INSTITUTIONAL INVESTMENT POLICY FRAMEWORKS FOR THE AGRICULTURE OF THE REPUBLIC OF SERBIA

Vesna Miletić¹, Dušan Milosavljević², Boban Kostić³

Summary

Investments are of great importance to agriculture, which has a special role and place in the overall economic development of the Republic of Serbia. Analyses show unfavorable agricultural credit conditions, which are not in accordance with its role and its importance. The principal aim of this research is to contribute to designing optimal measures of investment policies in the Republic of Serbia.

The current economic and financial crisis during the transition process and the European Union accession process caused lower foreign direct investment inflows. It is necessary to sustain agricultural competitiveness, because it will face reduction of customs barriers and fierce competition in the free European market at the moment of becoming a member of the European Union. This requires institutional support while creating attractive conditions for foreign investments, in other words more favorable credit conditions and bigger budget for investments in agriculture which offers a huge production and export potential. EU accession processes include the liberalization of the agricultural produce market, and at the same time require a secure government support for agriculture in the tradition of developed countries. Therefore, it is necessary to systematically and continuously remove the obstacles during the harmonization process of our agricultural policy and that one of the European Union countries which is characterized by its highly subsidized agricultural production. At the end of this document are given conclusions of conducted research and recommendation for improvement investments to agriculture of Serbia.

Key words: investments, agriculture, investment frameworks, agrarian budget, credit policy, the Republic of Serbia

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Introduction

The years-long negative tendencies have become worse in the context of world economic and financial crisis. Agricultural producers prefer extensive production and reduce their number of livestock and cultivated surfaces, first of all because of the scarceness and costs of available financial resources. At the same time, it is possible to remark that the process of international integration and modernization of the agriculture of the Republic of Serbia has slowed down. The present crisis in the process of transition and accession to the EU has caused the decrease of consumers’ purchasing power, as well as of the influx of direct foreign investments, which requires the creation and application of a new development strategy, especially in the sphere of investments. It is absolutely necessary to apply coordination measures, production instruments, monetary and tax policies in order to overcome the consequences of the years-long crisis in the agriculture of Serbia. We must take into consideration that the development of economy is directly related to the activities of all the other sectors of economy. The basic macroeconomic goals are to stop the outflow and to increase the inflow of direct foreign investments in agriculture and related economic fields. In the EU accession process we must try to harmonize long-term vital economic goals and the interests of agricultural producers.

Research methods

The research was conducted using various research methods and techniques like: induction, deduction, analytical and synthetic descriptive method. Contemporary domestic and foreign literature was used in the paper.

Analysis of investments in Serbian agriculture

The results of the analysis of the last decades show that investments in agriculture represent about 3% of the total investments, while agriculture contributes to an average of 20% of the total newly created value, which is the basic problem that must be solved when formulating the optimal Strategy of Development for the agricultural of the Republic of Serbia. In the beginning of this century, investments registered an insufficient and mild growth. In this period foreign companies have made limited investments in the purchase of individual enterprises and in the creation of commercial companies. At this moment the capital coefficient in agriculture is about 7% lower than the one realized in the total economy of Serbia. That fact imposes the necessity to establish new proportions in investments, according to the importance of some economic branches for the creation of social product. According to these criteria, investment policy must tend to increase the volume of investments in agriculture up to approximately 15% of the total investments. Only in this way it is possible to keep its competitiveness on the free European market, when Serbia will become a full member of the EU, which implies the reduction of customs barriers and the exposure to harsh competition on the free European market. That also implies the creation of conditions for foreign investments, the enhancement of production,
processing and storage capacities, the implementation of a better credit environment and the increase of the agricultural budget, in order to allow investments in the agriculture of the Republic of Serbia. In this way we would make good use of development chances for Serbia, as agriculture can have much higher production and export effects. In this sense, the influx of capitals must be based on the competitive advantages of agriculture, which implies ensuring competitive support to the new investment policy. Foreign investors also require clear rules and ownership structure, so that they could contribute to the introduction of new forms of organization, knowledge and technology in the agriculture of our country. For that reason it is necessary to define support measures for financial programs in the field of agriculture, by means of convenient crediting, development of the financial market, clear juridical regulations and the creation of efficient institutions. Economic logic imposes the increase of resources for development funds, especially in rural development, irrigation systems, protection and arrangement of agricultural land. The new policy must also be supported by diminishing the taxes on company profit, granting exemptions for investments in the procurement of basic means for agriculture and establishing investment duties at auction sales and privatization tenders, in which we must give priority not only to the offered purchase price and the social programs, but also to the amount of proposed investments.

