

EC JRC IPTS Project:

”Analysis of agricultural and rural development policies in Western Balkan countries”

Interim meeting

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Bosnia and Herzegovina: Agricultural Policy Brief

**Main changes in terms of agriculture, agricultural policy,
farm issue and European integration in period 2005-2014**

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- Introduction remarks
- Economic development in the country
- Agricultural development in the country
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- Farm issue
- EU integration process
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- Complex political and economic system and state structure significantly limits economic development and transformation of BiH into a modern and functional state
- Socio-political and economic crisis since 2008 (global crisis plus lack of political will for radical reforms)
- BiH continued to show the least progress among countries in the region regarding European integration process (adoption of legislation)
- The lack of efficient coordination mechanism for EU integration issues continues to affect interaction of BiH with EU (including financial support)

- Despite mentioned facts economic indicators show that BiH made significant progress

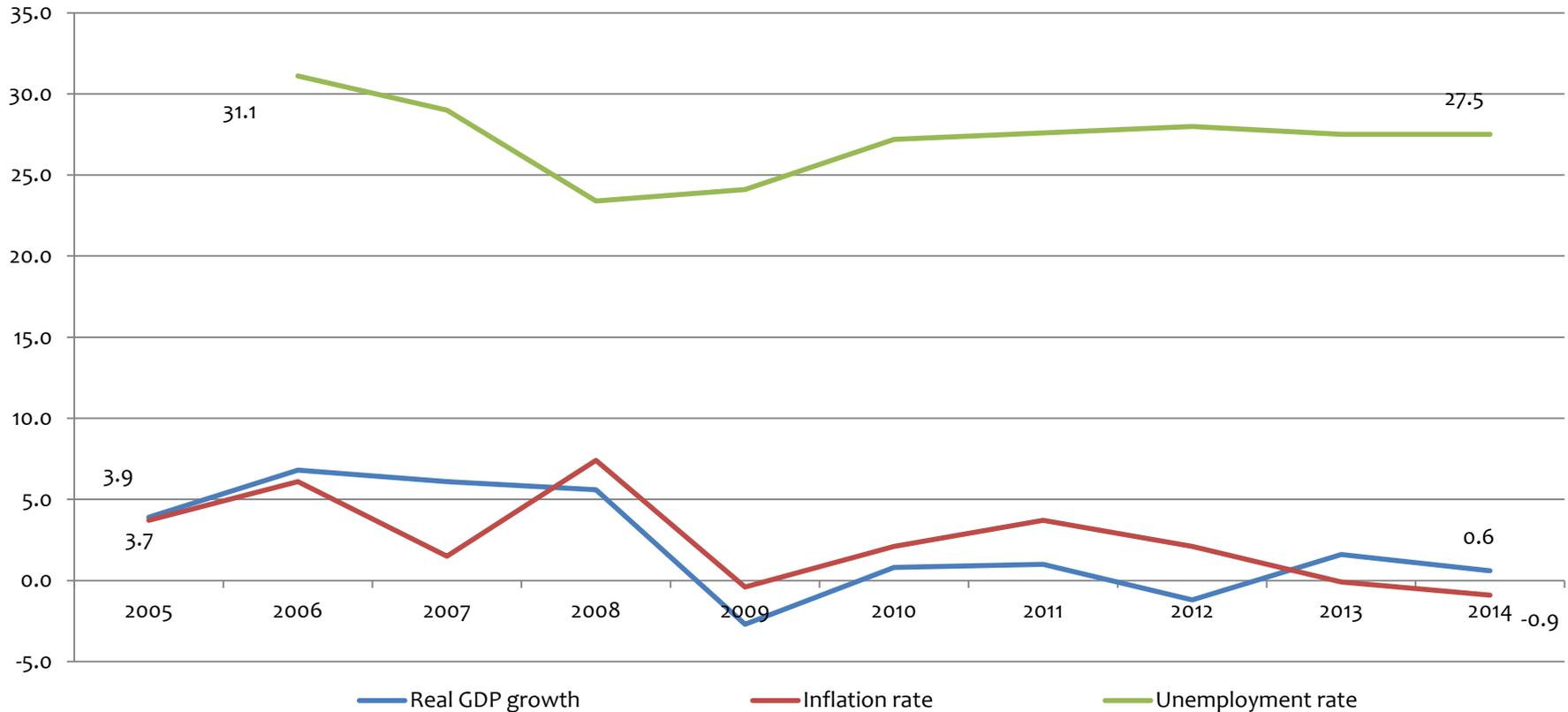
Table 1. Bosnia and Herzegovina: Economic context, 2005 and 2014

