

Bosnia and Herzegovina: Agricultural Policy Development and Assessment

Sabahudin Bajramović¹, Željko Vaško²,
Dragana Ognjenović¹, Jakub Butković³

¹ Faculty of Agriculture and Food Sciences University of Sarajevo

² Faculty of Agriculture University of Banja Luka

³ Ministry of Foreign Trade and Economic Relation of Bosnia and Herzegovina,
Office for Harmonization and Coordination of Payment Systems in Agriculture,
Food and Rural Development in Bosnia and Herzegovina

Abstract

Agriculture is an important sector of the Bosnia and Herzegovina (BiH) economy, and the agricultural policy of the BiH entities and the Brčko District faces numerous challenges that must be effectively solved. Besides the sector development and a better utilization of natural resources, some of the essential questions for BiH are European integrations and harmonization of the entity (and the Brčko District) agricultural policies with the EU CAP. Using the principles of modern public policies, the Federation of BiH and the Republika Srpska have adopted new strategic frameworks for the sector development, undoubtedly confirming the road to Europe. APM tool and the database on agricultural budgets of the BiH entities and the district were used to analyze budget support in the period 2010–2015, with particular attention to direct payments and their implementation schemes. The analysis has confirmed that direct payments are the most important agricultural policy instrument, with milk as the most supported product. This paper also reflects on the current entity strategic documents and their first implementation results that indicate the lack of political courage for serious agricultural policy reforms and the continuation of political pragmatism.

1. Introduction and approach

Agriculture in Bosnia and Herzegovina (BiH) is both economically¹ and politically important sector characterized by underused natural resources and production potentials², low productivity, poor technical and technological capacity of farms, underdeveloped agricultural and food chain value, low competitiveness, and considerable foreign-trade dependence. Adding to that an increasing marginalization of rural areas, accompanied by further depopulation and poverty, it is clear that the

¹ With its EUR 838.1 mil, agriculture sector in BiH accounted for 7.1% of the total GVA in 2015. With 147,000 employed, it consisted 17.9% of the total employment in BiH. BiH is still a notably net importer. The total export of agricultural and food products in 2015 was EUR 429,6 mil., which was 9.4% of the total national export, while the import of these products in 2015 was EUR 1,464 bil. or 18.1% of the total import (Agricultural Statistics database – BiH 2016).

² In BiH, out of 1.03 mil. ha of the most quality land – arable land, only one-half is used (49.5%), i.e. 510,000 ha (2015).

agricultural policy of BiH, i.e. its entities and the Brčko District (BD) faces numerous challenges that must be effectively solved.

Although BiH is clearly determined for European integrations and harmonization with the EU Common Agricultural Policy (CAP), this process is going on quite slowly, without visible signs and readiness to expedite it. Lagging behind on the road to European integrations is caused by the economic crisis but before all by the lack of political will. BiH has not made progress in establishing necessary institutional structures (a coordination mechanism) for utilizing the Instrument for Pre-Accession Assistance in Rural Development (IPARD), thus annually losing considerable funds for sector improvement (MFTER 2016).

Agricultural policy in both BiH entities and BD is inconsistent, without clear development goals and elements of modern public policies (Bajramović et al. 2014, 2015). The total budget support varies year by year, and it is the result of the current economic policies in the entities and the pronounced political pragmatism. Agricultural policies in the BiH entities and BD do not have the concept of modern public policies (policy cycle) and evidence-based approach. Due to the lack of clear funding of the support to agro-food sector through programming documents, the determination of annual budget transfers for the sector depends on the governing political structures and lobbying influence of some interest groups. The largest share of the total budget allocations accounts for direct payments whose extent and structure depend on the entity (including BD).

New frameworks of action in the agricultural sector and rural areas have been established in both BiH entities. The Federation of BiH (FBiH) adopted the Mid-term development strategy for agricultural sector 2015–2019 (FBiH 2014a), and the Republika Srpska (RSR) the Strategic plan for the development of agriculture and rural areas 2016–2020 (RSR 2015a). Both documents clearly emphasize determination for European integrations and the concept of modern public policies. Unfortunately, the first results of their implementation in both entities reveal no actual changes in the current concept and no modern approach to the sector development and improvement.

This paper analyzes the current agricultural policies in BiH 2010–2015 both from the perspective of programming and strategic documents and from the perspective of the extent and structure of support. Having in mind that the actual agricultural policies are left to the entities and BD, the analysis and comments refer individually to each administrative unit in BiH. Particular focus in this paper refers to the analysis of direct payments as the dominant form of budget transfers in BiH.

The database on agricultural policy measures (APM database – BiH 2016) was used for a quantitative analysis of the budget support to agriculture in the BiH entities and BD. It contains all available information on agricultural policy measures, i.e. the budget transfers made in the given year by the competent entity ministries (in the case of FBiH also 10 cantonal ministries for agriculture/economy) and the Agricultural Division of the BD Government. The database covers a longer period (2002–2015), but for the purpose of this paper, the data from the period 2010–2015 were used.

In APM databases agricultural policy measures are systemized and classified according to a common (uniform) template, which enables cross-country qualitative and quantitative analysis of implemented agricultural policies. According to the APM classification, all agricultural policy measures are grouped into three main pillars: (i) market and direct producer support measures; (ii) structural and rural development measures and (iii) general measures related to agriculture. The classification uses the EU concept of policy instruments as a basic starting point, combined with the OECD classification. The APM classification is built on a hierarchical principle, with the first level defining the pillar of agricultural policy, the second defining the category, and each subsequent level defining a sub-category of the previous one (Rednak et al. 2013).

