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Public expenditure review – Evaluating direct payments in Kosovo's agricultural sector

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1. Introduction

This public expenditure review assesses Kosovo's spending on direct payments in the agriculture sector. It aims to respond to a set of three pertinent questions: (i) are direct payments effective to achieve the strategic objectives outlined in the *Strategy for Agriculture and Rural Development 2022-2028*? (ii) is the allocative efficiency of direct payments adequate? and (iii) is the distribution of direct payments among farmers fair?

Against the backdrop of Kosovo's objective to join the EU, this public spending review compares the existing architecture of direct payments in Kosovo with the EU Common Agricultural Policy (CAP) and relates their volume to that executed in EU member states. In view of preparedness for EU integration, the recommendations in this report lean on the institutional, administrative, and policy requirements of the CAP.

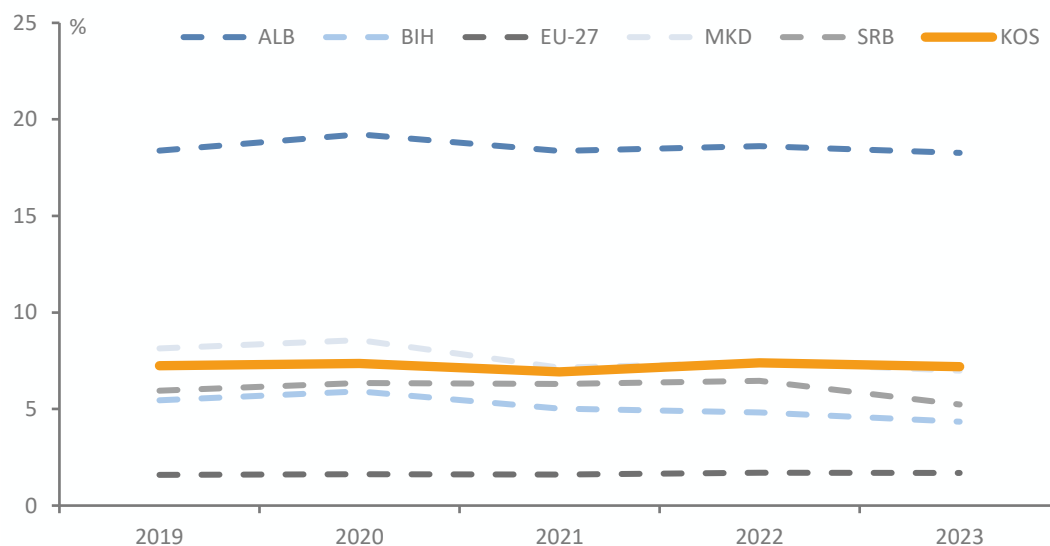
The public expenditure review was prepared by Hans Kordik (independent consultant), Valmira Rexhebeqaj, and Deborah Haxhikadrija (REX Consulting Group) and edited by Felix Schwickert (German Economic Team). The team would like to thank the Ministry of Agriculture, Forestry, and Rural Development (MAFRD) for the excellent collaboration throughout the preparation of the Public Expenditure Review and especially Delvina Hana, Head of the Department for Economic Analysis and Agriculture Statistics and her team for the valuable advice and inputs provided to complete the report. The assistance, cooperation, and input of governmental departments in Kosovo is gratefully acknowledged.

2. Challenges to agricultural development

2.1 Economic perspective

The agricultural sector's socio-economic importance is relatively high compared to the EU. Agriculture accounted for 7.2% of GDP in 2023 (Figure 1) and employed 23% of the labour force. For comparison, agriculture accounted for 1.4% of GDP and 4.2% of employment in the EU-27 in the same year. The fact that the socio-economic importance of agriculture in Kosovo is far greater than in the EU-27 indicates that structural transformation is not yet as advanced as in the EU. Agriculture generates comparably low incomes and is associated with higher patterns of poverty for the country's rural population, which makes up 62% of Kosovo's total population. The efficiency of the agricultural sector is important for local food production and supporting decent livelihoods in rural Kosovo and through linkages also affects the Kosovar manufacturing and service sector. In addition, the export of agricultural products is an important foreign exchange earner. Currently, growing imports of high-value (processed) agri-food products are outpacing export growth, contributing to a widening agri-food trade deficit.

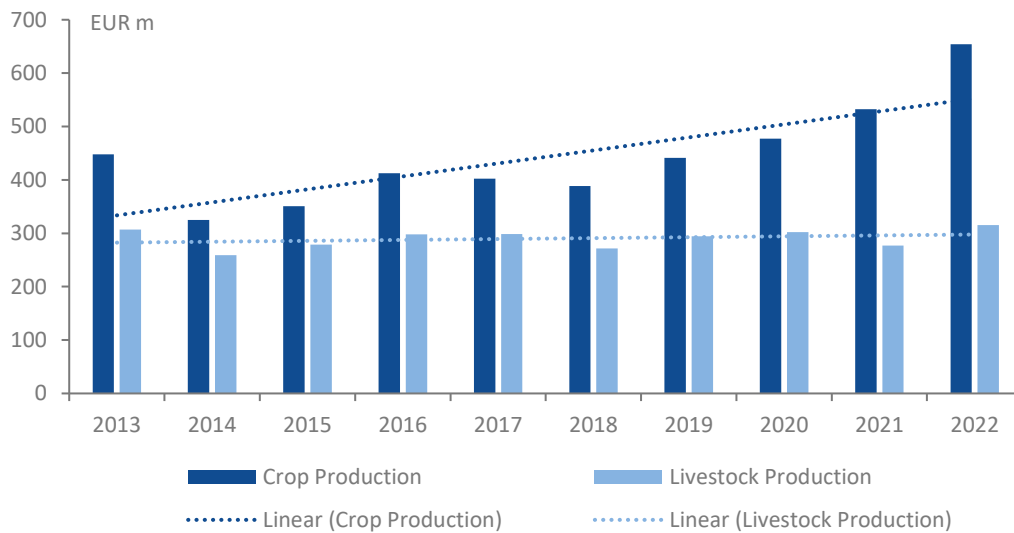
Figure 1: Value added in agriculture, forestry, and fishing (% of GDP)



Sources: World Bank national accounts data, OECD National Accounts data files, Kosovo Agency of Statistics

Crop production dominates the agricultural output. During the last decade, the production value of Kosovo's agricultural sector increased by 28% (Figure 2) in nominal terms. The main driver for growth in agricultural gross value added has been crop production (46% growth from 2013-2022), while livestock production value has nearly been stagnant over the last 10 years (only 3% growth). The growth in crop production is not driven by territorial expansion but by an increase in the value of production (yield and price). Forage plants account for 25% of the crop output. Cereals, above all wheat, make up 24% of the crop production value, while vegetables account for 23% of crop output. Cattle including dairy is the dominant subsector within livestock production.

