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# **AGRICULTURE IN POST-WAR BOSNIA AND HERZEGOVINA: SOCIAL BUFFER VS. DEVELOPMENT**

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#### ABSTRACT

This paper draws attention to the specific post-civil-war situation in agriculture and the food sector in Bosnia and Herzegovina (B&H). These developments are presented in an association with the overall situation in the country. Due to economic and non-economic reasons, B&H faces a general problem of a lack of international competitiveness. In a current situation, there are rare products to be internationally competitive and the country relies on imports of food and other products. During the post-civil-war emergency and reconstruction stage, the bulk of food and agricultural inputs, were donated or granted by different governments, humanitarian organizations, and donors to mitigate the effects of widespread poverty caused by the war destructions and economic declines. During a development stage, recovery in the agricultural sector is burdened by the considerable lack of international competitiveness in food processing and marketing as well as by several sectors, institutional, and general economic problems. The rate of unemployment in B&H is high, and agricultural households are the important units providing food security for rural populations and relatives living in towns. Nevertheless, around half of agricultural land resources are unutilised, and even more striking is the “illegally occupied” agricultural land, which is one of the most significant in the structure of land leasing arrangements.

Key words: poverty, social buffer, land leasing, Bosnia and Herzegovina.

JEL classification: Q15, Q18, O13, O52.

## 1. Introduction

Bosnia and Herzegovina (B&H) is a specific country in Europe in many senses. Unlike to most other ex-socialist Central and Eastern European countries (CEECs), where after the collapse of the previous system the reformed governments introduced macro-economic stabilization and structural reforms inducing transition to a market economy, the collapse of the previous system and the independence of B&H in 1992 in a fact caused the brutal civil war, lasting until 1995 and causing widespread destruction. Following the Dayton accord, B&H occurred as a state comprised of two entities: the Federation of Bosnia and Herzegovina (FB&H) and the Republika Srpska (RS), while the district Brčko as autonomous units within B&H. In spite of generous post-war international humanitarian actions, emergency and reconstruction programs and projects, B&H experiences economic difficulties and problems as well as poverty of low income groups and in certain territorial areas. In such economic situation with high unemployment, the agricultural households play a considerable social buffer role providing food security for broader farm households' members in rural and urban areas. Private agricultural households run most of agricultural farming activities in B&H and the subsistence farming is similar to some other less developed CEECs largely a consequence of the worsened overall economic situation (Tho Seeth et al., 1988; Caskie, 2000). Due to this, the role of agriculture in the economy is much greater than it is recorded in the official statistics. The official statistics record around 3 per cent of registered employment in the economy in the former state agricultural enterprises and other organizations. However, due to the prevailing peasants type of agricultural households, there is few times greater percentage of (unofficial) employment in a large subsistence farming. Among them are particularly seasonal workers and (officially) unemployed in rural areas. Some of them returned back to rural areas from towns. Therefore, the agricultural sector in B&H provides food security to a large part of population thus mitigating a social burden of economic reform and restructuring as well as reducing rural poverty.



One of the crucial elements of agricultural reforms in most transition CEECs has been land reform and farm restructuring (e.g. Swinnen, Buckwell, Mathijs, 1997; Csaki and Lerman, 1997; Lerman et al., 2004). B&H is one of a rare CEEC that has not followed this general reform and transition patterns. Due to internal policy constraints, the civil war and later due to organizational and institutional problems, processes of reforms, transition and restructuring were slowdown. With lack of proper incentive mechanisms and persistence of distortions in the economy, a large proportion of agricultural potentials are allocated or used inefficiently. The considerable percentage of arable land is uncultivated. Unlike to most other CEECs, B&H experiences a large percentage of unsettled land ownership and particularly a great percentage of illegally occupied land. Of course, such leasing arrangements are unconventional and inconsistent in land leasing arrangements in the developed market economies. Unclear land ownership and land operation structures hinder investments into agriculture. We draw attention to this specific phenomenon, which hinders more rapid recovery of agricultural production.

We first briefly present the role of agriculture in the economy of B&H. After then we provide evidence on the specific land leasing arrangements occurring in the post war B&H. Finally, we present policy implications.

