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**Development of a tool for comparative analysis of agricultural and rural development policies  
measures and its application on Western Balkan countries**

**Tina Volk<sup>1</sup>, Miroslav Rednak<sup>1</sup>, Emil Erjavec<sup>2</sup>, Luka Juvančič<sup>2</sup>**

<sup>1</sup>Agricultural institute of Slovenia, Hacquetova 17, Ljubljana, Slovenia

<sup>2</sup> Biotechnical Faculty, University of Ljubljana, Groblje 3, Domžale, Slovenia

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## ABSTRACT

*The paper describes the development of a methodological tool for classification and analysis of agricultural and rural development policies. The tool called APM (Agri-Policy Measures template) compiles a comprehensive database of measures, allowing for the international comparison of agricultural policies. Uniform classification of agricultural policy measures has all the characteristics of internationally-recognized classifications (OECD, EU, EAA). The method was applied in the Western Balkan countries (WBs) in order to provide an analysis of the development and current situation in agriculture and agricultural policy in Western Balkan countries (WBs) in relation to the EU accession process.*

*Keywords: agricultural and rural development policy, policy assessment, Western Balkan countries, EU accession*

## 1. Introduction

The form, type and scope of budgetary transfers to agriculture, as well as their development over time, are important for agricultural policy analysis. A consistent and reliable policy measure database is the necessary foundation for effective agricultural policy-making based on a policy cycle. The main problem of quantitative analyses of budgetary transfers to agriculture is that a great variety of measures are applied by individual countries. One cannot obtain an overall picture based on the analysis of each individual measure; measures must be merged into larger groups of measures with similar content. The merging of the measures can be done based on very different criteria which is often the case.

There are two classifications of agricultural policy measures which are claimed to allow direct international comparison: the OECD PSE (Producer Support Estimate) classification (OECD, 2008) and the WTO AMS (Aggregate Measurement of Support) classification (WTO, 2010).

The OECD classification of support to agriculture is the most frequently used classification for analysis and the international comparison of agricultural policy. The new OECD classification of total transfers associated with agricultural policies (TSE) groups policy measures into three main categories: transfers to producers individually (PSE), transfers to consumers individually (CSE), and transfers to general services to agriculture collectively (GSSE) (OECD, 2008). Transfers to producers (PSE) are composed of market price support (MPS), which is calculated mainly as a price gap between domestic and border prices, and budgetary transfers to producers (including revenue forgone). The classification of budgetary transfers to producers in PSE is based on implementation criteria, and the main categories differ depending on the basis of support (output, input, production factors, non-commodity criteria), whether the basis is current or historical (fixed), and whether the production is required or not. Other criteria such as policy area, objectives or effects are not taken into account. For example, according to the PSE methodology, direct payments per ha, area payments to producers in less favorable areas, and a large part of the environment-related area payments are included in the same category (payments based on area/animal numbers/receipts/incomes). This distinction is partly possible in the next step, through the use of labels that represent additional information on policy implementation (additional criteria); however, classification of the measures in terms of the objectives is rather problematic (Vojtech, 2008). The classification of budgetary transfers to general services (GSSE) is made according to the purpose of service provided to agriculture. All OECD indicators of support to agriculture for the OECD Member States are publicly accessible on a regular basis in the OECD database (2010). Various aggregates are available for the EU (EU 15, EU 25, EU 27); however, there is no estimate for individual EU Member States.

The AMS methodology has been developed in the context of international trade negotiations. Consequently, it has some unique characteristics which are not necessarily based on purely economic criteria (Diakosavvas, 2002). The AMS classification is therefore usually not used to analyze agricultural policy.

In the European Union (EU), no uniform publicly-accessible database exists that would incorporate all budgetary transfers to agriculture. Detailed data from the EU budget are available, but this is not the case for data on all the national or even sub-national measures of each individual country. This,

however, does not mean that one cannot speak of the system of classification of agricultural policy measures in the EU. A very detailed accounting system (EC, 2009) exists for the measures financed or co-financed from the EU budget, which in practice can be regarded as the system of classification of agricultural policy measures.

In the EU, the agricultural measures are grouped according to the policy field and the source of financing, which are both closely related to CAP regulations in a specific programming period. Taking into account the fund from which measures are financed, CAP is currently divided into two main pillars that are also recognized in the agricultural-economic literature (Gay et al, 2005). The first pillar consists of a series of measures relating mostly to interventions in agricultural markets and direct payments to farmers set down within the framework of a single common organization of the markets and regulation for direct aids in agriculture, although some measures of a more general character can also be found here (veterinary and plant-health issues; promotion of agricultural products; issues related to genetic resources; agricultural accounting information systems - FADN; agricultural survey systems; fisheries markets) (European Council, 2005). There is a uniform accounting classification (Activity Based Budgetary nomenclature – ABB) (EC, 2009) which enables the monitoring of budgetary expenditures by sub-categories and measures.

The second pillar of the CAP consists of measures within the framework of rural development programs of the Member States implemented in the current programming period. The classification of measures on current rural development regulations is not directly comparable between different programming periods and thus limits the scope for longitudinal analysis.

Apart from the two main pillars, which both consist only of CAP measures financed or co-financed by the Community budget, a third group of measures can be recognized. This is a very heterogeneous group in which all measures financed entirely by the national budgets of Member States are gathered.

The paper presents a methodological tool for comparative review of agricultural policies. The methodological tool is called APM (Agri-Policy Measures template). It consists of a uniform classification of agricultural policy measures, which is consistent with internationally-recognized classifications. It allows for the use of the database for various analyses of agricultural and rural development policy. This paper presents the uniform classification of agricultural policy measures and the process of populating the APM database. The method was also applied for the analysis and comparison of agricultural policies in the Western Balkan countries (WBs).

The introduction is followed by the presentation of the APM methodology. The process of APM database creation is explained, from the data collection and allocation procedure to the data input process. The results section describes the APM results for agricultural policy analysis in the Western Balkan. The paper concludes with a discussion of the advantages and disadvantages of the APM methodology, and puts forward some policy implication of the implemented analysis for Western Balkan countries.

## 2. Methodology

To enable the comparison of agricultural policies in the countries preparing for EU accession with the CAP, the current EU concept based on the policy pillars was also used as a basic starting point for APM classification, but with several adaptations. The main framework of classification is thus comprised of three pillars of agricultural and rural development policy support:

- Pillar1: Market and direct producer support measures
- Pillar2: Structural and rural development measures
- Pillar3: General measures related to agriculture.

The key principle behind the classification is the homogeneity of groups. We strived for the groups to be as homogenous as possible at a higher level in terms of the EU program group, objectives, effects on the market, beneficiary and the method of implementation. At higher levels we attempted to apply, to the greatest possible extent, the EU program aspect, whilst setting forth the beneficiary criteria as the main criterion for the formation of groups or subgroups under individual pillars. The beneficiary criteria also serve as the key criteria for the OECD when classifying a measure in the PSE, CSE or GSSE group. The APM classification is, therefore a combination of the EU program classification of measures and the OECD classification.

