The development of support for less favoured areas and deprivileged regions: challenge of agricultural policy in Serbia

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1. Abstract

Policy objectives and measures of support to less favoured areas have undergone significant changes during the last reforms of the CAP. Regardless of changes in policy objectives and methods of its implementation, the LFA support remains one of the most important implementation mechanisms of rural development support. This paper aims to overview key issues and challenges of agricultural policy in Serbia related to less favoured areas and deprived regions, from the perspective of policy framework, budgetary expenditures and implementation mechanisms. Research indicates that Serbian agricultural policy got stuck in productivism ideologies, with insufficient focus on viability of mountain farming and capacity of LFA to cope with the transitional challenges.

Key words: LFA policy, regional diversity, Serbia, agricultural budgetary expenditures;

2. Introduction

The Treaty of Rome 1957 and the Resolution of Stresa Conference 1958 even half a century ago set out the objectives and principles of the CAP, devoting equal importance to social equity of agricultural population and economic objectives (the increase of agricultural productivity). A few decades later (1985) in a Perspectives for a Common Agricultural Policy (“Green Paper”), EU explicitly reiterated position that the family farms will remain the main backbone of the European model of agriculture and rural society: “An agriculture on the model of the USA, with vast spaces of land and few farmers, is neither possible or desirable in European conditions in which the basic concept remains the family farm” (CEC, 1985).

In order to achieve social equity for farmers in areas faced handicaps deriving from remoteness, unfavourable terrain, land degradation and poor soil conditions, EEC has introduced Council Directive 75/268 on mountain and hill farming and farming in certain less favoured areas (LFA). The Directives aims had predominantly social function, although it has suggested some environmental concern: “…to ensure the continuation of farming, thereby maintaining a minimum population level or conserving the countryside” (Directive 75/268, CEC, 1975). The logic behind was to maintain agriculture in areas with handicaps in order to prevent depopulation and the abandonment of agricultural land. Farm incomes of LFA farmers were to be increased through the annual compensatory allowance which compensated farmers for permanent natural handicaps.

However, through the coming decades the objectives of the LFA policy have changed, reflecting a changing set of main concern of CAP. Generally, changes were going in the direction that social component loses its importance, while environmental concerns and maintenance of a certain type of agricultural land use became more relevant. These changes have taken place within a postproductivist transition in EU agriculture, reflecting a „shift in the rationale for investment of public monies in agriculture in recognition of the multifunctional goods farming provides“. These changes are evident in Agenda 2000 reforms of the CAP which brought LFA under the Rural Development Regulation (1257/1999) and updated its objectives in terms of providing a stronger environmental emphasis. Agenda 2000 introduced new policy instruments relevant for LFA policy, such us the promotion of sustainable farming systems and requirement to meet Good Farming Practice standards as a prerequisite for support and the switch from headage to area payments. With further changes of CAP (Council Regulation 1698/2005) rural development was brought under a single
funding (European Agricultural Fund for Rural Development - EAFRD) and management frame. Support for LFA provided under 2 axes of Pillar Two programme, aimed to “Improve the environment and countryside through support for land management”, through: measures targeting the sustainable use of agricultural land in mountain areas and in areas with handicaps other than mountain areas¹.

The majority of Member States have provided significant support to the LFA scheme. LFA payments are the subject of sustained criticism over time, but still one of most important instruments of RD policy².

The debates on the effectiveness of the LFA policy as such have been on-going for years, with a permanent insisting that its essential and comprehensive reform is needed. Critics of the LFA emphasise (CEC, 2009):

• There are a wide range of indicators used by member states to designate LFA status (too much inconsistencies in the treatment of beneficiaries within and between countries);
• Lacking the evidence of the impacts of the policy against objectives;
• Poor monitoring and evaluation;
• The dominant position of the OLFA category and the lack of clear and common criteria for its designation;

Many authors state that it is not only the First pillar of CAP, but also its LFA component more inclined towards richer, core regions and larger farms. Shucksmith et al. (2005) assessed the regional territorial impact of the CAP and Rural Development Policy, examining to what extent they are compatible with objectives of territorial cohesion across the EU. They have concluded that even LFA payments tend to benefit richer regions, because of different national priorities and co-financing difficulties. Dax & Hovorka (2008) have found no statistically significant relationship between levels of LFA support and indicators of economic cohesion, which implies that LFA support, despite its spatial objective, seems to be only weakly related to social and economic cohesion.

