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SUPPORTING MEASURES OF AGRICULTURAL AND RURAL DEVELOPMENT IN BOSNIA AND HERZEGOVINA

Abstract

Agriculture was greatly affected by the transitional shocks of economic and social systems in Bosnia and Herzegovina (B&H). B&H is evaluated as the country that, to this point, does not have a very fast reform in this domain. There are several reasons for this. First of all, B&H is still in the process of country reconstruction after the wars and even today a high share of potentials and efforts have been directed toward these purposes. On the other hand, B&H has a very complex organizational structure in the political sense with numerous political entities. Each entity has its own administrative structure and policies concerning economic policy and within its agricultural and rural policies. Recent analyses show that more than one third of the support set aside for agriculture and rural areas in B&H has been linked with the support of production and only a little more than 10% for the purposes of rural development. These trends are not in accordance with the current trends present in EU countries where support for production has been abandoned for the support of the multifunctional rural development purposes, increased income as well as the quality of life within rural segments of the population.

Key words: *agriculture, rural development, supporting measures, repositioning, B&H*

INTRODUCTION

Agrarian policy in developed countries has been focused on the topics as rural development for some time, which includes environmental protection as well as sustainable utilization of agricultural resources. Concern for environment and rural development complexity has a long history, but in the context of agricultural and rural development, it represents a part of the overall concern for sustainable development of economy and society as a whole.

With more than 25% of the population in 27 EU countries living in rural areas as well as with more than 80% of territory that could be characterised as the rural one, policies of agricultural and rural development represent a very important and vital part of overall EU policies. Besides, agriculture and forestry are still those economic branches where the basic "users" of land remain, and consequently they are very important participants in the management of natural resources within rural areas of EU countries, as well as one of the general platforms for economic diversification within rural communities. As logical consequence of this situation, there are intentions for a permanent strengthening of rural development policy significance in

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the EU, which in recent years has become one of the development policy priorities in EU countries.

In accordance with official statements, in the EU countries agricultural activity more and more includes new functions and tasks, which exceeds its basic role as the food producer. These functions are the following: retaining population in rural areas, decreasing rural population poverty, employment stimulation and increase, and the shaping of the natural landscape, etc. Those are only some of the numerous "new agrarian policy" functions, i.e. topics usually summarised under the concept of "multifunctionality". In that context the long-term orientation of agrarian policy measures toward production goals as well as supporting of high-productive agriculture have been recently redirected to the development of so-called multifunctional agriculture and complete rural development. Besides functioning as food producer and food security provider, agriculture has the additional role of providing vitality as well as competitiveness in rural areas.

Former experiences have shown that farmers and rural population intensify activities in agricultural sector relating to environment and other functions (beside the productive one) only if there are provided appropriate support measures. With this help they could include in their decisions productive activities which contain information on costs and benefits linked with environmental care as well as other "non-productive" functions. In other words, it is necessary that such supporting measures should be developed in order to realise the aforementioned non-productive activities at a desirable level. Parallel with supporting measures, it is also necessary to develop the mechanisms for discouraging and minimizing "bad activities" which cause environmental pollution.

Some analyses also show that European farmers, which are obliged to strictly follow standards for environmental protection, are afraid of losing international competitiveness because they are carrying out such measures. They usually ask for compensation, which makes for great challenges to economic policy, both in the domain of foreign-trade affairs and in the relations between trade and environment, where there appears to be a mutual conflict of interests. Trade liberalization as well as non-productive goals make great challenges for the policy concerning appropriate definition and application of standards as well as regulations that should reconcile these two groups of goals.

The rural development policy becomes increasingly important segment of economic policy even in the Central and Eastern European countries, but in the Balkan countries as well. In recent years rural development received priority status in policies even in those countries, and this is illustrated by the fact that some of those countries have adopted particular strategies as well as rural development programmes, which includes special emphasize on support of small rural enterprises, rural tourism, creation of non-farm employment, development of the foodstuff sector on the farms as well as the rural infrastructure.

Contemporary research shows that in spite of change in the role and importance of agricultural sector for economy of most European countries, agriculture still represents an important source of income as well as of employment in rural areas.³ Because of this fact, it is necessary to reach a compromise and to develop those policies that enable agriculture to find out the answers for new market

³ Rural Balkans and EU Integration, An Input-Output Approach, edited by Andrea Bonfiglio, Roberto Esposti, Franco Sotte, Associazione "Alessandro Bartola", Franco Angeli, Milan, 2006.

possibilities as well as to strengthen the entire rural economy. In addition, it is also necessary to have in mind the social measures for low-income households (with limited prospects for economic diversification), which has to be unavoidable policy in the rural development strategies of previously mentioned countries.