The OECD criteria were used to divide the measures into a part belonging to PSE budgetary transfers, CSE or GSSE, and a part that, according to the OECD, is not treated as a budgetary support to agriculture. Also, the OECD criteria of disaggregation into individual PSE/GSSE categories and sub-categories were taken into account (see Annex 1). These criteria were usually used for defining the lowest level of classification (basic headings). Thus, the goal was that the APM allows for a rapid analysis of budgetary transfers to agriculture, also according to the OECD PSE classification.

Furthermore, a requirement was made that the APM also meets the classification criteria defined in the methodology of the Economic Accounts for Agriculture (EAA) (Eurostat, 2005). As budgetary supports are relatively inadequately covered by statistics, such information obtained from the APM would be very useful.

When creating the APM, one of the important goals was to assure the greatest possible credibility of the collected data. This calls for a system which at least at some level allows for control over the coverage of the collected data. This is why the principle of covering the total agricultural and rural development policy budget was applied in this case. The data on total agricultural and rural development policy budget are usually available in all the countries, with the ministry of finance as their source. Under the condition that the APM database covers all relevant budgetary expenditure and that measures supporting agriculture and rural development from other sources are recorded separately, a comparison can be made of the sum of the funds by measure, with the total volume of available funds (using the Ministry of Finance data) at least at the level of the line ministry. If these two data groups match, this provides satisfactory credibility to the entire database. To cover the total line ministry budget, two

additional groups were added to the basic classification framework: administrative costs and transfers to non-agricultural sectors (forestry, fisheries, water management, etc.).

Technically, the APM classification is based on a 5-digit code system, with the first digit of the code defining the pillar of agricultural policy, the second digit defining the category or axis, and each subsequent digit defining a sub-category of the previous one:

- Section (Pillar)
- Division (Axis)
- Group
- Subgroup
- Basic heading

The schematic presentation in this paper shows the classification scheme up to the third (group) and in some cases the fourth digit (Subgroup) level, while the entire nomenclature is presented in Annex 1.

If the APM database is to cover the total line ministry budget and the budgetary transfers to agriculture from other sources (total funds), there is a need to first make a distinction between the measures which represent budgetary support to agriculture in the broadest sense and those which do not.

**Figure 1: Total funds and total budgetary support to agriculture scheme**

Line ministry total budget		Transfers to agriculture and rural development from other sources
Total relevant funds		
Transfers to other sectors	Total budgetary support to agriculture and rural development	
Administrative costs		

The criteria defining whether a measure is a budgetary support to agriculture and what are the forms of support, were in principle taken from the OECD methodology<sup>1</sup>. Support to agriculture includes all budgetary expenditures related to agricultural policy, except those representing administrative costs of the state administration. Under the rural development program in the EU, some measures earmarked for forestry, overall rural economy and population and technical assistance also count as agricultural policy measures<sup>2</sup>.

As stated above, three pillars of agricultural policy represent the main framework of classification of budgetary support to agriculture: (1) *Market and direct producer support measures*, (2) *Structural and rural development measures*, and (3) *General measures related to agriculture*.

<sup>1</sup> In the figures below, it is clearly stated into which group of measures a particular group of measures belong according to OECD methodology. If there is no indication in the tables, it means that it is not possible at this level of classification to include the entire group in any OECD group (they include the measures which, according to OECD criteria, belong to different groups).

<sup>2</sup> According to OECD criteria, these measures do not count as support to agriculture.

**Figure 2: Breakdown of Total budgetary support to agriculture by pillars**

Total budgetary support to agriculture		
1 <sup>st</sup> pillar: MARKET AND DIRECT PRODUCER SUPPORT MEASURES (10000)	2 <sup>nd</sup> pillar: STRUCTURAL AND RURAL DEVELOPMENT MEASURES (20000)	3 <sup>rd</sup> pillar: GENERAL MEASURES RELATED TO AGRICULTURE (30000; GSSE)

In addition to these three pillars, the classification also includes the section *Miscellaneous transfers to agriculture*. Some similar ‘miscellaneous’ groups also exist at lower levels of classification. It is typical of most of the candidate and potential candidate countries that their budget expenditure records are inadequate and that often there is not enough information available to allocate them to the appropriate categories.

The first pillar of APM - **Market and direct producer support measures** - includes only those measures which contribute to higher incomes of agricultural producers - either through market measures or in the form of direct supports (on the input or output sides) - and are not related to specific restrictions regarding the choice of production techniques and farm location. The first pillar comprises most, but not all, of the measures which in the EU are financed from the CAP first pillar<sup>3</sup>. Due to the omogeneity of the groups, a part of the measures within the framework of a EU Single common market organization, such as budgetary transfers for promotion, producer organizations, and restructuring of vineyards were not included in the first pillar but rather in the second, and the measures of a general nature, such as veterinary and phyto-sanitary measures and support for FADN farm booking system were included in the third pillar of the APM. Moreover, the first pillar also includes all measures of similar substance, which in the EU are implemented as state aid fully financed from national funds and have farm income support character.

At the next level, the APM measures of the first pillar are further divided into two groups: *Market support measures* and *Direct producer support measures*.

**Figure 3: Breakdown of Market and direct producer support measures (1<sup>st</sup> pillar)**

MARKET AND DIRECT PRODUCER SUPPORT MEASURES (10000)		
Market support measures (11000)	Direct producer support measures (12000; PSE)	
– Export subsidies (11010; non PSE/GSSE)	Direct payments and variable input subsidies (12100; PSE)	Disaster payments and other compensations to producers (12200; PSE)
– Market intervention (11020; non PSE/GSSE)	– Direct payments to producers (12110; PSE)	
– Operational costs for public stockholding (11030; GSSE)	– Variable input subsidies (12120; PSE)	
– Consumer support (11040; CSE)		

<sup>3</sup> What we consider as EU funds or programs are not concrete EU measures, but the general substance covered by these measures under the CAP. Only such an approach can also serve as a criterion for the classification of measures in those countries that are not EU members.



*Market support measures* incorporate the measures by which the policy influences the supply and demand on the domestic market, and thereby indirectly influences the prices of agricultural products. The budgetary expenditures related to these measures are divided into three groups: *export subsidies*, *market interventions* and *consumer support*. *Market interventions* are further disaggregated to intervention buying-in (including withdrawals from the market), private storage aid and food aid to third countries. *Consumer support* comprises measures related to the purchase, marketing, processing or consumption of agricultural products provided to the food industry (payments to processors and similar measures) or the domestic population (domestic food aid and similar measures).

