

How Politics Goes About Destroying Agriculture USING MANIPULATION TO OPPOSE AGRICULTURAL REFORM

“Hello! I have twenty cows and I would like to apply for IPARD¹” According to the brochure published by Zagroje Development Agency, more often than not this is how a conversation with a potential beneficiary begins. The usual answer is “Hello there! Excellent! You have already fulfilled one eligibility criterion. May we now go through the other criteria you need to satisfy in order to become a beneficiary of the IPARD programme?” In Croatia, there has been extensive public discussion about the use of resources from this particular pre-accession programme. There are two reasons for such keen interest in IPARD: on the one hand, it provides great opportunities for agricultural development and as such it has gained popularity among the individual beneficiaries; on the other hand, the criteria for funding are set rather high, demanding significant adjustments across the sector that pertain to both the farmers and their farms, as well as the line ministries and program management structures.

Unfortunately, in Bosnia and Herzegovina the news of IPARD being cancelled went almost unnoticed, lost among many unfavourable news stories coming from Brussels recently. Namely, in September 2013, the European Commission cancelled two projects aimed at strengthening the agricultural sector in BiH. Total value of the projects amounted to five million Euro. The two projects were aimed at building BiH capacities in the sectors of agriculture and rural development through establishment of an operating structure for IPARD. One of the two projects was SAPIC – Support to Agricultural Policy and IPARD Compliant Structures in BiH, and its total value was 2.15 million Euro. The second project, which may have been more interesting to the public and the agricultural sector itself, was “Pilot Support for IPARD Type Measures”, the total value of which was 3.16 million Euro. The latter would have provided opportunity to allocate two million Euro in grants to BiH farmers implementing procedures compliant with EU standards.³

Millions of Euros Thrown to the Wind

The public was left short of any explanation as to what BiH agriculture was losing and to what extent this affects its development. In political terms, the year of 2013 saw a number of scandals concerning the allocation of agricultural subsidies in the Federation of BiH. It is interesting that farmers’ associations were very vocal and decisive in their reactions concerning the

subsidies, while they remained relatively quiet regarding the cancellation of IPARD. This could be attributed to either of two reasons – 1) either the agricultural sector remains uninformed about the opportunities offered by IPARD (research conducted in 22 municipalities in BiH regarding the level of awareness about the programme and its advantages showed that more than 40% of respondents were not aware of its potential and a large number of farms do not satisfy specific or sectoral criteria to apply for IPARD funds⁴) or 2) – the agricultural sector and the government do not show interest in programmes that require a more structured and strategic approach to allocation of funds and development of agriculture replacing the existing somewhat arbitrary approach to these matters.

Although the public presently does not seem to consider the problem of losing 5 million Euro due to absence of the IPARD operating structure serious enough, these losses will only multiply in the future, as BiH farmers will not have access to IPARD funds until an adequate implementation structure is indeed established. Should BiH authorities fulfil this key political condition for using IPARD funds, they would enable BiH farmers to access massive funds allocated by the EU for this purpose in the next financial framework. For the 2007-2013 financial framework, the funds amounted to 880 million Euros. Examples from Croatia may serve as the best testimony to the importance of IPARD. In Croatia, the IPARD programme was implemented through the following four measures:

- Measure 101 - “Investments in agricultural holdings for the purpose of restructuring and achieving Community standards”
- Measure 103 - “Investments in processing and marketing of agricultural and fish products for the purpose of restructuring the activities and achieving Community standards”
- Measure 301 - “Improving and developing rural infrastructure”
- Measure 302 - “Diversifying and development of economic activities in rural areas”

What is the objective of IPARD and why would it be in the interest of a state to enable access to IPARD funds? The main objective is for a state to prepare for entering the EU single market. As is the case across most sectors, without such preparation it is not possible

1 IPARD: *Instrument for Pre-accession Assistance in Rural Development*
2 http://www.hmu.hr/attachments/153_IPARD_Mljekarski%20list_2b_2010.pdf.