1. Policies of Agricultural and Rural Development in EU Countries

Rural areas represent a significant portion of EU territory and around 1/4 of the EU population live in those areas. Rural regions could be classified into three categories - as predominantly rural areas, significantly rural and the urban-rural areas. Agriculture and forestry represent basic land users and they play a key role in management of natural resources in EU rural areas. All rural development and forestry activities are defined by the Common Agricultural Policy of EU (CAP). However, the rural development policy has been implemented as united and inter-sectoral cooperation of agrarian policy, industrial policy, structural policy, tertiary sector development policy, health policy, infrastructural policy and environmental protection policy.

With reform of the EU Common Agricultural Policy (CAP), which took place at the end of previous decade and at the beginning of the present one, rural development became to play a more important role within CAP. New rural development policy has been introduced by Agenda 2000 (adopted in 1999), which come into force in 2000. It established framework of sustainable rural development for the future of rural regions all over EU, completing reforms in domain of market segment encouraging alternative sources for income creation in rural regions, and besides, it gave support to the environmental preservation in agricultural domain.⁴ Agenda 2000 has retained a system of co-financing by EU and member countries, but it has introduced a unique system of rural development measures followed as well by an increase of financial resources available for implementation of those measures.⁵

The June 2003 decision of the EU Ministers' Council from June 2003, hastened further reform of CAP. Further reform in the rural development domain has not disturbed the harmony between those goals and general goals of Agenda 2000, but it has improved and finalized the framework of Agenda 2000 in some of domains.

⁴ "Basic principles of new policy were the following: decentralization of responsibility and flexibility of programming based on scope of activities that should be established as a goals, while their implementation has to be designed in accordance with requirements of particular member-countries i.e. their regions, taking into account different characteristics of rural areas within EU. New rural development policy aimed to an improvement of integration between different EU support forms, but with intention to help to one undisturbed as well as balanced development in all EU rural areas. Basic characteristics of such development are the following: a) strengthening of agricultural and forestry sector; b) an increase in the rural areas' competitiveness and c) maintaining and protection of environment as well as the rural heritage. Results of reform introduced by Agenda 2000 have been expressed in giving out a new stress onto the support of rural areas, their economy as well as the social community but not only to agriculture." See more about the reference in the following: Vasiljević Zorica, Ševarlić M. (2004): Financing of the Rural Development Policy Measures in the EU Countries – Possible Directions for Serbia, in the monograph *Institutional Reforms and Transition of Agrarian Economy in Republic of Serbia*, No 3., Faculty of Economics - University of Belgrade, pp. 137-148.

⁵ In the scope of a new system there have been offered 22 measures that could be classified into 7 wider categories: 1) farm business investments; 2) human resources – young farmers, early retirement and skilled training; 3) regions with unfavourable conditions for development as well as with environmental protection problems; 4) environment protection measures in agrarian regions; 5) measures for improvement of agricultural products' processing and marketing; 6) measures for support of forestry and 7) measures for promotion of the rural areas' integrated development.

The fundamental goal of these reforms was aimed at ensuring better balance in support and strengthening of rural development by transformation of funds from "the first pillar" towards "the second pillar", by introducing a widely diffused *system of modulations* (transferring of financial resources from support of production to support for rural development), but also by distributing the volume of already existing instruments for rural development support (food quality promotion, fulfilment of adopted standard as well as an improvement of animals' general conditions). However, beside uniquely established frameworks of rural development policy within EU, those frameworks must be harmonized within national and regional frameworks, but this has to be achieved by subsidiary decision-making at all levels.

With enlargement of EU by 10 new member-countries in 2004, special regulations have been defined to provide special regimes of rural development financing in those countries.

After enlargement of EU, reformed CAP has given greater importance to the so-called *cross-compliance measures*, which have been voluntary before reform for the member-countries and which have only been applied to the case of environmental standards. After the reform those measures became compulsory and all farmers that receive direct payment were obliged to comply with them.⁶ Farmers were sanctioned if they didn't respect the established standards. Beside, the sanctions applied could amount to the abolition of direct payments. This reform also contained particular instruments aimed at helping farmers to more easily adapt themselves to the introduction of *cross-compliance* instruments. Compared to Agenda 2000, the number of measures has been increased from 22 to 26. Two new measures refer to an improvement of agricultural products' quality as well as to the production processes' quality, while two other new measures aim to support the farms adaptation to higher EU standards as well as the *cross-compliance* instruments.⁷

A new EU model of support for agriculture and rural development went into effect in January, 2005. That support was based on the model of farm support, i.e. support based on the previous period (an average amount of received support in the recent three years). It is more obvious in the European Union that the "health" of agricultural sector depends on the possibility for finding employment in non-agricultural sector, where the process of desirable structural changes has begun. The new policy of rural development attempts to provide undisturbed and balanced development in all rural EU areas. Legal regulations in that domain include a complex set of programs which include a wide range of options. Irrigation programs, afforestation or regional support programs of agriculture in undeveloped areas are included in this new set of programs. There is a particular emphasis of economic and social connections among EU objectives, which could decrease differences between regions. This could also provide support to areas with unfavourable economic conditions, and finally areas with decreasing population trends etc. There has also been increased attention paid to the environmental protection topics, i.e. a requirement for integration the care for environment within EU agricultural policy. Being mindful

⁶ It has been established so-called "priority list" containing 18 adopted European standards in domain of environment, quality of foodstuff products as well as health and general condition of animals.