	2005	2014
GDP (million EUR)	8,655	13,827
Population (million)	3.84	3.83*
Land area (thousand km ²)	51,197	51,197
Population density (inhabitants/km ²)	75.08	74.75
GDP/capita	2,252	3,606
Trade as a share of GDP (%)	88.40	92.02

* Estimation by Bosnia and Herzegovina Directorate for Economic Planning

Source: Agency for Statistics of BH

Main macroeconomic indicators, 2005-2014



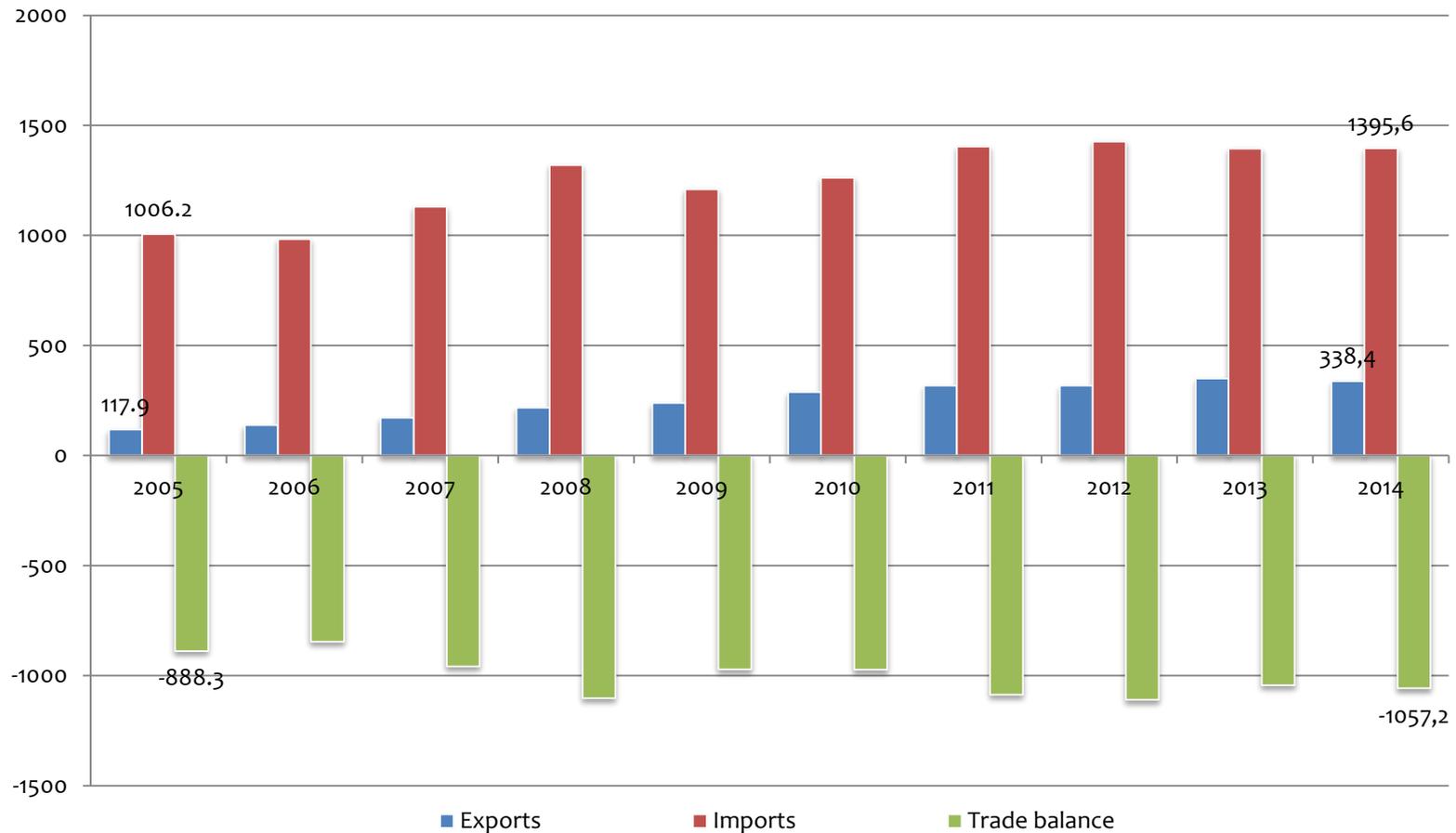
2014: The most important factors that influenced economic growth in BiH:

