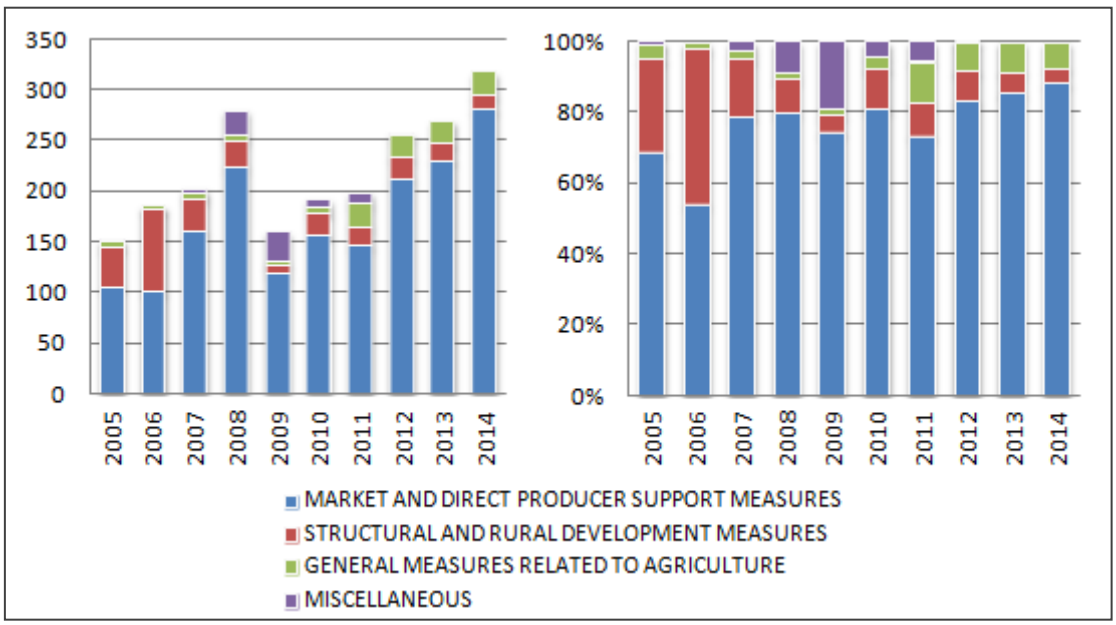
During the reviewed period, 2005–2014, budgetary support to Serbian agriculture varied in both amount and structure. Between 2005 and 2008, the agricultural budget increased from EUR 150 million to EUR 279 million. This was followed by a sharp decline in 2009, but from 2012 the budget began to grow and reached a peak of EUR 316.4 million in 2014.

The data for 2005–2010 include funding from the Ministry of Agriculture, Forestry, Hunting and Fishing, Funds for Agricultural Development and the Directorate for Agrarian Payments. Since 2011, the data on the realised agricultural budget include funds dedicated to subsidies (budget heading 451, Subsidies to Public Non-Financial Enterprises and Organisations) implemented by all directorates of the Ministry of Agriculture (including the Veterinary Directorate, the Plant Protection Directorate, the Forestry Directorate, the Budgetary Fund for Forestry, the Budgetary Fund for Hunting and the Directorate of Agricultural Land), in order to gain full insight into public money spent on agriculture sector. Therefore, the figures are fully comparable for 2011–2014.

Still, the high volatility of budgetary transfers is mainly the consequence of instability of the overall budget, caused by the frequent changes in governance structures that led to lack of policy stability and predictability. Besides the frequent changes in the level of support, there were frequent changes in funding schemes and programmes as well. Generally, in the years when production was hit by adverse weather conditions and/or frequent market oscillations, the majority of funding was redistributed towards input subsidies or direct payments per hectare. This approach was applied because the measures to support market stability are not envisaged by laws on incentives in agriculture and rural development.

In accordance with the Law on Serbia's Budget for 2014 (Official Gazette, no 142/2014) the total funds dedicated to the Ministry of Agriculture and Environmental Protection were EUR 335 million (3.5 % of total budget of RS). This amount is a drop of 15 % compared with 2013. The funds committed to the Ministry of Agriculture and Environmental Protection represented 12 % of GVA of the agriculture, forestry, hunting and fishery sector, which is realistic for a middle-income country and suggests that there is no room for significant growth in funding.

