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Agricultural policy developments and EU approximation process in the Western Balkan countries

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Foreword and acknowledgments

The approximation process with EU remains one of the main economic and political projects for the Western Balkan area[1]. The changing policy framework may have wide ranging impacts for the development of the overall economy in general and the farming sector in particular. Along with the national schemes resulting from the country-specific policy designs and budgetary allocations, the EU has developed an instrument to ease the transition process of the Western Balkans and Turkey in their preparations for acceding the EU – an Instrument for Pre-accession Assistance (IPA). Most of the assistance for agriculture and rural development in pre-accession countries/territories is implemented through the multiannual IPA rural development programme (IPARD II, covering 2014-2020).

In this context, the changing policy environment in the Western Balkan area requires developing approaches for agricultural data collection and analysis to shed light on the potential impacts of the adopted policies on the farming sector and the approximation with the EU *acquis* in the area of agriculture and rural development. This will allow better understanding of the effectiveness and efficiency of adopted policies and thus can provide scientifically based support to policy making. A more comprehensive knowledge of the effects of individual policy measures on development of the agricultural sector would allow better targeting in both national support schemes and IPARD pre-accession assistance.

Having in consideration the small size of the Western Balkan countries/territories their mutual proximity – geographic as well as cultural, historical, economic and political, their similarity in terms of the approximation process with the EU, mutual cooperation is seen as a key factor for their future development. In the making of agricultural policy, this cooperation is crucial to take place in the the Western Balkan area by sharing and comparing policy instruments, support levels, and state of harmonization with the CAP. It is also important for researchers and policy makers in order to develop fact-based policies that will give the sound basis for long-term development of the agricultural sector in the region.

Over the recent years, the Joint Research Centre (JRC) and the Directorate-General for Agriculture and Rural Development (DG AGRI) of the European Commission have initiated a number of research activities related to the economic analysis of the agricultural sector in the EU and selected non-EU countries, territories and their associated agricultural policies. In terms of policy analysis in the Western Balkan area, JRC and DG AGRI financed and Regional Rural Development Standing Working Group in South Eastern Europe (SWG) conducted the monitoring of agricultural policy developments covering the period before 2015 with two studies: "Analysis of agricultural and rural development policies in Western Balkan countries" and "National policy instruments and EU approximation process: effects on farm holdings in the Western

([1]) The Western Balkan countries/territories: Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, Serbia

Balkan countries"[2]. The study "Agricultural policy developments and EU approximation process in the Western Balkan countries" is a follow-up to the previous research efforts.

On this occasion, JRC and SWG would like to thank all participating Ministries of Agriculture and Rural Development from the SEE region and all involved experts for their valuable contributions, as well as the Biotechnical Faculty of the University of Ljubljana for the international expertise provided in the development of this study. We would like to gratefully acknowledge Liam Breslin, Marius Lazdinis and Zigo Rutkovskis (DG AGRI) for their support in the process and valuable feedback on the results.

On behalf of JRC	On behalf of SWG
Mr. Giampiero Genovese	Mr. Boban Ilic
Head of Unit	Secretary General

([2]) http://seerural.org/wp-content/uploads/2017/06/Monitoring-of-agricultural-policy-developments-in-the-Western-Balkan-countries.pdf

Abstract

This report provides an analysis of agricultural policy developments and the EU approximation process in the Western Balkan area. Quantitative analysis of agricultural policy developments was performed using data on budgetary support for agriculture, systematised according to the Agricultural Policy Measures (APM) classification scheme, a uniform classification of agricultural budgetary support enabling comparison of the scope and structure of budgetary support for agriculture between WB countries/territories and the EU. The report concludes that in WB countries/territories, agriculture is an important sector for the national economies, but with a declining tendency. Significant progress has been made in recent years in aligning long-term programming documents and administrative infrastructure with EU requirements. In most WB countries/territories, the composition of direct support for producers has not changed much since 2013. Funds for structural and rural development measures are generally low and fluctuate considerably from year to year. Support for improving the environment and the countryside is insignificant. Decoupled payments represent almost 90% of direct payments to EU producers. There are no such payments in the WB countries/territories.

Abbreviations

APM	Agricultural Policy Measures
AL	Albania
BA	Bosnia and Herzegovina
CAP	Common Agricultural Policy
DG AGRI	Directorate-General for Agriculture and Rural Development
EU	European Union
FADN	Farm Accountancy Data Network
MK	North Macedonia
ME	Montenegro
MS	Member States
RS	Serbia
WB	Western Balkan

Executive summary

The accession of WB countries/territories to the EU has gained new momentum in 2018, with the EU Council concluding that North Macedonia and Albania will be able to open accession talks in June 2019 if they meet certain conditions. These two countries are thus following in the footsteps of Montenegro and Serbia, where accession negotiations are already underway, while potential candidates ([3]) Bosnia and Herzegovina and Kosovo* are lagging behind in the accession process.

On the day of accession, an acceding country must be able to implement the administratively complex and financially demanding CAP. Adjustments and even extensive policy and institutional reforms are therefore needed to align candidates with the legal and institutional set-up of the EU and to efficiently integrate the countries' agricultural sectors into the EU single market and decision-making process. This includes preparing the beneficiaries of CAP measures, and the administrations, for working within the institutional and economic framework of EU agricultural policy.

The WB countries/territories are at various stages in forming this kind of policy. While policy monitoring is only under development in some countries/territories, others are already implementing regular annual reporting regarding the status of the agricultural sector. Reporting on budgetary support for agriculture tends to be insufficiently transparent, while policy impact assessments and evaluations are practically non-existent, resulting in low quality in policy planning and non-inclusive decision-making.

This report aims to analyse agricultural policy developments and the EU approximation process in the WB area. More specifically, the report provides a comparative cross-country analysis of agricultural policy instruments and levels of support for producers and processors, and provides analysis of the status of harmonisation of the agricultural and rural development policies of the WB area with the CAP. The report builds on previous studies aiming to establish regular monitoring of agricultural policy (Volk (ed) 2010; Rednak et al. 2013). Quantitative analysis of agricultural policy was performed using an upgraded Agricultural Policy Measures (APM) scheme, a uniform classification tool enabling quantification and comparison of the scope and structure of agricultural policy measures. Its main aim is to systematise and classify budgetary transfers to agriculture, allowing for comparison between years, between countries/territories and with the CAP. It thus enables us to identify the basic orientation of agricultural policy in the WB area, discuss agricultural policy gaps, and devise recommendations for effective improvements in meeting EU demands.

The report identifies the key issues for EU accession, in the field of agricultural policy: 1) sustainable policy model; 2) strategic policy framework; 3) size and allocation of financial resources; 4) direct producer support; 5) measures to improve competitiveness; 6) environmental measures and public goods; and 7) policy for quality of life and employment in rural areas. It concludes that in all WB countries/territories, agriculture is an important sector for the national economy, with a declining tendency. Agricultural output has more or less stagnated in recent years. Agri-food trade has shown an increasing trend, with higher growth rates generally being recorded for exports than for imports (except in Serbia, which has traditionally had a positive agri-food trade balance). All WB countries/territories have made significant progress in recent years in aligning their long-term programming documents and administrative infrastructure with EU

([3]) The term candidate is used in this text to include both of the official statuses of 'candidate' and 'potential candidate'.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

requirements. The agricultural policy objectives and priorities set out in strategic documents vary slightly by country, but the basic strategic objectives of agricultural policy and their orientation match those of the EU CAP. In all WB countries/territories, development of total support for agriculture is unstable, though showing an increasing trend in the period 2013-2017. Only in Serbia is there a visible downward trend in total budgetary support since 2014. The most pronounced increase in total budgetary support is recorded in Kosovo*. The composition of total support for agriculture varies considerably by country. The proportion of market and direct producer support measures is high in Bosnia and Herzegovina, Serbia, and North Macedonia, lower in Kosovo* and Montenegro, and very low in Albania.

In most WB countries/territories, the composition of direct support to producers has not changed much since 2013. Direct payments per output (price supplements) are still present in all countries/territories. Funds for structural and rural development measures are generally low and fluctuate considerably from year to year. With the exception of North Macedonia, the bulk of funds from this policy pillar are allocated to the group of measures intended to improve the competitiveness of agriculture, while less attention is given to the other two aspects of rural development policy (environment and rural economy; population). Support for improving the environment and the countryside is insignificant in WB countries/territories.

In 2017, budgetary support for agriculture amounted to almost 20 % of the value of agricultural output in the EU; twice as much as in North Macedonia, which has the highest relative level of support among WB countries/territories at 10.7 %. National agricultural budget as a proportion of agricultural output in the new EU Member States is comparable to that in the WB countries/territories (with the exception of Albania), indicating the potential of candidate countries to have sufficient budgets to co-finance EU funds after accession. However, this level of budget is not considered sufficient for successful preparation of the agricultural sector and the administration for adopting CAP measures and functioning under the conditions of the EU single market. Decoupled payments, as the main form of direct producer support in the EU, represent almost 90 % of direct payments to producers. There are no such payments in the WB countries/territories. The distribution of funding for structural and rural development policy is completely incompatible with that of the EU. In all countries/territories, except North Macedonia, funds in this pillar are almost entirely aimed at improving the competitiveness of the agri-food sector, mostly as support for on-farm investments. In the EU, about a third of funding under this pillar is spent on this purpose, half is for providing environmental and societal benefits, while the remainder is intended for supporting the rural economy and population.

For successful EU accession, the report recommends adoption of a conceptual framework of agricultural policy and a somewhat different value system in agriculture, one that emphasises its role in achieving sustainability. This implies a greater role for democratic decision-making and transparent functioning; sufficient attention should be given to training and good personnel policy in public administration. The key to change is the rediscovery of the role of knowledge, which can also be improved through investment in public and private knowledge institutions. Furthermore, national planning and analytical structures must be improved, and strategic logic adopted in agricultural policy planning, implementation and monitoring. Acceding countries should ensure a budget at a level sufficient to prepare them to accede and to increase absorption after accession. Investment is needed in agriculture and rural areas, to prevent too great a shock due to increased competition from the single market. This includes sufficient funding for rural development and a sufficiently broad array of measures. When a candidate country enters negotiations, it should create a clear policy action plan for the period of up until accession, and then implement it. Dramatic changes are required in decision-making and mode of functioning in the WB countries/territories. There must be a clear view on which forms of support will remain and whether and how to transform them into permissible coupled measures. It should be accepted that some support may temporarily remain as state aid in the exclusive funding of the acceding country. The recommendation is not to

invest too much in this form, but to focus on EU-compatible types of interventions, with the greatest potential to achieve the national targets. It is especially important for WB countries/territories to develop measures according to their needs and to exploit the broadness offered by the CAP. The recommendation is to strengthen the LEADER approach, supporting the creation and functioning of local action groups. More should be done to diversify activities, especially on farms (e.g. supplemental activities). It is important to work with different groups, especially young people, and the issues of women in farming and of the elderly should also be addressed.

Agricultural policy developments and EU approximation process in the Western Balkan countries/territories

1.1 Introduction: research questions and approach

1.1.1 Monitoring and EU approximation of WB agricultural policy

The accession of Western Balkan (WB) ([4]) countries/territories to the European Union (EU) ([5]) has gained new momentum in 2018, although countries/territories are at various stages of integration. After a lengthy debate, the EU Council reached consensus in June on the progress of North Macedonia and Albania on the European integration agenda. The Council concluded that both countries will be able to open accession talks in June 2019 if they meet certain conditions. These two countries are thus following in the footsteps of Montenegro and Serbia, where accession negotiations are already underway and entering the phase in which they must meet adaptation targets and enable the closure of negotiating chapters. Potential candidates ([6]) Bosnia and Herzegovina and Kosovo* are lagging quite far behind in the accession process. Yet, despite the known misgivings of certain EU Member States regarding further expansion, and certain hurdles within candidate countries themselves, accession certainly remains a real option.

On the day of accession, an acceding country must be able to implement the administratively complex and financially demanding Common Agricultural Policy (CAP). The CAP framework relevant to the WB countries/territories is composed of pre-accession and accession support for rural development measures and direct support for producers. Previous analyses (Volk (ed) 2010; Volk, Erjavec, Mortensen (eds) 2014; Volk et al. 2016 and 2017) have shown that WB agricultural policies differ significantly from the EU CAP in terms of content, mechanisms and manner of implementation. Acceding countries must adopt a very different agricultural policy model, one that is conceptually, administratively and financially more demanding.

Adjustments and even extensive policy and institutional reforms are therefore needed to align candidates with the legal and institutional set-up of the EU and to efficiently integrate the countries' agricultural sectors into the EU single market and decision-making process. This includes preparing the beneficiaries of CAP measures, and the administrations, for working within the institutional and economic framework of EU agricultural policy. The CAP is namely a demanding and moving target for the WB countries/territories. Despite all the uncertainties, the framework for the future CAP will for the foreseeable future remain composed mainly of area-based producer support and an extensive set of rural development measures. Moreover, the main administrative procedures and mechanisms are unlikely to change dramatically before accession, at least not for those countries/territories that are farther ahead in the accession process. In addition, the announced introduction of strategic planning at Member State level in the next CAP programming period will likely present a challenge for Member States (new and

([4]) This contribution uses the term 'Western Balkans' to encompass countries/territories of the region: Albania (AL), Bosnia and Herzegovina (BA), Kosovo*, North Macedonia (MK), Montenegro (MN) and Serbia (RS).
([5]) Regarding the accession status of the Western Balkan countries see: http://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status_en
([6]) The term candidate is used in this text to include both of the official statuses of 'candidate' and 'potential candidate'.
* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

old), as it will demand considerable advances in the quality of policymaking and the implementation of policy cycle logic.

The adaptation and modernisation of agriculture play important roles in the process of CAP approximation – a play directed by national decision-makers, who have various instruments at their disposal (pre-accession instruments, institution-building and agricultural policy reform) to advance the sector and invest in rural areas. Previous studies, most notably Volk, Erjavec, Mortensen (2014), have proposed some basic elements on which candidates could base their adaptation. Most importantly, in order to be efficient, reforms should be planned, steered and implemented according to the principles of evidence-based policy.

The WB countries/territories are at various stages in forming this kind of policy. While policy monitoring is only under development in some countries/territories, others are already implementing regular annual reporting on the status of the agricultural sector. According to Volk et al. (2017), reporting on budgetary support for agriculture tends to be insufficiently transparent, while policy impact assessments and evaluations are practically non-existent, resulting in low quality in policy planning and non-inclusive decision-making.

Over recent years, the JRC and the Directorate-General for Agriculture and Rural Development of the European Commission have initiated a number of research activities related to economic analysis of the agricultural sector in the EU and selected non-EU countries, and their associated agricultural policies. In terms of policy analysis in the WB countries/territories, the JRC and DG AGRI financed the monitoring of agricultural policy developments covering the period before 2015, with two studies: 'Analysis of agricultural and rural development policies in Western Balkan countries' and 'National policy instruments and EU approximation process: effects on farm holdings in the Western Balkan countries' ([7]). The Regional Rural Development Standing Working Group (SWG) was an implementer in both of those studies. The main achievements were:

- update on agricultural policy developments in the WB countries/territories;
- analysis of the availability and quality of Farm Accountancy Data Network (FADN) data in the WB countries/territories;
- comprehensive dataset for agricultural policy budgetary transfers in the WB countries/territories, as a tool for monitoring developments and benchmarking;
- statistical dataset on agriculture in WB countries/territories;
- elaborated policy recommendations for the ministries included in the SWG;
- strengthened agricultural policy network and cooperation in the WB countries/territories, including agricultural economists and ministerial representatives;
- creation and updates of the Agricultural Policy Plus (APP) web platform.

This report presents the results of the project 'Agricultural Policy Developments and EU Approximation Process in the Western Balkan Countries (APDAP-WB).' The key goals of this project were to collect information on most recent developments in agricultural policy in the WB countries/territories, provide a comparative cross-country analysis of agricultural policy instruments and levels of support for producers and processors, and provide analysis of the status of harmonisation of the agricultural and rural development policies of the WB countries/territories with the CAP.

([7]) http://seerural.org/wp-content/uploads/2017/06/Monitoring-of-agricultural-policy-developments-in-the-Western-Balkan-countries.pdf

This report builds on previous studies aiming to establish regular monitoring of agricultural policy. Quantitative analysis of agricultural policy was performed using an upgraded Agricultural Policy Measures (APM) scheme (Volk (ed) 2010; Rednak et al. 2013). The APM scheme is a uniform classification tool enabling quantification and comparison of the scope and structure of agricultural policy measures. Its main aim is to systematise and classify budgetary transfers to agriculture, allowing comparison between years, between countries and with the CAP. It thus enables us to identify the basic orientation of agricultural policy in the WB countries, discuss agricultural policy gaps, and devise recommendations for effective improvements in meeting EU demands. Attention is given in the report to the comparison of WB agricultural policy with both the current CAP and the potential CAP framework for the post-2020 programming period, given the proposed reform and potential enlargements after 2025.

The cross-country report starts with an attempt to establish a new theoretical framework for analysis and comparison of WB agricultural policies, based on the creation of two CAP benchmarking models (one for the pre-accession phase and one for the accession phase), which acceding countries will be expected to follow and which represent a target for policy reforms. This chapter is followed by a presentation on the data sources used and the APM methodology, describing the main approaches and limitations of this research.

In the first of two central parts of the cross-country analysis, results of the now established regular policy monitoring (conducted according to the APM classification scheme set out in the above-mentioned publications) are presented: i) the main development patterns in production and trade 2013-2017; ii) a short overview of the new policy framework (new programming documents from the period 2016-2017) and its implementation; iii) the scope and structure of budgetary support for agriculture in regional comparison; and iv) the main characteristics of direct producer support in the region.

The second part focuses on comparative analysis of WB and EU agricultural policy. It starts with quantitative comparison of the size and structure of budgetary support in the EU and in individual WB countries/territories. This is followed by discussion of the level of success of WB agricultural policies in achieving the standards of EU pre-accession policy, such as the quality of strategic planning, size and structure of the agricultural budget, and usage of various types of policy support. It also attempts to draw some hypotheses about the major issues in WB national agricultural policies, in order to support further reforms and modernisations of agricultural policy.

These analyses enable some general conclusions and recommendations regarding reforms and adjustments to agricultural policy at the regional level.

1.1.2 The CAP as a benchmark for agricultural policy in the WB countries/territories

All EU acceding countries must rise to the challenge of hitting a moving target – the CAP. In a given period, countries work to fulfil the accession conditions of the current policy framework, but due to the length of the accession process (which can last well over seven years), the CAP is likely to change at least once, potentially significantly. At the time of preparation of this report, we are in the midst of one such period of reform, as reform negotiations have been formally taking place since 2017 and the legislative procedure has already started. When interinstitutional negotiations are finished, a new legislative and substantive framework will determine the CAP post-2020, most likely introducing significant changes to the implementation model of the CAP by shifting a large portion of the responsibility for programming and executing the policy onto Member States. These changes are forcing candidate countries to develop a concept of adaptation that will accommodate both national goals and the demands of the EU.

The accession process does not demand that candidates harmonise their agricultural policies fully with the *acquis communautaire* before the accession; they need only demonstrate capacity to implement the relevant legislation on the first day of accession. In the pre-accession period, the Commission mainly monitors and evaluates implementation of the pre-accession agricultural policy, the Instrument for Pre-Accession Assistance for Rural Development (IPARD). However, with the commencement of accession negotiations, commitments on substance and implementation become increasingly relevant. Candidate countries must understand how the CAP functions and prepare appropriate adaptation plans that allow for gradual development of comparable implementation structures. They must also modify their agricultural policy measures to enable an economically and politically acceptable, as well as administratively feasible, shift to the CAP on the day of accession.

The necessary CAP implementation structures include administrative, financial, control and information structures that are institutionally demanding, such as paying agencies, integrated administration and control systems (IACS) and land parcel identification systems (LPIS). These functions require careful planning as well as substantial additional costs in terms of financial and human resources, difficult political decisions and radical institutional changes. Once the plans are in place, however, progress can be monitored and evaluated relatively easily.

EU agricultural policy issues for acceding countries

Approximation to the CAP demands in-depth knowledge of CAP objectives, mechanisms and issues. From the perspective of acceding countries, harmonisation with the CAP can be grouped in the following key bundles of issues:

Sustainable policy model. Acceding countries are expected to adopt the CAP's sustainability model and expand their former production-oriented agricultural policy to include environmental protection and social/societal aspects. This represents a serious issue for the economically less developed candidates from the WB region, as these aspects are not well established here, and policy is dominated by sectoral priorities. Therefore, these countries should use the pre-accession period to strengthen these aspects, as well as to develop and transfer knowledge through Agricultural Knowledge and Information Systems (AKIS), which has been given much attention in recent CAP policymaking and represents the foundation for change in developmental theory and practice.

***Strategic policy framework*.** Given the CAP reform proposal, adequate strategic planning and a functioning policy cycle will be prerequisites for a country's successful functioning in agriculture after accession. Needs assessment requires reliable analytical support, data sources and the use of adequate indicators to enable priority-setting and results-based measures; these in turn require a clear and objective intervention logic. A functioning and efficiently run system of IPARD support before accession demonstrates good practice for this kind of logic. It is sensible to apply this logic to all agricultural policy before accession and to introduce a transparent system of regular policy monitoring.

Size and allocation of financial resources. Countries cannot enter the EU if they are not willing to invest adequate public funds in their agriculture and rural areas. This goes beyond support to producers, which means appropriate investment in various rural development measures. Public policy should already have certain impacts on main policy priorities before accession, and the budget should enable an adequate level of co-financing of measures (producer support and rural development measures) after accession. This is also a way to ensure an adequate level of absorption of funds after accession.

Direct producer support. Adapting direct producer support is the most politically sensitive topic. This especially holds for acceding countries that have their own extensive support system. The key issues arise where the types of support differ significantly from

CAP direct payment schemes; where the selected sectors differ from those supported in the EU; and where there is discrimination between beneficiaries. It is therefore important that candidates modify their producer support to meet EU requirements in the final pre-accession stage. This may include reducing the number of supported sectors, bringing the level of support to the expected post-accession level, and selecting measures that are permissible (decoupled area-based support) or can be relatively easily converted to such measures. It is important to establish the complex system for implementing and distributing direct support, and to use it to implement the policy before accession, in order to get accustomed to post-accession conditions. It is also prudent to consider introducing risk management measures (especially insurance support).

Measures to improve competitiveness. The agricultural sectors of WB countries/territories require a new developmental push, restructuring and improved competitiveness. The EU offers a broad array of measures for these purposes. Although Member States will be freer to select them according to the state of their agricultural sectors in the next programming period, there is sense in making use of the current set of measures (investing in production factors, support for young farmers, quality schemes, producer organisations and others). It is useful and prudent for a country to implement a broad and differentiated support system before accession. A well-executed IPARD system is necessary, but not a sufficient requirement for developing and modernising agriculture and establishing an implementation framework for agricultural policy. It should be a priority to strengthen agri-food value chains, including support for logistics, post-harvest technologies, processing and producer organisations.

