

Serbia: Agricultural Policy Development and Assessment

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Abstract

This study focuses on recent agricultural policy developments in Serbia, with particular attention given to programming and planning documents and direct payment support schemes. The analysis covers the period 2010-2015. The objective of the study is to present and discuss the changes in the overall policy framework, the key trends in agricultural budgetary transfers by pillars and group of commodities, and the national direct payments policy. To achieve these objectives, we used the methodological approach that includes qualitative analysis of the key policy documents (legislative acts, strategies, programming documents and secondary regulations) and quantitative analysis of budget transfers by policy pillars and group of measures. The budgetary analysis was carried out on the internal project database on budget execution.

We have concluded that the current agricultural policy in Serbia is implemented with the mix of support measures, but with limited capacity to address some of key challenges facing agriculture.

1. Introduction and approach

During the past decade agricultural policy of Serbia was marked by frequent changes in policy frameworks, implementation mechanisms and budgetary transfers to agriculture. In spite of unstable and often inconsistent policy measures and unpredictable shifts in implementation mechanisms, in recent years there is a progress in setting up institutional structures and adjusting the agricultural policy concept to the CAP. The most powerful impetus to accelerating the institutional and policy reforms was the opening of negotiations on Serbia's accession to the EU, at the end of 2013. Over the last three years the legal, strategic and programming documents regulating agricultural policy have been adopted and institutional structures established to address requirements of EU integration process.

The legal framework for the implementation of agricultural policy is regulated by the set of laws that have been passed since 2013. The strategic framework is defined by the Strategy of agriculture and rural development for 2014–2024 (adopted in 2014) and the IPARD program (adopted in 2016), both providing a more stable and transparent basis for policy implementation. Besides some progress in policy formulation, there still are problems in its implementation. The biggest threat to the realization of the policy objectives envisaged by Strategy comes from the absence of medium-term programming documents, an unstable system of financing and sharp cutbacks of budgetary support to agriculture and rural development in 2015 (that continues in 2016).

This report aims to provide information to understand the recent developments in Serbian agricultural policy. We do this in the way that: (i) we look at the main valid strategic and programming documents in the country, with special emphasis on the measures to be implemented in the future; (ii) we examine the budgetary transfers and funds in recent years by pillars and group of commodities; (iii) we present the system of direct payments to highlight the changes in the implemented measures and eligibility criteria, and (iv) we assessed the policy implementation process, before we draw conclusion from the research work presented.

Methodological approach includes qualitative content analysis of the strategic and programming documents regulating the current agricultural policy framework. Attention is primarily focused on the policy operationalisation, i.e. on the contents of the legislative acts governing the implementation of support schemes and policy measures. Quantitative analysis of budgetary transfers by policy pillars and group of measures was performed on the database of agricultural policy measures implemented in Serbia in the period 2005-2015 using the APM classification scheme for clustering support measures to the corresponding group (Rednak et al. 2013)¹.

2. Strategies and programming documents of agricultural policy

The acceleration of EU integration processes has generated numerous policy and institutional improvements in Serbian agriculture. The legal, strategic and programming documents

¹ Support measures, including data on the executed budget, are grouped according to APM model, and do not follow the structure provided for by national legislation.

governing the agrarian policy of Serbia are updated, and some institutional structures adjusted to meet the challenge of the new model of the policy implementation.

The agriculture and rural development policy in Serbia for period 2010-2015 was based on two main legislative acts:

- The *Law on Agriculture and Rural Development* (adopted in 2009)² – which defined mechanisms for creating and implementing agricultural policy and the key documents governing the agricultural policy in the medium and long term perspective.
- The *Law on Incentives in Agriculture and Rural Development* (adopted in 2014)³ which replaced the Law on agriculture and rural development– and regulates the types of support, funding and ways of implementation, but does not deal with matters on creating and adopting of the policy frame.