- Exit Euro zone of recession after two years of negative growth,
- The reduction of world prices,
- Deflation,
- Floods in the second quarter and unfavourable hydrological situation in hydro power plants

- Agriculture is important sector in BiH economy

	2005	2014
<i>Agriculture share in GVA (%)</i>	10.6	7.6
<i>Agriculture share in employment (%)</i>	20.6	17.1
<i>Agro-food exports (% of total exports)</i>	6.1	7.6
<i>Agro-food imports (% of total imports)</i>	17.6	16.8

Agro-food trade, 2005-2014



- The greatest contribution regarding **export trends** and values is given by products from tariff groups 04 (**Dairy products**, eggs, honey), 19 (**Preparations of cereals**, flour or starch), 08 (**Edible fruit** and nuts, peel of citrus fruit or melons) and 16 (**Meat preparations**) plus tariff group 17 (Sugars and sugar confectionary) and group 15 (Animal or vegetable fats and oils) as these products are re-exported, not produced (sugar beet) or modestly produced (oilseeds) in BiH.
- The highest share in **import** had following groups of commodities: group 22 (**Beverages**, spirits and vinegar), group 10 (**Cereals**), group 21 (Miscellaneous edible preparations), group 17 (**Sugars** and sugar confectionary) and group 23 (Residues and waste from the food industries).
- The **coverage of import by export** of agro-food commodities has been recording **significant progress**. In 2005 it was only **11.7%**, and by 2014 it more than doubled and reached **24.2%**.

Main developments on agricultural markets between 2005 and 2014

- **Fruits and vegetables**
 - BiH is still net importer of fruit and vegetable, but positive trends are evident in both productions.
 - Fruit production in BiH had trend of modest growth, while vegetable production had no remarkable trend.
- **Poultry meat**
 - Production was permanently growing by 2012, but slight decrease was registered in 2013 and 2014.
 - This is one of few animal production in which BH has almost achieved self-sufficiency.
 - The rapid growth of this production is explained by decrease in purchasing power of BH' consumers and their orientation to the cheaper meat and by development of the meat-processing industry and its orientation to international markets.
- **Milk and milk products**
 - BiH has almost reached self-sufficiency in fresh milk and fresh dairy products, but it is still a significant net importer of butter, dairy spreads, cheese and processed cheeses.
 - Total milk production had a pronounced upward trend until 2008 (the largest production of 759 million kg), and since then a significant decline of production took place until 2012 (minimum production of 672 million kg). This decrease is a result of the declining trend in the number of dairy cows, despite the increase in the average milk/cow yield.

- There are no strategic and programming documents directly related to the programming/design of agricultural policies at the state level. Instead, the documents created at the state level mainly deal with harmonization of the entity program documents. Following documents should be mentioned for the period 2005-2014:
 - Strategic Plan for Harmonization of Agriculture, Food and Rural Development
 - Operational Program of BiH for Agriculture, Food and Rural Development
 - Plan of BiH priorities for gradual harmonization of BiH with EU legislation in the fields of agriculture, rural development, veterinary, phyto-sanitary and food safety
 - Proposal for the gradual harmonization of supportive measures to agriculture and rural development in BiH
 - Sectoral analysis for BiH IPARD program (milk, meat, fruit and vegetables, cereals, wine, fisheries, forestry and diversification of the rural economy).
- Due to lack of political will, practically there have been no serious activities on the development of strategic and programming documents

- Medium Term Development Strategy of the agricultural sector in Federation of BiH for the period 2015-2019 (adopted June, 2015)
 - Future FBH agricultural policy will be based on gradual introduction of measures similar to CAP EU, without new measures that are not in the line with CAP EU.
 - Changes in direct payments will go towards further reduction of direct payments based on output, strengthening payments per hectare/head of livestock and equalization amount per unit as the first step toward production-decoupled payments currently actual in EU.
 - Harmonization of agricultural policy with the EU CAP is one of the main orientations of the new Strategy.
 - Implementation will be oriented towards the adoption of new, lacking laws in line with EU legislation and *Acquis communitarie*, gradual institutional strengthening and the convergence of high standards of modern public policies such as CAP EU (establishment of a modern system of informative-administrative control and the construction of other institutions, which will require significant administrative, financial and personnel changes).