Budgetary measures related to *export subsidies* and *market interventions* according to the OECD criteria affect market prices received by producers, creating a price gap that is captured by market price support (MPS) and therefore does not form a part of PSE /GSSE budgetary transfers. This is similar to *consumer support*, which according to OECD methodology is classified under CSE. The operational costs of public stockholding are recorded separately, as they are the only ones in this group that represent general costs, which by OECD criteria are classified into a separate GSSE sub-category.

*Direct producer support measures* are further divided into two larger groups. The first group - *Direct payments and variable input subsidies* - contains all forms of regular *direct payments to producers*, which are further disaggregated according to implementation criteria (on output, current area/animal, fixed criteria, other criteria) and *variable input subsidies*, which are further disaggregated according to the type of input (seeds, fuel, fertilizers, insurance, etc.).

The second group - *Disaster payments and other compensation to producers* - comprises the payments for which producers are entitled to apply only in the event of specific circumstances. One of the main reasons these payments were included in a separate group is that they are exceptional payments granted mostly on an ex-ante basis, while the first group of measures is planned in advance and granted on a regular basis. These are mostly payments that compensate producers in the case of unexpected events, for example natural disaster payments, compensation payments related to animal and plant disease eradication, and income- or revenue-loss related payments. Such payments are further disaggregated similarly to other direct payments, i.e. by implementation criteria. Moreover, compensatory payments related to resource retirement (temporary or permanent abandonment of production) are also included in this group. All measures in the group of direct support to producers can be ranked into one of the PSE categories according to OECD criteria.

The second APM pillar is related to ***structural and rural development measures*** and is structured in three main axes: *Improving the competitiveness of the agricultural sector*, *Improving the environment and countryside*, and *Supporting the rural economy and population*. The axes more or less follow the structure of the 2007-2013 EU rural development policy framework, though in a broader sense regarding the substance of measures and with quite a few modifications. Thus, the second pillar includes all measures in the EU that are financed from the EARDF (European agricultural Rural Development Fund), as well as a part of the measures of common market organization and direct aids that in the EU are financed from the CAP first pillar, but in substance belong to this framework, as well as some measures of a similar character that in the EU are financed exclusively from national sources. The third axis also includes the Leader, which in the EU rural development programs forms a separate axis. The

measures grouped into axes are quite heterogeneous in substance, which is why the combined axes cannot be ranked into one of the OECD groups.

**Figure 4: Breakdown of Structural and rural development measures (2<sup>nd</sup> pillar)**

STRUCTURAL AND RURAL DEVELOPMENT MEASURES (20000)		
<b>Improving the competitiveness of the agricultural sector (21000)</b>	<b>Improving the environment and countryside (22000)</b>	<b>Supporting rural economy and population (23000)</b>

The first axis – *Improving the competitiveness of the agricultural sector* – is divided into three groups of measures in the first step, with the main criterion of division being for whom the supports are intended. The group *on-farm restructuring support* merges the measures whose beneficiaries are individual agricultural holdings. The *agri-food restructuring support* group refers to the agricultural sector in a broader sense, whereas the third group contains the measures that support the restructuring of the *forestry* sector. According to OECD criteria, the first group is ranked into one of the PSE categories, the second group is ranked into one of the GSSE categories, and the third group does not count as support to agriculture according to OECD criteria.

**Figure 5: Breakdown of improving the competitiveness of the agricultural sector (2<sup>nd</sup> pillar, 1<sup>st</sup> Axis)**

Improving the competitiveness of the agricultural sector (21000)		
On-farm restructuring support (21100; PSE)	Agri-food restructuring support (21200; GSSE)	Forestry support (21300; non PSE/GSSE)
– <i>On-farm investment support (21110;PSE)</i>	– <i>General support to agricultural sector (21210;GSSE)</i>	
– <i>Other on-farm restructuring support (21120;PSE)</i>	– <i>Food processing, marketing and promotion(21220;GSSE)</i>	

*On-farm restructuring support* is composed of two sub-groups: *on-farm investment support* including investments in vineyards, orchards, olive tree plantations and hops gardens, irrigation, drainage and other long-term land improvement investments on the farm, and *other on-farm restructuring support*, which includes measures to facilitate structural adjustments of agricultural holdings, granted mostly in the form of flat rate payments (setting up young farmers, adapting to demanding standards, participation of farmers in food quality schemes, exceptional assistance). *Agri-food restructuring support* is divided into the sub-group that includes the measures supporting the restructuring of agriculture in general (agricultural infrastructure, early retirement, semi-subsistence farms, etc.) and into the sub-group with measures supporting food processing, marketing and promotion (including producer groups and organizations).

The second axis gathers measures aimed at *improving the environment and countryside*. The first subgroup of this axis - *Environment and landscape targeted payments to producers* - is composed of payments granted to agricultural producers to compensate for higher costs or lower revenue due to less favorable natural conditions for agricultural production (subgroup *Payments to farmers in areas with*

*natural handicaps*), due to environmental restrictions (sub-group *Payments to farmers in protected areas*) and due to a voluntary agri-environmental commitment that goes beyond the mandatory standards (subgroup *Agri-environment and animal welfare payments to farmers*). At the next level, these sub-groups are divided by implementation criteria (on output, area, animal numbers, non-commodity criteria). Since the whole group of measures represents support to individual agricultural producers, all the measures can be ranked into one of the PSE categories. The second group of this axis – *Environmental payments not directly linked to agriculture* – includes payments with environmental or countryside objectives that are not related to agricultural producers or agriculture, such as environmental payments to forestry, and according to OECD criteria do not represent support to agriculture.

**Figure 6: Breakdown of Improving the environment and countryside (2<sup>nd</sup> pillar, 2<sup>nd</sup> Axis)**

<b>Improving the environment and countryside (22000)</b>	
Environmental- and landscape-targeted payments to producers (22100; PSE)	Environmental payments not directly linked to agriculture (22200; non PSE/GSSE)
<ul style="list-style-type: none"> <li>– <i>Payments to farmers in areas with handicaps (22110; PSE)</i></li> <li>– <i>Payments to farmers in protected areas (22120; PSE)</i></li> <li>– <i>Agri-environmental and animal welfare payments to farmers (22130; PSE)</i></li> </ul>	<ul style="list-style-type: none"> <li>– <i>Environmental payments to forestry (22210; non PSE/GSSE)</i></li> <li>– <i>Other payments with environmental objectives (22220; non PSE/GSSE)</i></li> </ul>

The third axis comprises the measures *supporting rural economy and population*. This axis is composed of three groups, of which only the first one - *Support to rural population directly linked to farms* - which includes measures such as support for on-farm diversification into non-agricultural activities, is regarded as support to agriculture according to the OECD criteria (GSSE). The second group - *General support to rural economy and population* - which includes measures such as business creation, rural infrastructure and services, village renewal and similar measures, and the third group - *Building local capacity (LEADER)* through skills-acquisition, animation, preparation and the implementation of local development strategies - are not treated as being directly related to agriculture, and thus not included in GSSE.