Investments can have special importance in agriculture, due to its huge potential the return of invested resources in a short period of time. That confirms the place and role of agriculture in the total economic development of Serbia. Analyses have confirmed the direct relation between investments and the circulation of the social product, related also to agricultural production. Total investments had growing tendencies after 2001. However, we can remark that investments in agriculture have been at a low level, as they represented 2.7-3.73% of the total investments in the period 2001-2003. The capital coefficient in the agriculture of Serbia moved from 0.011 to 0.019 in the period 1996-2005, while the average value of that index amounted to 0.0147 in the same period. The low investment activity was in fact the lowest in 2001, which is consequence and change of the social-political system. Data show a very low participation of investments in agriculture out of the total number of investments, which is also confirmed by the insufficient number of capital investments in the Autonomous Region of Vojvodina in 2007. The negative trend can also be observed in the agriculture of Serbia during the examined period, which especially confirms the comparison between the realized capital coefficient for agriculture and the total economy. It is necessary to emphasize that the amount of investments in agriculture is seven times lower than the value of the social product that it creates. Of course, the new strategy must solve this problem, because agriculture gives better results than the rest of the economy, due to the influence of natural and biological factors. That is why the new policy of stabilization and development must pay more attention to the level of investments in agriculture, which creates a constant surplus in the exchanges (about 17% of the total export of goods from Serbia).

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Credit support to agriculture does not match its role and importance. It is insufficient also in the surrounding countries and in the EU and not-stimulating for investor countries. This is why, in the coming period, there can be serious consequences for its competitiveness on the European market. A higher quantity of investments is necessary to ensure a competitive approach to the international market of agricultural products. Among other reasons, the low level of investments has contributed to the backwardness of the agriculture of Serbia compared to developed countries, especially in the technology, production and effectiveness. It is not exaggerated to state that the years-long disinvestment process represents a major problem for the accession of Serbia in the EU. In the existing conditions of low accumulativeness of agriculture and inconvenient crediting conditions, it is necessary that the state supports investment activities in the coming period. The last decade has seen the decline of the otherwise important contribution of agriculture in the Gross Domestic Product. It was 15% in 2004 and dropped to 12.9% in 2006. At the same time, the problem becomes more acute, because the agricultural budget represents a very small part of the budget of the Republic of Serbia and still is at a very low level. In 2004 it amounted to 4.99% and in 2007 to 3.31%. Subvention resources get scarcer, even though the agricultural budget increases.

Efforts by the State to improve crediting conditions for agricultural producers have not given the expected results. This includes credits granted by the Ministry of Agriculture, which were heavily subsidized and distributed through commercial banks in 2004. The resources of the agricultural budget, amounting to 18 billion RSD in 2004, 16.2 billion RSD in 2005, 23.6 billion RSD in 2006 and 21.4 billion RSD in 2007 were no match for the real and economically justified necessities of agricultural production. In the same period of time, subventions burdened the agricultural budget with amounts from 14.3 billion RSD in 2005 up to 17.8 billion RSD in 2006. The total subsidies for agriculture amounted 11 million Euros in 2009.

