

Impact of Agricultural Policies on Rural Development and Increase of Competitiveness of Agriculture of Bosnia and Herzegovina with a Special Emphasis on Achievement of Reform Goals

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***Abstract:** For the Balkan countries, the agricultural sector and rural development are of great importance, primarily because they are ensuring food security of the population, and then, also, because they have effects on employment, the creation of total gross value as well as on the foreign trade. Having in mind open processes of joining the European Union in these countries, with a special focus on Bosnia and Herzegovina, the implementation of the EU policies and practices will represent both a challenge and an opportunity for the development of the state and the improvement of its position in the single European market. Bosnia and Herzegovina is a country with a distinct rural character, with over 50% of the rural population, where every third household acquires some kind of income from agriculture, and which is currently facing a number of problems when rural development is concerned (from insufficient investments, uncompetitive production, inefficient administration, abandonment of rural areas, failure to use EU funds, etc.). Nevertheless, with adequate policies and dynamic approach to the agricultural sector, and strategy for increasing competitiveness and attracting investment, the potential of Bosnia and Herzegovina's agriculture could be used and exploited, and the country could go towards progress and success. Therefore, this paper explores and analyzes the European Union's common policies, as well as the ways and means of their implementation in the Balkan region countries, especially in Bosnia and Herzegovina. Then, the paper points the importance and necessity of investing in rural development (infrastructure, mechanization, marketing, agro-environmental measures, etc.), and provides guidelines on how to modernize and reconstruct the agricultural sector, in order to increase the country's competitiveness and reduce the long-standing trade deficit in this area, and, at last, how to effectively approach to the European Union with harmonization of legislation and the use of development plan. The agricultural sector and the overall modernization of rural communities, with a clear vision, and with increasing employment, economic growth and competitiveness, can become the cornerstone of the development of Bosnia and Herzegovina and a key factor of its inclusion in the European and the world trends.*

Keywords: EU common agricultural policy, agriculture, rural development, competitiveness.

JEL Classification: Q17, Q18, O13, 018

Introduction

The Common Agricultural Policy (further: CAP) is one of the oldest policies of the European Union (further: EU) and represents set of measures and programs for subsidizing agriculture in the European Union. It was created in 1962, so the application of common agricultural policy

began in early 1960s. Until then, countries have greatly intervened in their agricultures, particularly in the choice of what to produce, under which conditions, and what will be the price of agricultural products. Such individual interventions jeopardized the free exchange of goods within the Community. Since some countries, France in particular, advocated the continuation of strong intervention, the only solution was to transfer intervention measures at the level of the Community and to harmonize them. The Rome Treaty stipulated the general framework of the CAP¹⁰, the principles of CAP were defined at a Conference in Stresi (Italy) in 1958, and CAP came into force in 1962s, after it was accepted by all six of the founders of the Community. In late 1950s societies and states in Europe were damaged by Second World War, and in that conditions agriculture had been crippled, there were no rural development and food supplies could not be guaranteed. Since then, common agricultural policy had been changed adapting the policy to a changing world. Major reforms shaped the CAP in 1992, 2003 and 2013, the main goals evolved from securing enough food and agricultural products, securing free movement of agricultural product and removal of the trade barriers in 60s, 70s, etc., to today's main objectives which are providing a stable, sustainably produced supply of safe food at affordable prices for all Europeans, while also ensuring a decent standard of living for farmers and agricultural workers. Other objectives are sustainable management of natural resources, the preservation of rural economies, the redistribution of aid between countries and between farmers, and the climate change. As an oldest EU policy, in general, it is a partnership between Europe and its farmers, agriculture and society.

The CAP is based on three fundamental principles: single market, advantage of the Union and financial solidarity. The single market has two meanings, first the application (on agricultural products) of the rules on free movement of goods between Member States, and determining common prices and assistance, regardless of headquarter of an economic entity. Correct application of this principle requires common price regulation, aid payments and competition rules, harmonization of health insurance regulations and administrative procedures as well as common foreign trade policy. The advantage of the Union provides two levels of activity, giving preference to agricultural products from the Union before importing products and internal market protection against disturbances caused by the uncontrolled import of low-priced agricultural products as well as from disturbances in the world market. In the end financial solidarity means that costs resulting from the application of the CAP must be shared among all Member States (further: MS), regardless of their national interest.¹¹

Agriculture is a key sector for sustainable economic development, so from the early beginning until today the common agricultural policy is managed and funded from the resources of the EU

10 The objectives of the CAP were defined under Article 39, and those were:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; (c) to stabilise markets; (d) to assure the availability of supplies; (e) to ensure that supplies reach consumers at reasonable prices. Treaty of Rome, 25 March 1957, Agriculture, p. 16