**Figure 7.5. Serbia: development of budgetary support to agriculture (EUR million), 2005–2014**

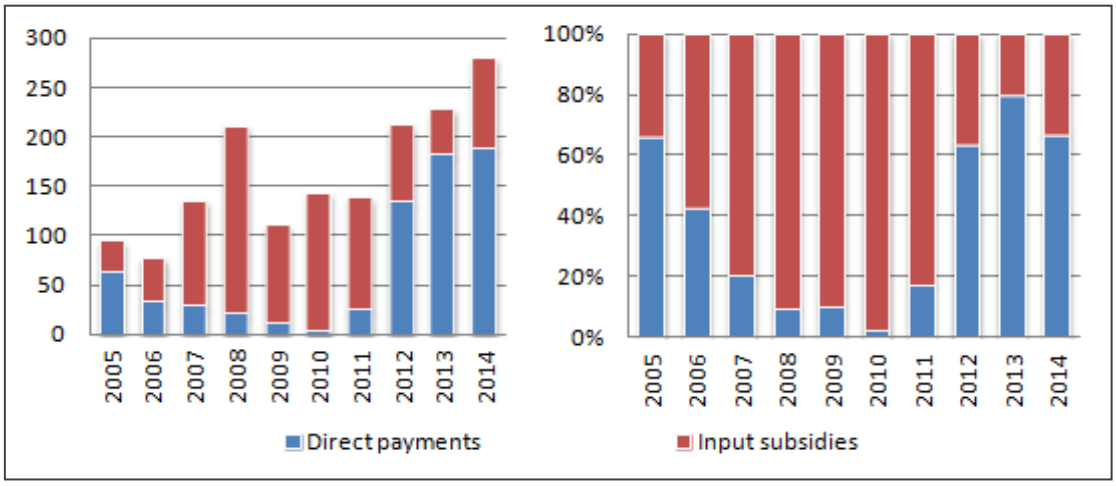



Source: APM Database – Serbia, 2015.

Despite the reduction in the ministry's total budget, funds to support producers have increased by 18 %, reaching a maximum of EUR 316.4 million. This growth is caused by an increase of 21.8 % in the funds for market and direct producer support measures. Within this group of measures, variable input subsidies have risen by more than 100 %. To help Serbian farmers meet critical needs, repair plantations, crops, facilities and infrastructure, and respond better to natural disasters, direct payments in form of variable input subsidies for purchasing seeds, seedlings and mineral fertilisers have been introduced.

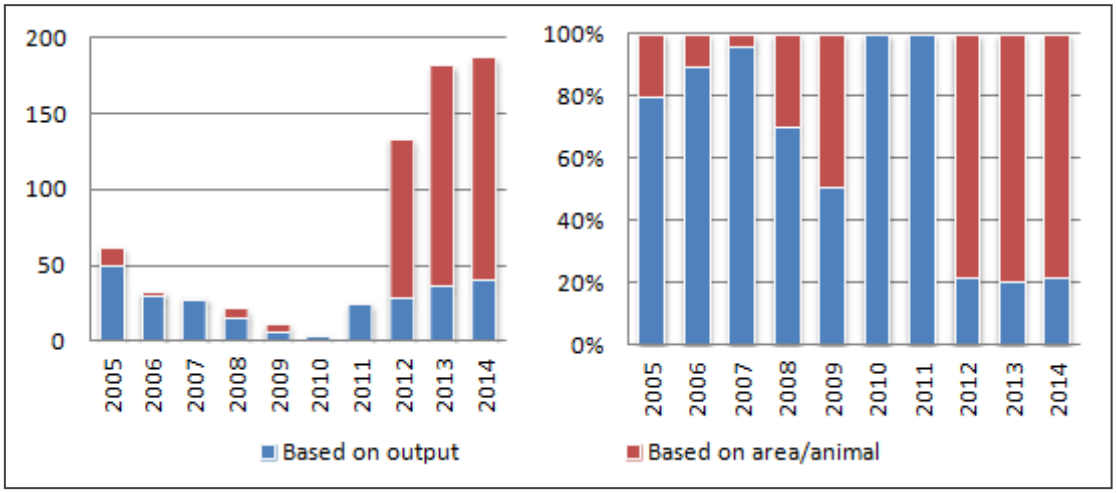
The dominant share of budgetary support is directed to market and direct producer support measures. Direct producer support measures have varied significantly from year to year. In most cases this has been because of market failures resulting from adverse weather conditions and price fluctuations, but also because of a lack of appropriate strategic guidelines and clearly defined policy framework and priorities. The funds for this policy pillar accounted on average for about 77 % of the total budget in 2005–2014 and increased to over 86 % on average for 2012–2014.

**Figure 7.6. Serbia: development of budgetary support for direct producers support measures (EUR million), 2005–2014**




Source: APM Database – Serbia, 2015.

