

Strengthening Bosnia and Herzegovina's resilience to address the impact of
the global multi-dimensional crisis on food security and incomes of most
vulnerable groups

Project number: UNJP/BIH/017/UNJ

ASSESSMENT REPORT

on the impact of effects of the global multi-dimensional crisis on agri-food
sector in BiH

SUMMARY

December, 2022

INTRODUCTION

The Assessment Report was created within the project Project number: UNJP/BIH/017/UNJ and it is the part of achieving FAO and UNDP plan to implement the Joint Programme in 2022 with the following objectives:

- Assess the impact of the war in Ukraine on smallholder farmers and agri-food producers' access to finance, seeds, fertilizers and other agricultural inputs and the resulting effects on the past and projected agricultural outputs.
- Analyse the degree of the country's dependence on other import and export markets for key agricultural commodities in the context of the intraregional trade and food security scenarios.
- Assess food security demand by the most vulnerable as well as map the food centres' infrastructure and develop concrete recommendations for policy and technical measures that contribute to zero hunger in the country.
- Support entity-level institutions and donor partners with evidence-based adaptive contingency planning and emergency response programming in the areas of food security and social protection, with the focus on the access to food by the most vulnerable groups.

The report contains eight chapters in which the main results of analysis of different dimensions of food security in BiH are presented. It includes an overview of the socio-economic and agricultural profile of BiH, general overview of the foreign trade of agricultural products with deeper analysis of the key products as well as the exchange with the Republic of Serbia, rapid assessment of food security and availability for vulnerable groups of the population in BiH and Mapping of soup kitchens in BiH. Also, the results of the agricultural policy analysis are presented with a special focus on specific interventions in the context of COVID 19 as well as specific measures in response to the Ukrainian crisis. The food security policy was analyzed with a description of the institutional framework and key policies at all levels. Also, the Report contains the results of agricultural price analysis were an analysis of the price index trend for the last seven years, as well as a deeper analysis of price trends for six product groups are included. Input prices fluctuation and their impact on on the economic results of agricultural production are presented. Contingency Plan Framework and Proposal on Pipelines for Donor Support are included in separate chapters.

CHAPTER 1 – A BRIEF DESCRIPTION ABOUT BOSNIA AND HERZEGOVINA

Agriculture and the food industry are important branches of the economy of Bosnia and Herzegovina (BiH), its Entities and Brcko District (BD), both in terms of their contribution to the economy and overall employment and socio-economic development. The share of agriculture in the creation of GVA is still relatively high (6.8%), although lower than in 2015 (7.6%). The sector is particularly important in contributing to employment. The agricultural sector represented 17.1% of total employment in 2015, reduced to 9.4% in 2021. Total area of BiH is 5,120,900 ha out of which 41.7% makes agricultural area (2,136,000 ha). In 2021, total arable land was 1.073.000 ha, out of which almost 43.05% remained uncultivated. In average, in BiH there is 0.26 ha of arable land and 0.56 ha of agricultural land per capita. Small family agricultural holdings are predominant in BiH, the land is fragmented and parceled out, with low productivity, which eventually results in relatively low competitiveness of most agricultural products. The structure of used agricultural land has not been changed for many years since the largest share in sown

areas are cereals with 59%, then forage crops 25%, vegetables 14% and industrial crops amounting around 2%. The main characteristic of the food industry in BiH is a low level of utilisation of existing processing and production capacity, below 50%.

CHAPTER 2 - SUMMARY OF THE OTHER CONTRIBUTORS

The contribution of the UNDP team includes two analyses, where the first relates to the Rapid Assessment of Food Security and Availability for Vulnerable Population Groups in BiH with the following key findings: There is enough food available in BiH, in stores, markets, and food produced by independent agricultural producers; The main problem of food security in Bosnia and Herzegovina is that members of vulnerable groups do not have enough money to provide themselves and their households with a regular and diverse diet; The aspect of the stability of food availability is relevant in BiH only in connection with the current economic instability caused primarily by the high inflation of food prices and the related increase in the prices of energy sources and medicines, which mostly affects the ability of members of vulnerable groups to allocate enough money for food. In the second part, Mapping of soup kitchens in BiH was carried out with the following key findings: There are currently 52 public kitchens/organizations operating in BiH that distribute free meals to a total of 17,743 beneficiaries, based in 36 municipalities/cities, that is 25% of all municipalities/cities in Bosnia and Herzegovina; The largest number of soup kitchens are managed by humanitarian/non-profit organizations in BiH; Half of the soup kitchens believe that they do not have enough funds for work - the equipment and aids they need to perform their activities; The majority of organizations (80.00%) believe that the legal framework of social protection in BiH is not adequate for the functioning of public kitchens and achieving the goal of reducing hunger.