- Program of Rural Development of FBiH for the period 2015-2020
 - Objectives are divided into groups according to the measures
 1. To improve technological, strategic and human resources, which will result in improved value chains, productivity and quality of commodities attractive to existing and future markets, thus achieving permanent increasing of the market share which will contribute to the sustainable development of rural areas.
 2. To improve the condition and value of environmental resources and natural advantages of FBH through ensuring their protection and sustainable use.
 3. Diversification of the rural economy, improving the environment for local economic growth and development of economic capacity, through better use of advantages of rural areas and improving the sustainability of rural communities.
 4. To encourage the establishment of inclusive and competent LAGs and preparation of LDS (local development strategies)
 - The financial envelope for the implementation of the Program is estimated to EUR 150 million for the seven-year period. Budgets of the FBiH and cantons, IPARD funds and WB and EIB loan are planned as sources of funds required to implement the Program.

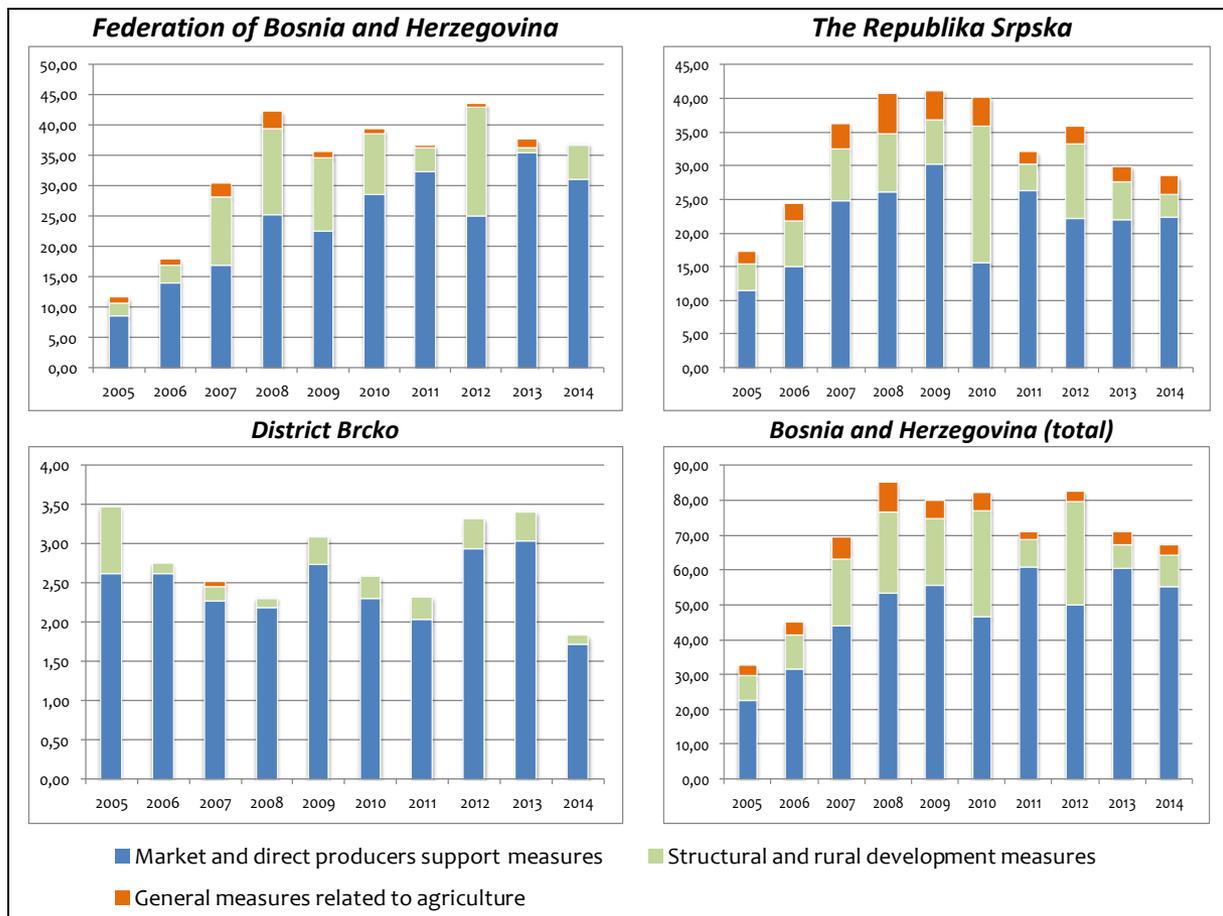
- The Strategic Plan Development of Agriculture and Rural Areas of the Republika Srpska in 2015 - 2020 (adopted)
 - Direct support to production, in contrast to the previous period will be based on payment per unit, per hectare in case of crop production and on head of livestock in animal production (ruminants).
 - For purpose of adaptation to new conditions of support, payments per output in milk and wheat will be maintained by 2018
 - Rural development policy understands measures aimed to assure sustainable management of natural resources, adaptation to climate change, and those that will enable balanced rural development
 - This strategic document, like the one in FBiH emphasizes the need for convergence and gradual harmonization of agricultural policy with the EU CAP, gradual introduction of measures applied in EU countries, with no new divergent measures.
 - The strategy also envisages upgrading the system of legislation and institutions necessary to carry out the process of European integration in the agricultural sector successfully.