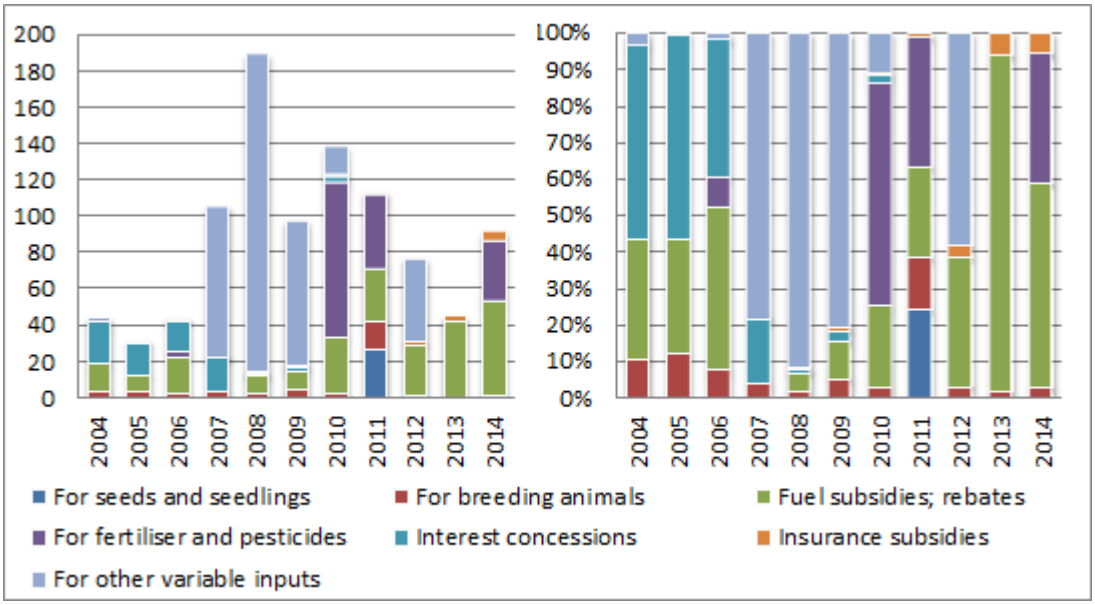
**Figure 7.7. Serbia: development of budgetary support for direct payments to producers (EUR million), 2005–2014**




Source: APM Database – Serbia, 2015.

The amount and structure of direct support is extremely heterogeneous, particularly when it comes to variable input subsidies. Such frequent and radical changes suggest that this instrument was widely used to solve urgent needs and cope with the challenges posed by the policy framework and system shortcomings.

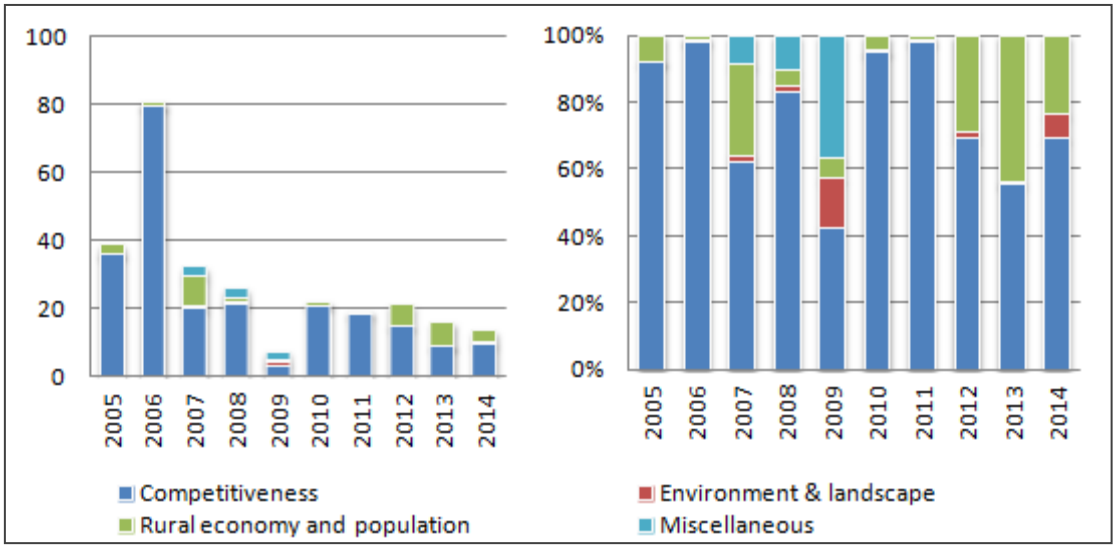
**Figure 7.8. Serbia: development of budgetary support for variable input subsidies (EUR million), 2005–2014**




Source: APM Database – Serbia, 2015.

Support to rural development was considerably higher at the beginning of the period, and the measures and programmes through which it was implemented were much more diversified. However, the importance of rural development measures was gradually marginalised, reaching less than 1.4 % of the total budget in 2014. The budgetary support to rural development in Serbia is mostly aimed at on-farm investment support, implemented through grants for renovation of facilities, farm mechanisation and equipment purchase, replanting and expanding of orchards and vineyards, and subsidised interest rates.

