

## Direct payments in Serbia and the transition to EU compatible direct support

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### Abstract

Serbian agricultural policy includes implementation of direct support schemes since 2008. In the last years, direct payment schemes have gradually changed to better address the needs of farmers and to approximate to the EU type of direct support. However, there are still significant differences in the general approach in implementation of direct payments in Serbia, the sectors under support, the eligibility conditions as well as the mode of implementation. The goal of this paper is to make a general assessment of the compatibility of direct payment schemes in Serbia with the EU Common Agricultural policy (CAP) and to propose a path for swift transition to EU compatible direct payment support. In the transition, decoupled support should gradually replace the currently coupled schemes in Serbia. Any possibilities for double funding should be abolished. Simplification in the application procedure should be introduced, as well as improvements in the control systems. The transition shall reflect not only the sectors eligible for support under the CAP but also the type productions, currently subsidized in Serbia, which are not within the direct payments system in the EU.

**Key words:** CAP; direct payments; Serbian agricultural policy

## Директни плащания в Сърбия и преход към съвместима с ЕС директна подкрепа

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### Резюме

Сръбската селскостопанска политика включва прилагане на схеми за пряко подпомагане от 2008 г. През последните години схемите за директни плащания постепенно се променят, за да отговорят по-добре на нуждите на земеделските производители и да се сближат с типа пряка подкрепа от ЕС. Въпреки това все още има значителни разлики в общия подход при изпълнението на директните плащания в Сърбия, секторите, които се подпомагат, условията за допустимост, както и начина на изпълнение.

Целта на този документ е да направи обща оценка на съвместимостта на схемите за директни плащания в Сърбия с Общата селскостопанска политика (ОСП) и да предложи път за бърз преход към съвместима с ЕС подкрепа за директни плащания. По време на прехода отделената подкрепа трябва постепенно да замени обвързаните понастоящем схеми в Сърбия. Всякакви възможности за двойно финансиране трябва да бъдат премахнати. Трябва да се въведе опростяване в процедурата за кандидатстване, както и подобрения в системите за контрол. Преходът ще отразява не само сек-

торите, отговарящи на условията за подпомагане по ОСП, но и типовите производства, субсидирани в момента в Сърбия, които не са в системата на директни плащания в ЕС.

**Ключови думи:** ОСП; директни плащания; сръбска селскостопанска политика

## **1. Introduction**

Serbia has the experience of implementation of direct payment as part of its agricultural policy since 2008. As in most of the acceding countries, the majority of the support schemes are sector orientated and non-compatible with the EU requirements. An important task for Serbia on its way to accession to the EU to progressively comply with the policy and legislation implemented in the Union.

In the last years, direct payment schemes in Serbia are gradually changed to better address the needs of farmers and to approximate to the EU type of direct support. However, there are still significant differences in the general approach in implementation of direct payments in Serbia, the sectors under support, the eligibility conditions as well the mode of implementation. The administrative structures and procedures have to be improved and adjust to the EU requirements and farmers have to be well informed about the policy and procedural changes.

The goal of this paper is to make a general assessment of the compatibility of direct payment schemes in Serbia with the EU Common Agricultural policy (CAP) and to propose a path for swift transition to EU compatible direct payment support. In the transition, decoupled support should gradually replace the currently coupled schemes in Serbia. Any possibilities for double funding should be abolished. Simplification in the application procedure should be introduced, as well as improvements in the control systems. The transition shall reflect not only the sectors eligible for support under the CAP but also the type productions, currently subsidized in Serbia, which are not within the direct payments system in the EU.

## **2. Methodological approach**

The methodological approach used in the paper combines qualitative content analysis of leg-

islative acts and program document and quantities analysis of data on agricultural budgets and level of support. The qualitative analysis of documents includes examination of both legislative and strategic and program documents of the Serbian state on primary (adopted by the Parliament) and secondary level (adopted by the Government) and EU legislation related to the CAP. Additionally, analysis of some Member States legal documents related to agricultural policy implementation have been included.

The quantitative analysis is focused on the budgetary resources provided for support as part of the agricultural policy in Serbia combined with comparison with the level of support implemented on EU level and in some separate Member States. The quantitative analysis is focused on the period 2013–2019.

