
FINANCIAL SUPPORT TO FRUIT AND VEGETABLES GROWING AND IMPACT ON B&H TRADE BALANCE

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ABSTRACT

Data on global competitiveness and trade balance fall within the most important indicators regarding the shape of economy in a specific country. Data for Bosnia and Herzegovina (B&H), are not very good according to either of the said indicators. In regard to competitiveness, the World Economic Forum (WEF) classifies B&H below the average, while the trade balance shows deficit for the past few years in a row. The goal of this paper is, in such situation, to point to one of the bright points, the agricultural sector, primarily fruit and vegetable growing, which, with financial assistance, in a relatively short time period could significantly change B&H's trade balance. Since the largest volume of fruit and vegetables export is realized on a choosy European Union (EU) market, the increase of export can be achieved only by honoring the strict standards and having adequate certificates. A chance for increase in production and competitiveness is in interconnecting into clusters which have proven to be the best way of increasing the market competitiveness and survival in an era of globalization and rule of multinational companies.

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Introduction

There are numerous reasons for state intervention in the agriculture area. One of the main arguments in favor of subventions in agriculture is necessity to keep farmers income on the certain level. Besides, state is consider as a subject which through economic policy in the field of agriculture has significant influence on achieving national food security, as well as preserving production volumes on the satisfying level (Đurić et al., 2016).

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According to data for the 2017, the agricultural land in FB&H has the surface area of 1,165.00 ha out of which 46,000 ha are orchards and 36.000 ha vegetable gardens, (FB&H in numbers, 2018), in RS agricultural land has the surface area of 967.000 ha, out of which 52.000 ha are orchards and 30.942 ha vegetable gardens (Statistical Annual Almanac, 2018) and Brčko District (BD) has around 30,000 ha of agricultural land, out of which 4.000 ha are the orchards and vegetable gardens have the area of around 418 ha (Statistical data BD B&H, 2018). On the basis of the said data it can be concluded that B&H has significant area with fruit and vegetables, around 170.000 ha, which makes a solid basis for substantial increase of output for export, if the sector of agriculture is supported by the measures suggested in this paper.

According to (unofficial) population census from 2013, B&H had the total population of 3,531.159, out of which the B&H Federation had 2,219.220, RS 1,228.423, while BD had a population of 83.516 (Agency for Statistics of B&H, 2013). On the basis of the above information, the agricultural land per one inhabitant in FB&H is 0,52 ha, in RS 0,78 ha and in BD 0,24 ha. In light of the fact that the smaller land parcels are more suitable for fruit and vegetable growing, it may be concluded that this agricultural sector needs strong support in relation to crop husbandry, and thereby a

Status of agriculture in B&H

In the past three decades, agro-food sector in B&H has been influenced by the changes in economy transition, institutional restructuring and political development. The complexity of B&H economy is the result of separate entities of the RS and Federation of B&H, as well as by separate management of natural resources that are the basis for agriculture and food industry development (Milovanović et al., 2018).

Due to insufficient domestic capacity utilization in B&H, there is a high import of all types of food products, especially the products of lower quality than the domestic ones. The largest import of food products originates from the neighboring countries such as Croatia and Serbia, with which B&H and RS have concluded free trade agreements, with 0% tariff rate for the import (Radosavac et al., 2015).

Global competitiveness

Each year WEF is publishing the „Global Competitiveness Report“ for 140 countries. Report defines competitiveness „as the set of institutions, policies and factors that determine the level of productivity of a country“. This report is made on the basis of 114 indicators, grouped in 12 areas, so-called pillars of competitiveness: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, labour market efficiency, financial market development, technological readiness, market size, business sophistication and innovation.

According to WEF data, published in October 2018, B&H is ranked 91st having thereby the worst result among all the countries in the region, with competitiveness grade 54,2. B&H has been ranked as the worst-positioned country according to the innovation

criterion (114th place) and for labor market and institutions, while it obtained the best mark for health (52nd place). According to the same source, B&H has a low average ten-year GDP growth of only 1,8%, low five-year 2,2 growth of direct foreign investments and high 25,6% unemployment rate. Among the countries in the region, Slovenia ranked the best, holding the 35th place, followed by Serbia on the 65th place, Croatia 68th, Montenegro 71st and Macedonia 84th (WEF 2018).

