

## **AGRICULTURAL POLICY OF BOSNIA AND HERZEGOVINA AND THE CHALLENGES OF EU INTEGRATION PROCESSES\***

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### **Abstract**

Agriculture in Bosnia and Herzegovina faces numerous challenges, including global crises such as the COVID-19 pandemic and the Russia-Ukraine war, regional issues like African swine fever, and increasingly severe impacts of climate change. On the other hand, BiH is clearly committed to EU integration, as reflected in current state and entity-level strategic documents. Moreover, the country's efforts to accelerate the harmonization of its agricultural policy with the EU Common Agricultural Policy (CAP) have been further motivated by the granting of candidate status in 2022 and negotiation status in 2024 for full EU membership. This paper provides an overview of the development of agricultural policy in BiH from 2014 to 2023 at the state and entity levels (including the Brčko District of BiH) to assess the level of harmonization with the EU CAP using the unique APMC methodology for classifying and visualizing agricultural budget transfers. The analysis covers three groups of measures: (1) market measures and direct support to producers, (2) structural measures and rural development measures, and (3) general agricultural measures. Key macroeconomic indicators such as gross value added, employment levels, and trade balance were analyzed to obtain a comprehensive picture of the current state of the agricultural sector and its significance for the economy of BiH. An important contribution of the paper is comparing Bosnia and Herzegovina's agricultural policy with those of the Western Balkan countries. The main conclusion that can be drawn from this paper is that agriculture is an important sector of Bosnia and Herzegovina's economy, with budgetary transfers to this sector showing a growing trend. However, the process of harmonization with the EU *acquis* is slow and requires greater decisiveness from policymakers, faster adoption of the legislative framework, and appropriate legal solutions, along with the necessary institutional strengthening to address the current challenges of the EU integration process.

**Keywords:** *agricultural policy, BiH, EU, CAP, integration processes*

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## INTRODUCTION

The agricultural sector represents a key segment of the social and economic life of BiH, given that a significant portion of the population still lives in rural areas and is engaged in agriculture. On the other hand, rural communities in BiH continue to face numerous challenges, including slow productivity growth, high unemployment rates, ongoing depopulation, and fragmentation of agricultural land. Small farms with fragmented plots and low levels of technical and technological equipment are primarily involved in subsistence farming, with minimal surpluses for sale. This results in low productivity, low incomes, small quantities, and questionable quality and consistency of market production (FMAWMF, 2022)

As in most Western Balkan countries, the development of the agricultural sector in BiH is insufficient and is a result of weak value chain organization, lack of modernization and application of new technologies, and a non-functional system for knowledge transfer and innovation to support the sector (Erjavec *et al.*, 2021; Kotevska & Martinovska Stojcheska, 2015).

Policy-making in the agri-food sector is a complex process due to the various subsectors, objectives, and behavior of numerous stakeholders, highlighting the multifaceted role of agricultural policy in regulating and supporting actors, as well as in meeting the needs of producers and the wider public. Commitment to the EU path entails stronger investment in improvement, competitiveness, and alignment with standards, which requires significant resources and the attention of policymakers (Erjavec *et al.*, 2021). Alignment with the EUCAP is a priority for BiH, as the efficiency of the agricultural sector is crucial for achieving economic and social goals while adhering to environmental standards. All of this underscores the need for greater and bolder engagement by decision-makers in the creation and implementation of agricultural policies at all levels of government in BiH.

Agricultural policy in BiH is implemented at the level of three administrative units: the Federation of BiH, the Republika Srpska, and the Brčko District of BiH. At the state level, the policy primarily focuses on regulating the trade of agricultural and food products and coordinating various relevant areas. Although actual policy-making occurs at the entity level, a national strategic framework is equally important, as it supports BiH's process of EU integration and serves as a prerequisite for accessing EU pre-accession funds.

This is particularly significant considering that, by the end of 2022, BiH became an EU candidate country, and at the beginning of 2024, the EU decided to open accession negotiations with BiH. To enter the process effectively, it is necessary to align with the CAP.

The current EU CAP focuses on renewing the objectives of a smart, resilient, and diverse agricultural sector that ensures food security; enhancing environmental protection and addressing climate change while contributing to the achievement of EU environmental and climate goals; and strengthening the socio-economic fabric of rural areas (Recanati *et al.*, 2019).

BiH remains in the early stages of alignment with the EU acquis. Although some progress has been made in agricultural policies and food safety, the country faces significant challenges regarding institutional capacities and legislative harmonization (EC Opinion for 2023). The complex political structure and decentralized governance further hinder alignment with EU standards.

