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COMPARATIVE ANALYSIS OF THE BUDGETARY SUPPORT FOR THE RURAL DEVELOPMENT AND EXPERIENCES OF MONTENEGRO

SUMMARY

The single most important component of the Montenegrin agricultural budget in 2012 were subsidies i.e. measures of the market-price policy (40%), followed by the rural development measures (28%). The biggest share of the budgetary funds should have been allocated to the rural development policy, in line with the recommendations of National Program of Integrations of Montenegro into the EU, 2008 – 2012 (NPI In further text. At the end of the programming period it should have represented almost half of total funds (47 %).

Financing of certain measures in agricultural budgets against projected values in the NPI for the period 2010-2012, shows dramatic discrepancies. Actual rural development funding was more than half of that foreseen in the NPI (€ 5.4 million, compared to the estimated around 11 million €). Besides, 2/3 or 66.3 percent of all RD funds in the same year were loans and grants, most of which will not be available in 2014 and onwards. These funds were to be continued and extended using IPARD (IPA component V) financing. When rural development financing is concerned, Montenegrin agricultural budget should be re-adjusted and increased significantly in order to fund, especially following: investment in under developed production sectors, establishment of strong commodity producers, creation of new employment opportunities in rural areas, strengthening of food safety services, administration and its training, setting up of an accredited Paying Agency in Agriculture. These are, at the same time, key priorities within the EU accession negotiations agenda for the chapters 11 (Agriculture and Rural Development) and 12 (Food safety, veterinary and phyto-sanitary policy).

Keywords: Rural Development, Agriculture, Agricultural budget, National Program of EU Integrations, Chapter 11: Agriculture and Rural Development, Accession negotiations.

INTRODUCTION

Montenegrin economy and the entire society in the last few decades have been faced with epochal transformations with long-term consequences. Montenegro, as a candidate country for membership in the European Union, must conduct a thorough and rapid change of the entire social and economic

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system. This is also relevant for agriculture and rural development, in the areas like policies, values, concepts of development, etc. (as soon as the reform process starts, the better). In addition, it must be kept in mind that this process is linked with a large financial expenses and efforts of the entire administration, while the future development framework for Montenegrin agriculture largely becomes the Common European Agricultural Policy (CAP).

The individual EU member states experiences and lessons learned from the previous waves of accession, provide evidence that there are no “ready-made” solutions or universal recipes for optimal model of rural development. Its contemporary and future significance, however, might be measured against certain benchmarks, such as the structural characteristics of the soil and the degree of urbanization, employment figures, demography, but also against total state and/or budgetary support. The level of budget support for rural development in Montenegro is discussed here in comparison to respective funding of the EU member states and level of divergence from the National Program of Integrations of Montenegro into the EU, 2008 – 2012 (NPI).

ANALITICAL FRAMEWORK

The economic importance of agriculture in Montenegro is evident, as its share in GDP is significant (primary production 7.9%), and together with the processing industry of 6.1 (14% in total). Agriculture in Montenegro is labor intensive and plays the role of an important social and economic stabilizer – buffer, for nearly 49,000 rural households which provide income in agriculture (in part or in full). Agriculture in Montenegro is dominated by small family farms with an average farm size of about 4.6 ha, still low productivity, low use of chemicals (fertilizers and pesticides) what is more than ten times less than in EU.

Agriculture provides a significant source of employment, income generation and food security for some of the most vulnerable segments of society, especially in the north of the country. Although (according to the National Statistical Office -MONSTAT) formally registered employment in agricultural enterprises represented only 1.7% of the total (2,607 of 150,800), the actual percentage of the population active in agriculture, including the informal sector, is much higher. The agricultural sector is still the most important sector in the rural areas.

Total number of households that use direct or indirect benefits of Montenegrin agricultural budget is around 20,000. The budget directly subsidize around 11,000 households (headage premiums, hectare or per liter of milk), 1,300 more are supported with the purchase (buy out) of vegetable crops, 5,800 persons are beneficiaries of the old age allowances (total of 18,300 households). In addition, funding of the water management programs, the purchase of surplus stocks, pensioners associations (indirectly and processing industry), Associations in agriculture, adds up at least 2,000 more subjects to the overall figure.

Strong economic growth of Montenegro in recent years did not significantly influence the reduction of regional development disparities, so the Montenegrin society is still faced with a severe developmental gap between different areas of the country, where the north is significantly lagging behind the central and coastal region. As a result, there is a trend of constant migration of people from the north of the country, towards the economically more attractive and viable areas, and even abroad.