⁷ Concerning financial support, there have been cited some of new measures, i.e. strengthening of support to the existing ones, whereas one of those measures refers to the support for regions with unfavourable development conditions. For this measures it has been increased amount of support of 250 €/ha in an average (former support was 200 €/ha), but with differences in amount of support from country to country depending on estimated objective circumstances.

of the decreasing importance of rural development topics within CAP of EU, it is believed that CAP will be continued in future period into the EU Common Rural Policy.⁸

Finally, EU policy of rural development for the latest period (2007-2013), is focusing to the three areas, well-known as “three axis of symmetry”, referring to the measures included into the new rural development regulations. Those are the following:

1. An advancement of competitiveness for farms and forestry;
2. An advancement of environment and landscape and
3. An advancement of life quality and diversification of rural economy.

The fourth axis is based on an experience of the LIDER program, representing possibilities for local rural development according to the *bottom-up approach*.

Concerning rural development strategy, the EU member-states have task to prepare their own rural development strategies on the basis of 6 strategic directions, as the follows:

1. An advancement of competitiveness of agricultural and forestry sectors;
2. An advancement of environment and landscape;
3. An advancement of life quality in rural areas, together with supporting diversification;
4. Development of capacities at local level for creation of employment and diversification;
5. Transfer of priorities into programs and
6. Complementarity between different community instruments.

2. Support for Agricultural and Rural Development in Bosnia & Herzegovina

In B&H economy, agriculture still represents one of the most important economic sectors, which provides food security for great share of urban and particularly rural population. A great part of the active labour force still lives in rural areas, where primary agriculture plays a crucial role in the economy. Direct and indirect connections of this sector consist of agriculture, food and forestry. However, according to the accessible official statistical data, in 2006 agriculture and forestry participated in only 8.7% of GDP, while the contribution the of agricultural and food sector (agricultural production and food processing industry excluding forestry) to B&H employment has been estimated at only 7.4%. Considering the existing problems in the official statistical recording and monitoring system, there is a fear that those indicators do not represent the real importance of the mentioned sector, i.e. those data have been underestimated due to inefficient statistical recording of economic data which includes production, trade and employment.

Indicators	B&H	EU25 2005
Share of agricultural land in total land area (2005)	50.3	40.8
Share of arable land and permanent crops in total land area (2005)	31	n/a
Share of Gross Agricultural Product in total BDP (2006)	8.7	1.6
Share of agricultural labour force in total labour force (2005)	3.6	5
Share of agricultural and food processing labour force in total	7.4	n/a

⁸ More about this topic could be found in the monograph written by Čejvanović, F. (2007): Economic Analysis of Integral Fruit Production, The Institute of Agricultural Economics, Belgrade.

labour force (2005)		
Share of agricultural export in total export (2006)	5	6
Share of agricultural import in total import (2006)	17.1	6
Share of rural population in total population (2005)	61	18

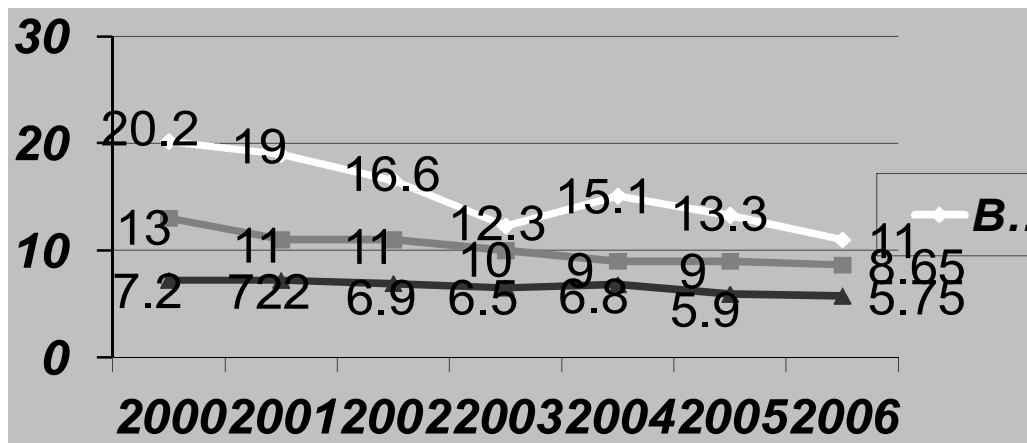
Table 1: Basic indicators of agrarian sector performances for B&H and EU in % (2005/2006)

