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Institutional and Strategic Dilemmas of Agricultural Policy in Bosnia and Herzegovina

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Abstract

Complexity of the political system in Bosnia and Herzegovina reflects to entire economy of the country, especially to sensitive sectors as agriculture. Current agricultural BIH policy managed on entity and Brcko District level faces numerous challenges and dilemmas. Apart from insufficiently clear commitment to CAP EU convergence, major dilemmas are those related to further shaping of institutional-regulatory framework as well as selection of strategic course of sector development. Having in mind lack of common BIH agricultural policy and sector institutional weaknesses, our intention is to answer following two questions: (i) does it reflect to direct support of producers and (ii) are BIH farmers in unequal and uncompetitive position? In order to analyze actual situation it was used APM tool (Agri-Policy Measures) developed within FAO-SWG project. Based on outputs of this analysis we made recommendations and suggestions on the way of proceeding in such circumstances.

Key words: Agricultural policy, Bosnia and Herzegovina, Budgetary support, Common Agricultural Policy, EU

Introduction

Bosnia and Herzegovina (BIH), according to the Dayton Agreement from December 1995, is a state consisted of two political entities: the Federation of BIH (FBIH) and the Republika Srpska (RS). Since year 2000, District Brcko (DB) has been its third component. On the state level, BIH has only got common foreign affairs policy, institutions of monetary system, customs, economic relations with other countries and foreign trade. The entities exclusively deal with their interior affairs, economics and social policy as well as with tax and custom administration. This kind of political frame has significant impact on overall economy of the country, especially, it reflects on the most sensible sectors like the agro-food industry (Bajramovic et al., 2008, ALDI, 2005).

Agricultural policy in BIH is carried out at several distinct levels because of the political system complexity. Without a single national ministry that would cover the field of agriculture, agricultural policy management is partly handled by the Division for Agriculture, Food and Rural Development within the Ministry of Foreign Trade and Economic Affairs. The entity level of creating and implementing agricultural policies is composed of separate ministries of agriculture, water management and forestry in FBIH and RS and they, along with the Department for Agriculture within the Government of DB, are the most important institutions competent for agricultural policy in BIH. In addition to the entity level, FBIH has also the cantonal level (10 cantonal ministries/departments) where the management of agricultural policy considerably determines the overall position of agricultural producers and the sector as a whole. The budgetary transfer amounts, agricultural policy measures, rural development policy and criteria to support producers are only part of the policy that is under the exclusive competency of the entity/cantonal ministries of agriculture, i.e., the Department for Agriculture within the Government of DB. In fact, agricultural policy in BIH does not exist; it is rather an aggregation of policies by entities and cantons without much coordination among them. Such policy is unstable, very often depends on political orientation and more determined to serve to a "higher interest" than strategic goals. Incomparability of the policy is

not a problem for itself but a fact that testifies about the populism and lack of strategy and vision in the politics (Bajramovic et al., 2010a).

There are a number of strategic and institutional dilemmas in front of BIH. First, agricultural policy on the entity level is still insufficiently committed to EU integrations and CAP EU approaching. On the other side, BIH is a potential candidate for EU membership and it should progressively prepare for EU accession. Until membership BIH should be prepared for administrative complicated, in measurements complex agricultural policy, because after accession takeover of protectionism support model will proceed. Such model is by volume of resources as well as by measures content quite different related to present policies (Volk, 2004). According to Erjavec et al. (2010) integration process in Europe is not completed until it comprises Southeast Europe. In other words, accession is agreed already, it is only question of dynamics and intensity of the process. Currently, within economic recession, process is more dependent of Western Balkans countries then of EU, where BIH is particularly emphasized because of multiannual stagnation of integration processes.

