SERBIA CONTINGENCY PLANNING AND ECONOMIC SECURITY PROGRAM

FOOD PROCESSING IN NOVI PAZAR INDUSTRY SUB-SECTOR REPORT

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MAIN REPORT

FOOD PROCESSING IN NOVI PAZAR SUB-SECTOR REPORT

for

SERBIA CONTINGENCY PLANNING AND ECONOMIC SECURITY PROGRAM

September 2007

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Executive Summary

The food processing firms of Novi Pazar both closely resemble and are subject to the same trends and pressures as those in the rest of Serbia. They are, however, much further behind overall in adjusting to these trends. On the negative side, this means that they and the primary producers of the Novi Pazar municipality are considerably more vulnerable to changing market trends than those of other areas. Firms have considerable catching up to do as their existence is at risk. On the positive side, there are sound examples of firms in the rest of Serbia doing exactly what is needed to be done with very similar beginnings, inputs, technologies, and starting capabilities. Most of the recommendations put forth in this brief analysis reflect the need to do what is already being done in other parts of Serbia.

The analysis put forth here attempts to highlight the specific issues that Novi Pazar firms face. A much more detailed set of analyses on Serbian firms overall may be found in studies produced by the USAID Agri-business project run by DAI. The purpose of the current study was not to repeat that body of work, but to address issues in Novi Pazar.

This study covers the issues at the level of broad trends. The reasons for this are threefold. The first is that the report is limited in scope and budget and must cover a range of different sub-industries. The second is that the data is very poor and details on cost and supply are hard to verify. The third and perhaps more important reason relates to the rapidly changing environment at the level of details. The specifics of costs, capabilities, markets, and supply chains are in constant flux. However, they are in flux within the context of broader trends. It is more important to understand and be able to respond to those broader trends than to get involved in minute details on costs and linkages at any given point in time. Having a clear understanding of the trends allows program responses to be accurate in concept, and flexible in implementation.

The main recommendations put forth in this study have to do with helping firms in Novi Pazar respond to globalization and the changes being seen in markets from the international to the local. There is a decreasing distinction between the demands of local and international markets when it comes to quality and cost considerations. Improvements in trade regimes and transportation means that scale is increasingly important, even in niche markets and these expand spatially. Though much of the discussion revolves around the production firms, the main concerns relate to the primary producers that supply these firms. Currently, in order to maintain their livelihoods, a multitude of small farms and individuals rely on these firms’ ability to adapt.

I. Introduction

SCOPES is a multi-year project to improve economic security in Southern Serbia. The Project is funded by the United States Agency for International Development (USAID). The objective of this sub-sector study is to determine a menu of specific actions that the SCOPES project can undertake to improve economic security in the Novi Pazar area. The study then offers recommendations and some specifics related to implementation.

Project management and the USAID Mission have identified agricultural processing as a sub-sector for SCOPES to target in the municipality of Novi Pazar. Novi Pazar is at the center of a rural area where producers are engaged in a wide range of small and some larger scale agriculture based activities. Numerous families' livelihoods depend on the sector. The recommendations in this report are to be based on a sound understanding of the region, the sector, its potential, and constraints to success. Particular attention is paid to the sub-sector value chain and areas where this could be strengthened by SCOPES program activities.

At the inception of SCOPES, an extensive assessment was undertaken in order to select the areas in which the project would work. Novi Pazar municipality was selected on the basis of analysis of a range of indicators. A high concentration of Muslims (78 percent), geographic isolation, large number of youth many of which are unemployed or face unemployment, and potential rising tension with the resolution of issues in nearby Kosovo, all contributed to the municipality's selection in the program.

Agriculture, both primary and processing, is one of the most important sectors in Serbia in general, making up around 14 percent of GDP. Some 44 percent of the population live in rural areas. Though value-added has lagged many other industries, a significant part of the population still relies either directly or indirectly on agricultural production. Agriculture in Serbia is diversified, with a number of different though often overlapping value chains. Production is also highly varied in terms of value added, and ranges from primary production to more sophisticated processed goods.

With the exception of the north of Serbia where many large field crops are grown, the pattern of production is fairly similar around the country. Farms are small, usually family owned, often diversified, and produce either for local markets or sell to traders who move their output on for production or to larger markets. Producers range from small regional manufacturers, to large firms with a global reach. Most firms in the Novi Pazar area are of the former type and lag most other Serbian firms in terms of size, reach, and value added. While agriculture is slightly less important in Novi Pazar than in other parts of Serbia (10 percent of GDP), low productivity belies the importance in terms of household incomes in the largely rural municipality.

Given the diversity of agricultural production in Novi Pazar, this report focused on several different sub-sectors. While the treatment was not as detailed as would have been the case if focused on a single sub-sector, it was felt that it was important to cover a wider range of possible program activities. Much of the analysis is focused on how to bring the firms in the Novi Pazar area more closely into the markets that many firms in the rest of Serbia have benefited from. Given the nature of the firms and the informality of the Novi Pazar economy, there is very little reliable official data available. As such, this analysis relied largely on interviews with firms and with officials and others knowledgeable about the region.

II. End Markets and Consumer Demand

The impact of globalization means that distinctions between different markets are not as strong as they were. Prior to the period of sanctions in the 1990s, with some exceptions local processors mainly produced for local markets. When sanctions were lifted and Serbia began reintegrating into global markets, firms found that the situation had drastically changed. Those able to compete internationally found new markets. Those that were not, found their previously secure markets under attack as imports entered and as the demands of the domestic market started becoming as stringent as those of international markets. At the same time, consolidation, scale and higher efficiency among wholesalers and distributors means a trend toward fewer and larger winners. It may no longer be assumed that the local market will go to local producers. They must adapt to global conditions, or will be driven from business. Broadly speaking, the main markets for producers and their characteristics are as follows:

1. **Local Markets** consist mainly of a few remaining small, independent grocery stores and the green markets where many Serbs still shop for their staples.

   A number of the smaller processors, and some of the larger ones, have traditionally relied on these markets, especially under sanctions when they were more protected. Whether these markets will continue to be viable outlets depends on the type and level of value added of the processor. For fairly low level processors, such as basic cheese manufacturers, these markets are likely to remain significant, but still slowly declining and likely low profit. For manufacturers of preserved and packaged foods, over time these markets will be entered by larger, more efficient producers and consolidation is expected to occur. Threats can come from either larger Serbian firms, or imports. Small producers which do not meet the quality, attractiveness, and/or price points of imports into the region will struggle to survive.

2. **Regional Markets**

   Larger local and closer regional markets took in much of the production of the larger firms, especially during sanctions when access to other markets and imports were restricted. This includes both regional markets within Serbia, and areas close to the borders in Kosovo and Albania. The actual outlets include larger green markets, regional market chains, and some local branches of larger chains. Given the scale required and the increased standards even in many of these markets, smaller firms will have trouble unless they offer a very unique and targeted product. In these markets the effects of globalization are being strongly felt. Even smaller distributors and outlets may require HACCP and/or ISO certifications and may have good access to the products of larger, certified firms and imports.

