

Error! Objects cannot be created from editing field codes.

**Activity:** USAID Agribusiness Project

**Descriptive Title:** Quarterly Report-2

**Period of Report:** January 1, 2008 – March 31, 2008

**Contract no.:** EDH-I-00-05-00004-00/09 USAID  
**Agribusiness Project**

**RFTOP No.:** 169-07-016 under the RAISE Plus IQC

**Contractor:**  DAI

**Author:** Chief of Party, Gene Neill

**CTO:** Djordje Boljanovic

**USAID Office:** USAID Belgrade, Serbia

## Table of Contents

<b>I.</b>	<b>Introduction.....</b>	<b>4</b>
<b>II.</b>	<b>Activities Planned for the Period and Results Achieved Compared to Targets And Plans for Next Quarter.....</b>	<b>6</b>
	<b>A. Administration.....</b>	<b>6</b>
	<b>B. Grants.....</b>	<b>7</b>
	<b>C. Youth Enterprise.....</b>	<b>9</b>
	<b>D. Marketing and Sales.....</b>	<b>11</b>
	<b>E. Producer Groups.....</b>	<b>15</b>
	<b>F. Policy.....</b>	<b>18</b>
	<b>G. Media.....</b>	<b>34</b>
	<b>H. Environment.....</b>	<b>36</b>
	<b>I. Sub-Sectors</b>	
	<b>1. Berries.....</b>	<b>37</b>
	<b>2. Herbs, Spices, Mushrooms.....</b>	<b>42</b>
	<b>3. Livestock.....</b>	<b>45</b>
	<b>4. Tree Fruit.....</b>	<b>48</b>
	<b>5. Vegetables.....</b>	<b>52</b>
	<b>6. Dairy.....</b>	<b>53</b>
<b>III.</b>	<b>Significant Problems Encountered During the Period.....</b>	<b>56</b>
<b>IV.</b>	<b>Actions Taken to Resolve Problems Encountered.....</b>	<b>56</b>



**V. Observations Regarding Implementation.....56**

**VI. Accruals as of March 31, 2008.....57**



## **I. INTRODUCTION**

With our partners, Booz Allen Hamilton and International Relief and Development, DAI is pleased to present our quarterly report for the period covering January 1, to March 31, 2008 of the USAID Agribusiness Project. Our report covers all the elements required in the task order (section A.8).

The USAID Agribusiness Project is off to a good start. We have credibility from former USAID projects and the trusts of many agricultural businesses, associations and industry leaders. We are building on contacts with SIEPA, the Ministries of Agriculture and Education (for the Youth Component) and other international donors such as GTZ and EAR.

### **Market Driven Value Chains**

The project realizes that marketing is the linchpin of all our activities. It drives associations, co-operatives, sales, participation, employment, expansion and agricultural GDP. All of our sub-sector leads report to the marketing division and are required to take direction from marketing and sales. Our marketing division will be doubled in size to accommodate this strategy and increase opportunity for our participating agribusinesses. Sub-sector reports in this edition reflect the importance of working from markets back.

### **Sales Require Product**

As reported from fairs attended with assistance from marketing and sales, a healthy order book is appearing, however, caution must be shown as the production season is not yet with us and despite our interventions and upcoming sub-sector meetings providing us with even more marketing and sales opportunities we must ensure availability and continuity. We must also be flexible enough to adapt to new market opportunities as quickly as possible.

Despite the obvious market opportunities enjoyed by Serbia and the comparative advantage provided by climate and soil types the fruit and vegetable sectors are severely constrained by the reticence of the government to fully embrace UPOV, thereby allowing farmers to really extend their opportunities (see section on Policy issues). The livestock subsector is controlled by quasi monopolistic buyers and it is only in the beef sector that the project can really hope to influence market stimulation at this time. This market, however, is considerable and if handled correctly, could stimulate other areas of interest during the life of the project.

Although our project is dominated by market driven forces, the need to address areas of improved production, changed cropping and storage are essential to ensure growth. Mushroom exports are a clear example. We can not satisfy the existing demand. We are constantly receiving offers for other products which are “out of stock” in many sub-sectors.

### **Policy**

The USAID Agribusiness Project will address trade policy issues that are identified as sales and/or marketing access constraints to boosting sales garnered income that generates economic growth. These policy issues are both (a) “cross-cutting” broad trade policy issues that adversely affect growth in most agricultural subsectors, and (b) specific subsector trade policy issues that limit sales and constraint economic growth under each of the current six sub-sectors. Policy issues will be addressed by (1) direct discussions with the government of Serbia (GoS), (2) reporting to the U.S. Embassy which in turn will discuss the issues with the GoS, (3) forming working groups of industry to address issues,



create buy-in and lobbying of industry groups and agribusinesses to petition the GoS for changes. We may need to focus all policy efforts on the third option if required by political events.

### **Coordination with Other USAID Projects**

USAID Agribusiness Project has been fortunate to share resources and talents with the USAID Competitiveness Project and SCOPES. Most, if not all, media events in Belgrade have been joint efforts between the Competitiveness and Agriculture. We are sharing space with SCOPES supported companies at the Novi Sad agricultural fair in May. Our training programs have been open to both SCOPES and Competitiveness and we have shared ex-pat skills with both projects. We fully expect our excellent relations to continue as our projects progress.

In addition to SCOEPS and the Competitiveness Project we have presented our project's overall goals and our grants program on separate occasions to NALED at the request of the MEGA project. We were also introduced to the Mayor of Cacak and his efforts to assist small farmers on disaggregated plots of land. We are working with the municipality to develop a consolidation center to improve marketing and increase farm income.



## **A. ADMINISTRATION, HR AND OPERATIONS**

### **Summary**

The project is pleased to report that we have been operating “business as usual” despite recent events. Our regional offices are staffed and on-line with both TAMIS and internet. We are converting positions where we can use STTA to full time marketing positions and actively recruiting a finance director. We expect to be at full strength in the third quarter.

Our four vehicles are arriving from the United States early in the third quarter (three are already in customs in Belgrade). The fourth should be in-country soon.

### **Regional offices**

- Regional offices in Novi Sad and Cacak were leased, equipped and are now fully operational with TAMIS data base and Internet working.
- Novi Sad office is located in 3 Skolska Street, phone no. 021/528-490.
- Cacak office is located in 73 Dragise Misovica Street, phone no. 032/371-554.

### **STTA consultants**

- Pavla Cornejo, a DAI specialist, installed TAMIS and trained the project staff how to use it. USAID has access to this data base.
- Dr. David Neven from DAI, Mira Bulatovic-Danilovic from Michigan State and John McCormack from IRD spent several weeks in Serbia assisting the team to develop market driven strategies for selected sub-sectors.
- Michelle Owens, a MSU consultant also spent a few weeks in Serbia assisting our youth director in developing 4H curriculum and making concepts for business plan competition.
- Nikola Wurzburger was hired as a local STTA as a Marketing Design and Promotion Consultant, to support the design and promotional coordination for Serbian companies participating in trade fairs.
- Zoran Janjatovic was hired as Vegetable Marketing Specialist to assist in identifying foreign and domestic markets for main vegetable producers in Serbia that have potential for boosting sales.
- Radivoj Cosic was hired as Dairy/Beef Specialist to work in strengthening the existing cattle associations and linking these groups together to increase sale of their milk and meat to dairy and meat processing plants.

### **LTTA Recruitment**

- Igor Jovanovic has been employed as Driver since January 8. 2008.
- Project has hired Brankica Obucina as Agriculture Information and Policy Specialist and she will start working on April 1, 2008. Brankica Obucina has extensive experience from the USAID WTO accession project. She will provide technical assistance to producers, associations, and SMEs in marketing, quality controls, information dissemination, and development of grades and standards for trade and export.
- The vacant post of Agriculture Development Officer was converted into the new post of Grants/Monitoring Officer based in Belgrade. Project has hired Jaroslava Bozanic for this position. She will be responsible for review and assessment of necessary grant documents, grant monitoring and evaluation, as well as for assuring compliance with the Grants Administration Manual and Performance Monitoring Plan.



- The project has advertised for the vacant position of Financial Advisor. The successful candidate should have hands-on knowledge and expertise in the agribusiness financial sector, including access to credit, agribusiness financial plans, risk management service, etc. More than 40 people applied and the recruitment process is under way.

### **Vehicles**

- Three Jeep Liberties with 2 liter diesel engines and one Dodge Grand Caravan with a petrol engine have been ordered and are expected to arrive to Serbia in a few days. With the Jeep Cherokee received as a donation from IRD, the Project will have a total of 5 vehicles, one for each field office and three for the office in Belgrade

### **Training and workshops**

- Remer Lane, the Project's Marketing/Export Advisor, delivered training in marketing and sales promotion for twelve companies attending the Novi Sad Ag Fair with SCOPES and Agribusiness Project support. The event took place in March 2008 in our Project's office.
- Project hosted ITC's excellent Market Mapping training on Feb. 13 and 14 attended by SCOPES, Competitiveness, AgBiz, USAID and others (15 people attended). It was agreed with the ITC management to organize a follow-on, 4 day workshop in the Agribusiness Project office from May 19-22, 2008. There will be 20 - 25 participants (Agribusiness Project-8, SIEPA-7, Competitiveness-3, SCOPES-3, USAID-4 places available – this may change if GTZ wishes to send a representative).
- Mary Miller, a DAI consultant, delivered the three days workshop named "Assessing Financial Capacity of Project Clients and Grantees". Total of 16 people attended (SCOPES, Competitiveness and Agribusiness project staff). The training was very useful for staff who will be evaluating the "grant" worthiness of companies and associations who may apply for grant money and for determining the effect our grants had on beneficiaries after receiving grants. Mrs. Miller also collaborated with Societe General bank in drafting a questionnaire which could serve as a base for possible client evaluation.
- Qualitass Education, the most prominent ABDS provider in the area of standardization and certification, trained Agribusiness Project sector leads in quality control systems that enable our prospective export-oriented companies obtain required certificates, such as HACCP, GlobalGap, and others.

### **Other issues**

- Emergency Evacuation Plan was written and applied during the post-Kosovo independence declaration crisis evacuation of the US nonessential project personnel (one ex-pat staff member and family and two STTA consultants were evacuated).



## **B. GRANTS**

### **Summary**

The grants manual was approved by the Regional Contracts Officer late in the second quarter. We have put another person on staff to monitor the grants program and we should begin issuing grants as soon as the first month of the third quarter. Several companies and associations have presented interesting ideas which are being reviewed. We remain committed to the idea that this is NOT a grant's program, that grants are only a tool in achieving increased sales and broad based employment.

### **Establish and Manage USAID Agribusiness Project Grants Program**

This section of the report outlines progress in implementation of the Grants Program Component for the quarter January – March, 2008.

The Grants Program is designed to facilitate market-driven activities in the selected high-potential sub-sectors, and it shall be administered in accordance with provisions contained in ADS, Section 302.5.6, "Grants Under Contracts," ADS Chapter 303, "Grants and Cooperative Agreements to Non-Governmental Organizations," and/or within the terms of the USAID Standard Provisions applicable to Non-U.S. Non-Governmental Recipients.

### **Establish the grants categories and manuals and get USAID concurrence**

USAID Agribusiness Project has completed this Task. On March 19, USAID RCO has approved the grants manual; however, the official approval letter is still to be issued. The grants manual is placed in TAMIS, under the section Publications.

The grants manual was originally submitted to USAID for approval on December 21, 2007. Based on the CTO's comments, the grants manual was revised and resubmitted to RCO on January 17, who required further revisions of the grants manual. On February 14, USAID Agribusiness Project has resubmitted the revised grants manual and the annexes to RCO for final approval. However, RCO required further revisions of the grants manual; the provisions of FAR part 31 had to be included in the grants manual as to cover the cost principals for the grants to for-profit organizations. USAID Agribusiness Project addressed this final comment and submitted the revised version to RCO on February 26.

### **Implement Investment Incentive and Enabling Grant program**

These Tasks has not been incepted yet whereas the grants manual was approved in late March. However, the Investment Incentive and Enabling Grant programs were presented to the number of potential beneficiaries through the stakeholder meetings. Also, the National Alliance for Local Economic Development (NALED) hosted an official presentation of the grants programs; the audience included the municipal LED tams, local government officials, private businesses and local NGO's; over 100 participants.

Currently, USAID Agribusiness Project is looking into a potential investment incentive grant to facilitate better market access for the tree fruit sub-sector stakeholders in the amount of approximately \$10,000; as well as the investment incentive grants for to support ABDS providers in their work with the dairy companies and farmers as to efficiently respond to the market needs.



In the next quarter, USAID Agribusiness Project will consider an enabling grant to establish reliable MIS, as well as the grants to support sector-wide activities such as certification (ISO, HCCP, etc.), and harmonization with the EU standards.

## C. YOUTH ENTERPRISE PROGRAM

### Summary

The Agribusiness Youth Enterprise Program is not only to be considered as a competitive, market oriented entity whose primary aim is to gain profit, although the results and the process are equally important. This process which will assist young people to develop their entrepreneurial skills such as self-initiative, self-confidence, risk taking and responsibility, will lead to the most important aspect of the program: enabling self-employment. Expected primary outcomes of the program include:

- Engage youth in the agricultural industry;
- Help youth gain access to factors of production (land/Labor and capital);
- Pair entrepreneurial youth with master farmers under an apprenticeship scheme; and
- Enable young farmers to gain access to land through improved leasing and purchase arrangements.

### Progress in Program Implementation

Dr. Michelle Owens from Michigan State University visited our program team (January 21 – February 11) in order to provide consultancy services on education component and the youth business plan competition. Her first assignment on the agribusiness project was to lay the groundwork for the 4H program and to assist project personnel develop agribusiness curriculum for agricultural high schools. After her assignment was completed, the project began ordering **Entrepreneurship manuals** and other publications from **International 4-H**. As numerous publications were delivered we realized that a few Mentor and Activity guides and many Workbooks need to be revised to be implemented into the USAID Agribusiness Youth Program. The material will be given to a local consultant and that he/she will make a draft curriculum. The MSU 4-H team will do the final review after which it will be translated into Serbian and prepared for publishing. The Serbian 4-H program will be ready for the presentation **in 20 pilot schools** throughout Serbia, in **September 2008**.

- Exploration of Youth Enterprise Administration team members – one person from each of relevant Ministries: Agriculture, Education, Youth and Sports, and Serbian Chamber of Commerce as well, should make a team which will be providing support and back up for Youth Enterprise activities throughout the five-year program. A few members of the Ministry of Agriculture and Ministry of Education gave their positive response to become a part of our Youth Enterprise Administration team and share the opinion that starting from the Youth is a crucial advantage versus all other implemented programs.
- A publicity poster with information on USAID Agribusiness Planning Competition for Youth is completed. It will be distributed to agricultural schools involved in the Business Innovation Program, SCOPES high schools and Agricultural Faculties. The idea is to give a chance to those students since they've been learning about Entrepreneurship through SCOPES and BIP program to compete for a grant. The Agribusiness Project team will announce the Competition among other young entrepreneurs. It should start on April 10 and end on June 20, after which the Project team will decide which 10 will be given grants.



### **Next Quarter Goals**

- MSU Consultant, Michelle Owens, will return in April. She will follow up with on-line training that we will be able to incorporate into our program and link our students in Serbia with students in the US using the same business planning training. She will help us with the procedure of using the 4-H logo and official registration of our Serbian 4-H program and support developing drafts of Monitoring and Evaluation forms for students and teachers and Administrative Team. Her next mission here will be from April 7 to April 22.
- Business Planning Competition - announcing the Competition and providing the competitors with the details and support.
- To continue working on Serbian 4-H Curriculum and Education classes preparation.
- Administration Team Members – Look for two more members from Ministry of Youth and Sport and Chamber of Commerce.
- Finalization of the list of 20 pilot Agribusiness high schools for Serbian 4-H Program.

## D. MARKETING and SALES

### Summary

Marketing and sales are driving the Agribusiness Project. All sub-sector activities are based on developing sales within the sector and direction is coming from the marketing division.

As such, the project will expand the marketing division by two full time staff during the third quarter. The engineering slot from the proposal will be made into a STTA position as needed and two national staff will replace the engineer. We also plan to negotiate extending key personnel from marketing and sales to include a third or even fourth year in-country.

