



Making the wheat sector in Bosnia and Herzegovina more competitive and resilient

The wheat sector in Bosnia and Herzegovina

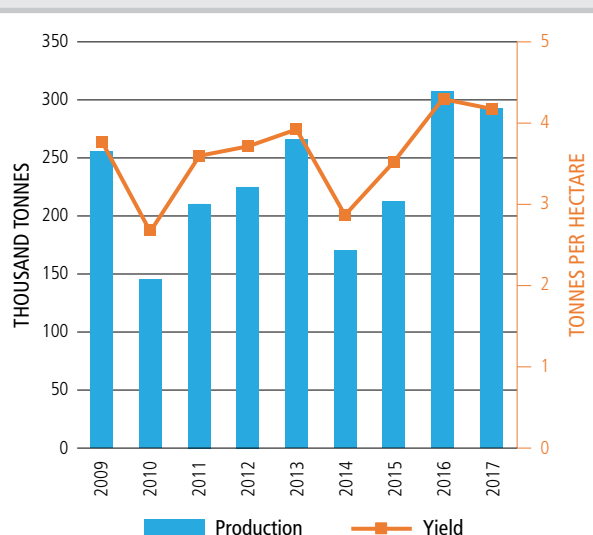
In Bosnia and Herzegovina wheat is an important commodity, both culturally and strategically. It is used to produce main staple food – bread that is key for ensuring food security in the country. Yet, wheat accounts for only small share of agricultural GDP (around 5 percent) and the domestically produced wheat makes up for only a small portion of wheat consumption in the country. The major part of the demand is met by large imports from Hungary, Serbia and Croatia. Domestic consumers prefer the higher-quality imported wheat and not all of the domestic production is consumed locally; the remainder is exported. After establishing a free trade agreement (in 2003, revisited in 2019), Turkey became main export destination for Bosnian wheat. However, in most recent years exports have decreased significantly as Turkish millers were dissatisfied with the quality of product imported from Bosnia and Herzegovina.

Wheat in Bosnia and Herzegovina is mostly produced by small family farms averaging 2–5 ha, with low use of fertilizers, chemicals, and certified seeds, by applying relatively old crop and post-harvest management practices. As a result, wheat quality and yields are low (between 3–4 tonnes per ha comparing to 5–6 tonnes per ha of average wheat yields in the European Union over the same period) (Figure 1). It affects negatively the farmers' revenues and makes the investments in improved production methods less appealing. In addition, poor land management decrease quality of soil, leading to even greater problems with improving yields. Climate change increases difficulties faced by farmers: Bosnia and Herzegovina has been experiencing a mix of heavy rain periods, causing floods, with extended periods of droughts. As a result production levels vary greatly from one year to another.

KEY MESSAGES

- ▶ Wheat is a key staple, yet domestic production is small and low quality.
- ▶ Current policy environment tends to disadvantage wheat producers and makes them vulnerable in face of changing climate.
- ▶ Government interventions should focus on improving competitiveness of wheat producers and building resilience to climate change.
- ▶ Key reforms should encompass land consolidation, on-farm investments, access to high quality inputs and equipment, extension services and access to risk management tools.

FIGURE 1. Wheat production and yields in Bosnia and Herzegovina vary greatly



Source: FAOSTAT database (available at www.fao.org/faostat).

Policy environment in wheat sector

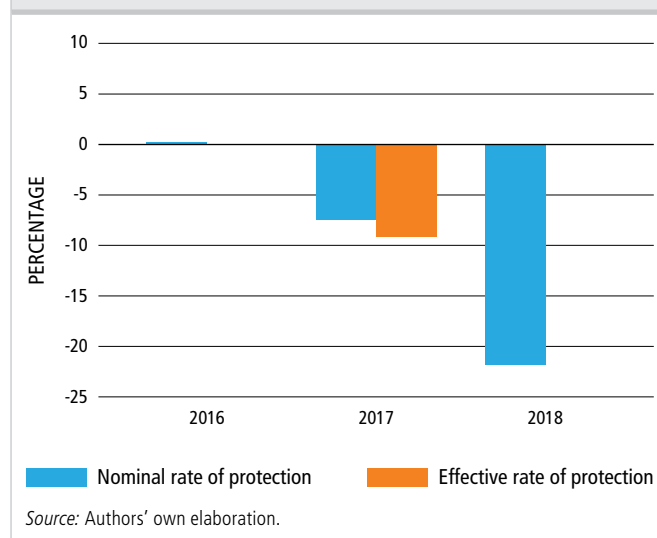
Agricultural policies are designed and implemented in the three administrative units of Bosnia and Herzegovina independently. Federation of Bosnia and Herzegovina support wheat sector with payments per area tied to production of wheat. Federation of Bosnia and Herzegovina farmers benefit also from general insurance premium subsidies. Republika Srpska also provides payments per ha of cultivated land under wheat production, although with considerably smaller rates than Federation of Bosnia and Herzegovina. Additionally, it provides payments per tonne of produced wheat. Republika Srpska provides also subsidies to fuel used in agricultural production. Brčo District, provides payments based on area under wheat cultivation and subsidies agricultural insurance premiums. Support to structural and rural development measures as well as on general matters related to agriculture is very small across all the administrative units. Trade in wheat sector has been fully liberalised.

Price incentives to wheat production

The nominal rate of protection (NRP) measures the extent to which domestic prices differ from international prices. The NRP for wheat in 2016 was around 0.2 percent suggesting that, on average, wheat producers were receiving similar prices to the international prices (Figure 2). In 2017, NRP turned negative and continued decline in 2018. The change in sign of the indicator reflects the drop in prices received by producers, driven by exceptionally high production and the decrease in demand for Bosnian wheat both domestically (due to high stocks) and in the export markets. Turkey, who became the main export market for Bosnian wheat after entering into free trade agreement, stopped its imports due to poor quality of the product after multiple complains were filled in from Turkish millers.

Effective rate of protection (ERP) measures the overall combined effect of support to prices of inputs and outputs faced by agricultural producers. ERP, evaluated for 2017, was even lower than NRP, suggesting that prices of inputs faced by producers are higher than those on the international markets, further disadvantaging wheat producers.

FIGURE 2. Nominal rate of protection (NRP) and effective rate of protection (ERP) for wheat



Policy recommendations

The unfavourable price incentives require government intervention to improve competitiveness of wheat producers and build resilience to climate change. The high domestic demand for wheat and the liberalised trade environment creates opportunities for exploring the existing and new markets, however, the quality of produce and yields must be improved. The existing agricultural policy environment isolates farmers from market signals further contributing to maintaining existing production systems which are not only inefficient but also vulnerable to climate change. Instead, land consolidation, on-farm investments, development of markets for high quality inputs and equipment, and investments in modern and environmentally friendly technologies and extension services should be the most important priority areas. A holistic risk management strategy should be developed to ensure farmers can manage their normal business risk using market instruments, while being protected from extreme weather events by insurance and compensation schemes. These interventions would not only improve competitiveness of wheat producers, but also increase their adaptive capacity and resilience in face of changing climate. Harmonising agricultural policies across the three administrative units of Bosnia and Herzegovina is a key first step to be undertaken in the reform process.