## **2. Agriculture in the economy of B&H**

Agriculture in the economy of B&H is still one of the most important economic sectors providing food security for a significant part of rural population. A large proportion of labour is in rural areas where agriculture plays crucial role. With job destruction in non-agricultural activities, the civil war destruction and the associated economic declines, a large proportion of employees in industrial activities have been transferred into unemployment or into (hidden) agricultural and rural unemployment. In B&H more than a half of million of the labour force is in one or another way in unemployment. Around 75 per cent of the active labour force younger than 30 years is without jobs. The great percentage of unemployed is taken over by agricultural households. According to some estimates approximately each agricultural households in B&H has at least one member, which in a fact is searching for employment out of the agricultural households. Due to a lack of employment opportunities, several unemployed are continuing to live in agricultural households. The major proportion of small-scale family farms, which prevails in B&H agriculture, they are subsistence farms, largely producing food for home consumption within agricultural households. They are only partly selling surpluses of agricultural produces. Due to considerable delays in privatisation, restructuring and transformation in the economy of B&H, agriculture and the food sector face sever problems associated with low productivity, surpluses of labour in agriculture, lack of quality and price competitiveness in international trade. The lack of international competitiveness is confirmed by a large trade deficit in agricultural and food products (e.g. Bojnec, 2004).



**Table 1. Agriculture share in value-added in Federation of Bosnia and Herzegovina and in Republika Srpska**

	1997	1998	1999	2000	2001	2002
<i>Federation of Bosnia and Herzegovina (FB&amp;H)</i>						
Agriculture, hunting and forestry (million Convertible Marks - KM)	579.0	612.2	563.6	486.6	522.0	545.1
% Gross Value Added (GVA)	14.4	13.2	11.3	9.1	9	8.7
% Gross Domestic Product GDP	11.7	10.9	9.2	7.2	7.2	6.9
Fishing (million KM)	1.1	1.7	0.1	1.3	0.2	1.1
Percent of GVA	0.03	0.04	0.02	0.02	0	0.02
Percent of GDP	0.02	0.03	0.01	0.02	0	0.01
GVA at basic prices (million KM))	4,028.1	4,645.2	5,006.4	5,348.6	5,785.7	6,281.5
GDP at market prices (million KM)	4,943.1	5,606.1	6,142.1	6,722.6	7,273.9	7,942.7
<i>Republika Srpska (RS)</i>						
Agriculture, hunting and forestry (million KM)				551.5	568.2	568.6
Percent of GVA				24.5	23.3	21.1
Percent of GDP				20.2	19.0	16.6
Fishing (million KM)				1.3	1.5	1.2
Percent of GVA				0.06	0.06	0.04
Percent GDP				0.05	0.05	0.03
Gross value added (GVA) at basic prices (million KM))				2,253.2	2,434.1	2,700.2
Gross domestic product (GDP ) at market prices (million KM)				2,734.3	2,992.7	3,417.5

*Source:* Statistical Office of FB&H and Statistical Office of RS.

In official statistics, data for B&H are often presented by two main entities: FB&H and RS. According to statistical data, agriculture, hunting and forestry contributes around 7 per cent to GDP in FB&H and 17 per cent to GDP in RS (Table 1), but this evidence is likely to underestimate the role of agriculture in B&H. Agriculture in B&H plays a considerable role in grey economy and several informal economy activities, which contribute an additional 40 per cent to GDP in the economy. Considering the importance of agriculture in the hidden economy of B&H and agriculture plays much greater significance that it is often recorded. According to Lackó (2000) the hidden economy represents an important role also in some market economies, but its role is much greater in less-developed transition economies and in some of the former Soviet Union's Republics.

### 3. Agricultural households and hidden economy

Studies, which have been conducted for B&H, particularly by the World Bank (1998, 1999), underline a problem of widespread poverty and inequality by regions. Bisogno and Chong (2002) report that 27.3 per cent of the population of B&H is considered poor, and 11.5 per cent as "extremely" poor. Entity differences in poverty are significant. The poverty rate in the FB&H is recorded at 21.5 per cent (8.1 per cent as extremely poor) and at 51.9 per cent in the RS (24.1 per cent as extremely poor). The international humanitarian and donor's assistance have targeted some poverty problems. All the time poverty, particularly in rural areas, has been reduced by the remittances from Diaspora or relatives working abroad. As the significance of the humanitarian and donor's emergency and reconstruction assistance has been reduced considerably, several social problems in a relatively weak economy of B&H are taken over by agriculture.



