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TARGETING AGRICULTURAL AND RURAL DEVELOPMENT MEASURES: COMPETITIVENESS, MARKET ORIENTATION AND SOCIAL ROLE OF AGRICULTURE IN THE RURAL AREAS OF THE REPUBLIC OF SRPSKA

Andrea Segré¹, Renata Rakić², Gordana Rokvić³, Matteo Vittuari⁴,

1. AGRICULTURAL ADMINISTRATION IN REPUBLIC OF SRPSKA

According to the constitutional setting of Bosnia and Herzegovina (BiH) all the existing public administration levels (State, Entity, Canton and Municipality) are involved in agricultural legislation and administration⁴.

Policies related to foreign trade, external relations and general veterinary matters are implemented at the state level by the Ministry of Foreign Trade and Economic Relations (MoFTER) and by the State Veterinary Office. MoFTER is responsible for the coordination and harmonization of policies and plans defined at the Entity as well as at the international level. In particular MoFTER policy is defined within several state level laws: on veterinary services, on plant protection, on supervision of quality of food products, on competition, on consumer protection, on cooperatives, on food safety.

RS agriculture policy is implemented through the Ministry of Agriculture, Forestry and Water Management (MoA) that has authority on agriculture, veterinary, forestry and hunting as well as water management. A specific sub-structure or department for rural development is still not defined even if its creation, as the creation of a specific regulation, has been foreseen in the “Strategy for agricultural development of the Republic of Srpska by 2015⁵”.

Apart from MoA there are other institutional bodies that support Ministry in policy implementation: Extension and Selection Service Agencies, research institutions, inspection bodies (since 2007 separated from the Ministry) and municipality bodies (through the Department of Economy).

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⁵ Ibid.
2. AGRICULTURE IN REPUBLIC OF SRPSKA

As widely emphasized by literature and international organization reports the analysis of the agricultural sector of RS (this consideration is suitable for the entire BiH) is generally affected by outdated\(^1\) and scarce data, and because of this situation it is often necessary to rely on estimation, on indirect indicators and on considerably aged data set.

Table 1 Farm structure in RS and BiH related to the land-property size in the period 1905-2006

<table>
<thead>
<tr>
<th>Land property size in ha</th>
<th>Farms – share in % (data related to BiH)</th>
<th>Farms – share in % (data related to RS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 1.00</td>
<td>40.7</td>
<td>34.0</td>
</tr>
<tr>
<td>1.01 - 5.00</td>
<td>26.4</td>
<td>34.6</td>
</tr>
<tr>
<td>5.01 - 10.00</td>
<td>18.7</td>
<td>21.0</td>
</tr>
<tr>
<td>Above 10.00</td>
<td>14.2</td>
<td>10.4</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: BiH Agricultural Census, University of Banja Luka, FAO
* Estimation source: FAO, PLUD - Inventory of post war situation of land resources in Bosnia and Herzegovina.
** Estimation source: Department of Agricultural Economics, University of Banja Luka.

The agricultural sector of RS is still characterized by a dual structure with an extremely large number of individual farms\(^2\) and a less significant number of agricultural enterprises and cooperative farms. Since it is not possible to rely on the last complete agricultural census, that dates back to the year 1981, this dual structure can be partially explained considering the last estimation on farm structure (Table 1), the data related to crop production and to the number of livestock and poultry heads that shows how the majority of the production derives from individual farms.

According to the 2006 estimation\(^3\) the 81.5% of farms is lower then 5 ha and only the 4% is larger then 10 ha. Average farm size is particularly low also in a

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1. Last completed agricultural census dates back to the year 1981. The agricultural census of 1991 is partially incomplete due the beginning of the war and failure to provide data on several items.

2. According the 1981 agricultural census in BiH there were 534528 farms.

3. Source: Department of Agricultural Economics, University of Banja Luka.
comparison with NMS-10\(^1\) where, in 2005, the farms smaller than 5 ha were the 70.3\(^2\) and the farms larger than 10 ha were around the 14\(^3\).