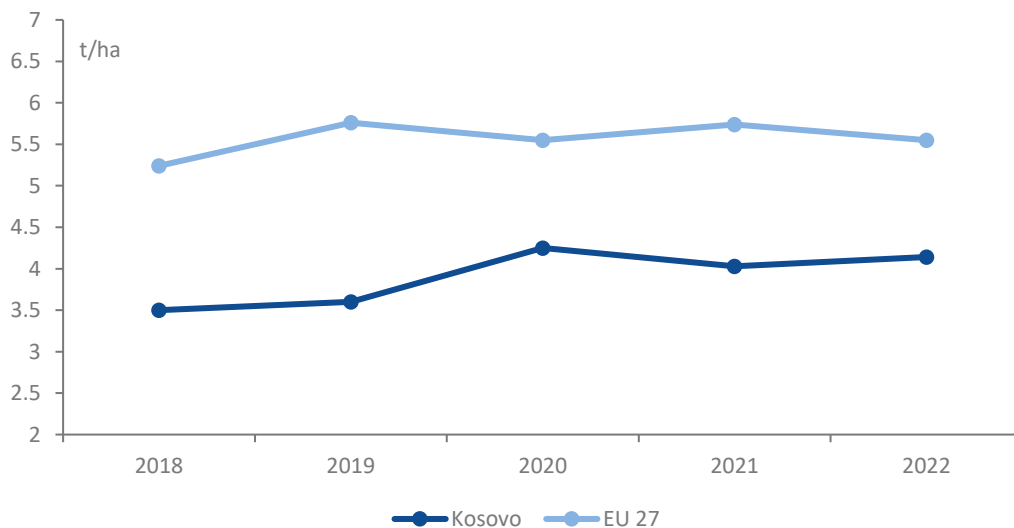
Figure 2: Nominal crop and livestock production value



Source: Statistical Office of Kosovo

Several constraints hold back growth in agriculture. While agricultural productivity has been improving, it is still low. Yields for most crops in Kosovo lag those of the EU-27 average. For example, wheat yields in Kosovo reach just 75% of the EU average and are lower than those of regional peers, pointing towards a suboptimal use of production factors (Figure 3). Labor productivity in Kosovo's agricultural sector is almost half that of regional peers¹. Low labour productivity is one of the main factors holding back growth in agriculture.

Figure 3: Wheat yields in Kosovo and in the EU-27

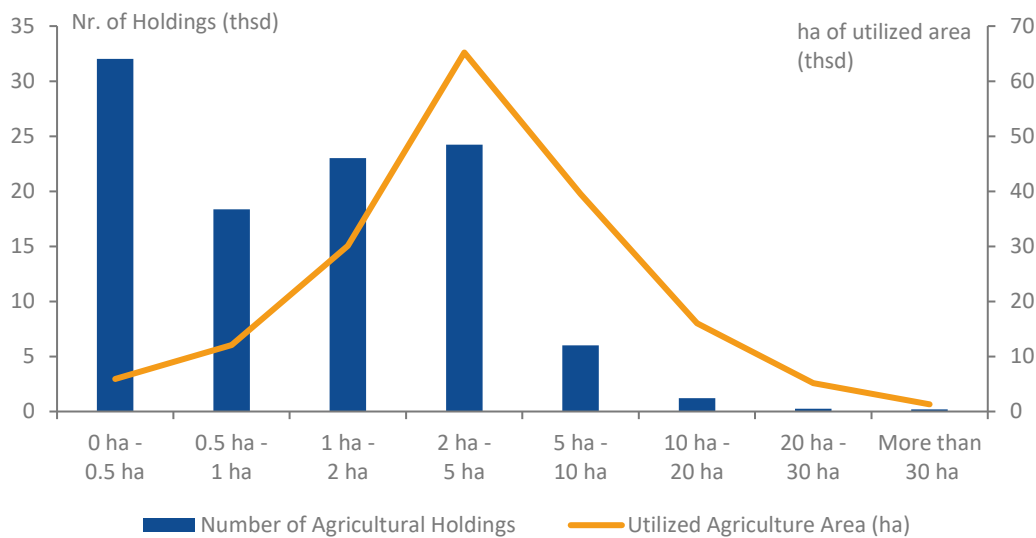


Sources: Eurostat and Kosovo Agency for Statistics.

¹World Bank, „Kosovo Country Economic Memorandum: Raising productivity in agriculture“, 2021

Farm structures weaken agricultural competitiveness. Kosovo's agricultural land is highly fragmented. Almost 70% of the 105,000 farms in Kosovo manage less than 2 ha and around 65% of the total arable land is managed by smallholders (Figure 4). In turn, only 0.4% of farms cultivate an area equal to or larger than the EU-27 average (20 ha). Access to finance for smallholders is limited in Kosovo, impeding their ability to invest in modernizing their holdings and obtaining economies of scale. Thus, the high degree of fragmentation is a drag on the competitiveness of the country's agricultural sector. In addition, smallholders typically generate relatively little income and the prevalence of subsistence farming masks the reality of rural unemployment.

Figure 4: Distribution of farms by size and utilized agriculture area (2019)²



Source: Kosovo Agency for Statistics

2.2 Policy perspective

Kosovo's strategic vision for agriculture and rural development gives priority to innovation, modernization, and EU integration. The Ministry of Agriculture, Forestry, and Rural Development (MAFRD) is committed to EU integration and aligned its *Strategy for Agriculture and Rural Development (SARD) 2022-2028* with the EU Common Agricultural Policy. The MAFRD's vision for agriculture and rural development with the horizon up to 2028 emphasizes "the development of a competitive and innovative agri-rural sector based on modern knowledge, technology, and standards, offering high-quality products in the domestic market, the region, and the EU, as well as sustainable development of natural resources and the environment, providing economic activities and employment opportunities, social inclusion and quality of life for residents in rural areas". Three of the four strategic objectives, i.e. (i) strengthening competitiveness, (ii) sustainable management of natural resources, and (iii) improving livelihood in rural areas, resemble the 3-component approach of the EU rural development policy. Together with the 4th strategic objective of building robust institutions, Kosovo's policy direction reflects that of any EU member state or economy seeking to integrate into the EU.

² Excluding 4 municipalities in the north

Policy priorities include promotion of sustainable agriculture and climate change.

Promoting sustainable and efficient management of natural resources such as water, soil and air is as important for Kosovo as protecting biodiversity, enhancing ecosystems and preserving habitats. In addition, contributing to climate change adaptation and mitigation is defined as a specific objective within the National Strategy. However, budget allocations to achieve these objectives represent only 0.7% of total agricultural spending.