Marketing and sales is the key to project success. As of the end of the second quarter the project has assisted Serbian business produce the following expected results:

<u>Company</u>	<u>Product</u>	<u>Contracts</u>
Aganela	Dried Fruits	\$ 380,000
Agrar Komerc	Fresh Fruits & Vegetables	\$ 720,000
BMD	Organic Wild Mushrooms	\$ 87,000
Elixir	Frozen Fruits	\$2,000,000
FoodLand	Preserves	\$ 780,000
FruitLand	Fresh Apples	\$2,000,000
Igda Impex	Wild Mushrooms	\$ 280,000
ITN	Frozen Fruits	\$3,000,000
Juzni Banat	Fresh Apples	\$1,000,000
Lutra – ML	Fruit Purees	\$ 450,000
Malina Product	Frozen Retail Fruit	\$ 100,000
Marni	Wild Mushrooms	\$ 155,000
PAMS	Wild Mushrooms	\$ 120,000
Pionir	Confectionary	\$ 100,000
Radan	Frozen Fruit & Vegetables	\$ 450,000
Rembraco	Instant Coffee	\$ 500,000
Suncokret	Pumpkin Seed Oil	\$ 155,000
Zadrugar	Organic Frozen Fruit	\$8,500,000
Zeleni Hit	Fresh Tomatoes	\$ 250,000

### Additional Sales and Financial Information

**Nectar** - ongoing meetings with owner, Bojan Radun, on market strategy, export plans (retail bulk juices, and concentrates), product development and domestic and regional expansion strategy. We have identified opportunistic acquisition targets in two sectors and markets that will assist them with regional expansion. Potential doubling of employment with new processing facility slated for central Serbia based on the regional market demand for their products.

**Marni** - Finalized refinancing with Piraeus Bank - 700,000 Euros debt buyout of Raifaissen and 600,000 Euros of new working capital. This will allow Marni to enter the new season with improved financial positioning to fulfill contracts. Agribusiness arranged meetings with Piraeus and counseled Marni on preparation and presentation.



**Horticulture Consulting Company**, Fresh champignons producer from Padinska Skela linked with **Danamex Trade** - arranged for new export of canned champignons for Vancouver. Estimated value not to be added before shipment is finalized US \$600,000

Project linked two Serbian coldstores, producers and processors of frozen sour cherries with German buyer “**Volkmar Frenzel**” company from Leipzig ([www.frenzel-tk.de](http://www.frenzel-tk.de)). German company has sent to Project via Serbian Fruit website an inquiry for Serbian frozen sour cherries which was passed to “**Juzni Banat**” and “**Sigma AZ**”.

Serbian Agribusiness through SerbianFruit.com received over 50 direct inquiries during the quarter which were distributed to companies participating on the website. Other inquires go directly to the companies such as wish Zadugar company who received a direct contract through the website from a Japanese buyer for \$1,500,000 of Organic Frozen Raspberries (Value included above). It’s difficult to manage and obtain data on direct company inquires and contracts.

### **Trade Fairs**

Agribusiness Project assisted companies at three trade fairs during the quarter. **Fruit Logistica** (Berlin), **BioFach** (Nuremberg) and **Gulfood** (Dubai). As well, several individual companies received guidance and sales contacts for **FoodEx** trade fair in Japan. Agribusiness Project support has consisted of sales, marketing, market research, and media trainings, design and graphics for booth, international and local (fair location) media promotion, buyer invitations, direct sales contacts and meetings, and follow-up support.

### **Trainings**

Agribusiness Project Provided Sales, Marketing, and Market Research Training to 20 companies in preparation for FruitLogistica, BioFach and Gulfood.

Agribusiness Project in coordination with SCOPES Project provided Sales, Marketing, and Market Research Training to 12 companies scheduled to participate in the joint promotion (Agribusiness Project / SCOPES) at the Novi Sad Fair in May.

Agribusiness Project in coordination with the Competitiveness Project provides Sales, Marketing and Market Research Training to 17 students from Belgrade University Faculty of Wood Processing and Engineering in preparation for the participation at the Salon Satellite Fair in Milan, Italy in April.

### **Fruit’s of Serbia**

The first National Association supporting the exporting of Fruit’s and Vegetables was started following support from USAID Agribusiness Project.

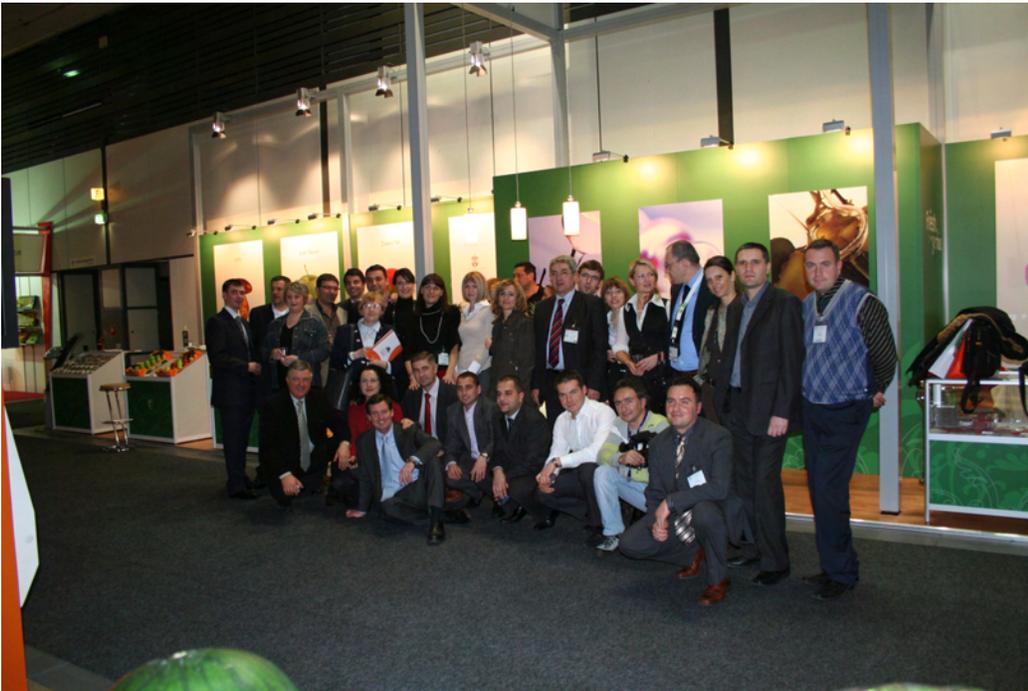
Agribusiness Support has to-date consisted of:

- Company lobbying and development strategy for creation of association.
- Public support for the association at their launch at the Chamber of Commerce in March.
- Development of Request for Proposal for the design of a Logo for the newly formed association.



- Agribusiness Project staff met with the managing board of recently established National Association “Fruits of Serbia” to discuss plans for further assistance. Agribusiness Project delivered on-screen presentation of the “Fruits of Serbia” recommended development strategy. Members of the managing board were acquainted on different successful models of worldwide national export associations and instructed how to establish internal hierarchy and organizational structure. The Project advised Association on work plan for the first year priority activities and presented a draft budget for consolidation of export promotion efforts and establishment of export quality control agency.

Photos:



FruitLogistica 2008



Gulfood 2008



## **E. PRODUCER GROUPS**

### **Summary**

This report presents a summary of the first quarter of 2008 activities and accomplishments for Producer Groups Activity. Per the work plan, activities in this quarter have centered on appraisals of sectors chosen by the project and regional activities, on-going and planned. Due to the market driven nature of the project, this has been primarily in the fruit and vegetable sectors. Many of the major groups in these two sectors have been seen and relationships built ready for the future activities of the project once the value chain final assessments are completed.

### **Producer Group Activities**

The project worked closely with the Atle-COOP group during its inception phase of introducing a Co-operative group based on the needs of GlobalGAP training for members to be able to more easily access new and lucrative export markets. The project attended steering meetings, provided written materials and provided support at inaugural meetings and subsequent visits. Introductions were also made to potential customers of the new group, for new season opportunities. New market opportunities will come from this initiative and will include new employment in the regions around Arilje.

The co-operative's assembly has adopted association statutes and presented strategy objectives:

- Implementation of GlobalGAP farm standard on 84 hectares of 202 farmers, to keep current EU market and enter new lucrative markets as suppliers of multinational retail chains;
- Introduction of organic certified berry production to make sales more profitable. Cold-stores have already signed agreements on organic production with 68 farmers on 34 hectares;
- Lobbying in the Ministry of Agriculture and Serbian Government to enable faster and easier procurement and registration of organic inputs needed for intensive farming. Redesign subsidizing criteria to boost organic production development; and
- Introduction of new varieties to extend harvesting season and promote fresh produce.

The project prepared a number of outline contracts between farmers and the co-operative as examples of good practice between co-op and members. Atle CO-OP has accepted these examples and when interpreted into Serbian will be accepted as the standard for their operating contracts.

### **Consolidation Center-Cacak**

Following a meeting at project offices with the Mayor of Cacak and his team, the project produced an outline concept plan for a "Farmers Wholesale Market"/consolidation center which will provide the opportunity for many local small farmers and Agribusinesses to form, with project assistance, associations groups, supply input and marketing co-operatives. The return from this activity will be highly significant over time. The project is driving this activity and the steering committee led by Project team member Sasa Marusic, has now involved numbers of local co-operatives, medium and large scale agribusinesses and municipality leaders. The plan is moving forward rapidly and this will be the first of a number of major centers providing greater opportunities for the agricultural sector of Serbian business. STTA is being planned for the feasibility study regarded necessary for eventual implementation. Local institutes and municipal planners are also being involved in the process.

Consolidation centers offer small farmers with fragmented lands new opportunities for marketing as a group where containers can be filled and larger orders filled increasing small farmer incomes.



## **Fruits of Serbia**

Following the formation of the “Fruits of Serbia” group, both the marketing department and producer groups department are supporting this initiative. Future meetings are in place and this will be an on-going activity. Support to further consolidate the Russian market is being given priority by the project with the further option of working with Ukrainian partners. The project hosted the association chairman and members of the board immediately after the official announcement of the association and agreed that the USAID Agribusiness Project and the Fruits of Serbia would work together to the benefit of both groups. Further meetings are planned between the PO team and board members to work out a strategic program which will be fully market driven and profit oriented. The project will have a permanent staff member working part-time in the Fruits of Serbia offices in the short-term to provide a link between the initiative and the European/American opportunities.

In addition to prioritization and additional research undertaken by value chain heads, ongoing investigation of key markets and key producer group capacities continued throughout the quarter. Findings have been incorporated into the value chain assessment papers, ensuring a better view of the producer group activities and future needs.

The understanding on the part of producers that the market will reward them for catering to demands is a key obstacle to participating effectively in export markets. However, contacts made and information gained through participation in various fairs throughout the year will build confidence in producer groups and companies for the future. Additionally, experience gained by the project’s marketing team is particularly valuable.

Early contacts with the Vojvodina Vegetable producer groups are continuing and will be an important part of the on-going exercise to provide traceability to export targeted product groups. The General Manager of Gospodjinci Agricultural co-operative is working closely with the project to assist the upcoming traceability seminar at the Novi Sad fair in May of this year. He and representatives of the new Fruits of Serbia group will be important contributors. The seminar will be jointly sponsored by SECO, ADA Gtz and USAID with the objective of further promoting a national Globalgap program. A scope of work has been developed to employ local STTA to finalize the production/marketing matrix, begun during the value chain analysis.

It is becoming more obvious from interviews made with the producer group leaders, agricultural institute staff and industry marketers, that the Russian market for products which can be stored in dedicated ambient stores are very much in demand and this will be an area addressed in the next quarter, in particular with the potato, carrot and onion producers groups.

Staff at the two project regional offices in Novi Sad and Cacak have provided valuable support to the Producer organization team and its’ efforts. In particular, the Cacak office and producer organization team worked very closely with STTA Mira Danilovic-Bulatovic during her visit to Serbia assessing aspects of the fruit sector. As previously reported, the Cacak office team has shown invaluable support during the early investigative phases of the consolidation center activity’

## **Next Period**

The producer organization section will work in the following areas during the next period:

- Producer groups analysis will be on-going;



- The development of ‘Fruits of Serbia’ as a strong export group will be a major priority;
- All efforts will be made to implement the new Cacak center;
- The project will work closely with other donors to improve rapidly the traceability and standards of exportable and local supermarket oriented produce;
- Support will be given to the expansion of consolidation and distribution centers on a regional level;
- Financial and management training of producer groups will be made a requirement; and
- Marketing training will be required and assistance given to access new markets, in particular Northern Europe and Russia. This could also include Ukraine as a near market.

## **F. POLICY**

### **Summary**

The USAID Agribusiness Project should address trade policy issues that are usually identified as sales and/or marketing access constraints to boosting sales garnered income that generates economic growth. These policy issues are both (a) “cross-cutting” broad trade policy issues that adversely affect growth in most agricultural subsectors, and (b) specific subsector trade policy issues that limit sales and constraint economic growth under each of the current six SAP value chains. These policy issues will be addressed by (1) direct discussions with the government of Serbia (GoS), (2) reporting to the U.S. Embassy which in turn will discuss the issues with the GoS, (3) discussions with industry groups and agribusinesses which in turn will lobby the GoS for changes, and (4) forming working groups to address the issues.

Since most policy issues are cross cutting, first the important cross-cutting policy issues will be listed in general, then mentioned under each of the 6 subsectors to which it applies. If policy issues only apply to 1 or 2 subsectors, they will only be mentioned under the 6 subsector listing. After describing the policy problems, we will describe approaches taken, accomplishments, problems encountered overcoming trade problems. As needed under each issue, future plans will thus be described as either sector specific and/or broad based cross cutting market constraints to be addressed.

### **Cross Cutting, Broad Trade Policy Issues**

The cross-cutting trade policy issues are overarching agricultural economic limitations and/or enabling environmental issues that restrict sales and economic growth in almost all sectors, one way or another. Cross-cutting policy issues include the overarching issue of aligning the trade policy of the Government of Serbia (GOS) to comply with the (i) World Trade Organization (WTO) and (ii) European Union (EU) Accession trade requirements. Examples of other cross cutting constraints to agricultural economic growth includes (iii) limited agricultural finance, (iv) problematic land titles, (v) animal and plant genetic (UPOV), and (vi) outdated socialistic farm cooperative and trade association laws. These policy issues will be addressed by (1) direct discussions with the government of Serbia (GOS), (2) reporting to the U.S. Embassy which in turn will discuss the issues with the GOS, (3) discussions with industry groups and agribusinesses which in turn will lobby the GOS for changes, and (4) forming working groups to address the issues.

Since most subsector economic growth analysis often focused on broad based issues, a brief listing of these constraints to agribusiness sales are organized under the following categories and sub-category listing, which are also similarly listed in the Gantt Chart that follows this narrative.

### **International Trade Constraints (or GOS Laws and Policies Limiting Sales)**

#### **WTO Accession and Enabling Legislation**

Although the GOS legal and trade policy reforms of the last 7 years have gone a long way towards aligning Serbia’s international (int’l) trade regime with most of the countries of the World Trade Organization (WTO), it still has a long way to go. Powerful economic interests are often well-represented in the GOS Parliament and other quasi-governmental institutions that limit trade with exclusive veto rights over imports or exports by simply restricting the provision of int’l trade papers needed by Serbian Customs officials.

**Activities:** The Agribusiness Project, the USDA, and the USAID WTO program have discussed these issues with the GOS, while exporters have done much public media dissemination on the issue about changing GOS laws and trade policies to align these business practices with those in WTO member countries.

**Results:** Recently the Ministry of Agriculture has submitted WRO SPS Veterinary and Plant Disease control laws as drafts to the GOS Parliament for enactment. However, no movement is expected until the new government is formed after the May 11<sup>th</sup> elections.

**Future Plans:** Continued to form new agribusiness working groups that may address this issue directly with the GOS, as well as entertaining direct talks with the GOS.

### **EU Accession and EU Trade Policy Alignment**

The EU accession should eliminate all of the problems in Serbia trade barrier, but WTO accession is expected earlier (depending on the new GOS elected in May 2008) and is mainly the (i) higher import tariffs and (ii) GOS discretionary import licenses/permits, and (iii) GOS export licenses.

(i) Relatively High Import Tariffs: Although prohibitive import tariffs have come down to a maximum of 30% ad valorem over the last couple of years, these still very effectively protect the Serbian market from much import competition, unless domestic prices are well over 30% above prices in neighboring countries. Season imports, such as for fresh produce, and for special production shortfalls, such as the oilseed crop shortfall.

(ii) GOS Discretionary Import Licenses/permits: The Ministry of Agriculture, Forestry, and Water Management (MAFWM) and other GOS ministries often control limited import permits for politically sensitive imports. This GOS import restriction is a holdover from the old “command and control” centralized economy of the communist era of 1945-1980 that provided state trading monopolies such as GenEx that undertook exclusive import and exports of many foods, such as Halal beef and lamb to middle eastern countries. Limiting imports adversely affects certain key inputs needed to expand production of foods in short supplies; Agribusiness exporters report problems such as their trying to import better quality seeds (e.g., on the approved lists, which UPOV would settle), and organic inputs such as internationally approved inputs (e.g., copper sulfate being placed at a lower tariff level, as needed as an anti-fungal pesticide with int’l approval as an organic input).