The paper is divided into several sections. Introductory remarks are followed by the analysis of the current strategic and programming documents in the BiH entities, with the focus on the key sector development priority goals and the European integration processes. In third section, a more detailed analysis of the budget transfers to agricultural sector in BiH and its major changes in the analyzed period 2010–2015 are presented. Particular focus is placed on a deeper analysis of direct payments as the most important group of agricultural policy measures in the BiH entities and BD. The paper concludes with an assessment of implementation of the new strategic documents and the provision of some recommendations regarding direct payments and, generally, the implementation of the current mid-term development strategies for agricultural sector and rural areas in RSR and FBiH.

2. Strategies and programming documents of agricultural policy

Federation of BiH did not have strategic documents relating to agricultural sector for the most part of the analyzed period 2010–2015. Namely, before adopting the Mid-term development strategy for agricultural sector in FBiH 2015–2019 (FBiH 2014a), the previously applicable strategic document was related to the period 2006–2010. The new strategic document emphasizes the need to improve the technical and technological level in the sector, more effective utilization of available resources, and improvement of the total standard and quality of life in rural areas. As for European integrations, this document clearly states the need to harmonize the institutional and legal framework and agricultural policy of FBiH with the EU CAP. This means adoption of new, currently missing laws that will take into account the regulations establishing CAP, i.e. be in line with the EU legislation and *acquis communautaire*. In the context of institutional strengthening, this means building a modern system of information and administrative management, and further strengthening or establishing several necessary institutions, which requires considerable administrative, financial and personnel changes. Finally, the future agricultural policy of FBiH should be based on gradual introduction of the measures similar to the EU CAP and non-introduction of the measures contrary to CAP. New strategic document and agricultural policy of FBiH are, for the first time, based upon the principles and elements of a modern public policy, including detailed baseline analysis, definition of objectives, establishment of implementation program and mechanism, clear financial frame (budgetary transfers according to principles of consistency, transparency and traceability) and system of monitoring and evaluation.

The Strategy envisaged the implementation of 37 measures distributed within three pillars of agricultural policy – 10 measures from the first pillar relating to market and direct support to producers, 17 measures aimed at the sector restructuring and rural development, while the remaining 10 measures refer to third pillar of the entity agricultural policy relating to general services for agriculture. The most important differences brought by the new Strategy are those in direct payments. Number of direct payments based on output is reduced while payments per production capacity (per hectare, per livestock unit) are increased. Equalization of support per hectare for most crops is envisaged³, as the first step towards decoupling, as actual measure in EU countries.

As far as direct payments for milk producers are concerned, gradual transition from output based payments (per liter) to payment per head (cow) is envisaged. During the first years of implementation of Strategy, both forms of support should be provided simultaneously and transition to payments per cow should be completed by the end of implementation period. Particularly important is that the new Strategy envisages complete abolishment of budgetary support to poultry sector. In addition, it

³ Exceptions are: maize grain production, production in protected space, production of seed and seedlings and tobacco production.

recognizes importance of rural development policy, especially in the second part of its implementation when significant budgetary support is planned. The new Strategy is also characterized with new approach to general measures in agriculture. Strengthening of knowledge transfer, support to marketing and promotional activities, risk management and provision of food safety are part of the necessary actions intended to strengthen the third pillar of the agricultural policy in this BiH entity.

Besides the budget funds of the FBiH and the cantonal governments, agricultural policy in this entity is also planned for funding from a part of loans from the World Bank and the European Investment Bank, and IPARD funds. The projected agricultural budget funded by the FBiH Government ranges from EUR 34.9 million (2015) to EUR 47.4 million (2019), plus the cantonal support between EUR 7.7 million (2015) and EUR 11.8 million (2019). The projected ratio between direct payments and support to rural development is in favor of direct payments in the first years of the strategy implementation (67%:33%, 2016), and the 2019 projection favors rural development measures (45%:55%).

As for rural development in FBiH, it is interesting to say that this entity still does not have a valid legally based programming document addressing this matter. For the first time developed Rural development program for FBiH 2015–2020 (FBiH 2014b) has still not passed the parliamentary procedure and adoption, although this document should serve for the development of a public investment program for agro-food sector. Rural development programme was created on the principles compatible with IPARD I in the format adopted for IPARD II. There are six measures (areas of activity) offered by the program: competitiveness of agricultural products, measures for agri-environment, climate change mitigation and organic production, diversification of farm activities and entrepreneurship development, LEADER implementation of local development strategies, technical assistance and measures in the field of forestry (FBiH 2014b).

The **Republika Srpska** has timely adopted the new Strategic plan for the development of agriculture and rural areas 2016–2020 (RSR 2015a), before the previous two strategic documents had expired (Development strategy for agriculture 2010–2015; Strategic plan of the development of rural areas 2010–2015). Unlike the previous period, the new strategic document simultaneously covers both areas – agriculture and rural development. The plan contains 6 strategic goals, 16 specific goals, and 52 measures for their implementation.

Significant changes envisaged in direct payments for producers are reflected primarily in a clear shift towards reducing their number. The current direct payments per unit of output are transformed into payments per area and head of livestock⁴, with the exception of milk and wheat. A transitional period until 2018 is scheduled for support to milk production with a reduced premium per litre of milk and the simultaneous introduction of payments per head. The new strategic plan envisages much more significant support to capital investments in plant and livestock production and to strengthening of competitiveness of the agricultural sector compared to the previous one. Novelties within the framework of the second pillar of the agricultural policy in RSR are recognition of the importance of areas with natural constraints (ANC) as well as introduction of additional payments for these areas starting from 2018, when necessary technical and financial preconditions are fulfilled. Strengthening of measures related to general services in agriculture and higher budget allocations for their implementation is also one of the features of the new strategic document. Support to agricultural advisory services, introduction of standards, protection of geographical indications, and organization of

⁴ Only support for ruminants was envisaged in livestock production, but after public discussion and requests from producers, support for sows, poultry, horses and bees were included too.

farmers are just some of the measures belonging to the third pillar of the new agricultural policy in this BiH entity.