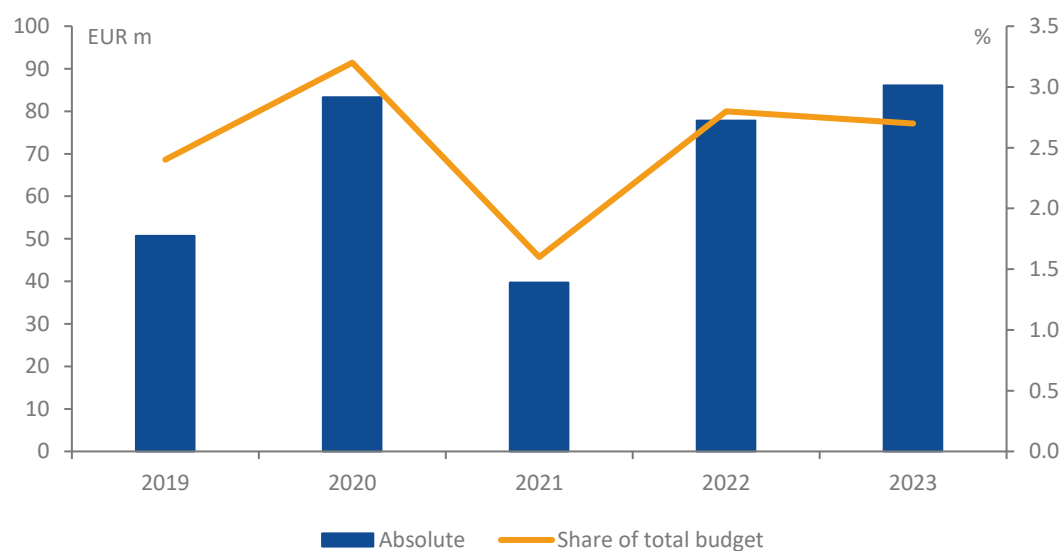
Policy design should improve following implementation of EU data requirements.

Reliable, credible and up-to-date data are of paramount importance for evidence-based policy making. Data from the Farm Accountancy Data Network (FADN) provides insights into farm incomes in Kosovo but is based on collected farm data from 2019. As the Farm Sustainability Data Network (FSDN) as the successor of FADN is yet to be established in the EU Member States by 2026, it will also bring additional valuable inputs for agriculture sector assessment and policy formulation in Kosovo. The Green Report has made progress on its statistical base and the agricultural census is scheduled for 2025. In addition to this, several data systems still need to be fully developed, for the sake of providing crucial data for policy design in general and in preparation for EU integration in particular. Specifically, the Integrated Administration and Control System (IACS) has some terrain to covers, while the Agriculture Market Information System (AMIS) is still at an early stage of its development.

2.3 Financial perspective

Agricultural spending increased in absolute terms in recent years. Overall government spending has been growing since 2019. In 2023, Kosovo's government had a budget of EUR 3.2 bn, an increase of 53% compared with EUR 2.1 bn in 2019. The share of agricultural expenditure in total government spending has been quite volatile since 2018, indicating no clear trend over time and averaging around 2.5%. Although the relative level indicates no clear trend, the absolute level does. Due to the increase in overall spending, absolute agricultural spending exhibited a significant increase in the last 5 years.

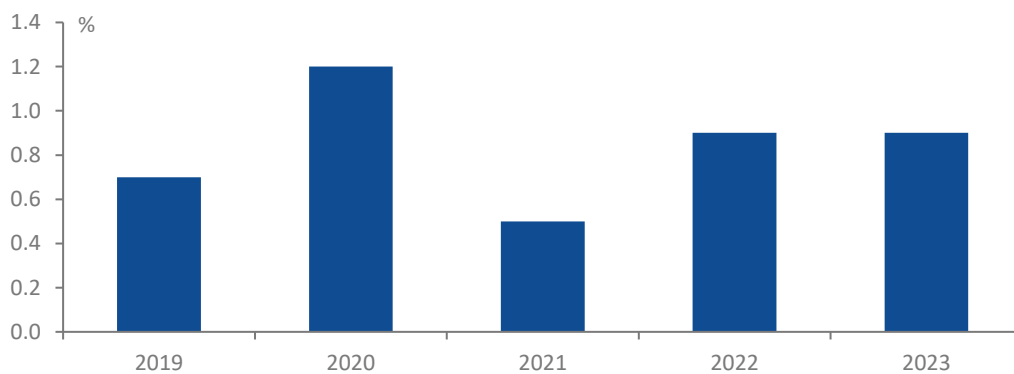
Figure 5: Agriculture expenditure (absolute and as share of total annual budget)



Source: Ministry of Agriculture, Forestry and Rural Development Internal Reports, Annual Budgets

Kosovo spends more on agriculture than other countries at the same level of development. Government spending on agriculture ranged between 0.5% and 1.2% of GDP from 2019 onwards, averaging 0.84% over the last 5 years. (Figure 6) As a share of GDP, Kosovo thus allocates significantly more funds to agriculture than the EU-27 (on average 0.35% in 2020 & 2021) and regional peers. Albania (0.19% of GDP), Bosnia and Herzegovina (0.27% of GDP), Montenegro (0.29% of GDP), Serbia (0.36% of GDP), and Northern Macedonia (0.56% of GDP) all spent significantly less than Kosovo in 2020 and 2021³.

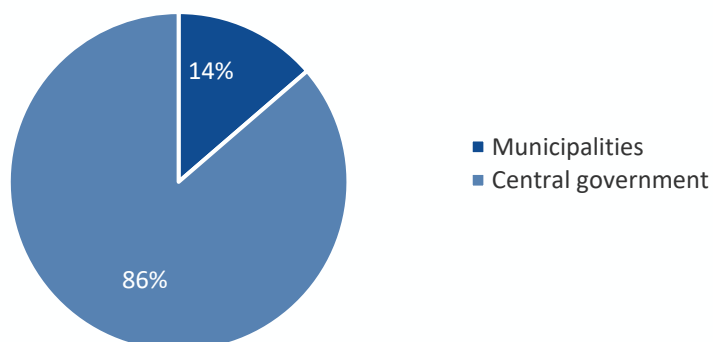
Figure 6: Development of public spending on agriculture as a share of GDP



Sources: Ministry of Agriculture, Forestry and Rural Development; Statistical Agency of Kosovo

Municipalities also execute payments in agriculture. Public spending in agriculture is mainly concentrated at the national level, where funds are allocated by the MAFRD. In addition to spending at the national level, Kosovo's 38 municipalities together allocated EUR 6,5 m in 2023, accounting for 14% of the country's total direct payments (Figure 7). The bulk of municipal spending is in the form of direct payments and only a fraction of municipal spending is used to finance investment in physical assets. While direct payments at national level are distributed widely, municipal direct payments benefit only a limited number of farmers.