To address these challenges, the governments of both BiH entities have responded by increasing overall budgetary support. Additionally, the competent ministries in both entities are actively considering amendments to agricultural and financial incentive laws, as the current regulations hinder alignment with the EU CAP.

Of particular importance is that AKIS (Agricultural Knowledge and Innovation Systems), FADN/FSDN (Farm Accountancy Data Network), the LEADER approach, and Local Action Groups (LAGs) have not yet been incorporated into agricultural laws at either the BiH or entity levels. These reforms are essential for achieving sustainable agricultural development in BiH, encompassing economic, social, and environmental dimensions.

## **MATERIALS AND METHODS**

To determine the current state of the agricultural sector and its importance to Bosnia and Herzegovina's economy, key macroeconomic indicators were analyzed, including gross value added, employment rates, and agriculture's share in the overall state budget. For a more comprehensive assessment, the level of alignment between Bosnia and Herzegovina's agricultural policy and the European Union's CAP was examined using the unique APMC methodology for classifying and visualizing budgetary transfers in agriculture. The categorization of measures within the APMC database is based on detailed data, including transfer amounts, beneficiaries, implementation criteria, specific requirements, and other relevant information (Rednak & Volk, 2010). The analysis covered three groups of measures: (1) Market measures and direct support for producers, (2) Structural measures and rural development measures, and (3) General measures in agriculture. Additionally, to better understand Bosnia and Herzegovina's agricultural policy, a comparative analysis was conducted with the policies of other Western Balkan countries. The analysis period covered ten years, from 2014 to 2023.

## **RESULTS AND DISCUSSION**

In recent years, agriculture in BiH has been marked by global challenges such as the COVID-19 pandemic, the Russia-Ukraine war, African swine fever (2023 in Republika Srpska), and increasingly pronounced climate change. These factors have led to market disruptions and a worsening trade balance for agricultural and food products, which reached €1.8 million in deficit in 2023 (BHAS, 2024).

Bosnia and Herzegovina's economy has experienced continuous growth since the downturn caused by the COVID-19 pandemic, particularly in 2020, when GDP recorded negative values (-3.1%). Recovery followed, with growth of 7.4% in 2021 and 4.1% in

2022 (CBBH, 2024). The effects of the COVID-19 pandemic underscore the need for a new approach to the agricultural sector, which has gained strategic importance not only economically but also in the context of national security (Coluccia *et al.*, 2021).

However, the share of agriculture in Bosnia and Herzegovina's GVA (Gross Value Added) has stagnated in recent years, reflecting the growth of other economic sectors that contribute more significantly to the country's overall economy. In 2017, the agriculture sector accounted for 7.1% of total GVA, but by 2023, this share had declined to 5.2% (BHAS, 2024).

The steady economic growth was accompanied by stable inflation, ranging between -1% and 2% until 2020. However, after that, the country experienced the highest recorded increase in consumer prices, reaching 14.1% in 2022 (CBBH, 2023).

Table 1. Selected general and agricultural statistics in Bosnia and Herzegovina, 2014-2023

Indicator	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>GDP, mill.EUR</b>	13,961	14,592	15,287	16,121	17,100	18,012	17,514	19,084	23,266	25,027
<b>Real growth GDP</b>	1.2	4.3	3.2	3.2	3.8	2.9	-3.0	7.4	4.2	2.2
<b>GVA, mill.EUR</b>	11,487	12,028	12,605	13,293	14,593	15,359	14,735	16,056	19,532	21,020
<b>GDP per capita, EUR</b>	3,959	4,148	4,354	4,601	4,891	5,164	5,040	5,527	6,763	7,303
<b>AgGVA, , mill.EUR</b>	832	910	975	939	1,006	1,008	1,066	1,086	1,125	1,087
<b>Employment (total, 000)</b>	812	822	801	816	822	830	1,173	1,151	1,162	1,196
<b>Employment in Ag (000)</b>	139	147	144	154	129	149	107	108	85	91

Source: SWG BA Statistics base; Central Bank of BiH

Employment in BiH has shown consistent growth, reaching 1.2 million in 2023, while the unemployment rate, based on ILO methodology, dropped to 13.2%. In the agricultural sector, however, the number of employed persons fell to 91,000 (7.6% of total employment), a significant decrease compared to 2013 (155,000 or 18.9%). This decline is not due to modernization but rather the result of negative demographic trends, rural depopulation, and reduced interest in agricultural work.