The implementation of this strategic document should bring increased extent and productivity of agricultural production, ensured stability of agricultural income, strengthened competitiveness of agricultural sector through increased investments, increased degree of marketing and finalization of agricultural production, sustainable management of natural resources, mitigation of consequences of climate changes, balanced integral rural development, and systematic support to the development of agricultural sector and rural areas. The projected agricultural budget funds from the RSR Government range from EUR 48.4 million (2016) to EUR 58.6 million (2020), and the projected ratio between direct payments and support to rural development is 60%:40%. However, in 2016, the first year of implementing the new strategy in RSR, the old model of financial support is kept, and the transition to the new model is postponed (more details in the fifth section of this paper).

Finally, as for **Brčko District**, the current agricultural policy is being implemented on the basis of a general strategic document that addresses the overall economy of this BiH administrative unit, although a sector development strategy had existed until 2013, but without a legal basis⁵.

Monitoring and evaluation as part of the modern public policy cycle are not developed in BiH. Indeed, the FBiH Parliament receives annual Green report with quite a detailed analysis of agri-food sector and implemented agricultural policy, but mostly with pure presentation of the facts. A more important deficiency of the report is in its insufficient objectivity and critique, without entering a more serious discussion and giving adequate recommendations. The reports are made by the administration of the competent ministry for agriculture without involvement of the academic community or relevant institutions. RSR does not produce annual reports on the situation in agriculture and the effects of implemented measures; instead, the competent ministry produces some information for the Government and the Parliamentary Assembly. The academic community also makes some occasional analyses of the implementation of agricultural and rural policy, mostly for academic purposes⁶.

3. Agricultural policy development in the country

The total budget for agriculture in BiH in the analyzed period 2010–2015 shows a downward trend, which is the consequence of increasingly pronounced economic crisis in the country and also its political instability. The total budget transfers to agri-food sector at the country level were EUR 82.2 million in 2010, while in 2015 this support was almost one-quarter less, amounting to only EUR 63.2 million (Table 1).

In **Federation of BiH**, average annual allocations for the sector support were EUR 38.3 million in the analyzed period 2010–2015. The largest transfer was in 2012 (EUR 43.6 million) and the smallest in 2015 (EUR 35.1 million). Variations year by year in the budget support to the sector, without a clear direction,

⁵ The Strategy of agriculture, food, and rural development in the Brčko District of BiH 2008–2013 was developed; however, it has never been submitted for official adoption.

⁶ One of such examples is the book *Agriculture and rural development in RS by 2020* in which a researching team from the Agricultural Faculty in Banja Luka states that between 3.7% and 6.5% of the entity's budget was allocated for the development of agriculture and rural areas in RS in the period 2007–2014, with the trend of decreasing this share near the end of the analyzed period (Vaško et al., 2015).

indicates inconsistency of the agricultural policy in this entity. Unstable economic environment and political structures are only some of the reasons for that.

Table 1: Budgetary expenditure for agri-food sector and rural areas in Bosnia and Herzegovina, its entities and Brčko District, 2010-2015 (million EUR)

Administrative level/ group of measures	2010	2011	2012	2013	2014	2015
<i>Bosnia and Herzegovina</i>						
Market and direct producer support measures	46.66	60.76	50.06	60.65	55.2	57.25
Structural and rural development measures	30.44	8.20	29.62	6.81	9.20	2.88
General measures related to agriculture	5.09	2.19	3.05	3.59	2.96	3.10
Total BiH	82.18	71.15	82.73	71.05	67.36	63.23
<i>Federation of Bosnia and Herzegovina</i>						
Market and direct producer support measures	28.71	32.36	24.99	35.54	31.05	33.68
Structural and rural development measures	9.82	3.98	18.07	0.87	5.71	1.20
General measures related to agriculture	0.92	0.39	0.51	1.29	0.26	0.21
Total FBiH	39.45	36.74	43.57	37.70	37.02	35.10
<i>The Republika Srpska</i>						
Market and direct producer support measures	15.63	26.36	22.12	22.07	22.43	20.91
Structural and rural development measures	20.34	3.92	11.17	5.56	3.36	1.50
General measures related to agriculture	4.17	1.80	2.54	2.30	2.70	2.88
Total RSR	40.14	32.08	35.83	29.94	28.49	25.30
<i>Brčko District</i>						
Market and direct producer support measures	2.31	2.04	2.94	3.04	1.72	2.65
Structural and rural development measures	0.28	0.29	0.38	0.37	0.12	0.18
General measures related to agriculture	0.00	0.00	0.00	0.00	0.00	0.00
Total BD	2.59	2.33	3.33	3.41	1.84	2.83

Source: Bosnia and Herzegovina APM Database

The first pillar measures, i.e. market measures and direct support to producers, constitute the largest share of the total budget support to the sector and range between EUR 25 million (2013) and EUR 35 million (2014). The relative share of this group of measures in some years accounted for more than 90% of total transfers to agriculture (94% in 2013; 96% in 2015). The absolute amount and the relative share of budget transfers to the second pillar of agricultural policy in FBiH, i.e. structural and rural development measures clearly indicate the second-grade position of these measures and the lack of their understanding in the context of agricultural development. In the analyzed period 2010–2015, the support for this group of measures broadly varied from EUR 18.1 million (2012) to only EUR 0.9 million (2013), i.e. its share ranged between 41% (2012) and 2% (2013). Generally speaking, rural development support in this BiH entity was decreasing in the last analyzed years, mainly as the result of the current economic crisis. Finally, the third pillar and general measures related to agriculture constitute the smallest share of the total sector support, only 2-5%, i.e. with the total allocations between EUR 0.2 million (2015) and EUR 1.3 million (2013). Very modest allocations for this pillar are one of the reasons for undeveloped extension services, knowledge transfer, and generally innovations and necessary technological process in FBiH.