Based on previous experiences of EU integrations some conclusions useful for BIH can be made. There a lot of critics on CAP (Atkin, 1993, Ritson and Harvey, 1997, Tracy, 1997, Sapir et al., 2003) in the literature, but BIH, if wants EU membership, should incorporate itself into CAP mechanism (Erjavec, 2004, Harrop, 2000). So, the main principle of the processes within agriculture (which should get an important role, generally) should be gradual and rational adoption of CAP including all rights and responsibilities. It implies changes in institutional structures, so responsibility for implementation of international agreements could be clearly defined. That's why the agricultural sector can be obstruction for BIH accession. In order to overcome that threat and to fasten accession process, BIH should establish state level ministry containing all necessary structures. But, it doesn't mean that the problem is decentralized and regionalized BIH. On the contrary, coordinated agricultural policy and policy of rural development can be efficiently implemented from entity level (Erjavec et al., 2010). Because of complex political system and lack of common BIH agricultural policy our intention in this paper is to answer following two questions - dilemmas:

- 1) Does it reflect to direct support of producers?
- 2) Are BIH farmers, because of such agricultural policy, in unequal and uncompetitive position (which is the one of the basic postulates of modern agricultural policy)?

Materials and methods

For the analysis of agricultural policy of BIH (state and entity level) it was used a methodological tool called the APM (Agri-Policy Measures), developed by Rednak and Volk (2010). A uniform classification of agricultural budgetary support was created using the current EU concept based on the policy pillars as a basic starting point, combined with the OECD PSE classification. The EU program aspect (pillars, axes) has been applied at higher levels of aggregation, whilst setting forth the OECD PSE criteria for the formation of groups or subgroups under individual pillars and particularly for defining the lowest level of classification (basic headings). Thus, the APM allows for a rough analysis of budgetary transfers to agriculture also according to the OECD PSE classification and vice-versa. Total budgetary support to agriculture is divided in three main sections - pillars. The first pillar (Market and direct producer support measures) of APM includes only those measures which contribute to higher incomes of agricultural producers - either through market measures or in

the form of direct supports (on the input or output sides) and are not related to specific restrictions regarding the choice of production techniques and farm location. The second APM pillar (Structural and rural development measures) is structured in three main axes (improving the competitiveness of the agricultural sector , improving the environment and countryside and supporting rural economy and population) which more or less follow the structure of the 2007-2013 EU rural development policy system and are appropriate also for the 2014-2020 EU RD policy frame. Third APM pillar covers measures which are aimed at supporting public services related to: agriculture such as research, development, advisory and expert services, food safety and quality control (veterinary and phyto-sanitary measures, quality policy, etc.), operational technical assistance and other similar measures provided to agriculture collectively (Erjavec et al., 2014).

Since both legal and institutional frameworks clearly define that agricultural policy measures and support to rural development are mainly in the competence of the entities/district (in case of FBiH, the cantons as well), the policy analysis in this paper is oriented toward the analysis of individual government policy levels.

Using APM tool the analysis included:

- Budgetary expenditures to agriculture and direct producers' support (total, per ha, per capita, per employee in sector A (agriculture) and as share in Gross Value Added (GVA) of sector A, and
- The structure of total budgetary expenditures and direct producers' support.

The analysis covers the 2002-2012 period. Source of data for all figures in the paper was own calculations based on available public data and internal documents of entity's (DB) ministries of agriculture and cantonal ministries (departments) of agriculture of FBiH compiled in APM database created through the FAO-SWG project (2014).

Results and discussion

The total agricultural budget in BIH in the observed period 2002–2012 continuously increased, with some minor fluctuations in the years of the global economic crisis and its consequences on BIH. In 2002, the total budgetary transfers to agri-food sector at the country level amounted to EUR 11.12 mil., and increased almost eight times in 2012, reaching EUR 82.73 mil. The main characteristic of the observed period is the fact that support funds for agricultural sector have been considerably increasing since 2007 as a result of increased budgetary revenues and introduced value added tax. Same trends are for entity level budgeting. FBiH agricultural budget showed constant growth until 2008 when reached EUR 42.35 mil. After that until the end of the period analyzed, related to economic crisis mentioned, it stagnated with minor or higher variations. RS had constant growth of budget until 2009 when reached higher value of EUR 41.22 mil, and it tends to decrease afterwards. In 2011 budget in RS had been collapsed, it reduced for more of 1/4 amount of maximum from 2009.

Similar trends can be seen both at the entity and state level even when observing the most important part of total agricultural budget named as direct producer support (Figure 1).

