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# **Between the CAPs: Agricultural policies, programming and the market in Bosnia and Herzegovina**

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Ian Christoplos

**An HPG Background Paper**

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Humanitarian Policy Group  
Overseas Development Institute  
111 Westminster Bridge Road  
London  
SE1 7JD  
United Kingdom  
Tel: +44(0) 20 7922 0300  
Fax: +44(0) 20 7922 0399  
Website: [www.odi.org.uk/hpg](http://www.odi.org.uk/hpg)  
Email: [hpgadmin@odi.org.uk](mailto:hpgadmin@odi.org.uk)  
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## Acronyms

|        |   |
|--------|---|
| BiH    | Bosnia and Herzegovina  |
| CAP1   | Consolidated Appeals Process                                      |
| CAP2   | Common Agricultural Policy  |
| EPPU   | Economic Policy and Planning Unit                                 |
| EU     | European Union  |
| FTA    | free trade agreement  |
| GDP    | gross domestic product  |
| IAP    | integrated area project   |
| IMF    | International Monetary Fund                                       |
| IPA    | Instrument for Pre-Accession Assistance                           |
| IPA-RD | Instrument for Pre-Accession Assistance Rural Development         |
| MTDS   | Mid-Term Development Strategy                                     |
| NGO    | non-governmental organisation                                     |
| RS     | Republika Srpska  |
| SAA    | Stabilisation and Association Agreement                           |
| SAPARD | Special Accession Programme for Agriculture and Rural Development |
| Sida   | Swedish International Development Cooperation Agency              |
| SLI    | Swedish Institute for Food and Agricultural Economics             |
| USAID  | United States Agency for International Development                |
| VAT    | value added tax   |

# 1. Introduction

## 1.1. Purpose of the study

The study analyses the challenges facing agricultural producers, politicians and aid programmers in Bosnia and Herzegovina (BiH) as they move from modalities reminiscent of the agricultural rehabilitation programming supported in the past through the Consolidated Appeals Process (CAP1 phase), to now preparing for future EU membership and increasing integration into markets steered by the EU Common Agricultural Policy (CAP2 phase). EU Foreign Minister Designate Javier Solana has referred to the dichotomy between past and future approaches to development in BiH as a move from the 'era of Dayton' to the 'era of Brussels' (2004). These points of reference for agricultural policies and programming have little in common, but both have a profound impact on the prospects for effective, pro-poor support to agricultural development in the past, the present and the future.

One similarity between the two CAPs is that neither envisages a 'level playing field' with regard to aid impact on market relationships. Both contain elements that over-ride market forces. The character of these influences is very different. This study will review how these different externally induced 'market imperfections' shape practical approaches and the attitudes of key actors toward the promotion of markets for agricultural products and services.

Most agricultural programmes in BiH have moved on from the seeds and tools focus of the past. They are primarily directed toward promotion of commercial production. They are not, however, driven by market forces. A CAP1 approach still exists, in the sense that efforts are based on heavily subsidised support to client farmers (still frequently referred to as 'beneficiaries'). In some cases the cost of support is considerably higher than the net income accruing to the farmers. Many NGOs have gradually entered into contract farming relationships with their beneficiaries. The NGOs provide inputs and directly market their products for them, with both categories of services being heavily subsidised.

At the same time, BiH is slowly moving in the direction of EU membership and CAP2 – the era of Brussels. The country has undertaken many of the reforms promoted by the EU, and has even entered into free trade agreements that have put Bosnian farmers at a disadvantage against those in other European countries since BiH provides much lower levels of subsidies than its competitors. In addition to lack of direct market competitiveness, farmers in BiH are further disadvantaged by a lack of government structures and institutions needed to promote and regulate markets. The state (central) government does not have a ministry of agriculture. The two entities of the Federation of BiH and Republika Srpska (RS), and the separate administrative district of Brcko, have each retained their own separate quasi-ministerial structures, a system that is not conducive to the process of structural change for governing markets as required in approaching EU accession. There is no consensus on how to begin to undertake the enormous tasks of investing in increased competitiveness and enhanced institutions required for EU candidate status.

The scale of assistance that will eventually be provided to the countries of the Western Balkans and Turkey in adapting their agriculture and rural development sectors to the EU market is enormous. The EU intends to invest €12.9 billion in the Instrument for Pre-accession Assistance (IPA) to these countries in the coming years, a sum that is similar to the amount raised within the humanitarian sector for the Indian Ocean tsunami response.

This study looks at the ways in which agricultural stakeholders are struggling to move beyond CAP1, at the same time as the contours of CAP2 remain extremely hazy. The legacy of conflict has shaped the prospects for what has been (and will undoubtedly continue to be) a very unusual path of entry into EU markets. The study considers how humanitarian perspectives have influenced the nature of markets for both agricultural products and agricultural services, and considers whether the gap between the two CAPs can avoid becoming an abyss.

**Three sets of questions are analysed:**

1. *How to promote agricultural markets:* This review analyses how potential market opportunities have been identified, prioritised and pursued and contrasts the conceptual models and sequences that have prevailed during the CAP1 phase with those that are emerging as efforts increase to pursue CAP2.

2. *How policy makers and aid agencies can best engage with private sector actors:* This review takes stock of the efforts that have been made to engage with potential private sector investors at different levels of the market chains. A major aspect of this is whether aid modalities channelled via NGOs are an effective way of promoting agri-food policies that reflect the dynamics of supermarket and international value chain development.

3. *What the roles of various stakeholders might be in promoting agricultural markets:* The respective roles of traders, market information services, agricultural advisory services and external actors in identifying and promoting potential markets are not self-evident. This study asks how the necessary commercial networks of different actors can be promoted and sustained in an equitable and principled manner. The review looks critically at whether it is possible to promote rural poverty alleviation objectives when the goals of EU accession are based on a 'modernisation' of agriculture, including a dramatic shift to more capital intensive technologies.

**1.2 Methods**

The study is primarily based on a review of recent experience of the Swedish International Development Cooperation Agency (Sida)-financed Integrated Area Projects (IAPs), most of which have received support for a number of years to undertake what were originally agricultural rehabilitation activities. The study is also based on interviews conducted with a range of other stakeholders. The author of the case study was involved in the design of a possible future Sida-financed programme of agricultural support, and these findings reflect the perspectives that were revealed in the course of that planning process. The analysis presented here is that of the researcher alone, and does not necessarily reflect the views of Sida or its collaborating partners.

## 2. Background to rural poverty and market relations

### 2.1 The legacy of past socio-political systems

The functions and dysfunctions of rural markets for labour, products and services in BiH today are increasingly influenced by entirely new market opportunities and obstacles. However, in order to understand how these markets can be influenced to become more efficient and provide greater benefits for poor rural residents, it is important to understand the current situation within its historical context. Popular and journalistic accounts of the dysfunctions of agricultural and rural development in Eastern Europe tend to point the finger at the impact of the socialist era. In the Western Balkans, today's problems in the agricultural sector are of course also seen as being linked to the conflict. These factors are reviewed here, but are placed in a wider context.

The legacy of socialism is but one set of factors that have influenced patterns of agriculture and rural development. Even before the Second World War there was a dearth of viable small farming units in most of Eastern Europe. There were a few very large farms and thousands of micro-farms, but little in between. For centuries it has been difficult to 'find farmers', in the sense of viable small holder enterprises (Cartwright and Swain, 2002). This dualism has remained stubbornly entrenched, despite efforts during the socialist era to wipe out micro-farms and attempts afterwards to create a new class of mid-sized farmers with the potential to compete in EU markets.

The role of agriculture in BiH today stems from a system of market integration that played a major role in keeping Yugoslavia together during the period between the Second World War and its collapse in the early 1990s. National integration among the Yugoslav republics was managed through the promotion of trade and commercial specialisation. Each Yugoslav republic was encouraged to pursue certain areas of comparative advantage, both as a way to promote growth and also in the hope that the resulting interdependencies would lead to national integration. Some have suggested that the subsequent dismantling of this trade among the republics had a greater impact on the economies of the region than the ensuing conflict (Tuathail and Dahlman, 2004). Within this system, BiH was not seen to be a significant area for agriculture. Northern Serbia became the main source of cereals for Yugoslavia, and Macedonia was the supplier of fruits and vegetables. BiH had some farming, but investment was overwhelmingly channelled towards heavy industry, minerals and (to some extent) tourism.

With the collapse of Yugoslavia, this system of trade between the republics collapsed. BiH was no longer discouraged from investments in agricultural, but overall it had weak pre-existing markets and little orientation towards farming. Even when faced with massive unemployment after the closing of industry, there was no natural 'retreat' to farming since a relatively small proportion of the population had significant experience, access to land or predilection for tilling the soil.

#### **Box 1: Regional markets in the former Yugoslavia**

Other former republics have had greater natural advantages and commercial networks for pursuing agricultural markets than BiH. Greenhouse producers throughout BiH have difficulty competing with Macedonian producers who have long dominated these markets. Farmers in RS have difficulty competing due to their market integration with the relatively efficient, dynamic and well capitalised Serbian agrifood economy (Gärke, 2001). Huge mechanised farms in Northern Serbia can produce cereals far more cheaply and efficiently. The sectoral share of value added from agriculture, hunting and forestry in RS declined by 11% between 1996 and 2004, the largest drop of any sector (IMF, 2005).



