

# The Impact of Grants on Agricultural Production



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## 1. Introduction

The agricultural sector is directly supported by the Government of Kosovo through funding in the form of subsidies and grants. Grants are a type of financial support for capital projects or investments in physical infrastructure, entailing co-financing between farmers and the Ministry of Agriculture, Forestry and Rural Development (MAFRD). These funds have been allocated since 2007 under the 2007-2013 Development Program, which was subsequently replaced by a revised version 2010-2013.<sup>1</sup> In 2013, the 2014-2020 Development Program was drafted, which was the basis for the annual programs. MAFRD has planned around 23.1 million Euros<sup>2</sup> each year for grants to support farmers in various agricultural crops, existing physical infrastructure, agricultural equipment, or the whole farm construction.

In two separate papers, GAP Institute analyzed how grants and subsidies have affected<sup>3</sup> agricultural production. These two research papers have shown that despite the programs and the amounts allocated which total around 48 million Euros every year in grants and subsidies, the expected outcomes have not been achieved. The National Audit Office has found that the management in the agricultural sector has been flawed. First, the process of monitoring the outcomes of current grants is marred by shortcomings and does not ensure the measurement of results and sustainable development of this sector. Throughout 2018, the Ministry of Agriculture approved two specific programs which exceeded the 2018 planned budget for grants. The beneficiaries of which included businesses that do not deal primarily with agriculture, therefore it is questionable whether these funds can be used effectively and produce sustainable outcomes.<sup>4</sup>

Second, unlike the countries of the surrounding region, Kosovo does not benefit from funds of the European Union for financing and implementing planned measures and programs. Although the Agriculture and Rural Development Program 2014-2020 is founded on the principles of the Instrument for Pre-Accession Assistance for Rural Development (IPARD), the establishment of these structures has failed.

Furthermore, the cooperation between MAFRD and municipalities is deficient, as cases have been identified in which farmers benefited from both the ministry and the municipality for the same purposes. In addition, municipalities do not oversee their grants and subsidies and there is a lack of information whether those programs brought about any improvement in terms of the agricultural objective as intended.<sup>5</sup>

The obligations stipulated by the grant/subsidy contracts have not been fulfilled by the farmers. MAFRD has not introduced any ex-post review plans for funds allocated through grants and subsidies. In some of the audited samples, the funds allocated by the project were not used at all, procured equipment was not found on ground, and even one year after the payments were authorized, the equipment was not put in operation.<sup>6</sup>

Between 2015 and 2019, around 104.5 million Euros were distributed in grants by the MAFRD. In this paper, we will present the allocation of grants based on measures from the Rural Development Program, taken between 2014 and 2019, for the sectors funded the most through grants throughout the years.

1 Ministry of Agriculture, Forestry and Rural Development. Agriculture and Rural Development Plan 2010-13. <https://bit.ly/2PCv3Fq>

2 Agricultural Development Agency. Green Report 2016-2020. Source: <https://bit.ly/3vORXKy>

3 GAP Institute, 2021, "Impact of subsidies on agricultural production".

4 National Audit Office. Management process of grants and subsidies in the agricultural sector. <https://bit.ly/3cp5hx8>

5 Ibid.

6 Ibid.

## 2. Grant Contents

Agricultural development is of crucial economic importance for the country. This is due to the fact that the trade deficit continues to be extremely high, especially in terms of food products. In the last five years, the trade deficit in agricultural products has increased by over 20 percent.<sup>7</sup> This shows that the increase in domestic demand is largely offset through imports. For this reason, the agricultural development would allow for substitution of imports, growth of the domestic economy, and increased employment.

The Government of Kosovo also provides support through grants in order to improve the development of the agricultural sector and market competition. The main goals of this support are to increase productivity and processing for local businesses involved in agriculture, create new jobs, improve infrastructure, increase the quality of production, achieve sustainable rural development, and others.<sup>8</sup> The following is the distribution of grants based on measures and sub-measures.

### 2.1 Investment in the physical assets of agricultural holdings (Measure 101)

This measure includes the following sectors: fruit trees, small fruits (berries), greenhouses, vegetable storage warehouses, meat (calves, pigs, broilers), dairy (dairy cows, sheep, and goats), collection points, grapes, as well as the poultry sector. The general objectives of this measure include: increased competitiveness of agriculture in Kosovo and substitution of imports, support of economic and social development through farms by aiming for continuous and sustainable growth, creation of new jobs in rural areas, and use of renewable energy.