Altogether the small size of farms and the fragmentation of land property heavily affect the competitiveness of the agricultural sector of RS. Moreover the scarce competitiveness of the sector is underlined also by the structural trade deficit. Agricultural products account for a significant percentage of the total foreign trade deficit and basically RS does not achieve self-sufficiency in none of the major agricultural products.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Import</strong></td>
<td>5285</td>
<td>12270</td>
<td>8259</td>
<td>16602</td>
<td>3928</td>
</tr>
<tr>
<td><strong>Export</strong></td>
<td>61725</td>
<td>78327</td>
<td>53598</td>
<td>68950</td>
<td>37136</td>
</tr>
</tbody>
</table>

Source: author elaboration from RS Institute of Statistics, External Trade Release

The share of primary agricultural production in the GDP is declining significantly, but agriculture is still playing a relevant role in the social and economic development of RS. In this case figures show a consistent diversity between RS and Federation where primary agricultural production accounts for a rather smaller percentage of the GDP.

\(^1\) Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia.

\(^2\) Source: authors calculation from the Farm Accountancy Data Network (FADN).

\(^3\) Source: authors calculation from the Farm Accountancy Data Network (FADN).
Table 3 Value added by economic sector of the Gross domestic product (%)

<table>
<thead>
<tr>
<th>Economic sector</th>
<th>Bosnia Herzegovina</th>
<th>Federation B&amp;H</th>
<th>Republic of Srpska</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2002</td>
<td>2003</td>
<td>2004</td>
</tr>
<tr>
<td>Agriculture*</td>
<td>12.11</td>
<td>11.46</td>
<td>10.41</td>
</tr>
<tr>
<td>Industry</td>
<td>26.03</td>
<td>26.83</td>
<td>24.34</td>
</tr>
<tr>
<td>Services</td>
<td>61.86</td>
<td>61.69</td>
<td>65.25</td>
</tr>
<tr>
<td>Total**</td>
<td>100,00</td>
<td>100,00</td>
<td>100,00</td>
</tr>
</tbody>
</table>

Source: author's calculation from BHAS – Bosnia Herzegovina Statistical Agency
* Including hunting, forestry and fishery. ** Total includes also the Brcko District.

3. THE AGRICULTURAL SUPPORT SYSTEM

The agricultural support system of RS can be considered relatively weak taking into account that in the last decade the agricultural budget never exceeded the 3% of the national budget and that the policy measures adopted have been often characterized by a short term perspective and by regular annual revisions.

Among the tendencies that have characterized the agricultural support system in the last seven years (2000-2007) it is relevant to highlight the following:

- more than the 50% of the agricultural budget has been allocated to direct support to production and to income support in particular for certain products (milk, seed, and tobacco);
- many analysts agree that a significant amount of subsidies tends to end in the pockets of a negligible part of producers;  
- funds for agricultural credit have been often characterized by an unclear mechanism of functioning, however with the new strategy this funds should be partially transferred to rural development;  
- a not so negligible category is represented by those subsidies that are allocated by Ministry decision or under diverse "development programs" characterized by lack of information regarding purpose and selection criteria;  
- veterinary grants have been allocated more for establishment and financing of veterinary institutions then for animal health protection.

![Subsidies by type of expenditure (2000-2007)](image)

Source: author’s elaboration

In the period 2000-2006 budget funds have been directed through 47 different items, a so wide spectrum could suggest on the one hand that policy aims have been largely unclear and on the other hand that subsidies allocation has been characterized by a significant social component. However the total volume of funds has increased significantly in the period passing from 7.5 million KM in 2000 to 40 million KM in 2006 (the figure for 2007 should exceed 50 million KM).