Figure 7: Division of agriculture spending in 2023



Source: Law on Annual Budget

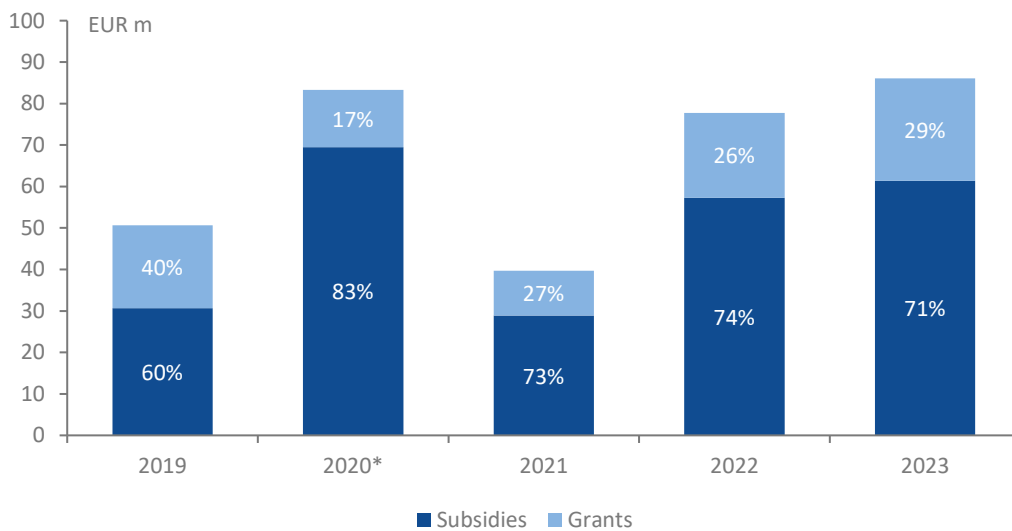
³ World Bank, Regular Economic Report, Toward Sustainable Growth, Fall 2023.

3. Assessment of the level and composition of spending

3.1 Trends in the budget for agriculture

Direct payments account for the lion's share of agricultural spending. The share of recurrent expenditures (direct payments) in the agricultural budget is steadily increasing at the expense of the share of capital expenditure (investment grants). This worrying trend matches that of many economies in Europe. In 2023, Kosovo allocated EUR 86 m to the agricultural sector, of which 71% was used for direct payments (Figure 8). This share is in line with that of the EU, which allocated 72% to direct payments. North Macedonia and Ukraine even spent more than 90% of their agricultural spending on direct payments in 2023.

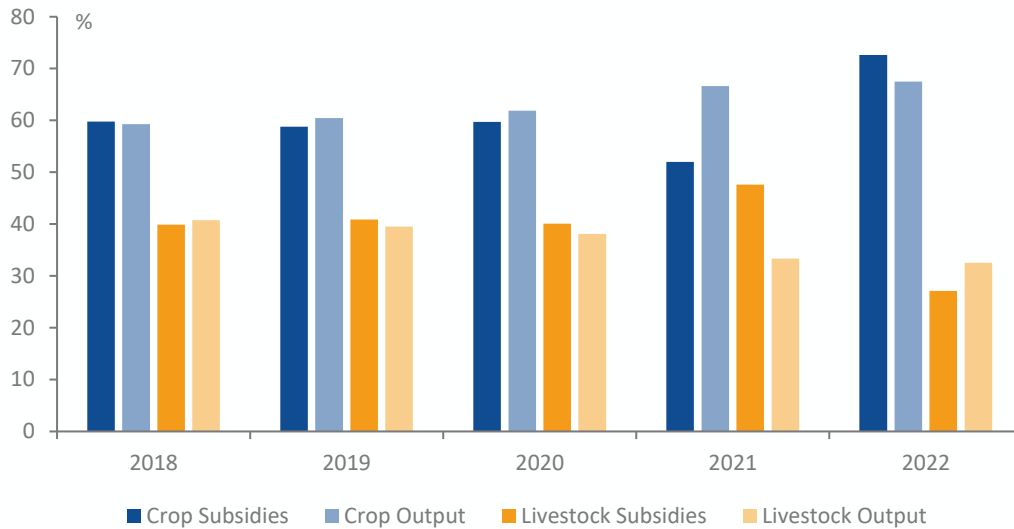
Figure 8: Share of direct payments and investment grants in agricultural spending



Source: Ministry of Agriculture, Forestry and Rural Development

Direct payments reinforce the dominance of the crop subsector. From 2018 to 2022, the share of direct payments allocated to the crop (livestock) subsector corresponded directly to the contribution of the crop (livestock) subsector to the value of agricultural production in each year. (Figure 9) This expenditure-pattern reinforces the dominance of the crop subsector.

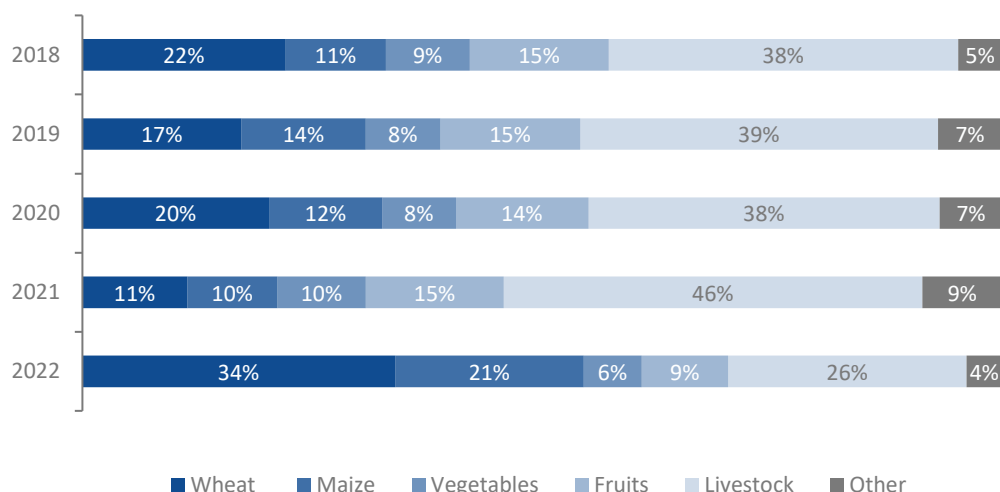
Figure 9: Share of total direct payments vs share of total output by subsector



Source: Ministry of Agriculture, Forestry and Rural Development and Agency for Agriculture Development

Direct payments shifted towards lower value crops. Lower value crops such as wheat and maize absorb a significant and increasing share of direct payments. From 2018 to 2021, direct payments to subsidize wheat and maize production together accounted for 29% of total direct payments on average. In 2022, subsidies for wheat and maize were increased significantly, to make up 55% of total direct payments. The production of higher value crops, i.e. fruits, wine and vegetables, received on average 24% of total direct payments between 2018 and 2021 and only 15% in 2022. Similarly, direct payments for the livestock subsector have been decreased from an average of 40% from 2018 to 2021 to only 26% in 2022.

