



SWG IPTS project:

“Analysis of the agricultural and rural development policies of the Western Balkan countries with the CAP 2014-2020 on food/farming project”

FINAL

Synthesis report

State of the Art and Trends of Agricultural Policy in EU Acceding Countries from the Western Balkans

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1. Introduction

Agriculture is an economically and politically important sector in the Western Balkans¹ (WB), characterised by structural deficit, unutilised resources and production potentials, under-developed agro-food chains, marginalisation of most rural areas and, with the exception of Serbia, net trade deficits. These are only some of the findings of an extensive **FAO study**² that attempted to determine some common challenges of agricultural policy in the region and to highlight certain issues and suggestions regarding the reform of policy and its adaptation to the requests of the EU accession process. This was done through benchmarking the agriculture and agricultural policy of the countries in the region against those of the EU.

The abovementioned study also showed that from the viewpoint of both the amount and structure of agricultural funding, public policy in the region is not on par with the European Union Common Agricultural policy (CAP); it is, however, on a comparable level with the EU New Member States at this stage of the integration process. There was a notable increase in funds before the advent of the economic crisis, yet the measures of agricultural policy are subject to frequent alterations, resulting in an insufficiently consistent framework to support long-term development of the sector. The predominant form of direct payments is coupled support, while rural development policy is indistinct (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 is based on the policy cycle concept, quantification of problems and goals, and an approach that is as directed and evidence-based as possible. There is an established strategic programming approach in the region, yet the existing systems of regular monitoring and impact assessment are a weakness in the policy cycle. Consistent monitoring, systemisation and an internationally comparable quantification of agricultural policy measures can importantly contribute to the improvement of policy, as well as aid in integration. In this, the FAO study built upon earlier work³ conducted by agricultural economists in the framework of the 6th European Union Research framework program, which attempted to develop a new analytical tool to support the region's stakeholders and international community.

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 2015 through the implementation of the project "**Analysis of the agricultural and rural development policies in Western Balkan countries**" funded by the European Commission Joint Research Centre's Institute for Prospective Technological Studies (JRC-IPTS). The key goals of this project are to provide analytical support to decision-makers in the region by updating agricultural statistics, as well as qualitative and quantitative monitoring of agricultural policy.

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.

² Volk, T., E. Erjavec, K. Mortensen (editors) (2014). Agricultural policy and European integration in South-eastern Europe. Budapest: Food and Agriculture Organization of the United Nations, http://seerural.org/wp-content/uploads/2009/05/FAO-SWG-Book-12-11-2014_Final.pdf. (here referred as FAO (2014) study).

³ Volk, T. (editor). *Agriculture in the Western Balkan countries*, (Studies on the agricultural and food sector in Central and Eastern Europe, vol. 57). Halle (Saale): Leibniz-Institut für Agrarentwicklung in Mittel- und Osteuropa (IAMO), 2010. http://www.iamo.de/dok//sr_vol57.pdf.

Two common regional databases have been set up, one for agricultural statistics and one for budgetary transfers to agriculture, according to the APM methodology developed specifically to this end⁴. There is also a Country report (*Country Agricultural Policy Brief*) for each of the 6 countries concerned, focusing on changes in the years 2013-2015, i.e. after the publication of the abovementioned FAO study. In this way, the project is to bring continuity to the monitoring of agricultural policy, as well as assist discussion regarding certain key development issues in agriculture and agricultural policy, with a special focus on the EU integration process.

With this contribution we wish to place findings on the national level within the regional context and attempt to elucidate certain new aspects of the agricultural policy issues that were first addressed in the FAO study. The central segment compares the situation and recent changes in agriculture and agricultural policy, focusing on the results of the APM analysis⁵. This also enables us to discuss some additional agricultural policy issues.

The first such topic is a discussion of farm structure with a special focus on land consolidation and 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 equal treatment of all types of farms, or even favouring larger holdings through their direct support systems, which goes against some of the fundamental postulates of modern agricultural policy and particularly the CAP. The second is a discussion of key CAP harmonisation and adjustment issues in the national context of ambition to strengthen the European integration process in the Western Balkans. The paper ends with some general conclusions and policy recommendations that are to serve as a basis for further stakeholder discussion.

⁴ REDNAK, Miroslav, VOLK, Tina, ERJAVEC, Emil. A tool for uniform classification and analyses of budgetary support to agriculture for the EU accession countries. *Agricultural Economics Review*, 2013, vol. 14, no. 1, 76-96.

⁵ In this report, we are focusing on benchmarking the statistics and budgetary transfers in regional context. For the comparison with the European Union see the above mentioned FAO study (FAO, 2014).

BOX 1: Methodological notes

The presentation of the situation and current trends in agriculture in Albania (AL), Bosnia and Herzegovina (BA), Kosovo* (XK), Macedonia (MK), Montenegro (ME) and Serbia (RS) is based on statistical data collected by national experts (and also used in the *Country Agricultural Policy Briefs*). The main data sources were state (or sub-national) statistical offices and other institutions dealing with agricultural statistics in these countries. In this framework, only some key general, agricultural and trade statistics were collected covering the period 2005-2014⁶. Additionally, data from EUROSTAT public databases were used⁷. Even though in most WBs some progress in harmonisation of agricultural statistics with the EU has been made, the collected datasets are mostly incomplete and still not entirely comparable between countries and with the EU. The selected relative indicators cover only some basic statistics with the aim to present at least the main profile and trends of Western Balkan agriculture.

For the quantitative analysis of budgetary support to agriculture, agricultural policy measures (APM) databases compiled for the selected Western Balkan countries by national experts were used. In these databases all available information about agricultural policy measures is gathered at the most detail level possible, along with budgetary transfers executed in a given year. The analysis mostly covers the years 2012-2014, although APM databases were compiled for a longer time period.

In APM databases agricultural policy measures are systemized 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, all 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 classification uses the EU concept of policy instruments as a basic starting point, combined with the OECD classification. The APM classification is built on a hierarchical principle, with the first level defining the pillar of agricultural policy, the second defining the category, and each subsequent level defining a sub-category of the previous one.⁸

⁶ See Agricultural Policy Plus: <http://app.seerural.org/agricultural-statistics/>

⁷ EUROSTAT (September 2015): Agriculture. Data. <http://ec.europa.eu/eurostat/web/agriculture/data>

⁸ More about the APM methodology see Rednak et al (ibid.).

2. Situation and trends in agriculture

Agriculture: important economic sector

Table 1: Key macroeconomic data in selected Western Balkan countries, 2014

	AL	BA	MK	ME	RS	XK	EU-28
Total area (km ²)	28,748	51,197	25,713	13,812	88,499 ¹	10,908	4,467,841
EU-28=100	0.6%	1.1%	0.6%	0.3%	2.0%	0.2%	100.0%
Population 1 st January (000 inhabitants)	2,910	3,836	2,069	622	7,132	1,805	506,881
EU-28=100	0.6%	0.8%	0.4%	0.1%	1.4%	0.4%	100.0%
Population density (inhabitants/km ²)	101	75	80	45	92 ²	165	113
GDP (Million EUR) ³	10,092	13,827	8,534	3,425	33,059	5,485	13,924,588
EU-28=100	0.1%	0.1%	0.1%	0.0%	0.2%	0.0%	100.0%
GDP per capita (EUR) ³	3,468	3,605	3,930 ⁴	5,356 ⁴	4,635	2,935 ⁴	27,325
GDP per capita in PPS (EU-28=100) ³	29%	28%	36%	39%	35%	:	100%
GVA Agriculture, forestry and fishing (% of total GVA) ³	23.1	7.6	10.2	9.8 ⁴	9.7	13.8	1.6

Source: WBs Statistics, EUROSTAT

¹ Including Kosovo*

² Without Kosovo*

³ Preliminary data

⁴ 2013

In all the WBs, agriculture is an important sector for national economy. In 2014, the share 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 WBs. In most countries (except Albania), the relative economic importance of agriculture has a decreasing tendency.

Rather high proportion of agriculture in GVA in WBs is closely related to the overall lower level of economic development. Measured by GDP in purchasing power standard parity (PPS), GDP per capita stands below 40% of the EU-28 average in all WBs without considerable changes in recent years (since 2009-2010).

Table 2: Key agriculture data in selected Western Balkan countries, 2014

	AL	BA	MK	ME	RS	XK	EU-28
Agricultural Area (000 ha)	1,201 ¹	2,163 ¹	1,263 ¹	230 ²	3,507 ²	288 ³	175,815 ⁴
EU-28=100	0.7%	1.2%	0.7%	0.1%	2.0%	0.2%	100.0%
Share of AA in total area (%)	42	42	49	17	45	26	39
Share of arable land in AA (%)	:	47	33	3	74	59	59
Share of crops in agricultural goods output (%) ⁵	49 ⁶	63 ⁷	76	:	67	59	56
Average wheat yield (t/ha) ⁸	4.1	3.9	3.2	3.4	4.3	3.8	5.8
Average milk yield (t/dairy cow)	2.7	2.8	3.1	2.9	3.4	:	6.4 ⁸

Source: WBs Statistics, EUROSTAT

¹ Total agricultural land (administrative data); ² Utilized Agricultural Area; ³ Utilized Agricultural Area (Agricultural Households Survey); 2013; ⁴ Utilized Agricultural Area; 2010; ⁵ 2013; ⁶ 2012; ⁷ 2010; ⁸ 2013

Data on agricultural land use are still not comparable between all WBs and with the EU. In Albania, Bosnia and Herzegovina and Macedonia these data refer to total agricultural land (mostly based on administrative sources), in Kosovo* to agricultural land actually used by agricultural households