3 Ibid.

4 [http://www.aced.ba/files/ACED%20-%20IPARD%20u%20BiH%20kroz%20Hrvatska%20iskustva\[2\].pdf](http://www.aced.ba/files/ACED%20-%20IPARD%20u%20BiH%20kroz%20Hrvatska%20iskustva[2].pdf)

to join the EU. In order to comply with the EU requirements, it is necessary to improve managing structures and bring them in line with European practice and requirements. In addition, it is necessary to prepare for managing European programmes that may replace the existing programmes implemented by local authorities in the foreseeable future. Following the fifth wave of enlargement in 2004 (with Romania and Bulgaria joining in 2007), IPARD was introduced as a requirement in the negotiation process. This is when the principle obliging states to adopt *acquis communautaire* prior to accession to the EU was introduced. It is through IPARD that the EU provides technical and financial assistance to potential candidate countries for the purpose of the harmonisation process.

The authorities in BiH were not able to fulfil these requirements. IPARD projects were cancelled due to absence of agreement between the representatives of entity-level ministries about how the IPARD structure would be shaped in the BiH context. Namely, the EU requirement was to establish a single national IPARD structure, as this was the experience in other countries. Representatives of Republika Srpska deemed the proposal unacceptable. They insisted on establishing two separate structures in order to respect the division of competencies regarding the agricultural sector. Thus, the agriculture in BiH became subject to politicising as well as yet another hostage to the lack of understanding of the European integration process and hostage to senseless political appetites.

What Opportunities We Are Missing

The Common Agricultural Policy is probably the most complex common policy of the EU. For many years nearly half the EU budget funds were allocated for the implementation and development of this policy. The main objectives of the policy included providing consumers with food at reasonable prices, a relatively safe source of income for farmers and balanced rural development to be achieved through a system of various support measures.⁵ This significant EU project will undergo several changes in the new EU financial framework for 2013–2020. The most significant changes include support for sustainable agriculture through *green agriculture* projects and assistance to small farms and young farmers.

Agriculture in the EU Member States is highly competitive. This is a result of many years of investments in the sector as well as institutional development. The only way potential candidate countries and candidate countries may prevent the accession shock within this highly sensitive sector is to use the Instrument for Pre-accession Assistance, i.e. IPA funds.⁶ Only the candidate countries had access to the fifth component of IPA pertaining to the rural development during the 2007-2013 financial framework. The new 2013-2020 financial framework sees this political condition lifted and replaced with a technical condition – establishment of IPARD operating structure in order to enable absorption of funds

and efficient monitoring of payments.⁷ In 2008, BiH was informed that it is necessary to establish an IPARD operating structure, including *managing authority* and *payment agency*. However, since then no political agreement has been reached regarding this issue, notwithstanding a number of high level meetings conducted in the meantime.

What Opportunities We Are Missing – examples of good practice in utilization of project funds under the IPARD Programme, Republic of Croatia:

- Investments in the construction and/or reconstruction of fish, crustacean and live mollusc shellfish processing plants
 - Investments in the construction and/or reconstruction of facilities intended for providing tourist and/or catering services, such as rooms, toilets and other premises, including facilities for keeping animals intended for tourism purposes, recreation facilities, etc.
 - Investments in the construction and/or reconstruction of facilities for processing (conservation, drying, freezing) fruits, vegetables, olives (including olive oil), aromatic herbs and spices, medicinal herbs and mushrooms
 - Investments in the construction and/or reconstruction of facilities to accommodate egg-laying hens
 - Investments in the construction and/or reconstruction of dairy cattle farms
 - Investments in the construction of sewage systems
 - Investments in equipping wineries (wine bottling equipment, automatic labelling machines and wine packaging equipment)
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In early October 2013, the Ministry of Foreign Trade and Economic Relations (MoFTER) of Bosnia and Herzegovina prepared a report for the Council of Ministers of BiH pertaining to reasons and possible ramifications of the cancellation of agriculture projects under the IPA programme. The report states that the European Commission invested significant efforts to provide comprehensive assistance to Bosnia and Herzegovina in order to resolve this situation. To this end, the EC provided written interpretation of *acquis*, organised seminars, workshops, study visits and offered proposals to establish, through the SAPIC project, a structure suitable for the structure of BiH. It was emphasised that *acquis communautaire* governing agriculture and rural development is fixed and it is not to be modified because of Bosnia and Herzegovina.⁸ This clearly clashes with the unrealistic expectations of RS authorities, who often cite the specific structure of BiH as a reason to modify the EU *acquis communautaire* and EU integration practice. The EU Member States invested great effort in

5 EUROSTAT (2013), *Agriculture, forestry and fishery statistics*, available at http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-FK-13-001/EN/KS-FK-13-001-EN.PDF.