¹¹ Kesner-Škreb, M., Common Agricultural Policy of the European Union, Financial theory and practice, 2008., 32 (4), p. 543-545

annual budget, and it consumes almost half of the budget of the Union. Common Agriculture is a sector that is supported almost exclusively at the European level, unlike most other sectors of the economies which are the responsibility of their national governments. It is important to have a public policy for a sector responsible for ensuring food security and sector which plays a key role in the use of natural resources and the economic development of rural areas. The recent enlargements of the EU have almost doubled the labor force and the cultivable area, and the internal market added more than 100 million consumers. The new Member States can immediately start using the mechanism of subsidizing the prices of agricultural products, while the direct subsidies to farmers are arranged for a period of ten years. However, the member states must fulfill many conditions regarding restructuring and modernization of the agricultural sector. All Member States agreed that by 2013 there will be no real growth of the agricultural budget, the subsidies to the "old" Member States will be reduced in order to finance aid to new members.

Today, farmers provide a stable food supply, produced in a sustainable way at affordable prices for more than 500 million Europeans. The European Union's farm policy ensures a decent standard of living for farmers, at the same time as setting requirements for animal health and welfare, environmental protection and food safety. Sustainable rural development completes the picture of the EU's common agricultural policy. There is one big European market for agricultural products, in which a common approach towards supporting agriculture ensures fair conditions for farmers competing in the internal European market and globally.¹²

For Western Balkan countries¹³ accession to the European Union is undoubtedly a political goal, process of great importance both for countries and their population, in which the adaptation and the modernization of agriculture play important role. They are directed by national decision-makers, who use pre-accession instruments, changes in legislation, institution-building and agricultural policy reform to promote the development of the agricultural sector and of rural areas. So, if policy is to serve as a means to achieve certain goals, reforms must be planned, steered and executed according to the principles of evidence-based policymaking. This means that a modern government must produce policies that are based on hard facts, not on ideology, that are proactive rather than reactive, and address causes rather than symptoms. All Western Balkan countries have made significant progress in the last few years in aligning their long-term programming documents and administrative infrastructures with EU requirements. Between 2013 and 2015, new strategic documents for agriculture and rural development were adopted, which mainly cover the period to 2020, up to 2019 for the Federation of Bosnia and Herzegovina and up to 2024 for Serbia. The medium- and long-term agricultural policy

¹² 22 million farmers and agricultural workers are at heart of one of the biggest economic sectors in the European Union, the agri-food sector. Around 44 million jobs in food processing, food retail and food services depend on agriculture. The EU is also a net exporter of food and drink, exporting goods for more than €130 billion per year. More data on EU agri-food in "Monitoring EU Agri-Food Trade" which provides monthly data on EU agri-food exports and imports, available on https://ec.europa.eu/agriculture/trade-analysis/monitoring-agri-food-trade_en

¹³ In this sense the term „Western Balkan countries“ encompasses countries of the region such as Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro and Serbia.

objectives and priorities set out in these documents vary slightly by country, but all address to enhancing farm viability and the competitiveness of the agro-food sector; to sustainable management of natural resources and mitigation of the effects of climate change; and improving the quality of life and balanced territorial and economic development of rural areas. In most countries, the main strategic document has been supplemented by a multi-annual implementation programs. In parallel, the Instrument for Pre-Accession Assistance for Rural Development (further: IPARD) programs were also prepared to provide key documents regarding EU pre-accession support in the field of agriculture, mostly aimed at institution-building and improvement of the agricultural sector.¹⁴

In Bosnia and Herzegovina (further: BH), having in mind that country has a rural character, with over 50% of the rural population, agriculture is both an economically and politically important sector. This sector is characterized by underused natural resources and production potentials, low productivity, poor technical and technological capacities of farms, underdeveloped agricultural and food chain value, low competitiveness and considerable dependence on foreign trade. Added to that, the growing socio-economic marginalization of rural areas, which is accompanied by depopulation, makes it is apparent that the agricultural policy of Bosnia and Herzegovina faces numerous challenges that must be tackled to address these problems in the agricultural sector and rural areas.

With the entry into force of the Stabilization and Association Agreement between Bosnia and Herzegovina and the European Union¹⁵, with 135 clearly defined articles of the agreement, in particular chapter II, which regulates relations in agriculture and fisheries, an opportunity is created for an adequately economically and legally regulated country to enter the market competition in European union and to achieve significant results. But, at the moment, since Bosnia and Herzegovina does not have organized and planned agricultural and food production, a functional production and system based on quantity - continuity - quality, established international systems and standards for food safety, cooperative system of redemption stations, common agricultural policy, laws and Ministry on a state level, agriculture and rural

¹⁴ In some countries, key priorities also include farmer income stabilisation (Bosnia and Herzegovina, Kosovo and Serbia), food chain organisation (FYR Macedonia and Kosovo), promotion of food quality and safety standards (FYR Macedonia) and investment in human capital, transfer of knowledge and innovation (Albania, FYR Macedonia and Kosovo). The basic goals of agricultural policy thus match those of the EU CAP for the same period. Monitoring of agricultural policy developments in the Western Balkans countries, European Commission, Luxembourg: Publications Office of the European Union, European Union, 2017. p. 14.