A negative trend in the budget allocations for agricultural sector and rural areas is clearly observed in the **Republika Srpska**. The total budget transfers to agri-food sector were reduced from EUR 40.1 million in 2010 by almost one-third, amounting to only EUR 25.3 million in 2015. The economic and political crisis in this entity, a slow and insufficient growth of GDP, a chronic lack of funds for any serious development activities, and the very lack of understanding of the sector importance are probably some of the reasons for the identified trends. Except in 2010, the measures of market and direct support to producers dominated in the agricultural budget composition, with absolute amounts between EUR 15.6

million (2010) and EUR 26.4 million (2011) and relative share between 39% (2010) and 83% (2015)⁷. Regarding the rural development measures the allocations were considerable until 2012 (EUR 20.3 million in 2010) and had a large share in the total budget support (51% in 2010; 31% in 2012) but then due to the economic crisis and the lack of funds the allocations for structural and rural development measures have been decreasing to reach only EUR 1.5 million in 2015, i.e. only 6% of the total budget transfers. It is important to note that the support to investments in agricultural holdings and infrastructural projects dominate within this agricultural policy pillar in RSR, but there is no support to the environment at all. The average annual allocations for general measures related to agriculture in RSR 2010–2015 amounted to EUR 2.7 million and are considerably higher than in FBiH. The allocations for strengthening the knowledge transfer and the modernization of sector services ranged between EUR 1.8 million (2011) and EUR 4.2 million (2010) or between 6% (2011) and 11% (2015) of the total budget transfers to agri-food sector.

Brčko District is also characterized by an unstable and inconsistent agricultural policy in the analyzed period 2010–2015. The budget support to agricultural sector varied year by year. The greatest sector support was recorded in 2013 (EUR 3.4 million), and the lowest already in 2014 (EUR 1.8 million). The most important measures fall into the first pillar of agricultural policy, i.e. direct payments to producers. This administrative unit of BiH has also not recognized the importance of rural development, so the relevant annual allocations do not exceed EUR 0.4 million, i.e. only 6-12% of the total budget support. BD does not support general services in agriculture.

4. Agricultural direct payments

The direct support measures represent the most important form of the budget support to agricultural producers in BiH. They are composed of direct payments based on output, the payments based on area or animal, and the payments for variable agricultural inputs. Giving that creation and implementation of agricultural policy is in the domain of the government of entities and Brčko District, each of these administrative units has own direct payment schemes. In 2015, there were in FBiH⁸ 23 schemes, 19 in RSR, and 20 in BD. Compared to 2010, the total number of direct payment schemes increased on all analyzed levels of government in 2015.

Table 2: Number of implemented direct farm support schemes by type of payment in Bosnia and Herzegovina entities and Brčko District, 2010 and 2015

Type of payment	Federation of BiH		The Republika Srpska		Brčko District	
	2010	2015	2010	2015	2010	2015
Output payments	9	2	7	7	0	0
Area payments	3	12	1	1	6	8
Payments per animal	8	8	9	10	10	11
Input subsidies	0	1	0	1	0	1
Direct payments (total)	21	23	17	19	16	20

Source: Bosnia and Herzegovina APM Database

⁷ Calculating the extent of support to agricultural producers in RSR 2000–2013, Mrdalj (2015) established that the average aggregate budget support to agricultural producers was EUR 19.3 mil. or (only) 19.6 EUR/ha of agricultural land. The analysis revealed a high share of direct support measures, with the dominance of milk with up to 3/4 of direct payments for individual products.

⁸ This does not include cantonal level, where some of the 10 cantons implement direct payment schemes.

FBiH experienced the greatest number of changes in direct payments schemes in the analyzed period 2010–2015 compared with RSR and BD. A considerable number (7) of output-based payment schemes were replaced with payments per area, so practically the whole plant production in this entity is supported per hectare. There are 8 schemes of payments based on animal, and in 2015 one scheme of payments for variable inputs. Unlike FBiH, RSR still has a considerable number (7) of direct payment schemes based on output, and somewhat more payments schemes based on animal (10 schemes in 2015). Besides, RSR also implement one area based payment and one input subsidy scheme. In 2015, out of the total 20 schemes of direct support to producers, BD had 8 area payments, 11 payments based on animal, and 1 input subsidy.

More details about the implemented direct payments schemes in BiH entities and BD in 2015, with the description of requirements (limits) to obtain support and individual support amounts per unit for every scheme (product, group of products) are presented in Table 3.

In **FBiH**, except support to milk production and planting material, all direct support to producers is based on area or head of livestock. Direct support in both, crop and livestock sector is linked with individual commodity or livestock category. To qualify for support, registration of farm (both plant and animal production) in official entity register is compulsory. Eligibility for support relating to crop production is conditioned with the minimum area under each crop and mostly also with a minimum quantities sold per hectare. The upper limit of support is defined by maximum eligible area per beneficiary, which varies depending on the commodity supported.