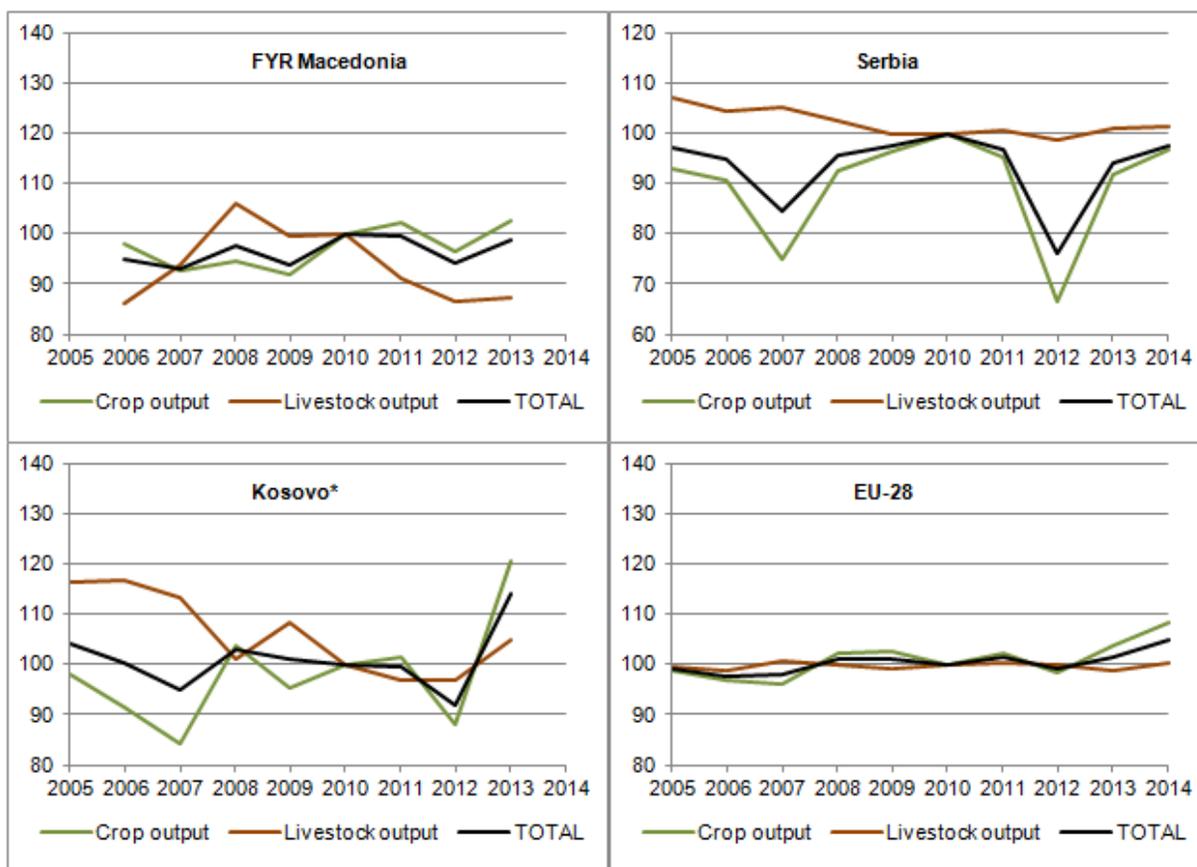
(based on annual Agricultural Household Surveys) and in Serbia and Montenegro to utilised agricultural area as defined by EUROSTAT (sample surveys based on Agricultural Census). In 2015, Serbia revised land use data from the year 2005 on and Montenegro for the period 2007-2013. According to these data total utilized agricultural area in Serbia is slightly decreasing (average annual growth rate 2005-2014 -0.3%), while in Montenegro a slight upward tendency can be noticed (average annual growth rate 2007-2014 0.5%). In both countries revised figures are considerably lower than those referring to agricultural land (old data available up to 2013).

Volatile agricultural production

In most WBs crop output dominates agricultural production. The contribution of crop output to total gross agricultural goods' output is the highest in Macedonia (around three quarters) and the lowest in Albania (around half). For Montenegro there is no reliable data.

Aggregate data on agricultural output volume changes are available only for Macedonia, Serbia and Kosovo*. All these countries are characterized by large oscillations in volume of agricultural production, mostly due to variations in crop output, influenced predominantly by weather conditions.

Figure 1: Agricultural goods output volume changes in selected Western Balkan countries (2010=100)



Source: WBs Statistics, EUROSTAT

In Macedonia and Kosovo* agricultural goods' output as a whole shows an increasing trend since 2006 and 2005, respectively, while in Serbia there is no clear tendency in volume changes on the

aggregate level between 2005 and 2014. Similar conclusions by country can be drawn also for crop output. Livestock production generally has a decreasing tendency in all three countries, however with some signs of recovery since 2012.

Assessment of changes in agricultural production on the aggregate level for other WBs is uncertain. Taking into account the available data, it seems that in Albania agricultural output generally has an increasing tendency (in both crop and animal sectors). In Montenegro clear upward trend is visible in crop production (particularly in potatoes and fruit production), while livestock production mostly shows decreasing tendency or stagnation except in some sectors (pigs, poultry). In Bosnia and Herzegovina negative developments prevail in both crop and animal production with only few exemptions (fruit, wine, poultry sector).

Growing agro-food trade

In all WBs, the agro-food sector is an important contributor to the country's total external trade of goods, both exports and imports.

*Table 3: Share of agro-food products in external trade of goods in selected Western Balkan 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: WBs Statistics

*Preliminary data

Agro-food trade is constantly increasing. Exports are generally growing at a higher rate than imports resulting in improvement of export-to-import cover ratio in most countries. These ratios differ 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 Macedonia export to import ratio is higher (75 %), but with decreasing tendency. Among WBs only Serbia is the net exporter of agro-food products, with export-to-import cover ratio close to 190 %.

Table 4: Agro-food export to import cover ratio in selected Western Balkan countries (%)

	2010	2011	2012	2013	2014*
Albania	10.2	12.0	13.4	15.7	17.9
Bosnia and Herzegovina	22.9	22.6	22.3	25.1	24.2
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
Kosovo*	5.1	4.7	3.6	6.0	6.4

Source: WBs Statistics

*Preliminary data

In most recent years highest increase in agro-food exports is noticed in Kosovo*, Montenegro and Albania while in other countries the increase was more moderate. Imports increased at lower rates than exports in all WBs. In Bosnia and Herzegovina and Macedonia imports even decreased, resulting in improved trade balance in 2014 compared to 2012 (smaller deficit). Trade balance improved also in Serbia. In Montenegro trade deficit remained almost unchanged, while Albania and Kosovo* recorded higher agro-food deficit than in 2012.

Table 5: Agro-food trade in selected Western Balkan countries (EUR million)

	Exports				Imports				Balance			
	2012	2013	2014*	2014/12	2012	2013	2014*	2014/12	2012	2013	2014*	2014/12
AL	83	101	129	55.5%	618	646	721	16.6%	-536	-545	-592	111
BA	317	351	338	6.6%	1,426	1,394	1,396	-2.2%	-1,109	-1,043	-1,057	95
MK	470	496	480	2.0%	673	649	643	-4.4%	-203	-153	-163	81
ME	57	56	92	61.7%	443	454	482	8.8%	-387	-397	-391	101
RS	2,084	2,078	2,295	10.1%	1,137	1,196	1,214	6.8%	947	882	1,081	114
XK	21	35	39	91.1%	573	584	616	7.6%	-552	-549	-577	104

Source: WBs Statistics

*Preliminary data

In most WBs, exports are still predominantly represented by raw material and rather low value-added products.

In 2014, compared to 2012, the main characteristics of agro-food export regarding leading export tariff groups did not change much in most WBs. The most pronounced differences in export composition can be noticed in Bosnia and Herzegovina where tariff group sugars and confectionary is not among leading export groups any more (in 2012 ranked at the first place) and in Montenegro where tobacco replaced tariff group preparations of cereals at the third place. In other countries the first three export tariff groups remained unchanged, however, mostly with different shares compared to 2012.

Table 6: Breakdown of agro-food exports by most important tariff groups in selected Western Balkan countries (%)

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

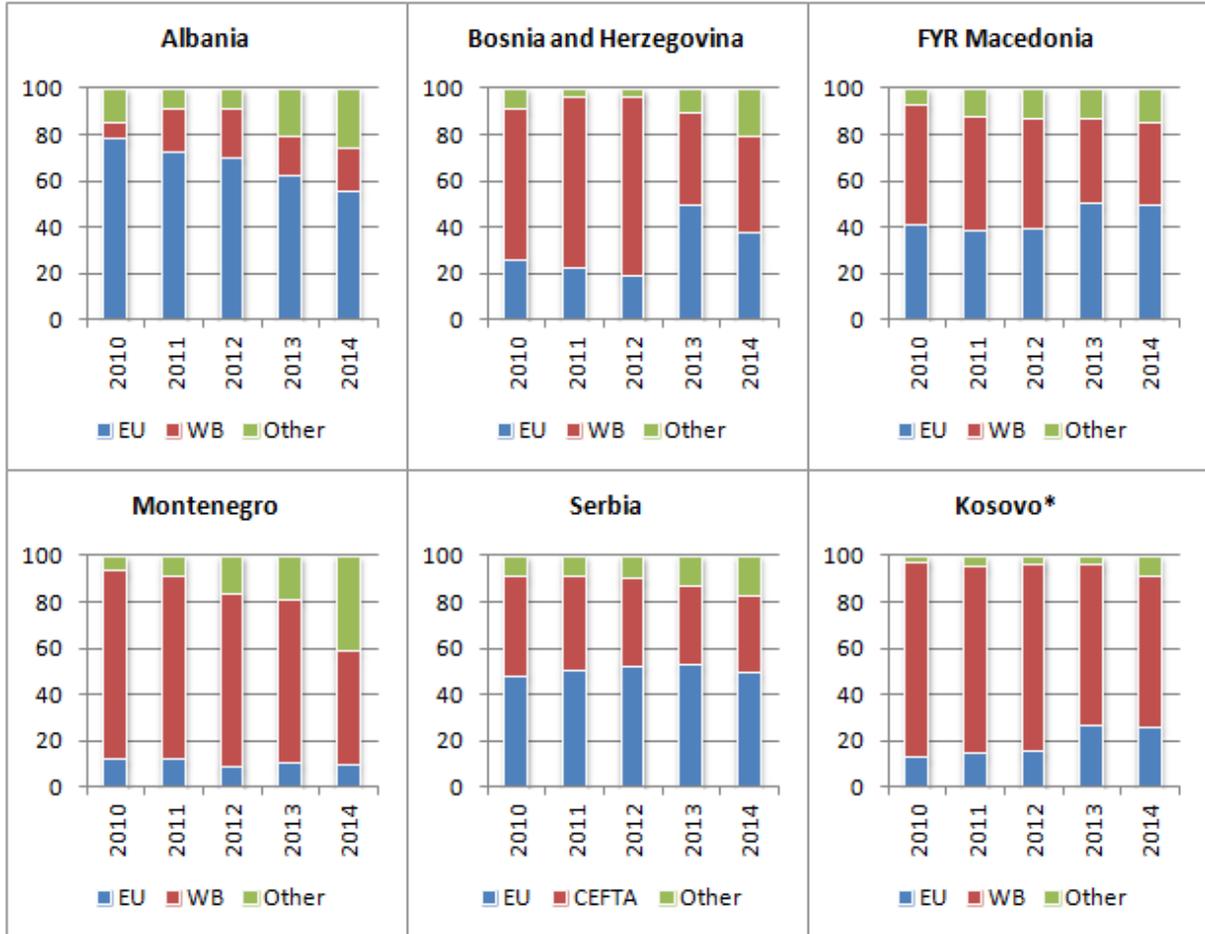
Source: WBs Statistics

*Preliminary data

In 2014, the EU was the most important export destination for Albania, Serbia and Macedonia, while in other WBs the highest proportion of exports went to other countries in the region. Since 2010, the proportion of exports destined for the EU-27/28 generally increased, particularly after Croatia joined the EU in 2013. The exceptions are Albania and Montenegro, where decreasing tendency of the proportion of exports to the EU can be noticed along with the increasing proportion of exports

destined for other countries (outside the EU and the region). However, the share of third countries in the agro-food exports increased also in other WBs, particularly in most recent years.