3. **International Markets**

   International markets are increasingly important for all processors, yielding both opportunities and threats. On the one hand, Serbian firms have access to markets that they were previously shut out of. Though this does represent a good opportunity for the best firms, many Serbian firms are not well positioned to succeed in terms of quality, volumes, pricing and certifications. For the larger and some of the more specialty producers, many Serbian firms have made good progress recently in competing profitably in these markets. On the other hand, and more importantly perhaps for many of the firms in Novi Pazar, is the competition that comes from the newly opened markets. Even isolated local markets are not completely safe from competition from imported goods. Though many more isolated markets were slow to open up, there are few firms left that do not feel the effects of globalization. Finally, the standards of global markets are reaching local markets, forcing investment in quality and certifications.

As can be surmised from the above, the market environment is quite different from that which firm knew under sanctions and during the early years of opening up. The trouble that many firms in Novi Pazar are feeling is probably going to increase as markets open further. Some firms will be able to respond and expand. However, there is expected to be some consolidation and job loss in smaller firms that are not able to respond and adjust. The extent to which firms will be affected depends on a number of factors including the specific sector they are in. Market access issues will be discussed for each sub-sector below. A primary goal of the economic security component of SCOPES in Novi Pazar should be to improve the ability of local firms to respond to market signals and adapt to take advantage of opportunities and minimize threats.

III. Supply Channels

Supply channels can vary among the sub-sectors examined. Commonalities will be discussed here. Differences will be identified and discussed in the following section. In the type of rudimentary processing undertaken by firms in Novi Sad, the supply relationships are fairly basic. Raw food products are mainly purchased locally, though certain additives and ingredients may come from outside the region.

By most indications, there are not strong links between primary product suppliers and purchasers. Though there are exceptions, much of the raw product is purchased on a spot basis from a multitude of different and anonymous suppliers. Farm size is very small at an average parcel size of .62 hectares. There are few long-term relationships, and those that do exist are not formalized. This sort of relationship pattern was and is still fairly adequate for basic production. However, for more advanced, higher quality and higher value added production, closer coordination will be needed to ensure that raw product inputs meet more strict quality, quantity and delivery standards. Currently, there are few incentives for farmers to undertake costly quality improvement measures when uptake is not guaranteed at a higher price. Similarly, it is hard for producers to offer that higher price when quality and delivery are not consistent across all their producers. Contracting difficulties and information asymmetries are rife.

Supply issues are especially critical in the dairy industry, where milk supply is of extremely variable quality and reliability of supply is not at all assured. It will not be possible to produce for larger or more demanding markets until the supply is better regulated. The same issues can develop in fruit production, where the quality, variety and timing of supply are not responsive to market needs. A shortage of organic production and of certain kinds of varieties keeps products from receiving the premiums that they otherwise could. In some cases, particularly dairy and fruit production, the relationship between buyers and suppliers lacks trust and can verge on being hostile.

The non-primary material supply tends to be from larger firms that provide commodity products of consistent quality. For example, packaging including glass containers, additives such as sugar and emulsifiers, and fillings all tend to be adequate for the current levels of production. For more innovative products immediate suppliers may not be adequate, but alternatives are available further away. Most packaging including PET, paper, metal and glass are available. Some specialized service providers are notably lacking in the region. Package designers, testing laboratories, and food additive experts are harder to come by than in other parts of Serbia, and often much harder to come by than for competitor firms in other nations.

Relations between firms in the same horizontal tend to be negligible. There is little co-production, or cooperation, except in some regulatory issues. The latter noted exception tends to be in the protest against attempts by the central government to impose full taxation in the municipality, especially on labor. Most firms in a sub-sector use the same basic technology and are not highly innovative, making it difficult to determine the level of inter-firm learning that is going on. An exception may be in the rapid adoption of HACCP among even smaller rural firms in Serbia. This, however, may have more to do with aggressive Ministry of Agriculture and donor efforts. Even here, firms in Novi Pazar lag behind.

IV. Structure of the Sub-Sectors

The assessment of the Novi Pazar food processing situation was challenging. There was little to no opportunity for desk research, given the nearly complete lack of information on the companies or sector. Only one firm across all the sub-sectors even had a website and this was badly out of date. In addition, many firms operate largely or wholly in the illegal economy, so do not even officially exist. Though this situation is prevalent in Serbia, it is much more so in the Novi Pazar region. The ethnic distinction from the rest of Serbia has led also to the economy and regulatory environment being semi-autonomous from the center. As such, almost all information collected was from visits directly to firms in the field. While it is believed that the data is as accurate as possible, it was a challenge getting any sort of corroboration.

Each sub-sector has its own structure and set of issues. Covered here are dairy, meat processing, pastries, and forest fruits. That said, there were also some common themes running through the sectors that were related to management:

1. Lack of modern management skills by company owners and managers. In Novi Pazar companies, usually the owner is also the manager and is responsible for all tasks in the company. Their skills and knowledge were usually acquired informally and lag those that are normal in the rapidly evolving markets in which they sell.