(iii) GOS export licenses: Moreover, the MAFWM sometimes restricts exports, such as wheat, which gives Serbia exporters the reputation of being an “unreliable supplier.” For example, U.S. farm organizations and exporters worked a long time to become a “reliable supplier” after the 1972 grain export embargo, such that Serbian food exporters are viewed as “less than reliable” vis-à-vis other European exporters. Obviously, it is not a big issue as it was with grain trade agreements made between trading partners in the 1970’s and 1980’s, but Serbia export contracts are considered having a higher risk of breaking export commitments because of the possibility of changing GOS export policies restricting exports (as currently is the case for Serbian grains).

**Activities:** The Agribusiness Project representatives have discussed these issues with the GOS, while agribusiness and exporters have done much public media dissemination on the issue about changing GOS subsidies causing problems for their business.

**Results:** There have been some efforts to re-align Serbia's agricultural production subsidies in line with EU countries and WTO acceptable practices, however, the GOS still has a long way to go.

**Future Plans:** Strengthen existing and/or form new agribusiness working groups that may address this issue directly with the GOS, as well as entertaining direct talks with the GOS.

### **GOS Trade Subsidy Policies**

(i) Export Subsidies: Serbian MAFWM and Finance Ministry provide export subsidies, most years, for agricultural exports. Although this does encourage exports, it does distort trade and makes exporters reliant upon subsidies; this often leads to cutbacks in exports when the export subsidies end.

(ii) Production Subsidies: The agricultural ministry subsidies individual crops and livestock production, which is an incentive to do more business, but it does distort the business by making agribusiness and farmers reliant upon GOS subsidies. For example, when the GOS production subsidies are decreased or ended, then often production falls. This is the case for the wheat crop that had record low plantings this year, partially attributed to lower planting subsidies of which the farmers and wheat millers claimed to be the reason for less wheat being planted.

**Activities:** The Agribusiness Project have discussed it with the GOS, while exporters have done much public media dissemination on the issue about changing production and export subsidies distorting the agribusiness sectors and depressing economic growth in the subsectors.

**Results:** There have been some efforts to re-align Serbia's agricultural production subsidies in line with EU countries, however, it has a long way to go.

**Future Plans:** Expand upon loosely organized agribusiness working groups may better address this issue directly with the GOS, as well as the Projects representatives entertaining direct talks with the GOS.

### **GOS Exchange Rate Policy – Strong Dinar Bad for Exports, Good for Imports**

**Issue:** During the election period, as during earlier times in the 1990's when the government was unpopular, the GOS would artificially inflate the value of the local currency so to make the voters feel that they had more money in terms of Euros (formerly German Deutsche Marks) and U.S. Dollars. This overvalued currency policy is still in effect for the current government (by Central Bank intervention) so that the incumbent government officials may claim a successful economic policy in the re-election campaign by making voters feel economically better off.

Although Serbia has over 10% inflation annually for the last couple of years, instead of depreciating against the Euro, it has appreciated against the Euro, even though the Euro zone only has an inflation rate of 1% to 2% during this time. This has inflated imports, depressed exports, and made the local market more attractive to many exporters (e.g., instead of exports, much of the beef is going to the domestic market that would have normally been exported).

**Activities:** The Agribusiness Project have discussed it with the GOS, while exporters have done much public media dissemination on the issue about the high “over-valued” Dinar hurting their export business

**Results:** Unfortunately, no results are expected until after the May 11, 2008 national parliamentary elections, because the incumbent government sees this as an important issue to everyday voters who like to purchase imported goods, or travel to other countries and find their salaries to be worth more in Euros.

**Future Plans:** Continue discussing it with the GOS and have agribusiness groups address this issue directly with the GOS and with the press media.

### **Chamber of Commerce Trade Restrictions by GOS Laws**

**Issue:** The Belgrade Chamber of Commerce (CoC) is the only GOS CoC allowed to issue certificate of origin statements needed for exports. Many exporters who live far away from Belgrade complain about having to come to Belgrade for these CoC Serbian Certificate of Origins. Since the Belgrade CoC earns money off this process, they are reluctant to let this go to the regional and municipal CoC’s.

**Activities:** The Agribusiness Project and MEGA have written letters to the GOS and lobbied the federal and local government and CoC officials to change this process to facilitate exports (or lower their costs).

**Results:** Unfortunately, no results are expected until after the May 11, 2008 national parliamentary elections.

**Future Plans:** Expand upon work already done with the loosely organized agribusiness working groups may better address this issue directly with the GOS. The Projects representatives plan to follow-up with direct talks with the GOS.

### **Int’l Trade Standards (or Private Sector Requirements Constraining Sales)**

The following problems have been addressed on a company by company approach as well as forming working groups to expand the use of int’l food standards so to boost value added sales and gain market access to import markets requiring these standards.

#### **Global Gab Legislation**

**Issue:** Lack of World GAP Certification limits exports. EU and other importers want EuroGAP/World-GAP certification

**Actions Needed:** Adopt World-Gap Standards and Become Certified. But costly, such as plastic "Box Palates" are the biggest problem for fruit exports to EU.

**Results:** Contacted Ministry -- It is on their Website, but not moving forward yet. The Project is working within an Int’l Donors Group from Germany’s GTZ, the Swiss Development Agency, and others for a Seminar at the May Novi Sad Agricultural Fair.

**Future Plans:** Expand upon loosely organized agribusiness working groups may better address this issue directly with the GOS, as well as the Projects representatives entertaining direct talks with the GOS.

### **HACCP & ISO Certification**

**Issue:** Lack of HACCP & ISO Certification limits exports. EU and other markets request EuroGap certification

**Actions Needed:** Adopt Euro Gap Standards and have more Serbian agribusiness companies certified.

**Results:** The Agribusiness Project is working directly with the Ag. Ministry to expand upon this work done for the last 3 years with CRDA/USAID to get more companies certifies and require it sooner for all medium sized food companies as per EU standards.

**Future Plans:** Work with Agribusiness Development Service (ABDS) providers and expand upon work with new and existing agribusiness associations to increase the number of companies HACCP and ISO certified. We should also continue direct talks with the GOS.

### **Organic or Natural Foods Certification (or Branding)**

**Issue:** Increasing the number of Organic Certified companies would boost exports since organic agribusinesses report that they can sell all that they produce. Enlarging the number of “Natural Food Brands” in Serbia would also increase value added sales with higher prices earned by the businesses.

**Actions Needed:** The GOS needs to adopt Int’l Organic Food Standards and have more Serbian agribusiness companies certified.

**Results:** The Agribusiness Project is working directly with the Ag. Ministry to expand amend its policies to be more supportive of the Organic Food Industry and update their listings of input chemical that may be imported at the lowest import duty to facilitate better organic crop yields and better quality foods produced at a lower cost.

**Future Plans:** Work with subsector associations and with the Agricultural Ministry to update their policies.

### **Halal and Khosher Certification**

**Issue:** Lack of Halal and Khosher Certification limits exports. In addition Halal (and Khosher to some extent certification) increases the prices of exported foods.

**Actions Needed:** Further support the Halal Association of Serbia and work with the Khosher certification group in Serbia.

**Results:** Halal certifications have recently expanded from 10 to about 25 companies, which are now exporting to the Middle East and Muslim communities in Germany and France.

**Future Plans:** Work more closely with the Halal Certified companies to expand sales and assist the Halal Certification Groups to increase certification of food producing groups in Serbia. Continue talks with the Agricultural Ministry and Vojvodina Provincial Government that have pledged assistance to this growing market subsector.\

### **Int’l and Local Investment Restrictions Constraining Business**

The following problems have been addressed on a company by company approach as well as forming working groups to expand the use of int’l food standards so to boost value added sales and gain market access to import markets requiring these standards.

### **GOS Land Ownership Laws**

**Issue:** The GOS owned lands are rented out by Municipal Governments, often in a very questionable manner, or without clear transparency, often favoring wealthier outside groups

speculating on land prices so the local producers cannot expand production in response to market demand (e.g., the carrot, onion, early potato producers in Vojvodina). This land should be privatized under a new law and procedures, but is only slowly moving forward to do so as other Eastern European countries have done. Hence, Serbia has one of Europe's lowest rate of farm land utilization of arable lands and very inefficient use of lands that are planted (often to low cost crops like sugar, or not planted at all, just used for land speculation).

**Actions Needed:** Further support farm groups and the Ministry of Agriculture's efforts to change the laws and administration of State owned lands and old Socially-owned cooperatives (which are said to have over 200,000 hectares ineffectively used, or not planted at all because of a lack of capital or inability to rent the land out to farmers and agribusinesses wishing to expand).

**Results:** By working with the Ministry of Agriculture and agribusiness groups, the GOS is now requiring all tenders to have bid and performance bonds – last year often they went unpaid for use of the lands. Moreover, more municipal governments are having more transparent land rental auctions, with better oversight by Serbia's agricultural community and MAFWM.

**Future Plans:** Work more closely with the MAFWM, Municipal Governments via MEGA/USAID's local government project, and agribusiness associations to improve the privatizations and improved use of land so that higher value crops may be produced in respond to market demand.

### **GOS Foreign Direct Investment (FDI) Laws**

**Issue:** Low FDI adversely affects agribusiness growth in Serbia and more efficient market linkages with export markets.

**Actions Needed:** Further support the MAFWM and GOS to enact laws promoting FDI. Create a more friendly environment for FDI.

**Results:** The current GOS has tried to make Serbia appear more investor friendly, however, political events have recently made several large foreign investors reconsider investing in Serbia. Lobbying with the MAFWM has raised the awareness of this issue.

**Future Plans:** Work more closely with the new government formed after the May 11<sup>th</sup> elections and work with agribusiness associations to bring awareness of this issue so to change the laws on land ownership. Lobby via agribusiness associations for changing land ownership laws to promote foreign investment.

### **GOS Foreign Currency Exchange Limitations**

**Issue:** Old banking laws restrict the flow of monies taken out of the country, and make conducting int'l banking and money transfers more difficult than in most other Balkan countries. This increases the cost of doing business in Serbia, reducing its competitiveness.

**Actions Needed:** Further support the GOS to enact laws further liberalizing the banking markets and adopting international accounting procedures. Creating more open markets in foreign exchange, which often can only go through the Central Bank of Serbia, at a relatively high cost.

**Results:** The current GOS has allowed more liberalization of the banking laws and regulations allowing foreign investments in the banking system. However, conducting day-to-day business is much more expensive in Serbia than in nearby competing countries.

**Future Plans:** Work more closely with the new government formed after the May 11<sup>th</sup> elections and work with agribusiness associations to bring awareness of this issue so to change the int'l banking and accounting laws and procedures used in Serbia.

#### **GOS Privatization of Socially Owned Coops & Agrokombinants**

**Issue:** The slow rate of privatization of State Owned Farms (Agrokombinants) and socially owned cooperatives limits production in to supply local market and export demand.

**Actions Needed:** Further support the MAFWM and GOS to enact laws promoting a faster rate of privatization of GOS Akrokombinants and socially owned cooperatives.

**Results:** The current Minister of Agriculture has made repeated statements about the Socially Owned Cooperatives having over 200,000 hectares of land poorly used. Lobbying with the MAFWM has raised the awareness of this issue.

**Future Plans:** Work more closely with the new government formed after the May 11<sup>th</sup> elections and work with agribusiness associations to bring awareness of this issue so to speed up the process of privatization of GOS owned agribusinesses and socially owned cooperatives.

#### **Credit --Agricultural and Business Financial Constraints**

The following problems have been addressed on a company by company approach as well as forming working groups to expand the use of int'l food standards so to boost value added sales and gain market access to import markets requiring these standards.

#### **GOS Banking Laws and Regulations**

The Serbian government and Central Bank have for a long time restricted the bank licenses granted to institutions, so the Opportunity International (OI) had to wait almost 5 years to get a bank license to operate as a bank. Although the GOS banking legislation and implementing regulations have improved, they have a long way to go to make Serbia a competitive market. For example, there is no open market for foreign exchange, with only a limited GOS sanctioned "Inter-Bank" foreign exchange system, whereas the Central Bank able to buy and sell foreign exchange. Other arcane legislation limits who can sign for bank accounts for companies and making accounting costs in both time and monetary costs inordinately expensive and less competitive than in neighboring countries such as Romania, Croatia, and even Montenegro.

**Issue:** The slow rate of privatization of State Owned Farms (Agrokombinants) and socially owned cooperatives limits production in to supply local market and export demand.

**Actions Needed:** Further support the MAFWM and GOS to enact laws promoting a faster rate of privatization of GOS Akrokombinants and socially owned cooperatives.

**Results:** The current Minister of Agriculture has made repeated statements about the Socially Owned Cooperatives having over 200,000 hectares of land poorly used. Lobbying with the MAFWM has raised the awareness of this issue.

**Future Plans:** Work more closely with the new government formed after the May 11<sup>th</sup> elections and work with agribusiness associations to bring awareness of this issue so to speed up the process of privatization of GOS owned agribusinesses and socially owned cooperatives.

#### **Land Titles for Loan Usage**

**Issue:** Agribusiness and farmers rely heavily upon land titles for securing loans and investment making decisions. Unfortunately, the old system of land titles makes them very difficult for most bankers to accept as collateral for loans, particularly in municipalities in

Central and Southern Serbia where the Turkish land registry system was difficult at best (compared to the Vojvodina land registry with the Austrian Hungarian land title system still very much clear cuts since before World War I in place). simply restricting.

**Actions Needed:** Further support the MAFWM and GOS to enact laws and procedures to promote a faster rate of clarification of land titles.

**Results:** The Project has met with the GOS on this issue, and the current Minister of Agriculture has made repeated statements about unclear land titles causing problems in parts of Serbia. Lobbying with the MAFWM and agricultural associations making statements to the press has raised the awareness of this issue.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and work with agribusiness associations to bring clarify land titles.

### **Ware House Receipts (WHR) Loan Mechanism**

**Issue:** WHR Law Not Passed Nor on List for Parliamentary Enactment. Also needs appropriation to enforce & police so the WHR bank notes are backed by real stocks.

**Actions Needed:** Adopt drafted WHR Law and finance its implementation via a policing system to verify that stocks are still in place as assets to loan against.

**Results:** The Project Sent Forward Info. From Emerson's 2006 Report on WHR from USAID-USDA Ag. Committee. The Ag. Ministry formed an official "Working Group" which the Project may work with to favorably influence the situation.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and work with agribusiness associations to pass the WHR law and appropriate money for its enforcement and policing.

### **Subsector Specific Trade Policy Issues**

The agricultural subsector policy issues are listed under the six value chain (VC) subsector sections, covering (1) vegetables, (2) deciduous fruit, (3) berries, (4) wild (and cultivated) mushrooms, herbs and spices, (5) dairy, and (6) livestock.

**Vegetables** – For this Subsector, the issues are mostly “Cross Cutting” trade policy constraints to growth issues. However, UPOV and organic vegetable trade policies loom large as specifically big issues in the sector. Although UPOV and Organic issues are cross cutting, the newer varieties are critically needed in the vegetable subsector (such as for potatoes) and Organic vegetables are already being exported, and are constrained by inputs.

#### **UPOV Seed Law – Big for Veggies**

**Issue – UPOV Seed Law:** Adopt Int'l Std.'s of "Union of Protection of Varieties" (UPOV) The Law on Plant Variety Protection (LPVP) is basically an “Intellectual Property Rights” (IPR) issue which allows developers of patented plant genetics, or new plant varieties approved by UPOV, to sell to Serbia without problems. Without Serbia joining UPOV, most of the newer plant varieties have not allowed to be sold to agribusinesses in Serbia because of patent infringement problems. Thus, agricultural plant yields and quality remains relatively low so that many agribusinesses have lower profitability are less competitive due to low crop yields and higher costs of production. The UPOV authorization law has been on hold for several years.

Unfortunately, the LPVP has been on hold for several years. The LPVP Law was never submitted to the GOS Parliament, since draft wasn't fully compliant with the UPOV

Convention. During the State Union there had been some issues related to the competences and manner of implementation of the Law,

**Actions Needed:** Adopt Int'l Std.'s of "Union of Protection of Varieties" (UPOR). We shall work with the Vegetable Agribusiness Subsector of the Serbia Fruit Association so to move it forward in a new government.

**Results:** The Project has discussed the issue with the Agricultural Ministry and the agribusiness sector. The Serbian fruit and vegetable associations are actively lobbying for the modifications in the earlier drafted law. However, we will have to wait for a new government to form a new Ag. Ministry "Working Group" so to draft a new law for submission to a new GOS Parliament.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and work with agribusiness associations to pass the WHR law and appropriate money for its enforcement and policing.