The overall post-Second World War Yugoslav economy was primarily driven by industrialisation. Agriculture was often seen to be a *cause* of poverty, not a solution. There was a need for food for increasing urban populations, but this led to agriculture primarily being seen as something to exploit, rather than develop. State farms were established to supply food, and the production of the remaining smallholders was purchased under highly disadvantaged terms that led to their decapitalisation and destitution. The development needs of smallholders were ignored since they were seen as representing a disappearing peasant class and as latent industrial workers rather than a part of the modern economy of the future (Palerait, 2000).

Even though there was a shift to urban employment, up until the 1970s a large proportion of the population retained ties with the rural areas, with subsistence farming providing a significant supplement and safety net for extended families that obtained the majority of their income from industrial or public sector employment. Farming also became more closely associated with subsistence production by women, as men left to work in factories and abroad (Cukur, 2005). Many rural communities actually received new investment (primarily in housing) deriving from their access to urban employment. These villages have been described as ‘de-ruralised’ in that they became primarily dependent on the urban economy for livelihoods and for maintaining the dynamism of the village. Skotte (2005) states that industrialisation and migration served to preserve and in some ways strengthen village traditions, even though economic dependence on agriculture itself faded. At the start of the war, Skotte states that 37.2% of the population remained in ‘de-ruralised’ villages, dependent on income from urban areas and international migration.

Poverty today is largely related to the collapse of the industrial sector, which was as much a cause as a consequence of the collapse of Yugoslavia. Even though the rural links helped somewhat as a fall back option, by the 1990s the function of agriculture as a safety net was far too weak to support a population of former industrial workers (and their children) who often had only a limited economic base left in the village.

## 2.2 The legacy of conflict

Between 1992 and 1995 BiH was torn apart by war and ethnic strife. Up to 250,000 lives were lost and approximately two million people were displaced. The General Framework Agreement for Peace in Bosnia and Herzegovina, commonly referred to as the ‘Dayton Agreement’, was signed in December 1995, and ended the three-and-a-half-year war. A unique and problematic governmental structure was agreed to by all parties, which included three entities, Republika Srpska, the Federation of Bosnia and Herzegovina and the administrative district of Brcko, each with far-reaching autonomy. This system allowed the de facto division of the country to be retained in the interests of achieving a cessation of armed conflict. The result of this compromise has been the creation of an extremely weak state and limited progress in the consolidation of viable and credible institutions.

War-related damage to the agricultural sector totalled approximately US\$4.54 billion. 70% of the business infrastructure and 60% of livestock were destroyed. Despite this massive destruction, reconstruction and rehabilitation in general in the country have been rapid. It is important to compare the relatively lacklustre recovery in agriculture with the much more dynamic performance in other sectors, and consider the impact of conflict in the perspective of other factors that have limited agricultural development. Kernohan writes that one problem in interpreting the real economic record in South-eastern Europe is how to make due allowance for the extreme ‘shock’ (not least to ‘human capital’) from war disruption in the region up until 1995, against the need to be critical where persistent under-performance since then warrants it (2006: 6).

The most enduring legacy of the war in the rural sector may not be in terms of physical destruction, but rather in the institutional weaknesses and delayed reforms due to a complex and polarised political system. BiH is certainly not a ‘collapsed state’, but due to the legacy of war it still lacks many of the institutions that would seem self-evident in a ‘normal state’. There is no ministry of agriculture at the level of central government (referred to as the ‘State level’). The two entities of the Federation of Bosnia

and Herzegovina and Republika Srpska, and Brcko District, each retain their own quasi-ministerial structures, which may provide part of the institutional infrastructure for a future decentralised administrative system, but are not recognised as constituting appropriate partners for developing the statutory and regulatory functions and the overall administrative tasks that are essential for wider integration into EU and international markets. Each entity has its own systems for inspection and phytosanitary control, plant protection, veterinary services, etc. Each provides different types and levels of subsidies. Major problems exist due to vague and inconsistent application of food safety and phytosanitary inspection. Furthermore, the roles of cantons and municipalities in regulating, subsidising and servicing agriculture are different in each entity and unclear in many respects.

The flight of refugees during the war left vast tracts of land uncultivated. Much of this land still lies fallow due either to the absence of the owners or a decision by owners not to reinvest in farming. Land mines are also a contributing factor. In 2001, 10% of farmland was estimated to be mined (Gärke, 2001). A large number of rural residents have rebuilt their homes (usually with aid assistance) but primarily reside outside the country. Relatives who remain in BiH depend heavily on remittances. One farmer interviewed, who was living in a village with hundreds of new, empty houses, reported that he could farm as much land as he wished rent-free, since his neighbours were happy to have their land cultivated in order to curb brush encroachment.

### Box 2: Agriculture in the Federation of BiH and Republika Srpska

The two entities of BiH are very different. Even before the war the majority of agricultural holdings were located in the areas that are now part of RS, with more urban and industrial development in the Federation. Before the war there were 0.8 hectares of agricultural land per capita in the areas that became the RS, compared with 0.45 in the Federation (Keith, 1999). In 2002, agriculture amounted to 6.9% of GDP in the Federation, compared with 16.6% in RS (Statistical Office of the Federation of BiH and Statistical Office of RS).

The EU has struggled to promote greater integration between the two entities by building on their economic interdependencies. A system of 'regional development agencies' has been established, which engage municipalities from both entities in areas that have been determined to have mutual interests in economic development activities. These approaches have been embraced by the municipalities involved, but have run into strong opposition from RS central authorities, who perceive them as usurping their authority. The donor community has had a somewhat ambivalent view, appreciating the need for more of a focus on economic interdependencies rather than political differences, but at the time disliking the creation of additional parallel structures.

## 2.3 The legacy of post-war rural reconstruction and reintegration efforts

*War effectively was a process of compulsory urbanization. To the extent that it sponsored the movement of urban dwellers back to rural, and often marginal, villages such as the Bosniak mountain villages surrounding Zvornik, the process of return effectively ran counter to 'natural' modernization and urbanization. In effect, the international community was underwriting a process of urban to rural migration ... Meanwhile, the international community has spent millions on reconstruction and utility provision to marginal regions. The viability of these returns over the next decade is questionable, and it remains to be seen if the international community did not make a mistake in prioritizing returns at all cost over local integration and poverty reduction in urban areas.*

Rural resettlement and reintegration are not the inevitable solutions to rural displacement that they might be assumed to be. Sustainable reconstruction after a conflict requires looking forward to where people are going to be able to earn a livelihood, and not just at the way things were thought to be in the past. It is difficult, however, to judge where markets and livelihoods are heading in a post-war environment. The ultimate retort to the view that support to rural livelihoods is pointless in the face of urbanisation is the counterfactual question ‘compared to what?’. The viability of livelihoods in rural areas may be questionable, but prospects in the towns are not much better due to the collapse of labour markets from industry and public sector employment and greater reliance on public services. Some suggest that, for these reasons, the situation has become worse in urban than in rural areas (Matul and Tsilikounas, 2004). There is no simple answer to whether urban or rural livelihoods are more ‘sustainable’. Conventional assumptions regarding international trends are frequently based on the normal historical trend in almost all societies of a linear shift from rural to urban livelihoods. Since the war coincided with a collapse in the urban economy, these assumptions of normal trends can be questioned. A large proportion of the population is indeed ‘floating’ between being farmers, factory workers and pursuing other livelihoods.

After the war, much of the population of BiH was simply labelled as displaced.<sup>1</sup> In the immediate post-war period the main reconstruction priority was housing. Massive programmes were initiated with dual objectives of providing permanent shelter and also of reversing ethnic cleansing. The destruction of housing (primarily owned by the Muslim or ‘Bosniak’ population) during the war was used as a way to try to ensure that people would not be able to return to their former homes. At least in rural areas, the international community has succeeded in enabling people to return. Agricultural programming was initially introduced as a complement to these housing programmes, as it was increasingly recognised that there were few livelihood opportunities available to the returnees. Over time, the need to find employment for returnees turned into an evermore pressing issue as people registered to receive rural housing and promptly left. An estimated 20% of the housing constructed by the international community after the war is vacant (Skotte, 2005). Many houses are effectively used as vacation homes by families who have settled in other countries. The moral political imperative of reversing ethnic cleansing has come to be combined with the additional political imperative of encouraging BiH refugees to return home (and stay there).

One outcome of this combination of factors is the emergence of a development narrative in BiH which sees agriculture as a potential generator of new jobs. The need to find a solution that will keep people in their rebuilt homes has created pressures to look rather optimistically on the potential of addressing the livelihoods crisis through farming. This is in direct contrast to the rest of Eastern Europe, where policies generally acknowledge that ‘future ruralities’ will include declining job opportunities in farming itself. One of the main underlying assumptions of the reforms in the Common Agricultural Policy towards greater emphasis on rural development in recent years is that more attention is needed to finding ‘good exits’, whereby (former) farmers can obtain alternative livelihoods in rural areas. BiH is trying to move in the opposite direction.

Post-war agricultural rehabilitation programming is currently polarised between two approaches. A large set of programmes (of which the Sida-financed IAPs are an example) have grown out of CAP1 reintegration efforts. They developed from the ‘livelihood components’ that were originally established as a relatively minor complement to housing reconstruction efforts. The main target group has been the unemployed, not former farmers. The large majority of the beneficiaries of these programmes farm less than one hectare. Attention to the long-term viability of the farming enterprises being supported has often been secondary to the need to support livelihoods in the short term and to encourage people to remain in rural areas. These programmes originally provided seeds and tools and have developed further into multicomponent initiatives combining very intensive extension and training, provision of small greenhouses, credit and assistance with marketing.