Source: Poljoprivredni izvještaj Bosne i Hercegovine 2007 (Agricultural Report of Bosnia and Herzegovina for 2007), Ministarstvo vanjske trgovine i ekonomskih odnosa (MVTEO), Sarajevo, 2007

Unemployment is the greatest economic and social problem of B&H for both urban and rural areas. According to official statistical data for 2005, 43.4% of total registered labour force was reported as unemployed. Because unemployment is still high in B&H, while alternative possibilities of employment are limited, there has been increased degree of relying on agricultural employment, as well as in those activities linked with agriculture. It can be concluded that this sector has still remained as a social security leverage for majority of population living in rural areas. However, according to official data sources, only 3.1% of labour force is employed in big ex-state-owned agricultural enterprises and cooperatives, while some estimates show that the share of agriculture as a portion of total employment (including non-registered employment as well as the other activities based on agriculture and food sector) amounts to a level of higher than 40%.

Second indicator, showing the importance of agriculture in B&H is that the participation of rural population is very high and estimated onto 61% in 2005 within the total economy (population.⁹ It is important to emphasize that agriculture remains a popular choice and a basic possibility for the creation an income in rural areas that further underscores its importance to economic and the political stability of country. This fact becomes more important if we keep in mind that the higher increase of poverty (in 2001/2004) was recorded just for employees in so-called informal sector, whereas half of those jobs were join agriculture. Taking in consideration the fact that small farmers and producers are only partially oriented toward market production and have still been dominant in the primary agricultural production of B&H, the contribution of agriculture to the total B&H employment has been estimated as very high. A survey completed in 2004 with support from the World Bank points to the conclusion that producers which could satisfy their own needs as well as the aggregate number of producers oriented toward market production are estimated to be approximately 190,000, of which 60% are located in the Republic of Srpska, while 40% are within Federation of B&H. This makes agriculture the most important sector of informal employment – 50% of informal employed population is derived from agriculture.

⁹ This estimate is based on accessible data on population on the entity level together with application of OECD definition of rural areas as those areas whose population density >150 per m².



Graph 1: Share of the sector in total GNP: B&H, FB&H, RS (2000–2006)

Source: Poljoprivredni izvještaj Bosne i Hercegovine 2007 (Agricultural Report of Bosnia and Herzegovina for 2007), Ministarstvo vanjske trgovine i ekonomskih odnosa (MVTEO), Sarajevo, 2007

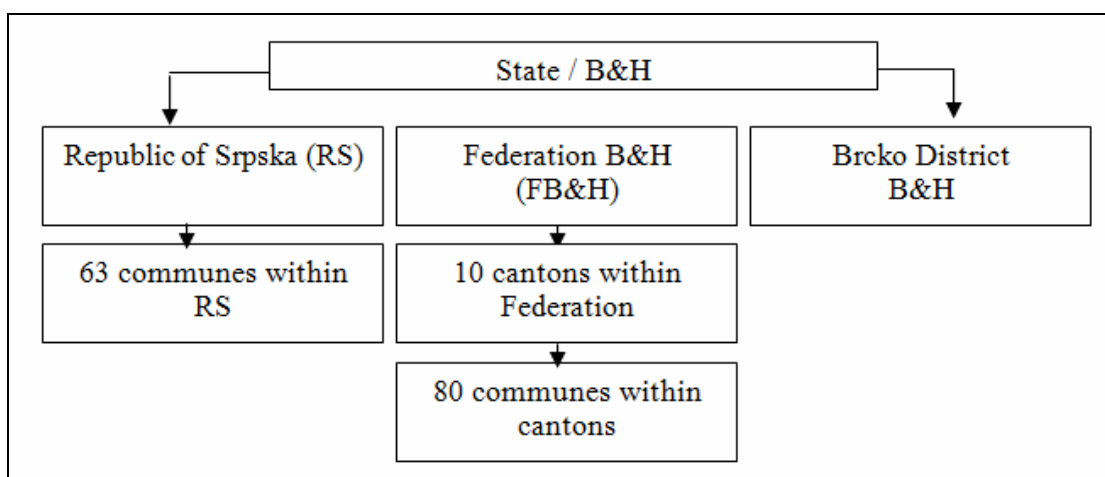
Analyses show that gross agricultural product (GAP) has been increasing in recent years, but it is not of equal intensity as the corresponding indicator in some other economy sectors. Consequently, the total gross national product share of agriculture, forestry and fishery has decreased in recent years, in spite of an increase in its absolute value. The accessible statistical data show that this sector is more important for the economy of the Republic of Srpska (RS) than for the Federation of B&H (FB&H).¹⁰

Estimates for 2006 showed that B&H has more than 500,000 farms. Around 50% of those farms are under 2 ha, while more than 80% farms are under 5 ha. Those farms are usually divided into several separated plots (7-9), and that additional constraint impedes higher productivity and total efficiency. Almost all small family farms are additionally divided by a high degree of fragmentation, which additionally restricts the adoption of more modern agricultural systems of production and management.