Environmental measures and public goods. There is considerable room for improvement in terms of achieving the environmental goals of agricultural policy. In WB countries/territories, this issue is overshadowed by production- and income-related sectoral issues, while in the EU it has become a priority, justifying the size of the agricultural budget, and also an area which is now moving towards results-based forms of support. Ignoring these objectives can significantly decrease absorption of funds after accession. For this reason, it is necessary to have a comprehensive, pilot-tested model before accession, as farmers will have to adapt to new requirements and (co-funded) changes in technologies. Given the limitations stemming from natural and socio-economic conditions, emphasis should be placed on support for areas with natural constraints (ANC), which is important as income support, but also as a means of preserving production potential, biodiversity and cultural landscape.

Policy for quality of life and employment in rural areas. Farming is not the only economic activity in rural areas impacting quality of life and employment. Moreover, it is impossible to determine all priorities and support centrally. The idea that part of support should be formulated bottom-up, taking into account local rural needs, is well established in the EU. Such a broad and more holistic approach to rural development has taken root in the EU and is also gaining ground in acceding countries. It is also prudent to adapt to this form of support before accession, which involves adopting the concept and running pilot measures, but most importantly making use of relevant IPARD support.

It is not made explicit which of these issues an acceding country should address in which phase of accession. When and how to adapt its agricultural policy to the CAP is up to the candidate to determine. An action plan of agricultural policy reform must be prepared between the beginning and central stage of the negotiation process, and while countries are free to formulate their own plans, they are obliged to implement this precisely. This was the practice introduced during the last enlargement (Croatia) and also in current accession negotiations (e.g. Montenegro).

Table 1. Substantive framework for accession and pre-accession agricultural policy

Bundles of agricultural policy issues	Pre-accession agricultural policy substantive framework (PRE-ACCESSION MODEL)	Agricultural policy substantive framework upon accession (ACCESSION MODEL)
1. **Sustainable policy model** - economic, environmental and social objectives - social aspect - horizontal aspects	Expanding priorities to include environmental and social aspects of farming. Recognising the role of institutions for knowledge formation and transfer (AKIS).	Balancing goals (a matter of national prioritisation). Clear environmental orientation. Expanding policy beyond narrow sectoral aspects (food, knowledge).
2. **Strategic policy framework** - planning - indicators and monitoring - policy evaluation - policy management	Establishing a system of analytical support for policy formation and implementation. Adopting a formal strategic policy framework. Establishing policy monitoring.	Strategic planning/policy cycle as the basis of policy management. Defining intervention needs and clear intervention logic of measures. Policy monitoring and evaluation. Indicators and analytical support.
3. **Size and allocation of financial resources** - total available funds for agricultural policy - producer support/rural development ratio	Ensuring funding for improving farming and rural areas and absorption of funds after accession (min. 1/3 of EU supported accession levels). Efficient rural development policy (sufficient funding for developmental and other impacts).	Ability to co-finance EU actions (minimum level) - at least an equivalent of 1/3-1/2 EU sources after accession. Available funds for state aids. Balanced ratio between direct support and rural development measures.
4. **Direct producer support** - selection of measures - selection of products - criteria for obtaining funds	Prevailing area and headage payments (coupled and decoupled for limited sectors – no burden for sectors after accession). Introduction of decoupled payments. Some risk management measures. Introduction of conditionality. Reducing unequal treatment of potential beneficiaries. Introducing control systems that are upgradable upon accession.	Single area decoupled payment. Limited (sectors, volume) coupled measures (area/headage). Conditionality for payments (environment and other societal standards). Risk management measures. Equal treatment of beneficiaries. Functioning IACS, LPIS and other control systems for distribution of funds.
5. **Measures to improve competitiveness** - investments in agriculture - investment in processing - investments in land and work - producer organisations - quality schemes	Diverse array of effective measures. Functioning IPARD system of support and reasonable absorption of funds. Functioning national system of support. Functioning public extension service. Established producer organisations. Established system for setting up quality schemes.	A wide spectrum of measures for restructuring and raising competitiveness (in line with national priorities). Support for collective investment and agri-food chains. Support for producer organisations and quality schemes. Support for young acquirers. Support for advisory services.
6. **Environmental measures and public goods** - conditions for obtaining funds - agro-environment and climate measures (AECM) - support for organic farming - support for areas with natural constraints (ANC) and high natural value (HNV) farmland - animal welfare measures	Recognising the environment as a priority and establishing model for environmental and conservation elements of agricultural policy. Determining ANC and pilot support schemes for these areas. Support for organic farming. Pilot schemes for AECM.	A clear model for agro-environment and nature conservation policy. Established and functioning conditionality system for environmental and other standards. Appropriate AEC and organic farming support. Support for ANC and HNV areas.
7. **Quality of life and employment** - local support - diversification of activities - social inclusion - improved conditions in the countryside	Creating a model for LEADER support and pilot projects. Functioning IPARD measures in this field. Adopting the logic of measures in this field and conducting pilot projects. Support for young farmers.	A functioning local support system (LEADER model). Extended system of diversification, employment and other broader elements of rural development (in line with priorities). Support for social inclusion. Support for small farms.

Source: own analysis

The goal of this research is to determine the extent to which agricultural policy in WB countries is adapted to the demands of the EU's CAP system. Previous analyses of the agricultural policies of WB countries/territories have shown significant differences between EU and WB policies on most issues. However, they have been unable to demonstrate the real potential for individual national policies to replicate the CAP. We therefore developed a robust benchmarking model allowing comparison with the substantive framework of the EU agricultural policy that will in all likelihood be valid after potential accession. This covers key principles and rules which are not prescribed as such, but will help to compare WB policies with that of the EU. Given that conditions differ for countries in the pre-accession and accession stages, the benchmarking model branches into two versions: a **pre-accession model** and an **accession model** (Table 1).

As mentioned, an acceding country need not replicate all agricultural policy mechanisms before accession, but it does need to improve its ability to introduce the EU mechanisms upon accession. Simultaneously, it must improve its agriculture and treat its rural areas according to the EU model. We see the pre-accession policy model as a bridge between current and expected post-accession policy and believe it to be the best criterion for comparing current policies. Therefore, the pre-accession model is designed as a benchmarking tool for acceding countries in their final pre-accession stages, intended to facilitate successful and effective adoption of the CAP after accession (presented here as accession model).

Although such a benchmarking pre-accession policy model is not explicitly prescribed by the EU, it can be discerned from its official assessments of candidates' readiness. Moreover, such a model can be very useful for decision-makers in acceding countries. Given that its elements can be recognised in some countries' strategic documents (e.g. Montenegro, Serbia, Bosnia and Herzegovina), its content is not controversial, although there are issues with the actual fulfilment of commitments.

In the continuation, we present both models in accordance with the bundles of agricultural policy adaptation listed above, and how they can be used to evaluate the extent of adaptation to the CAP.

The substantive framework for accession and pre-accession agricultural policy should be approached with caution. The points are formulated according to known facts regarding current and likely future policy, including the introduction of strategic planning at Member State level.

Analysis of the adaptation of WB agricultural policies to EU requirements

The substantive framework of pre-accession and accession policy presented will serve as a theoretical framework for assessing how well WB policies adapt and conform to the CAP. Special emphasis will be placed on substantive agricultural policy issues on a very basic, conceptual level, which is often lacking in discussions tending to focus on matters that are technically relevant for adaptation but not crucial in terms of substance. We realise that staying at this level of analysis may result in oversight of certain important aspects at the micro scale.

The theoretical framework presented, which is based on the EU system of agricultural policy analysis (issues, goals, measures), is compatible with the APM methodology that allows for quantitative assessment of agricultural policy in WB countries and comparison with EU budgetary support. This comparison will be followed by a qualitative benchmarking of WB policies against EU ones, based on criteria for the pre-accession model. We will also attempt to cluster countries and devise recommendations based on our analysis.

1.1.3 Databases and methodological notes

The cross-country analysis of agriculture and agricultural policy developments in WB countries/territories is based on data and information provided by national academic experts and collated in country databases. These contain the main general and agricultural statistics, data on budgetary support for agriculture, and specifics of direct farm support schemes implemented in each country/territory (available at: http://app.seerural.org/). The data originate from various sources, mainly national statistical offices, state administration bodies (agricultural ministries, paying agencies) and agricultural policy documents (programming and legal). The analysis in this report covers the period 2013-2017, with a particular focus on the most recent year (2017).

Table 2. Selected level of APM classification for analysis of budgetary support for agriculture

Code	**APM categories**
10000	**MARKET AND DIRECT PRODUCER SUPPORT MEASURES**
11000	**Market support measures**
11100	Export subsidies
11200	Market measures
11300	Operational costs of public stockholding
12000	**Direct producer support measures**
12100	Direct payments to producers
12110	Production coupled direct payments
12111	Direct payments based on output (price aids)
12112	Direct payments based on current area/animal
12119	Direct payments based on other criteria
12120	Production decoupled direct payments
12200	Variable input subsidies
12300	Disaster and other compensations to producers
12900	Miscellaneous direct producer support
20000	**STRUCTURAL AND RURAL DEVELOPMENT MEASURES**
21000	**Improving the competitiveness of the agri-food sector**
21100	On-farm investment and restructuring support
21200	Agricultural infrastructure
21300	Off-farm storage, processing, marketing and promotion
22000	**Providing environmental and societal benefits**
22100	Payments to farmers in areas with natural and environmental constraints
22200	Agro-environment, organic and animal welfare payments to farmers
22900	Other ecosystem related payments
23000	**Supporting the rural economy and population**
23100	Creation and development of non-agricultural activities in rural areas
23200	Rural infrastructure, basic services and village development
23300	Building local capacity (LEADER)
29000	**Miscellaneous rural development measures**
29100	Miscellaneous - support to producers
29200	Miscellaneous - other support
30000	**OTHER MEASURES RELATED TO AGRICULTURE**
31000	Research, development, advisory and expert services
32000	Food safety and quality control
39000	Other general support measures
	TOTAL BUDGETARY SUPPORT FOR AGRICULTURE
	Total budgetary support for producers (codes 12000+21100+22100+22200+29100)

The quantitative analysis of agricultural policy developments was performed using the data on budgetary support for agriculture, systematised according to the APM classification scheme (Volk (ed) 2010; Rednak et al., 2013). The APM scheme is a uniform classification of agricultural budgetary support, developed to enable comparison of the scope and structure of budgetary support for agriculture, between WB countries/territories and with the EU. In recent years, the original classification has been upgraded to take into account new developments in agricultural policy, particularly in the EU. The background and the full APM classification scheme used are presented in Annex 1.

The APM classification is built on a hierarchical principle which allows for analysis at different levels of aggregation. At the first level, measures are grouped into three main pillars: (1) market and direct producer support measures; (2) structural and rural development measures; and (3) general measures related to agriculture. In this report, budgetary support for agriculture is analysed up to the third and, in some cases, fourth or fifth levels of classification (Table 2).

The data on budgetary support for agriculture in WB countries/territories were taken directly from the agriculture and agricultural policy databases. It must be stressed that for Montenegro, up to 2016, the data on budgetary support pertain to planned disbursements, as data on funds actually disbursed were not available, and only 2017 data refer to payments actually executed. In addition, the data for Serbia on budgetary support for 2016 and 2017 are incomplete. For the needs of this report, some missing data were estimated and added to the original database to ensure at least minimal comparability of the support level in Serbia with the previous years and with other countries/territories ([8]).

For the EU, the main source of data was the OECD PSE/CSE database (2018). To ensure comparability with the data for the WB countries/territories, the data from this database on budgetary transfers for each measure were systematised according to the APM classification scheme at the same level of aggregation as for the WB countries/territories. Given that some rural development measures under the EU rural development programmes 2014-2020 are not considered to be support for agriculture and are therefore not included in the OECD PSE/CSE database (see methodological notes in Annex 1), the funds for these measures were added ([9]) to the data on budgetary support derived from the OECD database.

Budgetary support for agriculture was compared between WB countries/territories and with the EU using relative indicators. The basic relative indicator used for comparison was *the absolute value of budgetary support for agriculture (total and by group of measures), divided by total agricultural output and expressed in percentage terms*.

For Kosovo *, North Macedonia, Serbia and the EU, the data on agricultural output were taken from economic accounts for agriculture (total agricultural goods output at producer prices). Given that in the other WB countries, economic accounts for agriculture have not yet been compiled, available data from national accounts were used instead. For Bosnia and Herzegovina, the national accounts provide the data on output at agricultural sector (sector A1) level, while for Albania and Montenegro only data on output of agriculture together with the forestry, hunting and fishery sectors (sector A) are available and were

([8]) The figures for 2015 were used to fill the data gap relating to funds for veterinary and phytosanitary control for 2016 and 2017 (added to the original data provided by national expert).

([9]) The missing measures identified are: M07 Basic services and village renewal in rural areas; M08 Investments in forest area development and improvement of the viability of forests; M15 Forest environmental and climate services and forest conservation; and M19 Support for LEADER local development — community-led local development (CLLD). For these measures, the corresponding EU funds were taken from the financial plan 2014-2020 (total funds by measure divided by the number of years) (EC 2017), while the national co-financing was estimated at the level of 30 % of total funds (ratio 70 % : 30 %).

therefore used for calculating the indicator. Due to a lack of data for 2017, for the entire analysed period (2013-2017) this indicator for WB countries/territories was calculated based on the average agricultural output value for 2013-2016. For the EU, the data on agricultural output refer to 2017 (Eurostat).

A secondary indicator used to compare the relative level of support for agriculture in WB countries/territories with the EU was *the absolute value of budgetary support for agriculture in EUR divided by total utilised agricultural area* (UAA).

This indicator was calculated only for the year 2017. To calculate this indicator, UAA data from the regular annual statistics for agricultural land use were used for Kosovo *, Montenegro, Serbia and the EU. For Albania, Bosnia and Herzegovina and North Macedonia, where the national statistics do not provide such data, the UAA was estimated based on the available data for total agricultural land ([10]). For the EU, the data on UAA refer to 2016 (Eurostat), as data for 2017 are not available.

Given that the data used to calculate indicators are not completely comparable between the countries/territories analysed, the relative indicators of support for agriculture presented in this report should also be taken with some caution.

1.2 Monitoring of agricultural policy in WB countries

1.2.1 Situation in WB agriculture

In 2017, WB countries/territories recorded positive economic developments, indicating continuing economic recovery from the severe economic crisis which started in 2009 and in most countries/territories bottomed out in 2012. The GDP growth rate in 2017 was between 1.9 % (Serbia) and 4.3 % (Montenegro). According to available data (2016), in WB countries/territories the GDP per capita — measured in purchasing power standard (PPS) units — stands at about 30 % of the EU-28 average in Albania and in Bosnia and Herzegovina, 37 % in Serbia and in North Macedonia and 45 % in Montenegro.

Inflation rates increased slightly in 2017 compared with 2014-2016, and remained between 1.2 % in Bosnia and Herzegovina and 3 % in Serbia. The unemployment rate is still high in all WB countries/territories, but with a decreasing trend. In 2017, the unemployment rate ranged from 13.5 % in Serbia to 30.5 % in Kosovo *.

In all WB countries/territories, agriculture is an important sector for the national economy. In 2017, the proportion of total gross value added (GVA) generated from the agriculture, forestry and fishing sectors was about 23 % in Albania (2016) and between 7 % and 12 % in the other WB countries/territories (Table 3). In most WB countries/territories, the relative economic importance of agriculture in the national economy has a declining trend.

([10]) In all countries where the agricultural census was performed according to Eurostat methodology, it was shown that the regular statistics on total agricultural land have been overestimated, primarily regarding area under permanent grassland (by about 50 % on average). Therefore, the total UAA for Albania, Bosnia and Herzegovina and North Macedonia was estimated by reducing the total agricultural land area by the recorded unused arable land and by 50 % of the land under permanent grassland.

Table 3. Importance of agriculture in the economy in WB countries/territories, 2017

	AL		BA		XK		MK		ME		RS	
	2013	2017	2013	2017	2013	2017	2013	2017	2013	2017	2013	2017
GVA for agriculture (% of total GVA)	22.4	22.7	8.3	7.1	14.4	11.9	11.4	10.9	9.8	9.6	9.4	7.3
Employment in agriculture (% of total employment)	52.5	38.2	18.9	18.9	n/a	n/a	18.7	16.2	n/a	n/a	21.3	17.2

Source: Agriculture and agricultural policy database (data for 2017 are preliminary).

Based on the available data, which do not provide a clear picture of the evolution of agricultural production for all the WB countries/territories, it can be assessed that generally, agricultural output has more or less stagnated in recent years (since 2013), with a slight increasing tendency only in Albania and North Macedonia ([11]). These developments are mainly driven by changes in crop output, as crops dominate agricultural production. In North Macedonia, Serbia and Kosovo *, crop output represented 75 %, 70 % and 58 % of total output of agricultural goods, respectively, in 2016.

All WB countries/territories are characterised by large variations in crop production over time, predominantly due to changing weather conditions. Crops were adversely affected in 2014 (heavy rain and floods) and 2017 (drought) in most countries/territories in the region, resulting in a decrease in crop output in these years. Livestock production is generally less volatile than crop output, with some indications of positive developments in most WB countries/territories.

In all six WB countries/territories, the agri-food sector is an important contributor to the country/territory's total external trade for both exports and imports, as well as to the countries/territories' overall trade balances. In 2017, the proportion of total exports represented by agri-food varied between 10 % in Bosnia and Herzegovina and 19 % in Serbia (Table 4). The proportion of imports ranged between 8 % in Serbia and 23 % in Kosovo *. Since 2013, there has been a considerable increase in agri-food as a proportion of total exports in Albania and Kosovo *, and a moderate increase in Bosnia and Herzegovina. The proportion of agri-food imports decreased between 2013 and 2017 in all WB countries/territories except in Serbia, where it has remained fairly stable.

Table 4. Importance of the agri-food sector to external trade in WB countries/territories

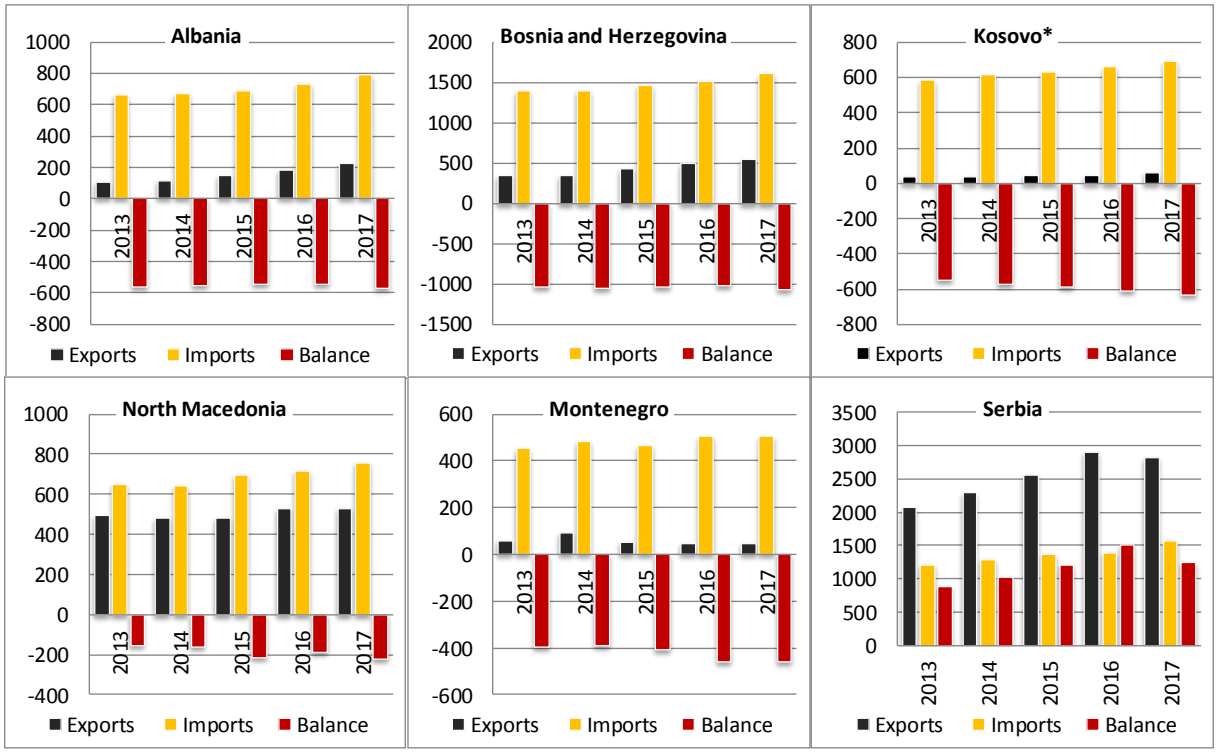
	AL		BA		XK		MK		ME		RS	
	2013	2017	2013	2017	2013	2017	2013	2017	2013	2017	2013	2017
Agri-food exports (% of total exports)	5.9	11.0	8.2	9.6	11.9	16.2	15.3	10.6	14.2	12.9	18.9	18.7
Agri-food imports (% of total imports)	18.7	17.0	18.0	17.4	23.8	22.8	13.0	11.1	26.3	22.0	7.7	8.1

Source: Agriculture and agricultural policy database (data for 2017 are preliminary).

There has been an increasing trend in agri-food trade in all six WB countries/territories, with higher growth rates generally being recorded for exports than for imports (Figure 1).

([11]) The developments in agricultural production were assessed based on data for changes in volume of agricultural goods output, calculated from economic accounts for agriculture that were available for Kosovo *, North Macedonia and Serbia. For other countries, these developments were assessed based on available data for production of the main crop commodities, for livestock numbers and for milk production.

Figure 1. Agri-food trade in WB countries/territories (million EUR), 2013-2017



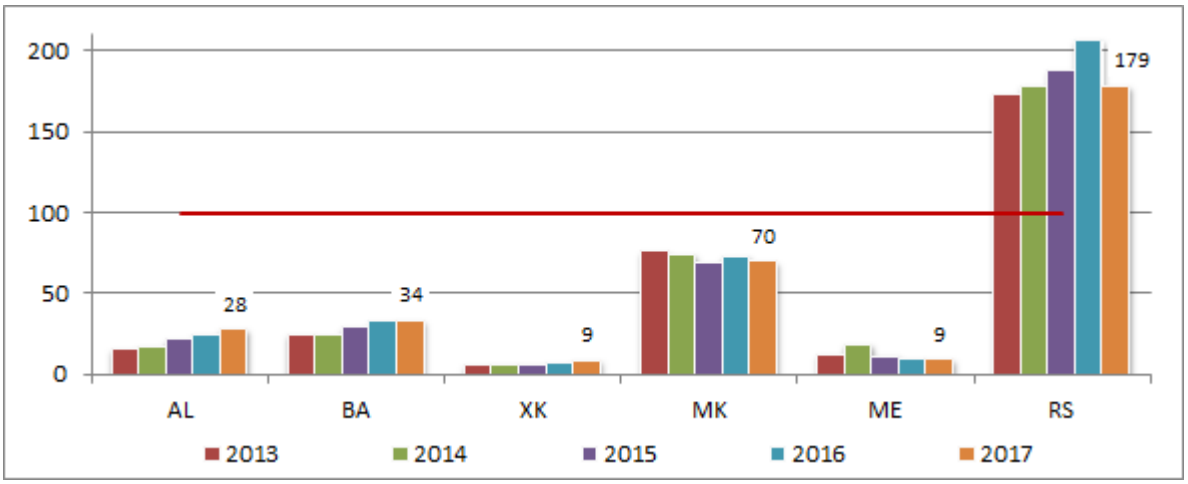
Source: Agriculture and agricultural policy database (data for 2017 are preliminary).