The Law on agriculture and rural development envisaged that agricultural policy of Serbia has to be regulated by the Strategy for agriculture and rural development, the National programme for agriculture and the National programme for rural development. The Strategy for agriculture and rural development was adopted in 2014, defining the vision, strategic goals and budgetary framework for the period 2014-2024. The national program for agriculture and the national program for rural development, which was supposed to define the mid-term policy objectives and its implementation, have not been adopted. In the meantime, the Law on agriculture and rural development was replaced by the Law on incentives in agriculture and rural development, which not predicts the need for policy frame for the mid-term period. Therefore, instead by the multi-annual program, agricultural policy is being implemented on the basis of the annual regulations (based on the Law on incentives in agriculture and rural development), while the support measures are implemented on the basis of secondary legislation (rule books).

The measures of support envisaged by the Law on incentives in agriculture and rural development are presented in the Table 1, as well as changes in relation to the previous law.

In terms of the scope, the purposes and the allocation of budgetary funds by type of incentives, the Law on incentives in agriculture and rural development envisages that the maximum amount of direct payments depends on available resources (defined by the annual law on budget), the amount of support by the type of incentives and the number of beneficiaries. The Law stipulates that the amount of incentives for the milk production can be defined at a higher level depending on the quality of milk, and the quantity of milk produced per cow in lactation period. Besides, incentives for direct payments, rural development and special incentives can be determined at different level, depending on whether they are intended to areas with difficult conditions in agriculture (which is not the case with incentives for credit support).

² Official Gazette of RS, 41/09, 10/2013,

³ Official Gazette of RS, 142/2014 and 103/2015

Table 1. The measures of support envisaged by the Law on Incentives in Agriculture and Rural Development (2014)

I DIRECT PAYMENTS
Premiums
1. Milk premium
Incentives for plant production
2. Basic incentives for plant production
3. Incentives related to production
Incentives for livestock production
4. Incentives on quality breeding stock
5. Incentives on fattening cattle, lambs and pigs
6. Incentives on suckler cows
7. Incentives on beehives
8. Incentives for the production of consumable fish
Input subsidies
9. Input subsidies on fertilizers, seeds and other inputs
10. Incentives for the costs of storage in public warehouses
II RURAL DEVELOPMENT
Subsidies for investments in agriculture to improve competitiveness and achieve quality standards
11. Subsidies for investment in agricultural production (on farms)
12. Establishment and strengthening of producer groups
13. Subsidies for investment in processing of agricultural products and marketing
14. Insurance premium subsidy on crops, perennial plantations, nurseries and animals*
Subsidies for sustainable rural development
15. The implementation of agro-environmental measures
16. Organic production
17. The preservation of plant and animal genetic resources
18. Compensatory payments for the implementation of good agricultural practices, animal welfare and other policies to protect and preserve the environment
Subsidies on rural economy improvement
19. Investments for the improvement and development of rural infrastructure
20. Improvement of economic activities in the countryside by supporting non-agricultural activities
21. Economic activities such as adding value to agricultural products, introduction and certification of food safety and food quality systems, organic products and products with geographical indication
22. Improving training in the field of rural development
Support for the preparation and implementation of local rural development strategies
Support for advisory and extension service**
III CREDIT SUPPORT
23. Input subsidy on part of interest rate
IV SPECIAL INCENTIVES
24. Incentives for marketing information systems in agriculture
25. Incentives for the establishment, development and operation of accounting data on agricultural holdings
26. Incentives for the implementation of breeding programs, in order to achieve the goals in livestock breeding
27. Incentives for the implementation of research, development and innovation projects in agriculture
28. Incentives for the production of planting materials and certification and clonal selection

* This measure was previously grouped under the Input subsidies

** This measure was previously grouped under the Special support

The operationalization of agricultural policy measures is regulated by:

- Annual Regulation on the allocation of subsidies in agriculture and rural development⁴ which defines the total funds, the type and maximum amounts for certain incentives in accordance with the Law on incentives in agriculture and rural development and the annual law on the budget of the Republic of Serbia.
- Annual rulebooks on conditions and way of exercising the right to support for particular measures which stipulate in detail amount of support, eligibility criteria and the way of exercising both the rights and responsibilities of beneficiaries.