¹⁵ The agreement expressly refers to the possibility of BH to become a candidate country for membership of the EU. The agreement is to open political dialogue with BH and for enhanced regional cooperation, including provisions on free trade areas between the countries of the region, the free trade area for within 5 years of entry into force of the agreement. BH is committed to approximate its legislation to that of the EC, notably in the key areas of the internal market. The agreement is an important step in the establishment of a stable order based on cooperation within the framework of the EU's stabilization and association process with the countries of south-eastern Europe, as well as within that of the stability pact for south-eastern Europe. The Stabilization and Association Agreement between the European Communities and their Member States, of the one part, and Bosnia and Herzegovina, on the other part.

development can easily become a stumbling rock of the development of whole country, of course if country does not, in near future, implement necessary reforms and improvements.

The Common Agricultural Policy – modernization and reform in European Union

Introduced in 1962, Common Agricultural Policy, had undergone several waves of reforms, with the latest reform decided in 2013. and implemented in 2015. Since then, the context in which that reform was forged has shifted significantly.

Agricultural prices have fallen substantially and market uncertainty has increased, due amongst others to macroeconomic factors, geopolitical tensions, inhibiting a clear long-term planning of the sector. Also, the emphasis of trade negotiations has moved more visibly from multilateral to bilateral deals, requiring a careful balancing of offensive and defensive interests, with due attention paid to certain sensitive sectors. The EU has signed up to new international commitments, especially those concerning climate change and broad aspects of sustainable development (through the UN's Sustainable Development Goals – SDGs), and is also exposed to other geopolitical developments such as new large-scale migration.¹⁶

So in these circumstances CAP continues to be adapted to respond the challenges of its time. The main aims of the policy nowadays are to improve agricultural productivity so that consumers have a stable supply of affordable food, and to ensure that EU farmers can make a reasonable living. Now, more than fifty years after the introduction of the CAP, with more than 500 million consumers needing a reliable source of affordable, healthy and nutritious food, the EU has had to address a number of current and future challenges, which include global competition, economic and financial crises, climate change and sustainable management of the natural resources, food security, rising costs such as fuel and fertilizer.

Significant reforms have been made in recent years, to modernize the sector and make it more market oriented. Most notably, in 2013, after three years of intensive discussion and negotiations, the policy was reshaped to meet the challenges of the future, 2014-2020.¹⁷ The new

¹⁶ The above prompted a vigorous public debate about whether the 2013 reform went far enough to meet broader challenges related to the balance of support, the economic prospects for agriculture and rural areas, care for the environment (e.g. greening), action over climate change, sustainable and safe food production. Emerging opportunities in the areas of health, trade, the bioeconomy, the circular economy and the digital economy also need to be further considered. Against this background, as part of its working programme for 2017, the Commission will take forward work and consult widely on simplification and modernisation of the CAP to maximise its contribution to the Commission's ten priorities and to the Sustainable Development Goals (SDGs). This will focus on specific policy priorities for the future, taking into account the opinion of the REFIT Platform and without prejudice to the next Multiannual Financial Framework. The starting point must be will be a well-founded assessment of the performance of the current policy. More about Consultation on modernising and simplifying the common agricultural policy, European Commission, Directorate-General for Agriculture and Rural Development on https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en, 10.06.2017.

¹⁷ After an elaborate process, a decision on the CAP for the 2014-2020 period was reached in 2013. The process involved the main European institutions: the European Commission (Commission), the Council of the European Union (Council), the European Council and the European Parliament (EP). It involved consultations with European citizens and „stakeholders“ and intense lobbying activities on the part of various interest groups. The process started

CAP is designed to ensure direct support will become fairer and greener, strengthen the position of the farmers in the food chain and the policy as a whole will become more efficient and more transparent.

For majority of Europeans, agriculture and rural areas are important for the future. They consider the main responsibilities of farmers to be supplying the population with a diversity of quality products and ensuring the welfare of farmed animals. For them agriculture and rural development policy should be ensuring agricultural products are of good quality, healthy and safe, and ensuring reasonable food prices for consumers.¹⁸ In Western Balkan countries, particularly in Bosnia and Herzegovina, both the population and the government still do not understand the significance of agricultural policy and the importance of improvement of rural areas. The CAP is a complex policy involving many different components and issues.