In 2017, the highest increases in agri-food exports were seen in Kosovo * and Albania (36 % and 22 %, respectively, compared with 2016), followed by Bosnia and Herzegovina (9 %). In North Macedonia and Montenegro, agri-food exports remained at similar levels to 2016, while exports decreased slightly in Serbia compared with 2016.

Serbia has traditionally had a positive agri-food trade balance and its surplus generally shows an increasing trend. All the other WB countries/territories are net importers of agri-food goods. In Albania and in Bosnia and Herzegovina, agri-food trade deficits are fairly stable, while in Kosovo *, Montenegro and North Macedonia, trade balances are worsening (increasing deficits). In 2017, the deficits in these three countries/territories rose by 3 %, 0 % and 20 %, respectively, compared with 2016.

Exports as a proportion of imports vary considerably by country/territory. In 2017, this proportion ranged from 9 % in Kosovo * and Montenegro to 70 % in North Macedonia and 179 % in Serbia, with a positive trend since 2013 in most WB countries/territories, except for North Macedonia and Montenegro (Figure 2).

Figure 2. Agri-food exports as a proportion of agri-food imports in WB countries/territories, 2013-2017



Source: Agriculture and agricultural policy database (data for 2017 are preliminary).

The main exported products (by tariff groups) in 2017 were: edible vegetables, meat preparations and oilseeds in Albania (23 %, 22 % and 12 % of total agri-food exports, respectively); fats and oils, edible fruits and dairy products in Bosnia and Herzegovina (16 %, 15 % and 8 %, respectively); beverages, edible fruits and preparations of vegetables in Kosovo * (39 %, 14 % and 10 %, respectively); tobacco, preparations of cereals and edible vegetables in North Macedonia (26 %, 12 % and 11 %, respectively); beverages, meat and preparations of cereals in Montenegro (41 %, 17 % and 12 %, respectively); and edible fruits, cereals and tobacco in Serbia (21 %, 13 % and 9 %, respectively).

In 2017, the EU was the most important export destination for Albania (68 % of total agri-food exports), North Macedonia (51 %) and Serbia (45 %). The EU was also an important export partner for Kosovo * (33 %) and for Bosnia and Herzegovina (29 %), while in Montenegro only a small proportion of exports (7 %) goes to the EU. In Kosovo * and Montenegro, the largest proportion of exports went to other WB countries/territories (60 % and 82 %, respectively), while in Bosnia and Herzegovina, the largest proportion (40 %) went to third countries (outside the EU and the WB region).

The proportion of exports destined for the EU has shown a decreasing trend in Bosnia and Herzegovina, Serbia and Montenegro since 2013, while in other WB countries/territories this proportion has been fairly stable.

In terms of imports, the EU is an important trading partner for agri-food products for all WB countries/territories and its importance has mostly been stable since 2013. In 2017, the proportion of total agri-food imports originating from the EU ranged from about 40 % in Montenegro and Kosovo * and about 50 % in North Macedonia and Bosnia and Herzegovina, to about 60 % in Albania and Serbia.

1.2.2 Legal and strategic framework for WB agricultural policies

As already stated in previous reports (Volk et al. 2016 and 2017), all WB countries/territories have made significant progress in recent years in aligning their long-term programming documents and administrative infrastructure with EU requirements. Between 2013 and 2015, new strategic documents for agriculture and rural development were adopted, mostly covering the period up to 2020 (Bosnia and Herzegovina up to 2019; Serbia up to 2024).

Table 5. Overview of the main long- and mid-term programming documents in WB countries/territories (status as of 1.4.2018)

	Agriculture and rural development strategy	National programmes / Action plans	IPARD II
AL	National Agriculture and Rural Development Strategy (ISARD) 2014-2020 (2014)	Action Plan for ISARD implementation 2014-2020 (2014) Action Plan for ISARD implementation 2016-2018 (2016)	Prepared and approved by EC (2015)
BA	Mid-term development strategy for agricultural sector in the Federation of Bosnia and Herzegovina 2015-2019 (2014) Strategic plan for the development of agriculture and rural areas in the Republic of Srpska 2016-2020 (2015) Strategic plan for the Rural Development of Bosnia and Herzegovina 2018-2021 (2018)	Program for Rural development of the Federation of Bosnia and Herzegovina 2015-2020 (2014)	In preparation (since 2014)
XK	Agriculture and Rural Development Program 2014-2020 (2013)	Mid-term expenditure framework 2016-2018 (2015) Economic reform programme 2016-2018 (2016)	Prepared
MK	National Agriculture and Rural Development Strategy 2014-2020 (2014)	National program for agriculture and rural development 2018-2022 (2018)	Prepared and approved by EC (2015)
ME	Strategy for the Development of Agriculture and Rural Areas 2015-2020 (2015)	Action Plan for acquis alignment, Chapter 11 - Agriculture and Rural Development 2015-2020 (2015)	Prepared and approved by EC (2015)
RS	Strategy for Agriculture and Rural Development 2014-2024 (2014)	National Program for agriculture 2018-2020 (2017) National rural development program 2018-2020 (in adoption)	Prepared and approved by EC (2016)

Source: WB country reports.

In most countries/territories, the main strategic document is supplemented by a multi-annual implementation program (Table 5). The latest important change is the adoption at the beginning of 2018 of the Strategic Plan for the Rural Development of Bosnia and Herzegovina for 2018-2021, a framework document summarising the strategies of the two entities, which is an important requisite for receiving EU pre-accession support. In North Macedonia, a new National Program for Agriculture and Rural Development for the period 2018-2022 was adopted in early 2018. In parallel, IPARD programmes were also prepared, as a key document for EU pre-accession support in the field of agriculture, mostly aimed at institution-building and improvement of the agricultural sector.

The previous analysis (Volk et al. 2017) has shown that the medium- and long-term agricultural policy objectives and priorities set out in these documents vary slightly by country but the basic strategic objectives for agricultural policy, with their orientation towards sustainability issues, match those of the EU CAP for the same period. However, implementation of the policy does not actually follow this approach. Environmental and societal concerns are only marginally supported through measures (see results of budgetary support analysis below).

The period 2016-2018 saw some changes in the institutional framework for agricultural policy. The most significant ones have happened in Albania, where the ministry has been renamed the Ministry of Agriculture and Rural Development, leading to restructuring of various departments and directorates and changes in the regional structures of the ministry, while part of the advisory services has been delegated to municipal authorities.

In Kosovo *, the Extension Service has become part of the Ministry of Agriculture and Rural Development, which should accelerate the implementation of agricultural policy and strengthen links between agricultural producers and the administration.

The previous report (Volk et al., 2017) provided broad information about the main characteristics of strategic documents. Here we summarise some of their main features. All strategic and programming documents outline the need to harmonise the institutional and legal framework with EU standards. The alignment of agricultural policy measures with the CAP, particularly direct support to producers, is less clearly addressed or is scheduled for the end of the programming period or the date of accession. The most precise information is given in the Montenegro programme, which adopted a special action plan for the adjustment of agricultural policy measures as a condition for the beginning of accession negotiations. Its programming framework envisages the gradual introduction of a single area payment for arable crops, permanent crops and grasslands, along with the reduction of coupled payments in the livestock sector (and for tobacco), starting from 2016 and becoming fully operational in 2020. A reduction in the number of direct payment schemes, as the first step towards the decoupling of direct payments, is also envisaged in other countries/territories.

All programming documents recognise the importance of rural development policy, and shape it according to principles and strategic directions compatible with EU rural development policy. Strengthening measures related to rural development, and increasing budgetary allocations for their implementation, is one of the main features of the strategic frameworks in all WB countries/territories. The proposed rural development measures are mostly comparable to EU programming guidelines for both the periods 2007-2013 and 2014-2020. The actual short-term policy is mostly based on annual programmes and budgeting, which are in turn strongly influenced by national political and economic situations.

1.2.3 Budgetary support for agriculture

Total budgetary support for agriculture

In all WB countries/territories, development of total support for agriculture is unstable, though showing an increasing trend in the period 2013-2017 (Table 6). In Serbia alone, there is a visible downward trend of total budgetary support since 2014. The most pronounced increase of total budgetary support is recorded in Kosovo *.

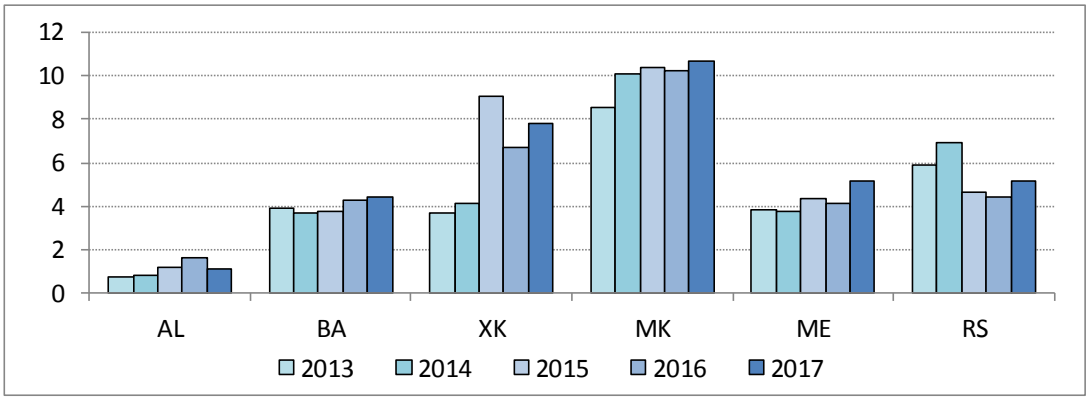
Table 6. Total budgetary support for agriculture in WB countries/territories (million EUR), 2013-2017

	2013	2014	2015	2016	2017
Albania	20.1	23.0	32.4	44.6	30.6
Bosnia and Herzegovina	71.0	67.4	68.0	77.6	80.9
Kosovo *	24.0	27.0	59.1	43.9	50.8
North Macedonia	109.3	128.7	132.9	131.1	136.3
Montenegro	17.6	17.4	20.0	19.1	24.0
Serbia	268.3	315.4	212.0	183.0	215.5

Source: Agriculture and agricultural policy database (data for Serbia for 2016 and 2017 are provisional).

The relative level of support, as a percentage of agricultural output, varies considerably between countries/territories (Figure 3). In the 2013-2017 period, total budgetary support for agriculture as a percentage of agricultural output ranged from 0.7 % to 1.6 % in Albania, 3.9 % to 4.4 % in Bosnia and Herzegovina, 3.8 % to 5.2 % in Montenegro, 4.4 % to 5.9 % in Serbia, 3.7 % to 7.8 % in Kosovo * and 8.6 % to 10.7 % in North Macedonia.

Figure 3. Relative level of total budgetary support for agriculture in WB countries/territories (% of agricultural output), 2013-2017



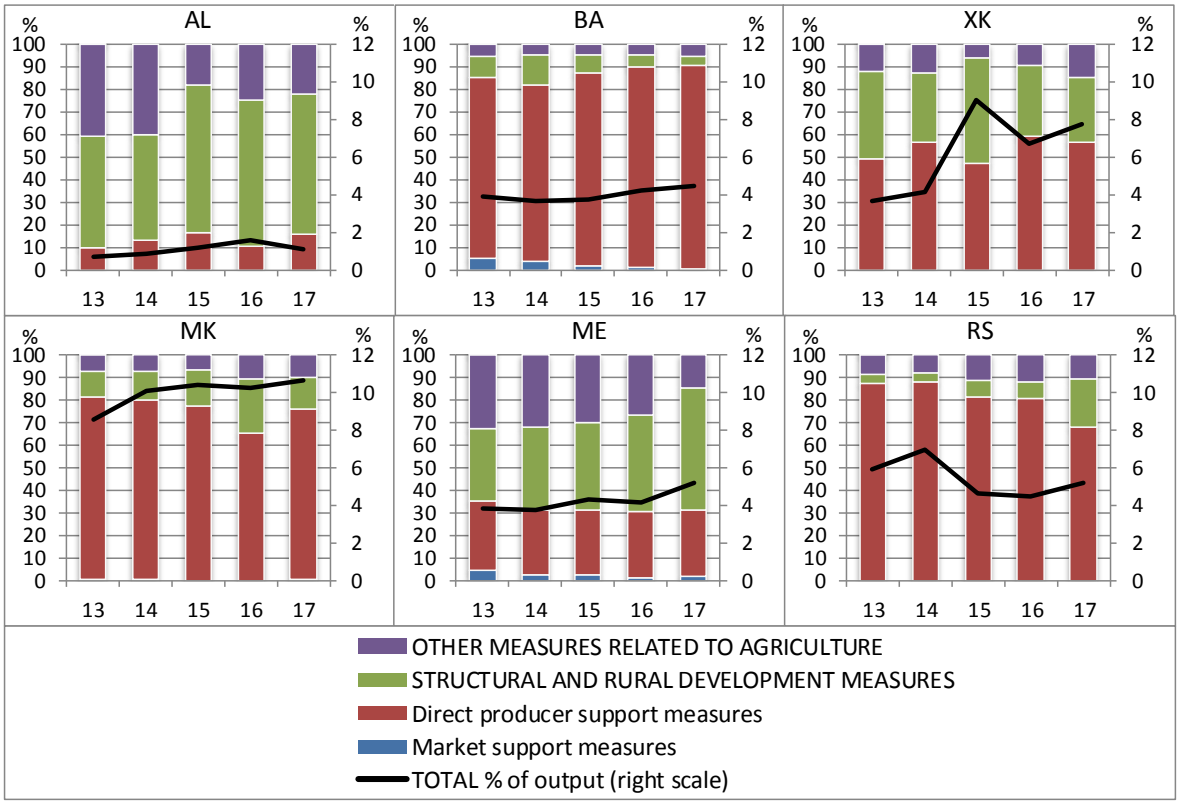
Source: Agriculture and agricultural policy database (data for Serbia for 2016 and 2017 are provisional).

The composition of total support for agriculture also differs considerably by country/territory (Figure 4). The share of market and direct producer support measures (first pillar measures) is high in Bosnia and Herzegovina (the average in 2013-2017 is over 85 %; 91 % in 2017), Serbia (about 80 % on average; 68 % in 2017), and North Macedonia (about 75 % on average and in 2017), lower in Kosovo * (around 50 %; 56 % in 2017) and Montenegro (around 30 %), and very low in Albania (less than 15 %; 16 % in 2017), where the relative level of support for agriculture is also the lowest among WB countries/territories.

Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) are significant in Albania (together representing more than 80 % of the total budget), Montenegro (around 70 %) and Kosovo * (close to 50 %). In these three countries/territories, part of the funding for agricultural support measures is derived from foreign donations, which are mostly focused on rural development (second pillar) and technical assistance (third pillar).

In most WB countries/territories, market and direct producer support measures have shown a decreasing trend as a share of total budgetary support since 2013, while the share of structural and rural development measures has increased. The exceptions are Bosnia and Herzegovina and Kosovo * where these trends were in the opposite direction (larger share of first pillar measures in 2017 compared with 2013).

Figure 4. Composition of total budgetary support for agriculture, by APM pillars in WB countries/territories, 2013–2015



Source: Agriculture and agricultural policy database (data for Serbia for 2016 and 2017 are provisional).

Market and direct producer support measures

In terms of the first pillar of agricultural policy, by far the largest proportion of funds relates to direct producer support measures. During the study period, some market support measures (market interventions) existed only in Bosnia and Herzegovina and in Montenegro. Detailed analysis is thus focused only on the proportion of the first pillar that relates to direct producer support measures.

Three countries/territories in the region show an upward trend in funds disbursed for direct producer support measures. Since 2013, the strongest and most constant increase in the budget for direct producer support has been recorded in Kosovo * and in Bosnia and Herzegovina, while it has been modest in Montenegro (Table 7).

Table 7. Direct producer support in WB countries/territories (million EUR), 2013-2017

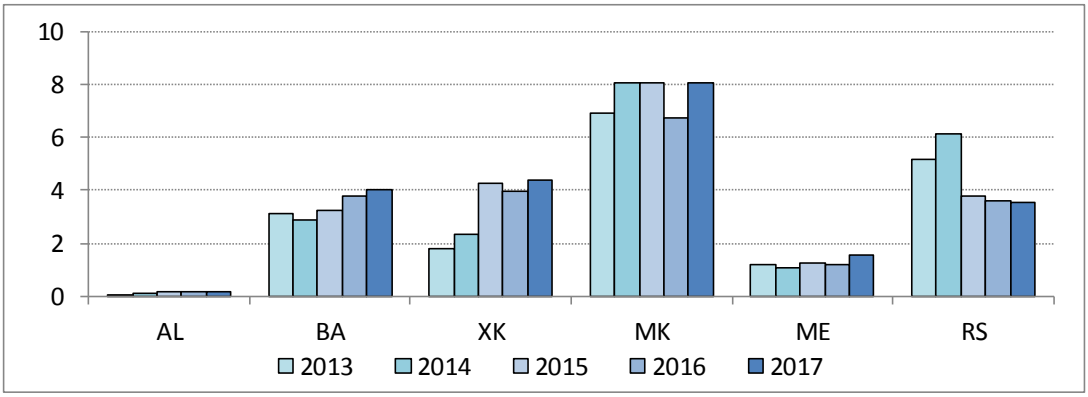
	2013	2014	2015	2016	2017
Albania	2.0	3.0	5.3	4.6	4.8
Bosnia and Herzegovina	56.9	52.6	58.5	69.0	73.2
Kosovo*	11.9	15.3	27.8	26.1	28.8
North Macedonia	88.1	103.0	102.8	86.0	102.7
Montenegro	5.4	5.0	5.8	5.6	7.1
Serbia	234.3	278.9	172.5	163.4	160.5

Source: Agriculture and agricultural policy database.

In North Macedonia, the budget for direct producer support varies somewhat from year to year, but is generally fairly stable. In Serbia, direct producer support dropped significantly in 2015 and a decreasing trend has continued since, mostly as a result of changes in the implementation of direct support schemes (see Chapter 2.4). In Albania, funds for direct support measures are very modest.

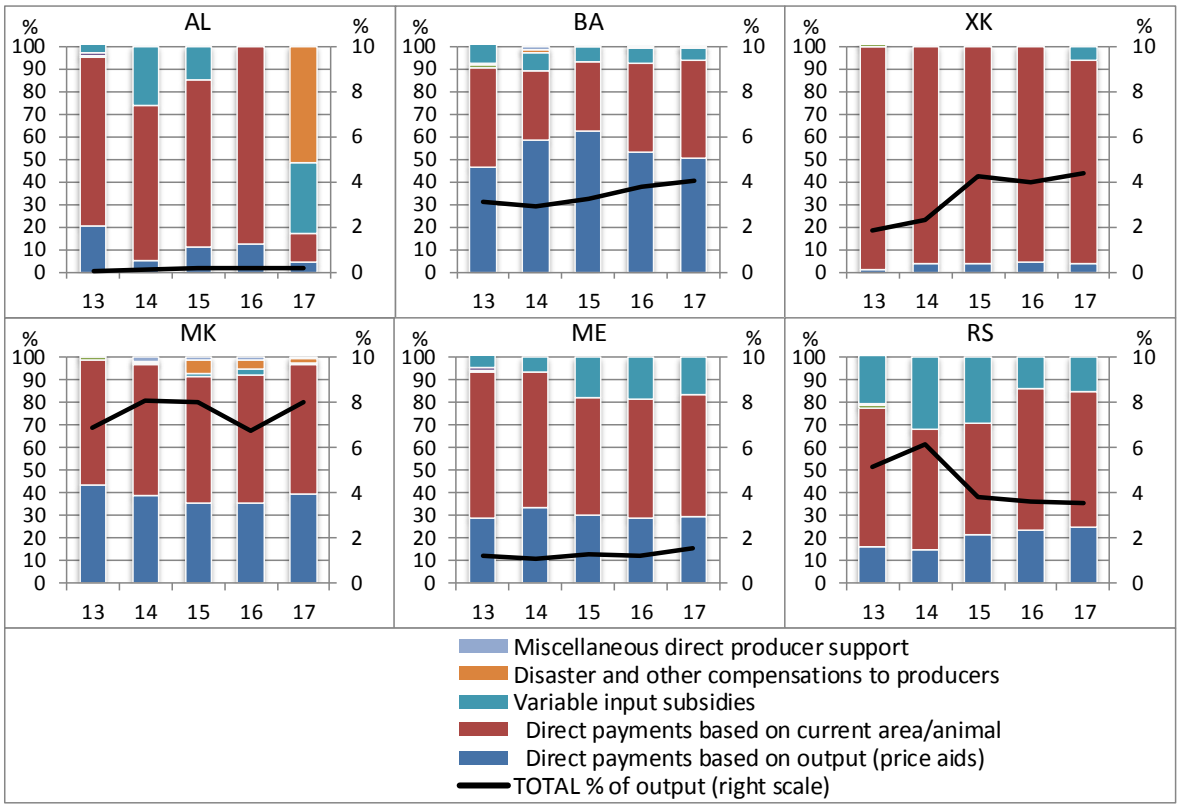
In relative terms, direct producer support as a percentage of agricultural output varies significantly between countries/territories, from less than 1 % in Albania to 8 % in North Macedonia in some years (Figure 5). Direct producer support as an average proportion of agricultural output in the period 2013-2017 amounted to 0.1 % in Albania, 1.3 % in Montenegro, 3.4 % in Bosnia and Herzegovina and in Kosovo *, 4.4 % in Serbia and 7.6 % in North Macedonia.

Figure 5. Relative level of direct producer support in WB countries/territories (% of agricultural output), 2013-2017



Source: Agriculture and agricultural policy database.

Figure 6. Composition of direct producer support measures in WB countries/territories, 2013-2017



Source: Agriculture and agricultural policy database.

In most WB countries/territories, the composition of direct support to producers has not changed much since 2013 (Figure 6). Direct payments per output (price supplements) are still present in all countries/territories. This type of support represents a particularly high share in Bosnia and Herzegovina (more than 50 % of support to producers) and North Macedonia (close to 40 %). In other WB countries/territories, payments based on area or animal numbers represent the major form of direct producer support. In Kosovo *, virtually all direct producer support is of this type.

Variable input subsidies existed in all countries/territories, at least in some years, but this type of support is significant only in Serbia (mostly fuel and fertiliser subsidies) and in recent years also in Montenegro (livestock subsidies).

Structural and rural development measures

Funds for structural and rural development measures are generally low in all WB countries/territories and fluctuate significantly from year to year. In the period 2013-2017, there has been a constant upward trend in these funds only in Montenegro. An upward trend has also been observed in North Macedonia, Kosovo * and Albania, but here there are also downward trends. A strong downward trend is visible in Bosnia and Herzegovina. In Serbia, the budget for rural development measures grew considerably in 2017. New programmes were launched, supporting investment into new tractors, mechanisation, equipment and breeding animals (Table 8).