- **New strategic documents** for agricultural sector in both BiH entities, with defined objectives, measures and mechanisms of action, made **significant step forward** and they can almost be described as strategy shift.
- The documents are made in a modern manner, using all the elements of the policy cycle - planning, implementation, monitoring and evaluation.
- Highlighted approach of **convergence and harmonization of entity agricultural policies with CAP EU** and clear commitment to reform policy, to establish and strengthen legislative and institutional framework to modernize agricultural administration are particularly encouraging.

AP development in the country

Main agricultural policy and measures 2005 and 2014 (1)

Figure 3. Bosnia and Herzegovina: Development of budgetary support to agriculture, 2005-2014



Source: Own calculation based on publicly available data and internal documents of Federal Ministry of Agriculture, Water Management and Forestry, Ministry of Agriculture, Forestry and Water Management of the Republika Srpska, Department of Agriculture of District Brcko Government and cantonal ministries (departments) for agriculture of Federation of BH (compiled in APM database).

- The total budget allocation in FBH was steadily growing until 2008, since then it was decreasing by 2013, and in 2013 and 2014 remained stable on the average of EUR 37 million.
- Measures of pillar I dominate in the structure of measures, particularly direct payments, while the general measures to agriculture were very modest in the period 2011-2014
- Payments based on output prevailed by 2008 and were mainly related to milk, tobacco and arable crops. From 2009 until 2013, the structure of direct payments changed, so payments based on area/animal (from 2011 almost entire plant production) prevail.
- In 2014, unreasonably high increase in premiums per liter of milk from EUR 0.09 to EUR 0.15 took place, thus payments based on output again became dominant making up 55% of direct payments.
- Unlike RS, there is no significant support to variable inputs in FBH, it mainly comes from cantonal level and only in 2013 and 2014 it exceeded EUR 1 million making 3-5% of the total direct payments.
- Support for structural and rural development measures in FBH has the most pronounced variations from year to year and it was mainly related to increase competitiveness of the agricultural sector and on-farm investments.

