

INSTRUMENTS OF ECONOMIC MEASURES OF AGRICULTURAL POLICY OF THE REPUBLIC OF SRPSKA

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Summary

The agricultural sector is the most reputable resource in the Republic of Srpska. Development of the agricultural sector, in addition to natural and human resources, is influenced by the action of certain measures of agricultural policy, which essentially represent a strategy of realization of set goals in terms of integration of the agriculture sector in the development of economy. One of the most important groups of agricultural policy measures are economic, which are primarily related to issues of economic problems of the sector. This paper provides an overview of economic measures and its instruments in the framework of agricultural policy of Republic Srpska for period of time 2007 – 2011. By the describing of economic measures and its instruments were used secondary data sources. The findings of this paper implies that economic measures and its instruments did not contribute to improve the competitiveness of agricultural sector of the Republic Srpska.

Keywords: agriculture, economic measures, instruments, Republic of Srpska.

Introduction

The agricultural sector in the economy of the Republic of Srpska entity occupies an important place. The contribution of agriculture to overall economic development of the Republic Srpska is reflected in the share of the sector in gross domestic product (over the period 2007 - 2011 was average 10%), while in the total employment about 30%. In foreign trade, agriculture sector of Republic Srpska recorded continuously deficit, with almost all of major trading partners: CEFTA countries and EU. In Bosnia and Herzegovina, two entities; RS and FBiH and District Brcko, within the same country create their own policy for development of agriculture and rural areas. In 2006, the Ministry of Agriculture of Republic of Srpska defined the Strategy of Agricultural Development for period 2006 – 2015. The Strategy represented basic principles for determining of objectives, measures and instruments of agricultural policy, contained in Law on Agriculture. According to the same law, the strategic goals of agricultural development are being implemented through four main groups of measures: (1) *market – price policy*; (2) *structural policy measures*; (3) *measures of land policy*; (4) *the policy of subsidies*. Generally, one of the most important groups of agricultural policy measures is economic measures. The following sections describe the economic measures and their instruments in the framework of agricultural policy, as well as the their impact on competitiveness of agriculture in Republic Srpska.

Materials and methods

In this paper as secondary sources of data were used: (1) the publication about corporate investments in agriculture sector of the Institute for Statistics of Republik Srpska; (2) report of state of banking sector of Republic of Srpska and overview donor activities in BH; (3) database of loan of Investment Development Bank of Republic Srpska; (4) database on

realised subsidies of Ministry for Agriculture of Republic Srpska; (5) Strategic documents: *Agriculture Development Strategy, Strategic Plan for Rural Development and Strategy for Advisory Services of Republic Srpska* ; (6) publication of Foreign Trade Chamber of BH; (7) data of domestic authors published in certain articles and publication. By the description of certain economic measures such as agricultural investment and agricultural subsidies, on the basis of available data, results are expressed in absolute numbers and relative relations (percentage) (table. 1 and table 2).

Results and Discussion

Agricultural investment

Investments are a precondition for development. Development is possible to some extent by increasing the efficiency of utilization of capital funds, but for the more serious and intensive development it is inevitable to invest financial funds for the expansion and replacement of production and other capital funds. The transition process in Republik Srpska, BiH requested more significant investments in order to successfully bridge the transition process. The needs for investments have increased and were caused by significant war damages which (depending on the source) are estimated at 50-100 billion USD. According to a survey conducted in 1998. (Vasko, 2000) it was found that the war damage in agriculture ranged from 45% to 95% for agricultural equipment and 16% to 83% for cattle. For example, in 2009, the donations to the sector of agriculture and forestry were 14.3 million EUR, and in 2011, it was 4.6 million. Loan funds of the World Bank and other creditors in the same sector in 2009 amounted to 32.2 million EUR, and in 2011, 4.8 million EUR (Donor Mapping, 2012). About 9.4 million EUR of these grants and loans to the agricultural sector in Bosnia and Herzegovina in 2011, accounted for only 1.2% of its GVA of its agriculture in that year, and show modest achievements that can be expected from investments provided by external sources. One of the problems that often cannot give a reliable assessment of the level of investment in agriculture in BiH is partial monitoring of this phenomenon by the statistical agencies. Specifically, the statistics is only monitoring the corporate investments, but in the case of Republic of Srpska it means that a share of investments undertaken by farms is not monitored, although they are still a majority of holders of agricultural production in RS. Data on corporate investments in agriculture suggest that investments in the last five years (2007-11) have increased slightly.