Figure 2: Regional breakdown of agro-food exports in selected Western Balkan countries (%)

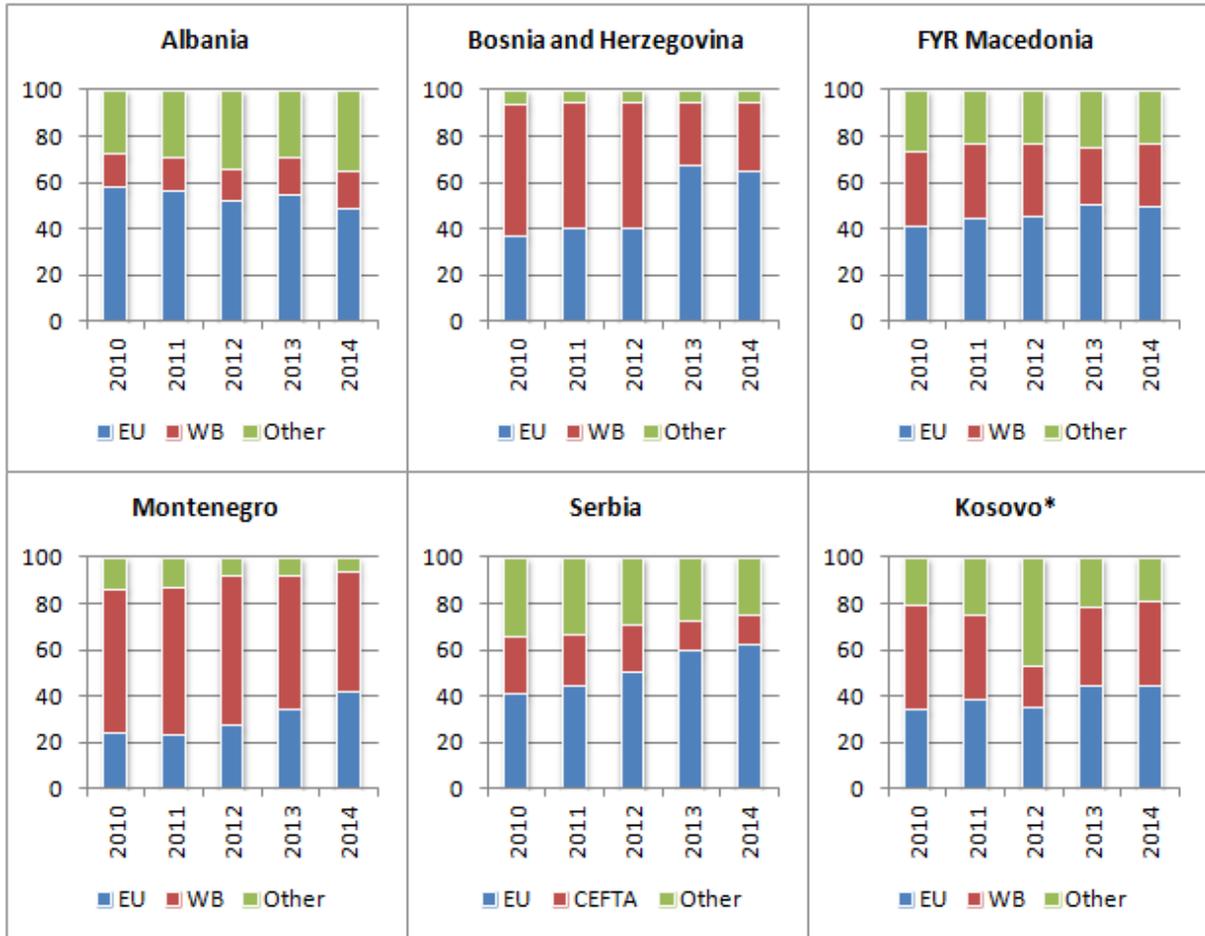


Source: WBs Statistics

* 2014: preliminary data

Regarding imports, in 2014 the EU-27/28 was the most important trading partner for all WBs except Montenegro where imports of agro-food goods originating from the countries in the region represented the highest share. Except Albania, the proportion of imports from the EU increased in all the WBs since 2010.

Figure 3: Regional breakdown of agro-food imports in selected Western Balkan countries (%)



Source: WBs Statistics

*2014: preliminary data

3. Agricultural policy framework

Policy framework 2007-2013

The abovementioned FAO study offers insight into the agricultural policy framework for the period 2007-2013. Agricultural policy of the countries in the region was based on strategic documents that mainly addressed agriculture and rural development separately. The documents themselves generally consisted of extensive situation analyses and goal-setting, in some cases followed up by definitions of key policy mechanisms and (multi-)annual budgets.

Goals varied substantially, but it can be said that the main emphases are food security, farm income improvements and various aspects of competitiveness. For the implementation of policy, some countries employ national programmes that cover several years and/or only yearly regulations regarding the precise definition and execution of measures.

It is precisely these yearly regulations that form the backbone of these countries' agricultural policies. Their connection to strategies and national programmes is quite loose, as there is much room for ad-hoc pragmatic and sometimes politically motivated decisions. In this period, only some of the countries managed to set up an internationally comparable system for the annual monitoring of policy implementation – regular “green reports”. Impact assessments and policy evaluations are rarely used for practical decision making, which has contributed to the instability of agricultural policy.

On the other hand, there have been certain shifts in policy implementation. Some of the countries have established paying agencies and started to adopt elements of the EU CAP. Thus it can be said that the agricultural policy framework for 2007-2013 had some elements of the policy cycle, especially on the side of programming and financing, but was deficient in other segments.

Agricultural policy of the countries in the region follows CAP programming periods. It was therefore to be expected that in the years 2013-2015, covered by the SWG/IPTS project, most countries would be generating new programming documents. Similarly, the regional economic crisis and in part the European integration process (and its accompanying aspirations) were expected to cause changes in policy mechanisms.

National experts within the project were thus tasked with examining the programming documents of the recent period, identifying their key novelties (in terms of goals, priorities, policy mechanisms) and determining whether there have been any marked changes in the definitions and choice of policy instruments in the implementation of policy of the recent two years⁹. The following section summarises some key changes found in the Country agricultural policy briefs.

Albania

At the end of 2014, Albania established a new strategic framework for the development of agriculture and rural areas (ISARD)¹⁰. The document prioritises the developmental nature of agricultural policy and is oriented towards competitiveness, harmonisation with EU rules, the sustainable use of natural resources and social inclusion of the rural population. ISARD also provides

⁹ For an image of the changes in policy instruments see also the results of APM analysis, Chapter 5.

¹⁰ ISARD: Inter-sectorial Strategy for Agriculture and Rural development 2014-2020.

for public intervention in three main policy areas: i) rural development (with IPARD), ii) national farmers' and rural infrastructure support, iii) institutional development and EU regulatory adjustment. A further specification of measures will continue to take form in annual National Action Plans. It is our assessment that the reforms of agricultural policy are more pronounced in the field of rural development, while reforms in market and direct support are less expressed.

Zhlima and Gjeci¹¹ state in their country report that there have been no significant changes in the amount and structure of budgetary transfers to agriculture in the recent years (2013-2014). Perhaps most notable are the attempts to introduce per animal and area payments and slightly diminished funding for rural development, which is dominated by measures to increase competitiveness.

Bosnia and Herzegovina

The parliaments of the Federation of Bosnia and Herzegovina (FBH) and Republic of Srpska (RS) have adopted two new strategic development documents in 2015 that will define a mid-term perspective of their respective agricultural policies¹². The strategies are better structured compared to the previous ones, and are introducing most of the necessary strategic elements (analysis, goals, instruments, implementation, finance, monitoring). New goals are expanding the array of tasks for agricultural policy. Thus, in addition to production, income and competitiveness objectives, goals related to the protection of the environment and climate change are emerging. The objectives also clearly reflect the intention of adapting the two entities' policies to the agricultural policy conceptual framework of the EU. This intention is also, though less markedly, evident from the changes in policy instruments. 'Non-CAP-like' measures are losing ground in terms of scope and range, while there is greater emphasis on per head and area payments, as well as on various aspects of rural development. In terms of the quality of approach and of programming foundations, the new strategies are undoubtedly bringing about a substantial improvement in the design of agricultural policy and an attempt to begin adapting to the EU's CAP.

It is of course too early for these new documents to be reflected in the implementation of agricultural policy. In the country brief, Bajramović et al.¹³ report of changes in agricultural policy that are already heading in the new direction (e.g. the unification of area payments and an increase in investment grants in FBH), yet also of some that seem to be headed the other way (increased output related direct payments in both entities). It must be said, however, that the choice of policy instruments in BH is under extraordinary pressure due to the country's economic crisis and the subsequently reduced agricultural financing.

Kosovo*

After broad discussion with stakeholders, Kosovo* adopted a new strategic document for agricultural and rural development (ARDP 2014-2020) in 2013.¹⁴ The document has modern structure and is contextually close to the EU rural development priorities like fostering knowledge transfer and innovations, enhancing competitiveness, agro-food chains and risk management actions, resource efficiency and sustainable agricultural and forestry land management, climate change as well as social

¹¹ Zhlima, E., G. Gjeci (2015): Albania: Country Agricultural Policy Brief. SWG/IPTS project documentation.

¹² There have been no new strategic documents pertaining solely to agriculture in the District of Brčko.

¹³ Bajramović, S., D.Ognjenović, J. Butković (2015): Bosnia and Herzegovina: Country Agricultural Policy Brief. SWG/IPTS project documentation.

¹⁴ "Kosovo Agriculture and Rural Development Programme 2014-2020".

inclusion and rural poverty elimination. The priorities and objectives should be achieved through implementation of measures in the frame of national support schemes, IPA II and donors support. The implementation of the new strategic document is based on the annual budget allocated for agriculture and rural development sector.¹⁵

Macedonia

Macedonia has also started a new programming period in agriculture. At the end of 2014, a new seven-year development strategy (NARDS¹⁶) was accepted. A broad spectrum of new priorities has been established, related to the restructuring and modernization of the agro-food sector, food security and food safety, rural development, sustainable development and strengthening human capital. Measures are already beginning to resemble in structure to those of the CAP, with direct payments and rural development coming to the forefront. Direct payments will remain fairly diversified in terms of form and beneficiary sectors towards which they are directed, but will be dominated by output payments, as well as per animal and area payments. Payments will be conditional upon cross-compliance demands in an attempt to approach the logic of EU regulations. Rural development policy defined by NARDS, which conceptually reflects EU policy more than direct support, is to be strengthened compared to its currently less pronounced share in the total funds earmarked for the implementation of the NARDS. The Macedonian government has also adopted the Second IPARD program for the period 2014-2020, which is in the process of adoption by the European Commission.