Figure 10: Allocation of direct payments by commodity



Source: Ministry of Agriculture, Forestry and Rural Development and Agency for Agriculture Development

Note: "Other" refers to Medical and Aromatic Plants (MAPs) and organic farming, barley, rye, oat, sunflower, other crop products (seedlings and wheat seeds) as well as agriculture insurance premium

Direct payments are awarded as coupled support. The architecture of agricultural direct payments resembles that of the EU CAP prior to the 2003-reform. Output subsidies account for the lion's share, while input subsidies play a secondary role. Direct payments are granted on the basis of type and quantity of production, which is considered a distortive support measure under the Agreement on Agriculture of the WTO. For most agriculture crops in Kosovo, direct payments are granted on a per hectare basis. Most cereals receive an area-based payment of EUR 150 per hectare. Only for raspberries and for wheat, the payment is based on weight (quantity). For instance, wheat acreage receives a direct payment of EUR 75 per hectare and in addition EUR 0.019 per kg. In the livestock sector, direct payments are granted per head of livestock (or per hive in the case of beekeeping). The dairy sector is the only subsector in which farmers are incentivized to produce high quality output. Here, direct payments are granted per litre of milk based on quality categories. In addition to these output payments, Kosovo also awards input subsidies for seedlings of fruit trees and grape vines. Some direct payments are also allocated to subsidize agricultural inputs such as fuel for machines and fertilizers for crops.

Budget allocation is biased towards strengthening competitiveness. The structure of spending on agriculture in Kosovo is aligned with the priorities defined in the Strategy for Agriculture and Rural Development (SARD) 2022-2028. Spending is guided by the 4 main strategic objectives for the sector: (i) increasing competitiveness of the agri-food sector, (ii) sustainable management of natural resources, (iii) support for rural area's businesses and increasing the employment and social infrastructure, and (iv) comprehensive institutional and sector reforms to create efficient public services. 98% of the budget allocation is earmarked towards strengthening competitiveness (Table 1). While the specific sub-target of supporting viable farm income is clearly achieved through direct payments, other sub-targets, such as enhancing market orientation, supporting resilience, or improving farmers position in the value chain fall short in support.

Table 1: Budget allocation per strategic objective (EUR)

General Objective		2023			2024		
No.	Description	Direct Payments	Goods & Services	Capital Investment	Direct Payments	Goods & Services	Capital Investment
(i)	Strengthening competitiveness of the agri-food sector	54,477,022		6,130,000	54,477,022		7,130,000
(ii)	Sustainable management of natural resources	427,220			427,220		
(iii)	Support of rural area's businesses and increasing employment and social infrastructure	6,500,000		350,000	6,500,000		350,000
(iv)	Creating efficient public services		998,965			998,965	
Total		61,404,242	998,965	6,480,000	61,480,000	998,865	7,480,000

Source: Strategy for Agriculture and Rural Development 2022-2028

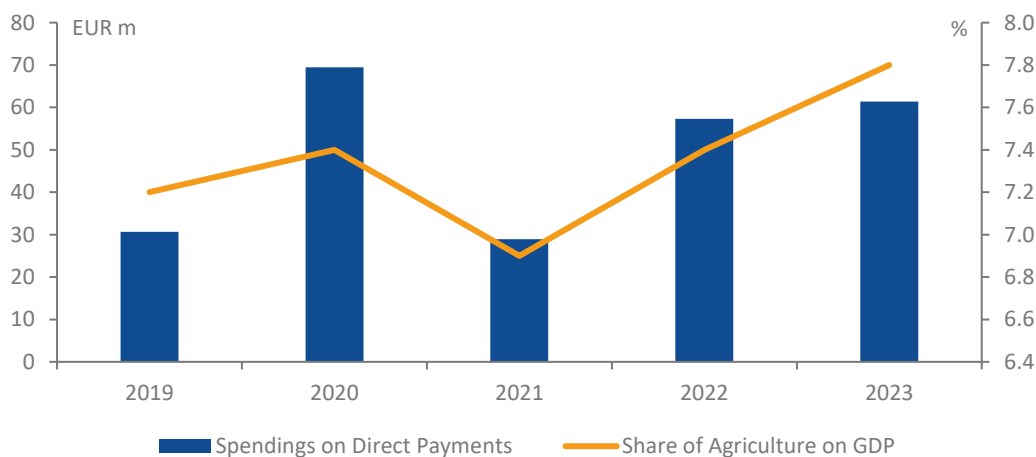
3.2 Effectiveness of public spending in supporting the national sector strategy

Direct payments are generally backward-looking. Currently, the agriculture sector in Kosovo is highly managed, backed by substantial government support. Direct payments in Kosovo are broadly distributed and miss a sense of prioritization. Providing a payment per hectare, head, hive or per kilogram or litre limits farmers' market orientation but provides farmers a security blanket for the type of production that assures their traditions. The agricultural policy is motivated by an understandable desire to shield farmers and consumers from volatile markets. However, it creates dependencies and exposes the public budget to market risks from external shocks. This became most evident during the COVID-19 crisis. Additionally, international experience has shown that administrations tend to have difficulties to manage domestic supply, demand, and price outcomes in a way that protects farmers and consumers in the long run. The current system of direct payments is therefore inconsistent with the forward vision captured in the SARD 2022-2028

A more forward-looking approach is needed. Alternative policies for public support can be both more cost effective and improve the performance of the agricultural sector. Investments in physical assets, such as buildings, technical facilities, machinery, or multi-annual crops (e.g. vineyards) are important forms of capital formation. Expanding, modernizing or changing agricultural production in response to market developments and climate change is crucial for farmers facing fierce competition, be it regionally, at EU-level or globally. Investment programs can provide the right incentives for Kosovo's farmers to better adapt to long-term market trends, while avoiding short-term budgetary constraints for the government.

Direct payments are associated with higher agricultural growth. There is a positive correlation between the increase of direct payments in Kosovo and growth of agricultural GDP (Figure 11). Direct payments support farmers' incomes, which seemingly affect the production value of Kosovo's agricultural sector. Direct payments were nearly doubled in 2020. To mitigate the negative impact of the COVID-19 pandemic, additional support measures were implemented through the Program for Economic Recovery.

Figure 11: Correlation between direct payments and growth of agricultural GDP



Source: Ministry of Agriculture, Forestry and Rural Development and Agency for Agriculture Development

Direct payments do little to foster competitiveness or increase agricultural productivity. The SARD 2022-2028 targets competitiveness, sustainability and improving rural livelihoods. In contrast to it, agricultural support in Kosovo follows mainly income objectives. Supporting incomes is rather a social policy, as it preserves the farm structures, maintains cropping patterns, and thus slows the transformation process needed for strengthening the competitiveness of the agricultural sector. As direct payments reach practically all farmers and all subsectors of agriculture, they do not incentivize farmers to take decisions to increase competitiveness. In addition, the dependency on direct income support is continuously growing. Although no official calculations are available for Kosovo, it is reasonable to assume that the Producer Support Estimate is much higher than in the EU-27 (19%) or the United States (9%)⁴.

