



MONITORING THE MEDITERRANEAN STRATEGY FOR SUSTAINABLE DEVELOPMENT(MSSD)

AGRICULTURAL AND RURAL DEVELOPMENT
National Study Serbia, Summary, Temporary version

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According to the Spatial plan of the Republic of Serbia 65% of Serbian territory consists of agricultural land. Agriculture land covers approximately 5.7000.000 ha, or 0,57 ha per capita, while intensive agriculture areas covers 0,40 ha per capita (European average is 0,28 and 0,18 ha respectively). 2.412.940 ha, according to the spatial plan is covered with forest, forest crops and intensive planting. The forest coverage level is 27,3% (6,8% in Voivodina, 32,8% in Central Serbia and 39,4 in Kosovo and Metohia). The per capita forests areas according to this source were: 0.073 ha in Voivodina, 0.316 in Central Serbia and 0,219 in Kosovo and Metohija.

Depending on the quality of soil and altitude the agriculture of Serbia covers all the forms of intensive, semi-intensive and extensive farming. Agricultural production is least restricted in Voivodina and most restricted in Kosovo and Metohija. The latter territory, similar to that of central Serbia, has a wide range of natural fertility in narrow geo-morphological units.

Serbia is the country with valuable rural culture. Being multicultural, multi-religious and multi-confessional, rural areas of Serbia have different identities throughout Serbian territory.

For the purposes of Rural Development Plan (and for allowing comparisons with EU statistics), rural areas in Serbia have been defined according to OECD criteria, as those municipalities with a population density below 150 persons per km². According to this definition 129 municipalities characterized as rural out of the total of 165 municipalities.

Rural regions in Serbia take up 85% of the total territory, with 55% of the population living in them generating 41% of the country's GDP. The economic structure of Serbian rural regions is highly dependant on primary sector and still based on the exploitation of natural resources. Rural areas of Serbia have strong out-migration. Depopulation of rural areas as a result of poverty, bad employment opportunities and low living standard is the most critical issue. Rural Serbia is despite of various favorable conditions for rural economy development loosing its rural social capital and population itself striving to reach urban areas.

Infrastructure in rural areas, both physical and social, is poor and underdeveloped and it affects negatively rural areas competitiveness and social basics. A high percentage of the population below the poverty line also owns their flats/houses (90%), which is also the case in rural households (94%). Most of strategic documents recognize rural regions of Serbia as regions with more pronounced poverty and severe developmental limitations. Poverty is a rural phenomena in Serbia like in most countries in transition (ECAPOV 11, World Bank, 2005); in 2003, poverty in rural areas was twice as high (14.9%) as that in the urban areas (7.1%). The difference in poverty between urban and rural areas was slightly higher in 2003 as compared to 2002 (14.2% rural to 7.8% urban).

The Republic of Serbia, since 1990, has gone through severe conflicts and changes that affected its economic and social fabric. As a consequence of the disruption of economic activity and the damage of a large part of the socio-economic infrastructure of the country, GDP declined dramatically, by more than 60%, during the 1990s. Since 2001, Serbia has embarked on a strong reform program, aiming at a rapid transition to the market economy and integration to regional, EU and world markets.

Serbia's approximation to the EU started in 1999, when the EU proposed the new Stabilization and Association Process (SAP) for the five South-Eastern countries of Europe, endorsed also by the interested parties. Talks on the SAP for Serbia started in autumn 2005, but the process remains suspended since spring of 2006. However, in 2007 it has been taken up again.

Indexes of global and business competitiveness of the World economy forum in 2006.godine was ranking Serbia to 87 and 86th position respectively. Economic growth in Serbia is the result of the interaction of many factors including the economic reforms initiated by the new democratic forces, expressed as well in the development of a new legal framework, conducive to the smooth market orientation of the economy, privatization process and its harmonization to EU legislation.

GDP per capita (in current prices) has been increasing too, however it remains at quite low level, compared to the EU average as shown in. GDP per capita accounts only for 11% of that of the EU average, which reflects the severe problem in the living standards of the Serbian population.

Serbia has a large agricultural sector based mainly on high quality arable land, abundant labor, and a favorable continental climate. Agricultural production accounted for approximately 12.2% of Serbian GDP in 2005. Agriculture is the second largest contributor to Serbia's GDP, the largest export earner and the country's largest employer.

There are no reliable comprehensive data on GAO in Serbia currently. However, based on the data on the physical volume of the production and the producer prices the Bureau of Statistics of the Republic of Serbia has estimated that the share of crops in total GAO increased between 1995 and 2005. Whereas livestock products contributed in 1995 with approx. 42% to the GAO (in 2000 46% and in 2005 35%), the share of crops in the GAO increased from 58% in 1995 (in 2000 54%) to 65% in 2005.