### **GOS Import and Export Policies for Vegetable Organic Industry – Organic Chemicals**

**Issue:** The list int'l chemicals used as pesticides or organically approved fertilizers are not up-to-date on the list of inputs approved for the import list.

**Action Needed:** Revise List of Inputs for Special Consideration since these inputs (e.g., copper sulfate as a fungicide used by organic farmers in EU countries) are not on the GOS list of approved vegetables.

**Results:** Discussed with Atle, MAFWM & Other Stakeholders. The project has identified stakeholders and organized them into working groups, mainly under the Serbian Fruit Exporters Association as an umbrella group to represent the industry in front of the GOS Agricultural Ministry.

**Future Plans:** We are continuing to lobby with the Agricultural Ministry that may be able to do this administratively.

### **Deciduous Fruit (mostly Cross Cutting Issues – But Plastic Palates a Big Issues)**

**Issues:** Deciduous fruit have almost all the cross cutting problems listed above. In addition, the Fruitland Association has focused heavily on the use of HACCP and EU approved Plastic Palates, which the MAFWM has not yet addressed.

**Actions Needed:** Work with Serbian Fruit Association to promote the import of low cost plastic palates for shipping Serbian apples and other fresh fruits to EU countries.

**Results:** The Project sent forward information to the Ag. Ministry. In addition, Serbian Fruit Association sent forward HACCP and EU Certification problems, such as EU approved Plastic Palette that cost about 100 Euros from EU (and double from Serbia, which does not produce them according to EU HACCP specifications). The Project began to form an official "Working Group" with the Serbian Fruit Association with which the Project may work with to favorably influence the situation.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and work with agribusiness associations to pass the WHR law and appropriate money for its enforcement and policing.

### **Berries (mostly Cross Cutting Issues),**

**Issues:** Berry fruit have almost all the cross cutting problems listed above (especially UPOV). In addition, the Fruitland Association has focused heavily on logistic problems.

**Actions Needed:** Work with Serbian Fruit Association to promote the Serbian exports of branded products and improve logistical problems for shipping Serbian berries to European and Middle Eastern countries.

**Results:** Discussed with Atle, MAFWM & Other Stakeholders. The project has identified stakeholders and organized them into working groups, mainly under the Serbian Fruit Exporters Association as an umbrella group to represent the industry in front of the GOS Agricultural Ministry.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and work with agribusiness associations to improve logistics, as supported by the GOS.

### **Wild (And Cultivated) Mushrooms, Herbs And Spices – GOS Quota System,**

**Issues:** Quota system for wild plants and mushrooms not functioning well

**Actions Needed:** Previously established quota system in many cases is based on non-realistic data; it is not flexible enough and often prevents involved parties to organize business in a more productive and transparent way.

**Results:** Work with collectors and processors' associations and facilitate negotiation with / provide assistance to Environment Protection Agency to improve quota system and monitoring.

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections). Discussed with Jovan Tucakov Assn., Josif Pancic Inst., EPA & Other Stakeholders Organize Stakeholders into Working Group. Organize Stakeholders into Working Group. New GOS , Environmental & Agriculture Ministry Consultations.

### **Dairy – GOS Monopoly Ruling Big Obstacle,**

#### **(a) Imlek Dairy Monopoly Issue**

**Issue:** GOS "Competitive Commission" Ruling on Monopolies Affects Biggest Dairy Competition Commission Found Imlek Guilty of Working as a Monopoly. Imlek claims it has changed its contracting policies. Reports unofficially indicate that Imlek should be sold off to 2 French dairy companies, one for milk and another for cheese, so to break up the market share.

**Actions Needed:** Avoid working with Imlek until USAID approves it. Work with smaller dairies in meantime to develop higher value "Niche" market products for local market and export, such as flavored Jogurt, Kajmak and specialty cheeses.

**Actions Needed:** Discussed with Ag. Ministry, Imlek, Other Dairy Processors, Holstein and Simmental Cattle Producers Association

**Results:** Organize Stakeholders into Working Group

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and form a more effective working group of dairy producers and processors.

### **EU Quota system for Dairy and EU Transshipment Problems**

**Issue:** The EU quota system for dairy administered for new EU countries will cut back Serbia's dairy production by half upon accession. Like in Spain when it joined the EU, there were 30% of dairy cattle culled back for EU Accession agreements with dairy imports to replace domestic products Serbia EU transshipment of dairy products to Russia is not functioning well either.

**Actions Needed:** Work with Agricultural Ministry and Industry Groups (such as Holstein and Simmental Association as well as the Dairy Processors Forum) to change system.



Work with Agricultural Ministry and Industry Groups (such as Holstein and Simmental Association as well as the Dairy Processors Forum) to change system.

**Results:** Organize Stakeholders into Working Group

**Future Plans:** Try to work closely with the new government (formed after the May 11<sup>th</sup> elections) and form a more effective working group of dairy producers and processors. Organize Stakeholders into Working Group.

**Livestock --** (mostly Cross Cutting Issues – But Veterinarian Issues a Problem.

**Issues:** Unfilled EU Beef Import Quota from Serbia, which now Stands at 8,800 for Serbia w/o Montenegro (MN); it was 10,000 tons with Serbia and MN. If Serbia doesn't fill it, it will lose it in future. This is worth much money and U.S., Argentine, and Brazilian beef exporters would pay good money to have this market access and fill the Serbian beef export quota.

**Actions Needed:** Expand Production of Competitively Priced High Quality "Baby Beef" which is reported to be perennially in Short Supply. Serbia needs to Fill EU Export Quota ASAP. Organize Beef Plants to Boost Production. Many Holstein bulls could be raised for "Baby Beef" as done in Netherlands. It is a "Use it, or Lose it" issue.

**Results:** We met with Ministry of Agriculture, and convinced the State Secretary of Agriculture, Dr. Milan Petrovic to form a working group. The Baby Beef Association is on-board, with exporters ready to join, as well as the Simmental Beef Cattle Association..

**Future Plans:** Hold a working group meeting in April and try to get the rate of production up and exports increased both via Baby Beef to Italy and Greece, and Halal Beef to France and Middle East.

SUBJECT: CATEGORY & ISSUE	Trade Policy Issues - Description	ACTION NEEDED	Oct-Mar	Apr-08	May-08	Jun-08
<b>A. CROSS CUTTING</b>	<b>CROSS CUTTING POLICY ISSUES</b>	<b>POLICY ACTION STRATEGIES</b>	<b>Work Done</b>	<b>In Progress</b>	<b>Work Planned</b>	<b>Work Planned</b>
<b>1. WTO &amp; EU ACESSION &amp; CEPTA ISSUES</b>	<b>MISSING INT'L STD.'s LIMIT EXPORT SALES</b>	<b>ADOPT WTO &amp; EU INT'L FOOD TRADE STD'S</b>	<b>----- Actions -----</b>	<b>----- Actions -----</b>	<b>----- Actions -----</b>	<b>----- Actions -----</b>
<b>A. -- EU Accession Requirements -- Require Market Information System (MIS), Accurate Production Data</b>	Serbia's MIS Still not up to EU Standards, without prices by quality grades & inaccurate production data.	Support Ag.Min./MAFWM & USDA Efforts to improve Ag. MIS and MAFWM Production Data based on New Ag. Census	<b>USDA &amp; Ag. Ministry Consultations</b>	<b>USDA &amp; MAFWM Consultations -- ID Possible Producer Assn. MIS Systems</b>	<b>Develop Producer Assn. MIS Systems with USDA &amp; MAFWM Support</b>	<b>Develop Producer Assn. MIS Systems with USDA &amp; MAFWM Support</b>
<b>B. -- WTO (and EU) Accession Veterinarian Law &amp; Follow-up Regulations</b>	Adopt Int'l Std.'s on Veterinarian and Animal Quarantine Issues -- SPS, Animal and Plant Health Issues Loom Large as Well as Enforcement for More Rapid Border Crossing (e.g., after hours and Weekend Customs Inspection Backups).	Pass and Implement Int'l (EU & WTO) Veterinarian Standards -- Remove Existing Non-Tariff Barriers (NTB's) based on Artificially Created "Scientific Quarantine" Issues Not in Compliance with WTO SPS Standards	<b>Agriculture Ministry Consultations</b>	<b>Agriculture Ministry Consultations</b>	<b>Ministry to Forward to Parliament</b>	<b>Ministry to Forward to Parliament</b>
<b>C. -- WTO (&amp; EU) Accession Plant Health Protection Requirements</b>	Adopt Int'l Std.'s on Plant Health and Quarantine Issues bringing up to EU and WTO Standards SPS	Adopt Int'l Std.'s of "Union of Protection of Varieties" (UPOV)	<b>Agriculture Ministry Consultations</b>	<b>Agriculture Ministry Consultations</b>	<b>Ministry to Forward to Parliament</b>	<b>Ministry to Forward to Parliament</b>
<b>D. -- EU Accession -- Formalize Trade</b>	Move from Grey Economy to Registering Trade - This will boost official employment and bring other benefits by modernizing the Serbian Ag. Sector.	Work with GOS to bring farmers into formal sector. A new Ag. Census should help, but policing the markets are needed, and this costs money and much political willpower since many people will resist the change (and extra taxes).			<b>Agriculture Ministry Consultations</b>	<b>ID-Problem &amp; Stakeholders</b>
<b>E. -- EU Accession -- Export Subsidies &amp; Import Duties</b>	Serbia's export subsidies and farm subsidies distort trade and are often against WTO rules. The arbitrary or unpredictable nature of these subsidies and their changes make it a risky market for foreign direct investment (FDI).	Change (Reduce Export) Subsidies and Lower Import Duties to Align with EU (and WTO) Std.'s			<b>Agriculture Ministry Consultations</b>	<b>ID-Problem &amp; Stakeholders</b>
<b>F. -- EU Accession: Pass Enabling Legislation</b>	EU Accession should bring modernization of Serbia's rural economy. However, much structural and economically painful changes must be undertaken before Serbia may become a member of the EU Common Agricultural Policy (CAP)	Laws Waiting in GOS Parliament -- Many Other Structural Changes in Serbia's Ag. Economy and Legislation Need to be made to bring it into EU (and for WTO Accession), such as transparent land sales/registration, paying farm supports based on landholdings/set asides, not production subsidies, etc.			<b>Agriculture Ministry Consultations</b>	<b>ID-Problem &amp; Stakeholders</b>

2. INT'L FOOD TRADE STD'S & CERTIFICATES	LIMITS LOCAL & EXPORT SALES	REFORMS & ACTIONS	---- Actions ----	---- Actions ----	---- Actions ----	---- Actions ----
<b>A. -- Global-Gap EuroGap Standards Adoption</b>	Lack of World Gap Certification limits exports. EU and other importers want EuroGap/World-Gap certification	Adopt Global-Gap Standards and Become Certified. But costly, such as plastic "Box Palates" are the biggest problem for fruit exports to EU	Contacted Ministry -- Its is on their Website, but not moving forward yet	ID-Problem & Stakeholders	Agriculture Ministry Consultations	Agriculture Ministry Consultations
<b>B. -- HACCP Certification Expansion</b>	Limits exports and domestic sales since importers and increasingly big super markets in Serbia want HACCP certified foods	Increase number of HACCP Certified companies by following up on earlier work.	Discussed with Fruitland, Atle, MAFWM & Other Stakeholders	ID-Problem & Stakeholders	Agriculture Ministry Consultations	Agriculture Ministry Consultations
<b>C. -- Organic or "Natural Foods" Certification or Branding</b>	EU and Other Developed Countries often do not Recognize Serbian "Organic" Certification Agencies. Obtaining Organic Certifications (or even "Natural Food" Branding) recognized by major supermarket chains, such as Tesco, would boost food exports tremendously.	Work with private sectors associations and super market chains to promote sales of value added "Natural Food" brands from Serbia and getting Organic Certifying Agencies working wekk with Int'l hypermarket chains				ID-Problem & Stakeholders
<b>D. -- Halal Certification for Exports &amp; Domestic Sales</b>	Halal Certification helps sales to Bosnia and Moslem Countries, which require it.	Boost number of companies doing Halal Foods and exports to Moslem countries.	Discussed with Moslem Society of Serbia about Certification & Export Plans	ID-Problem & Stakeholders	ID-Problem & Stakeholders	ID-Stakeholders & Organize Working Group
<b>E. -- Chamber of Commerce (COC) Monopoly</b>	Certificates of Origin -- Belgrade COC Only.	ID Problem, Form Working Groups & Lobby GOS	Sent Forward Letter to GOS from MEGA and Ag. Biz Projects	ID-Problem & Stakeholders	Working Group	Agriculture Ministry Consultations
<b>F. -- Chamber Overseas Offices -- Export Trade Promotion Use Limited at Best</b>	COC Overseas Office Uses -- Limited Access-- Not Useful to Most Ag. Exporters	Bring Up Issue with Minister of Agriculture -- but Fruitland says that this will do little to change the system since he was the former President of the Chamber and has vested interests in maintaining the status quo.	Discussed with Fruitland & Other Stakeholders	ID-Problem & More Stakeholders	Working Group	Working Group
<b>G. -- Other Certification Expansion</b>	Limits export to certain markets, such as UK, Japan, Israel, etc	Increase number of BRC, JAS, AIB, Kosheer etc. certified companies by following up on earlier work		Discussed with Berry Fruit processors	ID-Problem & Stakeholders	Agriculture Ministry Consultations
<b>3. AG. INVESTMENT</b>	<b>LIMITS PRODUCTION &amp; TRADE</b>	<b>REFORMS &amp; ACTIONS</b>	<b>---- Actions ----</b>	<b>---- Actions ----</b>	<b>---- Actions ----</b>	<b>---- Actions ----</b>
<b>A. -- Cooperative &amp; Farmer Association Laws</b>	Change Laws still in Draft Form -- Not Moving Forward in Legislature -- Restricting Farm Investments	Lobby GOS to Pass Law as Supported by New 2007 Constitution	Contacted Ministry -- Its is on their Website, but not moving forward yet	ID-Problem & Stakeholders	ID-Problem & Stakeholders	Agriculture Ministry Consultations
<b>B. -- Liberalize Animal &amp; Plant Genetic Imports</b>	Many improved plant and animal genetics are very hard to import and limit yields with old low yielding, slow growing plant and animal types.	Open Up Import Market & Reduce Non-Tariff Barriers	Met with animal genetics importers	ID-Problem & Stakeholders	ID-Problem & Stakeholders	Working Group
<b>C. -- GOS MAFWM Farmer Subsidies</b>	Reduce & Eliminate Trade Distorting Subsidies	Distorts Investment, Non-WTO Compliance, EU accession does not permit. EU pays for set-aside	Met with Dairy Cattle Farmers & Milk Processors	ID-Problem & Stakeholders	ID-Problem & Stakeholders	Agriculture Ministry Consultations