2. Lack of modern food processing and evolving food market knowledge by the owners/ managers.

3. Lack of capability for production cost analysis and sound financial control, making access to capital problematic.

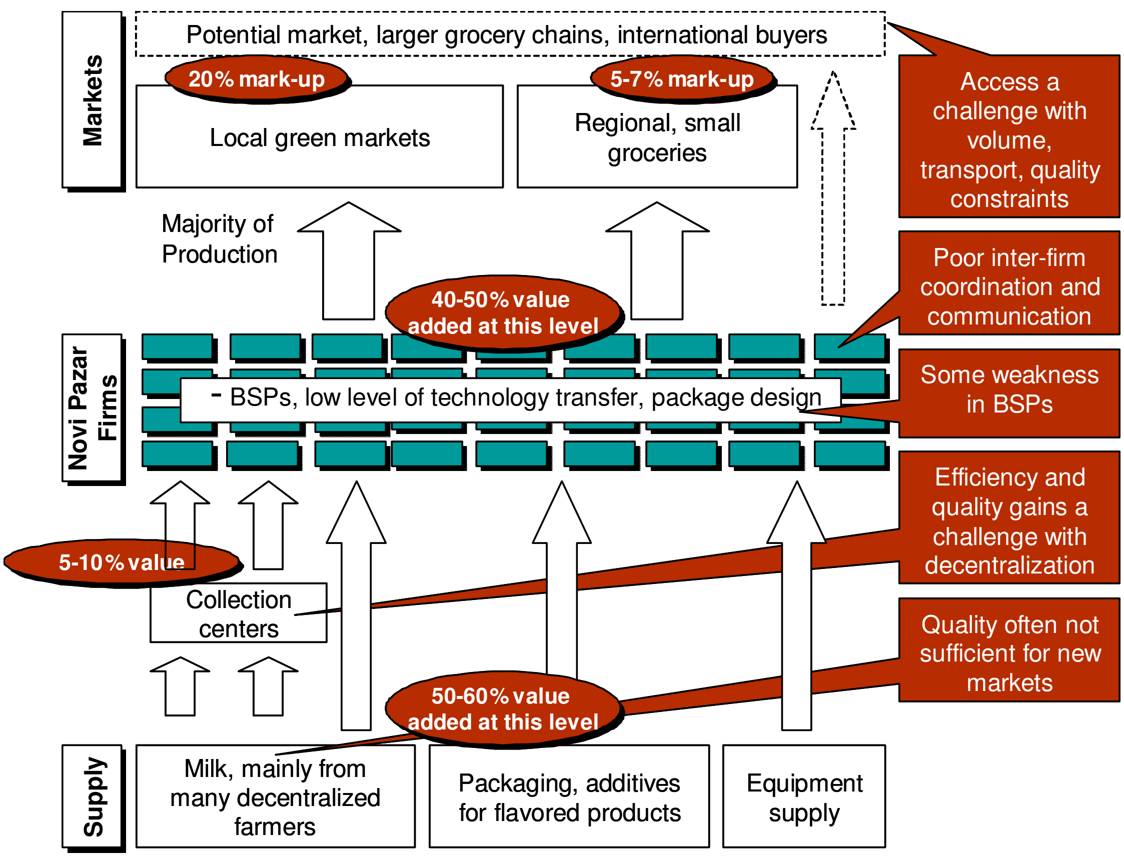
Dairy

The dairy sector in Novi Pazar mainly consists of fresh milk, cheese and kaymak (local cream product) production. This is either at the farm (cottage) level, or through larger processors that collect raw milk at the farm level. There are a large number of farmers with small numbers of animals, which may either process on-site or sell milk on for processing. Though these may not represent the only or main source of income for the household, the income gained is often critical for livelihoods. This is especially the case in remote areas where other sources of income may be scarce.

The diagram on the next page depicts the value chain for the larger scale processors. The mapping reveals some characteristics in the operations of the sub-sector, as well as some areas that may be improved:

1. The variable mark-up from the different sales channels represents the higher efficiency of larger retailers. This margin cannot be captured by the small producer. The vast difference in efficiency and prices between large and smaller retailers foreshadows the consolidation to be expected in the industry.

2. Local producers will increasingly come under pressure from production from outside the region. Countering that threat and moving into other markets will be a major challenge. Producers in Novi Pazar are on average behind their competitors in the greater region in terms of quality, cost, transport, ability to deliver in volume and certifications. Some smaller specialty producers may be able to escape this trap. Lower labor costs may also help, but as other producers become more efficient, this advantage becomes much less relevant. The pressure that the Novi Pazar producers are feeling is indicative of broader market shifts toward centralized, high volume and low cost production



3. Horizontal inter-firm cooperation by all accounts is poor. It is also not clear what benefits that greater cooperation could bring in the current environment. Consolidation of supply materials and of production in order to service larger customers could help overcome some of the weaknesses endemic in the sector. It is not clear whether this, or fuller consolidation of the

industry leading to fewer firms, is the best path. Battles over scare milk supply help to fuel animosity in the industry.

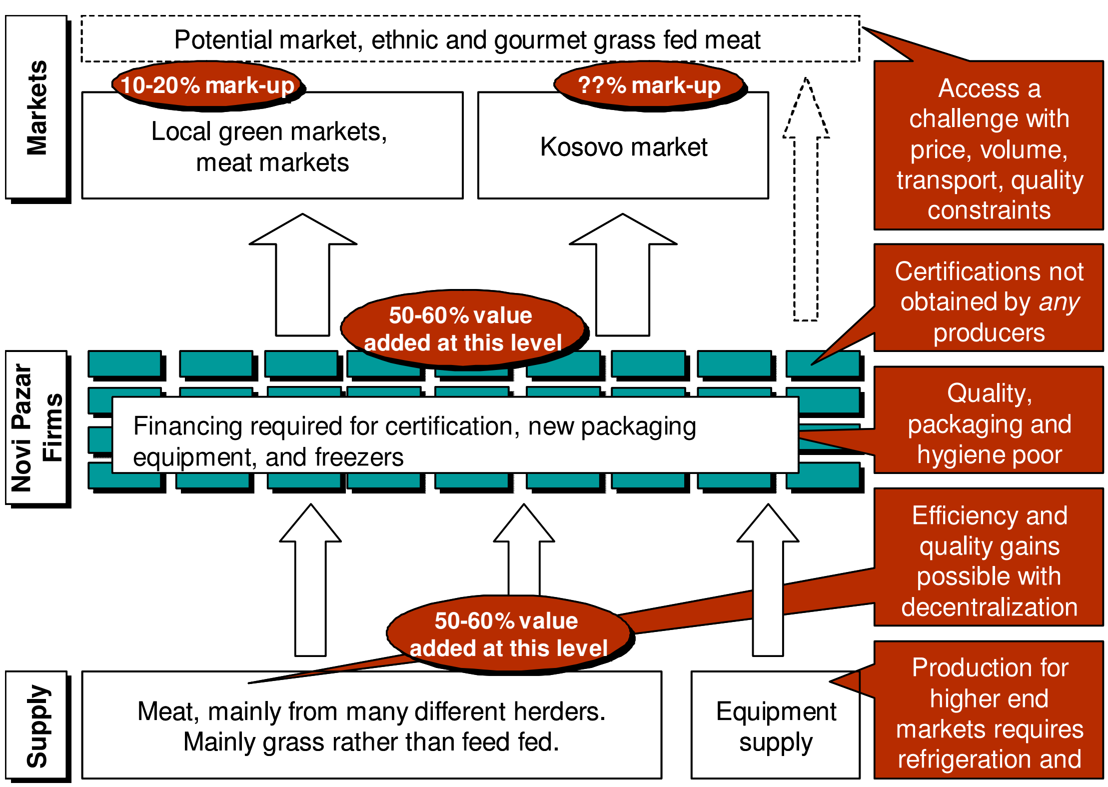
4. Evidence is that there is much to be gained by improving the collection centers. Better spot monitoring of quality and price discrimination depending on quality can help encourage farmers to produce better milk. Better location and transport cooling facilities can help retard spoilage. Improved training and hygienic supplies can help improve sanitation. There is some question, however, whether for commodity products such as cows milk the system is sustainable in the long run in the face of large, commercial dairies. This questions should be addressed clearly around the goals of temporary income supplements, and sustainable development. For more specialty products such as sheep's milk, evidence is that this sort of decentralized production can continue to work.

5. Nearly all of the raw material that goes to the processors is from the region (around 80 percent). Any efforts to improve the sub-sector will effectively target the population around NoviPazar. Most participants in the industry are not young. The impact on youth employment is not expected to be great, except perhaps in some of the larger processors.

6. As per number 4., there are quality issues to be addressed in the milk supply.

Meat Processing

As with dairy, there are a large number of very small farmers in Novi Pazar with small herds of sheep and cows. As such, any improvements in the meat processing industry could have a significant impact on household incomes. Like dairy products, meat products can be hard to differentiate in the market place by branding, making price and quality the main two considerations. However, unlike in diary, small herds can still be efficient enough to keep up with larger scale production. This is especially the case in specialty areas such as grass fed lambs.



The mapping reveals some characteristics in the operations of the sub-sector, as well as some areas that may be improved:

1. Most production is going to local markets and Kosovo. Kosovo is considered a strong market. The population has a taste for lamb and EU certifications are not yet required. There is also a large international market, especially among ethnic populations and gourmet cooks, for grass fed lamb. The flavor is distinctive from the milder New Zealand lamb, giving it some differentiation. Getting into these markets will require considerable investment, certifications, and volumes to make exporting worthwhile. The greater region is known for lamb production and Novi Pazar does not appear to have any great advantages, so the best prices will likely be further afield.