In light of LFA policy practice in EU, this paper aims to highlight the key issues and challenges of agricultural policy in Serbia related to less favoured areas and deprivileged regions. This will be done by addressing: a) the current state of the art of rural Serbia and its regional characteristics, and b) assessment of current policy from the perspective of policy framework, budgetary expenditures and implementation mechanisms.

The research is based largely on policy documents analysis and APM data (Rednak & Volk 2010) on budgetary expenditures for Serbia (Bogdanov, Božić 2010). Due to the lack of data on budgetary expenditures to support the LFA it is not possible to provide comparative overview of amount of support with other countries and regions in Serbia.

¹ Council Regulation (EC) No 1698/2005
² In programming period 2007-2013, at the EU-27 level the allocation of the EAFRD dedicated to the LFA scheme was € 12.6 billion (13.9 % of the total Community funding allocation), corresponding to 32 % of the resources devoted to the improvement of the environment and the countryside by supporting sustainable land management (Axis 2 of the Rural Development Policy) http://ec.europa.eu/agriculture/rurdev/lfa/index_en.htm
3. Results

The diversity of Serbian rural regions

Rural areas in Serbia are highly diverse in terms of natural endowments, economic, social and population characteristics. Diversity of rural Serbia is driven by many factors, whereby particular emphasis is on the variety of natural resource endowments, cultural and historical heritage, as well as economic, social and demographic patterns (Bogdanov 2007).

Huge development gap is evident between north and south, urban and rural as well as central and peripheral areas of Serbia. The traditionally underdeveloped regions (mountainous, rural and border areas) were formed over a long historical period, as opposed to new types of underdeveloped regions ("devastated areas") whose developmental delay started in transitional period ("transitional poverty"). In general, the Autonomous Province of Vojvodina and the capital city of Belgrade show advanced positions comparing to the rest of country, particularly the traditionally underdeveloped south-eastern regions (Jablanicki, Pehinski and Toplichki districts), and south-west municipalities Tutin, Sjenica, Prijepolje. This pattern applies also to structural characteristics of agriculture, which indicate favourable performance of agricultural structures in the north of the country (Bogdanov et al 2008).

Agricultural sector characterize sharply dual farm structure with significant regional variations in farm size, production and incomes. There is considerable distinction among regions in the available land and livestock by AWU. A number of hectares of UAA and LSU per employee are much higher in Vojvodina in comparison to all other regions. The ratio between the district with the highest number of UAA per AWU (Srednjobanatski district, Vojvodina – 16.7 ha) and those with the lowest (Jablanicki district, South-eastern Serbia – 2.3ha) is 7.3 to 1.0. A similar relation between the districts exists in terms of the number of LSU per AWU, but the differences are less drastic (4.5:1). Such relations cause significant divergence in productivity expressed in standard output levels (SO) per AWU and farm. Regional differences in the amount of the SO per farm and the AWU are very high, indicating that both indicators are more favourable in Vojvodina compared to all other regions (including Belgrade).

Less developed and deprivileged areas are mostly mountainous and border regions, characterized by relative isolation and inaccessibility, with the traditional economic mono structure based on agricultural production, long-lasting and continuous decline in the population, demographic imbalances and rural poverty. A long-term depopulation had profound consequences on agricultural production, leading to land abandonment, decline of the land area under cultivation and extensive farming systems with a very limited degree of diversified activities. Depopulation has affected rural areas with a number of ecological consequences. The reduced scope and diversity of human activities in these area caused a process of "spontaneous reforestation", undergizing and biodiversity loss (Bogdanov et al 2008).