Table 8. Structural and rural development support in WB countries/territories (million EUR), 2013-2017

	2013	2014	2015	2016	2017
Albania	9.9	10.7	21.3	29.0	19.0
Bosnia and Herzegovina	6.8	9.2	5.1	4.4	3.3
Kosovo *	9.2	8.3	27.8	13.7	14.7
North Macedonia	12.5	16.0	21.2	31.1	19.8
Montenegro	5.6	6.4	7.8	8.1	13.0
Serbia	10.6	12.6	15.6	15.5	50.6

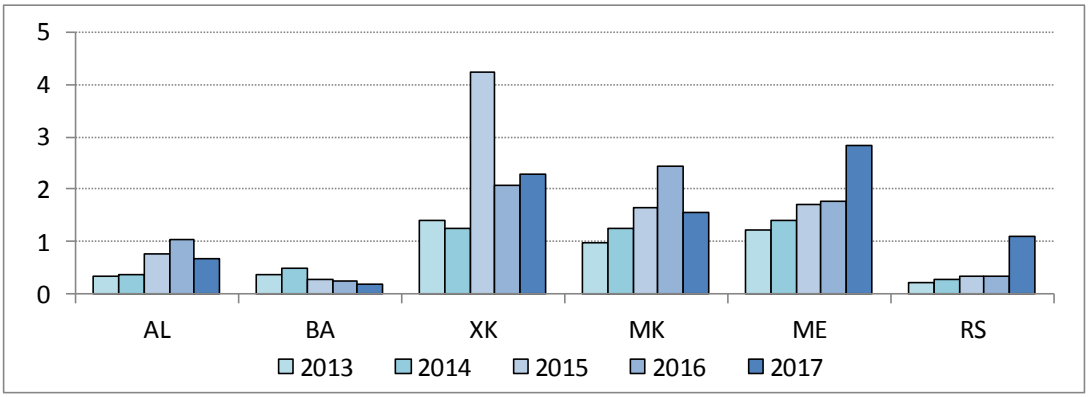
Source: Agriculture and agricultural policy database.

Structural and rural development support, as a percentage of agricultural output, fluctuated in the observed period from 0.2 % to 0.5 % (average 0.3 %) in Bosnia and Herzegovina, 0.2 % to 1.1 % (average 0.5 %) in Serbia, 0.4 % to 1.0 % (average 0.6 %) in Albania, 1.0 % to 2.4 % (average 1.6 %) in North Macedonia, 1.2 % to 2.8 % (average 1.8 %) in Montenegro and 1.3 % to 4.2 % (average 2.3 %) in Kosovo *, which has the highest relative level of structural and rural development support among WB countries/territories (Figure 7).

With the exception of North Macedonia, the bulk of funds from this policy pillar are allocated to the group of measures intended to improve the competitiveness of agriculture, while less attention is given to the other two aspects of rural development policy (environment and rural economy; population) (Figure 7).

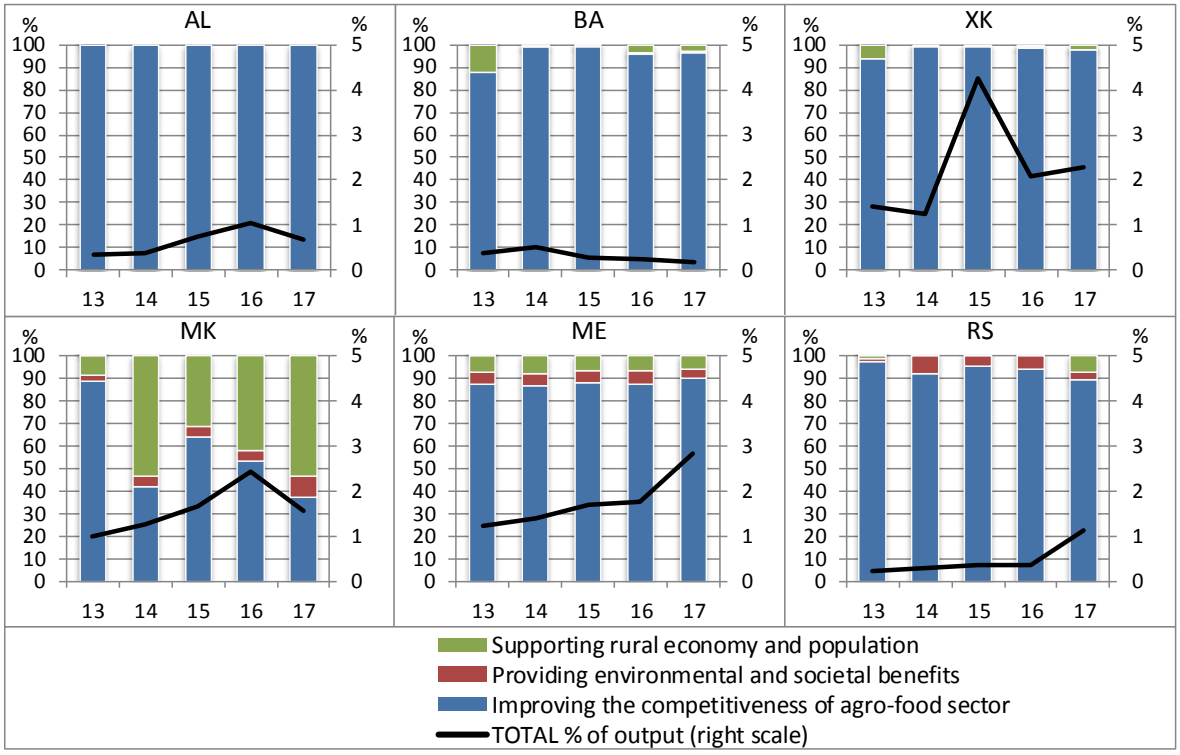
Throughout the study period, various support measures to improve the competitiveness of agriculture were applied in each country/territory. Over the past three years, most funds were assigned to on-farm investment and restructuring support (more than 70 % of total funds for measures to improve the competitiveness of agriculture), in all countries/territories except North Macedonia. Here, support relating to agricultural infrastructure, in the form of investments in irrigation infrastructure and water management, constituted the main share (this type of support also existed in most other countries/territories, but with minor funding). Most WB countries/territories allocated part of the funds to food processing support, as well as to marketing and promotion, during the course of at least one year; however, with the exception of Kosovo * in some years, the amounts involved were relatively low.

Figure 7. Relative level of structural and rural development support in WB countries/territories (% of agricultural output), 2013-2017



Source: Agriculture and agricultural policy database.

Figure 8. Composition of structural and rural development support in WB countries/territories, 2013-2017



Source: Agriculture and agricultural policy database.

Support for providing environmental and societal benefits is insignificant in WB countries/territories (Figure 8). Agro-environmental schemes are not used on a large scale in any country/territory. Albania and Bosnia and Herzegovina do not implement these measures, while in Kosovo * the first such measure (supporting organic farming practices) was introduced in 2016. Organic farming is regularly supported in North Macedonia, Montenegro and Serbia, but funds are still very modest. In North Macedonia and Serbia, support for organic farming is not set in absolute amounts per hectare or livestock unit as a compensation for higher costs, but as a supplement to payments for conventional production (in %).

Payments to areas facing natural or other specific constraints (ANC) are regularly granted only in North Macedonia. However, these payments are set as a supplement (in %) to

regular direct payments, not taking into account the actual natural constraints faced by these areas.

Funds for supporting the rural economy and population are also modest (Figure 8). This group of measures represented a significant proportion of total structural and rural development support (more than 50 %) only in North Macedonia after 2014, when a new support programme 'Improving the quality of life in rural areas' was launched.

Other measures related to agriculture

With the exception of Montenegro, budgetary funds for other agriculture support measures are relatively low in all WB countries/territories. In the period 2013–2017, there was an upward trend in these funds in Kosovo * and North Macedonia. In Serbia, Albania and Bosnia and Herzegovina, these funds are relatively stable, while a downward trend can be noticed in Montenegro (Table 9).

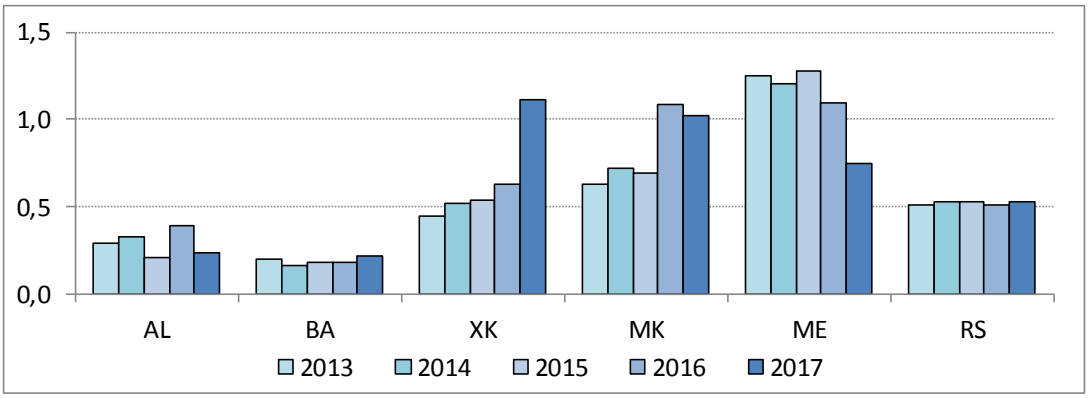
Table 9. Funds for other measures related to agriculture in WB countries/territories (million EUR), 2013-2017

	2013	2014	2015	2016	2017
Albania	8.1	9.2	5.9	11.0	6.7
Bosnia and Herzegovina	3.6	3.0	3.3	3.4	4.0
Kosovo *	2.9	3.4	3.5	4.2	7.3
North Macedonia	8.0	9.2	8.9	13.9	13.1
Montenegro	5.8	5.6	5.9	5.1	3.5
Serbia	23.4	24.0	23.9	23.3	24.0

Source: Agriculture and agricultural policy database (data for Serbia for 2016 and 2017 are provisional).

General support, as a percentage of agricultural output (Figure 9), amounted in the observed period to around 0.2 % in Bosnia and Herzegovina, around 0.5 % in Serbia, from 0.2 % to 0.4 % (average 0.3 %) in Albania, from 0.6 % to 1.0 % (average 0.8 %) in North Macedonia, from 0.5 % to 1.1 % (average 0.7 %) in Kosovo *, and from 0.8 % to 1.3 % (average 1.1 %) in Montenegro.

Figure 9. Relative level of funds for other measures related to agriculture in WB countries/territories (% of agricultural output), 2013-2017



Source: Agriculture and agricultural policy database (data for Serbia for 2016 and 2017 are provisional).

No significant changes in the composition of funds for general support can be observed in the past few years. In Kosovo *, North Macedonia, Serbia and Albania, food safety and quality control receive the largest part of funds in this policy pillar; in Kosovo * virtually all. In Bosnia and Herzegovina, the proportion of the budget for research, development, advisory and expert services is relatively high, but the absolute amounts for these activities remain low because of the low overall budget for this policy pillar. In Montenegro, North Macedonia and Albania, some funds were allocated to other general

support measures, including technical support, institution building and development of information systems. Some of those projects were co-financed from foreign sources.

1.2.4 Direct producer support schemes

Analysis of direct farm support implemented in WB countries/territories in 2010-2015 shows this strategy represented by large and, in most countries/territories, increasing numbers of different payment schemes (Volk et al. 2017). Since 2015, most WB countries/territories have introduced some new direct support schemes, increased or decreased some payment rates, and changed eligibility criteria under some payment schemes. However, the main characteristics of direct support policy by country remain almost unchanged in recent years. In 2017, WB countries/territories implemented direct support schemes similar to those in 2015 (Table 10).

In **Albania**, direct support policy has remained marginal and characterised by a very limited number of direct support schemes (for fruit and vegetables delivered to collection points, cow's milk and cows, sheep and goats, beehives and pesticides for olive groves).

Bosnia and Herzegovina is still characterised by a very large number of different commodity-specific payment schemes, covering all crop and livestock subsectors. Direct support policy differs between the two entities in the type of payments, payment rates and eligibility criteria. Among changes introduced in payment schemes since 2015, it is notable that the Federation of Bosnia and Herzegovina (FBH) reduced the dairy premium (paid per litre) and introduced per-animal payment for dairy cows, replaced the area-based payment for barley with a payment for all feed grains, and reduced the required sales of products to the market under most area-based payments. The Republika Srpska (RSR) increased the number of implemented payment schemes by one (per-head payment for fillies), and the Brčko District (BD) by four (area-based payment for medicinal herbs and mushrooms; animal-based payment for hens and turkeys), compared with 2015.

In **Kosovo ***, direct support schemes cover all crop and livestock subsectors, mostly in the form of area- and animal-based payments linked to a specific commodity, crop subsector or livestock category. Since 2015, Kosovo * has newly introduced area payments for barley and oats, per-animal payment for quail, and a subsidy for purchase of livestock (all categories).

In **North Macedonia,** direct support is granted to all subsectors, partly in the form of output-based payments and partly as per-hectare or per-animal payments. In both the crop and livestock sectors, direct payments consist of several basic payment schemes in combination with a number of additional payments for specific subsectors, commodities or livestock categories. Since 2015, North Macedonia has introduced a new additional area payment for field crops, new additions to area payments for vegetables, orchards and vineyards (set in %) and a new per-animal payment for laying hens.

Montenegro implements a somewhat smaller number of direct payment schemes than most other WB countries/territories. In the crop sector, support is granted in the form of an area-based payment for tobacco and basic per-hectare payment for other crop subsectors except vegetables, with different payment rates for certain commodities (cereal and potato seeds; forage crops). Permanent crops (orchards, vineyards, olive groves, and medicinal herbs) were included in the basic payment scheme for crops in 2016. In the livestock sector, direct support covers only ruminants (output-based payments for milk and animal-based payments for cattle, sheep and goats).

Table 10. Direct payment and input subsidy schemes in WB countries/territories, by amount of payment per unit and commodity, 2017

	AL	BA-FBH	BA-RSR	BA-BD	XK	MK	ME	RS
Per output (EUR/kg)								
Milk (EUR/l)	0.07	0.14; 0.15	0.15	-	0.06 ([a])	0.06	0.06 + 0.03 ([a]) + 0.01 ([b])	0.06
Wheat	-	-	0.03	-	-	-	-	-
Oilseeds	-	-	15 %	-	-	-	-	-
Tobacco	-	-	15 %	-	-	0.97	-	-
Vegetables	15 %	-	15 %	-	-	0.02-0.05	-	-
Fruit		-	15 %	-	-	0.03; 0.10	-	-
Seeds ([c])	-	-	30 %	-	-	0.13; 0.32	-	-
Seedlings (EUR/piece)	-	0.15; 0.23	15 %	-	0.20 ([e])	0.08-1.14	-	-
Other ([d])	-	-	[d]	-	-	[d]	-	-
Per area (EUR/ha)								
Field crops	-	-	-	-	-	97 ([e]) ; +78([l])	180	16
Cereals	-	-	-	-	-	+97 ([e])([l])		
Wheat	-	281	102	153	150			
Maize	-	-	-	-	150			
Barley, feed grains	-	179	-	153	150			
Oilseed	-	205	-	205; 230	150	+97 ([e])([l])		
Forage crops	-	153	-	153	-	+18 ([l]); +49 ([l])	100; 180	
Tobacco	-	767	-	511	-	-	1 000	
Seeds (f)	-	511-1 074	-	-	250	244 ([e]); 74 ([e])	300; 700	
Vegetables	-	1 023	-	358-1 023; 7 669	300	107; 536; +1 462 ([l]); +30 % ([l])	-	-
Fruit	-	460	-	307; 409	400	268 ([e]); 590 ([e]); +30 % ([l])	180	16
Vineyards	-		-	-	1 000	650 ([e]); +30 % ([l])		
Other ([g])	-	-	[g]	-	-	[g]	[g]	
Per animal (EUR/head)								
Cattle	-	-	-	-	-	45 ([e])	-	-
Cows	37	51 ([h])	-	230	70 ([h])	-	70	206
Breeding heifers	-	230	25 %; 15 %	153	-	+24 ([l])		-
Suckler cows	-	230	25 %; 15 %	102	-	-	-	165
Calves	-	-	-	-	-	+19 ([l])	-	-
Slaughtered cattle	-	128; 230	25 %; 15 %	153	50	24; +65 ([l])	120 ([l]); 140 ([l])	82 ([l])
Sheep, goats	9	18	25 %; 15 %	32; 26	15 ([h])	16; +11 ([l])	8	58
Slaughtered lambs	-	-	-	20	-	-	-	16
Breeding sows	-	77	25 %; 15 %	51	20	16	-	82
Slaughtered pigs	-	31	25 %; 15 %	36	-	16 ([e]); 32 ([e])	-	8
Breeding poultry	-	0.18; 0.61	25 %; 15 %	0.15	-	-	-	0.5-2.5
Slaughtered poultry	-	-	25 %; 15 %	0.10	-	0.04; 0.05	-	-
Laying hens	-	-	-	0.77	0.50 ([e])	1.62	-	-
Bees (EUR/beehive)	7	8	25 %; 15 %	15	15	10; +16 ([l])	-	6
Other ([j])	-	-	[j]	[j]	[j]	[j]	-	-
Per input								
Insurance (max)	-	50 %	-	70 %	-	60 %	50 %	40 %
Other ([j])	[k]	-	[k]	-	[k]	-	[k]	[k]

([a]) Milk quality premium (maximum amount).
([b]) Additional payment for large producers.
([c]) RSR: all seeds from registered producers; MK: basic and pro-basic cereal seeds.
([d]) RSR: medical herbs (15 %); MK: day-old chicks (0.05-0.08 EUR/piece) and wine grapes (0.03 EUR/kg).

([e]) Maximum amount per unit; reduced unit value for quantities (hectares, animals) above set threshold.
([f]) FBH: cereal, oil plant and potato; XK: wheat; MK: all; ME: cereal and potato.
([g]) FBH: medicinal herbs (307 EUR/ha) and buckwheat (205 EUR/ha); RSR: medicinal herbs (256 EUR/ha) and mushrooms (1.53 EUR/m2); MK: seedlings of decorative plants (97 EUR/ha) and snails (1 462 EUR/ha); ME: medical herbs (180 EUR/ha).
([h]) For milk production only.
([i]) Young male cattle only.
([j]) MK: ostrich (28 EUR/head); RSR: fillies (205 EUR/head); BD: turkeys (1.53 EUR/head); XK: laying quails (0.50 EUR/head).
([k]) AL: pesticides for olive groves (261 EUR/ha); RSR: fuel subsidy (0.30 EUR/l); XK and MN: subsidy for livestock purchase; RS: fertiliser subsidy (0.08 EUR/kg; max 16 EUR/ha).
([l]) Additions to basic payment schemes for specific subsectors, commodities or livestock categories.

Source: Agriculture and agricultural policy database.

Direct support policy in **Serbia** is characterised by a very limited number of payment schemes for the crop sector and quite a high number of livestock-related payments linked to a specific subsector or category. The crop sector is supported by a single area payment for all arable and permanent crops (excluding vegetables) and input subsidies for fertilisers. The most significant changes in direct support policy implemented since 2015 are a reduction in payment rates under crop-related support schemes (for crops and fertilisers) and elimination of the fuel subsidy scheme. The maximum eligible area for per-hectare payments for crops is still 20 hectares, as set in 2015.

In all WB countries/territories, support schemes still require the production of agricultural commodities to be eligible for support (production-coupled payments) and, except in North Macedonia, direct support is not conditional on any CAP-like cross-compliance requirements. However, there are significant differences between countries/territories in how the production-coupling is defined, i.e. whether the payments are linked to production of a particular commodity, specific commodity group or any commodity. The proportion of direct producer support measures with a commodity-specific basis (i.e. single commodity transfers) is particularly high in Albania (100 % in 2017) and Bosnia and Herzegovina (91 %), followed by Kosovo * and North Macedonia (81 % and 77 %, respectively), while in Montenegro and Serbia this proportion is much lower (46 % and 43 %, respectively) (APM database).

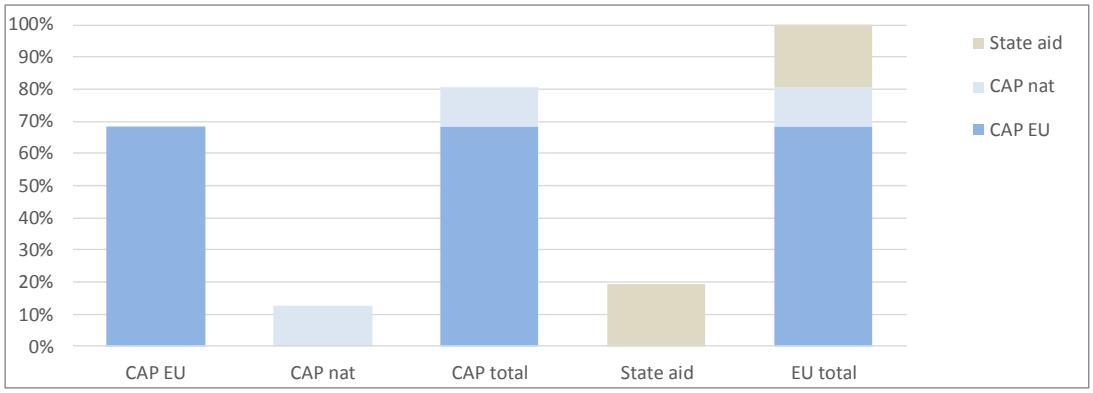
1.3 Assessment of the EU approximation process in WB agriculture

1.3.1 The CAP and WB agriculture – comparison of budgetary support

Total budgetary support for agriculture

In the EU, total budgetary support for agriculture, defined according to the APM classification scheme and based on data from the OECD PSE/CSE database, complemented by European Commission data on some rural development measures (see Chapter 1.3 on methodology), amounted to slightly over EUR 79 billion in 2017 (EU total). About 80 % of this support relates to CAP measures (CAP total) that are financed from the EU budget (about two-thirds of EU total - CAP EU) and co-financed by Member States (12 % of EU total - CAP nat), predominantly for the measures under rural development programmes (Figure 10).

Figure 10. Composition of total budgetary support for agriculture in the EU by financial source, 2017



Source: authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017)

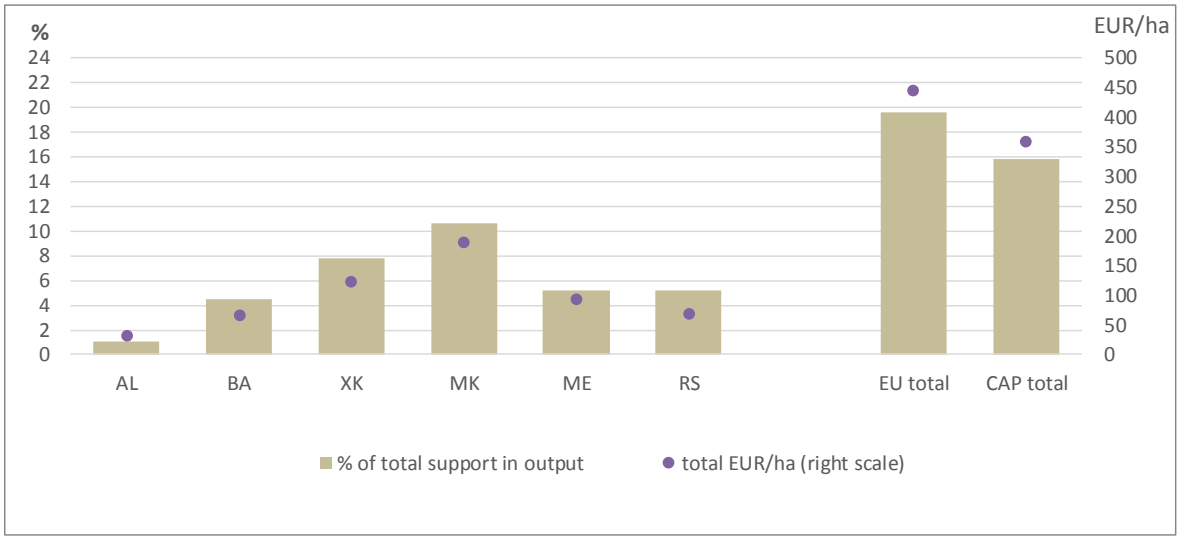
The remaining support for agriculture (almost 20 % of the total) comes from Member State funds in the form of state aid, consisting of policy measures under the competence of the Member States but compliant with EU rules.