Around a half of million of agricultural holdings are in B&H. Small-scale family farmers of average size of around 3 ha of agricultural land per farm own around 83.5 per cent of agricultural land in FB&H. They play a substantial social buffer role as around 50 per cent of the population is economically connected to agriculture producing for home consumption needs. Farm structures in RS are similar, but due to more severe economic situation and widespread poverty the role of agriculture in mitigating social burdens is even more important.

According to LSMS (2001), in B&H agricultural households represent 48.0 per cent of all households, in FB&H 41.2 per cent and in RS 59.1 per cent. The percentages of agricultural households, which are engaged in land cultivating, are 44.1 per cent in B&H, 38.3 per cent in FB&H and 53.7 per cent in RS. The percentage of households that rented out land is 7.5 per cent in B&H, 5.1 per cent in FB&H and 11.3 per cent in RS. A substantial percentage of land is used, but not owned, by other households, which is a bit more important in RS than in FB&H.

Table 2. Land use by households in Bosnia and Herzegovina (B&H), 2000/2001 (in per cent)

	Bosnia and Herzegovina (B&H)				Republika Srpska (RS)				Federation of Bosnia and Herzegovina (FB&H)			
	Land use regardless of ownership		Land owned by the household but used by other households		Land use regardless of ownership		Land owned by the household but used by other households		Land use regardless of ownership		Land owned by the household but used by other households	
	House.	Plot	House.	Plot	House.	Plot	House.	Plot	House.	Plot	House.	Plot
Arable land	89.9	48.9	62.2	34.5	91.0	42.0	67.6	39.0	89.0	58.4	55.1	28.3
Orchard	20.5	7.0	16.9	6.9	36.9	9.7	18.9	8.1	7.1	3.3	14.3	5.1
Vineyard	1.6	0.5	0.3	0.1	0.1	0.02	-	-	2.9	1.3	0.7	0.2
Meadow	38.7	23.0	47.8	31.7	51.0	25.4	42.8	24.0	28.5	19.7	54.5	42.3
Pasture	11.0	4.7	14.5	6.7	19.5	5.9	12.1	4.6	4.1	3.0	17.7	9.7
Forest	25.6	10.2	26.3	11.9	33.5	10.0	33.9	14.4	19.2	10.5	16.1	8.2
Water Surface	0.02	0.02	0.7	0.2	0.04	0.03	1.3	0.4	-	-	-	-
Yard	12.6	4.2	11.7	3.8	20.1	5.2	12.0	3.9	6.4	2.8	11.3	3.8
Fallow and uncultivated land	4.0	1.5	9.1	4.0	6.5	1.8	11.2	5.1	2.0	1.1	6.3	2.4

Note: House. = Household.

Source: LSMS (2001).

Table 2 shows that 90 per cent of households are cultivating arable land and only 49 per cent of plots of arable land are cultivated suggesting that a substantial percentage of arable land is uncultivated. It seems that less arable land is cultivated in RS (35 per cent of plots is cultivated) than in FB&H (58 per cent of plots is cultivated)

In the land use structure of B&H around a half of the land surface is under forestland and a substantial part is under meadows and pastures. This is consistent with the geographical structures of the country with meadows, pastures, and forestland in hills and mountain areas. Cereals are the most important for cultivation of arable land in B&H. More than half of area sown is under cereals. After that by the importance are feed crops and vegetables, but less industrial crops.

One of the striking features observed in the land use structures is that more than 43 per cent of arable land and gardens is fallow and uncultivated arable land. In FB&H, the percentage of fallow and uncultivated arable land is around 51 per cent, thus above the country average. The percentage of fallow and uncultivated arable land in RS is around 43 per cent. Besides some land, which is still



under the mines, the large proportion of uncultivated land is due to different country specific factors such as unclear ownership and property rights partly due to postponed restitution and particularly due to expelled/replaced people and some other economic and non-economic reasons.