If we analyze the reform processes characteristic of the countries in transition, it could be concluded that the pace of progress in those processes, particularly in the domain of agricultural and rural development, is very different between particular countries. It could be concluded for B&H that there is no such fast pace of reforms in the above-mentioned domain, and there are several reasons for that. First of all, B&H is still in the process of post-war reconstruction and even today a great share of attention is still being directed toward that topic. On the other side, B&H has very complex organization structure, both in political and administrative sense, containing several administrative units within the country. This structure has an important influence on economic and reform trends, but at the same time on agrarian and rural policies (Picture 1).

¹⁰ It has been estimated for 2006 that share of the sector in total entity BNP of Republic of Srpska was slightly decreased onto 10-11% (13.3% in 2005). In Federation of B&H (FB&H) primary agriculture and forestry sectors have stable share even in 2006, around 6% of BNP.

In an administrative sense, Bosnia and Herzegovina is divided into two entities, i.e. Republic of Srpska (RS) and Federation of B&H (FB&H), which is further divided into 10 cantons. At the moment there are 143 communes at local level (80 in FB&H and 63 in RS). In addition, a separate administrative region in the Brcko District has been established, in the northern-eastern part of the country. The Brcko District has its own administration and budget. In B&H there is no Ministry of Agriculture at the country level.



Picture 1: Administrative structure of B&H

The Ministry of Foreign Trade and Economic Relations (MFTER B&H) is responsible, at the moment, for coordination of the agricultural sector at the state level. MFTER has established the Sector for Agriculture, Food, Forestry and Rural Development (SAFFRD). At the moment, the principal structures for management of this sector are three key administrations at entity level: Ministry of Agriculture, Forestry and Water Management (MAFWM) of RS, Ministry of Agriculture, Water Management and Forestry (MAWMF) of FB&H and Department for Agriculture, Forestry and Water Management of Brcko District.

The FB&H system is additionally decentralized. MAWMF together with the cantons is responsible for management and utilization of natural resources. All 10 cantons in FB&H also have established administrations responsible for agriculture, veterinary, forestry and water management, while MAWMF of FB&H gives entire coordination policy in Federation.

Each political administrative unit has its own administrative structure and economic policy, and within it the separate agricultural and rural policies. Although the Ministry of Agriculture, Forestry and Water Management is not presently at the state level, but within particular administrative units. However, there are negotiations in progress concerning establishment of an appropriate Ministry at the national level. In such complex structure and organization, it is necessary to put particular efforts in order to be harmonized all these policies, and such efforts need time and resources. Finally, beside the important amount of financial resources that have entered B&H after the end of the war,, mostly from different foreign sources, B&H was characterized by a chronic shortage of investment capital necessary for development and structural adjustment in domain of agricultural and rural development and that is the most common situation of the most countries being in transition process.

A draft version of the Law on Agriculture, Food and Rural Development of B&H, under leadership of MFTER, together with EU technical support (SESMARD Project) was prepared in 2006. It was prepared with the direct support of representatives from all key sectoral institutions at the state level together with representatives of all entities including the Brcko District. It has been expected that this Law was to be adopted by the end of 2007, but at the beginning of 2008 it was still not adopted by the Parliament. The goal of the Law was to establish a clear framework for managing this sector as well as for the development of the sectoral strategies, policies and particular implementation measures aimed at improving the coordinated development in the agriculture, food and rural development sector of the whole country. .

In recent years the share of the budget that was set aside for agriculture has been relatively small (2-4% of total budget funds). This share is not correspondent to the one showing participation of agriculture and GNP (around 12%). Although the funds set aside for agricultural subsidies have grown in an absolute sense in the recent years, this amount has been still relatively small and insufficient compared to needs, particularly if one compares them to the same parameters in EU countries.

Analyses which were calculated for the period through 2004 showed that more than 1/3 of supporting funds (36%) set aside for agriculture and rural areas in B&H was for the support of production, while only 11% was designated for rural development purposes. Such trends do not correspond to EU trends, where support for production has been abandoned for the benefit of measures supporting multifunctional rural development purposes. If we compare the level of subsidies in B&H with the same parameter in some EU countries (which are similar according to the capacities as well as conditions for agricultural production)), concrete data shows that B&H is still lagging behind in respect of level and structure of agricultural and rural development subsidization.¹¹

Analysis also points to the fact that B&H agriculture bears the greatest burden in the transition of the economic and social system of B&H. Although by the end of 20th century this economic branch has employed the greatest share of economically-active rural population as well as it significantly participated in creation of total country GDP, it could not win favour for better position and greater interest of government. Such a conclusion could be given for all regions and administrative units in B&H. However, in the preceding period the subsidies, agrarian policy measures primarily possessed a social dimension to thwart poverty, but not the one aiming at well-designed and creative development of the sector. What is evident for B&H is the fact that the present level of production in the case of almost all agricultural products does not satisfy the demand of its domestic population, which influences its foreign-trade deficit in the domain of agricultural and foodstuff products. The importation of those products is several times higher than their export.¹² In these conditions can be