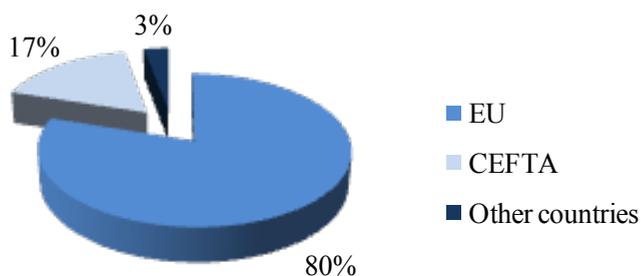
Materials and methods

The paper was written on the basis of the following material: national and EU legal acts in the field of agriculture, B&H Statistical office database and other relevant literature. All obtained data were analyzed by using scientific descriptive methods, methods of analysis and synthesis and comparative analysis method. While writing this paper, we faced certain methodological difficulties due to specific constitutional structure of B&H, since the powers and authority to pass some legislation is at the B&H level, while other legislative powers are at the entity level, B&H Federation, RS and BD. The coordination of legislation which is promulgated at the B&H level sometimes lasts for several years and it is hard to follow the continuity of regulations and statistical data.

Results

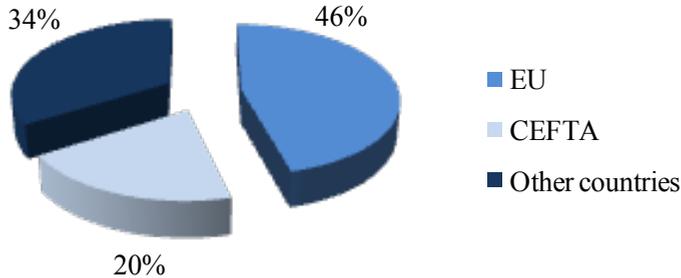
Upon entry into force of the Stabilization and Association Agreement (SAA) in June 2015 a free access to EU was gained for the products of B&H origin, whereby a free trade zone is being gradually established. Hence more favorable conditions have been met for increased exports to EU market, which has about half a billion inhabitants. Statistical data for fruit and vegetables export to EU in the period from 2008 to 2015 show that this sector has a permanent export growth both into EU and CEFTA countries. In 2015 the largest export of fruit and vegetables was to EU (Figure 2 and Figure 3).

Figure 1: Fruit exports share in 2015 per regions



Source: Guide for export of fruit and vegetables to EU

Figure 2: Vegetables export share in 2015 per regions

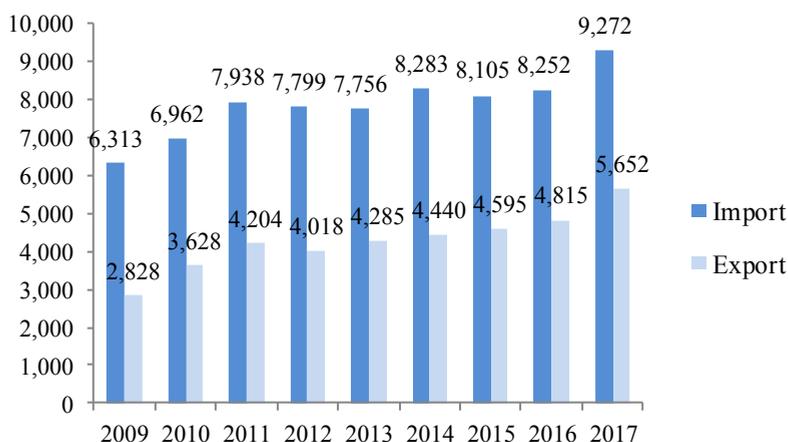


Source: Guide for export of fruit and vegetables to EU

Annual average growth of fruit and vegetables export to all the countries of the world in the course of eight years (2008-2015) was 26%, and the largest part pertains to plums, apples, strawberries, raspberries and other fresh and frozen berries. These fruits have a very good export perspective since the share of export accounts for around 42% in relation to total output in B&H (Guide, 2016).