4. AG. & TRADE FINANCE	LIMITS INVESTMENT, PRODUCTION & TRADE	REFORMS & ACTIONS	----- Actions -----	----- Actions -----	----- Actions -----	----- Actions -----
<b>A. -- Ware House Receipts (WHR) -- Rural Finance</b>	After 3 years of work, the WHR Law is not even on the Official List for Parliamentary Enactment (see <a href="http://www.parlament.gov.yu/coment/cir/akta/predzakoni.asp">www.parlament.gov.yu/coment/cir/akta/predzakoni.asp</a> ). WHR Law also needs appropriation of GOS funds to enforce & police that "Paper WHR Assets" are still worthwhile bank notes backed by real food stocks.	Adopt drafted WHR Law and finance its implementation via a policing system to verify that stocks are still in place as assets to loan against.	Ag. Ministry Formed "Working Group"	Ag. Ministry Formed "Working Group"	Agriculture Ministry Consultations (consult with EBRD & Stakeholders)	Agriculture Ministry Consultations (consult with EBRD & Stakeholders)
<b>B. -- Update Land Real Estate Property Registers</b>	Land Titles are often not clear. Although some land is reverting to old owners prior to Tito Era Nationalization of Socialized Farming (all farmlands over 10 hectares were taken by the Tito Regime). Land titles are still not clear for many farmers and land sales system more often than not transparent.	Speed up property registration so that land titles are cleared up, which is more of a problem in Southern rural areas and for small farmers. With more transparent land sales, and a better established land sales market, this should favorably impact foreign and domestic investment in Serbia's farm sector.	ID and Report on Problem & Consultations with Stakeholders	ID and Report on Problem & Consultations with Stakeholders	Consultations with Municipalities, GOS Agencies, & Int'l Donors (WB/EBRD)	Consultations with Municipalities & GOS Agencies
<b>C. -- Moveable Property Registers</b>	No Std. Policy -- No GOS nor Bank Policy for this. Many countries consider tractors, harvestors and other expensive agricultural processing equipment as assets usable for lending purposes. Reports indicate that this does not really exist in Serbia	There is no system of "moveable property registers" although some authorities claim that banks in Serbia lend against tractors. The system needs to be brought up-to-date with a std. int'l "moveable property register" system for loan facilitation.	ID-Problem & Stakeholders	ID-Problem & Stakeholders	ID and Report on Problem & Consultations with Stakeholders	ID and Report on Problem & Consultations with Stakeholders
<b>D. -- GOS Export Subsidies</b>	GOS export subsidies (and export bans) distort trade and waste money in expenses that run counter to WTO & EU standards.	Reform of old subsidy system needs enacting, which was put in place to "transition" from old Tito Era subsidized "State Trading" companies to the free market system.			ID-Problem & Stakeholders	ID-Problem & Stakeholders
<b>E. -- Factoring Financing for Sales</b>	Farmers, Processors, Traders, Importers and Exporters have to wait up to 120 days to be paid for shipments and sales and often have cash flow problems. Bank and rural finance factoring is only in its infancy in Serbia, but works well in Hungary	Agribusinesses often have to wait for 120 days to get paid after selling their produce to supermarkets and retail store chains. This encourages sales to "Gray Market" middlemen who don't pay taxes, and often pay less but do pay on delivery. Factoring brings sales into the formal economy and has proved very useful in most other Eastern European countries that have transitioned from a "command and control economy" to a free market economy.		ID-Problem & Stakeholders	ID-Problem & Stakeholders	ID-Problem & Stakeholders
<b>F. -- Banking Regulations -- Liberalize Foreign Trade Financing</b>	There is no open market for foreign exchange, it is set by inter-bank transactions so that settlement in 90 to 120 days has a high exchange risk that cannot be hedged by a freely traded exchange rate, or Central Bank Risk minimizing mechanism.	Reform of Banking System to Allow Risk Management so that Sales in Euros (or US Dollars) are able to be hedged against foreign exchange movements. The EU will require this for Serbian Accession to EU.		ID-Problem & Stakeholders	ID-Problem & Stakeholders	Consultations with Banks, Local & National Gov't

B. SECTOR POLICIES	SUBSECTOR SPECIFIC POLICIES	POLICY ACTION STRATEGIES	Work Done	In Progress	Work Planned	Work Planned
5. Sectors Issues	LIMITS EXPORTS	REFORMS & ACTIONS	---- Actions ----	---- Actions ----	---- Actions ----	---- Actions ----
A. -- Vegetables						
(i) -- SEED LAW -- UPOV -- Adoption	Adopt Int'l Std.'s of "Union of Protection of Varieties" (UPOV)	Adopt Int'l Std.'s of "Union of Protection of Varieties" (UPOV)	Discussed with Serbian Vegetable and Fruit Associations and MAFWM.	On Hold until New Government. Ag. Ministry Cannot Submit New Legislation until New Parliament	On Hold until New Government. Ag. Ministry Cannot Submit New Legislation until New Parliament	Agriculture Ministry Consultations
(ii) -- GOS Import and Export Policies for Organic Veggies	List of Chemicals for Inputs Not Approved	Revise List of Inputs for Special Consideration -- these inputs are not on GOS List.	Discussed with Atle, MAFWM & Other Stakeholders	ID-Stakeholders & Organize Working Group	ID-Stakeholders & Organize Working Group	New GOS & Agriculture Ministry Consultations
B. Deciduous Fruit						
(i) Plastic Pallets a Big Issues for Exports to EU Markets as required by EU HACCP regulations.	Serbian Fruit and the Fruitland Association has focused heavily on the use of HACCP and EU approved Plastic Pallets, which the MAFWM has not yet addressed. The Agricultural Minister just said that they should produce the plastic pallets in Serbia, but no-one in Serbia has been able to do it so far.	Work with Serbian Fruit Association to promote the import of low cost plastic pallets for shipping Serbian apples and other fresh fruits to EU countries. Lobby Agricultural Ministry to allow imports of plastic pallets.	Discussed with Serbian Vegetable. Associations and MAFWM. Raised awareness of problem, which should make new government act upon it. However, Ministry should continue to be lobbied so to obtain subsidy for it (which they are giving for 50 to 60 coops)	Continue to Lobby Ministry and work with Serbian Fruit Association to Facilitate Plastic Pallets as a way to Diversify Exports to EU Markets	Continue to Lobby Ministry and work with Serbian Fruit Association to Facilitate Plastic Pallets as a way to Diversify Exports to EU Markets	New GOS & Agriculture Ministry Consultations
C. Berry Fruit						
(i) Plastic Pallets a Big Issues for Exports to EU Markets as required by EU HACCP regulations.	Berry fruit have almost all the cross cutting problems listed above (especially UPOV). In addition, the Fruitland Association has focused heavily on logistic problems.	Work with Serbian Fruit Association to promote the Serbian exports of branded products and improve logistical problems for shipping Serbian berries to European and Middle Eastern countries.	Discussed with Serbian Vegetable. Associations and MAFWM. Raised awareness of problem, which should make new government act upon it. However, Ministry should continue to be lobbied so to obtain subsidy for it (which they are giving for 50 to 60 coops)	Continue to Lobby Ministry and work with Serbian Fruit Association to Facilitate Plastic Pallets as a way to Diversify Exports to EU Markets	Continue to Lobby Ministry and work with Serbian Fruit Association to Facilitate Plastic Pallets as a way to Diversify Exports to EU Markets	New GOS & Agriculture Ministry Consultations
D. -- Mushrooms and Aromatic Plants (MAP)						
(i) Quota system for wild plants and mushrooms not functioning well	Previously established quota system in many cases is based on non-realistic data; it is not flexible enough and often prevents involved parties to organize business in a more productive and transparent way	Work with collectors and processors' associations and facilitate negotiation with / provide assistance to Environment Protection Agency to improve quota system and monitoring	Discussed with Jovan Tucakov Assn., Josif Panic Inst., EPA & Other Stakeholders.	Organize Stakeholders into Working Group	Organize Stakeholders into Working Group	New GOS, Environmental & Agriculture Ministry Consultations
E. -- Dairy						
(i) GOS "Competitive Commission" Ruling on Monopolies Affects Biggest Dairy	Competition Commission Found Imlek Guilty of Working as a Monopoly. Imlek claims it has changed its contracting policies. Reports unofficially indicate that Imlek should be sold off to 2 French dairy companies, one for milk and another for cheese, so to break up the market share.	Avoid working with Imlek until USAID approves it. Work with smaller dairies in meantime to develop higher value "Niche" market products for local market and export, such as flavored Jogurt, Kajmak and specialty cheeses.	Discussed with Ag. Ministry, Imlek, Other Dairy Processors, Holstein and Simmental Cattle Producers Association	Organize Stakeholders into Working Group	Organize Stakeholders into Working Group	New GOS & Agriculture Ministry Consultations
(ii) EU Quota system for Dairy and Transshipment Problems not functioning well	Work with Agricultural Ministry and Industry Groups (such as Holstein and Simmental Association as well as the Dairy Processors Forum) to change system.	Work with Agricultural Ministry and Industry Groups (such as Holstein and Simmental Association as well as the Dairy Processors Forum) to change system.	Discussed with Ag. Ministry, Imlek, Other Dairy Processors, Holstein and Simmental Cattle Producers Association	Organize Stakeholders into Working Group	Organize Stakeholders into Working Group	New GOS & Agriculture Ministry Consultations
F. -- Beef						
(i) EU Beef Import Quota	Unfilled EU Import Quota, Now Stands at 8,800 for Serbia w/o MN. If Serbia doesn't fill it, it will lose it in future. This is worth much money and U.S., Argentine, and Brazilian beef exporters would pay good money to have this market access and fill the Serbian beef export quota	Expand Production of Competitively Priced High Quality "Baby Beef" which is reported to be perennially in Short Supply. Serbia needs to Fill EU Export Quota ASAP. Organize Beef Plants to Boost Production. Many Holstein bulls could be raised for "Baby Beef" as done in Netherlands. It is a "Use it, or Loose it" issue.	Met with Baby Beef Assn. & Major Meat Packers	Hold a working group meeting in April and try to get the rate of production up and exports increased both via Baby Beef to Italy and Greece, and Halal Beef to France and Middle East.	Working Group (Baby Beef Association)	Working Group (Baby Beef Association)

KEY -- Colors and Black/White Pattern		
STEPS -- ACTIONS (Usually in this Order)	KEY Description -- More Detailed	KEY Description -- Short Form
1st	Actions Taken (Past Months) =	Sent Forward Letter to GOS from MEGA and Ag. Biz Projects
2nd	Identify (ID) Problem & Stakeholders (ID Problem) =	ID-Problem & Stakeholders
3rd	ID-Stakeholders & Organize Working Group	ID-Stakeholders & Organize Working Group
4th	Strategy Adopted from Stakeholders Meeting =	ID and Report on Problem & Consultations with Stakeholders
5th	Contact & Lobby Ag. Min. (MAFWM) =	Agriculture Ministry Consultations
6th	Form & Develop Working Group (WG) =	Working Group
7th	Actions Taken &/or Results Expected =	Ministry to Forward to Parliament

## G. MEDIA

### Summary

The USAID Agribusiness Project relies on media coverage to generate interest among potential beneficiaries and also buyers of Serbian quality products. As witnessed below, all events have been well covered and generated tremendous interest. Over 50 requests for quotes have been received on the Serbia Fruits web site since the project started. Links to all stories have been provided to the CTO and USAID.

- **Major event marking the USAID Agribusiness Project kick off held on January 18, 2008 in Belgrade highlighted by the participation of H.E. Cameron Munter, the U.S. Ambassador to Serbia**

- Nearly 150 agricultural companies and farmers contacted the Project as a result of the event, got informed about details and connected with the Project sector leads
- Journalists from 30 national media outlets attended the event which resulted in best coverage ever of an USAID related activity

<http://www.emportal.co.yu/en/news/serbia/33182.html> (US starting two major new economic growth projects in Serbia) Jan 15, 2008

- **In coordination with SIEPA (Serbia Investment & Export Promotion Agency), USAID Agribusiness Project assisted to 25 Serbian agricultural producers and food companies to present their products at three major world trade fairs: Fruit Logistica (Feb 7-9, Berlin, Germany), Bio Fach (Feb 21-24, Nuremberg, Germany) and Gulfood (Feb 24-27, Dubai, UAE).**

- During the third week of January, USAID Agribusiness Project organized Sales & Marketing, Market Research and Media Outreach trainings for exhibitors from Serbia.
- Prior to the fairs, the Project assisted SIEPA and companies to prepare promo materials and invitations for potential buyers and to re-design web-sites
- Freshplaza.com, Trade Arabia.com, Business.maktoob.com, Ameinfo. Com and EUROFRUIT magazine are some of international media outlets that published stories about the fairs based on the Project made press releases

[http://www.freshplaza.com/news\\_detail.asp?id=15739](http://www.freshplaza.com/news_detail.asp?id=15739) (Serbian companies reveal secrets for today's healthy living) Feb 4, 2008

[http://www.freshplaza.com/news\\_detail.asp?id=16911](http://www.freshplaza.com/news_detail.asp?id=16911) (Serbia Brings a Flurry of New Organic Products to Biofach) Feb 21, 2008

<http://www.ameinfo.com/147764.html> (Gulfood Opens Tomorrow) Feb 23, 2008

[http://business.maktoob.com/News-20070423141865-GULFOOD\\_2008\\_OPENS\\_TOMORROW.aspx](http://business.maktoob.com/News-20070423141865-GULFOOD_2008_OPENS_TOMORROW.aspx) (GULFOOD 2008 Opens Tomorrow) Feb 23, 2008

<http://www.tradearabia.com/news/newsdetails.asp?Sn=ECO&artid=139100> (2,500 firms take part in Gulfood 2008) Feb 23, 2008

[http://www.freshplaza.com/news\\_detail.asp?id=17269](http://www.freshplaza.com/news_detail.asp?id=17269) (Serbian Super-fruit arrives at Gulfood) Feb 28, 2008

- **Since the beginning of February, the Project has started to send digest international market information to over 100 Serbian companies on weekly basis. Eight reports have been prepared and sent so far.**

- Subscriptions to FOODNEWS, EUROFRUIT Magazine, Fruit Produce Journal, Fruit-Inform and Ekonomist have been provided

- **The USAID mission to Serbia director, Mr. Michael Harvey, participated at the Project's initial marketing & sales training for 12 Serbian companies that are to participate at the 75<sup>th</sup> International Agricultural Fair in Novi Sad. The event was open to media representatives who reported about it in major national electronic and printed media.**

<http://www.emportal.co.yu/en/news/serbia/42635.html> (USAID supports Serbian agricultural producers) March 13, 2008

- **International media, Freshinfo, Freshplaza, Emportal, German Fruchportal, Foodnews, and Arabian Maktoob published reports based on the Project press release about Serbian National Association of Fruit Growers "Fruits of Serbia", supported by the Project**

<http://www.emportal.co.yu/en/news/serbia/43348.html> (Serbian agricultural producers together towards Int'l Markets) March 19, 2008

<http://www.fruchtportal.de/index.php?pid=1&action=read&id=9420> (Serbische Landwirtschaftserzeuger zusammen in Richtung internationale Märkte) March 25, 2008

[http://www.freshplaza.com/news\\_detail.asp?id=18517](http://www.freshplaza.com/news_detail.asp?id=18517) (Serbian Agricultural Producers Together Towards International Markets), March 19, 2008

<http://business.maktoob.com/News-20070423144819->

[Serbian Agricultural Producers Together Towards International Markets.aspx](http://business.maktoob.com/News-20070423144819-Serbian_Agricultural_Producers_Together_Towards_International_Markets.aspx) (Serbian Agricultural Producers Together Towards International Markets), March 19, 2008

[http://www.freshinfo.com/index.php?s=n&ss=nd&sid=45096&s\\_txt=serbia&s\\_date=0&ms=6.5445499420166&offset=](http://www.freshinfo.com/index.php?s=n&ss=nd&sid=45096&s_txt=serbia&s_date=0&ms=6.5445499420166&offset=) (Serbian grower link up) March 21, 2008

- **On March 31, the Project press release aiming to promote forthcoming 75<sup>th</sup> International Agricultural Fair was sent to major international magazines**

[http://www.freshplaza.com/news\\_detail.asp?id=19161](http://www.freshplaza.com/news_detail.asp?id=19161) (Serbia Hosts the Largest Agricultural Event in Southeastern Europe) March 31, 2008

<http://business.maktoob.com/News-20070423146199->

[Serbia Host the Largest Agricultural Event in Southeastern Europe.aspx](http://business.maktoob.com/News-20070423146199-Serbia_Host_the_Largest_Agricultural_Event_in_Southeastern_Europe.aspx) (Serbia Host the Largest Agricultural Event in Southeastern Europe), March 31, 2008

<http://www.einnews.com/serbia/newsfeed-serbia-agriculture> (Serbia Host the Largest Agricultural Event in Southeastern Europe), March 31, 2008

<http://www.news.koozi.net/2008/03/31/serbia-host-the-largest-agricultural-event-in-southeastern-europe> (Serbia Host the Largest Agricultural Event in Southeastern Europe), March 31, 2008

## H. ENVIRONMENT

### Summary

The project seeks to fill the gap between agricultural producers and higher-end markets by assisting value-added business initiatives. Although agricultural production remains mostly semi-subsistence in nature, there is evidence that farmers and processors are moving towards vertical integration down the supply chain. There is an increasing demand from individual farmers, producer associations, and small and medium enterprises for advisory services, marketing support and financial assistance. The major focus of the project would be to support the continued development of commercial activities by improving market linkages, product/commodity quality, competitiveness and capacity of Serbian agribusiness.

### Environmental Compliance

Proposed interventions:

1. Increased Efficiency and Competitiveness of Serbian Agribusiness
2. Improved Enabling Environment for Serbian Agribusiness

The objective of component 1 is to support agro-businesses to better link their production to markets. The component aims to support the efficient development of supply chains for commodities under previously assessed agricultural sub-sectors that have demonstrated market potential and to expand market opportunities through enhanced access to financial services and targeted business support. To better serve the emerging markets, productivity and efficiency of agricultural producers and the quality of production must be improved by developing a sustainable advisory system.

Pursuant to 22 CFR 216.3(a)(2)(iii), it's determined that the USAID Agribusiness project is not likely to have a significant negative impact on the environment unless noted otherwise for investments in agricultural and agro-industrial processing.

The Project will further contribute to the country's food security, hopefully contribute to the generation of foreign exchange through increased agricultural exports; through the various financed activities will significantly contribute to the alleviation of rural poverty.