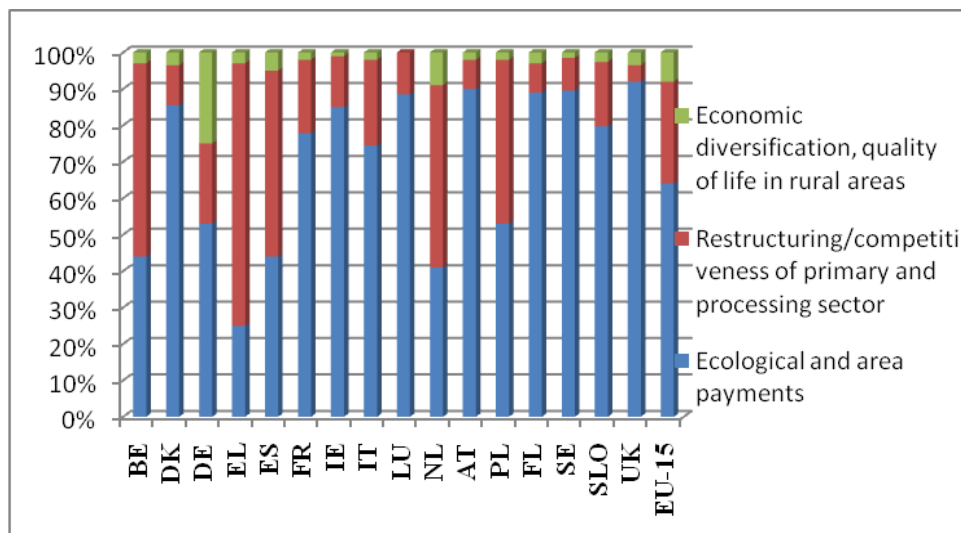
Rural development is a process that involves multiple actors, levels and processes, with roots in historical tradition. Modern paradigm emerged in response to the old paradigm of modernization, and global change of relations between the farming community and society. Also, at the global level, the paradigm has been changed due to shift in the economic system and the fact that economic success and growth (formerly, economy of scale) are not any more crucial measure of success, but more flexible form of business organization. Therefore, a new paradigm of rural development is a response to these general trends. Reviews of best practices of rural development (RD) indicate the need for policy evaluation and related criteria for evaluation of the "success". Potential measures are a number of economic indicators and quality of life.

Briefly, rural development can be seen as a search for a new model of agricultural development. It might seem paradoxical that, as a result of industrialization, specialization of production, economies of scale, we got a rural exodus, rapid decrease in the number of farms, increased regional development disparities and growing social tensions. One of the crucial elements of this new model is the synergy i.e. cohesion between farms, their specific goods and services, local and regional ecosystems, social movements, etc. (Garsia and Fernandez, 2013).

Reviews of best practices of rural development indicate the need for policy evaluation and related criteria for evaluation of the definition of "success". Potential measures are a number of economic indicators and quality of life. However, the ultimate criteria for attractiveness and the "success" are the rural people who migrate from rural areas or into them (Olfert, Partridge, 2010). Within the context of what has proven strategic, are markets and forms of cost reductions that are consistent with the needs and expectations of society in general. Thus, rural development also involves the reconstruction of agriculture and villages, and their harmonization with European society and culture (Ploeg et al., 2000).

A large number of farms are facing increasingly challenging conditions in the market and regulatory requirements on one hand, and a lack of organization when it comes to agricultural activities on the other. In many cases, farmers do not have adequate knowledge regarding responses to the new market changes. The problem of funding diversified activities in rural areas is often an obstacle to opening new enterprises in these areas (Figurek *et al.* 2012)

The most developed EU countries, with large pastures and large arable land, utilize European rural development funds (ERDF) mostly through axis 2 (ecology, conservation of landscapes, etc.). That would have been the case with Montenegro, if it had (theoretically) already well developed agriculture and a strong investment in its competitiveness in the past.