Crediting resources for agriculture amounted to 2 billion RSD in 2007 and 3.7 billion RSD in 2004. Credit resources represented amounts from 9.3% of the total agricultural budget of 2007 up to 20.8 billion RSD in 2004. These data show a particularly low level of investment resources, as well as their diminishing trend. This period reported a decrease of credit resources within total subventions for agriculture, which amounted to 23.06% in 2004 and 11.8% in 2007. In 2008 short-term credits from budget resources amounted to 1.85 billion RSD, while long-term credits amounted to 1 billion RSD. It was confirmed that ministry resource is no replacement for an agricultural bank, which has a large credit potential, or for a developed bank system, but State support demonstrates it is widely accepted that public support is necessary in the context of the existing crisis, as well as in the process of accession to the EU. In 2004 about 28,000 producers were granted credits from the agricultural budget with an interest rate of 5.5%, amounting to 1.7 billion RSD. Middle term credits, with an interest rate of 3% and deferred refunding terms, were granted

6 Official Gazette of the Republic of Serbia, Nº 115/04 and 58/07.
to 600 households, amounting to 2 billion RSD from the agricultural budget. Crediting conditions have remained unchanged in 2005, when there were granted long-term credits for agriculture, amounting to 2.2 billion RSD, especially for cattle breeding, the acquisition of mechanical means and the creation of orchards a greenhouses. In this year only 18% of the registered households obtained support from the Ministry on the basis of short-term and long-term credits. Only 1.7% of the households in Serbia obtained the long-term credits they needed. In 2006 farmers were granted one-year credits with an interest rate of 5% and a commission of 1% with no currency clause. Long-term five-year credit was granted with an interest rate of 3%, with currency clause and deferred refunding terms up to three years. Such long-term credits were granted in amounts from 5,000 EUR up to 200,000 EUR in RSD counter value. Short-term credits with a total amount of 3.5 billion RSD were granted to 9.6% of households, while short-term credits were granted this year to only 0.6% of the registered households. In 2007 there were used only short-term crediting resources amounting to 3.9 billion RSD, while this year there were crediting problems and therefore long-term credit requests were received starting from August.

Terms and conditions of agricultural loans in Serbia

The specificity of agricultural production in the developed countries, according to economic regulations, is reflected in the credit policy of commercial banks. Such policies respect the seasonal character of agricultural production and the problem of capital circulation in agriculture. Intensive agricultural production, unlike extensive production, requires larger financial investment and because of that modern commercial banks need to have a developed system of selective interest rates, which is not the case in the bank reality of the Republic of Serbia. On the free financial market there are very inconvenient crediting conditions for agricultural production, which do not respect the specificity of agriculture and other economic activities. Interest rate for agriculture are high and do not match profitability rates of this branch of the economy. That is consequence of the high crediting risk, the annual circulation of capitals, the high existing expenses, the influence of natural factors of production and the instability of instruments and measured applied in agricultural policies. The worst crediting conditions are those of small producers, who are the most representative group in Serbia. The main problem is to obtain crediting instruments and guarantees, which is confirmed on the mortgage market. In the analyzed period there were very few available crediting resources, inconvenient crediting conditions and especially difficult conditions to obtain agricultural credits, which is confirmed by the average weighted effective interest rate of banks, which amounted to 15.8% in 2006 (16.56% for short-term credits and 10.09% for long-term credits). In 2009 the total of 7,332 short-term loans were realized (average amount was 291 thousand dinars) and 874 long-term loans (average amount was 27 thousand Euros). The total amount of investments in agriculture was 45 million Euros.

Differences between crediting conditions at different Banks in Serbia an insignificant, which is confirmed in analyses of effective interest rates. Crediting conditions in the surrounding countries heavily indicate how inconvenient crediting conditions are in Serbia, which is
directly reflected on the competitive capacity of agriculture. For example, in the Euro Zone countries the average short-term interest rate amounted to 3.1% and the long-term to 4.1% in 2006. This year, long-term credits in Austria were granted with an interest rate of 4.25% and a refund term of twenty years. The average interest rate for short-term credits amounts to 5.65% in Croatia, 7.66% in Bosnia-Herzegovina, 7.99% in Bulgaria, 6% in Poland and 5.6% in Slovenia. Data show that interest rates in Serbia are much higher than in EU and neighboring countries. This is a consequence not only of the offer and demand relation for credits, but also of investment risks, politic uncertainty, unregulated real estate market, ownership problems, inefficient administration and inconvenient institutional frameworks.