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<sup>1</sup> Estimates differ regarding total number of displaced. According to Per Iwarsson (Sida 2004) approximately half of the pre-war population of 4.2 million was displaced.

Most of these programmes were started by international NGOs. The United Methodist Committee on Relief, for example, was one of the largest channels for USAID-funded agricultural rehabilitation for 13 years, and included assistance to dairy farms, technical assistance and credit. Some of the largest of these programmes have been virtually phased out, while others are in the process of being 'localised', a term used for the process of turning over programmes and assets to BiH stakeholders, usually local or national NGOs. There are still a few programmes run by international NGOs, but the last of these are likely to be localised in the near future.

A significant number of returnees who have become micro-farmers are currently able to survive in much better conditions due to the assistance they have received from the CAP1 programmes. There is a clear (but not necessarily sustainable) social protection function in the subsidies provided for agricultural rehabilitation. It is likely that this farming also provides a certain food security function that may continue after market access for the poor has declined. Aid to micro-farming has undoubtedly provided an important cushion to an otherwise harsh reintegration process. It is important, however, to deconflate these social protection functions from unrealistic expectations about sustainable market integration.

The other set of programmes has focused more exclusively on the CAP2 modalities of promoting growth in agricultural production, productivity and profitability. These programmes have been focused on 'picking winners' and providing them with generous assistance. The USAID programme 'Linking Agricultural Markets to Producers' provides a range of support to commercial farmers who are deemed likely to succeed in increasingly demanding markets. Support is also provided to processors and other actors in the value chain through a holistic approach to the sector. The types of services provided through these programmes are in many respects similar to those of the NGOs, but the modalities are much more closely linked to analyses of changing market conditions and value chains, combined with a lesser degree of optimism regarding the likelihood that micro-producers will remain active in agriculture in the future. The 'winners' supported by these programmes are usually relatively well-off farmers with considerably larger land holdings than with the CAP1 projects. The link to poverty alleviation and reintegration in these programmes is sometimes tenuous, but there is an assumption that a well-functioning and competitive agricultural sector is more 'pro-poor' than a large number of semi-subsistence farmers with few prospects of reaching markets. If the EU initiates direct support to the BiH agricultural sector in the future it is very likely that the EU investments will be similar to these programmes in many respects.

In both sets of programming the link between objectives of reintegration and growth is usually presumed to be in the development of farmers' associations and cooperatives to market agricultural products. Among the reintegration programmes, there is an assumption that farmers' groups will take over the transaction costs that are currently covered by aid-financed NGOs and manage sustainable market linkages for the poor. Among the growth-oriented programmes, there is an assumption that farmers' associations will make agricultural transformation more inclusive and encourage the diffusion of technological changes being introduced among more dynamic farmers.

There are reasons to be cautious in accepting either of these assumptions at face value. Although strong cooperatives certainly have the potential of providing employment for the poor in processing, transport, etc., and perhaps reducing the costs of some services, there is no sign that they are ready to welcome the poorest producers as active and equal members. Even if they were to try, it is unlikely that farmers' associations could develop capacities which would absorb the very high transaction costs of working with many types of micro-producers. It is doubtful that the current heavy investments by NGOs in reaching the poor will be covered in the future by the wealthier farmers in the cooperatives.

Over time, agricultural programming in BiH has become increasingly *marketing oriented* in the sense that great attention is being paid to ensuring that producers can sell their crops. This does not mean that these programmes are necessarily *market oriented*, in terms of being based on an understanding of markets, competitiveness and profitability. Some private sector actors which buy from NGO-supported and -organised farmers complain that the NGOs with which they work show remarkably little

concern about the ultimate production levels and profits of their clients. This is said to be because the NGOs rely on a donor (rather than the market itself) for their own profits, and are not genuinely accountable for the ultimate viability of the farming enterprises they are supporting. From the perspective of these private sector critics, such accountability can only emerge if the NGOs' operational survival is related to their results in terms of production and agricultural profitability. The newer CAP2 programmes are generally built on stronger market analyses, but they too are not truly accountable to the market. There is a danger that they may also be 'picking winners' and providing them with subsidies to market their products, at the cost of creating conditions for the market itself to pick the winners.

## 2.4 Rural poverty and food security

Rural BiH today constitutes a strange combination of markets and forms of production. Supermarkets and shopping malls abound. Industry is growing rapidly and most of the cities give an overall impression of greater wealth and commerce than many of the rural areas of neighbouring countries that have not experienced war. Large and expensive reconstructed housing can be found even in relatively isolated rural areas. Parallel to this, unemployment and underemployment remain serious problems, and many of the recently returned rural poor are eager for an opportunity to leave rural areas again.

Subsistence farming is not recognised as a major aspect of Bosnia's overall economy, but it does make a significant contribution to the food security of the rural population. One researcher states, 'It is generally held that working in agriculture is a way to survive, not to live' (Cukur, 2005: 55). Bojnec (2005) claims that 50% of the population rely on agriculture to a significant extent. Stites and Lautze's review of livelihoods in five villages in 2004 (2005:8) drew similar conclusions regarding the continuing importance of subsistence farming for food security:

**Table 1: Primary and secondary food sources by percentage of households**

| Food source    | Source rank | 1989 | Height of conflict | 2004 |
|----------------|-------------|------|--------------------|------|
| Purchased      | Primary     | 69%  | 27%                | 63%  |
|                | Secondary   | 28%  | 11%                | 31%  |
| Own production | Primary     | 31%  | 12%                | 34%  |
|                | Secondary   | 49%  | 7%                 | 39%  |
| Food aid       | Primary     | 0%   | 47%                | 0%   |
|                | Secondary   | 0%   | 17%                | 2%   |

These findings suggest that micro-agriculture provides an important buffer for the unemployed, and until the extremely high unemployment rates fall, non-commercialised agricultural production will remain important. On a household level, micro-farming reduces underemployment for those extended families relying on an insufficient number of wage earners.

The significance of micro and subsistence farming is furthermore related to reintegration policies which have stressed the importance of reversing ethnic cleansing and encouraging people to return and repopulate villages. A large proportion of the housing that was constructed for returnees has been in rural areas with no other income opportunities apart from agriculture or migration. A very large proportion of this housing remains empty, and many of those who have returned are elderly or are looking after the assets of relatives that are working elsewhere. These people are unlikely to expand into commercially viable farming. Indeed, they sometimes report that they see their farming as more of a 'hobby' than a business. Hobby or not, micro-farmers represent a significant group which is contributing to keeping hopes for a future ethnically mixed BiH alive. Even if the wider significance of these activities in overall economic development is limited, these are strategic components of their livelihoods and help to anchor people in villages. Encouragement of micro-farming therefore has an

important role in BiH's socio-economic and political development. It contributes to alleviating the non-economic aspects of rural poverty and supports democratic development by ensuring that rural people have a modicum of opportunities when they return from exile and re-establish the multi-ethnic communities that existed before the war.

A large proportion of micro-farmers in BiH today are former industrial and public sector employees. Many have returned to farm land owned by their families. Their 'farms' may consist of a few cattle, poultry and a small plastic greenhouse. Some produce raspberries or strawberries on less than half a hectare. Support from the IAPs and other donor-funded projects has enabled many to take advantage of post-war reconstruction programmes by providing knowledge and investment in activities that represent an important start in the search for a rural livelihood. The nature of poverty among these micro-farmers is complex and livelihood strategies are diverse, including reliance on remittances, pensions, urban employment, services and small enterprise. In some areas agritourism is starting to grow. Micro-farming is a very significant part of these livelihood strategies in terms of food security and opportunities for women, youth and the elderly – all of whom may have difficulties obtaining other forms of employment.

### **Box 3: Multifunctional rural development in Eastern and Central Europe**

The EU Common Agricultural Policy is intended to be in transition from a past focus on agricultural production and productivity, to a new focus on more rural development wherein rural areas are valued for a multiplicity of functions, related as much to the environment and quality of life as to farming per se. Rural development and CAP2 support is expected to be detached from the past focus on agriculture. The new members of the EU have been actively encouraged to 'get off on the right foot' in terms of using EU funds for structural change to encourage farmers to invest in these new, environmentally friendly, multifunctional forms of rural development. This has not been easy.

*There are a number of ways in which the agricultural and rural situations of the candidate countries of Central and Eastern Europe differ from those of the West, and all of them suggest that the pro-farmer bias in EU rural development programmes could usefully be corrected. The first of these relates to the EU's 'multi-functional agriculture' fudge which subsumes a rural development agenda to agricultural policy. Multi-functional agriculture presupposes relatively small farms admittedly, but farms in western terms nevertheless, with sufficient land to take on the role of 'custodian of the landscape' in a meaningful sense. Their nonviability in commercial terms is compensated by rewards for their roles as custodians of the countryside. In the eastern half of the continent, however, commercially non-viable farms are too numerous, too small-scale, too much on the fringes of the measurable economy to be either competitive in the production of premium products (organic farming, local speciality products) or to form the basis of a 'custodian of the countryside' class of farmer. Non-commercial 'farmers' east of the Elbe require more direct aid and higher non-farm incomes than is envisaged by the multi-functional agriculture agenda.*

Cartwright and Swain 2002:12

Indeed, even though funds have been earmarked for investment in these new visions of rural development as part of pre-accession support, the countries of Eastern and Central Europe have had difficulties absorbing and utilising this support (European Institute Foundation 2005).