Agricultural productivity (both land and labor productivity) in Serbia is significantly lower than in EU and large investment needed to increase it. According to the same source major field crops as wheat, maize, and sugar beet yields are 30-50 percent lower than the EU average, while yields for sunflower seeds, sour cherries, plums, and raspberries are comparable or higher. As with crops, animal productivity is low compared to EU levels, with meat and milk productivity, for example, about 20 and 60 percent respectively lower than in the EU.

Participation of agriculture employment in total employment is significantly higher than in countries in the region. According to the last survey on labor in October 2005 23.24% employees are with agriculture, which means 17% of active population is agricultural workers. The main reason for that is lack of job opportunities, socially in rural areas with young people and low investment activity.

The forest area of the Republic Serbia covers 2.4 million ha which is 27% of the total land area. According to the forest inventory data of 1979, the forests cover the area of 2.313.000 km, or 26.2% of total area of the Republic of Serbia. Average annual increase of the area under forests is 2,333 ha. The standing timber stock is 236 million m³ and average timber volume per ha is 102 m³, which is clearly below the European average. The annual growth is 6 million m³ or 2.7 m³ per ha. Annual registered timber harvesting is 2.4 million m³.

Serbian forestry was pretty marginalized in last two decades. Align with agriculture it was used to hold social peace during years of political and economy crisis. Divided in to private and state sector it was providing survival to state as much as individuals through extreme overexploitation followed by bad practices and decreased intensity of afforestation works.

Agri-food capacities in Serbia are structured in accordance with the row material base, however oversized. This is an inherited situation from the larger Yugoslav federation, in which macro economic environment Serbian agro-food sector used to be important factor of food security for the market of over 20 million inhabitants. That is the reason for permanent low level of

utilization of these capacities which is lasting for almost two decades. Percentage of use of capacities is between 10% to 80%, where higher percent is with the bottling of mineral waters, oil production facilities, mills, processing of fruit and vegetables, breweries, dairies and sugar processing industry and the lowest industry for feeds processing and slaughterhouses.

Participation of the agro-food industry and industry of drinks and beverages and tobacco industry in the GDP over the period of transition is about 5.5% with the permanent trend of decrease.

The Serbian rural economy is experiencing a number of problems. While some rural communities in Serbia continue to prosper, others are experiencing problems of socio-economic adjustment. Differences between rich North and poor South are drastic.

Rural development in Serbia depends in large extent on primary production and exploitation of natural resources. Processing and tertiary sector are underdeveloped.

Expansion of primary sector is possible with introduction of sustainable management of land, waters, pastures and forests. Waste lands of Serbia is suitable for more intensive production of timber and non-timber forest products, medicinal plants and wild fruits, mushrooms and other para-agriculture products deriving from bee-keeping, growing of wild animals (game), fisheries in open waters (lakes and rivers).

One of the most prospective wealth-creation potential is represented by spa waters which are not very well used although spa tourism has long tradition in Serbia. The second one is hunting and fishing tourism which has variety of resources which are not used or underused, mainly because of bad tourist infrastructure and logging. Camping and excursion tourism is also attractive option for rural areas, together with agro-tourism. Serbia hasn't used its potentials for transit tourism. Finally sectors presenting a wealth-creation potential in present and the future are also handicrafts and SME development for adding value to agriculture and forestry products.

Actual Serbian strategy on agriculture from 2005 includes rural development as one of two its pillars. After revisions in 2008 new strategy will get a new title – Agriculture and rural development strategy, and become structured in appropriate way to be foundation for the first multi-annual National rural development plan to cover period till 2013. Country commitment to a sustainable rural development is still lagging behind due to political changes and lack of budgetary means to provide at the same time strong support to agriculture through direct payments (as a populist measure introduced in year 2007) and strong rural development support.

Whole food-production sector is lacking capital in Serbia. What are most lacking are investments in agriculture infrastructure, (irrigation/drainage systems, land organization and consolidation etc.) Urgent need is on short term credits for inputs. The processors exporters need credits for purchase of products to be quick in processing and exporting. Long term credits are needed for investments in mechanization, stables, storages etc. During 2004-05 several attempts were made by the MAFWM and Ministry of Finance to improve the credit system in Serbia.