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3 Between two Censuses (2002-2011) the largest decrease in population was recorded in the rural areas of the Southern and Eastern Serbia region, where the population dropped by 19%.
Figure 1. The regional disparities in the available agricultural resources and productivity in Serbia

Source: Statistical Office of republic of Serbia, Census of agriculture 2012

These processes have led to the accelerated growth of rural poverty and widened income gap and social inequality between rural areas. However, the extents of negative effects that depopulation accelerates over time diminished capacity of the less favoured and deprivileged regions region for structural changes and growth of competitiveness.

The policy response to rural and regional disparities in Serbia

Regional development policies of Serbia since the 1970s has been keen to achieve more balanced territorial development in order to prevent social and political tensions between administrative units. As such, regional policy has had a palliative character - interventions were aimed at reducing socio-political differences and tensions, not contributing to the reduction of regional disparities (Miletić et al. 2009:7). The problems of imbalances were addressed pragmatically and partially, ignoring the fact that the unbalanced regional development is a complex and multidimensional structural problem. Regional and social policies have both had insufficient interest to rural-urban gap, consequently lacked focus on agriculture and rural issues.

Policy documents on agricultural policy have highlighted the specific developmental limitations of farms in mountainous and marginal areas and anticipated ambitious objectives to boost their competitiveness and to achieve sustainable income of farmers. On the other hand, programming documents and policy support measures did not have elements indicating specific treatment of farms in less developed areas by agricultural policy instruments. With the exception of higher dairy premium for cow's milk in hilly and mountain areas (which has
been continuously applied since the mid-1970s), no other support measures had elements that indicate the specific treatment of farms in marginal areas.

The agricultural policy in Serbia over the last decades has been the subject of heterogeneous and complex pressures: political and economic instability, extremely adverse weather conditions with their devastating impact on farm income and from the second half of the 2000s global market disturbances. In such setting, the priorities and mechanisms of agricultural policy were selected in a predominantly pragmatic manner, rather than in compliance with the strategic documents. Agricultural policy has been driven largely by the need to accelerate productivity growth, while the wider public interests, including viability of highland farms and securing public goods, remained of secondary importance.

Such a situation suggests that the Serbian agricultural policy during the transition period got stuck in productivism ideologies, which doesn't leave much room for concern about the sustainability of farms in mountain areas and their insufficient capacity to cope with the transitional challenges. The attitude of agricultural policy instruments towards marginal areas and semi subsistence farms has remained fairly rigid, to the point that programming documents adopted in the early transition years are not anticipated any specific measures and solutions for them. Moreover, in this period dairy premium for upland farmers as the only measure of support which was supposed to provide privileged position of producers in mountainous areas was abolished after three decades of implementation.

Attempts to adapt agricultural policy measures to European models of support to LFA in Serbia were initiated in 2006, by introducing incentives to "marginal areas" as the equivalent of LFA. The newly introduced measures reflected preferential status of farms in marginal areas in terms of higher age limit for beneficiaries of RD support measures, as well as the bigger share of grant in the total value of the investment.

The discussion about future rural development policy of Serbia, particularly in terms of its adaptation to the EU policy framework, raised the interest of policy makers in the diversity of rural areas. Hence, the diversity of rural Serbia is becoming more recognised as one of the key development factors. The new legal framework for budgetary support to marginal areas has been established in 2013 by adoption of Regulation on Areas with difficult working conditions in agriculture (ADWCA). The criteria used for ADWCA delimitation include: all settlements above 500 m of sea level, villages on the territory of municipalities with less than 100 employees/1,000 inhabitants and villages within nature parks. By applying these criteria it was determined that an ADWCA territory makes 40% of Serbian territory, 30% of total population, 29% of agricultural households, and 24% of UAA. However, selected criteria and demarcated ADWCA territory are highly questionable since ADWCA territory does not cover parts of Serbia with the biggest demographic problems, the highest rate of rural poverty and the most unfavourable agrarian structure.

**Agricultural budgetary expenditures**

Over the period 2005-2013 the budgetary support to Serbian agriculture was varying in both amount and structure. The main reasons for budget constraints were frequent changes in management structures and lack of funds in some years (which caused cuts in funding of
certain rural development measures). As a rule, radical changes in programmes and support schemes came along with changes in governance structures.