Dimitrievski et al.¹⁷ report in their county report that in the recent two years there has been an increase in funding for direct payments based on outputs (mainly tobacco), as well as a strengthening of direct payments per area and animal. This emphasises the production orientation of agricultural policy. Among the measures of rural development policy there is a noticeable increase in support for rural infrastructure.

Montenegro

Montenegrin agricultural policymakers concluded the 2007-2013 programming period with the preparation of a new strategy¹⁸ which is also a condition for the formal opening of accession negotiations with the European Union in the chapter of agriculture. As such, it must contain elements of an action plan to change and harmonise national policy until EU accession. The strategy, which was still in the adoption phase before the summer break of 2015, is based on the principle of gradual harmonisation of national policy by terminating non-compliant measures and introducing new ones. In the case of direct payments, the emphasis is on the introduction of CAP-like direct payment schemes. Martinović and Konjević¹⁹ report in their country report of a developmental orientation of the new policy, which emphasises a wide range of rural development measures. Certain regulatory changes and the strengthening of institutional capacities are also highlighted.

¹⁵ Miftari, I. (2015): Kosovo: Country Agricultural Policy Brief. SWG/IPTS project documentation.

¹⁶ National agricultural and rural development strategy (2014-2020).

¹⁷ Dimitrievski, D., A. Kotevska, I. Janevska Stamenkovska, E. Tuna, M. Nacka (2015): Bosnia and Herzegovina: Country Agricultural Policy Brief. SWG/IPTS project documentation.

¹⁸ Strategy for development of agriculture and rural areas 2015-2020.

¹⁹ Martinović, A. D. Konjević (2015): Bosnia and Herzegovina: Country Agricultural Policy Brief. SWG/IPTS project documentation.

The realisation of the new strategy will significantly change the scope and structure of agricultural funds. According to the previously mentioned country report, in recent years there have been no pronounced changes in budgetary transfers to agriculture.²⁰

Serbia

In 2014, Serbian agricultural policy saw a renewal of its strategic framework, with a particular focus on the adaptation to the requirements of European integration²¹. The document 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 production, income, competitiveness and environmental protection to rural vitality and institutional capacities upgrading. The strategy also provides for thorough reform and adaptation of the instruments of agricultural policy, which should in a given timeframe, be able to incorporate the Common Agricultural Policy. In the case of direct payments, the set of measures is narrowing and moving in the direction of coupled area payment and fewer animal premiums. The currently feeble 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 underway to prepare an implementing National Programme for agriculture and rural development, which will further specify the instruments. The European Commission has also adopted the program of IPARD pre-accession assistance in January of 2015, yet the implementation of this policy is not expected before 2016.

If it really comes to the realisation of the new programming documents, this will mean a marked reform of Serbian agricultural policy. The reality of the past few years is namely significantly different from the newly outlined guidelines, as direct payments based on output actually increased, while rural development support decreased significantly both in absolute and relative terms, to mention two of the main characteristics reported by Bogdanov²² in the country report.

Regional overview – qualitative changes of the agricultural policy framework

The most obvious characteristic of the agricultural policy of the Western Balkans in the past couple of years is the intensive programming of new policy. All countries²³ have prepared and most have also adopted and are implementing 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 production and income orientation. In this, the agricultural policies in the region are already in line with the EU's concept in the area of agriculture.

²⁰ The analysis of budgetary transfers is based on policy commitments and not on executed payments as the APM methodology requests, so given the regional volatility and pragmatism of policy implementation, detailed insight into the state of agricultural policy is only partially possible.

²¹ The Agricultural and Rural Development Strategy for 2014-2014.

²² Bogdanov, N. (2015): Serbia: Country Agricultural Policy Brief. SWG/IPTS project documentation.

²³ In Bosnia and Herzegovina the strategic framework was prepared by two key entities; however discussion on the preparation of a common national document is underway.

The assessment of adaptation in the field of policy instruments is somewhat different. All the countries show ambition towards adjustment, but there are significant disparities in intensity of adjustment. Serbia and Montenegro have come farthest in this respect, as they are actually trying to plan the gradual introduction of CAP elements. This is understandable, since both have already started the accession negotiation process, completed screenings with the European Commission, and been given clear instructions on what should be done in order to open negotiating chapters²⁴, including clear plans of reform and adaptation of their agricultural policies.

The other countries are still introducing real change quite tentatively; there are some visible shifts, but no clear plan of adaptation yet, which is understandable given the state of European integration. It is perhaps more apt to question another dimension, which is whether the projected measures and budget can actually contribute to the planned developmental advances. The selection of instruments is still very much a matter of politically and interest-motivated pragmatic choice, quenching social wildfires and succumbing to pressure groups, than of real investment in the sector.

The reality of current agricultural policy in all the countries is still a far cry from the newly indicated directions. Due to the economic crisis and political gains that stem from the redistributive nature of agricultural policy, the patterns of policy implementation of the past years persist. The key indicators of this in most countries are the remaining dominant, and even growing, payments based on output in the dairy sector, and low funds for rural development. Effective implementation of the (mainly) already adopted strategies and the strengthening of an evidence-based policy approach are the most daunting challenges faced by the agricultural policies of the WB countries. This, however, calls for unequivocal decisions of the political establishment and a real commitment to the European integration process.

²⁴ In the EU jargon of pre-accession negotiation, they have been assigned “benchmarks”, i.e. tasks to be fulfilled in agriculture in order to formally “open” the negotiation chapter. Both countries are in the process of preparing and implementing activities which will make further negotiation possible.

4. Budgetary transfers to agriculture

As the situation and trends in budgetary support to agriculture up to 2012 are presented in detail in FAO study (2014), analytical work in this field was centred on the assessment of the results of APM analysis only for the most recent years (2013 and 2014)²⁵. The primary aim was to assess whether there have been any relevant changes compared to the findings presented in the abovementioned FAO study.

Comparison with the year 2012 and between countries is presented using relative indicators such as executed funds in EUR (total and by group of measures) expressed per hectare of utilised agricultural area (UAA)²⁶ and composition of support by main policy groups.

4.1 Total budgetary expenditure for the agro-food sector and rural areas

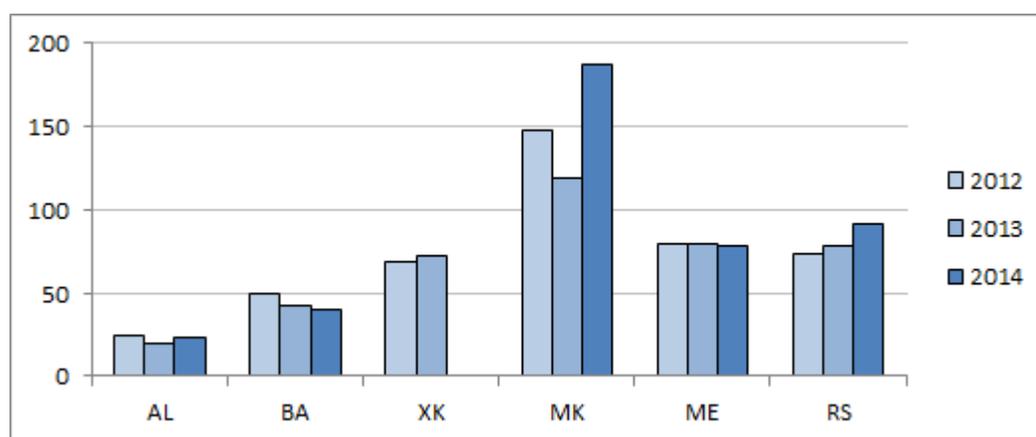
The relative level of budgetary support to agriculture

Main conclusion in the FAO (2014) study:

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

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 Macedonia. In 2014, the level of total budgetary support was considerably higher than in 2012 in Macedonia (after decrease in 2013), somewhat higher in Serbia, slightly higher in Albania and slightly lower in Bosnia and Herzegovina and Montenegro. Comparing to around EUR 480 in the EU-27 (2012) the total budgetary support in WBs is still low.

Figure 4: Total budgetary expenditure for agro-food sector and rural areas in selected Western Balkan countries (EUR/ha UAA); 2012-2014



Source: WBs APM Databases

²⁵ For Kosovo* APM data for 2014 are incomplete and therefore not presented at the aggregate level.

²⁶ Utilised agricultural area as assessed under FAO study.

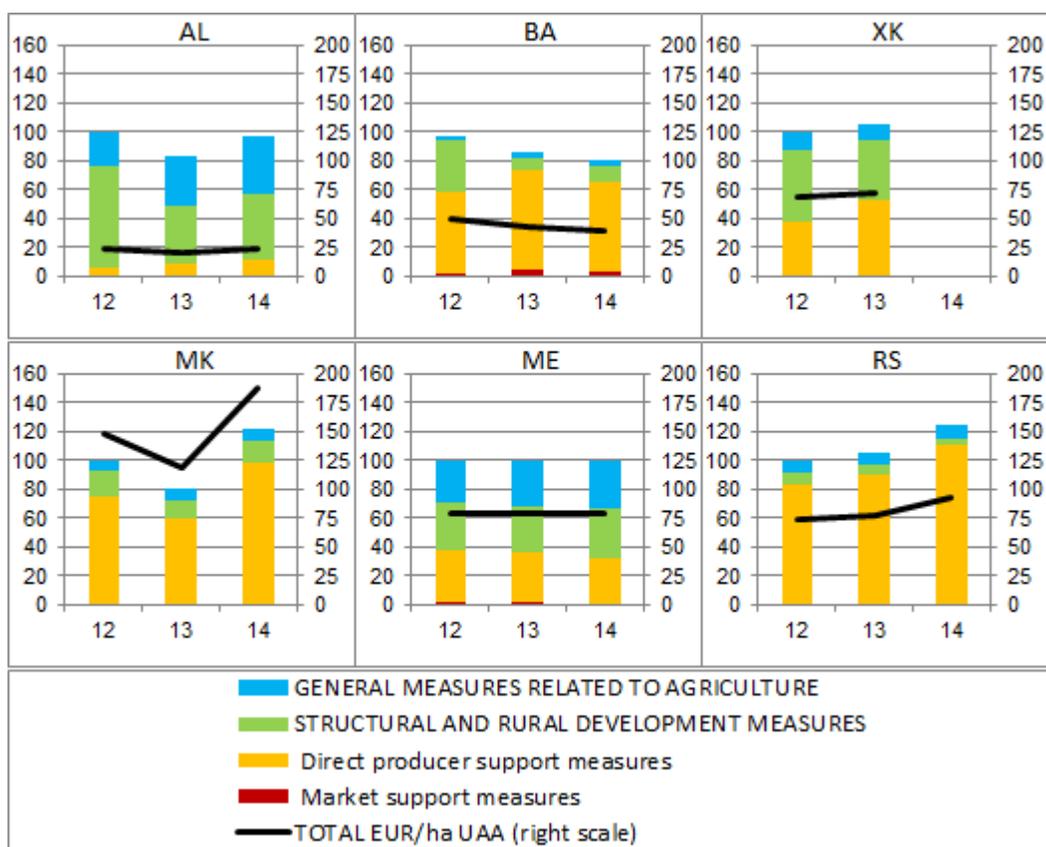
The composition of budgetary support to agriculture