In the past 17 years rates of chemical inputs in Serbian agriculture have been significantly reduced, resulting in cleaner watercourses, lower levels of soil contamination and relatively chemical free food, although residues in soil and water, and their effects, still remain. The Project could lead to an increase in the use of farm inputs but mitigation measures, extension services and trainings should minimize any potential impacts associated with these inputs.

The competitive sub-grants activity includes financing for infrastructure, value-added processing, and marketing investments. Therefore, it is likely that firm-level interventions will result in adverse environmental concerns or impacts. For agro-processing and other agribusiness enterprises, major concerns relate to effluent discharges and their impact on water quality, water use, disturbance of significant sites for biodiversity and cultural protection, and general health and safety issues. Another concern is the introduction of alien species and their effect on biodiversity, especially endemic species.

The major potential impacts associated with the agricultural inputs for small and medium scale farms relate to water and soil quality, soil erosion, salinization and resource loss. Increasing pesticide applications can lead to pesticide residue (including heavy metals) build up in the soil. Pesticides and fertilizers can migrate to both surface waters and groundwater resulting in contamination of these two sources and leading to damaged aquatic ecosystems and threatened health to downstream users. The seeds will demand further applications of chemical inputs, thus exacerbating the problem. (PERSUAP is under preparation) Livestock rearing in large numbers and in closed conditions, results in a concentration of animal waste that can contaminate both groundwater and surface waters and can lead to pressure on common public lands including forests. Loss of biodiversity and soil erosion can occur if livestock are not managed effectively

**Important Environmental Components**

Physical Components	1 Biological Components	2 Socioeconomic Components
<ul style="list-style-type: none"> <li>• Soil quality</li> <li>• Soil fertility</li> <li>• Soil erodibility</li> <li>• Soil organic content</li> <li>• Hydrological regime</li> <li>• Groundwater quality</li> <li>• Surface water quality</li> <li>• Topography</li> <li>• Land</li> <li>• Air quality</li> </ul>	<ul style="list-style-type: none"> <li>• Forests</li> <li>• Flora</li> <li>• Fauna</li> <li>• Forest habitat</li> <li>• Aquatic ecosystems</li> <li>• Livestock</li> <li>• Crops</li> <li>• Germplasm</li> </ul>	<ul style="list-style-type: none"> <li>• Culture</li> <li>• Employment</li> <li>• Income</li> <li>• Poverty</li> <li>• Gender</li> <li>• Education</li> <li>• Health</li> <li>• Migration</li> <li>• Waste disposal</li> <li>• Domestic water</li> <li>• Markets and marketing</li> <li>• Institutions</li> <li>• Associations</li> </ul>

To ensure that the goals of the USAID Agribusiness project are met, it is important from an economic growth as well as environmental standpoint that processes and documents such as Environmental Due Diligence (EDD) and Pollution Prevention Assessment (PPA) are adequately prepared for each processor, production facility selected under this project. Therefore, the provision of agribusiness development services (ABDS) shall specifically include technical advice and support for cost-effective, environmentally sound agricultural and agro-industrial processing technologies, with an initial emphasis on Clean Production. Apart of mandatory environmental compliance, the development and implementation of effective environmental monitoring programs by enterprises/processors or even producers especially in a vegetable, berry / tree fruit, and dairy sub –sectors will have value added for them as well. Better enterprise environmental data collection will help the management to understand the effects of the company’s environmental performance on profitability, market value and investment decisions. It will help increase efficiency in energy and resource use and the overall cost-effectiveness of the process, since good enterprise environmental monitoring provides useful information relating to energy use and materials flow.

**Potential Impacts – Extension Services (ABDS)**

The front line of the project's farm development activities will be the interface between farmers associations and the ABDS. Farmers are looking for good advice, that will likely include innovative techniques that increase productivity and at the same time minimize their costs in order to access higher- end markets . Extension officers providing traditional advice would not be promoting sustainable agriculture or environmental protection. It will be important that the ABDS supported through project by TA or complementary grants are enlightened to the environmental issues and that they receive training in the form of workshops on environmental analysis, protection and sustainable agriculture, good agricultural practice, IPM. An environmental and economic interest goes hand in hand a long part of the way: fertiliser planning, nutrient balance calculations and soil sampling are examples of measures which are directly profitable, while agro-environmental investments in storage capacity or improved spreading technology require subsidisation to be profitable.

**Cumulative Impacts ( Sub-grants)**

Considering the small size of most grants, it would be easy to dismiss the negative effects that each project might have on the environment. The other aspect of cumulative effects of the overall project is the accumulation of a large number of very small impacts over the full range of sub-projects. In order to prevent the risk of adverse cumulative environmental effects, a brief environmental analysis should be made of the portfolio every year and reported to the relevant authorities.

The formal environmental evaluation of grant applications is the key step within the whole procedure – the likely adverse environmental impacts of the projects submitted should be identified within this step and the relevant mitigation measures shall be proposed accordingly.

The evaluation is to be carried out as an integral part of the selection procedures concerning granting within the USAID Agribusiness project. The project proposals submitted by the grant applicant will be reviewed - in the framework of the overall evaluation of the project – also from the environmental point of view using the environmental eligibility criteria according to Reg. 216 procedure. This review will analyze the environmental aspects of the projects based on conditions of project implementation or other recommendations. Based on this review, the selection committee will determine, inter alia, obligatory terms for granting funds from the project, which shall be stipulated in the contract. The summary of the environmental evaluation of the projects selected for the support shall also serve as reporting tool.

The formal evaluation is triggered by the Environmental Compliance Application Checklist, that will be filled out and submitted by the applicant. The screening checklist has been drafted in line with the analysis of environmental impacts that are likely to occur.

Filling out the Checklist will be complicated for applicants with no experience in this area. It is therefore recommended to provide sufficient assistance to applicants in filling out the Checklists.

**Planned activities for a period April-June 2008:**

1.Reduction of inputs, including support for integrated production,



## USAID Agribusiness Project

TA on issues such as: pesticide management; traceability and record keeping; farm business management skills; environmental and social sound practices; basic food hygiene and sanitation; Capacity building of ABSP :basic GAP principles; IPM and integrated crop management; food regulation and market requirements for exports; packaging and post-harvest technologies; laboratories practices, sampling; environmental management; nutrient management

### 2. Support for conversion to and continuation of organic farming

TA in developing skills among project beneficiaries related to legislation, inspection, certification and labeling of organically-produced food; building capacity in socio-economic analysis and market strategy for organic agriculture; quality, safety and post-harvest handling of organic crops; principles of agro-enterprise; linking organic farmers to global market; marketing of agro-food products and organic products; emerging social economic issues in organic agriculture trade; international standards and guidelines: IFOAM basic standards, organic regulation in Northern countries (EU, USA, Japan etc.); Certification and accreditation schemes; Mandatory and voluntary regulatory systems; procedures of organic product importation in the EU. Auditing in organic inspection

### 3. Management aiming at the protection or enhancement of biodiversity

Planned activities:

Workshop on biodiversity in agriculture; associated biodiversity and their value; monitoring of biodiversity-economic evaluation.

### 4. Environmental policy affecting sub-sectors

Some of assessed environmental legislation and policy documents has set objectives, and to a lesser extent targets, for environmental management in the agricultural sector . However, most of these are not concrete enough to allow an assessment of whether they are reached or not and due to complex political, socio-economic and technical background that underlies the process of improving environmental integration in agricultural policy limits the possibilities for drawing firm conclusions at the time being.

## I. SUB-SECTOR REPORTS

### 1. BERRY FRUIT SUB-SECTOR

#### **Summary**

During the quarter, Agribusiness Project the berry fruit sub-sector lead continued his work on in-depth analysis and finalized revision/improvement of the initial Value Chain Assessment reports. Based on VCA findings and data collected, sub-sector strategies led by market opportunities and leading to solving problems satisfying markets were developed. The process was done in consultation with David Neven, DAI Agri-Food Marketing Economist. Within the berry-fruit sub-sector, the main strategy is for fresh sales and value added processing/production, which will receive the most of Agribusiness Project's assistance in the next quarter.

A sub-sector meeting FOR the Agribusiness Project to present VCA findings and recommendations and discuss future activities with sub-sector stakeholders, is scheduled for the 4<sup>th</sup> week of April. The list of meeting attendees and draft agenda are prepared for the meeting, and the agenda has been distributed to the VC's main leverage points: Serbian Cold-stores Association and Arilje Association of Private Entrepreneurs.

For the reporting period, an inventory of existing producer organizations and their needs assessments were done. Concurrently, as a result of a joint initiative of several Agribusiness Project's current clients and main stakeholders from fruit and vegetable production and processing, the National Association "Fruits of Serbia" was founded. Operating as an umbrella association for its members – growers and processors, the "Fruits of Serbia" will focus on supporting exports of fruits and vegetables from Serbia. Besides initial assistance in organizational structuring and developing its visual identity, the Agribusiness Project will also support the association in providing tangible and effective services to its members.

#### **Fresh berry-fruit markets:**

The project assessed production and marketing capacities of several producer organizations and companies throughout Serbia who are interested in entering sales of fresh berry fruit. After the evaluation, four POs and/or firms were selected to receive Agribusiness Project technical assistance to organize production, collection, distribution and marketing of fresh berry fruit in the Serbian market. Once the volume of production becomes sufficiently high, the project will assist the most advanced group(s) to place their fresh berry fruits on the international market, first in Germany, followed closely by the Netherlands and Russia.

The sector leader prepared a STTA SOW and selected the most suitable provider of STTA to fresh berry fruit growers, marketers and ABDS providers. A complete training program will be provided for producers, processors and cold stores in May, 2008.

With technical and market linkage support from the Agribusiness Project, three Arilje-based businesses teamed with an ABDS provider from Belgrade to develop a new supply chain for various fresh berry products. Besides the existing production of raspberries, blueberries and blackberries, the group is preparing to establish production of strawberries on 10ha in Arilje and neighboring municipalities. The

group developed an action plan and entered preparation of guidelines for strawberry growers. Future activities will be supported by Agribusiness Project through technical and marketing assistance.

**Market access:**

- The project was able to provide recent market information, including market trends and forecasts, to over 30 businesses dealing with berry fruit in Serbia.
- The Agribusiness Project assisted 13 berry-fruit processors exhibit their products at 3 international trade fairs. Total value of contracts reached during and after the fairs reached US\$ 12 million; Agribusiness Project staff will track down all deliveries and activities aimed at execution of contracts signed.
- The Agribusiness Project marketing team delivered 3 trainings in marketing for companies that participated at trade fairs abroad, as well as for those that will exhibit at Novi Sad Agricultural Fair (many of the companies are fresh berry growers and processors).
- Agribusiness Project staff provided advice related to development of web sites and promotional materials to 2 berry-fruit processing SMEs from Arilje.
- The project provided market linkages for several raspberry processors with buyers from Germany and Belgium; in South-West of Serbia these activities were conducted in close cooperation with SCOPES program. Due to a late season, there were not free frozen raspberries in stock at that time, so Serbian companies used these contacts to arrange negotiations for the 2008 crop.

**Assistance to ABDS providers:**

The sub-sector lead completed an inventory of existing ABDS providers dealing with berries and started their needs assessment. Based on the assessment, the program will continue to work with existing and newly established ABDS and initiate a training program for selected ABDS providers.

- Software specially designed by an IT company from Nis for berry fruit processors and cold-stores was reviewed and analyzed with its producer. As a unique product on the market, the software is designed to regularly and accurately track berry fruit reception, processing and distribution processes, and it is fully in line with HACCP requirements. Its functionality and potential improvements were discussed with several users – berry fruit processors. The establishment of joint steering committee that will work on unification of terminology used and propose needed improvements of the software is on-going.

**Assistance to diversification of production:**

As assistance to product diversification activities, the Agribusiness Project worked closely with Arilje Association of Private Entrepreneurs on planning and action plan development for protection of designation of origin (PDO) of Arilje raspberries. During the quarter the Working Group was established as well as collected analyses and studies that can provide useful data and findings and thus speed up the process. Future Agribusiness Project assistance will support marketing activities that will enable Arilje raspberry producers and processors to promote their products and thus benefit from PDO.

- The sub-sector lead identified plots with new varieties of berry fruit grown in Serbia. In cooperation with their owners, these orchards will be monitored by the sector lead and production results will be used for selection and recommendation of most appropriate varieties for Serbian climate.

- A completed list of berry fruit nurseries and started development of assistance program that will enable them to produce high quality seedlings at competitive prices for growers from Serbia and the Balkans.
- As a response of increased demand for cranberries in Serbia, the sub-sector lead conducted desk study of international market and prepared a brief guideline on how to grow, harvest and market the cranberries. The guideline was distributed to a group of POs/businesses interested in entering this kind of production.

**Certification program:**

During the quarter the Agribusiness Project continued the assessment of sub-sector's needs as well as of assistance provided by the GOS. In 2008, GOS assistance is exclusively intended for HACCP and GlobalGAP standards. Based on this, it was concluded that there is a need for Agribusiness Project's assistance for standards required for entering specific markets, such as the United Kingdom (BRC), Japan (JAS), Israel (Kosher) etc. To avoid overlapping with GOS subsidies, designing of specific interventions that will be implemented by Agribusiness Project in this field will be finalized in mid April, after the GOS puts in force all planned regulations.

**2. HERBS, SPICES & MUSHROOMS SUB-SECTOR**

**Summary**

By the very nature of this sub-sector, there is little available data that helps analyze the main characteristics and to understand trends in this industry. Therefore, during the quarter, Agribusiness Project continued to work aggressively with the sub-sector stakeholders to collect and analyze data which are used the Value Chain Assessment Review. In addition, research of global markets using ITC tools helped to understand world trends, Serbia's current position and main opportunities.

**Producer Group and ABDS Inventory**

During the quarter, the project worked to create (update) inventory of all producer organizations, institutions, ABDS providers and processors working in this sub sector as well as stimulate the buy-in to the analysis from the private sector. Numerous meetings held with individual companies, producers organizations and supporting institutions had purpose of stimulating buy-in to the analysis as well as to present the Agribusiness Project, discuss the current situation in the sub-sector, constraints and potential project ideas. The presence of many companies at International Festival of Medicinal and Aromatic Plants "05 Tea Festival" in Nis and International Exhibition of Medicinal Herbs "Nature Gifts" in Belgrade was exploited as a starting point for identifying industry leaders and ABDS provider. They will be used as leverage points by Agribusiness Project staff to organize group presentation of the sub-sector Value Chain Assessment as well as to receive feedback from the stakeholders on their needs and constraints they facing. Furthermore, a new sub-sector Value Chain Assessment presentation to stakeholders involved in medicinal and aromatic plants (MAPs) and mushrooms is planned for third week of April 2008.

**Needs Assessments Completed**

Based on the feedback, creation and analyzing the stakeholders' needs, as a goal in the past quarter, has also been achieved. Identified needs are: more knowledge related to market opportunities, modern marketing approach on company's level, adding value to products, growing vs collecting, trainings, certification (organic and GACP), functional association on national level as a leverage point for marketing, influence on the sub-sector policy issues and downward information dissemination.

### **National Association Needed Issues**

Work with Producer Organizations and a relevant authority, the Department for Environmental Protection, to improve the quota system has been ongoing. Being a sensitive issue, Agribusiness Project planned to facilitate in a process of including private sector, through national association, in institutional working body for determining quotas. The present national association "Dr Jovan Tucakov" is not functional and efficient enough to deal with above mentioned issues. The industry must establish a new (or to reorganize the existing) association on a national level. At meetings held with sub-sector stakeholders, assessment findings on the importance of good organization and cooperation among stakeholders, as one of the Assessment priorities, was well received. It is concluded that forming the new MAPs Association within Fruit of Serbia Association, as their sub-sector, is best way to do it. In addition this will be a good leverage point for other planned activities during the life of project. Agribusiness Project will continue work on this.

### **Standards and Certification**

The project has been actively involved in supporting standards implementation/certification through identifying business associations that need standards and training programs. Although several businesses (mostly exporters) keen to obtain certification, usually organic, were identified, additional effort needs to be done by Agribusiness Project to inform them about all benefits that could be achieved, all based on market trends/requirements identified in the assessment. At the moment, companies marketing products domestically are not fully aware of the benefits that niche markets can offer. In that regard, the Agribusiness Project invited "Qualitass Education" (an ABDS provider in the area of standardization and certification) to present to Project staff the latest trends in this area so they can pass on knowledge and stimulate buy-in on this particular matter. In addition, the Institute for Marketecology - wild collection department (IMO) from Switzerland, an internationally acting certification body with a highly regarded reputation worldwide, was contacted to offer IMO certification services which will certainly be of interest for companies in Serbia.