Data on EU budgetary expenditure under agricultural policy were compared to WB budgetary support, using relative indicators. As with the budgetary support of WB countries/territories (Chapter 2.3), we present the relative level of support as a proportion of the value of agricultural output, and additionally as amounts per hectare of utilised agricultural area. Both indicators show similar relative levels of support by countries/territories (Figure 11).

In 2017, total budgetary support for agriculture amounted to almost 20 % of the value of agricultural output in the EU (446 EUR/ha). This is twice as much as in North Macedonia, which has the highest relative level of support among WB countries/territories at 10.7 % (189 EUR/ha). These levels are much lower in other WB countries/territories: 8% in Kosovo * (123 EUR/ha), 5% in Montenegro (94 EUR/ha) and Serbia (62 EUR/ha), 4 % in Bosnia and Herzegovina (66 EUR/ha) and only 1 % in Albania (32 EUR/ha) (Figure 11). It should be noted that these relative indicators are derived from data that are not perfectly comparable between countries/territories (see Chapter 1.3 on methodology).

As well as comparing the relative level of support in WB countries/territories with that in the EU, it is also interesting to compare this with individual Member States, particularly with the new Member States. Such a comparison was recently presented in the OECD study (OECD 2017) evaluating the CAP over the 2014-2020 period. This study presents the relative level of support for agriculture by Member States, expressed as the ratio of CAP total spending to the value of agricultural output (Figure 12). Domestic policy funding (state aid) is therefore not included (comparable data is expressed as 'CAP total' in Figure 11).

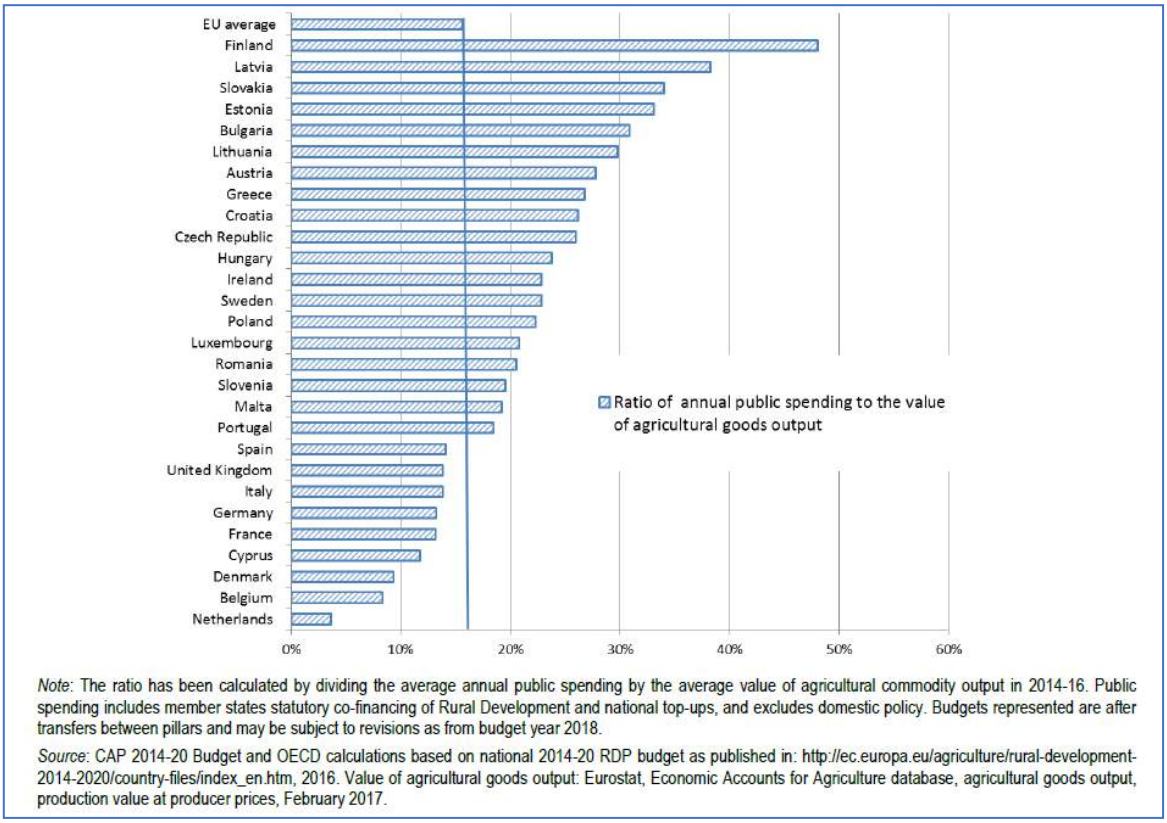
Figure 11. Relative level of total budgetary support for agriculture in WB and EU (% of agricultural output; EUR/ha), 2017



Sources: Agriculture and agricultural policy database (data for Serbia are provisional); authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

Figure 12 indicates considerable differences between EU countries in the relative level of support for agriculture, even larger than between WB countries/territories. According to the OECD study (2017), in the EU the average ratio of support for CAP measures to agricultural output in 2017 was about 16 %. Finland greatly exceeds this average, standing at almost 50 %, while in the Netherlands this ratio is far below EU average at about 3 %. Generally, countries acceding to the EU after 2004 (with the exception of Cyprus) have an above-average or high relative level of CAP support, and much higher than any WB country/territory.

Figure 12. Ratio of EU CAP total spending to the value of agricultural output



Note: The ratio has been calculated by dividing the average annual public spending by the average value of agricultural commodity output in 2014-16. Public spending includes member states statutory co-financing of Rural Development and national top-ups, and excludes domestic policy. Budgets represented are after transfers between pillars and may be subject to revisions as from budget year 2018.

Source: CAP 2014-20 Budget and OECD calculations based on national 2014-20 RDP budget as published in: http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/index_en.htm, 2016. Value of agricultural goods output: Eurostat, Economic Accounts for Agriculture database, agricultural goods output, production value at producer prices, February 2017.

Source: Evaluation of the EU common agricultural policy (CAP) 2014-20 (OECD 2017, p 20)

WB countries/territories finance most agricultural support measures from national funds ([12]), while in the EU, Member State funding is mostly limited to domestic policy measures (state aid) and co-financing of rural development programmes. The co-financing rates differ by country, depending on the economic development of the Member State. According to the OECD study (2017), which considered only CAP measures, the proportion of Member State funding to total CAP funding ranges from over 50 % in Finland to about 5 % in Denmark (Figure 13) ([13]).

It is particularly interesting to look at the share of own resources in total CAP funding, as compared with the proportion of total CAP funding to agricultural output, in new Member States. In most of these countries, the co-financing ratio of CAP measures is below 10 %, while the proportion of CAP funding to the value of agricultural output ranges from about 20 % to over 30 %. To achieve this relative level of support, these countries only invest their own resources at the level of 2 % to 4 % of the value of agricultural output ([14]). Even taking into account that national agricultural budgets as a proportion of the value of agricultural output are higher than shown due to state aid, it can be said that these

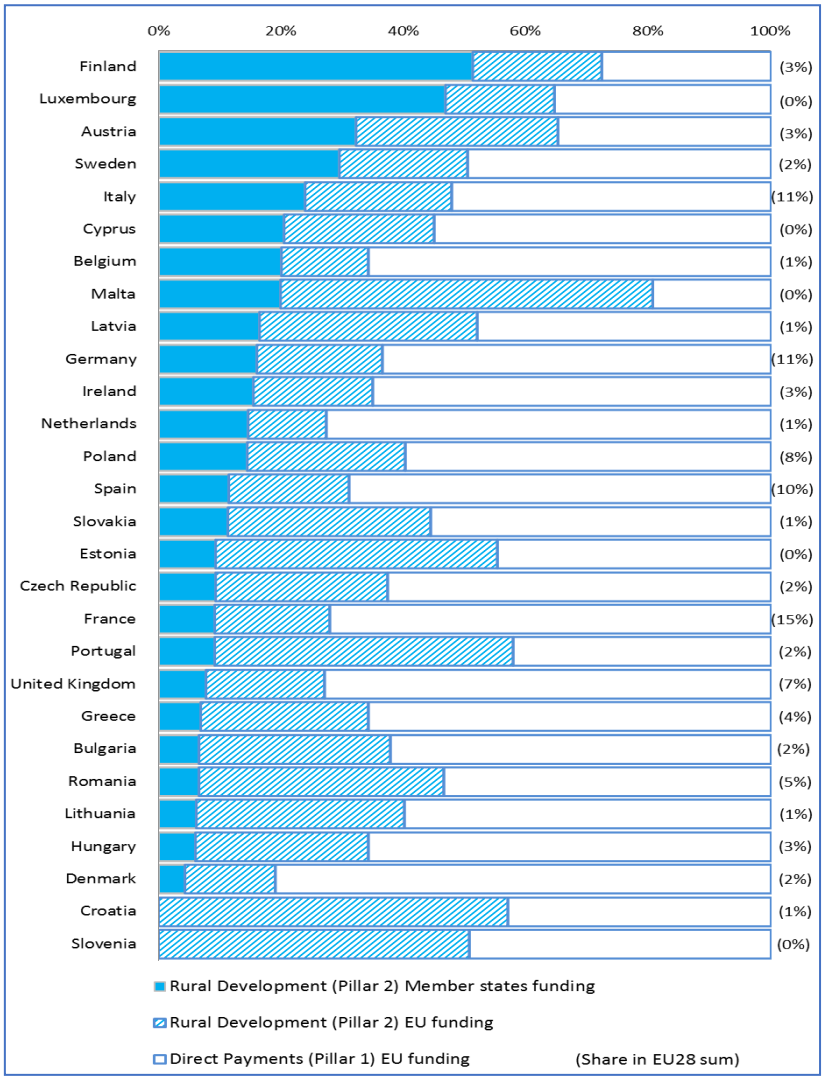
([12]) Donor funds, including IPARD pre-accession support, do not represent a significant share of total agricultural funding, except in Albania (about 30 % of total funding). However, in some years donor funds represent a significant share of funding of some projects under structural and rural development policy and general support, particularly in Kosovo *, Montenegro and North Macedonia.

([13]) Funds for CAP Pillar I in the OECD (2017) analysis do not include market measures. Data for Croatia and Slovenia are incorrect, as both countries also co-finance CAP rural development measures.

([14]) This statement is valid only from a strong agricultural sector view. The Member States are also financing the EU part of the CAP from national resources, by contributing to the EU budget in general.

proportions are comparable or lower than those in WB countries/territories (except in Albania) (4 % to 11 % of agricultural output, see Figure 11).

Figure 13. Member States CAP budget, by funding source, for 2014-20 and share in EU28 (excluding funds for market measures)



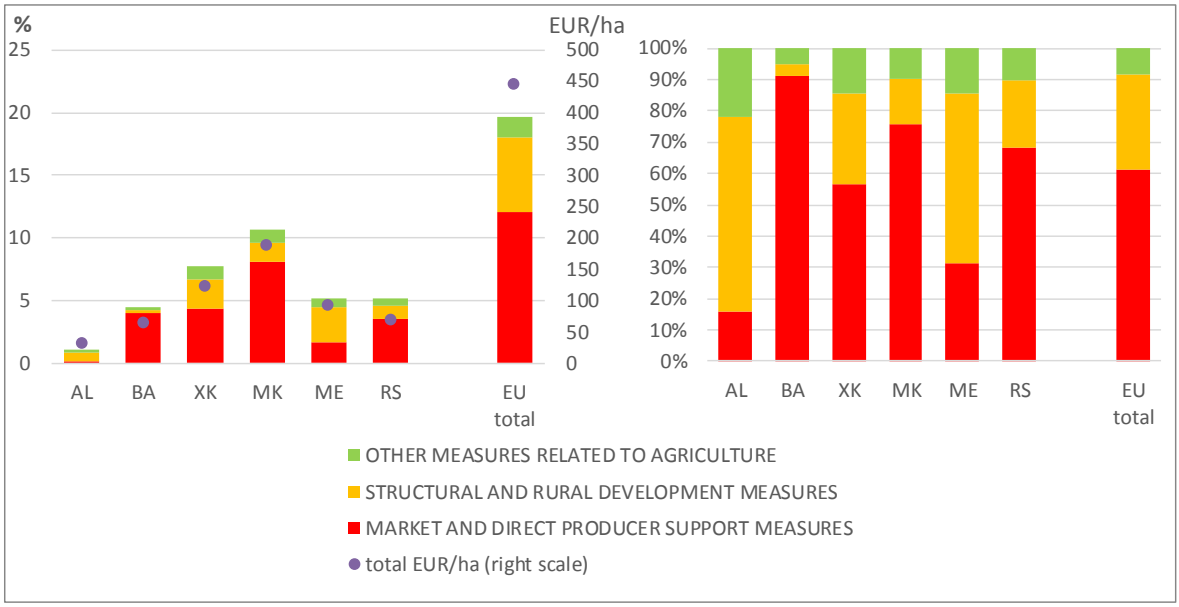
Source: Evaluation of the EU common agricultural policy (CAP) 2014-20 (OECD 2017, p 19)

Therefore, it might be concluded that in most WB countries/territories, existing agricultural budgets could satisfy co-financing requirements upon accession, while total support would increase significantly. The problem is that these funds do not necessarily enable a country to prepare well for accession. Based on previous experience and the pre-accession and accession models (see Chapter 1.2), it is usually necessary to ensure higher funds before accession. Agricultural policy must at least be able to adapt and absorb EU funds efficiently; in our estimate, most WB countries/territories' levels of support do not allow for such an adaptation of policy, predominantly because of low relative levels of support under structural and rural development policy (see Chapter 2.3).

There is no doubt that in the future, agricultural budgets in WB countries/territories will be limited and dependent on GDP growth; hence the importance of funds being used in an efficient and effective way. Therefore, it is perhaps more appropriate to focus on the composition of support, defined by the APM classification scheme which better reflects

the level of adaptation of national agricultural policies to the CAP, rather than on budget size alone (Figure 14).

Figure 14. Relative level and composition of total budgetary support for agriculture, by APM pillars, in the WB and the EU (%), 2017



Sources: Agriculture and agricultural policy database (data for Serbia are provisional); authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

The first pillar of agricultural policy (market and direct producer support measures) accounts for about 60 % of total funding in the EU. This funding share is similar in Kosovo *, but considerably higher in Bosnia and Herzegovina (91 %), Serbia (81 %) and North Macedonia (76 %), smaller in Montenegro (31 %), and very small in Albania (16 %), which has a very limited agricultural budget.

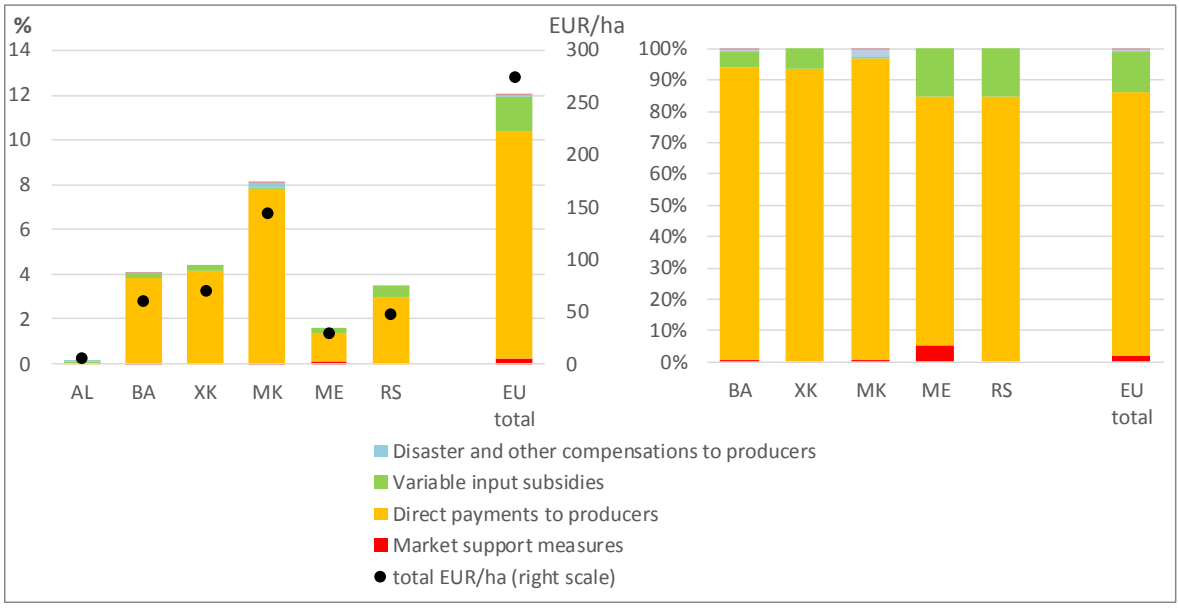
The division of support among pillars offers some insight into the main characteristics of policy, but more detailed analysis requires insight into the composition of support within the pillars.

Market and direct producer support measures

Figure 15 shows a comparison of the size and structure of market and direct producer support measures. Comparison between relative levels of support, measured by agricultural output and per hectare, show similar relations between the WB countries/territories and the EU to those found in the previous section. In the EU, support under this pillar equates to over 12 % of agricultural output; in North Macedonia this figure is 8 %, in Bosnia and Herzegovina, Serbia and Kosovo *, 3 % to 4 %, and in Montenegro it is below 2 %. The relative level of support in Albania is very low, less than 0.2 %; given the small size of the entire agricultural budget, these funds are minimal, so we do not show their detailed structure here.

Direct payments to producers dominate the first pillar in all WB countries/territories (over 70 % of total support in this pillar) as well as in the EU (84 %). This share is particularly high in North Macedonia (97 %), Bosnia and Herzegovina and Kosovo * (94 %). In Serbia, Montenegro, and interestingly in the EU as well, variable input subsidies also represent a significant share (29 %, 16 % and 13 %, respectively). In the EU, these are predominantly in the form of fuel subsidies (including fuel tax rebates) and insurance subsidies; in Serbia, fertiliser subsidies; and in Montenegro, livestock subsidies.

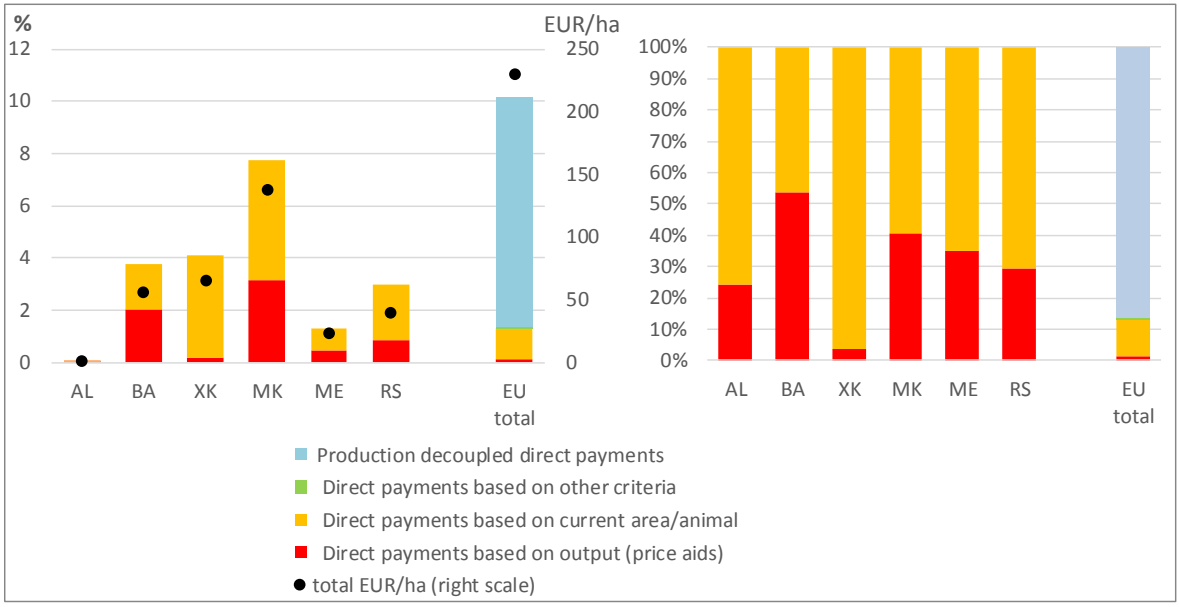
Figure 15. Relative level and composition of market and direct producer support in the WB and EU (% of agricultural output; EUR/ha), 2017



Sources: Agriculture and agricultural policy database; authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

The type of direct payments to producers (Figure 16) is of particular significance in comparing policy with the EU. There are major differences between WB countries/territories and the EU in this respect.

Figure 16. Relative level and composition of direct payments to producers in the WB and EU (% of agricultural output; EUR/ha), 2017



Sources: Agriculture and agricultural policy database; authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

Price aids (direct payments based on output) are still an important form of support in most WB countries/territories* (representing between 4 % and 54 % of direct payments

to producers), while in the EU, this type of payment represents a very low share (1 %, granted mostly to dairy sector).

The main form of direct payments in the WB countries/territories is payments based on area or animal numbers (between 46 % and 96 % of direct payments to producers). This type of support is still relatively common also in the EU, but more than two-thirds of it is directed to ANC and agro-environmental measures within the second CAP pillar. In the EU, these payments represent 12 % of direct payments as defined by the APM classification scheme, and they are granted predominantly under voluntary coupled support schemes.

The main type of direct payments in the EU is decoupled payments consisting of basic payments and several additions, which represent almost 90 % of total funds for direct payments to producers. There are no such payments in the WB countries/territories.

Production-linked direct support policy in the WB countries/territories is understandable, given limited resources, level of agricultural development and orientation of agricultural policy. The policy mainly pursues production goals, and the agricultural public finds this form of support the most appropriate. In the context of convergence and accession to the EU, long-term insistence on this form of support is problematic. If the acceding country extends a set of direct payments to sectors that in the EU do not receive support at all, or only indirectly, and perhaps even favour some producers (see Chapter 2.4), the expected transition to decoupled payments upon accession to the EU can lead to significant politically and economically undesirable redistribution of support among sectors and producers. Therefore, it is advisable (Volk et al. 2014) to gradually move from price aids to area/animal-based payments, and within this group from payments for a specific commodity to payments for all or a group of commodities (see Chapter 1.2).