2. Over time, most markets will require more certifications and higher hygienic standards than are currently held by Novi Pazar firms. Slaughterhouse certification is a major issue in Serbia in general, with inadequate legislation and certifying bodies. Certification for EU and other developed country markets is extremely expensive under the current under-developed regime. Meeting the standards will also require additional investment.

3. The packaging and quality of cuts is below international standards, or even those that will be expected in the region in the near future. Resolving this will require training, as well as investment in packaging equipment and adequate logistics to get frozen products to market. The basic infrastructure for doing so exists in the region. This and #2 above note the need for investment. Currently, Novi Pazar is fairly poorly served by the formal banking sector, while much of the rest of Serbia is increasingly well served.

4. Efficiency in grazing for specialty meat production does not require large scales in principle. Small, family operations can be efficient. A problem with decentralized herding is that supply becomes variable and unknown, both in terms of quality and quantity. The information coordination problems can be formidable in economies with poor information dissemination, weak extension services, and low levels of contracting capacity or trust. The main area where scale helps cut costs significantly is in the slaughter of the animals. Large facilities do not currently exist, but could be constructed if the supply were reliable. Currently, large packing houses could not be assured of the volume for the information related issues discussed directly above.

5. The points discussed above focus on a move toward higher end, specialty meat production. It should be kept in mind, however, that even if this is only a long term goal, that all markets will be moving toward these same standards.

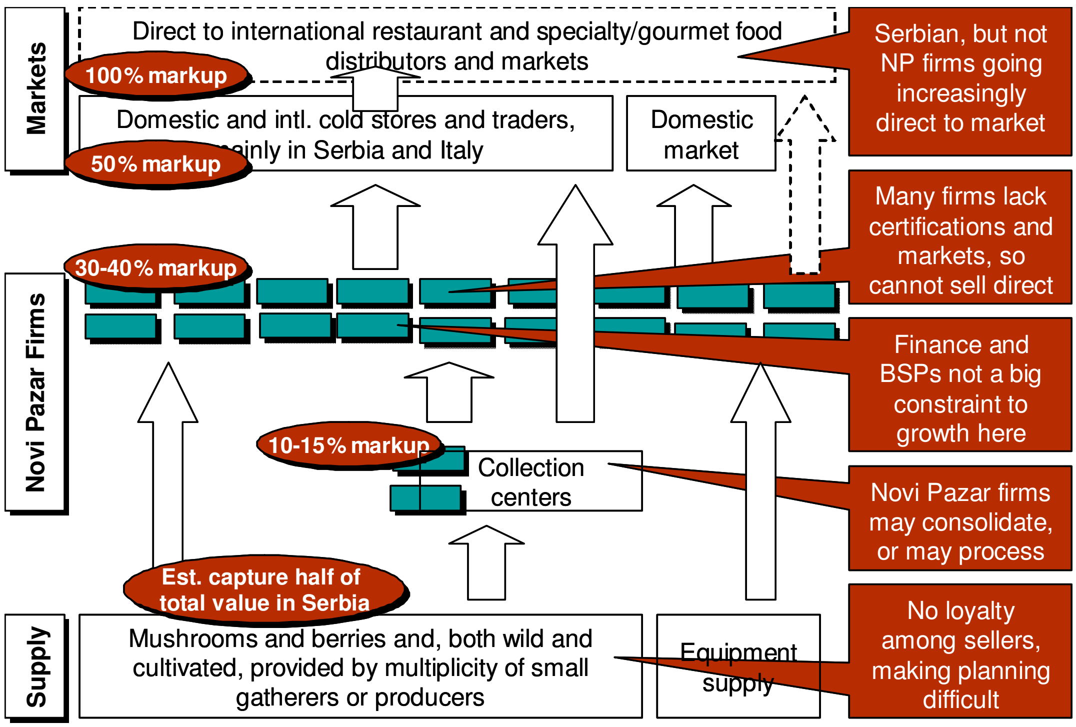
Freezing and Drying Industries

The main products that constitute the output from these industries are frozen and dried berries and frozen and dried mushrooms. Both of these products are important for the economy of Novi Pazar. Though there are some production and transport differences between frozen and dried goods, they are treated the same here overall, with differences noted as needed.

Most of these products are destined ultimately for broader regional or international markets. Current market trends are positive. For berry fruits, the discovery of antioxidant properties has made them very popular across a wide range of products from juices to cereals and snack foods.

As incomes rise and consumers seek a wider range of luxury products, frozen and dried mushrooms increasingly work their way into restaurant and home recipes. The porcini, black trumpet and chanterelles found in the Novi Pazar region are in great demand.

The graphic below summarizes the value chain.



The mapping reveals some characteristics in the operations of the sub-sector, as well as some areas that may be improved:

1. Most secondary processing (freezing, drying, packaging) of mushrooms does not happen in Novi Pazar. Stocks are consolidated and processed elsewhere, mainly in Serbia now, but some is still done in Italy. Some freezing and processing of berry products is done in Novi Pazar, but this is at a low level of value added. Most of this production is sold on for division into retail packages or processing elsewhere in Serbia or abroad. In order to supply international markets, wide ranging and consistent supply is required. Smaller firms such as those in Novi Pazar cannot give international traders the quality or quantity of product they require over time, so mainly sell on the spot market to firms which can. That said, collection is a viable industry and is not currently under threat, though not much secondary value is captured.

   This is not to say that it is not relevant whether there are secondary processors in Novi Pazar. In certain industries such as mushrooms, it is less important. However, for berry products, it is critical to have at least some production close to the farms or the product will spoil and not be as high quality and get as good a price in the final markets.

2. The certification issues noted in other sectors are not as much an issue here. HACCP training and certification is widely available and has been heavily subsidized by the government and donors. Costs of compliance are lower than in some other industries.

3. The primary gatherers and growers of the basic products are the main focal point for SCOPES. Unlike with dairy and lesser so with meat processing, the livelihoods of the gatherers are not under significant threat by outside competition. Rather, the quantity that can be sustainably harvested sets an upper bound on income growth. Demand and pricing seems to be steady and increasing. Income does not highly depend on whether additional processing is carried out in the Novi Pazar region or not.

   The small berry producers are under significantly greater threat, especially if they continue to produce for frozen markets. Pricing in frozen markets is being squeezed on one side by low cost production in the region and in China, and on the other by more mechanized and efficient production in the US and Chile. The main means of escape from this trap is to produce for fresh markets. A detailed discussion on doing so is beyond the scope of this report, but more information can be found at: http://www.sedparchive.com/food.html. A chart in the appendix lists some illustrative price differences between production of raspberries for frozen and fresh markets.