Direct support to livestock production includes a relatively large number of livestock species and categories, including pigs and poultry, which are sectors that CAP does not support. With the exception of milk production, the eligibility conditions for livestock related payments are regulated by the minimum and maximum number of eligible animals per beneficiary. Support in both plant and animal production per unit is quite high and it is one of the highest given to agricultural producers in the region (Volk et al. 2016).

In **RSR**, except for wheat, direct support to plant production is based on the output (quantity of sold products). Eligibility criteria are registration of farm and minimum sown area. For all supported crop commodities, except for wheat, the amount of direct payment per unit depends on the market price and it varies within the range from 15% to 20% of it. Unlike in FBiH, upper limit of budgetary support in RSR is not defined by sown area but by absolute amount per beneficiary.

Except milk, all other livestock commodities are supported per head of animal. The requirements for receiving incentives are set in a way that the minimum is determined by the number of animals and the maximum by absolute amount per beneficiary. For this type of support, the rulebook on incentives only set out the total envelope for individual payment scheme, while the actual payment per animal is established later based on the approved number of applications (the number of eligible animals). A very important scheme of direct support to producers in RSR is compensation for diesel fuel.

Table 3: Direct payment schemes implemented in Bosnia and Herzegovina entities and Brčko District in 2015

Direct payment scheme	Product	Federation of Bosnia and Herzegovina		The Republika Srpska		Brčko District	
		Limits	Unit value	Limits	Unit value	Limits	Unit value
Output payments	Milk	Min 500 l/month (300 l sheep and goat milk)	0.153 €/l	No limits	0.153 €/l		
	Wheat (spring)			Max 6 t/ha	0.026 €/kg		
	Rape			Min 0.5 ha; max 5,000 €/beneficiary	15%		
	Tobacco			Max 12,500 €/beneficiary	20%		
	Medical plants			Min 0.3 ha; max 5,000 €/beneficiary	15%		
	Seeds			Registered producers	15; 50%		
	Seedlings			Max no (220,000-grape to 1 mill.- berry fruit)	0.18-0.23 €/p		
Area payments	Wheat	Min 1 ha; min 3.5 t/ha; paid for max 200 ha	256 €/ha	Autumn sowing; min 1.5 ha; min 4 t/ha	128 €/ha	Min 1.5 ha	153 €/ha
	Maize	Min 2 ha; paid for max 400 ha	153 €/ha			Min 1.5 ha	128 €/ha
	Barley	Min 1 ha; min 3 t/ha; paid for max 100 ha	179 €/ha			Min 1.5 ha	128 €/ha
	Oilseeds	Min 1 ha; min 2 t/ha; paid for max 250 ha	205 €/ha			Min 1.5 ha	205 €/ha
	Fodder sown in autumn					Min 1.5 ha	250 €/ha
	Seed (cereals, oilseeds)	Min t/ha; max ha	409 €/ha				
	Seed potato	Paid for max 50 ha	665; 869 €/ha				
	Tobacco	Min 0.5 ha; paid for max 50 ha	767 €/ha			Min 1.5 ha	511 €/ha
	Medical plants	Min 1 ha (for market); paid for max 50 ha	205 €/ha				
	Vegetables	Min 0.5 ha; min t/ha; paid for max 20 ha	1,023 €/ha			Min 0.3 ha (0.02 ha greenhouse)	358 – 7.669 €/ha
	Fruits	Min 2 ha; min 5 t/ha; paid for max 250 ha	460 €/ha			Min 1 ha (0.2 ha soft fruit)	256-409 €/ha
	Grapes	Min 1 ha; min 8 t/ha; paid for max 250 ha	460 €/ha				
	Olives	Min 1 ha; min 2 t/ha; paid for max 250 ha	460 €/ha				
Payments per animal	Dairy cows			Min 5; max 15,000 €/beneficiary	118 €/head	Min 2; min 2,000 l/cow	205 €/head
	System cow-calf	Min 15; paid for max 1,000	230 €/head	No limits; max 12,500 €/beneficiary	102 €/head	No limits	102 €/head
	Breeding heifers	Min 2; paid for max 20	230 €/head	Min 4; max 50,000 €/beneficiary	61 €/head	Min 2	153 €/head
	Fattening cattle	Min 3; paid for max 1,000	230 €/head	Min 100 (50 goats); max 12,500 €/beneficiary	4.60 €/head	Min 5	153 €/head
	Breeding sheep and goats	Min 50 sheep (25 goats); paid for max 750	18 €/head	Min 20; max 12,500 €/beneficiary	20 €/head	Min 20 sheep (10 goats)	26 €/head
	Fattening sheep and goats			Min 60; max 50,000 €/beneficiary	7.70 €/head	Min 20 sheep (10 goats)	15 €/head
	Breeding sows and boars	Min 5; paid for max 150	77 €/head	Min 2,000; max 25,000 €/beneficiary	0.36 €/beak	Min 5	51 €/head
	Fattening pig	Min 10; paid for max 8,700	31 €/head	Min 5,000/turnus; max 50,000 €/beneficiary	0.03 €/beak	Min 5,000	0.10 €/beak
	Breeding poultry	Min 10,000; paid for max 50,000	0.61 €/head	Pure breed	205 €/head		
	Laying hens			Min 50; max 2,500 €/beneficiary	2.30 €/hive	Min 30	10.23 €/hive
	Broilers						
	Breeding fillies						
	Beehives	Min 20 and 10 kg honey/hive; paid for max 550 kg	7.67 €/hive				
Input subsidies	Insurance	Paid as % of the insurance premium		Max 50%		Paid as % of the insurance premium	
	Fuel			Max 100 l/ha	0.31 €/l	Max 70%	