Direct payments do not address environmental protection, animal welfare, or food safety standards. For each of its programs, incl. the program for direct payments, the Ministry of Agriculture, Forestry and Rural Development (MAFRD) nominates focus groups. As participants in these focus groups, the ministry invites all relevant stakeholders of the sectors impacted by the respective program as well as experts on the measures used in the program. Focus groups provide Direct payments do not condition public support to the adherence to sustainability requirements, which could increase resilience against adverse climatic events and could contribute to the protection of water, biodiversity and air and soil quality. Exemplary in this regard is the set of 17 statutory management requirements of the EU Common Agricultural Policy, that ensure the protection of animal, plant and public health as well as the preservation of environmental conditions and the promotion of animal welfare. Only 0.7% of agricultural support is earmarked to address the strategic objective of environmental sustainability. Although there is a set of eligibility criteria for receiving direct payments in Kosovo, the MAFRD misses out on the opportunity to include environmental sustainability as well as climate change adaptation and mitigation requirements in them. Doing so would also help to prepare farmers for the increasing demands the EU is making on its trading partners. Based on information we received from MAFRD, we note that a focus group currently discusses the possibility to increase the conditionality of direct payments, in order to achieve desirable outcomes such as environmental protection and animal welfare.⁵

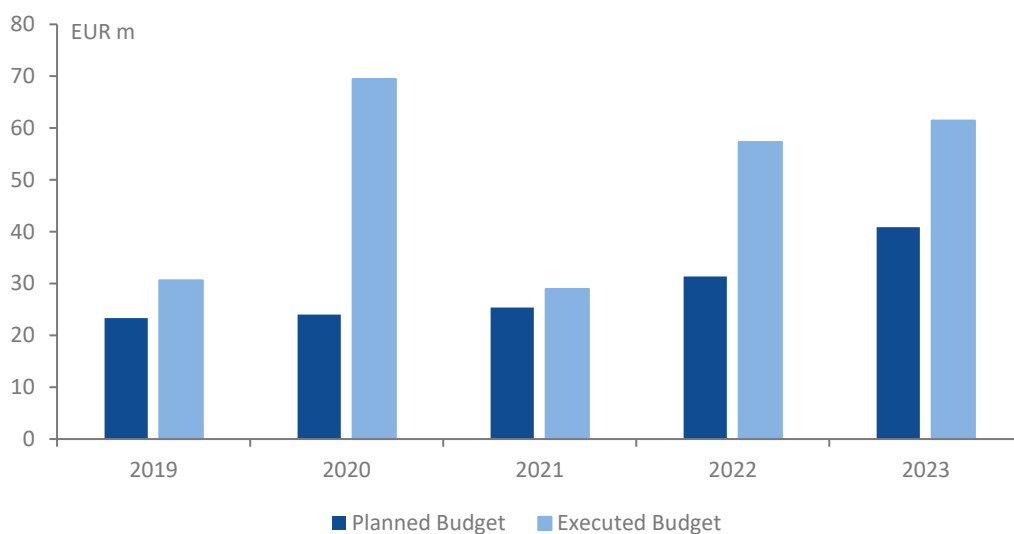
⁴ OECD, Producer Support Estimate is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers.

⁵ For each of its programs, incl. the program for direct payments, MAFRD nominates focus groups. As participants in these focus groups, the ministry invites all relevant stakeholders of the sectors impacted by the respective program as well as experts on the measures used in the program.

3.3 Efficiency of public spending

The executed budget for direct payments was continuously higher than the planned budget in recent years. From 2019 to 2023, executed direct payments exceeded the planned budget every year (Figure 12). The over-execution of the budget averaged 35% over last five years. In 2020, when the COVID-19 pandemic broke out, executed direct payments even exceeded the planned budget by a factor of three due to the Program for Economic Recovery. During the pandemic, direct payments helped to offset income losses caused by disruptions to national and global supply chains. Over-execution of the public budget is possible because the government has the option of extending the budget following an annual mid-year review.

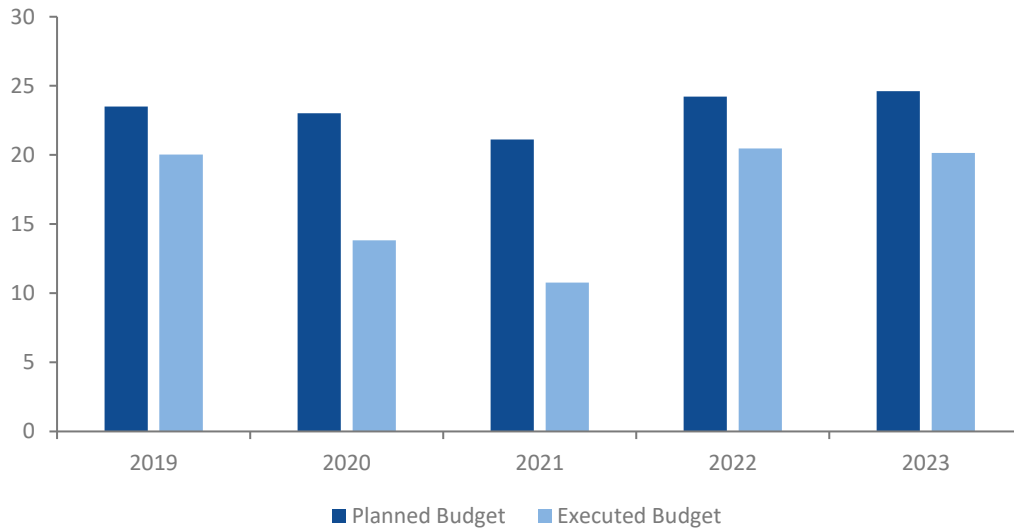
Figure 12: Planned versus executed budget for direct payments



Source: Ministry of Agriculture, Forestry and Rural Development

Conversely, the executed budget for investment grants was continuously lower than the planned budget in recent years. For every year from 2019 to 2023, the budget for investment grants was under-executed, on average by 27% (Figure 13). This pattern, together with the above-mentioned constant over-execution of the budget for direct payments, constitutes, in fact, a practice of budget shifting from investment grants to direct payments. Managing applications for investment grants is a burdensome task that benefits only a relatively small number of farms, while the administration of direct payments, in contrast, is relatively easy to manage, is mostly supported by software programs and reaches almost all farms. Thus, shifting budget from investment grants to direct payments can generally be seen as an indication that the respective authority is challenged by the administrative burden of managing applications for investment grants. This problem is not unique to the Kosovar Agency for Agricultural Development, however. In fact, shifting budget from investment grants to direct payments is a common practice, also within the EU-27 and candidate countries. In the EU, the lack of absorption of funds under the European Agriculture Fund for Rural Development (EAFRD) often results in transfers to the European Agriculture Guarantee Fund (EAGF) that governs the budget for direct payments. This decision often is mirrored by weaker administrations (paying agencies) and results in gaps in the performance of the respective agriculture sectors.