This trend of inconvenient crediting conditions for agriculture has continued in recent times, though there have been unsuccessful attempts to change the inconvenient crediting environment for agriculture and other economic activities through the Development Fund of the Republic of Serbia, leasing arrangements, international crediting institutions and organizations, the Development and Guarantee Fund of the Autonomous Region Vojvodina and local budgets for agriculture. Funds from the Development Fund of the Republic of Serbia cannot be used to credit primary agricultural production and infrastructure, but agricultural industry has access to this fund, just as any other branch of the economy. In 2007 27% of the funds granted by the Development Fund of the Republic of Serbia were destined to agricultural industry. The consequence of this policy is that, due to the activities of funds in Vojvodina, most of the crediting resources have been allotted to primary agricultural production in this region. Leasing arrangements represent one of the ways to finance agriculture, especially the purchase of agricultural equipment. Leasing arrangements have proved to be an elastic and effective way to finance agriculture in Eastern Europe countries. The first steps in the affirmation of this kind of financing were made in the year 2000, but were interrupted, due to the modifications of the Law on Financial Leasing adopted in 2005. Some commercial banks offer leasing arrangements for the purchase of agricultural equipment with a down payment of 5%, rates of 3-5%, expenses of 1% and other specific conditions. The Development Fund of the Autonomous Region Vojvodina was founded in 2002 in order to offer credits for the development of agriculture, food processing industry, entrepreneurship, equal regional development and small and middle-sized companies. The resources of the Fund have been obtained through the privatization process in the territory of the Autonomous Region of Vojvodina. In its five years of existence the Fund has granted credits amounting to 127 billion RSD, out of which 44.5% have been allotted to agriculture, especially to the purchase of agricultural equipment, implementation of quality standards, renovation of long-duration plantations and herds. The Guarantee Fund of the Autonomous Region of Vojvodina was founded in 2003 in order to ensure convenient crediting conditions for agriculture, by issuing guarantees to bank, so that farmers can obtain credits for the purchase of fertilizers, agricultural equipment, import replacement and export preparations. The resources of the Fund come from the privatization budget. The Fund has increased its guarantee capacity, which is possible only in the creation process of a financial market based on the necessities of agriculture. Local administrations in Serbia destine a part of their budget resources to the development of agriculture according to specific criteria.
International credit lines are present only in the processing sector, while primary production is credited with the funds from commercial banks, own resources and agricultural budget.

The analysis of factors that hinder the development of agriculture indicate placement problems for agricultural products and inconvenient credit conditions, which is consequence of the instability and uncertainty of the market, low profitability rates of agricultural production, lack of grace periods, lack of trust in the banking system and especially high interest rates, short refund terms and impossibility to obtain the necessary guarantees, due to the existing problems in the cadastre and the unsolved ownership issues. Such an unstable market, unsolved legal relations and high interest rates have a major influence on inconvenient crediting conditions in the Republic of Serbia.

Crediting conditions influence investment activities in agriculture in the Republic of Serbia, which are no match for the participation of this sector in exports and the creation of social product. Consequences of such inadequately low investments are a more extensive production, the variability of returns, low productivity and efficiency on the market. The adoption of new legal regulations regarding financial markets and credit cooperatives and the implementation of a new crediting system are preconditions for the increase of investment activities in the Republic of Serbia. This implies the adoption of a series of legal regulations under the model of EU countries and a more present role of the State in the creation of a positive political and economic environment for investments. New crediting models must be based on the development strategy for agriculture as a branch of the economy oriented to exports. Even in the present crisis conditions, the State can directly and indirectly contribute to the development of agriculture, especially in the field of investments. Of course, development is not favored by present conditions, which are characterized, according to the reports of the European Bank for Reconstruction and Development, by an increased financial risk, inefficient institutions and administration, un-competitiveness, undeveloped infrastructure, owner relations, an inefficient legal framework and an insufficiently developed banking system.

