THE SCOPE AND STRUCTURE OF THE INCENTIVES IN AGRICULTURE AND RURAL DEVELOPMENT IN THE REPUBLIC OF SERBIA

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Abstract. The aim of the paper is to point out the scope and structure of the incentives from the agricultural budget of the Republic, as well as from the IPA Fund which are intended for the agricultural and rural development sector in Serbia. A brief overview of the chronology of harmonization of national legislation in the field of agricultural production with European rules is given as well as the plan for realization of IPARD funds for the period 2014-2020 and a review of incentives from the agricultural budget for the period 2016-2019. EUR 175 million from the EU budget and EUR 55 million from the national budget are allocated for supporting the agriculture and rural development sector of Serbia within the IPARD measures. The largest amount of funds within the IPARD measures is planned for investments in the physical assets of agricultural holdings (43%). Somewhat less contribution is scheduled for the investments in processing and marketing in agricultural holdings (37%). The leftover measures include only 19% of the planned funds intended to support agricultural holdings within the IPARD assistance program. On the other hand, an analysis of the incentive structure from the Republic’s agrarian budget indicates that the largest share has direct payments of over 50%, while the rural development measures are averagely financed with 12.3%.

Key words: agriculture, financing, IPARD, the agrarian budget

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1. INTRODUCTION

The Republic of Serbia is recognizable as an agricultural country because this activity, to a certain extent, contributes to economic development, and it is in the state's interest to continue with further development of this field. According to the Statistical Office of the Republic of Serbia (SOR), the contribution of the agriculture, forestry and fishing sector to the creation of gross domestic product (GDP) was 6% in 2017. However, in the same year, observed by activity, the agriculture, forestry and fishing sector recorded a real decline of 11.2% of gross value added (SOR, 2018).

The favorable natural conditions and climatic factors distinguish the agriculture of Serbia as the primary activity. Financial support to the agricultural producers in this paper was considered at two levels: 1. funds of the IPARD (Instrument for Pre-Accession in Rural Development) program; 2. Agrarian budget funds.

Agricultural producers of Serbia are at the disposal of funds of the so-called IPARD program. Since Serbia acquired the EU candidate status at the beginning of 2012 and accredited the Agency for Agrarian Payments, it was granted the right to use EU funds under the fifth IPA component known as IPARD. The pre-accession support measure is intended for the agriculture and rural development, and larger part of the funds are provided by the EU. The first call for applications for IPARD funds was announced at the beginning of 2018, and the interest of farmers for financial resources is growing increasingly. The payment of IPARD funds is designed through the contribution of the EU and the national contribution expressed in percentages. The largest percentage contribution of the EU funds is scheduled for Measure 5 – LEADER approach and amounts to 90%, while the remaining 10% will be provided by the Republic of Serbia.

As the Republic of Serbia recognized the importance of agriculture, it was decided that each year grants from the agricultural budget are paid to agricultural producers. The right to subsidies is achieved as individuals as legal persons and entrepreneurs in the sector of plant and animals production only if they implement all the requirements prescribed by the tender. The agrarian budget is adopted annually and is an integral part of the Republic budget. From 2016 to 2019, the agrarian budget increased by 15.1%, or by RSD 164.2 bln. During 2016, the agrarian budget had a share of 3.73%, and already in 2019 of 4.14% in the total budget of the Republic, which is the highest value of participation in the four-year period.

Ivanović et. al. (2012) consider that the accession of the Republic of Serbia to the European Union (EU) could bring benefits arising from membership and that the future development of Serbian agriculture must be focused on financing agricultural holdings.

Although agriculture is important for Serbia, it is not sufficiently developed. Prodanović et. al. (2018) quote some reasons why Serbia's agriculture can not be rated as developed: a reduction in livestock funds, fragmentation of parcels, yields below the European average, lack of financial resources for new investments, reduction of rural population, small investments in new equipment and machinery, insufficient insurance coverage in agriculture etc. Accordingly, it is necessary to turn to the newer sources of financing of agriculture that come from both the EU budget and the national budget.