Source: http://ec.europa.eu/agriculture/statistics/rural-development/2012/ch4_en.pdf p.292

Graph 1. Structure of financing of the Rural Development measures in selected EU member states (programming period 2007 – 2013)

RESULTS AND DISCUSSION

However, bearing in mind the transition process, the transformation of the former state-owned land through the restitution process, restructuring/privatization of large agricultural companies, free trade agreements, low level of agricultural development and unfavorable land structural characteristics, the accent of spending of EU funds for rural development in

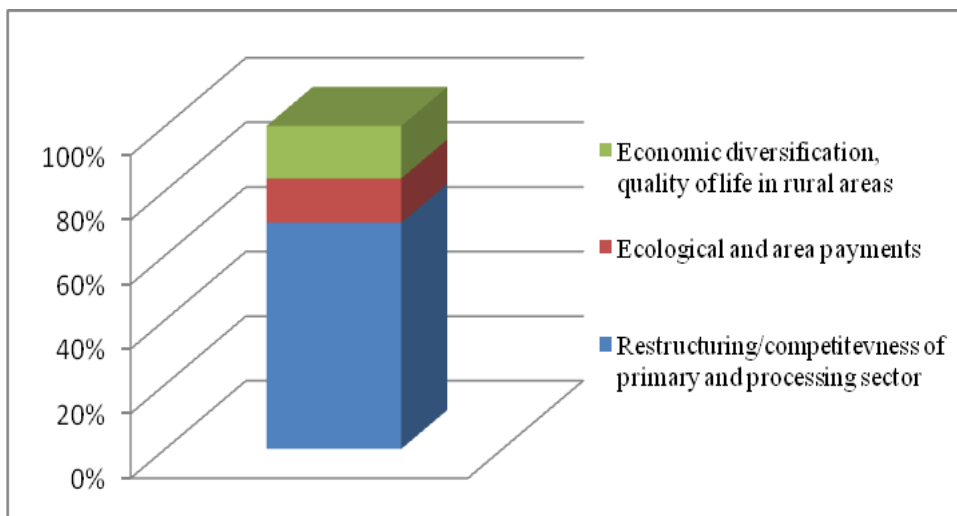
Montenegro should be on the increase of competitiveness, diversification of production and infrastructure development (axis 1 and 3 of rural development).

The graph above is highly illustrative in terms of utilized rural development measures, depending on the level of agricultural development of individual EU countries, their structural characteristics and especially, structure of their primary and processing sector.

It is obvious that the most developed agricultural countries of the EU (the leader is Ireland, followed by France, Austria, Luxembourg, Scandinavian countries, Great Britain, including Slovenia), finance mostly environmental and landscape preservation measures.

On the other side, smaller and/or less developed Member States (generally, these are new EU member states such as Poland, and the old member states, such as Greece, Spain, Netherlands, Belgium), invest mostly in the restructuring and competitiveness of primary and processing sector or axes 1 (EC, Fact Sheet, 2008).

General awareness of the environment, less favored areas and animal welfare issues is relatively low currently in WB (Western Balkans) countries. This policy is not a priority, which is in a way understandable, as it is difficult to find interest and rationale for such measures in the areas facing rural poverty and subsistence farming (Erjavec and Salputra, 2012).



Source: Ministry of Agriculture and Rural Development of Montenegro (Agricultural Budget 2012).

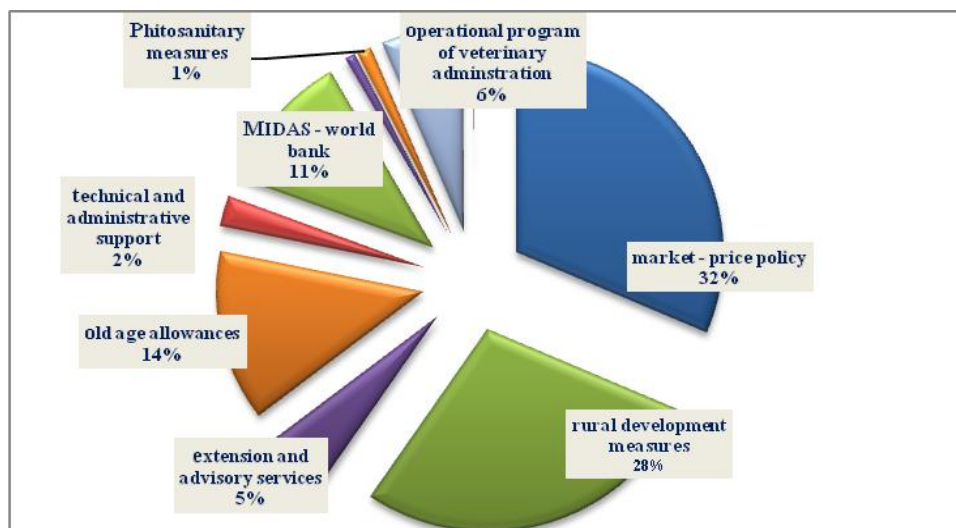
Graph 1. Structure of funding of the Rural Development measures within the Montenegrin agricultural Budget 2012 (%)