The statistical evidence on employment by activities captures only employment in the former agricultural enterprises and agricultural cooperatives, which represents only a minor part of employment in agriculture in B&H. According to LSMS (2001) in agriculture and fishing of B&H is 15 per cent of labour. This percentage is less in FB&H (11.5 per cent) and greater in RS (19.7 per cent) (Table 3). The frequency in agricultural labour participation by age is the greatest for ages greater than 50 years, and the lowest for ages between 25 and 49 years. This clearly indicates that the age matter for agricultural employment. As already documented for some other transition CEECs, many elderly and low skilled workers were laid off, and moved from unemployment into farming (e.g. Tho Seeth, 1998; Earle and Sakova, 2000; Lerman et al., 2004). This labour shift into farming is more significant in less developed CEECs, as it is the case for B&H without any serious budgetary social transfers or pension system delivering cash flows into rural areas. As unemployment is high, the unemployed are pushed to accept any possible job. As jobs in B&H are limited, self-employment or hidden employment in the agricultural household has grown rapidly.

Therefore, the agricultural sector in B&H plays an important socio-economic role in informal, grey economy providing employment and food security for unemployed young and elderly people in rural areas and those who lost employment and incomes in other activities, including in urban areas. Unemployed in agriculture in B&H are without any formal status. According to estimates by Ministry of Agriculture in RS, agriculture is burdened with a surplus of labor in an amount of around 80 per cent of the labor contingent in agriculture. Also in the Ministry of Agriculture of FB&H argued that the significance of agriculture in employment is greater is much greater than recorded by statistics. Around 18% of the population seems to be engaged in agricultural production. With further reform processes in the B&H economy and until a substantial economic recovery and job creation are not achieved, hidden (un)employment in agriculture and in rural areas is likely to continue. With a considerable surplus of labour, but providing food safety/security in rural areas, agriculture is the sector important not only for full-time employment, but particularly as a social buffer. This is likely to continue until other jobs and income opportunities in non-agricultural activities do not occur.

Table 3. Number and age composition of employees in agriculture and fishing of B&H (in per cent)

	Total	Age groups		
		19-24	25-49	50-55/60
Bosnia and Herzegovina (B&H)	15.02	18.34	12.97	21.46
Republika Srpska (RS)	19.73	25.07	16.81	27.10
Federation of Bosnia and Herzegovina (FB&H)	11.45	13.85	10.23	15.65

Source: LSMS (2001).

As in many other developing countries with prevailing small-scale farming, milk is a key product in a large number of small-scale family farms. In FB&H are around 140-150 thousand milk cows. At a similar level is also the number of milk cows in RS. Dairies are important for regular purchase of milk from farmers. In RS there are around 15-16 dairies that conduct the purchase of milk. The lowest number of dairy cows in FB&H is recorded in 2001. Since then, some recovery is recorded associated with more targeted government support towards commercial dairy farmers and with support by dairies in setting up of milk collection centres in villages and by introducing





contractual relations by dairies with farmers for purchases of milk. Milk production has increased also due to higher yields per cow. However, yields per cow in B&H are still among the lowest in Europe. Low efficiency and lack in international competitiveness are the reason that around 100 million liters of milk are imported annually, which is largely used for direct human consumption in urban areas. For example, the GTZ (2001) study records that in 2001 domestic milk consumption in B&H was 391 million liters and domestic production 293 million liters. This indicates that 75 per cent of domestic milk consumption was covered by domestic milk production. Imports of milk were 98 million liters.

#### **4. Agricultural land issues**

Agricultural land reform and farm restructuring have been one of the most widely analysed agricultural and food subjects in the CEECs during the transition process (e.g. Csaki and Lerman, 1997; Swinnen, at al., 1999). Lerman (2001) and Lerman at al. (2004) argue some similarities and differences in agricultural developments in the CEECs from common heritage or from rather similar initial conditions to divergence in later developments. This holds for agricultural transition in general as well as for privatisation and land reform, farm restructuring, and land market. Due to the postponed reform and restructuring processes, and thus due to delays in the transition process, B&H could be included among group of CEECs, which are in a need to speed up transition process and adjust their agricultural and the food sectors towards the EU and international standards.