Certainly, the state has recognized the importance of agriculture for the country and continuously increases the funds that it pays from the agrarian budget in the form of subsidies. It also provides a contribution from the national budget when it comes to the payment of funds for the IPARD program, all for the purpose of developing and improving rural life.
2. THE MATERIAL AND METHOD OF WORK

The subject of the research is an analysis of the scope and structure of incentives for agriculture and rural development from the two most important sources of financing: the agricultural budget of the Republic of Serbia and the IPA Fund. The research used and analyzed available data sources to which the descriptive statistics methods were applied with the interpretation of the acquired indicators.

3. THE EU SUPPORT TO AGRICULTURAL DEVELOPMENT OF THE REPUBLIC OF SERBIA

Serbia has the opportunity to use pre-accession agrarian funds if it reformes and adjusts its agricultural policy to the EU agricultural policy (Grujić, 2017). Consequently, it is very important that national agrarian policy is aligned with CAP (Common Agricultural Policy), which means establishing cooperation with institutions. Popović and Grujić (2015) consider that harmonization with institutions must be achieved both horizontally and vertically, and harmonization of legislation is mandatory especially in the field of production of health-safety food.

The first ideas and changes in the field of agricultural production in the Republic of Serbia started only just in 2000, and the chronology of harmonization in the last fifteen years has been as follows:

- The Agricultural Development Strategy of Serbia was adopted in 2005;
- The Law on Agriculture and Rural Development, which adapts the development policy of Serbia to development policy within the EU Member States, was adopted in 2009;
- In 2010, the National Program for Agriculture for the period 2010-2013 was adopted;
- During 2014, the Strategy for Agriculture and Rural Development of the Republic of Serbia for the period 2014-2024 was adopted. The goals of the long-term development of the Serbian agrarian sector are in line with the goals and principles of the development of agrarian sector in the EU.

The Instrument for Pre-Accession Assistance (IPA) contains incentive measures designed for both countries that have not acquired candidate status and countries that have obtained the status of candidates for the EU membership. In other words, IPA funds are a form of preparation for joining the EU. The IPA instrument consists of five components (Pejović et al., 2011):

1. institution building and support for transition,
2. support for cross-border cooperation,
3. support for the regional development,
4. support for the development of human resources and
5. support for agriculture and rural development (IPARD – Instrument for Pre-Accession in Rural Development).

Countries that have not obtained the status of candidate for the EU membership have the right to support which is made by the first two components. Countries that have obtained the status of a candidate for the EU membership, such as Serbia since March 1, 2012, are eligible for financial support and on the basis of the remaining three components.

The IPARD program for Serbia is the EU pre-accession assistance program for increasing the productivity and competitiveness of the agrarian sector (production and
processing of agricultural products). Also, the IPARD program enables the achievement of EU standards in the field of food production, which primarily refers to harmonization with veterinary, ecological and food safety standards of the EU.

Assistance from the IPA fund for IPARD measures for Serbia includes the participation of funds from the EU budget and the national budget. In the period 2014-2020 almost EUR 230 million are available for farmers, of which EUR 175 million comes from the EU budget, and the remaining EUR 55 million from the national budget (IPARD Program for 2014-2020).

An overview of the financial plan for the payment of IPARD funds from the EU and the national budget for individual measures for the period 2014-2020 is given in Table 1.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Total public aid (EUR)</th>
<th>EU contribution (EUR) (%)</th>
<th>EU contribution (EUR)</th>
<th>National contribution (EUR) (%)</th>
<th>National contribution (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments in physical assets of agricultural holdings</td>
<td>101,386,667</td>
<td>75</td>
<td>25,346,667</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Investments in physical assets concerning processing and marketing of</td>
<td>87,346,667</td>
<td>75</td>
<td>21,836,667</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>agricultural and fishery products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agri-environment-climate and organic farming measure</td>
<td>10,294,118</td>
<td>85</td>
<td>1,544,118</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Implementation of local development strategies – leader approach</td>
<td>5,833,333</td>
<td>90</td>
<td>583,333</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Farm diversification and business development</td>
<td>20,000,000</td>
<td>75</td>
<td>5,000,000</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Technical assistance</td>
<td>5,235,295</td>
<td>85</td>
<td>785,295</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>230,096,080</td>
<td></td>
<td>55,096,080</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: IPARD Programme for 2014-2020, Republic of Serbia

