

How does North Macedonia's agricultural policy support adhere to the EU CAP?

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Abstract -This paper presents the recent development of agricultural policy support in North Macedonia in the context of the EU approximation process. The applied conceptual framework focuses on the key principles of agricultural policy harmonization with the EU CAP. The Agricultural Policy Measures Classification (APMC) tool is used to obtain a detailed understanding of the structure and level of the existing support (and comparison with Western Balkan countries and the EU CAP). The results show an increasing trend in total budgetary transfers to the agricultural sector. Agricultural support is composed mostly of coupled direct payments and on-farm investment support, whereas the support for environmental and other societal benefits has minor representation. While largely committed to adhere to the CAP in future, the agricultural policy actually implemented diverges from the declared planning, reflecting domestic interests.

INTRODUCTION

The European perspective of North Macedonia sets out the basic direction of the country's agricultural and rural development policy and as such has influenced the country's legal, administrative and institutional set-up, as well as its strategic orientation, which tends to align with the EU Common Agricultural Policy (CAP). North Macedonia has developed strategic goals and priorities continually aligned with the EU's CAP, with a functional operative framework.

METHODS AND DATA

The conceptual framework applied builds along the six key principles underlining the EU's agricultural policy priorities (Erjavec et al., 2021): strategic policy framework; size and allocation of financial resources; direct producer support; measures to improve competitiveness; policy for sustainability and public goods provision by the farming sector; and quality of life and employment in rural areas. These principles contain the CAP broad priorities which the acceding countries are expected to follow in order to align their agricultural policies with the EU. The framework allows for qualitative and quantitative assessment of national policy, as well as its harmonisation with the CAP. The quantitative analysis is performed using the Agricultural Policy Measures Classification (APMC) tool developed in Rednak, Volk, and Erjavec (2013). The APMC allows to gain a detailed understanding of national agricultural policy and enables a cross-country comparison with other Western Balkan (WB) countries and the EU. The information available in APMC were primarily collected from the paying agency and supplemented with additional information from official statistics, policy documents, governmental budgetary plans, research studies and personal communications with government officials. The APMC contains information going back to 2010; however, we focus mainly on the period 2017-2019.

RESULTS

Strategic policy framework. The strategic policy framework is well established. Key administrative capacities to implement the agricultural policy are largely established, still, they are constrained by the limited resources allocated relative to the needs. Regarding policy monitoring and evaluation, further functionality is underway with general improvement of IACS, the farm register and LPIS, and FADN is being upgraded. There is a still a requirement for stronger management and control systems, as the existing systems lack data quality and relevance owing to insufficient resources to maintain them. The use of analytical support for policy formulation and implementation is modest and carried out *ad hoc*. Overall, North Macedonia can be considered to be in the initial to medium stages for establishing the strategic policy framework.

Financial resources size and allocation. North Macedonia's agricultural and rural development policy budgetary transfers are gradually increasing over the past decade and reach close to EUR 150 million annually in average for the period 2017-2019 (Figure 1). North Macedonia's support is among the highest in the region, especially when assigned per area (111 EUR/ha, compared to EUR 32 and EUR 39/ha in Albania and Bosnia and Herzegovina, respectively, to EUR 150/ha in Kosovo) or per inhabitant (68 EUR/capita, in the other countries ranging from 13 in Albania up to 39 EUR/capita in Serbia). Total support is still far below the EU average (344 EUR/ha, and 120 EUR/capita). First pillar measures are somewhat higher represented than in the EU (85% in North Macedonia as to 78% EU average) and at comparable level with Bosnia and Herzegovina, and Serbia.

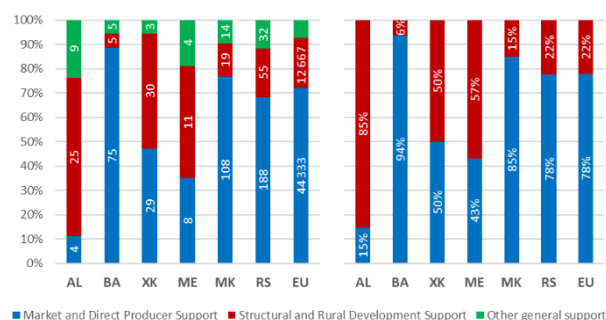


Figure 1. Total budgetary support (% and million EUR; left) and ratio of market and direct producer support to structural and rural development support (right) (2017-2019)

Direct producer support is the most prevalent of the first pillar measures in pre-accession countries; in North Macedonia it accounts for almost all first pillar payments. Dominant support measure are the coupled direct payments; payments per output (per unit of agricultural product) take about 40% and payments based on capacity (per area of agricultural

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land or per head of livestock) take about 60%. Two thirds of direct payments are spent on crop commodities, with tobacco the main single supported commodity, followed by vineyards and arable crops. Decoupled payments, which constitute the main type of direct payment measure in the EU, are not incorporated in the agricultural policies in North Macedonia, similar to the other WB countries.