It should also be stressed that conflict and displacement are very much a part of the multidimensional nature of poverty in BiH, which implies that the stability of the reintegration process has significance that transcends the actual economic output of the micro-farms. Support to micro-farming from the IAPs and similar programmes has contributed enormously to the reintegration of the displaced, and has shown that ethnic cleansing can be reversed in rural areas (progress in recreating multiethnic communities has been much more limited in urban areas).

A strong faith nonetheless exists in the role of agriculture in reducing unemployment, and with that poverty. This is exemplified by the fact that local authorities are beginning to co-finance the ongoing agricultural activities of the NGOs. Tuzla Municipality has set an objective that 10% of the unemployed

will become farmers and is providing subsidies via the Sida-supported NGO Bosper for this purpose. Bosper is seen as being experienced and reliable in delivering subsidies to those who actually intend to farm. Other municipalities are beginning to follow suit, as their budgets for agriculture are increasing (especially in RS), but their own capacity to administer subsidies remains very limited. Comments are frequently heard throughout BiH that non-farmers have received a major proportion of agricultural assistance in the past, and NGOs are seen by the municipalities as organisations with the capacity to verify that recipients intend to use support to farm (even if their farming is not necessarily commercially viable).

It is notable that agriculture is perceived by many government and private sector actors as an area where growth and poverty alleviation are best promoted through publicly funded production subsidies. This focus on production subsidies is in contrast to the current reform of the EU Common Agricultural Policy, which delinks subsidies from production. BiH is moving in the opposite direction of the EU in this regard. This suggests the need for considerable attention to providing information and encouraging further dialogue about the implications of EU policy for future approaches to pro-poor rural development in BiH.

## 2.5 The implications of the rise of supermarkets for micro-farming

BiH is a 'star pupil' of the international community in terms of agreeing to open its markets to trade and globalisation. Since 1990 it is one of the five countries in the world with the fastest increase in international trade.<sup>2</sup> As part of this process, BiH is in the midst of an exponential shift in its agrifood systems. Supermarkets and shopping malls are being constructed throughout the country, even in relatively small towns. In July 2006, BiH had 19 hypermarkets (with over 12 cash registers) and 250 supermarkets (with two to 11 registers) (Huisenga, 2006). The drastic changes in supply chains and consumer preferences that are occurring will have profound impacts on farmers in BiH. If they can meet the demands of supermarkets for quality, quantity and timeliness at a competitive price, their market opportunities are enormous. If they cannot, they may lose their markets entirely. The demand through small shops and open markets which they have served in the past is declining. Experience elsewhere has shown that, in the early period of market penetration by supermarkets, the greenmarkets upon which micro-farmers depend to sell their produce are able to retain a major market share for fresh fruits and vegetables, but once supermarkets are widely established they increasingly dominate (Reardon, 2005). In BiH supermarkets only purchase approximately a quarter of the fresh fruit and vegetables they sell domestically (Huisenga, 2006). Conclusive data is not available, but it appears that the leading role of supermarkets in BiH agrifood markets is rapidly being consolidated.

Post-war agricultural programmes have helped micro-farmers to begin commercialising their products. These sales have been either through small (and shrinking) greenmarket outlets or through subsidising the transaction costs of contracts from supermarkets. Many of these new micro-farmers are likely to lose their ability to access supermarket commodity chains if aid subsidies are reduced. They may return to unemployment. The experience in BiH has shown that aid to micro-farming can lead to increased commercialisation in the CAP1 phase, i.e., with very considerable subsidies for investment, transaction costs and training. The IAPs can point to hundreds of examples of returning refugees and former factory workers who are now obtaining an income (in some cases a significant income) from agricultural sales. This includes some who sell a modest harvest of strawberries as a supplement to their primary sources of income, and others who have expanded former 'hobby' activities into fulltime enterprises.

There is reason for caution, however, in drawing longer-term conclusions from these post-war success stories. It is less likely that micro-farming will provide even a micro income in the coming years as BiH is integrated into EU markets and as consumer preferences shift to supermarkets. These farmers will have to increase the quality and quantity of their production if they are to retain access to the commercial markets of the future. There are significant economies of scale in the types of investment

<sup>2</sup> [http://devdata.worldbank.org/wdi2006/contents/Section6\\_1.htm](http://devdata.worldbank.org/wdi2006/contents/Section6_1.htm)

required to achieve such improvements, indicating that, apart from some possible niches, they will not be able to compete even if capital investments are supported by external financing. With market requirements tightening and the provision of aid decreasing, many of those micro-farmers who are currently able to sell their produce will be forced out of the market, apart from perhaps supplying neighbours and local villagers.

There are some positive examples of successful farmers who have taken advantage of agricultural rehabilitation support to scale-up their production, and some of these will certainly survive. All agencies are able to point to model farmers who are using their assistance as a springboard into competitive market agriculture, so there is no doubt that the leap to viable commercial production is possible. The question is whether it is likely for the majority of those receiving aid. The choice of focus of many programmes on raspberries and strawberries is appropriate, since these can be produced relatively competitively on small plots (but even these will probably have to grow to at least 0.5 ha to be viable). The question is whether production for supermarkets is likely to become widespread with the current clients of the IAPs. It is impossible to obtain more than anecdotal evidence regarding the proportion of former 'beneficiaries' who are making this leap. Most of the agencies interviewed have not conducted systematic follow-up to assess success rates. One exception is Lutheran World Federation in Sanski Most, which has surveyed 540 of those who have received intensive support in the past about their intentions for the future. Approximately 25% of respondents intend to try to become commercial farmers. If one guesstimates that approximately half of these actually succeed, this would indicate that 10% to 15% of those receiving support are likely to become viable commercial farmers. It can be tentatively concluded that a major proportion of the micro-farmers supported by agricultural rehabilitation programmes are unlikely to expand to become modest-scale producers capable of producing for the commercial markets of the future. This would not be a major concern in a country that intends to retain a significant semi-subsistence farming sector, but BiH is moving towards becoming part of the EU, where semi-subsistence farming is not seen to be an appropriate way of life.

It is also important to note that those involved in agriculture are primarily youth or the elderly. Many youth are farming in order to obtain a minimal income while waiting for alternative employment. There is no indication that they want to remain semi-subsistence farmers. The elderly see agriculture as a food security measure and as a modest complement to their pensions, rather than a commercial activity. They are more satisfied with such a lifestyle, but their perspective on farming is just to keep going for a few more years. The most economically active sectors of the population, from 25 to 49 years of age, are under-represented in farming at 12.97% of the employed population, compared to 18.34% for those 19 to 24, and 21.46% for those over 50 (Bojnec, 2001), and it is this group who would be expected to have the drive and the capacity to develop viable commercial farming enterprises.

In order to obtain a sufficient production level to enter supermarket supply chains, many of today's micro-farmers will only be able to survive in the market economy if they become full-time farmers. There is a paradox in that this is not always encouraged within current aid modalities. The NGO Bosper ties its entire agricultural support package, including extension and other services, to those producers that have been approved as credit recipients. The bank which has been contracted to manage their credit line does not trust that agriculture is a very reliable business, and only approves applicants who have significant additional income flows in the household. They refuse credit, and thereby block Bosper's entire support programme, if an applicant is a fulltime farmer. This is less surprising than it would seem at first. Cukur notes in her anthropological study that there is a widespread lack of faith that agriculture can be a major source of income, and that even rural villagers see industry as a more reliable source of income than farming (2005).

It is easy to paint the rise of supermarkets as purely a threat to local producers, but it should also be stressed that the pre-existing agrifood systems in the Western Balkans have been highly disadvantageous to small producers. Weak liquidity in weak and poorly capitalised supply chains in non-supermarket-related value chains (e.g., wine) have resulted in very late payments that have sometimes created difficulties in obtaining capital for the following year's agricultural season. Large chains have the capacity to handle relations with their suppliers in a more professional manner, and



the lack of high-quality produce in the region, combined with a consumer preference for locally produced foods, means that there is a ‘seller’s market’ for products that can achieve the standards demanded. The rise of supermarkets includes many threats to the poor, but also significant opportunities. It is important that the implications of these changes are analysed in an evidence-based manner, with a wider perspective than just the ‘needs’ of chosen beneficiaries. Even if there is a concern for markets and marketing in the CAP1 programmes, their humanitarian legacy keeps them anchored in what Maxwell and Slater have described as ‘old’ food policy. CAP2 is characterised by an acceptance of ‘new’ food policies as compared in the following table (Maxwell and Slater, 2003: 534).