The table shows that it is planned that 76.1% of payments for IPARD funds is going to be realized from the EU budget, and the remaining 23.9% from the national budget of the Republic of Serbia. The highest rate of the EU contribution was recorded in the measure "Implementing Local Rural Development Strategies - LEADER Approach" reaching 90%. Observing the structure of payments from the EU budget for the above measures, it is obvious that the largest percentage of funds in the seven-year period is allocated for investments in the physical assets of agricultural holdings with a share of 43% or EUR 76 million. Little less contribution is scheduled for investments in processing and marketing in agricultural holdings with a share of 37% or EUR 65.5 million. The remaining measures make up only 19% of the planned funds intended to support agricultural holdings under the IPARD assistance program.

According to the latest valid IPARD Program for 2014-2020, the implementation of the IPARD program will be implemented in three phases. The first phase consists of investment support measures, and the order is as follows:

1. investments in the physical assets of agricultural holdings (Measure 1);
2. investments in the physical property related to the processing and marketing of agricultural products and fishing products (Measure 3).
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The second phase consists of measures for supporting the diversification of agricultural holdings and business development (Measure 7), as well as technical assistance (Measure 9).

The third phase consists of measures that are under preparation and include LEADER approach (Measure 5) and Agri-environment-climate measures and measures of organic production (Measure 4). For measures 4, 5 and 9, the procedural framework is under preparation, and the conditions for competition, the required tender documentation, and the maximum values that would be available to agricultural producers until 2020 are still unknown.

IPARD funds will be paid for Measure 1 and Measure 3, in 2019, which means that the realization of the program has been started with measures of support for investments. The call for IPARD incentives in 2019 suggests the implementation of Measure 7 and Measure 9, which is expected to be announced in the last quarter of 2019.

The IPARD program also defines the maximum funds available to agricultural producers, published in IPARD Program for 2014-2020. When it comes to Measure 1, the user can receive maximum EUR 1 million of support. At Measure 3, users have a maximum of EUR 2 million of support, and for Measure 7 only EUR 400,000.

Conclusions from the IPARD Monitoring Committee meeting held in May 2019 point to a high response from farmers to apply for funds are significantly higher than expected (http://www.minpolj.gov.rs/odziv-poljoprivrednika-za-ipard-program-veci-od-cekivanog/).

4. INCENTIVES TO AGRICULTURAL PRODUCERS FROM THE AGRARIAN BUDGET OF THE REPUBLIC OF SERBIA

Agriculture of the Republic of Serbia in the period 1994-1996 is financed from the primary isssue of the Central Bank. Since 1996, our country's agriculture has been financed from the so-called agrarian budget which is an integral part of the budget of the Republic (Radović G., 2009). Many experts dealt with agrarian policy models and expressed their views on the problems of financing the agrarian sector.

Pejanović and Radović (2011) consider that with the start of payment of subsidies to agricultural producers in 2004, and not to processors of milk, the focus in agrarian policy was shifted from a policy of income incentives to investments incentive policy.

According to other authors, there are claims that the agrarian budget regressed agricultural production and rural development, and did not finance it (Jovanović and Lakićević, 2012). This procedure is in the opposite with the method of funding that is represented in the European Union (EU). The authors state that in the EU (from 25 Member States) at the end of 2006, average subsidies per capita were EUR 127, and in the Republic of Serbia, EUR 17-20. In the same year, subsidies in the EU amounted to EUR 360/ha, and in our country EUR 32/ha.