During 2006 the Ministry of Agriculture has carried out important reforms and created and adopted three major documents: the “Strategy for agricultural development of the Republic of Srpska by 2015” (including a new model for

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1 Vasko, 2006.
agricultural subsidies); an action plan for the implementation of the strategy; and a new regulation on subsidies. All three documents come out with the following understanding:

1. RS Government shall channel its support to the agrarian sector through the "Agrarian budget" and the total amount of resources should reach the 6% of the domestic revenues during the first phase of the strategy and the 8% during the second phase.

2. Agricultural support should be addressed through the current system of subsidies and incentives (axis 1), through support to development programmes (axis 2), and through support to rural development and non-commercial holdings (axis 3).

3. In the course of the initial three years of the realization of the Strategy, the ratio of resources directed should amount to 40 (axis 1):40 (axis 2):20 (axis 3), and following the period of three years, the ratio should shift to 30:50:20. Therefore, in both of the periods the emphasis is put on development (axis 2 and axis 3), with 60%, i.e. 70% of the volume of support, from the aspect of multi-functional development of agriculture.

4. SURVEY AREA AND METHODOLOGICAL APPROACH

A survey based on a structured questionnaire has been leaded in order to overcome some of the constraints related to the scarcity of data and to gain a deeper insight into the production structures and conditions of farms with a particular attention on market opportunities and subsidies structure. A better identification of key farming and socio-economic characteristics of agricultural households has been considered as an essential background for policy analysis.

The survey involved 215 agricultural households and has been leaded in the regions of Banjaluka, Doboj, Bijeljina, Sokolac and Trebinje.

The survey does not aim to be exhaustive and authors are aware of the limits of this approach. However the survey and the methodological approach that has been used have been considered relevant in order to gather additional and updated field information.

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1 The questionnaire has been prepared by and the survey coordinated by Renata Rakic (Agency for Extension Service of Republic of Srpska), Gordana Rokvic (Department of Agricultural Economics, University of Banjaluka), Matteo Vittuari (Department of Agricultural Economics and Engineering, University of Bologna).
5. EVIDENCE FROM SURVEY DATA

Within the scope and the limits indicated the survey suggested a number of evidences.

The sample in the survey respects the farm size indicated by the last estimations (a large number of farms under 5 ha and suggests significant regional differences (in Trebinje area farm size is particularly low due to natural conditions).

Land ownership is still under a transition process. Many agricultural households do not have formal documents (in some cases land “belongs to grandfathers”; in other cases the process of registration is “ongoing”), moreover in a significant number of cases land is “rented” without any contract. An exception is represented by the few big producers who are in possession of the legal documents for the land they have rented. This situation could suggest a strong institutional and organizational weakness.

Most of the farms are not specialized (this is linked also with size) and production is mainly oriented to subsistence (labour is largely the main input) so the way for market and competitiveness is in many cases relatively far away. Exceptions are represented by the few big producers in Banjaluka, Bijeljina and Doboj area who are predominantly market oriented.

Farms based on meat and milk production are mostly market oriented (in more than the 50% of the cases). Some of the reasons behind the development of this sector can be identify: a well developed milk processing industry, a well structured shredded milk collection network, the opportunity for a valuable monthly income for small farmers, low market costs and fixed investments.

Milk and meat processed products are predominantly produced for self consumption with the exception of Doboj and Trebinje area. This can be partially explained considering that both Doboj and Trebinje are characterized by a number of positive experiences related to farm markets, traditional cheese brands, direct farm sales, developed service capacities, tourism. However, on farm meat processing remains rare also because of the relevance of live animal market within the Country.

The credit system is not used by the majority of agricultural households due to the high interest rates requested; moreover a major constraint is representing also by the request of significant collaterals. In same areas micro credit organization represent a positive and effective tools.