Similar to the other former Yugoslav states (e.g. Croatia, FYR of Macedonia, Serbia and Montenegro, and Slovenia), within the common Yugoslav legal and institutional frameworks, most of agricultural land in B&H was privately owned. In 1991, 15 per cent of arable land was in state ownership and 85 per cent in private ownership, and vice versa for forests, pastures, and meadows. For total land ratio private vs. state ownership was 50 per cent : 50 per cent. The private land ownership has been strengthened further during the most recent years. In 2003, evidence on land ownership structures indicates that around 90 per cent of agricultural land in FB&H and around 95 per cent in RS was in private ownership. However, one of the striking feature in agricultural land structures in B&H is the fact that almost 50 per cent of arable land is uncultivated. The reasons why so a great proportion of arable land is uncultivated are different from economic to non-economic ones. During the socialist period, around 10 per cent of agricultural land in B&H was within the state agricultural enterprises and agricultural cooperatives. Several of them are not active anymore and hence most of this land is uncultivated also due to unclear property rights, legal and institutional factors. The differences have also occurred within B&H between entities and even across municipalities within entities. In FB&H the management and operation of the former socialist land is in responsibility of cantons and municipalities. This decentralised management and operation in an absence of settled information system and within relatively weak institutions have caused some efficiency in management and particularly failures in more transparent management. In an absence of clear rules, each cantons and even municipalities have been resolving similar situations in different ways. Yet, some agricultural land is uncultivated, because some land is still under the mines. However, one of the most significant and the country's specific features are the unclear land ownership/property rights and land operation rights. B&H is still characterised by displaced people, who moved from one to another entities. As they might leave owned land in one entity, but now might cultivate foreign land in another entity, the "illegally occupied" land has occurred as an important element in land operation structures. This and similar differences in land evidence also calls for more accurate information system on both land ownership and land operation.





**Table 4. Land use in Bosnia and Herzegovina (B&H), 2000/2001 (in per cent)**

	Bosnia and Herzegovina (B&H)				Republika Srpska (RS)				Federation of Bosnia and Herzegovina (FB&H)			
	Land use by the plot status		Rented land by the type of contract*		Land use by the plot status		Rented land by the type of contract*		Land use by the plot status		Rented land by the type of contract*	
	House.	Plot	House.	Plot	House.	Plot	House.	Plot	House.	Plot	House.	Plot
Ownership/joint ownership	87.5	86.9			87.6	85.7			87.4	88.6		
Rented	7.4	3.6			11.1	4.3			4.3	2.6		
Given for use	16.4	9.5			20.0	10.0			13.5	8.8		
For rented or given for use												
Rent	21.9	22.4	11.0	5.5	29.5	25.3	9.7	5.5	11.2	17.5	12.9	5.4
Sharecropping	5.2	3.5	5.3	2.4	7.4	4.4	7.6	3.0	2.0	2.0	2.2	1.6
Non-reimbursed	62.6	64.1	25.4	15.9	57.3	62.9	22.1	16.7	70.2	66.1	29.7	14.8
Exchange	2.5	1.5	6.0	3.1	3.9	2.1	2.0	0.8	0.7	0.4	11.3	6.3
Illegally occupied			28.1	38.2			27.1	37.3			29.4	39.5
Other	11.5	8.5	31.1	34.3	6.4	5.2	37.9	35.5	18.8	14.1	21.9	32.6

\* Land owned by household but used by other household by the type of contract with the landowner.

Source: LSMS (2001).

Most of land use by the plot status is in own- or joint ownership (Table 4). The percentage of rented land is greater in RS than in FB&H. As already stated, the most peculiar for B&H is the high significance of cultivation of illegally occupied land. Besides this, a high significance holds also for the category of rented land without reimbursement. The peculiarities in land use and in land leasing arrangements in B&H substantially differ from similar practices in developed market economies, and even differ from practices, which is possible to find in most transition CEECs (for comparison, see Lerman et al., 2004). This clearly suggests that agricultural efficiency and food security in B&H is substantially hindered by institutional limitations and policy constraints such as with unclear land ownership and property rights as well as land cultivation and land leasing practices which in B&H are often not common to practices one could find them in market economies.

