European Commission

JRC TECHNICAL REPORTS

Monitoring of agricultural policy developments in the Western Balkan countries

Authors: Tina Volk, Miroslav Rednak, Emil Erjavec, Edvin Zhllima, Grigor Gjeci, Sabahudin Bajramović, Željko Vaško, Dragana Ognjenović, Jakub Butković, Mihone Kerolli-Mustafa, Ekrem Gjokaj, Bekim Hoxha, Dragi Dimitrievski, Ana Kotevska, Ivana Janeska Stamenkovska, Aleksandra Martinovic, Darko Konjevic, Mirsad Spahic, Natalija Bogdanov, Ružica Papić, Saša Todorović

Editors: Tina Volk, Emil Erjavec, Pavel Ciaian, Sergio Gomez y Paloma

2017

South Eastern Europe
SWG RRD
Regional Rural Development Standing Working Group

EUR 28527 EN

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Contact information
Pavel Ciaian
Address: Edificio Expo. C/Inca Garcilaso, 3. E-41092 Seville (Spain)
E-mail: pavel.ciaian@ec.europa.eu
Tel.: +34 95 448 8429
Fax: +34 95 448 8300

JRC Science Hub
https://ec.europa.eu/jrc

JRC105784

EUR 28527 EN

Print	ISBN 978-92-79-66934-7	ISSN 1018-5593	doi:10.2760/73968
PDF	ISBN 978-92-79-66935-4	ISSN 1831-9424	doi:10.2760/146697

Luxembourg: Publications Office of the European Union, 2017

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How to cite this report: Volk, T., M. Rednak, E. Erjavec, E. Zhllima, G. Gjeci, S. Bajramović, Ž. Vaško, D. Ognjenović, J. Butković, M. Kerolli-Mustafa, E. Gjokaj, B. Hoxha, D. Dimitrievski, A. Kotevska, I.J. Stamenkovska, A. Martinovic, D. Konjevic, M. Spahic, N. Bogdanov, R. Papić, S. Todorović (authors); Volk, T., E. Erjavec, P. Ciaian, S. Gomez y Paloma (eds.) (2017), *Monitoring of agricultural policy developments in the Western Balkan countries*, European Commission, Joint Research Centre, EUR 28527 EN, doi:10.2760/73968 (Print), doi:10.2760/146697 (PDF).

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Acknowledgements

This report is based on the results of the project '*National policy instruments and EU approximation process: Effects on farm holdings in WB countries*', financed by the Directorate-General Joint Research Centre of the European Commission.

We would like to thank all participating organisations and individuals for the professional and enthusiastic work done during the project's implementation. In particular, we would like to thank Boban Ilic, the SWG Secretary General, and the team of the SWG head office/secretariat for their assistance and close collaboration in the implementation of the project.

We would like to gratefully acknowledge Marius Lazdinis from the Directorate-General for Agriculture and Rural Development (DG AGRI E.5) for his support of the project's implementation and his valuable comments on the project results.

We would like to extend our acknowledgement to the regional project manager, Irena Dzimrevska. The technical assistance of Oliver Pop Arsov is also highly appreciated.

1 Agricultural policy developments in Western Balkan countries — regional synthesis

Tina Volk*, Miroslav Rednak* and Emil Erjavec**

* Agricultural Institute of Slovenia
** University of Ljubljana, Biotechnical faculty

1.1 Introduction

Accession to the European Union (EU) is undoubtedly a political goal for the Western Balkan (WB) ([1]) countries, even though these countries are at different stages of integration with the EU ([2]). The adaptation and the modernisation of agriculture play important roles in this process and they are directed by national decision-makers, who use pre-accession instruments, changes in legislation, institution-building and agricultural policy reform to promote the development of the agricultural sector and of rural areas.

Agricultural policy reforms can take different forms and can be conducted based on different concepts and rates of change over time. However, if policy is to serve as a means to achieve certain goals, reforms must be planned, steered and executed according to the principles of evidence-based policymaking. This means that a modern government must produce policies that are based on hard facts, not on ideology, are proactive rather than reactive and address causes rather than symptoms.

The theoretical principles of modern agricultural policy state that evidence-based policy is founded on rigorously established objective evidence, good data, the use and development of empirical tools, policy analysis, benchmarking and impact assessments. Thus, the WB countries' governments are not only working towards harmonising their agriculture in view of their potential EU membership, but are also cooperating to build the foundations of a modern, efficient agricultural policy. Although the common agricultural policy (CAP) might, admittedly, not always represent a model of evidence-based policy, the elements listed above are continuously being included in the CAP and it can therefore serve as an example for the WB countries.

The WB countries are at different stages of forming this kind of policymaking. While the development and quality of policy monitoring is only at an initial stage in some countries, others already make regular annual reports regarding the status of the agricultural sector. However, the reporting of budgetary transfers to agriculture is mostly less transparent, while policy impact assessments and evaluations are practically non-existent, resulting in low-quality policy planning and decision-making that is not evidence based.

A network of agricultural economists from leading academic institutions, who are coordinated and coached by a group of experts from the Agricultural Institute of Slovenia and the University of Ljubljana, is attempting to address this gap and introduce new logic into policy formation in the region. This network has been active since 2008 and was initially formed under the umbrella of a FP7 research project (Volk 2010) with the intention of establishing a systematic, internationally comparable data collection system for agriculture and agricultural policy that would serve for the monitoring and analysis of agricultural policy. The research group has, therefore, gradually built an independent database and prepared a set of analyses and assessments of the situations and

([1]) This contribution uses the term 'Western Balkans' to encompass countries of the region: Albania (AL), Bosnia and Herzegovina (BA), Kosovo* (in line with UNSCR 1244/99 and the ICJ Opinion on the Kosovo declaration of independence, XK), FYR Macedonia (MK), Montenegro (ME) and Serbia (RS).

([2]) Regarding the accession status of the Western Balkan countries see: http://ec.europa.eu/neighbourhood-enlargement/countries/check-current-status_en.

developments in agriculture and agricultural policy that can also allow for regional comparisons and benchmarking with the EU CAP. This infrastructure is already being used to support decision-making in the region, especially for the programming of strategic documents, and it serves as an important source of data and factual analyses for the international community.

Since 2010, this work has also played a special role within the activities of the Regional Rural Development Standing Working Group (SWG), which have been undertaken as three projects. The results of the first project, which was financed by the Food and Agriculture Organization of the United Nations (FAO), are available in Volk et al. (2014); the second was financed by the Directorate-General Joint Research Centre (JRC) of the European Commission (EC) and published in Volk et al. (2016). The present report is based on the results of the third project, 'National policy instruments and EU Approximation process: Effects on farm holdings in the WB countries (EUEWB)', which was funded by the JRC. The key goals of this project are to provide analytical support to decision-makers in the region by updating agricultural statistics and to support qualitative and quantitative monitoring of agricultural policy in WB countries. In addition, the project is attempting to improve the analytical capacity of the acceding countries by strengthening their institutions and coaching the agricultural economists that deal with agricultural policy. The network has also prepared country-specific analyses, which are presented separately in this report.

This chapter presents the results of monitoring agriculture and agricultural policy in the WB countries in the form of a synthesis report. The analyses of situations and trends are based on data collected by national experts and used in the country reports (Chapters 2 to 7). This chapter attempts to show (1) the main development patterns in production and trade in the WB countries; (2) a short overview of the new policy framework (new programming documents) and its implementation; (3) the scope and structure of budgetary transfers to agriculture compared between countries and in terms of their approximation to the CAP; and (iv) the main characteristics of direct producer support in the region. The analyses primarily cover 2010-2015.

The previous report (Volk et al. 2016) found that the new regional agriculture-related strategic documents adopted by WB countries are relatively modern and are oriented towards EU integration. The question remains whether or not these documents have brought about real changes in the WB countries' policies in the first years of their implementation; this can be determined using detailed analyses of budgetary transfers, as described in this report. These analyses were also used to determine the extent and direction of approximation to the EU CAP and the developmental orientation of agricultural policies in the WB countries.

The central analytical issue in this report is the assessment of direct production support, which is the main agricultural policy instrument in most WB countries (as well as the CAP). For the first time, the types of support, their associated eligibility criteria and the amounts involved are presented in a transparent fashion. The analysis outlined in this report also attempts to provide a picture of the similarities and differences regarding direct support for WB countries compared with that for the EU.

Our qualitative and quantitative analyses allow us to draw some general conclusions and recommendations at the regional level in terms of reforms and adjustments of agricultural policy. We have also attempted to derive some theses concerning the major issues in WB national agricultural policies to support further reform and modernisation of agricultural policy.

1.2 Databases and methodological notes

The qualitative and quantitative analyses of agriculture and agricultural policy development in WB countries are based on the data and information provided by national academic experts and gathered in three country databases containing (1) the main general and agricultural statistics, (2) data on budgetary transfers to agriculture, and (3)

an inventory of direct farm support schemes. The data originate from various sources, mainly national statistical offices, state administration bodies (agricultural ministries, paying agencies) and agricultural policy (programming and legal) documents. These databases were developed with the aim of obtaining datasets that are as consistent and coherent as possible and offer good comparability over time and between WB countries, especially in the context of the EU integration process and the preparation of future national agricultural policy strategies and action plans.

The general agricultural statistics database has been compiled for 2005-2015, based on a common template and organised in a set of predefined tables for specific data topics that cover key general (macroeconomic) indicators, all the main fields of agricultural statistics (farm structure, agricultural land use and production, agricultural prices, economic accounts for agriculture) and agro-food trade.

In recent years, most WB countries have made significant progress in the harmonisation of their agricultural statistics with EU methodologies. However, this process has been mostly completed in the Former Yugoslav Republic (FYR) of Macedonia, Kosovo under United Nations Security Council Regulation 1244/99 (Kosovo*) and Serbia (Table 1.1), although the data are not all available or have been published with a long time delay in these countries. In other WB countries, there are still no data for some important fields of agricultural statistics.

In Albania, there are no data on farm structure, agricultural prices or economic accounts for agriculture. Farm structure data and economic accounts for agriculture are not available in Bosnia and Herzegovina, while, in Montenegro, apart from economic accounts for agriculture, data on agricultural prices are missing. Albania, Bosnia and Herzegovina and FYR Macedonia still do not have reliable (and harmonised) data on actual agricultural land use (utilised agricultural area, UAA). Production statistics have not been harmonised with Eurostat rules in Albania and Bosnia and Herzegovina, while, in Kosovo*, the harmonisation of production statistics is under way, based on the recently conducted agricultural census (2014); therefore, some revision of the datasets can be expected in the future.

Table 1.1. Assessment of the alignment of statistic methodologies in WB countries with the Eurostat rules and definitions, 2015

	AL	BA	XK	MK	ME	RS
Macroeconomics indicators	+	+	+	+	+	+
Foreign trade	+	+	+	+	+	+
Farm structure	/	/	+ (2014)	+ (2007, 2010, 2013)	+ (2010)	+ (2012)
Land use (UAA)	-	-	+ (from 2014)	-	+ (from 2007)	+ (from 2005)
Agricultural production	-	-	+/-	+ (from 2007)	+ (from 2007)	+ (from 2005)
Agricultural prices	/	+ (from 2014)	+	+	/	+ (from 2013)
Economic accounts for agriculture	/	/	+ (from 2005)	+ (from 2006)	/	+ (from 2007)

+, mostly harmonised; +/-, incomplete harmonisation; -, not harmonised; /, no data.

Source: authors' analysis.

In this synthesis report, the assessment of the main trends in agricultural production and trade focuses on 2010-2015. The developments in agricultural production were analysed based on data regarding agricultural output volume changes calculated from economic accounts for agriculture that were available for Kosovo*, FYR Macedonia and Serbia. For other countries, these developments were assessed based on available data on the production of the main crop commodities, on livestock numbers and on milk production.

Data on budgetary support for agriculture are collected in agricultural policy measures (APM) databases. In these databases, all available quantitative information on agricultural policies for each WB country is gathered annually at the level of detailed measures. Data on the characteristics of each policy measure and the budgetary (monetary) transfers executed are collected. For Montenegro, the APM database contains planned funds rather than actually executed payments, as data on disbursed funds are not publicly available. The analysis of agricultural support in this report covers 2010-2015, although most WB countries have compiled APM databases for longer periods.

Measures in the APM database are systematised and classified according to a common (uniform) template. According to the APM classification, 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 (Table 1.2).

Table 1.2. APM classification scheme of budgetary support for agriculture

Market and direct producer support measures			
	Market support measures (export subsidies; market interventions; public stockholding costs)		
	Direct producer support measures		
		Direct payments and variable input subsidies	
			Direct payments to producers (further disaggregated according to the implementation criteria) Variable input subsidies (further disaggregated according to the type of input)
		Disaster payments and other compensations to producers (further disaggregated according to the implementation criteria)	
		Miscellaneous (direct producer support)	
Structural and rural development measures			
	Improving the competitiveness of the agricultural sector		
		On-farm investment and restructuring support	
			On-farm investment support (general; permanent crops; land improvement; others)
			Other on-farm restructuring support (start-up aid; adapting to standards; participating in food quality schemes; others)
		Agro-food restructuring support	
			Support relating to agricultural infrastructure (hydrological and other land infrastructure; land consolidation; other)
			Food processing support, marketing and promotion (investments in food processing; marketing and promotion actions; producer groups; other)
		Forestry support	
	Improving the environment and the countryside		
		Payments to farmers in areas with natural constraints (areas facing natural or other specific constraints; protected areas; further disaggregated according to the implementation criteria)	
		Agro-environment-climate-animal welfare payments (further disaggregated according to the implementation criteria)	
		Other environment-related payments	
	Supporting rural economy and population		
		Diversification of activities on farms	
		Other measures to support rural economy and population (business creation and development; rural infrastructure and village development; other; LEADER)	
General measures related to agriculture			
	Research, development, advisory and expert services (research and development; extension services; vocational training; expert services)		
	Food safety and quality control (veterinary control; plant health control; quality control)		
	Other general support measures (farmer's and other non-governmental organisations; information systems; technical assistance; others)		
Miscellaneous			

Source: authors' analysis, based on Rednak et al. 2013.

LEADER, Liaison Entre Actions de Développement de l'Économie Rurale.

The APM classification uses the EU concept of policy classification combined with the Organisation for Economic Co-operation and Development (OECD) methodology (OECD 2008). The APM classification is built on a hierarchical principle, with the first level defining the pillar of agricultural policy, the second level defining the policy category and each subsequent level defining a sub-category of the previous level (Rednak et al. 2013). A hierarchical system allows analysis at different levels of aggregation. In this report, the data are presented up to the third and, in some cases, fourth or fifth levels of classification.

To compare the level of support between countries, the budgetary transfers to agriculture in euros (total and by groups of measures) were expressed per hectare of UAA. To calculate this indicator, UAA data from the agricultural census were used for Kosovo*, Montenegro and Serbia, while for Albania, Bosnia and Herzegovina and FYR Macedonia, UAA was estimated based on the available statistics for total agricultural land (Table 1.3) ([3]).

Table 1.3. Utilised agricultural area used for the calculation of the relative levels of budgetary support for agriculture in WB countries

	AL	BA	XK	MK	ME	RS
UAA (thousands of hectares)	955.5 ([a])	1 152.2 ([b])	413.6 ([b])	724.0 ([a])	221.3 ([b])	3 437.4 ([b])

([a]) Authors' estimate based on 2013 data on agricultural land.
([b]) Agricultural census data (Kosovo*, 2014; Montenegro, 2010; Serbia, 2012).

Source: agriculture and agricultural policy database.

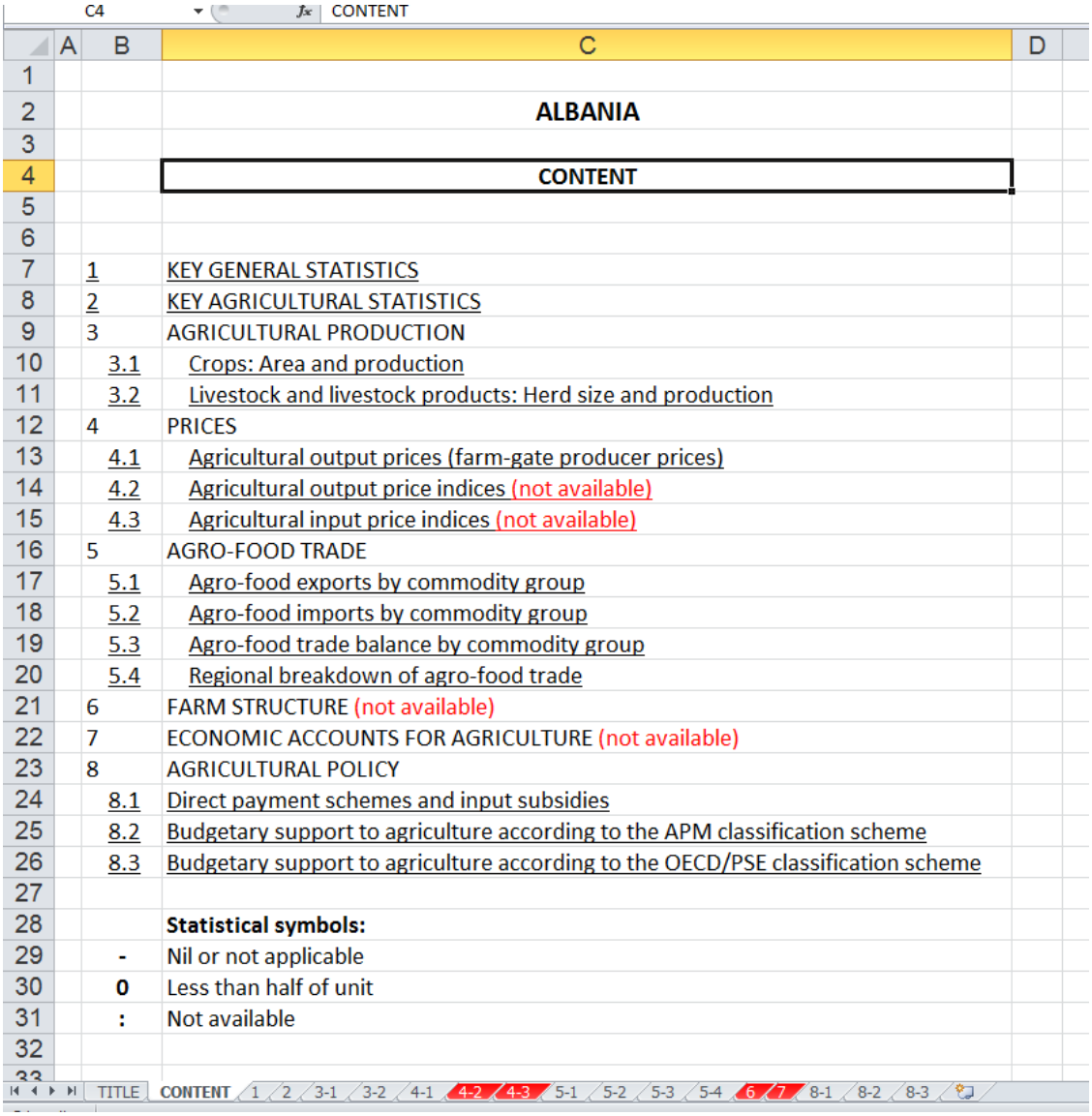
Direct farm support databases were created, based on an inventory of policy schemes prepared by national experts, to provide an overview of the main characteristics of this type of policy measure in each region. The common template for collecting data was organised in two sections, taking into account the basic requirements of the APM classification system. The first section includes direct payments and input subsidies (included in the APM first pillar), which is further divided into four groups, according to the type of payment (per output, per hectare, per animal or per input). The second section concerns environment-related payments and payments to areas facing natural constraints (ANC) (included in the APM second pillar). The inventory has been prepared annually since 2010 for all the payment schemes implemented.

After approval by partner countries, key data from all three databases, that is, agricultural statistics, the APM and direct producer support schemes, were combined into a consolidated agriculture and agricultural policy database (separately for each country), using the same approach for all countries. Although the consolidated database was created primarily for monitoring and evaluation of the development of agriculture and agricultural policies within this project, it can also be considered as a stand-alone data presentation of the agro-food sector in WB countries.

The consolidated database for all WB countries is published in the public area of the project website (http://app.seerural.org/) and is therefore available for further comparative analysis and for more detailed and targeted analysis, as well as for broader use by decision-makers and stakeholders at the national, regional and international levels (Table 1.4).

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

Table 1.4. Consolidated agriculture and agricultural policy database compiled for WB countries: content page (screenshot)



	A	B	C	D
1				
2			**ALBANIA**	
3				
4			**CONTENT**	
5				
6				
7		1	KEY GENERAL STATISTICS	
8		2	KEY AGRICULTURAL STATISTICS	
9		3	AGRICULTURAL PRODUCTION	
10		3.1	Crops: Area and production	
11		3.2	Livestock and livestock products: Herd size and production	
12		4	PRICES	
13		4.1	Agricultural output prices (farm-gate producer prices)	
14		4.2	Agricultural output price indices (not available)	
15		4.3	Agricultural input price indices (not available)	
16		5	AGRO-FOOD TRADE	
17		5.1	Agro-food exports by commodity group	
18		5.2	Agro-food imports by commodity group	
19		5.3	Agro-food trade balance by commodity group	
20		5.4	Regional breakdown of agro-food trade	
21		6	FARM STRUCTURE (not available)	
22		7	ECONOMIC ACCOUNTS FOR AGRICULTURE (not available)	
23		8	AGRICULTURAL POLICY	
24		8.1	Direct payment schemes and input subsidies	
25		8.2	Budgetary support to agriculture according to the APM classification scheme	
26		8.3	Budgetary support to agriculture according to the OECD/PSE classification scheme	
27				
28			**Statistical symbols:**	
29		-	Nil or not applicable	
30		0	Less than half of unit	
31		:	Not available	
32				

Source: authors' analysis.

1.3 Situation and trends in agriculture

Economic recovery

In 2015, the WB economies showed some positive developments indicating the start of recovery from the severe slowdown or decline in gross domestic product (GDP) that was triggered by the global economic crisis in 2008. Serbia recorded an increase of 0.8 % in terms of real GDP in 2015, while in other WB countries' GDP growth was significantly higher, at between 3 % and 4 %. The GDP per capita — measured in purchasing power standard (PPS) parity — was 29 % of the EU-28 average in Albania and Bosnia and Herzegovina, 36 % in Serbia, 37 % in FYR Macedonia and 41 % in Montenegro.

Inflation rates were low (below 2 %) and in Bosnia and Herzegovina and FYR Macedonia they were negative. The unemployment rate is still high in all WB countries, but decreased slightly in Kosovo* (to 33 % in 2015), FYR Macedonia (to 26 %) and Serbia (to 18 %), and remained stable in Bosnia and Herzegovina (28 %) and Montenegro (20 %). In 2015, the unemployment rate increased only in Albania, reaching its highest level since the beginning of the global recession (18 %).

Agriculture remains an important economic sector

In all WB countries, agriculture is an important sector for the national economy. In 2015, the proportion of total gross value added (GVA) generated from the agriculture, forestry and fishing sectors was about 22 % in Albania and between 8 % and 13 % in the other WB countries (Table 1.5). In most WB countries, the relative economic importance of agriculture in the national economy had a declining trend, indicating that other sectors of the economy were developing faster.

Table 1.5. Importance of agriculture in the economy in WB countries

	AL		BA		XK		MK		ME		RS	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
GVA for agriculture (% of total GVA)	21.2	21.6	8.6	7.6	16.2	13.5	11.7	11.4	9.2	9.8	10.2	8.2
Employment in agriculture (% of total employment)	54.9	44.7	19.7	17.9	n/a	n/a	19.1	17.9	n/a	n/a	22.2	19.5

Source: agriculture and agricultural policy database (data for 2015 are preliminary).

Volatile agricultural production with some positive developments

All WB countries are characterised by large variations in crop production over time, driven predominantly by weather conditions. Since 2010, crop yields have been adversely affected by a drought in 2012 and by heavy rain and floods in 2014 in most countries in the region, resulting in a sharp decrease in the production of the main crops in these years. The year 2015 was favourable for most crops, particularly grapes, but also fruit, vegetables and potatoes, although cereal yields were below the 2010-2014 average in most countries (except Bosnia and Herzegovina).

Since 2010, crop outputs have generally shown increasing trends in Albania, Kosovo*, FYR Macedonia and Montenegro, no clear pattern in Bosnia and Herzegovina and a slightly decreasing trend in Serbia (Figure 1.1).

In Albania, positive overall developments are indicated by increasing trends in vegetable and potato production and stable levels of cereal production. Among the most important crop subsectors, only the production of fruit has shown a negative trend since 2010.

Kosovo* is characterised by the largest variations in crop production among all WB countries. The overall positive trend in crop output mainly reflects increasing trends in cereal and fruit production. Developments in the production of vegetables and potatoes are mostly negative.

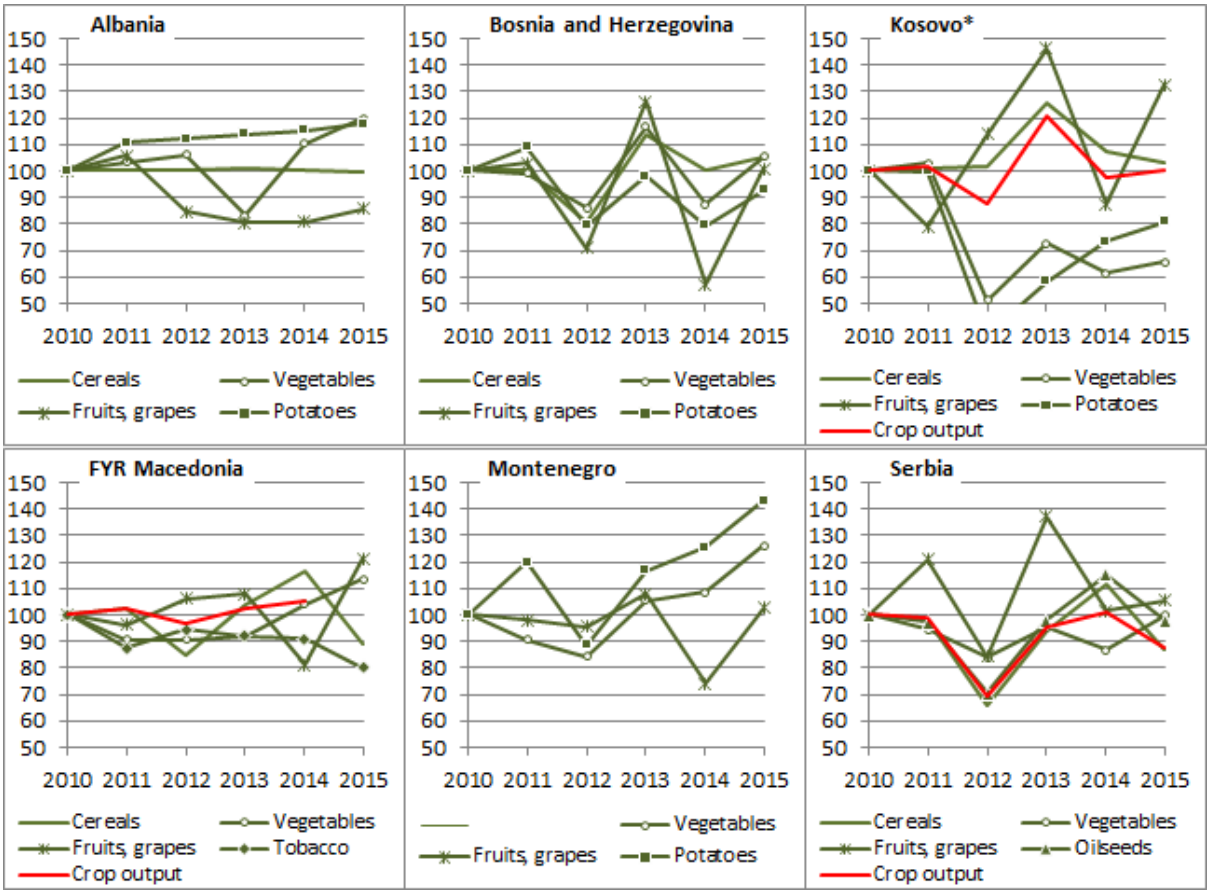
In FYR Macedonia, the overall positive trend in crop output is the result of an increasing trend in vegetable, fruit and grape production, which are the most important crop subsectors in this country, representing 47 % and 19 % of the total crop output in 2010-2014 on average, respectively. Cereal production has shown no particular trend since 2010, while trends in tobacco and potato production are slightly negative.

The development of crop outputs in Montenegro can generally be assessed as positive, as the production in all the main crop subsectors (with the exception of grapes) reveals an increasing trend in 2010-2015.

In Bosnia and Herzegovina, no definite trend in crop output since 2010 can be clearly recognised based on trends in the production of the main crops. In 2010-2015, a slightly increasing trend was perceptible in cereal, vegetable and grape production and there was a slightly decreasing trend in fruit and potato production.

Crop output in Serbia is predominantly made up of cereals, which represented 44 % of the total crop output on average in 2010-2015. Since 2010, cereal production has shown no particular trend. Among other main crop subsectors, fruit and oilseed production show positive developments, while grapes and vegetables show decreasing trends. In 2010-2015, a slightly decreasing trend in total crop output was recorded.

Figure 1.1. Trends in levels of crop production in WB countries, 2010-2015 (percentages of levels in 2010)



Source: agriculture and agricultural policy database.

Livestock production is generally less volatile than crop output, although, particularly in Kosovo*, but also in Montenegro and FYR Macedonia, year-to-year fluctuations in livestock numbers and levels of milk production were large (over 10 percentage points in some years) (Figure 1.2).

In 2010-2015, developments in animal outputs were predominantly positive in Albania, Montenegro and Serbia, predominantly negative in FYR Macedonia and Kosovo*, and with no clear overall trend in Bosnia and Herzegovina (Figure 1.2).

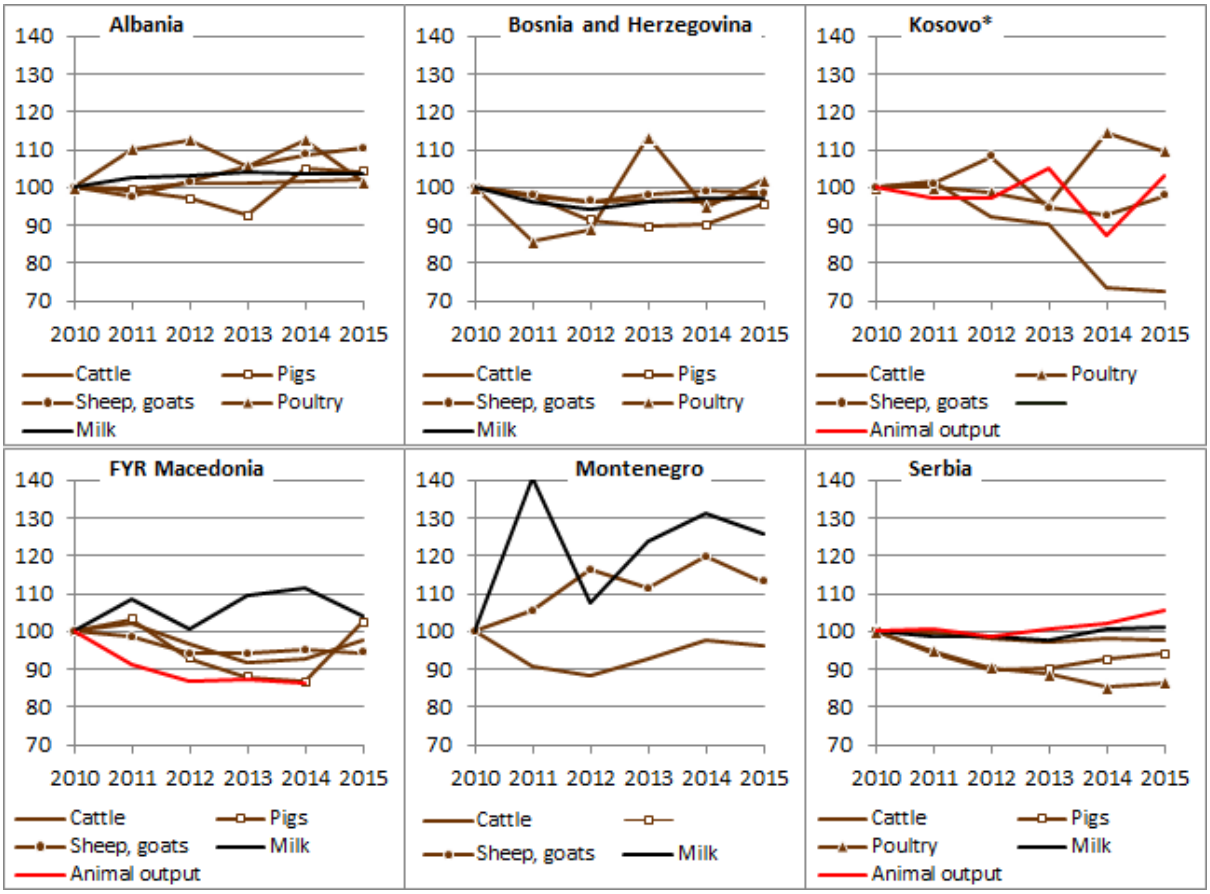
In Albania, positive trends are seen in all important livestock subsectors, particularly in numbers of sheep and goats. A similar conclusion can be drawn for Montenegro, where only cattle numbers showed no clear trend, while the numbers of sheep and goats, as well as levels of milk production, have been increasing.

In Serbia, the increase in animal output was mainly influenced by increasing levels of milk production; the poultry and pig sectors show negative trends.

In Kosovo* and FYR Macedonia, the overall trend in animal output was negative and driven by decreasing trends in all the main livestock subsectors, except for poultry in Kosovo* and milk in FYR Macedonia.

In Bosnia and Herzegovina, no particular trend in animal output can be identified clearly. Cattle, sheep and goat numbers, as well as levels of milk production, were stable, while poultry showed an increasing trend and the pig sector showed a decreasing trend.

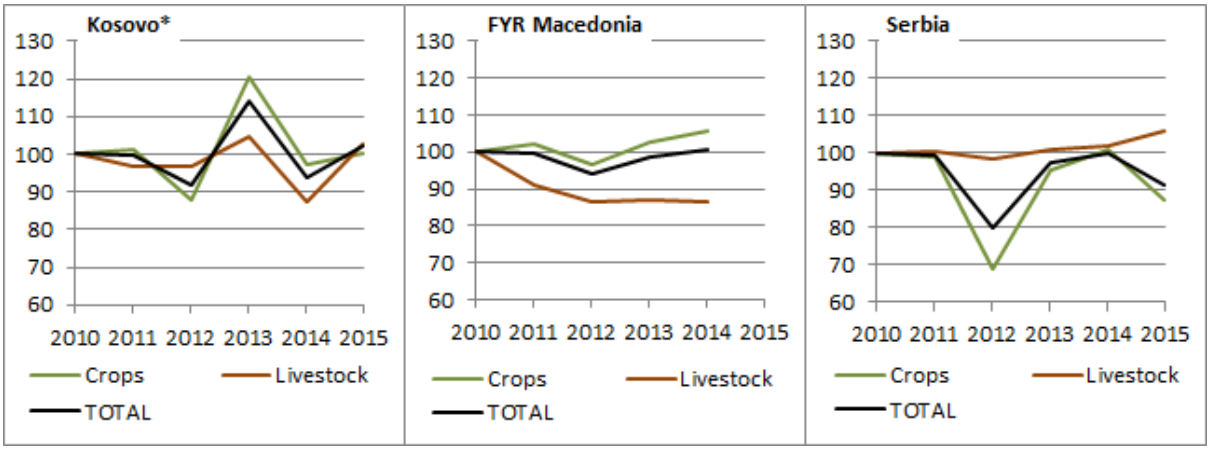
Figure 1.2. Trends in livestock numbers and levels of milk production in WB countries, 2010-2015 (percentage of levels in 2010)



Source: agriculture and agricultural policy database.

Taking into account the developments in both plant and animal production, the trends in agricultural output as a whole in 2010-2015 were positive in Albania, Montenegro and FYR Macedonia, showed no change in Bosnia and Herzegovina and Kosovo* and were slightly negative in Serbia (Figure 1.3).

Figure 1.3. Trends in levels of aggregate agricultural production in some WB countries, 2010-2015 (percentages of levels in 2010) ([a])



(a) Aggregate agricultural production data are not available for Albania, Montenegro and Bosnia and Herzegovina.

Source: agriculture and agricultural policy database.

In Kosovo*, FYR Macedonia and Serbia, these developments were mainly driven by changes in crop output (Figure 1.3), as crop output dominates agricultural production. Since 2010, this has represented on average 56 %, 75 % and 65 % of the output of agricultural goods in Kosovo*, FYR Macedonia and Serbia, respectively.

Agro-food trade continues to grow

In all six WB countries, the agro-food sector is an important contributor to the country's total external trade for both exports and imports, as well as to the countries' overall trade balances. In 2015, the proportion of agro-food exports in total exports varied between 9 % in Albania and Bosnia and Herzegovina to 21 % in Serbia (Table 1.6). The proportion of imports is between 8 % in Serbia and 25 % in Montenegro. Since 2010, the proportion of agro-food exports in total exports has increased considerably in most WB countries (except in FYR Macedonia and Serbia), while the proportion of agro-food imports has remained stable.

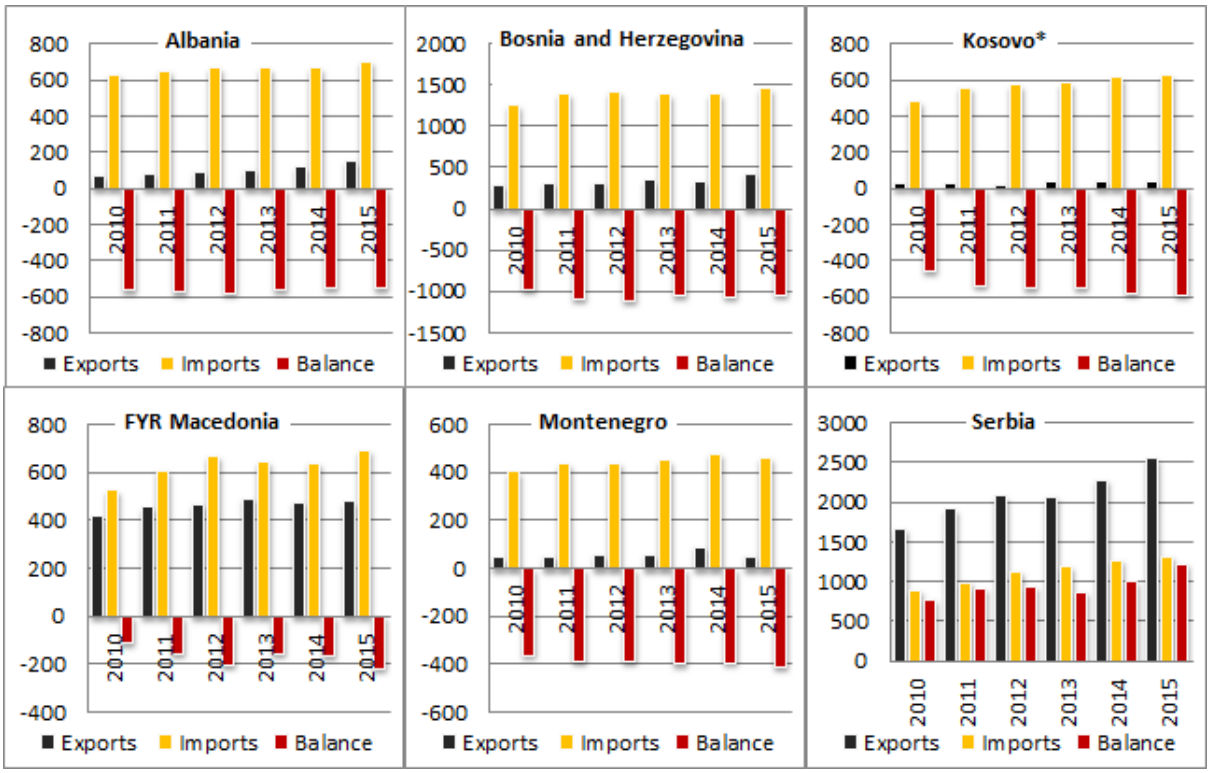
Table 1.6. Importance of the agro-food sector in the external trade in WB countries

	AL		BA		XK		MK		ME		RS	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
Agro-food exports (% of total exports)	5.9	8.7	7.9	9.4	8.3	12.8	16.5	11.9	14.1	17.0	22.6	21.3
Agro-food imports (% of total imports)	18.2	17.8	18.1	18.1	22.4	23.9	12.8	12.0	24.5	25.2	7.2	8.1

Source: agriculture and agricultural policy database (data for 2015 are preliminary).