### **Market Opportunities**

While wild harvesting of herbs and spices has declined with the Government of Serbia (GOS) imposing increasingly effective quotas, increase commercial growing of MAPs is seen as a respond to evident growth of world market for Herbs. Being market oriented, Agribusiness Project see growing of MAPs as a long term goal to be emphasized as an answer to specific market needs or failures. Instead of simply increasing commercial growing, Agribusiness Project is focused on market linkages of Serbian companies with foreign buyers. To date, several activities were undertaken to increase exports. Florafarm Company from Germany sent a request for new suppliers of dried herbs, dried fruits and spices to SerbianFruit.com web site. The information request was passed on to 8 leading sub-sector companies. Agribusiness Project is facilitating negotiation of "SINS" GmbH, company with Serbian-German ownership and "Adonis", tea producing Company, to export final products to Germany (produced, processed and packed in Serbia) under a German brand name. Agribusiness Project is helping "Bilje Borca" to develop new products, including exclusive tea lines for export markets. They are provided with information on world trends in the area, good examples of packaging, labeling, distribution channels and competitiveness of their products abroad. The same company is approved to participate at Novi Sad Ag. Fair as Herbs, Spices & Mushrooms sub-sector representative to achieve their export plans. Only closed deals like above mentioned will provide exact information on specific herbs lacking on the market and companies capable to absorb additional quantities of commercially grown herbs.

Regarding wild mushrooms, Agribusiness Project is and will be focused on adding value to the products. At the moment 90% of wild mushrooms are exported but only 4.4% of the exports, in quantity, are sold as final product. As a result of exhibiting at Fruit Logistica Fair, supported by Agribusiness Project, “Pams” company was put in touch with buyers interested in retail packs that are ready to buy 120,000 USD worth of mushrooms. The company exported in bulk so far but is ready to transfer into value added retail packs. The project will continue to work on this issue knowing that there are many companies like “Natural Food” from Bujanovac a leading exporter of semi processed wild mushroom to Italy. They are interested in increasing end user product sales but they are afraid of upsetting their current bulk resellers and traders.

Cultivated fresh mushrooms do not have significant export potential since almost all of the mushrooms produced (90% is button mushrooms) are sold domestically through small retail shops and supermarkets. However, the latest information shows that China is reducing exports of their cheap button mushrooms due to low quality and increasing their domestic demand make opportunities for Serbian companies to penetrate foreign markets. In that regard, Agribusiness Project linked a Canadian importer with “Marni” Company from Krusevac and “Horticulture Consulting” Company from Padinska Skela to export marinated button mushrooms in cans to US under American company label. At the moment, they are waiting for notification from importers on quality of samples they sent. Business coordinated with “Marni” has been organized through the Agribusiness Project through an importer in Canada. The importer and buyer will be visiting Serbia in early May for quality inspection. Agribusiness Project will continue improving market driven production by implementing latest techniques and advice on technology for new production facilities. In addition, a survey of Serbian cultivated mushroom producers capable to produce marinated button mushrooms was conducted.

Although the Agribusiness Project is in the early stages of implementation, significant effort is made by marketing team to link Serbian companies with foreign markets. Supporting companies to attend international fairs resulted in several potential transactions, namely: “BMD” Company reported that they are in early stage of negotiations for the potential export of organic wild mushrooms and forest fruits worth \$87 000 to Switzerland and Holland, as follow up of Biofach Fair; “Marni” Company reported that they are in early stage of negotiations potential export of organic wild mushrooms worth \$155 000 as follow up of Biofach Fair; “Igda” Company reported that they are negotiating potential export of mushrooms and truffles worth \$270 000 to France, UK, Germany and US as follow up of Gulfood Fair; “Pams” Company reported that they are negotiating potential export of value added mushrooms in retail packs worth \$120 000 to UE as follow up of Fruit Logistica Fair. All these negotiations will be closely monitored and reported for next quarterly report.

Based on collected and analyzed data and market opportunities shown above, work with Herbs, Spices & Mushrooms sub – sector in next quarter, will be focused market linkage development aimed at increasing exports of value added wild mushrooms, increasing domestic sales and exports of semi-processed and value added MAPs, initiate export of marinated button mushrooms as well as helping exporters reach buyers expectations in terms quality and quantity.

One of the findings in past quarter is that forest fruit, mostly wild berry fruits, are very important but for berry fruit processing industry for diversification of their final products (various berry fruit mixture – frozen). Herbs, Spices & Mushrooms value chain stakeholders, beside collectors, are usually not

dealing with wild berry fruits so this segment should be considered as an opportunity for Berry Fruits value chain stakeholders, especially for processors and exporters.

### 3. LIVESTOCK SUB-SECTOR

#### Summary

The Agribusiness Project has carried out in-depth analysis of selected value chains. These value chain assessments provide the background and platform around which the strategy for the livestock sub sector value chains is developed. While the source, accuracy and range of data used in the analysis is as accurate as possible, some variation is seen dependent on who is consulted and what the source of statically data is. Nevertheless the strategy for livestock sector intervention is based on market driven needs and the identified constraints along the value chains and the market opportunities. The Agribusiness Project focus of intervention along the livestock sub-sector value chains is based on addressing constraints identified in the value chain assessment as well as contributing to market demand.

From the analysis conducted, the best approach for the livestock sub-sector is to intervene through specific Entry Points along the sub-sector value chains to facilitate increased competitiveness through improved productivity and quality of product, sub-sector investment, job stabilization and creation in rural areas. The strategy will focus on interventions, particularly in year one that can demonstrate project credibility, grab attention of the key industry stakeholders and their subsequent buy-in and create conditions for adoption of project support services (ABDS providers) by industry stakeholders along the value chain sub sectors.

The identified approach will capture and leverage key stakeholders buy in and the subsequent adoption and roll out of the technical assistance package by the stakeholders themselves along their supply chains, thereby achieving economy of scale in impact, replicability, sustainability and required leverage in the chosen sub sectors. The approach will also judiciously utilize the tools of grant allocation to enhance and create the market linkage, address constraints in the value chain

#### Initial Strategy

The focus for our initial interventions in livestock will be a sector where the former Yugoslavia enjoyed a dominant market share and one that can be re-established using a VC approach, linking baby beef meat buyers and the halal meat buyers with the producers and exporters from Serbia.

Our secondary focus will concentrate on policy to support the livestock industry through subsidies given by the government.

The strategy is primarily focused on achieving buy in of the main value chain stakeholders<sup>1</sup> in the select value chains of meat- beef primarily, then swine and lamb production. The rational behind this being that the Agribusiness Project by working with the key stakeholders can achieve greater leverage and economy of scale of intervention efforts resulting in the targeted leverage ratio of 25: 1. While this is an ambitious leverage ratio, the Agribusiness Project can achieve this by gaining access to key

---

<sup>1</sup> Stakeholders: The value chain assessments have identified the main players in the select value chains; these main players are referred to here as the key stakeholders and are essential to the effective and efficient functioning of the particular value chain. The choice of stakeholders with which Agribusiness Project will engage with will change over the LOP but the overall strategy is to achieve buy in among the key stakeholders in the select value chain and to leverage the often considerable resources of these stakeholders in improving the competitiveness of the value chain.

stakeholders in the value chains through specific entry points and through development of the value chain in conjunction with and in collaboration with the key stakeholders. The definition of these entry points is outlined below and primarily focuses on a market led approach and achieving project buy in and credibility by working simultaneously with two initial key entry points along the value chain.

### **Entry Points (Leverage Points)**

These two initial entry points identified as most appropriate for Agribusiness Project intervention are 1. at the Agri- processor level and 2. the Producer Organization level, and particularly where there exists an already established link between Processor and Producer Organizations. Agribusiness Project intervention at these levels is seen as a quick and appropriate means whereby the Agribusiness Project can rapidly gain access to the large processors and the producer organizations in the select value chains and develop with them a specific approach in the respective value chain that will strengthen the PO itself in its role as both a representative industry body, but also in its role as a service provider (capacity building of PO) to its members and the link with the processor and market.

The Agribusiness Project will in each of the livestock value chains, identify and work with representative producer organizations that reflect their importance in the sub sector and also have existing ties to the processing industry. The Agribusiness Project will select a number of PO in the livestock value chain (in dairy – Holstein and Simmental breeders association, in beef- the baby beef association, in sheep and goats, the Union of Sheep and Goat Breeders Associations of Serbia and in swine the association large producer organization, Potomac LTD.

The sub-sector lead has identified specific entry points to enable the Agribusiness Project to achieve entry in the value chain with the main stakeholders and thereby develop with these stakeholders intervention packages that focus on:

1. An improved regulatory environment,
2. Producer organization capacity development and improved supply chain management along with type and quality of product produced meeting market demands and
3. Support to market linkage development and
4. Support to agribusiness service provider development. (ABDS)

### **Markets**

The identified strategy will focus within each specific value chain on the development of the market linkage between the producer organization, processor and the market needs. In the case of the Beef sub-sector, the primary focus will be on the production of baby beef and the resumption of live exports market opportunities, particular in Germany, Austria and into Bulgaria and Russia. The strategy for the beef sub sector will initial focus on support to the baby beef producers organization and the large processing stakeholder

**Error! Objects cannot be created from editing field codes.**

Stokoimpeks, Lutra in developing a streamlined and stratified beef production system that meets the need of the market in Italy, France and Greece, the objective being to reach the EU quota allocation of 10,000 tons within 3-4 years from the current levels of 2,300 tons. At current prices (4.5 Euro /kg) reaching the quota of 10,000 tons will indicate a value of some € 45,000,000.00 by focussing on the baby beef market. In addition the strategy will over the LOP facilitate and support the key stakeholders in leveraging and creating an improved regulatory environment at the institutional level (policy advise )in adoption of appropriate measures by GOS to further strengthen and improve competitiveness of beef sub sector.

In the case of lamb and goat production this will focus on support to the Union of Sheep and Goat Breeders Associations of Serbia and in building up their capacity to develop services for its members, including a market information service along with developing streamlining and segmentation of production systems to meet the different market demands for Halal, lamb for Greece and lamb for Italian market. An estimated buy of approximately 2000 tons of lamb for the above markets, based on current estimated prices of €5/kg would indicate a value of some €10,000,000.00 to be achieved through interventions in support of increasing the availability of lamb for the Italian and Greek markets and through organization of a stratified production system for these specific markets. In addition specialty sheep and goat chesses are a niche market opportunity that can be developed in conjunction with specific targeted geographic areas as well as with specific dairies. The support to geographic source of origin and to branding is seen as a market opportunity that can be further developed through the Producer Organization. The Agribusiness Project would target the initial entry point through the well recognized and respected Union of Sheep and Goat Breeders Associations of Serbia which has some 3,000 members and represents some 60 member organizations. This will allow Agribusiness Project to develop and work with a key stakeholder to develop the mechanisms and systems necessary to achieve market led opportunities.

The Agribusiness Project has to date carried out all selected activities planed in the Gantt charts in the chosen value chains in the livestock except the trainings in three regions because, the grant manual has been approved recently.

The plan for next six months to work on is, linking baby beef meat buyers in EU and the halal meat buyers in EU and in Middle East with the producers and exporters from Serbia. Agribusiness Project will also work on policy to support the livestock industry through whole set of subsidies given by the government

### **Future Focus**

In the case of the swine value chain, key constraining factors are the strong seasonality and cyclic nature of the production process, dependent to a great degree on the seasonal variable cost and feed basis of arable production in any given year. The Agribusiness Project intervention in support of the swine sector will focus initially on the entry point of producer organization and in larger key stakeholders such as POTOMAC ltd. The rational behind this being that the swine sector is particularly constrained by the current policy on vaccination for swine fever, which does not allow for export market outlet. With the domestic market as the main market, official consumption can be improved by introduction of better quality product to the market and the adoption of payment system based on meat units as opposed to live weight. This will allow for a concerted improvement program that will see increased competitiveness in the sector and the ability of producers to meet a more stringent market need and criteria. The Agribusiness Project can impact positively the swine sector industry by 1. supporting regulatory changes through support to producer organizations and 2. through improved market linkage by support to development of competitiveness of production, improved genetic material and improving carcass grading and payment system, based on adoption of meat units as a criteria and raising the percentage meat units to 62%?

## **4. TREE FRUIT SUB-SECTOR**

### **Summary**



## USAID Agribusiness Project

In the project's first quarter, Pedja Cerovic Sector Lead and Agricultural Development Officer (ADO), conducted extensive fieldwork research interviewing value chain actors, reviewing available literature and data, identifying chain dynamics and major constraints and recommending solutions.

During the second quarter, following the launch of VCA draft reports, the tree fruit sub-sector lead continued to work on database finalization of sub-sector stakeholders and identification of new points of leverage. Further in depth VC analysis and commodity-specific market research was conducted and over 25 additional stakeholders interviewed bringing the total number to 50. As for the work plan, activities in the second quarter were also focused on: needs assessment of selected key chain actors, VCA strategy revision, developing top commodities action plans, increasing marketing capacities of existing PO's and enterprises, and facilitating consolidation of newly established PO's.

Further findings revealed that Agribusiness Project should focus on commodities offering the greatest potential for export growth over the project life, such as fresh apples and stone fruits. Local demand is limited and already satisfied by domestic supply while imports are stable covering only short off-season periods. By exporting and being recognized at the international market as a reliable supplier of high quality fruit, Serbia will be able to maintain and increase trade surplus in agricultural products. The project will build upon the growing export market in Russia and diversifying sales outlets via CEFTA and EU market channels. Other than export markets, the project will support industry efforts for growing sales values going into Serbian supermarket outlets. For retail marketing in the region, the project will also focus on dried fruit, juices and fruit preps.

The USAID Agribusiness Project will continue to work more aggressively with stakeholders in this supply chain with a view to its market driven and results-oriented nature.

### **Marketing and Association Development**

The Agribusiness Project continued meetings with the **"Fruitland" Association** of tree fruit cooperatives on several different levels that disclosed some serious issues that cut across commodity groups. Fruitland's 10 cooperative leaders pointed out that they still have problems in consistency in meeting buyer specifications on quality and even quantities of fresh apples and plums. Assistance is needed in the consolidation of Fruitland's offer and improved joint market access connecting directly with importers in Russia (e.g., avoiding brokers and middlemen). Clients stressed a need for better access to finance since current packages offer unfavorable interest rates. They would like to see changes in Bank loan policies and government sponsored production subsidies. There is a need to create funds for financing interest on farm loans (for irrigation systems, netting, etc.). The Agribusiness Project prepared Fruitland's manager for participation at Fruit Logistica (Fresh Produce) trade fair in Berlin in February, providing sales and marketing training. During the exhibition, Agribusiness Project facilitated negotiations with a Russian buyer which led to a contract worth 1.5 US\$ million. Following the outcomes from the trade fair, "Fruitland" identified a value chain gap in their organization that has made negotiations with foreign buyers hard to close. There is a lack of networked daily database on available stocks of fresh fruit stored in eight cold stores of member cooperatives (quantities, varieties and grade standards). To remove this constraint "Fruitland" designed grant proposal for introduction of specific tailor made software for supply chain and inventory management of cold stores. Agribusiness Project will further work to enable clients' better positions in negotiations with foreign buyers.

Agribusiness Project assisted the formation of the new Serbian fruit and vegetable growers' **national association "Fruits of Serbia"**. There was no industry based association in Serbia that is strong



## USAID Agribusiness Project

enough to lead the effort to promote the fruit and vegetable sector abroad. The first national association of fruit and vegetable growers will represent the members' interests before the government and other bodies with the aim of improving fruit and vegetable production and product promotion. The association will work on establishing national quality standards and geographical origin for Serbian fruit and vegetable products to be promoted and recognized in foreign markets. It will also insure a continuous presence in the market through consolidated and increased volume of their products, do direct business with chain-store and hyper-market buyers eliminating the middleman. The first steps identified as priorities are: (1) creating an association logo and trademark of Serbian fruit and vegetable products; (2) designing and posting association web-site; and (3) educating producer groups/exporters in marketing. Until the association becomes self-financed, assets will be provided from membership fees and in the first two years through support of the Ministry of Agriculture. In addition, the Serbian Chamber of Commerce assisted the association by providing office space in Belgrade free of charge. The long-term plan is that "Fruits of Serbia", supported by the Serbian Government, opens offices in Moscow, Prague and Berlin, which will survey market trends and work on promoting Serbian fruits.

The Agribusiness Project delivered to a presentation on development strategy to the association managing board of "Fruits of Serbia". Members of the managing board were acquainted with different successful models of worldwide national export associations and instructed how to establish internal hierarchy and organizational structures. The Project advised the association on work plans for first year priority activities and presented a draft budget for consolidation of export promotion efforts and establishment of export quality control agency. The Agribusiness Project and the newly formed national association have agreed on preliminary funding to assist them with logo preparation, taking over the Serbia Fruits web site and preparing the association's first promotional activities at the international fairs in 2008. To strengthen the association's capacity to supply members with market information services, Agribusiness Project will provide their staff with ITC market analysis tools training. Furthermore, the Agribusiness Project sub-sector leads will assist "Fruits of Serbia" corresponding sections in defining their sub-sector strategies. Project will continue to provide support in association development particularly in market linkage and establishing the long-term supplier relationships.