Structural and rural development measures

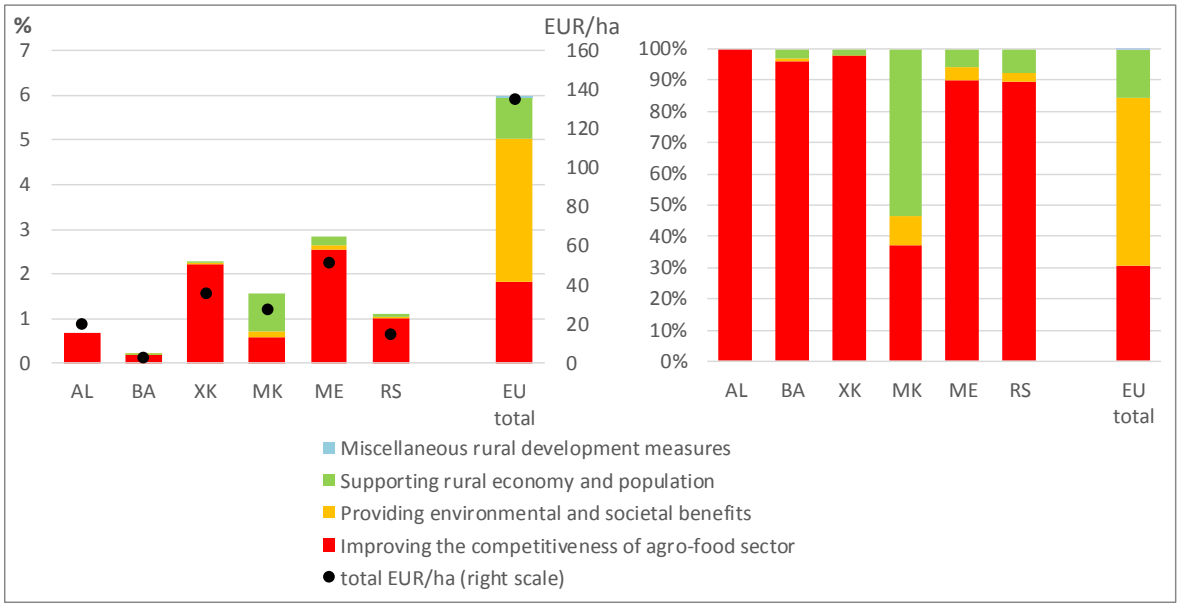
Among the WB countries/territories, there are major differences in the relative level of structural and rural development support, but (with the exception of North Macedonia) less difference in its composition by main groups of measures (support for improving competitiveness, providing environmental and societal benefits, and supporting rural economy and population) (Figure 17).

Despite the relatively small overall agricultural budget in Montenegro, this country has the highest relative level of funding for structural and rural development measures among the WB countries/territories (2.8 % of agricultural output; 46 % of the EU level of 6 %). These percentages are also relatively high for Kosovo * (2.3 % of agricultural output; 38 % of the EU level). These two countries/territories are lagging behind the EU less than when comparing total support, while others are lagging considerably more. The relative level of structural and rural development support is particularly low in Bosnia and Herzegovina, Albania and Serbia (0.2 %, 0.7 % and 1.1 % of agricultural output, respectively).

The composition of funding for structural and rural development policy in the WB countries/territories, by main groups of measures, is completely incompatible with the composition in the EU (Figure 17). In all WB countries/territories except North Macedonia, the funds in this pillar are almost entirely aimed at improving the competitiveness of the agri-food sector, mostly as support for on-farm investments. In the EU, this group of measures represents less than a third of funds in this pillar (1.8 % of agricultural output).

With the exception of North Macedonia, funds for supporting the rural economy and population are very low in the WB countries/territories (less than 0.1 % of agricultural output); much lower than in the EU (0.9 %). In any case, support for this group of measures is too low given the situation and needs of rural areas in these countries/territories, as described in country reports and previous work by this group (Volk et al., 2010 and 2014).

Figure 17. Relative level and composition of structural and rural development support in the WB and EU (% of agricultural output; EUR/ha), 2017



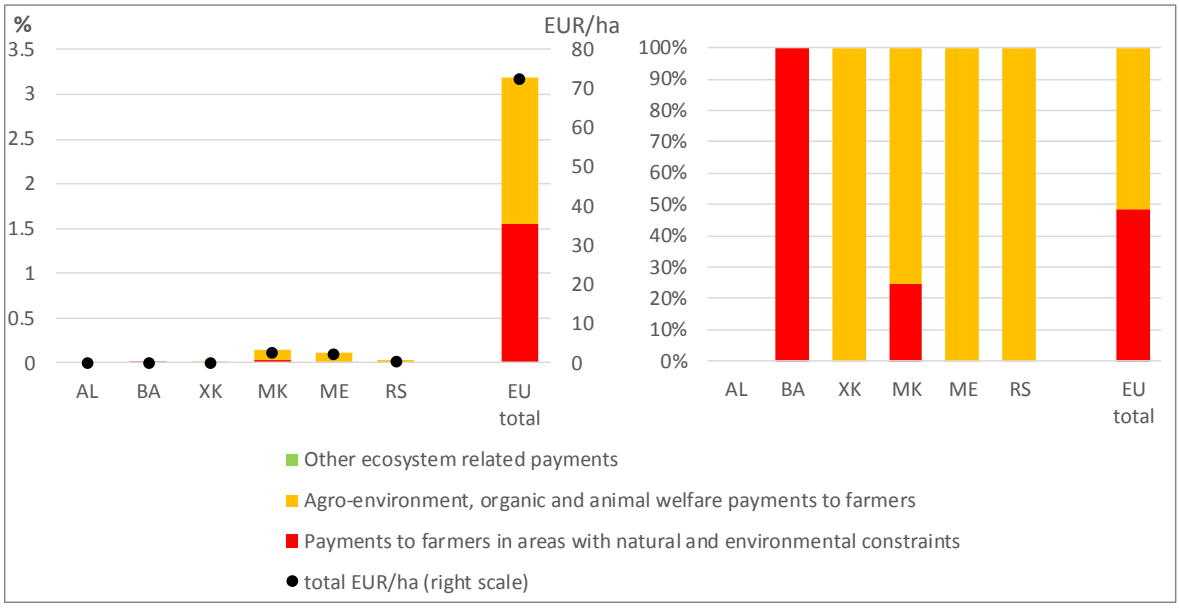
Sources: Agriculture and agricultural policy database; authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

There is a major contrast to the EU in the group of measures to provide environmental and societal benefits. Here, the EU rural development programmes feature numerous, financially strong measures, such as payments to farmers in areas with natural and other constraints, agro-environmental and climate support, and support for organic agriculture.

The importance of this policy in the EU is reflected in the fact that more than half of total rural development policy funds are devoted to this group of measures (3.2 % of agricultural output). Of this, about half are for ANC payments and half for the remaining measures within this group (agro-environment, organic and animal welfare payments) (Figure 18).

In the WB countries/territories, funds for this purpose are negligible (from zero to less than 0.2 % of agricultural output). It should be noted that, from the point of view of adapting and addressing needs, the absence of ANC payments is particularly problematic since all WB countries/territories have extensive areas where production conditions are extremely unfavourable due to altitude, terrain or other restrictions. These areas are also being abandoned and there are negative changes to ecosystems.

Figure 18. Relative level and composition of support for the provision of environmental and societal benefits in WB and the EU, 2017



Sources: Agriculture and agricultural policy database; authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

1.3.2 The CAP and WB agriculture: qualitative assessment

Monitoring of agricultural policy in WB countries/territories, and quantitative comparison with budgetary support for agriculture with the EU, have enabled reflection on the key issues regarding adaptation of the agricultural policy of the WB countries/territories to the requirements of the CAP. We will discuss this according to the categories developed for benchmarking agricultural policies in the pre-accession period (Chapter 1.2).

Sustainable policy model

WB countries/territories have clearly expressed their commitment to sustainability in their strategy papers, and have underlined the economic, environmental and social objectives of agricultural policy. This is part of general commitments by the candidate countries to EU orientation. By contrast, analysis of measures has revealed an almost exclusively production-oriented agricultural policy. Production support in the form of direct payments and investment support prevails, mostly for investments on agricultural holdings.

In this context, we have also highlighted that for effective functioning of agricultural policy and achievement of sustainability, it is important that acceding countries have recognised the role of institutions in the creation and transfer of knowledge, i.e. a functioning AKIS. This involves both public systems in the fields of research, education and extension, but also a more prominent role for the private sector and a commitment to achieving sustainability objectives at the level of agricultural holdings and agricultural policy in general. WB countries/territories are still quite far from achieving this. Despite some attempts and efforts, even with donor funds, to build a modern AKIS, results are still poor and we cannot identify any country as particularly successful.

The narrow focus on agricultural production, and weak AKIS, also stem from the division of labour and the orientation of agricultural ministries in WB countries/territories, as well as general public discourse on agriculture. Key individuals in line ministries see the production of food as their *raison d'être.* Other elements of sustainability are poorly represented in public discourse and it is fair to say that they are completely overlooked in policy implementation.

Adopting a sustainable policy model is not a matter of a one-time political decision, but of individual perception and institutional approaches. The quality of individual and institutional understanding is decisive, but this also requires unambiguous political support. In most WB countries/territories, this is lacking. Political survival is pushing modern politicians towards pragmatism and populism; as a result, values such as sustainability are not popular. This means that long-term investment in institutions, a stable human resources policy and good public governance are even more important. Implementing the sustainability model is thus also a matter of democratic development.

To summarise, successful accession requires the adoption of a conceptual framework of agricultural policy and a somewhat different value system in agriculture, one that emphasises its role in achieving sustainability. This implies a greater role for democratic decision-making and transparent functioning; sufficient attention should be given to training and good personnel policy in public administration. The key to change is the rediscovery of the role of knowledge, which can also be improved through investment in public and private knowledge institutions.

Strategic policy framework

The WB countries/territories formally have a clear set strategic framework for agricultural policy. All have strategic programmes and action plans for the entire sector, and in some cases additional separate documents pertaining to rural development. These documents clearly state a commitment to adopt the goals and priorities of the current CAP. There is also relatively successful planning of measures intended to gradually adapt the policy to CAP demands, defined in the pre-accession model. The role of rural development policy is clearly formulated and there are seeds of an environmental focus. These documents are formally adopted by governments, some of which are even setting up monitoring for their implementation.

Yet the analysis of budgetary support (Chapters 2.3 and 2.4) reveals that, several years after adoption, these declared changes do not appear in the actual design and implementation of agricultural policy measures. There is a spread in direct producer support measures that are not in accordance with EU logic, while the role of rural development is only gaining ground in a few countries/territories. Some countries/territories are still largely experimenting with measures and amounts of support.

Why is there this discrepancy between planning and implementation? This is a complex problem, which requires a great deal of additional political and economic analysis. We can assume that much of the explanation lies in political turbulence, in which most governments find themselves, in political pragmatism overshadowing strategic thinking, and lastly in weak personnel structure in the political and administrative organisation of ministries. All of this is difficult to influence, and there is a lack of clear political will. The potential positive influence of the accession process has been demonstrated in the case of Montenegro, which has formulated and is implementing an action plan for policy adaptation under pressure from formal accession negotiations. Croatia is having a similar experience.

It would seem to take the pressure of accession negotiations for there to be more serious adjustment to EU requirements. However, the fact remains that for modern-day implementation of public policies, an evidence-based and policy cycle approach is required. The first step is to introduce monitoring of policy implementation and the state of agriculture. Here, there are significant differences between countries/territories and, in the case of Bosnia and Herzegovina, entities. On the one hand, we have Kosovo *, which regularly prepares a Green Report - an annual report on the state of agriculture and agricultural policy - which is published with transparency by the ministry. In other countries/territories, similar reports are still under development, are issued only sporadically, or only cover government procedures. In the cases of Bosnia and Herzegovina and of Montenegro, no such public monitoring is established. Monitoring is

based on annual status reports, which also provide a clear picture of payments disbursed for specific measures. It is strongly recommended that these are introduced and implemented according to relevant international standards.

Similarly, we have not observed any significant advances in the development of analytical support for agricultural policy, situation analyses or impact assessments, which are all part of a modern policy cycle, policy planning and implementation. Some ministries are improving in this respect, but unfortunately due to inappropriate personnel structures they are often dependent on donor projects. There is still too little investment in national institutional support structures. The research network that has been conducting such projects for the past 10 years has also reached its limits; we have been unable to build a professional network comparable to European ones, or relations with the line ministries that could contribute to better policy.

The quality of planning for measures is a particular challenge for all countries/territories. The fiasco that happened in North Macedonia in the first round of IPARD calls is a telling example of serious issues with policy planning in the region. Regardless of individual successes, this is present in all policymaking. Problems stem from lack of knowledge of the situation of beneficiaries, weak assessment of needs, unrealistic goals, transfers of practices from different political-economic conditions, and, most crucially, the capabilities of those implementing the policy. Considering that the first countries to accede will be doing so at a time when strategic planning at Member State level is a requirement, lack of preparation in this field can cause low absorption of funds, and in extreme cases can represent an impediment to accession by preventing the conclusion of negotiations. WB countries/territories are currently too reliant on external help instead of developing their own potential, which will have to be addressed in the future.

EU institutions will judge quality of planning and capability to implement measures mainly through quality of implementation of the IPARD. All countries/territories in the region are either implementing IPARD or preparing for it (or similar instruments) in 2018. This will be a key test of the quality of functioning and of progress in the region. Therefore, this should be followed attentively, and countries/territories in the region should address it seriously. As we have pointed out in previous reports (Volk et al., 2017), shifts are also needed on the donor side in understanding issues, especially in the European Commission; the introduction of a certain flexibility in policy design is a source of hope.

The recommendations are clear: improve national planning and analytical structures and adopt strategic logic in agricultural policy planning, implementation and monitoring.

Size and allocation of financial resources

There is no single correct answer to the question of optimum budget size and distribution between pillars to prepare a country for EU accession. In our discussion of quantitative criteria (Chapter 3.1), we pointed out that the funding must at least enable the co-financing of measures after accession. This criterion is currently met by only one country, North Macedonia. However, is this sufficient to enable a country to operate in the competitive single market, or for its administration and beneficiaries to effectively utilise EU funding?

While it is difficult to speak of recommended agricultural budgets, experience and familiarity with the characteristics of the region lead us to estimate that in the final pre-accession years (central phase and conclusion of accession negotiations), a candidate's agricultural budget should amount to at least a third to one half of the funds that a country can expect from the EU after accession. This translates to at least 10 % of agricultural output. Naturally, the amount of funding is not sufficient in itself; the distribution between the three pillars is very important, as is quality and diversity in the structure of measures.

Our analysis has shown that certain countries/territories are neglecting their rural development policies and favouring direct support. The problem with this goes beyond the fact that if this persists, countries/territories will not be able to receive funding for these purposes; what is worrying is that by ignoring the human and natural potential that lies in the countryside, the role of policy in stimulating agricultural development is being neglected, not to mention failing to address broader societal issues. In the countries/territories where the proportion of rural development funding is more favourable, this is usually due to a small overall agricultural budget, so again it is unlikely that far-reaching changes will be achieved.

We thus offer this broad recommendation: acceding countries should ensure a budget at a level sufficient to prepare them for acceding and for increasing absorption after accession. Investment is needed in agriculture and rural areas, to prevent too great a shock due to increased competition from the single market. This includes sufficient funding for rural development and a sufficiently broad array of measures.

Direct producer support

In this study, we have devoted a lot of space to presenting the situation and comparing it with CAP direct producer support. Key findings are that WB countries/territories do not have decoupled payments, which is the dominant support in the EU, while area and headage payments prevail. These can be converted into decoupled payments, provided that they do not include sectors for which the EU does not grant support, and that the implementation requirements are similar, including at least some environmental conditionality. Montenegro is at present closest to this, which is of course the result of accession negotiations. Other countries/territories wanting to enter serious accession negotiations will have to implement significant changes. The most difficult aspects are the elimination of output-based payments (price supplements), which are present at least in the dairy sector in all WB countries/territories, and the elimination of support in sectors such as poultry and pork, which have never been beneficiaries of direct support under the CAP.

We covered the area of direct producer support extensively in Volk et al. (2017); everything that we recommended there remains valid. Here we again emphasise the importance of eliminating output-based payments, transforming area and headage support into decoupled forms (e.g. arable area support instead of wheat support) and adapting implementation to EU requirements (IACS, LPIS, farm registers). No country/territory in the region has yet achieved this position as defined by the pre-accession model in Chapter 1.2.

The basic recommendation is that when a candidate country enters negotiations, it should create a clear policy action plan for the period up until accession, and then implement it. This sounds simple, but it requires dramatic changes in decision-making and mode of functioning in the WB countries/territories. There must be a clear view of which forms of support will remain and whether and how to transform them into permissible coupled measures. It should be accepted that some support may temporarily remain as state aid in the exclusive funding of the acceding country. Our recommendation is not to invest too much in this form, but to focus on EU-compatible types of intervention, with the greatest potential to achieve the national targets set.

Measures to improve competitiveness

The development of agriculture is the key issue for the agricultural policies of WB countries/territories. This issue is also given priority among the generally weak range of resources for this policy area. Investments are mainly related to agricultural holdings; we have not analysed the specific allocations in detail, but we assume that most of the funds are intended for mechanisation and investment in permanent crops. These measures have had varied success in the region, ranging from excellent examples and genuine good practice, to failed experiments with unresponsive beneficiaries. There is a lack of

detailed evaluation of policy in the region, so we recommend an evaluation report to highlight the best practices.

The issue of small farms is important for WB agriculture (see Volk et al., 2017). These are predominant in the farm structure of the region, and most of them have problems with financial means for investment. Many are subsistence farms, without serious development opportunities. However, there are also those who could succeed with public support, which is mostly lacking.

The next question is to what extent agricultural support helps to build agri-food supply chains. The theory and practice of agricultural development tell us that an important pull factor for development is organised and continuous demand by food processing industries. The latter also have outstanding development needs and, as a rule, do not receive public support. Publicly-funded development of a viable agri-food chain is very challenging, as it entails extremely financially demanding projects. Funding is very limited, and it is also difficult for public authorities to assess the content of projects and their potential for success.

Cooperation by agricultural producers is crucial to WB agriculture – not only vertically along the value chain, but also horizontally amongst producers of the same group of products. The lack of collective organisation of food production is an issue reducing the competitiveness of WB agriculture, and there is no effective support addressing it; this is related to farmers' lack of interest in entering such schemes.

Good extension services are a prerequisite for good implementation of investment and other support for increasing competitiveness; there much room for improvement in this respect. Examples we have seen in the region demonstrate the important role that can be played by good extension officers in a public extension network.

Financially, donor funds are very important for competitiveness, most notably IPARD support. We have already pointed out the low absorption of funds and the commencement of a broad array of programmes. The future results of IPARD support will have to be monitored, especially absorption and the effectiveness of measures.

We deem that countries/territories that have started to support intensive investment in the agri-food sector are about halfway along the road to the level required in the final stages before accession. The success of the policy should be measured by its influence on development, and will depend on beneficiaries' ability to prepare projects and make good use of public money.

Our recommendation is the same as already presented in the pre-accession model. It is necessary to increase funding and broaden the array of measures (for small farms, cooperation, supply chain integration and quality schemes), increase the role of support systems, and invest in public and private advisory services. This is crucial – not only as an investment in development, but as a way of proving ability to adopt CAP logic and absorb funds. Simultaneously, policymakers should not forget that the development of agriculture and improvement of competitiveness are the overarching goals and ultimate purpose of the entire policy.

Environmental measures and public goods

In all previous studies (Volk et al., 2010, 2014, 2016, 2017), we emphasised that the agricultural policy of WB countries/territories has made no radical shift in supporting environmental and societal benefits related to agriculture. This has also been discussed in detail above. Policymakers in WB countries/territories have difficulty understanding this shift in agricultural policy towards societal issues; they do not see the relevance of this for the modernisation of agriculture and for new definitions of its role in society. The lack of resources and sectoral needs in agriculture cannot be an excuse for this. Perhaps it is insufficiently emphasised that these measures are also an important part of the post-accession CAP, and that both beneficiaries and the administration must be able to implement them, and in particular understand their significance and purpose.

The weakness of this aspect of policy is illustrated by the absence of an effective ANC policy. ANC are predominant in the region and are subject to serious depopulation, in many cases irreversible. It is questionable whether the implementation of such measures will make any sense after accession. Any efforts in the region to address this should be endorsed and strengthened. The popularisation of this issue is also very important for the preservation of cultural and natural heritage, which, in connection with tourism, could represent a potential advantage for large areas of the WB region.

There is somewhat more understanding for the support of organic agriculture, which is gaining ground, but not reaching support levels comparable to the EU. More decisive steps are needed.

Animal welfare remains a marginal societal issue in WB countries/territories and is unlikely to be supported before accession.

This area seems the one in which the goals in the pre-accession model will be the most difficult to achieve. Firstly, it is necessary to plan measures well and to build the entire implementation framework for ANC and agro-environmental measures (defining areas, criteria and rules). Pilot measures should be implemented as soon as possible, as these shifts are demanding and time-consuming; the timeframe depends on the candidate's accession status. As this is a matter of modernising policy, the shift should be made regardless of the pressures of the accession process.

Quality of life and employment

Broader considerations in rural development, related to quality of life, employment, social inclusion, generational renewal and economic diversification, best illustrated by the LEADER bottom-up approach to defining local needs, have been introduced into WB countries/territories by the EU integration process. The situation in this field is somewhat better than in the environmental and ANC ones, yet it is still underdeveloped, not prioritised and insignificant in budgetary terms (with the exception of North Macedonia).

This is to some extent understandable. WB countries/territories are economically less developed than the EU average and have much greater developmental issues than those addressed by the sophisticated CAP system, which focuses on smaller projects at the level of rural households and local communities. But the approach is important and well accepted in most WB countries/territories; in the future, it should be strengthened further.

It is especially important in this field for WB countries/territories to develop measures according to their needs and to exploit the broadness offered by the CAP. We recommend strengthening the LEADER approach, supporting the creation and functioning of local action groups. More should be done to diversify activities, especially on farms (e.g. supplemental activities). It is important to work with different groups, especially young people, and the issues of women in farming and of the elderly should also be addressed.

1.4 Conclusions

This report concludes with a summary of key findings. Since they do not deviate much from those of previous studies monitoring agricultural policy (Volk (ed) 2010; Volk, Erjavec, Mortensen (eds) 2014; Volk et al. 2016 and 2017), only the most important ones are highlighted. The fact is that the situation regarding agriculture and agricultural policy in Western Balkan (WB) countries/territories has not changed significantly; problems remain, as do the characteristics of agricultural policy.

In the study, we continued with the method for monitoring the agricultural policies of WB countries/territories that was established in 2008, provided an assessment of the situation in agriculture, presented a strategic framework, and analysed budgetary support for Albania, Bosnia and Herzegovina, Kosovo *, Montenegro, North Macedonia and Serbia. The second part of the study builds on these results by comparing the model

and budgetary support defined by the Common Agricultural Policy of the European Union. The aim was to assess adaptation of the agricultural policy of WB countries/territories to the requirements of EU accession, and to make recommendations on this basis.