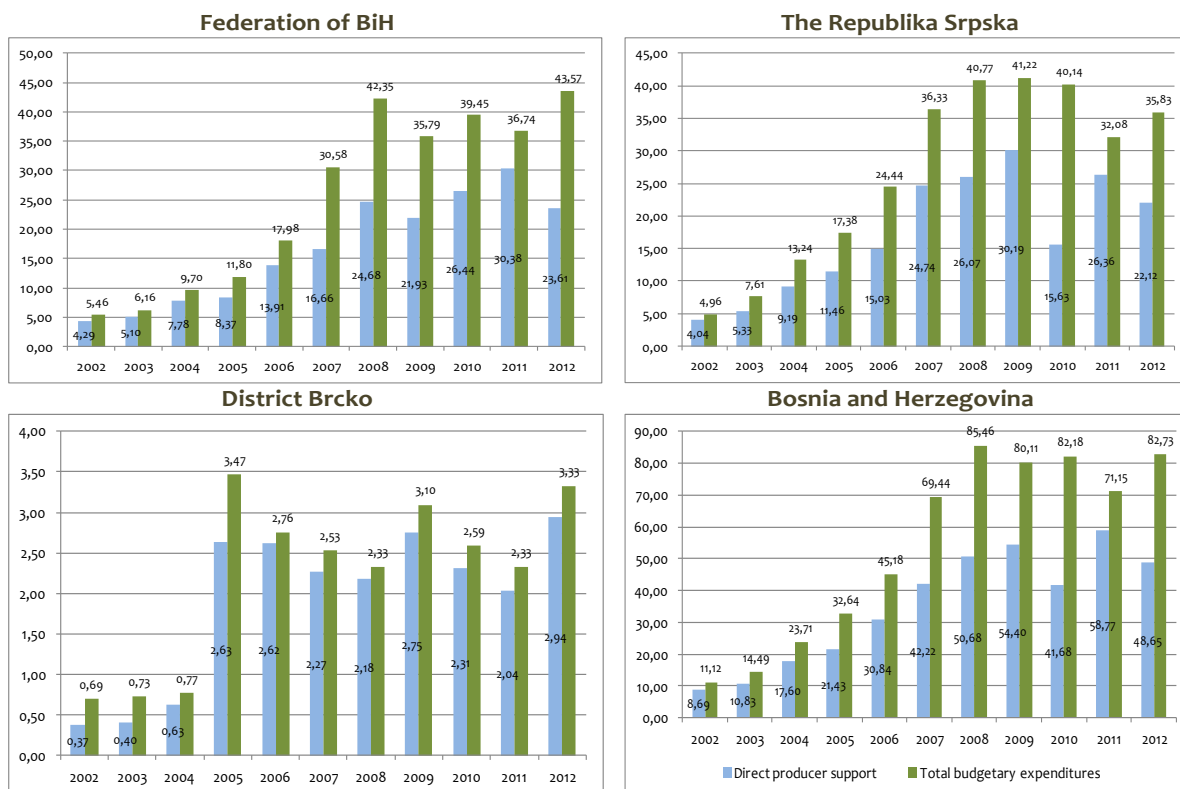


Figure 1: Budgetary expenditures for agri-food sector in Bosnia and Herzegovina and its entities and District Brcko, Total and direct producer support, Period 2002-2012, In mill. EUR

Agricultural policy of BIH and its entities (including DB) using APM tool is composed of three pillars, i.e., groups of measures, as follows: Pillar I – Market and direct producer support measures, Pillar II – Structural and rural development measures and Pillar III – General measures related to agriculture (Figure 2). In FBIH Pillar I policy measures (market and direct producer support measures) dominate in the structure of budgetary transfers and account for average 70% of the total agri-food budget in the observed 11-year period, making up even nine-tenth of the entire support in some years, as was the case in 2011. The second group of measures by importance are structural and rural development measures, while Pillar III and its general measures related to agriculture form the smallest part of the total sector support, and that is one of the reasons for the farmers' poor knowledge of science, a low level of sector promotion and marketing, and generally insufficient institutional capacity building in the sector (Bajramović et al., 2014). Similar positive tendencies of increase in agricultural budget were also present in RS. Except in 2010, the sector support mainly covered Pillar I market and direct producer support measures, the share of which was 62%-82%. Structural and rural development measures came second in the total agricultural policy in this BIH entity, and unlike FBIH, RS paid much more attention to Pillar III policy and general sector support, which had regularly accounted for more than 10% of the total budgetary support until 2011. This is probably one of the reasons why this BIH entity has better institutional capacities in this sector, including a very important field of knowledge transfer and the role of agricultural advising in it.