Trade deficit

Although B&H is not a World Trade Organisation (WTO) member, belonging to a group of 23 observers, B&H has a free foreign trade regime, in compliance with the WTO regulations, while the prohibitions and constraints relate only to import and export that would be contrary to public moral, policy or public security. Passing of unilateral measures in relation to foreign trade as well as the agreements with third countries is within the competence of B&H, while the foreign policy is determined by B&H authorities with the competent organs of both entities (WTO, 2018). Ministry of foreign trade and economic relations is tasked to provide a required number of bilateral and multilateral permits, quotas and similar items for the organizations doing business in B&H. They are allocated to entities, and the entities allocate them further to end users. In the case of endangerment to domestic production, the B&H Council of Ministers prescribes the application of protective measures. It also prescribes the definitions, requirements and procedures of anti-dumping investigation as well as measures and deadlines for anti-dumping protection. As a legal framework defining the foreign trade regime, Law on Foreign Policy Trade regulates free flow of goods and services in international trade and prescribes the conditions for performing cross-border business activities (B&H Law). Liberal foreign trade policy in B&H is in large part brought into compliance with WTO principles, since with its rules, it secures the national treatment and most favored nation status (the Export-Led Growth Strategy 2012). However, due to hasty liberalization of import, B&H deficit is for a long time now very high, and in 2017 reached EUR 3,620 billion (Figure 1.).

Figure 3: Foreign trade statistics in EUR millions

Source: B&H Agency for Statistics

If we look at the balance of export and import as per product category, we will see that the importation is three times greater than the export of agricultural products and foodstuffs (Table 1.).

Table 1: Import and export per products in 2017.

Product group	Export mil. €	%	Import mil. €	%
Food and livestock	374	6,6	1.201	13,0
Beverages and tobacco	46	0,8	203	2,2
Raw materials, except fuel	601	10,6	276	3,0
Mineral fuels and lubricants	472	8,4	1.324	14,3
Animal fat, vegetable oil and lard	87	1,6	124	1,3
Chemical products	460	8,1	1,159	12,5
Products classified per material	1,269	22,5	2,161	23,3
Machines and means of transportation	816	14,4	1,922	20,7
Various finished products	1,527	27,0	901	9,7
Other products and transactions	-	0,0	1	0,0
TOTAL	5.652	100%	9.272	100%

Source: B&H Agency for Statistics

EU is the largest trade partner of B&H (nearly 80%) followed by Serbia, China, Turkey and other countries (Table 2.). Since the share of agricultural products and foodstuffs accounts for one third of such trade, it is necessary to observe the strict standards for export of goods from that sensitive sector.

Table 2: The most important trade partners of B&H in 2017.

Country	%	In '000 EUR
Trade total	100	14,923.517
Germany	12,67	1,891.511
Italy	11,21	1,672.509
Serbia	10,70	1,597.092
Croatia	10,66	1,590.778
Slovenia	6,46	964.348
Austria	5,20	776.130
China	4,19	626.003
Turkey	4,10	612.359
Russian Federation	3,44	512.716
Hungary	2,42	361.837
Poland	2,34	349.644
USA	2,25	336.467
France	2,00	298.618
The Netherlands	1,77	263.769
Czech Republic	1,69	251.928
TOP 15	81,10	12,105.709

Source: B&H Agency for Statistics

Financial support to agricultural sector

One of the reasons for lack of competitiveness of domestic agricultural products is in significantly lesser subsidies and price support granted in B&H entities-B&H Federation, RS and BD as opposed to producers and exporters from EU member states (Budgets of B&H Federation, RS and BD).

The annual budgets in B&H entities and BD have provided for certain types of subsidies to stimulate production, investments, employment or non-refundable means for flood damage compensation in BD, but these sums significantly lag behind those received by farmers in EU countries (Table 3).

Table 3: Subsidies in B&H and EU in the 2015-2018 period

Government budget	Subsidy type		2015.	2016.	2017.	2018.
F B&H	Financial support in 000 KM		65,800	65,800	65,700	65,700
RS	Development subsidies for agriculture and countryside u 000 KM		60,000	60,000	60,000	60,000
BD	Grants to private individuals (reclamation after flood) u 000 KM		7,510	8,977	0,0	9,000
Total	Subsidies and grants	in 000 KM	133,310	134,777	125,700	134,700
		in 000 €	68,364	69,116	64,462	69,077
EU	Agriculture in EU budget in € mill.		41.623	41.029	40.420	39.618
Per capita subsidies and grants	B&H	in €	19,36	19,57	18,25	19,56
	EU		83,25	82,60	80,84	79,23

Source: Authors

Although the attained level of agri-food sector development in EU is incomparably higher than the B&H level, the annual EU budgets allocate about four times larger per capita amount for the same purpose, which may be seen from the data taken from the EU Financial Framework for 2014-2020 period, in the part provided for agriculture subsidies (EU Financial Framework).