## **3. Brief overview of the implementation of direct payments in Serbia**

Republic of Serbia has two basic legal acts defining the agricultural support policy framework – Law on Agriculture and Rural Development and Law on Subsidies in Agriculture and Rural Development. The more general Law on Agriculture and Rural Development founds the basics of the national agriculture and rural development policies. The Law on Subsidies in Agriculture and Rural Development sets the fundamental elements of the subsidy system in the country, including the type of subsidies, the implementation mechanisms, the admissible beneficiaries, the basic eligibility conditions, limitation in receiving support. The Law on Budget of the Republic of Serbia outlines the general financial package for the implementation of the Law on Subsidies in Agriculture and Rural Development for the calendar year. Yearly, a Governmental regulation defines the types of subsidies in agriculture and rural development to be applied in the specific

year and the maximum financial allocations per subsidy scheme, as well as some elements of the implementation procedures.

The basic laws are complemented by a number of secondary legal acts, rulebooks, providing the detailed rules and requirements for each subsidy scheme related to the specific eligibility conditions, beneficiaries, application procedure and deadlines. For 2020 there are rulebooks in force regarding direct payments provided in the form of basic subsidies for plant production, milk premium, subsidies in livestock production for quality breeding animals, for cattle fattening, pigs fattening, lambs fattening and kids fattening, for suckler cows, cows for breeding calves for fattening and for beehives.

The support in plant production is provided as per hectare payment for declared and cultivated area for up to 20 ha. Eligible for support is arable land and areas with permanent crops, under production, irrelevant of the crop. Permanent grassland is not subsidized. Applications shall be submitted to the State Treasury under the Ministry of Finance on yearly basis from the 1<sup>st</sup> of March to 30<sup>th</sup> of April. Applicants and the applied area shall be registered in the Farm register. The minimum threshold for receiving support is 0.5 ha arable production and 0.3 ha for permanent crops and vegetables.

Milk premium is paid quarterly to registered in the Farm register producers of cow, sheep, and goat raw milk. The subsidy is paid per liter, for the milk delivered to a registered dairy plant in the previous quarter. The minimum threshold for receiving support is at least 3000 liters of cow milk per quarter and 1500 liters in area with natural constraints. Animals shall be registered in the System for Identification and Registration of Animals. Milk premium is complemented by subsidies for quality breeding dairy cows provided once per year to holdings with at least 3 breeding cows (2 breeding cows for areas with natural constraints). Subsidies are limited up to 300 animals per applicant. Applications shall be submitted annually, from 21<sup>st</sup> of March to 31<sup>st</sup> of July and from 1<sup>st</sup> to 31<sup>st</sup> of January next year for animals included in production from 31 of December of the year.

The payments for quality breeding animals are granted per head for quality breeding fattening cattle, cows for breeding calves for fattening, quality breeding sheep and goats, parental light and heavy type hens, parental turkeys. All applicants shall be registered in the Farm register. Applications are submitted and subsidies are paid once per year. The minimum requirement is 3 animals for the bovine sector (2 animals in areas with natural constraints); 30 sheep (10 in area with natural constraints 10); 10 goats (5 in area with natural constraints); 10 sows.

In addition, subsidies for slaughtering of cattle for fattening, lambs and kids for fattening and pigs for fattening are paid per animal delivered to the processor (slaughterhouse) or exported. For any type of animals farmers can submit up to 3 applications per year, but only one application for an animal. Separate support is provided for suckler cows from meat breed or crossing with meat breed and belonging to a herd intended for rearing calves for meat production. Cows shall have breeding certificate issued by the regional breeding organization. Beneficiaries cannot supply milk to processor.

Direct payments in apiculture sector are paid per beehive for minimum 20 beehives and up to maximum of 1000 beehives.

Law on Subsidies in Agriculture and Rural Development foresees mechanism for reduction of payments. If direct support exceeds 10 million dinars (about 85 000 EUR), the exceeded amount is reduced by 10%. Payments exceeding 20 million dinars (about 170 000 EUR) are reduced by 20%.