Agro-food trade has shown an increasing trend in all six WB countries, with higher growth rates generally being recorded for exports than for imports (Figure 1.4). In 2015, agro-food exports showed the highest increases in Albania and Bosnia and Herzegovina (by 28 % and 27 %, respectively, compared with 2014), followed by Serbia (12 %) and Kosovo* (6 %). In FYR Macedonia, agro-food exports remained at similar levels to those in 2014 (and 2013), while exports decreased sharply in Montenegro compared with 2014 and returned to the level recorded in 2010-2013.

Figure 1.4. Agro-food trade in WB countries (million euros), 2010-2015

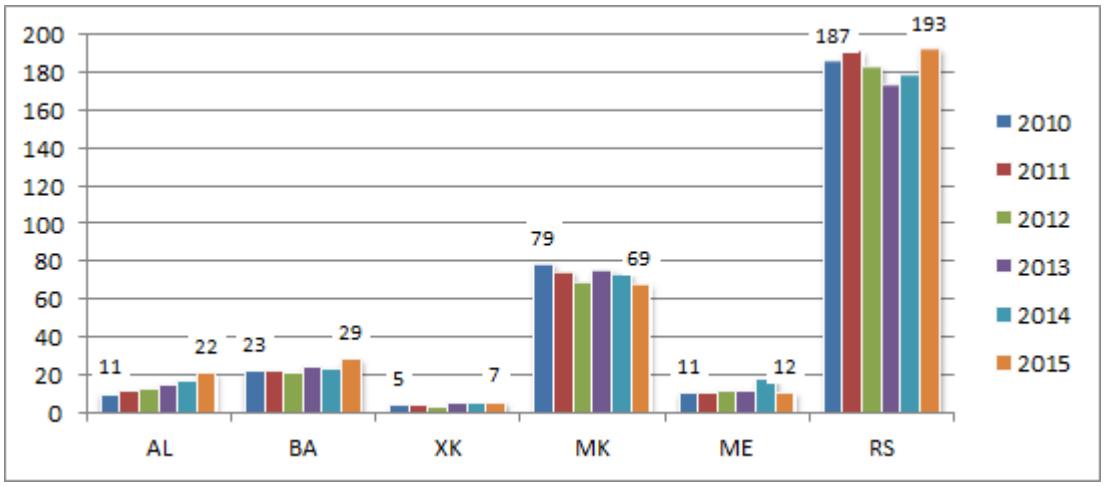


Source: agriculture and agricultural policy database (data for 2015 are preliminary).

Serbia has traditionally had a positive agro-food trade balance and its surplus generally shows an increasing trend (it increased by 22 % in 2015 compared with 2014). All the other WB countries are net importers of agro-food goods. In Albania and Bosnia and Herzegovina, agro-food trade deficits are stable, while in Kosovo*, Montenegro and, particularly, FYR Macedonia, trade balances are worsening (increasing deficits). In 2015, the deficits in these three countries rose by 2 %, 5 % and 32 %, respectively, compared with 2014.

The exports as a proportion of imports vary considerably by country. In 2015, this proportion ranged from 7 % in Kosovo* to 69 % in FYR Macedonia and 193 % in Serbia, with a positive trend since 2010 in all WB countries, except for FYR Macedonia (Figure 1.5).

Figure 1.5. Agro-food exports as a proportion of agro-food imports in WB countries, 2010-2015



Source: agriculture and agricultural policy database (data for 2015 are preliminary).

The main exported products (by tariff groups) in 2015 were oilseeds, edible vegetables and meat preparations in Albania; fats and oils, edible fruits and meat in Bosnia and Herzegovina; beverages, milling industry products and edible vegetables in Kosovo*; tobacco, edible vegetables and preparations of cereals in FYR Macedonia; beverages, meat and tobacco in Montenegro; and edible fruits, cereals and tobacco in Serbia (Table 1.7).

Table 1.7. Breakdown of agro-food exports by most important tariff groups in WB countries (%)

	AL		BA		XK		MK		ME		RS	
	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015	2010	2015
02 Meat and edible meat offal	1.5	0.6	2.4	**11.9**	0.2	0.4	4.1	2.7	**7.6**	**13.3**	1.2	1.8
07 Edible vegetables	4.9	**19.5**	5.4	3.6	**14.9**	**7.7**	**15.8**	**13.7**	7.4	6.7	3.4	3.1
08 Edible fruit and nuts	4.2	9.4	**8.1**	**12.3**	2.7	7.0	9.5	11.0	**10.2**	6.0	**16.1**	**20.5**
10 Cereals	0.1	0.0	5.0	4.1	0.6	1.7	0.7	0.8	0.0	0.0	**19.3**	**17.1**
11 Products of the milling industry	0.0	0.0	0.4	1.2	**25.0**	**10.0**	0.0	0.2	1.3	3.4	2.5	2.2
12 Oilseed, oleaginous fruits	**23.1**	**19.5**	1.0	0.9	2.0	3.1	0.9	0.7	0.3	0.2	3.0	4.6
15 Fats and oils	1.1	0.6	**9.8**	**14.1**	0.4	0.1	2.0	3.9	1.9	0.4	6.9	5.8
16 Meat preparations	**27.6**	**17.0**	**7.7**	5.9	0.0	1.2	4.1	2.3	5.1	5.3	1.6	1.7
19 Preparations of cereals	0.6	5.3	6.7	7.7	1.6	5.0	8.0	**12.3**	4.1	6.0	4.8	3.9
22 Beverages, spirits and vinegar	2.0	2.6	6.1	5.2	**21.5**	**38.4**	**14.5**	10.2	**45.1**	**39.3**	**8.2**	6.7
24 Tobacco	**5.7**	2.3	3.7	2.8	0.3	0.0	**22.4**	**20.1**	0.3	**10.3**	2.5	**8.8**

The figures for three largest export tariff groups for each country are in bold.

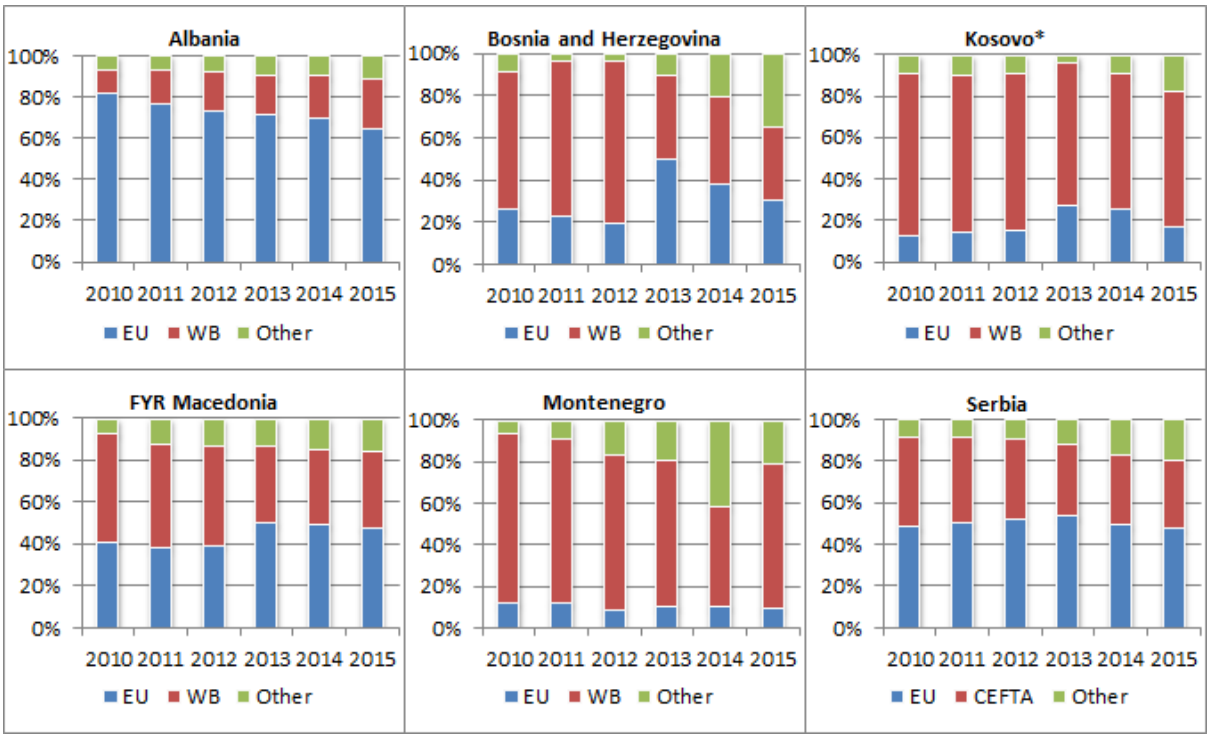
Source: agriculture and agricultural policy database (data for 2015 are preliminary).

For the most important export products, an increase in exports as a percentage of total exports, compared with 2010, was recorded for fruit and preparations of cereals in most WB countries, tobacco in Montenegro and Serbia, meat in Montenegro and Bosnia and Herzegovina, while the proportions of vegetables increased only in Albania, and the proportions of beverages increased only in Kosovo*.

In 2015, the EU was the most important export destination for Albania, FYR Macedonia and Serbia. In Kosovo* and Montenegro, the largest proportion of exports went to other WB countries and, in Bosnia and Herzegovina, the largest proportion went to third countries (outside the EU and the WB region) (Figure 1.6).

The proportion of exports destined for the EU has generally decreased in all WB countries since 2013, when Croatia joined the EU, while the proportion of exports to third countries has increased.

Figure 1.6. Regional breakdown of agro-food exports in WB countries, 2010-2015



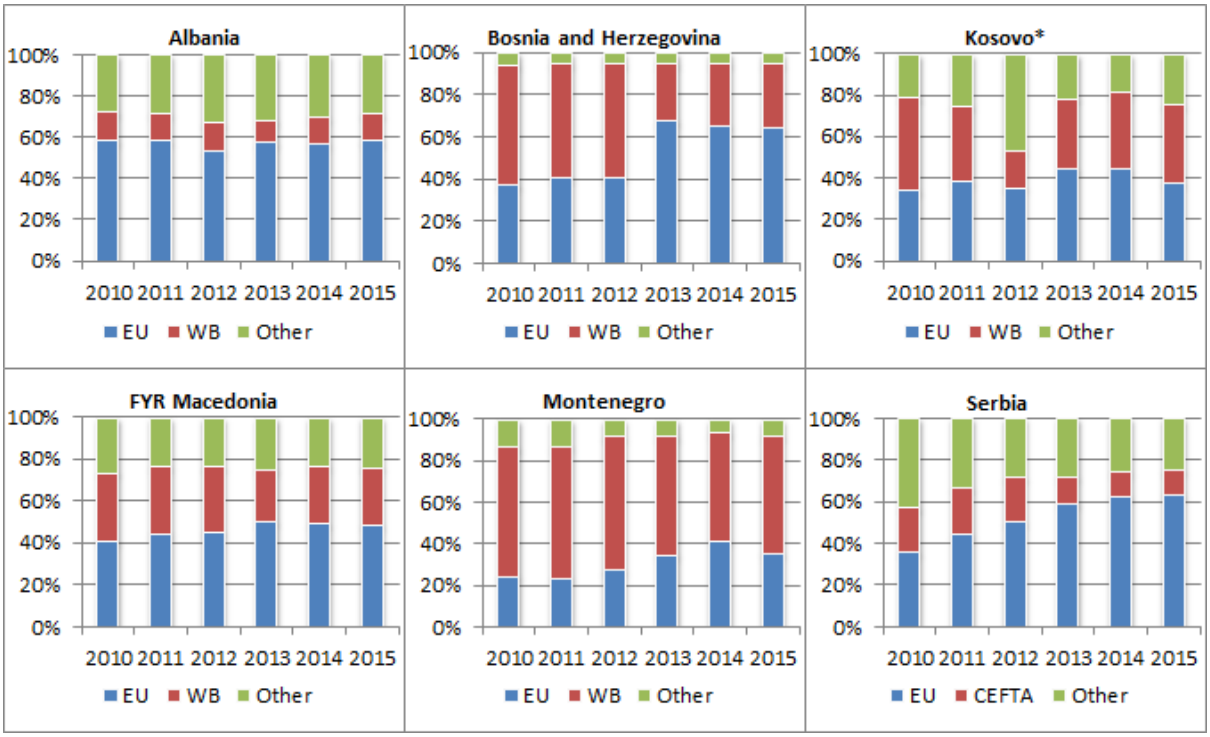
Source: agriculture and agricultural policy database (data for 2015 are preliminary).

CEFTA, Central European Free Trade Agreement countries.

Regarding imports, the EU is the most important trading partner for agro-food products for most WB countries and its importance has been growing since 2010.

Exceptions are Montenegro, where imports originating from the WB countries represent the largest proportion of total agro-food imports, and Albania, where the proportion of EU imports is stable (close to 60 %, Figure 1.7).

Figure 1.7. Regional breakdown of agro-food imports in WB countries, 2010-2015



Source: agriculture and agricultural policy database (data for 2015 are preliminary).

CEFTA, Central European Free Trade Agreement countries.

1.4 Agricultural policy framework

As already described in a previous report (Volk et al. 2016), all WB countries have made significant progress in the last few years in aligning their long-term programming documents and administrative infrastructures with EU requirements. Between 2013 and 2015, new strategic documents for agriculture and rural development were adopted, which mainly cover the period to 2020 (up to 2019 for the Federation of Bosnia and Herzegovina (FBH)) and up to 2024 for Serbia) (Table 1.8).

The medium- and long-term agricultural policy objectives and priorities set out in these documents vary slightly by country, but all address (1) enhancing farm viability and the competitiveness of the agro-food sector; (2) sustainable management of natural resources and mitigation of the effects of climate change; and (3) improving the quality of life and balanced territorial and economic development of rural areas.

In some countries, key priorities also include farmer income stabilisation (Bosnia and Herzegovina, Kosovo* and Serbia), food chain organisation (FYR Macedonia and Kosovo*), promotion of food quality and safety standards (FYR Macedonia) and investment in human capital, transfer of knowledge and innovation (Albania, FYR Macedonia and Kosovo*). The basic goals of agricultural policy thus match those of the EU CAP for the same period.

In most countries, the main strategic document has been supplemented by a multi-annual implementation programme. In parallel, the Instrument for Pre-Accession Assistance for Rural Development (IPARD) programmes were also prepared to provide key documents regarding EU pre-accession support in the field of agriculture, mostly aimed at institution-building and improvement of the agricultural sector (Table 1.8). However, the establishment of the necessary institutions for implementing the IPARD programme has not been completed in any WB country, except for FYR Macedonia, which has resulted in delays in using EU funds.

Table 1.8. Overview of main long- and mid-term programming documents in WB countries

	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 the 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)	Rural Development Program for the Federation of Bosnia and Herzegovina 2015-2020 (2014, not adopted)	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 (NARDS) 2014-2020 (2014)	National Program for Agriculture and Rural Development 2013-2017 (2013)	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 of Agriculture and Rural Development 2014-2024 (2014)		Prepared and approved by EC (2016)

Source: WB county reports.

Based on the information provided by national experts in the country reports, the strategic and programming documents outline the need to harmonise institutional and legal frameworks with EU standards, while the alignment of the measures with the CAP, particularly regarding direct support for producers, is less clearly addressed and this is scheduled for the end of the programming period or the date of accession.

Montenegro had to prepare a special action plan for the adjustment of its agricultural policy as a precondition for the start of accession negotiations in the field of agriculture. 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), which would start in 2016 and become fully operational in 2020.

The reduction in the number of direct payment schemes as a first step towards the decoupling of direct payments is also envisaged for Bosnia and Herzegovina. In the FBH, the new strategic document envisages the unification of area payments for most crops and the abolition of support for the poultry sector, while, in the Republika Srpska (RSR), the current payments, which are based on commodity output, are to be transformed into area payments (except for wheat). In both administrative units, a gradual reduction of milk premiums (per litre) and the simultaneous introduction and increase of payments per dairy cow are envisaged.

All the programming documents recognise the importance of rural development policy and shape it according to principles and strategic directions that are compatible with EU rural development policy. Strengthening of measures related to rural development and higher budgetary allocations for their implementation are the main features of the new strategic frameworks in all WB countries.

The proposed rural development measures are mainly comparable to EU programming guidelines for 2007-2013 and 2014-2020. The measures are mostly aimed at

— supporting on-farm investment, development of agricultural infrastructure (water management, transfer of land and land consolidation), investment in food processing, marketing and promotion, improving product quality and provision of food safety standards, establishing and strengthening horizontal cooperation (producer groups, farm cooperatives and farm associations);

— supporting the implementation of good agricultural practices, animal welfare and agro-environment schemes, climate change mitigation, preservation of plant and animal genetic resources and protection of forests and organic farming;

— supporting the diversification of farm activities, business development and the development of rural infrastructure;

— supporting the preparation and implementation of local rural development strategies (Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) approach);

— strengthening knowledge transfer in agriculture through improved training and agricultural advisory and extension services.

Regardless of changes in the programming documents, the actual policies in the first few years of their implementation have the same main features as previously and have only rarely undergone any real change (see section 1.5). The short-term policies are based mainly on annual programmes and budgeting, which are, in turn, largely influenced by national political and economic situations. Reports by country experts show limited progress in developing analytical support for agricultural policy decision-making; there are some improvements in monitoring but no significant changes in the other elements of evidence-based policy.

1.5 Budgetary support for agriculture

1.5.1 Total budgetary expenditure for agriculture

In all WB countries, the trends in the total levels of support for agriculture are unstable, although there was an increasing trend in 2010-2015 (Table 1.9). Only in Bosnia and Herzegovina has there been a significant downward trend in total budgetary support since 2010. The most constant and, in 2015, the most pronounced increase in total budgetary support was recorded in Kosovo* and smaller increases were also recorded in Albania and Montenegro. In FYR Macedonia and Serbia, a clear increasing trend was seen up to 2014, while, in 2015, total support dropped significantly compared with 2014, mainly as a result of the decreased disbursed funds for direct producer support measures (see section 1.5.2).

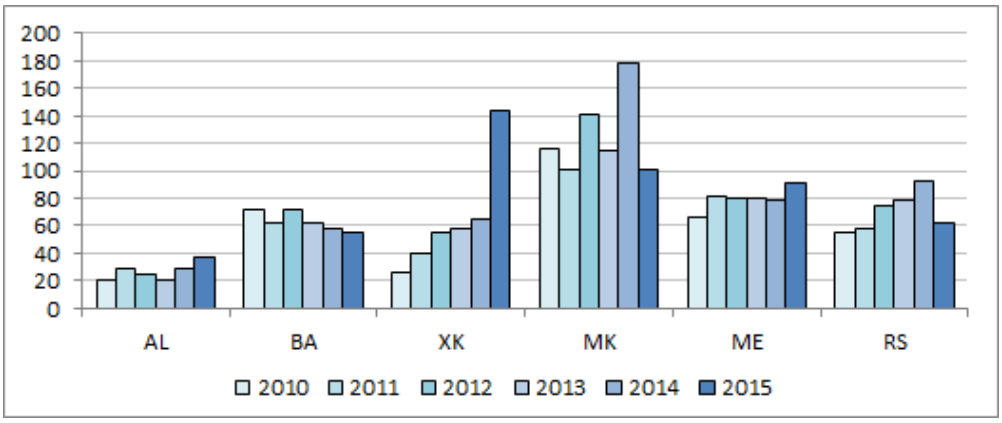
Table 1.9. Total budgetary support for agriculture in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	19.0	26.8	23.6	20.1	27.8	35.0
Bosnia and Herzegovina	82.2	71.2	82.7	71.0	67.4	63.2
Kosovo*	11.0	16.7	22.7	24.0	27.0	59.1
FYR Macedonia	83.9	72.6	102.3	82.5	128.9	73.3
Montenegro	14.6	18.1	17.5	17.6	17.4	20.0
Serbia	191.1	197.5	257.1	268.3	315.4	212.0

Source: agriculture and agricultural policy database.

The relative level of support measured per hectare of UAA varies greatly between countries (Figure 1.8). In 2015, the total budgetary support for agriculture per hectare of UAA amounted to EUR 37 in Albania (EUR 29 in 2014), EUR 55 in Bosnia and Herzegovina (EUR 59 in 2014), EUR 62 in Serbia (EUR 92 in 2014), EUR 90 in Montenegro (EUR 79 in 2014), EUR 101 in FYR Macedonia (EUR 178 in 2014) and EUR 143 in Kosovo* (EUR 65 in 2014).

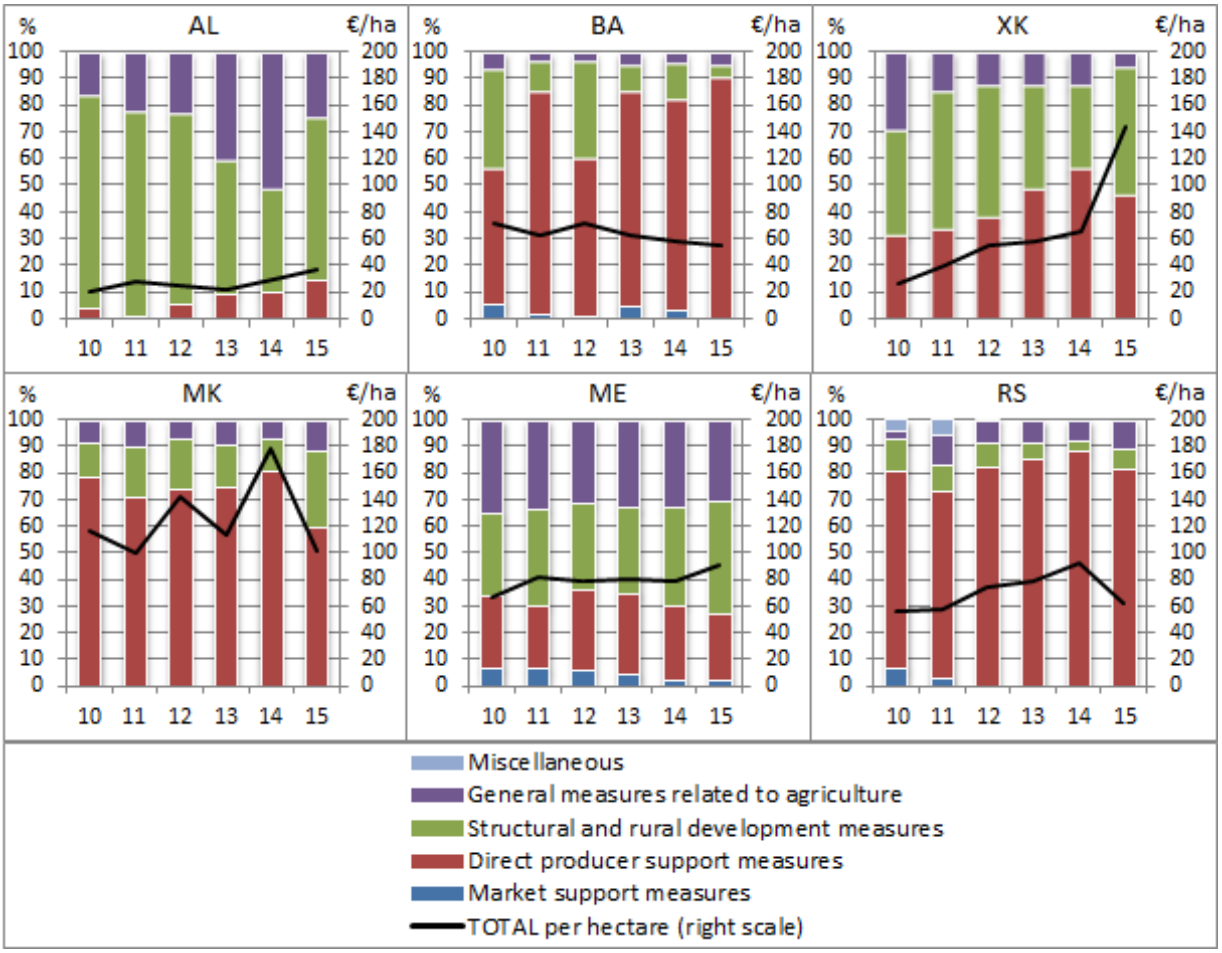
Figure 1.8. Relative level of total budgetary support for agriculture in WB countries (EUR/ha UAA), 2010-2015



Source: agriculture and agricultural policy database.

The composition of the total support for agriculture varies considerably by country (Figure 1.9). The proportion of market and direct producer support measures (first pillar measures) is high in Bosnia and Herzegovina (about 90 % in 2015), Serbia (about 80 % on average in 2010-2015), and FYR Macedonia (about 70 % on average), lower in Kosovo* and Montenegro and very low in Albania, where the relative level of support for agriculture is also the lowest among WB countries.

Figure 1.9. Composition of total budgetary support for agriculture by APM pillars in WB countries, 2010-2015



Source: agriculture and agricultural policy database.

Structural and rural development measures (second pillar) and general agriculture support measures (third pillar) are important in Albania (together they represent more than 80 % of the total budget), Montenegro (around 70 %) and Kosovo* (around 50 % in the last 3 years). In these three countries, a considerable proportion of the funding for agricultural support measures is derived from foreign donations, which are mainly focused on rural development (second pillar) and technical assistance (third pillar).

While there have been changes in total budgetary support for agriculture, no significant changes in its composition have been observed in WB countries in recent years. However, in most countries, the proportion of first pillar funds has increased slightly.

1.5.2 Market and direct producer support measures

In the context of the first pillar of agricultural policy, the largest proportion of funds by far has been directed to direct producer support measures. In the study period, some market support measures (market interventions) existed only in Bosnia and Herzegovina and Montenegro (listed in programming documents). Detailed analysis is therefore focused on only the part of the first pillar that is related to direct producer support measures.

Most countries in the region show an upward trend for funds disbursed for direct producer support measures. Since 2010, the strongest and most constant increase of funding for direct producer support was recorded in Kosovo* and Serbia until 2014. In 2015, direct support for producers in Serbia dropped significantly, mainly as a result of changed eligibility criteria for some direct support measures (lower maximum payment per beneficiary; see section 1.6). In Bosnia and Herzegovina and Montenegro, the budget for direct producer support is stable, while it varies considerably in FYR Macedonia between years (Table 1.10). Yearly fluctuations in direct producer support in FYR Macedonia are caused mainly by delays in payments for the measures implemented in previous years. In 2015, only a small proportion of the direct payment commitments for this year were paid out to farmers.

Table 1.10. Direct producer support in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	0.9	0.4	1.6	2.0	3.0	5.3
Bosnia and Herzegovina	41.7	58.8	48.7	56.9	52.6	56.6
Kosovo*	3.5	5.7	8.7	11.9	15.3	27.8
FYR Macedonia	66.1	51.3	75.7	61.4	103.6	43.6
Montenegro	4.0	4.4	5.3	5.3	4.9	5.0
Serbia	141.9	138.1	210.8	229.1	278.9	172.5

Source: agriculture and agricultural policy database.

In relative terms, direct support per hectare of UAA in 2015 amounted to less than EUR 6 in Albania, EUR 23 in Montenegro, around EUR 50 in Bosnia and Herzegovina and Serbia (down from EUR 81 in 2014 in Serbia), EUR 60 in FYR Macedonia (down from EUR 143 in 2014) and EUR 67 in Kosovo* (up from EUR 37 in 2014; Figure 1.10). The level of direct producer support is still significantly lower than that in the EU, where the average value of direct support in 2015 was EUR 236/ha, varying between EUR 83/ha in Latvia and EUR 451/ha in Malta ([4]).

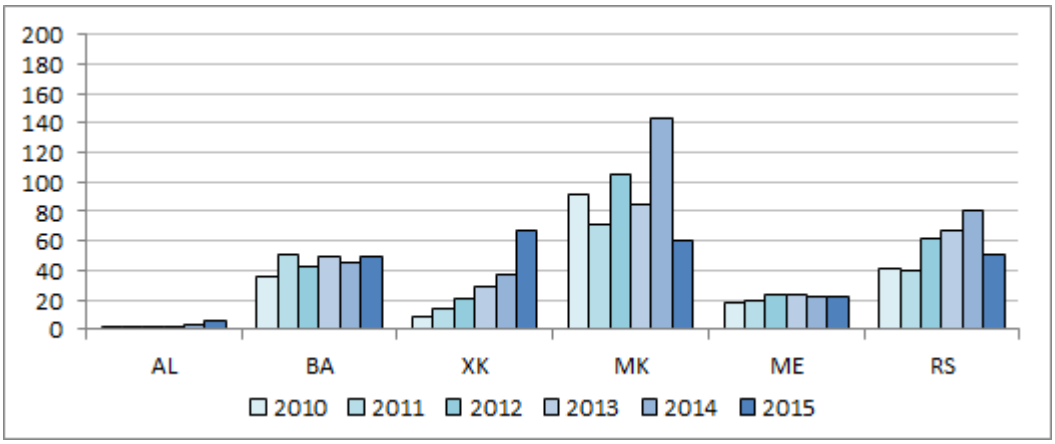
In most WB countries, the composition of direct support for producers has not changed much since 2010. Direct payments per output (price supplements) are still made in all countries. The proportion of this type of support is particularly high in Bosnia and Herzegovina and FYR Macedonia (about 60 % of total direct support for producers in 2015). In other WB countries, payments based on area or animal numbers represent the

([4]) The per hectare value of the direct support in EU Member States is calculated by dividing the total value of direct support expenditures (commitment appropriations) with UAA both for 2015. The direct support expenditures at Member State level were obtained from EU (2016), while UAA was extracted from Eurostat.

most important form of direct producer support. In Kosovo*, virtually all direct producer support is this type of support (Figure 1.11).

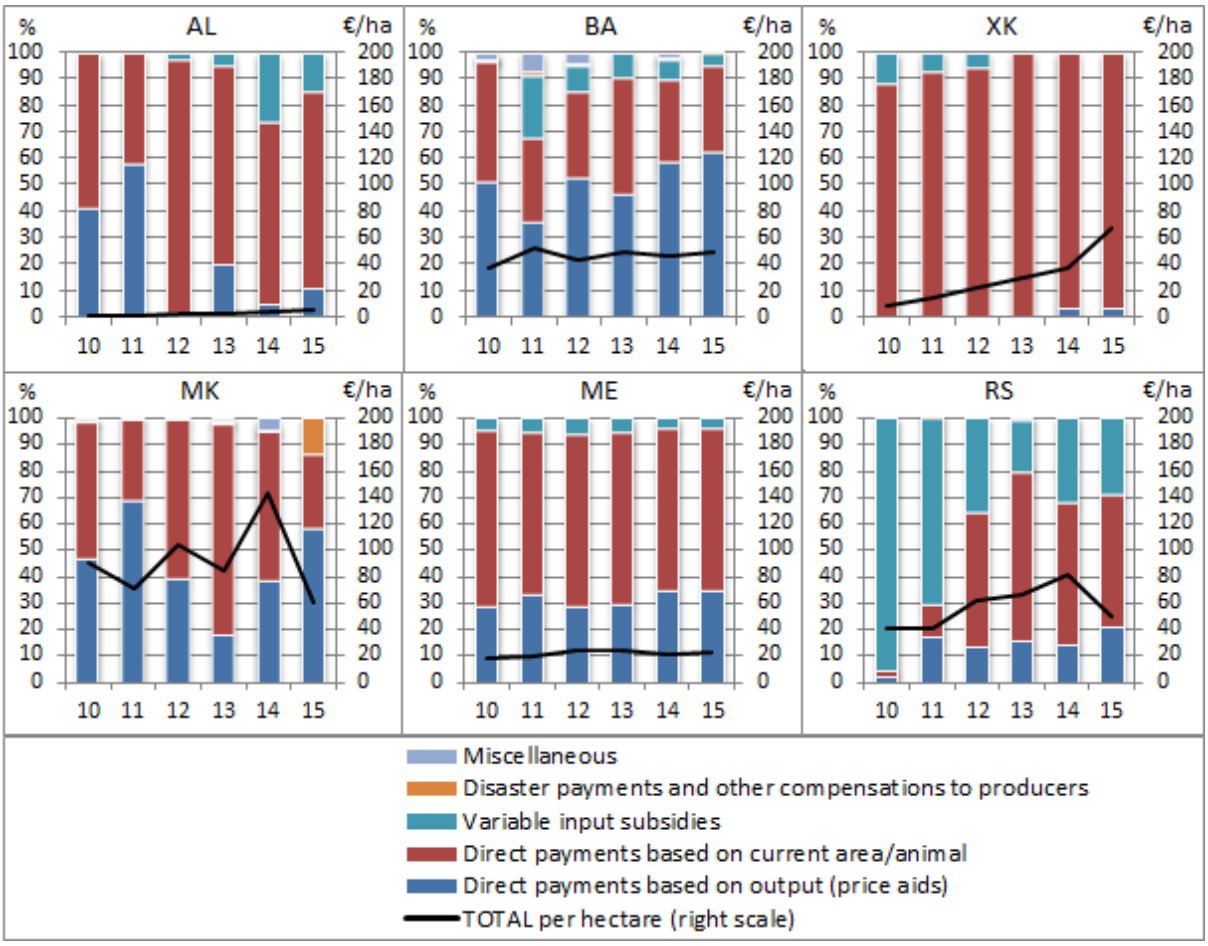
Variable input subsidies existed in all countries, at least in some years, but this type of support is significant only in Serbia, although there has been a clear reorientation from input subsidies to other forms of direct support since 2010 (see section 1.6).

Figure 1.10. Relative level of direct producer support in WB countries (EUR/ha UAA), 2010-2015



Source: agriculture and agricultural policy database.

Figure 1.11. Composition of direct producer support measures in WB countries, 2010-2015



Source: agriculture and agricultural policy database.

1.5.3 Structural and rural development measures

Funds for structural and rural development measures are generally at low levels in all WB countries and can fluctuate a great deal between years. In 2010-2015, there was a noticeable upward trend in levels of these funds in FYR Macedonia, Kosovo* and Montenegro, and the budget doubled in Albania in 2015 compared with 2014; there was a strong downward trend in levels of these funds in Bosnia and Herzegovina and Serbia (Table 1.11).

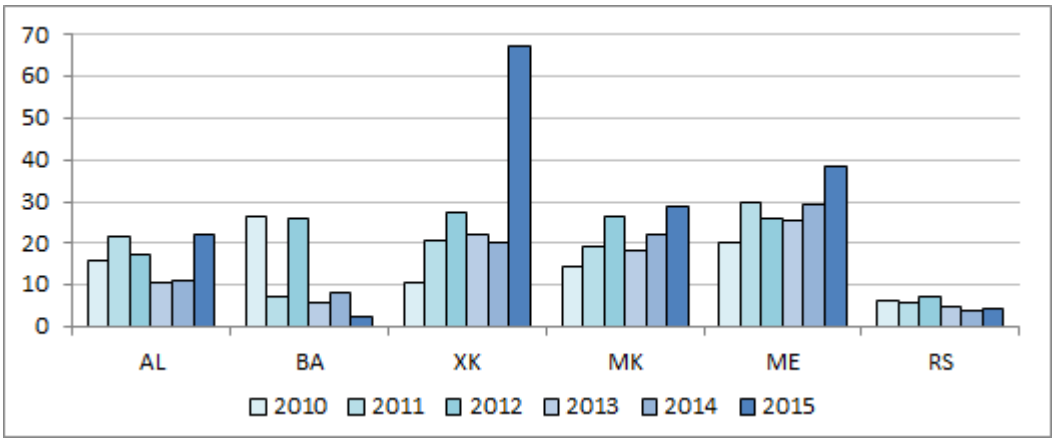
Table 1.11. Structural and rural development support in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	15.0	20.4	16.6	9.9	10.7	21.3
Bosnia and Herzegovina	30.4	8.2	29.6	6.8	9.2	2.9
Kosovo*	4.3	8.6	11.2	9.2	8.3	27.8
FYR Macedonia	10.6	14.0	19.2	13.0	15.9	20.8
Montenegro	4.5	6.5	5.7	5.6	6.4	8.5
Serbia	22.2	19.0	24.5	15.8	12.6	15.6

Source: agriculture and agricultural policy database.

In 2015, the structural and rural development support per hectare of UAA amounted to EUR 3 in Bosnia and Herzegovina, EUR 5 in Serbia, EUR 22 in Albania, EUR 29 in FYR Macedonia, EUR 39 in Montenegro and EUR 67 in Kosovo* (up from EUR 20 in 2014; Figure 1.12).

Figure 1.12. Relative levels of structural and rural development support in WB countries (EUR/ha UAA), 2010-2015



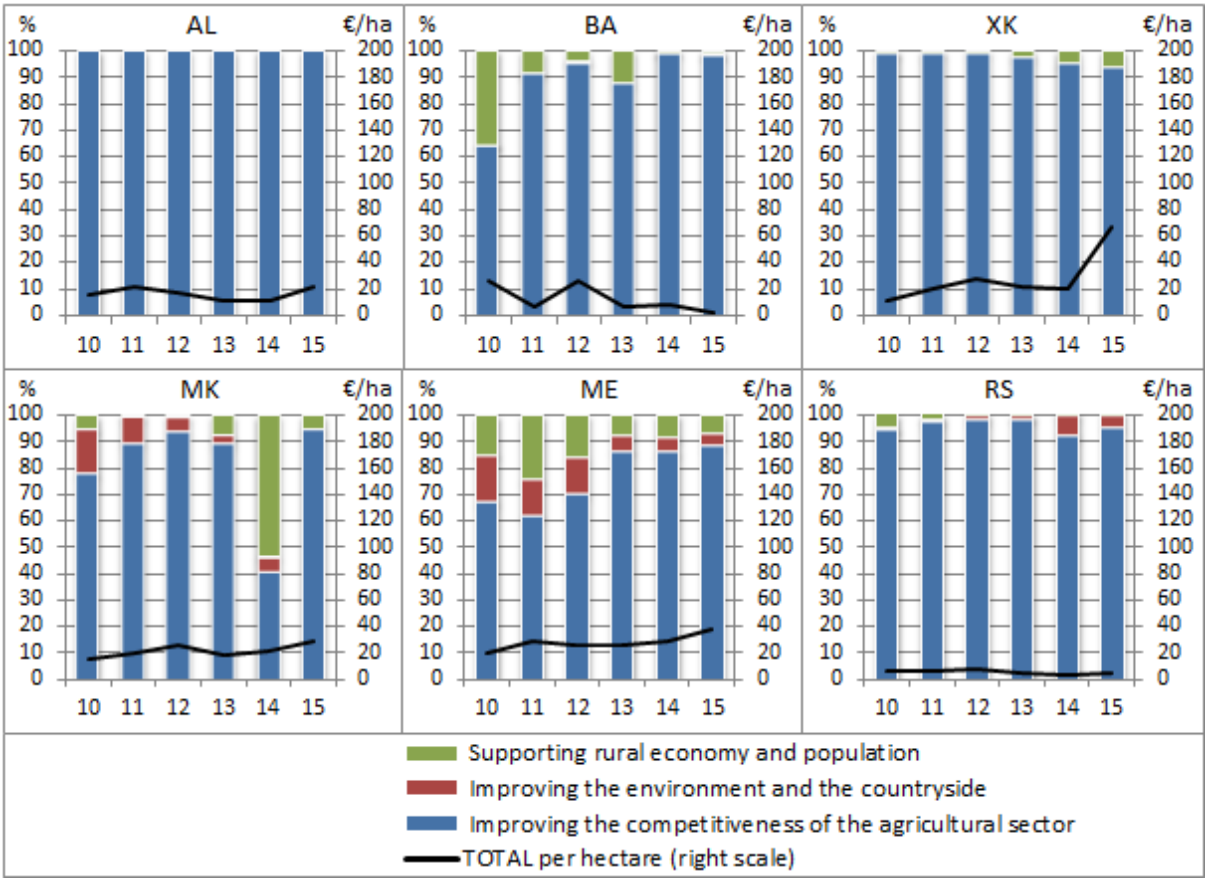
Source: agriculture and agricultural policy database.

The bulk of the funds from this policy pillar are allocated to the group of measures intended to improve the competitiveness of agriculture, while the other two aspects of rural development policy (i.e. the environment and rural economy and population) receive less attention (Figure 1.13).