**Table 1. Amounts allocated, in Euros, for sectors under Measure 101 - Investments in physical assets of agricultural holdings**

Measure 101					
Year	2015	2016	2017	2018	2019
Fruit trees sector	2,328,544	2,738,404	2,516,592	3,356,513	3,279,716
Berry sector	1,369,558	3,127,843	1,662,916	-	-
Greenhouse sector	-	3,122,356	2,901,077	4,143,270	2,959,491
Vegetable storage warehouses	3,275,341	746,136	443,290	1,316,850	493,127
Animal farming (beef)	1,408,771	1,738,044	1,619,448	2,469,319	2,011,862
Meat sector (broilers farming)	800,987	567,871	592,803	-	-
Meat sector (pig farming)	-	-	142,272	260,154	242,431
Dairy sector (dairy cows)	2,038,112	1,572,852	1,616,526	3,242,901	1,488,028
Dairy sector (sheep and goats)	791,575	705,332	501,897	1,205,620	504,600
Collection points	-	-	163,780	93,807	115,540
Grape sector	350,682	577,004	279,992	594,519	622,807
Egg sector	295,512	338,499	349,986	214,562	318,203

Source: Green Report 2016–2020 of the Ministry of Agriculture, Forestry and Rural Development

<sup>7</sup> Agricultural Development Agency. Green Report 2020. Source: <https://bit.ly/3vORXKy>

<sup>8</sup> Ibid.

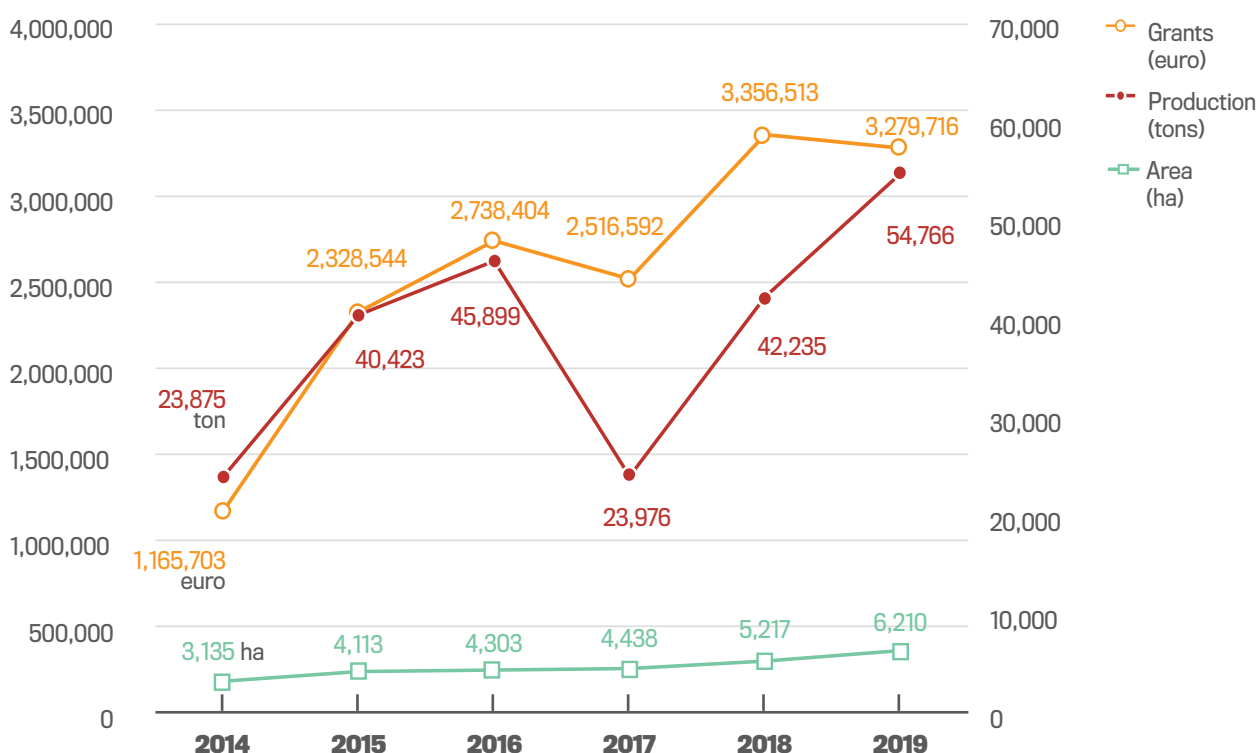
**Table 2.** Grant performance indicators for the fruit trees sector.