**Figure 7.9. Serbia: development of budgetary support for rural development (EUR million), 2005–2014**




Source: APM Database – Serbia, 2015.

## Table 7.5. Serbia: main agricultural policy instruments and measures; 2005 and 2014

| | Implemented | Since 2005, support has | Significant changes |
|---|---|---|---|
| **Market support measures** | Yes, occasionally | Decreased | During 2005–2011 various market support measures were implemented in Serbia (export refunds, intervention purchase, financing of operating costs of public reserves and co-financing of storage). The export incentives were the only measure permanently applied until 2011, whereas private storage and emergency purchases were financed occasionally (in the years when adverse weather conditions caused market disturbances). After 2011, market support measures were withdrawn and replaced by direct payments |
| **Variable input subsidies** | Yes, regularly | Increased | Input subsidies encompassed various measures, whose share varied over time. Since 2007, input subsidies have become a dominant scheme of budgetary support to agriculture, ranging from 18 % (2013) to 72 % (2010) of the total agricultural budget. The general tendency in the last few years has been the concentration of support on diesel fuel and mineral fertilisers. This trend continued in 2014: these subsidies increased to EUR 84 million from EUR 42 million in 2013. Besides the subsidies for fuel and mineral fertilisers, subsidies for breeding animals (EUR 2.5 million in 2014) and for insurance (EUR 5.4 million in 2014) were permanently applied as well.<br>There were frequent changes in how agricultural policy measures were implemented until 2013. By the adoption of the LARDS in early 2013, the eligibility criteria were defined for a long period. According to the law, any legal person, entrepreneur or natural person who is the holder of a family holding is entitled to variable input subsidies |
| **Direct payments based on output** | Yes, regularly | Decreased | The direct payments based on output (price support) are regularly implemented, with considerable fluctuations in funds spent on this type of measures. The main measure is the milk premium, which has been continually implemented over the last few decades. In 2014 the amount spent on the milk premium was EUR 40.6 million (10 % increase from 2013). Since 2012 other measures from this group have been abolished. Instead of higher premiums for milk produced in hilly and mountainous regions, since 2009 a flat rate per litre has been paid. In 2013 and 2014 the milk premiums were calculated and paid quarterly for raw cows', sheep's and goats' milk, per litre of milk delivered in the previous quarter (RSD 7 per litre). To be eligible for the milk premium, the beneficiary has to deliver a minimum of 3,000 litres of cows' milk per quarter. In regions with difficult farming condition this requirement is lowered to 1,500 litres |
| **Direct payments based on area/animal** | Yes, regularly | Increased | During the study period the funds for direct payments per area/animal were gradually decreased, until they disappeared from budgetary support in 2010–2011.<br>In 2012 direct payments on area/animal were reintroduced, accounting for 44 % of total budgetary support in the form of flat rate payments per hectare of arable land and subsidies for good-quality breeding stock. In 2014, 49 % of the agricultural budget was spent on direct payments per area/animal.<br>In addition to the support per hectare of agricultural land, the direct payments since 2013 also include support for various breeding stocks, on suckler cows, steer/heifer, lamb and pig fattening, beehives and fish farming |
| **Decoupled direct payments** | Not implemented | | |

| | Implemented | Since 2005, support has | Significant changes |
|---|---|---|---|
| **On-farm investment support** | Yes, regularly | Decreased | Funds intended to support rural development generally, and thus for on-farm investment support, decreased. The average amount of funds in 2011–2014 was about 75 % lower than in 2005–2008. In 2014 the funds for on-farm investment support were EUR 9.5 million, i.e. 3.5 % of the total agricultural budget.<br>The support measures and eligibility criteria were often changed until 2013. Since 2013 the basic principle introduced by the LARDS is that farms in the remote hilly and mountainous areas and those owned by persons less than 50 years old should be given more favourable subsidies. The subsidies are 30 % of the investment value, and 45 % of the investment value in areas with difficult farming conditions |
| **Food industry support** | Yes, regularly | No significant trend | Support for processing and marketing of agricultural products includes grants for investments in improving the quality of wine and spirits. Besides investments in quality improvements, some other activities are also supported, such as activities of associations of wine/spirit producers in establishing a geographical indication of products, incentives for marketing and promotion activities, etc.<br>Such activities in other sectors (fruit and vegetable) were supported through donors' projects and by local governments |
| **Environment-related payments** | Yes, regularly | No significant trend | The agro-environment-related incentives in Serbia include payments for maintenance of genetic agricultural resources (per hectare/head) and farms engaged in organic farming.<br>Measures aimed at improving the environment and the countryside are rarely implemented. This group of measures has about 0.2 % of total budgetary support. In 2014 funding increased from the previous period: it reached EUR 1 million, i.e. 0.5 % of the agricultural budget |
| **Rural area support** | Not significant | No significant trend | Enhancing development of the rural economy by supporting diversification of farm income and improvements in infrastructure has a small share of the total budget. Significant amounts were spent on improvements of rural infrastructure only in 2007 (from the national investment plan budget).<br>Support for enhancing the development of the rural economy was implemented through incentives for traditional crafts, renovation of facilities and infrastructure for rural tourism, etc. Some of the activities relating to development of rural tourism and infrastructure have also been financed from other funds (budget of the Ministry of Economy, donors' projects and local governments) |
| **General support measures** | Yes, regularly | No significant trend | The majority of financial means is spent on phyto-sanitary controls and measures. There have been no significant fluctuations in the amount and structure of financial support, since both funds and activities are defined in the long-running programmes, which may be changed only in exceptional circumstances.<br>Financial support for general support measures varied between EUR 21 million in 2012 and EUR 22.7 million in 2011. The appropriations for expert services and extension were on average EUR 3.5 million and for food safety EUR 19.2 million |