Throughout the study period, different support measures intended to improve the competitiveness of agriculture were applied in each country. In Bosnia and Herzegovina, Montenegro and Serbia, and in FYR Macedonia and Kosovo* in 2015, most funds were assigned to on-farm investment support. In Albania and FYR Macedonia (in 2011-2013), support relating to agricultural infrastructure in the form of investments in irrigation infrastructure and water management received most funding (this type of support also existed in Serbia, but the amount of funding was small). All the WB countries allocated some funds to food processing support, as well as to marketing and promotion, during the course of at least 1 year, but, with the exception of Kosovo* in some years, the amounts were relatively low.

In Kosovo*, the budget for on-farm investment support more than tripled in 2015 compared with the year before. A comprehensive investment support programme was launched in 2014, which targeted mainly specific sectors. More than 35 % of total investment support was allocated to poultry (egg production: EUR 7.5 million), more than 25 % to fruit and vegetable production and more than 11 % to milk production. It will be interesting to observe the impact that these measures have on production in the coming years.

Figure 1.13. Composition of structural and rural development support in WB countries, 2010-2015



Source: agriculture and agricultural policy database.

Support for improving the environment and the countryside is insignificant in WB countries (Figure 1.13). Agro-environment schemes are not being developed on a large scale in any country. Albania and Bosnia and Herzegovina do not implement these measures, while, in Kosovo*, the first such measure was introduced in 2016, supporting organic farming practices. Organic farming is also supported in FYR Macedonia, Montenegro and Serbia. In FYR Macedonia and Serbia, support for organic farming is not defined in absolute amounts per hectare or per livestock unit as compensation for higher costs, but as a supplement to payments for conventional production (in percentage terms). Other agro-environmental support measures are mostly related to endangered livestock breeds (FYR Macedonia and Serbia), mountain pastures (Montenegro) and set-aside and green manure (FYR Macedonia).

Payments to ANC are regularly granted only in FYR Macedonia. However, these payments are set as a supplement (in percentage terms) to regular direct payments and do not take into account the actual natural constraints faced in these areas. Since 2010, the already low proportion of funds intended for improving the environment and the countryside has been decreasing.

Funds for supporting the rural economy and population are also modest. This group of measures represented a significant proportion of the total structural and rural development support (more than 50 %) only in FYR Macedonia in 2014, when a new support programme, 'Improving the quality of life in rural areas', was launched (in 2015, there were no payments made within this programme).

1.5.4 General support measures

With the exception of Montenegro, budgetary funds for general support measures are relatively low in all countries. In 2010-2015, there was an upward trend in levels of funds in Albania, FYR Macedonia, Kosovo* and Montenegro. In Serbia, the levels of these funds were stable, while there was a downward trend in Bosnia and Herzegovina (Table 1.12).

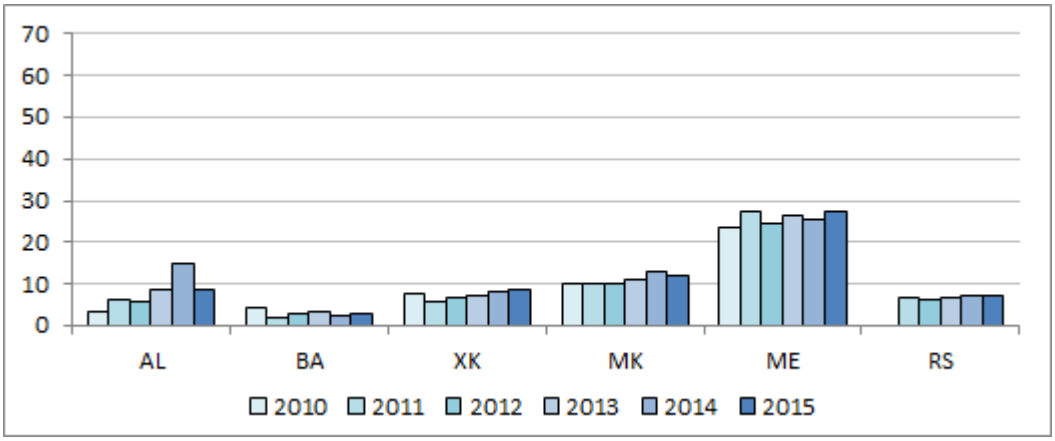
Table 1.12. General support for agriculture in WB countries (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Albania	3.1	6.0	5.5	8.1	14.0	8.5
Bosnia and Herzegovina	5.1	2.2	3.0	3.6	3.0	3.1
Kosovo*	3.2	2.4	2.8	2.9	3.4	3.5
FYR Macedonia	7.3	7.3	7.4	8.0	9.4	8.8
Montenegro	5.2	6.1	5.5	5.8	5.7	6.1
Serbia	6.2	22.7	21.5	23.4	24.0	23.9

Source: agriculture and agricultural policy database.

In 2015, the support for general measures per hectare of UAA amounted to EUR 3 in Bosnia and Herzegovina, EUR 7 in Serbia, EUR 9 in Albania and Kosovo*, EUR 12 in FYR Macedonia and EUR 27 in Montenegro (Figure 1.14).

Figure 1.14. Relative level of general support for agriculture in WB countries (EUR/ha UAA), 2010-2015



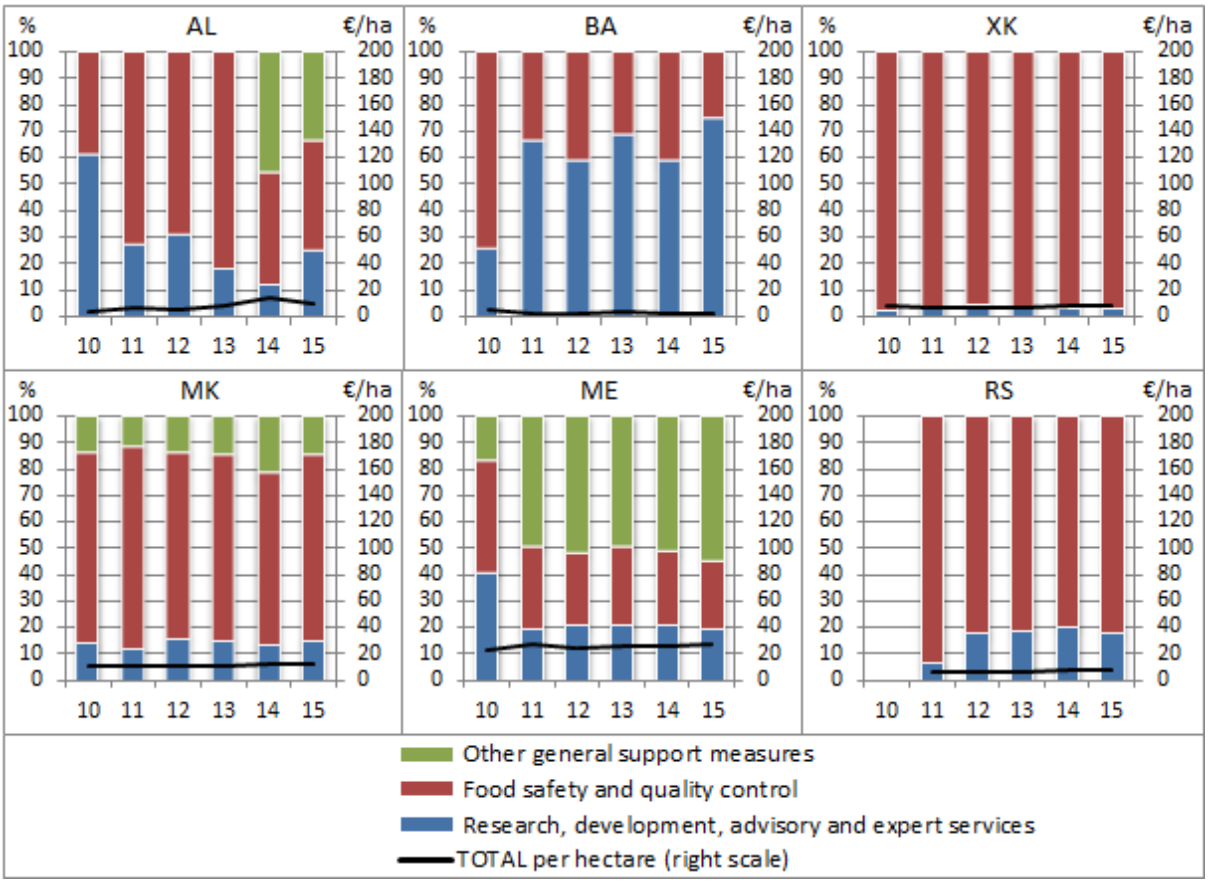
Source: agriculture and agricultural policy database.

There have been no significant changes in the composition of funds for general support in the last few years (except in Albania). In most countries, food safety and quality control receives the largest proportion of funds in this policy pillar (Figure 1.15). These proportions are particularly high in FYR Macedonia, Kosovo* and Serbia.

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 2014-2015, in Albania, FYR Macedonia and Montenegro, some funds were also allocated to other general support measures, including technical support, institution-building and development of information systems. In Montenegro and Albania, some of those projects were co-financed by foreign sources.

Figure 1.15. Composition of general support for agriculture in WB countries, 2010-2015



Source: agriculture and agricultural policy database.

1.6 Analysis of direct producers support schemes

Large numbers of different support schemes

The review of direct farm support implemented in WB countries in recent years (2010-2015) shows that this instrument is represented by large and, in most countries, increasing numbers of different schemes. Direct farm support differs considerably between countries in the number of schemes, the type of payment (per output, per hectare, per animal or per input), commodities covered (sector, subsector and particular commodities), eligibility criteria (minimum regarding the quantities produced, hectares under cultivation or livestock number) and payment rates (per unit or per beneficiary).

Most WB countries implement all types of direct support, with the exception of Albania, which does not implement area payments, and Kosovo*, where there has been no payment based on input use in recent years. In all WB countries, direct support is coupled to production (linked to a particular commodity or commodity group). Except for Albania, the general condition for farmers to be eligible for direct support is registration on the farm registry. Furthermore, farmers must register animals or beehives in the central database to be eligible for livestock-related support (except for poultry). In FYR Macedonia, direct payments are also conditional on some CAP-like cross-compliance requirements.

All types of direct support for all main sectors

Output payments (price supplements) are widely used only in Bosnia and Herzegovina (in the RSR) and FYR Macedonia. In 2015, FYR Macedonia granted output payments for milk delivered to dairies, day-old chicks and several crop products (tobacco, fruit and

vegetables for processing, seeds and seedlings). In other WB countries, this type of support is mostly limited to milk (Montenegro and Serbia) or milk and some other specific sectors (fruit and vegetables in Albania, and seedlings in Kosovo* and the FBH).

Apart from Albania, the crop sector is widely supported by area payments covering all the main crops. However, the mode of implementation of these payments varies considerably by country. In Bosnia and Herzegovina and Kosovo*, area payments for field crops are defined by commodity (e.g. wheat or maize) and, in Montenegro, they are defined partly by commodity (e.g. tobacco) and partly by commodity group (e.g. field crops or forage crops). FYR Macedonia implements a single area payment for all field crops (not including vegetables and tobacco) as a production-coupled basic payment scheme, with several additional payments that are defined by commodity group (e.g. cereals, oilseeds or forage crops). Serbia implements a coupled single area payment for the production of all arable and permanent crops (not including vegetables) and supplements this with input subsidies for fuel and fertilisers.

Direct payments per animal are implemented in all WB countries. In Albania, headage payments are regularly granted for sheep and goats and for beehives, while in Montenegro they are granted for cattle (cows and slaughtered male cattle) and small ruminants. Other countries implement a wide range of headage payments covering different livestock sectors and categories, including pigs and poultry. In FYR Macedonia, as in the crop sector, direct payments consist of basic payment schemes and several different additional payments (i.e. for calves produced from artificial insemination, breeding heifers for beef production, slaughtered beef cattle, lambs and kids).

Input subsidies have not been a widely or regularly used type of support scheme in WB countries in recent years. In 2015, this type of direct farm support is granted for insurance (for all countries except Albania and Kosovo*), fuel (RSR and Serbia) and for some other inputs (fertilisers in Serbia and pesticides for olive groves in Albania).

High payment rates

The unit value of payments under individual support schemes is mainly set in absolute terms, with only few exceptions. In Albania and part of Bosnia and Herzegovina, some output-based direct payments (for fruit and vegetables delivered to collection or processing points in Albania and for most crop premiums in the RSR) are set as a percentage of the selling price. In the RSR, direct payments based on animal numbers are set in the form of a total envelope per payment scheme; the actual payment per livestock unit depends on the approved number of eligible animals in each year.

In Kosovo*, different unit values are set for some payment schemes depending on production volume (payments for seedlings) or area under cultivation (payments for vineyards and laying hens). In FYR Macedonia, the unit value for basic crop and livestock payment schemes is set for limited number of hectares or animal numbers and payment rates above these thresholds are gradually reduced by certain proportions (up to 90 % for crops and up to 80 % for livestock schemes).

The absolute levels of payments per unit are difficult to compare between countries because of the application of very different schemes in terms of commodities (or livestock categories) and different implementation criteria. In 2015, payment rates under different area-related schemes ranged from EUR 50/ha (Serbia) to EUR 256/ha (FBH) for arable crops; from EUR 97/ha (FYR Macedonia) to 1 023 EUR/ha (BA-BD) for open field vegetables and EUR 7 669/ha for vegetables under glass (BA-BD); and from EUR 50/ha (Serbia) to EUR 536/ha (FYR Macedonia) for fruit and EUR 1 000/ha for vineyards (Kosovo*). The range of unit values for different livestock-related payments was between EUR 24/head (FYR Macedonia) and EUR 230/head (FBH) for cattle; between EUR 5 /head and EUR 58/head for sheep and goats; between EUR 8/head and EUR 77/head for pigs; between EUR 2/hive and EUR 26/hive for bees; between EUR 0.04/head and EUR 2.5/head for various poultry categories; and between EUR 0.02/litre (Kosovo*) to EUR 0.15/litre (Bosnia and Herzegovina) for milk delivered to dairies (Table 1.13).

Table 1.13. Direct payment and input subsidy schemes in WB countries by amount of payment per unit and commodity, 2015

	AL	BA-FBH	BA-RSR	BA-BD	XK	MK	ME	RS
Per output (EUR/kg)								
Milk (EUR/l)	0.07	0.15	0.05 + 0.10 ([a])	-	0.06 ([a])	0.06	0.06 + 0.03 ([a]) + 0.01 ([b])	0.06
Wheat	-	-	0.03	-	-	-	-	-
Rape	-	-	15 %	-	-	-	-	-
Seeds ([c])	-	-	15 %; 50 %	-	-	0.13; 0.32	-	-
Tobacco	-	-	15 %	-	-	0.97	-	-
Vegetables	15 %	-	15 %	-	-	0.02-0.11	-	-
Fruit		-	15 %	-	-	0.03	-	-
Seedlings (EUR/piece)	-	0.18; 0.23	15 %	-	0.20 ([e])	0.08-1.14	-	-
Other ([d])	-	-	15 %	-	-	0.03; 0.06	-	-
Per area (EUR/ha)								
All crops	-	-	-	-	-	-	-	50
Field crops	-	-	-	-	-	130 ([e])	160	
Cereals	-	-	-	-	-	130 ([e]) + 65 ([e])	-	-
Wheat	-	256	128	153	150		-	-
Maize	-	153	-	128	150		-	-
Barley	-	179	-	128	-		-	-
Oilseed	-	205	-	205; 230	150	130 ([e]) + 49 ([e])	-	-
Seeds ([f])	-	409-869	-	-	250	243 ([e]); 975 ([e])	300; 700	-
Forage crops	-	-	-	128	-	130 ([e]) + 16	100; 150	-
Tobacco	-	767	-	511	-	-	1 000	-
Vegetables	-	523	-	358-1 023; 7 669	300	97-487; (+ 1 761)	-	-
Fruit	-	460	-	256-409	400	243 ([e])-536 ([e])	-	-
Vineyards	-		-	-	1 000 ([e])	649 ([e])	-	-
Other ([g])	-	205	-	-	-	1 461	-	-
Per animal (EUR/head)								
Cattle	-	-	-	-	-	45 ([e])	-	-
Cows	-	-	-	205 ([h])	70 ([h])	-	70	207
Breeding heifers	-	230	102	153	-	45 ([e]) + 24		-
Suckler cows	-	230	118	102	-	-	-	166
Calves	-	-	-	-	-	45 ([e]) + 19	-	-
Slaughtered cattle	-	230	61	153	30	24; 24 + 49	120 ([i]); 140 ([i])	83 ([i])
Sheep, goats	9	18	5	26	15 ([h])	16; 16 + 11	8	58
Slaughtered lambs	-	-	-	15	-	-	-	17
Breeding sows	-	77	20	51	20	16	-	58
Slaughtered pigs	-	31	8	26	-	16 ([e])	-	8
Breeding poultry	-	0.18; 0.61	0.10; 0.26	-	-	-	-	0.5-2.5
Slaughtered poultry	-	-	0.28	0.10	-	0.04; 0.05	-	-
Laying hens	-	-	-	0.80	0.50 ([e])	-	-	-
Bees (EUR/beehive)	7	8	2	10	10	10; 26	-	4
Other ([j])	-	-	-	-	-	28	-	-
Per input								
Insurance (max)	-	50 %	-	70 %	-	60 %	50 %	40 %
Fuel	-	-	0.31 EUR/l	-	-	-	-	2-5 EUR/ha ([k])
Fertilisers	-	-	-	-	-	-	-	25 EUR/ha ([k])
Other ([j])	250	-	-	-	-	-	-	-

([a]) Milk quality premium (maximum amount).
([b]) Additional payment for large producers.
([c]) All seeds from registered producers in the RSR; cereal seeds in FYR Macedonia.
([d]) Medical herbs in the RSR and day-old chicks in FYR Macedonia.
([e]) Maximum amount per unit; reduced unit value for quantities (hectares, animals) above set threshold.
([f]) Cereal, oil plant and potato in the FBH, wheat in Kosovo*, all in FYR Macedonia, cereal and potato in Montenegro.
([g]) Medical herbs in the FBH; snails in FYR Macedonia.
([h]) For milk production only.
([i]) Young male cattle only.
([j]) Ostrich farming in FYR Macedonia (per head), protection of olive groves in Albania (per hectare).
([k]) Maximum amount per hectare; subsidies set at EUR 0.41/l for fuel and EUR 0.08/kg for fertilisers.

Source: agriculture and agricultural policy database.

Different eligibility criteria

The specific eligibility criteria related to the quantities produced, hectares under cultivation and livestock numbers differ considerably by country and by support scheme (Table 1.14). The minimum area required under the individual crop-related payment schemes varies between 0.3 ha (all field crops in FYR Macedonia) and 5 ha (wheat seed in Kosovo*) for arable crops, between 0.2 ha (FYR Macedonia) and 0.5 ha (FBH, Kosovo*) for vegetables and between 0.1 ha (vineyards in Kosovo*) and 2 ha (orchards in the FBH) for permanent crops.

Table 1.14. Minimum requirements regarding the quantities sold, hectares under cultivation and number of animals in WB countries by main direct payment schemes, 2015

	AL	BA-FBH	BA-RSR	BA-BD	XK	MK	ME	RS
Min quantity								
Cows' milk ([a])	1 500 l/m	500 l/m	Not set	-	500 l/m	Not set	400 l/m	1 000 l/m
Fruit	Not set	-	0.5 t ([b])	-	-	Not set	-	-
Seedlings	-	Not set	Not set	-	5 000 pieces	Not set	-	-
Min eligible area								
All crops	-	-	-	-	-	-	-	Not set ([c])
Field crops	-	-	-	-	-	0.3 ha	0.5 ha	-
Cereals	-	-	-	-	-	0.3 ha	1 ha	-
Wheat	-	1 ha ([d])	1.5 ha ([d])	1.5 ha	2 ha	-	-	-
Maize	-	2 ha	-	1.5 ha	1 ha	-	-	-
Barley	-	1 ha ([d])	-	1.5 ha	-	-	-	-
Oilseed	-	1 ha ([d])	-	1.5 ha	1 ha	0.3 ha	-	-
Seeds	-	Not set ([d])	-	-	5 ha	0.3 ha	0.5 ha	-
Forage crops	-	-	-	1.5 ha	-	0.3 ha	0.5 ha	-
Tobacco	-	0.5 ha	-	1.5; 0.5 ha	-	-	Not set	-
Vegetables	-	0.5 ha ([d])	-	0.3 ha	0.5 ha	0.2 ha	-	-
Fruit (soft fruit)	-	2 ha ([d])	-	Not set	0.5(0.2) ha	0.2 ha	-	-
Vineyards	-	1 ha ([d])	-	-	0.1 ha	0.2 ha	-	-
Min number								
Cattle	-	-	-	-	-	Not set	-	-
Cows	-	-	-	2 ([d])	5	-	4 ([e])	2
Breeding heifers	-	2	-	2	-	30		-
Suckler cows	-	15	5	Not set	-	-	-	2
Calves	-	-	-	-	-	Not set	-	-
Slaughtered cattle	-	3	4	5	Not set	Not set	Not set	Not set
Sheep (goats)	100 (100)	50 (25)	10 (5)	20 (10)	30 (20)	30 (30)	40 (30) ([e])	10 (5)
Breeding sows	-	5	20	5	2	2	-	3
Slaughtered pigs	-	10	60	20	-	5	-	10
Breeding poultry	-	10 000	2 000	-	-	-	-	-
Slaughtered broilers	-	-	5 000	5 000	-	1 000	-	-
Laying hens	-	-	-	1 500	2 000	-	-	-
Beehives	50	20 ([d])	50	30	30	35	-	10

([a]) Required quantities of cow's milk delivered to dairies per month; an additional premium for large producers in Montenegro is granted for quantities above 5 000 l/month.
([b]) Required quantity sold for each fruit variety.
([c]) Paid for up to 20 ha.
([d]) Minimum area supplemented by the required minimum quantities sold per unit (wheat: 3.5 t/ha; barley: 3.0 t/ha; rape: 2.5 t/ha; soya and sunflower: 2.0 t/ha; tomato: 15 t/ha; pepper, cucumber and onion: 10 t/ha; aubergine: 2 t/ha; grapes: 8 t/ha; fruit: 5 t/ha; olives: 2 t/ha; milk: 2 000 l/cow; honey: 10 kg/beehive).
([e]) Paid only for the number of animals above the set threshold.
([c]) Paid for up to 20 ha.

Source: agriculture and agricultural policy database.

For livestock-related payments, the minimum number of animals required differs by livestock species and category; for cattle, this varies between a minimum of one (all schemes in FYR Macedonia except breeding heifers) and 30 (breeding heifers for beef production in FYR Macedonia). For sheep and goats, the minimum number is from 10

sheep or 5 goats (RSR, Serbia) to 100 in total (Albania), for breeding sows, from 2 (Kosovo*, FYR Macedonia) to 20 head (RSR), for pigs from 5 (FYR Macedonia) to 60 head RSR), for poultry, from 1 000 (broilers in FYR Macedonia) to 10 000 head (breeding poultry in the FBH and from 10 (Serbia) to 50 beehives (Albania, RSR).

For the dairy premium the minimum quantity of milk delivered to dairies is usually required (set per month or per quarter), which varies between 400 litres (Montenegro) and 1 500 litres per month (Albania).

In Montenegro, payments for some livestock-related schemes (additional milk premium, payment for cows and heifers, payment for sheep and goats) are only granted for quantities above the minimum threshold.

In Bosnia and Herzegovina (FBH and RSR), most crop-related payments, as well as payments per dairy cow and per beehive, are combined with the (rather high) requirement of the minimum quantities of products to be sold per unit (per hectare, per animal or per beehive; see note ([d]) in Table 1.14).

In Albania, Bosnia and Herzegovina and Serbia, some direct payments are granted only up to a certain limit, which is set per scheme in volume terms (maximum quantities, hectares or livestock number) or in absolute value per beneficiary (RSR).

In Albania, payments are granted for up to 300 sheep and goats (about 2 600 EUR/beneficiary), for up to 300 beehives (about 2 200 EUR/beneficiary) and for up to 15 000 litres of milk sold to dairies per month (about 13 000 EUR/beneficiary).

In Bosnia and Herzegovina, the maximum payment per beneficiary under individual direct support schemes for crops in 2015 was between EUR 5 000 (oilseeds and medical herbs in the RSR) and EUR 115 000 (permanent crops in the FBH); for livestock it was between EUR 2 500 (beehives in the RSR) and EUR 267 000 (pig slaughter payment in the FBH).

In Serbia, the maximum threshold is usually not set for livestock-related payment schemes, while the eligible area for per hectare payment for crops (and insurance subsidies) was limited to a maximum of 20 ha in 2015 (max EUR 1 000 per beneficiary) (for more details see: http://app.seerural.org/agricultural-statistics/).

Increasing numbers of payment schemes and no significant changes in policy

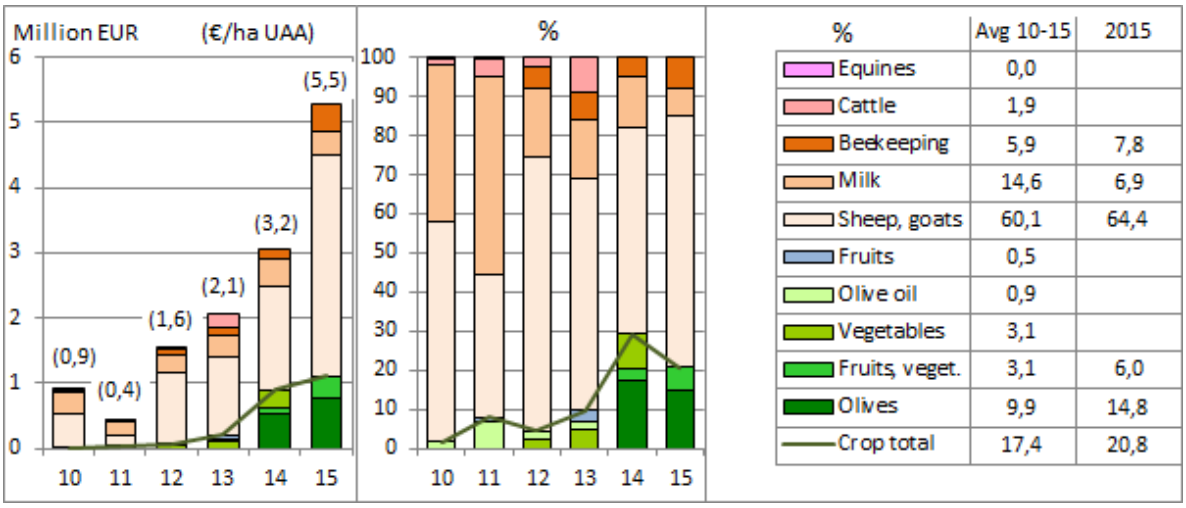
In all WB countries, several changes in the total numbers and types of direct payment schemes, the unit payment rates and the eligibility criteria have been made since 2010, influencing the overall level of direct support. However, the main characteristics of the direct support policy have not changed much in recent years in most WB countries.

Albania

Albania regularly implements only a very limited number of direct support schemes (for cow's milk, sheep and goats, beehives and olives), while several schemes have been applied only sporadically (schemes implemented for only 1 or 2 years). Payment rates are comparable with other WB countries, but the relative levels of direct support actually paid to producers are still low (less than 6 EUR/ha UAA in 2015), although the total budget for direct support measures has increased considerably since 2010 (Figure 1.16).

In 2015, almost 80 % of the total direct support went to the livestock sector, mostly for sheep and goats (64 % of total). Eligibility criteria for direct payments to the livestock sector are set in a relatively narrow range (100 to 300 sheep and goats; 100 to 300 beehives and 1 500 to 15 000 litres of milk per month) and therefore only a limited number of animals or amount of production is actually supported by direct payments.

Figure 1.16. Direct payments and input subsidies in Albania by commodity, 2010-2015



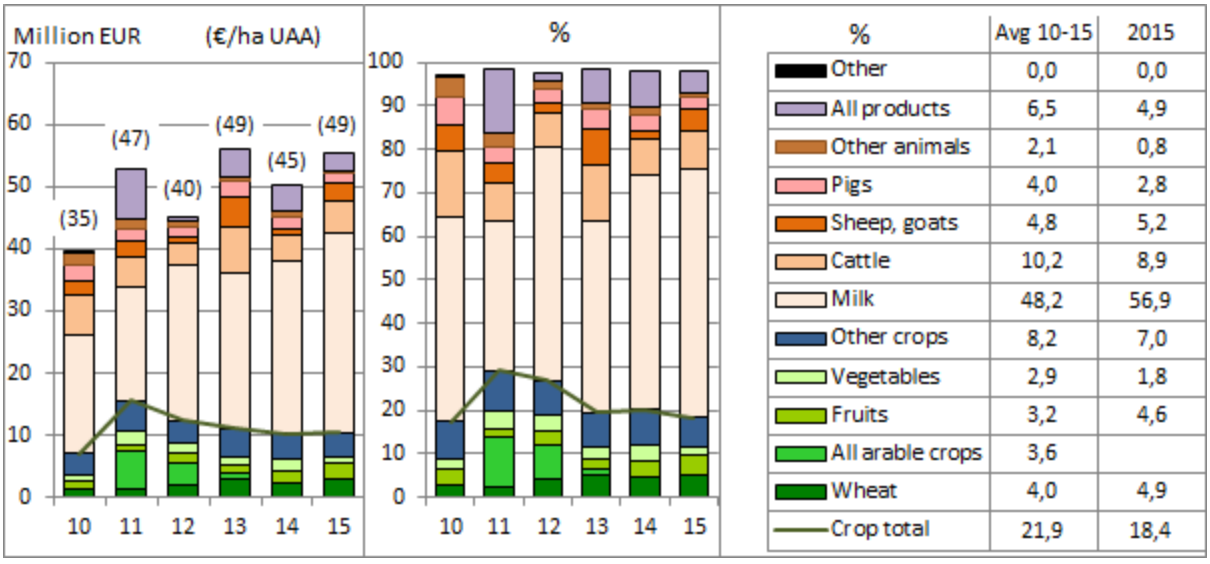
%	Avg 10-15	2015
Equines	0,0	
Cattle	1,9	
Beekeeping	5,9	7,8
Milk	14,6	6,9
Sheep, goats	60,1	64,4
Fruits	0,5	
Olive oil	0,9	
Vegetables	3,1	
Fruits, veget.	3,1	6,0
Olives	9,9	14,8
Crop total	17,4	20,8

Source: APM database.

Bosnia and Herzegovina

Bosnia and Herzegovina is characterised by a very large number of different commodity-specific payment schemes for both the crop and livestock sectors, which have not changed much since 2011-2012, when most output-based payments for crops were replaced with area payments in the FBH. However, in all the years analysed, the dairy subsector received about half of the total direct support (57 % in 2015), while the rest was divided between other commodities, each receiving a small proportion (mostly less than 5 %; Figure 1.17).

Figure 1.17. Direct payments and input subsidies in Bosnia and Herzegovina by commodity, 2010-2015



%	Avg 10-15	2015
Other	0,0	0,0
All products	6,5	4,9
Other animals	2,1	0,8
Pigs	4,0	2,8
Sheep, goats	4,8	5,2
Cattle	10,2	8,9
Milk	48,2	56,9
Other crops	8,2	7,0
Vegetables	2,9	1,8
Fruits	3,2	4,6
All arable crops	3,6	
Wheat	4,0	4,9
Crop total	21,9	18,4

Source: APM database.

In 2015, all crop-related payments accounted for less than 20 % of the total budget spent on direct support. The total executed direct support varies from year to year, with an increasing trend since 2010 that is mainly the result of increasing payment rates in the dairy sector. The payment rates are also relatively high in most other payment schemes compared with those in other WB countries. However, the relative level of direct

support measured per hectare of UAA that is actually paid is the third lowest among the WB countries.

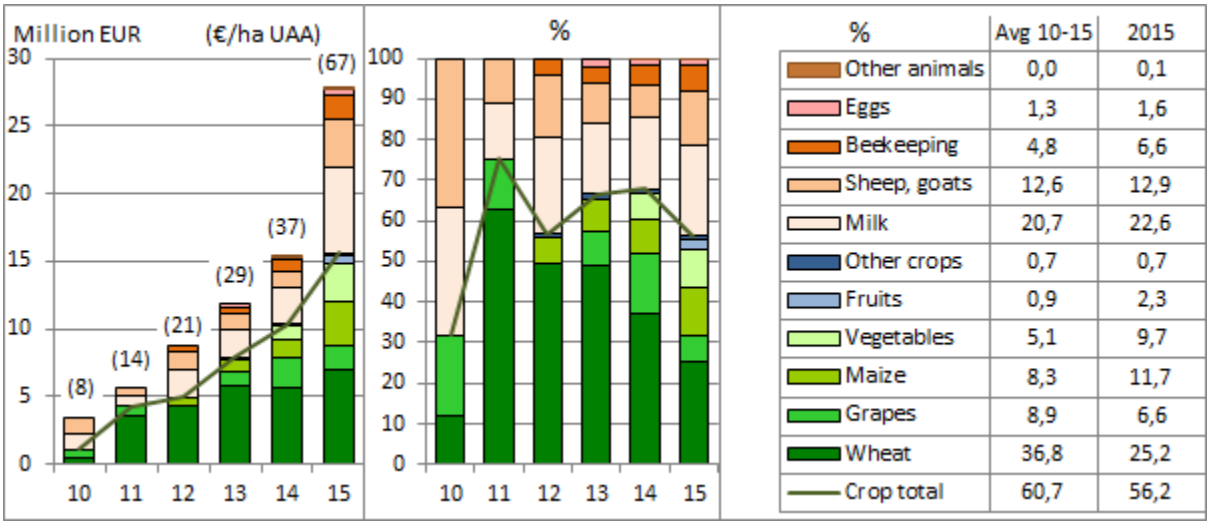
The types of direct payments (a considerable number of output-based payments are still made in the RSR) and eligibility criteria (most area- and animal-based payment schemes require the sale of products to the market) indicate that the direct support policy in Bosnia and Herzegovina is predominantly directed to market-oriented producers, who are not largely represented in the total production, particularly in the crop sector.

Kosovo*

Direct support for producers has increased most in Kosovo*, which has only recently started to implement such a policy on a large scale. In 2010, only four direct support schemes were in place (for vineyards, dairy cows, dairy sheep and goats, and fuel) and, with the gradual introduction of new commodity-specific schemes for both the crop and livestock sectors, this number increased to 15 in 2015.

Some payments per unit have also increased (for cereals in 2013 and 2015 and for dairy cows and small ruminants in 2012 and 2015), which has resulted in a continuous increase of total funds for these measures, reaching a relative level (per UAA) comparable to that in FYR Macedonia in 2015 (the highest among all WB countries; Figure 1.18).

Figure 1.18. Direct payments and input subsidies in Kosovo* by commodity, 2010-2015



%	Avg 10-15	2015
Other animals	0,0	0,1
Eggs	1,3	1,6
Beekeeping	4,8	6,6
Sheep, goats	12,6	12,9
Milk	20,7	22,6
Other crops	0,7	0,7
Fruits	0,9	2,3
Vegetables	5,1	9,7
Maize	8,3	11,7
Grapes	8,9	6,6
Wheat	36,8	25,2
Crop total	60,7	56,2

Source: APM Database.

In 2015, direct payments were evenly distributed between the crop and livestock sectors (56 % to 44 %), with cereals (wheat and maize) and the dairy subsector (milk, dairy cows, and sheep and goats) having the largest proportions in total direct support (37 % and 36 %, respectively). Taking into account the eligibility criteria, direct payments in Kosovo* aim primarily to increase agricultural production on larger farms (there are generally high minimum requirements, but no upper limit for payments).

FYR Macedonia

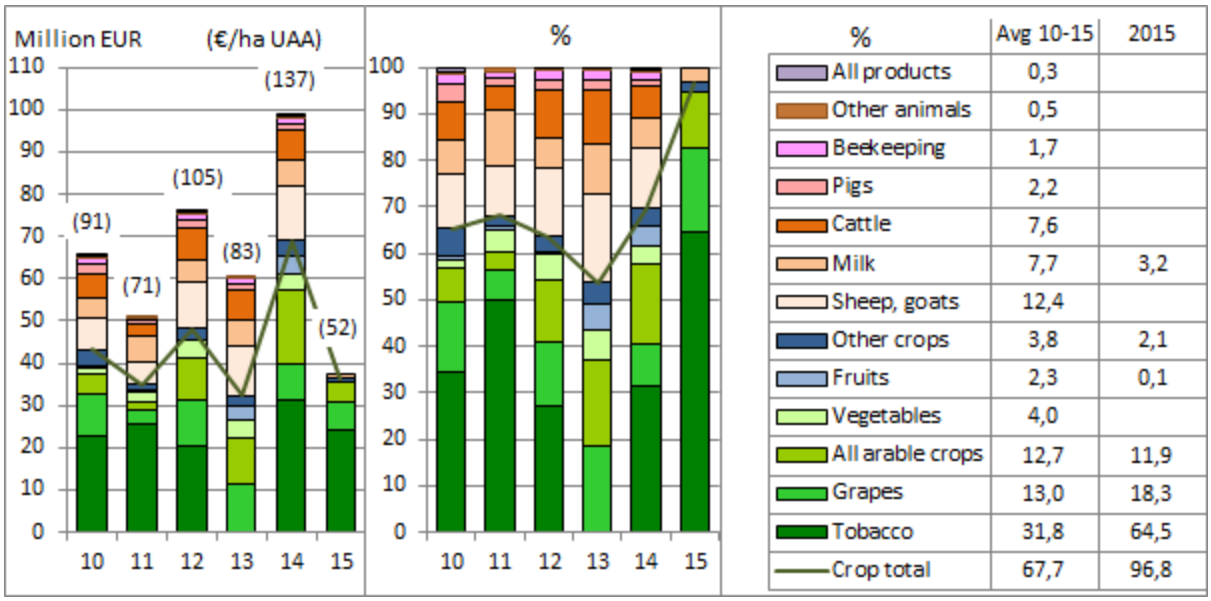
In FYR Macedonia, the main characteristics of the direct payment policy have remained generally unchanged since 2010. Direct support is granted to all subsectors through several group commodity payments in combination with an increasing number of commodity-specific additional payments, particularly in the crop sector. Payments mainly target all producers (low minimum requirements and no absolute maximum threshold). Despite no significant changes in policy, the total direct support disbursed has fluctuated sharply between the years (Figure 1.19). The main reason for this is the uneven time gap

between the approved and actually executed payments under individual schemes, which can be up to several years.

In general in 2015, only commitments under some crop-related schemes and some of the dairy payments were executed, resulting in a sharp decrease in the level of total direct support compared with 2014 and previous years. In all years except 2015, the relative level of direct support that was actually paid to producers (EUR/ha UAA) was the highest among the WB countries.

In 2010-2015, an average of about two thirds of the total direct support went to the crop sector, mostly for tobacco (about 30 %) and vineyards and field crops (about 13 % each). Among livestock-related subsectors, the largest proportion of total executed funds for direct support was earmarked for sheep and goats (about 12 %), followed by milk and cattle payments (about 8 % each).

Figure 1.19. Direct payments and input subsidies in FYR Macedonia by commodity, 2010-2015



%	Avg 10-15	2015
All products	0,3	
Other animals	0,5	
Beekeeping	1,7	
Pigs	2,2	
Cattle	7,6	
Milk	7,7	3,2
Sheep, goats	12,4	
Other crops	3,8	2,1
Fruits	2,3	0,1
Vegetables	4,0	
All arable crops	12,7	11,9
Grapes	13,0	18,3
Tobacco	31,8	64,5
Crop total	67,7	96,8

Source: APM database.