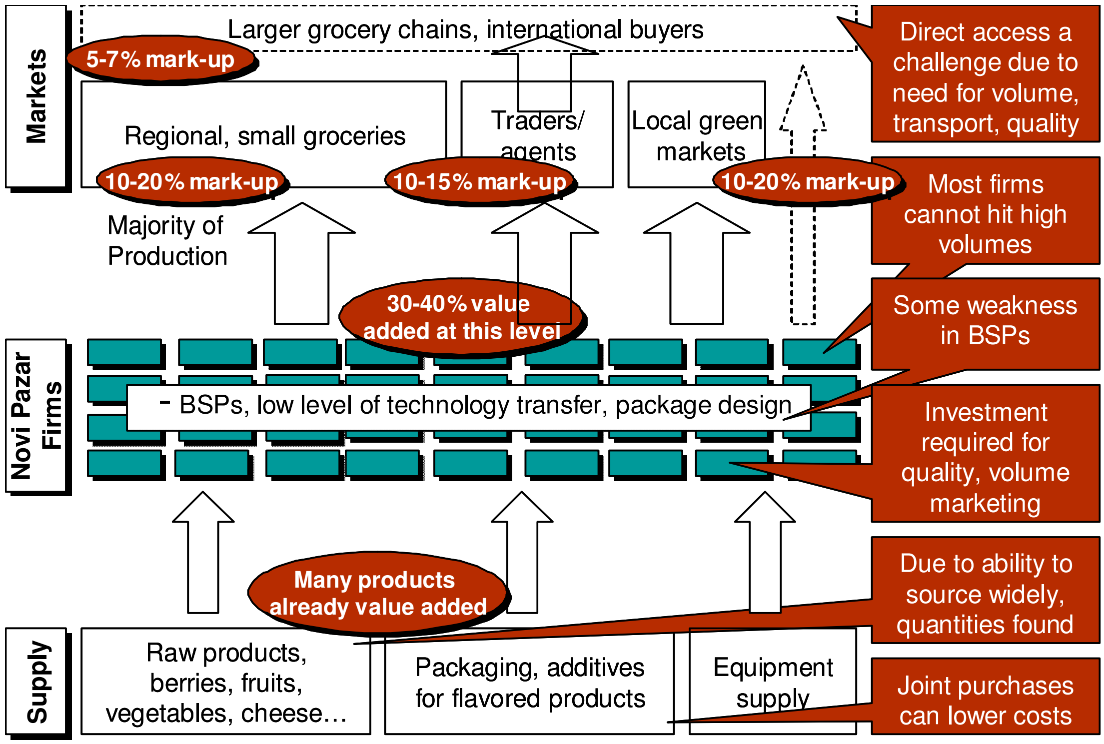
4. As in other areas, the decentralization of production and poor and often antagonistic relationships between suppliers and processors hinders scale and reliability of production. This can also impact quality. Suppliers cannot be certain that they will receive a quality premium for the extra cost and work, and producers cannot be certain that suppliers with whom they work will sell to them or someone else in any given season.

Food Processing Industries

Food processing is a broad area encompassing many different products and processes. That said, there are a number of key similarities in the value chains. An illustrative processed good is outlined in this analysis, with variations noted as needed. Processing can both add jobs at the factory level, as well as (critically for the goals of SCOPES) create additional demand for locally grown products. Whereas valued commodities such as mushrooms and berries may be suitable for sale outside the region, processing activities that create demand for local products with previously mainly local markets can have good impact.

More complex versions of food processing industries (more so than cheese making and meat packing) also draw upon more supporting industries. On the product side, these may include more sophisticated packaging, jars, bottles, additives, etc. Most of these will come from outside of the region. Some services, however, may be provided by local firms. This may include equipment maintenance and spare parts, freight forwarding to multiple markets, packaging design, working capital financing, leasing, accounting and bookkeeping services, and equipment suppliers bringing new technologies.

The graphic on the next page summarizes the value chain.



The mapping reveals some characteristics in the operations of the sub-sector, as well as some areas that may be improved:

1. Trends in markets are toward retail consolidation at the mass level (specialty retailers will still exist, but more at the higher end) and the production of volumes to meet the needs of larger chains and stores. Small producers that do not differentiate and/or do not grow will continue to see their markets shrink. They must also adopt international quality standards, increasingly regardless of the market they are producing for. Directly accessing end markets can yield higher returns than working through traders, but these do not come without costs. Marketing materials and capacity, and foreign language skills are initial investments that must be made to do so.

   Most producers start by creating their own brands, believing that this will help distinguish them and allow them to command a premium price. Unfortunately, true brand building is costly and more often than not such efforts do not lead to higher producer prices. Many producers end up producing for other labels in the end.

2. A fundamental problem is volume of production at competitive cost while meeting standards. Most small producers cannot do so. Making the change can require large investments. However, it is a challenge raising financing against a set of financial statements that show poor cash flows from the lower volume production.

3. Though most producers use off-the-shelf technologies, Novi Pazar is more isolated from top international equipment suppliers than other regions in Serbia. A lack of foreign language skills exacerbates this situation. Firms need to be sure they are aware of and getting the most appropriate technology for the price.

4. Most producers are able to obtain the basic raw material they need, unless this is organic or other specialty production. Raw materials can, but unlike with dairy and meat, need not be sourced locally. Employment impact may be limited to workers on hand at the plant, or may be wider depending on where supplies are drawn from. Impact on large numbers in vulnerable groups will vary depending on these factors.

V. Environment

The main regulatory trends effecting Serbian firms as a whole impact those in Novi Pazar. More stringent safety and quality standards will be implemented at the retail level regardless of producers' intention to implement. Those that do not will be shut out of major markets. This is already the case for most international and regional markets, but is becoming more relevant at the local level as well, as consumers and regulators demand the same standards. Many of these rules will be largely determined by existing EU rules, regardless of accession prospects. Local firms will have little say in their adoption or implementation.

More rigorous tax enforcement in Serbia is coming more slowly to Novi Pazar. The large number of informal firms that the researchers for this study uncovered is testament to this fact. In some areas, very few fully legal firms even existed. Though firms in Novi Pazar have so far successfully resisted compliance with Serbian law, the costs of not doing so are likely to increase over time. The successful implementation of the value added tax means that firms in supply and distribution markets will be pressuring their Novi Pazar partners to comply with the law. Similarly, banks are less inclined to lend to more informal firms, as is manifest in the low level of formal banking activity in the municipality. It does appear, however, that in the short term Novi Pazar firms may be able to continue to extract some net benefits from their lack of compliance. How SCOPES should approach this needs to be agreed upon with USAID which has been a big supporter of more even and fair regulation.

Some additional regulatory changes will allow firms to take advantage of many of the industry trends alluded to above and which will be discussed in more detail in the next section. To move more into fresh markets and to improve processing, Serbia needs access to more cutting edge plant varieties. Most farmers are still growing varieties that are decades old at best. There are two elements to such a program. First is access. Serbia is not yet a signatory to the UPOV convention on the protection of plant varieties. As such, the owners of protected varieties will not allow them to be imported into Serbia. The second is process. The Ministry of Agriculture must approve all new varieties for sale in Serbia. This process has gone much more quickly in recent years and Serbian farmers have access to many more options than before.

Another major regulatory area is in organic certification. Thanks to concerted efforts by the Ministry of Agriculture and donors over the past few years, Serbia now has the capacity to analyze and certify land for organic production. This is expected to be a significant way that Serbian farmers, including those in Novi Pazar, can add value to production.