The situation in the sector, particularly in animal production, shows a trend of decreasing livestock numbers across almost all types and categories of animals in recent years. The introduction of a new methodology for collecting data on total agricultural land use in 2022 revealed a significant difference compared to previous years. Specifically, the total utilized agricultural area in BiH amounted to 534.8 thousand hectares, which is three times smaller than the figure from 2021, when, according to official statistics, the area was 1.87 million hectares. In 2022, BiH adopted a new approach and methodology for collecting agricultural statistical data, aligned with EUROSTAT, marking another step toward EU integration. Additionally, some data,

such as those related to fruit production, are now expressed in standard units of measurement, like hectares, instead of the number of trees. This approach makes Bosnia and Herzegovina's agricultural statistics officially comparable to those of EU countries. However, it should be noted that this has prevented the creation of comparable time series that include the period before 2022. The decreasing production of agricultural and food products is also reflected in the fact that BiH remains a net importer of agricultural and food products, with a constant increase in the trade deficit. In 2023, the deficit reached 1.8 billion euros, with import coverage by exports at only 23.7%. This represents a steady decline compared to previous years, when the coverage was higher—34% in 2017 and 28% in 2021. In 2023, the export of agricultural and food products amounted to 561 million euros, which accounted for 6.6% of Bosnia and Herzegovina's total exports. On the other hand, imports were worth 2.37 billion euros, or 16.7% of the total imports (FTC BiH, 2024).

Due to all the aforementioned factors indicating slow growth in the sector, decision-makers are actively considering changes to existing agricultural and financial support laws, as current regulations significantly slow down the process of alignment with the EU CAP. A particular challenge is the fact that AKIS, FADN/FSDN, the LEADER approach, and LAGs have not yet been included in the Agricultural Law at the level of BiH or its entities. For this reason, through strategic documents, efforts are being made to adopt new guidelines from relevant EU regulations, which entails introducing new measures. Some of these measures include support for local action groups and the LEADER approach, establishing AKIS, enacting new agricultural laws, and creating financial incentives for agriculture. To address these challenges, the governments of both entities in BiH have also responded by increasing overall budgetary support, particularly in 2023.

The following section of the paper presents an analysis of budgetary allocations for the agriculture and rural development sector at the level of administrative units, as well as a comparison of the achieved level of alignment with the CAP with other countries in the Western Balkans.

The total budgetary support in 2023 reached 220.7 million euros, which is 64.4% higher than the previous year (134.3 million euros) and an increase of 154.8% compared to 2019 (86.6 million euros). The main reasons for this increase lie in the significant growth of entity budgets, driven by inflation and higher VAT revenues, as well as the government's decision to allocate substantial funds to agriculture and rural development. This recognizes the sector as strategically important for strengthening food self-sufficiency, retaining rural populations, and incentivizing interest in agricultural production. An additional reason for the increase in budget transfers is the need to reduce the gap in subsidies compared to neighboring countries and the EU. In addition to the increase, the structure of the total budget for subsidies has also shifted towards sector development, with a notable increase in funding for rural development measures. However, market price policy measures and direct payments to producers still dominate the overall budget transfers, accounting for 64.5% (142.4 million euros). The second level, which includes structural measures and rural development measures,

amounts to 66.1 million euros, or 29.9%. General agricultural measures remain the least represented, with only 5.5% (12.2 million euros) of the total agricultural budget.