**Table 1: Food policy old and new**

|    |                                       | Food policy ‘old’  | Food policy ‘new’   |
|----|---------------------------------------|--|---|
| 1  | Population                            | Mostly rural   | Mostly urban  |
| 2  | Rural jobs                            | Mostly agricultural  | Mostly non-agricultural   |
| 3  | Employment in the food sector         | Mostly in food production and primary marketing                                  | Mostly in food manufacturing and retail   |
| 4  | Actors in food marketing              | Grain traders  | Food companies  |
| 5  | Supply chains                         | Short – small number of food miles   | Long – large number of food miles   |
| 6  | Typical food preparation              | Mostly food cooked at home   | High proportion of pre-prepared meals, food eaten out   |
| 7  | Typical food                          | Basic staples, unbranded   | Processed food, branded products<br>More animal products in the diet  |
| 8  | Packaging                             | Low  | High  |
| 9  | Purchased food bought in              | Local stalls or shops, open markets  | Supermarkets  |
| 10 | Food safety issues                    | Pesticide poisoning of field workers<br>Toxins associated with poor storage      | Pesticide residues in food<br>Adulteration<br>Bio-safety issues in processed foods (salmonella, listeriosis)  |
| 11 | Nutrition problems                    | Under-nutrition  | Chronic dietary diseases (obesity, heart disease, diabetes)   |
| 12 | Nutrient issues                       | Micronutrients   | Fat<br>Sugar  |
| 13 | Food-insecure                         | ‘Peasants’   | Urban and rural poor  |
| 14 | Main sources of national food shocks  | Poor rainfall and other production shocks  | International price and other trade problems  |
| 15 | Main sources of household food shocks | Poor rainfall and other production shocks  | Income shocks causing food poverty  |
| 16 | Remedies for household food shortage  | Safety nets, food-based relief   | Social protection, income transfers   |
| 17 | Fora for food policy                  | Ministries of agriculture, relief/rehabilitation, health                         | Ministries of trade and industry, consumer affairs<br>Food activist groups, NGOs  |
| 18 | Focus of food policy                  | Agricultural technology, parastatal reform, supplementary feeding, food for work | Competition and rent-seeking in the value chain, industrial structure in the retail sector, futures markets, waste management, advertising, health education, food safety |
| 19 | Key international institutions        | FAO, WFP, UNICEF, WHO, CGIAR   | FAO, UNIDO, ILO, WHO, WTO   |

## 2.6 Future trajectories in international cooperation and EU integration

There is a broad consensus among the population and among the international community that BiH’s future stability is reliant on EU membership. Unlike other countries that have gone through the EU accession process, BiH is proceeding towards accession with a combination of wider international development cooperation and EU procedures. Even though BiH is emerging from its former status as a ward of the international community, the country is not yet treated on the same terms as the rest of

Eastern Europe. Development processes are combining the tools of poverty reduction strategies applied in ‘developing countries’ with the mechanisms of pre-accession that have been used in ‘transitional countries’.

The EU integration process places massive demands on structural and legislative reform in agriculture. Virtually half of the EU budget and legislation relates to agricultural and rural development. Despite this, the recommendations of the Mid-Term Development Strategy (MTDS – BiH’s Poverty Reduction Strategy) make surprisingly little mention of agriculture and rural development. Although the sector is key to EU integration and has significant impacts on rural poverty alleviation – and despite the links between these objectives – rural development has received very little attention. Agriculture is not likely to become a primary motor in the Bosnian economy. Nonetheless, a failure to address the legal, regulatory and production structures in agriculture will endanger any progress in EU accession. In other words, even if agriculture is not likely to become a grand *solution* for poverty alleviation in BiH, it is central to integration into the EU bureaucracy. Therefore, if systems are not put in place to address agriculture and rural development, the sector may become the central *obstacle* to the European integration that BiH needs for future stability and poverty alleviation.

The MTDS explicitly observes that the terms for its partnership with the European Union do not give due attention to poverty and social protection, and therefore concludes that the process of EU integration must be combined with an emphasis on poverty (EPPU, 2006a). The MTDS stresses, however, that this focus on poverty must be different from the modalities of the CAP1 period. Though there is a consensus that a shift is necessary, it is not yet clear how this should occur without incurring a reversal of the progress that has been made in reintegration. Many of those who have ostensibly been ‘reintegrated’ will leave rural areas again if they cannot obtain a livelihood in their rebuilt villages.

Aid to the agriculture and rural development sector in BiH is currently in a slump. Overall investment in agriculture is decreasing due to the phase out of post-war programming (EPPU, 2006) but – due to a failure to proceed with key institutional reforms – the very considerable resources that will be provided through the IPA have not yet begun to arrive. Private direct investment in agriculture is also depressed. Less than one percent of total private investment has been in agriculture (EPPU, 2006b).

A gap between CAP1 and CAP2 has emerged. The next major step for BiH is to complete its negotiations on a Stabilisation and Association Agreement (SAA) and establish a ministry of agriculture at State level. The MTDS acknowledges that the state of affairs for these negotiations in agriculture is ‘messy’. Once the SAA is signed, the road will be open for proceeding in the EU pre-accession process, and in so doing access IPA support. But a great deal of institutional capacity will need to be created in order to absorb these funds.

The European Commission has, in its ‘functional review’, strongly recommended the creation of a State ministry of agriculture. Several aid donors are ready to invest in developing the institutional infrastructure required, not the least being the creation of a farm registration system and an IPA-Rural Development (IPARD) Agency (including a Payment Agency), which is the cornerstone for accessing and distributing aid within the EU system. A major challenge for the near future is the insistence of RS on establishing its own Payment Agency. The creation of a strong, centrally managed and accountable agency to control the payments of EU support is one of the highest priorities in moving forward in the EU pre-accession process.

### 3. Rural markets: functions and dysfunctions

#### 3.1 Markets for labour in rural areas

Unemployment rates in BiH are very high, but it is difficult to accurately estimate how high, especially in rural areas. In 2004 the official unemployment rate was 43.2% (SLI, 2006). Despite the rapid growth of the overall economy, unemployment is continuing to climb due to further layoffs in heavy industry and staff reductions in the public sector (EPPU, 2006b). Youth unemployment is said to be extreme at 75%. At 37.5%, BiH has the lowest female labour participation in Southeastern Europe (USAID, 2005). These catastrophic figures have been disputed. When the large grey economy is taken into account, some estimates place unemployment at 20% (Foco, 2002). Most agricultural employment is presumed to be hidden within the portion of the population said to be 'unemployed', not the least regarding women's engagement since primarily male migration has resulted in agriculture becoming increasingly seen as an occupation primarily for women.

Agriculture's status as a grey area of the economy is problematic from an EU integration perspective since support to the sector is tied to strict and complicated rules for procedures and payments. Farmers must be registered in order to benefit from the 'era of Brussels'. BiH has introduced a system of value added tax (VAT) which is partially intended as an incentive for informal enterprises (including farms) to register as businesses in order to be able to reclaim the VAT for their input costs. Another intended impact of this is to obtain more accurate data as informal businesses register their employees. It is notable that this measure has thus far made conditions particularly hard for micro-farmers, who are very unlikely to register their farms as businesses. They are sceptical of the value of keeping strict accounting on their 'hobby' and fear that such bookkeeping is more likely to open the door to increased taxes, rather than rebates. VAT has therefore increased their production costs considerably and has reduced their relative competitiveness vis-à-vis large (registered) commercial enterprises. It can be noted that micro-farmers have been very hesitant to register as farmers in many countries in Eastern Europe, despite the potential benefits, due to the difficulties involved and distrust of the authorities (Cartwright and Swain, 2002).

A factor that further indicates that unemployment is not nearly as severe as the official statistics suggest is that BiH has one of the highest wage rates in the region, over double that of Bulgaria and Romania (SLI, 2006). Wages are continuing to rise despite increases in official unemployment statistics (EPPU, 2006b). This is either due to perceived access to better paid employment (either in BiH or abroad) or perhaps due to access to remittances. Regardless of the reason for these high labour costs, this factor raises questions about whether a large-scale 'retreat' to agriculture to escape unemployment is really to be expected.

The industrial sector in BiH is recovering rapidly, though this is occurring without new hiring (EPPU, 2006b). In the long term, heavy industry may once again provide the base for economic stability, but it is unlikely to make more than a fraction of the contribution it once made to sustaining employment. Poverty is thus coming to be more a result of restructuring of BiH's industrial base than it is related to strengths or weaknesses in agriculture.

It is important to stress again that the hopes that agriculture can provide part of a solution to unemployment and poverty are based on seeing it replacing some of the employment lost in industry. It is not a matter of 'recovery' in the sense of a return to a pre-war state of affairs. Agricultural aid is a way to reintegrate returnees and to stabilise, and in some cases reverse, their poverty. Very small plots and greenhouses are a way to provide a very modest income when the alternative is complete unemployment. Agriculture is seen as a valid area for aid and public investment since it is a way to stabilise labour markets. The need to strengthen agriculture's contribution to the wider economy is perceived by many as a lesser priority.

It is important to note that, although there is considerable interest from the aid community and local government in promoting agriculture as a measure to reduce unemployment, this is not reflected in the MTDS, which makes no explicit mention of agriculture or rural development in relation to labour market interventions.

It is also worth noting that the view of agricultural development as an effective means to reduce unemployment is not a major policy goal in other countries in the region, where agricultural programming is far more focused on EU integration and less on employment creation or poverty alleviation. In other countries, it is widely expected that investments in modernisation and increased competitiveness will actually reduce the proportion of the population engaged in farming, as only larger-scale farms will survive. In these other scenarios a healthy (but considerably more capital-intensive) agricultural sector is seen as a way to indirectly contribute to poverty alleviation through overall growth, even if tens of thousands of micro-farmers are expected to be pushed out of farming. BiH is unique in retaining faith in a role for agriculture as a tool to reduce unemployment.