Main agricultural policy and measures 2005 and 2014

The Republika Srpska

- Total agricultural budget in RS was growing steadily until 2009 (EUR 41.2 mill.). Since 2009 it has been declining, so in both 2013 and 2014 it was below EUR 30 million.
- Direct payments, including support for variable inputs had continuous growth until 2009, when amounted EUR 28.4 million, and then, after a sharp decline and modest allocation of EUR 11.9 million in 2010
- In the structure of direct payments, payments based on output have the highest share which in the period 2012 -2014 was on average 70% or around EUR 15 million. Most of these payments refers to milk sector.
- Unlike FBH, important part of direct producers support in RS refers to subsidies for procurement of variable inputs in which reimbursement for oil, fertilizers and seed dominates. In some years, like in 2011, it made up 60% of the total direct support and in the period 2012-2014 this share ranged 13-20% of DP support.
- Similar to situation in FBH, structural measures and rural development measures in RS varied the most from year to year, and mainly referred to agriculture' competitiveness improvement and to support for village.

- Still there is no comprehensive picture of the structure of agricultural holdings in BiH (the last agricultural census was back in 1960).
- Regardless the lack of statistic data on the number, size and structure of farms in BiH, problems such as farm-size, fragmented land property and dual structure of farms certainly exist.
 - Based on limited data about agricultural holdings and their structure, obtained from the agricultural pilot census in 2010, average area of used land is **1.97 ha** per holding with average **4 parcels** per holding on family farms, which is considerably less than EU-27 average of 14.3 ha.
- One of major problems in BiH is a ***disorganized situation with land registers and cadasters***, which is one of the reasons for ***inefficient agricultural land transactions (market)***.
- BiH need ***land management reforms***. This understands achievement of several operational goals: land consolidation, increase of viable farms' size, improvement of land quality, better water management and better access to agricultural land).
- Also, It is necessary to establish and strengthen regulatory and institutional framework, to initiate joint initiative of all responsible institutions in order to contribute to a more rational use of land, protection and improvement of land quality and land development.

EU integration (1)

- Stabilization and Association Agreement (SAA) between BiH and EU came into force on June 1, 2015, thus creating conditions for discussion about submission of BiH application for EU membership and obtaining candidate status (2017 ?).
- BiH authorities clearly expressed desire to unblock stalled EU integration process and to make serious steps forward, to work on reforms.
 - Regarding RD policy in BiH we expect necessary institutions of IPARD structures at the state level that would enable withdrawal of IPARD funds
- European integration is the key objective of both BiH entities. Harmonization with the EU CAP is actually the biggest challenge, but also an opportunity for agricultural policy modernization.
- Significant differences in the scope and structure of the measures between BiH (entities) AP and EU CAP.
- There are still many other gaps (agroenvironment issue, poor social status of small farms, LFA, general services are poorly supported, extension services, and lack of legislation documents, institutions ...,)

EU integration (2)

- Institutional and legal framework needs to be radically restructured, to be the basis for modern, flexible and sector-oriented agricultural administration at all levels.
- Priority should be given to creation of precise operational plan for taking over the *Acquis* and to the adoption of missing laws and working out a plan to establish missing institutions and mechanisms necessary for the efficient management of the sector
- Also it is very important on the restructuring and modernization of agriculture and agro-business. Only competitive food production chain can contribute to sustainable development and the success of the sector.
- The adopted strategic documents in both BiH entities and their development-oriented concept are based on clearly defined external and internal challenges and identified strengths and weaknesses of the sector. Both documents highlighted a clear commitment to European integration and have defined measures for gradual and rational adjustment to CAP.

Conclusions

- The adoption and expansion of ***the concept of development-oriented agricultural policy*** in order to effectively define key objectives of policy design.
- This concept understands ***efficient use of natural resources*** and organization, increasing productivity, improving the efficiency of the agro-food value chains, fostering cooperation and support to structural changes such as land reform, all of which contributes to the improvement of living standards of rural population.
- ***There are no obvious alternatives*** to a decisive development orientation. In this regard, European integration and adoption of the EU CAP objectives and instruments may serve as a good motive and catalyst for change.
- The ***gradual introduction CAP elements*** will facilitate the modernization of agriculture and public administration as well as the adoption of EU legislation, and consequently speed up the EU integration process.
- Adopted strategic documents of agricultural sector development in both FBH and RS clearly support the European integration path and harmonization of agricultural policies with CAP EU. ***It remains to be seen*** to what extent strategic documents are feasible, to what extent planned budget are realistic and whether domestic administration is persistent in their full implementation.

BOSNIA AND HERZEGOVINA: AGRICULTURAL POLICY BRIEF
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Thank you for your attention!

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