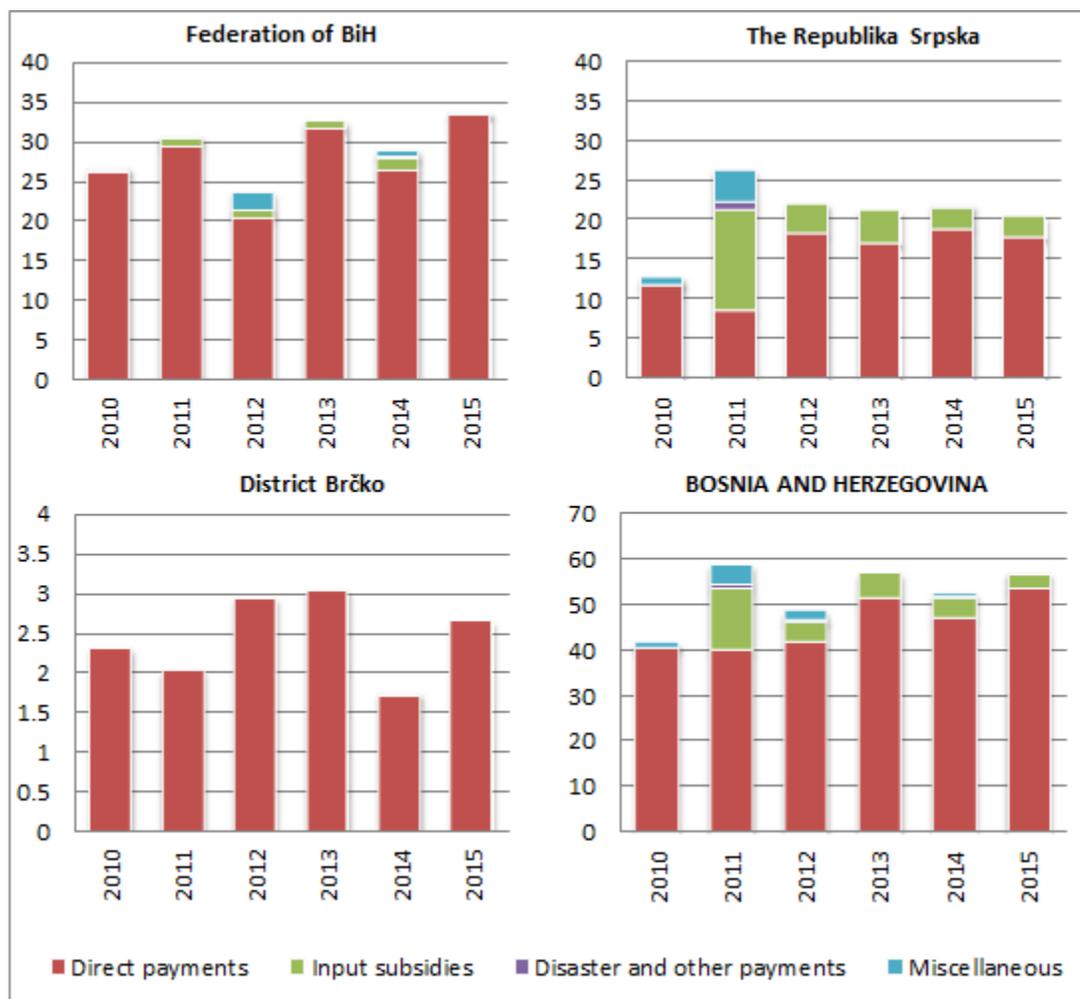
Source: Official journal of Federation of BiH no. 54/15, Official journal of the Republika Srpska no. 26/15, 81/15, 102/15, The Rulebook on manner and conditions for the incentives in agriculture in Brčko District BiH for 2015

Finally, **BD** had a quite simplified direct payment scheme. All types of plant and livestock support schemes have minimum areas/heads as general requirement with set amounts of direct payment per unit (ha/head). There is no upper limit for support.

Direct support to producers in both BiH entities and BD in the period 2010–2015 proved to be quite unstable and inconsistent (Figure 1).

Total direct support to producers shows slightly increasing trend in FBiH, although with variations year by year and ranges between EUR 23.6 million (2012) and EUR 33.4 million (2015). Direct payments are in fact the only form of direct support to producers on the entity level, while quite moderate support to variable inputs comes from the cantonal level of government.

Figure 1: Overview of direct producer support in Bosnia and Herzegovina, its entities and Brčko District, 2010-2015 (million EUR)



Source: Bosnia and Herzegovina APM Database

From 2001 to 2015 significantly negative trend of budgetary funds for direct support to producers was observed in RSR; it decreased from EUR 26.4 million in 2011 to EUR 20.5 million in 2015. Unlike FBiH, besides direct payments, support to variable inputs is also important. In some years (2011), subsidization of variable inputs amounted to almost one-half of the total direct support, but in the recent analyzed years it had a lower share of 12-20%.

Considerable instability in the amount of the only type of direct support to agricultural producers – direct payments is also present in BD 2010–2015.

Figure 2 shows a notably different structure of direct payments to producers in BiH by entity and BD. Output-based payments dominate in RSR with 85% of the total direct payments on average. The main reason for such structure of direct payments is high budgetary allocation to milk producers who are supported on output basis. Unlike in RSR, more balanced distribution of direct payments based on output and on area or livestock number was observed in FBiH, but slight trend of increased participation of direct payments based on output is noticed in this BiH entity too.