The new CAP design and the next steps

All past reforms have led to step changes in the CAP and this, the latest one, is no exception. It represents another milestone in the CAP's history placing the joint provision of public and private goods at the core of policy. Farmers should be rewarded for the services they deliver to the wider public, such as landscapes, farmland biodiversity, climate stability even though they have no market value. Therefore, a new policy instrument of the first pillar (greening) is directed to the provision of environmental public goods, which constitutes a major change in the policy framework. The new CAP design is also more efficient, targeted and coherent. It is based on a more holistic approach to policy support through the maintenance of the existing two pillar structure but in a more targeted, integrated and complementary way. Both pillars of the CAP are aimed at meeting all three CAP objectives more effectively, with better targeted instruments of the first pillar complemented by regionally tailor-made and voluntary measures of the second pillar. There is new flexibility for Member States in the budgeting and implementation of first Pillar instruments, acknowledging the wide diversity of agriculture, agronomic production potential and climatic, environmental as well as socio-economic conditions and needs across the EU. This flexibility will however be framed by well-defined regulatory and budgetary limits in order to ensure a level-playing field at European level and that common objectives are met. In

informally as early as 2008 and more formally in April 2010, when the Commission launched a public debate on the CAP's future. In June 2013, a political agreement was reached between the Commission, the EP and the Council under the Irish Presidency. In the last months of 2013, the regulations were formally adopted by the Council and the EP. Delegated Acts to clarify technical implementation details were approved in April 2014. Afterwards member states went to work on how they would implement various policy areas where they had flexibility in implementing the regulations. The length and complexity of the process are not indicative of the reform outcome. More about CAP in book Swinnen, J., *The Political Economy of the 2014-2020 Common Agricultural Policy An Imperfect Storm*, Centre for European Policy Studies, Brussels, 2015., p. 1-3.

¹⁸ The majority of Europeans consider all of the listed priorities of the CAP to be important, with two priorities mentioned more often as being "very important": investing in rural areas to stimulate economic growth and job creation (47%), and strengthening the farmer's role in the food chain (45%). More statistical data about the CAP and Europeans in *Europeans, Agriculture and the CAP, Report*, European Commission, EU, 2016., p. 5-6

this area Member States share the responsibility to strike the right balance between possible benefits and the burdens of red tape for producers as well as for administration and controls.¹⁹

There is one more important thing when it comes to the reforms of the CAP, and also reason why the those reforms of the CAP were so needed, and that is increasement of competitiveness of the EU agriculture. Europe needed to retain and enhance competitiveness in the world characterized by increasing globalization and rising price volatility. The growing world population and expansion of the global markets means this is a time of opportunity of EU farmers, but also a challenges, not least the need to be competitive on a global level while managing the increasing costs of inputs, such as oil, fertilizers and water. Not only in the EU, but also in other countries, especially those with rural character such as countries of Western Balkans, it is necessary to build up and to have more innovative, self-reliant, profitable agriculture and farming industry with the ability to mitigate or withstand shocks and to recover quickly from them. So for Bosnia and Herzegovina finding ways to increase competitiveness and viability of agriculture will be the obligation of great priority and importance for the government, in order to provide better future for whole country, successful coping with competitive pressure in the EU market and to provide prosperity for all the inhabitants.

The objective of past reforms to enhance the market orientation of EU agriculture is continued by adapting the policy instruments to further encourage farmers to base their production decisions on market signals. Competitiveness is addressed directly by changes to market mechanisms, particularly the removal of production constraints. All of the existing restrictions on production volumes for sugar, dairy and the wine sector will end, allowing farmers to respond to growing world demand.²⁰ Some outdated commodity aid schemes will also be abolished, and other schemes modernized. Measures to facilitate producer cooperation under both pillars of the CAP should also boost the competitiveness of farming by reducing costs, improving access to credit and adding value to the primary sector. The reinforced legal framework for Producer Organizations is backed by financial incentives under the second pillar.²¹

Together all these instruments are expected to encourage producer cooperation and to improve the functioning of the food chain. Product differentiation, quality programs, promotion and on-farm processing should also add value. Other instruments under the second pillar which enhance competitiveness at farm level include restructuring and modernization measures as well as start-up aid for young farmers. Furthermore, there is a focus on bridging the gap between science and practice via the Farm Advisory System, as well as training and innovation program. These instruments are aimed at helping the farm sector to adapt to new trends and technologies, thus

¹⁹ More about CAP reforms in Overview of CAP Reform 2014-2020, European Commission, 2013., p. 5.

²⁰It was already decided in the Health Check that dairy quotas will expire in 2015 and the 2007 reform of the wine sector laid down the end to the planting rights system for 2018 at the latest. Sugar quotas will be abolished in 2017.