Table 1: Financing of gross fixed capital by main sources 2007- 2011.

Indicators	2007	2008	2009	2010	2011
Share of Agriculture, hunting and forestry of total investment in RS (%)	2.1	2.4	3.3	2.9	3.6
Structure of financing of gross fixed capital by main sources (%)					
from own financial assets	58.2	61.3	53.5	64.1	66.9
from joint assets	2.8	2.1	4.0	2.3	0.6
from financial credits	21.8	28.9	30.1	15.8	18.7
financial leasing	13.0	1.1	3.3	3.1	3.3
from assets of budgets and funds	0.4	5.6	1.6	5.8	5.0
from other sources	3.8	1.0	7.4	9.0	5.4

Source: Own calculations of authors based on data by the Institute of Statistics (Gross fixed capital formation, Investment, Statistical Bulletin No. 3/2009, 4/2010, 5/2011, 6/2012.)

Investments in agriculture accounted for a 2.1% to 3.6% of total investment in the RS, which is significantly below the share of this sector in the creation of the country's GDP. In terms of sources of investment in agriculture, own funds are predominant, with average share of 60.8% of total investments in agriculture. Share of loans in financing agriculture varies, but on average it is about 20% of total investments in agriculture. Funds from leasing has never been a significant source of investments in agriculture in the RS. Such a structure of investment indicates that the capital market in the RS is still conservative as it relies on its indigenous funds and loans. Banks mainly provide loans to companies, cooperatives and other legal entities, and to a lesser extent to unregistered farmers that mainly borrow funds from microcredit organisations. Out of total lending of banks in the RS, only 1.84% is in the agriculture, hunting and fishing sectors, which is significantly below than the contributions of this sector to the creation of GDP (Report on the state of the banking sector of RS, 2012). Credit for "*opening the door*" to agricultural credits goes to the development projects financed by international financial and other organizations (World Bank, IFAD, USAID, etc.) and the Investment-Development Bank of the Republic of Srpska. For example, IFAD in all four post-war projects in BiH had components for providing credits to farmers and SMEs within which by the end of 2010, under favourable conditions, approved about 16,000 loans with a total value of 67 million KM (Vasko et al, 2011). Since its inception, the Investment Development Bank of the Republic of Srpska provided 1245 microcredits amounting of 23.7 million KM for agriculture in a total (average loan is in the amount of 19 000 KM) and 91 credits for companies in the amount of 71.1 million KM (average loan is in the amount of 0.78 KM), which makes 10% of its total loans. Generally, the level of investment in agriculture in BiH is modest, and in addition to the lack of own resources limitation, there is the lack of credits and unfavourable lending conditions (high interest rates, short repayment periods, without or with a short grace period).

Agricultural insurance

Agricultural insurance is a risk sharing mechanism between agricultural producers and insurers. Ranges of agricultural insurance in BiH were not significant even earlier, but now in the post-war period, it can be concluded that agricultural insurance does not exist at all. Insurance companies avoid to offer this kind of insurance contracts, justifying it with the high risks, and on the other side agricultural producers avoid to insure properties and production because insurance premiums are considered expensive, and recoveries are insecure and complicated. Despite the fact that the Ministry of Agriculture, Forestry and Water Management, in its subsidy program, has a measure of sub financing the insurance premiums with 50%, the opportunity was only used by 30 farmers in 2011 . On the other side, the damages caused by devastating floods and droughts in that year were estimated at more than a billion KM.

Agricultural subsidies

The Republic of Srpska encourages the development of its agriculture through financial incentives since 2000. In this period, the amount of the subsidy has increased, in both absolute and relative terms compared to its budget, the total GVA of agriculture and total GDP. In the period 2007-11 the average annual subsidy for agriculture in RS amounted to 6.1% of its budget, 9.91% of its agriculture GVA and 0.98% of its GDP (Vasko et al., 2012). Noting that after a continuous progression, before the end of this period there was a decline due to the reduction of the percentage allocations for subsidies due to the outbreak of financial and economic crisis. It is evident that that the increase in GVA of Srpska agriculture during

2000 - 2008, was to a large degree, dependent on the increase in subsidies for agriculture, when the statistical significance was noted in the parameters of regression models and coefficient correlations (Vasko and Ostojic, 2008). Agricultural Development Strategy of the Republic of Srpska (2006), includes the ratios of allocations of subsidy funds to the three main groups (for first implementation Phase of Agricultural Development Strategy (2007 - 2009): 40%: 40%: 20% and for second implementation Phase (2010 - 2015): 30%: 50%: 20%), which in the analysed period have not generally been implemented. The goal to reduce direct payments in favour of increasing subsidies to support investments has not been achieved. Agriculture is still subsidized in the conservative way with the dominance of direct payments that are tied to the amount of produced or sold products, or subsidizing purchases of inputs for agricultural production.