6 *Instrument for Pre-accession Assistance* (IPA) comprises five components: Transition Assistance and Institution Building, Crossborder Cooperation, Regional Development, Human Resources Development and Rural Development. Legal basis for IPARD is found in Regulation EU 1085/2006 establishing *Instrument for Pre-accession Assistance* – IPA and Regulation 718/2007 Implementing Regulation on IPA

7 Interview with an employee of the Directorate for European Integration BiH.

8 BiH MoFTER (2013), *Information on Reasons and Possible Ramifications of the Cancellation of Agriculture and Rural Development Projects under the IPA Programme and Activities to Establish IPARD Operating Structure*.

harmonizing the EU rules which apply equally to all; therefore, it is impossible to modify or amend them for the purpose of a single political structure at the level of regional or local governments.

Notwithstanding this, attempts were made to reconcile the EU requirements and the existing structure in BiH, by considering several proposals. These proposals were presented to the relevant institutions in March and April 2013. What followed was a series of technical and political meetings that resulted in a proposal to consider establishment of two payment agencies at the entity level in BiH, a *single coordination body* and *managing authority* within the BiH MoFTER, which represented progress compared to the previous proposals. Ultimately, this proposal was not accepted because it was not in line with the EU integration requirements.

Petty Interests versus the System

Thus, the agriculture in Bosnia and Herzegovina remains trapped between poor coordination across the various levels of government and the status to be achieved by the country – namely, candidate country status followed by accession to full EU Member status. IPARD is yet another example of the declared political commitment to achieving EU membership not being translated in practice in efficient coordination mechanisms or implementation of specific parts of *acquis* governing agriculture and rural development. Bosnia and Herzegovina is ranked fourth in Europe, behind Ireland, Finland and Montenegro, regarding the percentage of rural population. It is estimated that about 61% of the population in Bosnia and Herzegovina lives in rural areas (UNDP, 2013). Naturally, not all of the rural population falls into the category of professional farmers and neither is the IPARD programme targeted only to strengthen agricultural production. IPARD is an all-encompassing programme which enables many countries, prior to their accession to EU membership, to strengthen their rural economy infrastructure by strengthening their agricultural markets and supporting the non-agricultural income sources of rural population (DG AGRI, 2012). The rigid political positions of certain actors, affecting the form and prospects of agricultural and rural development in Bosnia and Herzegovina, will certainly cost us dearly. Although the annual BiH MoFTER reports continue to remind us of the strategic importance of agriculture for BiH society and, in particular, its relevance for rural employment, they also emphasise the limitations of this sector with regard to production efficiency and quality of products (BiH MoFTER, 2013). The current state of affairs clearly indicates oblivion both to the reality of the situation and to the consequences that may result from the positions of relevant institutions that could affect development of the sector, market and the entire country. The IPARD programme was designed to make the final beneficiary the focus of development.

One of the recipients of the 1993 Nobel Prize in Economics, the well-known American economist Douglass North, analysed the insufficiently explored phenomenon of an *institution* as an underlying determinant of economic growth dynamics. North deems it important to grasp how markets develop and, more importantly, how they survive. He argues that the quality of institutions is a fundamental determinant which ought to be considered by economic development planners in any sector when drafting their development strategies. The institutions must

be perceived as a dual phenomenon: as a set of values, norms of behaviour and informal relations between key political and economic players and as organisations, when they are established or ‘institutionalised’ (we colloquially refer to them as institutions, such as ministries, agencies, etc.) This distinction is important because institutions in the countries whose developmental stage resembles the one of Bosnia and Herzegovina are often not synchronised between the two, which considerably impedes any progress towards more functional political and economic markets.