Montenegro

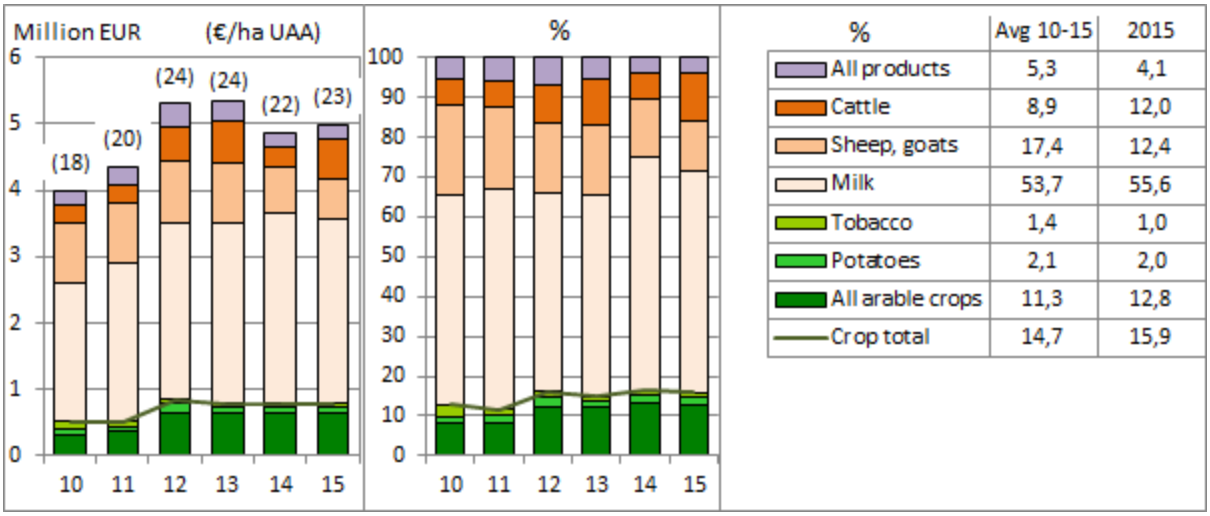
In Montenegro, the total number of schemes for the crop and livestock sectors is somewhat smaller than in most other WB countries, although it has increased slightly since 2010 as a result of the diversification of the basic scheme for field crops by commodity (different amounts for forage crops and potato seed) and the introduction of some additions to the dairy premium. Some payment rates have also increased (for crops in 2012 and for milk in 2014); however, they do not strongly influence the overall level and composition of support by sector (Figure 1.20).

Direct support is mostly directed to the dairy subsector, accounting for 56 % of total planned funds for these measures in 2015. Together with support for cattle rearing and sheep and goats (12 % each), livestock-related direct payments represent the vast majority of total direct support (80 % in 2015). Only about 16 % of total funds is reserved for direct support for field crops and tobacco, while the rest (4 %) is composed of input subsidies for crops and livestock insurance (all products).

The eligibility criteria for direct payments are mostly set in favour of larger producers (rather high minimum requirements and no upper limits), which are not strongly represented in the Montenegro farm structure. This is probably one of the reasons why, despite the fact that direct payment rates in Montenegro are comparable with those in

other WB countries, the overall relative level of direct support (per UAA) is the second lowest among all WB countries (see Figure 1.10).

Figure 1.20. Direct payments and input subsidies in Montenegro by commodity, 2010-2015



%	Avg 10-15	2015
All products	5,3	4,1
Cattle	8,9	12,0
Sheep, goats	17,4	12,4
Milk	53,7	55,6
Tobacco	1,4	1,0
Potatoes	2,1	2,0
All arable crops	11,3	12,8
Crop total	14,7	15,9

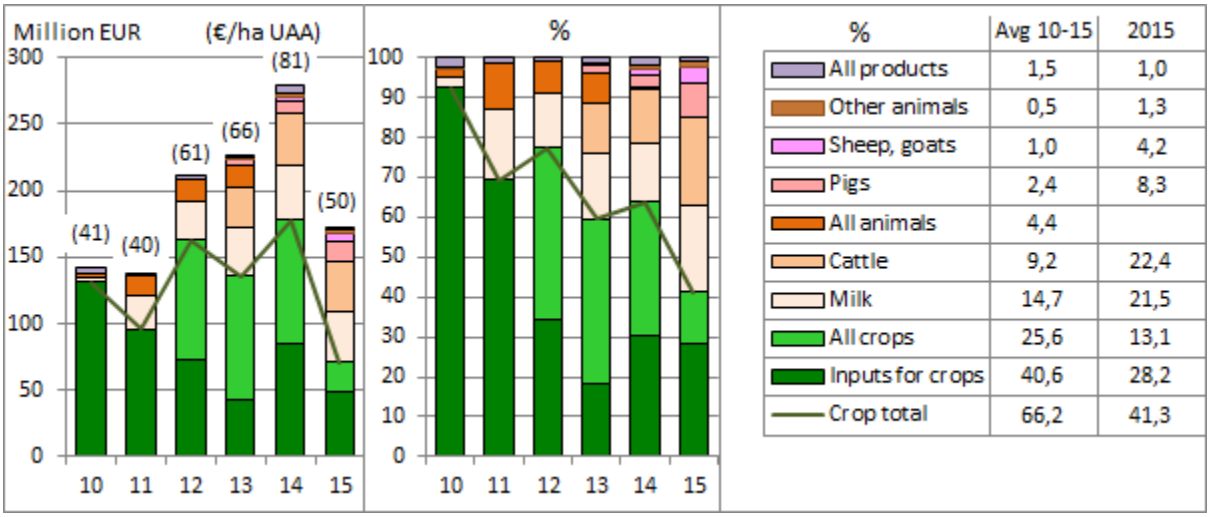
Source: APM database.

Serbia

Considerable changes in direct support have been recorded in Serbia, where the number of payment schemes, payment rates and specific eligibility criteria for payments has changed frequently since 2010. In 2010 and 2011, the vast majority of direct support was granted in the form of input subsidies for crop production (seeds, fuel and fertilisers). The livestock sector was supported only by a dairy premium and some headage payments for high-quality breeding animals.

In 2012, a single area payment for crops was introduced, and the number of input subsidies and their payment rates decreased in the following years (for fuel by about 40 % and for fertilisers by about 60 % between 2010 and 2015). In 2012 and 2013, new payment schemes were introduced for the livestock sector (payments for slaughtered animals, parental poultry and beehives), resulting in a considerable increase in total livestock-related direct support in the following years (Figure 1.21).

Figure 1.21. Direct payments and input subsidies in Serbia by commodity, 2010-2015



%	Avg 10-15	2015
All products	1,5	1,0
Other animals	0,5	1,3
Sheep, goats	1,0	4,2
Pigs	2,4	8,3
All animals	4,4	
Cattle	9,2	22,4
Milk	14,7	21,5
All crops	25,6	13,1
Inputs for crops	40,6	28,2
Crop total	66,2	41,3

Source: APM database.

In 2015, the criteria for direct payments for crops changed, setting the maximum eligible area per beneficiary to 20 ha (from 100 ha in 2013-2014). As a consequence, the total support for the crop sector more than halved compared with the 2010-2014 average. In 2015, direct support for the crop sector accounted for 41 % of the total direct support, from 64 % in 2014 and 92 % in 2010. Among the livestock subsectors, beef and dairy received the largest proportions of total direct support (about 22 % each), followed by the pig subsector (8 %).

The recent changes in eligibility criteria in the crop sector could indicate a reorientation of the direct support policy (redistribution of funds) in Serbia towards the livestock sector and smaller producers. The payment rates in the crop sector are generally the lowest among WB countries, while the relative level of direct support for producers (EUR/ha UAA) is above average for WB countries, which indicates that the subsidies probably cover a higher proportion of production than in other countries, but with lower payments per beneficiary.

Final observations about direct support measures in the Western Balkans

Annual programmes and regulations governing the implementation of direct support measures show that the current policy is continuing in 2016. Some conceptual changes in line with the long-term programming documents can be observed only in Montenegro, where permanent crops were included in the direct payment scheme for crops, and in Bosnia and Herzegovina (FBH), where a per-animal payment for dairy cows was introduced and the payment rate for milk (per litre) was reduced.

The number of implemented payment schemes also increased in Kosovo* (new area payments for barley and oats and new per-animal payments for quails), Albania (new per-animal payments for cows) and FYR Macedonia (new additional area payments for oilseeds, new additions to area payments for vegetables, orchards and vineyards and new per-animal payments for laying hens), but these are not significantly influencing the general orientation of direct payment policy.

1.7 Policy conclusions and recommendations

The extensive quantitative and qualitative analyses of the facts and data pertaining to the WB countries have allowed us to form some conclusions and recommendations regarding the development of agriculture and agricultural policy. This has been done at the regional level, drawing on this chapter and the individual country reports, which are shown in the subsequent chapters.

1.7.1 Regional focus

Exports are increasing, but there are still untapped potentials

In the past years, the region has once again witnessed economic growth, which, however, has not yet been accompanied by noticeable structural shifts. Agriculture remains an important economic sector and this also has a social role. Agricultural production is characterised by high volatility in crop production, although the trends are mostly positive, especially in certain subsectors (vegetables, potatoes and fruit). The livestock sector is generally more stable, but follows different patterns, from negative trends in FYR Macedonia and Kosovo*, no change in Bosnia and Herzegovina and positive trends in other WB countries. Regardless of the growth of individual holdings (both individual and corporate), we can generally say that regional resources for agricultural production are underexploited, as yields are relatively low and farms are small and extensive.

Agro-food trade represents an important part of the countries' external trade. Exports are generally increasing, but the individual countries' trade balances are very variable. Only Serbia is an overall exporter and is becoming an important trade player for grains, oilseeds and berries. Albania, Bosnia and Herzegovina, Kosovo* and Montenegro have

modest levels of exports and high agro-food trade deficits, while FYR Macedonia has a more favourable trade balance, although it is negative. Trade partners are slowly changing in an interesting way. Exports to countries within the region and to the EU are still prevalent, but exports to third countries are increasing; this is likely to be a consequence of the Russian ban on Western products, which has opened up export possibilities for some countries.

Regardless of certain positive shifts in production and trade, there is still strong potential in the use of natural and human resources and associated possibilities to develop agriculture and the rural environment. This would, however, demand a radical reconsideration of the structure, quality and scope of agricultural policy.

Gaps between policy strategies and implementation

All the countries discussed here have adopted key medium-term agricultural policy programming documents and, as already described (Volk et al. 2016), these documents are solidly written and have a strong strategic logic. They describe positive changes in the policy framework and a more extensive orientation towards the EU, which are reflected in the definitions of goals and specific policy measures, especially regarding rural development. However, most countries lack a clear intent to reform their direct support policy in accordance with the EU CAP and this also applies to agro-environmental measures, support for ANC and LEADER measures. There is also a lack of resolution to establish evidence-based policy in the sense of introducing mandatory monitoring and other elements to achieve efficient policy reform.

The more modern and well-conceived programming documents that have been drawn up are not yet leading to any marked changes in the scope and structure of policy instruments and measures, especially in their adaptation to CAP-like support systems. The size of the agricultural policy budgets fluctuate significantly from year to year and has increased since 2010 only in Kosovo* and Albania — the two countries that started with the lowest relative amounts of the agricultural support. Kosovo* also benefits from significant donor funds, helping it to achieve the largest relative budget size in 2015 ([5]). Certain countries, in contrast, have reduced their agricultural budgets as a result of the economic crisis (e.g. Bosnia and Herzegovina since 2010 and Serbia in 2015).

The structure of the total support for agriculture varies significantly. The proportions of funding for various groups of measures in the total agricultural budget cannot be compared without taking account of the size of the total budget itself. The proportion of direct producer support is high in Bosnia and Herzegovina, FYR Macedonia and Serbia (over 70 % on average). The funds for structural and rural development measures are mainly intended to improve competitiveness and have the highest proportions in Albania, Kosovo* and Montenegro; however, these funds are limited and their real impact on the development of agriculture is therefore not to be overestimated. Support for agricultural public goods (agro-environmental measures and ANC support) and quality of life in rural areas is almost negligible in all WB countries.

Rural development policy is not really taking root in the region, despite the occasional adoption of beneficial projects or programmes. This is a problem not only of modest levels of funding, but also of the programming of measures: they have a narrow orientation towards farm investment. The low absorption of IPARD pre-accession support funds is a significant problem, as demonstrated in our previous analyses (Volk et al. 2016). The causes vary, ranging from human capacity deficiencies in administration and political priorities at the country level to the lack of adaptation of support to real conditions.

Similarly, levels of funding for general services are low in absolute terms and fall short of satisfying the countries' developmental needs, especially in the sense of achieving efficient creation and transfer of knowledge.

([5]) Relative comparisons, expressed per hectare UAA, are very approximate, as they are strongly affected by data on agricultural land use, which are not reliable for all WB countries.

In most WB countries, direct producer support funds are increasing in size and most increases in agricultural budgets are therefore directed into this group of measures. Expressed per hectare of UAA, these funds are far below the values of this type of payment in the EU. This includes countries that have formally initiated accession negotiations in the field of agriculture (e.g. Montenegro) or are about to (e.g. Serbia). The structure of direct support is not changing significantly over time. Support is coupled to production and is granted mainly as area and headage payments, but it can also be paid in the form of price supplements and input subsidies.

Questionable orientation of direct producer support

The main focus of our analysis has been a detailed examination of the types and amounts of support and the eligibility conditions for direct producer support measures. WB countries use many different forms of direct support and they vary greatly from country to country, in numbers, types and amounts of support, as well as in the eligible products and other eligibility criteria. The number of payment schemes is increasing in most of the countries discussed here, while changes towards less distorting and more EU-like schemes are rare, reflecting a distinct influence of interest-based policy and decision-maker pragmatism on the political–economic framework of agricultural policy.

Almost all forms of coupled support exist in WB countries. Payments based on output (price supplements) are prevalent in Bosnia and Herzegovina and represent large proportions of the total direct support; this is also the case in FYR Macedonia and Montenegro. In all WB countries, output payments are granted for market dairy production. These payments result, to a significant extent, in lower input prices for dairy processors, who, as a result, appear competitive. In the past, the region was characterised by equally distortive input subsidies (Volk 2010), which can cause the leakage of public funds towards upstream industries. These types of payments are, however, in decline: for example, Serbia is introducing area payments instead of input subsidies for fuel and fertilisers.

Therefore, price supplements remain the most distorting elements of WB agricultural policies. Serious consideration regarding their transformation into other forms of support is desirable, for example, into forms that will lead to lower market distortions and will facilitate their adjustment to a CAP-like support system. This is certainly true for area and headage payments, which are the most commonly used form of support in most of the countries. There is, however, a caveat attached to the use of these forms of support. Most WB countries grant payments to sectors that are not beneficiaries of this sort of support in the EU, e.g. pork and poultry. Eventually, the accession process will lead to the abolishment of this support, which is likely to result in adverse impacts for these sectors when facing competition that has not received support in the past.

It is difficult to compare most direct producer support schemes because of varying definitions and eligibility criteria. Our estimate is that the payments are relatively high, especially given the price supplements for dairy products, which can account for a sizeable proportion of the producer price (e.g. in Bosnia and Herzegovina and Montenegro).

Eligibility criteria merit special attention. Very different approaches can be found in this field and some of them discriminate against smaller or non-market producers. Because of this variety of approaches, it is difficult to give a uniform assessment, but there is a clear tendency to favour larger market producers and exclude small subsistence farmers from receiving support in most WB countries. The reasons for this can vary, ranging from an actual policy vision (which might also be driven by vested interests), to lack of funds and to implementation issues. This is, again, a move away from EU practices and is likely to result in difficulties when the alignment of policies with the CAP intensifies. Non-discrimination between producers is one of the principles of modern agricultural policy and is something that should be taken into consideration more seriously in the region.

Most WB countries have been attempting to introduce various elements of direct payments implementation that are characteristic of the EU. There have been improvements in farm registries and animal identification, but less so in land use identification systems, which represent a serious obstacle in implementing CAP-like policy measures. With the exception of FYR Macedonia, no country has yet put CAP-like cross-compliance requirements in place.

1.7.2 Final comments and future tasks

The findings of this report allow several policy recommendations to be made. Since they do not differ significantly from those in previous publications (Volk et al. 2014, 2016) we will not repeat them here. We will only highlight certain issues that stem directly from the present agricultural policy assessment.

Implementation of already adopted policy documents. Strategic documents are the foundation for a rational agricultural policy. Not implementing them reflects the prevalence of short-term pragmatism and an ad hoc approach to policy. Such a policy does little to solve the main problems of the region's agriculture, that is, untapped production potentials and resources, a declining countryside and rural depopulation. Agriculture requires investment and, above all, the policy has to incentivise the efficient deployment of resources.

Strengthen the developmental logic of agricultural policy. This means that a stronger emphasis on development and growth of rural economy is required, demanding, in turn, a more active agricultural policy. We envisage that this will involve the choice of the correct instruments to address lags in development, improved productivity, improved use of natural resources and improved vertical and horizontal integration of the agricultural sector. Developmental logic must be substituted for redistributive logic, which is clearly not yielding satisfactory results.

European integration is an opportunity to modernise and develop agriculture and the countryside. Adopting the priorities and goals of the EU's agricultural policy is an opportunity for the region, in the sense of meeting developmental priorities, creating a modern state, receiving additional funding and finding new roles for agriculture and rural areas. Therefore, the pre-accession period must be a time during which good practices are followed and actions are adapted to the local economic and social reality. This also means that the EU pre-accession aid systems should be adapted, to a certain extent, to real regional potentials and requirements and investment into human capital should be increased considerably.

The agro-food chain approach must be developed. Evidence shows that developing a strong agricultural sector demands the creation of strong agro-food chains. This means that producer organisations must be supported and connected with processing and trade, preferably forming short or medium-sized supply chains. Efficient food processing and supply chain management are just as important as efficient primary production; however, policy measures in the region (and in some parts of the EU, for that matter) are badly adapted to this supply-chain logic.

Do not forget about the marginal areas and rural areas in general. There are many WB areas that are undergoing depopulation and abandonment of production. What remains are small farms with ageing populations and extensive production that exist in a weakened socio-economic environment. Rural poverty is a severe problem in all the WB countries, as farming systems are only developing in more favourable areas and in the vicinity of urban settlements. Agricultural policy is failing to address these issues, as a result of the inability and unwillingness of policymakers. The first step is to establish a positive attitude towards rural areas and this should be followed by active policy implementation and support for local initiatives and development projects.

Environment and natural resources must become a policy focus. The WB countries are a veritable treasure trove of biodiversity, natural resources, cultural landscapes and abundant water. The agricultural policies in place here have not yet recognised the

necessity of finding links and synergies between agriculture and environmental protection. This represents a strong untapped potential in the region and is addressed by only a few marginal policy measures.

Work with farmers and rural stakeholders. There is a marked democratic deficit in the region that contributes to decreased policy efficiency. Farmers and rural smallholders lack organisation, resulting in their interests being under-represented. A partnership approach must be developed, experience and information exchanged, feedback received and a platform built for the formation of local visions, strategies and projects.

All areas require investment in agricultural institutions and individuals. One of the main lessons of our many deliberations and analyses regarding the situation in agriculture is that the key to agricultural and rural development does not lie only in public funding, private initiatives and good strategies, but also lies strongly with the people and institutions that form the agricultural policy system. The agricultural institutions in the region are not in good shape. There is a lack of funding and good personnel and often there is no concept or understanding of what it means to be an adequately functioning institution. Only better education, appropriate research and efficient knowledge exchange can lead to development and these are the areas that require investment. Special attention should be given to the professionalization of agricultural administration. Fluctuations in numbers of workers, lack of motivation and bad leadership lead to suboptimal functioning of ministries and, consequently, suboptimal agricultural policy outputs.

The evidence-based agricultural policy approach must be strengthened. Agricultural policy is usually formed on an ad hoc basis and is often driven by vested interests rather than by serious consideration, monitoring, evaluation and evidence-based adaptation. Knowledge, institutions and rules must be built to achieve these aims. Modernising approaches in programming and monitoring agricultural policy is necessary, but not the only condition for a modern, efficient and effective policy. WB countries need to realise this and develop an action plan to implement this concept.

There is a need to maintain and upgrade analytical work for regional agricultural policy. Experience shows that the regional platform of agricultural economists who deal with agricultural policy and work for national ministries has several strengths. It provides a platform for the programming of national policies, a base for the modernisation of policy, support for negotiations with the EU and promotes integration of the region into the international community. Until now, this project has been based on specific projects that depend a great deal on voluntary work and the enthusiasm of the scientists and policy experts who are involved. Professionalization of the work within the SWG (part of the secretariat) could maintain the knowledge, databases and networks that have been acquired and could lead to improvement in the analysis of impact assessments. Annual monitoring and studies can provide further support for national governments and provide the international community with appropriate information about the situation regarding agriculture and agricultural policy in WB countries.

2 Albania: agricultural policy development and assessment

Edvin Zhllima* and Grigor Gjeci**

* Agricultural University of Tirana, Faculty of Economics and Agribusiness
** Albanian Ministry of Agriculture, Rural Development and Water Administration

2.1 Introduction and approach

Albania, as a candidate country for EU membership, is struggling to fulfil its long-term development objectives and align its policies with the *acquis communautaire* as part of the EU accession process. Since 2014, when its candidate status was awarded, the Government of Albania has been making efforts to reform its agriculture and rural development policy and to update its institutional framework to bring it in line with the CAP.

The agricultural policy is of multi-dimensional importance for Albania to address issues ranging from meeting EU standards related to food security and sustainability of agricultural production, to promoting rural development and preparing the agricultural sector to withstand competitive pressures in the single market after joining the EU. This implies that Albania's agricultural policy has to undergo reforms to ensure its compliance with the EU CAP and to achieve an economically viable farming sector, improved food security and sustainable rural livelihoods. As such, this emerging political set-up requires a new vision for policymaking, as well as a new approach to designing support measures for the agricultural sector.

The objectives of this chapter are to present the key developments in agricultural support in Albania, discuss their implementation, based on strategic and programming documents, and assess their compliance with the CAP. More specifically, the main objectives of the chapter are to (1) present the key trends in agricultural budgetary transfers in Albania based on APM methodology; (2) summarise the new agricultural policy's strategic and programming documents, with a focus on budgetary planning and policy implementation; (3) assess the implementation of the strategic and programming documents using the APM methodology; and (4) provide policy recommendations.

In order to carry out a comparative analysis, the Albanian version of the APM tool was used for the measurement and classification of agricultural budgetary support. The period covered in this analysis is 2010 to 2015. The data used in the APM were obtained from the Albanian Institute of Statistics (INSTAT) and the Ministry of Agriculture Rural Development and Water Management (MARDWA), including the Paying Agency. The data collection process was followed by detailed validation and harmonisation of the collected information to ensure its consistency and comparability between the different sources used in the chapter.

Significant attention was also paid to examining the correlation between the stated policy measures and de facto implementation in terms of executed budgetary transfers in Albania. The comparison between planning and implementation of the agricultural policy was carried out based on the key official documents defining the National Strategy for Development and Integration 2014-2020 (GoA 2013), the Government of Albania Programme for 2013-2017, the Inter-sector Strategy for Agriculture and Rural Development (ISARD) 2014-2020 (MARDWA 2014a), the Action Plan for ISARD 2014-2020 (MARDWA 2014b) and the updated Action Plan 2016-2018 (MARDWA 2016a). Reports prepared by the Government of Albania for the Council of Ministers Departments for Monitoring of Legislation and Programs (MARDWA 2016b) were also scrutinised and compared. However, because of a lack of official documents, a direct comparison of policies at the measure level was not always possible.

The chapter is presented in six sections. The second section provides a comparative review of the strategies and programming documents for agricultural policy in Albania. The third section provides an overview of agricultural policy development for 2010-2015. The evolution of direct producer support and the main constraints faced with regard to its alignment with the CAP are described in section four. The fifth section scrutinises the main trends and divergences of the implementation of agricultural policy in relation to the plans outlined in the strategic documents. The last section draws conclusions and provides policy recommendations.

2.2 Strategies and programming documents for agricultural policy

After being granted the status of EU candidate country in June 2014, Albania has made some progress in the alignment of its agricultural policy with the EU agricultural *acquis*. The ISARD for 2014-2020, which is required by the EU accession process, was adopted in 2014 (MARDWA 2014a). The main legal framework regulating the programming of agricultural policy is defined in the Law on Agriculture and Rural Development adopted in 2007**.**

ISARD 2014-2020 is transposed in the National Plan for European Integration 2016-2020, which outlines the medium-term objectives for the development of agriculture and rural areas in Albania (MARDWA 2016a). The national action plan implementing ISARD 2014-2020 (an update of the previous plan for 2016-2018) is under preparation. The implementation of the medium-term priorities of ISARD 2014-2020 are detailed in the annual action plans. The annual action plan is reported by MARDWA to the Council of Ministers, that is, to the Department for Monitoring of Legislation and Programmes. Each activity described in the yearly MARDWA action plan is coded, assigned to a responsible body and aligned to a specific paragraph in the National Plan for European Integration 2016-2020.

The annual action plan, in line with ISARD 2014-2020, provides the legal basis for setting up the national support schemes. It establishes the specific measures available to the agricultural sector in a given year. The financial allocation for support schemes, defined in the annual action plan, is provided by the annual budgeting programme and is enforced by the decisions of the Council of Ministers.

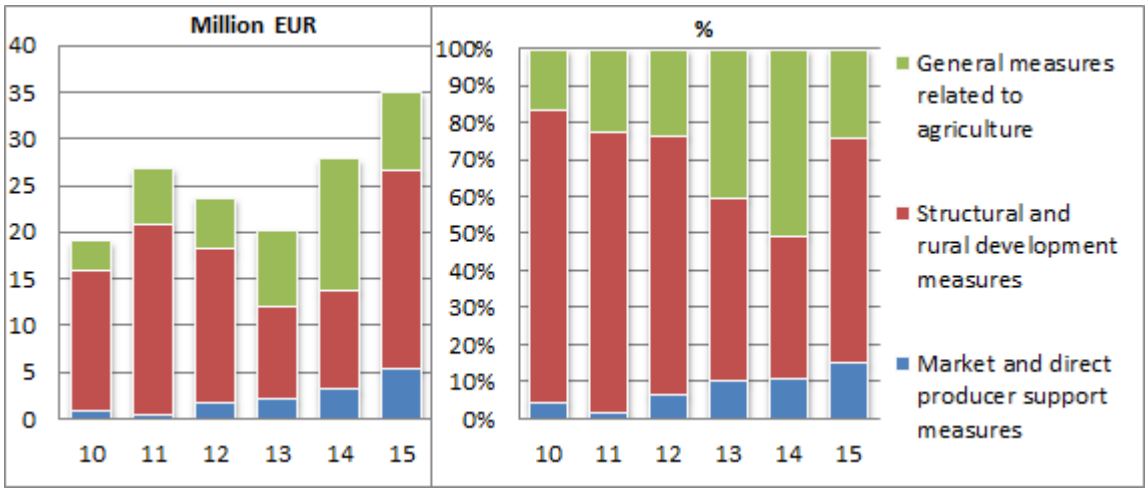
With regards to the IPARD pre-accession programme (following the planning of ISARD 2014-2020), the IPARD II Programme was adopted by the Government of Albania and approved by the EC in July 2015 and was subsequently ratified by the Albanian Parliament in March 2016. At this stage, the IPARD operating structure (managing authority) and the Agricultural and Rural Development Agency (the Paying Agency) are subject to accreditation by the EU. It is expected that the implementation of the IPARD programme will start in the first half of 2017.

ISARD 2014-2020 is under constant adaptation and adjustment to respond to the emerging challenges of policy implementation and to react to ongoing development in the agricultural sector. Various policy priorities, which are outlined in ISARD 2014-2020, are under continuous review in terms of the date of their introduction and their implementation strategy. Some of the priorities are partly or fully accomplished and have been left for implementation in 2016-2018 (e.g. the introduction of the support measures on production diversification) and other measures are planned to be applied after 2018, when the conditions for their introduction are expected to be met (e.g. the design of the food quality policies such as geographic indication).

2.3 Agricultural policy development

During 2010-2015 (Figure 2.1), the level of budgetary support for agriculture oscillated, but the levels have shown an increasing trend. In 2015, the overall budgetary support amounted to EUR 35 million, up from EUR 19 million in 2010.

Figure 2.1. Budgetary support for agriculture by APM pillars in Albania, 2010-2015



Source: agriculture and agricultural policy database (Albania).

The budgetary support for agriculture in Albania is modest when compared with the agriculture sector's contribution to the national economy and to the level of support provided in other WB countries and in the EU (Volk et al. 2014). Although budgetary support in 2015 was higher than in previous years, it was still only 1.7 % of agricultural GVA (Table 2.1). This figure is low considering the contribution of the agricultural sector to the overall GVA, which has been about 20 % in recent years (21.7 % in 2015; the agriculture and agricultural policy database (Albania)).

Table 2.1. The relative level of budgetary support for agriculture in Albania, 2010-2015

	2010	2011	2012	2013	2014	2015
Budgetary support for agriculture (million euros)	19.0	26.8	23.6	20.1	27.8	35.0
GVA in agriculture (million euros)	1.535	1.612	1.765	1.914	2.024	2.052
Proportion of support for agriculture in GVA (%)	1.2	1.6	1.3	1.1	1.4	1.7

Source: agriculture and agricultural policy database (Albania).

The year 2015 was marked not only by a sizable increase in overall budgetary support but also by a change in its composition compared with previous years. The proportion of the structural and rural development measures (second pillar) in the total agricultural support increased in 2015 compared with 2014 (from 39 % in 2014 to 61.7 % in 2015) but decreased compared with 2010 (when it was 80 % of the total support). Its value increased from EUR 15 million in 2010 to EUR 21.3 million in 2015. General measures related to agriculture (third pillar) received the second highest level of funding in 2015, receiving 24.2 % of the total support (down from 50 % in 2014 but slightly up compared with 16.3 % in 2010), while its value increased by more than 174 % in 2015 compared with 2010 (from EUR 3.1. million in 2010 to EUR 8.5 million in 2015). Direct producer support received the third highest level of funding, accounting for 15.1 % of the overall agricultural support in 2015 (up from 11 % in 2014 and 4.7 % in 2010). Its value represented EUR 0.9 million in 2010 and EUR 5.3 million in 2015. Direct producer support has increased in importance in Albania in recent years. However, its relative level is still low compared with other WB countries (Volk et al. 2016). Market support measures are not implemented in Albania (Figure 2.1).

The total levels of funding for structural and rural development measures, with a value of EUR 21.3 million in 2015, is oriented to improve the competitiveness of the agro-food sector (Table 2.2). No rural development funds are allocated to support the rural

economy and employment or to preserve the environment and provide ecosystem services ([6]).

Table 2.2. Budgetary expenditure for structural and rural development measures in Albania (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
On-farm investment support	6.6	4.9	4.8	4.2	1.0	1.1
Modernisation of agricultural holdings	0.3	0.5	0.7	1.4	0.7	0.7
Restructuring of permanent crop plantations	5.2	4.2	3.7	2.4	0.0	0.2
Irrigation systems	1.1	0.3	0.5	0.5	0.3	0.1
Drainage, irrigation and water management infrastructure	7.6	15.1	11.3	5.2	5.1	14.7
Food processing, marketing and promotion	0.8	0.4	0.4	0.5	4.6	5.5
Structural and rural development measures, total	**15.0**	**20.4**	**16.6**	**9.9**	**10.7**	**21.3**

Source: APM database (Albania).

Among the specific measures, the largest proportion of the total rural development support, which has increased over time, went to financing drainage, irrigation and water resource management infrastructure. Its value increased from EUR 7.6 million in 2010 to EUR 14.7 million in 2015, representing, on average, 60 % of the total rural development support for 2010-2015.

In contrast, on-farm investment support decreased significantly over the study period: from EUR 6.6 million in 2010 to EUR 1.1 million in 2015 (Table 2.2). This decreasing trend in levels of on-farm investment support is caused mainly by the reduction in support for permanent crop plantations (especially olives), whereas the support for on-farm investment that targets technological improvement (drop irrigation, wells and biomass heating), plantation of medicinal herbs, expansion of greenhouses and modernisation of farms (new equipment, buildings and light constructions) has increased in recent years. However, this has not offset the reduction of investment support in other areas.

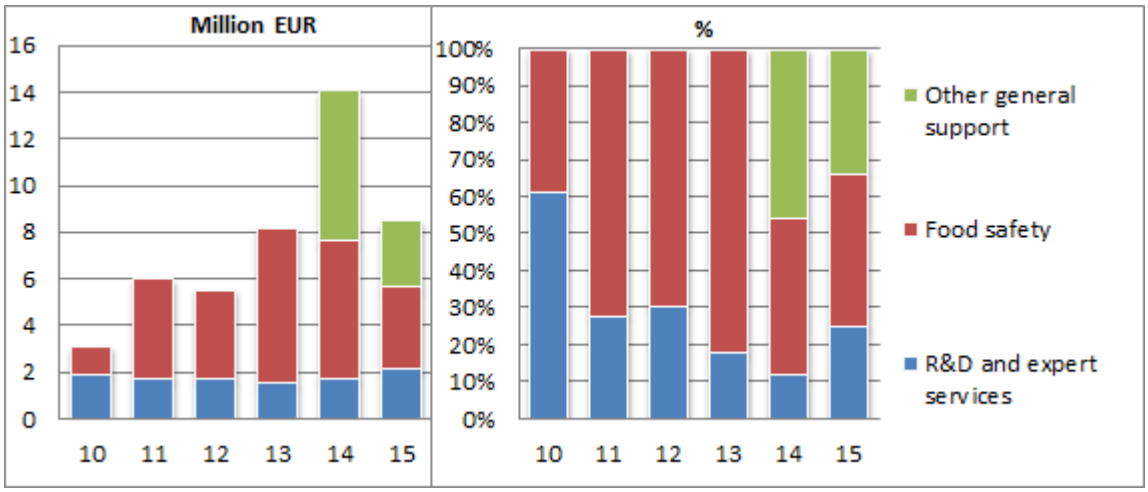
In Albania, the greenhouse and fruit sector has become consolidated, with the associated expansion of planted areas and the achievement of self-sufficiency in the main types of fruit and vegetables over the last decade or so. This development was partially promoted by means of investment support that aimed to promote stronger integrations between the primary production and the processing and trading segments of the value chains. The food-processing industry support started increasing in importance, especially in 2014, with the introduction of two main measures: investment support for storage, post-harvest and processing infrastructure (with 50 % of the support) and interest rate support for new investments in the agro-food industry sector (with 70 % of the support).

General support measures consist of support for agricultural research and development, advisory and extension services for agriculture, public financing of measures in the field of food safety and food quality (veterinary and phytosanitary measures) and other general measures (mostly technical assistance).

Over time, general support has shown a positive trend, increasing from EUR 3.1 million in 2010 to EUR 8.5 million in 2015. The highest level was observed in 2014, when it reached EUR 14 million, which was because Albania received a significant amount of aid related to food safety and technical assistance from EU and the World Bank projects. However, in 2015, the level of general support measures decreased considerably compared with 2014. This reduction was mainly a consequence of reduced international aid (Figure 2.2).

([6]) Measures for restoring, preserving and enhancing ecosystem services related to agriculture and forestry are planned for implementation in 2018-2020.

Figure 2.2. Budgetary expenditure for general measures related to agriculture in Albania, 2010-2015



Source: agriculture and agricultural policy database (Albania).

The levels of budgetary funds for research and development and knowledge transfer to farmers are stable; however, in recent years, they have represented only about 25 % of the total general service support, indicating a low awareness of the importance of knowledge for the development of agriculture. A reform that will result in the reorientation of the Agriculture Technology Transfer Centres in line with a long-term research agenda is being formulated by MARDWA.

2.4 Direct producer support measures

The direct producer support was relatively modest but showed a positive trend in Albania in 2010-2015. Its value increased from EUR 0.9 million in 2010 to EUR 5.3 million in 2015. In relative terms, it increased from 4.7 % to about 15.1 % of the total agricultural support over the same period. The vast majority of the direct support is allocated to direct payments (85 % in 2015). Input subsidies represent only a small proportion of the total direct support but are increasing over time (Table 2.3).

Table 2.3. Direct producer support in Albania (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Direct payments to producers	0.885	0.418	1.519	1.948	2.247	4.507
Sheep and goats (per animal)	0.499	0.153	1.089	1.210	1.602	3.409
Cows' milk (per dairy cow, per litre of milk)	0.352	0.212	0.271	0.316	0.411	0.367
Honey (per beehive)	-	-	0.089	0.137	0.143	0.414
Other direct payments	0.034	0.052	0.070	0.285	0.091	0.317
Variable input subsidies	-	-	0.035	0.100	0.798	0.782
Direct producer support, total	**0.885**	**0.418**	**1.554**	**2.048**	**3.045**	**5.289**

Source: APM database (Albania).

The major proportion of direct payments supports the livestock sector, mainly in the form of headage payments for small ruminants. They accounted, on average, for more than 60 % of total funds for direct payments in 2010-2015 (76 % in 2015). Direct payments are also regularly provided for cow's milk production and have been provided, in recent years, to beekeepers.

Other direct payment schemes have been implemented only over very short periods. Support for the collection and delivery of high-value fruit (e.g. chestnuts, pomegranates and blueberries) and, recently, for vegetables and for animal breeding (equines, rabbits and pure breed heifers) lasted for no more than 3 years and, in some cases, support was introduced only for 1 year (e.g. support for meat and skin delivered to slaughterhouses).

The last 2 years have witnessed an increase in output subsidies (direct payments based on output) in Albania. The output subsidies were introduced with the aim of intensifying and formalising vertical relationships in the value chains. In the past, output subsidies were used to consolidate the supply of extra virgin olive oil, but these were discontinued in 2013. In 2013-2014, output-related payments were used to support the collection and delivery of forest fruits. In the last 2 years, output subsidies were expanded through the introduction of price premiums for the milk delivered to the dairy industry, as well as for fruit and vegetables that were destined for collection and processing companies.

There has been a slight increase in the levels of input subsidies in recent years (from EUR 0.03 million in 2012 to EUR 0.8 million in 2015), although they still represent a relatively small proportion of the total agricultural support (2 % in 2015) or of direct producer support (15 % in 2015). Input subsidies are small in Albania because policymakers have been prudent in applying them to avoid market distortions and as a result of weak enforcement and monitoring systems. The enforcement and implementation rules for input subsidies have been characterised by frequent changes that have been motivated by concerns over their 'leakage' to other (non-agricultural) uses. For example, fuel subsidies for the greenhouse industry were available to farmers before 2006 and reappeared only in 2014 after long political debates; however, they were abolished again in 2015. The major factor that makes fuel subsidy implementation difficult in Albania is the lack of an effective system for monitoring the separate use of fuel for agricultural and non-agricultural purposes (i.e. non-availability of separate tanks on farms, systems of colouring fuel, customs control on fuel codes, etc.). The same occurred for plastic sheet subsidies that were granted to farmers in the vegetable sector. A more successful input subsidy has been the support granted for the protection of olive groves from pests, which is paid in the form of fixed area payments. This has been implemented since 2008 and the overall amount increases over time.

Decoupled payments are not implemented in Albania, although they are the most important support system under the CAP. The basic institutional infrastructure required for the implementation of decoupled payments, such as Farm Register, Land Parcel Identification System (LPIS) and Integrated Administration and Control System (IACS), have not been set up in Albania and this is the main factor constraining their introduction. The strategic documents defining agricultural policy development for 2014-2020 envisage the establishment of the required institutional infrastructure by 2020, which implies that decoupled payments might be introduced in Albania in 2020 at the earliest.

2.5 Implementation of agricultural policy documents

The medium-term plans for the budgetary support for agriculture and rural development in Albania are defined in ISARD 2014-2020. This outlines policy priorities and the allocation of funds by support scheme until 2020. Following the programming set in ISARD 2014-2020, overall agricultural support is expected to increase five-fold in 2014-2020 (GoA 2013). This increase in the level of total support is planned to be financed from the national budget as well as from EU funds through the IPARD Programme II. IPARD is envisaged to contribute EUR 71 million over 2014-2020, while the national budget contribution is envisaged to increase from EUR 20 million in 2014 to EUR 23 million in 2020.

When comparing the planned support in ISARD 2014-2020 with its actual implementation, no significant disparities were observed for the support measures. Overall, the difference between the disbursed support and the planned support was less than 5 % for the vast majority of measures in the last 3 years. The disparities were often caused by the low interest of farmers in some support schemes. In such cases, funds were shifted between schemes to avoid allocated funds remaining unused. That is, if there was low demand for a particular scheme in the first half of the year, the funds were allocated to the remaining schemes during the second half of that year.

However, some discrepancies existed between policy formulation and policy implementation. This concerns, in particular, failure to ensure full coherence and coordination between ISARD 2014-2020, IPARD II and yearly action plans. Despite the commitment of MARDWA to achieve alignment between the CAP and national agricultural policy, there are various legal constraints that hamper the introduction of the CAP-like schemes as scheduled in the strategic documents. Table 2.4 summarises the discrepancies between the plans for the introduction of various institutional and agricultural policy reforms and their actual realisation. The first two columns of Table 2.4 list the major policy measures and the action plan as outlined in the Master Action Plan; the third column reports the introduction date of the measures and the fourth column reports whether the plans were achieved in relation to the target introduction date. The targets used to identify whether a particular institutional and policy change was implemented are determined based on the activities described in the Master Action Plan 2014-2020 (MARDWA 2014b). The status of achievement is based on the MARDWA action plan for 2016-2018 (MARDWA 2016a).