Table 2: The structure of agricultural subsidies in the Republic of Srpska during 2007-11

Year	1. Support to production and income		2. Support to long term investments		3. Support to rural development		4. Interventions	Total
	Mil.	Structure (%)	Mil.	Structure (%)	Mil.	Structure (%)	Mil.	Mil.
2007-09. Goal		40%		40%		20%		100%
2007.	48.0	75.9	8.6	13.6	6.6	10.5	0.9	64.1
2008.	86.7	80.8	12.7	11.8	7.9	7.3	0.5	107.8
2009.	40.5	74.2	5.3	9.7	8.8	16.1	0.9	55.5
2010-15. Goal		30%		50%		20%		
2010.	37.5	47.3	20.5	25.8	21.3	26.9	16.5	95.8
2011.	49.1	62.3	23.3	30.0	5.2	6.8	2.6	80.2

Source: Own calculations of author based on data by the Ministry of Agriculture on paid subsidies 2007 -2011.³⁶

General characteristic of agricultural subsidizing policy in the RS is the chronic lack of funds. Subsidies in support of production and income are almost exclusively linked to specific products or production lines, and are paid for achieved production or sale (milk, meat, grain, industrial crops, vegetables, fruits, seeds, seedlings, etc.) and for subsidizing the costs of inputs (diesel fuel, fertilizers). In supporting investments, most of the money goes for purchase of new agricultural equipment, constructing and rehabilitation of buildings for animals, planting perennial plantings and upgrading processing facilities of food industry. Support to the improvement of rural livelihoods and rural infrastructure construction noted significant fluctuations. In 2010, 18 millions KM were allocated for these purposes while in 2011, allocation to this segment was only 1.5 million KM. In late 2009, the RS Parliament adopted a Rural Development Strategic Plan for the period 2009-2015. This plan included measures to support rural development modelled on the second pillar of the CAP, with the intention to make rural development policies in the RS closer to the EU rural development policy. The Plan, as well as Agricultural Development Strategy envisages gradual increase in resources allocated to subsidizing rural development. After two years of validity of the Rural Development Strategic Plan, it is evident that there are major differences, both in terms of the type and scope of the measures implemented and the amount of the subsidies for rural development. For example, in 2011, implemented funds out of agricultural budget for these purposes were twice lower than projected.

Agricultural taxation

The area of taxation generally characterized by two main groups of taxes: *direct and indirect*. Direct taxation in agriculture refers to the application of income tax on earnings from

³⁶Mentioned amounts and percentages are calculated on the basis of obligations for the year (including debts paid for agricultural budget for coming year).

agriculture and forestry activities as well as taxes on property. As in most countries, in the Republic of Srpska also, direct payment of income tax is linked to the cadastral income. By 2012, farmers were exempted from paying of property tax. After the entry of the new Law on Property Tax (*Official Gazette of RS, number 110/08; 118/09*), farmers pay tax if they have agricultural land which is not cultivated, and agricultural buildings, which do not serve in their own agricultural production. Agricultural areas to be treated, as well as property to be used for agricultural production, are exempted from taxation. Indirect tax collection in agriculture is related to the value-added tax (VAT). According to the data of the Indirect Taxation Authority in 2010, about 610 farms in the Republic of Srpska were covered under VAT system, which is about 1.1% of the total number of registered farms (55491), while the number of farms, users fixed fee for the same period was 3180 or 5.7 %. The rest are the farmers, who are out of VAT system and are not users of lump-sum compensation. In terms of effects of indirect taxes on agriculture, it can be also concluded that farmers are substantially burdened by the tax, which generally results in a reduction of their income.