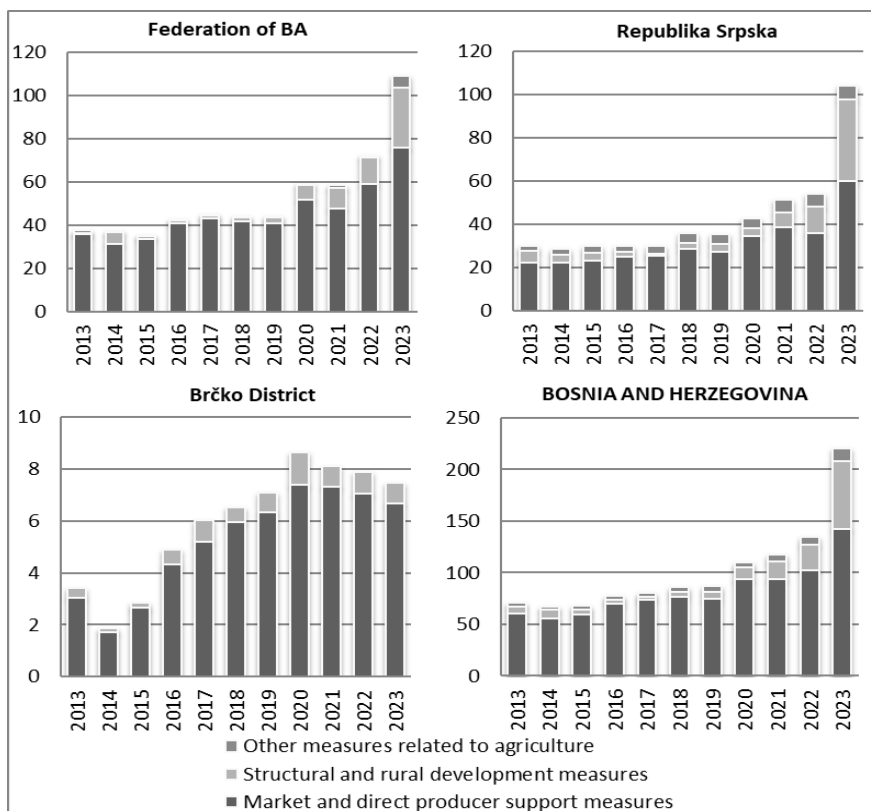


Figure 1: Breakdown of budgetary expenditure for agri-food sector and rural areas, 2013-2023, Bosnia and Herzegovina, in million EUR  
Source: BA APMC database

Observed by entities, in 2023, the Federation of BiH recorded a significant increase in its agricultural budget, reaching 108.9 million euros. Total expenditures were 51.1% higher than in 2022 and 147.9% higher than in 2019, the pre-pandemic year. This significant increase is a response to the challenges posed by the pandemic, as well as the growth of entity revenues and VAT. In the 2023 budget, the largest share (69.6%) is allocated to the first level measures, which include market and direct support to producers, amounting to a total of 75.8 million euros. Structural measures and rural development account for 27.6 million euros, or 25.4% of the budget. General agricultural measures remain neglected, with a modest share of 5.4% of the total agricultural budget of the Federation of BiH.

In the Republika Srpska, the amount of funds allocated for agricultural support in 2023 is 104.3 million euros, which is nearly twice the amount allocated during the pandemic

and three times more than in 2019. The structure of budget allocations by pillars of agricultural policy is somewhat more favorable compared to the Federation of BiH. Market and direct support measures for producers account for 57.4%, or 59.9 million euros, while 37.6 million euros is allocated for structural measures and rural development, representing more than a third (36.1%) of the total budget. General agricultural measures are the least represented, with 6.8 million euros, making up 6.5% of the total agricultural budget. In the Brčko District of BiH, the agricultural budget has remained stable over the past three years, ranging between 8 and 8.6 million euros, with 90% of the funds allocated to direct payments.

To gain a better understanding of Bosnia and Herzegovina's agricultural policy, a comparative analysis was conducted with the policies of the Western Balkan countries over a period of ten years, from 2014 to 2023. The analysis primarily focused on the total budget for agriculture and rural development, followed by the share of total budget transfers in GDP, as well as the allocation of budget transfers per hectare and per capita.

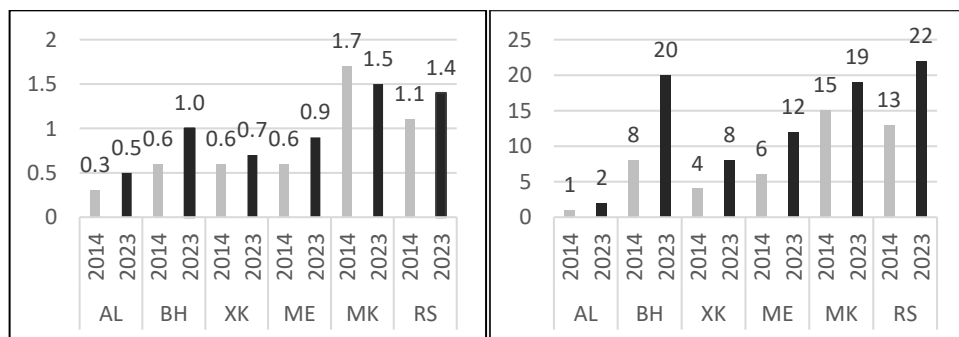


Figure 2. Total budgetary transfers in total GVA (left) and in AgGVA % (right)  
 Source: European integration of Western Balkan agriculture: state of the art and challenges draft