Following the results reported in Table 2.4, it is clear that the policy reforms were successful in preparing the implementation of IPARD II in Albania. This will allow an increase in the level of investment support for the physical assets of agricultural holdings, the processing and marketing of agricultural and fishery products and farm diversification and business development. These measures, accompanied by technical assistance, are designed and ready to be implemented after accreditation of the implementing institutions. However, other activities planned in the Master Action Plan 2014-2020 are still not programmed for implementation. For example, support for strengthening collective actions among farmers and other stakeholders, land consolidation, improvement of the quality of agricultural products, enhancement of the agro-environment and climate and of organic farming are some of the measures that have not yet been accomplished or are planned to be introduced. Preparation and introduction of the legal framework necessary for the implementation of these measures (e.g. the law on organic farming, common market organisations' legal base, law on cooperatives, land consolidation law, etc.) is constrained by the financial and institutional capacity limitations of the public administration, although MARDWA is making efforts to achieve this aim by coordinating the ongoing capacity-building projects and in-house staff actions.

A second group of measures related to the support of advisory services and to preparation and implementation of local rural development strategies using the LEADER approach are subject to change and postponement as a result of the new territorial reform that has been implemented in Albania. This territorial reform is accompanied by the introduction of a large number of changes to public administration at local and national levels, which, among other things, halts the reform of veterinary services, advisory services, water and irrigation management and land and forestry management.

Another important shortcoming that makes agricultural polices challenging to implement and puts a strain on the responsible institution is the large number of support schemes that are applied in Albania. In total, 10 schemes, which were split into 17 sub schemes, were applied in 2015. Given the institutional limitations in Albania, this number of schemes is still deemed fairly high, despite reducing over time. At the same time, measures are changing frequently without being linked to a specific policy vision or guided by evidence-based decisions. Moreover, some schemes survive for up to 1 year (e.g. support for meat or skin delivery to slaughterhouses was applied only in 2014) and then disappear and are not repeated in the next programming period. Moreover, most of the support schemes applied in Albania are not fully compatible with the CAP. Frequent adjustments made to the support system in Albania generate an unreliable policy environment and incentive structure for the agricultural sector. As a result, agricultural operators may be unable to read the policy signals that are desired by the government, which may ultimately result in policies failing to achieve their objectives.

Table 2.4. Comparison between the planning and the actual implementation of institutional and agricultural policy reforms in Albania

Support measure	Action plan activities	Date of introduction	Status of achievement
Investments in the physical assets of agricultural holdings, the processing and marketing of agricultural and fishery products and farm diversification and business development	Included in the national scheme and IPARD II	2016	To be implemented under first package of the IPARD measures scheduled in 2017
Support for commercialisation of small farmers (the scheme complements IPARD II)	Carried out with donor's support (GIZ-DANIDA contributed EUR 13.1 million, of which EUR 6.5 million is for investment grants)	2014	Achieved
Agro-environment and organic farming support schemes	Organic farming and quality policy to be designed	2016	Not achieved yet, although some preparation has been done by FAO projects
Support for improvement of the quality of agricultural products and foodstuffs	Adoption of legislation on food quality standards and set up of implementing structures to ensure the alignment of the legal framework and its enforcement with *acquis*	2016	Not achieved yet
Support for farmers' cooperation and associations	Establishment of producer groups and associations of agricultural producers	2016	Not achieved yet and not included in IPARD II programme as previously planned
Establishment and protection of forests	Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry	2017	Not achieved yet and not included in IPARD II programme as previously planned
Preparation and implementation of local rural development strategies (LEADER approach)		2017	Not achieved yet
Investments support for rural areas development and infrastructures	MARDWA investment support provided for the improvement of irrigation infrastructure and drainage	2017	Still on-going, since the Regional Development Fund allocates competing grants for municipalities
Training and capacity building of advisory services	To be carried out through capacity building projects (support by international donors)	2017	Territorial development strategy and institutional changes are still to be considered
Amendment of relevant regulations to provide for compulsory registration of farmers to be eligible for support	Registration of farmers in the farm register and other relevant registers (animal register, LPIS, etc.)	2016	Not achieved yet, which is hampering the introduction of the area-based support measures
Develop measures to improve access to credit for farmers	Support for the establishment of the Rural Credit Guarantee Fund under the IPA 2012 Project.	2016	Achieved (to be activated in 2017)
Support for land market transfers and land consolidation	Legislation and pilot project prepared by FAO	2016	Not achieved yet

Source: authors' analysis, based on the Master Action Plan 2014-2020 (MARDWA 2014b).

IPA, Instrument for Pre-Accession Assistance; LPIS Land Parcel Identification System.

2.6 Conclusions and policy recommendations

In the aftermath of being granted the status of candidate country, Albania is attempting to embark on a rapid reform of its agricultural policy to comply with EU integration requirements. Agricultural and rural development reform is one of the key reforms to be carried out in Albania, as it requires the creation of a complex policy environment that will promote sustainable agricultural production, improvement of rural livelihoods and improvement of the competitiveness of the agricultural sector, while gradually opening the sector to competition from the EU and the other WB countries. In order to align its agricultural policy with CAP requirements, Albania has adopted documents outlining its agricultural policy priorities through a compatible ISARD 2014-2020, which is interlinked with the country EU integration strategy for 2014-2020 and put into practice through implementation guidelines as defined in the Master Action Plan for ISARD 2014-2020. However, despite the legal framework of the agricultural policy being relatively well established, its implementation is still lagging behind the scheduled roadmap.

Overall, agricultural support has increased in Albania over 2010-2015 and converges with the target levels described by the government in its programming documents for 2014-2020. Furthermore, MARDWA envisages reducing the contribution of the national budget to agricultural support and replacing it with EU IPARD funds, which will be granted primarily to improve the competitiveness of the agricultural sector and production diversification in rural areas.

Agricultural support has shown an increasing trend in Albania over 2010-2015. Overall, agricultural support increased from EUR 19 million in 2010 to EUR 35 million in 2015. The structural and rural development support (second pillar) is the most important support scheme in Albania, accounting for 60.7 % of the total agricultural support in 2015, followed by general service support (24.2 % in 2015) and direct producer support (15.1 % in 2015).

Rural development support represents the largest proportion of the total agricultural support, and does meet the structural needs of the agricultural sector adequately. Over the study period, it mainly supported the improvement of the competitiveness of the agricultural sector. In contrast, no funds were allocated to the support of rural infrastructure (except for irrigation infrastructure), rural employment, forestry or improvement of environment. General measures related to agriculture — mainly aided by international assistance — addressed various activities of public relevance, such as agricultural research and development, advisory and extension services, food safety and food quality, although they decreased significantly in 2015. The direct producer support was relatively modest but showed a positive trend in Albania in 2010-2015. The vast majority of direct support is allocated to direct payments (85 % in 2015), most of which is received by the livestock sector.

Policy areas that received minor attention but are relevant to boosting Albanian agricultural and rural development and the EU accession process include support for farmers' cooperation, land consolidation, rural infrastructure, organic farming, agriculture services, advisory services and food safety and quality standards. It is envisaged that these measures will be introduced to varying degrees under IPARD II or, in general, under ISARD 2014-2020. The introduction of some of these measures (e.g. rural infrastructure) is also dependent on the successful finalisation of the territorial reform and consolidation of local administration, both of which are undergoing reorganisation in Albania.

The absorption of existing funds is hampered by the absence of technical assistance and support for financial and credit-related products (such as credit guarantee schemes) for farmers, which may ultimately hamper the introduction and uptake of future support schemes, as planned in the programming documents. Cooperation with international donors, such as the European Bank for Reconstruction and Development and the World Bank, is expected to develop some of these instruments and could contribute to the improvement of farmers' access to finance and improve their capacity to absorb support.

It is still not possible to introduce decoupled payments in Albania because of legal and institutional bottlenecks. The administrative and institutional capacity necessary for the implementation of decoupled payments and area and animal payments (i.e. IACS, Land Parcel Identification System (LPIS), registers, etc.) are still undeveloped and are impeding the introduction of CAP-like schemes in Albania. Moreover, significant gaps remain in the introduction of agricultural information systems, such as the market information systems, and other monitoring tools, such as the Farm Accountancy Data Network (FADN), which recorded slow progress in establishing a systematic data collection infrastructure and administrative capacity. The collection of FADN data was also postponed as a result of the prolonged endorsement and validation process for the 2012 Census of Agriculture results, which is a key requirement to construct FADN farm samples (MARDWA 2016c).

Overall, the approximation of national legislation and policy instruments with the EU *acquis* and the further development of institutional infrastructure for its implementation and enforcement are the main challenges for the remaining programming period, 2016-2020, which are necessary to prepare Albania for accession to the EU. Moreover, the inter-institutional coordination in Albania must to be fine-tuned to ensure that there is coherence with the policy reforms and institutional changes that must be carried out in other sectors. To facilitate these changes, the action plan for 2016-2018 must be carefully revised and new annual plans must be designed for the remaining period covered by ISARD (i.e. 2017-2020). The coordination of the assistance provided by international donors is also desirable to keep up the momentum for accelerating the necessary institutional reforms that are required by ISARD.

Acknowledgement

The authors greatly appreciate the comments from Drini Imami and Klodjan Rama on an earlier version of this chapter, which greatly improved the quality of the manuscript.

3 Bosnia and Herzegovina: agricultural policy development and assessment

Sabahudin Bajramović*, Željko Vaško, Dragana Ognjenović* and Jakub Butković*****

* University of Sarajevo, Faculty of Agriculture and Food Sciences
** University of Banja Luka, Faculty of Agriculture
*** Ministry of Foreign Trade and Economic Relation of Bosnia and Herzegovina, Office for Harmonization and Coordination of Payment Systems in Agriculture, Food and Rural Development

3.1 Introduction and approach

Agriculture in Bosnia and Herzegovina is an economically ([7]) and politically important sector that is characterised by underused natural resources and production potentials ([8]), low productivity, poor technical and technological capacities of farms, underdeveloped agricultural and food chain value, low competitiveness and considerable dependence on foreign trade. Added to that, the growing socio-economic marginalisation of rural areas, which is accompanied by depopulation, makes it is apparent that the agricultural policy of Bosnia and Herzegovina faces numerous challenges that must be tackled to address these problems in the agricultural sector and rural areas.

Although Bosnia and Herzegovina is clearly aiming for European integration and harmonisation of its agricultural policy with the EU CAP, this process is progressing slowly, without any visible signs and without the political readiness to advance at a faster rate. The slow progress of the EU integration process is caused by the on-going economic crisis and, particularly, by the lack of political will to implement the necessary reforms. This is reinforced by the fact that Bosnia and Herzegovina has not made progress in establishing the necessary institutional structures for implementing and utilising IPARD and is therefore losing considerable financial resources that could contribute to institutional building and agricultural sector improvement in Bosnia and Herzegovina (MFTER 2016).

Agricultural policy in Bosnia and Herzegovina shows large inconsistencies with its outlined objectives and it has changed frequently over time without being guided by clearly defined development objectives and the elements of modern public policymaking that are based on monitoring and evidence-based evaluation and assessment (Bajramović et al. 2014, 2016). As a result of the lack of a clear established funding mechanism for agricultural policy, annual budgetary transfers depend largely on the governing political structures and lobbying of various interest groups.

New frameworks for medium-term policy action in the agricultural sector and rural areas have been established in two Bosnia and Herzegovina administrative units ([9]). The FBH adopted a mid-term development strategy for agricultural sector for 2015-2019 (FBH 2014a), and the RSR adopted a strategic plan for the development of agriculture and rural areas for 2016-2020 (RSR 2015a). Both strategic documents emphasise their determination for European integration and the concepts of modern public policymaking. However, the preliminary evidence regarding their implementation in these two administrative units reveals no significant changes in the process of policymaking and

([7]) In 2015, the agricultural sector in Bosnia and Herzegovina contributed 7.1 % (EUR 838.1 million) to the total GVA and 17.9 % (EUR 147 000) to total employment. Bosnia and Herzegovina is a net importer of agricultural products. In 2015, the total export of agricultural and food products accounted for 9.4 % (EUR 429.6 milion) of total national exports, while imports accounted for 18.1 % (EUR 1.464 bilion) of total imports (agriculture and agricultural policy database (Bosnia and Herzegovina)).

([8]) Out of 1.03 million hectares of the most productive agricultural land (i.e. arable land), only around half of it (49.5%) is cultivated in Bosnia and Herzegovina, i.e. 510 000 ha (2015).

([9]) The administrative division of Bosnia and Herzegovina consists of two entities – the Federation of Bosnia and Herzegovina and the Republika Srpska - and the Brčko District (BD).

shows limited application of a modern approach to addressing the development needs of the agricultural sector and rural areas. BD did not adopt a similar framework to those of the other two administrative units and relies on short-term (annual) planning of agricultural policy (i.e. annual rulebooks).

This chapter analyses agricultural policies in Bosnia and Herzegovina for 2010-2015 from the perspective of programming in relation to the strategic documents and from the perspective of the size and structure of the support provided. Given that the agricultural policies in Bosnia and Herzegovina are adopted and administered not at a country level but by the administrative units themselves, the analysis in this chapter also refers to policies that have been applied in each the three administrative units. A particular focus of this chapter is direct payments, which are the dominant forms of budget transfer to the agricultural sector in Bosnia and Herzegovina.

Similarly to other countries, the database on APM (APM database (Bosnia and Herzegovina)) is used in this chapter to derive the policy data. As mentioned above, the database contains all available information on agricultural transfers made in a given year by responsible ministries of the FBH and the RSR and the Agricultural Division of the BD Government. It should be noted that, in the case of the FBH, the subsidies granted by the cantonal ministries responsible for the agricultural sector were also included in the database. The database covers a longer period (2002-2015), but the data from 2010-2015 are used for the purpose of this chapter.

The chapter is organised as follows: the following section analyses the current strategic and programming documents in Bosnia and Herzegovina. The third section provides a more detailed analysis of agricultural policy development in Bosnia and Herzegovina and its major changes in the study period, 2010-2015. The fourth section describes direct producer support, which is the most important support scheme in Bosnia and Herzegovina, in more detail. The fifth section provides an overall assessment of the implementation of the new strategic documents. Finally, the sixth section draws conclusions and outlines policy recommendations.

3.2 Strategies and programming documents for agricultural policy

We have analysed the strategies and programming documents for agricultural policy for the three administrative units of Bosnia and Herzegovina separately because each of these units conducts its own agricultural policy. In general, each administrative unit has the authority to design, adopt and implement agricultural policy independently of the other units.

The FBH did not have a strategic document in place for most part of the study period described in this chapter (i.e. 2010-2015) that would define medium-term objectives for agricultural sector development. The FBH adopted a strategic document in 2006-2010, while the latest available mid-term development strategy for the agricultural sector was adopted in 2015 and covers 2015-2019 (FBH 2014a) ([10]). This new strategic document emphasises the need to adopt new technologies and innovation in the agricultural sector, more effective utilisation of available resources and the improvement of quality of life in rural areas. Regarding European integration, this document clearly states the need to harmonise the institutional and legal framework of the FBH with the EU legislation and the CAP *acquis communaitaire*. In the context of institution-building, this means putting in place a modern system of information, administrative management and monitoring of agricultural policies. The new strategic document outlines the need for a gradual alignment of the policy instruments of the FBH agricultural policy with those implemented within the EU CAP. Furthermore, the new strategic document envisages, for the first time, the application of the principles and elements of modern public policymaking in designing, adopting and implementing the agricultural policy, including detailed baseline

([10]) Note that the strategy outlines agricultural policy that is common for the FBH as well as specific policies of the cantonal governments. Cantons in FBH have the authority to adopt and implement their specific policy measures.

analysis, definition of objectives, establishment of policy programming, definition of a clear financial framework (i.e. budgetary transfers based on the principles of consistency, transparency and traceability) and a system of monitoring and evaluation.

The new strategy envisages the implementation of 37 measures distributed within the three pillars of the agricultural policy: 10 measures in the first pillar related to market intervention and direct producer support, 17 measures in the second pillar related to sector restructuring and rural development and 10 measures in the third pillar related to general services support. The most important changes introduced by the new strategy cover direct producer support (i.e. direct payments). The reduction of several pre-existing direct payments coupled to production (e.g. output subsidies) is proposed, while it is proposed that area and animal payments are increased. The equalisation of area payments for most crops is envisaged ([11]) as the first step towards the decoupling of direct payments, in line with the EU CAP.

As far as direct payments for dairy farms are concerned, a gradual transition from output-based payments (per litre) to payment per animal (cow) is envisaged. The new strategy envisages the complete abolition of budgetary support for the poultry sector. In addition, it recognises the importance of rural development policy, especially in the second part of its implementation period, when significant support is proposed for rural development. The strategy also adopts a new approach to general measures in agriculture. The strengthening of knowledge transfer, support for marketing and promotional activities, risk management and provision of food safety are recognised as necessary actions intended to strengthen the third pillar of the agricultural policy in FBH.

The projected agricultural budget in the strategy for the FBH, at the administrative unit level, varies between EUR 34.9 million (2015) and EUR 47.4 million (2019), supplemented by support at the cantonal level at EUR 7.7 million in 2015, increasing to EUR 11.8 million in 2019. The distribution ratio between the direct payments and the rural development support is in favour of the former in the first years of the strategy implementation (e.g. a ratio of 67 % to 33 % in 2016), although, in recent years, the ratio has been slightly in favour of rural development support (45 % to 55 % in 2019). The planned financial sources for funding agricultural support in the strategy include the national and local (canton) budgets, as well as IPARD, the World Bank and the European Investment Bank.

Regarding rural development, it is important to note that the FBH still does not have a valid legally adopted programming document that would allow a detailed implementation of the rural development measures. The proposal for the rural development programme for 2015-2020 (FBH 2014b) has still not been approved by parliament. This rural development programme proposal was created based on principles that are compatible with those of IPARD I in the format adopted for IPARD II ([12]). The proposal considers six areas of support: (1) competitiveness of agricultural production; (2) agro-environment; (3) climate change mitigation and organic production; (4) diversification of farm activities and entrepreneurship development; (5) LEADER method of local development strategies; and (6) technical assistance and measures in the field of forestry (FBH 2014b).

The RSR adopted a new strategic plan for the development of agriculture and rural areas in 2015 for 2016-2020 (RSR 2015a) before the expiry of the previous two strategic documents (i.e. the strategic document for 2010-2015 and the strategic document for 2010-2015). Unlike the previous two strategies, the new strategic document

([11]) Exceptions are maize grain production, production in protected areas, production of seed and seedlings and tobacco production.

([12]) Under the Instrument for Pre-accession Assistance (IPA) II, Bosnia and Herzegovina was allocated a total of EUR 165.8 million for 2014-2017. However, there are no programmed funds for agriculture and rural development (i.e. for IPARD II) for the period 2014-2017 because Bosnia and Herzegovina did not provide sectoral strategies in the field of agriculture and rural development and has not established the necessary institutional structures for their implementation. In 2017, IPA II will be subject to revision and, if Bosnia and Herzegovina fulfills all the necessary requirements, additional funds for EU pre-accession assistance are expected to be granted.

simultaneously covers both the agricultural sector and rural development. Overall, the new strategy contains six strategic goals and 16 specific goals that are proposed to be implemented using 52 different measures.

The main changes in the first pillar measures in the new strategic document envisage the reform of direct producer support, aiming to reduce the number and type of instruments. The current coupled direct payments disbursed per unit of output (i.e. output subsidies) are planned to be changed to area and animal payments ([13]), with the exception of milk and wheat. For milk, a transitional period is proposed that will last until 2018, at which point output subsidies will be gradually reduced and animal payments will be introduced simultaneously. The new strategic document also envisages a higher level of support for capital investments for both the crop and livestock sectors. New items in the second pillar of the agricultural policy in the new strategic document refer to the recognition of the importance of ANC and the introduction of additional area payments for these areas, starting from 2018. The strengthening of measures related to general services in agriculture and higher budgetary allocations for their implementation are also features of the new strategic document. Support for agricultural advisory services, improvement of food safety standards, protection of geographical indications and support for producer organisations in the farming sector are just some of the measures of the third pillar that are considered in the new strategic document.

The adoption of the policy instruments envisaged in the strategic document in the RSR are expected to promote growth of agricultural productivity, stability of agricultural income and the competitiveness of the agricultural sector through increased investments, marketing and finalisation of agricultural products, sustainable management of natural resources, mitigation of climate change impacts, balanced and integral rural development and systematic support for the development of the agricultural sector and rural areas. The projected agricultural budget (from the RSR government) varies between EUR 48.4 million in 2016 and EUR 58.6 million in 2020. The planned distribution ratio between the direct payments and the rural development support is 60 % to 40 %. However, in 2016, which is the first year of implementation of the new strategy, the old support system model was maintained and the transition to the new model was postponed to a future period.

As for BD, the current agricultural policy is implemented on the basis of a general strategic document that addresses the overall economy of this administrative unit. However, the development strategy for the agricultural sector that was in place until 2013 was without a legal basis ([14]).

It is important to note that regular monitoring and evaluation of agricultural policy as part of a modern public policy cycle is not carried out in Bosnia and Herzegovina. For example, the parliament of the FBH receives an annual green report with a detailed description of the agro-food sector and the implemented agricultural policy. An important deficiency of these reports is their insufficient level of objectivity, as it does not provide a serious evaluation and analysis of the agricultural sector or of the effectiveness of the agricultural policies. The reports are prepared by the administration of the responsible ministry for agriculture without the involvement of the academic community or relevant research institutions. In the case of the RSR, there is neither an available annual report on the situation in agriculture nor an evaluation of the effectiveness of the implemented policy measures. Instead, the responsible ministry produces some information for the government and parliament. The academic community also makes some occasional analyses of the effects of agricultural and rural policy in Bosnia and Herzegovina, but this is mostly for academic purposes (Vaško et al. 2016).

([13]) Initially, only support for ruminants was envisaged for the animal sector; however, after public consultation, other animal sectors were added, such as sows, poultry, horses and bees.

([14]) The strategy for agriculture, food and rural development in BD for the period 2008-2013 has been developed, but it has not been submitted for official adoption.

3.3 Agricultural policy development

The total level of agriculture support showed a downward trend in Bosnia and Herzegovina during the study period 2010-2015, which is the consequence of the economic crisis and political instability. The total agricultural transfers at the country level amounted to EUR 82.2 million in 2010, while in 2015 this dropped by almost one quarter to EUR 63.2 million (Table 3.1). The first pillar measure (market and direct producer support) represents the largest proportion of the total support at 57 % in 2010, increasing to 91 % in 2015. The second largest proportion is that of rural development support, which accounted for as much as 37 % of the total support in 2010 but dropped significantly to 5 % in 2015. General service support is of minor importance in Bosnia and Herzegovina, accounting for less than 6.5 % in the total support for 2010-2015 (Table 3.1).

These agricultural policy developments in Bosnia and Herzegovina indicate that the reduction in the total agriculture support did not have a significant effect on direct producer support (i.e. first pillar measure). In contrast, direct producer support increased in 2010-2015. This increase was at the expense of rural development and general service support, which decreased significantly in 2015 compared with 2010. These results suggest that direct producer support is the preferred instrument to support the agricultural sector in Bosnia and Herzegovina.

Table 3.1. Development of budgetary support for agriculture in Bosnia and Herzegovina (million euros), 2010-2015

Administrative level/group of measures	2010	2011	2012	2013	2014	2015
Bosnia and Herzegovina						
Market and direct producer support measures	46.66	60.76	50.06	60.65	55.2	57.25
Structural and rural development measures	30.44	8.20	29.62	6.81	9.20	2.88
General measures related to agriculture	5.09	2.19	3.05	3.59	2.96	3.10
Total BA	**82.18**	**71.15**	**82.73**	**71.05**	**67.36**	**63.23**
FBH						
Market and direct producer support measures	28.71	32.36	24.99	35.54	31.05	33.68
Structural and rural development measures	9.82	3.98	18.07	0.87	5.71	1.20
General measures related to agriculture	0.92	0.39	0.51	1.29	0.26	0.21
Total FBH	**39.45**	**36.74**	**43.57**	**37.70**	**37.02**	**35.10**
RSR						
Market and direct producer support measures	15.63	26.36	22.12	22.07	22.43	20.91
Structural and rural development measures	20.34	3.92	11.17	5.56	3.36	1.50
General measures related to agriculture	4.17	1.80	2.54	2.30	2.70	2.88
Total RSR	**40.14**	**32.08**	**35.83**	**29.94**	**28.49**	**25.30**
BD						
Market and direct producer support measures	2.31	2.04	2.94	3.04	1.72	2.65
Structural and rural development measures	0.28	0.29	0.38	0.37	0.12	0.18
General measures related to agriculture	0.00	0.00	0.00	0.00	0.00	0.00
Total BD	**2.59**	**2.33**	**3.33**	**3.41**	**1.84**	**2.83**

Source: agriculture and agricultural policy database (Bosnia and Herzegovina).

In the FBH, the average annual allocations for agriculture support were EUR 38.3 million in the study period 2010-2015. The largest transfer was made in 2012 (EUR 43.6 million) and the smallest in 2015 (EUR 35.1 million). The large year-to-year variations in the level of support without a clear policy direction indicate the presence of an inconsistent and unstable agricultural policy environment in the FBH.

The first pillar measures, that is, the market measures and direct producer support, represent the largest proportion of the total budget support in the FBH, varying between EUR 25 million (2013) and EUR 35 million (2014). The average relative proportion of this group of measures in the total support in 2010-2015 was 82 %. However, in some years, this accounted for more than 90 % of the total support (e.g. 94 % in 2013; 96 % in 2015). The absolute amount and the relative proportion of the second pillar support in

the FBH (i.e. structural and rural development measures) clearly indicate that its importance is secondary in terms of addressing agricultural development issues. In the study period 2010-2015, the second pillar support varied between EUR 18.1 million (2012) and EUR 0.9 million (2013) and its proportion of the total support varied between 41 % (2012) and 2 % (2013). In general, rural development support has decreased in recent years, mainly as a result of the on-going economic crisis. Finally, the third pillar support constitutes the smallest proportion of the total support, representing less than 3.4 % of the total support. In absolute value, it varied between EUR 0.2 million (2015) and EUR 1.3 million (2013).

The negative trend in the levels of total agricultural support is clear in the RSR in the study period 2010-2015. The total budgetary transfers to the agro-food sector were reduced by almost one third, from EUR 40.1 million in 2010 to EUR 25.3 million in 2015. The economic and political crisis in the RSR, which was associated with slow growth of GDP, and a chronic lack of funds for development activities are some of the key reasons for the continuous reduction of agricultural support. Except for 2010, the measures of market and direct support for producers dominated total agricultural support. The absolute value of market and direct producer support varied between EUR 15.6 million (2010) and EUR 26.4 million (2011) and its relative proportion between 39 % (2010) and 83 % (2015) ([15]). Budgetary support for rural development measures was considerable until 2012 (EUR 20.3 million in 2010; EUR 11.2 million in 2012) and represented a significant proportion of the total agricultural support (51 % in 2010; 31 % in 2012). After 2012, the structural and rural development support decreased continuously, reaching EUR 1.5 million in 2015 (6 % of the total agricultural support). The main measure within rural development support in the RSR is investment support for on-farm and infrastructure projects, while there is no support allocated to the improvement of the environment. The average annual budgetary allocation for general support for agriculture in the RSR in 2010-2015 amounted to EUR 2.7 million, which is considerably more than in the FBH. The bulk of general support was allocated to strengthening knowledge transfer and the modernisation of agricultural sector services and varied between EUR 1.8 million (2011) and EUR 4.2 million (2010), that is, between 6 % (2011) and 11 % (2015) of the total agricultural support.

BD is also characterised by unstable and inconsistent agricultural policy development over the study period 2010-2015. The budgetary allocation for agricultural support has varied significantly each year. The largest amount of total agricultural support was recorded in 2013 (EUR 3.4 million) and the smallest in 2014 (EUR 1.8 million). The most important measures fall under the first pillar of agricultural support (i.e. direct payments), representing more than 85 % of the total agricultural support. The annual budgetary allocation for rural development was relatively small, at less than EUR 0.4 million, that is, only 6-12 % of the total agricultural support. BD does not provide support for general services in agriculture.

3.4 Direct producer support measures

Direct producer support represents the most important form of support for agricultural producers in Bosnia and Herzegovina. It is composed of direct support based on output, payments based on area or animal numbers and payments for variable inputs. Because the administrative units of Bosnia and Herzegovina have the authority to adopt and implement their own agricultural policy, the direct support schemes differ between administrative units. In 2015, there were 23 schemes in FBH ([16]), 19 in the RSR and 20 in BD. Compared with 2010, the total number of direct producer support schemes increased in all administrative units in 2015 (Table 3.2).

([15]) For comparison, the study by Mrdalj (2015) estimated the amount of direct producer support for the RSR to be EUR 19.3 million for the period 2000-2013. The analysis revealed a high proportion of direct payments compared with output subsidies, milk direct support representing the highest proportion (up to 75% of the total direct producer support).

([16]) This does not include direct support schemes at the cantonal level.

The FBH experienced the greatest number of changes in direct producer support schemes in the study period 2010-2015, compared with the RSR and BD. A considerable number of output-based payment schemes (7) were replaced with area payments in the FBH; therefore, in effect, all crop production was supported by area payments in 2015. In addition, there were eight animal payments schemes and one scheme for variable inputs in the FBH in 2015. Unlike the FBH, the RSR still had a considerable number of output-based payment schemes (7) and more animal payments schemes (10) in 2015. The RSR also implemented one area payment scheme and one input subsidy scheme. In 2015, out of a total of 20 direct producer support schemes in BD, eight were area payments, 11 were animal payments and there was one input subsidy scheme; they were not significantly different compared with 2010. More details about the implemented direct payment and input subsidy schemes in the three administrative units in 2015 with the description of eligibility criteria to obtain support are presented in Table 3.3.

Table 3.2. Number of implemented direct payment and input subsidy schemes in Bosnia and Herzegovina by administrative unit, 2010 and 2015

Type of schemes	FBH		RSR		BD	
	2010	2015	2010	2015	2010	2015
Output payments	9	2	7	7	0	0
Area payments	3	12	1	1	6	8
Payments per animal	8	8	9	10	10	11
Input subsidies	0	1	0	1	0	1
Total	21	23	17	19	16	20

Source: agriculture and agricultural policy database (Bosnia and Herzegovina).

The development of total direct producer support in Bosnia and Herzegovina shows high year-to-year volatility, but there was an increasing trend over the study period 2010-2015 (Figure 3.1).

The total direct support increased from EUR 41.7 million in 2010 to EUR 56.6 million in 2015. The highest level of direct support was disbursed in 2011, when it reached almost EUR 59 million. Direct payments (i.e. area, animal and output payments) dominated the structure of direct support, accounting for between 68 % and 97 % of the total direct support. The remaining subsidies were disbursed in the form of input or other types of subsidies (Figure 3.1).

For direct payments, the proportion of output subsidies was slightly higher than for the area and animal payments, with the former representing between 51 % and 66 % of the total value of direct payments. Over time, the importance of output subsidies increased, that is, their proportion increased from 53 % in 2010 to 66 % in 2015, out of total direct payments (Figure 3.2). Direct producer support varied considerably between the administrative units of Bosnia and Herzegovina, with a particularly significant difference observed for the structure of direct support (Figure 3.1 and Figure 3.2).

Similarly to the aggregate results for Bosnia and Herzegovina, the development of total direct producer support in the FBH also shows a slightly increasing trend over the study period 2010-2015, but with higher year-to-year volatility. Its value varied between EUR 23.6 million (2012) and EUR 33.4 million (2015). Direct payments are, in fact, the only form of support for producers at the administrative unit level, while a moderate level of support for variable inputs comes from the cantonal governments (Figure 3.1).

Following a strong increase (by around 100 %) of direct producer support in the RSR in 2011 relative to 2010, levels of this form of support showed a negative trend in the subsequent years. Direct support doubled from EUR 13 million in 2010 to EUR 26.4 million in 2011, followed by a decrease to EUR 20.5 million in 2015. Unlike the FBH, variable input subsidies represent a sizable proportion of the total direct producer support in the RSR. In some years (2011) the variable input subsidies amounted to almost half the total direct support, although, in the period covered by this chapter, their proportion was lower, varying from 12 % and 20 % (Figure 3.1).

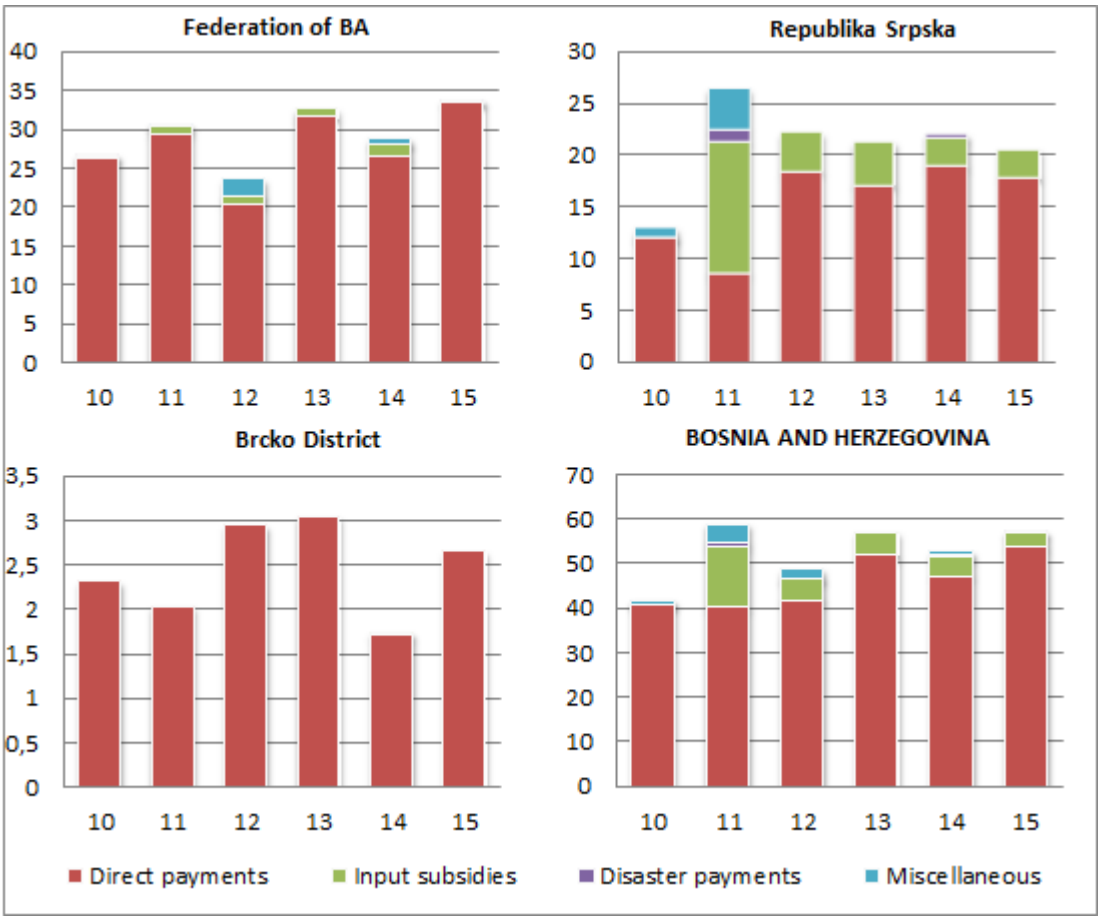
Table 3.3. Direct payment and input subsidy schemes implemented in Bosnia and Herzegovina in 2015 by administrative units

Type of scheme	Product	FBH Unit value and limits	RSR Unit value and limits	BD Unit value and limits
Output payments	Milk	EUR 0.153/l; min 500 l/month (300 l of sheep and goat milk)	EUR 0.153 /l	-
	Wheat (spring)	-	EUR 0.026 /kg; max 6 t/ha	-
	Rape	-	15 %; min 0.5 ha; max EUR 5 000/beneficiary	-
	Tobacco	-	20 %; max EUR 12 500/beneficiary	-
	Medical plants	-	15 %; min 0.3 ha; max EUR 5 000/beneficiary	-
	Seeds	-	15 % and 50 %; registered producers	-
	Seedlings	EUR 0.18-0.23/piece; max number of seedlings	-	-
	Fruit	-	15 %; min 500 kg per variety for sale	-
Area payments	Wheat	EUR 256/ha; min 1 ha; min 3.5 t/ha; max 200 ha	EUR 128/ha; autumn sowing; min 1.5 ha and 4 t/ha	EUR 153/ha; min 1.5 ha
	Maize	EUR 153/ha; min 2 ha; max 400 ha	-	EUR 128/ha; min 1.5 ha
	Barley	EUR 179/ha; min 1 ha; min 3 t/ha; max 100 ha	-	EUR 128/ha; min 1.5 ha
	Oilseed	EUR 205/ha; min 1 ha; min 2 t/ha; max 250 ha	-	EUR 205/ha; min 1.5 ha
	Fodder sown in autumn	-	-	EUR 250/ha; min 1.5 ha
	Seed (cereals, oilseed)	EUR 409/ha; min t/ha; max ha	-	-
	Seed potato	EUR 665-869 /ha; max 50 ha	-	-
	Tobacco	EUR 767/ha; min 0.5 ha; max 50 ha	-	EUR 511/ha; min 1.5 ha
	Medical plants	EUR 205/ha; min 1 ha (for market); max 50 ha	-	-
	Vegetables	EUR 1 023/ha; min 0.5 ha; min t/ha; max 20 ha	-	EUR 358-7.669/ha; min 0.3 ha (0.02 ha greenhouse)
	Fruit	EUR 460/ha; min 2 ha; min 5 t/ha; max 250 ha	-	EUR 256-409/ha; min 1 ha (0.2 ha soft fruit)
	Grapes	EUR 460/ha; min 1 ha; min 8 t/ha; max 250 ha	-	-
	Olives	EUR 460/ha; min 1 ha; min 2 t/ha; max 250 ha	-	-
Payments per animal	Dairy cows	-	-	EUR 205/head; min 2 heads; min 2 000 l/cow
	System cow-calf	EUR 230/head; min 15; max 1 000 heads	EUR 118/head; min 5 heads; max EUR 15 000/beneficiary	EUR 102/head
	Breeding heifers	EUR 230/head; min 2; max 20 heads	EUR 102/head; max EUR 12 500/beneficiary	EUR 153/head; min 2 heads
	Fattening cattle	EUR 230/head; min 3; max 1 000 heads	EUR 61/head; min 4 heads; max 50 000 EUR/beneficiary	EUR 153/head; min 5 heads
	Breeding sheep and goats	EUR 18/head; min 50 sheep (25 goats); max 750 heads	4.60/head; min 100 sheep(50 goats); max EUR 12 500/beneficiary	EUR 26/head; min 20 sheep (10 goats)
	Fattening sheep and goats	-	-	EUR 15/head; min 20 sheep (10 goats)
	Breeding sows and boars	EUR 77/head; min 5; max 150 heads	EUR 20/head; min 20 heads; max EUR 12 500/beneficiary	EUR 51/head; min 5 heads
	Fattening pig	EUR 31/head; min 10; max 8,700 heads	EUR 7.70/head; min 60 heads; max 50 000 EUR/beneficiary	EUR 26/head; min 20 heads
	Breeding poultry	EUR 0.61/head; min 10 000; max 50 000 beaks	EUR 0.36/beak; min 2,000 beaks; max 25 000 EUR/beneficiary	-
	Laying hens	-	-	EUR 0.77/beak; min 1 500 beaks
	Broilers	-	EUR 0.03/beak; 5 000/turnus; max EUR 50 000/beneficiary	EUR 0.10/beak; min 5 000 beaks
	Breeding fillies	-	EUR 205/head; pure breed	-
	Beehives	7.67 EUR/beehive; min 20 beehives and 10 kg honey/beehive; max 550 kg	EUR 2.30/beehive; min 50 beehives; max EUR 2 500/beneficiary	EUR 10.23/beehive; min 30 beehives
Input subsidies	Insurance	Max 50 % of the insurance premium	-	Max 70 % of the insurance premium
	Fuel	-	EUR 0.31/l; max 100 l/ha	-

Source: agriculture and agricultural policy database (Bosnia and Herzegovina).

Max, maximum; Min, minimum.