Price policy

One of the most sensitive issues faced by domestic agricultural production is the *price policy* and the protection of domestic production. For domestic agricultural production, it can be said that it has very low production and price competitiveness, while, on the other hand, the developed countries, because of the high price and product competitiveness, make a big pressure in terms of liberalization of trade in agricultural products and the reduction of price subsidies. Establishment, management and implementation of special forms of protection prices are all important factors in price policy, because the development of certain branches of production and agriculture is ensured and harmonized through them, as well as the entire agriculture. So the price is affected by the direction, scope and structure of production, market stability, and size of income and living standards of producers and consumers, and others. Agricultural prices in the domestic market are formed freely, but in order to avoid incompliance between supply and demand, there are the state laws that prescribe and determine the protective prices (regulated prices). According to the Article 7 of the *Law on Agriculture of the Republic of Srpska*, the formation of the three types of administered prices: guaranteed, orientation and import-price threshold are suggested. Therefore, it is about the prices that have agricultural policy character given that they are defined by the Government on the proposal of the relevant Ministry. Mechanisms of orientation prices were applied only in wheat in the past, while other agricultural products applied any market-defined price. The reason for controlling and activating the orientation prices for wheat is its strategic importance for the Republic of Srpska. Prices of agricultural products are one of the factors that determine the position of agriculture as well as agricultural production trends. Based on the purchase and/or sale prices producers often make decisions about the intensification of certain production or in some cases, suspend production. The growth of prices in agriculture has a much bigger impact on the production of certain agricultural products, than the overall growth rate in agriculture. The prices in this sector have a direct impact on the income of both producers and consumers since those are products which are used in the daily food of the population.

Foreign trade policy

Since the adoption of the Law on Foreign Trade Policy of 1998, Bosnia and Herzegovina is taking the first important steps towards the *liberalization of trade*. CEFTA countries are the most important trading partners of Republic Srpska in both the general trade as well as the trade of agricultural and food products. The agricultural products within CEFTA are permitted for tariff concessions, mostly transferred from bilateral agreements and referred to the full liberalization. According to the CEFTA agreement, Bosnia Herzegovina with nearly all member countries of CEFTA fully liberalized trade with agricultural products (headings of 01-24). One of the main objectives of the foreign policy of Bosnia and Herzegovina is accelerating the process of integration in the EU. For Bosnia and Herzegovina, the implementation of *the Stabilisation and Association Agreement* with the European Union was an important step towards trade liberalization and integration into the global economy. Stabilisation and Association Agreement is an international agreement that enabled Bosnia and Herzegovina to acquire the status with EU. Parallel with the signing of the SAA, Bosnia and Herzegovina also signed the Interim Agreement on trade applicable until the completion of ratification procedures of SAA. Through this agreement, the EU concessions on imports of agricultural products from Bosnia and Herzegovina were reflected in the abolition of quantitative restrictions and measures the same effect on imports of agricultural products originating in Bosnia, except for the following products: live animals beef, sugar, wine from fresh grapes. According to Agreement, Bosnia and Herzegovina concessions on agricultural imports from the EU were reflected through the elimination of all quantitative restrictions and measures having equivalent effect on imports of agricultural products from the EU.

Conclusions

Despite donations and loans for development, the level of investments in RS is inadequate, and its economic system is still immature as agricultural production ranges between 2.1% and 3.6% of the total investment in the RS and is significantly below the share of this sector in the creation of the country's GDP. Only 1.84% of total lending of banks in the RS is in the agriculture, hunting and fishing sectors, which is significantly below the contributions of this sector to the creation of GDP. Given this situation, agricultural production in RS will remain vulnerable to natural disasters and calamities. Agro -insurance will not be a significant measure of its farm policy for long mostly because of expensive insurance premiums. The funds allocated for the support of agriculture are relatively modest. The modalities of distribution of these funds are generally not harmonized with the Common Agricultural Policy of the EU, although the harmonisation of all policies, including agricultural, with those applied in the EU. In terms of effects of indirect taxes in agriculture, it can be concluded that farmers are substantially burdened by the tax, which generally results in a reduction of their income. Mechanisms of *“specific price protection policies”*, were applied only in wheat in the past, while other agricultural products are exchanged for market-defined price. The liberalization of trade in agricultural products, regardless of the number of advantages that trade agreements can have for BiH and RS standing in the global economy, has generally had a negative impact on agricultural production. In general, these findings (low level of subsidies, tax burden on farmers (VAT), the disorganization of the market of agricultural products, as well as the low level of foreign trade protection) suggest, that economic instruments of agricultural policy measures did not contribute to improve the competitiveness of the agricultural sector of the Republic Srpska.

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