Year	2014	2015	2016	2017	2018	2019
Grants (euro)	1,165,703	2,328,544	2,738,404	2,516,592	3,356,513	3,279,716
Production (tons)	23,875	40,423	45,899	23,976	42,235	54,766
Area (ha)	3,135	4,113	4,303	4,438	5,217	6,210

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

Fruit trees make up the bulk of the grants and include fruits such as: apple, pear, plum, sour cherry, cherry, apricot, peach, and quince. Some of the specific objectives of this sub-measure include increasing fruit productivity, modernizing farms with new equipment, generating renewable energy, and meeting EU and national standards in terms of quality.

Since 2014, fruit tree grants have increased by 181 percent. The highest amount of fruit tree grants was awarded in 2018. The productivity and area planted with fruit trees has increased quite sufficiently during these years. The most significant decline in productivity was recorded in 2017.

**Figure 1.** Grant performance indicators for the fruit trees sector.

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

On the other hand, despite investments in physical assets in the dairy sector, the number of dairy cows, sheep, and goats along with productivity have marked a decline. Meanwhile, imports of dairy products continue to be high.<sup>9</sup>

<sup>9</sup> Impact of subsidies on agricultural production. GAP Institute.

## 2.2 Investments in physical assets for processing and trade of agricultural products (Measure 103)

This measure includes the dairy processing sector, the meat processing sector, the fruit and vegetable processing sector and the winery sector. This measure is designed to supplement Measure 101 in order to produce agricultural products without adverse impacts on the environment. The general objectives of this measure are to increase competitiveness and substitute imports by increasing productivity and introducing new technologies and products, to increase the safety and quality of products, to support enterprises in select sectors in order to be streamlined with EU policies and practices, and to improve environment protection, animal welfare, waste management, and the use of renewable energy.

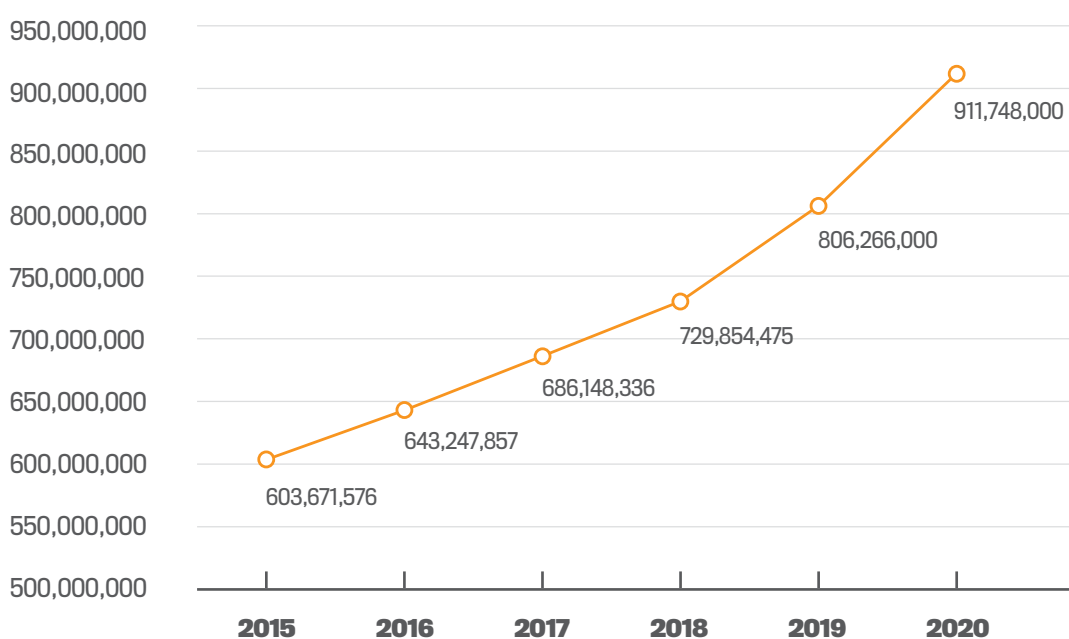
Under this sub-measure, fruit and vegetable processing sectors have received the most grants during these years, amounting to approximately 9.6 million Euros.