The absence of institutionalised monitoring and evaluation system, and absent, weak, or poorly defined benchmarks and targets, are the weakest links that impedes the effectiveness of agricultural policy. According to the Law on incentives in agriculture and rural development, Ministry of agriculture is obliged to annually publish a Green report, which should include assessment of the situation in the sector and the effects of measures implemented in the previous year. Green report is published as of 2014, of more or less the uniform content. The Green report still does not address the effects of policy measures, and deals only with composition of agricultural budget per type of subsidies defined by annual regulations. Though the statistical databases, FADN and the internal registries of the Ministry are improved, these resources are not used to establish transparent and systematic baseline indicators for an objective assessment of the situation in the sector.

3. Agricultural policy development in the country

In the period 2010-2015 budgetary expenditures to support agriculture varied in the range from EUR 191.1 million in 2010 to EUR 315.4 million in 2014. The share of agricultural budget in the total budget varied as well, but remained below 5% (as it is anticipated in the Law on incentives in agriculture and rural development). Throughout the whole period 2010-2015 the share of agriculture in the total budget was lower than sectors contribution to the GVA (8-10%; Agricultural Statistics Database – Serbia 2016), which makes the relative ratio of these two indicators of about 0.5, and puts Serbia on average among developing countries (Bogdanov et al. 2016).

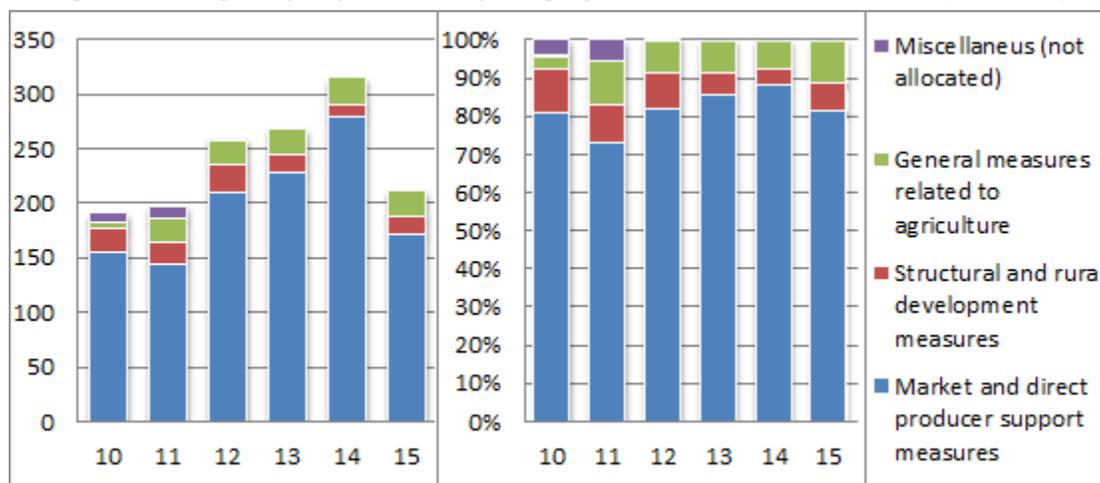
Stable and constant growth of budgetary support to agriculture which started in 2009, has stopped in 2015 (Figure 1)⁵. The total budgetary transfers to agriculture in 2015 fell by 33% compared with 2014, with most cuts seen in executed funds for direct producer support measures (by 38% compared to 2014). The funds allocated for rural development measures in 2015 increased (by 24%) as well as their share in the total budget (from 4.0 % in 2014 to 7.4 % in 2015). The increase of funds allocated for rural development support was caused by the increase in funding of on-farm investments in improving the competitiveness (from EUR 10.0 million in 2014 to EUR 13.8 million in 2015). Funding of general support measures remained at

⁴ Measures funded under the Fund for agricultural development, the Directorate for agrarian payments and Ministry of agriculture and environmental protection.