The participation of the agrarian budget in the total budget of the Republic of Serbia will be analyzed further in the paper. The obtained percentages in the period 2016-2019 point to inadequate allocations of the Republic budget for agricultural development (Table 2). Besides, Article 4 of the Law on Incentives in Agriculture and Rural Development (Official Gazette of RS, No. 10/13, 142/14, 103/15 and 101/16) clearly states that "the budget of the Ministry cannot be less than 5 % of the budget of the Republic of Serbia for a certain year ". However, we conclude that the agrarian budget in the period 2016-2019 is not even close to the defined legal minimum.
Table 2 Share of agricultural in total budget of RS in the 2016-2019 period (in billion RSD)

<table>
<thead>
<tr>
<th>Year</th>
<th>Budget of RS</th>
<th>Agricultural budget of RS</th>
<th>Share (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,085.3</td>
<td>40.5</td>
<td>3.73</td>
</tr>
<tr>
<td>2017</td>
<td>1,123.2</td>
<td>43.8</td>
<td>3.90</td>
</tr>
<tr>
<td>2018</td>
<td>1,179.2</td>
<td>44.1</td>
<td>3.74</td>
</tr>
<tr>
<td>2019</td>
<td>1,249.5</td>
<td>51.8</td>
<td>4.14</td>
</tr>
</tbody>
</table>

Source: Law on the budget of RS for annual years and authors calculating

The table review shows that the share of the agrarian in the total budget ranged from 3.73% in 2016 to 4.14% in 2019. Also, Table 2 shows that only in 2019 the participation of the agrarian budget is planned to be higher than 4%, which is also the highest value of participation for the observed period. In other words, the average annual share of the agrarian budget in the observed four-year period was about 3.9%.

The Law on Incentives in Agriculture and Rural Development in Article 3 defines four types of incentive measures:

1. *direct payments* involving subsidies for the following purposes: milk premium, basic incentives in plant production, incentives for quality breeding and fattening cattle, bee hives, as well as storage costs in public warehouses;
2. Incentives with measures of *rural development* and include support: investment in improving competitiveness, preserving and improving the environment and natural resources, programs that contribute to income diversification and improvement of quality of life, local rural development strategies, and creation and transfer of knowledge;
3. *Special incentives* which are distributed for: implementation of breeding programs, promotional activities, production of planting material and certification and clone selection;
4. *Credit support* that involves facilitating access to the use of agricultural loans through subsidizing a part of interest on loans from commercial banks.

Regulations on the distribution of incentives in agriculture and rural development, which are issued annually, must be in accordance with Article 4 of the Law on Incentives in Agriculture and Rural Development and Article 8 of the Law on the Budget of the Republic of Serbia. The purpose of the Decree on the allocation of funds is to specify the extent, type and maximum amount of incentives per year in agriculture and rural development.

Graph 1 shows the structure of the incentives scheduled by the Republic's agrarian budget in the period 2016-2019.

In the structure of planned annual incentives, *direct payments* are dominant with over 50%. However, in the analyzed period, the share of this measure is gradually decreasing also in 2019, compared to 2016, it makes 60.1% of planned funds. Considering the planned absolute values, their increase is evident, with the allocation of RSD 16,968.7 million in 2016 and RSD 17,220.3 million in 2019. This inversely proportional share of planned funds for direct payments can be justified by the fact that the total value of the planned funds grows more dynamically than the funds allocated for payment on the basis of a concrete measure increase.

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2 Since 2019, incentive funds for fuel regression have been returned, which were abolished in 2016
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The allocations for *rural development* in the four-year period were increased by 7.2 p.p. The Regulation on the distribution of incentives for 2019 foresees that rural development measures amount to 16.5% or RSD 4,727.5 million of planned funds, while in 2016 they amounted to RSD 1,839.3 million or 9.3%. In contrast to the direct payment measures, the share of the mentioned funds for payment was adjusted in proportion to the increase or decrease of the scheduled total funds.

The most significant increase in the share of planned incentives for agricultural producers was observed in *IPARD* funds. In 2019, the scheduled funds for the payment are RSD 6,073.5 million and they are larger by about 21 p.p. compared to 2016. The share of IPARD funds in 2019 is 21.2% of planned incentives. As a reminder, in 2016, the planned funds for IPARD measures were an integral part of the measures for rural development, accounting for only 0.5% of incentive funds or RSD 100 million. Since 2017, they are presented as a separate measure in the Regulation on the distribution of incentives for IPARD funds.