Finance continues to be a problem for firms in Novi Pazar. This will be critical as quality standards, certifications, and volumes become increasingly important with globalization. Part of the problem is that the banking sector does not reach as far into Novi Pazar as it does into other municipalities. There are supply reasons for this as well. The number of firms that are qualified to be lent to are fewer than in other places. The informal nature of the firms in Novi Pazar, including the lack of accurate books, their tax liabilities, informal nature of contracts, and difficult to discern ownerships can all make banking a challenge. Firms in the region have traditionally self-financed or used informal or family based mechanisms.

Supply and distribution in and out of Novi Pazar is more difficult than in the rest of Serbia. Roads are notoriously poor, especially to main trunk roads. For certain processed foods, this is not anticipated to be a major issue. However, for fresh foods, especially berries with a limited shelf life and which must be transported with care, the road network could be a barrier to growth. Similarly, equipment and technology supply and transfer networks are not as strong as in other parts of Serbia. Though agricultural extension networks are not up to a high standard anywhere, stymieing the transition to new varieties and markets, they are especially poor in and around Novi Pazar.

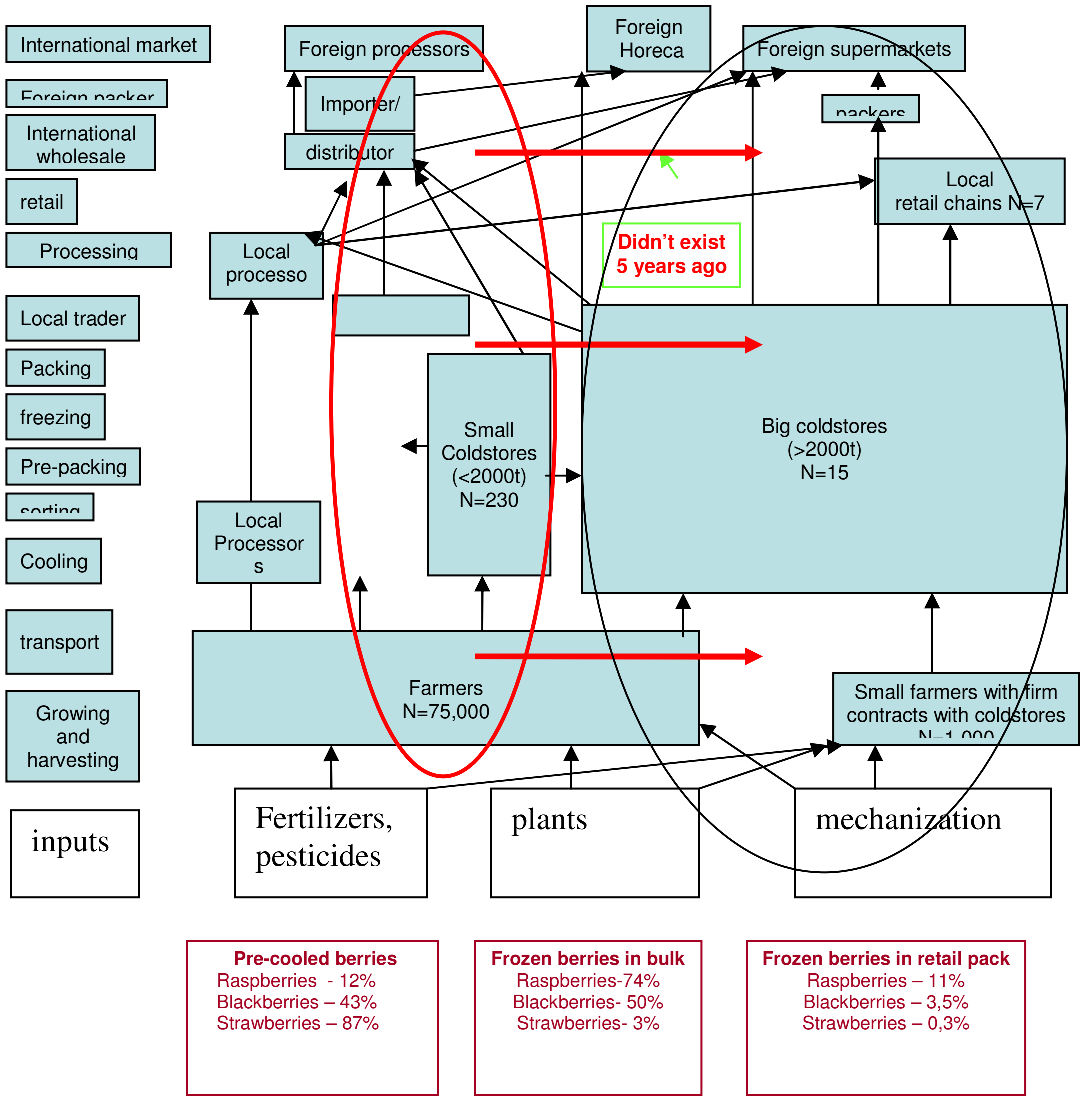
VI. Sub-Sector Trends and Dynamics

As noted previously herein, the main trends in the food processing sector are related to the globalization of markets. More specifically, they are: homogenization of aesthetic, hygienic and quality standards across global markets; a move from small to larger volume retailers, driving the same among producers and suppliers, and; price equalization across markets. Local markets are no longer separate from regional or even global markets. Firms that produce what are essentially commodity products cannot escape from these forces, regardless of whether they are meats, cheeses, frozen fruits, or jams.

Some sub-trends also are impacting the sector that can give innovative firms a way out of the trend toward low cost, high volume production. Consumer desire for differentiation, both locally and internationally, means that there is still room for niche products and brands. Products must be adequately differentiated to command the price premiums needed to produce them at a lower volume. It should also be taken into account that with globalization, even niche markets can reach high volumes and be subject to price pressures.

A trend toward organics means that with some minimal investments, farmers that qualify can gain a 20 to 30 percent average price premium on their output. This is a trend that is likely to continue. Restricted access to agricultural chemicals during the sanctions and lingering low incomes make farms in municipalities such as Novi Pazar strong candidates for organic certification. Also, a trend toward consumption of fresh fruits and vegetables, rather than processed, is coupled with a willingness to pay a premium to do so. Producers and distributors that can tap into fresh markets can realize gains that are much higher than that usually obtained in processed markets. Even in Serbia, farm gate prices for fresh raspberries are between 50 to 300 hundred percent greater than for processed, depending on the season. Demand for the same is up 30 percent from 2006 and expected to continue to increase as incomes rise. Season extension and production for fresh markets requires new varieties as noted above.

Firms elsewhere in Serbia have begun to take advantage of the positive trends and act defensively against the negative ones, usually as a part of a single strategy. Change in the sector overall will not be easy, with a number of firms likely ceasing to exist. However, overall employment may increase and value added almost certainly will. In Novi Pazar, for many historical and regional reasons, firms are lagging behind the leading firms in Serbia. Viewing Novi Pazar within a broader, Serbia-wide sub-sector value chain map can help in understanding where industry in the region lies. The value chain mapping below was created for Serbia as a whole by a USAID Agro-business project.