Figure 2: Breakdown of direct payments to producers in Bosnia and Herzegovina, its entities and Brčko District, 2010-2015



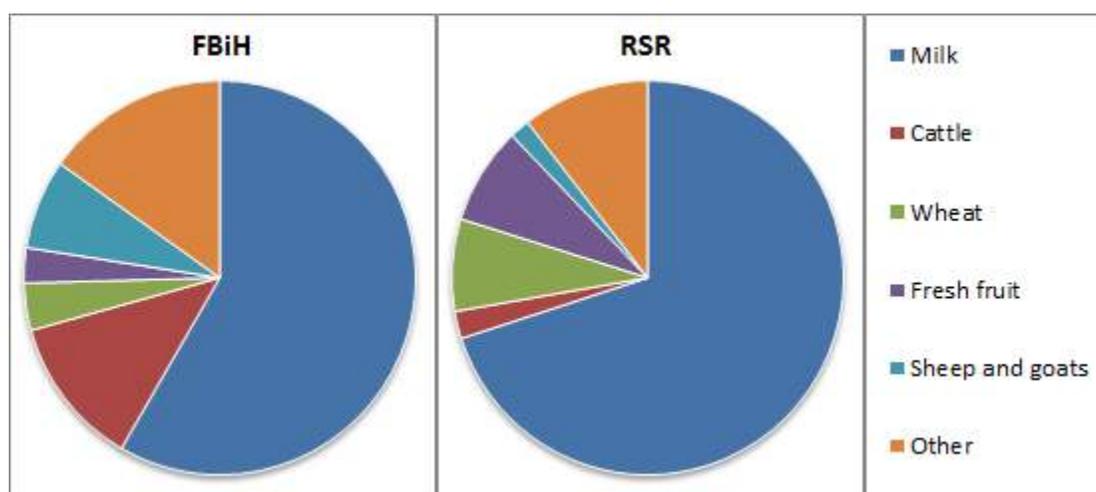
Source: Bosnia and Herzegovina APM Database

FBiH changed the system of implementing direct support in 2011, so almost all plant production is now supported per area instead per kilogram. Still, this change has not affected much the structure of direct payments; what's more, it is noticeable that output-based payments prevailed in 2014 and 2015. Obviously, large payments to milk producers (based on output) determine the structure of direct payments in FBiH too.

As for BD, this BiH administrative unit made a transition to direct payments based on area/animal for all supported commodities in 2009.

Milk production is by far the most supported sector in BiH (Figure 3). Along with tobacco, milk production has been receiving continuous support since 1997. The total budget transfers for milk production amounted to EUR 12.5 million or 70% of the total direct payments in RSR in 2015. FBiH had even higher allocations for milk (EUR 19.4 million), but somewhat smaller relative share of the total direct payments, i.e. 58% in 2015. Other sectors that can be classified as highest supported in RSR in 2015 were fruits (8%) and wheat (8%). Besides milk, the most supported sectors in FBiH in 2015 were cattle (12%), sheep and goats (7%), wheat (4%) and fruits (3%). Support to individual commodities in BD is much more equally distributed, with cattle (17%), maize (16%), pigs (15%), milk (11%), fruits (9%) and sheep and goats (7%) as the ones standing out.

Figure 3: Breakdown of direct payments by main commodities in Federation of Bosnia and Herzegovina and Republika Srpska, 2015 (%)



Source: Bosnia and Herzegovina APM Database

The existing structure of direct payments in BiH with a considerable share of output-based payments in the context of European integrations and harmonization with the EU CAP shows a still present gap and insufficient harmonization. This problem is recognized in the new strategic frameworks created in both BiH entities, with the proposal that almost all direct payments should be based on area/animal, so it only remains to be implemented as such.

It should be emphasized that direct payments are a very sensitive issue and often a reason for dissatisfaction and social revolt of agricultural producers in all BiH administrative units. Besides, one of the major problems relating to direct payments in the BiH entities is their administration and control. Although both BiH entities have registers of agricultural holdings and animal identification systems, they are still far away from the EU standards and have to be improved. Currently the greatest problem for the correct and fair implementation of direct payments is the lack of an adequate supervision in the identification of agricultural land (LPIS system), which creates a possibility of misuse and ineffective solutions⁹.

⁹ In FBiH, a certain number of administrative staff, including the minister for agriculture himself, were under investigation and then accused of misuse of the funds for direct payments and rural development measures.

5. Assessment of implementation of agricultural policy documents

The new mid-term strategy for agricultural sector development is in force in FBiH for the second year already, so its implementation can be initially evaluated. The adopted strategic framework for action has been for the first time based on the principles and elements of modern public policies (analysis of the situation, goals, action mechanisms, implementation program, financial framework, monitoring and evaluation). Direct payment schemes are clearly set to project a single way of payments per area for all crops, and in line with the EU CAP, some of the measures, such as support to poultry production, are to be left out. A realistic financial framework was set, and the action plan established numerous activities toward strengthening of institutional and legal framework as a requirement to get closer to CAP.

Unfortunately, instead of the proposed strategic and programmed solutions, the earlier practice has continued. This means the continuation of high allocations for direct payments without development orientation (support to rural development), and without major changes in funding general services related to agriculture. There were no allocations for rural development at all in 2015¹⁰, and the section related to general services mostly related to co-funding of social and health insurance of agricultural producers, which was more a way of scoring political points than the real need for such measure. Although the totally planned financial envelope (EUR 33.6 million) has not differed from the implemented one (EUR 33.3 million), its structure and the general approach to the adopted strategic document are worrying. For example, instead of the proposed 9 direct payments schemes, there were 23 in 2015; the practice of support to milk production based on amount of milk sold to intermediate buyers¹¹ has continued, and there is no single support per hectare for all plant production. No progress/changes have been made in other necessary activities in the context of legislative and institutional harmonization with the EU CAP. FBiH has not started establishing the required Integrated Administration and Control System (IACS) and other administrative tools required for adequate implementation and control of direct payments as the most important budget transfers to agricultural sector.