**Table 3.** Amounts allocated, in Euros, to sectors included in Measure 103 - Investments in physical assets for processing and trade of agricultural products

Measure 103						
Year	2014	2015	2016	2017	2018	2019
Dairy Processing Sector	1,374,203	1,005,740	706,551	-	733,149	191,760
Meat Processing Sector	1,234,948	1,604,928	1,475,881	-	578,442	181,674
Fruit and vegetable processing sector	1,296,664	2,244,316	2,106,402	396,794	2,877,805	720,865
Wine production sector	249,404	386,675	372,948	562,230	653,184	187,500

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

**Figure 2.** Food processing industry, as part of Gross Domestic Product, at constant prices, 2015-2020



Source: Kosovo Agency of Statistics

The food processing industry has grown over the years, reaching over 911 million Euros of Gross Domestic Product in 2020.<sup>10</sup> However, due to the lack of data disaggregated into sub-sectors, it is difficult to assess whether the targets for this measure have been achieved upon the award of grants. For a more accurate assessment, it should be looked at whether the meat, fruit, vegetable, and wine processing industries have seen an increase following the distribution of grants to these sectors.

### — 2.3 Farm diversification and rural business development (Measure 302)

This measure includes sub-measures, such as production and marketing of honey, processing of agricultural (cultivated) products and their marketing, development of handicraft activities and their marketing, development of rural and farm tourism, aquaculture/fish farming and raising poultry for eggs and meat. Support for the diversification of rural businesses and farms is aimed at generating new jobs and preserving existing ones through diversification, prevention of displacement of people living in rural and mountainous areas, and sustainable development in these areas. This measure also supports various non-agricultural activities in service to persons living in rural areas.

**Table 4. Amounts allocated, in Euros, to sectors under measure 302 - Diversification of farms and development of rural businesses**

Measure 302					
Year	2015	2016	2017	2018	2019
Beekeeping and honey production/processing and trade	441,598	641,960	705,945	779,532	762,821
Processing of herbs, medicinal plants, forest fruits and harvested mushrooms	117,096	125,403	128,734	-	-
Sector of farm processing and trade of small-scale agricultural products (vegetables, fruits, herbs, spices, medicinal plants, mushrooms and sheep, goat milk)	180,010	216,998	212,492	634,810	-
Development of handicrafts and their marketing	37,929	123,469	220,934	315,967	334,126
Development of rural tourism and farm tourism	142,961	453,990	364,388	528,847	242,893
Processing of agricultural products in households	-	-	-	-	303,581
Aquaculture/fish farming	-	-	-	-	305,639
Poultry for eggs and meat	-	-	-	-	239,005