The transfers for general services in agriculture in 2011–2014 amounted to EUR 22.5 million on average. Under the policy of general measures and services related to agriculture, the regular programmes of the ministry for extension services, expert services and food safety control have been implemented. As they are implemented on a multi-annual basis, the funds are more stable than for other groups of measures. In the last two years there was a tendency of slight growth, but its share in total budgetary transfers fell (from 11.5 % in 2011 to 7.5 % in 2014).

Other transfers to agriculture include funding of activities financed from the sub-accounts of different directorates (Forestry Directorate, Budgetary Fund for Forestry, Budgetary Fund for Hunting, Directorate of Agricultural Land). Some of the measures and programmes they implemented in the last few years could be classified as rural development support (land consolidation, farm expanding, forestry roads), but there are no consistent data on money spent for these purposes. However, it could be presumed that in 2014 an addition EUR 2 million to EUR 3 million from the Land Directorate budget could be attributed to rural development support.

## 7.5 Farm issues

### *7.5.1 Farm structure and trends*

The 2012 census of agriculture recorded 628,552 family farms and 3,000 agricultural enterprises (of which 386 are cooperatives). The agricultural sector is characterised by a sharply dual farm structure with significant regional variations in farm size and type of farming operations.

The average UAA per holding is 5.4 ha, with large differences at the regional level, ranging from 3.6 ha in Southern and Eastern Serbia Region to 10.9 ha in Vojvodina Region. 48 % of farms cultivate less than 2 ha, while farms smaller than 5 ha form 78 % of total farm holdings. Only 3.1 % of farm holdings have 20 ha or more and they represent 44 % of total UAA.

According to the census data, Serbia has 2.02 million LSU. 77.5 % of farm holdings had some livestock. The average numbers of LSU per holding (4.1) and per hectare of UAA (0.59) suggest the predominance of small herds. Almost a third of holdings have less than 1 LSU, indicating that livestock production is based on self-sufficiency needs.

The Serbian agricultural sector employs 1.4 million people. The total number of AWUs in 2012 was 646,283, i.e. 1.02 per holding. In regional terms, the population pressure (person–land ratio) is more favourable in Vojvodina (11.7 ha of UAA per AWU) than in southern Serbia (3.6 ha of UAA per AWU). The average age of the farm holder is 59 years, with 35 % of farmers over 65 years of age and 65 % over 55 years of age. Only 4.6 % of farm holders are under 35 years of age, and 10.5 % are 35–45 years old.

The average SO per holding is EUR 5,900. 45.9 % of holdings have SO less than EUR 2,000 per farm. Regional differences in SO and AWU per farm are very high, indicating that both indicators are more favourable in Vojvodina than in all other regions (including Belgrade).

**Table 7.6. Serbia: main farm structure indicators, 2012**

| | 2012 |
|---|---|
| UAA per holding (ha) | 5.4 |
| % of holdings with UAA < 1 ha | 28.2 |
| LSU per holding with LSU | 4.1 |
| % of holdings with LSU < 1 | 28.4 |
| SO per holding (EUR) | 5,918 |
| % of holdings with SO < 2,000 EUR | 45.9 |

Source: Agricultural Statistics Database – Serbia, 2015.

Generally, from a regional perspective, small and semi-subsistence farm holdings are concentrated in the southern part of the country, while by sector they are mostly involved in fruit and vegetables and in cereals, and less in fodder crops. About 80 % of those employed in agriculture (expressed in AWUs) are on subsistence units: holdings with SO of less than EUR 2,000. Conversely, in the northern region (Vojvodina), more

than 75 % of farm labourers work on farms that yield SO of more than EUR 250,000 (Bogdanov and Babović 2014).

