



USAID
FROM THE AMERICAN PEOPLE

Assistance from American and Swedish people



ANNUAL PROJECT REPORT

FOR THE PERIOD OF AUGUST 31, 2009 THROUGH AUGUST 30, 2010

FOSTERING AGRICULTURAL MARKETS ACTIVITY

FARMA

DATE: 15 July 2011
Version: 3.0

This publication was produced for the United States Agency for International Development and Swedish International Development Cooperation Agency. It was prepared by Chemonics International.

FOSTERING AGRICULTURAL THIS PAGE LEFT BLANK INTENTIONALLY MARKETS ACTIVITY (FARMA)

Contract No.168-C-00-09-00102-00
FARMA - Bosnia and Herzegovina (BiH)

United States Agency for International Development (USAID)/BiH Economic Restructuring Office
Swedish International Development Cooperation Agency (Sida)/Embassy of Sweden

USAID Contracting Officer's Technical Representative: Amira Vejzagić-Ramhorst

Sida Project Officer: Natasa Miskin

PUBLICATION DATE: 7/15/2011
PLACE: SARAJEVO, BOSNIA AND HERZEGOVINA
DOCUMENT VERSION: DRAFT (v 3.0)

The views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development, the United States Government, the Government of the Kingdom of Sweden or Swedish International Development Cooperation Agency.

Contents

LIST OF ACRONYMS	8
EXECUTIVE SUMMARY	10
BACKGROUND.....	16
ABOUT THE PROJECT	18
INTRODUCTION	19
ANIMAL AND DAIRY SECTOR.....	22
A. THE YEAR IN NUMBERS.....	22
B. SECTORAL CONTEXT	24
C. KEY CHALLENGES & INTERVENTIONS	26
D. RESULTS	27
MEDICINAL AND AROMATIC PLANTS (MAPS) & HONEY	32
A. THE YEAR IN NUMBERS.....	32
B. SECTORAL CONTEXT	34
C. KEY CHALLENGES & INTERVENTIONS	35
D. RESULTS	36
FRUITS AND VEGETABLES (F&V).....	43
A. THE YEAR IN NUMBERS.....	43
B. CONTEXT	45
C. KEY CHALLENGES & INTERVENTIONS	45
D. RESULTS	45
EU INTEGRATION, STANDARDS AND ENVIRONMENT.....	53
A. CONTEXT	53
B. KEY CHALLENGE & INTERVENTION LOGIC	53
C. RESULTS	54
ACCESS TO FINANCE	61
A. SECTORAL CONTEXT	61
B. KEY CHALLENGES & INTERVENTIONS	62
C. RESULTS	62
PARTNERS DEVELOPMENT FUND	65
EQUAL OPPORTUNITY	68
FINANCIAL EXPENDITURES	70
APPENDIX I- LIST OF BENEFICIARY PRODUCER ORGANIZATIONS	71

THIS PAGE LEFT BLANK INTENTIONALLY

LIST OF ACRONYMS

APS	Annual Program Statement
B2B	Business-to-Business
BAM	Convertible Mark
BBi	Bosnia Bank International
BiH	Bosnia and Herzegovina
CEFTA	Central Europe Free Trade Area
COP	Chief of Party
CCA	Cluster Competitiveness Activity
DAI	Development Alternatives Inc.
DCA	Development Credit Authority
DFID	Department for International Development (UK)
EU	European Union
F&V	Fruits and Vegetables
FADN	Farm Accountancy Data Network
FARMA	Fostering Agricultural Markets Activity
FBiH	Federation of Bosnia Herzegovina
FTC	Foreign Trade Chamber
GAP	Governance Accountability Project, Phase II
GBP	Good Beekeeping Practices
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GP	Good Practices
HACCP	Hazard Analysis and Critical Control Points
HPLC	High Pressure Liquid Chromatography
IEE	Initial Environmental Examination
KRA	Key Result Area
LAMP	Linking Agricultural Markets to Producers Project
LGSA	Local Government Support Activity
LLC	Limited Liability Company
LoP	Life of Project
MAP	Medicinal and Aromatic Plants
M&E	Monitoring and Evaluation
MEDI	Micro Enterprise Development Initiative
MIMIS	Municipal Management Information System
MFI	Microfinance Institution
MoFTER	Ministry of Foreign Trade and Economic Relations
MOU	Memorandum of Understanding
MT	Metric Ton
OSCE	Organization for Security and Cooperation in Europe
PEA	Programmatic Environmental Assessment
PERSUAP	Pesticide Evaluation Review and Safe Use Action Plan
PIR	Project Intermediate Result
PMP	Performance Management Plan
PO	Partner Organization
RDA	Regional Development Agency
RFA	Request for Applications
RMP	Residue Monitoring Plan
ROI	Return on Investment
RS	Republika Srpska
SAA	Stabilization and Association Agreement
SIDA	Swedish International Development Agency
SPIRA	Streamlining Permit and Inspection Regimes Activity
SPS	Sanitary and Phytosanitary
SVO	State Veterinary Office
UHT	Ultra-high temperature
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

Highlights of the year include:

- FARMA worked intensively with 331 agricultural producer-partner organizations and provided assistance to over 6,700 farmers throughout the country. A further 329 producer organizations have been included in FARMA's activities to a lesser extent.
- Sales and exports of assisted producer-partner organizations in 2010 grew by 23% and 20% respectively as compared to 2009.
- Foreign Direct Investments (FDI) in dairy sector totaled 5.84 million USD.
- A sample of indirect project beneficiaries indicates an 11% increase of production value and 3% increase in production output in 2010 as compared to 2009.
- Facilitated and enabled access of small fruit producers to large supermarkets by designing and assisting in implementing the Our Garden (Nasa Basta) agreement. Approximately 10,000 individual farmers can now sell their products in Mercator retail chain stores.
- The introduction of new raspberry and blackberry varieties is currently being studied by the agriculture faculty, as required by law. They represent a significant potential for longer harvest periods, the potential for greater access to the fresh market, and improved disease resistance. Four berry varieties have already been added to the National Variety List.
- Dairy farm management was significantly improved, including better management of animal feed. Project introduced improvements have been shown to reduce the cost of feed by as much as 97 percent in the most extreme cases with significant benefits all participants, thus greatly improving profitability for participating milk producers.
- A "road map" was developed and adopted by the Council of Ministers to move BiH along the process of achieving EU integration by removing obstacles that impede the exports of BiH products of plant and animal origin to the EU.
- A growing medicinal and aromatic plant sector began planting and cultivating plant material instead of strictly wild collection. This will improve product quality, control of volumes, reduce pressure on the forests, and allow for business expansion. It may also change the high cash flow demand currently experienced by many companies for the purchase of product by collectors of wild product.
- Major advances have been achieved to make the honey sector more formal and better educated, including the conclusion of a year-long intensive, university level course on beekeeping.
- Project assistance has greatly accelerated the number of businesses that now are actively pursuing GlobalGap certification. The PMG ViP and individual producer's farm owned by Mr. Miroslav Dakić successfully implemented the standard with the project's assistance.
- The cooperative sector has been significantly assisted to improve management and transparency through project sponsored training of a large number of cooperative auditors.

This report is the first annual FARMA project report and includes activities and achievements through the fourth quarter of 2010. The figures presented in this report represent the accumulations of the normal data tracked by the project with its partner organizations, primarily those with whom the project has signed MOUs.

Project sponsored grants are just beginning to come on line with BAM 1.9 million or USD 1.3 (October standard exchange rate 1 USD= 1.44 BAM) in potential grants in the pipeline of final proposal preparation. This represents 65% percent of the FARMA grant funds available. It is anticipated that by this time next year, most, if not all of the FARMA grant funds will be obligated. Of the USD 500,000 in funds available for competed subcontracts, USD 324,000 was obligated or 65% percent of the total. As with grants, it is expected that most if not all of those funds will be obligated by the end of the second project year.

The FARMA project has thirteen contract required performance indicators. The following table shows the project performance to date against those indicators. The data for these figures comes from information collected from project beneficiaries. The project will conduct a formal survey to refine these estimates as well as deepen their interpretation in the next year.

FARMA PERFORMANCE MONITORING TABLE UPDATED	LoP Goal	Sectoral Results (actual)					Project to-date (Aug '10 estimate)	Project-to-date (Jan 2010 actual)	Percent of LoP Goal Attained
		DAIRY	MAPs & HONEY	F&V	FINANCE	EU Int.			
PROJECT OBJECTIVE									
Percent change in sales of participating producer organizations	35%	23%	97%	8%	-	-	10%	23%	66%
Change in employment in participating producer organizations	25%	7%	-13%	13%	-	-	4%	-3%	-12%
Number of new products eligible to enter EU markets	2	-	-	-	-	-	-	-	0%
Return on investment	6.8:1*	2.1:1	1.2:1	0.5:1	0.4:1	-	5.56:1	4.1:1	60%
PIR 1: SUSTAINABLE MARKET LINKAGES FOR BIHPRODUCERS BUILT									
Percent change in the value of international exports of agricultural commodities linkable to FARMA assistance (F)	11%	28%	9%	40%	-	-	25%	20%	182%
Number of producers in selected sector/sub-sector achieving certifications aligned with EU standards and requirements	20	-	-	2	-	2	1	2	10%
PIR 2: ACCESS TO FINANCE INCREASED									
Amount (USD) of private financing mobilized with DCA-guarantee (F)	4 mil.	-	86,253	-	-	-	86,253	86,253	2%
Value of FDI (USD) accessed by selected POs with FARMA assistance	2 mil.	5,843,328	-	-	-	-	980,210	5,843,328	292%
Percent change in the value of loans and investments in assisted POs	25%	-	-	-	49%	-	45%	54%	216%
PIR 3. PRODUCER ORGANIZATIONS AND OTHERS COUNTERPARTS' CAPACITY BUILT									
Number of agriculture-related POs benefiting directly from the FARMA project (F-indicator)	236**	134	70	107	3	17	112	331	140%
Number of farmers, processors and others who have adopted new technologies or management practices made available for transfer as a result of FARMA assistance (F-indicator)	12,800	2,592	1,536	1,533	124	928	4,257	6,713	52%
PIR 4. ENHANCED POLICY ENVIRONMENT TO BENEFIT COMPETITIVENESS OF BIH AGRICULTURAL GOODS*									
Number of policy reforms analyzed with FARMA assistance (F-indicator)	15***	2	2	3	-	5	5	5	33%
Specific policy constraints identified and action plans developed (qualitative)	2	-	-	2	-	2	2	2	100%

*Calculated only on the basis of direct benefits, specifically increase in sales by sector, increase in investment and increase in new financing (loans) in relation to LoP project budget.

** This number represents those producer organizations with whom FARMA signed MoU (thus formalizing relationships) and those producer organizations to which the project landed extensive technical assistance even without a formal MoU signed.

*** These can be cross-cutting policy issues, affecting all sectors. Only the "Project-to-date (January 2010 Actual)" column reflects cumulative data

The table shows the life of project goal (LoP Goal) as well as the estimates of the achievements for the first year. Some of the indicators in the table that show little movement this year are expected to very substantially improve as the effects of grants begin to emerge.

Sector	2009 Total sales (BAM)	2010 Total sales (BAM)	% Change
Animal & Dairy	132,808,838.16	163,399,193.54	23%
F&V	80,349,474.51	87,021,414.41	8%
MAPs & Honey	18,212,565.00	35,821,984.00	97%
Total	231,370,877.67	286,242,591.95	24%

The animal and dairy sector shows an increase of 23 percent in sales. This was, in part, related to project promoted improvements in animal nutrition from improved forage production. This resulted both in an increase in production and a reduction in costs. An additional factor contributing to the increase was higher milk prices. The MAPs and Honey sector posted a 97 percent increase in sales. According to the BiH Foreign Trade Chamber, that jump may be to a large extent attributed to the positive effects of increased promotions of local companies and products in foreign markets. Fruit and Vegetable sector sales increased modestly, despite adverse weather conditions which caused significant attrition in stocks available for sale. As the estimate of progress is 24 percent or about two thirds of the LOP requirement (35 percent increase in sales) after the first project year, it is anticipated that the target will be achieved by the end of the project.

Overall employment in the participating producer-partner organizations dropped as a result of a significant reduction in part-time and seasonal employment. The drop in part-time and seasonal employment is the result of producer organizations' efforts to reduce the costs of production. Simultaneously, producer organizations experienced a need to retain quality personnel due to efforts on implementation of new quality standards (i.e. GlobalGap, HACCP) and shift toward production of value-added products. Full-time employment experienced a growth of 6% in relation to 2009.

Employment	2009	2010	% change
Full time	2,012	2,128	6%
Part-time and Seasonal	2,514	2,264	-10%
Total	4,526	4,392	-3%

In most industries, growth correlates positively with increases in employment. Not so for many agricultural activities. While it is anticipated that employment will rise among FARMA beneficiaries as a result of project assistance during FARMA's duration, in the long term improved BiH agriculture will employ far fewer people. For this report significant reductions of part-time and seasonal employment is seen. Coupled with a very modest rise in full-time employment this indicates the beginning of a trend towards overall employment reduction in the agriculture sector. As agricultural production becomes more efficient, state of the art technologies are adopted, farms become larger, and employment in agriculture will continue to taper off and decline.