The structure of the budgetary financing of the rural development in Montenegro is greatly intended for axes 1 and 3 (restructuring/competitiveness and diversification, rural infrastructure) and it represent more than 80 % of the total agricultural budget spending in 2012 (more or less the same structure for the last three years). However, the majority of funds for these purposes comes from the international loans and donations², while the institutional development and capacity building is mostly financed through the IPA funding within the components I and II (including cross-border cooperation and Twinning assistance).

² Such as IBRD and GEF (Global Environment Fund) within the World Bank financed "Montenegro institutional development and agriculture strengthening" loan and grant (MIDAS), Danish Government donation for development of the Organic Agriculture in Montenegro (DANIDA and others).

Analysis of the agricultural budget 2012

The most important part of the Montenegrin agricultural budget consists of subsidies - measures of the market-price policy (40%), followed by rural development measures (28%) , and old age allowances grants (with a still high share of almost 14%), Operational programs of Veterinary and Phitosanitary administrations (7%). International loans and grants make up to 29% of total funding of agricultural budget, what indicates the high level of dependency on the international support to conduct EU compliant reforms.



Source: Ministry of Agriculture and rural development of Montenegro (Agricultural budget 2012)

Graphic 3. Structure of the Agricultural budget for 2012 (Programs)

Rural development measures exercise significant nominal growth in the same period (2010-2012), or approximately 33%, primarily due to implementation of IBRD loan and grant support (MIDAS) and the organic agriculture development grant support to Montenegro (Danida). In terms of percentages, the increase of funding of the RD in comparison to total budget in the respective period is about 18%.³

Rural Development within the Agricultural budget is financed within three axes (11 measures):

Axis I - Measures for improving the competitiveness of agriculture, which are:

- 1 support to investments in agricultural holdings (MIDAS)
- 2 Support for growing crops,
- 3 Supporting investments in the processing on family farms,
- 4, Support for producer organizations,
- 5 Improving the quality of products and support to schemes of Quality,
- 6 Promotion of agriculture and agricultural producers groups,

³ Analyses of author, based on Agricultural budgets in the period 2010-2012

Axis II - Measures for the sustainable management of natural resources

- 7 Preservation of genetic resources in agriculture,
- 8 Organic farming,
- 9 sustainable use of mountain pastures,

Axis III - Measures to improve the life and development of economic activities in rural areas:

- 10 Diversification of economic activities in rural areas,
- 11 Renovation and development of villages and rural infrastructure.

It is relatively easy to determine whether the level of individual production and/or overall agricultural output is directly correlated with the increase of budgetary funding, when certain measures (support to investments in agricultural holdings, support for orchards establishment or development of organic agriculture) are concerned. As a rule of thumb, purchase of new modern machinery, livestock, new barn buildings and ancillary facilities for packing, storing, drying, should result in a direct increase in productivity and a higher level of hygiene standards. Such investments foster the process of alignment with the requirements of the so called cross-compliance, as a precondition for payment of any agricultural and rural development subsidy and/or investment grant from the budget.

From the following table it is evident that certain rural development measures exhibit a significant degree of variation in this period (2010-2012.), while others show a relatively similar level of funding. Relevant approach for meritorious scientific analysis and conclusions should concentrate on how funding of certain rural development measures affect the level of increase (or decrease) of production in selected agricultural production sectors. Also, from the standpoint of the policy and decision making, it is quite important to assess whether there is a direct correlation between the levels of financial and production results/outputs. Such quantification is a necessary instrument for sustainable and proactive agricultural policy and management guide for the retention / release and / or reshuffle of certain budgetary measures.

The three financial issues of accession negotiations were given mixed attention by the institutions involved in the negotiations. The issue of direct payments was an important political issue and therefore triggered many debates at the level of political elites of candidate countries and importantly also internally, within the European Union. In the candidate countries, the national debates focused largely on the issue of quotas and reference quantities. The area of rural development was given much less attention than the other two financial issues, even though the EU offered relatively the most funds for this area (Erjavec, 2011).