Only 12 % of farm holdings are involved in on-farm income diversification. Characteristics of these farms are that 65 % are run by farm managers aged over 55 years, they are predominantly located in the southern part of the country (over 85 %), they have SO of less than EUR 4,000 and in terms of specialisation they have livestock or mixed production systems (crops and vegetables, mixed livestock, mainly for dairying). The figures above suggest that small or medium-sized family farms are pluriactive, looking for complementary incomes and coping mechanisms in agriculture (Bogdanov and Babović 2014).

### *7.5.2 Policy related to farm issues*

The farm-restructuring process in Serbia took place spontaneously and slowly. The government gave farmers and investors an inadequate and unclear message about the desired direction of its development .

Agricultural policy has not adequately responded to the need to speed up the structural changes. Measures of support for acceleration of structural changes were poorly chosen and only occasionally implemented (flat-rate incentives for "passive" farmers with the aim of activating the land lease market, subsidised interest rates for long-term credits, etc.). The fact that Serbian farms are quite diverse in physical and economic size, type of farming and income generation implies that more diverse and better-targeted support measures are needed, rather than "one size fits all" support.

The key challenges for agricultural policy related to farm restructuring include:

- The current emphasis on support per area and animal (over 90 % of transfers to producers) enable larger benefits to big farmers, while small and medium-sized farms remain handicapped in their efforts to reform, modernise and increase farm size. Besides, funds for on-farm investment support are extremely low and the conditions for their utilisation too complex for most small and medium-sized holdings.
- In addition to the conceptual flaws and lack of funding, significant obstacles to more dynamic structural changes are shortcomings in the operation of budgetary support. One of the biggest problems is the low coverage of farms and agricultural area by the farm register. The number of beneficiaries of budget support (indicated by active farmers registered in the farm register) is small (310,000–320,000, i.e. around 50 %), as is the area they cultivate (around 1.2 million ha).
- The profound regional variations in farm structure are not adequately treated by budgetary support; support is dominated by variable input subsidies for crops, resulting in unbalanced benefits among regions. This budget structure is more favourable for the beneficiaries in Vojvodina, because they have largely been covered by the farm registry and farms in this region are larger.
- Although there were higher compensatory allowances for the holdings in LFAs, the list of support measures has not been adjusted to the types of production prevalent in such areas and their specific needs.

Given the demographic profile of Serbia's rural population, and developments in the labour market, not only agricultural policy needs to contribute to farm restructuring. To improve competitiveness, the farm sector needs exit options for the considerable labour surplus on family farms. The slow dynamics of restructuring and developments in other parts of the Serbian economy since the 1990s do not favour the rural labour market. Therefore, horizontal coordination and a mix of various social and rural development programmes are needed to accelerate the process of transferring (scarce) farm assets to the next generation.

## 7.6 EU integration process

The European Council passed a decision to grant Serbia the status of candidate for EU membership on 1 March 2012, and on 28 June 2013 it decided to open accession negotiations with the Republic of Serbia. EU accession negotiations formally commenced on 21 January 2014. The screening process for Serbia in the field of agriculture began in September 2013 and was completed in late March 2015.

Harmonising the policy frame is set as a priority for policy makers, and in this regard progress was made. Serbia is already applying some CAP-like agricultural and rural development policy instruments, but support measures are not in line with the *acquis*. In general, alignment with the *acquis* remains at an early stage and is making slow progress.

Until recently, progress towards actual IPARD implementation was hampered by delays in setting up the required operational structures. 2015 has brought considerable progress on most pending issues: the Directorate for Agrarian Payments (Paying Agency) relocated in February 2015, activities on defining minimum national standards are under way and staff recruitment has gathered pace.

Based on experiences of previous accessions, creating the environment for good absorption of funds is the key factor for IPARD effectiveness. Currently, the major challenges for Serbia are (i) continued commitment to work on IPARD structures, (ii) recruitment and training and (iii) preparing the wider public, especially the beneficiaries and rural finance institutions, for the absorption of IPARD funds, which remains a crucial issue. However, 2016 remains the target year, yet at this stage it is too early to say if the timeline can be kept.

## 7.7 Conclusions and recommendations

### *7.7.1 Key policy challenges and objectives*

During the last 10 years Serbian agriculture has been characterised by stagnation (or slowing growth), significant increases in exports and a relatively high proportion of total household spending going on food. This paradox indicates structural imbalances and constraints within the value chain, as well as a lot of room for further improvement.