Nonetheless, a significant impact on employment may emerge if a revival of the wider agrifood system can be stimulated. This could include jobs in the processing industry, trade and transportation, and other wider benefits stemming from vibrant rural development. BiH has considerable potential for rural tourism, but this is dependent on the presence of functioning farms and villages. Farming is likely to remain a major feature of multifunctional rural development, but its impact on growth and poverty alleviation through employment generation is likely to only emerge through synergies with other areas of investment.

### 3.2 Markets for agricultural products

BiH does little to protect or promote its agricultural sector. The average import tariff on agricultural products is 5.2%, compared to 21.5% in the EU and 16.8% in Croatia. Furthermore, other countries in the region are aiding producers through far higher levels of public investment in phytosanitary and sanitary inspection, extension, and trade negotiation capacities.

BiH has free trade agreements (FTAs) with Albania, Bulgaria, Croatia, Macedonia, Moldova, Serbia and Montenegro and Turkey. It has had largely duty-free access to EU markets since 2000, but this has not provided a sufficient stimulus to create a significant export market given its weak overall competitiveness. BiH has a strongly negative trade balance in agricultural products, exports covering no more than 7–8% of imports. Agricultural and food-related products make up 5% of BiH exports and 20% of imports. Fresh or processed vegetables and fruit/berries are among the most significant exports. The most important trading partners, for both import and export, are Croatia, Serbia, Montenegro and Germany.

Weak competitiveness is not just due to farm-level factors. Around 2–3% of the total budget in BiH is for agriculture (compared to a contribution of around 10% of GDP). Of this investment, 80% is spent on producer subsidies, leaving only 20% to cover salaries and non-subsidy activities. These meagre resources are distributed on partly duplicated structures in two entities and on the many tiers of government. The amount earmarked for subsidies has increased since 2000, but is still below the targeted 3% and 4% of the budget in the Federation of BiH and RS respectively. Subsidy levels in the EU, Croatia and Serbia are far higher.

A further factor compounding the lack of competitiveness in BiH is the generally weak private sector. In notable contrast to its ‘free market’ policies, only 50% of GDP is in the private sector, compared with 65% to 70% in the rest of the Western Balkans (USAID, 2005). Perhaps due to its relatively easy access to aid, BiH has not moved as rapidly as its neighbours toward internal reforms. It lags behind its regional competitors in terms of bureaucratic obstacles and the costs of doing business.<sup>3</sup> As a result,

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<sup>3</sup> <http://www.doingbusiness.org/ExploreEconomies/Default.aspx?economyid=26>

its private sector is subject to intense competition from international actors, while it has had less opportunity to develop domestically.

### 3.3 Markets for extension and other agricultural services

Markets for agricultural services are weak in BiH. Extension services are not accessible to the vast majority of farmers. Inputs are obtainable, but due to a lack of inspection and control the quality is very unreliable. Market information is largely unavailable. Credit is somewhat more developed, but microfinance structures are usually not tailored to the demands of the agricultural sector, and other forms of credit tend to have interest rates that many farmers find unacceptable. Given the general lack of attention to agriculture, it comes as no surprise that public expenditure on these services is limited. A key question is therefore whether farmers themselves or other private sector actors are likely to finance service provision instead.

NGOs widely claim that farmers are unable to pay for more than a small proportion of the services they need. This may be true for micro-farmers, since many of these enterprises are either based on large aid-financed subsidies or act as a low-input, low-output complement to household subsistence. Among commercial farmers there is a readiness to pay for services, even extension. Many cooperatives have their own technical staff, who advise their producers on how to achieve the standards of quality, quantity and timeliness required of their production. This clearly indicates that farmers can afford to pay the full costs of services if they are receiving clear benefits. Willingness to pay is higher when the cost of services is embedded in an overall contract for finance, input supply, advice and marketing. Given the overall weaknesses in markets for agricultural services, such contract farming may provide one of the few options for more market-oriented agriculture in BiH. Farmers, service providers and buyers all have an interest in the efficient and effective interlocking of finance, production and marketing in these systems.

The IAP NGOs have recognised this, and have designed their support within varying levels of contract-like production systems. The NGOs arrange for many of the services that are required by their clients and facilitate actual purchase contracts with buyers. In these NGO-managed contract farming schemes the costs of services are largely covered by aid. Given the high transaction costs of serving micro-farmers, it is claimed to be unlikely that these costs could be recovered from users, even if they were to be embedded. The profit levels accruing to farmers, even in the NGO schemes, are generally very small already, and the level of services provided is very high, with several extension visits to each micro-farmer during the first years of production (see table below). There appear to be significant inefficiencies in NGO operations, since the private sector often provides services to similar farmers without aid and on a profit-making basis.

| <b>Ratio of staff assistance to direct beneficiaries</b> |   |  |  |  |
|--|---|--|--|--|
| <i>NGO</i>   | <i>Staff engaged in direct assistance</i> | <i>2006 Direct Beneficiaries</i>         | <i>Ratio with direct beneficiaries</i> | <i>Other indirect beneficiaries</i>                |
| LWF Sanski Most  | 6   | 170 credit recipients<br>606 out-growers | 1/129                                  | 800 active credit clients<br>14 municipal advisors |
| Econ   | 7   | 170                                      | 1/24                                   | 250 seasonal workers at the demo farm              |
| Cow How  | 7   | 1705                                     | 1/244                                  | Members of 12 farmer associations                  |
| Caritas  | 4   | 117                                      | 1/29                                   | 487 members of the regional association            |
| Bosper   | 11  | 240                                      | 1/22                                   | 461 greenhouse<br>300 former beneficiaries         |

The IAP NGOs envisage their futures as including a mix of contract farming tasks and extension services. There are three de facto models in NGO plans for their future development as service providers. They wish to:

- become the extension service, relying on aid and municipal contracts to cover the costs of services;
- become the private sector, managing contract farming schemes (while perhaps retaining NGO status for the purposes of tax reductions and access to aid); and/or
- become part of farmers' organisations, providing embedded services.

The visions of the NGOs sometimes conflate these three options.

The NGOs do little to align their programming with the needs of public sector extension. There is relatively limited concrete collaboration or advice to local governmental agricultural services. The NGOs complain that these actors are not interested in extension tasks. Instead, some NGOs provide short-term contracts to researchers from the universities and agricultural research institutes to support their extension efforts. This is an ad hoc, expensive and non-sustainable basis for developing extension support services.

Considerable aid support has been provided from the EU and other donors to encourage the agricultural departments within local government to transform themselves into extension services. Their traditional role has been in data collection, management of subsidies, inspection and legal issues. In RS this transformation process has been strongly encouraged by the entity government. The results of this transformation have been mixed, with some local governments strongly supportive of these new roles, and others less so. The longer-term success of this reorientation toward extension will relate to the new tasks and roles in managing EU funded IPA related initiatives, new inspection tasks and structures and other demands that will emerge, along with the transformation of the agrifood sector in conjunction with CAP2.

The links between NGO extension and the private sector are also weak. The NGOs state that there are no private extension activities. The extent of cooperative activities puts such claims into question. One processor interviewed complained that the NGOs with which they have worked for years have never approached them to ask for advice on technologies, production methods or plant material, despite the processor's long experience and successful extension activities with contracted farmers. As a consequence of this failure to coordinate with the private sector, on occasions the NGOs have purchased and distributed very unsuitable varieties and diseased planting material, which has in turn impacted on the processor's access to produce.

There is indeed little private extension provision, apart from that provided by processors and cooperatives. There appear to be virtually no 'freelance' agricultural advisors. This is notable in that extension efforts in other parts of the Western Balkans (Macedonia, Albania, Kosovo) have strongly emphasised attempts to stimulate the development of extension based on contracting out to such micro-entrepreneurs. It should be noted that the success of these efforts to stimulate the emergence of private service providers elsewhere in the region has been mixed.

The main group of private extension staff are those employed directly by the cooperatives, many of which effectively function as private limited companies, owned by a small number of 'founders', and which work with a larger number of farmer 'cooperants'. These cooperatives are probably the most common link between production, processing and marketing in the livestock sector, and have made investments in services to ensure that their supply chains are functioning. The cooperatives are weaker in fruits, vegetables, berries and forest products.

Overall, processing is operating at 40% of capacity (SLI, 2006). The 'capacity' of many processors consists, however, often of old and inefficient machinery that is unlikely to ever be used again. Processors complain that their limitation is in lack of agricultural production, and they are very

supportive of greater investment in agricultural production through extension, finance and other services. There is considerable pressure on processors to reach out to farmers with services to ensure a sizable, steady and timely supply of produce. One farmer interviewed mentioned that dairies were competing to obtain his milk, with one offering a lactofreezer free of charge and another offering premiums for low bacterial count and high fat content. This is in contrast to other countries in the Western Balkans that provide no extra services and which, instead of offering premiums, extract penalties for deliveries of low-quality milk. One major berry exporter that has previously worked closely with NGO-supported producers is planning to construct an extension centre along with new investments in cold storage to ensure more reliable supply. They will demand that the farmers receive a minimum of two extension visits per year as part of their contract. These costs will be embedded in the value chain. Supermarket chains encourage increased production, but are less reliant on local production as they can merely import the goods they need. It is therefore less likely that they will invest heavily from their own resources in providing services to farmers.