## 5. Conclusions and policy implications

Agriculture and the food sector in B&H have experienced patterns in developments, which are typical for developing and less developed countries. In spite of a considerable amount of international humanitarian and donor's assistance during the previous years, B&H is struggling with economic recovery to bring the necessary growth important for job creation and poverty reductions. In the current situation of economic restructuring and high unemployment, the significance of agriculture and agricultural households in providing employment and incomes in B&H is much greater than official figures usually indicate. Around a half of all households in B&H are agricultural ones. Most of rural population in B&H live on small-scale family farms where agriculture provides food security for those without incomes from other economic activities.

While during the immediate post-civil war years, the international humanitarian, emergency and donor's assistance were important for mitigating the effects of poverty, this kind international support has declined considerably during the most recent years. B&H should now more rely on own resources



and support through development projects and programs. As B&H rural areas are significant by Diaspora working abroad, an important source of incomes of agricultural households are also remittances and pensions from abroad. They mitigate more severe rural problems and improve income security in rural areas. These money inflows are also important for generating cash-flow-activities in rural areas.

Several transition CEECs have moved in direction of integration into the EU. Among the former Yugoslav states, so far only Slovenia has entered into the EU. The initial level of economic development as well as some other economic conditions across the former Yugoslav republics differed, but the development gaps have now widened much further. After the collapsed of the former Yugoslavia, B&H has faced instabilities and impacts of some factors, which have affected negatively its level of economic and social development. Some of them were the country specific factors associated to some failures in design and implementation of reforms and transition process. However, B&H has faced also the considerable war destructions, and after the civil war, the post-war political and institutional divisions by entities. They have caused delays in reforms, transformation and institution building, which have had also implications for agriculture and the food sector. Around 50 per cent of arable land in B&H is uncultivated due to different economic and non-economic reasons such as partly the presence of mines, and particularly the unsettled land ownership/property rights and land operation practices caused by expelled/replaced people and because the land reform has not started yet. The existent legal and regulatory frameworks for agricultural land ownership and operation seem not be respected neither in FB&H nor in RS. Within unsettled property, leasing and operation rights related to agricultural land and other agricultural assets, in practise are occurring leasing arrangements, which often lacks consistent rules and transparency. The statistical and/or geodetic evidence on land use is inaccurate, but the survey estimates clearly indicate the significance of the uncultivated land. The significant role in land cultivation practices play illegal land occupation and use, which practices, of course, are inconsistent to leasing arrangements for a market economy.

B&H has traditionally been a net importer of several agricultural and food products. This particularly holds for cereals and some other crops. Trade deficit in most agricultural and food products has deteriorated further since the end of the civil war. In 2003, the coverage of imports with exports is between 5 per cent and 30 per cent for most product groups (e.g. Bojnec, 2004). Badly performed former socially-owned food processing enterprises, lack of foreign direct investments and slow growth of small and medium-sized enterprises are considerable constraints for the food chain efficiency and competitiveness as a whole. Only small percentage of farmers is commercially oriented. Products from most of small-scale farmers are accessible at higher costs of delivery and market organization, which are many times higher than for imported products. In several cases agricultural households are more social rather than commercial farms taking over burden of transition and labor shedding in other economic activities.

Underdeveloped marketing and food processing, and underdeveloped or inexistent institutions for standardization, certification and control of food quality to comply with the EU rules and export requirements are one of the most considerable constraints for agricultural and food sector international competitiveness. The commercialisation of individual agricultural households is emerging, but the large majority of farming is subsistence one as there are also limited opportunities to sell. The previous business and trade relations collapsed or are not successfully replaced by new organizational and institutional forms. Thus domestic agricultural, processing and marketing chains are still not



organized in a way to be able to successfully compete to imported food largely covering urban food consumption needs.

Due to natural and some structural conditions, B&H does not have opportunities for a massive crop production. However, B&H does have opportunities to develop competitive production relying more on less input intensive production and on niche products. B&H is relatively abounded with grassland (meadows and pastures in mountainous areas) where can be developed high value-added organic and ecological products under strict quality control and developed certification system. This may provide opportunities for future farm commercialisation. However, as in many countries around the world, the decline in subsistence farming, and the greater increase in farm concentration and farm commercialisation are possible only in a synergy with the rest of the economy, which in B&H is recovering from a deep depression and an aid based economy towards more development oriented, market driven growth.

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