Assisted producer organizations attained more financing in 2010 than in 2009. Short-term loans increased 192% during that period, which reflects the increased demand for working capital financing, as well as a greater understanding of the specifics of agricultural financing by the commercial lending institutions with which FARMA's financial experts worked intensively. Simultaneously, producer organizations' demand for long-term financing for investments in production drove a 38% increase in the value of long-term loans.

The team is aware that the world-wide economic crisis was provoked by bad management of debt. The project focus is not just on increasing the volume of debt but to do so in a way that

leverages growth rather than threatens business viability. As can be seen by the data, the project has already surpassed the LOP objective (45% increase).

Loans	2009	2010	% change
Short-term	1,779,320.00	5,201,159.00	192%
Long-term	15,025,627.96	20,667,685.43	38%
Total	16,804,947.96	25,868,844.43	54%

The indicator of DCA backed financing is low compared to the target. FARMA participated in half of the value of DCA backed agricultural loans in the country in 2010. The new DCA facility rectifies issues with the previous DCA facility and the FARMA team believes that substantially more project promoted use of this financing will occur in 2011.

Foreign Direct Investment (FDI) is a project performance indicator. It is somewhat difficult to determine what should be counted for this indicator. FARMA does not travel internationally to promote FDI nor does it arrange for potential foreign investors to come to BiH. The project does work with foreign owned companies in Bosnia. As the project assists these companies, we have seen that the parent companies have increased their investments in BiH. There is no direct link that would allow the project to claim it had negotiated with or convinced the parent companies to make these investments. The most we can say is that the partner organizations we are working with have received some amount of FDI.

Throughout the year, FARMA has worked with several large clients from the dairy sector providing technical assistance and training, mainly to their suppliers. These companies are primarily foreign-owned, and their parent companies invested significant amounts to improve production facilities and technology of their domestic subsidiaries. Among those businesses there has been an estimated combined investment of 5.84 million USD during the year. No other FDI inflows into other FARMA clients were recorded during the same period.

The total value of exports by assisted producer organizations increased by 20% in 2010 (5% lower than the initial estimate). This is an apparent result of the financial crisis as some of the producers experienced order cancellations during the year. From the sectoral perspective, the largest gains were attained by the dairy sector (28% increase). This is a result of milk shortages in neighboring countries, whose large dairies have ownership stakes in the largest BiH dairies. Significantly, average value of exports in each sector also increased in relation to base year.

Sector	Exports (BAM)					
	2009		2010		% Change	
	Sum	Average	Sum	Average	Overall	Average
Animal & Dairy	37,308,854.88	601,755.72	47,720,720.00	681,724.57	28%	13%
F&V	29,146,379.94	647,697.33	31,641,685.40	703,148.56	9%	9%
MAPs & Honey	8,586,402.74	245,325.79	10,326,615.43	344,220.51	20%	40%
Total	75,041,637.56	NA	89,689,020.83	NA	20%	

The percent change in the value of exports associated with FARMA assistance exceeded the LOP goal of 11% increase. However, the project expects this figure to rise substantially as the project continues.

The table shows no achievement for the export of new products. However, as the project is engaged in many activities to enable export of various products (for example, honey and potatoes), we believe that this objective will be attained by the end of the project.

The return on investment was lower than the LOP target (6.8:1). Assuming reasonable economic recovery and no localized economic bumps-in-the-road, the figures suggest that this indicator will be continue to be positive and exceed the LOP target at the project's end.

The table shows that two partner organizations achieved certifications that align them with EU standards. Additionally, a significant number of FARMA partners are actively involved in progressing toward that objective. The FARMA team is confident that the project will reach the objective of 20 organizations certified before its end.

FARMA has also exceeded the LOP objective (236) for the number of POs to benefit from the project. The 331 beneficiaries reported are, by and large, organizations that have signed formal agreements of collaboration with the project, in addition to actively participating in project sponsored events and assistance. It is estimated that the project is about half-way to the LOP objective of beneficiaries to adopt project sponsored improvements in technologies or management practices. As noted above, as FARMA grants are implemented, it is expected that this indicator will rapidly climb.

In terms of policy reform, the project is on track with five of the required fifteen objectives having been achieved. The remainder can be expected to be completed in the remaining two years. The policy constraints indicator requires that the project achieve two resolutions during the project. Two of those have been achieved in 2010.

The FARMA project implemented a survey to gain a better picture of the current state of farm consolidation, expansion, and contraction in BiH, including an analysis of the relative importance of barriers to movement in the land market and potential issues to overcoming those barriers. The survey addressed farmer interest in, successful completion of, and recent attempts to pursue such transactions, with the goal of highlighting primary barriers to success. The study will be published next quarter.

Study "Moving the Land Market Forward in Bosnia and Herzegovina- Identifying and Overcoming Barriers to Farm Expansion and Consolidation" (2011)

Author: Cynthia Barmore

Additionally, FARMA conducted a survey of individual farmers with the secondary purpose (primary research goals specified in the textbox left) of ascertaining the ancillary effects of project interventions on indirect project beneficiaries. Research teams from the non-governmental organization Nešto Više interviewed 203 farmers across the Federation (FBiH) and Republika Srpska (RS). The survey sample includes 103 farmers in FBiH, as well as 100 farmers in the RS. Observations presented in this section are based on responses of those farmers (189 farmers, 93% of respondents) who declared to have no association with the FARMA project and its activities.

Indirect project beneficiaries were better off economically on average in 2010 compared to the base year (2009). These indirect beneficiaries saw the value of their production increase by 11%, while the production output of main crops increased by 3% during the same period. An overall increase in value

was primarily caused by an increase in the price of milk offered by processors in 2010. This is the reason for a significant increase of production value with relatively stable production levels. Respondents reported a modest increase in disposable income (1% on average) with virtually no variation between entities.

The size of the FARMA project is insignificant compared to the value of the agricultural economy in BiH. It was recognized at the outset that the only way for FARMA to have a meaningful impact on the agricultural economy would be to highly leverage the USAID – Sida investment by collaborating and coordinating with other progressive efforts. Accordingly, while some of the indicators below show very significant impact, it should not be interpreted that these results are solely attributable to FARMA. They represent the combined efforts and investments of farmers, cooperatives, government offices, donor projects, faculties, and so forth. Indeed, any results that could be solely attributable to FARMA would represent a failure of the project to properly engage its partners and their resources.

BACKGROUND

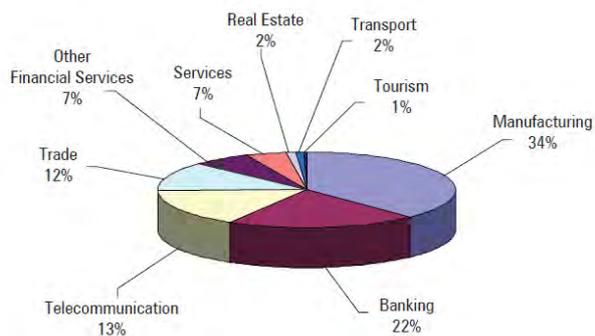
Bosnia and Herzegovina (BiH) is in a potentially favorable position in the current global economic environment. Imports on BiH grocery shelves testify to the demand for a diverse range of value-added, high quality products that could be supplied by BiH producers and processors but are not. At the same time, trade agreements - Central Europe Free Trade Area (CEFTA) and Stabilization and Association Agreement (SAA), recent agreements with Croatia, Serbia, Albania, Moldova, Macedonia, and Turkey -- and accession to the EU present many opportunities for marketing BiH products, as do preliminary linkages with Middle Eastern buyers. All of this is set against the long-term trend of rising world-wide demand for food. As reported in the September 2009 issue of *Scientific American*, by 2050 the demand for food, world-wide, is expected to rise by 50 percent.

Despite ample opportunities, there are numerous challenges to achieving rapid, broad-based economic growth. Bosnian agricultural products lag behind sleeker, more modernly packaged Croatian and Slovenian imports; export opportunities in surrounding CEFTA countries—such as Croatia-- will likely disappear with their accession into the EU; local buyers are increasingly aware of food safety issues associated with local products; and the realities of agricultural markets and production are such that BiH producers and processors are not satisfying the domestic market demand - a primary area of interest for FARMA. Additionally, most local producers and processors have limited access to inputs due to cumbersome regulations and are limited to selling semi-produced products cheaply rather than investing in improved quality control, post-harvest handling, and packaging for a higher return. Limited access to finance for the agricultural sector, aggravated by the ongoing financial crisis and lack of borrowing collateral, hampers business expansion despite an array of financial resource options and reputedly one of the strongest micro-lending programs in the developing world. Last, the workforce is not used efficiently and the labor market is not equitable. For example, in BiH women make up only approximately 35 percent of the total labor market, the lowest in the region.

Last year, the agricultural sector made up only 8.4 percent of overall national GDP and continued to exhibit a decreasing trend. The labor share in the sector was around 5%. However this information varies significantly and depends on the source¹. Be as it may, agriculture remains one of the most important economic sectors in Bosnia and Herzegovina, providing food security for a significant part of the rural population. The rural population accounts for 60% of the population of the country. Most of those people are involved in some way in agricultural activities even though they may have fulltime off-farm employment. The high percentage of population compared to the low percentage of GDP and low labor share represented by agriculture is evidence that much of the country's agriculture is informal, traditional, and not commercial. Nevertheless, the agriculture sector generates a basic income for a major part of the rural population, improves diets and contributes to political and economic stability.

On the Entity level, the agriculture sector is officially more important for the economy of Republika Srpska (RS), with an estimated GDP share of around 13% of the GDP (2005). In the Federation of Bosnia Herzegovina (FBiH), this share of the GDP remains stable at 6%. It is estimated that about 80% of the industry was privatized through 2006. However, as a whole, the entire sector is but a blip on the FDI radar, with the largest investments flowing into manufacturing and banking. As can be seen in the pie chart, the FDI portion allocable to agriculture is too small to be included.

¹ Data vary significantly due to unreliable statistics maintained by official institutions in both Entities. Additionally, official vs. unofficial employment had been a statistical quagmire for years, with "grey economy" employment estimates ranging from 15% to as much as 45% (depending on the source and methodology). Central Bank's of BiH estimate of unemployment rate is 24% (taking into account the unofficial employment).



Source: Central Bank of BiH, Ministry of Foreign Trade and Economic Relations, FIPA

Figure 1- FDI in BiH by Sector (May 1994-December 2009)

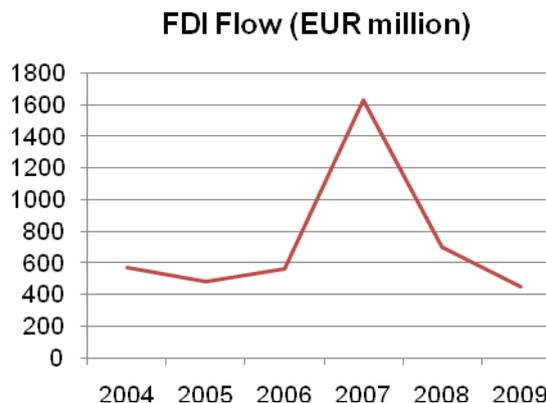


Figure 2- Flow of FDI in BiH (2004-2009)

On the macroeconomic front, FDI dropped precipitously due to the combined effects of the global economic crisis and the lack of structural reforms. The Foreign Investment Promotion Agency (FIPA) estimates that 2009 FDI amounted to 452 million Euros, which constitutes a drop of 36% in comparison to 2008. This is a continuation of the steep decline in FDI flows which began towards the end of 2007 (i.e. amount of FDI in 2009 is 72% lower than the amount in 2007). Simultaneously, the Central Bank of BiH estimated the real GDP growth rate at -3.2% in 2009.

Year	Imports (BAM)	Exports (BAM)	Balance of Trade (BAM)
2005	11.324,61	3.837,10	- 7.487,51
2006	11.240,89	5.271,01	- 5.969,88
2007	13.633,30	6.073,53	- 7.559,77
2008	15.932,55	6.847,32	- 9.085,22

In the area of foreign trade, both exports and imports were increasing. However, as the imports outpaced the rate of growth in exports, the negative balance of trade increased.

Imports from CEFTA countries fell on average by 28% along with exports to these countries which shrank by 15.72% on average. Exports to Kosovo increased by 47%, but given the low export base in previous years, this result is not surprising. At the same time imports from and exports to EU countries decreased by 26.28% and 19.03% respectively, thus having little effect on trade balance.

ABOUT THE PROJECT

FARMA is a \$13.6 million, three-year (plus one option year) program co-financed by the U.S. Agency for International Development (USAID) and the Swedish International Development Agency (Sida), and managed by Chemonics International.

The program is designed to provide technical assistance in BiH targeted subsectors of agricultural markets through demand-driven assistance aimed at improving the competitiveness of BiH agricultural products. Bosnia and Herzegovina is in a unique position in the current global economic environment to spur economic growth and establish a foundation for sustained access to regional and international markets.