**Optimization measures for agricultural investments in Serbia**

The creation of convenient conditions to attract foreign investments in agriculture implies political and macroeconomic stability, the reform of institutions, the reconstruction of the public sector, the elimination of monopolies, the reduction of public expenditure and the increase of investments in infrastructure, economic and agricultural activities, as well as the development of financial instruments. It is imperative to create an agricultural bank, because investments in agriculture can be financed from the public budget only as a short term solution. Like in the case of developed countries, such agricultural bank must place foreign and national capital in such a way that it will gain a privileged position, given that deposits from state subventions will circulate through this bank. This implies the implementation of a crediting system for agriculture that will offer lower interest rates compared to market rates, as well the creation of State crediting institutions that will establish interest rates in the current year. Such interest rates are usually around 4% compared to the interest rates of
commercial banks. In the U.S., State institutions created under that model approve credits for agricultural producers in convenient conditions. In the same way, developed EU countries offer convenient credit arrangements to their farmers. For these reasons the banking sector gives inconvenient and inadequate support to agricultural production in Serbia. Support through the agricultural budget is also inefficient, because its funds are no match for the importance and potential of agriculture. This situation prevents investments in innovation, exchange of knowledge, technology and equipment, threatening the competitiveness of the sector on the national and international markets, and will certainly escalate when Serbia will be admitted into the European Union, which gives special attention to agricultural policies. The experience of countries that have participated in pre-accession processes shows that it is necessary to remove obstacles in the harmonization process of national agricultural policies with EU policies. During the accession period, it is be necessary to insist on the increase of the agricultural budget, the real importance of agriculture and its contribution to the economy of Serbia. If the situation does not change, it will threaten the competitiveness of producers and processors on the European market, which is characterized by a highly subsidized agriculture. That requires the immediate reform of agricultural policies in order to increase its competitive position and strengthen the institutions that can contribute to develop the efficiency of agricultural production. In this way, agriculture can become a successful and intensive sector of the economy of Serbia. Accession processes require the liberalization of the agricultural foodstuff market, but at the same time the State support for agriculture under the model of EU countries. This issue should be constantly present during the negotiations period, as well as during the accession of the EU in the World Trade Organization. Policies must be oriented to keeping the competitive skills of agriculture in conditions of liberalization. That requires a drastic decrease of customs protection for the agriculture of Serbia, as well as the simultaneous application of permissible instruments based on international standards, which can hardly done in the present context. During the accession period, it is necessary to insist on the creation of conditions to use the pre-accession assistance funds of the EU, especially the IPA, which merge, in fact, diverse earlier programs of the European Union (SAPARD, PHARE, ISPA, CARDS). This program represents a financial assistance instrument of the European Unit for the Western Balkans and Turkey in the period 2007-2013. The creation of the conditions to use the funds of this program requires the coordinated action of state and civil institutions, the definition of necessities, the implementation of high-priority projects, the creation of an administrative framework within EU recommendations, the strengthening of public organizations, the professional formation of personnel and the promotion of European values. At short term, it is necessary to create the conditions to use two of the five components of the IPA program. Reform steps must refer not only to agriculture in a narrow sense, but to the agricultural business as a whole, which employs a large sector of labor forces, contributes with a third of the created production value and produces surpluses in the foreign trade in Serbia. The lack of financial resources represents the basic obstacle for the creation of a modern and technologically developed agricultural business in Serbia. More convenient should ensure the profitability of total investments in this important field of economy. Financing models are based on current capacities, e.i. on the fragmentation of the agricultural foodstuff sector. Small and middle-sized companies from this sector must enjoy
convenient conditions to obtain the financial resources, which are necessary for investments in production, processing and placing of the products. That implies lower interest rates, credit standstills and longer refund terms. It is necessary to internationally promote investments in the agriculture of Serbia in a modern way. It would be helpful that State institution and commercial banks undertake coordinated activities in order to create a guarantee fund for agricultural credits. In coordination with other measures, such step would make possible the decrease of interest rates and the increase of investments in the agriculture of Serbia. The development of this sector implies the establishment of a new system of incentives and export subventions, the formation of specific public funds, an agricultural bank, a new policy of budget reserves, budget financing for infrastructure, new technologies and the reorganization of institutions in defined terms.