**Figure 7: Breakdown of Supporting rural economy and population (2<sup>nd</sup> pillar, 3<sup>rd</sup> Axis)**

<b>Supporting rural economy and population (23000)</b>		
Support to rural population directly linked to farms (23100; GSSE)	General support to rural economy and population (23200; non PSE/GSSE)	Building local capacity (LEADER) (23300; non PSE/GSSE)
<ul style="list-style-type: none"> <li>– <i>Support to on-farm diversification into non-agricultural activities (23110; GSSE)</i></li> <li>– <i>On-farm support to rural population – other (23120:GSSE)</i></li> </ul>	<ul style="list-style-type: none"> <li>– <i>Business creation and development (23210; non PSE/GSSE)</i></li> <li>– <i>Rural infrastructure and village development (23220; non PSE/GSSE)</i></li> <li>– <i>Other measures to support rural areas (23230; non PSE/GSSE)</i></li> </ul>	

The third APM pillar - **General measures related to agriculture** - covers measures which are aimed at supporting public services related to agriculture such as research, development, advisory and expert services, food safety and quality control (veterinary and phyto-sanitary measures, quality policy, etc.), technical assistance and other similar measures provided to agriculture collectively.

**Figure 8: Breakdown of General measures related to agriculture (3<sup>rd</sup> pillar)**

GENERAL MEASURES RELATED TO AGRICULTURE (30000; GSSE)		
Research, development, advisory and expert services (31000; GSSE)	Food safety and quality control (32000; GSSE)	Other general support measures (33000; GSSE)

In the EU these measures are mostly financed from national budgets. This pillar also includes some measures of a general character, which in the EU are financed from the CAP first pillar financing system. All measures in this group are ranked into the GSSE according to OECD criteria.

**APM database creation and standard analytical output**

Developing and transition countries mostly do not provide publicly-accessible and systematic tools for monitoring budgetary expenditure on various items of agricultural and rural development support. The data collection for APM creation is therefore a demanding process and crucial phase in the classification and systematization efforts.

In these cases, a number of possible sources needs to be examined, such as governmental budgetary plans, policy programs and regulations, reports on the implementation of agricultural policy measures from various ministries. When collecting data from various sources, there is always a danger of incomplete coverage. It is therefore crucial also to obtain aggregate budgetary data. Usually, the Ministry of Finance is the primary source of the total budget of the state ministry and other (administrative) state bodies related to agriculture. Additional efforts need to be made to gather data on transfers to agriculture from other sources. Measures such as tax concessions and fuel tax rebates often lay within the competence of other ministries. Often, funds for agriculture are also provided by local communities, international donors and perhaps from other sources. All these transfers must be taken into account to be able to cover total funds (line ministry budget and budgetary transfers to agriculture from other sources).

The first step in allocating measures is the formation of larger groups of measures. A special decision tree serves as a tool at this stage of allocation. As schematically presented in Annex 2, the decision tree is based on a set of questions regarding the substance of a measure. The answers to the questions (only 'yes' or 'no') in most cases lead to allocation up to the level one step before the final allocation, i.e. the basic headings.

The final steps in the allocation process must be made directly in the APM input template. Other criteria are used in that stage. In some cases, mostly within *rural development* and *general support measures*, the final allocation can be made by following the name of measure group on the next level. In many other cases the type of payment is the main criteria (implementation criteria). In all groups of measures, which according to OECD criteria belong to the PSE (in most cases this is already defined at the group or

sub-group level), the classification foresees the possibility of further division by the PSE classification. In the APM template for each basic heading, the PSE category or subcategory is already predefined. In these cases the final allocation is thus made based on PSE criteria.

Another label, which is also predefined in the APM template, is the EAA group of subsidies. Analysis by this criterion can be useful for assessing the impact of individual groups of measures on income from agriculture.

Additionally, the APM tool includes two more labels which are useful for analytical purposes (see annex1). The measures can also be classified by the beneficiary (agricultural producer; producer groups; food industry, etc.) and commodity (commodity codes are further aggregated to groups: single commodity; group commodity; no commodity linked). For basic headings those group labels are also predefined. Comparing all predefined labels with characteristics of the specific measure should help allocate it correctly. For some basic headings, such as 'other measures', it is impossible to predefine labels. Given the degree of disaggregation of the APM classification, there should not be many cases like this. In these cases it is up to the user to define the labels. Carefully checking the consistency of all labels is necessary.

A part of the APM tool is used to prepare data for substantive analysis. Analytical tables and figures are prepared for time series, both by the APM and PSE classification systems. Tables and figures are prepared by hierarchical principle, which enables the generation of aggregate tables at various levels.

To test the APM approach and to analyze the evolution and features of WBs agricultural policies the extensive data collection has been implemented in the year 2009 and 2010. A complete APM database with all the data collected according to the established methodology was compiled in Bosnia Herzegovina, Montenegro and Serbia. Most of the data needed to analyze budgetary transfers to agriculture are available for Croatia and FYR Macedonia. In Albania, basic data were collected but the reliability is still questionable. For Kosovo, only data on the total budget of the ministry responsible for agriculture is available.

### 3. Results

In the WBs, agricultural support through budgetary funds has gained in importance, especially in recent years.

**Table 1: Total budgetary support to agriculture (EUR million)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania (AL) <sup>1</sup>	54.5	43.9	50.8	53.0	53.6	34.6	46.9	43.2	47.1
Bosnia Herzegovina (BA)	7.0	14.2	15.4	18.6	24.7	33.1	46.4	69.9	86.1
Croatia (HR)	:	201.4	240.5	278.3	:	:	371.4	431.4	:
Kosovo (UNSCR 1244/99-XK) <sup>1</sup>	:	:	:	2.6	3.3	5.0	5.9	6.4	:
FYR Macedonia (MK)	:	:	2.5	2.5	8.6	8.4	17.5	17.2	44.7
Montenegro (MN)	:	6.2	4.2	5.3	5.8	5.7	7.8	9.7	12.7
Serbia (RS)	:	:	:	:	188.1	135.0	165.5	176.4	265.8

Notes: <sup>1</sup> Total line ministry budget

Source: APM DATABASES (2010)

It is difficult to compare budgetary support between countries in absolute terms. Although relative indicators can also be problematic, total budgetary support calculated per capita or per hectare of agricultural area (AA) can be used as an approximation of differences by country.

Compared to the EU 27, budgetary transfers to agriculture in the WBs are relatively low according to both relative indicators. However, the actual level of support in most WBs is quite comparable with levels in some EU new member states (NMS) at the beginning of their accession process. The exception is Croatia, which in 2007 already recorded a much higher level of support to agriculture per inhabitant and per area than some EU Member States (the Baltic States, Romania and Bulgaria).