FARMA's approach focuses on four integrated components:

- Building sustainable market linkages for BiH producers;
- Increasing access to finance;
- Building the capacity of partner organizations and other counterparts; and
- Enhancing the policy environment to benefit the competitiveness of BiH agricultural goods.



FARMA's objective is to achieve rapid, sustainable and broad-based economic growth through demand-driven assistance aimed at improving competitiveness of BiH agricultural producers and agricultural businesses. FARMA is working to expand environmentally sustainable production, processing, domestic sales, export sales, and the production of value-added products.

In FARMA, Sida and USAID created a program that will help BiH accomplish several critical objectives: increase agricultural competitiveness; meet European Union accession standards; reduce poverty by expanding environmentally sustainable production; and increase sales, exports, and employment.

The FARMA project is a response to USAID and Sida's vision that Bosnian consumers can and should have confidence in buying BiH produced products, and that sophisticated European markets can regularly source BiH products that meet EU standards.

FARMA's targeted assistance to agricultural associations, cooperatives, market integrators and food processors - assumed under the term "partner organizations" - will be guided by the demands or opportunities of domestic, regional, and/or international markets. The essence of this approach is taking market demand as the starting point for all program activity and working backwards to help partner

organizations solve the problems that stand in the way of satisfying that demand. Our assistance is codified in Memoranda of Understanding with collaborating partner organizations. In our collaboration we identify constraints, detail solutions, and seek to specify the causality between the two so that results can be measured and attributed.

INTRODUCTION

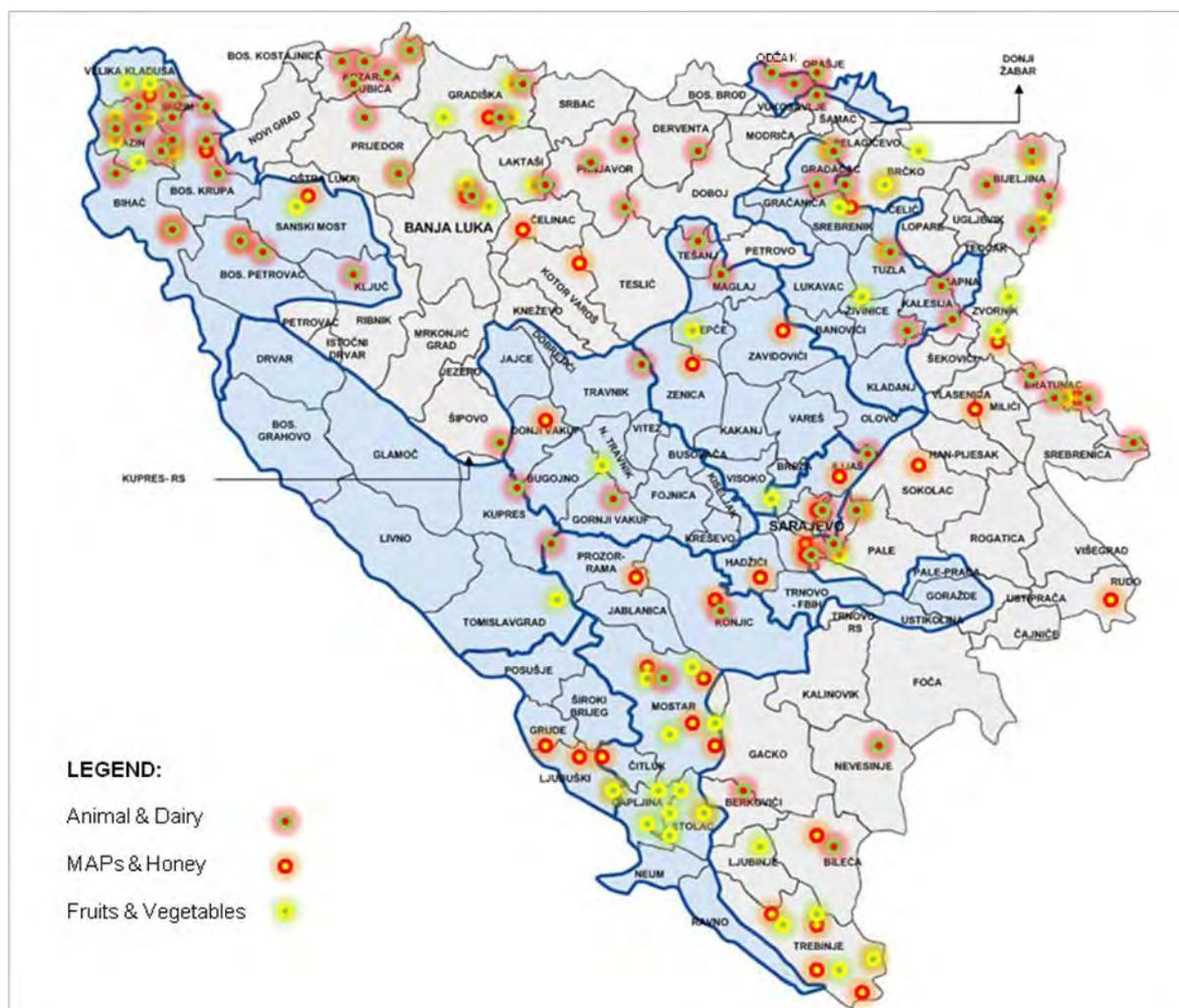


FIGURE 1- GEOGRAPHIC DISTRIBUTION OF THE FARMA PROJECT BENEFICIARIES BY SECTOR

The Fostering Agricultural Markets Activity (FARMA) project started at the end of the 2009 crop cycle. This timing of activities allowed project personnel to get the program up and running before the commencement of the 2010 agricultural cycle, when their expertise was put to use working with farmers in the field. However, this also means that FARMA will be almost halfway through its three-year time frame by the time it completes the first crop cycle. Additionally, this difference in timing of the growing seasons' and the project contract years affects the project's ability to collect and report relevant data. As data became available towards the end of the calendar year (or after the end of the year, depending on the diligence of producer-partner organizations), FARMA collected and reported substantive results at the end of the 1st calendar quarter of 2011, rather than at the end of the contract year. This report therefore, should be considered as an update of the original annual report.

Despite adverse effects of external events- severe floods, untimely rain, epic hail storms, and cold spells which decimated crops in some parts of the country- FARMA succeeded in keeping project activities on track with the general course charted at the outset of the project. FARMA completed the project start-up processes without major incident, setting up offices, installing relevant systems, and getting major documents approved.

Despite adverse effects of external events - severe floods, untimely rain, prolonged rainy periods, epic hail storms, and cold spells which decimated crops in some parts of the country - FARMA succeeded in keeping project activities on track with the general course charted at the outset of the project. FARMA completed project start-up processes without major incident, setting up offices, installing relevant systems, and getting major documents approved.

The project used the winter season to deliver training on various technical issues in order to better prepare farmers and Partner Organizations (POs) for the agricultural season. New methodologies, such as proper winter pruning, new trellising² systems, proper preparation of animal feed, soil preparation and fertilization, were explained in detail to almost 4,000 BiH farmers. Training included practical work and demonstrations, allowing hands-on learning for participating farmers. Proper preparation in the winter was essential to ensuring a successful harvest the following season, enabling increased production with minimal post-harvest losses.

After identifying the existence of severe deficiencies in skills required to operate modern, efficient farms in all sectors, FARMA embarked on the challenging, yet rewarding path of establishing stand-alone educational programs to address those deficiencies. These programs were established as “schools” within specific sectors with set curricula on a particular topic. Two such schools were inaugurated in the past year. The year-long Beekeeping School was established in collaboration with the Agricultural Faculty in Mostar to educate honey producers on good beekeeping practices and methods of how to align their final product with EU market requirements. The first cohort (52 beekeepers) graduated in November 2010.

Additionally, FARMA organized the Dairy Producer School in cooperation with Mikroprom Inc., the RS Extension Services, and the RS Agency for Selection and Breeding Work in Animal Husbandry. Beyond being the first school of its kind to be established in BiH, the School is a good example of collaboration between the private and public sectors. A total of 61 farmers successfully completed the program in the 3rd quarter of the contractual year.

In the policy domain, FARMA held a public discussion on honey regulations with a number of individual honey producers and association representatives, in collaboration with the BiH Food Safety Agency. The project also collaborated with the Swiss organization, Caritas, and the BiH Plant Protection Agency to organize a series of conferences titled “Erwinia amylovora – its current status in BiH and how to prevent further spread?” The goal was to inform key stakeholders in plant protection about the monitoring and management approaches in Switzerland and neighboring countries and define ways to manage the disease in BiH. To further enhance local expertise in detecting and controlling the disease, Caritas and FARMA organized a study trip to Switzerland for two BiH experts from the Agriculture Institute-Butmir and the Integrated Production Association.

In addition, FARMA assisted the Agriculture Sector of the Ministry of Foreign Trade and Economic Relations (MoFTER) to prepare a Road Map to create conditions that will enable the export of products of plant and animal origin. The full implementation of the Road Map will lead to the development of quality and regulatory infrastructure that meets EU requirements. The draft Road Map was submitted to the Cabinet of Ministers on 20 July 2010 and the Council of Ministers on 9 August 2010 for review and adoption.

² Trellis - a structure of open latticework, especially one used as a support for vines and other creeping plants. These support structures are especially important in berry growing. Proper installation of trellising is essential to provide easier access and management of the crop, reduce disease pressure, as well as increase productivity.

FARMA also established an on-going, cross-border collaboration with the Agricultural Institute Maribor (Slovenia). The Agricultural Institute hosted study tours for dairy producers and provided detailed information and tips on accessing EU funds. Moreover, the Slovenian partner even participated in sharing costs for some of these activities with the FARMA project and indicated its willingness to continue collaboration in the future.

The project succeeded in its intent to import and introduce new varieties of berries. Berries imported from the U.S. and the U.K. are high-yield varieties that were not previously present in BiH. Following the legally mandated testing period at the Agricultural Faculty, new berry varieties will be introduced, first to locations where plants can be multiplied (such as nurseries), and second, more broadly onto commercial farms. Commercial production will begin in the 2012 growing season. Expected results are significant increases in production of fresh berries, a longer growing season, and improved profit margins.

In the area of financing, the project assisted three clients to develop business plans and complete loan applications to attain new financing for production expansion. The total value of new financing obtained was BAM 920,000 (one loan came from the existing DCA line). This segment of the project suffered from the effects of the global financial crisis which has severely dampened the local economy. In response to the crisis, commercial lending institutions began hoarding cash and tightening already restrictive loan criteria. Consequently, attaining loan financing to fund business activities became extremely difficult.

In general, the project successfully accomplished the majority of activities scheduled for the first year. However, the project was unable to complete certain activities originally planned for Year 1 as a result of exogenous circumstances, such as the global financial crisis and lack of progressive reforms in the country. Consequently, those activities projected to be completed during the first year were moved to Year 2.