The structure of budgetary support to agriculture has varied considerably between years. Generally, in the years when production was hit by adverse weather conditions and/or frequent market oscillations the majority of funding was redistributed toward input subsidies or direct payments per hectare.

![Figure 2: Total budgetary support to agriculture by pillars, Serbia*](image)

![Figure 3: Budgetary support to rural development, Serbia*](image)

* Data for 2009 are incomplete

Source: Internal data of Ministry of Agriculture, Forestry and Water Management, Republic of Serbia

The dominant share of budgetary support is directed to market and direct producer support measures. The share of support measures of this policy pillar accounted on average for over 77% of total funding allocated to Serbian agriculture. The share of rural development measures (the second pillar) has been declining since 2006. A significant increase is evident only in the 2006 when substantial funds were granted to non-commercial (“elderly”) farms. This support was abolished as soon as the following year, and the funds allocated to the second pillar continues to decrease. The transfers for general services in agriculture were constantly low. The share of non-classified amounts’ of budget was substantially big in 2008 and 2009, as the consequence of insufficiently systematic and consistent information on budgetary support realisation.

Support to rural development was considerably higher at the beginning of the period, and the measures and programs through which it was implemented were much more diversified. However, the importance of rural development measures was gradually marginalised to such an extent that the financial support was reallocated to various programmes within other departments of the Ministry, and to co-financing the programmes of local governments.

The biggest share of the support to rural development was aimed at improving the competitiveness (over 77% in average). Most important measure was on-farm investment support, implemented through grants for renovation of facilities, farm mechanisation and equipment purchase, replanting and expanding of orchards and vineyards. The eligibility
criteria often changed. The general principle was that farms in the remote hilly and mountainous areas and those owned by persons under 40 years old should be given more favourable subsidies. Besides, there were years when criteria had a strong social accent, like favourising farms owned by women or specific measures were designed for vulnerable social groups (Roma and refugees).

Measures aimed at improving the environment and the countryside have scarcely appeared, except support for maintenance of genetic agricultural resources and for organic farming. Enhancing development of rural economy by supporting diversification of farm income and improvements of infrastructure has only been very modestly presented in the budget structure. The support for enhancing development of rural economy was operationalized through incentives for handicrafts, renovation of facilities for rural tourism, etc.

It is noteworthy that specific needs of producers in areas with less favourable conditions for agriculture have been recognized, but no particular measures have been defined since 2006. This can be considered one of the biggest agricultural policy failures, given substantial regional disproportions in subsidies allocation.

Table 1: Agricultural policy measures aimed at less favourable areas

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<tbody>
<tr>
<td>21111</td>
<td>Modernisation of agricultural holdings</td>
<td>co-financing on-farm investment</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>X</td>
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<tr>
<td>21112</td>
<td>Restructuring of permanent crops plantations</td>
<td>(10-20% higher rate of state contribution)</td>
<td>0,0</td>
<td>0,0</td>
<td>0,0</td>
<td>X</td>
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<tr>
<td>22111</td>
<td>LFA payments based on output</td>
<td>Higher milk premium</td>
<td>X</td>
<td>X</td>
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<td>22114</td>
<td>Other LFA payments</td>
<td>Grants for a voluntary agrienviromn. commitments</td>
<td>0,0</td>
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<td>23210</td>
<td>Business creation and development</td>
<td>Co-financing of projects (10-20% higher rate of state contribution)</td>
<td>0,0</td>
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X - The measure has been implemented; due to the insufficient evidence and gaps in financial record keeping system it is not possible to allocate the funds spent for the LFA.

The table shows that the set of support measures for marginal areas in Serbia was far from CAP practice, both in terms of policy objectives and instruments for its implementation. Chosen measures were aimed at the economic, less social objectives, while environmental objectives have not been touched. Besides, policy support to marginal areas predicted several controversial solutions for implementation mechanisms, which have largely diminished its effects:
The incentives have not been focused on specific regional problems, meaning that the needs of beneficiaries in certain regions have not been adequately addressed. Though geographical differences were considered, the eligibility criteria for beneficiaries was measure specific, not territorially specific.