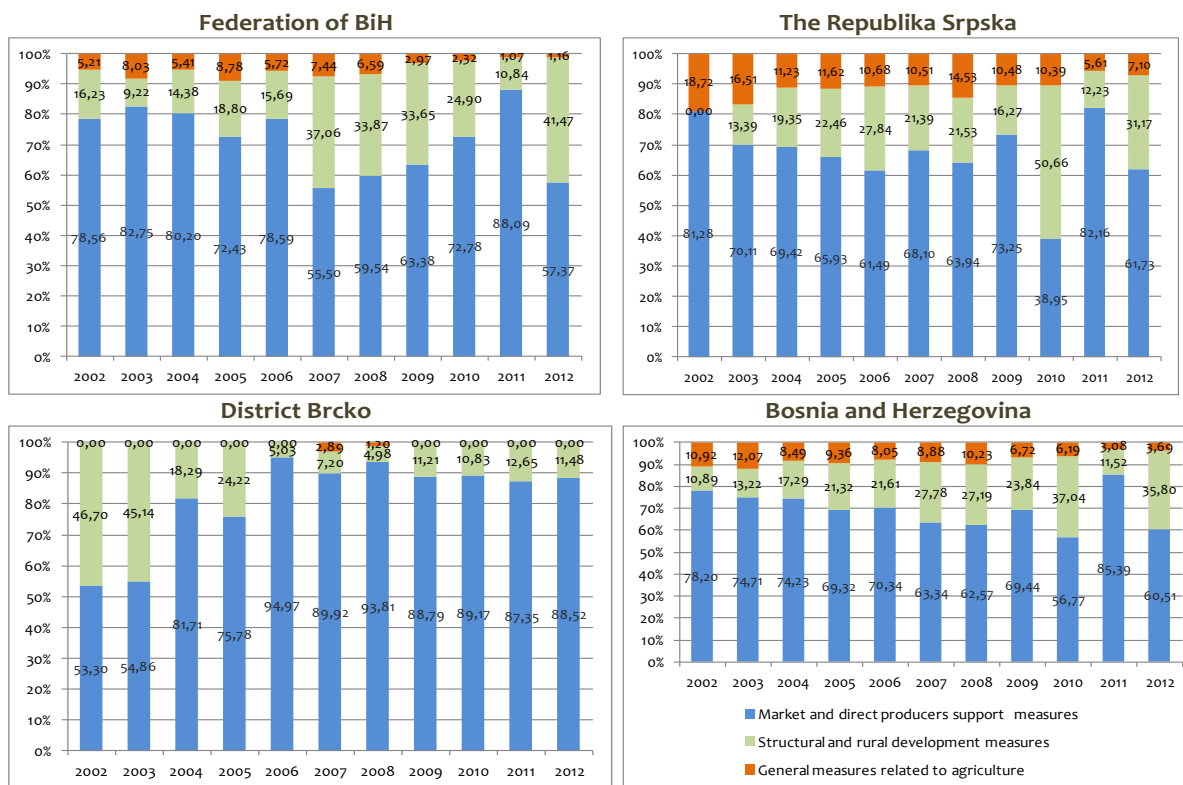


Figure 2: The structure of total budgetary expenditures in Bosnia and Herzegovina and its entities and District Brcko, Period 2002-2012, In %

When we talk about direct producer support measures (Figure 3), the structure of share differs, depending on the entity. So, in FBiH direct support to producers mostly pertained to direct payments and was the most popular support measure. Unlike FBiH, support to variable inputs in RS has a significant share in direct support to producers, in addition to direct payments. This was particularly evident during 2009-2012 with the exception of 2010, when the share was one-third (2009) to one-half (2011) of the total funds allocated for Pillar I policy in this BiH entity. Figure 3 evidently shows that direct payments based on output dominate over the payments based on current area/animal in the structure of direct payments to producers at the BiH level over the entire observed period. In this, there is a clearly different entity approach to this group of policy measures. Direct payments based on output in RS had been the only direct payment to producers until 2005, when the payments based on current area/animal were introduced. The latter payments had a considerable share in this group of policy measures including the year 2008, but during 2009-2012 direct payments based on output became topical again, accounting for average 85% of all direct payments. Most of these payments were intended for milk producers who were mostly paid on the basis of produced amounts or amounts bought from them, and among other production types, support to the producers of arable crops, fruit and vegetables should be mentioned. Although payments based on output still have a large share in FBiH, it is encouraging that the payments based on current area/animal increase its share because it is a measure toward the harmonization with EU CAP and WTO integration processes. The support based on current area/animal is practically the first step in the transition of support policy toward EU CAP arrangements.