PHOTO: FARMA ANNUAL WORK PLANNING SESSION
CREDITS: FARMA PROJECT

ANIMAL AND DAIRY SECTOR

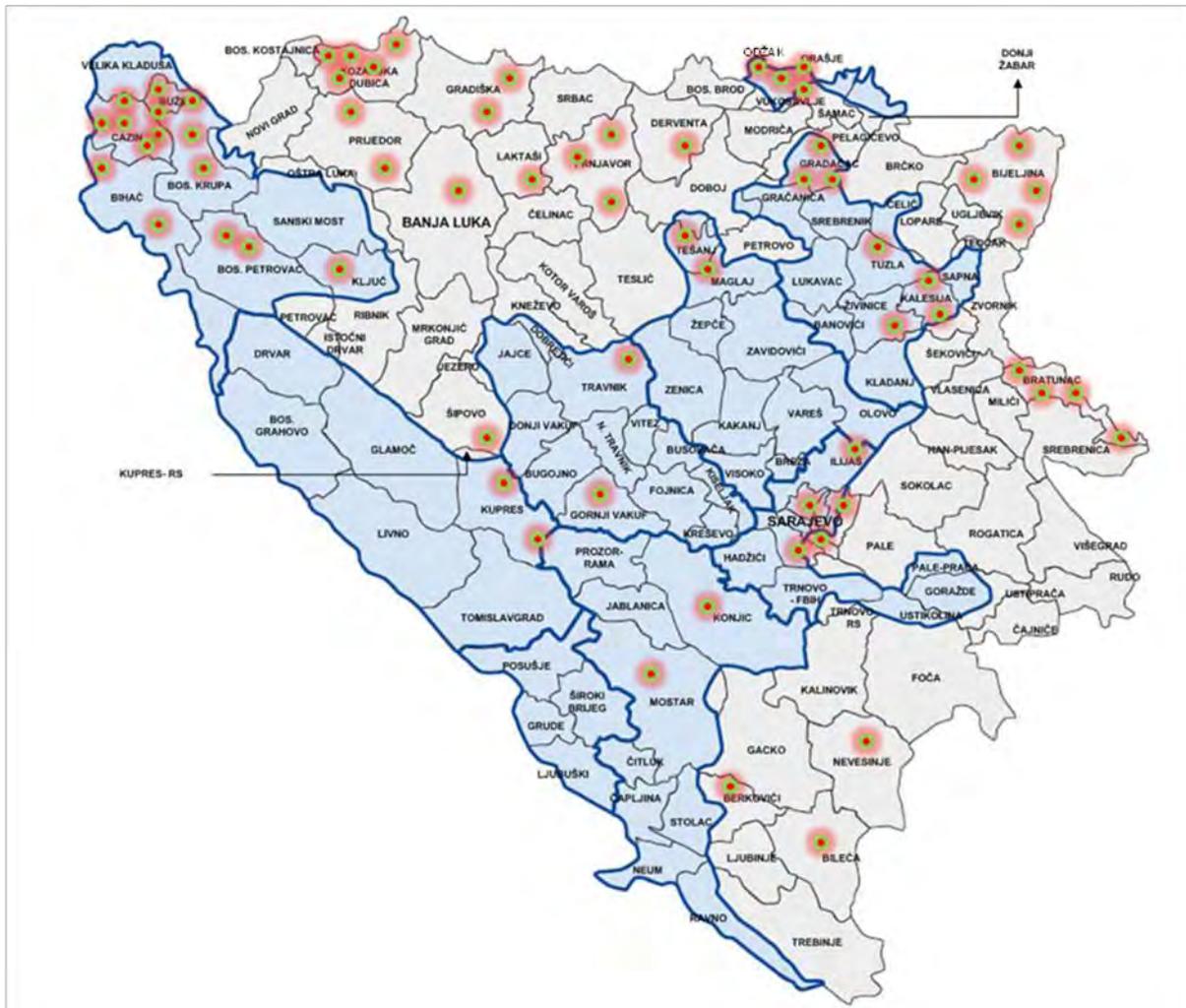


FIGURE 4- DIRECT BENEFICIARIES TERRITORIAL DISTRIBUTION

A. THE YEAR IN NUMBERS

HIGHLIGHTS

- Provided direct assistance to 134 producer organizations representing 40% of the total sectoral output.
- Direct or indirectly assisted over 1,700 dairy farmers from all over BiH.
- Experimental application of the new animal feed production technology introduced by FARMA reduced per unit cost of animal feed by as much as 97%, thus significantly reducing overall milk production costs.

In the first year, FARMA almost reached its LoP goal of working with POs which represent 40% of the sector, despite overall reduction in milk quantities purchased by processors of 1% in relation to 2008. Beneficiaries with whom the project worked in 2009 sold a little over 132 million BAM worth of products, which represents 40% of the value of the estimated total sectoral production.

KEY DATA	2009
Estimated Value of Total Sectoral Output (BAM)	333,900,000.00
Sales of FARMA Beneficiaries (BAM)	132,808,838.16
% of the Total Sectoral Value Captured	40%

Based on the 2010 sales figures obtained from partner organizations, FARMA's beneficiaries on the average performed better than the year before. Sales (at least in those which provided data for both years) increased on average by 23%. Nevertheless, we are quick to point out that FARMA is counting the improved sales of project beneficiaries without attempting to claim how much of that change was caused by the project's assistance. Indeed, such an estimate cannot be successfully made.

Employment in these organizations increased, however, only marginally. For example, full-time employment (both male and female workers) increased by 2%, while the part-time employment fell by 4%. However, these data should not be considered as representative across the project's beneficiaries (as stated above, due to limited availability), let alone for the entire sector. The data will be revised at the end of the calendar year at which point the project will have a better grasp of the magnitude and direction of changes in employment. It does not appear that the changes will be significantly positive. As already noted, that is not an indicator of failure or success because long term project success will correlate with a downward tendency for agricultural employment.

The official data on export sales of milk products indicate a 28% increase in relation to 2008. However, small and medium dairy producers tend to focus on the domestic market, as they do not have the money or the know-how to position themselves in foreign markets. Therefore, large dairies (most of which are foreign-owned) were able to sell their products abroad, predominantly to their parent companies. Those POs increased their 2010 exports by 23% on average in comparison to 2009 which is certainly encouraging (from 37.3 million BAM to 47.7 million BAM).

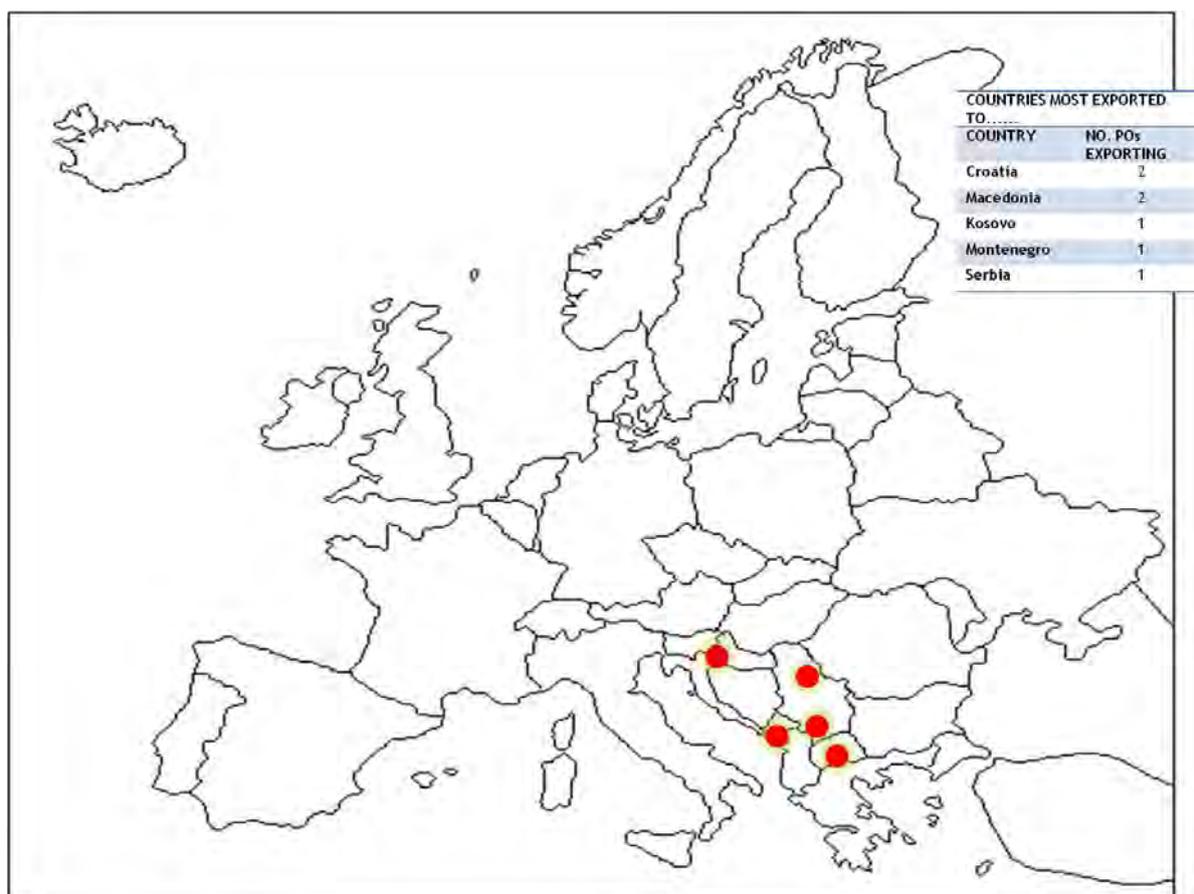


FIGURE 5- EXPORTS OF DAIRY BENEFICIARIES (TERRITORIAL)

Events	Number of participants
Study Tour	171
Technical Assistance	1,011
Trade Fair	98
TOTAL	1,280

In the past year, the FARMA project worked with 134 PO beneficiaries, providing technical assistance through combination of group training, one-on-one training, study tours and visits to trade fairs to almost 1,300 dairy farmers from all over BiH. Note that there is some unavoidable double counting in these figures as the project does not track the names of individual farmers or the identification of the businesses or farms they represent. However, the count is accurate in terms of the participants in the project sponsored events.

EXTENSION MATERIALS PRODUCED

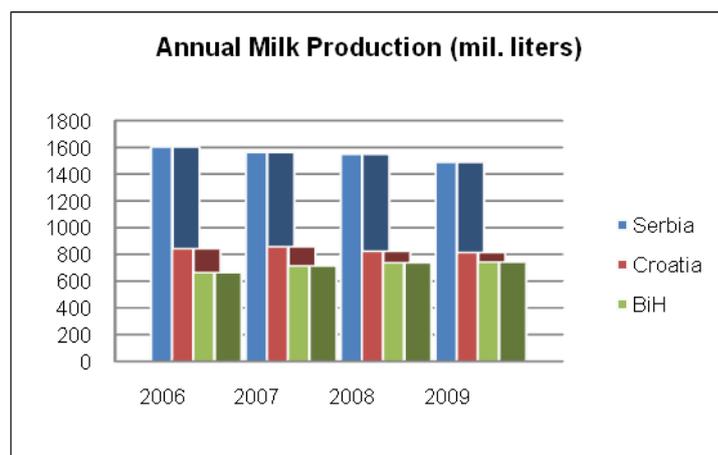
- 1 Good Hygiene practices in the Dairy sector
- 2 Good Feeding Practices
- 3 Good farming practices in milk production
- 4 EU Nitrates Directive
- 5 Range of presentations on barn construction, livestock reproduction, hoof trimming, preparation of grass silage, preparation of corn silage, techniques of corn production, preparation of hay and grass and grass clover mixture production

B. SECTORAL CONTEXT

Milk production is considered to be a strategic agricultural sector in BiH. The production of milk relies on the production of cattle, sheep and goats. This is the most common type of agricultural activity on BiH farms. However, most of it is traditional, non-commercial, micro-

production. About 100,000 agricultural holdings keep cows while approximately 33% produce milk commercially.

Qty. Milk Produced (mil. liters)						
Year	Serbia		Croatia		BiH	
	production	% change	production	% change	production	% change
2006	1602	0%	843	0%	663	0%
2007	1563	-2%	856	2%	714	8%
2008	1548	-1%	823	-4%	737	3%
2009	1488	-4%	814	-1%	742	1%



During the year, milk purchases from farmers decreased by 4.8% (in comparison to 2008). Out of the total available quantity, only about 30% (222 millions of liters) was purchased. This represents a reduction of about 5%, as compared to 2008.

This reduction was a response to the economic crisis and the reduction of the price required for producers to pay farmers, because of new regulations. The Milk

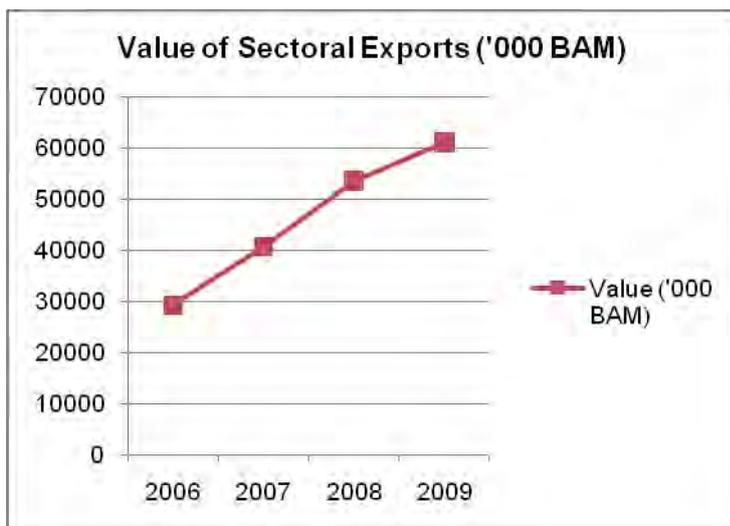
Quality Decree mandates price floors based on the quality of milk. This reduced the pool of farmers capable of selling their milk to dairies, and the total sales amounted to about 117.67 million BAM³. The dairies have been eliminating milk collection from many of the small producers. In addition to reducing their collection costs, this has also improved their overall milk quality because they reduced the proportion of their milk purchases that were not cooled sufficiently quickly after milking. This has placed significant pressure on the very smallest producers. The dairy industry is one in which the cost is high for equipment and infrastructure to establish and maintain hygienic, quality product. Any effort to help the smallest farmers avoid the harsh economic reality of this loss of market will delay the inevitable decision they must make to either invest heavily or achieve the necessary economy of scale or to leave milk production and change their farming activities to those which will be profitable for them.

Even though dairies were reducing the number of farmers from whom they purchase, the commercial BiH milk production increased modestly, by 1% (in comparison to 2008). When compared with its closest neighbors - Serbia and Croatia - BiH succeeded to do in 2009 what others did not, increase its milk production. Production dropped by 4% and 1% respectively in those two neighboring countries.