Analysis of GAO change by sectors shows that herd size and livestock production are falling (as is livestock GAO), while GAO of crops varies in size and composition. Both the output and the export growth of the sector in the last 10 years are based on several groups of commodities: cereals, industrial crops, and fruits and vegetables. This context indicates that Serbia's huge and diverse agricultural resources are poorly used.

Trade liberalisation, as a step towards EU accession, and new trade agreements with non-EU countries contributed to changing Serbia's international trade patterns. These changes exposed the agricultural sector to a high level of competition, raising the question of its ability to compete on the domestic and international markets. Recent data show that the agriculture sector has advantages over other industries in export competitiveness, as it is the only sector with a positive trade balance. Still, while the competitiveness of many agricultural commodities is high, that is not the case of the food industry: the structure of exports is dominated by primary agricultural products (about 79 %), as is that of imports (65 %). On the other hand, processed agricultural products amount to only about 20 % of exports (28 % of import).

The prevalence of small-scale farms is the key obstacle to more dynamic growth. Whereas Vojvodina has experienced more dynamic structural changes and has a favourable farm structure (higher proportion of larger farms), southern parts of Serbia are constrained by less favourable land, unfavourable farm structure and underutilised agricultural resources. Agricultural policy does not properly address such wide regional differences in farm size and type of farming operations.

The current policy framework has a strong emphasis on direct support per area and animal, and it funds rural development measures only modestly. This has hampered more dynamic restructuring of small and medium-sized farms. Over 90 % of the agricultural budget was allocated to direct payments and used mostly by larger farmers; this blocked structural reforms on the huge number of small and middle-sized farms.

Unbalanced support also meant that farmers in the northern part of the country (Vojvodina) received the bulk of funds, worsening (already deep) regional disparities. Up to now, farmers in marginal rural areas have not benefited enough from agricultural policy. Although there were higher compensatory allowances for holdings in LFAs, the list of rural development support measures has not been adjusted to the types of production prevalent in such areas and their specific needs.

The concept and framework of agricultural policy are strongly marked by the general political and economic developments. The amount, structure and implementation mechanisms of budgetary support are all unstable, reflecting the lack of strategic direction and of clear messages to users. Such an approach is neither effective nor able to address constraints on sector development properly.

Adjustments of domestic agricultural policy to the CAP so far have been unsystematic, partial and insufficiently coordinated. In such circumstances, without policy reforms working together, the budget was badly used regardless of its amount. Moreover, some reform changes were made hastily and provoked strong (direct and indirect) consequences on dynamics of structural reforms and investment climate (premature market liberalisation, allowing agricultural land to be sold to foreigners, etc.).

### *7.7.2 Policy recommendations*

To extend the basis for sector growth, by including more farms, more land and more sub-sectors with potential for growth.

More farms and more agricultural land have to be supported. The farm structure is dominated by small to medium-sized farms with mixed incomes. The majority of farms are too small and inefficient to be competitive, both for export and in the liberalised domestic market (dairy, pork and beef).

- A particular challenge for policy decision makers is to boost productivity growth on the huge number of small and medium-sized farms (5–20 ha). Many of these farms have mixed incomes and are doubly constrained by lack of employment opportunities outside agriculture and the slow process of farm consolidation. Agricultural policy should prioritise particularly those farms that have active labour forces and have shown an interest in modernising and increasing farm size.
- Giving farmers access to budgetary support for both owned and leased land is a key instrument for expanding farm size. Given that land leasing contributes to farm expansion and land consolidation, from the perspective of using it rationally it is unacceptable to exclude it from support. The eligibility requirements for beneficiaries have been changed several times (and still cause problems). Since 2015 the right to direct payments has been limited to 20 ha per farm, in an attempt to restrict the funding of big producers. On the other hand, the criteria for what class and category of land are supported have not been defined and harmonised with the land cadastre, indicating systemic obstacles to a more rational use of funds.
- The management of state-owned land and property rights to land that was in cooperative ownership are subject to debate and have still not been resolved. Public debates are taking place in an atmosphere of fear about the risk of an elite capturing large land plots. Equal access to land (elimination of restrictions on land markets) and protection of property rights have to be secured to speed up land consolidation and farm restructuring.

New commodities and subsectors have to be targeted by better-guided core support programmes.