⁵ Due to deficiencies in the records of budgetary support to agriculture in mid-2000, it is impossible to accurately compare the data for the whole decade; anyhow, we can say with great certainty that the agricultural budget in 2015 was among the lowest in the last decade.

the same level in absolute terms (EUR 24 million), while their share in total budget increased (from 7.6% in 2014 to 11.3% in 2015).

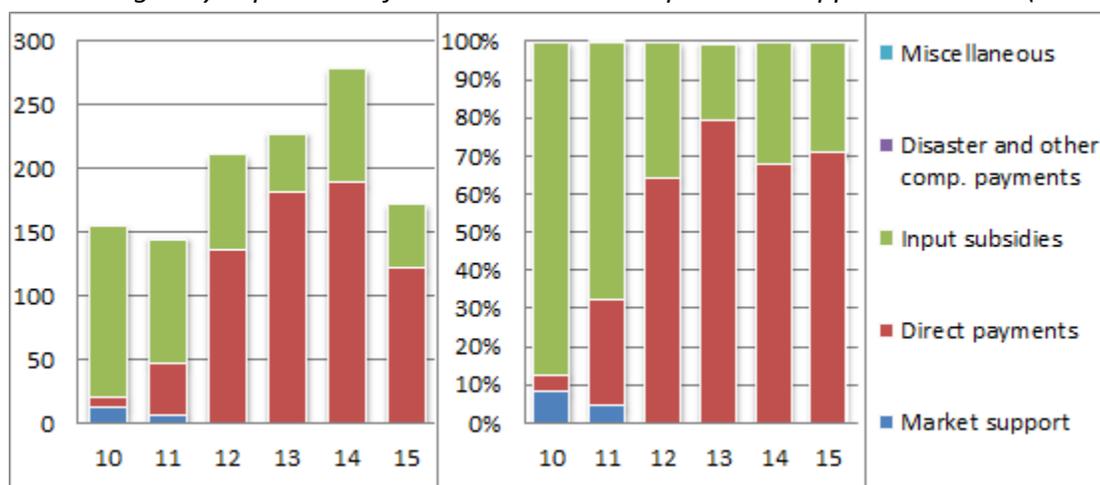
Figure 1. Budgetary expenditures for agri-food sector and rural areas (Mill EUR)



Source: APM Database - Serbia 2016

Most of the first pillar funds are allocated for direct producer support measures (100% in 2015). Within this group of measures, in 2015 there has been a reduction in funds spent on direct payments (from EUR 189.1 million in 2014 to EUR 122.1 million in 2015) and input subsidies (from EUR 89.7 million to EUR 50.4 million).

Figure 2. Budgetary expenditure for market and direct producer support measures (Mill EUR)



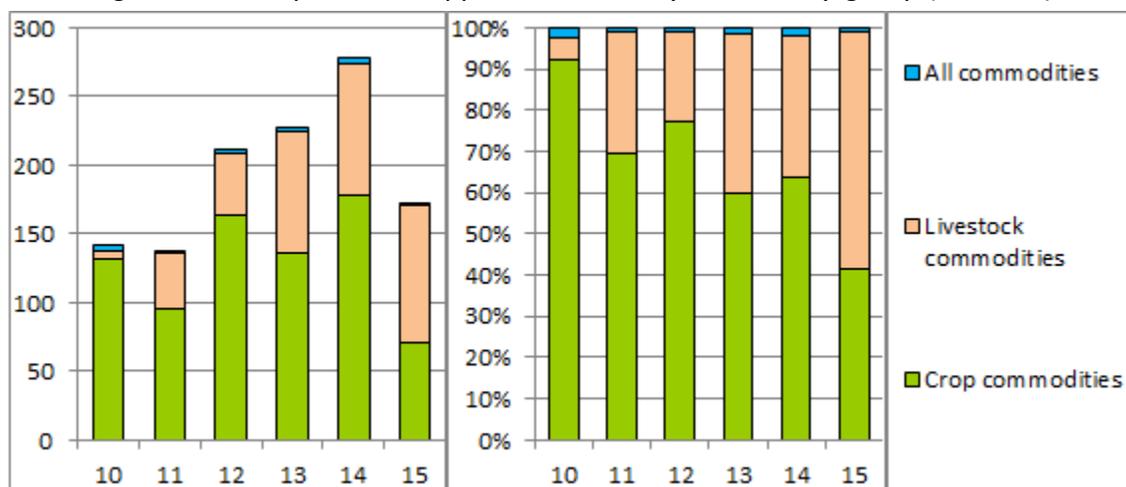
Source: APM Database - Serbia 2016

Along with the reduction in direct support to producers from 2014 to 2015 there has been also a change in their allocation by commodity groups, reducing the share given for crop production and increasing the share of support to livestock producers (Figure 3).