It should be pointed out that the annual aggregate amounts of all subsidies and grants provided for in the budgets of B&H Federation, RS and BD are converted to euros according to the exchange rate 1 EUR=1,95 KM, and divided by (unofficial) 2013 population census. Annual amounts of funds planned in the EU budget for the 2014-2020 period are divided by 500 million which is the approximate EU population, including the population of Great Britain, which belonged to EU in the mentioned period. Thus the following data were obtained, from which it can be seen that the per capita allocations in EU are about four times larger than the average funds earmarked in B&H.

In the RS budget for the year 2018 total subsidies for development of agriculture and countryside amounted to 60 million KM. A special regulation has prescribed the subventions to organic agriculture clusters. Article 38 paragraph 3 of the Regulation on Terms and Conditions for Receiving Subsidies for the Development of Agriculture and Countryside, passed by the Minister for Agriculture, Forestry and Water Management, prescribed as follows: „Subsidies earmarked for the purpose from this Article are set in the sum of up to 50% from the amount of invested funds or submitted cost estimates and may not be larger than the sum of 40.000 KM per one beneficiary during one

year“ (RS Regulation). This is a clear indicator that the authorities are aware of the importance of the clusters for the advancement of agricultural production.

Discussion

EU legislation on food safety is voluminous and the gist of all rules is that the food safety needs to be assured in the whole chain. Production is the starting point, followed by food processing, storage, distribution, putting into market, then sale and keeping by the consumers until final consumption.

Basic rules regarding fresh fruit and vegetables are contained in the Regulation (EC) No.178/2002 of the European Parliament and Council of 28 January 2002, laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety (Regulation 178/2002). Said Regulation has set up a rapid alert system in the event that bad foodstuffs are found at any of the EU member state market.

EU legislation determines the maximum permitted residue level in foodstuffs to be put on the market. It is however possible that some of the EU member states or supermarket chains require even more stringent conditions than the ones provided for in the EU legislation.

Existing laboratories in B&H do not meet the requirements to conduct laboratory quality control tests for products to be put into B&H market, and even less to satisfy the needs of producers and exporters, the exporters thus being compelled to make a large number of analyses in the neighboring countries, most often in Serbia and Croatia. As an example, minimal testing for the needs of internal market control implies testing of around 180 analytes, while fruit and vegetables exporters are often required to ask the residue levels analyses for 400 and even more analytes, with all domestic laboratories (Sarajevo, Mostar, Pale, Bijeljina etc.) having less than 100 accredited methods. Similar situation is in relation to capability of laboratories to conduct physical-chemical tests of food and agricultural products, testing of residues and contaminants in the food, microbiological analysis of food and quality tests for genetic modifications in food, fodder and agricultural products, so that due to insufficient capacity or lack of adequate laboratories the assistance is sought in neighboring countries, primarily Serbia and Croatia (Guide, 2016).

Opportunities for agriculture development

The research shows that B&H has several competitive advantages that can contribute to the development of the agriculture. The natural resources and geographical position, as well as human resources, are the key ones. B&H has favorable climate conditions, unpolluted and fertile uncultivated land (50% of agriculture land is still uncultivated), water resources, which all together create the perfect environment for agricultural production. Furthermore, skilled low cost labor (much cheaper than EU laborers) with a long tradition in agriculture is abundantly available, as well as developed education system along with agronomic and veterinary support.

In order to increase competitiveness of the agri-food sector in B&H it is necessary to invest in the new equipment, education, research and development, to stimulate processing of the agriculture products, to facilitate obtaining relevant certification and inputs (seeds, fertilizers, etc.) at competitive prices. The existing state of three time higher importation than the exports of agricultural products and foodstuffs is untenable in a long time-period.

EU financial assistance

COSME programme supporting micro, small and medium-sized enterprises and entrepreneurs in EU has a budget EUR 2,3 billion for the 2014-2020 period. The funds from COSME programme may be used by entrepreneurs from B&H as well, on the basis of the Agreement signed by and between EU and B&H on 2 June 2016 in Brussels. Funds are available for the purpose of strengthening the competitiveness and sustainability of start-up enterprises due to easier access to funds, in view of growth and development as well as starting-up new business for the purpose of self-employment, in particular of young people and women.

Another instrument that plays a key role in financing the projects intended to bring into compliance the national legislations with the Community acquis (*acquis communautaire*) is Instrument for Pre-Accession Assistance (IPA). Pursuant to Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II), a provisional sum was set in the amount of EUR 11,698.668.000 to attain the goals determined in the said Regulation, relating to assistance to: Albania, B&H, Island, Kosovo-UN Security Council Resolution No.1244, Montenegro, Serbia, Turkey and FRY Macedonia (EU Regulation 231/2013).