²¹ The Common Agricultural Policy after 2013, House of Commons, Environment, Food and Rural Affairs Committee, Fifth Report of the Sesion 2010-11, Volume 1, 2011., p. 61.

becoming more resource efficient, cost effective and capable of adapting to emerging challenges. At the same time the new CAP also offers more responsive safety net measures and strengthens the EU's capacity for crisis management. This will be achieved by more efficient market measures to deal with potential threats of market disturbances and more flexible exceptional measures. A new crisis reserve (of EUR 400 million per year in 2011 prices) is established to secure the financial resources needed in case of crisis, through deductions from direct payments, with unused amounts reimbursed to farmers in the consecutive budget years. In addition, the second pillar offers a new risk-management toolkit including insurance schemes for crops, animals and plants, as well as mutual funds and an income stabilization tool.²²

Implementation in Western Balkan Countries

The political economy of agricultural and food policies remains a fascinating and important topic. This holds in general with many poor countries in the world taxing their farmers while many rich countries subsidize agriculture. It also holds for the European Union. Since the start of the CAP, the EU has spent a large share of its budget on supporting European agriculture. In 2013, it was decided to spend more than €400 billion over the remainder of the decade on the CAP. The 2013 decision ended years of discussion and negotiations on the future of the EU's agricultural policies. It not only had major implications for the EU's budget and farmers' incomes, but also for Europe's environment, its contribution to global climate change and to food security in the EU and elsewhere in the world.

The theoretical principles of modern agricultural policy state that evidence-based policy is founded on rigorously established objective evidence, good data, the use and development of empirical tools, policy analysis, benchmarking and impact assessments. Thus, the Western Balkans (further: WB) countries' governments are not only working towards harmonizing their agriculture in view of their potential EU membership, but are also cooperating to build the foundations of a modern, efficient agricultural policy. The WB countries are at different stages of forming this kind of policymaking. While the development and quality of policy monitoring is only at an initial stage in some countries, others already make regular annual reports regarding the status of the agricultural sector. However, the reporting of budgetary transfers to agriculture is mostly less transparent, while policy impact assessments and evaluations are practically non-existent, resulting in low-quality policy planning and decision-making that is not evidence based. The previous research shown that the new regional agriculture-related strategic documents adopted by WB countries are relatively modern and are oriented towards EU integration. The question remains whether or not these documents have brought about real changes in the WB countries' policies in the first years of their implementation. Also, the central analytical issue is the assessment of direct production support, which is the main agricultural policy instrument in most WB countries (as well as the CAP). For the first time, the types of support, their associated eligibility criteria and the amounts involved are presented in a transparent fashion. All the countries have adopted key medium-term agricultural policy

²² Overview of CAP Reform 2014-2020, op.cit. p. 5-6.

programming documents and these documents are solidly written and have a strong strategic logic. They describe positive changes in the policy framework and a more extensive orientation towards the EU, which are reflected in the definitions of goals and specific policy measures, especially regarding rural development. However, most countries lack a clear intent to reform their direct support policy in accordance with the EU CAP and this also applies to agro-environmental measures and support. There is also a lack of resolution to establish evidence-based policy in the sense of introducing mandatory monitoring and other elements to achieve efficient policy reform. The more modern and well-conceived programming documents that have been drawn up are not yet leading to any marked changes in the scope and structure of policy instruments and measures, especially in their adaptation to CAP-like support systems. The size of the agricultural policy budgets fluctuate significantly from year to year and has increased since 2010 only in Kosovo and Albania, the two countries that started with the lowest relative amounts of the agricultural support. Kosovo also benefits from significant donor funds, helping it to achieve the largest relative budget size in 2015. Certain countries, in contrast, have reduced their agricultural budgets as a result of the economic crisis (e.g. Bosnia and Herzegovina since 2010 and Serbia in 2015). The structure of the total support for agriculture varies significantly. The proportions of funding for various groups of measures in the total agricultural budget cannot be compared without taking account of the size of the total budget itself. The proportion of direct producer support is high in Bosnia and Herzegovina, FYR Macedonia and Serbia (over 70 % on average). The funds for structural and rural development measures are mainly intended to improve competitiveness and have the highest proportions in Albania, Kosovo and Montenegro. However, these funds are limited and their real impact on the development of agriculture is therefore not to be overestimated. Support for agricultural public goods (agro-environmental measures and support) and quality of life in rural areas is almost negligible in all WB countries. Rural development policy is not really taking root in the region, despite the occasional adoption of beneficial projects or programs. This is a problem not only of modest levels of funding, but also of the programming of measures: they have a narrow orientation towards farm investment. The low absorption of IPARD pre-accession support funds is a significant problem. The causes vary, ranging from human capacity deficiencies in administration and political priorities at the country level to the lack of adaptation of support to real conditions. Similarly, levels of funding for general services are low in absolute terms and fall short of satisfying the countries' developmental needs, especially in the sense of achieving efficient creation and transfer of knowledge.²³