Main conclusion in the FAO (2014) 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 recent three years. There are changes in volume, but not in composition. 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 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 in Albania (around 10 %). In those 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 5: Total budgetary expenditure for the agro-food sector and rural areas by APM pillars in selected Western Balkan countries; 2012-2014 (2012=100)



Source: WBs APM Databases

4.2 Market and 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 (intervention buying-in) existed only in Bosnia and Herzegovina and Montenegro. Detailed analysis is thus focused only on the part of the first pillar that is related to direct producer support measures.

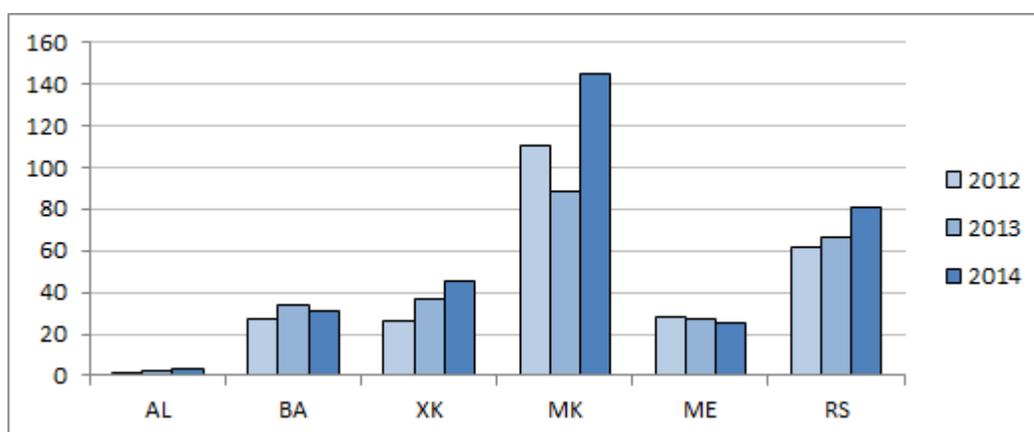
Direct producer support measures

Main conclusion in the FAO (2014) 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 the period 2012-2014 the upward trend of funds for direct producer support measures continued in all WBs except in Montenegro. In 2014, funds for direct producer support measures per hectare of UAA were between EUR less than 3 in Albania to EUR 145 in Macedonia. Lower but similar amounts per hectare were recorded in Kosovo* (EUR 45), Bosnia and Herzegovina (EUR 31), and Montenegro (EUR 25). In Serbia the funds for direct producer support measures amounted to around EUR 80 per hectare of UAA. In 2014, the budget for direct producer support measures was considerably higher than in 2012 in Kosovo*, Macedonia and Serbia, slightly higher in Albania and Bosnia and Herzegovina, and slightly lower in Montenegro.

Figure 6: Direct producer support in selected Western Balkan countries (EUR/ha UAA); 2012-2014



Source: WBs APM Databases

Composition of direct producer support measures

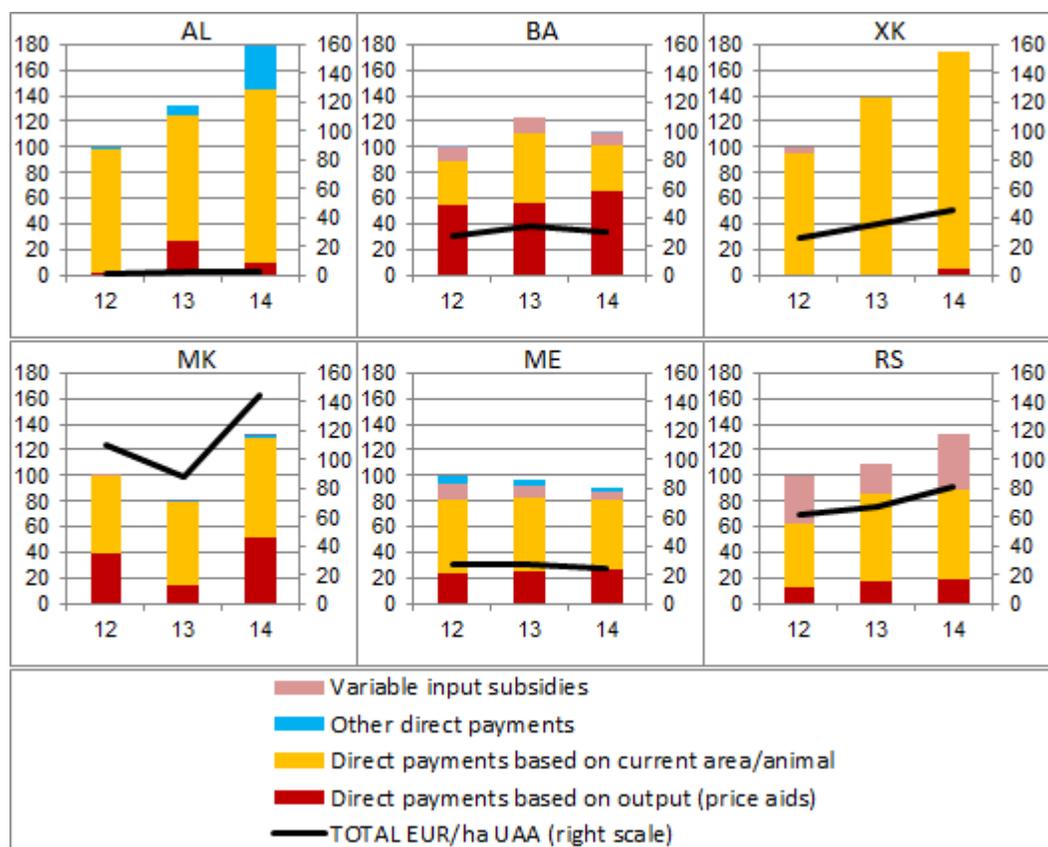
Main conclusion in the FAO (2014) study:

“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 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 alignment to CAP-like policy. Direct payments per output (price supplements) are still present in most countries (in 2014 also in Kosovo*). Even more, in Macedonia, Bosnia and Herzegovina and Serbia, funds for this type of support are growing.

Figure 7: Evolution of expenditure and composition of direct producer support measures in selected Western Balkan countries; 2012-2014 (index 2012=100)



Source: WBs APM Databases

Instability of the direct support policy

Main conclusion in the FAO (2014) study:

“One of the main characteristics of the direct support policy of all WBs is its instability.”

There are large differences between countries in the number of commodities and commodity groups that are being supported. This number is particularly high in Bosnia and Herzegovina and Macedonia. As can be seen from Table 7 in all the WBs there have been some changes in the set of subsidized products almost every year.

Table 7: Number of supported commodities under direct payments schemes in selected Western Balkan countries, 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
AL	<u>1</u>	<u>1</u> (+0; -0)	<u>1</u> (+0; -0)	<u>5</u> (+4; -0)	<u>7</u> (+2; -0)	<u>5</u> (+1; -3)	<u>6</u> (+1; -0)	<u>6</u> (+2; -2)	<u>7</u> (+1; -0)	<u>5</u> (+2; -4)
BA	<u>23</u>	<u>23</u> (+2; -2)	<u>23</u> (+0; -0)	<u>23</u> (+1; -1)	<u>21</u> (+2; -4)	<u>21</u> (+0; -0)	<u>22</u> (+1; -0)	<u>21</u> (+0; -1)	<u>21</u> (+1; -1)	<u>21</u> (+1; -1)
XK					<u>3</u>	<u>3</u> (+1; -1)	<u>4</u> (+1; -0)	<u>6</u> (+3; -1)	<u>9</u> (+3; -0)	<u>11</u> (+2; -0)
MK				<u>19</u>	<u>21</u> (+3; -1)	<u>24</u> (+3; -0)	<u>19</u> (+0; -5)	<u>21</u> (+2; -0)	<u>21</u> (+1; -1)	<u>21</u> (+1; -1)
ME								<u>6</u>	<u>8</u> (+2; -0)	<u>9</u> (+1; -0)
RS	<u>8</u>	<u>6</u> (+1; -3)	<u>3</u> (+2; -5)	<u>3</u> (+0; -0)	<u>3</u> (+0; -0)	<u>1</u> (+0; -2)	<u>1</u> (+0; -0)	<u>4</u> (+3; -0)	<u>6</u> (+2; -0)	<u>7</u> (+1; -0)

Source: WBs APM Databases

Legend: ... : Number of supported commodities in a year

-... : change in number: paid in the previous year, but not in the current year (cancelled measures)

+... : change in number: paid in the current year, but not in the previous year (new measure)

Table 8: Changes in the amounts of executed direct payments by commodity in selected Western Balkan countries in 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	0,0	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		0,0				
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		
Area payment (COP)				210,8	100,0	
All arable crops				155,6		100,1
Fresh vegetables	0,0	133,3	N	94,4		
Other fresh vegetables					100,0	
Vegetables and horticultural products				32,0		
Dessert apples				0,0		
Fresh fruit	0,0	144,0		136,3		
Fruits and vegetables	N					
Grapes			203,7	78,5		
Olives	N				N	
Olive oil	0,0					
Nursery plants		145,7	78,7	62,9		

Source: WBs APM Databases

Legend: 0,0: Subsidies were paid in 2013, but not in 2014

N: Subsidies were paid in 2014, but not in 2013 (new measure)

Table 8 shows that in some countries the annual fluctuation in the total amount of particular commodity specific payments is very large. In 2014, payments for some commodities in Bosnia and Herzegovina and Macedonia decreased by more than 50 %, and for some others increased by more than 100 %. In Serbia, a considerable growth of payments was recorded for sheep and goats and pigs.