The scheduled funds for credit support and special incentives in 2019 are only 2.2% of the total planned funds. For *credit support* in 2019, 1.4% was allocated in total planned funds (RSD 400 million), which is significantly less than in 2016 when it was 3% (RSD 600 million).

For the payment of *special incentives* in 2019, RSD 230 million or 0.8% of total planned incentive funds are allocated. However, in 2016 the value of these funds was somewhat higher at RSD 232.6 million and amounted to 1.2% of planned funds.

The data about the use of incentives for agriculture and rural development are also given by the Census of Agriculture 2012, conducted by the Statistical Office of the Republic of Serbia (SORS). Out of the total number of agricultural holdings listed (631,552), 179,775 or 28.5% used incentive funds for agriculture and rural development in the period 2010-2012. According to this source, the structure of agricultural holdings in the territory of the Republic according to the type of used incentives is as follows:

- 94% of agricultural holdings used subsidies for agricultural production;
- 1.8% of agricultural holdings used only subsidized credits;
- only 0.8% of farmers used incentives for rural development.

The obtained calculations of the authors show that the agricultural producers are familiar with the national measures prescribed by the Ministry of Agriculture and applied each year for the measures that are available to them, provided they contribute to their further development.
5. CONCLUSION

Current measures of agrarian policy can contribute to further modernization of agricultural production, which would directly influence the improvement of the living standard of agricultural producers. Bearing in mind the incentives for IPARD measures that can be applied for according to the appropriate plan also in 2019, the number of requests is expected to be significantly higher, as funding will be provided for measures that were not current during 2018.

Support to agricultural producers from the agricultural budget of the Republic contributes to increasing competitiveness, marketability and sustainability of production. Since 1994, Serbia’s agricultural policy has been constantly changing and adapting to the growing needs of farmers. In order to ensure further development of agriculture, continuous financing of agriculture is required primarily from the national budget funds.

It is suggested that the scheduled funds for IPARD and national measures could provide the improvement of economic position of agricultural producers.

Considering the fact that some of the reasons why Serbia’s agriculture cannot develop faster are mentioned, the authors think that one of the ways to eliminate them would be increased awareness and education of farmers about changes that accompany both agricultural production and the processing and financing sector.

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OBIM I STRUKTURA PODSTICAJA POLJOPRIVREDI I RURALNOM RAZVOJU U REPUBLICI SRBIJI

Obim rada je da ukaže na obim i strukturu podsticaja iz agrarnog budžeta Republike, kao i iz IPA fonda koji su namenjeni sektoru poljoprivrede i ruralnog razvoja u Srbiji. Dat je kratak prikaz chronologije usklađivanja nacionalnog zakonodavstva u domenu poljoprivredne proizvodnje sa evropskim pravilima, plan realizacije IPARD sredstava za period 2014-2020. godine, kao i pregled podsticaja iz agrarnog budžeta u periodu 2016-2019. godine. Za podršku sektoru poljoprivrede i ruralnog razvoja Srbije u okviru IPARD mera, iz budžeta EU namenjeno je 175 mil. EUR, a 55 mil. EUR iz nacionalnog budžeta. Najviše sredstava u okviru IPARD mera planirano je za investicije u fizičku imovinu poljoprivrednih gazdinstava (43%). Nešto manji doprinos predviđen je za investicije u preradu i marketing na poljoprivrednim gazdinstvima (37%). Preostale mere čine svega 19% planiranih sredstava predviđenih za podršku poljoprivrednim gazdinstvima u okviru IPARD programa pomoći. Sa druge strane, analiza strukture podsticaja iz agrarnog budžeta Republike ukazuje da najveće učešće imaju mere direktnih plaćanja sa preko 50%, dok su mere ruralnog razvoja prosečno finansirane sa 12.3%.

Ključne reči: poljoprivreda, finansiranje, IPARD, agrarni budžet