A correlation between access to credit and access to subsidies have to be observed. Farmers who do not have access to subsidies usually do not have access either to credit or micro-credit. Small size, age and low education level are among the main causes.
Overall more than 50% of the interviewed agricultural households have received subsidies, but relevant regional disparities have to be underlined. Subsidies have been received by the 65% of agricultural households in Doboj area and only by the 20% in Trebinje area. This diversity in subsidies distribution can be partially explained with the diversity of farm size within the regions: large farms in Banja Luka and Doboj receive the largest share of subsidies.

The subsidy system is considered extremely complicated by a large group of households who find the main element of complexity in the fact that in the last years the system has been deeply modified on a yearly basis.

Subsidies are extremely fragmented and fail to promote specialization or competitiveness. The survey shows that almost the 80% of subsidy recipients obtain less then 900 KM per year. Moreover subsidies have been received in a large majority for production and only a small share have been received for the purchasing of new equipment or the modernization of facilities.

The majority of the agricultural households are not member either of a cooperative or of an association. The situation is largely common in transition countries, where agriculture cooperatives played a big role in former system. In RS more that 300 “old” cooperatives are still formally existing and most of the cases they are not functioning but they are still in control of valuable and large properties. This situation has a significant impact on the farmer’s perception of the cooperative system. So mistrust is still a major constraint for the creation of associations and of a new model of cooperative.

The absence of associations and cooperatives can be considered a major obstacle for joint investment and marketing activities and so an unused opportunity to foster farm competitiveness.

Most of the agricultural households sell directly on farmer markets since these offer them the best price considering the small quantity of product they sell. Moreover the farmers that sell to the processing industry are generally from Banja Luka area where processing facilities are located. In some areas (Sokolac and Trebinje in particular) farmer markets represent the only possible connection with the market.

CONCLUSIONS

RS subsidy system is characterized by a acute fragmentation in quality (47 different items have been financed in the 2000-2007 period) and in quantity terms (the survey has suggested that a large group of recipient gets a rather small share of subsidies per capita, several analyst agree that a significant share of subsidies is allocated to a negligible group of recipients). In this frame subsidies have a dual
role: a short term — social character for a large group of beneficiaries; a long term — development character for a negligible group of beneficiaries. So except for the case of few recipients the subsidy system fail in the promotion of specialization, modernization and competitiveness. To some extent it is possible to recognize a significant fracture between agricultural administration and farmers. A more exhaustive analysis on the effect of subsidies and on the characteristics (and needs) of the recipients should be made in order to target agricultural and rural development measures in a more effective way.

The new Strategy for Agricultural Development partially overcame this short term perspective and this irrational utilization of subsidies even if, especially in consideration of the mentioned fracture between agricultural administration and farmers, it will be relevant to see how the implementation phase will work. On the one hand the Strategy do not fail to consider the needs for competitiveness and modernization and takes into account the major issues related to European integration. But on the other hand there are no specific measures to support the transition of non-commercial holdings. Non-commercial holdings support is included in the upcoming strategy for rural development that should account for the 20% of a particularly poor agricultural budget. Considering the huge number of small holdings „to reach the farmers“ could a challenging task.

The unclear and short term agricultural strategy that characterized RS in the last years contributed to create an uncertain environment where trust and reliability can be considered as major issues. On the other hand the lack of trust is also the major constraint that affects the development of associations and cooperatives. Agricultural organization are necessary not only to promote the access to technological inputs, commercialization, marketing and competitiveness, but they are also necessary to create conditions for farmers to have more influence in the political arena and over agricultural legislation.

A rural development strategy could be crucial to encourage the vitality of rural areas. Competitiveness, modernization and European integration have to be milestones of the policy goals. However it is essential to define an appropriate and sustainable model of agriculture characterized by an autonomous process of modernization. In the conception of this model it should be essential to identify the farmers and their needs and to define the main characteristics of the agricultural and rural systems of RS.
REFERENCES


2. BHAS – Bosnia Herzegovina Statistical Agency, *various statistical bulletin and publication*.


6. Republika Srpska, Institute of Statistics, *various statistical bulletin and publication*.