There are many reasons for such substantial changes in direct support to key sectors, ranging from possible errors in recording data, payment delays from year to year to altered payments schemes. However, these fluctuations are unfavourable to producers. Besides directly influencing their revenue, it also makes planning long-term development difficult. The instability of direct support to producers is thus not improving in the region and remains a drawback of agricultural policy in the Western Balkans.

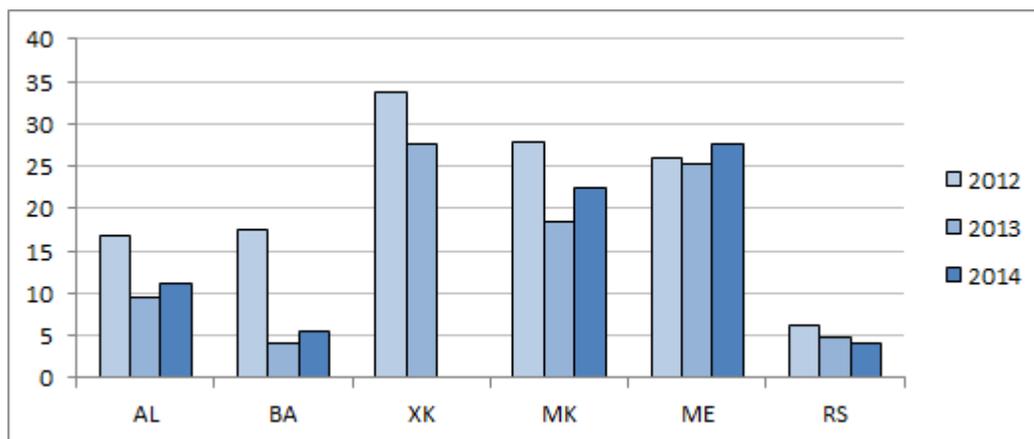
4.3 Structural and rural development measures

Main conclusion in the FAO (2014) 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 Macedonia show fluctuation through the years, while Serbia has even experienced decline.”*

The conclusion from the study still stands. In 2014, funds for structural and rural development measures were lower than in 2012 in all WBs except Montenegro. The strongest decline was observed in Bosnia and Herzegovina. In 2014, funds for structural and rural development measures per hectare of UAA amounted to EUR 4 in Serbia and EUR 5 in Bosnia and Herzegovina, around EUR 11 in Albania, EUR 23 in Macedonia, and EUR 28 in Montenegro and Kosovo* (2013). The situation regarding the lack of development-oriented policy in the region is thus unchanged.

Figure 8: Structural and rural development measures in selected Western Balkan countries (EUR/ha UAA); 2012-2014



Source: WBs APM Databases

Composition of structural and rural development measures

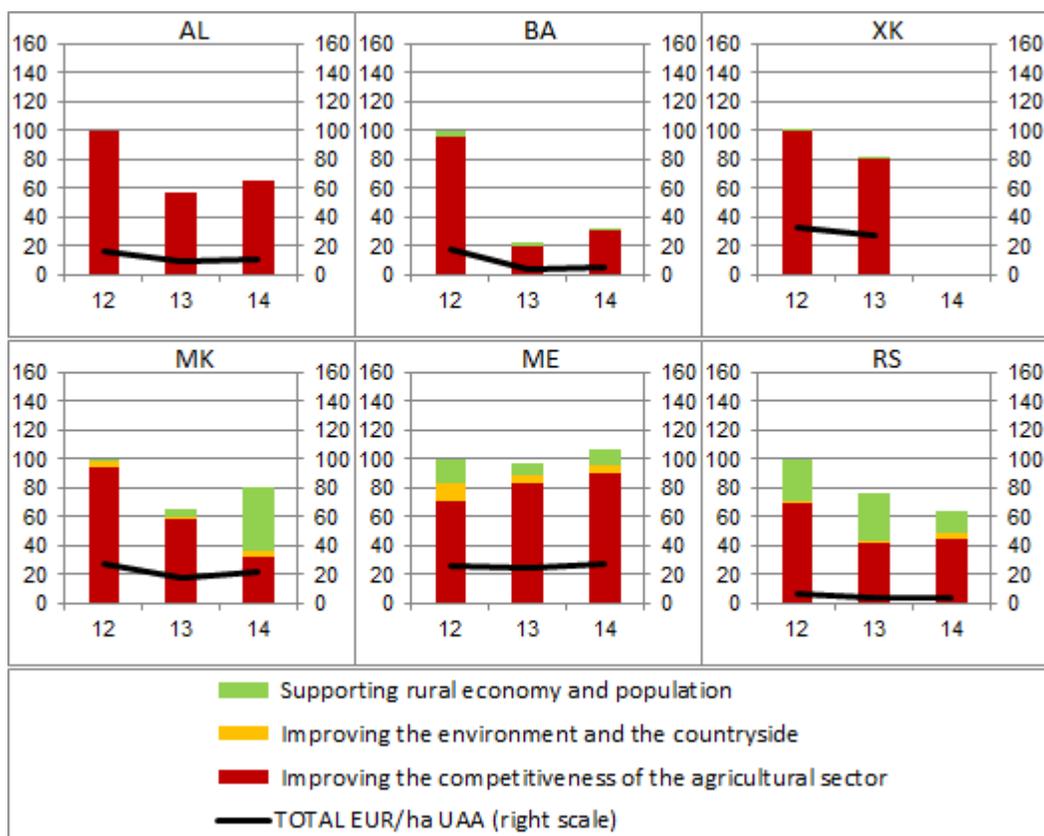
Main conclusion in the 2013 study:

“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 countries there were no significant changes in the composition of expenditures for structural and rural development measures in the most recent years.

Figure 9: Evolution of expenditure and composition of structural and rural development measures in selected Western Balkan countries; 2012-2014 (2012=100)



Source: WBs APM Databases

The conclusions from the FAO (2014) study thus still stand. The only exception is Macedonia, where the composition in 2014 significantly changed in favour of supporting the rural economy and population. This change is the result of a significant reduction in executed funds for investment support (a decrease of almost 50% or EUR 6 million) on one hand and a significant increase in payments for supporting the rural economy and population on the other hand. In 2014, the RDP

program "Improving the quality of life in rural areas" was launched on a larger scale (the executed funds for this program increased by more than EUR 7 million in 2014).

There is still no measure supporting the improvement of the environment and the countryside in Albania and Kosovo* (2013). In other countries, the already low funds decreased in the most recent years (except in Serbia). Despite lower funds, some new measures were introduced, which might indicate some positive change. In Bosnia and Herzegovina and Macedonia, some kind of LFA payments were launched, in Serbia a new program to *Support endangered crop and animal species* was introduced, but we cannot yet speak of any significant shifts towards support to environmental topics.

4.4 General support measures

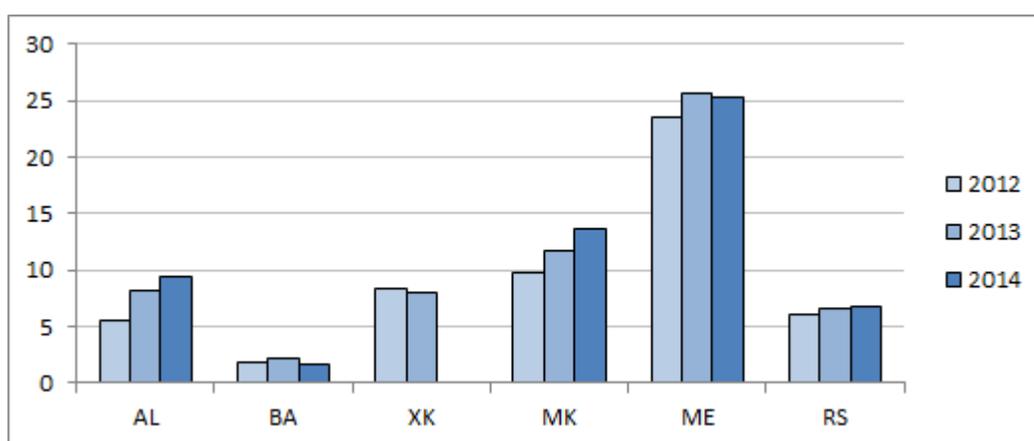
Main conclusion in the FAO (2014) study:

"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, 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 composition of general support budget can be noticed. Since 2012, some changes in volume can be observed - strong growth in Albania and Macedonia, and a decrease in 2014 in Bosnia and Herzegovina - but the total budget for general support measures per hectare of UAA is still modest (in 2014: EUR 25 in Montenegro, EUR 14 in Macedonia, EUR 9 in Albania, EUR 8 in Kosovo* (2013), EUR 7 in Serbia, EUR 2 in Bosnia and Herzegovina). In general, the conclusions from the FAO 2014 study still stand – general services still receive relatively little support.

Figure 10: General support measures in selected Western Balkan countries (EUR/ha UAA); 2012-2014



Source: WBs APM Databases

5. Farm structure as a policy issue

The FAO study (2014) highlighted the problem of "land fragmentation and bimodal farm structures" among other key development challenges. The authors estimated that

"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 study also pointed out the weaknesses of the current policy regarding the issue of land reform and its approach to small farms, and identified a number of key objectives and measures of future agricultural and rural development policy in the Western Balkan countries. This comprises the achievement of several operational goals, like *"land consolidation, increase of viable farms' size, improvement of land quality, better water management and better access to agricultural land."*

When preparing this report, we decided to bestow special attention upon the issue of farm structure and land consolidation. We wished to determine whether there have been any changes in the size structure of agricultural holding in the observed countries. We also conducted a discussion at the country level regarding the selection and scope of measures in the field of farm structure and land policy, which then served as a basis for conclusions.

Table 9: Farm structure in selected Western Balkan countries

	AL 2012	BA 2010	XK 2014	MK 2013	ME 2010	RS 2012	EU-28 2010
Number of agricultural holdings	324,013	:	129,220	170,885	48,870	631,552	12,248,040
EU-28=100	2.6%	:	1.1%	1.4%	0.4%	5.2%	100.0%
Utilised Agricultural Area (ha)	:	:	257,639	315,863	221,298	3,437,423	175,815,160
EU-28=100	:	:	0.1%	0.2%	0.1%	2.0%	100.0%
UAA per holding (ha)	2.8 ¹	2.0 ¹	2.0	1.8	4.5	5.4	14.4
Share of holdings with UAA < 2 ha	:	:	80% ¹	78%	73%	48%	49%

Source: WBs Statistics (Agricultural Census or Farm Structure Survey data), EUROSTAT

¹ data from FAO Study (2014)

The most recent EU comparable farm structure data indicate that one of the major features of the WBs remains small average farm size. Although the agricultural sector is extremely diverse, the vast majority of farms are small family farms, with primarily subsistence or semi-subsistence farming (FAO, 2014). The share of farms in the size class up to 2 ha is particularly high in Kosovo*, Macedonia and Montenegro (above 70 %), and probably also in Albania. In Serbia, this share is smaller and close

to the EU-28 average (around 50 %), but mostly due to a more favourable farm structure in the Vojvodina Province (Bogdanov and Rodić, 2014)²⁷.