Figure 13: Planned versus executed budget for investment grants

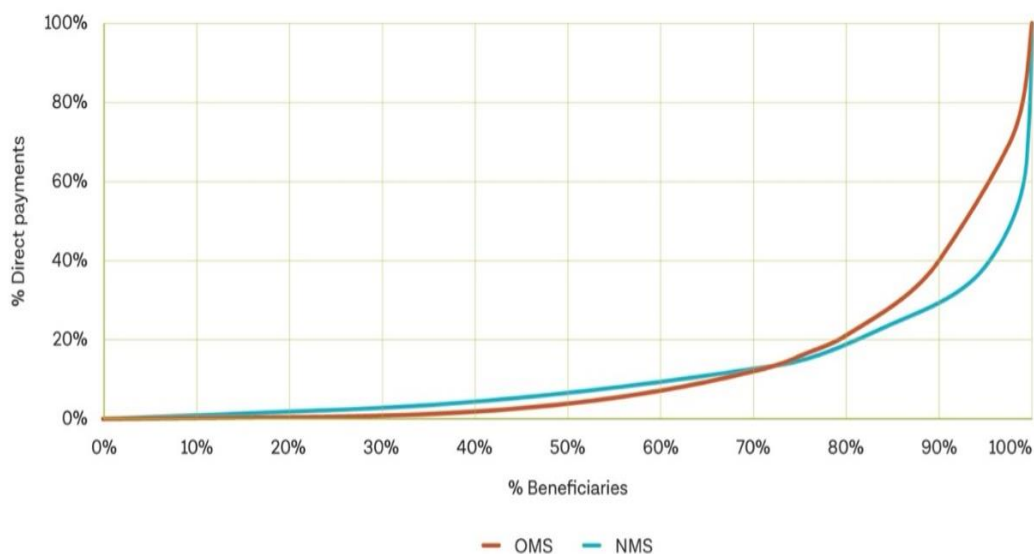


Source: Ministry of Agriculture, Forestry and Rural Development

3.4 Distributional impact and inequality of direct payments

The distribution of direct payments in Kosovo is more equitable than in new member states (NMS) of the EU-27. In 2017, the largest 21% of Kosovar farms received 77% of total direct payments (World Bank, FADN). In turn, the smallest 29% of farms in Kosovo received only 1.2% of direct payments. However, within the EU-27, one finds distributions that are biased towards larger farms even more strongly. The EU-27's average distribution is comparable to that of Kosovo, with 80% of direct payments benefitting only the largest 20% of EU farmers (Figure 14). But variations within the Union exist. In new member states (NMS), the distribution of direct payments is generally more unequal. In Bulgaria, for instance, the largest 1% of largest farms received 45% of direct payments in 2015.

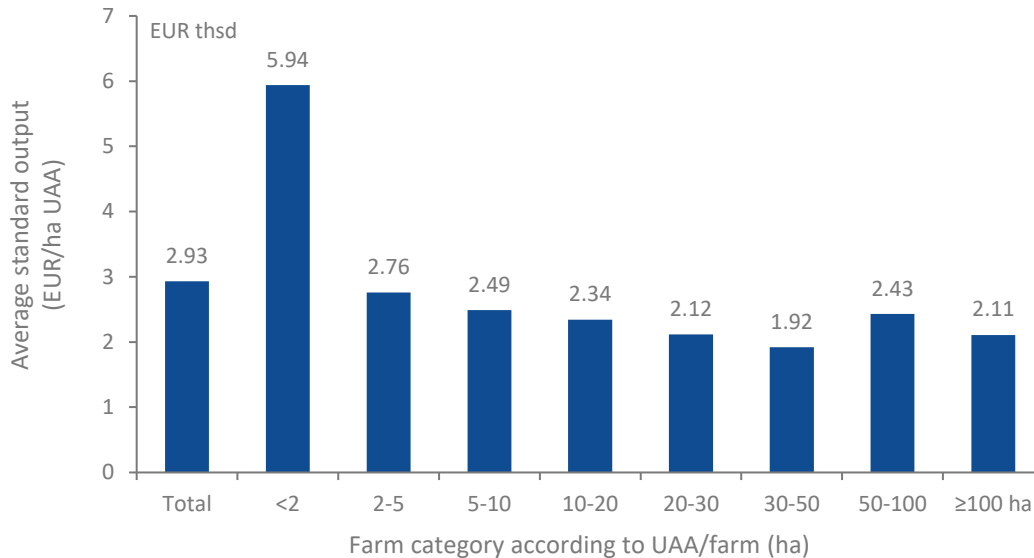
Figure 14: Distribution of direct payments in the EU-27



Source: European Commission; Note: licensed through [creative commons license 3.0 IGO](https://creativecommons.org/licenses/by/3.0/)

The distribution of direct payments does not respect production efficiency. Generally, direct payments are biased towards larger farms, which are less labour-intensive compared to smaller farms. As can be seen when comparing figure 15 to figure 14, efficiency in terms of farm size (measured by standard output per hectare) is not taken into account by policymakers. The smallest farm-size category (1-2 ha) produces the highest standard output (EUR 5.941 per ha) in Kosovo. Efficiency in terms of farm size does not necessarily translate into high labour productivity, the promotion of which seems to guide the distribution of direct payments in Kosovo.

Figure 15: Distribution of standard output by farm size category in Kosovo in 2019



Source: Farm Accountancy Data Network (FADN 2019)

4. Conclusions and recommendations

4.1 Conclusions

Public support is very important for Kosovo's agriculture. At 0.9% of agricultural GDP, Kosovo's public expenditure on agriculture is second only to Bulgaria in the European context. Three-quarters of public support to agriculture is devoted to direct income support, and its volume is steadily increasing. These direct payments reach almost all farmers, and while coupled support offers different levels of premiums, almost all sub-sectors of Kosovo's agriculture benefit from it. Most of the direct payments are granted as output subsidies, but there are also some input subsidies benefiting the horticulture and wine sectors. Direct payments tend to reach larger farms in Kosovo well, but around a third of farms receive less than 2% of the direct payments budget. The largest share of direct payments is administered by the ministry. Around 7% of direct payments are administered by the 38 municipalities.

Direct payments are exclusively income oriented. As recently demonstrated by the COVID-19 pandemic, the current agricultural support programme transfers market risks from producers and consumers to the budget of the Kosovar government. Direct payments in particular have created a secure and profitable environment for producers. As a significant part of farmers' income comes from direct payments, the current public support programme creates a growing dependency on direct payments. Some direct payments, such as those for wheat, are paid based on production quantity. Therefore, increases in production will put additional pressure on the budget in the future. In conclusion, farmers are effectively shielded from market risks, but the government is exposed to increased budgetary risks.

Direct payments are non-effective in strengthening competitiveness or improving agricultural productivity. While the SARD 2022-2028 defines clear strategic objectives that are in line with the EU agenda, Kosovo misses out on the opportunity to leverage public support to achieve these objectives. Currently, the application for direct payments is limited to eligibility criteria relating to farm size and other quantitative criteria. The current design of direct payments does nothing to strengthen the competitiveness of the agricultural sector or increase agricultural productivity. Considering the fierce competition that Kosovo will face following EU accession, farmers' EU integration will be a significant challenge. The direct payments include no requirements on environmental, animal welfare or food safety standards, which could smoothen the transition into the EU single market. The greening trend of the EU Common Agricultural Policy seems to bypass Kosovo's agriculture policy. 98% of budget allocations are focused on strengthening competitiveness, while the instruments applied contradict the political aspirations.