**Table 2: Total budgetary support to agriculture per unit, 2007**

	AL <sup>1</sup>	BA	HR	XK <sup>1</sup>	MK	ME	RS	LV	BG	CZ	EE	HU	SI	EU 27
EUR/capita	11	18	99	3	8	16	27	141	37	135	162	233	155	156
EUR/ha AA <sup>2</sup>	31	32	364	11	16	20	40	175	55	329	239	402	626	448

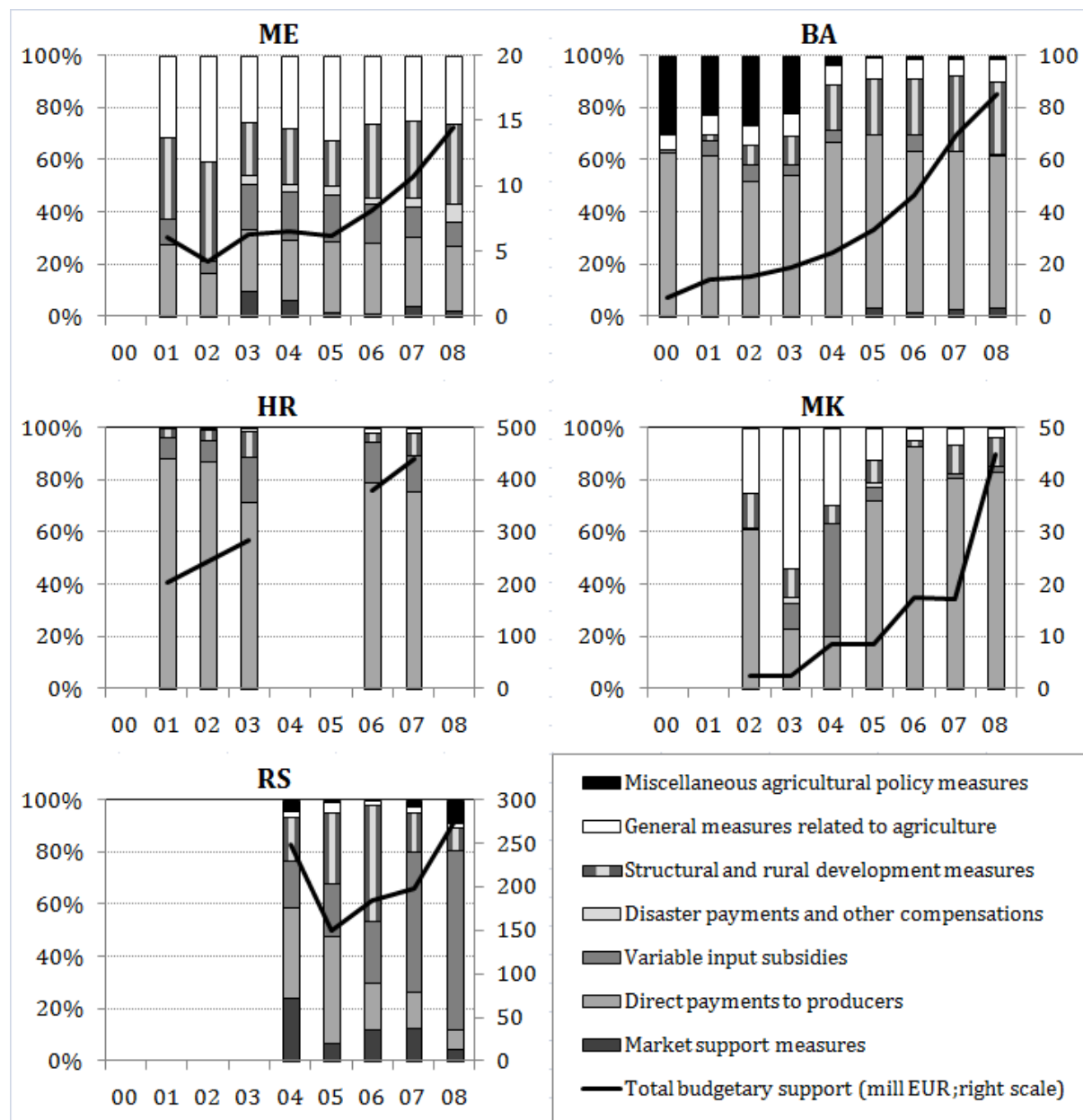
Notes: <sup>1</sup> Total line ministry budget; <sup>2</sup> agricultural areas;

Source: APM DATABASES (2011), OECD DATABASE (2010), EC STATISTICS (2010)

In addition to the total amount of support, the structure of support is also an important indicator of agricultural policy. When comparing the evolution of total funds and the evolution of their structure, three different patterns can be found (figure 8). In Bosnia Herzegovina, and after 2003, also in Montenegro, along with the growth of total support, its composition is also changing. Indeed, the share of funds related to rural development measures increases on account of the decrease in direct producer support funds. This is not the case in Croatia and FYR Macedonia, where the structure in recent years is quite rigid and the share of direct producer support has remained very high. Serbia is a special case. In addition to a substantial drop in total support in 2005, dramatic change in the structure of direct producer support can be seen in recent years – a switch from direct payments to input subsidies. The

Serbian case (and FYR Macedonia till 2004) clearly indicates the problem of agricultural policy stability, which has also been reported by experts from other WB countries.

**Figure 9: Breakdown of total budgetary support to agriculture (%), 2000-2007**



Source: APM databases (2010)

The structure of budgetary support to agriculture in the WBs is significantly different from that of NMS, although it is also true that differences between NMS are large. In particular, the share of the budget for

direct producer support is significantly higher in most WBs. On the other hand, the proportion of rural development support measures is lower, as is the proportion of funding for general services<sup>4</sup>.

Direct producer support in the form of direct payments is the main element of agricultural budgetary transfers in most WBs, and is also the major factor of growth in budgetary funds.

**Table 3: Breakdown of total budgetary support to agriculture (%), 2007**

	BA	HR	MK	ME	RS	LV	BG	CZ	EE	HU	SI
Market support	2.6	0.7	0.0	4.0	12.3	1.1	0.0	2.7	1.9	35.6	0.8
Direct producer support	61.1	88.5	82.7	37.4	66.8	35.9	15.0	53.6	40.4	37.9	45.5
Structural and rural development Measures	28.4	9.1	10.6	31.3	16.1	44.1	8.1	27.6	35.5	19.5	43.0
General measures related to Agriculture	6.8	1.6	6.7	27.3	2.1	18.9	76.9	16.1	22.2	7.0	10.8
Miscellaneous	1.1				2.7						

Source: APM DATABASES (2010)

The composition of direct payments is different as in the EU Member States. There are also many differences between the WBs. In Serbia, the prevailing direct producer support form is input subsidies, whereas in Bosnia and Herzegovina it is direct payments based on output, and in Croatia and FYR Macedonia direct payments per animal and area prevails.