The IPARD example is yet another reminder that economic development planning is determined largely by the quality of the institutions. Every social exchange and, in particular, every economic activity, involves a certain transaction cost. Transaction costs may vary in their form, but essentially they boil down to the costs of finding, acquiring and checking the information, costs entailed by negotiations over establishment of certain institutions, and costs of enforcing the consequent agreements.⁹ Essentially, the more complex that the institutional system carrying out political or economic transactions is, the higher the transaction costs will be.

In the light of the above arguments, we may conclude that the agricultural policy of BiH is being designed in an environment characterised by intolerably high transaction costs stemming from division of competencies between different levels of authorities. The competencies over agriculture and rural development in BiH are divided between the state-level ministries (the Ministry of Foreign Trade and Economic Relations of BiH), line entity-level ministries (the Federal Ministry of Agriculture, Water-Management and Forestry and RS Ministry of Agriculture, Forestry and Water Management), Department for Agriculture, Forestry and Water Management of Brčko District BiH and ten cantonal authorities relevant for agriculture, forestry, veterinary medicine and water-management sectors. A state-level ministry of agriculture in Bosnia and Herzegovina is non-existent. The BiH MoFTER has the most important role with regard to the European integration process, i.e. the implementation of the provisions under the *Stabilisation and Association Agreement* (SAA), and international cooperation in general.¹⁰

Such an institutional structure is characterised by attempts to interpret the *coordinating role* of BiH MoFTER in a rather reductionist manner. Thus, the actual decision-making on the issues falling under the real competence of MoFTER is *transferred* to the lower levels of government, in the absence of a more adequate

⁹ It is important to note that transaction cost, in this context, does not boil down to its material value, measured in monetary terms. It also includes the time for building the relations/trust between transaction parties and is largely determined by socio-political circumstances of transactions. Therefore, it is not to be reduced to a simple buying and selling mechanism.

¹⁰ The role and competencies of BiH MoFTER are defined under Article 9 of The Law on Ministries and Other Bodies of Administration of BiH (Official Gazette of BiH No. 42/03, 26/04, 42/04, 45/06, 88/07, 35/09 and 59/09 and 103/09). In addition to the Sector for Agriculture, Food, Forestry and Rural Development within the BiH MoFTER, which has competence over establishing the framework for development of sectoral strategies, policies and measures and their subsequent implementation to achieve balanced agricultural development across the country, there are a number of institutions supporting the balanced development of the sector, such as the Veterinary Office of Bosnia and Herzegovina, Administration of Bosnia and Herzegovina for Plant Health Protection, and the Food Safety Agency of Bosnia and Herzegovina.

institution. In this way, the projects that are highly relevant for the state, such as IPARD, end up becoming a *political* issue instead of a *technical* one. BiH remains one of the few countries which has neither an overall *agricultural strategy* nor a *strategic rural development plan* in place, in spite of the awareness that sectors of agriculture and rural development are highly relevant for BiH and are likely to be amongst the more complex areas under negotiations, once the prospect of EU membership becomes more certain. The absence of a state-level ministry of agriculture may be mitigated by an efficient coordination system, to some extent; however, the absence of development strategies in the sectors that rely heavily on long-term strategic planning will, most certainly, prove to be very detrimental to the future of many small agricultural producers in BiH and to agriculture as an economic sector.¹¹ Given the presence of common political consensus on the European future of our country, BiH MoFTER should, for a start, be given an opportunity to coordinate *information*, instead of *interests*.

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¹¹ In Croatia, civil society organisations advocating the interests of farmers and working on rural development policies partnered and created the Croatian Rural Development Network (HMRR), being an important actor which contributed to raising awareness on the relevance of the IPARD programme and other programmes aimed at rural development promotion (Muck&Bakker, 2013).

About FPI BH: The Foreign Policy Initiative BH (FPI BH; www.vpi.ba) is a BiH, nongovernmental and non-profit organization founded in Sarajevo in 2004, which is dedicated to analysing international relations and Euro-Atlantic integration processes of BiH. The goal of the FPI BH is to offer assistance to state institutions in removing weaknesses and promoting values present in those processes in order to increase the efficiency of BiH institutions in fulfilling the upcoming obligations.