EU pre-accession funds for rural development (IPARD) are seen as important future assistance to agriculture and rural development sectors. The most optimistic forecast was that Serbia may become eligible to receive IPARD accreditation by fall of 2009, however MAFWM is lacking behind in setting up the structures needed for absorbing these funds.

Through Ministry of agriculture, forestry and water management, Serbia is operating support to rural development (in SAPARD like way) for 5 years starting with 2003. Starting with 2005 rural

development support is provided through specialized Sector for rural development doing programming and agrarian operative sector doing payments. Although system is still not fully operative and responsibilities not divided properly yet, the RD support introduced between 2004 and 2006 included variety of measures:

- Purchase of new agricultural equipment and mechanization
- Early retirement like scheme (payments to so called non-commercial farms)
- Land renting support
- Young farmers
- Rural infrastructure
- Diversification
- Standardization (HACCP, ISO)
- Organic farming

Largest support was provided to investment in rural infrastructure and investments on farms. In 2008, rural development was promoted as the one of the top priorities for financing from National investment plan. 450 Mill RSD were already approved for integrated infrastructure building in 20 villages. More than 2 Bill is planed to be invested in other rural development projects by the MAFWM or other applicants from the local level.

The multi-annual program for rural development is under the construction. The draft program for rural development should become a matter of public discussion till mid of 2008. It should cover the period 2008-2013 and, hopefully expire at the time when Serbia becomes EU country and prepare itself for the new programming period. It is foreseen for the agrarian budget 2008, to stick with the following measures:

Axis 1 like measures:

- investments in agricultural holdings (machinery, orchards and livestock)
- support for the cooperatives;
- investments in the processing for introducing quality and food safety standards

Axis 2 like measures

- support to setting up organic production
- support to genetic resources conservation
- preparation of the RD support system for assisting local rural development implementation and planning

Axis 3 like measures

- diversification and development of rural economic activities through development of rural tourism
- support to advisory services and training.

According to the Report of the team for analysis of strategic documents of the Government of the Republic of Serbia, Serbian Agriculture Development Strategy (SADS) meets economic, social and environmental criteria through its definition of fundamental objectives and activities for their achievement. There is a strong link between economic and social objectives of sustainable development. Special attention is paid to the *environmental* aspect of development of

agriculture. Missing in the strategy is the quantification based on which it would be possible to analyze the future role of agriculture in generating GDP, its share in exports, increase of employment, etc. Missing also are the financial analyses, with the exception of water management.

Rural and agriculture development in Serbia is still burdened by the consequences of centrally planned economy regarding the ownership and land use, as much as all other problems deriving from the previous system. Local level has almost no capacity to influence rural and agriculture development at all although general legal framework for such exists. In the recent past some municipalities have engaged in elaborating development strategies. However, rural development is often minor or non-existing part of these strategies. Majority of strategies actually concern development of municipal, most often urban, centre. Most strategies look like a same, like they were copy passed, without any territory related differences.

The role of NGO sector in rural development is small. Recently about 60 different local NGOs are engaged by MAFWM to run 6 regional and 60 area centers for supporting local rural development. In future, project support should gather about 150 NGOs to work in partnership with local self-authorities as an extended arm and partner of the Ministry on the field to provide direct connection of the local rural people and their communities. This will help vertical cooperation for decision making as much as informing about measures of support available. Vertical coordination and decision making is new for MAFWM. Some efforts are made during the visioning process for rural development strategy plan design in 2007, to involve all levels in discussion even before obligatory public debate start over the draft of the document

Horizontal as much as vertical cooperation and decision making is a weak point of Serbian rural development support practices. After two years (2006-2008) of trying to establish inter-sectorial coordination body – National advisory board for rural development, this institution doesn't exist yet. Even the horizontal cooperation and decision making within the MAFWM is weak.

Prospective of the agriculture in rural economy

Agriculture and forestry production will remain major part of the rural economy for Serbia in future. Due to available resources, climate and tradition in agriculture this option is sustainable for most of the territory of Serbia, if certain adaptations to the local conditions are done through changing the production structure and production systems (orientation to intensive, low-input, ecological, high nature value farming etc.) This of course means that additional investments have to be made in introduction of food-safety standards, production certifications and improvement of economic efficiency of the production to improve competitiveness of the agro-food sector. The part of Serbian territory will definitely need to drop agriculture as the primary and switch to forestry as an alternative, or provide replacing of traditional unsustainable agriculture production practices with new using its multifunctional character or introduce non-agriculture productions of the kind and intensity suitable to the available resources. This is an imperative for mountain areas of Serbia along Eastern, Southern and Western borders, and an alternative for central hilly area.