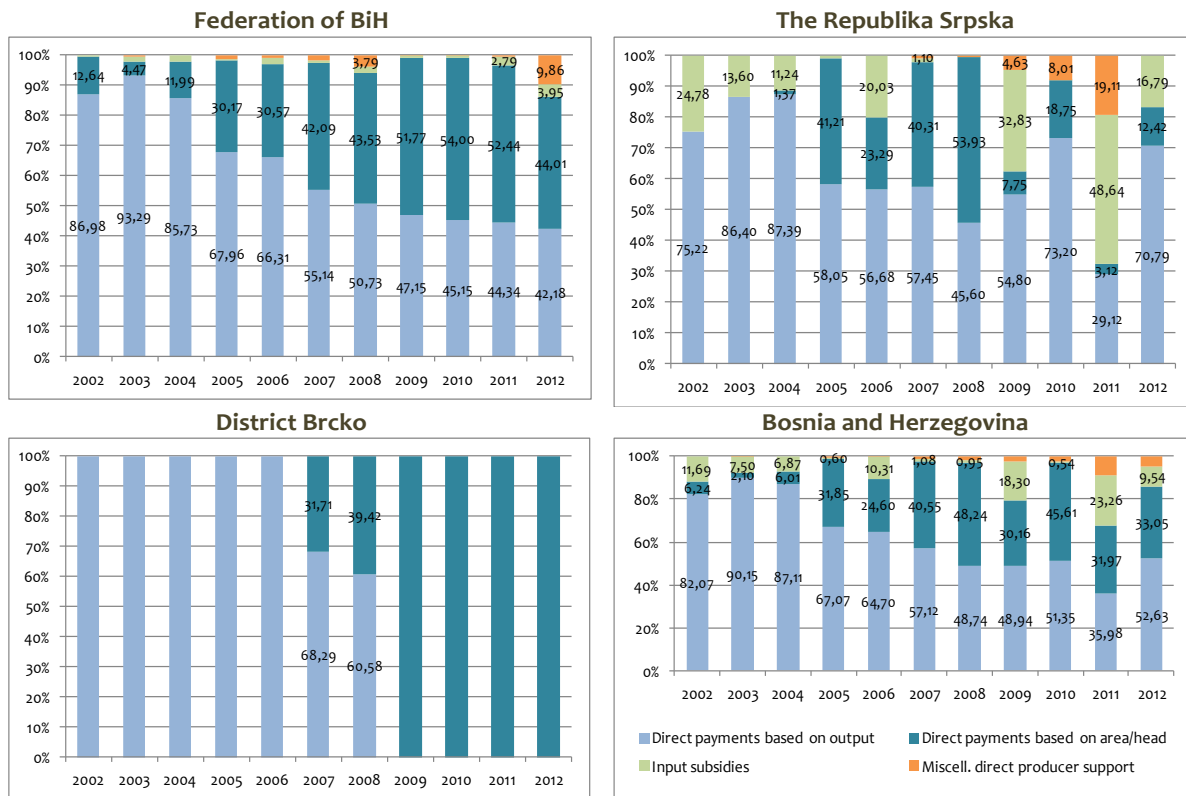


Figure 3: The structure of direct producer support measures in Bosnia and Herzegovina and its entities and District Brcko, Period 2002-2012, In %

When talking about real farmers support and differences related to business dealings on different parts of BIH territory, the best indicators of conditions are data from 2012 showed on Figures 4 and 5.

Overall budgetary support to agri-sector per capita in FBIH is substantially below (EUR 15.2) compared to RS (EUR 25.07), while in DB that support is the biggest amounting EUR 43.95. Talking about total support per ha of agricultural land, position of RS and FBIH farmer is similar, whilst according to indicator of overall support per agri-sector employee, farmer in FBIH has better position (EUR 660) than the same dealer in RS (EUR 362). Finally, participation of overall budgetary transfers within gross added value in agriculture is substantially higher in FBIH (11.52%) related to the same indicator in RS (8.38%). Total BIH budgetary support in 2012 per capita was EUR 18.93, per ha of agricultural land EUR 38.26, per agri-sector employee EUR 495, and presented 10.08% of GVA of agri-sector.