- We have developed a theoretical concept that defines the key issues for accession, in the field of agricultural policy: 1) sustainable policy model; 2) strategic policy framework; 3) size and allocation of financial resources; 4) direct producer support; 5) measures to improve competitiveness; 6) environmental measures and public goods; and 7) policy for quality of life and employment in rural areas. We have identified the elements within these issues and defined what kind of policy candidate countries should have prior to accession, to be able to successfully join the EU.
- A quantitative analysis of agricultural policy developments was performed, using data on budgetary support for agriculture systematised according to the agricultural policy measures (APM) classification scheme. In recent years, the original classification has been upgraded to take account of new developments in agricultural policy, particularly in the EU.
- In all WB countries/territories, agriculture is an important sector for the national economy, with a declining tendency. Agricultural output has more or less stagnated in recent years (since 2013). Agri-food trade has shown an increasing trend in all six WB countries/territories, with higher growth rates generally being recorded for exports than for imports. Serbia has traditionally had a positive agri-food trade balance and its surplus generally shows an increasing trend.
- All WB countries/territories have made significant progress in recent years in aligning their long-term programming documents and administrative infrastructure with EU requirements. The agricultural policy objectives and priorities set out in strategic documents vary slightly by country/territory, but the basic strategic objectives of agricultural policy and their orientation match those of the EU CAP.
- In all WB countries/territories, development of total support for agriculture is unstable, though showing an increasing trend in the period 2013-2017. Only in Serbia there is a visible downward trend in total budgetary support since 2014. The most pronounced increase in total budgetary support is recorded in Kosovo*.
- In the 2013-2017 period, total budgetary support for agriculture as a percentage of agricultural output ranged from 0.7 % to 1.6 % in Albania, 3.9 % to 4.4 % in Bosnia and Herzegovina, 3.8 % to 5.2 % in Montenegro, 4.4 % to 5.9 % in Serbia, 3.7 % to 7.8 % in Kosovo * and 8.6 % to 10.7 % in North Macedonia.
- The composition of total support for agriculture varies considerably by country/territory. The proportion of market and direct producer support measures is high in Bosnia and Herzegovina (91 % in 2017), Serbia (81 %), and North Macedonia (76 %), lower in Kosovo* (56 %) and Montenegro (31 %), and very low in Albania (16 %).
- Since 2013, the strongest and most constant increase in the budget for direct producer support has been recorded in Kosovo * and Bosnia and Herzegovina, while it has been modest in Montenegro. In Serbia, direct producer support dropped significantly in 2015 and a decreasing trend has continued since, mostly as a result of changes in the implementation of direct payment schemes. In Albania, funds for direct support measures are very limited.
- In most WB countries/territories, the composition of direct support to producers has not changed significantly since 2013. Direct payments per output (price supplements) are still present in all countries/territories. There is

a particularly high proportion of this type of support in Bosnia and Herzegovina and North Macedonia. In other WB countries/territories, payments based on area or animal numbers represent the most significant form of direct producer support.

- Funds for structural and rural development measures are generally low in all WB countries/territories and fluctuate a great deal from year to year. With the exception of North Macedonia, the bulk of funds from this policy pillar are allocated to the group of measures intended for improving the competitiveness of agriculture, while the other two aspects of rural development policy (environment; rural economy and population) are given less attention.
- Support for improving the environment and the countryside is insignificant in WB countries/territories. Payments to areas facing natural or other specific constraints (ANC) are regularly granted only in North Macedonia. However, these payments are set as a supplement (in %) to regular direct payments, not taking into account the actual natural constraints faced by these areas. With the exception of Montenegro, budgetary funds for general support measures are relatively low in all countries/territories.
- In 2017, budgetary support for agriculture as a proportion of agricultural output amounted to almost 20 % in the EU (446 EUR/ha); twice as much as in North Macedonia, which has the highest relative level of support among WB countries/territories at 10.7 % (189 EUR/ha). These levels are much lower in other WB countries/territories: 8 % in Kosovo* (123 EUR/ha), 5 % in Montenegro (94 EUR/ha) and Serbia (62 EUR/ha), 4 % in Bosnia and Herzegovina (66 EUR/ha) and only 1 % in Albania (32 EUR/ha).
- National agricultural budget as a proportion of agricultural output in the new EU Member States is comparable to that in the WB countries/territories (with the exception of Albania), indicating the potential of candidate countries to have sufficient budgets to co-finance EU funds after accession. However, this level of budget is not considered sufficient for successful preparation of the agricultural sector and the administration for adopting CAP measures and functioning under the conditions of the EU single market.
- In the EU, decoupled payments, as the main form of direct producer support, represent almost 90 % of direct payments to producers. There are no such payments in the WB countries/territories. Price aids (direct payments based on output) are still a significant form of support in most WB countries/territories (between 4 % and 54 % of direct payments to producers). In the EU, this form of payment is very limited (1 %). The dominant form of direct producer support in WB countries/territories is payments based on area or animal numbers (between 46 % and 96 % of direct payments to producers). In the EU, the proportion of these payments is just over 10 %, most of them as voluntary coupled support.
- The distribution of funding for structural and rural development policy is completely incompatible with the composition in the EU. In all countries/territories except North Macedonia, the funds from this pillar are almost entirely aimed at improving the competitiveness of the agri-food sector, mostly as support for on-farm investments. In the EU, about a third of funding under this pillar is spent on this purpose, half is for providing environmental and societal benefits, while the remainder is intended for supporting the rural economy and population. In terms of EU adaptation and needs, the absence of ANC payments in WB countries/territories is particularly problematic, since all WB countries/territories have large areas where production conditions are extremely unfavourable.
- The final section outlines the key issues in adapting the agricultural policy of WB countries/territories to the requirements of the CAP. We described them

according to the categories we developed for benchmarking agricultural policies in the pre-accession period, and also made recommendations.

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Annexes

Annex 1. Methodological notes on Agricultural Policy Measures Classification (APMC) scheme

The form, type and scope of budgetary support for agriculture, as well as the development of these over time, are important for agricultural policy analysis. A consistent and reliable database of policy measures is a prerequisite for modern and effective agricultural policymaking, based on a policy cycle. The main problem in quantitative analyses of budgetary support for agriculture is that a vast variety of measures are applied over time. One cannot obtain an overall picture based on analysis of each individual measure; measures must be merged into larger groups with similar content. Measures can be merged based on very varied criteria.

In the EU, agricultural policy measures are grouped according to field of policy and source of financing, both of which are closely related to CAP regulations for a particular programming period. The classification of measures is not directly comparable with previous (or future) programming periods.

Reflecting the fund from which measures are financed, CAP is currently divided into two main pillars. The first pillar is financed by the European Agricultural Guarantee Fund (EAGF) and consists of a series of measures relating mostly to interventions in agricultural markets and direct payments to farmers, set within the framework of the common market organisation and direct payments regulations. The second pillar is financed by the European Agricultural Fund for Rural Development (EAFRD) and consists of measures within the framework of rural development programmes of the Member States implemented in the defined programming period. As well as the two main pillars, which both consist only of CAP measures financed or co-financed from the EU budget, a third group of measures can be recognised. This is a very heterogeneous group, gathering together all measures financed entirely from the national budgets of Member States. Most of the measures are categorised as state aid that must be approved by the European Commission and comprise very diverse interventions - from direct payments to producers and input subsidies, to rural development and general agricultural support measures.

For the EU, easily and regularly available information on budgetary support for agriculture comparable over time can be found only in the OECD PSE database ([15]). In this database, measures are grouped according to the OECD classification of support, which classifies the measures mostly in terms of the degree of market distortion.

The OECD classification of total transfers associated with agricultural policies (TSE) groups policy measures into three main categories: transfers to producers individually (PSE), transfers to general services to agriculture collectively (GSSE) and transfers to consumers individually (CSE) (The PSE Manual, OECD 2016). Transfers to producers (PSE) are composed of market price support (MPS), which is calculated mainly as a price gap between domestic and border prices, and budgetary transfers to producers (including revenue forgone). The classification of budgetary transfers to producers within PSE is based on implementation criteria, and the main categories differ depending on the basis of support (output, input, production factors, non-commodity criteria), whether the basis is current or historical (fixed), and whether or not production is required. Other criteria such as policy area, priorities and objectives are not considered.

The Agricultural Policy Measures Classification (APMC) scheme, which has been developed for the analysis of agricultural policies in countries preparing for EU accession,

([15]) http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm

tries to combine the classification logic of both approaches. The APMC uses the current EU concept of policy pillars as a starting point and combines it with the OECD PSE classification. The area of EU policy has been applied at higher levels of aggregation, and OECD criteria for the formation of groups or subgroups under individual pillars, and particularly for defining the lowest level of classification (basic headings). Thus, the APMC enables basic analysis of budgetary support for agriculture, also in line with the OECD PSE classification.

For the APMC, the criteria defining whether a measure constitutes budgetary support for agriculture were taken in principle from the OECD methodology. A measure is considered to be support for agriculture if the only or major beneficiaries of the policy are agricultural producers individually or the agricultural sector collectively (The PSE Manual, OECD 2016). Public funding of measures available throughout the whole economy - non-specific to agriculture - is not viewed as support for agriculture, even where they benefit farmers (e.g. a tax concession that is available to all small businesses; concessions on the use of fuel in machines for all off-road use; public financing for agricultural research and education under the overall national framework). Budgetary transfers associated with implementation of policies (state or other administration costs) are also not included as support for agriculture.

However, given that agricultural policy in the EU covers not only agriculture-specific measures, but also some measures targeted at forestry and the overall rural economy and population, APMC also considers such measures as support for agriculture.

According to the APMC, budgetary support for agriculture is grouped into three main pillars: (1) market and direct producer support measures; (2) structural and rural development measures; and (3) other measures related to agriculture (Table 1).

The first APMC pillar, **market and direct producer support measures**, includes agricultural policy measures primarily targeted at increasing the incomes of agricultural producers – either through market measures or in the form of direct support to agricultural holdings (on the output or input sides), implemented horizontally throughout the sector.

The second APMC pillar consists of **structural and rural development measures**. This pillar comprises measures through which agricultural policy supports the sustainable development of agriculture and rural areas. It includes measures aimed at increasing competitiveness in agricultural production and in the processing and marketing of agri-food products; ensuring environmental and societal benefits; and increasing economic viability and quality of life in rural areas.

The third APMC pillar gathers **other measures related to agriculture,** such as public financing of activities, services and projects in the field of knowledge generation and transfer; food safety and quality control; and other institutional infrastructure that benefits primary agriculture, but does not depend on the activities of individual farmers.

Technically, the APMC scheme is based on a 5-digit code system, with the first digit of the code defining the section (pillar) of agricultural policy, the second digit the division, and each subsequent digit a subcategory of the previous one (group; subgroup; basic heading) (Box 1). Most groups of measures end with the basic heading 'Other …'. These groups are mostly not explained further; they are meant to be used for measures not belonging to any pre-defined APMC group. Under each group of measures, the linkage to the OECD classification of agricultural support (Box 2) is also indicated, because frequently the combination of both criteria (APMC and OECD) must be considered for the correct allocation of a measure in the APMC scheme.

The hierarchical system of the APMC scheme allows for the analysis of policy at various levels of aggregation, depending on policy characteristics in the country and specific analytical needs.

Annex Table 1. APM classification scheme of budgetary support for agriculture, up to the third level

Market and direct producer support measures		
	Market support measures	
		Export subsidies
		Market measures
		Operational costs of public stockholding
	Direct producer support measures	
		Direct payments to producers
		Variable input subsidies
		Disaster payments and other compensations to producers
		Miscellaneous direct producer support
Structural and rural development measures		
	Improving the competitiveness of the agro-food sector	
		On-farm investment and restructuring support
		Agricultural infrastructure
		Off-farm storage, processing, marketing and promotion
	Providing environmental and societal benefits	
		Payments to farmers in areas with natural and other constraints
		Agro-environment, organic and animal welfare payments
		Other ecosystem-related payments
	Supporting rural economy and population	
		Creation and development of non-agricultural activities in rural areas
		Rural infrastructure, basic services and village development
		Building local capacity (LEADER)
	Miscellaneous rural development measures	
Other measures related to agriculture		
	Research, development, advisory and expert services	
		Research and development projects
		Extension and advisory service
		Vocational training and infrastructure
		Public expert services
	Food safety and quality control	
		Veterinary control
		Plant health control
		Quality control
	Other general support measures	

Box 1. APMC scheme of budgetary support for agriculture – terms and definitions

10000 MARKET AND DIRECT PRODUCER SUPPORT MEASURES

11000 Market support measures

11100 Export subsidies [OECD – not included as budgetary transfer]

All measures aimed at increasing revenue or reducing export costs for agri-food products (e.g. refunds per unit of exported goods including food aid to third countries, payments for preparation of goods for export).

According to OECD criteria, support for agriculture in the form of export subsidies affects market prices received by producers, creating a price gap that is captured by market price support (MPS) and thus does not appear among budgetary transfers to agriculture (to avoid double counting).

11200 Market measures

11210 Purchase and private storage aid [OECD CSE – P]

Payments to first-stage consumers (downstream agents) aimed at reducing costs of purchase of agricultural commodities or storage costs (e.g. refunds per unit of purchased commodity, payments for storage of agri-food products excluding public intervention costs – see 11300).

11220 Processing and consumption aid [OECD CSE – P]

Payments for the use of agricultural commodities in processing industry, aimed at increasing demand (e.g. use of milk for the production of animal feed, casein; use of potatoes for the production of starch; use of wine for the production of spirits) and payments aimed at increasing consumption of agri-food products (e.g. refunds for free distribution of agri-food products through humanitarian institutions; refunds for agri-food products used in schools).

11290 Other market measures [OECD CSE – P]

E.g. compensation to processing industry for caseation of production; mix of market measures.

11300 Operational costs of public stockholding [OECD GSSE – L]

Budgetary expenditure to cover costs of storage, depreciation of stocks and disposal of publicly stored agricultural commodities. Public expenditure related to buying into intervention stocks should not be included, as only the difference between purchase and selling price (together with other stockholding costs) represents actual budgetary support for agriculture.

12000 Direct producer support measures

Agricultural producer-specific payments aimed at increasing revenue or reducing costs of agricultural production, available throughout the sector (mostly based on annual calls for application).

12100 Direct payments to producers

12110 Production coupled direct payments

All forms of overall direct payments to agricultural producers requiring the production of a specific commodity, commodity group or any commodity.

12111 Direct payments based on output (price aids) [OECD PSE – A2]

Payments to producers for single commodities, made in the form of an addition to the producer selling price (e.g. payment per litre, per kg, per egg; payment as % of selling price).

12112 Direct payments based on current area/animal [OECD PSE – C]

Payments to producers made per hectare of agricultural area or per head of livestock (or per hive), based on the actual hectares under cultivation or livestock (hive) number in each year.

12119 Direct payments based on other criteria [OECD PSE – C or D]

E.g. payments based on income or revenue [C]; per-farm payments based on non-current production [D].

12120 Production decoupled direct payments [OECD PSE – E]

Payments to agricultural holdings based on non-current (fixed, historical) criteria, not requiring production of any agricultural commodity but requiring maintenance of agricultural land in good agricultural condition.

12200 Variable input subsidies

All forms of support to producers based on inputs used for agricultural production, available throughout the sector (i.e. payments or refunds per unit of input or as % of costs, granted to agricultural producers or input providers).

12210 Subsidies for seeds [OECD PSE – B1]

12220 Subsidies for livestock [OECD PSE – B1]

All subsidies linked to the purchase of livestock for fattening (e.g. calves), as well as for breeding (e.g. cows and heifers, saws, queen bees), if made separately from on-farm investment in livestock production (i.e. not together with investment in farm buildings, equipment, etc.).

12230 Fuel subsidies [OECD PSE – B1]

All subsidies linked to the use of fuel in agriculture, including fuel tax refunds and revenue forgone associated with preferential fuel prices (e.g. measured by multiplying the quantities of fuel provided under preferential price by differential between the preferential and regular fuel price).

12240 Fertiliser and pesticide subsidies [OECD PSE – B1]

12250 Interest subsidies for short term loans [OECD PSE – B1]

E.g. budgetary expenditure to banks providing the preferential loans, to compensate for lost interest; revenue forgone associated with preferential lending (e.g. measured by multiplying the amount of credit provided under the preferential interest rate by the differential between the preferential and reference interest rate).

12260 Insurance subsidies [OECD PSE – B1]

12270 Other variable input subsidies [OECD PSE – B1]

E.g. subsidies for lime, sugar for beekeeping, water for irrigation, animal feed, veterinary medicine, semen for artificial insemination, small equipment, mix of inputs.

12280 Subsidies for on-farm services [OECD PSE – B3]

E.g. subsidies for on-farm veterinary services (artificial insemination, vaccination, etc.), analysis of soil, fodder.

12300 Disaster and other compensations to producers

Comprises payments related to loss of income or revenue, for which producers are entitled to apply only in the event of specific economic (market) or natural disturbances.

12310 Compensation payments for reduction of production [OECD PSE – F1]

Policy measures aimed at longer-term reduction in production of a specific commodity, to reduce market surpluses (e.g. compensation for grubbing up of vineyards without re-planting; cessation or reduction of production of milk or sugar beet).

12320 Exceptional aid to specific sectors

12321 Aid based on output [OECD PSE – A2]

E.g. compensation to producers for the withdrawal of a commodity from the market, paid per unit of commodity (destruction after harvesting; free distribution to humanitarian institutions).

12322 Aid based on current area/animal [OECD PSE – C]

E.g. per-hectare or per-head compensations for producers, related to animal and plant disease eradication, green harvesting of grapes, etc.

12323 Aid for input purchase [OECD PSE – B1]

E.g. payments for purchase of animal feed, to compensate livestock producers for low yields in fodder crops due to drought.

12390 Other compensations [OECD PSE – C or D]

E.g. natural disaster payments to producers based on loss of income or revenue.

12900 Miscellaneous direct producer support [OECD PSE – G]

Support to producers for which there is not enough information available to allocate them to appropriate categories (e.g. non-specified direct support to producers).

20000 STRUCTURAL AND RURAL DEVELOPMENT MEASURES

21000 Improving competitiveness of agri-food sector

Policy measures aimed at supporting overall development and structural adjustment of the agri-food sector.

21100 On-farm investment and restructuring support

Producer-specific support aimed at encouraging the development of agricultural holdings.

21110 On-farm investment support [OECD PSE – B2]

Policy measures aimed at reducing on-farm investment costs relating to primary agricultural production.

21111 Modernisation of agricultural holdings (all types)

All types of on-farm investment support intended for any subsector (e.g. co-financing of any on-farm investment costs; interest subsidies for long term loans, including revenue forgone)

21112 Investments in permanent crops, plantations and greenhouses

All forms of support to producers for investments in vineyards, orchards, olive trees, hop plantations and other permanent crops (i.e. co-financing of investment costs, flat-rate payments per hectare, or subsidies for seedlings and other investment related inputs) and greenhouses, if such investments are specifically targeted by agricultural policy.

21113 Investments in land improvement and infrastructure

Support to producers for investments in irrigation, drainage and other long-term land improvement on the agricultural holding, if such investments are specifically targeted by agricultural policy.

21119 Other on-farm investments

21120 Other on-farm restructuring support

Policy measures aimed at facilitating structural adjustments of agricultural holdings and adding value to agricultural commodities.

21121 Farm business start-up aid [OECD PSE – B2]

E.g. support to young farmers to facilitate the initial establishment and structural adjustment of a holding; start-up support for the development of small farms.

21122 Adapting to demanding standards [OECD PSE – B2, B3, C, D]

Any form of support to producers to partly cover additional costs and income forgone, incurred by farmers who have to apply standards in the fields of environmental protection, public health, animal and plant health, animal welfare and occupational safety (e.g. investments in storage of livestock manure to comply with water protection standards; adjustment of machinery for pesticide application to comply with environmental standards; adjustments of farm buildings to comply with animal welfare standards), if such adaptation is specifically targeted by agricultural policy.

21123 Participation of farmers in food quality schemes [OECD PSE – A2, B1, B3, C, D]

Any form of compensation for costs incurred by agricultural producers due to entering and participating in food quality schemes (e.g. financing of control and certification under any food quality scheme including organic farming; compensation for higher costs of production under a food quality scheme excluding organic farming).

21124 Use of advisory services [OECD PSE – B3]

Support to producers for the use of individual farm-specific advice (e.g. farm business plan; action plan under agro-environmental programme; plan for conversion to organic farming).

21125 Investments in on-farm storage, processing and marketing [OECD PSE – B2]

Support for investments in storage, processing and marketing of agri-food products on agricultural holdings (e.g. cooling facilities; processing plants).

21129 Other on-farm support [OECD PSE – A2, B1, B3, C, D, G]

E.g. specific assistance paid per farm (registration of farms in farm register, compensation for participating in FADN); debt rescheduling; support related to state-owned agricultural land given for agricultural use without charge.

21200 Agricultural infrastructure [OECD GSSE – J]

Policy measures aimed at supporting restructuring that benefits agriculture as a sector.

21210 Hydrological and other land infrastructure

E.g. public financing of large irrigation and drainage networks; access to farmland.

21220 Farm consolidation and land transfer

Policy measures related to reform of farm structures that finance exit from agriculture and land transfer (e.g. financial support for the early retired transferor of a farm holding or a retired farm worker; compensations to small farmers who permanently transfer their holding to another farmer; compensations to land owners who transfer their agricultural land to agricultural producers), as well as land re-parcelling and land consolidation operations.

21230 On-farm diversification into non-agricultural activities

Policy measures related to reform of farm structures that finance diversification outside agriculture (e.g. support for members of a farm household who diversify in non-agricultural activities attached to the farm such as on-farm tourism, home crafts, production of renewable energy).

21290 Other infrastructural support to agriculture

21300 Off-farm storage, processing, marketing and promotion

Policy measures aimed at improving the marketing environment for agriculture and strengthening agri-food chains.

21310 Producer groups and organisations [OECD GSSE – K]

Start-up aid for the establishment of producer groups (including co-operatives), co-financing of their operating costs, activities and programmes (e.g. marketing, promotion), as well as investments in collective processing of primary agricultural commodities.

21320 Investments in off-farm storage and marketing infrastructure [OECD GSSE – J]

E.g. public financing of silos, warehouses, wholesale markets.

21330 Support to food industry individually [OECD PSE – P]

Support for processing and marketing of existing and new agri-food products, processes and technologies, including Hazard Analysis and Critical Control Points (HACCP), granted to individual enterprise (firm).

21340 Marketing and promotion of agri-food products [OECD GSSE – K]

Financing organisation of and participation in fairs and exhibitions, similar public relations exercises, and advertising via various channels of communication or at points of sale.

21390 Other support to agri-food sector

22000 Providing environmental and societal benefits

22100 Payments to farmers in areas with natural and environmental constraints

22110 Payments to farmers in areas with natural constraints (ANC)

Payments granted to agricultural producers in mountain areas and other areas with natural and other specific constraints, to compensate for higher costs or lower revenue due to less favourable conditions for agricultural production.

22111 ANC payments based on output [OECD PSE – A2]

22112 ANC payments based on current area/animal [OECD PSE – C]

22119 Other ANC payments [OECD PSE – B1, B3, C, D, G]

E.g. compensation in the form of flat-rate payment per farm.

22120 Payments to farmers in other sensitive areas (SA)

Compensation to agricultural producers in areas with environmental restrictions constraining agricultural production (e.g. in areas with specific management plans under NATURA 2000, water-protection areas).

22121 SA payments based on output [OECD PSE – A2]

22122 SA payments based on current area/animal [OECD PSE – C]

22129 Other SA payments [OECD PSE – B1, B3, C, D, G]

E.g. compensation in the form of flat-rate payment per farm.