When evaluating the outcome of cross-comparative analysis of WB countries, it must be taken into account the fact that a clearer picture of agriculture and agricultural policy in this region require a lot of data and information, which are not yet available, or they are not 100% reliable. In all these countries, except Croatia, which is already a member of the EU, the process of improvement and harmonization of agricultural statistics with EU requirements is still ongoing. In this context, in all WB countries, one of the basic questions and priorities on which states

²³ Monitoring of agricultural policy developments in the Western Balkan countries, Group of authors, Publications Office of the European Union, Luxembourg, 2017., p.14-33.

need to focus is attention to improve agricultural statistics and database on policy implementation. Reliable and harmonized data are a prerequisite for a strong agriculture, and analysis and monitoring of agricultural policy, as well as for the successful programming and implementation of the agricultural policy.

The biggest challenges of agricultural development in Western Balkan countries

Agriculture is still among the most important sectors of the national economy in the WB countries, and provides a significant contribution to economic and social stability. However, its role is not so large in economic development, as it represents a social amortization during the economic crisis which exists in the region. Factor productivity in the region is considerably lower than the EU average, mainly due to slow process of consolidating agriculture and inefficient use agricultural resources. Depopulation in certain regions and acceptance of surplus labor from the agricultural sector in other sectors is the biggest problem in the development of agriculture and rural areas in most WB countries. Agricultural-food chain faces problems in creation of market institutions, establishment of marketing and distribution chains, and fulfillment of EU Standards in quality, veterinary, health and hygiene, and also phytosanitary standards.

In general, it can be said that in the last few years in the WB counties, some progress has been made in the development of agriculture. However, much more still needs to be done to prepare the agricultural sector for the pressures of the competition of the modern global economy and also, to prepare these countries to join the EU. Main challenges for development of agriculture are, first of all, the resources, especially natural limitations and unused land potential, restrictions on human and capital factors, fragmentation of land and bimodal structure of agricultural holdings. Then, those are also production and productivity, particularly low productivity and technological gaps, low concentration and specialization of production and relatively weak production effect. The third are related to agricultural-food supply chain, specifically poor agro-business and low horizontal and vertical integration. At the end we have prices and trade, especially low prices and quality competitiveness and extreme trade dependency, as well as the last one related to the rural and regional characteristics which is depopulation, poor social situation and the presence of rural poverty.

All this indicates that the agricultural sector and rural areas of the WB countries have significant developmental needs. Modernization and development of agriculture, and related with that the development of economic activities in rural areas, have the potential to significantly improve the prospects of these areas, and they must become the core of all strategic plans for the development of agriculture and rural areas in the region. Therefore, the key goals of the future policy of agriculture and rural development in all Western Balkan countries should be the improvement of the general legal and institutional framework, reform of land management, enhancement and stabilization of incomes, innovation and efficient transfer of knowledge, modernization of agriculture and agri-food sectors, better horizontal and vertical integration of

manufacturers and processors, more efficient use and protection of natural resources, Elimination of rural poverty and the problems of small farmers, and territorial balanced approach.²⁴

Agricultural policy in Bosnia and Herzegovina

Agriculture in Bosnia and Herzegovina is an economically and politically important sector. The significance of the agricultural sector in B&H is reflected in the share of total gross domestic product (GDP), employment of the population and food security, as well as in a foreign trade. Although Bosnia and Herzegovina is aiming for European integration and harmonization of its agricultural policy with the EU CAP, the slow progress of the EU integration process is caused by numerous factors, especially the on-going economic crisis and the lack of political will to implement the necessary reforms. This is reinforced by the fact that Bosnia and Herzegovina has not made progress in establishing the necessary institutional structures, so the state ministry for agriculture, at the state level, does not exist (by the Constitution of Bosnia and Herzegovina, all levels of government have certain powers to govern agricultural policy), and also at the state level there is only the Law on Agriculture, Nutrition and Rural Development which has been in force since 2008., with the aim of structuring sectoral policies and helping in harmonization with the EU agricultural policies. Because the lack of adequate institutional and legal framework, BH is losing considerable financial resources that could contribute to institutional building and agricultural sector improvement in Bosnia and Herzegovina.