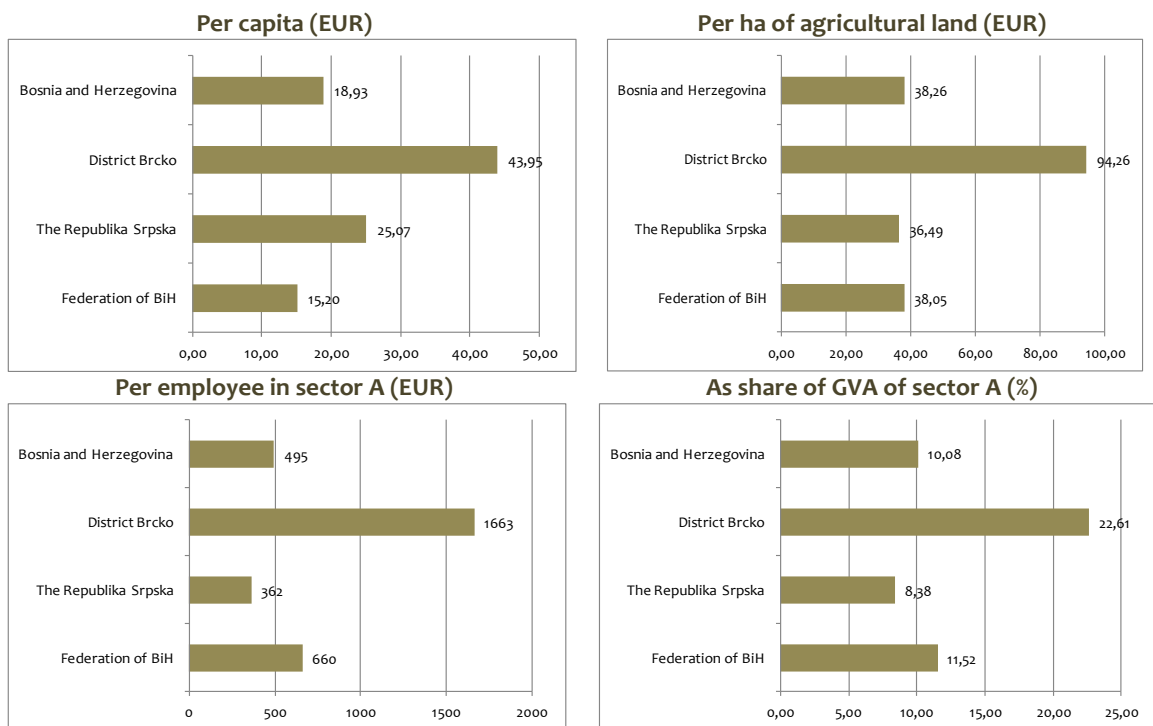


Figure 4: Selected indicators of total budgetary expenditures to agriculture in Bosnia and Herzegovina and its entities and District Brcko, 2012

Similar differences are noted when talking about indicators chosen on the level of direct producer support measures.