The data shows that the commodity linked payments for crops decreased in 2015 by 60%, while livestock related payments increased by 4%. The commodity payments for livestock production

dominate the transfers to agricultural producers in 2015 by 57.7 (34.3 in 2014), followed by commodity payments for crop products of 41.3% (63.8% in 2014) and 1.0% for all products (1.9% in 2014).

Figure 3. Direct producer support measures by commodity group (mill EUR)



Source: APM Database - Serbia 2016

Overall conclusion is that the budgetary support to agricultural producers in 2015, despite the continuity in the implementation of particular measures, reflects the strong conceptual shift in the direction of favouring of livestock production, even under conditions of significant budget cuts.

4. Agricultural direct payments

With the reforms of agricultural policy at the beginning of 2000s direct payments were introduced as coupled payments, linked to production based on area or animals and compensating farmers for cuts in market support. Changes in the direct support schemes since 2010 were related to beneficiary eligibility criteria, products covered by the support, and the amount of annual incentives.

Table 2. Direct producers support per group of measures (mil EUR)

	2013	2014	2015	Change 2015/2014
Direct payments based on output (price aids)	36,9	40,6	37,1	-8.6%
Direct payments based on current area/animal	145,4	148,5	85,0	-42.8%
Payments per hectare	93.6	93.5	22.6	-75.8%
Payments per animal	51.8	55.1	62.4	13.3%
Variable input subsidies	45,0	89,7	50,4	-43.8%
Fuel subsidies	42,0	51,7	25,3	-51.1%
Fertiliser subsidies	0,0	32,6	23,3	-28.5%
Insurance subsidies	3,0	5,4	1,8	-66.6%

Source: APM Database - Serbia 2016

Budget cuts for direct payments in 2015 were not equally allocated to all sectors. The scope and structure of direct payments in 2015 provide additional arguments for arguing that the livestock sector is favoured in relation to others (Table 2). Despite the radical reduction of the budget, livestock related direct payments (per animal payments) increased by 13%, while direct payments based on area under crops (per hectare payments) decreased by 76%, fuel subsidies by 51% and fertilizer subsidies by 29%.

To be eligible to incentives the farmer must be registered in the Farm register. Apart from that, incentives for livestock production are conditioned by performing of identification and registration of the animals, or hives in the Central database (except poultry).

In 2010 and 2011, the users (out of areas with natural constrains for agricultural production) were obliged to pay mandatory pension and disability insurance contributions.

For each particular support measure specific eligibility criteria are defined.

Payments based on output (price aids)

The milk premium is the only measure of the direct payments based on output which was implemented over the whole period 2010-2015 (the price aids for other products were abolished even before 2010 and replaced by direct payments per hectare).

The required eligibility criteria and the amount of incentive varied until 2013, when both the minimum and maximum limits for delivered milk were set. The flat rate payments have remained, but the lower threshold for delivered milk was introduced for the areas with natural constrains for agriculture.

Table 3. Payments based on output (EUR/litre)

Description/Specific requirements	2010	2011	2012	2013	2014	2015
Dairy premium (granted for cow, sheep or goat milk delivered to dairies; set minimum and maximum quantity to be paid)	0.04	0.05	0.04; 0.06	0.06	0.06	0.06

Source: Authors' elaboration based on regulations and rulebooks governing the implementation of agricultural policy measures

The funding of dairy premium in 2015 was EUR 36.7 million (8.6% decrease compared with 2014).