Agricultural policy has recognised the problems of fragmented land structure, dominance of small farms and sluggish structural changes in the situation analyses of the new strategic documents²⁸. The issue is multifaceted; on the one hand, small farms are important for the territorial and social cohesion of rural areas, on the other, they contribute to economically less efficient production²⁹. Dimitrievski et al. reported for Macedonia³⁰ that the need for land consolidation as an instrument of agricultural policy has been recognized by decision makers with the adoption of the National Strategy for the consolidation of agricultural land for the period 2012-2020.

While the prospective strategic framework may be (re)acquainting itself with the problem of farm structure, the current agricultural policy does not have many effective measures to address this challenge. Bogdanov has written for Serbia³¹ that agricultural policy has no adequate tools to deal with the structural changes:

“Measures of support for acceleration of structural changes were poorly chosen and occasionally implemented (i.e. flat rate incentives for “passive” farmers with aim to activate land lease market, subsidised interest rates for long term credits etc.).... The farm restructuring process in Serbia took place spontaneously, slowly, with inadequate and unclear message of government to the farmers and investors.”

A similar assessment can be made for the entire region.

Poorly functioning land sales and rental markets limit structural changes. Financial institutions are not using land for mortgage loans, which could contribute to the development of agriculture. We agree with the assessment by Bajramović et al.³² for Bosnia and Herzegovina, which states that *“inappropriate legislation in terms of property rights and irresolution in the choice of the concept of real estate registration slow down modernization, digitalization and restoration of cadastre and land registry, which is the basis for land trade.”* Institutional regulation of land consolidation is politically difficult and the implementation of land operations is administratively and financially demanding. Targeted land policy is missing in the region, which is a major obstacle to agricultural development. This finding paints a dismal picture, given the limits faced by these countries in the current financial, institutional and regulatory environment.

The lack of funds for agricultural policy measures has in recent years probably led to the practice of excluding small farms from direct payments, which is becoming a worrying practice of WB agricultural policies. Arguments that larger producers and those selling to the processing industry (through

²⁷ Bogdanov, N., V. Rodić (2015): Agriculture and agricultural policy in Serbia. In: Volk, T., E. Erjavec, K. Mortensen) (editors) (2014). Agricultural policy and European integration in Southeastern Europe. Budapest: Food and Agriculture Organization of the United Nations, p.153-169

²⁸ See Chapter 3.

²⁹ 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 of a positive connection between size and economics seem to be valid.

³⁰ Dimitrievski, D., A. Kotevska, I. Janevska Stamenkovska, E. Tuna, M. Nacka (2015): Bosnia and Herzegovina: Country Agricultural Policy Brief. SWG/IPTS project documentation.

³¹ Bogdanov, N. (2015): Serbia: Country Agricultural Policy Brief. SWG/IPTS project documentation.

³² Bajramović, S., D.Ognjenović, J. Butković (2015): Bosnia and Herzegovina: Country Agricultural Policy Brief. SWG/IPTS project documentation.

official marketing channels) should be supported limit the development potential of the dominant farm structure, and thus of the entire national agriculture. Such a policy may also have negative effects on population density and rural vitality, and give the (wrong) signal to the majority of holdings, that they are not of public importance and interest. This practice is also entirely contrary to the concept of the CAP, in which direct payments are equal for all producers, while the developmental problem of small farms is recognised by introducing new specific support for them. Giving support only to the large, developed holdings gives the wrong signal to the entire agricultural sector and speaks to the redistributive and interest-based policy orientation. Through modulation and capping, i.e. by reducing payments or setting a maximum permitted level of payments, the EU clearly indicates that it considers large producers to have an economic advantage and that taxpayer funds ought to be evenly distributed.

Farm structure and structural change can also be influenced through support measures for farms, the agro-food chain and producer organizations. There are relatively few such support measures available in the region. Some examples (e.g. the MIDAS program of the World Bank in Montenegro), on the other hand, show that it is possible to successfully influence farm structure, including by granting smaller amounts of targeted support to smaller producers.

In the future, there will have to be greater support in the region for the desired structural change. The key measures are adequate regulation through the adjustment of land legislation, targeted land consolidation instruments, fairer distribution of funds and targeted rural development measures. The establishment of suitable database systems (land property rights with modernisation of land registries, LPIS, soils databases, land markets data) and basic administrative support is a condition for this. Since these are technically and financially demanding tasks, it seems reasonable to seek international donor support, which is in fact happening already.

6. The EU integration process in agriculture

The project has also placed special emphasis on European integration, which is also covered extensively by the Country Agricultural Policy Briefs. The experiences of past European integration processes show that agriculture is one of the most demanding sectors, with some of the most exacting obligations during the accession process. Accession tasks were divided into: a) legal harmonisation; b) implementation capacity upgrading; c) policy reform and economic adjustment; and d) accession negotiations (Erjavec, 2007)³³. The accession negotiations were fundamental and represented a training course on change.

The WB countries in question are at different stages of the accession process³⁴. Two of the candidate countries are waiting for the official opening of the negotiations on agriculture (Serbia and Montenegro), two are waiting for the start of the negotiation process (Albania and Macedonia) and two are potential candidates (Bosnia and Herzegovina and Kosovo*). In the field of agricultural policy³⁵, the key issues are as follows:

- Implementation of the pre-accession assistance IPARD³⁶;
- Harmonisation of the legal framework for the implementation of agricultural policy;
- Institutional capacity building, mainly in administration (programming capacity, paying agencies, the IACS system, other databases, execution of horizontal regulations, ...);
- Adjustment and policy reforms that enable the incorporation of the policy of direct payments, rural development and common market organisation.

All the countries are implementing with varying intensity all the procedures for the adoption of the Common Agricultural Policy covered in these four sections.

IPARD – funding with limitations

The preparation and implementation of the IPARD programme is currently probably one of the key questions of the European integration activity of the WB countries in the field of agriculture. Macedonia is the only country with experience implementing the measures and is currently negotiating its second programme with the European Commission. Montenegro, Serbia and Albania are at different stages of programme adoption and appropriate institution-building. In Bosnia and Herzegovina, the question of whether to adopt one programme or two is a serious political issue.

Experience from Macedonia and before that Croatia speaks about an only partially successful story of pre-accession support in the field of rural development in the region. The lengthiness of procedures regarding the programming and accreditation of the needed institutional framework, low absorption

³³ Erjavec, E. (2007): The EU common agricultural policy and western Balkans integration process and tasks. In: Ševaljić, Miladin (ed.), Danilo Tomić (ed.). *Development of Agriculture and Rural Areas in Central and Eastern Europe : proceedings of plenary papers and abstracts*. Zemun: Serbian Association of Agricultural Economists: 39-43

³⁴ For a detailed review see http://ec.europa.eu/enlargement/countries/check-current-status/index_en.htm.

³⁵ We discuss Chapter 11 of the negotiation process. This contribution does not discuss the questions of food safety or veterinarian and phyto-sanitary matters, which are covered by Chapter 12.

³⁶ Instrument for Pre-Accession Rural Development

of funds (due to programming, administrative and financial constraints) indicate the necessity to conduct additional activities and maybe even regulatory changes.³⁷

The fundamental problem lies of course with the countries, which apply for this assistance and have trouble amassing and organising human, institutional and financial resources. The entire process is often a daunting challenge from the perspective of the quality of decision-making and functioning of state administration and policy makers, which is reflected in the quality and implementation of programmes. Yet there are two sides to every coin – some of the fault also lies with the European Commission, its complex procedures and approaches in dealing with the countries in the region. Therefore we suggest a workshop where all these issues could be examined and gaps and solutions found in order to improve the functioning of IPARD in this region.

Sometimes weak motivation for legal harmonisation

The harmonisation of the legal framework for the implementation of the CAP comprises adaptation of all four legal sets of EU regulations. 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 includes various quality standards, rules for viticulture and winemaking, organic production and others, not to mention the demanding and extensive adaptations in the field of food safety and veterinary and phyto-sanitary regulations, which are a part of the rules of cross compliance as a condition for direct payments.

We have not assessed the progress in the field of legal harmonisation within this project, but it can be concluded from discussions in the region that many issues are already (at least partially) legally harmonised and/or subject to definitive adaptation plans. However, there are still serious gaps between legislation and the implementation of these rules, which is often deficient and not up to European standards. Intensive harmonisation is only to be expected in the central stage of the negotiation process, following a clear signal as to EU enlargement. The protraction of the accession process is taking its toll, weakening the motivation of the WB countries and their ability for more intensive harmonisation. Serbia and Montenegro are at a stage of the process when positive political signals and enhanced internal coordination of procedures can speed up adaptation, bringing it to its final phase.

The serious constraints of institution building

The currently hardest task of the accession process is achieving the necessary institutional changes. The modernisation and strengthening of state ministries, establishing of paying agencies and all the necessary databases, administration and control systems are serious obstacles to any entrant country; this is even more pronounced for WB countries due to the situation in the state administration, financial constraints and an often insufficient (or even non-existent) political understanding of the process and its requirements. The institutional framework and procedures required by the European legal order are so different, administratively, financially and professionally challenging, that they demand extraordinary effort and political will.

³⁷ How critical is the absorption of the EU pre-accession IPA funds for rural development see the data for Macedonia. In the period 2007-2014 only 7 % of available EU funds were used in total (EUR 3.4 million from EUR 48.2 million) according to IPARD Monitoring Committee (2015): Implementation of IPARD from 2007 to 2013 (May 2015). Skopje: Ministry of Agriculture, Forestry and Water Economy.

In the field of rural development, the IPARD pre-accession instrument buffers this shock somewhat by playing an important role in transmitting institutional patterns. Direct payments are a different story, demanding extraordinary investment and changes in mode of operation, which can only be built sufficiently in the pre-accession period if they are equally applied to national measures. A key element of this is the Land-parcel identification system (LPIS), as only its establishment makes possible the execution of CAP-like area payments and other adaptations. This kind of institution building is impossible without external help; and certain past projects indicate that even large, efficient projects do not necessarily lead to implementation. Institution building again confronts us with not only financial, but also human constraints in the region, when processes are halted due to the lack of political will, as well as deficient human resources.