LIMITATIONS ON SECTORAL GROWTH:

- Undeveloped land/property market.
- Ownership structure and underdeveloped agricultural land (53% non-developed arable land in FBiH and 42% in Republika Srpska).
- Farm locations and their small size.
- Lack of milk cooling infrastructure - related to the small size of dairy operations.
- Uncompetitive farm labor rates in comparison to more labor-attractive sectors (i.e. retail, services, etc.).
- Inferior production of animal feed and inadequate attention to animal nutrition.

³ The quantity purchased by the processors multiplied by the average purchase price of 0.53 BAM per liter.



Milk imports in 2009 amounted to 128.8 million BAM, which represents a 5% reduction as compared to the previous year. However, the absolute quantity of imports grew, which is a result of reduced prices for milk products in international markets. At the same time, sectoral exports grew significantly - 16% in comparison to 2008. This was mainly a result of increasing exports to regional markets (Macedonia, Croatia, Serbia, Kosovo, Montenegro). This new export push was initiated by the business maneuvering of the large dairy corporations

operating in the region (e.g. Salford, which owns numerous dairies in both Serbia and BiH). This was not so much a response to market opportunity but an exploitation of government subsidy programs.

The effects of the economic crisis on the dairy industry in Europe were: (a) reduced consumption and the growth of permanent dairy product inventories (i.e. processed cheeses); (b) reduced competitiveness of the entire industry in world markets; (c) reduced prices of raw milk and other dairy products. To protect dairy producers, the EU activated protection measures, as prescribed by the Common Agricultural Policy: (a) system of subsidies was reactivated; (b) import price floors were increased; and (c) the system of purchasing permanent products by the common commodity reserves was activated.

The results these EU measures had on the local dairies were increased imports of subsidized dairy imports from the EU thus causing reduction in consumption of domestically produced dairy products. Continuation of this trend represents a serious threat to domestic production of permanent dairy products such as cheese. Additionally, these measures reduced competitiveness of dairy producers and increased inventories. Some local dairies already significantly reduced purchases of raw milk from primary producers.

This combination of government measures, while well intentioned, creates perverse consequences. BiH consumers have essentially been paid by EU governments to purchase their country's dairy products because the price of those products is artificially low because of subsidies. At the same time, the BiH government has been paying BiH producers to export milk to neighboring countries through its export subsidy program.

Moreover, liquidity issues continued to plague the entire economy (including dairies). These, coupled with high production costs and high guaranteed milk purchase prices, significantly erode the financial viability of the entire industry. Additionally, the lack of regulations, certified laboratory services, and standardization continued their negative influence on the ability of BiH to export domestic products.

C. KEY CHALLENGES & INTERVENTIONS

The focus of the project's interventions throughout the year were increasing domestic and foreign sales. Yet, in order for this to happen, the production per cow must be increased,

costs of production must be reduced, and the quality of product must be improved. These three key factors - production volume, costs of production and product quality - became the project intervention drivers in this domain.

In order to rectify and mitigate the issues highlighted above, the project's activities in this domain will therefore continue to focus on: (a) increasing production of raw milk through improving animal productivity; (2) development of efficiencies in the processing industry – dairy plants; (c) supporting extension services and agricultural institutes in their development and providing professional services to milk producers; and (d) strengthening the capacity of cooperatives, associations and market integrators to induce greater system wide efficiency.

D. RESULTS

INCREASING PRODUCTION OF RAW MILK

GOALS ENVISIONED:

- Increasing profits by producing high quality milk.
- Application of international standards in production of raw milk.
- Strengthening links between farmers and dairy processors.
- Identification of legislative barriers to sectoral development; preparation of strategies, policies and regulations; encouraging partnership of public sector and dairy farmers.

The main challenge for milk producers is how to increase milk production in a cost-effective way. Several issues affect production. The "Milk Quality Decree" effective as of January 2010 in both entities, provides subsidies for dairy processors based on the somatic cell count, bacteria count, milk fat and protein content. This newly introduced mechanism affects the price farmers

receive per liter of milk produced, and creates a significant price difference between milk of, extra class (highest rating possible) as compared to prices received for milk of class III or IV. Additionally, the Decree established a new focus on quality, especially in those areas directly dependent on farm hygiene practices (bacteria and somatic cell counts). Hence, dairy farmers' ability to obtain and maintain their income is correlated with the implementation of good hygiene practices (GHPs) and applicable standards to ensure that only the highest quality product is delivered to the consumer.

In response to these concerns and pressing EU compliance issues, FARMA organized a host of trainings for cattle farmers on good hygiene practices in dairy production and on additional topics such as: grass silage preparation and cattle reproduction. On-the-farm training sessions provided practical training for dairy farmers on: animal reproduction, animal health and improvement of zoo technical practices, preparation of animal feed, feeding techniques, and improving the milk yield by properly balancing animal feed and diet.

Moreover, in promoting good farming practices to ensure higher product quality and higher profitability, FARMA organized the Dairy Producer School in cooperation with Mikroprom Inc., the RS Extension Services, and the RS Agency for Selection and Breeding Work in Animal Husbandry. A total of 61 farmers successfully completed the school on the following curriculum topics:

- Subsidies in RS Agriculture;
- Record Keeping in Animal Husbandry;
- Selection and Breeding Work in Milk Production;
- Preparation of Grass Silage;
- Cattle Reproduction;
- Hoof Trimming- Practical Farm Training;
- Barn Construction;

- EU Nitrates Directive;
- Techniques of Corn Production;
- Preparation of Corn Silage;
- Preparation Hay and Technique of Grass and Grass Clover Mixture Production;
- Good Feeding Practices.

All stakeholders including associations of farmers, processors, ministries and extension services expressed interest in these topics. FARMA plans to organize several “winter dairy schools” in the upcoming winter season to expand these practices throughout BiH to further improve farm productivity.

Additionally, the FARMA project developed a booklet on Good Hygiene Practices (GHP), where all these topics are covered as part of EU regulations, production standards, and industrial practices. This booklet together with the Nitrate Directive booklet will be presented to all commercial farmers by March 2011. In total, 1,011 dairy farmers attended FARMA’s training on various technical topics for this sector during the past year. The project additionally organized three in-country study tours as well as three study tours to Slovenia. These study tours allowed farmers, processors and representatives of agricultural institutes to learn new production practices and to create linkages with business providers and farmers. For example, a study tour of cheese processors to their Slovenian counterparts and the Agricultural Institute in Ptuj (Slovenia) resulted in developing new varieties of cheeses and linkages with providers of production inputs for cheese factories. In total, through combination of training, one-on-one farm training, study tours and visits to trade fairs, FARMA provided assistance to 1,280 dairy farmers and 59 dairy POs (beneficiaries and others) from all over BiH.



DEVELOPMENT OF PROCESSING INDUSTRY – DAIRY PLANTS

Structure of Dairy Processors by Processing Capacity

Capacity liters/day	FBiH			RS			BiH		
	Dairies	Processed milk ('000 l)	Participation %	Dairies	Processed milk ('000 l)	Participation %	Dairies	Processed milk ('000 l)	Participation %
More than 100.000	4	101.107	70,7	1	51.604	60,0	5	152.711	66,7
50.000- 100.000	2	14.497	10,1	2	22.618	25,7	4	37.115	16,1
20.000- 50.000	2	7.115	5,0	2	5.343	6,1	4	12.458	5,4
10.000- 20.000	7	15.800	11,0	2	2.127	2,4	9	17.927	7,8
Up to 10.000	5	4.522	3,2	6	4.780	5,8	11	9.302	4,0
Total	20	143.041		13	86.472		33	229.513	

GOALS ENVISIONED:

- Improving product quality to meet EU standards and requirements.
- Establishing a system of quality control.
- Application of new technologies and innovations in production.
- Product development, design and marketing.
- Production process improvement.

The fundamental task of FARMA is to improve the economy of BiH. This requires that the project work with the farms and businesses that can have the greatest impact on the economy. This usually means working with the largest and most profitable operations. They are the ones that are the most able to bear the risk of change and

create significant economy-wide benefits from improvements. The need to work with the largest businesses is particularly true in the dairy industry which is highly affected by economies of scale. The four largest dairies of BiH are FARMA partner organizations. They are owned by foreign companies and FARMA mostly worked with them on issues related to increasing milk quantity and quality of their coop farmers. This proved to be a significant issue for dairy processors, who expressed their gratitude for the project's assistance in this domain.

Throughout the year, small and medium dairy processors were trying to find their place in the market. Considering the fact that competing with large dairies, nationwide, is not feasible these small and medium-size dairies focused on local markets and the production of specific products (i.e. cheese), thus trying to survive in the marketplace. The high cost of transport of milk makes it possible for smaller processors to compete successfully with larger operations in regional markets because of the fact that the margin they lack by not having the large economy of scale advantage, they make up for by having lower transport costs.

The FARMA project organized a study tour to Slovenia where these dairies had a chance to observe similar businesses and to attend the lectures of Majda Tumpej, a Slovenian expert in the dairy industry. The local producers obtained information about new products, usage of by-products, and product marketing. FARMA will continue to provide its support to small and medium dairies, especially to those which engage in production of cheese and other specific dairy products. In October 2010, one group of cheese processors from BiH will visit Slovenia again to learn the recipes for gourmet cheeses – with various spices, garlic, peppers, etc. as well as additives such as smoky flavor – and the technology of whey cheese production to improve the dairy's profitability by better using all byproducts.

DEVELOPMENT OF PROFESSIONAL SERVICES IN MILK PRODUCTION

GOALS TO BE ATTAINED:

- Strengthening the links between existing professional extension services and farmers.
- Strengthening the relationship of the professional extension services and the processing industries.
- Education and training services to help farmers and dairies.

A key issue in this domain is to develop strong agriculture extension services (government and private) that would work in the best interest of the dairy sector, constantly providing knowledge and know-how technologies in areas of improving of feeding practices, production of forage, corn, preparation of silage, milking practices, zoo techniques, etc.

Throughout the year, the FARMA project cooperated with all interested institutes, agencies and extension services, providing learning opportunities by facilitating participation of these institutions in various study tours. In order to expand the project's reach, all participating institutions were required to provide dairy farmer training as a way of sharing new knowledge and practices.

The FARMA project conducted one successful dairy producer school (details in the Results Section), and for winter trainings plan to do another to replicate the same positive results in the RS and the FBiH. The Agriculture Institute Tuzla and Bihac and the RS Extension Service will organize trainings with FARMA for commercial dairy farmers. This is an excellent opportunity for both sides – for institutes to receive new knowledge from FARMA experts and for farmers to have local experts in local institutes and extension services on whom they can rely on when needed.

Additionally, sectoral analyses showed that there is a lack of accredited laboratories capable of conducting analyses of potential export products. FARMA together with Sida organized several trainings and seminars for laboratory staff of the BiH Veterinarian Office. The Veterinarian Institute of Banja Luka already passed through the first certification stage, and they expect that during 2011 this laboratory will be accredited to conduct analyses of milk and dairy products.

The FARMA project will continue to work with all relevant institutions to support laboratories in the process of accreditation. Without accredited laboratories, dairy products from BiH will

not be accepted in the EU or, in the near future, surrounding countries who are trying to protect their dairy sector thus decreasing imports from BiH.

STRENGTHENING THE CAPACITY OF COOPERATIVES, ASSOCIATIONS AND MARKET INTEGRATORS

GOALS TO BE ATTAINED:

- Support agricultural cooperatives, associations, and market integrators to obtain loans from commercial banks and other financial institutions.
- Strengthening ties between agricultural cooperatives, associations, integrators and agricultural and veterinary services, extension services.
- Increasing capacity in the field of standardization and certification in accordance with the EU acquis and market requirements.

Several organizations (associations, cooperatives, and commercial farmers) from northwest BiH received training in business plan development, farm record keeping, and other business skills. All of these skills are necessary in developing loan documentation and other financial requests, such as

grant requests and EU financial support applications if and when they become available, etc. Some of these associations have applied for FARMA grants and as of this writing the project is in the process of selecting grantees. Commercial farmers and cooperatives are waiting to hear about the conditions for new DCA and IPARD funding so they can apply.

Soon after the project's Annual Program Statement (APS) was published concept papers for projects in this sector totaling BAM 1,878,477.68 were received. By the end of the year, 22 percent of the total concept paper requests (valued at BAM 418,000.00) were approved for submission of the full grant application. The full applications will be reviewed for approval by the Technical Evaluation Committee.

SUSTAINABILITY

The multifunctionality of the dairy sector, associated with provision of basic foods for consumers and raw materials for food-processing and leather industries, as well as its contribution to rural development, biodiversity and employment, makes it a major sector of livestock production in BiH. BiH farms, by and large, are small farms (1–5 cows). These farms have more social than economic role, providing livelihood and satisfaction of basic needs. In recent years, new economic and institutional realities, accompanied by the EU accession pressures, began to change the profile of dairy sector.

It is clear that small enterprises are unable to compete on international market and can not effectively comply with the EU standards for food quality and safety, animal welfare and environmental protection. Experiences of other former Communist countries accessing the EU show that, sooner or later, the farms that do not comply with the EU standards for milk quality and animal living conditions were prevented from delivering their milk to the processors. The majority of small farms in BiH will not manage to attain such high standards and will have to go out of business. This will which could have serious socio-economic implications for many people, especially in the less developed region of the country. The only way to remain competitive is to increase farm size and meet the required hygiene standards.