Payments based on area/animal

Direct payments per hectare/head are the main form of support schemes, on which in the last two years around 50% of agricultural budget were spent. The support measures that were implemented varied in period 2010-2015 in terms of the amount of incentives, products and limits.

The direct payments per hectare were introduced in 2013, replacing the part of previously used input subsidies for fertilizer and fuel. In 2012 incentives were intended only for areas under arable crops, but since 2013 the support extended (in form of flat rate) to permanent crops.

In a relatively short period since the introduction of this support scheme, there was a constant decrease in the amount of incentives (from 56.8 EUR/ha in 2012 to 49.3 EUR/ha in 2015), followed by drastic cuts of the maximum area that is eligible for this support in 2015 (from 100 ha to 20 ha). Essentially, the reduction of the total budget for agriculture and rural

development, and particularly sharp decline in funds intended for direct payments to producers, is the result just of reduction in area covered by the direct payment per hectare.

Table 4. Payments based on area (EUR/ha)

Description/Specific requirements	2010	2011	2012	2013	2014	2015
Payment for field crops (granted for area under cereals, potatoes, fodder plants, industrial plants and leaf tobacco)	-	-	57			
Payments for field crops and permanent crops (granted for field crops, orchards and vineyards): paid for max 100 ha				53	51	
paid for max 20 ha						50

Source: Authors' elaboration based on regulations and rulebooks governing the implementation of agricultural policy measures

The direct payments per animal head were implemented in 2010 and 2011 for breeding animals (cows, sheep and goats, pigs) and since 2012 extended to fattening cattle and pigs. Since 2013 direct payments include also support for fattened lambs, beehives, various types of parental poultry and since 2015 also for suckler cows.

In comparison to direct payments per hectare, direct payments per head are more diverse in terms of the number of measures and supported product.

Table 5 Direct payments based on livestock number (EUR/head, hive)

Description/Specific requirements	2010	2011	2012	2013	2014	2015
Payments for (pure breed) breeding cows*	121	245	221	177	170	207
Payments for (pure-breed) breeding sheep and goats*	29	39	35	35	60	58
Payments for (pure breed) breeding sows*	29	39	35	35	34	58
Payment for fattened young bulls**	-	-	88	88	85	83
Payment for fattened pigs**	-	-	9	9	9	8
Payment for fattened lambs and kids**	-	-	-	9	17	17
Payments for parental poultry: heavy/light type hens	-	-	-	0.5/0.9	0.5/0.9	0.5/0.8
turkeys	-	-	-	-	2.6	2.5
Payments for beehives	-	-	-	4	4	4
Payments for suckler cows (for meat or cross-breeds with meat breeds; no delivery to dairies)	-	-	-	-	-	166

* granted for animals with registered pedigree; set threshold and max number of animals

** granted for animals delivered to slaughterhouse (from 2012 on) or intended for export (from 2013 on)

Source: Authors' elaboration based on regulations and rulebooks governing the implementation of agricultural policy measures

Input subsidies

The general tendency in input subsidies has been the concentration of support on diesel fuel and mineral fertilizers. This trend continued in 2015, but with sharp decline in the amount of funds (from 84.3 mill EUR in 2014 to 48.6 mill EUR in 2015) as a consequence of lowering the maximum amount to be paid per hectare for fuel and fertilizers subsidies (from 51.1 EUR/ha to 24.7 EUR/ha).

Redistribution of funds for direct support between payments per hectare and payments for variable inputs detriment of producers, especially to those market oriented cultivating over 20 ha. With the initial 136 EUR/ha for the reimbursement of the costs of inputs in 2010, the direct support was reduced in 2015 to a maximum of 100 EUR/ha (fertilizers and fuel subsidy and

direct payments per ha), for areas up to 20 ha, or 50 EUR/ha for areas over this threshold (Table 4 and Table 6).