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

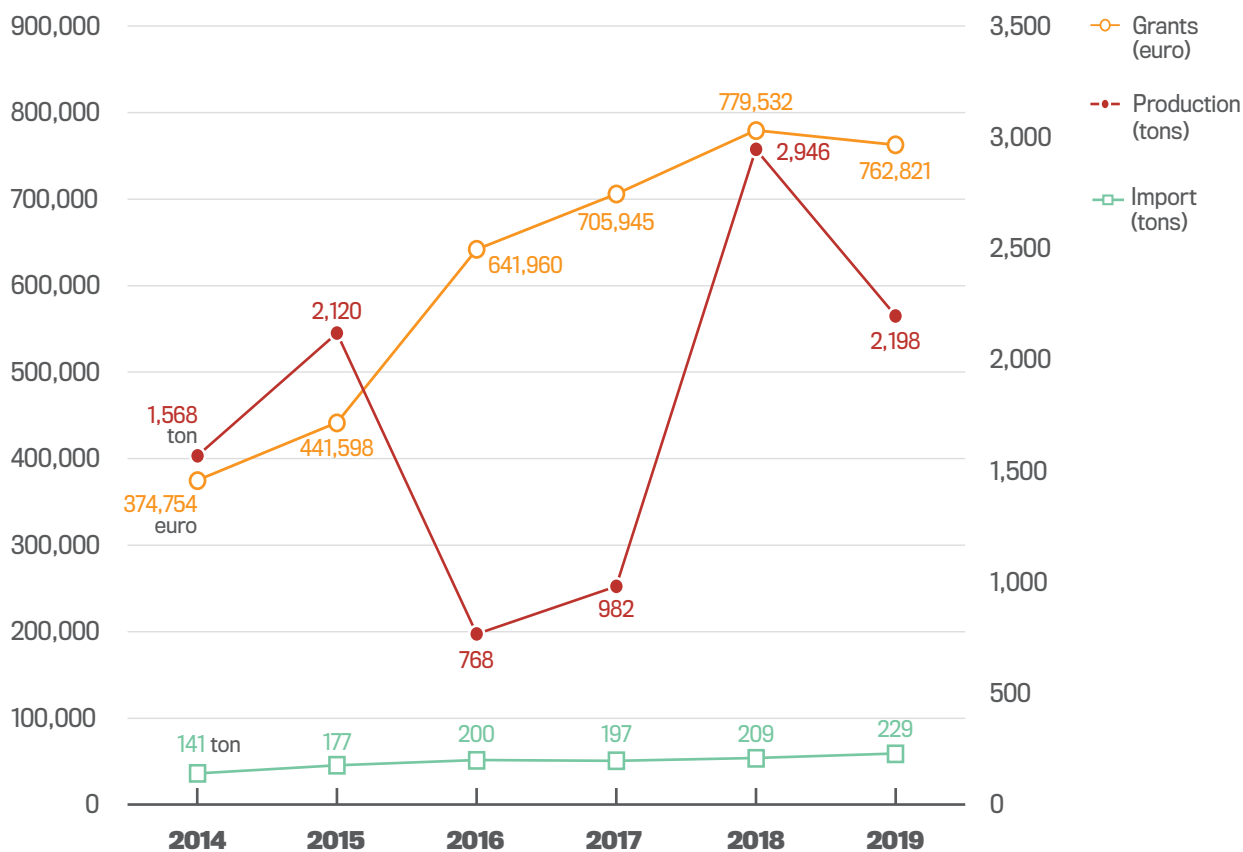
The beekeeping sector has continued to be supported in 2014 and beyond, and it is one of the sub-measures that has received the most grants during these years. Some of the eligible investments for this measure include: purchase of machinery and equipment for honey production and processing, investments in the extraction of bee products, purchase of beehives without bees, construction, renovation and expansion of the honey chambers, etc. Grants have increased by 103 percent between 2014 to 2019, while honey production has increased by only 40 percent. Although there has been a steady increase in grants in 2016 and 2017, productivity has decreased by 64 percent. Lack of sufficient production has caused dependency on imports, as evidenced by a 62 percent quantitative increase of imports of honey (tons) in 2019, compared to 2014.

<sup>10</sup> Kosovo Agency of Statistics. Gross Domestic Product Q4 2020. Source: <https://bit.ly/3pLoUVP>

**Table 5. Grant performance indicators for the honey production and processing sector**

Year	2014	2015	2016	2017	2018	2019
Grants (euro)	374,754	441,598	641,960	705,945	779,532	762,821
Production (tons)	1,568	2,120	768	982	2,946	2,198
Import (tons)	141	177	200	197	209	229

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

**Figure 3. Grant performance indicators for the honey production and processing sector**

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

## 2.4 Implementation of local development strategies - LEADER approach (Measure 303)

In order to increase the economic development of rural areas, grants are awarded to Local Action Groups (LAGs), which provide support in drafting development strategies and their implementation in cooperation with the local community. This measure consists of three main activities: skill development and incentives for residents in the selected LAGs, implementation of local development strategies – the leader approach and cooperation with the residents within the LAG areas of concentration upon constitution of such groups, and capacity development of residents to benefit from the activities. The main and general purpose of this measure is to increase the capacities of selected LAGs, members, and rural residents with the goal of improving local development skills and democracy. Support for these local action groups has increased over the years, with the amount of grants increasing by 188 percent, compared to 2014.