**Table 4: Breakdown of direct producer support (%), 2007**

	BA	HR	MK	ME	RS	LV	BG	CZ	EE	HU	SI
Payments based on output	57.6	22.0	0.0	22.0	20.2	0.6	5.3	0.0	0.0	0.0	0.0
Payments based on current area/animal	41.6	62.5	97.7	39.0	0.9	23.1	15.7	0.0	46.2	69.5	9.7
Decoupled payments	0.0	0.0	0.0	0.0	0.0	56.4	33.0	92.9	51.6	27.8	67.2
Variable input subsidies	0.7	15.5	2.3	29.3	78.9	19.9	0.6	0.0	1.7	0.0	7.5
Other direct payments	0.0	0.0	0.0	9.8	0.0	0.0	45.3	7.1	0.5	2.7	15.6

Source: APM DATABASES (2010)

Rural development policy is generally subordinate to direct producer supports, and mainly includes measures for restructuring agriculture, which have been gaining importance as accession preparations have increased<sup>5</sup>.

In the WB countries for which data is available, investment support and other measures aimed at improving the competitiveness of the agricultural sector represent the highest share of funds for rural development, ranging from about 70% in Montenegro and Serbia, to 100% in FYR Macedonia (2007).

<sup>4</sup> Some experts reported that general services are also funded from other sources, but data for this is not available (not included in APM database).

<sup>5</sup> There are also several donor projects, which in some countries represent an important share of the funds for this policy pillar, but data for this is not available.



**Table 5: Breakdown of rural development support (%), 2007**

	BA	HR	MK	ME	RS	LV	BG	CZ	EE	HU	SI
Improving the competitiveness of the agricultural sector	79.3	96.8	100.0	67.7	68.2	56.2	100.0	17.2	31.7	37.4	33.8
Improving the environment and the countryside	3.5	0.0	0.0	0.0	2.0	39.9	0.0	71.1	52.1	50.1	64.5
Supporting rural economy and population	17.2	3.2	0.0	32.3	29.7	4.0	0.0	11.7	16.2	12.5	1.7

Source: APM DATABASES (2010)

Budgetary support earmarked for the development of rural areas including the rural economy and rural infrastructure, represent rather important shares only in Montenegro and Serbia (about 30%), but total funds for these measures are still very limited. Even less was spent for measures related to improving the environment and the countryside (2<sup>nd</sup> axis of rural development policy), although preparation activities for the implementation of such measures are underway in most WBs.

#### 4. Discussion and conclusions

The APM classification is primarily based on the classification of measures used in the EU, combined with OECD classification. Technically, the APM classification is based on a 5-digit code system, with the first digit of the code defining the pillar of agricultural policy, the second digit the category (or axis), and each subsequent digit a sub-category of the previous one. The main principle behind the classification is the substantive homogeneity of groups, the goal of which was for the groups to be homogenous at the highest possible level in terms of the EU program group, goals pursued by the measures, impact of the measures on the market, beneficiary and method of implementation. At least at the basic headings level, the groups are homogenous in terms of all the above criteria.

The most demanding part in the development of the database based on APM classification is the allocation of an individual measure to the relevant APM group. The data on agricultural policy measures had to be collected at the most detailed level possible and then allocated according to specific criteria. A special decision tree was devised to ease the process of allocation and ensure the most uniform approach possible.

A special part of the APM databases is intended for the preparation of data for substantive analysis. Analytical tables and figures have been pre-prepared, both by the APM and PSE classification systems. The standard set includes a number of presentations, from the most aggregate to the most detailed tables and figures. The main purpose of pre-prepared tables and figures was to provide a uniform analytical basis for agricultural policy analyses to be used in EU accession countries.

A mostly complete APM database was established in 5 Western Balkan countries, whereas the APM classification was also tested in 6 EU New Member States. This is probably not a sufficient number to be able to claim that APM classification enables the rational distribution of all possible forms of support to agriculture. However, it proved to be useful for policy analysis. In Western Balkan countries, the uniform database and standard analytical output allowed a relatively uniform approach to the analysis of agricultural policies.

In the last decade, there have been quite substantial changes to agricultural policy in most WBs. In some countries, budgetary transfers to agriculture have been increasing rapidly, whilst in others they have fluctuated (Albania and Serbia). Compared to the EU, funds for supporting agriculture are still relatively low. The exception is Croatia, which already in 2007 recorded a much higher level of support to agriculture per inhabitant or per area than some EU Member States (the Baltic States, Romania and Bulgaria). A low level of budgetary support is, however, not unusual for the countries at such a level of economic development. Indeed, it is relatively comparable with levels in the new Member States at the beginning of their accession preparations, i.e. four or more years prior to accession.

A wide range of support instruments and measures are applied across the WBs. However, market support measures have lost importance related to price and trade liberalization during transition. Border protection is still applied throughout the Western Balkans (except Kosovo), but its effectiveness is rather limited due to free trade agreements signed in recent years (CEFTA, EU). Export subsidies are used in Serbia only. Other market support measures (market intervention, administered pricing) are less important or nonexistent.

In recent years, direct producer support has been the main element of agricultural budgetary transfers and also the major factor of growth in budgetary funds. In nearly all examined countries, crop and livestock production are supported through price aids, area and/or headage payments and input subsidies, which are all forms of support that are not in agreement with the reformed Common Agricultural Policy (CAP). The implementation of direct payments according to the EU rules has also not been in place in any WBs. Only in Croatia and partly in FYR Macedonia have some important steps in this direction already been made.

Rural development policy is generally subordinate to production support. Funds aimed at supporting rural development are much lower, although show an increasing tendency. These funds are mainly intended for restructuring agriculture through investment support, which have been gaining importance as preparations for the approaching accession continue. All countries have been preparing, and some (Croatia and FYR Macedonia) have already started, to implement rural development policy according to EU rules. However, progress has been relatively slow, since rural development is a demanding policy, and also because these countries have different priorities. In this context, only a small proportion of funds is related to environment and countryside measures (the 2<sup>nd</sup> axis of rural development policy). There is some support for organic production, agricultural genetic resources, and some additional support for hilly and mountainous regions, but it is very limited given the potentials and possibilities provided by EU policy. General awareness for the environment, less favored areas and animal welfare issues is relatively low. This policy is not a priority, which is in a way understandable, as it is difficult to find interest and rationale for such measures in the areas facing even extreme rural poverty, and where subsistence farming prevails. Even less funds are intended for the rural population (3<sup>rd</sup> axes of rural development policy). There is a certain conflict with the EU regional policy approach, which in these countries lags behind even more than rural development policy.