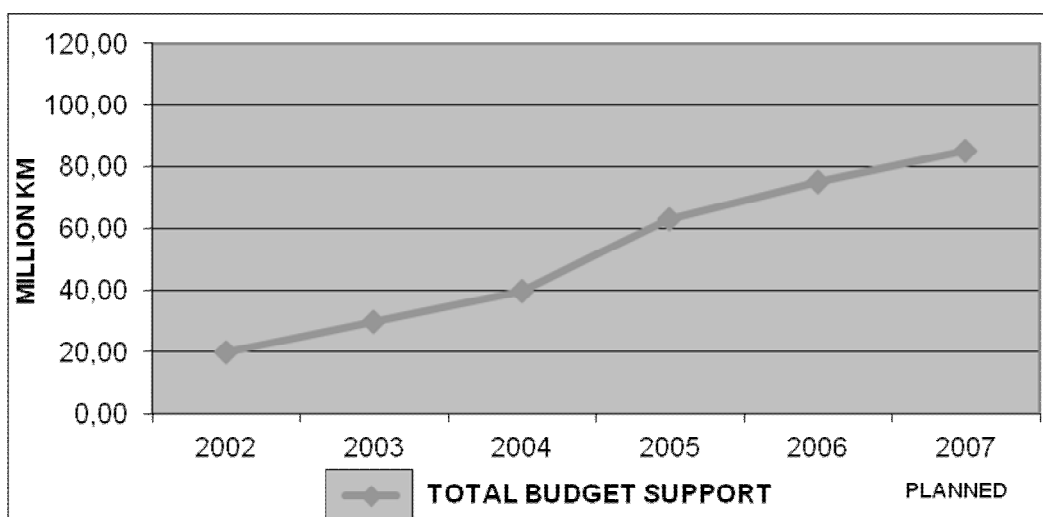
¹¹ E.g. data for 2003 show that annual public subsidies and support per hectare in B&H amounted to only 16.4 €, while the same parameters in Slovenia amounted to 300 € per hectare, although that was a year when Slovenia was in the pre-accession period for entering EU. The second illustrative indicator of discrepancy between B&H and EU countries is public consumption *per capita* for agricultural sector. For example, in 2003 it amounted to only 9 € in B&H, while in Slovenia the same parameter amounted to 115 €, in Latvia 43 €, while in Austria 208 €.

¹² According to some estimates, import is 16 times higher than export. See: Mirjanic S., Rokvic Gordana (2005): *Mogući načini poboljšanja finansiranja i subvencioniranja poljoprivrede u Republici Srpskoj* (Possible Ways of Improvement Agricultural Financing and Subsidizing in Republic of Srpska), *Agroznanje*, Vol. 6, No. 2. 2005, pp 89-99.

found the justification for a strong policy for the support and subsidization of agriculture, which has as its goal to increase production and self-sufficiency, i.e. to decrease dependency of the food imports.

Table 2 depicts the strategic objectives for B&H agricultural and rural policies, as well as the rank of their priorities. Within the context of adopted objectives and priorities, it is understood why the funds set aside for solving the rural development problems are small and insufficient. It is certain that such trends are not in accordance with ones characteristic for EU countries, where support for production has been abandoned in lieu of benefit measures supporting multifunctional rural development purposes as well as environmental protection.

However, in recent years some positive trends have been noticed. Data which illustrates this fact shows that in 3 recent years (2004-2006) the budget for the sectoral support has significantly increased in both entities, while striving to sustain an increasing trend even in the future.¹³

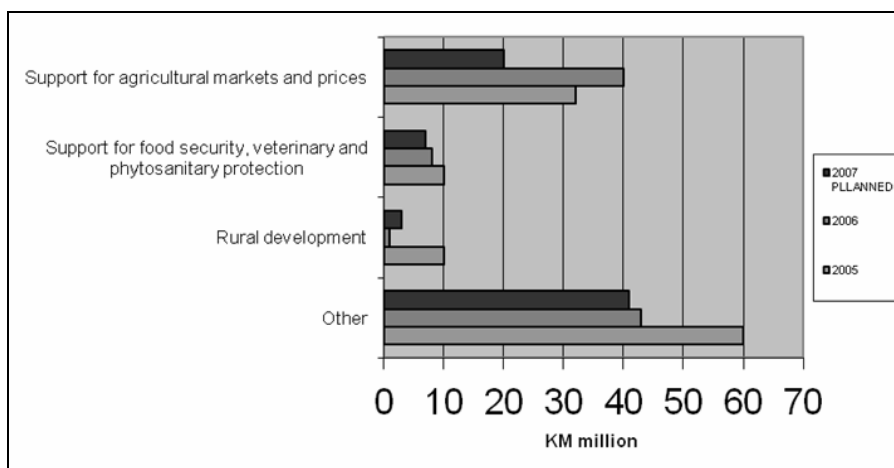


Graph 2: Total budget resources for agriculture in B&H (2002-2007)

Source: MVTEO, RS MPŠVP, FB&H MPVPS

For 2007 it was projected that the budget structure would decrease support for direct production and increase support for capital investments (at the level of farms and processing subjects), but for rural development as well.