Serbia has on average a much smaller private farm size than many other European countries. According Census 2002 there are about 778.900 private farms in Serbia with an average size of 2.5 ha of arable land (3.6 ha of agricultural land), fragmented in an average of 4 plots per farm, which puts Serbia at Europe's bottom. According to the 2002 Census over 75% of private farms have less than five hectares and fewer than 5% have more than 10 hectares. Because of their small size, most of these farms produce for their own household consumption and market only a

small proportion of their output. The way out from such situation is real and virtual increase of farms – real through decrease of number of farms to release land for increase of others, and virtual through cooperation of small farmers. Deriving from this problem partly is also one of the main structural / attitudinal weaknesses - poor and low level of mechanization in agriculture of Serbia.

The primary source of agricultural productivity is highly weather dependent crop production. Gross agricultural output (GAO) has seen significant variations during 1999-2005. It is because its main component - crop production (60% of GAO) is highly vulnerable to climatic variations. Weather conditions declined GAO in drought years (2000 and 2003) and years with floods (2005). Serious investments are required for decreasing risks.

Strengthening financial and institutional support is necessary to assist agriculture and rural economy in general. It is urgently need to continue reforms, redefine status and competences in governmental bodies and institutions, cooperative union system, extension service system, education and scientific systems. Legal state has also to start functioning to have effective legal backup. Also farmers unions are still rare and inefficient. Plus to that there is no legal frame for organizing farmers in business unions to fill the gap between cooperative organization and non-profit organization as a „citizen organization“, society etc. Finally the Ministry of Agriculture, Forestry and Water Management system for rural development support have to be strengthened.

Serbia is still waiting for the law on denationalization, restitution of land and properties will be in next few years very critical together with solving problems of “old cooperatives” and their property. Finalizing of privatization in agriculture is also expected, and also solving the problem of advisory services is on its way, as the main prerequisite for improving their services.

Compared to other sectors of Serbian economy, the agro-food sector plays a very prominent role in overall trade. Agro-food exports constitute one of the largest sources of export earnings and have great potential to increase. The agro-food trade balance was mostly negative during the mid 1990s’ and since 2000 it became positive for the first time in 2005. The agro-food sector accounted for some 20% of total Serbian exports. Serbia’s main export commodities are cereals (maize, wheat), raw and processed fruit (frozen raspberries, prunes), refined sugar and some livestock and meat products. Agro-processing accounts for about 80 percent of total agricultural exports. The government is placing an increasing emphasis on supporting the private sector to adopt quality and food-safety standards which can help Serbian products reach export markets.

Yet, transition to a more open market will also require improved efficiency along the commodity chain to prevent downward pressures on farm gate prices in Serbia. As stated in this analysis Serbian farmers and food processors are facing increasing domestic and international competition. Unless improvements are made in the efficiency of supply chains, the sector will become less competitive; primary producers will suffer the most from the subsequent downward pressure on farm-gate prices. It is also observed that the better market information could significantly increase farm gate prices by reducing risk and uncertainty in the supply chain.

Spatial plan foresee for Serbian rural areas the concept of development based on the principles of multifunctional rural development, which include differentiating between the socio-economic and spatial development according to regional and local features, however this concept is not alive in practice. Also activating of local development potentials in rural areas based on households/farms as the basic production and socio-cultural category is planned. This because rural areas in Serbia differ extremely in terms of natural, infrastructural, human and other conditions for farming and development of other economic activities.

Legal and institutional frame and support to diversification of rural economy, and in particular SMEs development, development of tourism in rural environment as much as introduction of multifunctional agriculture and multifunctional rural development concept in general is still developing. Its main support should be integrally offered through the rural development support of the MAFWM and Ministry of economy and regional development. Support through the rural development grant scheme of the MAFWM is provided for fifth year to rural tourism, rural handicrafts etc. but still could be considered as a trial which is developing before gets the full legal backup through the new Agriculture and rural development strategy, Law on agriculture and rural development and Multi-annual National rural development plan. Support to SMEs is organized through Ministry of economy and regional development, as much as the support to tourism development in general, without emphasize so far on rural areas specifically. This support will soon get a new regional dimension, to be able to favorite less-developed areas. This will be provided through the new law on regional development, which have legal backup from the Strategy for balanced regional development adopted at the beginning of 2007.

Issue of public awareness and participation is in Serbia more understood as the cosmetics for the political PR than the process bringing benefit to the community development as much as sector prosperity. This has to be changed to be able to use all available human resources as much as changes have to be done in gender prospective of development in which aspect paternalistic Serbia is still lagging behind.