The present state requires that the State strengthens its role in the creation of conditions for higher investments in agriculture as one of the main chances of development for Serbia.

Conclusions

The results of the research clearly show the necessity of institutional support in the creation of convenient conditions for investment activity in agriculture, which implies more convenient crediting conditions, an increase of the resources allotted to the agriculture budget, as well as other monetary and tax measures. That way the set goals were accomplished and scientific contribution to defining optimal measures of investment policies in Serbian agriculture was given.

Integration processes imply the liberalization of the market of agricultural foodstuff products, but also the existence of adequate State support for agriculture, under the model of developed countries. The influx of capitals must be based on the competitive advantages of agriculture, which imply the institutional support to the new investment policy. That would create development possibilities, because agriculture has a great production and export importance in the Republic of Serbia. That is why it is so important to apply the measures mentioned above in order to support the investment policy in agriculture, mainly through the creation of efficient institutions, modern legal regulations and budget support, as well as through convenient crediting and development of the financial market. It has been confirmed that a higher level of investments in agriculture represents an indispensable precondition for a competitive approach to the international market of agricultural products. Even in the current crisis conditions, the State has real possibilities to enhance investment activities in the agriculture of the Republic of Serbia. In order to overcome the long-term negative tendencies for agriculture, in the context of the global crisis and the accession process to the EU, it is necessary to apply the analyzed new strategy of development, as well as investment policies in the agriculture of the Republic of Serbia.
Literature


INSTITUTIONAL INVESTMENT POLICY FRAMEWORKS FOR THE AGRICULTURE OF THE REPUBLIC OF SERBIA

INSTITUCIONALNI OKVIRI INVESTICIONE POLITIKE U POLJOPRIVREDI REPUBLIKE SRBIJE

Vesna Miletić, Dušan Milosavljević, Boban Kostić

Rezime

Investicije imaju ogroman značaj u poljoprivredi, koja ima posebnu ulogu i mesto u ukupnom ekonomskom razvoju Republike Srbije. Analize ukazuju na nepovoljne uslove kreditiranja poljoprivrede, što ne odgovara njenoj ulozi i privrednom značaju. Osnovni cilj istraživanja je da se pruži naučni doprinos u stvaranju optimalnih mera investicione politike u Republici Srbiji.

Postojeća ekonomska i finansijska kriza u procesu tranzicije i pridruživanja Evropskoj uniji je uticala i na smanjenje priliva stranih direktnih investicija. Potrebno je očuvati konkurentnost poljoprivrede, jer će se ona u momentu punopravnog članstva u Evropskoj uniji suočiti sa smanjenjem carinskih barijera i oštrim konkurencijom na slobodnom evropskom tržištu. To zahteva institucionalnu podršku u stvaranju privlačnih uslova za strana ulaganja, odnosno povoljnijih uslova kreditiranja, i povećanju budžetskih sredstava za investicije u poljoprivredu, koja raspolaže sa ogromnim proizvodnim i izvoznim potencijalima. Integracioni procesi podrazumevaju liberalizaciju tržišta poljoprivredno-prehrambenih proizvoda, ali istovremeno i obezbeđivanje državne podrške poljoprivredi po ugledu na razvijene zemlje. Zato je potrebno sistematično i kontinuirano uklanjati prepreke u procesu harmonizacije agrarne politike sa zemljama Evropske unije, koje karakteriše visoko subvencionisana poljoprivredna proizvodnja. Na kraju rada dati su zaključci istraživanja i preporuke za unapređenje investicionih ulaganja u poljoprivredu Srbije.

Ključne reči: investicije, poljoprivreda, institucionalni okviri, agrarni budžet, kreditna politika, Republika Srbija.

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