Similarly, only large dairy processors will remain competitive in the long run. Small dairy processors will remain competitive if they focus on niche products, such as specialty cheese. They will not be able to compete with larger dairies if they produce usual products such as milk.

MEDICINAL AND AROMATIC PLANTS (MAPS) & HONEY

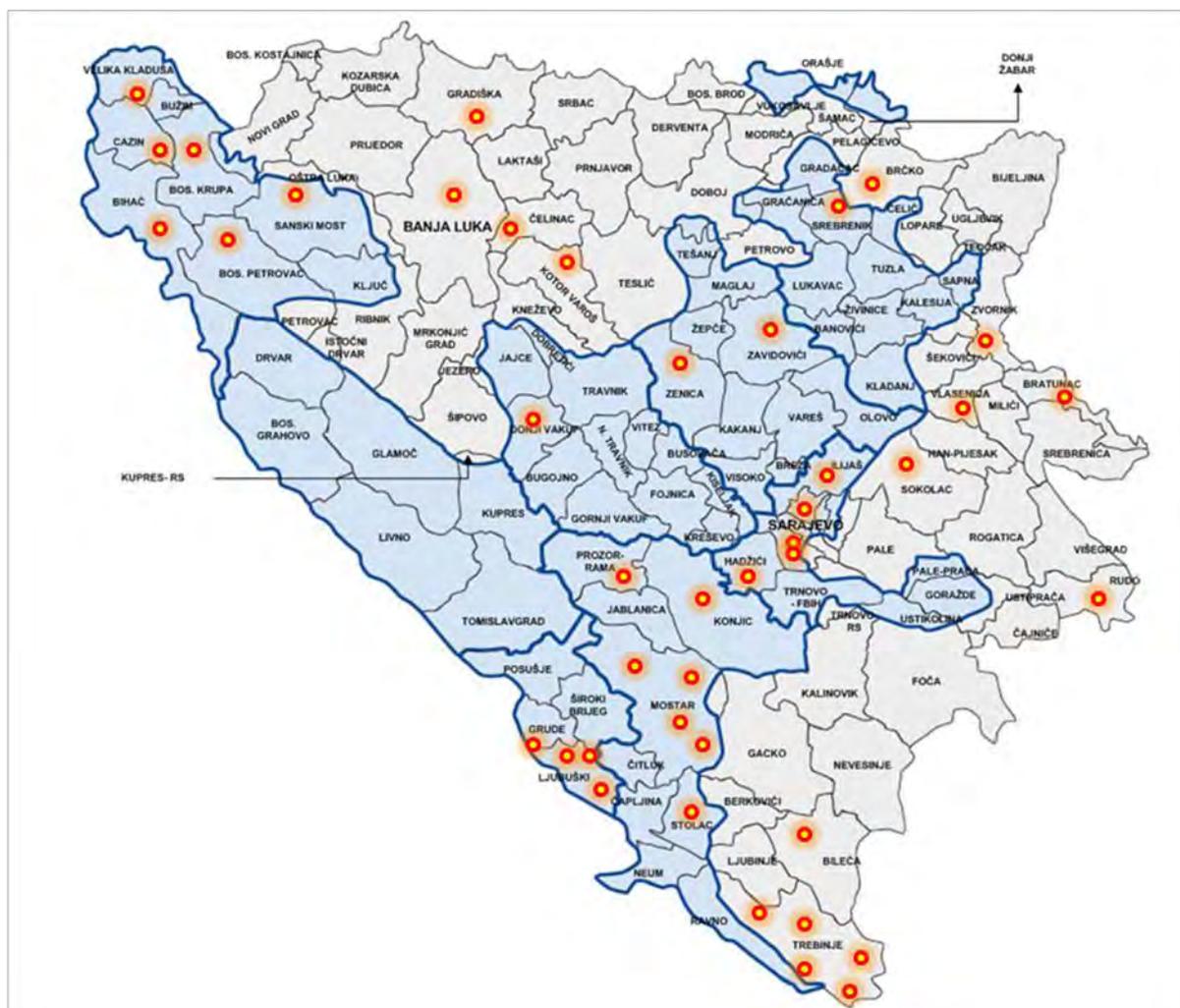


FIGURE 6- DIRECT BENEFICIARIES TERRITORIAL DISTRIBUTION

A. THE YEAR IN NUMBERS

HIGHLIGHTS

- Sectoral exports increased by 97% in relation to 2009.
- Provided direct assistance to 70 producer organizations representing 26% of the total sectoral output.
- Direct or indirectly assisted over 600 MAPs and honey producers from all over BiH.
- Promoted the cultivation of plants to substitute for wild collection to increase economic benefits and preserve the environment.
- Launched a first, yearlong beekeeper school in the region to promote greater knowledge and expertise.

KEY DATA	2009
Estimated Value of Total Sectoral Output (BAM)	45,000,000.00
Sales of FARMA Beneficiaries (BAM)	18,212,565.00

In the first year, FARMA attained its LoP goal of working with POs which represent a 40% of the sector. Beneficiaries with whom the project worked in 2009 sold over 18 million BAM worth of MAP and honey products, which represents 40% of the value of the estimated total sectoral production.

Based on 2010 sales figures obtained from producers and farmers, FARMA’s beneficiaries on the average perform much better in 2010 than the year before. Sales increased on average by 97%. At the same time, exports of FARMA beneficiaries grew by 20% (from roughly 8.6 million BAM to 10.3 million BAM). MAPs and honey POs (predominantly MAP POs as they export plant material rather than animal product as honey POs do) export their products to almost every corner of the globe (see figure, below). Notably, only one PO exports to Southeast Asia, which remains a large, but untapped market for local producers.

Employment in these organizations increased, however, only marginally. For example, male workers full-time employment increased by 3%, and employment of female full-time workers increased by 8%. At the same time, part-time employment (including seasonal employment) in beneficiary organizations increased by 4% on average. However, while the overall part-time employment exhibited an upward trend, on the level of the individual PO, the situation was much more erratic. For example, in one beneficiary PO, the number of part-time and seasonal workers went from 5 to 150 with expansion of cultivation; in other beneficiary POs, part-time and seasonal employment went from 197 to 5. Data will be revised at the end of the calendar year at which point the project will have a better grasp of the magnitude and direction of changes in employment. As of now, it appears that the change will be small, but positive.

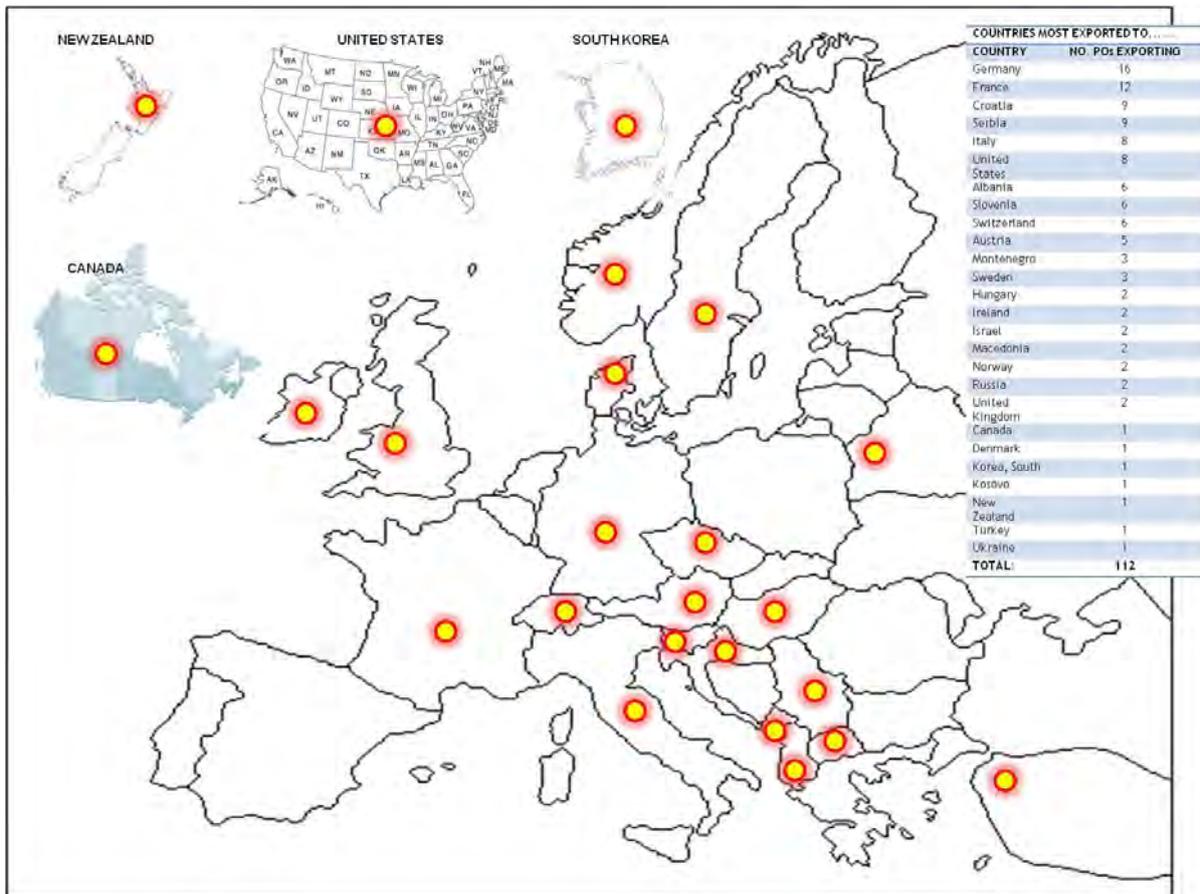


FIGURE 7- EXPORTS OF MAPS AND HONEY BENEFICIARIES (TERRITORIAL)

Events	Number of participants
Study Tour	35
Technical Assistance	469
Trade Fair	110
TOTAL	614

In the past year, the FARMA project worked with 70 PO beneficiaries, providing technical assistance through combination of training, one-on-one training, study tours and visits to trade fairs to over 600 MAP and honey producers from all over BiH.

EXTENSION MATERIALS PRODUCED	
1	Cultivation of lavender
2	Cultivation of immortelle
3	Cultivation of mountain savory
4	Cultivation of sage
5	Cultivation of balm
6	Cultivation of mint
7	Cultivation of chamomile
8	Cultivation of lady's mantle
9	Cultivation of basil
10	Cultivation of marigold
11	Cultivation of thyme
12	Cultivation of marshmallow
13	Cultivation of anise
14	Cultivation of fennel
15	Cultivation of valerian
16	Cultivation of yarrow
17	Cultivation of coriander
18	Cultivation of parsley
19	Set of presentations on beekeeping (bee biology, harvesting of honey, production of other apicultural products, honey sampling and adulteration), as well as cultivation of medicinal and aromatic plants

B. SECTORAL CONTEXT

Medicinal and aromatic plants (MAPs) production and processing as well as production of honey offer great potential in many aspects: social, economic, and environmental. It has tremendous importance for rural development. In BiH, a large number of people, mostly unemployed, poor and vulnerable women from rural areas, are involved in the MAPs sector.

For most of them, this sector offers the only opportunity to generate income to support themselves and their families. The activity of most of them is to work as collectors of wild berries, leaves, plants, and mushrooms.

Plant life in BiH is increasingly becoming recognized as an important national economic resource. Hence, some valuable and important plant species are in increasing danger of overharvesting. This risk is real because of the growing demand from international markets for wild plants. At the same time, a greater number of businesses whose production is based on medicinal plants are being established in BiH. There are currently about 50 medium and large enterprises, total. Thousands of people are connected with these 50 enterprises, harvesting plants from the wild, while only a small number of farmers engage in plant cultivation of these collected species. Due to a lack of proper regulatory oversight and exploitation of the ongoing social and economic crises in BiH, the country has become a source of low cost, high quality medicinal plants material.

Cultivation of medicinal plants holds the key to introducing a new dimension in the field of agriculture in BiH, because of the high product value and its potential to preserve the wildlife species. In order to do this, BiH producers must acquire technologies and adopt techniques for programmed cultivation of medicinal plants. Yet, there are hurdles to be crossed including the lack of proper agro-technology, small land parcels, and the perception of MAPs cultivation as an “exotic” agricultural activity. This last hurdle is a product of traditionalism, as local farmers are used to cultivating more common crops, such as maize, barley, wheat, potato, etc.

Large numbers of people (our estimate is around 10,000) are involved in honey production in BiH. This is a sector which could have a significant impact on the BiH economy. However, it does not largely due to a lack of governmental support and regulatory oversight. Honey and especially different kinds of honey products are being produced by thousands of people with different levels of education and knowledge about those food products, selling them door-to-door without any form of control by the government. This has led to non-standardized production and a thriving black market for honey products. Consequently, it is very difficult for consumers to distinguish “good” from “bad” honey. According to official BiH statistics, local beekeepers own 333,850 bee hives, producing between 2,000 – 2,500 tons of honey annually, while the domestic consumption is estimated at over 3,000 tons. The average production per hive is quite low, between 7 – 10 kg per hive.