#### **4. General assessment of the compatibility of direct payments in Serbia with the EU CAP**

Serbia has consecutive policy for providing financial support for agriculture and rural development. Since 2008 the share of budgetary funds for agriculture in the total state budget in average is about 5%, varying from 4.55% in 2009 to the maximum reached level of 5.98% in 2014. Direct payments support holds the major share in agriculture and rural development financing, on av-

erage for the period 2008–2017 amounting about 87% of all funds allocated for subsidies in the sector.

The financial resources for direct payments (Basic subsidies in plant production, Milk premium and Subsidies for livestock production) is relatively stable in the last 7 years, especially in the animal breeding and milk sectors, starting with 160 million EUR in 2013 and staying at the level of 157 million EUR in 2019. The reduction of the

money available for direct payments, particularly in the period 2015–2017 is coming mainly from the decrease in financing for plant production.

In 2019 the distribution of direct payments between plant growing and animal breeding farms is in favor of milk and meat production, which is subsidized per animal or liters of milk. 31% of the financial envelope is paid by hectare of land with agricultural production. The remaining financial resources are in general paid per animal

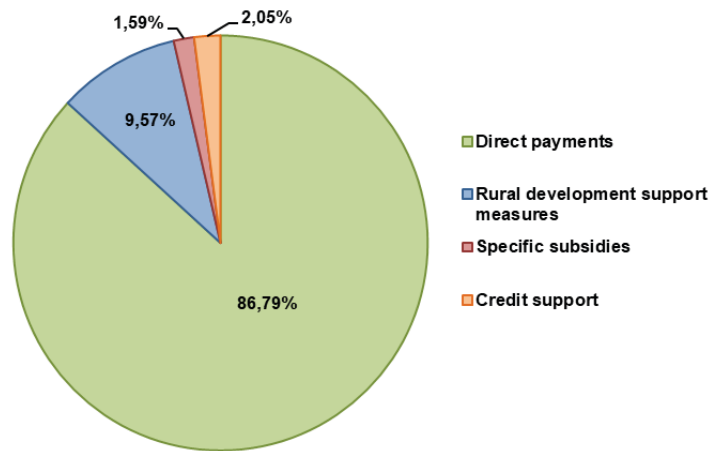


Fig. 1. An average share of certain types of subsidies in total subsidies in agricultural and rural development in the period 2013–2017

Source: National Agriculture Programme for the period 2018–2020.

### Direct payments by type for the period 2013–2019 (dinar)

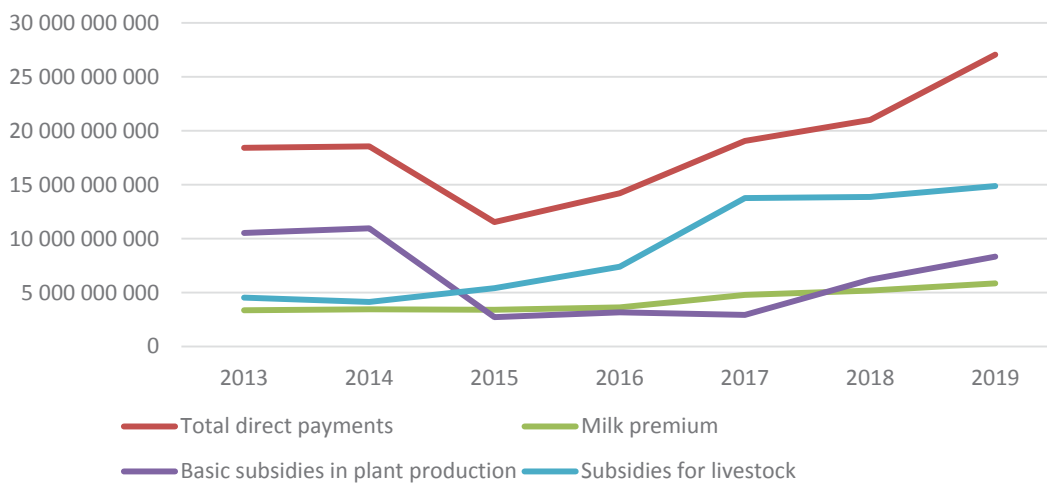


Fig. 2. Direct payments by type for the period 2013–2019 (dinar)

Source: MAFWM.

or liter of milk. For comparison, according to the EU CAP rules, 85% of direct payments shall be paid under decoupled schemes, based on hectare. Only 15% of direct payments can be coupled with production, paid on hectare or animal. In the EU payments-based production (ton, liter) are not foreseen.