Indicative Strategy Paper for B&H (IPA II) for the 2014-2017 period makes the allocation of aggregate funds, 165, 8 million EUR in total, for the following goals:

- a) Reform on preparation for EU membership EUR 64 million, out of which EUR 31 million for democracy and management, and EUR 33 million for the rule of law and basic human rights;
- b) Socio-economic and regional development EUR 63,8 million (including competitiveness and innovations);
- c) For employment, social policy, education, research and innovations, promotion of gender equality and human resources development the total of EUR 38 million.

B&H has benefited from significant EU assistance related to capacity building and supplies in the fields of agriculture, rural development, food safety, veterinary and phytosanitary for which IPA 2007-2013 allocated approximately EUR 27 million.

European Commission has adopted the Annual Action Programme for B&H for the year 2018, listing the actions foreseen for the competitiveness, innovation, agriculture and rural development sector (Table 4).

Table 4: List of actions foreseen in 2018. IPA II assistance

Indirect management by entrusted entity		Direct management	
		9. EU Support to trade	EUR 2 000 000
10. EU Support to Agriculture and Rural Development, Food Safety, Veterinary and Phytosanitary Standards	EUR 20 000 000	10. EU Support to Agriculture and Rural Development, Food Safety, Veterinary and Phytosanitary Standards	EUR 10 000 000
Total	EUR 20 000 000	Total	EUR 12 000 000

Source: IPA II 2014-2020 Country Action Programmes

However, the agriculture sector did not receive the needed support under IPA II yet because of the lack of a country-wide sector strategy. Insufficient knowledge of the public and of interest groups when it comes to the implications, processes and opportunities related to EU accession also contributed to slowing down its development (IPA II 2014-2020 Country Action Programmes). Due to these challenges only a limited number of donors' programmes are currently ongoing (e.g. Swedish International Development Cooperation Agency (SIDA)/The United States Agency for International Development (USAID)/Czech Republic).

Accessing IPA and other available funds can play an important role in the agriculture development in B&H. However, several preconditions have to be fulfilled:

- Development of the legal, technical and institutional settings necessary for the efficient absorption of the financial means;
- Support to the human resources development in the field of the project development and management, for the entrepreneurs and farmers as well as for representatives of the public administration on the national and local level;
- Access to the financial funds necessary for the co-financing of the projects (bank loans, subsidiaries, etc.).

However, only synergy of foreign and domestic assistance (both financial and non-financial) towards the agriculture sector can lead to the sustainable and rapid development.

Conclusions

In the globalization era, each and every business entity, and even the countries irrespective of their level of development intend to offer their goods and services according to competitive prices but under other conditions as well, which are more favorable than that of the competition. From the first statements in this paper it can be deduced that the economic environment in B&H does not meet the competitiveness conditions as it is in the lower section of the competitiveness index of the WEF 140 countries in 2018.

After the foundation of the WTO in 1995 an ever increasing number of countries, want to become full members besides 164 countries that account for 95% of the international GDP, but are required to meet certain conditions demanded from them by the rules of that organization. B&H is close to complete the negotiations and it is expected to become a full WTO member in the course of 2019. The basic condition is liberalization of legislation reflected in four basic freedoms: freedom of movement of goods, services, people and capital over borders. B&H signed the Stabilization and Association Agreement with EU in 2008, which went into force in 2015 and since then the intensive approximation of legislation with the Community *Acquis* has begun. Taking into account the constitutional structure of B&H, promulgation of legislation at B&H level is very slow, which additionally decelerates B&H's entry into WTO and EU. At the same time, due to liberalization of importation, B&H is from year to year running a growing trade deficit, which also means ceding the market over to foreign companies, to the detriment of employment of domestic population.

Agriculture is the bright point in this situation, with possibilities for increased export in a short time-span, primarily the exports of fruit and vegetables as there is market for these products. However, in order to increase the exports, the investment should be directed in the common good instead of subsidies, then the regulatory framework should be brought into compliance with EU legislation, regarding the strict control of the whole production chain with adequate certificates and certificates of origin of goods, thereafter the reference laboratories should be properly equipped and finally substantial funds need to be provided from domestic and foreign sources available for agriculture and rural development. From data given in this paper it could be learned that EU is investing about four times more per capita in its agriculture than B&H, so a lot of time is still needed to reach real competitiveness.

Conflict of interests

The authors declare no conflict of interest.

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