Within the rural development policy, the fastest growth has been planned for the second axis (measures for the sustainable management of natural resources), while the most of funding was planned for the first axis (measures aimed at the increase of competitiveness of the agricultural production). For the

Leader (4th) axes, relatively small amount of funds has been anticipated, primarily for preparation and design of project ideas in the programming period. For example, the NPI for 2012 estimated 30 million € of total funding for agriculture, while the actual budget for the same year was € 20.54 million.

Table 1. Rural Development funding by measures in the Agricultural budgets for period 2010-2012 (€)

Measures	2010.	2011.	2012.
Support for investments in agricultural holdings of the World Bank (MIDAS)	450.000	2.550.000	3.300.000
Support for growing crops	610.000	630.000	395.000
Support to investments in processing on family farms	60.000	60.000	20.000
Support for producer organizations	110.000	95.000	115.000
Improving the quality of products and support for quality schemes	215.000	215.000	170.000
Promotion of agriculture and agricultural producer groups	85.000	110.000	90.000
Preservation of genetic resources in agriculture	57.800	44.000	32.000
Organic agriculture (including Danish grant)	350.000	685.000	568.000
Sustainable use of mountain pastures	445.000	200.000	200.000
Diversification of economic activities in rural environment	60.000	60.000	30.000
Renovation and development of villages and rural infrastructure	620.000	896.000	918.000
TOTAL:	3.062.800	5.545.000	5.838.000

Source: Ministry of Agriculture and rural development of Montenegro (Agricultural budgets 2010, 2011 and 2012).

National Program of European integration (NPI) determined the relative and nominal levels of rural development financing in the period 2008-2012.

Generally, the financial plan of the NPI was based on the Strategy of food production and EU integration (MARD, December 2006), but it also took in account changes of EU agricultural policy, the situation and demands after the WTO membership, as well as prospects of EU and IFCs funding. Compared with the Agriculture Budget for 2008, total national resources for the execution of the NPI at the end of the programming period were planned to increase 2.2 times, while the rural development funding , **should have increased by almost four times.**

Trade-price policy measures were to increase two times, and the funds for execution of other programs should have increased between 20 and 70 %. Detailed financial plan by measures should be understood as indicative and approximate.

Table 2. Agricultural budget expressed as percentage of program measures in the NPI (2008-2012)

Group of measures	2008	2009	2010	2011	2012	2013	08-13
Market-price policy	29,3	24,2	26,1	27,6	28,7	26,6	26,8
Rural Development	27,0	35,6	37,8	39,4	40,8	47,9	41,1
Extension and advisory services	23,0	22,1	19,7	17,9	16,4	13,6	17,4
Social transfers (old age allowances)	17,9	15,6	14,0	12,7	11,6	9,7	12,3
Technical and admin. support for the implementation of programs	2,9	2,5	2,5	2,5	2,5	2,2	2,4

Source: Ministry of Foreign Affairs and European integrations (2008), National Program for integration of Montenegro into the EU 2008-2012

From the standpoint of consistency of the agricultural policy, it is important to try to maintain the proportions of funding within different pillars of the program. In the programming period 2008 – 2013, most of the funds were planned for rural development policy (47%). The proportion of funding for market-price policy remains at similar level throughout the programming period, while the share of other programs is gradually decreasing.

For the 2012, NPI provides around € 5 million funding of the general services in agriculture, while agricultural budget for that year allocated just over € 1 million (1,048 mil). It is no problem to conclude that the maximum deviation (both in percentage and absolute terms) is in the area of rural development, support for general services to agriculture, technical and administrative support to implementation of programs. That is to say, even if the relative (percentage) structure is more or less preserved, the differences are much greater in absolute terms, and so they should be analyzed.

Table 3. Comparison between NPI and the actual Agricultural budgets for period 2010-2012 (%)

Group of Measures	National program for integration of Montenegro into the EU				Agricultural Budgets			
	2010	2011	2012	Av.	2010	2011	2012	Av.
Market-price policy	26,1	27,6	28,7	27,47	30,30	27,99	31,47	29,92
Rural development	37,8	39,4	40,8	39,33	23,20	28,94	28,10	26,75
Extension and advisory services	19,7	17,9	16,4	18,00	10,25	5,47	5,04	6,92
Social transfers (old age allowances)	14	12,7	11,6	12,77	17,40	13,82	13,57	14,93
Technical and administrative support for the implementation of programs	2,5	2,5	2,5	2,50	5,22	14,64	13,51	11,12

Source: Ministry of Agriculture and rural development of Montenegro (agrarian budgets for years 2010, 2011 and 2012) and NPI 2008-2012.