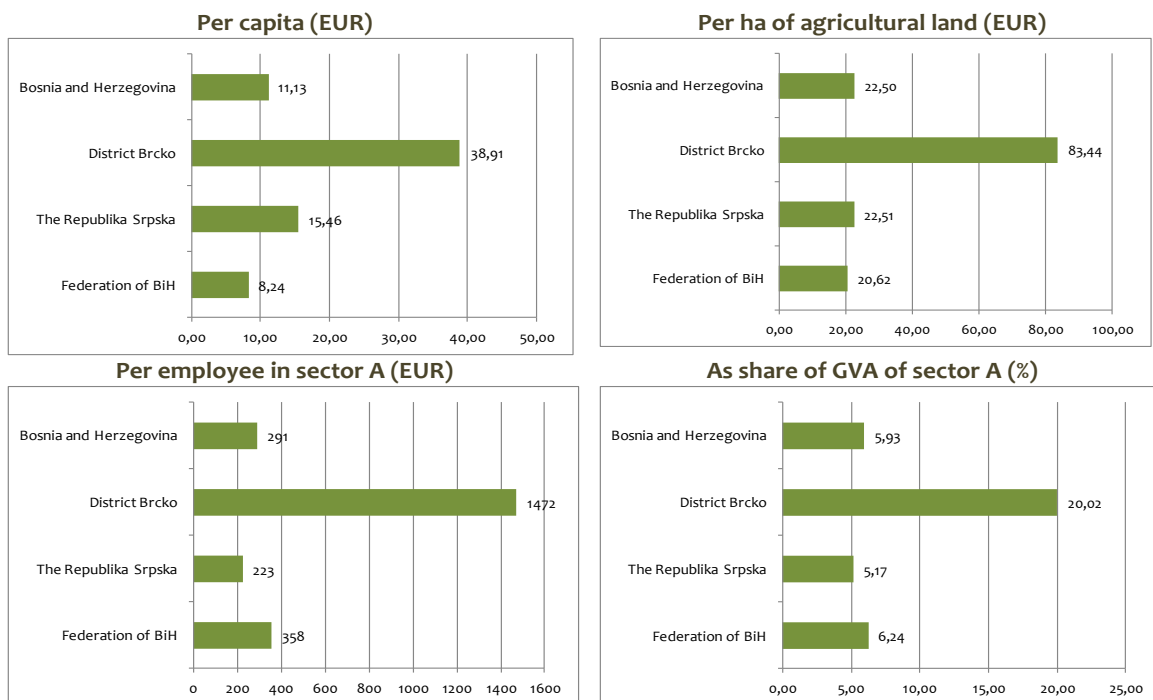


Figure 5: Selected indicators of direct producer support measures expenditures in Bosnia and Herzegovina and its entities and District Brcko, 2012

Total direct producer support per capita in FBIH is substantially smaller (EUR 8.2) than in RS (EUR 15.46), while in DB, related to low number of population, this support is biggest amounting EUR 38.91. When observing support per ha of agricultural land, we can conclude that, as in previous analyses, farmers both in FBIH and RS are in similar position, while according to total direct support per employee in agri-sector indicator farmer in FBIH is privileged (EUR 358) related to farmer from RS (EUR 223). Finally, participation of FBIH direct producer support in gross added value of agri-sector is slightly higher (6.24%) compared to RS (5.71%). In 2012 BIH direct producer support per capita was EUR 11.13, per ha of agricultural land EUR 22.50, per agri-sector employee EUR 291 and presented 5.93% of GVA of agri-sector

Unequal treatment of BIH farmers related to direct support is especially notable when analyzing that kind of support per agricultural subsectors (products) which can be seen in Figure 6.

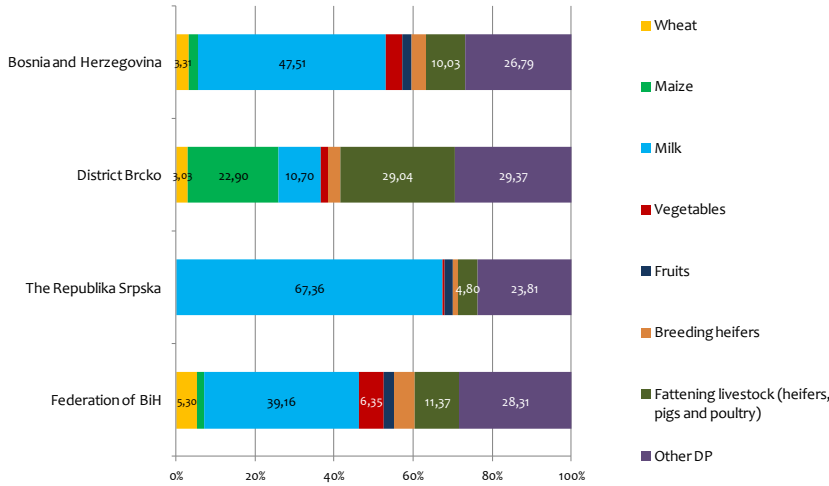


Figure 6: The structure of direct producer support per agricultural subsectors (products) in Bosnia and Herzegovina and its entities and District Brcko, 2012, In %

In 2012 milk producers had highest direct producer support in both BIH entities. In FBIH it performed almost 40%, while in RS was almost two-third of total direct producer support. Apart from milk, in FBIH was supported production of wheat and corn, vegetables and fattening of all kinds of livestock. In the meantime, apart from milk, in RS attention was paid only to fattening of livestock and support was totally neglected for grains like wheat and maize. Unlike entities, DB concentrated direct producer support to fattening of livestock and producers of maize followed with substantially lower (compared to entities) support to producers of milk.