Table 6. Input subsidies

Description/Specific requirements	Unit	2010	2011	2012	2013	2014	2015
Subsidy for fertilizers, seeds and fuel (reimbursement of part of costs of purchased inputs; for area under field crops and vegetables; paid for min 0.5 ha and max 100 ha; limited payment per ha):							
mineral fertilizer	max EUR/ha	58	59				
declared seed	max EUR/ha	39	39				
diesel fuel, euro diesel, biodiesel	max EUR/ha	39	39				
addition for area under tobacco	max EUR/ha	194	196				
Fuel subsidy (refunds for diesel fuel):							
set per litre; limited total quantity	EUR/litre			0.53; 0.20			
set per litre; limited payment per ha	max EUR/ha				53	26	25
Fertilizers subsidy (reimbursement of part of costs of purchased plant nutrition products):							
set per kg ; limited total quantity	EUR/t	0.10					
set per kg; limited payment per ha	max EUR/ha		-	-	-	26	25
Insurance subsidy (co-financing of crop and livestock insurance premiums):							
paid for max 100 ha	%	40	40	40			
paid for max 20 ha	%				40	40	40

Source: Authors' elaboration based on regulations and rulebooks governing the implementation of agricultural policy measures

Besides the subsidies for fuel and mineral fertilizers, insurance subsidies were implemented over the whole period.

Although the Law on incentives foresees the possibility of additional payment for milk quality and incentives for the quantity of milk produced per cow, they were not applied in 2015.

5. Assessment of implementation of agricultural policy documents

Despite the absence of multi-annual programming documents, the adoption of the legal framework has contributed to greater consistency of agricultural policy in terms of continuity of support measures that were applied in recent years. However, operationalization of agricultural policy remains problematic and faces several obstacles.

Some of the measures envisaged by the Law on incentives in agriculture and rural development have not been funded:

- Production related incentives for crops, based on yields and type of crop
- Incentives for the costs of storage in public warehouses,
- Investments for the improvement and development of rural infrastructure,
- Compensatory payments for the implementation of good agricultural practices, animal welfare and other policies to protect and preserve the environment
- Support for the preparation and implementation of local rural development strategies

The biggest drawback of Serbia's agricultural policy is the unpredictable and unstable budgetary framework. Consequences of such policy-making is that redistribution among certain support measures is carried out based on the funds available in a given year, regardless of the needs of individual sub-sectors, without transparently predetermined criteria, but on an ad-hoc selected priorities.

A lower percentage of realization of the planned funds on an annual basis is notable. Data on the budget execution in 2015 indicate a lower realization of support measures for rural development (which generally have a low share of the total budget) (Table 6). However, these data do not reflect the situation regarding delays in payments, suspension or delay with public calls and other problems⁶.

Table 7. The realisation of planned budgetary support in 2015

Support measures	% of realisation
Direct payments per ha	
Basic incentives for plant production	96
Direct payments per head	
Incentives on quality breeding fattening cows	98
Nurse cows	91
Input subsidies	
Insurance premium subsidy	21
Rural development support	
Subsidies for investment in agricultural production	76
Adding value to agricultural products	47
The preservation of plant and animal genetic resources	77
Improvement of economic activities in the countryside by supporting non-agricultural activities	39
Improving training in the field of rural development	0
Support for the preparation and implementation of local rural development strategies	0
Credit support	16
General support measures	
Incentives for the implementation of breeding programs, in order to achieve the goals in livestock breeding	89
Incentives for the implementation of research, development and innovation projects in agriculture	12

Source: Authors' elaboration based on regulations and rulebooks governing the implementation of agricultural policy measures

The analysis of the direct support payments confirmed earlier standpoint of the agricultural policy deficits resulting from the lack of an evaluation and monitoring system, benchmarks and targets. The existing system ensures (more or less) the continuity of support envisaged by the Law on incentives in terms of measures to be applied, but not in terms of the amount of incentives and types of beneficiaries.