Figure 3.1. Overview of direct producer support in Bosnia and Herzegovina (million euros), 2010-2015



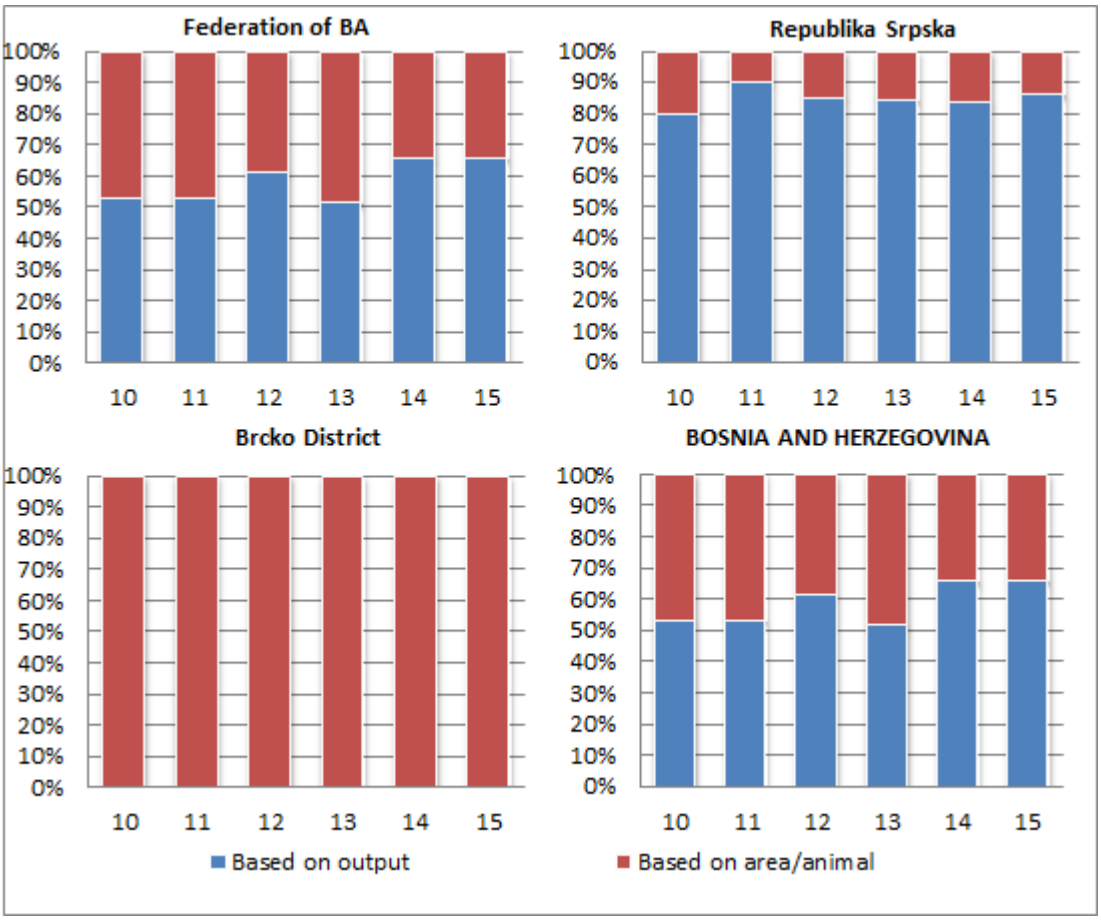
Source: agriculture and agricultural policy database (Bosnia and Herzegovina).

A considerable year-to-year variation in direct producer support for agricultural producers was also observed in BD over the study period 2010-2015. BD applies only direct payments. There is no output or input subsidies in place in BD, as is the case in the FBH and the RSR (Figure 3.1). BD made a transition from output/input subsidies to direct payments based on area/animal numbers in 2009.

Figure 3.2 shows notable differences in the structure of direct payments (i.e. area, animal and output payments) between the administrative units of Bosnia and Herzegovina. Output-based payments dominate in the RSR, accounting, on average, for 85 % of the total direct payments over the study period 2010-2015. Most of the output subsidies are allocated to milk producers.

Unlike the RSR, the FBH has a more balanced distribution of direct payments between output subsidies and area/animal subsidies, with a slight increase in the former over time. The FBH reformed its direct support system in 2011, as a result of which almost all crop production is now supported by area payments instead of output subsidies. However, this reform has not affected the structure of direct payments in the FBH significantly because large output subsidies are granted to milk producers (based on output), which drives the overall structure of direct payments.

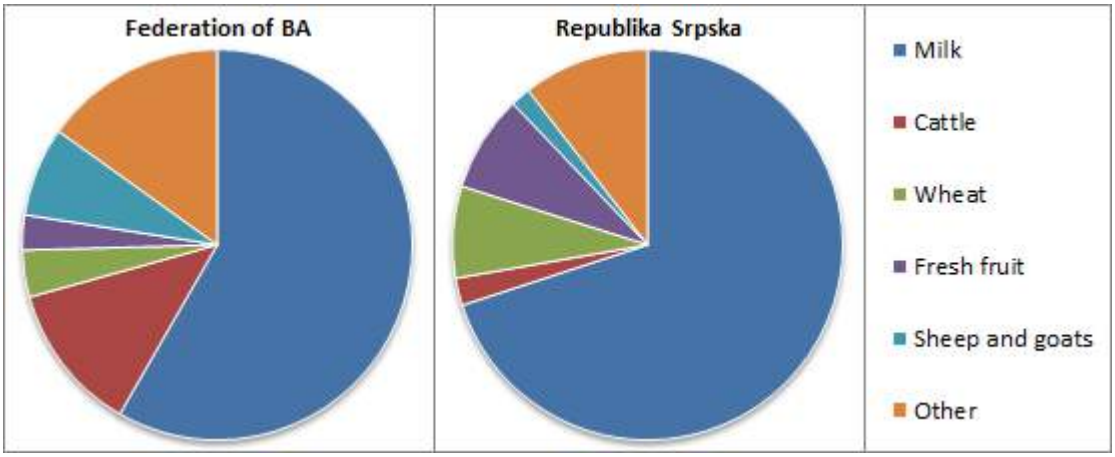
Figure 3.2. Composition of direct payments to producers in Bosnia and Herzegovina, 2010-2015



Source: agriculture and agricultural policy database (Bosnia and Herzegovina).

Milk production is by far the most supported sector in Bosnia and Herzegovina (Figure 3.3). Along with tobacco, milk production has received continuous support since 1997.

Figure 3.3. Breakdown of direct payments to producers by main commodities in the Federation of Bosnia and Herzegovina and the Republika Srpska (%), 2015



Source: APM database (Bosnia and Herzegovina).

Other sectors that received sizable direct payments in the RSR in 2015 include fruit (8 %) and wheat (8 %). Besides milk, the most supported sectors in the FBH in 2015 were cattle (12 %), sheep and goats (7 %), wheat (4 %) and fruit (3 %). Direct

payments are more equally distributed across sectors in BD, with cattle (17 %), maize (16 %), pigs (15 %), milk (11 %), fruit (9 %) and sheep and goats (7 %) accounting for the largest proportion of total direct payments.

In the context of the EU integration process, the existing structure of direct payments in Bosnia and Herzegovina, with a considerable proportion of coupled subsidies (e.g. output-based payments), indicates that there is a gap between this structure and the CAP and suggests a future need for harmonisation with the EU subsidy system. This problem is recognised in the new strategic documents that have been adopted by FBH and RSR, which envisage a switch to direct payments based on area/animal numbers; however, these plans remain to be applied in practice.

It must be emphasised that direct payments are a very sensitive issue and are often reasons for political frictions and social revolt in Bosnia and Herzegovina. In addition, one of the major problems related to direct payments is the persistence of deficiencies in the implementation system. Although Bosnia and Herzegovina has registers of agricultural holdings and animal identification systems in place, they are still far from being in line with EU standards and require further improvements. Currently, the most pressing problem is the lack of adequate supervision and the identification of agricultural land (LPIS system), which prevents a correct and fair disbursement of direct payments and makes the direct payment scheme susceptible to abuse.

3.5 Implementation of agricultural policy documents

The new mid-term strategy for agricultural sector development of the FBH is in force for a second year, which allows a first evaluation of its implementation to be performed. The strategic document is, for the first time, based on the principles of modern public policymaking (analysis of the situation, goal setting, adoption of action mechanisms, implementation programmes, financial frameworks and monitoring and evaluation). Direct payment schemes should be based on payments per area for all crops and aligned with the EU CAP. Some of the measures, such as support for poultry production, were planned to be phased out, while rural development support was to be straightened. A realistic financial framework was drawn up and the action plan established numerous activities to strengthen institutional and legal frameworks with the objective of aligning the agricultural policy of the FBH with the CAP.

However, the actual implementation departed significantly from the plans outlined in the strategic document. The previous approach to agricultural policymaking has remained largely in place. The agricultural policy still relies heavily on coupled payments to provide support for farmers, puts little emphasis on rural development and does not consider major changes in funding for the general services related to agriculture. Practically, there were no funds allocated to rural development in the FBH in 2015 ([17]) and support for general services mostly covered only social and health insurance programmes for farmers. Although the total value of the planned financial envelope for direct payments in the strategic document (EUR 33.6 million) did not differ significantly from that implemented in 2015 (EUR 33.3 million), there is a large discrepancy between their structures and their general approaches. For example, instead of nine direct payment schemes, as proposed in the strategic document, 23 were applied in 2015. The milk support based on the amount sold to intermediate buyers has continued ([18]) and no single area payment schemes were introduced in 2015. Furthermore, no significant progress was observed in the context of legislative and institutional harmonisation with the EU CAP. The FBH has not begun to establish the IACS and the other administrative tools that are required for adequate implementation, control and monitoring of direct payments.

([17]) Budget allocations for rural development measures were not planned at all in 2015 because of a considerable debt of the FBH government to agricultural producers from previous years.

([18]) A gradual transition to a combination of a payment per litre (EUR 0.14) and a payment per head (EUR 50), as proposed in the strategic document, is envisaged starting from 2016.

In the RSR, a significant discrepancy was also observed between the actual implementation of the agricultural policy and the objectives planned in the new strategic plan 2016-2020. The strategic plan for 2016-2020 does not cover the period analysed in this chapter. However, the allocation of support for 2016 is described in the annual financial plan. Regarding direct payments, the new strategic plan envisaged a transition from a model based on subsidies coupled to output or input use (output/input subsidies) to a model based on payments per hectare of cultivated land or per animal. This objective must still be put into practice in the RSR, given that the highest proportion of subsidies in 2015 were in the form of output subsidies and this transition is not considered in the annual financial envelope for 2016. Furthermore, the planned adoption of the regulation on agriculture and rural development to bring the implementation of these policy measures in line with objectives set in the new strategic document (e.g. stable allocation of financial resources) was postponed. The RSR government strategy is to ensure efficient implementation of the agriculture and rural development policies before the regulation can be adopted by parliament (RSR 2015b).

More fundamentally, before any major change to the subsidy system in the RSR can be introduced, the LPIS and the updated livestock registers must be established. Besides these technical requirements, the obstacles for transition to the new direct payment schemes are the low levels of skill and capacity of agricultural producers and civil servants to understand and successfully implement different policy measures. For example, this is reflected in the poor efficiency of payment disbursement to beneficiaries; the payments are usually several months late in relation to the obligations to beneficiaries (e.g. farmers).

The previous regulatory framework adopted in 2002, which guides the implementation of the agricultural policy (including rural development), is still effective in the RSR. This regulation provides a minimum threshold of 6 % of the total general budget of the RSR to be allocated to the agricultural policy. With the exception of 2010, this threshold was never reached. The intention to distribute available agricultural support funds to all three priority areas of agricultural policy support (i.e. direct producer support, rural development and general services support) was not achieved in the study period 2010-2015 because of unforeseen crises in the agricultural sector that diverted financial resources to other areas (e.g. to address natural disasters or market disruptions). The strategic document for 2016-2020 envisaged the allocation of funds for agricultural policy to be EUR 48.3 million (6 % of the general budget) in 2016; however, only EUR 30 million were reserved in the annual plan for 2016 (RSR 2015a). This does not allow the funding and implementation of all measures planned in the strategic document. However, the availability of reduced financial resources for agricultural policy has mostly been reflected in reduced support for investments and rural development, while direct payments have been only marginally affected.

3.6 Conclusions and policy recommendations

This chapter analyses the development of agricultural policy in Bosnia and Herzegovina in 2010-2015. The results reveal that agricultural policy in Bosnia and Herzegovina shows a high level of instability and is inconsistent with the medium-term policy objectives outlined. Agricultural support varied significantly year-by-year in the period discussed in this chapter and this was caused by the prolonged economic and political crisis, political lobbying and a lack of clear programming of policy measures. This unstable policy development generates an uncertain policy environment for the agents operating in the agricultural sector, which may have adverse implications for its future growth and development.

The average annual agricultural support in Bosnia and Herzegovina represented EUR 75.9 million and displayed a downward trend in 2010-2015. The first pillar measures represented the largest proportion of the total support (on average 73 % of the total agricultural support) in Bosnia and Herzegovina over the same period, followed by rural development support (19 %). Although total agricultural support decreased in 2010-2015

in Bosnia and Herzegovina, the first pillar measures increased over the same period at the expense of rural development and general service support. These results suggest that direct producer support is the preferred instrument to support the agricultural sector in Bosnia and Herzegovina. Bosnia and Herzegovina implements a very heterogeneous agricultural policy across its three administrative units (i.e. FBH, RSR and BD) because they have the authority to design, adopt and implement their own policy measures. The agricultural policies differ between the units in terms of type of measures implemented and sectors supported. All administrative units report a large year-to-year fluctuation in the levels of support and a negative trend in levels over the study period 2010-2015.

The average annual agricultural support was EUR 38.3 million in the FBH, EUR 32 million in the RSR and EUR 2.7 million in BD during the study period 2010-2015. The dominant support type in all three administrative units is direct producer support (direct payments and input subsidies), with the largest proportion of the total agricultural support being in BD (on average 90 % in 2010-2015) followed by the FBH (82 %), while the lowest proportion was reported in the RSR (70 %). Similar to the aggregate figures for Bosnia and Herzegovina, rural development support represented the second largest proportion of the total agricultural support in the administrative units, accounting on average for between 10 % of the total support in BD and 22 % in the RSR.

Although direct payments (i.e. area, animal and output payments) are the main direct support scheme provided to farmers in all three administrative units of Bosnia and Herzegovina, their structure varies considerably. Output-based payments dominate in the RSR (85 % of direct payments on average). In addition to direct payments, an important form of direct support for producers in the RSR was input subsidies (fuel). The most supported product in the RSR was milk (70 % of direct payments in 2015). The FBH had a slightly more equal distribution of direct payments between output subsidies and area/animal payments (60 % : 40 %), while input subsidies represented a small proportion of the total direct support (2.7 % on average) in 2010-2015. BD applied only direct payments; there were no output or input subsidies implemented in BD in the period covered by this chapter. Overall, these analyses show that coupled payments still play a prominent role in the structure of agricultural support in Bosnia and Herzegovina. This contradicts the CAP philosophy, which relies primarily on decoupled support, implying that future agricultural policy will have to be adjusted in the event of the successful accession of Bosnia and Herzegovina to the EU.

Both the FBH and the RSR have adopted new strategic frameworks for future actions in the agricultural sector and rural areas, based on the principles and elements of modern public policymaking (analysis of the situation, goal setting, action mechanisms, implementation programmes, financial frameworks, monitoring and evaluation). The adopted documents and their development-oriented concepts are based on the clearly defined challenges faced by the agricultural sector from the external and domestic environments and have identified the strengths and weaknesses of the sector, allowing medium-term priorities for the development of the farming sector and rural areas to be defined. Both documents have undoubtedly emphasised the determination of Bosnia and Herzegovina to integrate with the EU and have outlined plans for the gradual alignment of the national agricultural policies with CAP requirements.

The first years of the implementation of the adopted strategic documents have shown that the governing political structures in the FBH and the RSR have not shown sufficient determination and readiness for major reforms to put into practice the priorities outlined in the strategic documents. It is a paradox that the authorities that commissioned the strategic documents required the authors to take a clear pro-EU approach and to identify all the necessary activities that would have to be undertaken to harmonise the agricultural policies with the EU CAP. However, when it comes to implementation, the agricultural policy reforms have failed to put into practice the proposals that were adopted in the strategic documents, at least for now.

4 Kosovo*: agricultural policy development and assessment

Mihone Kerolli-Mustafa*, Ekrem Gjokaj and Bekim Hoxha****

* International Business College Mitrovica, Kosovo
** Kosovo Ministry of Agriculture, Forestry and Rural Development

4.1 Introduction

Kosovo* is facing crucial challenges in developing a competitive economy and reforming national policies to be closer to those of the EU. A new phase in the relationship between the EU and Kosovo* began with the signing of the Stabilisation and Association Agreement in October 2015. This agreement opened up a new opportunity for free trade and the application of European standards in a wide variety of sectors. Kosovo* has made progress in the process of developing its national agricultural strategies, grant schemes, control mechanisms, farm registries and statistics. EU support through the Instrument for Pre-Accession Assistance (IPA) 2014-2020 and through assistance from the Technical Assistance and Information Exchange (TAIEX) has encouraged further development of the agricultural sector and the harmonisation of national policies. However, this process remains very challenging in terms of achieving all the objectives set by the CAP.

The agricultural sector in Kosovo* plays a very important role in providing employment opportunities and generating income. In 2015, the agricultural sector contributed 13.5 % to the GVA and about 27 % to total employment and accounted for 12.8 % of total export value (Agriculture and agricultural policy database (Kosovo*)).

Development of the agricultural sector in Kosovo* is of particular importance in terms of improving the trade balance, reducing unemployment and increasing food product security and environmental protection. This chapter presents the current situation and recent trends for Kosovo* agricultural policy development, with a special focus on the evolution of budgetary support for agriculture. The main sources of data used in this study were the Kosovo Agency of Statistics and the Department of Economic Analysis and Agricultural Statistics within the Ministry of Agriculture Forestry and Rural Development (MAFRD). For a comparative review of the agricultural budgetary transfers, a common APM template was used (Rednak et al. 2013). The period described by this analysis is 2010-2015.

The second section of this chapter discusses the strategies and programmes of agricultural policy. Agricultural policy development is addressed in the third section, which presents and discusses the budgetary transfers to agriculture for 2010-2015, including the composition of the support by main policy group. The fourth section discusses the direct payments and their characteristics and changes over time. The fifth section provides a general assessment of agricultural policy development and implementation. The last section provides conclusions and recommendations with regard to the main policy issues in the context of alignment with EU policies.

4.2 Strategies and programming documents for agricultural policy

The Ministry of Agriculture, Forestry and Rural Development carries out its functions based on the following main policy documents: the Agriculture and Rural Development Program (ARDP) 2014-2020 (MAFRD 2013), the Mid-term Expenditure Framework 2016-2018 (GoK 2015) and the Economic Reform Programme (ERP) 2016-2018 (GoK 2016), in which detailed mid-term and long-term policy objectives, the main measures, the monitoring tools and the costs of implementation of policies are set. The short-term policies are detailed in the yearly national programme for agriculture and rural development and the relevant activities in the yearly action plan.

The ARDP 2014-2020 was based on the previous ARDP for 2007-2013; it addresses the long-term goals and priorities in complying with the EU CAP and links the programming process with multi-annual rural development programmes. The IPA II assistance ([19]) supports Kosovo* in achieving alignment with the EU *acquis*. It facilitates improvements for agro-food business operators and producers in the regional and EU markets; employment and income generation in the agro-food sector and rural services; development of vocational training, farm management and farm accounting education; and adopts measures to improve resilience to the effects of climate change. Other aims of IPA II are the provision of technical support for improving data collection, processing and reporting for all subsectors of agriculture and rural development at the MAFRD. In this regard, the ARDP follows the four priority areas that were assigned by the IPA (EC 2014), under which specific measures were identified (Table 4.1).

For 2014-2016, the MAFRD decided to implement only some of the ARDP measures presented in Table 4.1, while simultaneously preparing for future implementation of other measures (M 501, M 401, M 402 and pilot measure M 201). In general, the ARDP programme highlights the need to increase food self-sufficiency, farm competiveness and free access to the EU market as important opportunities for the improvement of farmers' incomes in Kosovo*. Therefore, the development of new production facilities and improved competitiveness requires improved marketing, packaging, quality and labelling standards in the wider scope of the agro-food sector. Following the latest EC analysis, only a very small proportion of Kosovo* farms and food-processing companies are competitive with EU and international markets (EC 2015). The key cause of low agricultural competitiveness in Kosovo* is the predominance of small and subsistence farms, a high degree of land fragmentation, constrained access to credit and lack of knowledge in the use of modern technologies.

Table 4.1. Kosovo* ARDP 2014-2020: priorities and selected rural development measures

Priorities	Measures
Improve farm sustainability and competitiveness of all agricultural and agro-industrial products and continue approximation to EU standards	M 101 Investment in physical assets of agriculture households M 103 investment in physical assets in processing and marketing of agricultural products
Recovery, protection and enhancement of ecosystems related to agriculture and forestry	M 201 Agro-environment measures and organic farming M 202 Planting and protection of forests
Promote socio-economic inclusion, poverty reduction and territorially balanced rural development	M 302 Farm diversification and business development M 303 Preparation and implementation of Local Development Strategies — LEADER
Transfer of innovation and knowledge in agriculture, forestry and rural development and strengthen the capacity of public administration in implementing rural development programmes	M 401 Enhanced training M 402 Advisory services M 501 Technical assistance
Others	Irrigation projects

Source: MAFRD 2013.

With the assistance of international donors, the MAFRD is working to establish the necessary structures, in line with CAP and IPARD policies, for the EU integration process. In an effort to increase alignment with the EU CAP, the MAFRD has established a Department for Advisory Services, which provides technical, economic and legal support to agricultural producers (EC 2015). The MAFRD has also deployed municipal advisors

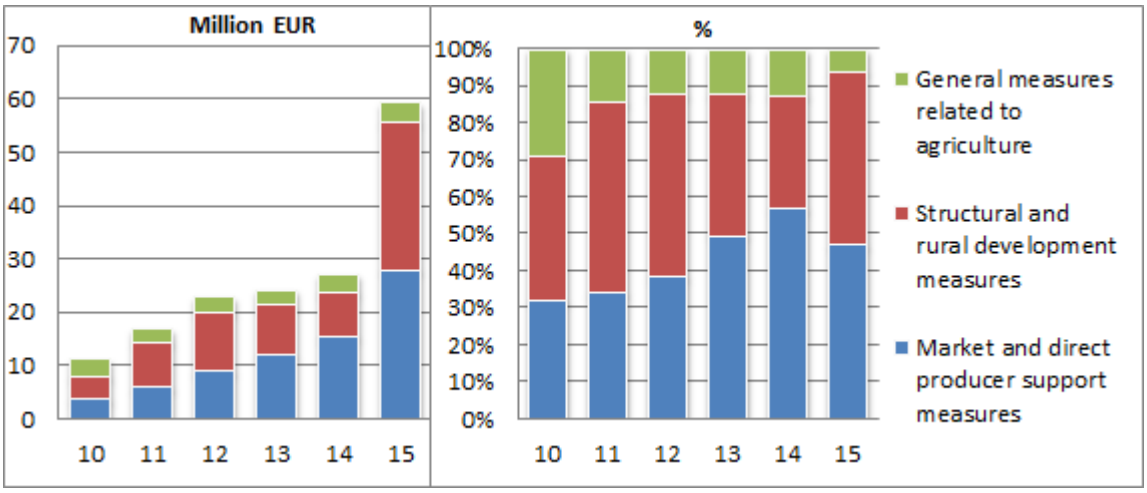
([19]) Currently, Kosovo* is implementing the second phase of IPA (IPA II), which was adopted in 2014. The first phase of IPA implementation covered 2007-2013 and aimed to provide EU support for the economic and political development of Kosovo* from a clear European perspective. The second IPA phase — IPA II — started in 2014 and will end in 2020. For this period, the EU has committed a total of EUR 645 million for Kosovo*, out of which EUR 79.7 million is planned for agricultural and rural development support.

and opened municipality information centres in each municipality to provide advice and support to the farmers and increase productivity. The MAFRD has also created a special website to provide information on rural development and monitor grant schemes and subsidies in line with EU standards. In addition, the established managing authority continues to implement and monitor grant schemes and subsidies through the Agriculture Development Agency. Farmers who apply for grants and subsidies were registered through the Farmers Register, which is a software system that is used by agricultural offices in the municipalities and is used centrally by the MAFRD. This form of payment control represents the basis for reforms and for alignment with EU standards.

4.3 Agricultural policy development

During the study period, budgetary support for agriculture in Kosovo* increased from EUR 11.0 million in 2010 to EUR 59.1 million in 2015 (Figure 4.1). In 2015, the total agricultural support more than doubled compared with 2014, when it was EUR 27 million. The increase in the total support was mainly a result of increased funds for direct producer support and for structural and rural development measures, while general services support remained almost unchanged. Direct producer support as a proportion of the total support varied between 31.9 % and 47 % in 2010-2015, followed by rural development support (between 39 % and 47 %) and general services support (between 6 % and 29.1 %).

Figure 4.1. Development of budgetary support for agriculture in Kosovo*, 2010-2015



Source: agriculture and agricultural policy database (Kosovo*).

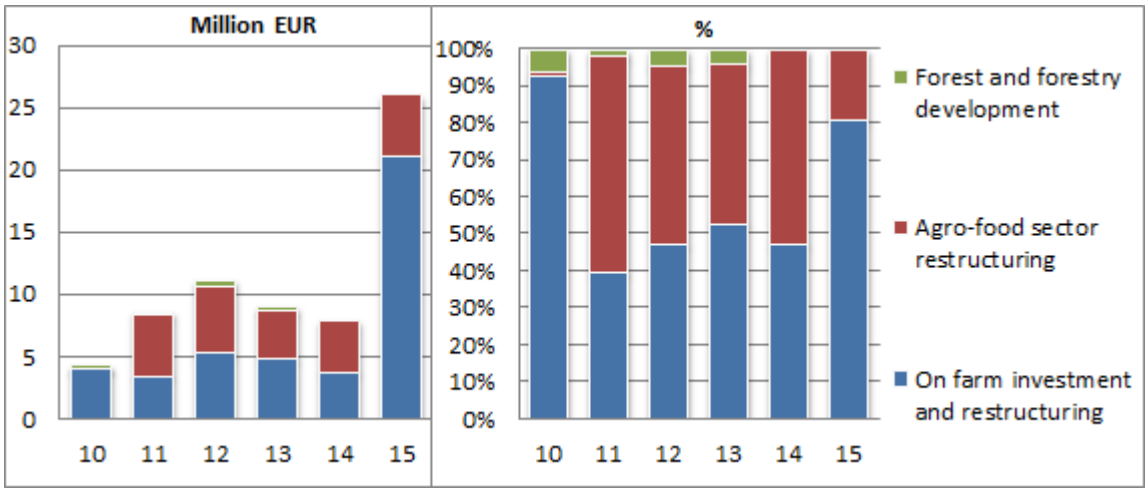
The direct producer support measures aim to increase agricultural production, increase farmers' incomes and improve the competitiveness of the agricultural sector in relation to other sectors and to imports. The total budgetary transfers for direct producer support increased from EUR 3.5 million in 2010 to EUR 15.2 million in 2014 and to EUR 27.8 million in 2015. Direct producer support is granted in the form of area and animal-based direct payments for specific crop and livestock sectors. Input subsidies were granted only for fuel for harvesting up to 2013. Output payments have been introduced only recently (in 2013 for seedlings and in 2014 for milk), but their proportion of the total direct support remained below 4 % in the study period.

Rural development policy also plays a very important role in the Kosovo* agricultural policy. This is primarily due to the specificities of the agricultural sector and rural areas. Rural development measures are focused on strengthening the competitiveness of food producers by supporting investments in primary production and the processing industries, as well as by introducing international food safety standards. In 2015, budgetary expenditure for the implementation of rural development measures amounted

to EUR 27.8 million, increasing from EUR 4.3 million in 2010. In 2010-2015, this support represented about 43 % of the total budgetary support for agriculture. Structural and rural development support mostly aims to increase the competitiveness of the agro-food sector. Funding for measures that aim to support the rural economy and population has increased in recent years (from about EUR 0.1 million in 2010 to about EUR 1.8 million in 2015), but the proportion of these funds compared with the total funds for rural development has remained low, at below 10 % (6.5 % in 2015). These funds were granted to build local capacity (LEADER) and, from 2014, to support farm diversification and alternative activities in rural areas. Support for the improvement of rural infrastructure and the maintenance of rural heritage has not been implemented because of budgetary constraints.

In most years in the study period, the largest proportion of the budget for improving the competitiveness of agricultural sector has gone to measures aimed at farm restructuring (Figure 4.2). This farm restructuring support was implemented predominantly in the form of investment support focused on several agricultural subsectors (poultry, fruit, vegetables and vineyards, milk and meat, cereals and honey) and on other forms of farm restructuring. In 2015, the funds for farm investments increased significantly (from about EUR 3.5 million in 2010 to EUR 21 million in 2015), indicating that there was awareness in the policy of the need to increase farm productivity and quality of agricultural products and to improve sustainability and competitiveness.

Figure 4.2. Development of budgetary support for improving the competitiveness of agricultural sector in Kosovo*, 2010-2015



Source: agriculture and agricultural policy database (Kosovo*).

Support for restructuring of the agro-food sector has been directed to the processing and marketing of agricultural products. Support is intended to improve the use of agricultural products through the enhancement of higher value production; the establishment of collection, packing and storage centres; and the introduction of the Hazard Analysis and Critical Control Points (HACCP) food safety management system with the aim of meeting EU requirements (Miftari and Hoxhaj 2014). The executed funds for restructuring the agro-food sector did not change significantly over the study period (Figure 4.2). Meanwhile, many projects that were implemented under this measure were also supported by EU funds.

Forestry restructuring support was mainly focused on afforestation and was in place until 2013. After 2013, no funds were allocated to this measure because of budget constraints.

General services support was relatively stable throughout the study period 2010-2015, with an average of EUR 3 million. More than 95 % of this support was allocated to finance improvement of food safety (veterinary and phytosanitary services) standards

and only a small proportion of the funds was disbursed for technical assistance and vocational training to meet rural development needs (EUR 0.1 million). The vocational training of farmers is of great importance to accelerate agricultural development in Kosovo*. However, the budget for these activities is still relatively small, taking into account the relatively large number of farmers interested in enrolling in specialised training and study programmes.

4.4 Direct payments

The number of direct payments instruments increased significantly in Kosovo* between 2010 and 2015 (Table 4.2). In 2010, direct payments were granted for wine grape production (payment per hectare of vineyards), and for rearing dairy cows, sheep and goats (payment per animal). In the following years, several new instruments were introduced and by 2015 their number had increased to 15. In 2015, direct support in the form of area payments was granted for the cultivation of wheat, wheat seed, maize, oilseeds, vegetables, fruit (introduced in 2015) and wine grapes. For dairy cows, sheep and goats, slaughtered cattle (introduced in 2015), beehives, sows and laying hens direct support was granted in the form of headage payments and for fruit and vine seedlings and milk in the form of payment per quantities sold. The eligibility criteria are dependent on the support scheme (from 0.1 ha for vineyards to 5 ha for wheat seed and from one head of slaughtered cattle to 2 000 laying hens) and are kept stable over time.

Table 4.2. Direct payment schemes implemented in Kosovo* by type and sector, 2010-2015

Direct payment schemes	2010	2011	2012	2013	2014	2015
Payments based on area (EUR/ha)						
Vineyards (for wine grape production; min 0.1 ha)([a])	250	500	-	500; 200	1 000; 300	1 000; 300
Wheat (min 2 ha)	-	100	100	125	125	150
Maize (min 1 ha)	-	-	100	100	100	150
Wheat seed (min 5 ha)	-	-	100	200	225	250
Oilseed (min 1 ha)	-	-	100	100	100	150
Vegetables in the open field (min 0.5 ha)	-	-	-	-	300	300
Orchards (fruit trees: min 0.5 ha; soft fruit: min 0.2 ha)	-	-	-	-	-	400
Payments based on livestock number (EUR/animal, beehive)						
Dairy cows (min 5 cows)	30	30	50	50	50	70
Sheep and goats (in milk production; min 30 and 20 animals)	10	10	10	10	10	15
Beehives (min 30, max 500 hives)	-	-	10	10	10	10
Laying hens (min 2 000 hens)([a])	-	-	-	0.5; 0.4	0.5; 0.4	0.5-0.3
Breeding sows (min 2 sows)	-	-	-	-	20	20
Slaughtered cattle (based on receipt)	-	-	-	-	-	30
Payments based on output (EUR/kg, piece)						
Fruit and vine seedlings (min 0.5 ha; min 5 000 seedlings)([a])	-	-	-	0.2	0.1-0.2	0.1-0.2
Milk quality premium (for cow, sheep and goat milk delivered to dairies; min 1 500 l/quarter)([a])	-	-	-	-	0.02-0.06	0.02-0.06

([a]) The payment per unit differs depending on vine area (payments for vineyards), number of animals on the farm (payments for laying hens), production volume (payments for seedlings), or milk quality class (milk premium).

Source: agriculture and agricultural policy database (Kosovo*).

As a result of the introduction of new direct payment instruments, as well as the introduction of increased payment rates for some of the instruments (particularly for dairy cows and wheat), the total direct support has increased since 2010. In general, direct payments for crop production have increased more rapidly than those for animal production (Table 4.3). Apart from 2010, the largest proportion of direct crop payments were allocated to cereal sectors. In 2015, area payments for wheat, wheat seed and maize together accounted for two thirds of the total crop direct payments and 37 % of the total direct payments. The livestock direct payments are dominated by dairy-related

support (payments for dairy cows and sheep and goats and the milk premium), which, in 2015, accounted for about 80 % of the total livestock payments and 36 % of the total direct payments.

Table 4.3. Budgetary expenditure for direct payments and input subsidies in Kosovo* (million euros), 2010-2015

	2010	2011	2012	2013	2014	2015
Direct payments to crop sectors	**1.115**	**4.295**	**4.956**	**7.911**	**10.370**	**15.621**
Area payments for wheat	-	3.207	3.795	5.772	5.555	6.850
Area payments for wheat seed	-	-	0.025	0.064	0.107	0.154
Area payments for maize	-	-	0.575	0.943	1.269	3.245
Area payments for oil plants	-	-	0.074	0.041	0.045	0.020
Area payments for vineyards	0.703	0.699	-	0.995	2.291	1.836
Area payment for orchards	-	-	-	-	-	0.645
Area payments for vegetables in the open field	-	-	-	-	1.027	2.697
Output payments for fruit and vine seedlings (per piece)	-	-	-	0.096	0.076	0.174
Input payments for fuel for harvesting	0.412	0.389	0.487	-	-	-
Direct payments to livestock sectors	**2.384**	**1.413**	**3.791**	**3.981**	**4.938**	**12.181**
Headage payments for dairy cows	1.108	0.794	2.105	2.095	2.212	5.416
Headage payments for dairy sheep and goats	1.276	0.619	1.327	1.151	1.210	3.594
Output payments for milk (per litre)	-	-	-	-	0.500	0.869
Payments to beekeepers (per beehive)	-	-	0.359	0.494	0.778	1.842
Headage payments for laying hens	-	-	-	0.240	0.232	0.441
Headage payments for breeding sows	-	-	-	-	0.006	0.016
Headage payments for slaughtered cattle	-	-	-	-	-	0.003
Total	**3.500**	**5.707**	**8.747**	**11.893**	**15.307**	**27.802**

Source: APM database (Kosovo*).

Decoupled payments are not applied in Kosovo*, even though they are the main policy instrument under the CAP. The shift towards a more decoupled payment scheme remains a challenging task for Kosovo* and this must be implemented before the 2020 time horizon, as outlined in the 2014-2020 ARPD. Overall, direct farm support is important for agriculture in Kosovo* because the sector is dominated by small farms. However, there are still limited structural pressures in the sector and agricultural support is not designed to be sufficient to stimulate farm growth. Kosovo* farmers still lack an efficient way of adopting modern technology and acquiring the financial means to undertake on-farm investments to reach international food quality standards and become competitive in international markets (Miftari et al. 2016).

4.5 Implementation of agricultural policy documents

The overall development of agricultural policy in Kosovo* is driven largely by the prospect of EU integration. As described above, agriculture is one of the most demanding and complex sectors in Kosovo's policy development and in the EU's *acquis communitaire*. This has placed additional demands on the process of moving towards compliance with the EU CAP and more effort is required in obtaining additional assistance from international donors to put the required regulatory framework and policies that would promote the development of a competitive agricultural sector in place. Recognising the importance of this, the government has substantially increased budgetary support for this sector, especially from 2015.

The budgetary support for agriculture and rural development in Kosovo* has been described in detail in the ARDP 2007-2013 and the ARDP 2014-2020. Both documents were prepared following the same framework as the EU CAP. However, funds for the implementation of the ARDP, especially for 2007-2013, were very limited and the priorities were linked mainly to agricultural production and the competitiveness of the sector. Agricultural policy was focused on direct support measures that corresponded strongly to first pillar measures under the CAP and rural development support measures

similar to second pillar measures. Although public support increased in 2015, there is a need to ensure that the appropriate implementation of support schemes for agriculture and rural development, as part of ARDP 2014-2020, are put in place to harness the sector's productivity and reorient existing policies towards organic farming, the diversification of activities and the transfer of innovation and knowledge to agriculture.

Under the ERP 2016-2018, Kosovo* allocates 50 % of the total budget to subsidies and grants for measures under the first pillar. In addition to this, the government also continues to support investment projects (measures under second pillar) in 2016. A significant achievement has been noted in improving agricultural infrastructure for agro-business through the 2016 ERP planned reforms, in which the policy demonstrates commitment to support farmers by increasing irrigation system coverage (to 40 % of arable land), developing the agricultural wholesale market infrastructure, expanding the number of laboratory testing units and establishing the Integrated Agricultural Information System. MAFRD allocated EUR 2.1 million to irrigation projects in the public sector in 2016 and another EUR 1 million is planned as part of the 2016 rural development programme that targets private farms. However, implementing these measures will be challenging, as it requires more financial resources than have been allocated from the national budget to support the programme and other activities, such as those related to the consolidation of agricultural land. According to the Action Plan of the Strategy on Land Consolidation 2010-2020, the implementation of these measures will continue in 2016-2018 and more than EUR 0.5 million per year is to be allocated from the national budget (MAFRD 2010). Land consolidation, as an integral part of rural development policy, would help farmers in promoting land market development and would improve access to credit and investments.

Overall, Kosovo* has been successful in preparing for the implementation of the majority of IPARD II measures. However, further promotion of agricultural and rural development, such as the strengthening of farmers' productivity, achieving land consolidation, supporting organic farming, protection of the environment and of forestry and increasing technical assistance will require additional reforms.

4.6 Conclusions and policy recommendations

The development of agricultural policy in Kosovo* over recent years has demonstrated an important step towards harmonisation with EU agricultural policy. The essential features of agricultural policy development in Kosovo* may be summarised in the following key observations:

- Kosovo has adopted long- and mid-term strategic documents, such as the ARDP 2014-2020, the Mid-term Expenditure Framework, the Yearly National Program for Agriculture and Rural Development and the ERP, in which the objectives and priorities for agriculture and rural development were set. In general, the development of programming documents and harmonisation with EU principles shows some progress, mainly in the objectives of strengthening responsible institutions and increasing the budget.
- Overall, funding for agriculture and rural development has increased in recent years but it is still too low to implement all the measures targeted by the ARDP.
- The total agricultural support allocation is split roughly equally between direct producer support (first pillar) and support for rural development (second pillar).
- Direct producer support increased significantly in 2010-2015 and was disbursed mainly in the form of area payments coupled to the cultivation of specific crops or coupled animal payments made per head of livestock.
- The main bulk of rural development support was allocated to the improvement of the competitiveness of agriculture. However, there were no funds to support the improvement of rural infrastructure, the maintenance of rural heritage or improvement of the environment.

— General services support represents the smallest proportion of the total agricultural budget and is mainly allocated to support the improvement of food safety standards.

Moreover, farmers in Kosovo* are faced with several constraints, such as high levels of land fragmentation, outdated farm technologies, lack of production diversification, limited capacity to grow and limited provision of technical support. Although several reforms have been put in place to address some of these issues (e.g. land consolidation, irrigation systems and organic farming), further efforts are needed to strengthen their implementation and to enhance the competitiveness of the agricultural sector in Kosovo*. Other neglected areas that need further policy action are the protection of the environment and the less favoured areas (hillsides, rolling land, etc.), which are the zones with reduced productivity. In addition, the direct farm support system currently relies exclusively on coupled crop and animal payments, while EU accession will require the adoption of decoupled payment schemes. However, the development of agricultural policy in this direction will depend on administrative and human capacities and the availability of financial resources.