Per unit payments per hectare currently applied in Serbia is almost half of the average decoupled basic payment applied in the new Member States (MS) via Single Area Payment Scheme (SAPS) payments. SAPS is also complement-

ed by greening payment provided for all eligible hectares under the basic support.

On the other hand, the level of support in the milk<sup>1</sup> and meat sectors in Serbia is much higher than the average payment in the EU<sup>2</sup>. In the CAP

<sup>1</sup> Data of milk production support in Serbia cumulate milk premium and subsidies for dairy cows.

<sup>2</sup> The average payment for the EU is calculated on the basis of the notified by the MSs budgets and expected animals/hectares to be declared by farmers. In reality, the per unit amount paid to farmers is calculated by the division of the financial ceiling for the specific measure and the eligible units declared by farmers. For that reason, the really paid per unit amount could be higher than the average EU amount.

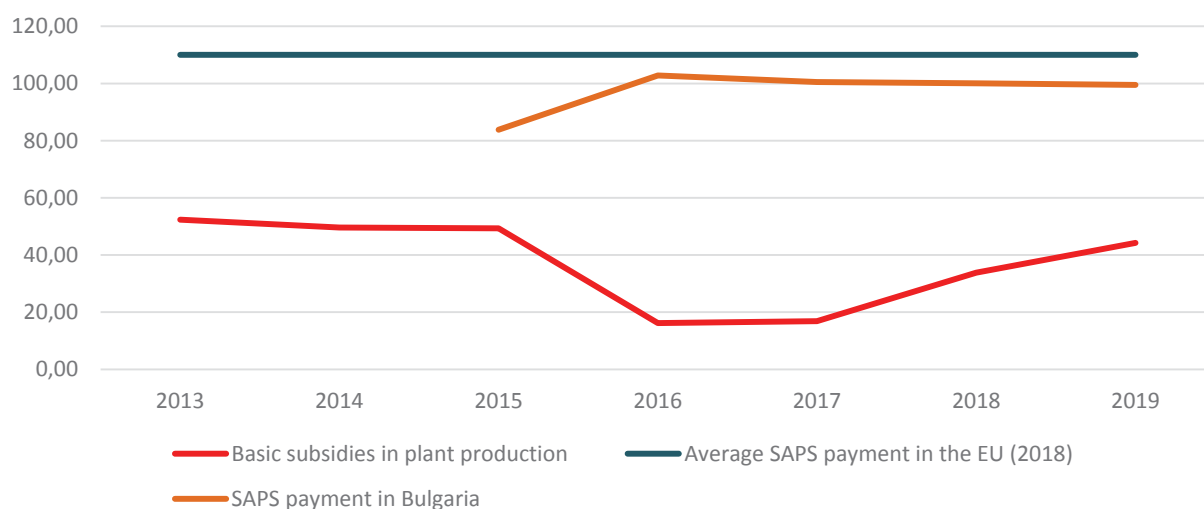


Fig. 3. Subsidies per hectare (EUR/ha)  
Source: MAFWM, EC and MAFF of Bulgaria.