Support for public services in agriculture is present in all WBs. Particularly the veterinary and phytosanitary areas have been undergoing substantial changes, since this is a priority in the EU integration processes. However, smaller funds and lower attention is given to development in extensions, research and training activities, which indirectly hinders faster development of agriculture.

The APM analysis allows also the discussion on elaboration and programming of agricultural policy measures in the frame of WBs European integration process. If a country is at the beginning of the accession process, some EU measures not allowed in the CAP (eg. input subsidies and output supports) are still "allowed", but the decision-makers should be aware that historical rights for farmers are difficult to remove. A strategic piece of advice would be that the policy gradually focuses on per head and area payments for those sectors which have been gaining support in the EU since 1992. Great efforts need to be made towards establishing the requested administrative information and control system. There is definitely in WBs a need to adapt to production support, which has existed in a broader sense in the EU since 1992. Another important element to be taken into account is that the levels of support should not exceed EU levels. If this happens, it could lead to negative accession effects and problems with farmers' interest groups, whose power is growing in all countries.

Regardless of the need for increased competitiveness in agriculture and the prevailing production-oriented approach, more attention should be given to rural development, which should gradually become a central policy. But the WB countries should develop their own prioritizing system. There have been too many cases of merely copying EU measures, which are often unsuitable for accession countries. The WB countries should avoid this and attention should be given to solving their own problems, as well as to gradual EU-like policy programming and implementation. If possible, the countries should not create separate EU and domestic rural development policies and implementation structures. An increase in agricultural competitiveness should be the first priority of this policy. Also, strategic investment in market structures and food processing could contribute to greater efficiency for both agriculture and the overall economy. Ways should be found to support the development of small farmers. Very often, their problems seem to be an excuse for increasing production support, which does not solve their problems, but perhaps aggravates them. In the candidate countries, a much greater role should be given to the 2<sup>nd</sup> and 3<sup>rd</sup> axes measures for rural development policies. Less-favored area denomination and rules and practices for environmentally-friendly production could be the first step in this direction.

More attention should be also given to agricultural policy analysis, monitoring and evaluation. More recently, WBs have started to harmonize data collection and processing methods with EU practices. However, datasets, particularly as regards agricultural policy measures, still do not fulfill all analytical needs. In the future, this should be improved upon, updated and used for agricultural policy analysis on a regular basis. A part of these activities could be outsourced to independent research and public bodies.

Further work on APM classification will depend mostly on the interest of its users. Certain adjustments will likely be needed for its potential wider use, and some problems and dilemmas still have to be resolved. Perhaps the most important issue is a terminology problem, as it is very difficult to clearly describe the substance of individual groups of measures, bearing in mind that the term should be concise and should not resemble any of the established terms which carry a different meaning.

One of the important goals of creating the APM analytical database is the formation of aggregates, which at the highest possible level provide the most relevant information for agricultural policy analysis. A more detailed analysis of APM classification revealed certain weaknesses in this regard. In some areas, using the EU's program approach to form aggregates proved to be less appropriate for the overall

analysis of agricultural policy. Besides, the EU program approach, which served as a basis for the APM classification, is constantly changing because it is tailored only to a certain programming period. The expected CAP reforms may significantly change the current program concept. This, of course, may also ruin the established system of APM classification at higher levels of aggregation.

In order to verify the possibility of adapting APM classification for different approaches to policy analysis, various APM modifications could have been examined. One, which is not so obviously influenced by the present EU program approach and allows analysis of the agricultural policy based on the most aggregate level of classification, is aggregation measures into seven main pillars: 1. Market support; 2. General income support; 3. Decoupled direct payments; 4. Targeted income support; 5. On-farm restructuring support; 6. Indirect support to agriculture; 6. Support to the rural economy and population. In this structure, the connection to the current EU pillars becomes less evident, while the link to the OECD concept is more direct. Pillars 1 and 7 include measures which are usually not a subject of PSE/GSSE. Pillar 6 consists of measures which, according to OECD methodology, belong to the GSSE, and pillars 2 to 5 to the PSE. The modified APM classification could place greater emphasis on the market distortion criterion, and where relevant, also follows the program aspect of measures.

Finally, ideas for future common projects need to be developed. The same project that the OECD implemented for the Central and Eastern European countries in the 1990s could be considered - to organize regular preparation of annual country reports and country comparisons, accompanied with seminars and conferences, where decision-makers could also be included. Moreover, the impact assessment of EU integration effects with price convergence and policy harmonization studies should be prepared. To be able to assess effects and upgrade analytical capacity, it would be important to include the accession countries into the current sector modeling at the EU level. Modeling in groups and modeling tools such as Agmemod and CAPRI should be particularly considered. The agricultural budget transfers data using APM approach could be a good starting point and quality assurance for sector modeling exercise for acceding and transitional countries.

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## 6. Annexes

### Annex 1: APM classification and corresponding labels

APM code	Description	Beneficiary	Commodity	OECD category	EAA group
<b>10000</b>	<b>MARKET AND DIRECT PRODUCER SUPPORT MEASURES</b>				
<b>11000</b>	<b>Market support measures</b>				
11010	Export subsidies	OT	?O	nr	nr
11020	Market intervention				
11021	Intervention buying-in	OT	?O	nr	nr
11022	Private storage aid	OT	?O	nr	nr
11023	Food aid to third countries	OT	?O	nr	nr
11030	Operational costs for public stockholding	OT	?O	M	nr
11040	Consumers support	CO	?O	Q	nr
11090	Other and miscellaneous market support measures	?	?O	?	nr
<b>12000</b>	<b>Direct producer support measures</b>				
<b>12100</b>	<b>Direct payments and variable input subsidies</b>				
12110	Direct payments to producers				
12111	Direct payments based on output (price aids)	AP	?S	A2	10
12112	Direct payments based on current area/animal	AP	?S;G	C	30
12113	Direct payments based on fixed criteria (decoupled)	AP	N	E	30
12114	Other direct payments	AP	?S;G;N	C; D; G	?
12120	Variable input subsidies				
12121	Subsidies for seeds and seedlings	AP	?S;G	B1	20
12122	Subsidies for (breeding) animals	AP	?S;G	B1	10
12123	Fuel subsidies; fuel tax rebates	AP	?S;G	B1	20
12124	Fertilizer and pesticides subsidies	AP	?S;G	B1	20
12125	Interests concessions for short run loans for agricultural production	AP	?S;G	B1	20
12126	Insurance subsidies	AP	?S;G	B1	20
12127	Other variable input subsidies	AP	?S;G	B1	30
12128	Subsidies for on-farm services	AP	?S;G	B3	20
<b>12200</b>	<b>Disaster payments and other compensations to producers</b>				
12201	Compensatory payments based on output	AP	?S;G	A2	30
12202	Compensatory payments based on area/animal	AP	?S;G	C	30
12203	Compensatory payments based on resource retirement	AP	N	F1	?50
12204	Compensatory payments for input purchase	AP	?S;G	B1	30
12205	Other compensatory payments	AP	?S;G;N	C;E;G	30
19000	Miscellaneous - market and direct producers support	nal	nal	nal	nal
<b>20000</b>	<b>STRUCTURAL AND RURAL DEVELOPMENT MEASURES</b>				
<b>21000</b>	<b>Improving the competitiveness of the agricultural sector</b>				
<b>21100</b>	<b>On-farm restructuring support</b>				
21110	On-farm investment support				
21111	Modernization of agricultural holdings	AP	?S;G	B2	40
21112	Restructuring of permanent crops plantations (per hectare)	AP	?S;G	C	
21113	Land improvement; irrigation; land consolidation	AP	?S;G	B2;B3	
21114	Restoring agricultural production potential damaged by disasters	AP	?S;G	B2	40
21120	Other on-farm restructuring support				
21121	Setting up young farmers	AP	?S;G	B2	50