¹³ In Republic of Srpska there have been forecasted a growth in 2007 amounting to 60 million KM, while in Federation of B&H up to 37 million KM.



Graph 3: Structure of sectoral support in entities (2005-2007)

Source: MVTEO, RS MPŠVP, FB&H MPVPŠ

The positive trends are shown by the fact that in three recent years B&H agriculture has decreased its share of total imports (17.1% in 2006). Exports of agricultural and foodstuff products increased in 2006. The export growth rate of this sector is lower in comparison with the total export growth rate for B&H (agricultural and foodstuff products' share in 2006 amounted to 5% out of total export). In two recent years this resulted in a declining trend of foreign-trade deficit in the sector of agricultural and foodstuff products.

The long-term objectives of agricultural and rural policies in B&H have been determined by sectoral strategies at the entity level, then by the medium-term development strategy of B&H (MTDS from 1999) and by the draft of the state Law on Agriculture, Food and Rural Development. This document defines in a wider sense the following objectives for this sector:

1. Promoting development of diverse, sustainable, competitive and dynamic sector of agriculture, forestry and food.
2. Providing harmonization and integration of the sector with EU and the world market.
3. Supporting diversification of economic activities, improvement of circumstances for employment, higher earnings, as well as higher quality of life in rural areas.
4. Providing approach to the high-quality, accessible and safe food.
5. Providing rational utilization and protection of natural resources and biodiversity.
6. Establishment of institutional structure and capacity at the state and entity levels for management by pre-accession preparations.¹⁴

However, at the moment there is no general B&H sectoral strategy. In 2006 both entities have elaborated drafts of updated sectoral strategies. Strategies are established with similar objectives, but the emphasis is on different topics for the

¹⁴ More about those items in *Poljoprivredni izvještaj Bosne i Hercegovine 2007 (Agricultural Report of Bosnia and Herzegovina 2007)*, Ministarstvo vanjske trgovine i ekonomskih odnosa (MVTEO), Sarajevo, 2007.

sake of the existing institutional and structural differences. The sectoral strategy of the Republic of Srpska was adopted by the RS Parliament in July 2006. The strategy of FB&H is expected to be adopted soon at the FB&H Parliament. In addition, in 2006 RS adopted a new Law on Agriculture, which determines the objectives of the entity policy as well as the framework of policy measures. FB&H is planning to adopt the federal Law on Agriculture very soon.

MFTER started making plans in 2006 for development of strategic plan for entire sector as well as for the harmonized operative program of the sector. MFTER intends to finalize this process in 2008, with support and direct participation of all entities, the Brcko District and EU (SESMARD project).

The entities, Brcko District and cantons of FB&H are currently responsible for development, management and financing all sectoral policies in B&H, while the state currently provides exclusive support for policy in domain of sectoral trade, veterinary and plant protection control. Existing support for the sector is fragmented and inconsistent. That is why there is a need for the improvement of coordination and harmonization.

Requirements for gradual harmonization of existing agricultural policies and support between entities, as well as with EU, became more important in 2006 and onward. In 2006 important steps were taken pertaining to planning new kinds of support, which must be introduced during the course of 2007 and 2008, particularly for the payment of capital investments for farms, which are not intended for production and food processors, as well as other kinds of the rural development support (whereas there are possibilities to be introduced initially as the pilot-measures). Those plans must be linked, before the introduction of harmonized registers of farms and clients, which was to be implemented at the end of 2007 and the beginning of 2008.

Conclusion

Bosnia and Herzegovina has relatively good conditions for more expedient agricultural and rural development. Those conditions consist of the following: natural conditions (favourable climate and hydro-potentials, fertile and non-polluted soil), agricultural infrastructure, institutions for agricultural production, a supply of an available and cheap labour force, a long tradition and experience in agricultural production, high quality of particular products and finally the recognizable compatibility and synergy with other sectors (tourism, small and medium-size enterprises in agricultural production etc.). Those advantages have not been adequately utilized in the last 15 years primarily because of damages caused by the war. Further, constraints for the faster development of the sector are the following: lack of investment capital, size and fragmentation of the farms, prominent use of old technologies, absence of European accepted standards, inadequate education and training for the farmers and managers in agribusiness and the rural development sector, low level of consumers' consciousness regarding the value of domestic products, and the absence of adequate network among institutions etc.