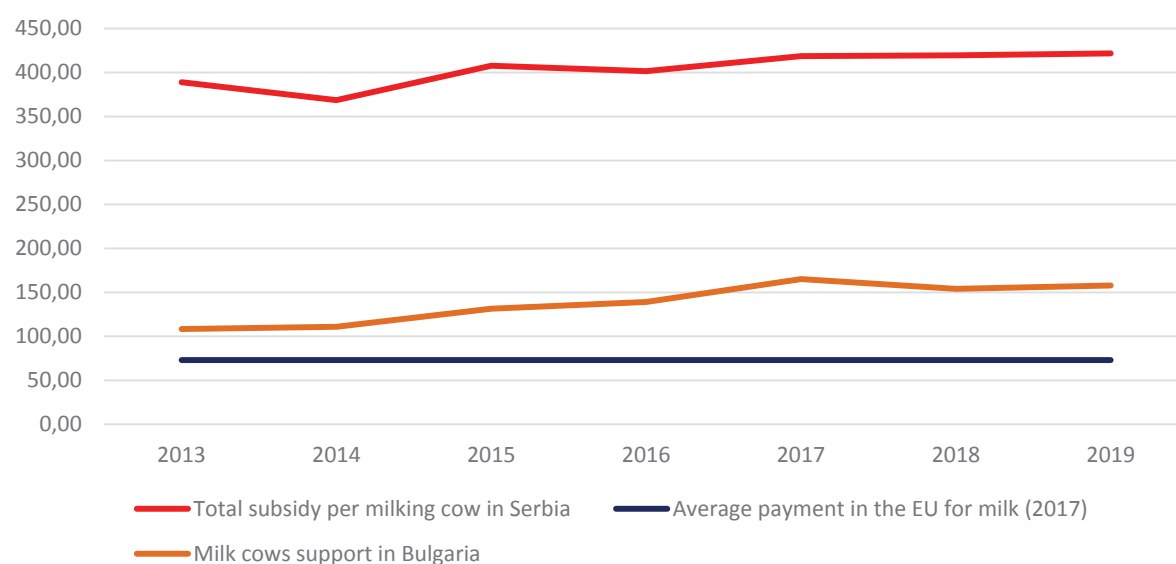


Fig. 4. Subsidies for milk cows (EUR/animal)  
Source: MAFWM, EC and MAFF of Bulgaria.

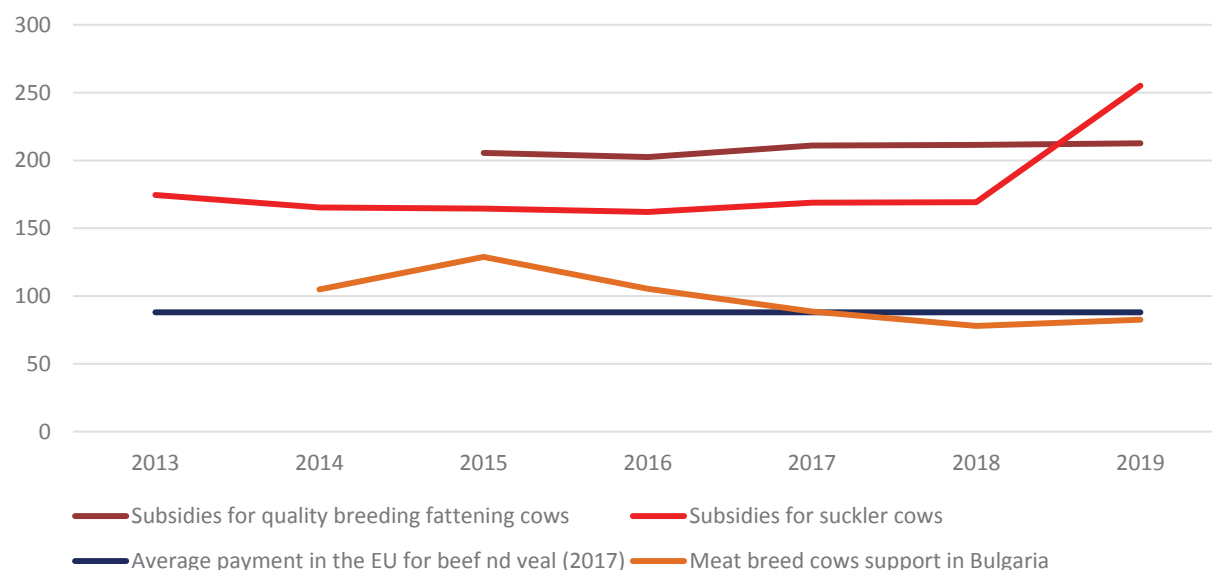


Fig. 5. Subsidies in meat sector (EUR/animal)

Source: MAFWM, EC and MAFF of Bulgaria.

MS can have different level of support under the coupled support schemes depending on the level of difficulties in the specific sector, proved by the MS authorities and the priority of the sector priority on national level.