5 FYR Macedonia: agricultural policy development and assessment

Dragi Dimitrievski, Ana Kotevska and Ivana Janeska Stamenkovska

Ss. Cyril and Methodius University of Skopje, Faculty of Agricultural Sciences and Food

5.1 Introduction and approach

Policymaking is a complex issue, especially when it focuses on a complex sector, such as the agro-food sector. The large number of subsectors, the different objectives and the behaviour of the many stakeholders emphasise the multiple roles of the agricultural policy in the sector, which is to regulate and support the behaviour of the actors and meet the needs of the producers and the general public. The multiple dimensions that must be covered require multiple approaches. Therefore, there is no single policy solution and it is often necessary to make choices and trade-offs (Cochran et al. 2009). Policy analysis is used as a tool for choosing options among alternatives and to measure the impact of the policy.

Agriculture has become more important for policymakers since the start of the EU accession process for FYR Macedonia. Agriculture is an important sector for the economy of FYR Macedonia, accounting for 11.1 % of total GVA and 18.5 % of total employment in 2014 (Agriculture and agricultural policy database (FYR Macedonia)).

During the process of market liberalisation and harmonisation with the EU CAP, agricultural policy in FYR Macedonia has been under continuous reform. Therefore, the scope, form and type of budgetary transfers to agriculture have been under constant reform.

The aim of this chapter is to describe and evaluate the development of FYR Macedonia's agricultural policy. Data used for building the APM database were obtained from the Agency for Financial Support of the Agriculture and the Rural Development and the final financial statement of the budget of FYR Macedonia. Since the more systematic and structural changes for adjusting national agricultural policy towards the CAP were established with the law adopted in 2010, FYR Macedonia's APM database covers 2010 to 2015 ([20]).

The second section in this chapter gives a brief description of the main strategic and programming documents defining agricultural policy in FYR Macedonia. The third section covers the overall development of the agricultural policy in the country. A special focus is put on direct payments as the main instrument of national agricultural policy, as described in the fourth section. The last section concludes and provides policy recommendations.

5.2 Strategies and programming documents for agricultural policy

The priorities of agricultural policy development in FYR Macedonia are defined in the National Agriculture and Rural Development Strategy (NARDS). The main legal framework determining the implementation of agricultural policy in FYR Macedonia is established within the Law on Agriculture and Rural Development (MAFWE 2010), supplemented by a dozen other laws to regulate specific issues (Dimitrievski et al. 2014). The Ministry of Agriculture, Forestry and Water Economy (MAFWE) is the authority responsible for the planning, monitoring and evaluation of agricultural policy and its instruments, while the Agency for Financial Support in Agriculture and Rural Development is responsible for its implementation and control.

([20]) Data are provided on annual basis following implementation of the payments.

NARDS defines the medium- and long-term agricultural policy objectives (for a period of 7 years). The priorities for the agricultural policy, as defined in NARDS 2014-2020, are to promote restructuring and modernisation of the agro-food sector, market regulations, socio-economic conditions in rural areas, knowledge and the human capital in agriculture, food safety standards and natural resources (MAFWE 2014). NARDS 2014-2020 also identifies some aspects for the further alignment of FYR Macedonia's agricultural policy with the CAP. They refer to increasing rural development support, gradually decoupling direct payments, increasing agro-environmental measures, supporting young farmers, establishing cooperatives and vertical integration, introducing market boards and minimum quality standards, mitigating the impact of climate change and improving waste management and energy efficiency.

NARDS establishes a 3-year programming cycle for the budgetary planning of agricultural policy. The current cycle covers 2013-2017 and projects an annual budget of EUR 150 million (MAFWE 2013). The annual budgetary transfers to agriculture are defined in the annual programmes and are defined separately for agriculture (mostly direct payments) and rural development (including modernisation and restructuring of agriculture). The funding for the agricultural policy comes mainly from the national budget and is supplemented by the EU IPARD programme and other international donors.

Direct payments are the main policy instrument used to support the farming sector. As in the CAP, they are conditional upon cross-compliance requirements representing a set of basic standards that are related to the environment, food safety and animal and plant health. Rural development policy is less important than direct payments in terms of budgetary allocation, but it is more aligned with the CAP. The rural development policy has four priority areas corresponding to the four axes of the 2007-2013 CAP. NARDS envisages further adjustments of the agricultural policy towards the CAP until they become fully aligned when FYR Macedonia achieves full EU membership (MAFWE 2014). However, a specific timeline for a full alignment of agricultural polices with the CAP is not provided. The slow progress of EU integration for FYR Macedonia, combined with the adoption of CAP reforms, contributes to the lack of a clear timeframe in NARDS for full policy alignment and makes the EU conditions that must be met moving targets.

The process of agricultural policy development and design in FYR Macedonia appears not to follow evidence-based policymaking, which relies on the regular monitoring of policy implementation, the achievement of goals and impact assessments. Although the evidence shows that certain policy instruments are being implemented consistently over a few successive years, the majority of the main instruments are subject to regular amendments that contribute to the instability of agricultural policy in the country ([21]). Furthermore, there is a discrepancy between the policy instruments that are actually implemented and their planned budgetary allocations. The main factors contributing to this discrepancy are (1) the demanding administrative procedures that cause the postponement of payments until the next calendar year; (2) frequent amendments and adjustments made to the regulatory framework; and (3) the relatively limited experience, education and skills of farmers, which prevents them understanding the complex administrative requirements for collecting and preparing all the necessary documentation.

5.3 Agricultural policy development

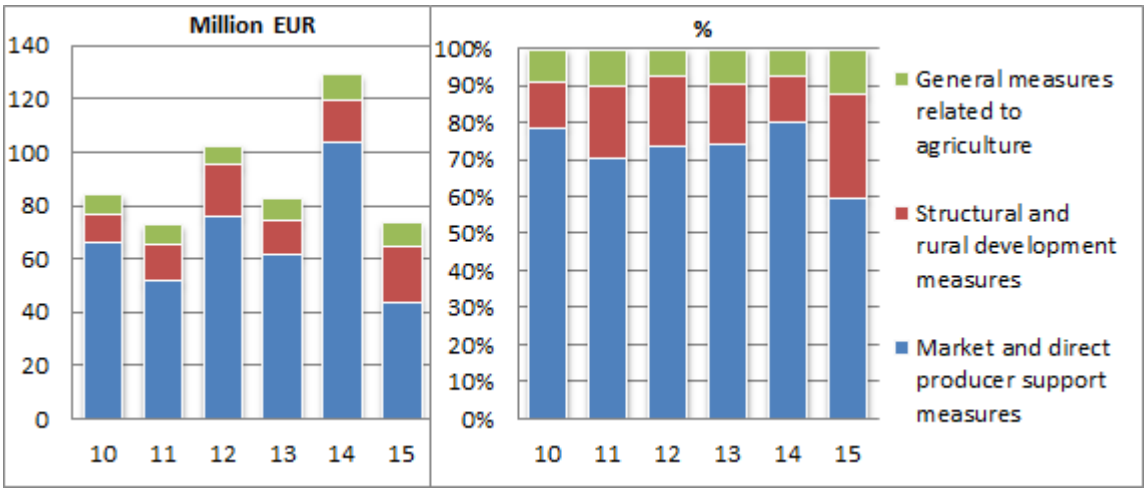
The total average annual budgetary transfers to agriculture amounted to approximately EUR 90 million in 2010-2015 (Figure 5.1). Although the 2013-2017 National Program for Agricultural Policy anticipates annual transfers of EUR 150 million in 2015-2017 (MAFWE 2013), the actual budgetary transfers reached a plateau of EUR 129 million in 2014, whereas they reached only EUR 73 million in 2015. Since some transfers are

([21]) For example, in 2015, 10 amendments were made to the regulatory framework of agricultural policy; some introduced minor changes, whereas others introduced substantial changes by altering the allocation criteria or adopting new instruments.

programmed over a multi-annual period, the low level of transfers observed in 2015 is also due to their higher level of realisation in previous years.

No significant changes have been observed in the structure of support over time; direct producer support measures are dominant (60 % in 2015), whereas rural development measures and general support for agriculture account for only a small proportion of the total agricultural budget (28 % and 12 % in 2015, respectively).

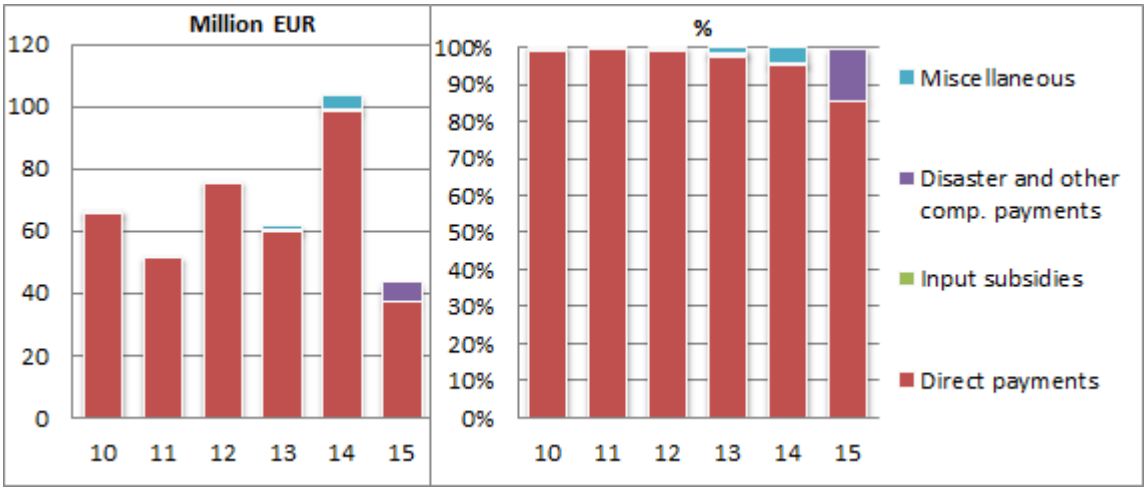
Figure 5.1. Budgetary support for agriculture in FYR Macedonia, 2010-2015



Source: agriculture and agricultural policy database (FYR Macedonia).

Direct producer support represented around EUR 44 million in 2015, decreasing from around EUR 66 million in 2010. Direct payment is the main measure within direct producer support. The proportion of direct payments out of the total direct producer support decreased slightly in 2010-2015, from 99 % in 2010 to 86 % in 2015 (Figure 5.2).

Figure 5.2. Budgetary expenditure for direct producer support in FYR Macedonia, 2010-2015



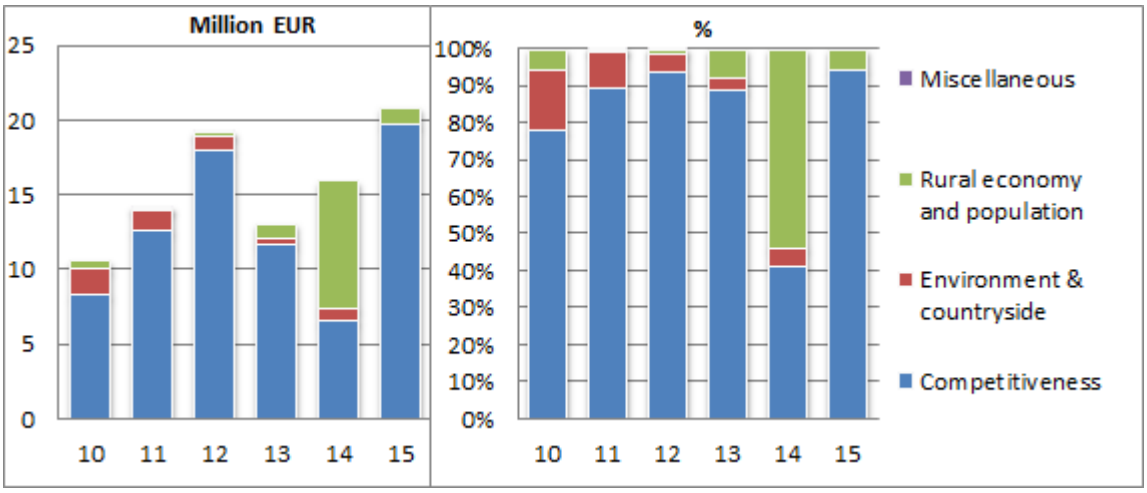
Source: agriculture and agricultural policy database (FYR Macedonia).

Direct payments are distributed per unit of agricultural product (tobacco and milk were the main beneficiaries in 2015), per hectare of cultivated land (grapes and oilseeds were the main beneficiaries in 2015) or per head of livestock and are conditional on respecting CAP-like cross-compliance requirements. Input subsidies are negligible, representing less

than EUR 1 million per year and market measures have not been applied in FYR Macedonia.

The annual funds allocated to rural development varied between EUR 10 million and EUR 21 million in 2010-2015. Rural development support mainly targets increasing the competitiveness of the agricultural sector (Figure 5.3) and is mainly disbursed as on-farm investments or agro-food restructuring support (the former was lower in 2015). The support of the rural economy (basic infrastructure, services and village renewal) has increased since 2013, whereas the agro-environmental and less favoured area support measures are significantly less well represented in the structure of the rural development policies in 2014 and particularly in 2015.

Figure 5.3. Budgetary expenditure for structural and rural development measures in FYR Macedonia, 2010-2015



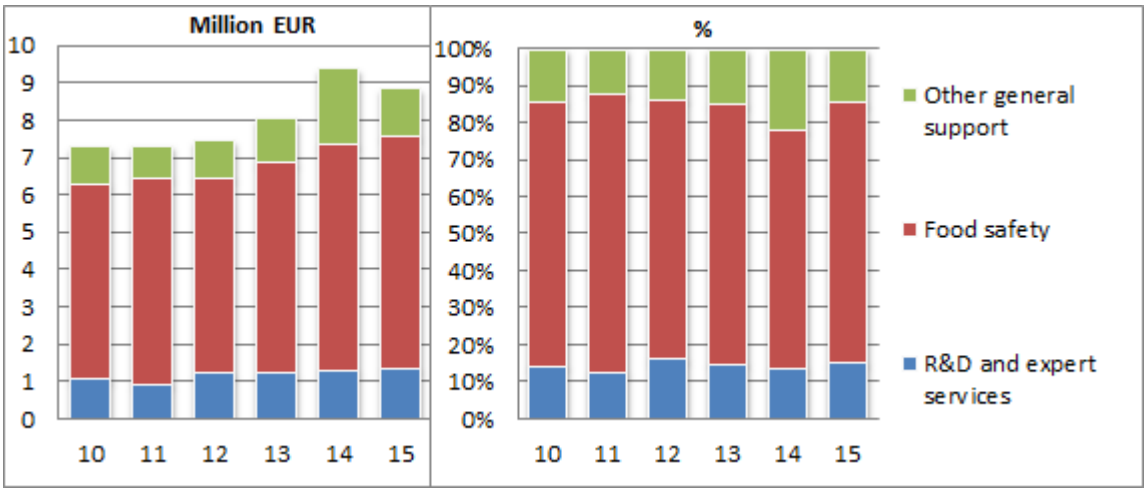
Source: agriculture and agricultural policy database (FYR Macedonia).

Rural development is also supported by EU IPARD funds. In 2015, IPARD funds represented around 10 % of the total budgetary transfers for structural and rural development measures. Although the first call for applications for IPARD measures was made in December 2009, the first payments were made in 2011; this was because the implementation of the programme was late in starting and a long time was required for the processing and evaluation of applications (the average time was estimated to be 18 months).

General support for agriculture includes only data from the budgets of the MAFWE, the National Extension Agency, the National Hydro Meteorological Service, the Food and Veterinary Agency and the Paying Agency. The database is to be improved further by including data on activities and projects that are financed by other national institutions or foreign donors.

Spending on general support was around EUR 7.3 million in 2010, increasing to around EUR 8.8 million in 2015. The largest proportion of the total general support was allocated to food safety (around 70 %), whereas the extension, research and development services and other general measures received only about 15 % each on average in 2010-2015 (Figure 5.4).

Figure 5.4. General support for agriculture in FYR Macedonia, 2010-2015



Source: agriculture and agricultural policy database (FYR Macedonia).

5.4 Direct producer support

Direct payments are the main instrument used in FYR Macedonia to support the agricultural sector. A wide range of direct support measures were implemented in 2010-2015. Some of the measures were present during the whole period, without significant changes, and some were adjusted annually, whereas others were implemented occasionally.

The main direct support instrument in 2015 represented area payments granted for the cultivation of specific crops. Area payments are granted for all field crops except tobacco. Certain field crops receive additional payment as well as the basic area payment, such as cereals produced from certified seeds, sunflowers, rice and forage crops.

The area payments for vegetables vary depending on the variety and type of production (in some years they depend on the legal status of the producer). The fruit and wine sectors are supported per area of cultivated orchards and vineyards. Area payments are also allocated to the production of seeds and snail production (Table 5.1).

Headage payments are granted for rearing cattle, sheep and goats (all categories), sows, wintered beehives, calves produced by artificial insemination, female offspring (cattle, sheep and goats) and for slaughtered animals (cattle, pigs, broilers and laying hens).

The output payments are less important in terms of numbers, but they are significant in terms of the size of the budgetary transfers. Output payments are allocated to cereals, tobacco and milk (cow, sheep and goat), fruit and vegetables sold to the processing industry, day-old broilers or female chicks and seed and seedling production.

Direct payments were also allocated to organic production and ANC. These payments were present throughout the whole period of analysis and are added as a percentage increase to direct payments (area or headage) for the appropriate commodity. Organic production was supported with an additional 30 % as well as the support programmed for non-organic production. In 2015, this support increased and varied from 30 % for field crops, 50 % for livestock, 70 % for orchards and vineyards to 100 % for vegetable production. The support for ANC is granted as an additional payment amounting to 15 % of the support programmed in general.

Input subsidies were granted only for insurance (60 % of the insurance premium) in 2015.

Table 5.1. Overview of direct payments implemented in FYR Macedonia, 2015

	Payments per output	Payments per area, animal or beehive
Field crops		Field crops excluding tobacco (EUR 130/ha) Additional payment for cereals from certified seeds (EUR 65/ha) Additional payment for rice and sunflower (EUR 49/ha) Additional payment for forage crops (EUR 16/ha)
	Basic cereal seeds (EUR 0.130-0.325/kg)	Certified seeds (EUR 243-974/ha)
Tobacco	Small leaf tobacco (EUR 0.974/kg)	
Vegetables	Additional payment for vegetables for processing (EUR 0.024-0.106/kg)	Vegetables in the open field (EUR 97-487/ha) Vegetables under controlled conditions (EUR 1,461/ha)
Fruit	Additional payment for fruit for processing (EUR 0.032/kg)	Orchards (EUR 243-536/ha), strawberries under controlled conditions (EUR 1 461/ha)
Vine		Vineyards (EUR 649/ha)
Seedlings	Fruit, vine, vegetable and flower seedlings (EUR 0.081-1.136/p)	
Milk	Cow, sheep and goat milk (EUR 0.057/l)	
Cattle		Cattle rearing — all categories (EUR 45.4/head) Additional payment for calves from artificial insemination (EUR 19.5/head) Additional payment for female cattle aged 12-24 months (EUR 24.3/head) Slaughtered cattle — all categories (EUR 24.3/head) Additional payment for slaughtered young cattle from meat production herds (EUR 48.7/head)
Pigs		Breeding sows (EUR 16.2/head) Slaughtered pigs (EUR 16.2/head)
Sheep and goats		Sheep and goat rearing — all categories (EUR 16.2/head) Additional payment for young female lambs and kids kept for breeding (EUR 11.4/head)
Poultry	Day-old chicks (EUR 0.032-0.065/p)	Slaughtered laying hens and broilers (EUR 0.4-0.5/head)
Other livestock		Beehives (EUR 9.7/wintered beehive) Additional payment for breeder queen bee selection (EUR 16.2/beehive) Ostrich farming (EUR 27.6/head) Snail farming (EUR 1 461/ha)

Source: agriculture and agricultural policy database (FYR Macedonia).

The purchase of breeding animals was also subsidised within the direct support scheme, although this support can be categorised as on-farm restructuring support that is usually granted through the rural development programme. The aim of this support was to improve the breeding structure in the livestock sector and therefore increase the productivity of the animal sector. This support was granted in the first 3 years of the study period as an input subsidy, either as 50 % of the investment value or as a headage payment that varied between EUR 70/head and EUR 650/head, depending of the species and breed of livestock.

5.5 Conclusions and policy recommendations

The agricultural policy has increasingly become a key issue in the political agenda in FYR Macedonia as a result of the ongoing EU integration process. Over the last few years, a plethora of regulations, strategies and programmes have been adopted that aim to gradually align agricultural support with the CAP. As in the CAP, the agricultural policy of FYR Macedonia adopted the two-pillar approach of the CAP — direct producer support and rural development measures.

The budgetary transfers to agriculture have had a stable structure in recent years. Direct producer support is the dominant instrument, accounting for the largest proportion of the total budget (over 70 % on average in 2010-2015). It is distributed in the form of coupled payments granted per unit of production, per cultivated area of specific crop or per head of livestock. Rural development support represents a smaller proportion of the total agricultural support (18 % on average in 2010-2015). Rural development is mainly

focused on increasing the competitiveness of the agricultural sector and is predominantly disbursed as on-farm investments or agro-food restructuring support, although a small proportion is allocated to the development of rural infrastructure, services and village renewal. Only a small proportion of the total agricultural support (about 10 % on average) is allocated as general support for agriculture to improve food safety and extension services.

Agricultural policy in FYR Macedonia is associated with frequent adjustments of policy instruments and the deviation of their implementation relative to the outlined long-term plans. We have identified several factors that cause deviations between implemented and planned budgetary support, such as demanding administrative procedures, frequent amendments to the underlying regulations and farmers' low levels of experience and skills in applying for public support. Public policy literature identifies other factors that affect the implementation of budgetary support, such as the clarity of the relevant laws, the skill level of the policy administration, the availability of financial resources, the socio-economic conditions of the groups affected by the support and media attention (Cochran et al. 2009). Each of these issues deserves special attention in the process of evaluating agricultural policy implementation in FYR Macedonia to improve the effectiveness of the public administration and the implementation of the adopted instruments.

Agricultural policy implementation and design are hampered by the contradicting interests of different stakeholders; the differences in their relative levels of influence can determine the direction of agricultural policy development. This is complicated by the fact that the adopted agricultural support programmes are regulated by a complex legal framework that is subject to frequent amendments, which, among other things, complicates the work of the public administration. This issue is imperative because 'the more complex the implementation process, the more likely that the intent of the policy will become distorted or lost' (Cochran et al. 2009, p. 10). The skills and resources of the public administration are, as a result, under constant strain; they must build their capacity to maintain and update the administrative procedures continuously in response to the changing legal framework. Socio-economic conditions cannot be easily addressed; they need time, commitment and focused governmental actions. Furthermore, recent research confirms the importance of farmers' attitudes and the need for better access to credit and finance to ensure the success of the rural development policy in FYR Macedonia (Kotevska and Martinovska Stojceska 2015). The media attention on agricultural support must also be taken into account to improve stakeholder awareness, so that they are aware of the benefits they could obtain as a result of agricultural and rural development policies, for example, higher income, improved food quality, protection of the environment and preservation of rural livelihoods.

NARDS 2014-2020 identifies some of these requirements for ensuring improved implementation of agricultural policy. However, a systematic evaluation and assessment of the direct and indirect policy impacts and an *ex ante* evaluation when introducing new measures are missing. A clear political will and a commitment to achieve the stated objectives are required.

6 Montenegro: agricultural policy development and assessment

Aleksandra Martinovic*, Darko Konjevic and Mirsad Spahic****

* University of Donja Gorica, Faculty of Food Technology, Food Safety and Ecology, Montenegro
** Ministry of Agriculture and Rural Development, Montenegro

6.1 Introduction and approach

Because it is recognised as one of the three most important sectors of the Montenegrin development path, the agriculture sector attracts the attention of policymakers, stakeholders and the general public. The agricultural sector in Montenegro needs significant improvements in many areas to promote overall economic growth and the development of the agricultural sector and rural areas in particular, as well as to prepare the sector for the future EU accession. Therefore, agricultural policy plays a key role.

Montenegro is a candidate country for EU membership, and the EC and Montenegro completed a screening process involving all national legislation in 2014. The aim of the screening process was to evaluate national legislation in the light of the EU *acquis communautaire*. The process resulted in an outline of the state of Montenegro's preparations with respect to each of the 35 chapters of the *acquis* and the conditions to be met for full EU membership.

The main challenges identified in the agriculture and rural development chapter (Chapter 11) refer to the transposition of legislation and the establishment of the necessary administrative capacities and control structures. This initiated the setting up of the control structures and institutional systems in Montenegro that are necessary for the efficient implementation of the agricultural policy in line with EU rules. Montenegro recently adopted a strategy for the mid-term development of agriculture and rural areas for 2015-2020, which defines an action plan and the pathway and directions for the future development of the agricultural policy.

The objective of this chapter is to present the current state of the agricultural policy reforms and the development of budgetary support for agriculture in 2010-2015 in Montenegro. The main sources of the information and data used in this chapter were collected from the national legal framework, the national statistics office, official national documents and other relevant sources. The quantification of the budgetary support was done using the Montenegro version of the APM database (APM database (Montenegro) 2016). The APM database used in this chapter covers 2010 to 2015. It is important to note that the reported support for the agriculture sector is based on planned budgetary measures and funds (Agro-budget) and not on their actual realisation (execution). The data on the executed budgetary transfers are not publicly available and cannot therefore be used for the analysis.

6.2 Strategies and programming documents for agricultural policy

The key documents that set the government policies for Montenegro's EU accession are outlined in the Programme of Accession to the European Union for 2014-2018 (MF 2013a). This accession programme defines the strategy for the adoption of the *acquis communautaire*, thereby strengthening the administrative capacities and institutional development. Montenegro Development Directions for 2013-2016, adopted by the government in March 2013 (MF 2013b), set out a vision of socio-economic development, including the investments and development measures required to achieve smart, sustainable and inclusive growth. It identifies three priority sectors that were targeted for policy action to promote the economic development of Montenegro: tourism, energy, and agricultural and rural development.

These documents formed the basis for defining the Strategy for the Development of Agriculture and Rural Areas for 2015-2020, adopted in 2015 (MARD 2015a). However, Montenegro had already started the process of the gradual alignment of its agricultural policy with that of the EU in 2007, following the Agriculture and Rural Development Strategy for 2007-2013 (MARD 2006). This earlier strategy established the structure of the measures of the agricultural policy, which were divided into those related to market interventions (including direct payments), the rural development programme and general services support. This general structure of the agricultural policy has been retained until now. Only certain elements were modified to be more compliant with the requirements and practices of the EU.

The new strategy for 2015-2020 (MARD 2015a) and the action plan for its implementation (MARD 2015b) were prerequisites for opening the agriculture and rural development chapter within the EU accession process. The new strategy represents the basis for the harmonisation of national policies with the CAP. The harmonisation with EU standards is envisaged to continue in parallel with the alignment of the legal framework, institutional capacity building and the capacity of the private sector to comply with the requirements of the CAP. To achieve this vision, the strategic objectives for the development of agriculture and rural areas for 2015-2020 are defined as follows (MARD 2015b):

— develop an effective, innovative and sustainable agro-food sector that provides healthy, high-quality, specialised food products based on the added value of natural resources and traditional methods of production and is able to meet the demands of the EU market and resist the pressures of competition;

— develop economic activity and create jobs in rural areas, with special emphasis on the development of good-quality tourism and a short supply chain in the production of high-quality products and services, while, at the same time, respecting the cultural heritage and sustainable use of natural resources;

— promote rural development and social services to improve the quality of life in rural areas and to reduce migration of the rural population to urban areas.

6.3 Agricultural policy development

The implementation of the agricultural policy is planned through the annual agro-budget, which is proposed by the Ministry of Agriculture and Rural Development (MARD), along with a number of other documents, regulations and enactments that are necessary for its operation. The agro-budget contains a number of measures and incentive schemes that are aligned with the priorities of the agricultural policy, as outlined in the strategy for 2015-2020 and the action plan for its implementation (MARD 2015a, 2015b) ([22]).

Figure 6.1 shows the development of agricultural support and its structure in Montenegro for 2010-2015. As described above, these figures are based on the planned budgetary expenditure for the agricultural policy and not on the actual disbursed (executed) payments for specific policy measures.

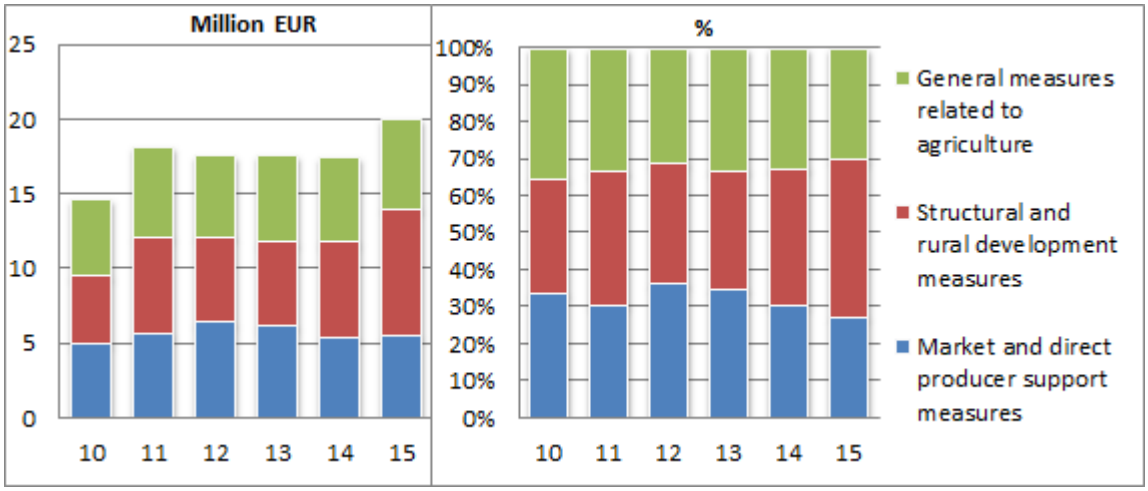
When analysing the total planned agricultural support, a positive trend is observed over the study period 2010-2015. A more substantial increase in the planned agricultural support was observed in 2011 and 2015. The total agricultural support increased from EUR 14.6 million in 2010 to EUR 20 million in 2015 (i.e. by 37 %) ([23]). The support is

([22]) Note that the implementation of the agricultural policy in Montenegro has been supported by a number of projects funded by the EU and by other international donors. The most important projects financed by EU funds in this respect were in the fields of capacity building, rural development, strengthening of laboratory capacities and food safety.

([23]) The growth of the agricultural support in 2015 can be attributed, to a large extent, to the realization of the MIDAS (Montenegro Institutional Development and Agriculture Strengthening) project. For example, around 22% of the market and direct producer support and rural development measures were supported by the MIDAS project in 2015 (MIDAS 2014).

generally evenly distributed between market and direct producer support, rural development measures and general service support (Figure 6.1).

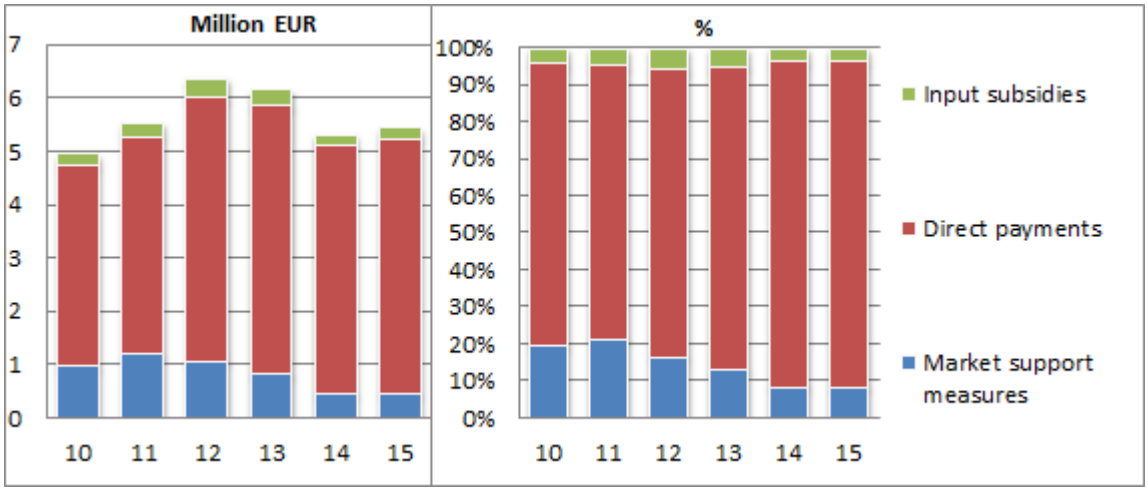
Figure 6.1. Budgetary support for agriculture in Montenegro (planned funds), 2010-2015



Source: agriculture and agricultural policy database (Montenegro).

The proportion of market and direct producer support in the total agricultural support varied between 27 % and 36.2 % in 2010-2015. In 2015, the proportion was lowest, at 27 % (EUR 5.4 million) of the total agricultural support. Direct payments have the leading role in market and direct producer support, accounting for 90 % in 2015, increasing from 88 % in 2010. Direct payments include payments coupled to output level (dairy sector), cultivated area (area payments for arable crops and tobacco) and animal numbers (livestock sectors) (Figure 6.2).

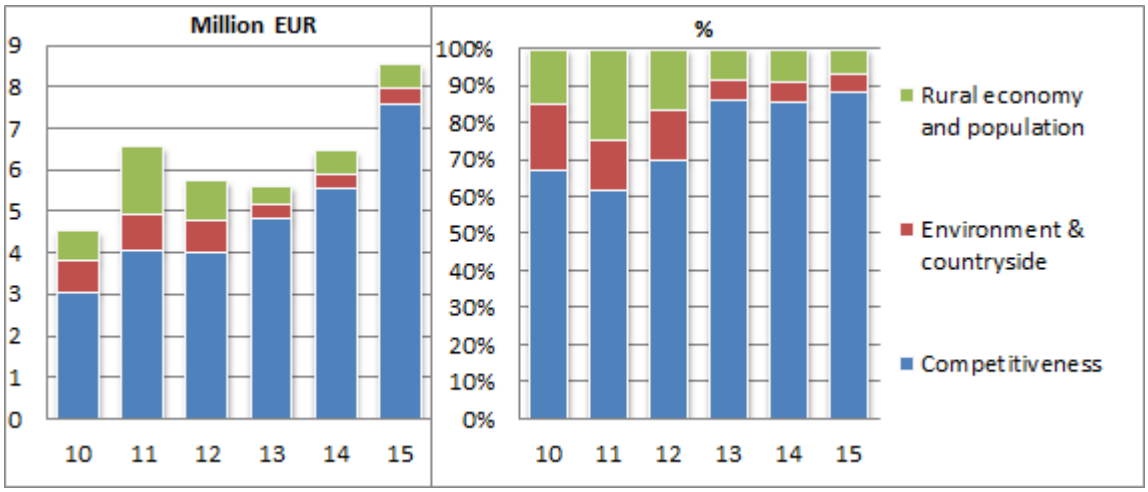
Figure 6.2. Market and direct producers support in Montenegro (planned funds), 2010-2015



Source: agriculture and agricultural policy database (Montenegro).

Rural development measures are divided into three axes covering competitiveness, sustainable management of natural resources (green growth) and diversification of the economic activities in rural areas. The total planned expenditure for rural development measures doubled in 2015 in relation to 2010, from EUR 4.5 million to EUR 8.5 million (Figure 6.3). It represented 43 % of the total agricultural support in 2015.

Figure 6.3. Structural and rural development support in Montenegro (planned funds), 2010-2015



Source: agriculture and agricultural policy database (Montenegro).

Measures aimed at strengthening the competitiveness of the agro-food sector receive most funding within rural development support, accounting for about 88 % of the total funds for rural development in 2015. The aim of these measures is to support on-farm investments, investments in food processing, the improvement of product quality and the promotion of agricultural products, farm cooperatives and national farm associations. In 2015, some of the on-farm investment support was granted in accordance with IPARD requirements with the aim of preparing for the future implementation of IPARD funds.

Measures for the sustainable management of natural resources support organic production and sustainable use of mountain pastures. In 2015, they represented 5 % of the total rural development support.

Finally, measures for the diversification of economic activities in rural areas promote the improvement of socio-economic conditions, quality of life and the creation of employment opportunities in rural areas and the restoration and development of villages (including infrastructure construction). This group of measures represented 7 % of the total rural development support in 2015 (Figure 6.3).

According to the strategy for 2015-2020 (MARD 2015a) and its action plan (MARD 2015b), the current IPARD managing authority will take over the function of the managing authority for the rural development programme. Therefore, the management and implementation roles will be moved from MARD to the IPARD managing authority. The indicative timeframe for this transition of the rural development policy is summarised in Table 6.1.

Table 6.1. The indicative timeframe for the adjustment of the rural development policy in Montenegro to the IPARD system

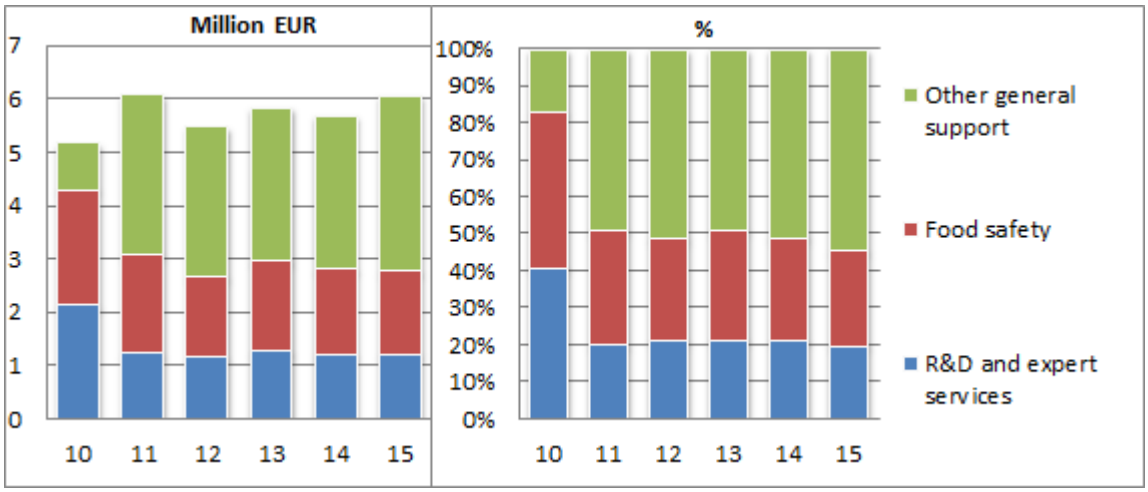
Activity	Body responsible	Timeline
Implementation of the IPARD-like programme	MARD Directorate for IPARD Payments (IPARD Agency)	During 2015
Implementation of the IPARD II programme, with the staged introduction of various measures	MARD Directorate for IPARD Payments (IPARD Agency) and MARD Directorate for Rural Development (IPARD Managing Authority)	2016 onwards
Amending legislation with a view to aligning it with the EU *acquis*	MARD Directorate for Rural Development (IPARD Managing Authority) — proposal	Annually from 2016
The government to adopt a decision on the operational structure for implementation of the rural development programme	MARD Directorate for Rural Development (IPARD Managing Authority)	Second quarter of 2020
Preparation of a rural development programme; the programme will identify a strategy for meeting targets in relation to EU priorities for rural development and a selection of measures that take into account the specific situation of the agricultural sector in Montenegro	MARD Directorate for Rural Development (IPARD Managing Authority)	Second quarter of 2018
Establish a consultation mechanism for relevant bodies for the development of the rural development programme (farmers' associations, chamber of commerce, biotechnical faculty and other educational establishments)	MARD Directorate for Rural Development (IPARD Managing Authority)	Ongoing from 2015
Adoption of procedures for the work of the managing authority (manuals)	MARD Directorate for Rural Development (IPARD Managing Authority)	Last quarter of 2020
Preparation of procedures and manuals for implementation of the Rural Development Programme	Paying Agency and regional offices	2020
Accreditation of the Paying Agency	Competent authority	2020
Participation of managing authority employees in the working bodies of the European Council and the EC	MARD Directorate for Rural Development (IPARD Managing Authority)	From the date of signing the Treaty on Accession
Continuous training of employees of the managing authority in rural development policy area (TAIEX, twinning, other technical assistance instruments, workshops, seminars, on-the-job training and consultants)	MARD Directorate for Rural Development (IPARD Managing Authority)	Ongoing from 2015

Source: MARD 2015b

General services support targets public interest services, such as education, research, conservation of genetic resources in agriculture, professional and advisory services in the livestock sector, veterinary and phytosanitary services, food safety standards and technical assistance.