**Table 6. Amounts allocated, in Euros, for grants in order to operationalize select LAGs**

Measure 303						
Year	2014	2015	2016	2017	2018	2019
Operationalization of selected LAGs	-	83,520	79,850	-	293,087	240,184

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

According to the Audit Office, in some Local Action Groups, the beneficiaries failed to prove expenditures they incurred, as provided by the project. Also, no evidence of engagement of experts was enclosed. Irregularities and inconsistencies were noticed between the agendas and the lists of participants on training workshops.<sup>11</sup>

## 2.5 Measures related to irrigation of agricultural land

In order to collect and accumulate water for use in irrigation of agricultural lands in the absence of rainfall during the summer, MAFRD has consistently awarded grants for irrigation of agricultural lands. During the period of implementation of the Agriculture and Rural Development Program 2014-2020, this measure had plans of granting public assistance in the maximum amount of 600,000 Euros per beneficiary.<sup>12</sup>

The technical condition of the irrigation infrastructure is not at a satisfactory level, therefore a major part of dams, reservoirs, canals, pipes must be rehabilitated, and new structures need to be constructed. The general objectives of this measure include increasing of production, yields, and competitiveness of agricultural products. Meanwhile, specific objectives include expansion of agricultural lands under irrigation, modernization of the irrigation system, improvement of the existing network, and drainage to reduce the loss of the amounts of water used.<sup>13</sup>

Compared to 2014, the area of formal and informal land under irrigation in 2019 was 46 percent lower, while grants noted a decrease of 23 percent. The table below shows that grants increased by 49 percent during 2016 compared to 2015, while the area of irrigated land decreased by 5 percent.

**Table 7. Grant performance indicators for the measure of Irrigation of agricultural land.**

Measure - Irrigation of agricultural land						
Year	2014	2015	2016	2017	2018	2019
Grants (euro)	587,829	644,649	965,614	64,871	475,413	320,000
Area of lands under irrigation (ha)	22,888	23,122	21,776	19,839	17,837	17,719

Source: Green Report 2015-2020 of the Ministry of Agriculture, Forestry and Rural Development

<sup>11</sup> National Audit Office. Audit Report on the Ministry of Agriculture, Forestry and Rural Development. Source: <https://bit.ly/2PLmOaw>

<sup>12</sup> Measures on irrigation of agricultural lands. Guidelines for Applicants. Source: <https://bit.ly/3dduHoe>

<sup>13</sup> Rural Development Program 2019. Agricultural Development Agency. <https://bit.ly/3foTYLU>

### 3. Conclusion

Agricultural development remains one of the top priorities of the country. This is due to the sector boasting a high potential in improving the trade balance and increasing employment. However, ten years after the design of key programs to develop this sector, Kosovo continues to output low agricultural productivity, and at the same time, an increase in domestic consumption, which is largely offset by imports.

According to the Ministry of Agriculture, Forestry and Rural Development, few of the main issues hindering agricultural development include the lack of investments in physical assets of farms or production capacities. For this reason, this institution designed a grant support scheme, aimed at resolving this issue.

Between 2015 and 2019, about 104.5 million Euros were allocated to help develop the various sectors of agricultural crops and physical infrastructure. However, according to the data presented in this paper, the allocation of grants has continued without assessing whether the goals of the program were being achieved. Following the development and implementation of the grant program, MAFRD has not systematically assessed the impact of this scheme in terms of the achievement of program goals.

Evaluating the unsatisfactory development of the agricultural sector and the lack of expected growth in productivity while looking at the continuous increase of financial support (48 million Euros each year), this paper questions the effectiveness of agricultural policies developed more than ten years ago, or rather the manner of their allocation. The National Audit Office had also criticized the manner the agricultural sector was managed. As of February 2021, several officials of the Agency for Agricultural Development were arrested on suspicion of abuse of funds for agricultural support.<sup>14</sup> Following these developments, it is extremely important to review the existing agricultural programs and the manner of their implementation. Therefore, based on the findings of this paper, the GAP Institute hereby recommends:

- Conducting a detailed assessment of whether the absence of expected outcomes is due to inadequate agricultural policies or improper management of funds.
- Each support policy program should have clear indicators of measuring its success.
- Evaluating the effectiveness of the measures based on the set indicators.
- Monitoring the implementation of investments in physical assets.
- Carrying out regular reviews and assessments of agricultural policies.

<sup>14</sup> "Koha Ditore" newspaper. Source: <https://bit.ly/2PKQowv>



GAP Institute is a Think Tank established in October 2007 in Kosovo. GAP's main goal is to attract professionals to create an environment of professional development and research, as seen in similar institutions in Western countries. This also provides Kosovars with opportunities to research, develop and implement projects in order to advance the Kosovo society. Priority for this Institute is the mobilization of professionals to address the country's economic, political and social challenges. GAP's main goals are to fill the gaps between government and citizens, and between problems and solutions.

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