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POLICY ANALYSIS

Exploring the decoupling of direct payments to farmers in North Macedonia

North Macedonia's accession to the European Union

Since the resolution of the name dispute between North Macedonia and Greece in 2018, the European Union (EU) and North Macedonia have been advancing accession negotiations, which formally began in March 2020. The EU accession process involves the design and implementation of political, economic and institutional reforms, including the agricultural sector (acquis 11) as a key political component. The Common Agricultural Policy (CAP) amounts to 37 percent of the EU budget and plays an important role in the reforms that North Macedonia will have to undergo. More specifically, the country must be able to apply the EU legislation on direct payments for farm support schemes. A crucial part of this move is shifting its current support system from coupled to decoupled direct payments, i.e. payments not linked to area and production levels of specific commodities, livestock numbers and input use. To inform the process of aligning North Macedonia's agricultural sector with EU policies, it is valuable to conduct economic analyses and explore different scenarios in line with the CAP.

Reform of the agriculture sector in North Macedonia

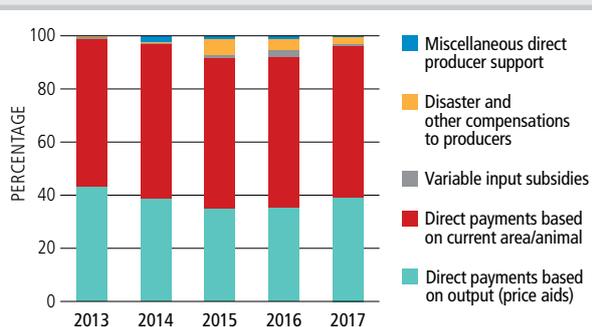
Agricultural gross value added amounted to EUR 948 million in North Macedonia in 2017, contributing 11 percent of the total gross value added. The same year the agricultural sector received support in the form of coupled direct payments to producers (73 percent), structural and rural development measures (17 percent) and other measures related to agriculture (10 percent). Almost all of North Macedonia's direct payments for farmers are coupled: that is, either attached to area/animal production (60 percent) or to output (close to 40 percent) (Figure 1).

The current direct payment scheme is cumbersome for farmers to make sense of, as it has over 100 measures available for farmers to apply to. North Macedonia's focus on coupled direct payments to farmers and the current complexity of the system makes it challenging to align with the CAP.

KEY MESSAGES

- ▶ Agricultural reform and the adoption of "decoupled" direct payments is central for European Union accession.
- ▶ Scenarios show that adoption of the Common Agricultural Policy (CAP) Direct Payment schemes (obligatory + voluntary) increases farmers' income on average.
- ▶ Reform should consider a balanced combination of different schemes of CAP Direct Payments and a gradual phase-in phase-out strategy.

FIGURE 1. Composition of North Macedonia's budget support, 2013–2017



Source: Authors' own elaboration with data from the Agriculture and Agricultural Policy Database (available at <http://app.seerural.org/agricultural-statistics>).

The Common Agricultural Policy direct payment schemes

The CAP direct payment scheme is composed of seven schemes divided into three compulsory and four voluntary schemes for Member States to adopt:

- ▶ **Basic payment scheme (BPS) / single area payment scheme (SAPS)** (compulsory), based on the number of hectares farmed and subject to the fulfillment of cross-

compliance standards, i.e. standards relating to e.g. the environment, food safety, plant and animal health and land management.

- ▲ **Green payment scheme (GPS)** (compulsory) for agricultural practices beneficial for the environment.
- ▲ **Young farmer scheme (YFS)** (compulsory) as a payment to support young farmers.
- ▲ **Redistributive payment scheme (RPS)** (voluntary) to provide improved support to small and middle-size farms.
- ▲ **Payment for areas with natural constraints (NCS)** (voluntary) in support of farmers in areas which are particularly difficult to be farmed, such as mountains.
- ▲ **Small farmers scheme (SFS)** (voluntary) as a simplified payment scheme for small farmers.
- ▲ **Voluntary coupled support (VCS)** (voluntary) to support products that are economically important but face difficulties (such as beef, milk and protein crops).

Six out of the seven direct payment schemes under the CAP are decoupled direct payment measures, which is what the current analysis and this policy brief focuses on. Future analysis will also include the coupled measure VCS.

Five scenarios for aligning decoupled direct payments to the Common Agricultural Policy

In order to foresee potential impacts of the alignment process, five scenarios (S1-S5) have been developed to gradually increase the adoption of more voluntary measures. Figure 2 shows the budget distribution for each scenario where the first scenario incorporates only compulsory payment schemes, while further scenarios gradually incorporate voluntary payment schemes. For certain compulsory payment schemes, i.e. GPS and YFS, the CAP foresees a mandatory allocation of a fixed subsidy share, such as 30 percent in the case of GPS.

Microsimulations of the scenarios were run with the objective of gauging the impact of adopting these schemes on farmers' income. The results are compared to a base scenario that represents the baseline, a situation in which North Macedonia does not join the EU.

Impacts on farmers' income

The results of the analysis are presented in Figure 3, expressed in Macedonian Denar (MKD). They indicate that on average the decoupling of North Macedonia's direct payments will have a positive effect on income. In each scenario the average income is higher compared to baseline.

The fifth scenario shows to have the most positive impact on average farmers' income. Yet the bureaucratic and management costs for the government and farmers associated with an increased number and complexity of payment schemes should also be considered. Thus, adopting the compulsory schemes plus the small farmers scheme, as in scenario 4, appears as a more balanced compromise between management costs and increase in farmers income.

In order to allow for a smooth alignment with the CAP in North Macedonia, a gradual phase-in of direct payments measures should take place and a simultaneous phase-out of coupled direct payments until the preferred scenario is achieved.

FIGURE 2. Five scenarios with different combinations of the CAP direct payment schemes

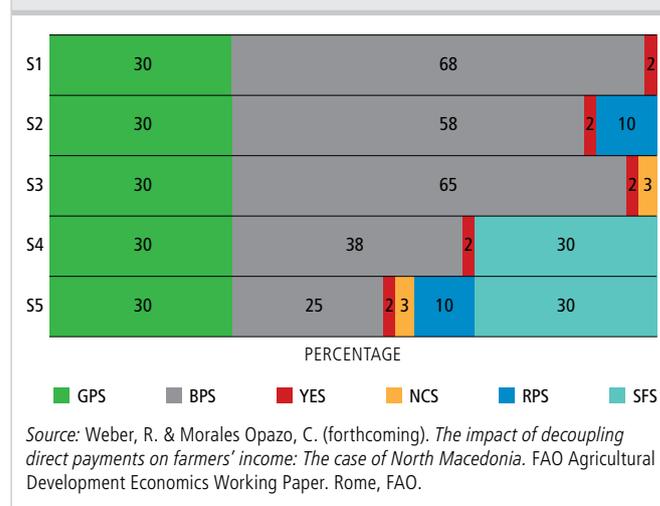


FIGURE 3. Difference of average farmers' income in MKD relative to the base scenario