In RSR, the current Strategic plan for the development of agriculture and rural areas envisaged certain modifications of the way of allocating financial incentives. The greatest change is transition from the model of paying incentives based on the quantity of produced or sold products, or inputs for agricultural production, to the model of single payments per hectare of cultivated land or per animal. The allocation of incentives is elaborated by annual financial envelope and funding source. However, the planned adoption of the law on incentives in agriculture and rural development, through which the new strategic determinations regarding the allocation of financial incentives should have been stable at least for a mid-term period, has been postponed. The RSR Government concluded that the draft law on incentives should not be submitted to the parliamentary procedure until the preconditions for its efficient implementation are met (RSR 2015b). Before all, this pertains to the establishment of LPIS and updated livestock register. Besides these technical preconditions, the obstacles for transition to the new direct payment schemes are also in the mentality and unpreparedness for changes both of agricultural producers and the civil servants. The "old" 2002 law stimulating the development of agriculture and rural areas is still effective in RSR. The law provides for minimum allocations for the development of agriculture and rural areas of 6% of the entity budget, which has never been reached with the exception

¹⁰ Budget allocations for rural development measures were not planned at all in 2015 because of a considerable debt of the FBiH Government to agricultural producers from previous years.

¹¹ Gradual transition to the proposed model of supporting milk by a combination of payment per liter (EUR 0.14) and payment per head (EUR 50) is envisaged for 2016.

of the year 2010. While planning the agricultural budget, the intention was to distribute available support funds to all three priority directions (groups of measures), but it has not been implemented year by year because of yielding to some producer groups or unplanned responses (unplanned support) to natural disasters or market disruptions that are partially funded from the incentives funds. The Strategic plan for the development of agriculture and rural areas 2016–2020 (RSR 2015a) envisages allocation of incentive funds in 2016 in the amount of EUR 48.3 million (6% of the entity budget), but in fact only EUR 30 million has been reserved in annual plan. Thus it is not possible to fund and implement all planned measures, and the lack of funds mostly reflects on reduced allocations for support to investments. Besides a smaller absolute amount for incentives in agriculture, the second problem is dynamics of payments; the payments are several months late in relation to the created obligations.

The main conclusion that can be provided here is the continuation of political pragmatism and unpreparedness of the current entity governments to implement major changes and actually handle the challenges arising from the European integrations.

6. Conclusions and policy recommendations

Because of the increasing economic and political crisis, agricultural policy in both BiH entities and BD shows instability, insufficient consistency, and pronounced political pragmatism. The total budget support varies year by year, and because of the lack of clear funding through programming documents, the determination of annual budget transfers for agri-food sector depends on the governing political structures and lobbying influence of some producer (interest) groups.

Average annual allocations for the sector support in FBiH were EUR 38.3 million in the analyzed period 2010–2015 and shows slightly decreasing trend. The same period in RSR shows even more pronounced negative trend; the total budget transfers to agri-food sector were reduced from EUR 40.1 million in 2010 by almost one-third, amounting to only EUR 25.3 million in 2015. The dominant place in the total budget allocations belonged to direct payments whose extent and structure depend on the entity (including BD). Output-based payments dominated in RSR (85% of direct payments on average), targeting different crops and milk. Other livestock production was included in direct payments schemes per animal. In addition to direct payments, an important form of direct support to producers in RSR was support to variable inputs (fuel). The most supported product was milk, with 70% of all direct payments in 2015. FBiH has somewhat more equal ratio of direct payments based on output and payments based on area/animal (50%:50%).

The identified structure of direct payments in BiH and its entities and a considerable share of output-based direct payments are not in favor of European integrations and harmonization with the EU CAP. This problem has been recognized in the new strategic framework of both BiH entities, which propose changing the direct payment schemes in order to favor payments based on area/animal. For RSR it means transition to payments per hectare for almost all crops (except for wheat) and gradual transition to payments per cow in milk production. In FBiH, changes refer to equal payment per area for all crops, and, like in RSR, gradual transition to payment per cow for milk producers.

Both FBiH and RSR have adopted new strategic frameworks for action based on the principles and elements of modern public policies (analysis of the situation, goals, action mechanisms, implementation program, financial framework, monitoring and evaluation). The adopted documents and their development-oriented concept are based on the clearly defined challenges from external and internal environment, and identified sector strengths and weaknesses. Both documents have undoubtedly emphasized the determination for European integrations and have accepted gradual and rational adaptation to CAP through the proposed measures.

Unfortunately, the first years of implementation of the adopted strategic documents have shown that the governing political structures in both BiH entities have not shown enough courage and readiness for major reforms, and instead of the proposed strategic and program solutions, the practice of political pragmatism has continued. A paradox is the fact that those who commissioned the strategic documents required the authors to take a clear European approach and give a detailed description of the necessary activities and measures in the context of harmonization with the EU CAP – but when it comes to the implementation, the necessary reform fails at least for now.

Regardless of this, the fact remains that the BiH road toward the EU has no alternative. The European integrations have remained the main goal, and harmonization with the EU CAP is the greatest challenge facing the decision makers in the BiH entities. According to Erjavec et al. (2014), the experience from previous enlargements showed that accession countries were not completely ready for CAP programs, which means they were not able to maximize the benefit from the considerable available funds. Newer similar experiences from the Republic of Croatia support this thesis. Therefore, this statement may encourage the local politicians to begin with the necessary agricultural policy reforms more decisively and start to implement otherwise quite correct and adopted strategic documents more consistently.

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