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FAO AGRICULTURAL DEVELOPMENT ECONOMICS
POLICY BRIEF 64

POLICY ANALYSIS

Farmer income and decoupled direct payments in North Macedonia

KEY MESSAGES

- Agricultural reform and the adoption of decoupled direct payments is central for European Union accession.
- Adoption of the CAP Direct Payment schemes (compulsory + voluntary) would increase farmer income on average.
- The reform should consider a balanced combination of different schemes of the CAP Direct Payments and a gradual phase-in strategy.

North Macedonia's accession to the European Union

North Macedonia and the European Union have been engaging in accession negotiations since the formal launch of negotiations in March 2020. Joining the European Union requires the implementation of political, economic and institutional reforms, including the agricultural sector (*acquis 11*), which is a key political component. The Common Agricultural Policy (CAP) is a major element of the budget of the European Union, amounting to about 37 percent, and plays an important role in the reforms that North Macedonia will have to undergo. In particular, the country will have to apply the European Union legislation on direct payments for farm support schemes. A crucial part is the shifting of the current support system from coupled to decoupled direct payments, i.e. payments that are not linked to production levels of specific commodities or livestock numbers. Analyses of potential scenarios are valuable to inform the alignment and enable the compliance of the country's agricultural sector with the European Union regulations.

Support to agriculture in North Macedonia

Agricultural gross value added amounted to EUR 948 million in North Macedonia in 2017, contributing 11 percent to the overall economy. The same year, the agricultural sector received EUR 136 million 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 North Macedonia's direct payments for farmers are coupled to area per crop or animal production (60 percent) or output (circa 40 percent).

The current coupled direct payment scheme is difficult for farmers to navigate, with over 100 measures and sub-measures to which farmers apply for access. The focus on coupled payments and the complexity of the system complicate the alignment to the CAP.

The CAP direct payment scheme

The CAP direct payment scheme is composed of seven measures divided into three compulsory and four voluntary schemes. Farmers can apply for direct payments in the form of:

- Basic payment scheme (BPS) / single area payment scheme (SAPS) (compulsory); based on the number of hectares farmed and abiding to cross-compliance standards.
- Green payment scheme (GPS) (compulsory); for agricultural practices beneficial for the environment.
- Young farmer scheme (YFS) (compulsory); payment to support young farmers.

These three compulsory schemes are complemented by a series of voluntary schemes, with specific objectives:

- Redistributive payment scheme (RPS): provides improved support to small and middle-size farms.
- Payment for areas with natural constraints (NCS): supports production in areas that are particularly difficult to farm, e.g. mountains.
- Small farmers scheme (SFS); simplified payment scheme for small farmers (replacing the other schemes).
- Voluntary coupled support (VCS): the only measure providing coupled support to products, which are economically important and are undergoing difficulties.

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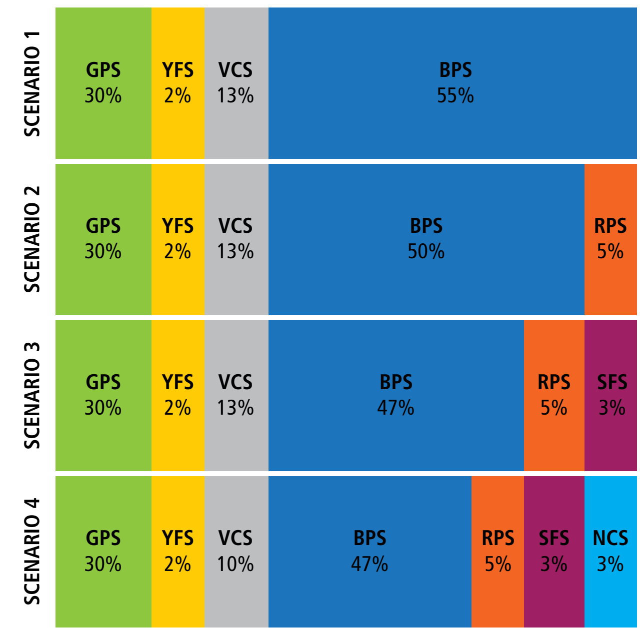
Five scenarios for aligning decoupled direct payments to the CAP