Investment grants unfortunately play a less important role. Investment grants could strengthen competitiveness and make Kosovo's agriculture greener and more responsive to European trends on animal welfare. Although almost 25% of the public agricultural budget is allocated to finance investment grants, there are annual transfers from the investment grant budget to the direct payment budget, which reduces the proportion of the budget actually spent on investment grants. The COVID-19 pandemic required a spontaneous, yet temporary departure from the agricultural policy towards more direct payments. However, the administration for investment grants (the Agency

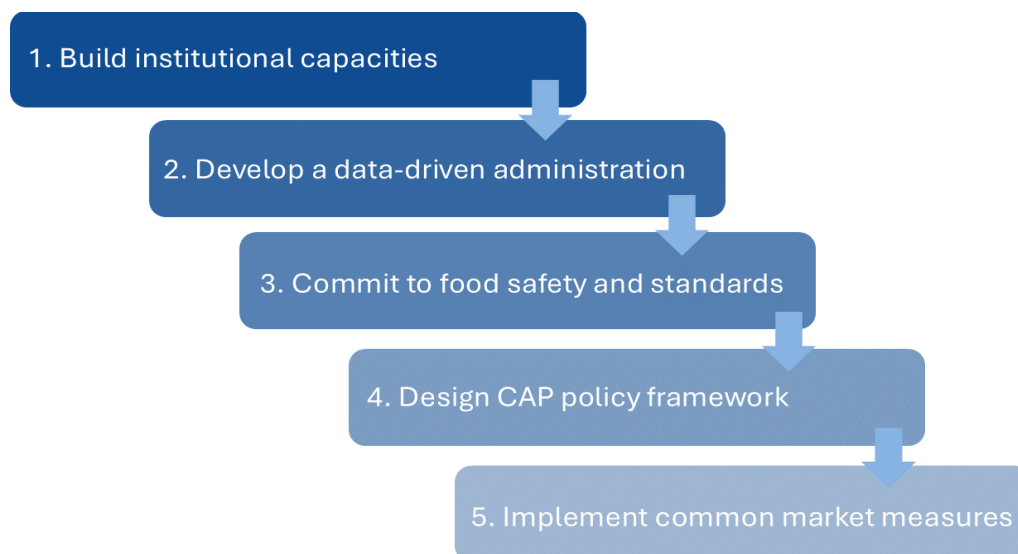
for Agricultural Development) seems to be challenged by the administrative burden of managing investment grants and thus supports the ongoing transfer of funds towards direct payments, irrespective of the pandemic. Therefore, Kosovo's farmers find it difficult to seize new opportunities for expansion, modernization, or adaptation, despite the EU single market being literally on their doorstep.

4.2 Recommendations

State support for Kosovo's agriculture needs a paradigm-shift to achieve the objectives of the SARD 2022-2028. The current subsidy architecture is distortive and does not support the structural transformation. Modelling Kosovo's agricultural support on the EU CAP could help achieve the strategic objectives of the SARD, while promoting an enhanced market orientation. Irrespective of the timeline for EU accession, the institutional and policy requirements of the CAP would provide a good guideline for Kosovo, which shall result in positive spillovers for the economy.

Based on the experience of other EU member states or candidate countries, Kosovo should follow a set of priority actions. Preparations for EU accession are initiated by the government but also involve and require the active participation of the private sector. The implementation of the CAP has a positive impact on the performance of the agricultural sector, its administration, and on the provision of public goods, regardless of EU membership. But at the same time, implementing the CAP is time-consuming and burdens the budget. In order to minimize the cost and maximize the benefits of implementing cap, it is advisable to follow the set of priority actions outlined in figure 16. These policy actions are prioritized by considering the following key determinants: (i) the time needed for their implementation, (ii) their relevance for absorption of EU funds, (iii) the likelihood of unchanged EU requirements, and (iv) their impact on agricultural performance and its administration.

Figure 16: Recommended priorities for EU harmonization



Source: own design

- (i.) **Build institutional capacity early** – the establishment of institutional structures for strategic and operational management of the CAP requires time and resources. Not all institutional changes are mandatory under the EU acquis, but early capacity building of the following institutions has positive spillovers for service-delivery and the performance of the agricultural sector:
- a. Restructure the *Ministry of Agriculture, Forestry and Rural Development (MAFRD)* in alignment with the EU agenda and expand the much-needed capacity in human resources
 - b. Continue strengthening the existing *Managing Authority* within the MAFRD to coordinate strategic programming of the CAP, communicate policies to the agriculture and rural development stakeholders, and fulfil the reporting obligations to the European institutions
 - c. Further the development of the *Agriculture Development Agency (ADA)* towards an accredited *Paying Agency*
 - d. Respond to the EU requirements for *Farm Advisory Services* and the *Agriculture Knowledge and Innovation System (AKIS)* to enhance knowledge transfer
 - e. Build e-governance and increase digitalization to increase efficiency in the administration of payments
- (ii.) **Develop a knowledge-driven, data-based agriculture administration** – credible data are not only needed when starting negotiations with the European Commission but are also of paramount importance for evidence-based policy formulation. While the Agriculture Market Information System (AMIS) is in progress of implementation, it is also a prerequisite for business decisions along the agricultural value chain. Beyond conducting the envisaged *national agricultural holding census in 2025 by the Kosovo Statistical Office*, the following two EU requirements can support the creation of a broad agricultural data hub:
- a. The *Integrated Administration and Control System (IACS)* is still at an early stage of development, and with its farm, land, and animal registers takes time and resources to establish but delivers valuable data for the public and private sector
 - b. The *Farm Sustainability Data Network (FSDN)* provides economic, environmental, and social data from a selected sample of farms that is representative of the total farm population and enables to analyze the impact of multiple variables on income.
- (iii.) **Committing to EU standards can provide earlier access to the EU single market** – experiences of recent EU accessions have shown that early investments in food safety, animal welfare and compliance with veterinary, phytosanitary, and environmental standards are less resource-intensive when executed already prior to accession and help to access the EU single

market faster. The early inclusion of these standards as a condition for receiving direct payments is an ideal lever to prepare farmers for the strict requirements of the CAP.

- (iv.) **Rethink the policy focus and purpose of public support in agriculture** – lessons learned show that countries with similar agricultural potential and comparable farm structures suffered from indecision in choosing between strengthening competitiveness, increasing productivity, or pursuing income objectives. Before launching the CAP strategic programming, Kosovo would benefit from initiating an inclusive and participatory process that leads to a set of early decisions on (i) how the agricultural sector should achieve its competitive advantage, (ii) which will be the farm population benefitting from CAP support, and (iii) what are the trade-offs between servicing a large number of farmers with direct payments and executing targeted investments to support capital formation in agriculture.