The proportion of budgetary support provided by WBCs relative to total GVA and agricultural GVA (AgGVA) shows notable variations across countries/territories and over time (2014–2023). In Albania, transfers increased from 0.3% to 0.5% of total GVA and from 1% to 2% of AgGVA (Figure 2). BiH recorded a significant rise, with transfers growing from 0.6% to 1.0% of GVA and from 8% to 20% of AgGVA. Kosovo observed moderate growth, with transfers reaching 0.7% of GVA and 8% of AgGVA. Montenegro saw an increase in agricultural transfers, growing from 6% to 12% of AgGVA. North Macedonia experienced a slight decline in total transfers but showed an increase in agricultural support, rising to 19% of AgGVA. Serbia exhibited the most substantial growth, with total transfers reaching 1.4% of GVA and agricultural transfers soaring to 22% of AgGVA.

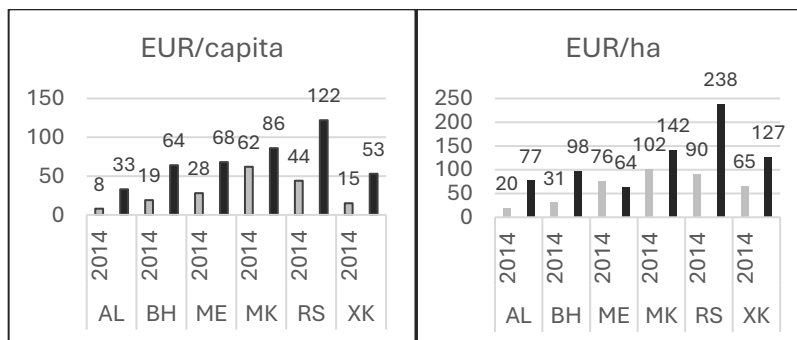


Figure 3. Total budgetary support to agriculture and rural development EUR /ha and EUR per capita

Source: SWG WBC APMC 2024 and WB StatDatabases 2024

There is a clear trend of increasing financial support for agriculture both in BiH and in other Western Balkan countries, highlighting its growing importance in national budgets. Budgetary support per hectare of agricultural land and per capita varies significantly among countries from 2014 to 2023. Albania's transfers rose from EUR 20 to 77 per hectare and from EUR 8 to 33 per capita. BiH increased to EUR 98 per hectare and EUR 64 per capita by 2023. Montenegro saw significant growth, reaching EUR 164 per hectare and EUR 68 per capita. North Macedonia increased to EUR 142 per hectare and EUR 86 per capita, while Serbia recorded the highest growth, reaching EUR 238 per hectare and EUR 122 per capita in 2023. Some WBCs, such as North Macedonia, Montenegro, Kosovo, and Serbia, are nearing EU support levels (EU average: EUR 238 per hectare from direct payments, EUR 340 per hectare from total CAP expenditure). Decision-makers should plan for future CAP developments and adjust national support gradually to align with anticipated EU levels, minimizing potential negative impacts upon joining the Union.

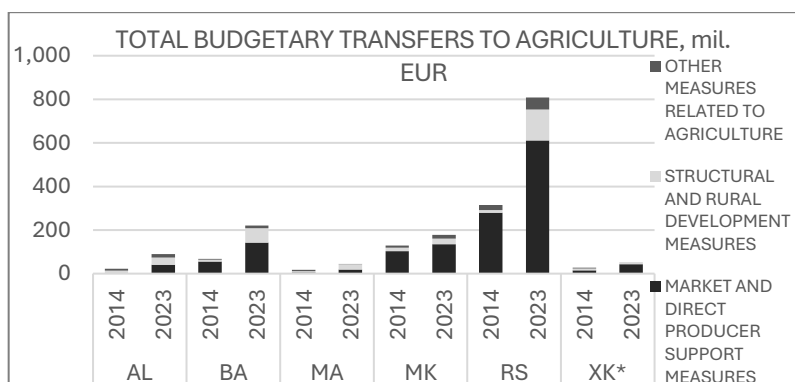


Figure 4. Total budgetary support to agriculture and rural development (million EUR, 2014-2023, nominal terms)

The policy of increasing budgetary allocations for agriculture and rural development is evident across all the observed countries in the Western Balkans. In some countries, these amounts have more than doubled by 2023, particularly in Albania, BiH, and Serbia. However, the majority of the funds are still directed towards market price policy measures (with the exception of North Macedonia). Market support measures have been negligible and only emerged in 2020, exclusively in Montenegro, while in the EU, they make up an average of 5%. Direct support to producers remains a key component of agricultural and rural policy in the Western Balkan countries, particularly in BiH, North Macedonia, and Serbia, which is comparable to the EU-27 average and some neighboring countries such as Bulgaria and Greece. On the other hand, structural and rural development measures have the largest share in Albania, followed by Montenegro and Kosovo. This structure is closer to the model of Adriatic EU countries such as Slovenia and Croatia.