The proportion of general services support is decreasing but still represented a significant proportion of the overall agricultural support in 2010-2015. Its total value varied between EUR 5.2 million and EUR 6.1 million over the study period (Figure 6.4). Its proportion of the total agricultural support decreased from 35 % in 2010 to 30 % in 2015 (Figure 6.1).

Figure 6.4. General support for agriculture in Montenegro (planned funds), 2010-2015



Source: agriculture and agricultural policy database (Montenegro).

Overall, the development of agricultural policy in Montenegro shows its gradual adjustment to the requirements of the CAP. However, in order to achieve full alignment with the CAP, a significant number of reforms and instructional changes still need to be introduced. The proportion of agricultural support in the total national budget was 1.1 % in 2015, which is relatively low when compared with the average proportion of agricultural GVA in the total national GVA, which was about 10 % in 2015 (Agriculture and agricultural policy database 2016 (Montenegro)). This indirectly indicates that additional financial resources might be required to address all the challenges that need to be resolved in the agricultural sector and rural areas. However, the relevant strategic documents envisage a gradual introduction of the required changes to the agricultural policy and, if successfully implemented, they will be likely to ensure that Montenegro will be able fulfil its commitments for the EU integration process.

6.4 Direct payments

Three types of direct payments are available in Montenegro: (1) area payments for arable crops and tobacco; (2) animal payments for cattle and small ruminants; and (3) output subsidies per litre of milk delivered to dairies (Table 6.2).

Table 6.2. Overview of direct payment schemes implemented in Montenegro, 2015

Sector	Area/animal payments	Payments per output
Arable crops (excluding tobacco)	Cereals, potatoes, buckwheat and other crops (EUR 160/ha)	
	Forage crops (EUR 100-150/ha)	
	Seed potatoes — elite (EUR 700/ha)	
	Cereal seeds (EUR 400/ha)	
Tobacco	EUR 1 000/ha	
Milk		Cow's, sheep's and goat's milk (EUR 0.06/l)
		Additional payment for large producers (EUR 0.01/l)
		Additional payment for milk quality (EUR 0.01-0.03/l)
Cattle	Breeding cows and heifers (EUR 70/head) Fattened (slaughtered) bulls and oxen (EUR 120-140/head)	
Sheep and goats	EUR 8/head	

Source: agriculture and agricultural policy database (Montenegro).

In 2015, the planned expenditure for direct payments amounted to EUR 5.3 million or 27 % of the total agricultural support. The dairy and beef sectors are the major beneficiaries of this support, which accounted for 61 % of the total direct payments in 2015. The eligibility criteria for receiving direct payments require the beneficiaries to be registered in the Farm Register and to fulfil other specific requirements that vary by measure (e.g. minimum area, animal number and quantity produced) (Table 6.2).

Overall, direct payments in Montenegro are not in line with those currently implemented in the EU. This is true for both the type of applied measure and the institutional capacity to manage and implement them. In contrast with the CAP, all direct payments are coupled to production and cross-compliance is not a compulsory requirement for beneficiaries in Montenegro. Furthermore, taking into consideration the dominance of small farms in Montenegro, it is necessary to address their access to direct payments in the course of the EU accession process specifically. In addition, the IACS and LPIS applied by the CAP to manage and implement direct payments have not been implemented for the management and control of direct payments in Montenegro.

According to the strategy and the action plan (MARD 2015a, 2015b), it is envisaged that the alignment of direct payments and the institutional capacity (IACS, LPIS) with the requirements of the CAP will be implemented gradually in Montenegro. The strategic documents outline the following actions in this respect:

— the gradual increase of agricultural support and extension of the coverage of beneficiaries and agricultural land in accessing direct payments;

— the gradual decoupling of area payments for production and introduction of a simple scheme for arable crops, permanent crops and grassland;

— establishing eligibility criteria for receiving direct payment linked to the definition of an active farmer, agricultural activity, eligible area and minimum eligibility requirements in line with EU requirements;

— restructuring of direct support in terms of increasing expenditure for decoupled payments and, consequently, decreasing in relative terms the expenditure available for coupled payments for beef, sheep and goats, milk and tobacco;

— the introduction of cross-compliance-like standards for farmers receiving direct payments (except for small farms);

— the introduction of CAP-like greening measures.

Table 6.3. Planned activities for the harmonisation of direct payments in Montenegro

Decoupling direction	Coupling direction	Year
Status quo	Status quo	2015
Introduction of permanent crops in the decoupled area payment scheme	Status quo	2016
Introduction of vegetables production in the decoupled area payment scheme; adjustment of per-hectare payments for arable crops	New arable crop payments; continuation of livestock and milk payments	2017
Payments for arable and permanent crops to be fully established	Continuation of arable crop payments (gradually decreasing in favour of decoupled payments); continuation of livestock and milk payments	2018
Introduction of permanent grassland in the decoupled area payment scheme, while maintaining the previously introduced area payments (arable crops, permanent crops)	Continuation of arable crop payments (gradually decreasing in favour of decoupled payments); continuation of livestock and milk payments (gradually decreasing in favour of decoupled payments for permanent grassland)	2019
Direct payments fully established; IACS fully established; introduction of cross-compliance-like standards	Continuation of arable crop payments; continuation of payments to the eligible sectors that will be supported after the EU accession	2020

Source: Action Plan for *acquis* alignment, Chapter 11 — Agriculture and Rural Development (MARD 2015b)

The timing of the necessary amendments of the existing national legislation that is required to put into practice these planned policy developments is summarised in Table 6.3.

In the transitory period, the strategic documents envisage the granting of dairy payments based on milk quality, rather than on the quantity of milk produced. At the same time, improvement in milk quality will be aided by rural development measures that support investments in farm equipment and infrastructure.

Direct payments are currently managed by MARD in cooperation with various institutions, such as the extension service for crop production, the livestock selection service and the relevant inspectorates (veterinary and phytosanitary). Under future planning, it is envisaged that the Paying Agency will be set up and made responsible for the implementation of direct payments.

6.5 Assessment of the implementation of agricultural policy documents and conclusions

Findings presented in this chapter indicate that significant changes in the structure of the budgetary funds for agricultural support were not observed in the study period. However, the analyses in this chapter were based on planned support. Nevertheless, the development of the planned agricultural support shows a positive trend with a stable distribution of support across the different measures (i.e. direct producer support, rural development programme and general services support) over the study period 2010-2015. At the same time, the harmonisation of Montenegro's agricultural policy with the EU CAP is clearly promoted within the strategic documents and the action plan that defines the future plans for the policy development in Montenegro (MARD 2015b).

Montenegro decided to adopt the EU *acquis* gradually in the area of agriculture and rural development. That is, Montenegro aims to align its national agricultural policy with the CAP by the date of EU accession. The introduction of all the necessary institutional structures and the regulatory framework must be in place by the date of EU accession for Montenegro to be able to manage and receive funding from the EU and to make payments to beneficiaries in accordance with EU rules and procedures.

To achieve full adoption of the EU *acquis*, significant progress must still be made. In particular, Montenegrin agricultural policy must move from implementing coupled payments to the use of decoupled payments, which is the dominant support system under the CAP. Furthermore, the administrative capacities required for the successful implementation of the agricultural policy are still not sufficient and must be significantly strengthened. Montenegro has to create appropriate conditions for the establishment of IACS and LPIS, which are used by the CAP to manage and implement direct payments, along with other elements necessary for the efficient utilisation of the support funds. In parallel, it is also necessary to initiate implementation of the IPARD programme rapidly, so that EU funds can be used to strengthen the Montenegrin institutional structure and promote the growth of the agricultural sector and rural areas. In addition, it must be emphasised that a modern evidence-based approach to policymaking must be implemented more stringently in Montenegro to improve the decision-making process in the agricultural policy cycle from its design to its implementation. Challenging tasks in this respect are to build agricultural policy statistics and create the institutional capacity to use these statistics for policymaking.

7 Serbia: agricultural policy development and assessment

Natalija Bogdanov, Ružica Papić and Saša Todorović

University of Belgrade, Faculty of Agriculture

7.1 Introduction and approach

During the last decade, agricultural policy in Serbia has been marked by frequent changes in policy frameworks, implementation mechanisms and budgetary transfers to agriculture. Despite unstable and often inconsistent policy measures and unpredictable shifts in implementation mechanisms, progress has been achieved in recent years in setting up institutional structures and adjusting the agricultural policy concept to align it with the CAP. The most powerful impetus to the acceleration of institutional and policy reforms was the opening of negotiations on Serbia's accession to the EU at the end of 2013. Over the last 3 years, legal, strategic and programming documents regulating agricultural policy have been adopted and institutional structures have been established to address the requirements of the EU integration process.

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

This report aims to provide information that will enable the recent developments in Serbian agricultural policy to be understood. More precisely, in this chapter, we will (1) look at the main strategic and programming documents in the country, with special emphasis on the measures to be implemented in the future; (2) examine budgetary transfers and funds over recent years, by pillars and group of commodities; (3) describe the system of direct payments to highlight the changes in the implemented measures and eligibility criteria; and (4) assess the policy implementation process and draw conclusions.

The methodological approach includes qualitative content analysis of the strategic and programming documents regulating the current agricultural policy framework. Attention is focused primarily on policy operationalisation, that is, on the contents of the legislative acts governing the implementation of support schemes and policy measures. Quantitative analysis of budgetary transfers by policy pillar and group of measures was performed using Serbia's APM database, which uses the APM classification scheme for clustering support measures to the corresponding group (Rednak et al. 2013) ([24]).

7.2 Strategies and programming documents for agricultural policy

The acceleration of the EU integration processes has resulted in numerous policy and institutional improvements in Serbian agriculture. The legal, strategic and programming documents governing agricultural policy in Serbia were updated and some institutional structures were adjusted to meet the challenges of the new model of policy implementation.

([24]) Support measures, including data on the executed budget, are grouped according to the APM model and do not follow the structure provided by national legislation.

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

— the Law on Agriculture and Rural Development (adopted in 2009)([25]), which defined mechanisms for creating and implementing agricultural policy and the key documents governing agricultural policy from the medium- and long-term perspective;

— the Law on Incentives in Agriculture and Rural Development (adopted in 2014), which replaced the Law on Agriculture and Rural Development and regulates the types of support, funding and methods of implementation, but does not deal with matters regarding creating and adopting the policy framework.

The Law on Agriculture and Rural Development envisaged that the agricultural policy of Serbia had to be regulated by the Strategy for Agriculture and Rural Development, the National Programme for Agriculture and the National Programme for Rural Development. The Strategy for Agriculture and Rural Development was adopted in 2014, defining the vision, strategic goals and budgetary framework for 2014-2024. The National Programme for Agriculture and the National Programme for Rural Development, which were supposed to define mid-term policy objectives and their implementation, have not been adopted. In the meantime, the Law on Agriculture and Rural Development was replaced by the Law on Incentives in Agriculture and Rural Development, which does not predict the need for a policy framework for the mid-term period. Therefore, instead, using the multi-annual programme, agricultural policy is being implemented on the basis of the annual regulations (based on the Law on Incentives in Agriculture and Rural Development), while the support measures are being implemented on the basis of secondary legislation (rule books).

The support measures envisaged by the Law on Incentives in Agriculture and Rural Development are presented in Table 7.1, including changes in relation to the previous law.

In terms of the scope, purposes and allocation of budgetary funds by type of incentive, the Law on Incentives in Agriculture and Rural Development envisages that the maximum amount of direct payments will depend on the available resources (defined by the annual law on budgets), the amount of support by the type of incentive and the number of beneficiaries. The law stipulates that the amount of incentives for milk production can be set at a higher level depending on the quality of milk and the quantity of milk produced per cow during the lactation period. In addition, direct payments, rural development and special incentives can be set at different amounts, depending on whether or not they are intended for areas with difficult agricultural conditions (which is not the case for incentives for credit support).

The operationalisation of agricultural policy is regulated by:

— The Annual Regulation on the Allocation of Subsidies in Agriculture and Rural Development ([26]), which defines the total funds, the type and the maximum amounts for certain incentives, in accordance with the Law on Incentives in Agriculture and Rural Development and the annual law on the budget of the Republic of Serbia.

— Annual rulebooks on conditions and methods for exercising the right to support for particular measures, which stipulate in detail the amount of support, the eligibility criteria and the method of exercising both the rights and the responsibilities of beneficiaries.

([25]) Official Gazette of Serbia, 41/2009 and 10/2013

([26]) These measures are funded under the Fund for Agricultural Development, the Directorate for Agrarian Payments and the Ministry of Agriculture and Environmental Protection.

Table 7.1. The measures of support envisaged by the Law on Incentives in Agriculture and Rural Development in Serbia

I Direct payments
Premiums
Milk premium
Incentives for plant production
Basic incentives for plant production
Incentives related to production
Incentives for livestock production
Incentives on quality breeding stock
Incentives on fattening cattle, lambs and pigs
Incentives on suckler cows
Incentives on beehives
Incentives for the production of consumable fish
Input subsidies
Input subsidies for fertilisers, seeds and other inputs
Incentives for the costs of storage in public warehouses
II Rural development
Subsidies for investments in agriculture to improve competitiveness and achieve quality standards
Subsidies for investment in agricultural production (on farms)
Establishment and strengthening of producer groups
Subsidies for investment in processing of agricultural products and marketing
Insurance premium subsidy on crops, perennial plantations, nurseries and animals ([a])
Subsidies for sustainable rural development
The implementation of agro-environmental measures
Organic production
The preservation of plant and animal genetic resources
Compensatory payments for the implementation of good agricultural practices, animal welfare and other policies to protect and preserve the environment
Subsidies on rural economy improvement
Investments for the improvement and development of rural infrastructure
Improvement of economic activities in the countryside by supporting non-agricultural activities
Economic activities such as adding value to agricultural products, introduction and certification of food safety and food quality systems, organic products and products with geographical indication
Improving training in the field of rural development
Support for the preparation and implementation of local rural development strategies
Support for advisory and extension service ([b])
III Credit support
Input subsidy on part of interest rate
IV Special incentives
Incentives for marketing information systems in agriculture
Incentives for the establishment, development and operation of accounting data on agricultural holdings
Incentives for the implementation of breeding programmes, in order to achieve the goals in livestock breeding
Incentives for the implementation of research, development and innovation projects in agriculture
Incentives for the production of planting materials and certification and clonal selection

([a]) This measure was previously classified under input subsidies.
([b]) This measure was previously classified under special support.

Source: Official Gazette of Serbia, 142/2014 and 103/2015.

The absence of institutionalised monitoring and evaluation systems, and absent, weak, or poorly defined benchmarks and targets, are the weakest links that impede evaluating and assessing the effectiveness of agricultural policy. According to the Law on Incentives in Agriculture and Rural Development, the Ministry of agriculture is obliged to publish a Green Report annually, which should include the assessment of the situation in the sector and the effects of the measures that were implemented in the previous year. The Green Report has been published since 2014 with content that has been very similar. The Green Report does not analyse the effects of policy measures and deals only with the

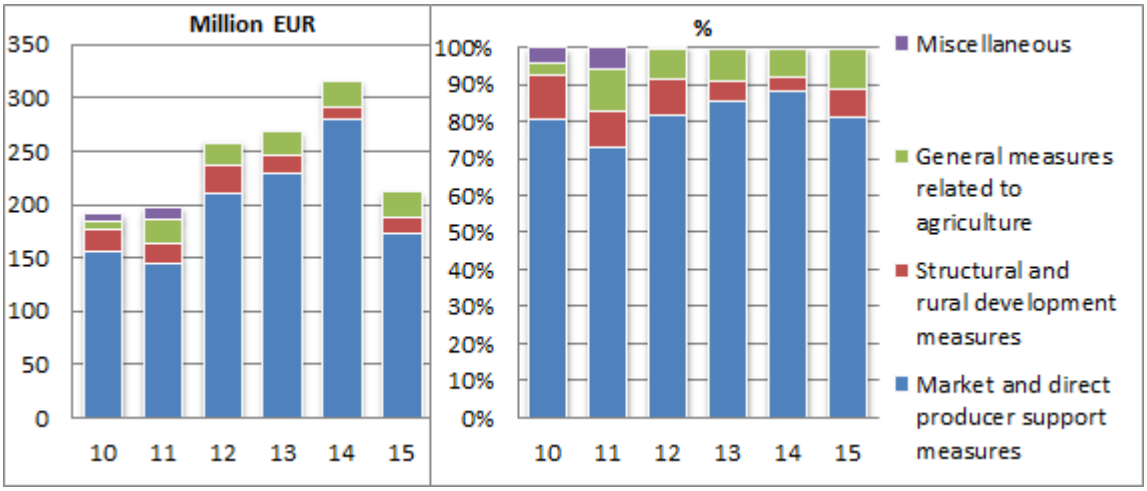
composition of the agricultural budget per type of subsidy as defined by annual regulations. Although the statistical databases, FADN and the internal registries of the Ministry have improved, these resources are not used to establish transparent and systematic baseline indicators for an objective assessment of the situation in the sector.

7.3 Agricultural policy development

In 2010-2015, levels of budgetary expenditure to support agriculture varied from EUR 191.1 million in 2010 to EUR 315.4 million in 2014. The proportion of the agricultural budget in the total budget also varied, but remained below 5 % (as was anticipated in the Law on Incentives in Agriculture and Rural Development). Throughout 2010-2015, the proportion of spending on agriculture in the total budget was lower than the sector's contribution to the GVA (8-10 %; Agriculture and agricultural policy database 2016 (Serbia)), which results in a ratio of these two indicators of about 0.5 and puts Serbia at an average level among developing countries (Bogdanov et al. 2016).

The stable and constant growth of budgetary support for agriculture, which started in 2009, stopped in 2015 (Figure 7.1) ([27]). The total budgetary transfers to agriculture in 2015 fell by 33 % compared with 2014, with direct producer support undergoing the largest cuts (by 38 % compared to 2014). The funds allocated to rural development measures increased (by 24 %) in 2015 in relation to 2014, as did their proportion of the total budget (from 4.0 % in 2014 to 7.4 % in 2015). The increase of funds allocated to rural development support was caused by the increase in funding of on-farm investments to improve competitiveness (from EUR 10.0 million in 2014 to EUR 13.8 million in 2015). Funding for general support measures remained at the same level in absolute terms (EUR 24 million) in 2010-2015, while their proportion of the total budget increased from 7.6 % in 2014 to 11.3 % in 2015.

Figure 7.1. Budgetary support for agriculture in Serbia, 2010-2015



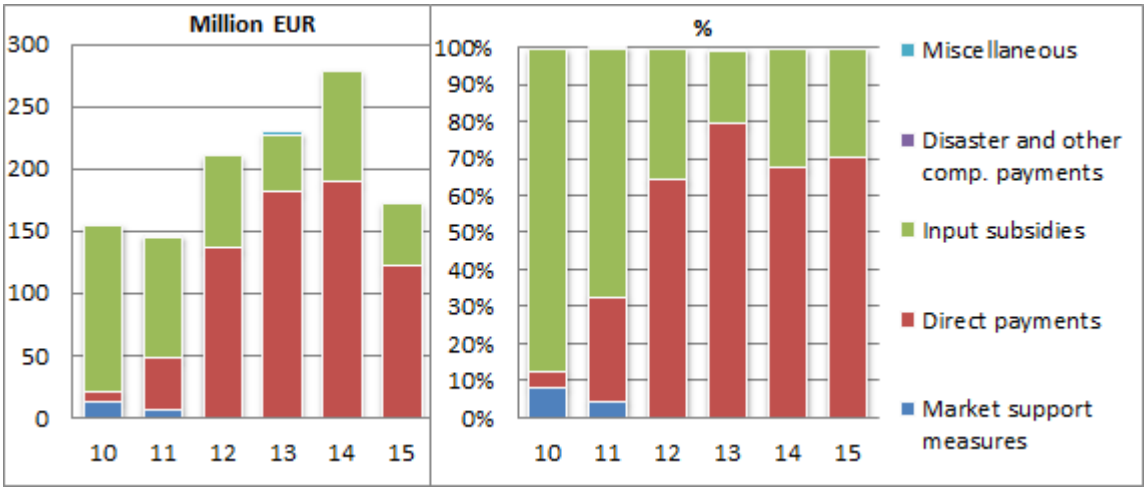
Source: agriculture and agricultural policy database (Serbia).

Most of the first pillar funds are allocated to direct producer support (100 % in 2015). As for total support for agriculture, direct producer support showed an increasing trend in 2010-2014, followed by a significant drop in 2015. Direct producer support increased from EUR 154.7 million in 2010 to EUR 278.8 million in 2014 and then decreased to EUR 172.5 million in 2015. There was a significant shift in the structure of direct producer support in 2010-2015. Direct payments increased from less than 15 % in 2010 to around 70 % of the total direct producer support in 2015. Input subsidies, which are

([27]) Because of deficiencies in the records for the budgetary support to agriculture in the mid-2000s, it is not possible to compare the data over the whole decade accurately; however, we can argue with great certainty that the agricultural budget in 2015 was among the lowest of the last decade.

the second most important, accounted for around 30 % of the total producer support in 2015, decreasing from more than 85 % in 2010 (Figure 7.2).

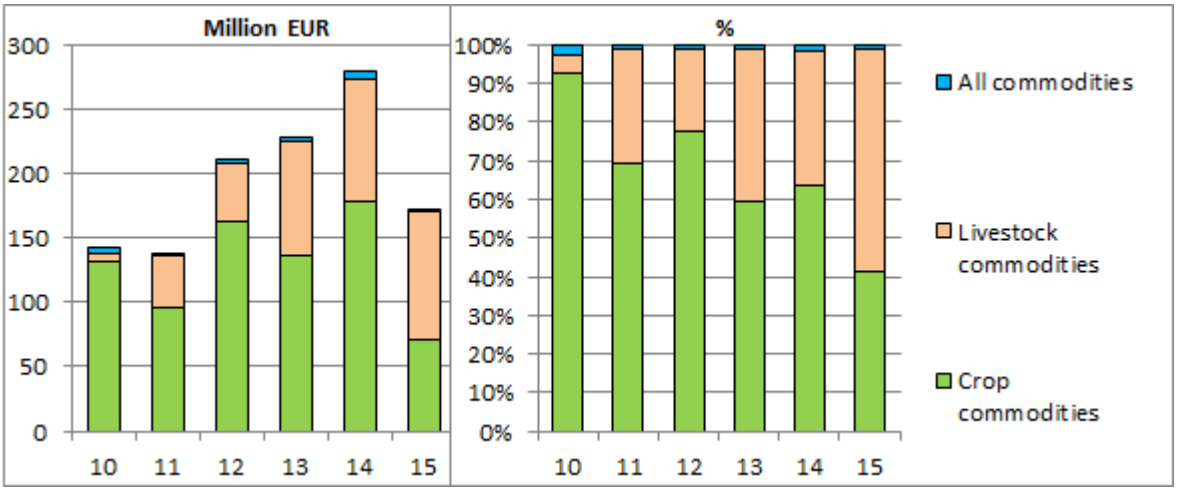
Figure 7.2. Budgetary expenditure for market and direct producer support measures in Serbia, 2010-2015



Source: agriculture and agricultural policy database (Serbia).

Alongside the change in the structure of direct producer support, there has also been a significant change in its allocation by commodity group. Direct producer support for crops was reduced, while direct support for livestock producers increased in 2010-2015. Crop support decreased from more than 90 % in 2010 to 41.3 % in 2015. Direct livestock support increased from around 5 % in 2010 to 57.7 % in 2015. A minor proportion of direct producer support (accounting for 1.1 % in 2015) is not distinguished by sector but was granted to all commodity groups (Figure 7.3).

Figure 7.3. Direct producer support by commodity group in Serbia, 2010-2015



Source: APM Database (Serbia).

Overall, despite the continuity of the implementation of some measures (e.g. headage payments), the development of support for agriculture reflects a strong conceptual shift in 2010-2015 in the direction of direct payments and in favour of livestock production, even under the significant budget cuts that occurred in 2015.

7.4 Direct producer support

Direct producer support in Serbia has been undergoing constant adaptation and change in the last decade. A key reform was introduced at the beginning of the 2000s, when direct payments were introduced as payments that were coupled to production levels, cultivated areas or animal numbers. The aim of direct payments was to compensate farmers for cuts in market support. Other changes that have been introduced to the direct support schemes since 2010 related to eligibility criteria, the products covered by the support and the value of allocated funds.

Table 7.2. Direct producer support by group of measures in Serbia (million euros), 2013-2015

	2013	2014	2015	Change 2015/2014
Direct payments based on output (output subsidies)	36.9	40.6	37.1	-8.6 %
Direct payments based on current area/number of animals	145.4	148.5	85.0	-42.8 %
Payments per hectare (area payments)	93.6	93.5	22.6	-75.8 %
Payments per animal (headage payments)	51.8	55.1	62.4	13.3 %
Variable input subsidies	45.0	89.7	50.4	-43.8 %
Fuel subsidies	42.0	51.7	25.3	-51.1 %
Fertilizer subsidies	0.0	32.6	23.3	-28.5 %
Insurance subsidies	3.0	5.4	1.8	-66.6 %

Source: APM database (Serbia).

Table 7.2 reports direct producer support by groups of measure in Serbia for 2013-2015. The most significant changes observed in this period include an increase of input subsidies in 2014 and a drop in the total value of direct support in 2015. The total values of input subsidies almost doubled in 2014 compared with 2013. The budget cuts for direct producer support in 2015 were not equally distributed across all sectors. Area payments showed the largest reduction (–76 %), followed by input subsidies (–44 %). Despite the radical reduction of direct support, livestock-related direct payments increased by 13 % in 2015 compared with 2014. In terms of the distribution of direct support in 2015, headage payments dominated (representing 36 % of the total direct producer support), followed by input subsidies (29 %), output subsidies (22 %) and area payments (13 %).

Farmers must be registered on the farm register to be eligible for direct support. Furthermore, the eligibility criteria for receiving the livestock support require that farmers register animals or beehives in the central database (except for poultry). In 2010 and 2011, direct support recipients (with the exception of farmers in ANC) were obliged to pay mandatory pension and disability insurance contributions.

Payments based on output (output subsidies)

The milk premium is the only direct payment measure that is based on output to be implemented in 2010-2015. The output subsidies for other products were abolished before 2010 and replaced by area payments.

The value of the milk premium varied between EUR 0.04 and EUR 0.06 per litre between 2010 and 2013. In 2013, both the minimum and maximum eligibility limits for delivered milk were set and the flat rate payment per litre (0.06 EUR per litre) was maintained. The lower eligibility threshold for delivered milk was introduced for farmers located in ANC. The total amount of the dairy premium was EUR 36.7 million in 2015, decreasing by 8.6 % compared with its value in 2014 (Table 7.3).

Table 7.3. Dairy premium in Serbia (EUR/litre), 2010-2015

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

Source: agriculture and agricultural policy database (Serbia).

Payments based on area/animal

Direct payments per hectare/head are the main form of support scheme for farmers in Serbia. In the last two study years, around 50 % of the total agricultural budget was allocated to direct payments. The specific direct payment measures implemented in 2010-2015 varied considerably in terms of the payment amount (total and per hectare/head), product coverage and eligibility criteria.

In 2012, area payments were intended only for areas under arable crops; however, since 2013, this support has been extended (in the form of a flat rate) to permanent crops. In parallel, area payments replaced some previously used input subsidies for fertilisers and fuel in 2013.

In the relatively short period since the introduction of this support scheme, there has been a constant decrease in the value of area payments per hectare, from EUR 56.8/ha in 2012 to EUR 49.3/ha in 2015. In addition, the maximum area eligible for area payments was reduced significantly in 2015 from 100 hectares to 20 hectares. This relatively low threshold makes area payments similar to a lump sum payment scheme (particularly for larger farms). Essentially, the reduction of the total agricultural budget and, particularly, the sharp decline in direct payments in 2015 relative to 2014 is in most part a result of the reduction in the eligible area for the area payments (Table 7.4).

Table 7.4. Payment schemes based on area in Serbia (EUR/ha), 2010-2015

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

Source: agriculture and agricultural policy database (Serbia).

Direct payments granted per animal head were introduced in 2007 in Serbia. In comparison with area payments, they are more diverse in terms of the number of measures and supported animal types (Table 7.5). In 2010 and 2011, headage payments were implemented for breeding animals (cows, sheep and goats and pigs) and, since 2012, they have been extended to fattening cattle and pigs. Since 2013, headage payments have also included support for fattened lambs, beehives, various types of parental poultry and, since 2015, suckler cows.

Table 7.5 Direct payment schemes based on livestock number in Serbia (EUR/head or EUR/beehive), 2010-2015

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

([a]) Granted for animals with registered pedigrees; set threshold and maximum number of animals.
([b]) Granted for animals delivered to slaughterhouse (from 2012 onwards) or intended for export (from 2013 onwards).

Source: agriculture and agricultural policy database (Serbia).

Input subsidies

The general trend has been for input subsidies to be concentrated on support for diesel fuel and mineral fertilisers, while other types of input subsidies have been of minor importance in Serbia in 2010-2015. This trend continued until 2015, but with a sharp decline in the total amount of input subsidies (from EUR 84.3 million in 2014 to EUR 48.6 million in 2015), which was caused by the reduction of the maximum area eligible for fuel and fertiliser subsidies (from 100 ha to 20 ha). In addition to the subsidies for fuel and fertilisers, insurance subsidies were implemented over the whole study period (Table 7.6). However, their proportion of the total value of input subsidy was relatively small (less than 3.7 %).

Table 7.6. Input subsidy schemes in Serbia, 2010-2015

Description/specific requirements	Unit	2010	2011	2012	2013	2014	2015
Fertilisers, seeds and fuel (reimbursement of part of costs of purchased inputs; for area under field crops and vegetables; paid for min 0.5 ha and max 100 ha; limited payment per hectare)							
Mineral fertiliser	max EUR/ha	58	59				
Declared seed	max EUR/ha	39	39				
Diesel fuel, euro diesel, biodiesel	max EUR/ha	39	39				
Addition for area under tobacco	max EUR/ha	194	196				
Fuel subsidy (refunds for diesel fuel)							
Set per litre; limited total quantity	EUR/litre			0.53; 0.20			
Set per litre; limited payment per hectare	max EUR/ha				53	26	25
Fertilisers (reimbursement of part of costs of purchased plant nutrition products)							
Set per kg; limited total quantity	EUR/t	0.10					
Set per kg; limited payment per hectare	max EUR/ha					26	25
Insurance (co-financing of crop and livestock insurance premiums)	%	40	40	40			
Paid for max 100 ha	%				40	40	
Paid for max 20 ha	%						40

Source: agriculture and agricultural policy database (Serbia).

The redistribution of direct support from input subsidies to area payments, accompanied by the introduction of various eligibly thresholds from 2010, was to the detriment of large farms. This was particularly evident in 2015, with the introduction of the 20-hectare maximum eligibility threshold for area payments. When comparing the total value of input subsidies (i.e. fertilisers and fuel subsidy) and area payments combined over time, payments were reduced from an initial value of EUR 136/ha in 2010 to a maximum of EUR 100/ha for areas up to 20 ha and EUR 50/ha for areas exceeding this threshold in 2015 (Table 7.4 and Table 7.6).

7.5 Implementation of agricultural policy documents

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

The biggest drawback of Serbia's agricultural policy is the unpredictable and unstable budgetary framework. The implications of such a policymaking process are that the redistribution of the available support between different measures is carried out based on the funds that are available in a given year and on ad hoc selected priorities, without following transparently defined criteria or carrying out an assessment of the needs of different subsectors or areas of agricultural or rural development.

Some of the measures envisaged in the Law on Incentives in Agriculture and Rural Development have not been funded:

— production-related subsidies for crops, based on yields and type of crop;

— support for the costs of storage in public warehouses;

— the possibility of additional payment for milk quality and incentives for the quantity of milk produced per cow;

— investments to improve and develop rural infrastructure;

— compensatory payments for the implementation of good agricultural practices, animal welfare and other policies to protect and preserve the environment;

— support for the preparation and implementation of local rural development strategies.

The actual realisation of the funds relative to the planned funds for some policy measures in 2015 is reported in Table 7.7. In general, the realisation of all policy measures is lower than planned (i.e. the ratio in Table 7.7 is lower than 100 %). A high degree of realisation is observed for direct payments (more than 90 %), followed by the selected general service support measures (e.g. 89 % for the support of the implementation of breeding programmes) and the selected rural development measures (e.g. 77 % for the support of the preservation of plant and animal genetic resources and 76 % for investment support). The remaining policy measures have a realisation rate that is lower than 50 %, while some measures for rural development have 0 % realisation rate. It should be noted that the data reported in Table 7.7 do not take into account delays in payments, suspensions or delays in launch of some measures or other implementation issues ([28]) and thus the realisation rates in Table 7.7 might be understated for some measures.

Table 7.7. The realisation of planned budgetary support for selected measures in Serbia in 2015

Support measures	% of realisation
Basic direct payments for crop production	96
Payments for quality breeding cows	98
Payments for suckler cows	91
Insurance premium subsidy	21
Subsidies for investment in agricultural production	76
Adding value to agricultural products	47
The preservation of plant and animal genetic resources	77
Improvement of economic activities in the countryside by supporting non-agricultural activities	39
Improving training in the field of rural development	0
Support for the preparation and implementation of local rural development strategies	0
Credit support	16
Support for the implementation of breeding programmes	89
Support for the implementation of research, development and innovation projects in agriculture	12

Source: authors' analysis.

The process of agricultural policymaking in Serbia suffers from the lack of application of evaluation and monitoring systems, benchmarking and target settings to guide the design, adoption and implementation of various policy measures. This deficiency causes the allocation of agricultural support and the design and application of specific measures in practice to be based on ad hoc decisions that are based on criteria that are not transparent. The existing system ensures (more or less) the continuity of support envisaged by the agricultural policy regulations in terms of measures to be applied, but not in terms of the amount of allocated subsidies and types of eligible beneficiaries.

Many studies have argued that the main limitation of policymaking is the lack of coordination and harmonisation of Serbian national policies, not so much in terms of their conceptual framework, but rather in relation to their implementation (Podunavac 2011).

([28]) For example, because of the increased number of applications for investment support at the end of 2015, the government granted an additional RSD 10.1 billion (EUR 83 million) of funds for this measure in the first quarter of 2016.

The same can be argued if agricultural policy performance is evaluated with respect to trade policy. There is an observed failure to coordinate agricultural policy and trade policy. In response to market crises, the government has often used trade instruments alongside measures envisaged by the law on incentives and agricultural budgets. For example, in 2015, the Serbian government used the State Directorate for Commodity Reserves to purchase surplus milk production and activated additional tariffs to protect the domestic market against foreign competition.

7.6 Conclusions and policy recommendations

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

The future development of agriculture in Serbia is defined by the Strategy of Agriculture and Rural Development for 2014-2024, which is an umbrella document. However, the multi-annual programme and financial envelopes for different policy measures were not adopted. In the absence of mid-term programming, agricultural policy is implemented by applying the Law on Incentives for Agriculture and Rural Development and the Law on Budget, on the basis of annual regulations and rulebooks. In addition, the policymaking process lacks the use of a standardised monitoring and evaluation system to assess the implementation and impacts of policy measures and to evaluate the degree of coherence between the policy objectives and their effects. These limitations of the current Serbian system of policy coordination, design and implementation mean that the rational allocation and the effectiveness of budgetary support for agriculture cannot be guaranteed. In an effort to overcome these limitations different legal solutions and instruments that are outside the scope of agricultural policy have been used in recent years.

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

— Rural development and general services support is rather underrepresented in the current implementation of agricultural policy. A particularly low level of support has been allocated to the environment and the development of rural infrastructure.

— The current system for the design and implementation of direct payments does not rely on objective and valid baseline indicators or on evidence-based impact assessments of applied measures. Therefore, the objectives of certain measures, types of incentive and eligible criteria are poorly defined, with the result that a large part of the budget is spent in a way that does not guarantee the achievement of the overall policy objectives outlined in the strategy.

— Direct producer support schemes only partially comply with the CAP requirements. Most of the direct payment measures are implemented with low maximum eligibility thresholds and make very little contribution to the growth of competitiveness and the acceleration of structural change in agriculture, which is contrary to the overall policy objectives defined in the strategy. Furthermore, most direct producer support is coupled to production (input use, output level, cultivated area for specific crops or livestock numbers); this is in contradiction to the CAP, which relies mainly on decoupled payments.

— Dual farm structure, which is characteristic of Serbian agriculture, is not well reflected in the agricultural policy (e.g. in the eligibility criteria). Although the eligibility thresholds are set at a relatively low level for the most of implemented measures and provide an opportunity for vast numbers of farmers to apply, this approach leads to a disproportionately lower level of support for many larger farms.

    - The lump sum payment method, in which payment is fixed at an equal amount for all farmers participating in the scheme (irrespective of farm size and specialisation), does not make any real contribution to the broader sector goals

(e.g. structural changes, higher competitiveness, public goods, etc.). With limited budgetary funds for agriculture, this system contributes to the equity objectives, rather than to farm growth or the competitiveness of the sector.

- Support measures that are tailored to small farms to address their specific needs are not considered in Serbian agricultural policy. Some attempts have been made to address the specific needs of small farms located in ANC (e.g. relatively low minimum eligibility threshold applied for milk premium, higher subsidies for on-farm investments), but the question remains whether or not these measures are sufficient to address the structural development needs of these small farms.

— A better fit is needed between the income support role of direct payments and the policy objectives related to competitiveness and provision of public goods. Currently, only the area and headage payments allocated to organic production target the improvement of the environment; other environmental or competitiveness-related criteria for disbursing direct payments (e.g. land management, cooperation, transferring farm assets to younger farmers, etc.) are rarely used. The introduction of cross-compliance as an eligibility requirement for receiving direct support may partially address this deficiency in the current agricultural policy, although it may induce additional costs in setting up the legal and institutional framework.

The reform of the legal, strategic and programming documents governing the agricultural policy of Serbia and institutional structures related to EU accession has been at the top of the agenda for the Ministry of Agriculture for some years. However, progress towards the adoption and implementation of the necessary changes to the agricultural policy, in particular that related to its harmonisation with the CAP, must be put into practice. This is made worse by the fact that the accreditation of the Paying Agency has not been completed, as a result of which the disbursement of IPARD funds, which could be put in use for institutional building and improved competitiveness of the agricultural sector, is likely to be delayed beyond the stipulated time horizon (2016). Furthermore, uncertainty about the dynamics of EU accession and the recent developments in global and regional markets require a stronger focus on the real situation and the problems of the agricultural sector. Therefore, a clear political decision on the priority policy objectives (choosing between competitiveness, equity and public goods) and the establishment of explicit targets are of particular importance to ensure the effective deployment of agricultural support.

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List of abbreviations and definitions

AL	Albania
ANC	Areas facing natural constraints
APM	Agricultural policy measures
ARDP	Agriculture and Rural Development Program
BA	Bosnia and Herzegovina
BD	Brčko District
CAP	Common Agricultural Policy
CEFTA	Central European Free Trade Agreement
EC	European Commission
EU	European Union
ERP	Economic Reform Programme
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organization of the United Nations
FBH	Federation of Bosnia and Herzegovina
FYR Macedonia	Former Yugoslav Republic of Macedonia
GDP	Gross domestic product
GVA	Gross value added
HACCP	Hazard Analysis and Critical Control Points
IACS	Integrated Administration and Control System
INSTAT	Albanian Institute of Statistics
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
ISARD	Inter-sectorial Strategy for Agriculture and Rural Development
JRC	Directorate-General Joint Research Centre
LEADER	Liaison Entre Actions de Développement de l'Économie Rurale (links the rural economy and development actions)
LPIS	Land Parcel Identification System
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MAFWE	Ministry of Agriculture, Forestry and Water Economy
MARD	Ministry of Agriculture and Rural Development
MARDWA	Ministry of Agriculture, Rural Development and Water Administration
ME	Montenegro
MIDAS	Montenegro Institutional Development and Agriculture Strengthening
MK	Former Yugoslav Republic of Macedonia
NARDS	National Agricultural and Rural Development Strategy
OECD	Organisation for Economic Co-operation and Development
PPS	Purchasing power standard
RS	Serbia

RSR	Republika Srpska
SWG	Standing Working Group
TAIEX	Technical Assistance and Information Exchange
UAA	Utilised agricultural area
WB	Western Balkan
XK	Kosovo under United Nations Security Council Regulation 1244/99, referred to as Kosovo*

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doi:10.2760/146697

ISBN 978-92-79-66935-4