Agricultural policy in Bosnia and Herzegovina shows large inconsistencies with its outlined objectives and it has changed frequently over time without being guided by clearly defined development objectives and the elements of modern public policymaking, and also as a result of the lack of a clear established funding mechanism for agricultural policy, annual budgetary transfers depend largely on the governing political structures and lobbying of various interest groups. New frameworks for medium-term policy action in the agricultural sector and rural areas have been established in two Bosnia and Herzegovina administrative units. Both strategic documents emphasize their determination for European integration and the concepts of modern public policymaking. However, the preliminary evidence regarding their implementation in these two administrative units reveals no significant changes in the process of policymaking and shows limited application of a modern approach to addressing the development needs of the agricultural sector and rural areas. BD did not adopt a similar framework to those of the other two administrative units and relies on short-term (annual) planning of agricultural policy (i.e. annual rulebooks). Regarding rural development, it is important to note that the FBH still does not have a valid legally adopted programming document that would allow a detailed implementation of the rural development measures. The proposal for the rural development program for 2015-2020 (FBH 2014b) has still not been approved by parliament. The proposal

²⁴ More about this topic in Volk, T., Erjavec, E., Mortesen, K., Agricultural policy and European integration in Southeastern Europe, Food and Agriculture Organization of the United Nations, Budapest, 2015., p. 46-52.

considers six areas of support: competitiveness of agricultural production; agro-environment; climate change mitigation and organic production; diversification of farm activities and entrepreneurship development; LEADER method of local development strategies and technical assistance and measures in the field of forestry (FBH 2014b). The Republic of Srpska (RS) adopted a new strategic plan for the development of agriculture and rural areas in 2015 for 2016-2020 (RS 2015a) before the expiry of the previous two strategic documents (i.e. the strategic document for 2010-2015 and the strategic document for 2010-2015). Unlike the previous two strategies, the new strategic document simultaneously covers both the agricultural sector and rural development. Overall, the new strategy contains six strategic goals and 16 specific goals that are proposed to be implemented using 52 different measures. As for BD, the current agricultural policy is implemented on the basis of a general strategic document that addresses the overall economy of this administrative unit. However, the development strategy for the agricultural sector that was in place until 2013 was without a legal basis. It is important to note that regular monitoring and evaluation of agricultural policy as part of a modern public policy cycle is not carried out in Bosnia and Herzegovina.²⁵

Mid-term Strategy of Agricultural Sector Development in the Federation of Bosnia and Herzegovina for the period 2015 – 2019

Although there are many stories about the importance of the agricultural sector, its true significance for the quality of economic development, political stability and the development of the whole society, poverty reduction and improvement of quality of life, security a wide range of "public services" (preserving the uniqueness of the landscape, biodiversity, quality and accessibility water and soil, etc.), and for the preservation of cultural and gastronomic identity of the country (entities) is not sufficiently recognized.

Having in mind vitality of this sector, the two worrying fact are the slight downturn of available ornamental surface area (3%, period 2003-2011), and also the fact that only about 50% of the surface area is used. The agricultural sector has not yet capitalized its potential and all significant opportunities for its further development. However, in the other hand, development of this sector is limited by the natural characteristics of land in the FBH (40% of the land is shallower then 30 cm, 84% of the territory is with a gradient higher than 13%, and there are dominant precipitation area, around 61.2%) which means that the sector has relatively small

²⁵ For example, the parliament of the FBH receives an annual green report with a detailed description of the agro-food sector and the implemented agricultural policy. An important deficiency of these reports is their insufficient level of objectivity, as it does not provide a serious evaluation and analysis of the agricultural sector or of the effectiveness of the agricultural policies. The reports are prepared by the administration of the responsible ministry for agriculture without the involvement of the academic community or relevant research institutions. In the case of the RSR, there is neither an available annual report on the situation in agriculture nor an evaluation of the effectiveness of the implemented policy measures. Instead, the responsible ministry produces some information for the government and parliament. The academic community also makes some occasional analyses of the effects of agricultural and rural policy in Bosnia and Herzegovina, but this is mostly for academic purposes. More in Bajramović, S., Vaško, Ž., Ognjenović, D., Butković, J, Bosnia and Herzegovina: agricultural policy development and assessment, Monitoring of agricultural policy developments in the Western Balkan countries, Publications Office of the European Union, Luxembourg, 2017., p. 47.-50.

available areas of high quality land. Also, the processes of integration and memberships of BH in different kind of organizations, such as the WTO, the EU and CEFTA allow BH access to international and new and very attractive markets as Russia, Turkey, Arab countries etc. At the same time, these processes lead to stronger competition which makes business more difficult, and also what is important is the negative economic trend in other countries which have significant influence on the export performance of the sector. Long-term drought, increased demand for products of animal origin (China and India), food price instability, increase of land price (due to breeding crops for energy production), energy and other inputs, and food-related scandals again raised all these issues and questions high on a scale of global political agenda.

In Bosnia and Herzegovina, in period of 2015-2019., the solid foundation will be built for a faster and more efficient development, especially in the sense of establishing a modern, productive, technologically advanced and environmentally and socially sensitive economic sector, ready to respond to global socio-economic and climate changes and challenges, and capable of being “ready” for an adequate and prosperous position, above all in the region, and then on an international scene.