As per our work plan, the Agribusiness Project engaged the assistance of Michigan State University's tree fruit STTA Dr. Mirjana Bulatovic, MSU District Extension Educator. Ms. Bulatovic, Graham Dale and Pedja Cerovic, conducted a number of site visits to key actors of the tree fruit value chain, to gather additional information required for further refinement of strategy for the sub-sector and commodity action plans. Tree fruit STTA provided a report on stakeholder inputs and recommendations for selection of commodities those have potential for rapid market growth. Ms. Bulatovic recommended areas for further assistance to improve quality and competitiveness of Serbian fruit products at the growing export markets. During the stakeholder visits, Ms. Bulatovic delivered a vocational training to coop representatives and extension workers how to improve the yields and quality of fruit using new agro-technical measures and discussed about results achieved through provided training materials and extension advices under her previous engagement in USAID and USDA programs.

Sector lead held meetings in Topola and Cacak with managers of three cooperatives, members of Fuitland Union (**"Domacin"-Topola, "Cacanska Jabuka"-Cacak, and "Ari-Nova"-Arilje**). Cooperative leaders pointed out that they still have low yields of medium quality fruit to export, and there is a potential danger of losing market share in Russia due to competition from EU countries. As mentioned above, they are participating with "Juzni Banat" and other stakeholders in the founding of a



## USAID Agribusiness Project

National Association for “Fruits of Serbia” that will work on Serbian quality standard for export. Assistance is needed in connecting directly with importers and supermarkets in Russia. Project will provide support through the “Fruits of Serbia” association.

The project conducted a site visit to **Industrial Factory Farm (IFF) “Juzni Banat”** from Bela Crkva, the biggest company involved in primary production and export of fresh fruit and the main force driving the growth of the tree fruit sub-sector. General Manager of “Juzni Banat” pointed out that the quality of produced fresh fruit is the main constraint for further growth of export value. Assistance in how to obtain a proprietary for domestic production of certified virus-free nursery plants of mainstream and club varieties is a prerequisite for improved quality. Ms. Bulatovic suggested employing an international expert from California (USA) to conduct training of trainers regarding royalties in the world nursery industry and other relevant issues to boost domestic production. Agribusiness Project supported company exhibition at Fruit Logistica trade fair in Berlin in February, providing sales and marketing training. During the exhibition Agribusiness Project facilitated client in negotiations with buyers which led to contract worth. US\$ 1 million...

**Buyer Linkages:** Project linked two Serbian cold stores, producers and processors of frozen sour cherries with German buyer “Volkmar Frenzel” company from Leipzig ([www.frenzel-tk.de](http://www.frenzel-tk.de)). The German company sent an inquiry to the Agribusiness Project via the Serbian Fruit website for Serbian frozen sour cherries which was passed to “Juzni Banat” and “Sigma AZ”. “Juzni Banat” made a large acquisition last year, buying a state owned company from Zajecar with 1,600 ha of orchards and cold store of 1,000 tones capacity with main focus on production and processing of sour cherries as a new business activity. They addressed the need for project assistance in market research and buyer linkage support for frozen sour cherries as a new company product. They will also need technical assistance in creative redesign of retail packaging for fresh fruit, to boost sales at retail level. Both companies will inform the project about completed sales.

### Agribusiness Development Services

**ABDS linkages:** Project linked “**IGDA Impex**” company, exporter of fruit and wild mushrooms, with ABDS providers of BRC certification. Four certification bodies that are active in Serbia were recommended by the Project on the IGDA’s request. Company will go with introduction of BRC (British Retail Consortium) certificate to satisfy market requirements that they have from buyers-retailers in Great Britain.

**ABDS linkages:** Israeli company **Avital**, international ABDS provider, presented assistance packages for producer organizations. Company offers innovative and market-oriented agro business solutions for the greenhouses and field production and it has been known as representative of Netafim a worldwide known producer of irrigation equipment. Avital works closely with Serbian financial institutions to provide businesses with tailored financing packages for irrigation projects. Project will assess their capacity and recommend them as a service provider to producer organizations, agribusinesses and farmers entering export markets. Avital will link their current and future clients with the Project for assistance in marketing and sales.

**ABDS linkages:** **Morena doo Nis**, an engineering company for design, development and implementation of IT solutions in agriculture presented the Agribusiness Project with software, named “Frutis”. The program is designed for traceability tracking of incoming fresh fruit and cold stores management. It supports HACCP and GLOBALGAP standards and becomes prerequisite for export of

frozen fruit at retail EU markets. Only four coldstores in Serbia are using this program. The project will link the Serbian Association of Coldstores with Morena ABDS provider to determine common standards and terminology for cost-effective use of Frutis software.

### **Fruit Enabling Environment Component**

The sub-sector lead assisted MAFWM officials in preparation of the anticipated **Regulation on grants program for cooperatives** providing set of eligibility criteria based on experience from previous agricultural grant projects implemented during the CRDA program. The Ministry of Agriculture announced that in the last week of March a bidding process should be launched for awarding grants intended for development support to producer organizations and the amount of 2.5 million US\$ was allocated from the budget for that. It is expected for 50-60 agricultural associations to win the grants, 95,000 US\$ each, intended to production improvement and better appearance at market. Project will optimize grant activities by providing assistance to identified tree fruit PO's in preparation of proposals and awarded PO's in market access and buyer linkages support.

The project worked with Miladin Sevarlic, PhD Professor from Institute of Agroeconomics at the Faculty of Agriculture, and President of Association of Agricultural Economists of Serbia to identify priority areas for project intervention regarding **agro policy measures**. (1) New law on co-operatives on the national level that would define the co-operative as a commercial entity with special status privately owned by co-operative members. (2) Adoption of a special strategy for developing co-operatives, to define the place and role of co-operatives in Serbia's agricultural policy. (3) Government involvement in agriculture and food sector through current subsidy programmes should be reformed to encourage the development of commercial farms and cooperatives, and not to be use for buying of social peace in rural areas. (4) Reformed and improved extension and advisory services that support farmers and phytosanitary inspection services.

The Agribusiness Project met with General Manager of **Fruit Research Institute** in Cacak, Mr. Radosav Cerovic. The main concerns addressed are related to the policy issues regarding: (1) nursery production; (2) plant material certification; and (3) trade marking domestic varieties. Serbia is the member of the European Plant protection Organization as well as signer of the International Plant protection Convention. For Serbia to be included in international exchange and open market it has to adopt and implement all standards regarding plant protection and quality of nursery plant material. Part of that protocol is certification of authenticity and/or true-to-type and virus-free material and its maintenance and production of certified planting material. This requires forming a state certification body for quality control of planting materials of fruit crops.

## **5. VEGETABLES**

### **Summary**

The last six months of research and study of the market for fresh vegetables in the Balkans and in Serbia in particular has shown that the Serbian market with 7.5 million people represents one of the largest in the region and that imports of fresh vegetables (during and out of the season) is significant. The USAID Agribusiness Project is assisting vegetable producers in open fields and closed environments to improve their production and achieve higher yields through implementation of new agricultural production technologies to capture a greater market share of both the domestic and international markets for vegetables. Market share of locally produced vegetables will be increased and demand from mega market chains will be partially satisfied.

Our research in vegetable production has shown that the most important first steps to take in the sector are the following:

- Educate root crops vegetable producers, yields in this sector can be increased by 200 up to 400%;
- Help producers in closed environment to modernize their technology and cut the costs of production (heating) , which will result with more competitive price. Current production satisfies only 20 % of local market demand ;
- Inform and assist in creating modern packaging requested by a market to get properly packed final products which to bring additional revenue; and
- Assist cooperatives in preparatory arrangements regarding distribution/ consolidation centers.

### **Fulfilling Market Demand**

During the quarter, the sector lead was involved in researching and contacting a number of vegetable producers and organizations to create “groups” interested in similar or same types of production for whom training regarding increasing yields should be organized. This action was driven by market demand from super market chains whose supply managers expressed difficulties finding producers to provide them with good quality products throughout the year. For example, root crop producers in the region of Backa produce more than 60 % of total exports of onions although their yields are low compared to neighboring countries, Poland or other EU countries.

The sector lead connected vegetable producers (potato, carrot) with Biotrend Donato company from Novi Sad (salad, ketchup and dressing producer) for a forward contract to supply root crops such as potatoes and carrots throughout the year. The production of vegetables will be adjusted to the processors’ requirements.

A major focus for the quarter was researching and contacting vegetable producers in closed environments. 80 % of vegetables produced in closed environments are being imported from other countries (Macedonia, Turkey, Italy, Spain). These are not first class products which go to the EU market but lower quality and dumped in Serbia. Obstacles to this type of production are heating costs which are very high and due to cost restrictions, production heated by thermal water has been initiated which cuts the cost of production for 40%. Although these investments in technology have been made, there is a need for technical assistance in production.

The sub-sector lead was also involved in linking producers in open and closed production meet requirements regarding “mixed load” trucks export to Russian market. Small producers have had trouble exporting to Russia because they could not fill a complete container on their own. By consolidating loads, small producers can take advantage of the lower shipping costs to export.

## **6. DAIRY**

### **Summary**

During the quarter under review, the Agribusiness Project’s dairy component developed sector action calendar (see Gant chart no.1) for a first quarter of 2008, where most of the activities were related to improving the dairy strategy paper as a guiding mechanism for implementation of project activities. Although the Agribusiness project developed a dairy strategy paper in early stages of the project, the document was based mostly on the statistics, various reports, and interpretation of key interviews. The dairy sector lead often faced contradictory or incomplete data thus clouding its

interpretation of dynamics of the dairy sector. Furthermore, concentration of capital and market share in the dairy industry by Salford group raised issues how to proceed in directing strategy to avoid being involved in actions where Salford might directly benefit from. The first project response was to support small and medium sized regional dairies in Serbia to consolidate their positions on the market.

### **New Dairy Strategy**

Facing these barriers, the Agribusiness project found it important to focus its dairy strategy and implementation plan, in contrast to the develop strategy paper. It will have firm grounding based on the real situation in Serbia. To meet that goal, the Agribusiness project initiated activities to map and interview key stakeholders in 5 regions (based on regional differences) using STTA to help dairy sector lead cover all technical and other details in the survey. The primary focus is on identifying regional small and medium sized dairies and agribusiness development service providers as leverage points to implement a market driven strategy. Third, but not less important, are farmers/farmers' associations.

The ultimate goal of the activity was to turn actual findings into a concrete action plan, knowing who potential partners/beneficiaries might be and what results the project is targeting. It is also expected that regional surveys will help project to link all relevant stakeholders (Dairies, ABDS providers, farmers/farmers' associations) to ensure successful implementation of dairy supporting activities.

Looking forward on the activity calendar, the project anticipated activities that would strengthen the existing cooperation with US dairy expertise in Serbia, producer groups training and basic marketing activities.

Quarterly activities were based on mapping and interviewing stakeholders in five selected regions and other actions resulted from this activity. The dairy sector lead continued with activities which are in line with anticipated core action of the quarter, and met with the key stakeholders within dairy VC, to identify the points of intervention and mechanism to develop sound action plan.

Key interviewees were conducted with the SME Dairy Forum, Polimark, Imlek, Select Milk and Zlatibor dairies, ABDS providers: Taurus Agroconsulting, Maksi Farm Co, Agricultural Faculty of Novi Sad-livestock department, Serbian Ministry of Agriculture and Vojvodina Province Agricultural Secretariat, Holstein Farmers' Association of Serbia, US Holstein Association president Doug Meddow, dairy consultants working in Serbia, Dusko Markovic, Lindel Whitelock, and Gabriel Pascual, a USDA consultant.

Some of the potential partners/beneficiaries have already been recognized and the preliminary contacts will be followed in sector mapping activity, where concrete actions are anticipated. Starting from the most important leverage points:

### **Dairy Association:**

Dairy Forum – small and medium sized processors association are important in developing focused sector action. However, to date their association has not performed any significant activity to support sector growth and needs in depth evaluation and assistance.

### **ABDS Providers:**

Taurus Agroconsulting Company – a pioneering dairy consulting company with broad range of services including dairy selection measures and matting, farm management services, business planning,



## USAID Agribusiness Project

etc. The company is promoting US dairy expertise and has successful cooperation with World Wide Sires, US Holstein Association and Cal Poly University. Taurus is working closely with Zrenjanin and Vrsac municipality in developing and implementing Dairy Support Training Programs. Currently over 80 farmers are directly serviced by the company, whereas regional Vrsac Dairy is interested in using companies services for their farmers.

The Agribusiness project is developing a scheme to replicate successful Taurus Agroconsulting model in other regions. The ultimate goal is to create a nationwide network of Dairy ABDS providers during the project lifetime.

### **Farmers/Farmers Associations:**

Serbian Holstein Farmers Association – the Agribusiness Project and Taurus Agroconsulting facilitated a meeting with US Holstein Association President, Mr. Daug Meddoxx and Serbian Holstein Farmers Association. The purpose was to establish initial linkage and discuss options for cooperation. The Agribusiness Project is particularly interested in bringing the resources that would improve Serbian Farmers Associations prospects to serve the members and be a partner to the institutions.

### **Novi Sad Agricultural Fair:**

The Agribusiness project will promote 2 dairies at the Novi Sad Agricultural Fair in May 2008. Those are Zlatibor Dairy and Fontana Dairy from Presevo. The project held a marketing training for the purpose of the fair. The project also met with two dairies to get up to date practical knowledge on their performance and prospects. Both dairies are typical examples of regional dairies which are facing increasing market demand, but are operating with 50% of the capacity, as a result of lack of milk. It is obvious that strong linkages between dairies and ABDS providers-Farmers are crucial in creating an enabling environment for Dairy Sector growth. In addition, poor marketing strategies (ex. Fontana Dairy looks for new markets in Serbia, with a packaging in Albanian language) are another point of Agribusiness Project intervention.

### **Next Quarter Activities**

Third quarter activities are again related in extending the mapping and stakeholders interviewing in 5 regions in Serbia. It is expected that the completion of the activity within the quarter will identify at least 5 dairies and ABDS providers which will be a leverage point of intervention in whole chain, within designated regions. The project will then develop concrete activities along with selected partners/beneficiaries. Most important activities will be related to: improving sales both on farmers and processors' level, improving farm and dairy company management and logistics, supporting creation of viable ABDS network and promoting food safety standards.

### **III. SIGNIFICANT PROBLEMS ENCOUNTERED DURING THE PERIOD**

#### **Declaration of Independence by Kosovo**

The declaration of the independence of Kosovo caused minimal, but some, disruption to the project. We were not immediately able to secure the return of our marketing and sales expert from a trade fair in Dubai. Thanks to the efforts of our CTO, SO Leader and Mission Director, our expert did return after a minimum delay and resumed his functions.

Our head of Policy and Deputy Chief of Party was evacuated to Budapest with his family (and pet). We gave him our only vehicles as a means of evacuation and used public transportation here as a result. It did not hinder implementation at all.

Although we had been told that high ranking officials from Ministries should not meet with representatives of countries that had recognized Kosovo's independence, we have not had a problem meeting or speaking with persons as high in rank as State Secretary.

### **IV. ACTIONS TAKEN TO RESOLVE PROBLEMS ENCOUNTERED**

#### **Declaration of Independence by Kosovo**

Being out of our realm of influence, we were forced to wait and see how the situation developed. We were able to produce an evacuation plan before the event which will serve us in the future. Great thanks to SCOPES for allowing us unlimited plagiarism.

### **V. OBSERVATIONS REGARDING IMPLEMENTATION**

#### **Monopolies**

Salford group, which includes IMLEK, has been accused of being monopolistic and measures introduced in government to deal with them. We have changed our strategy to avoid working with monopolistic companies. We are concerned, however, that the some of the bigger super market chains may draw the same attention as we are also pursuing a strategy of increasing sales of fresh products through super markets chains by 2012 by 75%. Almost all of these chains are monopolistic, even if they have not been accused.

#### **Field Offices**

We are still convinced that a field office in Nis is not required. Even Novi Sad's regional office may be in question as we concentrate our dairy strategy on niche products from small and medium dairies. The saving grace may be the importance of vegetables in the Novi Sad region.

#### **New Elections**

We are observing some hesitation by the Dutch to go forward with their plans for three consolidation centers in the north. Even some associations are putting plans on hold as they wait to see what happens on May 11. How these elections will affect our implementation plans is of great interest to us and our new partners.