Previous analysis clearly points to both certain similarities and notable differences between entity (and DB) agricultural policies. Similarities are as follows: modest and insufficient budgetary transfers, the lack of transparency and consistency of agricultural policy, convergence and harmonization with CAP unsatisfactory and on low level (differences in scope and structure of the measures, direct payments on the basis of output the main measure in I pillar, measures are changing from year to year), deficits in the institutional structure, the lack of data for monitoring and evaluation and cycle policy underdeveloped in all elements.

Main differences are represented by different types and number of measures of agricultural policy (eg. RS – support of variable inputs that in FBIH does not exist, different support for subsectors etc.), different approach to pillars of agricultural policy (in FBIH higher support of rural development, but less III pillar in comparison with RS) and finally, different scope of budgetary support per unit (output, area, head).

Out of facts above mentioned, occurred a clear answer to question raised at the beginning of this document. In BIH basic postulate of modern agricultural policy is not fulfilled - BIH farmers, due to current agricultural policy, are in unequal and uncompetitive position.

Conclusion

Formal and essential implementation of accession process and harmonization regarding agricultural policy in BIH is on the low level, still. Agricultural policy is significantly different both by the scope of financial means and by the structure of the measures, that why the policy implementation is far from EU pattern. Legal harmonization is on its beginning, while the modern state institutional capacities are not finished yet. The biggest problem is that some institutions, as state ministry of agriculture, which is the only to be enough efficient and to properly run accession and harmonization process, does not exist. Those institutional structure deficits as well as deficits in human resources management, arising from low motivating factor and political turbulences during last twenty years, which inevitably left it's consequences on BIH state development. Agricultural policy of the state of BIH does not really exist, it is aggregation of entities' and cantons' policies, with practically no coordination. Such policy is unstable and depends on political orientation, determined to serve to "higher interests", more than to strategic goals (Bajramovic et al., 2014). Thus, this is one of the main reasons why in BIH is not fulfilled the basic postulate of modern agricultural policy and why BIH farmer is in an unequal and uncompetitive position.

In order to come closer CAP and taking over its concept, it will be necessary to establish a system of policy coordination among the entities and DB (both in terms of scope and criteria) together with clear strategic determination of entities towards EU path as soon as possible. In the current complex political situation in the country making a common platform of action in the context of EU integration and approaching a CAP could be the first step.

The countries with clear aspirations toward the EU integration have to take over the concepts, mechanisms and implementation systems of the CAP at the very beginning (Erjavec et al., 2010, Bajramovic et al., 2010b). CAP is a complex system of legal regulations, budgetary support and public regulatory interventions that considerably affect the situation in agriculture and rural areas in the EU. Gradual adaptation to CAP measures and instruments in the pre-accession period (when a country is a /potential/ candidate for the EU membership) aims to prepare the country for an effective integration into a complex institutional and legislative EU CAP system. An additional value of this process derives from the fact that this is the way for agricultural producers in a (potential) candidate country for the EU membership to prepare timely for a significantly different approach such as the CAP planning and implementing. Significant differences in the range and way of implementing agricultural policy measures make the EU accession a challenge for every candidate country, particularly for less developed countries such as BIH. Because of continuous changes, it is often said that

CAP is a "moving target" for all EU candidate countries. Still, it can be said that the reforms thus far have been characterized by a certain regularity of changes.

The future EU membership is a basis for political and economic stabilization and development, and as well for necessary modernization of government administration. As for BIH, agri-food sector potentials provide realistic market opportunities that, unfortunately, have not been used for many reasons. This is why BIH needs to engage its intellectual and political capacities, and as well various programs and projects toward the harmonization of value systems, legislation, policies and institutions. We could expect that the current standstill in BIH relating to European integration processes will not mean elimination from the group of ex-Yugoslav republics on the road to EU, which would result in a huge political, economic and social damage.

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