Proposed priority requirements for the development of the agrarian and rural sector in B&H could be defined by the following: removing mines from agricultural land, completion of reconstruction of facilities damaged in war, organization of agricultural infrastructure, cooperation and coordination between existing agro-institutions, protection of domestic production, favourable credits and subsidies for farmers, utilization of new technologies and production processes as well as

packaging of agricultural and foodstuff products, providing technical support in production of the high-quality organic and healthy safe products, certification and standardization of domestic production, modernization of the farmers' cooperative sector, attracting domestic and foreign investments for food production and processing, restructuring existing capacities of productive structures, and providing educative programs etc. The key challenge in the future period will be to increase competitiveness and strongly promote B&H's domestic market, which is seen as the best way to further decrease the enormous import of agricultural products from neighbouring countries. This process has been hindered by some factors that cannot be controlled easily (e.g. shortage of harmonization between entity regulations, harmonization of B&H legislature with EU *acquis* in agricultural and rural development sector, unfair competition that is present even today, and unfavourable customs policy, etc.).

Based on the available analysis, it could be concluded that Bosnia and Herzegovina, as well as the most other Balkan countries in transition, is still far from providing significant support to multifunctional agriculture and rural development. The reasons for that are numerous which have influence the fact that state is not in an objective position to adequately support the aforementioned concept at this moment, but of course it should realize that this objective can be more adequately implemented in the future.

If we analyze experience of the EU new-member countries, it can be concluded that in the pre-accession period, countries-candidates had to contribute large investments of their own budget funds for the development of their institutional infrastructure in order to prepare themselves for EU accession.

In that context, B&H should set aside more budget funds for the development of agricultural and rural sector and make it a higher priority, particularly for development of their institutional capacities, as well as a greater contribution for the harmonization of domestic legislation and standards with the EU ones.

Repositioning agriculture in B&H should be marked by the foundations of multifunctional characteristics, which are manifested in economic, social and ecological aspects.

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Main goal 1 Sustainable development of agriculture, fishery and forestry	Main goal 2 Overcome the major consequences of war and remnants of former state economy system	Main goal 3 Ensure supply of healthy safe and high quality food for consumers at reasonable prices	Main goal 4 Participation in international trade with agricultural and forestry products at fair conditions	Main goal 5 Preservation and rational use of natural resources, protection of landscape, development of tourism and animal welfare	Main goal 6 More effective governance and approach to EU acquis communautaire
Improving efficiency, profitability and competitiveness of production, processing and marketing (1.1)	Privatization of former state farms and processing firms (2.1)	Production of food according to the demands of domestic consumer wishes (3.1)	Establishment of a coherent and comprehensive trade and development of a B&H single market (4.1)	Rural development, protecting and enhancing domestic natural resources, improvement of water use, protection of environment (5.1)	Clear allocation of competences in order to achieve a more effective administration (6.1)
Increase standard of living of rural population, enhance per-capita income of persons engaged in agriculture, fishery and forestry (1.2)	Support resettlement of refugees and displaced persons in rural areas in combination with creation of job opportunities in non-farm activities (2.2)	Harmonization of food health and safety protection, supporting bio production, control of pesticide, herbicide and medical inputs in agriculture (3.2)	Preparing for association with EU and accession to EU, WTO membership (4.2)	Preservation and rational use of natural resources, notably water and land, protection of forestry and agriculture against erosion and flooding (5.2)	Improve cooperation between government levels, strengthening economic relations between entities (6.2)
Strengthening of farm enterprises, producer organisations for marketing and processing of agricultural products as well as co-operation with food industry (1.3)	Develop land and tenancy market, supporting of reconstruction process in competitive farm units, optimizing land use (2.3)	Standardization, certification of agricultural and forestry products, establishment of a quality guarantee and management system (3.3)	Encouragement of B&H agricultural, fishery, forestry and food exports in order to decrease negative trade balance (4.3)	Providing incentives for small towns and large villages to offer suitable locations for establishment of SMEs, improving access to rural areas through infrastructure, services, transport and communication, promotion of sustainable agro-, hunting- and ecotourism (5.3)	Improve credit facilities and support for agriculture by interest rate subvention programs, through set up of credit institutions in the rural areas, facilitating farm credits by public grants (6.3)
Establishment and strengthening of agricultural institutions and sustaining extension service for farmers and food processors (1.4)	Cleaning agricultural and forestry land from mines to reduce accidents and increase production capacity (2.4)	Development of design for new food processing plants to be ready for EU certification, establishment of reference laboratories (3.4)	Promotion for attracting foreign tourists for holidays in B&H countryside (4.4)	Increase of sustainable economic capacity of forest lands, increasing forest biodiversity, promoting animal welfare (5.4)	Elaboration of support programs and preparation for implementing a paying agency to administrate EU funds (6.4)

Table 2 – Structural objectives (strategies) of B&H agricultural and rural policies

Source: Functional Review of the Agricultural Sector in B&H, financed by the EC, Sarajevo