The outline in red shows where most production in Novi Pazar currently lies. This is where much of Serbia was five years ago. However, in the last five years in other regions much larger, certified and well capitalized cold stores and producers have emerged. The goals will be for Novi Pazar firms to follow. Challenges will be many, but in summarizing the points made above include:

1. Poor formal financing in Novi Pazar. Modern production methods, certifications, and scale all require well capitalized firms. Financing is Novi Pazar is constrained both by few banks with strong commercial lending operations being present there, and the largely informal nature of production, making risk assessment extremely difficult.

2. Lower quality transport infrastructure. Though this is an issue across Serbia, it is less so in the North and becomes more so further south.

3. Low levels of innovation and access to new techniques. Most firms use outdated production technologies and most farmers grow varieties that are less suitable for organic (low pest resistance) or fresh markets. There are few effective means of getting this information to producers and farmers.

4. Producers and farmers lack information. Novi Pazar is isolated geographically and culturally from many markets (though close to others). Market information is not readily available: pricing, preferences, terms, standards, etc. Producers will not be able to move out of the red band depicted above and into higher value production without better market information.

5. Management is poor. Most managers are the owners of small firms that they started and lack broader management knowledge. This is in financial control (needed to optimize profits and get more financing), organization (low efficiency), strategy (reactive, not proactive), and human resources (cannot train, retain and motivate employees).

VI. Strategic Analysis

Strengths	Weaknesses
• Low labor costs • Long tradition and rich experience in production of local specialties • Existing production capacities • Existence of strong local and regional markets more much of the production • Good raw materials and the potential for better	• Poorly qualified labor force • No quality standards in raw materials production • Poor access to finance • Under motivated labor force • Little technical education • Poor technical/ sanitary conditions in production facilities • Insufficient marketing/ PR activities • Little standardization or quality control • Small-scale farms, migration of youth from rural areas leaving little labor • Expensive investments in production required • Poor access to extension services
Opportunities	**Threats**
• New educational opportunities in technical high schools and other programs • Global trends toward higher food prices and lower stocks • Investments in production technology can help solve some problems • New establishment of bakery union and association on local level and help solve market information problems • New agency for Halal certification • Novi Pazar known for certain specialties that can be capitalized on	• Firms in the rest of Serbia and the region becoming much more competitive and reaching larger scales • Unstable prices of raw materials • Market surpluses in most commodity areas • Illegal competition from black market firms from Kosovo • No consumer protection at the national level • Local black production market will continue to harm legitimate players

VIII. Proposed Recommended Activities for SCOPES

Activity	Reason for Activity	Sub-Activities	Participants	Impact
Access to new markets in Serbia, the region and the EU	Will help reach scale and expose firms to new markets and competition regardless of final markets selected	1. Trade show attendance and later participation 2. Trade trips to target markets 3. Product exposure seminars 4. Buyer visits	Firms and SCOPES team	Access to new markets is non-reversible on a firm level basis. Ideally an association would play a role.
Improve managerial skills	Servicing new markets requires new capabilities in production, operations, and sales	1. Train management in operations, human resources, financing, and efficiency 2. Provide trainings in marketing, sales and customer service 3. Imbed trainings in permanent institution: technical school, association, university, etc.	Firms, SCOPES team, and local institution	Allow trained firms to be able to meet the demands of new target markets, and develop curriculum and consulting capacity local to spread impact across firms
Disseminate market information, especially about pricing, new markets, products, and standards	Ensure that firms have the information they need to make strategic decisions	1. Translate key articles on trends and requirements in new markets 2. Provide real-time pricing information for fresh products 3. If feasible, create information center to continue to disseminate		Information about target markets will allow firms to prioritize and organize production in a way to service those markets. Currently only local markets are known.
Improve knowledge of and access to new varieties	Firms need to extend growing season and produce varieties consumers desire	1. Training in new extension materials and varieties 2. Dissemination of all materials to planting material providers		More products suitable for fresh markets and off-season production
Increase amount of production that is certified organic	Organic production can yield a 30 percent average premium on non-organic products	1. Conduct an information campaign with producers and processors 2. Assist in organic certification 3. Assist in accessing markets for organic products		Higher incomes from organic products will lead to greater household incomes

Improve access to finance	Firms will need significant capital to meet investment and market access needs	1. Develop a catalogue of all financial institutions operating in Novi Pazar and requirements to access capital 2. Create documentation and conduct a series of seminars around requirements for raising financing		
Expose firms to new production techniques and technologies	Meeting standards, increasing scale, and lowering costs may require new technologies	1. Assess current suppliers and equipment and benchmark against Serbian and international markets 2. Conduct series of VAR and supplier led seminars, including cost benefit analysis		
Logistics audit and action plan	Determine and obtain additional efficiencies in distributing products to new markets, especially fresh	1. Conduct an audit of current and potential distribution companies operating in Novi Pazar 2. Recommend and implement technical, infrastructure and managerial solutions to improve logistics efficiency	SCOPES, Government of Serbia, logistics firms, suppliers	Better supply and distribution logistics will help overcome regional disadvantages and distances from newer target markets
Align product development efforts and packaging to target markets		1. Develop a short list of qualified design companies that do or can work in Novi Pazar 2. Conduct a series of educational and matchmaking seminars 3. Support new design with grants		

Annexes

Bread Companies and other Bakery Related

SUBEX ****

36300 NOVI PAZAR
+381 20 318-065
delatnost » Hleb, mantije i drugi proizvodi od testa

SZTR BIG ****

36300 NOVI PAZAR
+381 20 384-080; 370-080
delatnost » Mantije i drugi proizvodi od testa

SZTR SIDRO ****

36300 NOVI PAZAR
+381 20
delatnost » Mantije i drugi proizvodi od testa

STR ĐINA **

36300 NOVI PAZAR
+381 20
delatnost » Mantije i drugi proizvodi od testa

STR NP PRODUKT ***

36300 NOVI PAZAR
+381 20
delatnost » Proizvodnja čajnih kolača

SZTR BANINI ***

36300 NOVI PAZAR
+381 20
delatnost » Proizvodnja kolača

SZTR Slatka kuća kod Eda ***

36300 NOVI PAZAR

+381 20
[Proizvodnja kolača]

NESIMI HALIL POSLASTIČAR RADNJA **
1. maja 6
36300 NOVI PAZAR
+381 20 316 672
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

ĆURKIĆ FARUK PEKARSKA RADNJA **
1. maja 31
36300 NOVI PAZAR
+381 20 317 445
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

KOLAŠINAC BESIM PEKARSKA RADNJA**
1. maja 41
36300 NOVI PAZAR
+381 20 312 447
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

PIŠERMA SPR UGLJANIN MESUD**
1. maja 45
36300 NOVI PAZAR
+381 20 316 694
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

HUJEVIĆ ZAHIT PEKARSKA RADNJA**
7 .jula 1
36300 NOVI PAZAR
+381 20 311 375
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

SZPR HADŽI IBRAHIMOVIĆ**
7 .jula 21
36300 NOVI PAZAR
+381 20 316 004
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

ZLATNO KLASJE SPTR**
Rajka Ackovića 105
36300 NOVI PAZAR
+381 20 386 199
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

HANEX DOO**

Save Kovačevića BB
36300 NOVI PAZAR
+381 20 311 810
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