Political will for policy reform

Demands in the field of adjustments and reforms of national agricultural policy measures before accession are the least conceptually elaborated and defined by the European Commission. It is known that an absolute prerequisite for accession is that the acceding country is able to implement all the measures of the CAP after accession. But it stands to reason that it is not possible to build the institutions and harmonize the legislation in the field of agricultural policy without gradually moving the national instruments in the direction of the current CAP. Not only is the administration being adapted in this manner, the stakeholders are also becoming accustomed to the new measures and a similar competitive situation is emerging.

Given the difficulties in the incorporation of policies in some of the countries of the latest EU enlargement, the European Union is introducing a requirement for candidates to draw up a clear strategy and an action plan to reform agricultural policy measures by the time of accession. This step of course requires considerable political will, since every national political scene has its rent-seekers that during times of change try to retain as many of their acquired benefits. At the same time, extensive understanding of agricultural policy, as well as wisdom, is needed to choose an adequate model of measures which is both politically-economically viable and fits the set objectives. Such plans are only just emerging in the countries of the Western Balkans; Montenegro and Serbia³⁸ have come the farthest. The FAO study (2014) offers some possible approaches to this problem, but the key to change lies again in political will and in the capacity of the line ministries (with internal or outsourced analytical support) to provide adequate solutions.

We estimate that the adopted strategic documents and some documents in preparation are a step in the right direction towards the policy reforms needed in the WBs, depending of course on the stage of integration that the respective countries are at. The issues are 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 filled us with a certain measure of scepticism regarding the reality of these changes. But if they do happen, they will be a sign of real political commitment and the fulfilment of a necessary, and perhaps even sufficient, condition for accession.

³⁸ See Chapter 3.

7. Policy conclusion and recommendations

The conducted qualitative and quantitative analyses lead to some general conclusions and recommendations for national experts dealing with agricultural policy, as well as international institutions, especially the European Commission. The fundamental recommendations to modernise agricultural policy were already presented in the FAO study (2014) and not much new can be said; what we are trying to do here is mainly to clarify certain issues and put them into context with the situation and changes in regional agricultural policy after 2013.

Some positive changes and the necessity of agricultural development

The key external factors to affect the regional situation in agriculture in the years 2013-2015 were the catastrophic floods of 2014, the accession of Croatia to the European Union in 2013, and the consequent changes in external trade regimes in the region. The Russian food embargo is a significant influence which has opened up additional possibilities for export growth, and there is of course the state of permanent economic crisis, from which the region cannot break free, despite some positive signals. Each of these factors has different impacts in different countries. Bosnia and Herzegovina seems to be the most affected country, having endured a significant impact of floods on agricultural production in 2014 and the negative effect of closing certain trade channels to Croatia; there is also the question of how much the country has been able to take advantage of the additional sales opportunities in Russia.

Regardless of the fact that there have been no major shifts in production and farm structure, after the review of agricultural statistics and country reports we can report of positive trends in foreign trade, which are mainly a result of stronger exports. We are also probably observing the first traces of results of (mainly) private investments into agro-food chains capable of generating development and exports. It is difficult to predict how stable this trend is, as part of the agro-food in the region is just awakening from years of stagnation. Considerable further investment and coordinated direction of development will be needed on the part of the countries, whose options are rather limited due to the economic crisis and some other deficits. Even these positive trends, however, have not stopped the depopulation and further marginalisation of most remote rural areas. The Western Balkan has two faces and the latter, pessimistic one, requires a faster response than we can even begin to imagine.

In this paper we have focused on the issues of farm structure and land consolidation and draw attention to this issue, an important one for the development of agriculture and rural areas. Disordered land markets are leading to the concentration of land in the hands of a small number of individuals on the one hand and to a stagnating structure based on small farms on the other. Structural changes are spontaneous and headed in an undesired direction; the desired one being an economically efficient diversified structure of various types of agricultural holdings which enables the preservation of the current settlement pattern and the exploitation of natural resources. The establishment of modern land policy is more urgent than ever and requires a lot of knowledge, political will and a competent state administration. Are things really so hopeless in this field? The first step would be for public policy to not distort competition when allocating direct payments.

Lack of stability and consistency in policy

In the years 2013-2015 there were no pronounced changes in the structure and volume of funds for agricultural policy in the region³⁹. The trend of increase in funding has mainly stopped as a result of the economic crisis. Individual countries are adhering in their selection of measures to the course set in the previous years and there are also attempts to find new measures, moving towards production support for every crop and purpose. The instability of the situation is not a good signal for producers, who find it difficult to make long-term production decisions. Deficiencies in competitiveness cannot be set off solely with direct payments. The absence of a targeted development policy remains an unfortunate feature of agricultural policies in the region, as the dominant political pragmatism is failing to respond to developmental deficits.

The adopted strategic documents show that there is an awareness of the key issues of agricultural and rural areas. The problem is choosing the best measures for the identified needs. In certain fields there are practically no measures, at least no effective ones. The redistributive, rather than developmental, role of the state is far too pronounced. In addition, a lack of knowledge about possibilities is common and the region has problems establishing efficient analytical and programming support. The new strategic frameworks of agricultural policy are an important step towards greater stability and consistency of policy. Will decision-makers succumb to the temptation to deviate from the planned direction, or can we speak about real shifts in the quality of agricultural policies in the region?

Political decisions needed for strengthening the WB European integration process

We have tried to further elucidate in this contribution the state of and trends in the European integration process in agriculture. We have pointed out the sluggishness and limits of the IPARD pre-accession support, achievements and a kind of stagnation in the legislative harmonisation, prospects for the creation of the necessary key institutional infrastructure for policy implementation, and the lack of clear action plans for policy reform and adjustments to assume the Common agricultural policy. The common denominator of all these activities – a necessary, but not sufficient condition for change – is assuming responsibilities and decisions on the part of decision-makers, both on the country- and on the EU-level. EU-level decision makers should provide clearer signals that an actual enlargement of the EU in the middle-term is a realistic option for at least some countries in the region. On the part of the latter, there is a lack of understanding of the role of agriculture in the integration process, as well as decisions on achieving mostly already set goals.

The remarkable fluctuation of agricultural ministers in the region is also a problem of the long-term European integration course, as it prevents the accumulation of knowledge and political power and skills in this challenging, but political sector. Politically stronger coordination and governance of European affairs, which will also bring about changes in human resources, financing, and institutional upgrading, are a must for further serious shifts. The state administration urgently needs better leadership and initiative of government officials. Many cases of good practice speak to how much can be done with officials who have both expertise and diligence.

It is also necessary to re-examine the role of the European Commission and international donors in the integration efforts. Beside the enthusiasm of certain individuals, there have been cases of an obvious paternalistic approach that is not based on reality and needs of the region, and is sometimes

³⁹ For more detail see Chapter 4.

professionally questionable. Agricultural public administration and policy makers need and deserve a cooperative attitude.

Most of the open issues of the European integration processes lie in the field of policy reform. Institution building, harmonisation of legislation and IPARD are demanding content-wise, but patterns have been set up; they must be incorporated, aligned with national needs, invested into and implemented. Policy reform, on the other hand, is a softer, less delineated field, so we will reiterate some of the suggestions made in the FAO study (2014):

- It is necessary to prepare an Action plan for the adaptation of domestic politics and preparing it for the adoption of CAP measures;
- The best way of adapting is a gradual incorporation of those elements of the CAP that make sense for each country and have a long-term orientation, such as strengthened rural development policy and per area and animal direct payments;
- Direct payments should be introduced in accordance with the adaptation of institutional frameworks (IACS, especially LPIS), incompatible measures should gradually be abolished and only those introduced which can be translated into the current CAP without major shocks to stakeholders and administration. A strategy should be prepared for already standing measures which are incompatible with the CAP, and in case of transitional periods after accession, only those measures should be preserved that have clear and long-term economic effects.

Strengthening policy analysis and an evidence-based policy approach

This project has pointed to the preservation of some of the shortcomings of agricultural statistics and its application in the region. Regardless of different situations in individual countries, we would have expected further adaptation to European standards in statistics, introducing additional indicators, a greater availability of survey results and a further general increase in quality. These expectations have been confirmed only in part. We see some of the reasons for this in the actual use of agricultural statistics in the region. Experience shows that the improvement of statistics depends on user requirements, in particular of ministries and academia. Excellent knowledge and a solid interpretation of basic statistical indicators are the first and fundamental steps of monitoring and analysis of agricultural policy. Here we miss more progress and commitment, including in academic circles.

There has been no success in establishing a stable and constant system of analytical support for agricultural policy in the region. Again, there is an awareness of the problem, which lies not only in the variable demand, but also in a very limited supply. There is a need for long-term decisions, permanent monitoring and impact assessments, and investment into human resources, international comparability and cooperation. Serious efforts are needed on both 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 countries and at the same time the analytical units in the ministries must be strengthened. The ministries must also increase awareness of the necessity of an evidence-based policy, i.e. an analytical approach, quantitative assessment of facts and an expert approach. These shifts again demand decisions at the highest ministerial level, and it helps if the administration itself supports and develops this approach.

Despite the difficulties in finding and using basic statistical research, sectoral analytical work demands a more audacious approach to the evaluation of policies and impact assessments of various situations in agricultural policy – in this case especially the consequences of European integration processes and changes in national policies in the pre-accession period. It is therefore necessary to develop modelling tools and participate in international consortia of different models (AGMEMOD, CAPRI, GTAP, IFM-CAP). Examining the possibility of introducing the IFM-CAP model for countries in the region can be an important step in that regard and deserves special attention. Especially younger researchers are to be counted on in this respect, giving them an opportunity and encouragement to develop.

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 developmental impulses, on the other there are stagnation and loss of resources. Given the delayed development, the sector and rural areas are in need of investment and more pronounced well-targeted policy instruments. The choice of instruments is not simple given the modest resources, 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 instruments, but the automatic transmission of patterns without adapting them to the political-economic and agronomic regional framework will not be successful, if it is at all possible.

Political commitments regarding accession must be translated in agricultural policy by decisions regarding the key issues of agricultural development and adequate institution building. The establishment of appropriate analytical support in line ministries and outsourcing institutions can be of aid here. The development of such support can also be enhanced by regional cooperation, continuous common monitoring and analyses like the present; these cannot, however, substitute the further strengthening of an evidence-based policy approach.

To conclude, we present range of some agricultural policy issues that merit being addressed on a regional level and may support the common effort to improve the efficiency of agricultural policy:

- land laws and reforms – a model for the Western Balkans;
- the small farms issue and policy support;
- support for forming modern agro-food supply chains;
- less favoured areas support systems;
- efficient support to horizontal and vertical producer organisations;
- introduction of risk management support;
- future development of Agricultural Knowledge and Innovation Systems (AKIS);
- democratic and transparent agricultural policy decision-making processes;
- modernisation of the rural finance system.