The general compatibility evaluation reveals that direct payments schemes in Serbia do not comply with the EU basic principles. The majority of the schemes are coupled with the production, especially in the milk and meat sector. In plant production direct payments are not directly coupled to the type of crop or the produced quantity but remain linked with the production of crops. These payments can be considered as a step in the direction for decoupling of the support, but more efforts are needed.

The eligibility conditions are not in full compliance with the EU requirements. All applicants and applied area shall be registered in the Farm register and all animals for support shall be registered in the System for Identification and Registration of Animals. Still, the applications are submitted in different institutions, under diverse rules and within varying deadlines. There are a number of direct payment schemes in ineligible sectors (pigs, poultry and apiculture).

Cross-compliance requirements (Good Agricultural and Environmental Conditions (GAEC)

and Statutory Management Requirements (SMR)) are not introduced and direct support is not conditioned to the fulfilment of the Cross-compliance requirements.

The control of direct payments is not in compliance with the EU rules and procedures in the framework of the CAP, mainly due to the lack of appropriate management and control systems (primarily the IACS/LPIS). There is no complete administrative control for all eligible requirements and sufficient on the spot control for representative sample of the applicants.

## 5. Estimation of the effects and results of direct payments in Serbia

The contribution of the direct support for the competitiveness of the agricultural sector in Serbia is not positively assessed (USAID, 2020). According to the USAID report, sector development is subject to many factors, subsidies can either accelerate or slow down certain processes, but they cannot lead to improvements in competitiveness in subsidized products. Data about the provided direct support in the last years are supporting the evaluation. The biggest share of the financing (more than 60%) is directed to the milk and meat sectors,

which are evaluated as not highly competitive (SEEDEV, 2020).

On the other hand, despite the frequent changes in policy frameworks, implementation mechanisms and budgetary transfers to agriculture in the last two decades, in recent years there has been identified progress in setting up institutional structures and the steps for approximation of the policy concept to the CAP (Schuman, I. et al., 2016). Although the legal, strategic and programming documents regulating agricultural policy have been updated and adopted, the monitoring and evaluation of the policy is evaluated as weak with poorly defined benchmarks and targets which impedes the effectiveness of the policy (Bogdanov, N. et al., 2016).

There is a certain level of unpredictability for farmers coming from the way the payments are executed. Despite of the legal and budget framework is defined or adjusted on yearly basis, usually at the end of the financial year there are non-implemented payments due to insufficiency in financing. Payments, which have not been executed during the year, are transferred for the next financial year. Thereby, farmers never know when (if) they are going to get their subsidies and cannot establish stable financial plans for their holdings.

## **6. Transition to EU compatible direct payment support**

In the transition to EU compatible direct payments scheme, Serbia has to respect the decoupled principle of the support, which means direct payments must be based on area on which agricultural activity is executed. Any requirements for production of a specific product, delivering or marketing of production or limitations related to the potential applicants cannot be introduced. Limitation in granting direct subsidies can be implemented by the instruments of reduction and capping of direct support but not as a limit in the number of hectares eligible for support.

Coupled support schemes can be introduced within the limits provided in the regulation<sup>3</sup> for sectors, listed in the EU basic act, which are par-

<sup>3</sup> Art. 53 of Regulation 1307/2013.

ticularly important for economic, social or environmental reasons and undergo certain difficulties. The list of the eligible sectors is exhaustive. Couple support can be provided based on hectare or number of animals, not on ton (liter) of production. According to the rules under Regulation 1307/2013 in one coupled support scheme is possible to have only one per unit payment. It is not possible under a coupled support scheme for slaughtering of bovine animals for example to have one per unit payment for slaughtering a cow and another per unit payment for slaughtering a calf. The only differentiation can be based on the rule of modulation (introduction of a different the per unit amount for up to certain number of hectares/animals) with the sole purpose to reflect the economy of scale.

There shall be general minimum requirements applicable for all direct payment schemes, which for the purpose of the voluntary coupled support scheme, can be complemented with additional requirements. Double funding must be strictly avoided – the same animal/hectare, for the same purpose cannot be supported under more than one scheme.