Legal framework of cooperation between the RS and BiH, policies and practices in food security policy of Serbia and foreign trade exchange between Serbia and BiH were included in the analysis of the International Consultant, and the key findings are: There is a trend of growth in exports and imports of agricultural and food products between Serbia and BiH; BiH can only reduce the deficit in commodity exchange through structural changes in the agricultural sector; Both countries must diversify exports and imports and reduce the risks that may arise from market disruptions; When adopting agricultural policy measures, care must be taken that they do not threaten the export potential of the sector; Institutions that monitor the situation in the sector and the market of agricultural and food products should be strengthened, not only in personnel but also technically, in order to monitor the situation and be able to quickly react to changes. The latter implies the connection of competent institutions and ministries and, if there are opportunities, to hire scientific institutions that will analyze the effects of adopted measures and predict changes in the future.

CHAPTER 3 – FOREIGN TRADE OF AGRICULTURAL PRODUCTS AND FOODSTUFFS

BiH is a net importer of agricultural products and foodstuffs. A negative trade balance is achieved every year, so in 2021 it was 2,496.09 million BAM. There is the largest deficit in Section 22 - Beverages, spirits and vinegar (308.02 million BAM in 2021), as well as in Section 21 - Miscellaneous edible preparations (301.98 million BAM) and Section 2 - Meat and edible meat offal (298.08 million BAM). In each of the 24 sections there is a negative foreign trade balance. The import prices of wheat in 2021 were higher by 23% and 27% compared to 2019, while a more significant increase in prices was recorded in 2022. In the current year, prices are higher by 42.45% or 44.72% compared to prices from 2019. BiH's wheat self-sufficiency is up to 50% or 45.66% in 2019, i.e. 49.51% in 2020. If we also keep in mind the data on wheat flour trade, the level of self-sufficiency is even lower. BiH's needs are 1.3 million tons of maize per year, which is largely

used for animal feed. BiH's needs are 1.3 million tons of maize per year, which is mostly used for animal feed. Maize is sown on about 200 thousand hectares, and the yield varies from under 4 t/ha to over 7 t/ha. The main reason for yield variation is the increasingly frequent droughts in the growing season, which is a consequence of climate change. Domestic supply of mercantile maize (IDR) 87.38% (2019) came from domestic production. or 89.42% (2020) and 88.41% (2021). SSR was 87.39% in 2019, 89.53% in 2020 and 88.71% in 2021, which shows a self-sufficient level to satisfy domestic needs for maize in those years. Based on data on areas sown with potatoes and yields, it is estimated that BiH produces about 400 thousand tons of potatoes. The amount of annual import is 8 to 11 thousand tons of potatoes with a total value of 5 to 7 million BAM. Frozen (processed) potatoes have a significantly higher import value and amount to 10 to 12 million BAM. BiH has a continuous foreign trade deficit in all types of meat. The value of imports for the chapter "Meat and edible meat offal" in 2019 was 307 million BAM, and in 2020, 2021 and the first nine months of 2022 (first nine months) it was 263, 326 and 30.9 million BAM respectively. In the same period, BiH had low exports values with a high negative foreign trade balance that was between 223 million BAM (2020) and 298 million BAM (2021). The total value of foreign trade in milk and milk products is from about 250 million BAM to 285 million BAM in recent years. Due to the COVID 19 pandemic in 2020, a decline in imports was noted, but in 2021 it was again raised to the level of 2019. Every year there is a negative foreign trade balance, and the coverage of imports by exports is from 53 to 58%. A special problem is the negative structure of foreign trade, where exports are dominated by UHT milk, and imports are dominated by products with higher added value such as cheese. Agricultural production in BiH is dependent on the import of mineral fertilizers. In 2022, the import price of N fertilizer (Urea) increased by 155.27% compared to 2021, and by 242.52% compared to 2020. At the same time, the import price of Calcium ammonium nitrate (CAN) increased by 150.09% compared to 2021 and by 304.39% compared to 2020. Complex mineral fertilizer (NPK) had a higher import price by 89.651% compared to 2021 and by 147.69% compared to 2020. Serbia is the largest importer of agricultural products and foodstuffs in Bosnia and Herzegovina, with the value of imports in 2021 of BAM 836 million. In the same year, the value of BiH exports to Serbia was 197.6 million BAM with a negative balance of 638.7 million BAM. The second largest importer is Croatia, where the value of imports was 458.7 million BAM with a negative balance of 290.5 million BAM in 2021.