- Animal breeding is one of the most promising sectors. Regardless of a decrease in purchasing power of consumers and the sharp decline of herd size in the last 10 years, animal breeding has a long tradition of high-quality production and the potential to become a growing and high-quality, competitive industry. The lack of opportunities to export fresh meat has prevented the development of the meat industry. The recovery of this industry (by control and eradication of classical swine fever) should contribute to more stable prices and production, and further increasing exports.
- The northern part of central Serbia has favourable conditions for mixed crop and livestock farming, organic farming and fruit production. Speeding up farm restructuring in this region is not a matter of only the relative size of direct payments and support for rural development. It requires the coordination of a broader range of activities and involvement of different actors (early retirement schemes, flat-rate support for small farms, agro-environmental schemes, strengthening value chains).
- Many agricultural products are highly competitive on the international market, but the processing industry for many commodities underperforms. The competitiveness of some sub-sectors has been built on the existence of a large and highly protected domestic market (meat, dairy products, some vegetables), while others rely on the success of a small number of big drivers (sugar, vegetable oils). With the liberalisation of the market, these industries will be exposed to strong competition. This indicates that structural reforms along the entire value chain are needed, rather than direct producer support.

Better selection and proper targeting of rural development measures are needed to address regional disparities and urgent structural reforms.

- Deep and growing regional disparities in natural resources, farm assets and type of farm operations, have to be taken into account to make sure of treating all policy beneficiaries equally and balancing their needs. To achieve this goal, policy decision makers have to be more sensitive to the fact that investing in agriculture is not only to meet its economic objectives, but is also about creating more favourable social structures and public goods. Therefore, it is essential to redistribute budgetary funds between area/animal direct payments and rural development and structural measures.
- There is a legitimate fear that farm investment support (which dominates the second pillar) and upgrading of food-processing facilities will be largely taken up by larger farms from more developed regions. Hence, it is important to create measures that would secure benefits for small farmers and those in marginal areas, to increase their integration into the market chain and reduce income risks. Measures that support farm income diversification and access to social and financial services, as well as the provision of safety nets, have to be considered in order to increase the resilience of smallholder farming.
- Higher labour productivity is the key to improving the competitiveness of the large number of (semi-)subsistence farms. This objective requires facilitating changes in farm structure by capitalisation and modernisation of farm resources, as well as by reducing hidden unemployment. Support schemes for young farmers have to be introduced and intergenerational transfer of assets encouraged. Considering demographic developments, a set of instruments (embracing different politics) has to be implemented to help young farmers overcome barriers to entering agriculture. Such measures will contribute to the activation of the land market and more dynamic structural reforms (besides positive social impacts).

A policy shift is needed to ensure a more effective use of the current policy framework, to which both producers and administrators can get used.

- Budget support for agriculture in the study period mostly fluctuated within a range of 4–5 % of total public expenditure, but fell to 3.5 % in the last few years. Comparisons with other countries show that the relative size of budgetary support (per hectare or per farm) in Serbia is much lower (Volk et al. 2014). On the other hand, at approximately 12 % of the sector's GVA, it seems that the amount of the agricultural budget is realistic for the current position of Serbia's economy. However, the debatable effects of past and more recent developments in policy support justify the creation of a system that will maximise the effectiveness and efficiency of public expenditure on agriculture.
- It is necessary to align programming documents with each other and put them into practice, but also to be clear about what has to be achieved by budget support. Increasing budgetary support without clearly defined objectives and indicators for monitoring their implementation does not make sense.
- Volatility in budget expenditures, in terms of both annual value and support measures, reflects the weak conceptual understanding of the links within the agro-food sector. Some policy measures and support schemes have to be reassessed in terms of their ability to contribute to achieving planned objectives (e.g. the milk premium resulted in relatively high producer prices, but still failed to prevent the decline in dairy cow numbers and milk production).

Activities related to EU integration should be better coordinated and guided by clearer objectives that prioritise national interests.

- Recent dynamic changes in agricultural policy, in terms of legislation, the conceptual framework and the introduction of new types of support, are all driven by progress towards EU integration. Some of these solutions are unconditionally accepted, without taking into consideration national priorities, specificities and capacities. As Serbia has candidate country status (which is only a preliminary stage in the EU accession process), and is not obliged to align agricultural policy with the CAP before EU accession, policy decision makers must more proactively address internal unsustainable structural misbalances with detrimental effects on the agro-food sector performances and rural livelihoods, so that they can gradually align national policy with the CAP.
- The support measures used in the pre-accession period should be those that will increase competitiveness so that Serbia can face the wider EU market efficiently. Therefore, more effort has to be put into harmonising different politics and policy instruments that facilitate the reform of farm structures, encourage investments, strengthen value chains and preserve rural social structures. The current emphasis on area and animal payments, commodity (milk) subsidies and input (fuel) subsidies preserves current farm structures and reduces the budgetary funds available for investment.
- Building the institutional settings required by the EU for delivering the IPARD programme is urgent. Creating the setting for good fund absorption is a key factor for the effectiveness of IPARD. Up to now these efforts have been focused on building the institutions for programme supervision and implementation. Limited attention has been given to administrative tasks related to the complex application process, to financial instruments and to promotion of the programme.

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