Due to all these factors, and due to insufficient production of good quality honey, the industry does not yet have an urgent need to export. Indeed, at the moment it is not possible to export local honey into the EU. BiH is not included in the “Third Countries List,” and in order to be included, the country has to have state-wide quality control system and a developed Residues Monitoring Plan. FARMA is working toward those objectives.

C. KEY CHALLENGES & INTERVENTIONS

The over-exploitation of natural and wild resources and the inability to produce value-added products represent key challenges in the MAPs sector. Raw materials from MAPs are in high demand, and yet many local MAP companies cannot obtain these raw materials locally and are forced to import plant material from other countries. Consequently, the FARMA project focuses on interventions designed to achieve rapid production growth, such as introduction of cultivated MAP herbs. This has the potential to provide employment in plant cultivation and plant maintenance, seasonal employment to a larger number of unemployed in rural areas, as well as the self-employment of individual farmers who decide to cultivate MAPs on their property. Additionally, FARMA’s interventions are aimed at introduction of new technologies, such as those for production of essential oils, which could increase farmers’ and processors’ revenues substantially due to the demand for cosmetics and pharmaceutical companies both locally and abroad.

The key issues and logic guiding FARMA’s intervention in the honey subsector were best expressed by the director of one honey PO...BiH has ideal conditions for production of high quality and organic honeys. However, in order to do this, numerous preconditions have to be fulfilled, such as production of pure wax foundations (without additives), fighting parasites and diseases like *varroa* mites without chemicals. It is necessary to train beekeepers how to protect the bees without resorting to pesticides and antibiotics. Simply put, a great deal of knowledge is required.... It is necessary to encourage plant cultivation to provide sufficient quantities of bee feed, to avoid depending on the nature’s good graces and benevolence.⁴”

⁴ Interview for the web portal “Kupujmo domaće”(8 February 2010).

While FARMA's direct interventions relate to improving bee keeping practices, these improvements will have wide effects beyond honey production. The improved availability of honey bees as pollinators will improve the productivity of all other BiH agriculturally cultivated plants. In fact, those improvements in pollination alone, as estimated in other settings, would fully justify the FARMA emphasis on the honey sector.

D. RESULTS

Medicinal and Aromatic Plants (MAPs)

In its efforts to strengthen, improve, and modernize the MAP and honey industry and increase production, FARMA faced several critical issues in the first year of operation.

In the first part of the year, the project focused on developing the MAPs and Honey sector analyses, to establish the basic characteristics of the two industries. At the same time, the project established a strong field presence, resulting in the establishment of working relationships with more than 100 MAP and honey producers of all sizes: small, medium and large while intensively working with 70 producers (majority of which formalized this working relationship with FARMA by signing MoUs with the project).

In the MAPs sector, one of the most significant challenges for the project team will be introducing the cultivation of medicinal plants to farmers and POs. FARMA engaged two local experts with practical experience to conduct intensive trainings for farmers, covering the basic agricultural techniques for cultivation of the most economically viable medicinal plants (20 in total). The project developed instructions for cultivation which contain: plant description, basic plant use, and calculation of cultivation costs and projected economic benefits of a 1 ha of cultivated surface. These instructions will be continuously distributed to farmers all over BiH. Currently, 6 out of 30 planned training sessions have been held - mostly in the region of Srebrenica. In total, more than 200 farmers attended these trainings. FARMA plans to continue these trainings over the project's lifetime, given that the feedback received from the field indicated both the need for and significant interest in these activities

Additionally, FARMA organized an in-country study tour for 17 women from Srebrenica (photo left), who visited "Ljekobilje" company from Trebinje to learn how to cultivate and distill lavender. The women plan to start lavender cultivation on small plots in Skelani and the plants will be processed in facilities owned by the Women Association "Podrinje 1." As these potential growers are all novices in the sector, FARMA will provide support in the improvement and modernization of production, and assistance in linking the Association with other market actors - especially international actors.



EKO MOZAIK made contact early during the project. Their interest was in honey production. They realized that in order to intensify honey production, it would be important to provide pasture for the bees. With FARMA's help, the emphasis of EKO MOZAIK became to provide pasture based on products that, by themselves have high economic value, namely some medicinal and aromatic plants. FARMA supported EKO MOZAIK by creating two feasibility studies: one for the establishment of a farm for medicinal and melliferous plants as bee pasture in Sekovici region, and another for the establishment of a bee farm in the same region. These two documents, created by two international and two local experts engaged by the project, were delivered to the director of the MOZAIK Foundation (photo previous page, bottom). The studies will provide a basis for establishing these farms, which will contribute new 225 ha of cultivated medicinal plants (importantly, most of those who will manage these plants fields will be women) and 3,000 new beehives to the sectoral production.

Another large project, jointly financed by EU and FARMA, is a project focused on medicinal plants cultivation and processing (distillation). The project will be implemented by the "Business Union" based in Zepce, and will assist more than 20 different MAP producers from the entire country. The project is scheduled to commence during the last quarter of 2010. The project's quarterly updates in the future will contain more elaboration about the field work and subsequent results attained by this endeavor.

Throughout the year, the interest of other MAP companies to engage in the cultivation of raw plant material to substitute collection from the wild became increased. "Plantago," "Prirodno bilje," "Faveda," "Andjelic," "Ljekobilje," are POs that expressed interest. FARMA intensively worked with those organizations and continues to leverage every opportunity to find farmers/growers interested in cooperation with those organizations. For example, several farmers approached a FARMA MAPs expert and expressed their interest in growing mint for Plantago. Additionally, FARMA facilitated cooperation between Zuti Klas from Bosanski Petrovac and Plantago. Zuti Klas planted an experimental plot of chamomile for Plantago. In turn, Plantago will provide the seed and machinery for collection of the chamomile, and guarantee the purchase of produced quantities. Their joint plan calls for the development of chamomile plots over several hectares.

Additionally, MAP cultivation attracted individual farmers from all over BiH, including a significant share of women from rural areas. Cultivation represents an opportunity for vulnerable populations with small land holdings to become involved in profitable, commercial agricultural activity, and for rural women to improve their household incomes. Thus, the FARMA project is planning to intensify MAP cultivation and to establish a MAPs farmer "school," in which 100 women will be educated on how to start MAP cultivation on small demo plots. The school is scheduled to start in November 2010 and the program will last until November 2011.

Additionally, FARMA facilitated the establishment of business contacts between producers of value-added MAPs and honey products with other businesses. For example, FARMA facilitated the establishment of a business contact, and a subsequent sales contract, between "Lamaruz" (natural soap production) and the Association "Okusi Hercegovinu." As a result of this activity, Lamaruz committed to selling 100 bars of soap to the association, and to become one of the Association's suppliers. FARMA also supported Lamaruz in marketing and presentation during the 2010 Tea Fest in Sarajevo. Lamaruz received an award for best new product.

In order to explore market viability and potential for placement of organically certified value-added MAP/Honey and F&V products, the project engaged the NGO ECON expert to conduct research. This document will serve as a basis for further promoting local producers

in the local market chains, pharmacies, and other potential local and regional markets. FARMA plans to engage another NGO(s) to implement this activity. The report will be published in the last quarter of 2010.

With few notable exceptions, local POs still offer their products without any marketing plans. That is the reason why the FARMA project engaged a local marketing expert to train companies on how to present and promote their products, as well as on how to establish a competitive price. Marketing reports were developed for 5 MAP/Honey companies (-Apimed", Association of bee producers -Kesten", -Pčelarstvo Bilić", -Ljekobilje" and -Plantago"). These reports provide clear, company-tailored instructions on how to improve their marketing strategy. These reports also contain recommendations for possible collaboration with FARMA in the future. FARMA will continue to pursue these activities throughout the project's lifetime, engaging experts to develop marketing strategies for the interested MAP and/or Honey companies.

Considering that approximately 80% of MAP products are being exported, FARMA identified and started working with three important partners on activities aimed at improvement of MAPs export promotion: BH Foreign Trade Chamber (FTC), BH MAP Business Association, and the Swiss organization SIPPO.

Analyses of Asian, Middle Eastern and the U.S. markets will be completed during the next year.

FARMA formalized relationships with the FTC by signing an MoU in September. The project and the FTC will, in collaboration with the local MAP industry representatives, organize and facilitate attendance to the BioFach Fair (an organic products fair in Germany). SIPPO will also support this activity. Next year, FARMA will identify other areas of collaboration with SIPPO and will formalize this relationship by signing an MoU. One activity currently being discussed with the FTC and SIPPO is a joint organization of a business-to-business conference for MAP industry representatives. As of now, the conference will be held towards the end of 2011.



Honey

The production of honey and honey products in BiH is a small and poorly organized industry. Only a small number of large operators are organized as commercial enterprises, or cooperatives and associations. As mentioned before, there are several reasons why there are many constraints to sectoral growth:

- Large number of uneducated beekeepers;
- Lack of legislation and control by government;
- Low productivity per hive;

- Insufficient quantities of honey for domestic market (although there is interest and capacity to increase number of hives);
- Non-standardized quality of honey and honey products; and
- Inability of BiH to export honey to the EU.

FARMA engaged in a number of activities in order to mitigate the effect of these constraints as rapidly as possible. For example, the project supported the organization and establishment of the Beekeeping School Through a subcontract with the Agriculture and Food Processing Faculty, located in Mostar. The school lasts one beekeeping year and consists of three modules which cover various topics such as: beekeeping basics, preparation of pasture, moving hives, harvesting of honey, selection of queen bees, swarming, production of beekeeping by-products, preparation of bees for winter, economics in beekeeping and relevant legislation. The curriculum emphasizes the practical application of theoretical knowledge, as the field exercises and practical work are a mandatory supplement to classroom education.



This first cohort consists of 52 beekeepers from Herzegovina region (photo, left) which will have completed courses by the end of November 2010.

Successful graduates will be awarded with certificates issued by the Agriculture Faculty. FARMA plans to replicate this school-based training format in at least three additional locations throughout the country. Additionally, the project engaged a local expert to hold a series of training sessions throughout BiH. A small number of training sessions were delivered due to the fact that the honey production season was barely over. Still, more than 300 beekeepers participated in sessions held through the end of September 2010, and there is strong interest and demand for this type of training from producers.

An approved grant application of for the Association “Okusi Hercegovinu” provides an opportunity for the local food and honey producers to exhibit their products at Salone del Gusto Fair in Turin (Italy) scheduled for the end of October 2010, Salone del Gusto is the most important slow-food fair in this part of Europe. The Fair represents a great opportunity for local producers to reach, and perhaps, even access, the European niche markets.

Despite the fact that local producers could produce sufficient quantities of honey to satisfy market demand, the sales are disorganized and poorly executed. Because of poorly utilized capacities, BiH is a net importer of honey. Thus, the FARMA project worked throughout the year to improve official sales of honey in the domestic market in several ways.

For example, a marketing expert was engaged to improve the promotion and sales of honey products in the local market and to improve the utilization of promotional channels, such as the Bee Festival. Furthermore, 3,000 beehives established by EKO MOZAIK in Sekovici, with production based on organic and HACCP standards, will have a direct effect on increasing the production of good quality organic honey.



In an effort to emphasize the importance of marketing and presentation in product sales, FARMA took part in a small but important honey

festival (organized in coordination with Cooperative “*Āalfija*” from Trebinje) by judging the presentations and giving an award for the best marketing presentation (photo, left). The family-owned beekeeping farm “*Braća Barzut*” got the award and put the money to good use financing the production of product labels.

FARMA supported the Association of Beekeepers “*Kesten*” in its efforts to prepare their producers in obtaining the Protected Designated Origin (PDO) certificate.

In an upcoming year, FARMA will engage an expert to investigate potential and possibilities of other POs and the State Administration to obtain the Protected Designated Origin (PDO) certificates in order to increase the EU niche market opportunities for local producers. Specialty honeys, such as sage honey from Herzegovina, chestnut and acacia in North-East Bosnia and polifloral and acacia in Central Bosnia, are of excellent quality and have a potential to attain a premium price in the EU niche market.

Legislation to regulate honey and honey production in BiH develops slowly. FARMA and the BiH Food Safety Agency organized a public discussion on amendments to regulations on honey and other products and amendments to regulations on control methods. The purpose of the proposed amendments is to harmonize current regulations with EU rules. The amendments are about to be adopted by the Council of Ministers, and are on their way to becoming an integral part of sectoral regulation.

Local honey cannot be exported to the EU, as BiH is not in the Third Countries List^[1]. Hence, one of FARMA’s major objectives is to change that situation. The technical project team, along with the cross-cutting EU Integration team, conducted several activities in order to influence elimination of obstacles for honey exports. For example, the Residue Monitoring Plan (RMP) created every year by the BiH State Veterinary Office needs to be approved by the EU. Additionally, local legislation must be harmonized with the EU legislation, so that a particular PO or product can be included on the Third Countries List. FARMA commenced working with two key partners: the State Veterinary Office (SVO) on removing obstacles to honey export and the Food Safety Agency in an effort to assist with the legislative harmonization.