21122	Adapting to demanding standards	AP	?S;G	B2	30
21123	Participating of farmers in food quality schemes	AP	?S;G	B3	20
21124	Other on-farm support	AP	?S;G;N	PSE	?50
<b>21200</b>	<b>Agri-food restructuring support</b>				
21210	General support to agricultural sector				
21211	Improving infrastructure related to agriculture	?	nr	K	nr
21212	Early retirement	AP	nr	K	nr
21213	Restructuring of semi-subsistence agricultural holdings	AP	nr	K	nr
21214	Other support to agriculture	?	nr	GSSE	nr
21220	Food processing support, marketing and promotion				
21221	Investments in food processing	FP	nr	L	nr
21222	Marketing and promotion	?	nr	L	nr
21223	Supporting producer groups	PG	nr	L	nr
21224	Other support to agri-food industry	PG	nr	L	nr
<b>21300</b>	<b>Forestry support</b>	nr	nr	nr	nr
<b>21900</b>	<b>Miscellaneous (competitiveness)</b>	?	?	?	nr
<b>22000</b>	<b>Improving the environment and the countryside</b>				
<b>22100</b>	<b>Environment and landscape targeted payments to producers</b>				
22110	Payments to farmers in areas with handicaps (LFA)				
22111	LFA payments based on output	AP	?S	A2	30
22112	LFA payments based on area	AP	?S;G	C	30
22113	LFA payments based on animal numbers	AP	?S;G	C	30
22114	Other LFA payments	AP	?S;G;N	PSE	? 30
22120	Payments to farmers in protected areas (PA)				
22121	PA payments based on output	AP	?S	A2	30
22122	PA payments based on area/animal	AP	?S;G	C	30
22123	Other PA payments	AP	?S;G;N	PSE	?; 30
22130	Agri-environmental and animal welfare payments to farmers (AE)				
22131	AE payments based on output	AP	?S	A2	30
22132	AE payments based on area/animal	AP	?S;G	C	30
22133	AE payments based on non commodity criteria	AP	N	F2	50
22134	Other AE payments	AP	?S;G;N	PSE	? 30
22135	First forestation of agricultural land	AP	nr	F1	50
<b>22200</b>	<b>Environmental payments not directly linked to agriculture</b>				
22210	Environmental payments to forestry	nr	nr	nr	nr
22220	Other payments with environmental objectives	nr	nr	nr	nr
<b>23000</b>	<b>Supporting rural economy and population</b>				
<b>23100</b>	<b>Support to rural population directly linked to farms</b>				
23110	Support to on-farm diversification into non-agricultural activities	AP	nr	K	nr
23120	On-farm support to rural population – other	AP	nr	K	nr
<b>23200</b>	<b>General support to rural economy and population</b>				
23210	Business creation and development	nr	nr	nr	nr
23220	Rural infrastructure and village development				
23221	Basic infrastructure and services for rural population	nr	nr	nr	nr
23222	Village renewal and development	nr	nr	nr	nr
23230	Other measures to support rural areas	nr	nr	nr	nr
<b>23300</b>	<b>Building local capacity (LEADER)</b>	nr	nr	nr	nr
<b>29000</b>	<b>Miscellaneous rural development measures</b>	?	nr	?	?
<b>30000</b>	<b>GENERAL MEASURES RELATED TO AGRICULTURE</b>				
<b>31000</b>	<b>Research, development, advisory and expert services</b>				

31100	Research and development projects	PI	nr	H	nr
31200	Extension and advisory service	PI	nr	I	nr
31300	Infrastructure related to vocational training	PI	nr	I	nr
31400	Expert services	PI	nr	H	nr
32000	Food safety and quality control				
32100	Veterinary control	PI	nr	J	nr
32200	Plant health control	PI	nr	J	nr
32300	Quality control	PI	nr	J	nr
33000	Other general support measures				
33100	Farmer and other non-governmental organisation support	PI	nr	L	nr
33200	Information systems	PI	nr	K	nr
33300	Technical assistance	PI	nr	K	nr
33400	Other	PI	nr	K	nr
40000	MISCELLANEOUS AGRICULTURAL POLICY MEASURES	nal	nal	nal	nal
50000	OTHER TRANSFERS (not to agriculture)				
51000	Social transfers to agricultural sector	nr	nr	nr	nr
52000	Budgetary transfers to other sectors	nr	nr	nr	nr
53000	Administrative and other costs	nr	nr	nr	nr
59000	Unspecified non-agricultural budgetary transfers	nr	nr	nr	nr

Notes:

**Beneficiary:**

AP Agricultural Producer  
CO Consumers  
PG Producer Groups  
FP Food Processing industry  
PI Public Institutions  
OT Other beneficiary

**EAA group**

10 Subsidies on product  
20 Subsidies on input  
30 Subsidies on production  
40 Investment grants  
50 Other transfers

**Commodity**

S Single commodity - EAA codes  
G Group commodities - OECD codes  
for EU  
N No commodity linked  
O Optional (for other analyses)

**All labels**

nr Not relevant  
nal Not allocated

**OECD category:**

**Producer budgetary support estimate (PSEb)**

A2 Payments based on output  
Payments based on input use  
*B1 Variable input use*  
*B2 Fixed capital formation*  
*B3 On-farm services*  
C Payments based on current A/An/R/I, production required  
D Payments based on non-current A/An/R/I, production required  
E Payments based on non-current A/An/R/I, production not required  
Payments based on non-commodity criteria  
*F1 Long-term resource retirement*  
*F2 Specific non-commodity output*  
*F3 Other non-commodity criteria*  
G Miscellaneous payments

**General Services Support Estimate (GSSE)**

H Research and development  
I Agricultural schools  
J Inspection services  
K Infrastructure  
L Marketing and promotion  
M Public stockholding  
N Miscellaneous

**Consumer Support Estimate (CSE)**

Q Transfers to consumers from taxpayers



**Annex 2: Decision tree for measure allocation**