Many studies warn about the lack of coordination and harmonization of Serbian national policies, not so much in terms of conceptual frame, but rather in relation to their implementation. The same can be said for the non-compliance of agricultural policy and regulatory measures of trade policy. In such circumstances, in response to market failures

⁶ Due to the increased number of requests for incentives for production, at the end of 2015 the Government has adopted a program on the basis of the right on incentives in agriculture in 2015, which has been granted an additional RSD 10.1 billion (EUR 83 million), to be paid in the first quarter of 2016.

government has used other instruments, beyond measures envisaged by the Law on incentives and agricultural budget. As an example we can mention the dairy sector, where the government for the purchase of surplus milk in 2015 used means of the State Directorate for Commodity Reserves and activate additional tariffs as protective measure.

6. Conclusions and policy recommendations

Serbia has made some progress in aligning its programming documents and administrative structures with the EU requirements, but insufficient (if any) progress has been made to effective policy operationalization.

The concept of the future development of agriculture in Serbia is defined by the Strategy of Agriculture and Rural Development for 2014-2024 (2014), as umbrella document. The multi-annual programme and (even indicative) financial envelopes are not defined. In the absence of midterm programs, agricultural policy is implemented by applying the Law on incentives for agriculture and rural development and the Law on budget, on the basis of annual regulations and rulebooks. In addition, the policy-making process still lack the standardised monitoring and evaluation system, to measure the degree of coherence between the policy objectives and measures implemented to achieve these objectives and their effects.

The current Serbian system of policy coordination, design and implementation, with the aforementioned deficits, does not guarantee the rationality and effectiveness of budgetary support to agriculture. In an effort to overcome these limitations, different legal solutions and instruments outside the scope of agricultural policy were used in recent years.

The current distribution of direct payments indicates the existence of several systemic deficiencies:

- *The current system of direct payments does not rely on objective and valid baseline indicators, neither on assessed outcomes of applied measures.* Therefore, the objectives of certain measures, type of incentives and eligible beneficiaries are poorly defined, resulting that a large part of the budget is spent in a way that does not guarantee the sustainable growth of the sector.
- *The direct payment support schemes are implemented on the manner that only partially complies with CAP model.* Most of the selected measures are implemented with very simple requirements and low thresholds and make very little contribution to growth of competitiveness, acceleration of structural changes and overall policy objectives defined by Strategy.
- *Dual structure of agriculture in Serbia, as one of its most striking features is not well reflected in the selected support measures and conditions for eligibility for support.* Although the thresholds for support are set at a relatively low level for the most of implemented measures, and provide an opportunity for vast number of users to apply, this approach is not necessarily the best from the point of policy rationality and efficiency:
 - The "lump-sum payment" method, where the payment is fixed at an equal amount for all farmers participating in the scheme (irrespective of the farm size and

specialisation), has no real contribution to broader sector goals (e.g. structural changes, higher competitiveness, public goods, etc.). With limited budgetary funds for agriculture, this system contributes to the equity objectives, rather than growth of competitiveness.

- Support measures tailored to small farms and their objective needs are not created. There are some indications of a desire to respect the specific needs of small farms in areas with limited conditions in agriculture (lower threshold for entitlement to milk premium and higher subsidies for on farm investments), but the question is whether these measures are relevant for small households.
- *A better fit between income support role of direct payments on one side, and policy objectives related to competitiveness and provision of public goods on other side, is needed.* The application of cross-compliance requirements to direct support payments will be particularly important in addressing these issues, although it requires additional costs for setting up the legal and institutional framework. Additional requirements for area and headage payments are introduced only for organic production, without any other distinction to producers complying with a quality and environmental standards, certain farming practices or behaviours (e.g., cooperation, land management, transferring farm assets to younger farmers etc.).

The reforms of legal, strategic and programming documents governing the agricultural policy of Serbia and institutional structures related to the EU accession are for the years on the top of the agenda of the Ministry of agriculture. Regardless of commitment to policy and institutional adjustments, accreditation of Paying Agency is not completed, so the IPARD funds will not be disbursed within the stipulated time (2016). Uncertainty about the dynamics of the EU accession process (or even the beginning of the use of the IPARD funds) and recent developments on global and regional markets, warns of the need for a stronger focus on the real situation and the problems of the sector. Therefore, a clear political decision on the priority policy objectives (choosing between competitiveness and equity), as well as to state explicit targets, are of particular importance.

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