## CONCLUSIONS

The legislation in BiH is outdated and currently poses an obstacle to the development of the sector. Therefore, it is essential to update it as soon as possible and align it with EU legislation.

Budgetary transfers for the agricultural sector in both entities of BiH saw an increase during the pandemic period of 2021–2022, driven by the need for additional interventions to support economic recovery. However, the significant rise in allocations in 2023 highlights the recognition of agriculture not only as a vital component of the economy but, above all, as a cornerstone of food security. In 2023, a process of intensified investments in structural measures and rural development initiatives began. This trend should continue, with a gradual increase in funding for these measures by 2027, to establish a balanced allocation between direct payments and rural development.

Structural measures and rural development initiatives are essential instruments for the modernization and long-term development of the agricultural sector.

According to the latest reports from the European Commission on the progress of EU accession countries (EC 2022a-f; EC 2023c-h), the status of chapters remains unchanged compared to previous assessments. North Macedonia, Montenegro, and Serbia have demonstrated moderate preparedness in most chapters, with the only "good preparation" rating still attributed to North Macedonia for Chapter 12. On the other hand, Serbia shows a lower level of preparedness in Chapter 11, while Montenegro lags in Chapter 13. BiH and Kosovo remain at the early stage of preparations for Chapter 13, with BiH also assessed at an early stage of preparedness for Chapter 11. Comparing all countries, it can be concluded that BiH has the lowest level of readiness, highlighting continuous challenges and underscoring the need to accelerate progress in these key segments of the EU accession process.

Continuous investments, strategic allocation of funds, and reforms aimed at modernizing and ensuring the sustainability of the agricultural sector are crucial for improving the socio-economic conditions in the country and aligning with European standards.

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## **POLJOPRIVREDNA POLITIKA BOSNE I HERCEGOVINE I IZAZOVI EU INTEGRACIONIH PROCESA**

### **Sažetak**

Poljoprivreda u Bosni i Hercegovini suočava se s brojnim izazovima, uključujući globalne krize poput pandemije Covid-19 i rusko-ukrajinskog rata, regionalne probleme poput afričke svinjske kuge i sve izraženije negativne posljedice klimatskih promjena. Sa druge strane, BiH je jasnih opredjeljenja za EU integracije što se može vidjeti u aktuelnim državnim i entitetskim strateškim dokumentima, a dodatni razlog bržoj harmonizaciji poljoprivredne politike BiH sa EU Zajedničkom poljoprivrednom politikom (CAP) je dobivanje kandidatskog (2022) i pregovaračkog statusa (2024) BiH za punopravno članstvo u EU.

U ovome radu daje se pregled razvoja poljoprivredne politike u BiH za period 2014.-2023. na državnom i entitetskom (Brčko distrikt BiH) nivou kako bi se utvrdio dostignuti stepen harmonizacije sa EU CAP koristeći se jedinstvenom APMC metodologijom klasifikacije i vizualizacije budžetskih transfera u poljoprivredi. Analiza je obuhvatila tri grupe mjera: (1) tržišne mjere i mjere direktne podrške proizvođačima, (2) strukturne mjere i mjere ruralnog razvoja i (3) opšte mjere u poljoprivredi. Za dobivanje potpune slike aktuelnog stanja poljoprivrednog sektora i njene važnosti za BiH ekonomiju analizirani su ključni makroekonomski pokazatelji, poput bruto dodane vrijednosti, stepena zaposlenosti i vanjsko-trgovinskog bilansa. Važan doprinos rada odnosi se na usporedbu poljoprivredne politike BiH sa zemljama Zapadnog Balkana. Osnovni zaključak koji se može izvesti iz ovog rada je da je poljoprivreda važan sektor

BiH ekonomije, budžetski transferi za ovaj sektor pokazuju trend rasta, ali je proces harmonizacije s pravnom stečevinom EU spor i traži više hrabrosti donosioca odluka i brže donošenje zakonodavnog okvira i adekvatnih zakonskih rješenja uz neophodno institucionalno jačanje koje će biti u kontekstu aktuelnih izazova EU integracionih procesa.

**Ključne riječi:** *poljoprivredna politika, BiH, EU, CAP, integracioni procesi*