CHAPTER 4 – ANALYSIS OF AGRICULTURAL POLICY

The total budget for agriculture in Bosnia and Herzegovina is constantly increasing since 2015, when it had the lowest level (EUR 68.15 million), and in 2021 it reached the highest value of EUR 117.7 million. Agricultural policy in BH is based on three pillars contained in the measures of market-price policy plus direct payments (Pillar I), structural measures and measures of rural development (Pillar II) and measures related to general services to agriculture (Pillar III). Agriculture budget is still the lowest in the West Balkan region. There are not enough investments that would contribute to stronger competitiveness of domestic production. There is a lack of foreign investments in agriculture, primarily EU pre-accession funds for agriculture (IPARD fund). Structure of agricultural support is very unfavourable, most of the support is transferred to milk producers (about 65%), while 35% goes to all other products. Products that are important from the aspect of food safety (wheat, corn, oilseeds) are insufficiently supported. All sectors of the economy and population were affected by the COVID-19 pandemic, including agriculture sector and the rural population. As BiH is highly dependent on food imports, the first reaction was fear of hunger, due to the interruption of international trade. Farmers reacted by increasing sown areas (especially in 2020), and this was encouraged by the ministries of agriculture (for example, in RS about 10,000 vegetables

sowing packages were free distributed for vulnerable rural population to increase own food production). The agricultural sector, as well as other economic sectors in BiH, was significantly affected by the Ukrainian crisis. At the beginning of the crisis, the fruit production sector was the most affected, because it was the only one that registered direct exports to the Russian Federation, due to difficult transport and payment transactions. Other sectors (production and processing of milk, meat, soft drinks, juices, beer, fruit and vegetable processing) suffer indirectly due to the increase in the prices of input resources. At the proposal of the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, the Council of Ministers of Bosnia and Herzegovina adopted a Decision to reduce customs duties on imported fertilizers by 5%, that the customs duty rate is 0% for mineral fertilizers imported from third countries. The decision temporarily enables the duty-free import of 100,000 tons of mineral fertilizers until December 31, 2022. Also, policies at the entity level reacted with different measures in order to mitigate the negative consequences of the COVID 19 Pandemic and Ukraine crisis.

CHAPTER 5 – FOOD SECURITY POLICY IN BIH

There is no state food security policy. in BiH. Instead lower administrative levels (entities, Brčko District and Cantons in Federation of BiH) have competence on food security policy. Commodity reserves of the Federation of BiH are made on the basis of the Act of Federal commodity reserves, which was published in the Official Journal of the Federation of BiH in 1999 (the Act). In Federal model of commodity reserves we have some kind of public-private partnership, through public subscription form of contractual public-private partnership. Warehouse is owned by the state (for some products as an Oil), the goods are owned by the state and a company operates the storage facility. Due to financial and other problems, the Material Reserves of the RS went bankrupt during 2017. In meantime government of RS established new FS policy where key role was commodity reserves through public-private partnership so called SWISS model. This model represents a public-private partnership through concession form of a public-private partnership. Storage is owned by the company, the goods are owned by the company and the store is operated by the company. The state is merely supervising the implementation of contractual obligations of storage. Practical in this model ensuring commodity reserves are financed by the companies. One of most important role of Commodity reserves in both entity is market intervention for certain agricultural product for which is prescribed administrative (guaranteed) price. The intervention mechanism implies that the Entities, should such need arise (i.e. market prices fall below the level of administrative cost), buy certain volume of market surplus products through Commodity reserves institution, that are covered by the regime of administrative (guaranteed) prices. However, this system of market interventions and commodity reserves is not applied in the EU. Commodity Reserves should not impact, influence and affect the current market supply and thereby distort the free functioning of staple farm products market/s.