CONCLUSIONS

Montenegrin agricultural budget should be increased significantly in order to be able to respond to the crisis, particularly to fund investment in sectors that are not yet sufficiently developed, to help create new employment and strong commodity producers, strengthen food safety services and administration and finance establishment of accredited Paying Agency, as one of the priorities within the EU accession negotiations agenda for the chapter 11 (Agriculture and Rural Development).

In 2013 budgetary support to agriculture in Montenegro is at a level of 1, 1-1.6% (without or with loans and grants) of the total budget; Average budget for agriculture in the EU is around 3.5%. In Serbia it is around 3.7% of the national budget. Budgetary support for agriculture in FRY Macedonia at the level of € 150 million, which is about 6% of the budget (€ 2.3 billion); Croatia's agricultural budget in 2010. is 5% or 800 mil € (16.58 billion euro total budget in 2010, Slovenia's Agricultural budget is around € 430 million, or about 5% of the total budget (the European Commission annually funds € 280 million, plus € 150 million from the national budget).

Looking at the region of the Western Balkans, European practices and development needs, investments in Montenegrin agriculture from agricultural budget are insufficient. Budget support for agriculture in recent years is a growing tendency, but it is slower than the increase of the overall budget.. Structure of the agricultural budget for the period 2002-2012 shows that the only measure of market policy, at the time, had a steady growth, while in all other groups (rural development and general services to agriculture), budget support from year to year varied (decreased). A variation of these basic groups of budget indicates that significant measures are still not well established.

All agricultural associations and NGOs agree that the budget for the implementation of the agricultural policy is insufficient and is not able to help maintain even existing levels of production, while the design and implementation of agricultural policy is still performed without a good and reliable EU compliant data bases, data analysis and internal control mechanisms.

The results of analyses also, show huge discrepancies between projected (NPI) and actual levels (agricultural budgets) of funding of the rural development, its unfavorable structure of financing, what in turn might potentially jeopardize level of competitiveness and timely certification of Montenegrin farms and processing establishments after the accession, due to unfavorable level of RD financing and delayed accreditation of Paying Agency in Agriculture.

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KOMPARATIVNA ANALIZA BUDŽETSKE PODRŠKE RURALNOM RAZVOJU I ISKUSTVA CRNE GORE

SAŽETAK

Najvažniji dio crnogorskog agrarnog budžeta čine subvencije - mjere tržišno-cjenovne politike (40%), zatim mjere ruralnog razvoja (28%). Na osnovu Nacionalnog programa integracija Crne Gore u EU (2008), u programskom periodu od 2008 - 2012, većina nacionalnih, kao i ukupnih sredstava koja su planirana za politiku ruralnog razvoja na kraju perioda su trebale da čine gotovo polovinu svih budžetskih sredstava (47%).

Finansiranje pojedinačnih mjera agrarnog budžeta u odnosu na projektovane vrijednosti u NPI-ju za period 2010-2013, pokazuju dramatične razlike. Mjere ruralnog razvoja su manje od polovine projektovanih u okviru NPI-ja (€ 5,4 miliona eura, za razliku od projektovanih oko 11 miliona €). Još dramatičnije je da je 2/3 ili 66.3 posto svih fondova za ruralni razvoj u toj godini potiče iz kreditinih i grant sredstava, od kojih većina neće više biti na raspolaganju 2014. godine, kada bi (teorijski) trebala da budu zamijenjena sredstvima IPARD (V komponenta IPA-e).

Agrarni budžet treba da se prilagodi i značajno poveća, kako bi mogao da u većem obimu finansira investicije u sektorima koji još uvijek nisu dovoljno razvijeni, da pomogne stvaranje novih radnih mjesta i jake robne proizvođače, ojača sector bezbjednosti hrane i njenu administraciju, kao i da finansira uspostavljanje akreditovane Agencije za plaćanja u poljoprivredi, kao jedan od prioriteta evropske agende u pregovorima o članstvu u okviru poglavlja 11 (poljoprivreda i ruralni razvoj).

Ključne riječi: ruralni razvoj, poljoprivreda, agrobudžet, Nacionalni program EU integracija, Poglavlje 11: pristupni pregovori o članstvu.