This implies a strong strengthening of the capabilities of all business and administrative subjects to improve product recognition, by exploiting opportunities offered by a rich cultural heritage as well as the diversity of agro ecological conditions. Therefore, the focus of development will be on strengthening communication, co-operation, horizontal and vertical connection of all sector entities, as well as building efficient business alliances that will enable effective and efficient exchange of information, innovative ideas, but above all strengthen all forms of technology transfer and good business practices. Also, research and scientific institutions must become recognized by the all actors. On this way, the competitive, market-adjusted sector, will be built, and it will be the foundation for improving the quality of life of all citizens, especially residents in rural areas.

This vision will be realized through the realization of the following strategic goals: development of agriculture and related sectors by raising technical-technological level, more efficiently use of available resources, and appreciation of requires of modern markets. Also, by providing the conditions for a more stable income within the agricultural sector and improving the quality of life in rural environments. Sustainable management of natural resources and adaptation of agriculture to climate change is one more strategic goal, and adjustment of the institutional and legislative framework and FBH agricultural policy, with the EU CAP, acknowledging the level of development of the FBH agricultural sector.²⁶

²⁶ More about agricultural sector in FBH and its development strategy in Mid-term Strategy of Agricultural Sector Development in the Federation of Bosnia and Herzegovina for the period 2015 – 2019, Federation of Bosnia and Herzegovina, Federal Ministry of Agriculture, Water supply and Forestry, Sarajevo, 2015.

Therefore, in Federation of Bosnia and Herzegovina, this new strategic document emphasizes the need to adopt new technologies and innovation in the agricultural sector, more effective utilization of available resources and the improvement of quality of life in rural areas. Regarding European integration, this document clearly states the need to harmonize the institutional and legal framework of the FBH with the EU legislation and the CAP *acquis*. In the context of institution-building, this means putting in place a modern system of information, administrative management and monitoring of agricultural policies. The new strategic document outlines the need for a gradual alignment of the policy instruments of the FBH agricultural policy with those implemented within the EU CAP. Furthermore, the new strategic document envisages, for the first time, the application of the principles and elements of modern public policymaking in designing, adopting and implementing the agricultural policy, including detailed baseline analysis, definition of objectives, establishment of policy programming, definition of a clear financial framework (i.e. budgetary transfers based on the principles of consistency, transparency and traceability) and a system of monitoring and evaluation.

The new strategy envisages the implementation of 37 measures distributed within the three pillars of the agricultural policy: 10 measures in the first pillar related to market intervention and direct producer support, 17 measures in the second pillar related to sector restructuring and rural development and 10 measures in the third pillar related to general services support. The most important changes introduced by the new strategy cover direct producer support (i.e. direct payments). The reduction of several pre-existing direct payments coupled to production (e.g. output subsidies) is proposed, while it is proposed that area and animal payments are increased. The equalization of area payments for most crops is envisaged as the first step towards the decoupling of direct payments, in line with the EU CAP.

Conclusion

This paper analyses the development of Common agricultural policy in European Union and also agricultural policy in Bosnia and Herzegovina in 2010-2015. The EU recognizes the importance of rural areas and places great emphasis on rural development, and in this direction BH should also go and exploit potential in its full capacity. For now, the results presented in this paper reveal that agricultural policy in Bosnia and Herzegovina shows a high level of instability and is inconsistent with the medium-term policy objectives outlined. This unstable policy development generates an uncertain policy environment for the agents operating in the agricultural sector, which may have adverse implications for its future growth and development. Bosnia and Herzegovina implements a very heterogeneous agricultural policy across its three administrative units (FBH, RS and BD) because they have the authority to design, adopt and implement their own policy measures. The agricultural policies differ between the units in terms of type of measures implemented and sectors supported. The priority on a state level is organisation of a Ministry for agriculture on a state level, and then to improve other aspects of institutional and legal frame work of agriculture and rural development in Bosnia and Herzegovina. Both the FBH and the RS have adopted new strategic frameworks for future

actions in the agricultural sector and rural areas, but the first years of the implementation of the adopted strategic documents have shown that the governing political structures in the FBH and the RS have not shown sufficient determination and readiness for major reforms to put into practice the priorities outlined in the strategic documents. So, when it comes to implementation, the agricultural policy reforms have failed to put into practice the proposals that were adopted in the strategic documents, at least for now. Bosnia and Herzegovina needs a dynamic reconstruction and modernization in agricultural sector and rural development, with an effective approach to EU integration and the CAP by harmonizing legislation. With adequate policies and the dynamic access to the agricultural sector, the agriculture can become the cornerstone for the development of all other activities such as rural development, rural tourism, ecotourism, connecting producers and processors, etc., and the entire economy also, and not to be a stumbling rock on its own development path.

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