22200 Agro-environment, organic and animal welfare payments to farmers

22210 Agro-environment-climate payments (AEC)

Payments to agricultural producers to compensate for higher costs or lower revenue due to a voluntary agro-environment-climate commitment that goes beyond the mandatory standards.

22211 AEC payments based on output [OECD PSE – A2]

E.g. payments to producers, per unit, for commodities produced respecting rules for specific technology (limited use of inputs).

22212 AEC payments based on current area/animal [OECD PSE – C]

E.g. payments to producers for fertiliser and pesticide reduction, crop rotation, maintenance of set-aside areas, actions to prevent or reduce soil erosion, preservation of local breeds in danger of being lost to farming, preservation of plants under threat of genetic erosion, maintenance of mountain pastures.

22213 Biodiversity and landscape payments [OECD PSE – F2 or F3]

Payments to producers supporting the use of farm resources to preserve biodiversity and landscape features (e.g. upkeep of grassland habitats for butterflies and birds, stone walls, hedges).

22214 Long-term set-aside payments [OECD PSE – F1]

Payments to producers for the long-term retirement of agricultural land from commodity production, with environmental objectives (e.g. afforestation of agricultural land, conversion of agricultural land to wetlands).

22219 Other AEC payments [OECD PSE – B1, B3, C, D, G]

E.g. payments for transhumance of ruminants to mountain and other summer pastures, paid per farm or per shepherd.

22220 Organic farming payments (OF)

Payments to agricultural producers who perform or are in conversion to organic farming practice.

22221 OF payments based on output [OECD PSE – A2]

22222 OF payments based on current area/animal [OECD PSE – C]

22229 Other OF payments [OECD PSE – B1, B3, C, D, G]

22230 Animal welfare payments to farmers (AW)

Payments to agricultural producers to compensate for higher costs or lower revenue due to a voluntary animal welfare commitment that goes beyond the mandatory standards.

22231 AW payments based on output [OECD PSE – A2]

22232 AW payments based on current area/animal [OECD PSE – C]

22239 Other AW payments [OECD PSE – B1, B3, C, D, G]

22900 Other ecosystem related payments [OECD – not included]

Policy measures with environmental objectives, programmed within the framework of agricultural policy but not targeting agriculture (agriculture is not the main beneficiary of the support).

22910 Environmental payments to forest areas

E.g. compensation payments for protected forest area management; forest-environment-climate payments; conservation and promotion of forest genetic resources.

22990 Other payments with ecosystem objectives

23000 Supporting the rural economy and population [OECD – not included]

Policy measures programmed within the framework of agricultural policy, but aimed at supporting overall development or rural areas (agriculture is not the main beneficiary of the support).

23100 Creation and development of non-agricultural activities in rural areas

23110 Business creation and development in rural areas

Business start-up aid and support for investments in the creation and development of non-agricultural activities in rural areas.

23120 Forest and forestry development and improvement

23121 Investments in forests

Support for investments in forest area development (e.g. forestry infrastructure; afforestation of woodland; establishment and maintenance of agro-forestry systems; prevention of damage and restoration to forests; improving resilience and environmental value of forest ecosystems).

23122 Investments in forestry and in processing and marketing of products

Support for investments in forestry technologies, and in processing and marketing of forestry products.

23190 Other support to rural economy

23200 Rural infrastructure, basic services and village development

23210 Basic infrastructure and services for rural population

Financing establishment of basic services, including cultural and leisure activities, involving a village or group of villages, and related small-scale infrastructure, telecommunication services, etc.

23220 Village renewal and development

E.g. renovation of buildings; upgrading park and roadsides.

23290 Other measures to support rural communities

E.g. financing preparation of protection and management plans relating to places of high natural value; environmental awareness actions; investments associated with maintenance, restoration and upgrading of natural heritage and development of high natural value sites; studies and investments associated with maintenance, restoration and upgrading of cultural heritage, such as cultural features of a village or rural landscape.

23300 Building local capacity (LEADER)

E.g. financing skills acquisition; facilitation, preparation and implementation of local development strategies.

29000 Miscellaneous rural development measures

Support under structural and rural development programmes, for which insufficient information is available to allocate them to appropriate categories. This group of measures should be disaggregated into support for producers and other support (e.g. according to the structure of allocated measures for a given year)

29100 Miscellaneous - support to producers [OECD PSE – G]

29200 Miscellaneous - other support [OECD GSSE – M]

30000 OTHER MEASURES RELATED TO AGRICULTURE

31000 Research, development, advisory and expert services [OECD GSSE – H]

Public funding of agricultural research and education performed outside the state (formal) programmes that are available throughout the whole economy.

31100 Research and development projects

Financing of agricultural research that does not form a part of overall state research programmes under research policy (e.g. targeted agricultural research and development projects; international projects; FADN establishment and operating costs).

31200 Extension and advisory service

E.g. financing of public advisory services in general (operating costs; generic training and extension activities).

31300 Vocational training and infrastructure

Public financing of vocational training and skills acquisition that do not form a part of overall state education programmes (e.g. financing of training courses, seminars, demonstration projects, training equipment).

31400 Public expert services

E.g. financing of livestock and plant improvement services (selection, introduction, etc.); conservation of genetic resources (gene bank).

32000 Food safety and quality control [OECD GSSE – I]

32100 Veterinary control

I.e. financing of general programmes for monitoring, control and eradication of livestock disease.

32200 Plant health control

I.e. financing of general phytosanitary programmes for monitoring, control and eradication of pests.

32300 Quality control

E.g. financing of quality control; monitoring and analysis; laboratory equipment; accreditation of laboratories.

39000 Other general support measures [OECD GSSE – J]

E.g. financing of farmers' organisations (operating costs, activities); information systems (seed and species registers, etc.); technical assistance (capacity building, pilot projects, cooperation and information initiatives for farmers in relation to implementation of agricultural policy measures); rural finance networks.

9200 TOTAL BUDGETARY SUPPORT FOR AGRICULTURE

The sum of all budgetary expenditure considered to be support for agriculture (sum of APMC codes 10000, 20000 and 30000).

9210 Total budgetary support for producers

The sum of budgetary support directly linked to agricultural producers or agricultural holdings (sum of APMC codes 12000, 21100, 22100, 22200 and 29100 or sum of OECD PSE codes A2, B1, B2, B3, C, D, E, F1, F2, F3 and G).

Box 2. The OECD classification of agricultural support: terms and definitions (The PSE Manual, OECD 2016)

PSE (Producers Support Estimate)

Transfers to agricultural producers individually

For a policy measure to be included in the PSE, an individual farmer must take actions to produce goods or services, to use factors of production, or to be defined as an eligible farming enterprise or farmer, in order to receive the transfer.

A. Support based on commodity output

A.1. Market price support (MPS): transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level.

A.2. Payments based on output: transfers from taxpayers to agricultural producers from policy measures based on current output of a specific agricultural commodity.

B. Payments based on input use: transfers from taxpayers to agricultural producers arising from policy measures based on on-farm use of inputs:

B.1. Variable input use: transfers reducing the on-farm cost of a specific variable input or a mix of variable inputs.

B.2. Fixed capital formation: transfers reducing the on-farm investment cost of farm buildings, equipment, plantations, irrigation, drainage and soil improvements.

B.3. On-farm services: transfers reducing the cost of technical, accounting, commercial, sanitary and phyto-sanitary assistance, and training provided to individual farmers.

C. Payments based on current A/An/R/I, production required:

transfers from taxpayers to agricultural producers arising from policy measures based on current area (A), animal numbers (An), receipts (R) or income (I), and requiring production.

D. Payments based on non-current A/An/R/I, production required:

transfers from taxpayers to agricultural producers arising from policy measures based on non-current (i.e. historical or fixed) area, animal numbers, receipts or income, with current production of any commodity required.

E. Payments based on non-current A/An/R/I, production not required:

transfers from taxpayers to agricultural producers arising from policy measures based on non-current (i.e. historical or fixed) area, animal numbers, receipts or income, with current production of any commodity not required but optional.

F. Payments based on non-commodity criteria:

transfers from taxpayers to agricultural producers arising from policy measures based on:

F.1. Long-term resource retirement: transfers for the long-term retirement of factors of production from commodity production. The payments in this subcategory are distinguished from those requiring short-term resource retirement, which are based on commodity production criteria.

F.2. A specific non-commodity output: transfers for the use of farm resources to produce specific non-commodity outputs of goods and services, which are not required by regulations.

F.3. Other non-commodity criteria: transfers provided equally to all farmers, such as a flat-rate or lump-sum payment.

G. Miscellaneous payments:

transfers from taxpayers to farmers for which there is insufficient information to allocate them to the appropriate categories.

GSSE (General Service Support Estimate)

Transfers to agricultural collectively

For a policy measure to be included in the GSSE, transfers should not depend on the actions of individual farmers or consumers, are not received by individual producers or consumers, and do not directly affect farm receipts or consumption expenditure.

H. Agricultural knowledge and innovation system:

H.1. Agricultural knowledge generation: budgetary transfers financing research and development (R&D) activities related to agriculture, irrespective of the institution (private or public, ministry, university, research centre or producer groups) where they take place, the nature of the research (scientific, institutional, etc.), or its purpose.

H.2. Agricultural knowledge transfer: budgetary expenditure to finance agricultural vocational schools and agricultural programmes in high-level education, generic training and advice to farmers (e.g. accounting rules, pesticide application), not specific to individual situations, and data collection and information dissemination networks related to agricultural production and marketing.

I. Food inspection and control:

I.1. Agricultural product safety and inspection: budgetary transfers financing activities related to agricultural product safety and inspection. This includes only expenditures for inspection of domestically produced commodities at first level of processing and border inspection for exported commodities.

I.2. Pest and disease inspection and control: budgetary transfers financing pest and disease control of agricultural inputs and outputs (control at primary agriculture level) and public funding of veterinary services (for the farming sector) and phytosanitary services.

I.3. Input control: budgetary transfers financing the institutions providing control activities and certification of industrial inputs used in agriculture (e.g. machinery, industrial fertilisers, pesticides, etc.) and biological inputs (e.g. seed certification and control).

J. Development and maintenance of rural infrastructure:

J.1. Hydrological infrastructure: budgetary expenditure financing public investments into hydrological infrastructure (irrigation and drainage networks).

J.2. Storage, marketing and other physical infrastructure: budgetary expenditure financing investments in off-farm storage and other market infrastructure facilities related to handling and marketing primary agricultural products (silos, harbour facilities – docks, elevators; wholesale markets, futures markets), as well as other physical infrastructure related to agriculture, when agriculture is the main beneficiary.

J.3. Institutional infrastructure: budgetary expenditure financing investments to build and maintain institutional infrastructure related to the farming sector (e.g. land cadastres; machinery user groups, seed and species registries; development of rural finance networks; support to farm organisations, etc.).

J.4. Farm restructuring: budgetary payments related to reform of farm structures financing entry, exit or diversification (outside agriculture) strategies.

K. Marketing and promotion:

K.1. Collective schemes for processing and marketing: budgetary expenditures financing investments in collective - mainly for primary processing - marketing schemes and marketing facilities, designed to improve marketing environment for agriculture.

K.2. Promotion of agricultural products: budgetary expenditure financing assistance to collective promotion of agri-food products (e.g. promotion campaigns, participation in international fairs).

L. Cost of public stockholding:

budgetary expenditure covering the costs of storage, depreciation and disposal of agricultural products.

M. Miscellaneous:

budgetary payments financing other general services that cannot be disaggregated and allocated to the above categories, often due to a lack of information.

CSE (Consumer Support Estimate)

The CSE includes price transfers from consumers, which is to a certain degree the mirror image of Market Price Support, adjusted to apply to quantities consumed (rather than quantities produced).

Transfers to consumers from taxpayers (P): budgetary transfers to first-stage consumers to compensate for their contribution to market price support, consumption subsidies based on the disposal of intervention stocks, and other budgetary transfers to consumers.

TSE (Total Support Estimate)

The TSE represents the sum of all three components, adjusted to avoid double-counting given that the transfers associated with market price support policies appear in both the PSE and CSE calculation.

Annex 2. Detailed data on budgetary support for agriculture in WB countries/territories and the EU according to the APM classification scheme

Annex Table 2. Budgetary support for agriculture in WB countries/territories and the EU (EUR million), 2017

	AL	BA	XK	MK	ME	RS	EU total
The value of agricultural output ([a])	2 798	1 817	655	1 278	462	1 551	406 339
UAA (thousand ha) ([b])	962	1 231	416	722	255	3 420	178 756
MARKET AND DIRECT PRODUCER SUPPORT MEASURES	**4.8**	**73.6**	**28.8**	**103.4**	**7.5**	**160.5**	**48 906**
Market support measures	**-**	**0.3**	**-**	**0.6**	**0.4**	**-**	**1 065**
Export subsidies	-	-	-	-	-	-	…
Market measures	-	0.3	-	0.6	0.4	-	1 041
Operational costs of public stockholding	-	-	-	-	-	-	24
Direct producer support measures	**4.8**	**73.2**	**28.8**	**102.7**	**7.1**	**160.5**	**47 841**
Direct payments to producers	0.8	68.9	27.0	99.3	5.9	135.7	41 172
Production coupled direct payments	0.8	68.9	27.0	99.3	5.9	135.7	5 451
Direct payments based on output (price aids)	0.2	37.0	1.0	40.2	2.1	39.6	448
Direct payments based on current area/animal	0.6	31.9	26.0	59.1	3.8	96.1	4 907
Direct payments based on other criteria	-	-	-	-	-	-	97
Production decoupled direct payments	-	-	-	-	-	-	35 721
Variable input subsidies	1.5	3.9	1.8	0.7	1.1	24.8	6 316
Disaster and other compensations to producers	2.5	0.1	-	2.5	-	-	168
Miscellaneous direct producer support	-	0.4	-	0.1	-	-	185
STRUCTURAL AND RURAL DEVELOPMENT MEASURES	**19.0**	**3.3**	**14.9**	**19.8**	**13.0**	**50.6**	**24 200**
Improving the competitiveness of agri-food sector	19.0	3.2	14.6	7.3	11.7	45.2	7 434
On-farm investment and restructuring support	1.6	2.5	13.8	1.8	11.1	45.2	4 489
Agricultural infrastructure	17.3	0.3	-	5.5	0.1	-	1 194
Off-farm storage, processing, marketing and promotion	0.2	0.3	0.8	0.0	0.5	-	1 751
Providing environmental and societal benefits	-	0.0	0.0	1.9	0.5	1.6	12 942
Payments to farmers in areas with natural and environmental constraints	-	0.0	-	0.5	-	-	6 290
Agro-environment, organic and animal welfare payments	-	-	0.0	1.4	0.5	1.6	6 652
Other ecosystem-related payments	-	-	-	-	-	-	-
Supporting rural economy and population[2]	-	0.1	0.3	10.6	0.8	3.8	3 809
Creation and development of non-agricultural activities	-	-	0.2	-	-	0.0	…
Rural infrastructure, basic services and village development	-	0.1	-	10.6	0.8	3.8	…
Building local capacity (LEADER)	-	-	0.1	-	-	-	…
Miscellaneous rural development measures	-	-	-	-	-	-	15
OTHER MEASURES RELATED TO AGRICULTURE	**6.7**	**4.0**	**7.3**	**13.1**	**3.5**	**24.0**	**6 570**
Research, development, advisory and expert services	1.8	2.7	0.1	1.5	1.1	4.4	5 694
Food safety and quality control	4.9	1.3	7.2	10.2	1.8	19.5	876
Other general support measures	-	-	-	1.4	0.6	-	-
TOTAL BUDGETARY SUPPORT FOR AGRICULTURE	**30.6**	**80.9**	**51.1**	**136.3**	**24.0**	**235.0**	**79 677**

([a]) XK, MK, RS and the EU: agricultural goods output at producer prices (economic accounts for agriculture); BA: output of the agricultural sector (sector A1; national accounts); AL and ME: output of agriculture, forestry, hunting and fishery (sector A; national accounts); WB countries/territories: average 2013-2016; EU: 2017

([b]) AL, BA, MK: UAA estimated based on the available data for total agricultural land

Sources: Agriculture and agricultural policy database (data for Serbia are provisional); authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

Annex Table 3. Budgetary support for agriculture as percentage of agricultural output, in WB countries/territories and in the EU (%), 2017

	AL	BA	XK	MK	ME	RS	EU
MARKET AND DIRECT PRODUCER SUPPORT MEASURES	**0.2**	**4.0**	**4.4**	**8.1**	**1.6**	**3.5**	**12.0**
Market support measures	**-**	**0.0**	**-**	**0.1**	**0.1**	**-**	**0.3**
Export subsidies	-	-	-	-	-	-	…
Market measures	-	0.0	-	0.1	0.1	-	0.3
Operational costs of public stockholding	-	-	-	-	-	-	0.0
Direct producer support measures	**0.2**	**4.0**	**4.4**	**8.0**	**1.5**	**3.5**	**11.8**
Direct payments to producers	0.0	3.8	4.1	7.8	1.3	3.0	10.1
Production coupled direct payments	0.0	3.8	4.1	7.8	1.3	3.0	1.3
Direct payments based on output (price aids)	0.0	2.0	0.2	3.1	0.4	0.9	0.1
Direct payments based on current area/animal	0.0	1.8	4.0	4.6	0.8	2.1	1.2
Direct payments based on other criteria	-	-	-	-	-	-	0.0
Production decoupled direct payments	-	-	-	-	-	-	8.8
Variable input subsidies	0.1	0.2	0.3	0.1	0.2	0.5	1.6
Disaster and other compensations to producers	0.1	0.0	-	0.2	-	-	0.0
Miscellaneous direct producer support	-	0.0	-	0.0	-	-	0.0
STRUCTURAL AND RURAL DEVELOPMENT MEASURES	**0.7**	**0.2**	**2.3**	**1.5**	**2.8**	**1.1**	**6.0**
Improving the competitiveness of agri-food sector	0.7	0.2	2.2	0.6	2.5	1.0	1.8
On-farm investment and restructuring support	0.1	0.1	2.1	0.1	2.4	1.0	1.1
Agricultural infrastructure	0.6	0.0	-	0.4	0.0	-	0.3
Off-farm storage, processing, marketing and promotion	0.0	0.0	0.1	0.0	0.1	-	0.4
Providing environmental and societal benefits	-	0.0	0.0	0.1	0.1	0.0	3.2
Payments to farmers in areas with natural and environmental constraints	-	0.0	-	0.0	-	-	1.5
Agro-environment, organic and animal welfare payments	-	-	0.0	0.1	0.1	0.0	1.6
Other ecosystem-related payments	-	-	-	-	-	-	-
Supporting rural economy and population	-	0.0	0.0	0.8	0.2	0.1	0.9
Creation and development of non-agricultural activities	-	-	0.0	-	-	0.0	…
Rural infrastructure, basic services and village development	-	0.0	-	0.8	0.2	0.1	…
Building local capacity (LEADER)	-	-	0.0	-	-	-	…
Miscellaneous rural development measures	-	-	-	-	-	-	0.0
OTHER MEASURES RELATED TO AGRICULTURE	**0.2**	**0.2**	**1.1**	**1.0**	**0.7**	**0.5**	**1.6**
Research, development, advisory and expert services	0.1	0.2	0.0	0.1	0.2	0.1	1.4
Food safety and quality control	0.2	0.1	1.1	0.8	0.4	0.4	0.2
Other general support measures	-	-	-	0.1	0.1	-	-
TOTAL BUDGETARY SUPPORT FOR AGRICULTURE	**1.1**	**4.4**	**7.8**	**10.7**	**5.2**	**5.2**	**19.6**

Sources: Agriculture and agricultural policy database (data for Serbia are provisional); authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

Annex Table 4. Budgetary support for agriculture, per hectare of UAA, in WB countries/territories and in the EU (EUR/ha), 2017

	AL	BA	XK	MK	ME	RS	EU
MARKET AND DIRECT PRODUCER SUPPORT MEASURES	**5.0**	**59.8**	**69.3**	**143.1**	**29.3**	**46.9**	**273.6**
Market support measures	**-**	**0.3**	**-**	**0.9**	**1.6**	**-**	**6.0**
Export subsidies	-	-	-	-	-	-	…
Market measures	-	0.3	-	0.9	1.6	-	5.8
Operational costs of public stockholding	-	-	-	-	-	-	0.1
Direct producer support measures	**5.0**	**59.5**	**69.3**	**142.2**	**27.7**	**46.9**	**267.6**
Direct payments to producers	0.9	55.9	65.0	137.5	23.2	39.7	230.3
Production coupled direct payments	0.9	55.9	65.0	137.5	23.2	39.7	30.5
Direct payments based on output (price aids)	0.2	30.1	2.4	55.7	8.1	11.6	2.5
Direct payments based on current area/animal	0.7	25.9	62.6	81.8	15.1	28.1	27.4
Direct payments based on other criteria	-	-	-	-	-	-	0.5
Production decoupled direct payments	-	-	-	-	-	-	199.8
Variable input subsidies	1.6	3.2	4.3	1.0	4.5	7.2	35.3
Disaster and other compensations to producers	2.6	0.0	-	3.5	-	-	0.9
Miscellaneous direct producer support	-	0.3	-	0.2	-	-	1.0
STRUCTURAL AND RURAL DEVELOPMENT MEASURES	**19.8**	**2.7**	**35.9**	**27.4**	**51.0**	**14.8**	**135.4**
Improving the competitiveness of agri-food sector	19.8	2.6	35.1	10.1	46.0	13.2	41.6
On-farm investment and restructuring support	1.7	2.1	33.2	2.5	43.5	13.2	25.1
Agricultural infrastructure	18.0	0.2	-	7.6	0.6	-	6.7
Off-farm storage, processing, marketing and promotion	0.2	0.3	1.9	0.0	1.9	-	9.8
Providing environmental and societal benefits	-	0.0	0.1	2.6	2.0	0.5	72.4
Payments to farmers in areas with natural and environmental constraints	-	0.0	-	0.6	-	-	35.2
Agro-environment, organic and animal welfare payments	-	-	0.1	2.0	2.0	0.5	37.2
Other ecosystem-related payments	-	-	-	-	-	-	-
Supporting rural economy and population	-	0.1	0.7	14.7	3.0	1.1	21.3
Creation and development of non-agricultural activities	-	-	0.6	-	-	0.0	…
Rural infrastructure, basic services and village development	-	0.1	-	14.7	3.0	1.1	…
Building local capacity (LEADER)	-	-	0.2	-	-	-	…
Miscellaneous rural development measures	-	-	-	-	-	-	0.1
OTHER MEASURES RELATED TO AGRICULTURE	**7.0**	**3.2**	**17.5**	**18.1**	**13.6**	**7.0**	**36.8**
Research, development, advisory and expert services	1.9	2.2	0.3	2.0	4.3	1.3	31.9
Food safety and quality control	5.1	1.0	17.2	14.2	7.0	5.7	4.9
Other general support measures	-	-	-	2.0	2.2	-	-
TOTAL BUDGETARY SUPPORT FOR AGRICULTURE	**31.8**	**65.7**	**122.7**	**188.7**	**93.9**	**68.7**	**445.7**

Sources: Agriculture and agricultural policy database; authors' calculations based on data from the OECD PSE/CSE database (2018) and financial report on EAFRD (EC 2017); Eurostat

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