## 4. Institutional context

### 4.1 Public sector roles in transition

The lack of normal public sector institutions and the fragmentation of those institutions that exist are the greatest impediments to well-functioning markets in BiH. Gärke (2001: 7) summarises these challenges:

1. The absence of a transparent and predictable statutory and regulatory framework for the establishment and operation of companies is a stumbling block for investment in the relatively small market in BH. The complexity of institutions on state, entity, cantonal and municipality levels further increases the difficulties, risks and costs of economic activities in BH.
2. The absence of consistent and transparent regulations and administrative procedures allows corruption and misuse of power to occur, thus increasing risks and costs for business in BH.
3. The lack of efficiency and ineffective policies, as well as weak administrative and juridical systems, are further cost- and risk-increasing factors.

These challenges are well recognised at virtually all levels and among almost all actors – public, private and civil society. There is near-universal agreement that BiH desperately needs a State ministry of agriculture and centrally managed institutions to address legal and operational aspects of certification, inspection, food safety, phytosanitary control and other key tasks. The main obstacle has been within the political system, where the political leadership of RS has opposed virtually any strengthening of State-level institutions. It is notable that institutions that are otherwise highly loyal to the RS political leadership strongly support the call for the creation of a ministry. This includes local government, agricultural offices and some quasi-governmental structures such as the RS Chamber of Commerce.

Agriculture has not received a high level of attention at State level, despite the central importance of the sector in the future path to EU accession. In 2004, expenditure was under 1% of the State budget. The government's 'Unit for Economic Policy Planning and Coordination of the Implementation of the BiH Mid-term Development Strategy' makes no mention of agriculture in its Annual Report of economic trends (EPPU, 2006b). One can also interpret the government's readiness to open national markets to subsidised imports, combined with a very low level of support to domestic producers, as indicating that cheap foodstuffs for urban consumers are a higher priority than the encouragement of farming-based livelihoods.

RS has shown a stronger level of commitment. The proportion of the RS budget devoted to agriculture in 2006 is 6% and is expected to be 8% in 2007. Support to agriculture in the Federation is generally much lower, but with some considerable variation within local government. RS has 57% of the arable land in BiH, whereas the Federation has more forest and extensive grazing areas (SLI, 2006). Agriculture naturally plays a far more significant role in the economy of RS than the Federation, and also provides a greater share of employment.

### 4.2 Private sector, farmer cooperation and the changing role of civil society

Legal structures in BiH defining the differences between NGOs, cooperatives and private companies are not robust. Opportunism by NGOs and firms largely determines who does what in the agricultural sector. Agencies respond when there are profits or funding available. NGOs do not appear to have strong concerns about defining how their role as 'civil society' differs from that of the private sector. The difference lies primarily in the NGOs' reliance on aid (rather than the market) for their survival, and their tax advantages.



The cooperatives are the largest group of 'civil society' organisations working in agriculture though, as mentioned above, many have structures similar to private, limited companies owned by a few individuals. In addition to the cooperatives, there are a large number of farmer associations which do not engage in cooperative commercial activities. It is difficult to obtain an overview, but these generally appear to be very weak. Many do not have membership lists, statutes or clear governance structures. Some obviously exist primarily to attract aid funds.

Some farmer association members are concerned that there is currently a failure to define 'what is a farmer'. They complain that NGOs concentrate aid on rural residents with one or two cows, or less than a quarter of a hectare of production, or only one 100 square metre greenhouse. This is said to distract attention (and resources) away from the 'real farmers' who are expected to become the private farming sector of the future. Microfinance is seen as another distraction from the need to ensure appropriate agricultural credit schemes for viable farming enterprises. These concerns are certainly justified in many respects, but they also highlight the fact that farmer association development is not a panacea for poverty alleviation, as the poorer producers will not necessarily be welcome as members of more economically dynamic associations.

If BiH agriculture is to develop in the face of the increased competition during an EU accession process and the rise of supermarkets, investments are needed to create the institutions required for the government, civil society and the private sector to work together to achieve traceability, standards and certification. Representatives of cooperatives and farm enterprises are fully aware that their future market access is reliant on the creation of more government bureaucracy to deal with new market requirements. They acknowledge that they cannot solve these issues themselves. Some cooperative representatives complain that aid has primarily gone to ad hoc training, rather than building the broader systems that are needed. A narrow, projectised, training-fix approach to capacity building has superseded attention to the systems that are needed for BiH to deal effectively with market issues. This has been aggravated by an NGO sector that has moved from asset distribution to becoming 'marketing oriented', but has still to embrace the 'market orientation' needed to support a more competitive agrifood sector.

## 5. Roles and modalities reconsidered

### 5.1 Poverty alleviation: lost in the gap

There is a strong normative drive within the aid community and in government to use agriculture to address unemployment, and thereby reduce poverty. Farming is seen as a way to create jobs in the countryside and stabilise the rural communities that have been re-established after the war. For the international community, it is seen as a way of reintegrating returning refugees by promoting pro-poor growth in their 'home' villages and providing a modicum of security. Agriculture and rural development are thus expected to provide dual growth and social protection functions. The starting point has been the legacy of humanitarian programming in what are increasingly recognised as cost-ineffective modalities. There is a recognised need to find more sustainable and less expensive ways of providing social protection for poor micro- and 'hobby' farmers, while combining this with promoting growth.

It is not at all clear how this is going to happen. The main vehicle for rural development in the future will be integration into EU systems, but these mechanisms have not been explicitly designed with consideration to social protection and poverty alleviation, apart from where these are a 'positive externality' to competitiveness and economic growth. Reviews of EU pre-accession investments in other parts of Eastern Europe until now through the Special Accession Programme for Agriculture and Rural Development (SAPARD) show very little attention to concerns about impacts on poverty, income or employment creation (Cartwright and Swain, 2002; European Institute Foundation, 2005). Internationally, it is widely accepted that structural reform in agriculture will greatly reduce the number of farmers (Ashley & Maxwell, 2001).

In Northern Europe, EU-supported structural reform has reduced the rate of employment in farming. In Southern Europe and some other areas, a much greater proportion of small farms have survived, but households have increasingly supplemented their farming with other sources of income. In Eastern Europe it is still too early to draw definitive conclusions. Some semi-subsistence farmers are getting jobs in other rapidly growing parts of the agrifood system, but this is no panacea. SAPARD provides funds for investments in other aspects of multifunctional (diversified) rural development that are expected to generate employment, but these modalities have been very difficult to stimulate elsewhere in Eastern Europe (European Institute Foundation, 2005).

Indeed, the CAP2 as a whole is not a mechanism related to either income or poverty. It is a politically driven tool that has been designed to assist and protect farming. Reforms have been adopted to shift from 'agriculture' to 'rural development'. The current objectives encompass the following:

- helping people adapt to a more market oriented agriculture;
- promoting new ways of selling/dealing with risk in competitive markets;
- raising economic and employment activity rates;
- encouraging development of micro-businesses;
- facilitating innovation and research and development take-up;
- fostering dynamic entrepreneurship;
- improving management of processes in the agrifood chain;
- encouraging the take-up and use of information and communication technologies; and
- making use of opportunities from improved local infrastructure, and environmental land management.<sup>4</sup>

Despite this shift to rural development, the rural developers are still envisaged to be farmers and this has thus far not changed the nature of the bulk of disbursements, which continue to go to agricultural support. In Eastern Europe, SAPARD has largely retained the agricultural bias despite the rural

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<sup>4</sup> [http://ec.europa.eu/agriculture/lisbon/index\\_en.htm](http://ec.europa.eu/agriculture/lisbon/index_en.htm)

development label (European Institute Foundation, 2005). Cartwright and Swain (2002: 11) question whether there is even a genuine commitment to supporting either small farmers or the non-farming rural poor:

*The majority of subsidies continue to be production related and go to the biggest farmers; and, where they have been ‘decoupled’ from production, the direct, compensatory payments remain related to the size of farm, and still go predominantly to larger farmers. Rural development policies on the other hand, which might benefit smaller farmers and the rural poor, do not have a direct payment component, and retain a farming, perhaps also large farming, bias. The new slogan of ‘multi-functional agriculture’ usurps some of rural development agenda, but for the benefit of farmers only, or at least predominantly. The new policy for a ‘multi-functional agriculture’ seeks to promote rural development, to ‘establish a coherent and sustainable framework for the future of Europe’s rural areas. It complements the reforms of the markets by other actions that promote a competitive, multi-functional farming in the context of a comprehensive strategy for rural development.’ But all concrete proposals and examples given relate to farming, such as ‘help for young farmers, training courses, measures to promote more environmentally-friendly farming methods, etc.’ They do not relate to rural development initiatives of non-farmers, partly, of course, because the support comes from the agricultural budget, which farm lobbyists are reluctant to see shared with other sections of the rural population.*

It is worth noting that BiH already has ‘multifunctional rural areas’. The massive housing programmes that characterised the post-war reconstruction and reintegration phase have resulted in a significant population of non-farming rural residents, and also a large supply of unoccupied housing if more people choose to return from the towns and from abroad to the rural areas. Migration and remittances are a major aspect of rural multifunctionalism, albeit perhaps not within what is envisaged by the CAP2 concept.

There is thus no model and very little analysis of impacts in the past in Eastern Europe that can guide BiH in finding its way between the CAPs. Reduction of unemployment is at least a strongly supported goal, and there is a relative abundance of potential investment capital, but there is little solid basis for designing policies to stabilise rural economies and communities as supermarkets and EU financing modalities come to define the rules of the game. The goals of CAP1 are still very much on the agenda, but there is no clear sense of how to achieve them in the CAP2 world.