Measures to improve competitiveness within the agricultural sector are the most dominant instruments within the second pillar – structural and rural development support – in the WB countries and North Macedonia likewise. The amount allocated however varies throughout the years (EUR 7.3 million in 2017, EUR 8.6 million in 2018 and EUR 23.6 million in 2019) (Figure 2). The implementation of pre-accession IPARD funds, although modest in budget (2.4%), contribute to the development of the administration for implementing the national policy.

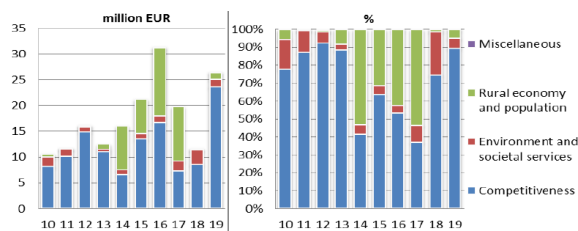


Figure 2. Structural and rural development measures

Policy for sustainability and public goods provision by the farming sector is represented with 11% of the total support for structural and rural development, which is the highest proportion when compared to other WB countries. Still, this is modest in EU terms where environmental support accounts for more than half of second pillar support. Within agri-environmental support, organic farming makes up the largest proportion (from 75% in 2017 to 100% in 2019).

Quality of life and employment measures include developing rural infrastructures, social services, village renewal, diversified activities and local development strategies. The amount of resources allocated to support for the rural economy and population accounts for about 20% of the second pillar, with large variations across years.

DISCUSSION AND CONCLUSION

The agricultural policy developments in North Macedonia, comparable to other WB countries, suggest commitment to adhere to the sustainable policy model of the CAP as declared in the medium and long-term agricultural policy strategic planning. The uncertain date of EU accession, and the changing nature of the CAP, lead to a situation where the agricultural policy design resembles to the CAP requirements, which is strictly required for accession into the EU. In practice, that does not necessarily reflect an optimal policy choice from a domestic perspective. The actual implementation of agricultural policies is almost exclusively with sectorial focus and production-oriented support, in the forms of coupled direct payments and on-farm investment support. Adapting direct producer support is the most politically sensitive area of agricultural policy, as it is currently its largest component. It involves providing a significant amount of support to the farming sector, which can have substantial implications for distributional income across sectors and farm types. Upon accession, candidate countries are expected to modify their producer support system shifting to CAP-style support (Erjavec et al., 2021). The direct support granted to primary agricultural producers

significantly departs from the EU decoupled model, where payments are linked to capacity, but do not require specific production, or production at all. Some cross-compliance measures are in place, though their scope needs to be further expanded to approximate more closely to the EU's CAP. Frequent changes in measures and allocated funds cause a rather unstable policy environment for both the agricultural sector and rural communities. Another important difference between EU's CAP and North Macedonia's policy, and the other WB countries for that matter, is the composition of structural and rural development support. Given the structural deficiencies of the sector, with dominant small, often semi-subsistent farms, combined with their low productivity, results in targeting support to improving competitiveness. That leaves modest allocations to measures for promoting quality of life and employment in rural areas. The need for enhancing this policy is validated by the issues that rural areas suffer from such as depopulation, lack of employment opportunities, underinvestment in infrastructure and social services. Even less support is dedicated to promoting the delivery of environmental and agricultural public goods. In contrast, the composition of structural and rural development support is reverse in the EU's CAP, where environmental orientation is most emphasised.

An additional major challenge, related to the alignment of the agricultural policies with the EU is linked to capacity building and the institutional set-up in the public administration responsible for managing and implementing agricultural support. Functioning administrative, financial, control and information systems are key prerequisites for designing, enforcing and implementing agricultural policies. The implementation of the IPARD programme significantly contributes to the preparation and development of the capacities in this direction.

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