CHAPTER 6 – AGRICULTURAL PRICE ANALYSIS

The price of food in BiH in September, 2022 increased by 27.3% compared to the same month in 2021. Wheat flour, as one of the key food products in BiH, has a higher price by 54.55% in September 2022 compared to September 2021. An increase of prices was registered for all four types of meat, with the largest increase in prices in the period September 2021 - September 2022. The price of 1 kg of beef meat had the highest growth in the last year (31.65%), and the price increase for other types of meat ranges from 12.12-28.57%. Official statistical sources show that the prices of milk, dairy products and eggs have increased in the last period, where the price of milk in the period September 2021 - September 2022 increased by 62.28%, cheese by 38.81% and butter by 42.86%. The price of sugar increased by 53.84%,

bananas by 50.00%, margarine by 44.68% and cooking oil by 26.34%. The price of edible oil also increased in 2021, where the price increased by 72.73% compared to 2020. The prices of all types of mineral fertilizers, including nitrogen, potassium and phosphorus, have increased in 2022, which is a direct consequence of the war in Ukraine. Combined fertilizer (NPK 15-15-15) and potassium fertilizer became more expensive in 2021 compared to 2020 (107.96% and 115.22%, respectively). Prices of other fertilizers (Urea, CAN and Phosphorus fertilizer) increased rapidly in 2022 compared to 2021 (212.50%, 227.59% and 56.25% respectively). In the same year, the prices of NPK (15-15-15) and potassium fertilizer continued to increase by an additional 27.40% and 21.21%, respectively. The price of one liter of diesel in September 2022 is higher by 52.38% compared to September 2021 and by 77.78% compared to September 2020.

Considering the increase in wheat grain prices as well as the increase in subsidies in both entities, FBiH and RS, the gross margin of wheat production in 2022 has increased. It is also important to note that yields in 2022 were significantly higher than in 2021. The combination of the above factors contributed to an increase in the gross margin by about 62.74% in the FBiH in 2022 compared to 2021, as well as an increase by 60.57% in the RS. In the same period, the selling price increased by 46.15%. In the FBiH, subsidies per hectare have been increased from 500 BAM to 750, while in the RS they are 300 BAM/ha. The analysis of input price fluctuations showed that extremely negative impact of rising input prices on the gross margin of maize production. Maize production in the FBiH had a lower gross margin of 43.88% in 2022 compared to 2020 (FBiH), and it was also lower by 54.77% in the RS at the same time. The value of variable costs increased by over 40% in 2022 compared to 2021. Also, the Ukrainian crisis brought an extreme increase in the prices of inputs in livestock production, especially in the milk production sector, and as a result, there was a rapid reduction of the gross-margin.

CHAPTER 7 – FRAMEWORK OF CONTINGENCY PLAN

As a result of communication with a wide range of stakeholders in the project, the Contingency Plan Framework was created and included in this document. It consists of 29 measures classified into nine clusters of measures as follows: Sustainable agricultural production; Agri policy measures; Social interventions; Trade measures; Fiscal Policy; Food Security Policy; Internal market intervention; Access to Finance; Building of institutional capacity.

CHAPTER 8 – PROPOSAL ON PIPELINES FOR DONOR SUPPORT

The main donors in this sector in BiH are the European Union, the Kingdom of Sweden, the specialized United Nations Organizations, FAO and UNDP, the Czech Republic, the republic of Italy and the United States of America. International assistance for Bosnia and Herzegovina is also provided through projects implemented through regional initiatives such as the Standing Working Group for Regional Rural Development of Southeast European Countries - SWG RRD. Agricultural development lending services in Bosnia and Herzegovina are provided by international financial institutions such as the International Fund for Agricultural Development - IFAD and the World Bank (with members). Key donors with information on their focus, key programs/projects, goals and beneficiaries are presented in the separate chapter in the Report.