POLET DP ZA PROIZVODNJU HLEBA I PECIVA
Stevana Nemanje BB
36300 NOVI PAZAR
+381 20 313 811
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

ĆAO MAJSTORI BUREGDŽIJSKA RADNJA
Vuka Karadžića 4
36300 NOVI PAZAR
+381 20 317 373
delatnost » **Hleb, pecivo i drugi proizvodi od testa**

PIK TAKOVO DP GORNJI MILANOVAC
Šabana Koče BB
36300 NOVI PAZAR
+381 20 317 537
delatnost » **Konditorska industrija**

Meat Processing

MISIRLIĆ IZET MESARSKA RADNJA
1. maja 3
36300 NOVI PAZAR
+381 20 23 462
delatnost » **Meso – proizvodnja i prerada**

BOJADŽIĆ HAJDIN MESARSKA RADNJA
1. maja 10
36300 NOVI PAZAR
+381 20 318 142
delatnost » **Meso – proizvodnja i prerada**

NEZIROVIĆ JUSUF MESARSKA RADNJA
1. maja 18
36300 NOVI PAZAR
+381 20 311 650
delatnost » **Meso – proizvodnja i prerada**

MESARSKA RADNJA NIHKO BOJADŽIĆ J
1. maja 46

36300 NOVI PAZAR
+381 20 332 070
delatnost » **Meso – proizvodnja i prerada**

KVALITET MR BOJADŽIĆ FARUK
1. maja 48
36300 NOVI PAZAR
+381 20 311 246
delatnost » **Meso – proizvodnja i prerada**

NEZIROVIĆ REDŽEP MESARSKA RADNJA
1. maja BB
36300 NOVI PAZAR
+381 20 311 150
delatnost » **Meso – proizvodnja i prerada**

STARI GRAD MESARA HOČANIN EŠREF
28. novembra BB
36300 NOVI PAZAR
+381 20 312 850
delatnost » **Meso – proizvodnja i prerada**

MESARSKA RADNJA SAMKO
7 .jula BB
36300 NOVI PAZAR
+381 20 317 690
delatnost » **Meso – proizvodnja i prerada**

MESARSKA RADNJA PARICE
Rifata Burdževića 37
36300 NOVI PAZAR
+381 20 316 930
delatnost » **Meso – proizvodnja i prerada**

MISIRLIĆ ZMR MISIRLIĆ NIHAT
Šabana Koče 2
36300 NOVI PAZAR
+381 20 28 828
delatnost » **Meso – proizvodnja i prerada**

Diary Production

PP “LJIN’’, Pendić Golub
Selo ŠARONJE
36300 NOVI PAZAR

+381 20 736-107
delatnost » **Prerada mleka**

MLEKARA SIMLEK, Simović
Selo DEŽEVA
36300 NOVI PAZAR
+381 20 353-375
delatnost » **Prerada mleka**

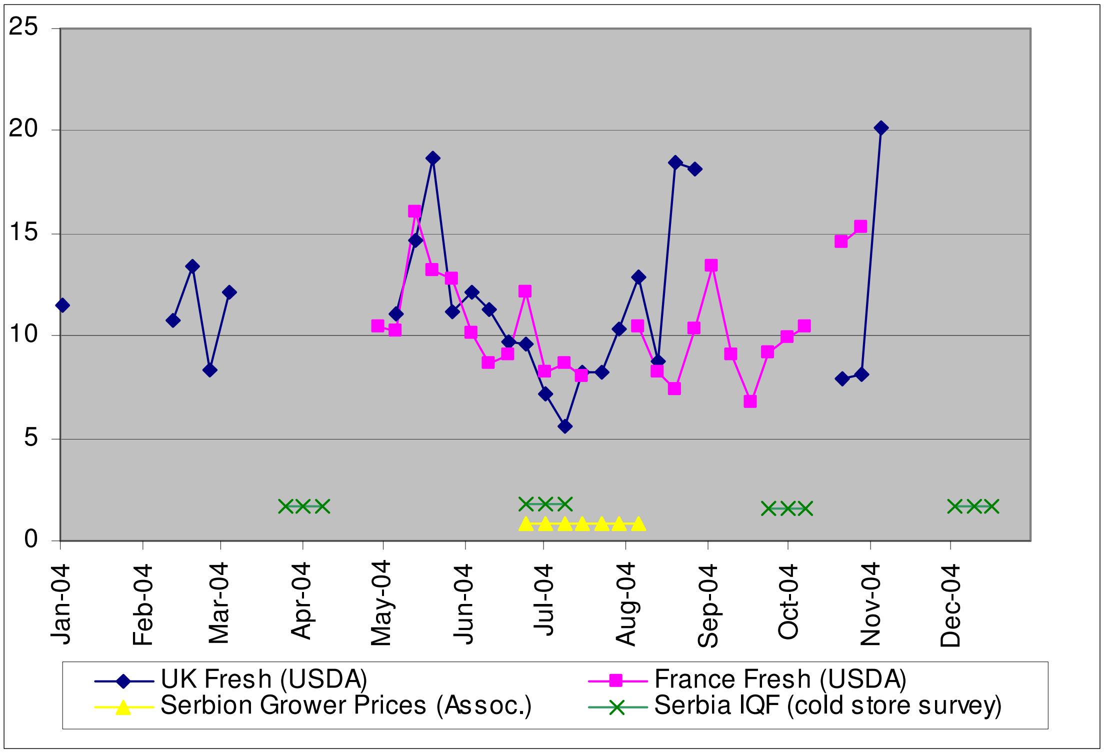
Veterinary Inspection

VETERINARSKA STANICA NOVI PAZAR
Stevana Nemanje BB
36300 NOVI PAZAR
+381 20 318 346
delatnost » **Veterinari i veterinarske ambulante**

Horticulture

AJSI IMPEX TRGOVINSKO USLUŽNO PREDUZEĆE JANDRIĆ IBRAHIM
28. novembra BB
36300 NOVI PAZAR
+381 20 312 144
delatnost » **Povrtarstvo i hortikultura**

The chart and notes below look at raspberries as a single product where Serbia may benefit from moving from frozen to fresh. Though the specific data is from 2004, the same patterns currently prevail.



- Prices for fresh are higher even during the peak harvest season (end-June to July). Serbian farmers and wholesalers are unable to obtain these prices as most of the crop grown in Serbia is not suitable for fresh market sales. The Willamette Raspberry does not have the shelf life to make it to Western European markets, and logistics and pricing information are poor.

- Fresh raspberries are only available in enough volume from May to November for a firm market price to be established. They can still be sold outside of those times. Much of these raspberries come from Poland and Russian. These counties have a climatic disadvantage over Serbia, but partially compensate with irrigation and protective tunnels and greenhouses. With the same technology, Serbia could extend this fresh season.

- Freight to Paris in a climate controlled container is approximately .30 to .60 euro/kilo, and takes 1 to 2 days. The cost per kilogram varies quite a bit depending on the packaging and volume to weight ratios.

- Even with increased investment, packing and harvesting costs, there is considerable room for an increase in average farm-gate prices, which are currently less than .5 euro/kilo. Serbian farmers face even more difficult conditions in frozen markets in the future.