Projected amount of own financial contribution was too high for most farms in undeveloped areas whose financial circumstances were very modest;

Age threshold was set at a low level, which limited number of applications due to the complicated procedures regulating property rights;

The scoring scale used in the project evaluation did not envisage any special advantages for applications from marginal areas. Benefits for users from marginalized regions is reflected only in a higher percent of state contribution to the funding, and increased age limit for "young farmers" (5-10 years higher than in other areas).

Such an approach resulted in is that a small number of applications come from marginal areas, and that the volume of budgetary support unevenly distributed volume of budgetary support among regions. There is no the evidence on amount of agricultural budgetary funds allocated for the LFA farmers. Examining the data available it can be indirectly concluded that the share of LFA regions in total budgetary support is extremely low.

Overall, Serbian agricultural policy lacking the clear policy objectives for various types of LFA regions; “one-size-fits-all” policy approach for heterogeneous characteristics of these regions is a serious risk for further deepening of regional disparities and efficiency of policy instruments.

4. Conclusion

The support scheme for farms in areas considered as less favoured in EU is created on the understanding that there are public benefits to be achieved by stimulating the maintenance of agricultural activities in marginal areas. Policy objectives and measures of support to these areas have changed during the last reforms the CAP, but the LFA support remains one of the most important implementation mechanisms of rural development support. The basic direction of changes was the reduction of the importance of social and especially economic objectives, while the influence of environmental goals over time become crucial. Today’s frame of LFA policy allows Member States to have different objectives, reflecting the wider RD policy of the specific country.

Although various national policy documents in Serbia directly or indirectly refer to specific issues of mountainous rural areas and their vulnerability (poverty, social inclusion, environmental fragility etc.), there are no specific objectives of agricultural policy related to less favoured and deprivileged regions. The agricultural policy concept and framework are strongly marked by the general political and economic transition Serbia has been undergoing for two decades. The amount, structure and implementation mechanisms of budgetary support were all instable, reflecting lack of strategic direction and clear messages to users.

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4 In Serbia traditional system of inheritance of farmland prevailing (ownership usually transfers to spouse i.e. oldest family member), property disputes are long-lasting, land registers are not updated; These factors increase the costs of and slowing the procedure of transfer of ownership to the younger farmers.

5 Depending on the year, subsidies per hectare of agricultural land in the LFA areas were approximatelly for about 5 times lower than in other areas.
The strategic framework of agricultural policy has been improving since 2012, but there is still no clear policy concept and programming documents which take into account the specific needs of LFA. The insufficient focusing on environmental issues and viability of a large number of small-scale producers in remote areas is a serious threat to its competitiveness, long term sustainability and wellbeing of rural population in remote areas. Such an inadequate approach to rural development policy also reduces the capacities for absorption of future IPARD assistance.

The amount of rural development support is extremely low, and even showing a decreasing trend. The support measures provided to the rural development still target mostly economic objectives and are oriented to the interests of larger producers, which indicate that productivist thinking currently tends to predominate. Environmental protection measures have merely symbolical share in budgetary support, and even they are not directed on solving crucial problems.

Up to now, farmers in marginal rural areas have not been sufficiently benefiting from rural development support measures. Although for the holdings in less favourable areas there were higher compensatory allowances, the list of rural development support measures has not been adjusted to the types of production prevalent in such areas and their specific needs. A significant obstacle to more efficient adaptation of national LFA support model to the CAP principles are deficiencies in institutional capacity across the spectrum of monitoring and evaluation system, the lack of appropriate data bases for baseline analysis, as well as of the assessment and analysis of impacts of previous policies.

LFA policy in any aspect (amount, structure and operationalization) is one of the major challenges for Serbian agricultural policy reform. Wide diversity of farm types, farming systems and practices in LFA and deprivileged regions require thoughtfully designed policies and support measures, more focused on the broader public interests and less burdened with economic benefits. Therefore ignoring of specific characteristic of livelihoods and farming practices in less favoured and deprivileged regions in further policy reforms will be of outstanding implications to these areas.

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