## **5.2 Revisiting the social protection roles of agriculture in a context of growing market integration**

BiH recognises that its process of EU integration ‘means shifting away from social policy which is heavily dominated by focus on alleviating effects of the war towards establishment of a fiscally sustainable and effective social safety net’ (EPPU, 2006a: 79). With this in mind, it remains to be determined what agriculture and rural development have to do with a fiscally sustainable and effective social safety net. A recent review of the relationship between agriculture and social protection (Dorward et al., 2006) describes this as the:

‘... removal of, resistance to, recovery from and relief from stresses. These responses are nested within three broader livelihoods strategies which people adopt (often together) to survive and to advance their welfare:

- ‘*Hanging-in*’, where activities are undertaken to maintain livelihood levels at a ‘survival’ level;
- ‘*Stepping-up*’, where investments are made in existing activities to increase their returns; and
- ‘*Stepping-out*’, where existing activities are engaged in to accumulate assets as a basis for investment in alternative, higher-return livelihood activities.

‘Development normally involves shifts in emphasis in people’s livelihoods, from hanging in (through low risk /low return subsistence activities) to stepping up (in higher risk / higher return commercial agricultural activities) to stepping out (from agriculture to higher return non-farm and often urban activities). Social protection and agricultural development policies should support this progression, but means of support should change with structural changes in livelihoods and in rural economies’.

Support to agriculture within CAP1 modalities has helped some people to ‘hang-in’. Support in the emerging CAP2 related approaches is helping them to ‘step-up’. If and when the newer perspectives on multifunctional rural development gain a foothold in BiH there may be support for ‘stepping-out’. It is notable that the option of ‘stepping-in’ to agriculture, upon which much of CAP1 related programming is justified, is not mentioned in this framework. It is important to ask why this ‘stepping-in’ option has arisen in BiH. There are a few different reasons. The obvious prime motivation is that humanitarian reintegration programming for any population that was displaced for a significant period of time involves helping them to re-enter a livelihood that is perhaps no longer the norm for them. They have to ‘step-in’ to something. The reversal of ethnic cleansing through housing those displaced during the war led to the creation of ‘livelihoods components’ and, even though the agricultural option has not proven ideal, there are few alternatives in the rural areas. Second, the three options mentioned by Dorward et al. are based on an assumption that conventional trends from rural to urban livelihoods are underway. The collapse of urban livelihoods as a factor impacting on the role of agriculture and rural development has not been considered.

It may be time to begin considering scenarios related to urban stress as a more significant factor impacting on the role of agriculture and rural development investments as a way to provide social protection. North Korea has experienced a massive humanitarian emergency over the past decade that is largely the result of the collapse of urban, industrial livelihoods. It is popularly portrayed, however, as a ‘food security crisis’, and thus as amenable to agricultural solutions. It is easy to dismiss these examples as areas where traditional assumptions of a link between food production and food security have led observers astray, but the failure to accurately relate the means and ends of these systems raises attention to where humanitarian action is still out of touch with new approaches to social protection, which are described by Barrientos et al. (200?: 8) as ‘grounded in the view that the causes of poverty are to be found in the multiple social risks faced by the poor, and in their vulnerability to the impact of these risks’. Without a clearer focus on risks and vulnerability, it is unlikely that programming will be appropriate. This is not to say that helping people to ‘step-in’ to farming cannot help address risks and vulnerabilities related to changes in other sectors of the economy. It is essential that such efforts are evidence-based, rather than driven by false assumptions.

An important question in assessing the role of agriculture in social protection is that of ‘protection from what?’. What forms of stress are being removed, resisted or recovered from? In a post-conflict context the focus of attention is inevitably upon aspects of recovery from the humanitarian crisis. Agricultural interventions have above all been applied as a means to *recover* from forced displacement, and have proven successful as long as considerable outside funding is available. This ‘era of Dayton’ is now drawing to a close. Given the continuing weakness of governmental institutions and the commitment to open markets, it is unlikely that agricultural programmes can be constructed that can *remove* the most significant new forms of stress related to market competition. If there is a role for agriculture in social protection, it must come from enabling producers to *resist* these forms of stress.

## 6. Conclusion

‘Rebuilding de-ruralised villages is problematic in that their very existence depended, not on their meagre agricultural capacities, but on external linkages and earning.’

Skotte 2005: 17

In CAP1 modalities, the overwhelming objective of aid intervention in agriculture has been to provide assets and services. The era of Brussels requires a massive build-up of institutional capacities, and therefore the emphasis of aid efforts must shift away from directly providing assets and services to strengthening the capacities of those BiH agencies that should ultimately provide them, and promoting policies and fiscal priorities to ensure that they are able to sustain themselves and work in an effective manner. This shift from asset provision to institutional development is starting to be recognised as an essential part of reconstruction processes. In his *Key Propositions for Building Back Better*, former US President Bill Clinton (2006:19) underlined that one of the lessons learnt from the tsunami recovery effort was the need to ‘create conditions for entrepreneurs to flourish’. He describes how post-disaster reconstruction may need to include subsidised services and asset provision, but that these ‘should be replaced as soon as feasible with policies that support entrepreneurial activity’.

Paradoxically, a driving force behind this change is the ‘carrot’ of new forms of subsidies in the form of IPA. BiH must shed the subsidy approaches of the post-war period and create market institutions if it is to access new subsidies from Brussels. Aid flows to agriculture have the potential of growing enormously, but only if systems are put in place that ensure that farmers and rural entrepreneurs are committed to a share of co-financing, and that they have the appropriate skills to use the investment support wisely in a context of market integration. BiH stakeholders will have to invest themselves in order to access the foreign investment that they need. A central question for the coming years is whether the generous flow of aid that they have received since the war has prepared them for this. Aid-financed service provision can be an obstacle to the creation of sustainable market-oriented service provision structures if measures are not taken to ensure that exit strategies by aid agencies are matched by realistic assumptions regarding the potential entrance strategies of market actors (Neuchâtel Initiative, 2006).

Returning to the initial questions of this study, experience in BiH highlights the necessity of taking a much broader look at the who’s and the how’s of increasing market orientation. The community focus of CAP1 needs to be complemented by greater attention to the international mechanisms that are going to determine whether these communities are likely to last.

*How to promote agricultural markets:* The experience of post-war agricultural programming in BiH suggests that the identification of potential market opportunities is only a first step. There is a significant difference between being marketing-oriented, with an aid agency trying to sell crops, and being market-oriented, in the sense of rural people understanding market signals and choosing priorities accordingly. Iterative systems must be in place through which producers and other value chain actors can monitor their competitiveness, and strategies are needed for phasing out large subsidies and ensuring longer-term viability. This will not necessarily lead to a ‘happy ending’ for CAP1 investments. A large proportion of the micro-farmers that have received assistance will not have the potential to compete in some of the more dynamic markets.

*How policy-makers and aid agencies can best engage with private sector actors:* The field-level, action orientation of reconstruction and reintegration programming tends to push policy reform to the back burner, and policies for sustainable private sector development receive even less attention. Nonetheless, the private sector has recognised opportunities in the agrifood sector in BiH and is investing heavily in the retail end, i.e., where they can operate without strong governmental institutions. Rather than actual aid to the private sector, the most important area for policy-makers and

aid agencies is in developing public institutional capacities to address quality certification, phytosanitary control, traceability and other tasks that are required to ensure that local produce can compete nationally and internationally and meet the demands of consumers. It is too early to judge whether the 'localisation' of NGO efforts will eventually lead to their becoming a significant part of the private sector. To do so they will need to hone more specific competencies, since it is unlikely that they can compete with supermarkets, processors and traders.

*What might the roles of various stakeholders be in promoting agricultural markets:* Since the war, the aid community has invested large sums in building stakeholder capacities. This has fitted well with the projectised mechanisms that have accompanied resettlement and reintegration initiatives. It is now clear that, for markets to function better, the emphasis must shift from building the capacities of individuals and organisations to building the institutions that are required for market integration. If the era of Dayton is to give way to the era of Brussels in the agricultural sector, this will depend on a reprioritisation of support toward the institutional architecture demanded by Brussels. This is not just a task for the international community. It will depend on a shift within the BiH political arena away from the era of defending the entity boundaries that were created in Dayton, to finding ways to more effectively address the needs of the rural population when the international boundaries to agricultural trade and investment become increasingly diffuse.

It should be acknowledged, however, that this market integration is no panacea. There are few guides for how to promote poverty alleviation objectives in the BiH context when the goals of EU accession include a modernisation of agriculture, including more capital-intensive technologies. A major reason is that the underlying principle that has driven response during CAP1 – rapidly reversing ethnic cleansing – is a locally focused political objective that has little to do with pro-poor growth, or any growth for that matter. If rural livelihoods are to become sustainable, the net has to be cast much wider. Supermarkets, EU administrators and international certification bodies all need to become part of the process, and they need clear counterparts to talk to in BiH. Even if this is achieved, the process will not be easy.

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Humanitarian  
Policy Group

Overseas Development Institute  
111 Westminster Bridge Road  
London SE1 7JD, UK  
Tel: +44 (0)20 7922 0300  
Fax: +44 (0)20 7922 0399  
Email: [hpgadmin@odi.org.uk](mailto:hpgadmin@odi.org.uk)  
Website: [www.odi.org.uk/hpg](http://www.odi.org.uk/hpg)