Scenario analysis is a good tool for policymakers to glimpse into "what could be" when making decisions. Four scenarios were developed to understand the impacts of gradually adopting voluntary measures. To develop these scenarios, the allocation of budget to the various schemes in seven countries in the broad vicinity of North Macedonia (e.g. Croatia, Bulgaria and Greece) were analysed. This allowed to identify common patterns, which served as blueprint for scenario development. Figure 1 shows the budget distribution for each scenario. The first scenario focusses on compulsory payment schemes, while further scenarios gradually incorporate voluntary payment schemes.

FIGURE 1. Four scenarios with different combinations of the CAP direct payment schemes



Note: GPS – green payment scheme; YFS – young farmers scheme; VCS – voluntary coupled support; BPS – basic payment scheme; RPS – redistributive payment scheme; SFS – small farmer scheme; NCS – payments for areas with natural constrains.

Source: Weber, R., Díaz González, A. & Morales Opazo, C. 2022. *Decoupling direct payments in North Macedonia – Impacts on farmer income.* FAO Agricultural Development Economics Working Paper 23-03. Rome, FAO.

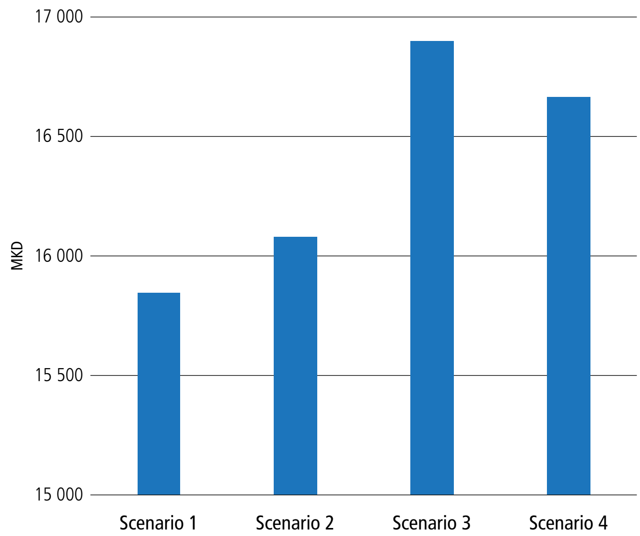
Microsimulations of the scenarios were run to understand the impact of adopting these schemes on agricultural income. The results are compared to a base scenario that represents the current situation of agricultural subsidies.

Impacts on farmer income

The results of Figure 2 indicate that, on average, the decoupling of North Macedonian's direct payments would have a positive effect on farmer income, i.e. farmer income increases. In each scenario, the average income is higher than in the base scenario.

Comparing the different scenarios and payment schemes shows that the biggest positive effect would be achieved should a scenario such as the third materialised. That is, the introduction of the SFS would be most favourable given the relatively small mean farm size.

FIGURE 2. Difference to base scenario on average farmer income



Source: Weber, R., Díaz González, A. & Morales Opazo, C. 2022. *Decoupling direct payments in North Macedonia – Impacts on farmer income.* FAO Agricultural Development Economics Working Paper 23-03. Rome, FAO.

Policy recommendations

The decoupling of direct payments has, on average, a positive impact on farmer income and is, hence, a viable strategy to reform North Macedonia's agricultural subsidy scheme. The results indicate that Scenario 3, is the most beneficial scenario. North Macedonia could also choose a gradual phase-in strategy, starting with the simplest approach, based on mandatory schemes, BPS, GPS and YFS and gradually including more subsidy schemes.

The analysis is a first step to understand the alignment process, analysing a single aspect, i.e. farmer income. More extensive analyses are required, to understand the overall impact on the agrifood sector and the economy.

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