Serbia still lack true regional and national networks for agriculture and rural development. With the exception of Chamber of commerce, there are practically no networks dealing with rural matters. Their role in rural development is however limited on the assistance to legal enterprises, meaning they do not deal with individual households and farmers which represent the core group of rural development stakeholders. Existing Serbian cooperative union is practically collapsed although its regional structure still stands. This rigid, out-of-the date system has almost no role in rural and agricultural environment.

At the end of the year 2007, MAFWM launched a competitive grant scheme for establishing 6 regional and 60 area centers for rural development with the basic demand to make one NGO/one local municipal authority partnership hold them. Centers should serve as the basis for sharing information on available support from the MAFWM, provide regular assistance to beneficiaries to deal with applications, offer information on other MAFWM services, such as farm registration points, advisory services, other projects, measures and activities of MAFWM, legislation etc. The interactivity should be provided through assessments and mappings of resources in villages and through active formation of local action groups to start doing local rural development strategies and creation of initiatives of communal interest. Till the end of 2009 this network should be completed to cover all rural 129 rural municipalities of Serbia.

Recommendations

Rural development support in Serbia needs urgent completion of legal framework. First of all Strategy for agriculture and rural development have to be completed in part dedicated to rural development and be regrouped to get all parts of the previous strategy which have rural nature together including environmental issues, development of agriculture etc.

The second action to be conducted is creation and adoption of the Law on agriculture and rural development. This legal never existed in the country before and need to define few critical aspects for rural development support – one is multi-annual planning and another legal frame for establishing agriculture and rural payment system.

The third action needed is finalizing multi-annual program of support to rural development. This program should not be just EU money oriented (IPARD), since money for rural development have to come from different sources, but procedures prescribed and measures defined should be in line with EU good practices and rules, to make them transparent and easy to track and maintain in one system, using minimum labor since country is not capable of sufficient increasing of staff in rational time line. However, strategic goal of the rural development policy have to be building of structures and increasing of absorption capacity for funds from EU where country is heading to.

Broadly speaking, the range of remedial measures must be directed toward two main goals:

1. An increase and a diversification in the income of small rural households
2. A decrease in nominal and concealed unemployment of household members.

In order to create and monitor effective and achievable impacts, a number of measures need to be put in place to reinforce national capacity:

- Creation and maintenance of a comprehensive information base for a valid, scientific and expert interpretation of the rural situation.
- Development of regional and local development strategies
- Establishment of institutionalized and administrative systems for the development and implementation of strategies and rural developmental programs from national to local level
- Development of a rural financial market
- Development of rural non-farm economy
- Development of agriculture
- Revitalization of rural infrastructure and other services

Defining the baseline indicators is going in line with the first programming for rural development which is ongoing right now. Setting-up hard unachievable indicators is dangerous, since effects of measures will never be sufficient to justify any measure with such a small amounts of money available for every respective measure. National rural development support schemes conducted so far are more an experience which can help select right measures and exercise management of the system, than measures which can really show influence with any of basic indicators. Therefore, it is better to introduce first additional or specific measures and estimate effect on the farm level, then to calculate effect on the national scale and notice no difference. This is the place where RD scheme must be followed by strengthening of advisory services and extension, to run monitoring MAFWM can't do by themselves.

Needs for rural development support in countries in transition such as Serbia are always more diverse and larger, than capacity of systems to offer and manage this support. Financially Serbia is still weak to provide as much money as needed, to run and control the system of payments and to provide logistics in terms of trainings and education needed for the most effective way of using rural development support. MAFWM is heavily understaffed in programming, payment and control departments and yet have burdened this weak system with numerous measures of marketing-price support and direct payments, plus already conducting numerous rural development measures. At the same time, system is resisting to increase of number of employees and meet requests needed on its way to build capacities for rural development support system.

In such environment, Serbian MAFWM have to be very careful in selecting RD measures to implement in general, and specially those expected to be funded through IPA pre-accession instrument. Much more complicated procedures might make lot of troubles to approval and payment system, and also make control so hard that become impossible. This may cause lagging behind in getting measures accredited and using funds postponed.

It is highly recommended to cut number of measures on maximum 3, meaning investments on farms for increasing competitiveness, running existing organic and genetic resources conservation support as environmental measures and implement only one diversification measure – support to agro/rural tourism in next 3 years. After 3 years 2-3 measures could be added – primarily investments in processing and cooperative structures and probably support to additional diversification of farm economy through introducing forestry in combination with agriculture for marginal areas plus timber processing etc. In the mean time legislation should be completed.