It is highly recommendable transition to EU compatible direct payments scheme to be introduced gradually. The most challenging decision is abolishment of direct support in sectors not supported under the CAP – pigs, hens, turkey and beehives. Another important step is fully decoupling of area payments – fully breaking down the link with a requirement for production of agricultural products and introduction of eligibility status for all maintained agricultural area, including permanent grassland. The third step is adapting the animal-based direct payments schemes in the eligible sectors to the EU requirement.

In terms of procedures and controls, Serbia shall move to a single application principle under which for all direct support schemes is applied under the same procedure, within a limited period of time via a pre-established (electronic) application. The control procedures must be significantly complemented and improved. The administrative control shall cover all eligibility conditions under all subsidy schemes. On the spot checks shall be sufficient, under standardized

procedures and checklists with appropriate validation procedures.

The optimum model for introduction of CAP compatible direct payments system in Serbia should reflect the needs and specificities of the sector, the structure of farms and production and the currently applied direct support schemes and at the same time shall take into account the significant administrative capacity needed for the implementation.

The described model for implementation of EU compatible direct payments in Serbia will provide continuation in the policy implementation by keeping 0.5 ha as minimum requirements for receiving direct payments and introduction of payments reduction at the level of 5% for direct payments above 150 000 EUR and 20% for payments above 250 000 EUR.

Simplification could come with the introduction of SAPS for the basic payment and avoiding active farmer requirements in the first years of introduction of the direct payments system. Due to the farm structure with predominant small farm-

ers, the introduction of a Small farmers scheme based on lump sum is well grounded.

Redistributive payment will contribute for providing higher support to small and medium size holdings. The obligatory young farmers scheme should be an additional incentive for young farmers to stay in agriculture.

To be able to continue the currently applied significant support in the animal breeding sector, Serbia will have to use the full potential of the coupled support under the CAP and direct the financing primarily to the already supported sectors and type of production – milk, bovine, sheep and goats. For the non-eligible sectors (pigs & hence, apiculture) other alternatives must be looked for.

## 7. Conclusions

The introduction of CAP in Serbia is expected to bring not only significant financial resources for the agricultural sector in the country but also stable rules, predictability and well-functioning pol-

**Table 1.** Direct payments requirements/scheme and Implementation in Serbia

<b>№</b>	<b>Direct payments requirement / scheme</b>	<b>Implementation in Serbia</b>
1	Minimum requirements for receiving direct payments	Minimum requirements of 0,5 ha and 100 EUR for farmers applying only for animal-based payments
2	Active farmer	Non implementation of active farmer requirements
3	Basic payment	Single Area Payment Scheme (SAPS) as a basic payment for farmers
4	Payment for agricultural practices beneficial for the climate and the environment - Green payments	Implemented as defined in the EU regulation
5	Reduction of payments and capping of basic payment	5% reduction for direct payments above 150 000 EUR and 20% for payments above 250 000 EUR
6	Redistributive payment	Implementation of the redistributive payments of 50% of the per ha payment for the first 10 ha
7	Young farmer payment	Implementation of support under the young farmer scheme as 50% of the value of the payment entitlements or of the SAPS payment for up to 25 ha
8	Voluntary coupled support	Implementation of coupled support only in the sectors, which are currently supported by means of direct support – milk, bovine, sheep and goats
9	Small farmers scheme	Implementation of small farmers scheme based on lump sum calculated on the basis of the national average payment per hectare multiplied by 5
10	Complementary national direct payments (CNDPs)	Implementation of CNDPs in the phasing-in period



icy making and policy implementation system. With the last two reforms of the CAP, a lot of flexibility has been provided for the Member States in policy implementation and adjustment of the policy tools to the specificities of the individual countries. In the initial introduction of the CAP rules Serbia can take advantage of the policy flexibility and make the transition smooth and gradual, taking into account all the rules and limitations, mainly linked with the protection of the Single market of the EU, competition and the WTO rules.

The widening freedom in the EU agricultural policy comes with the higher requirements and responsibilities for the national administrations. More and more the results from the policy implementation relies on the capability of the national authorities to define and implement efficient, well targeted and successful policy. Therefore, all CAP instruments have to be evaluated in the context of the national situation and before taking the decision for the approach in implementation of the EU policy in Serbia, thorough consultations with the stakeholders is highly advisable to be conducted.

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