FARMA organized a visit of BiH State Veterinary Office personnel to their counterparts in Serbia in order to learn from their experiences achieving inclusion on the Third Countries List for honey exports. Currently, Serbia has three honey exporters approved by the EU. The project will likely engage an expert (probably from Serbia) to lead the relevant agencies, especially the SVO, through the steps towards successful inclusion of BiH honey into the list. The complexity of this task should not be underestimated. It requires orchestration of activities of several local and international institutions. Hence, the project’s technical team will closely collaborate with the cross-cutting components in an effort to improve regulation and implement sectoral standards.

^[1] EU Council decision 95/408-Article 5 and Regulation 854/2004.



Tea Festival, which is held annually in Sarajevo, has already become recognized in the wider region as a gathering place for successful trade and business meetings for MAP and Honey producers. The 8th Festival was held towards the end of June 2010 and attracted 79 exhibitors.

The purpose of the festival is to stimulate individuals, government, wider community, media and the general public, to pay due attention to this prosperous branch through instigating measures and affirmation of successful individuals and collectives from the field of herbal production.

Director of Sida in BiH, Mr. Anders Hedlund, opened the 8th Tea Festival in Sarajevo. Mr. Hedlund also visited the exhibition and discussed the products with respective companies.

FARMA was pleased to support the event by organizing educational seminars on technical and marketing topics.

FARMA also provided a prize for an exhibitor that offered the best marketing presentation at the booth. The award was given to a newly established company "Lamaruž" from Grude, which produces natural soaps.

Prize was awarded by Mr. Allan Reed, USAID BiH Mission Director.



FRUITS AND VEGETABLES (F&V)

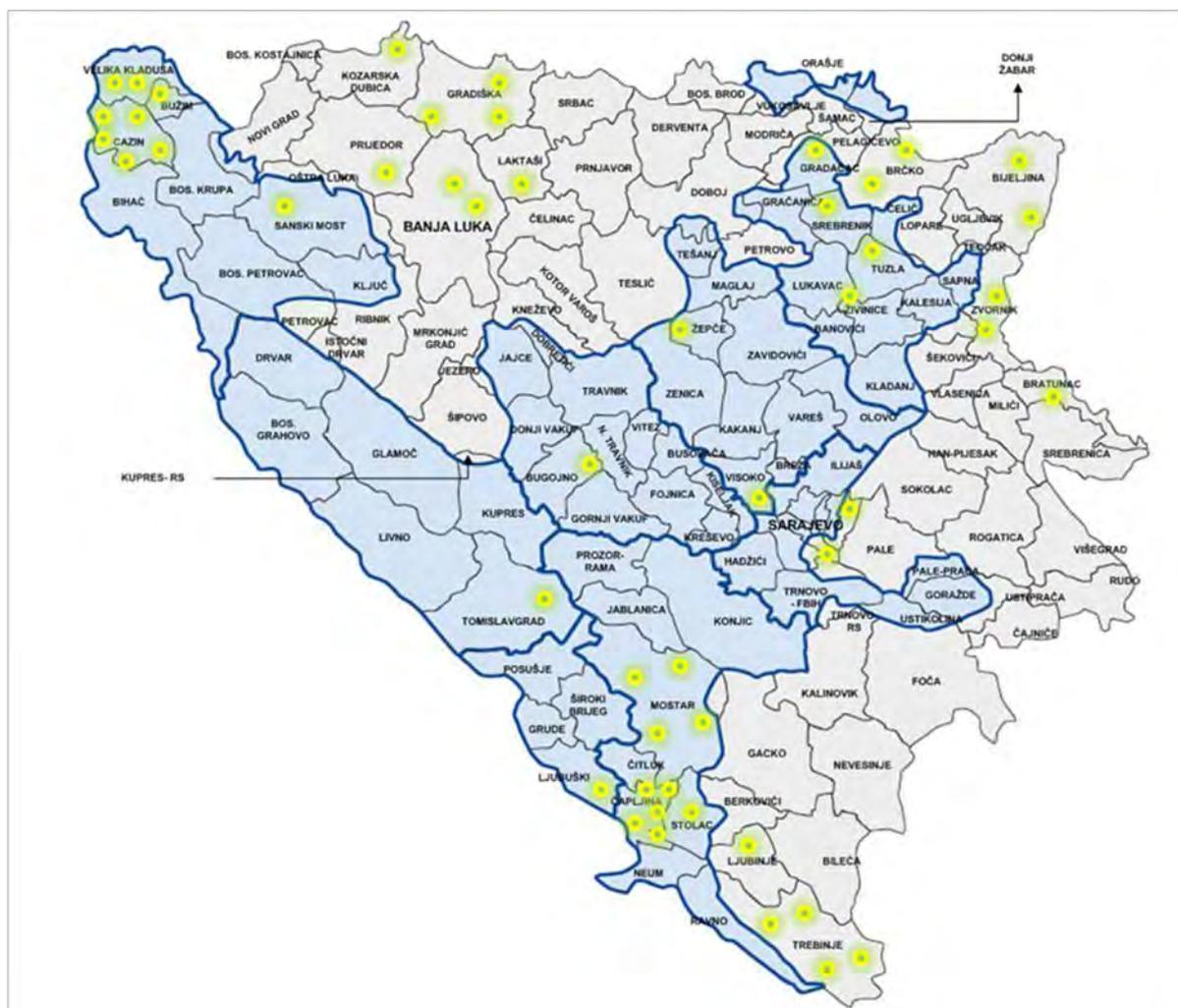


FIGURE 8- DIRECT BENEFICIARIES TERRITORIAL DISTRIBUTION

A. THE YEAR IN NUMBERS

HIGHLIGHTS

- Provided direct assistance to 42 producer organizations representing 66% of the total sectoral output.
- Direct or indirectly assisted over 2,200 fruits and vegetable producers from all over BiH.
- Introduced new berry varieties to BiH and established demo plots.
- Facilitated and enabled access of small fruits producers to large supermarkets, such as Mercator.
- One beneficiary obtained GlobalGAP certificate with FARMA's assistance.

KEY DATA

2009

Estimated Value of Total Sectoral Output (BAM)	124,000,000.00
Sales of FARMA Beneficiaries (BAM)	82,357,178.41
% of the Total Sectoral Value Captured	66%

In the first year, FARMA succeeded in attaining (and exceeding) the LoP goal of working with POs which represent a 40% of this sector. Beneficiaries with whom the project worked in 2009 sold about 82.3 million BAM worth of fruits and vegetables, which represents 66% of the value of the estimated total sectoral production.

FARMA's beneficiaries on the average performed much better in 2010 than the year before. Sales increased on average by 11%, despite some severe losses of crops in North-West BiH due to floods and hailstorms. At the same time, exports grew by 26% (from 29.6 million BAM to 37.4 million BAM), due to significant export deals made by some project beneficiaries.

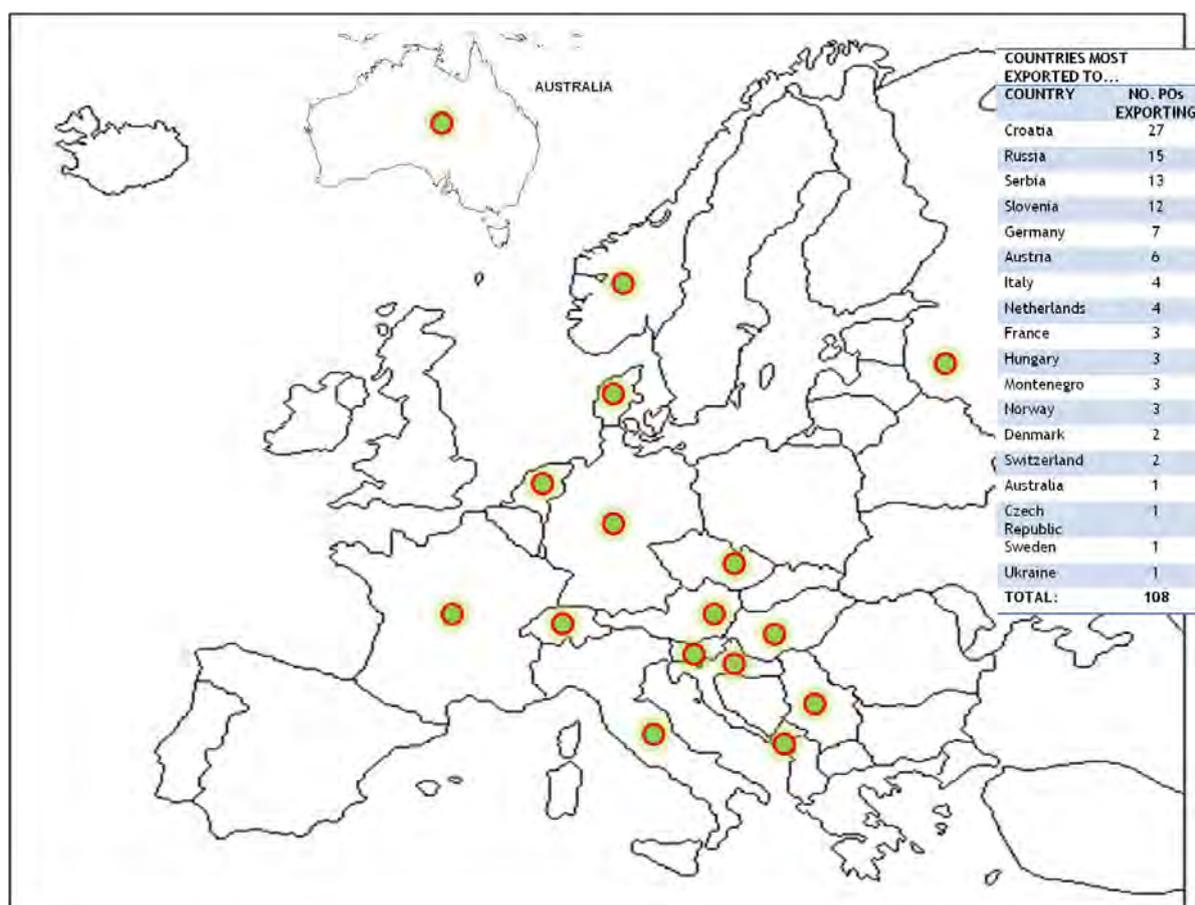


Figure 2- EXPORTS OF F&V BENEFICIARIES (territorial)

Full-time employment in these organizations decreased marginally. For example, male workers full-time employment decreased by 0.48%, and employment of female full-time workers stayed flat. At the same time, part-time employment (including seasonal employment) in beneficiary organizations increased by 7.51% on average. However, while the overall part-time employment exhibited upward trend, on the level of the individual PO, the situation was much more erratic. For example, some beneficiaries dropped all of their part-time and seasonal workers throughout the year, while others increased part-time and

seasonal employment significantly (i.e. one client added 100 new seasonal workers). These data will be revised at the end of the calendar year at which point the project will have a better grasp of the magnitude and direction of changes in employment. As of now, it appears that employment changes in this sector are likely to be negative for the first year of the project.

Events	Number of participants
Study Tour	81
Technical Assistance	2,107
Trade Fair	48
TOTAL	2,236

In the past year, the FARMA project worked with 42 PO beneficiaries, providing technical assistance through combinations of group training, one-on-one training, study tours and visits to trade fairs by over 2,200 farmers from all over BiH.

EXTENSION MATERIALS PRODUCED

- 1 Recommendations for fertilization and pest management in raspberry production in BiH (2010-2011)
 - 2 Range of presentations on production of fruits and vegetables (technology of production, fertilization, pest management)
-

B. CONTEXT

A preponderance of the farms in BiH is less than two hectares in size. The long-term development of the BiH agricultural economy will depend upon commercial farms becoming much larger in size. There is nothing the FARMA project can do to achieve that objective within the project's timeframe and scope. BiH agricultural labor rates are substantially lower than in most EU countries. Taking these facts together, the project must focus on how to make small farms more productive and profitable by giving priority to high value, labor intensive crops.

THE PRICE OF BERRIES

The average purchase price of raspberries this past season was 2.70 BAM/kg

FARMA's concentration is on very high value, labor intensive crops that can profitably be grown on small land plots. The primary project effort to achieve the objective of increasing small farm profitability revolved around cultivating and producing various types of berries. This involved increasing production, acreage and productivity, as well as introducing berry varieties that offer the possibility of fresh market access rather than just freezing. Substantial efforts were put into helping BiH farmers penetrate more profitable fresh markets.

C. KEY CHALLENGES & INTERVENTIONS

The focus of the project's interventions throughout the year was increasing domestic and foreign sales. Yet, in order for this to happen, the production must be increased, costs of production must be reduced, and the quality of product must be improved to comply with applicable standards. These three key factors - production volume, costs of production and product quality - became the project intervention drivers for the fruit and vegetable sector.

D. RESULTS

To achieve FARMA's goals, the project concentrated its activities in three segments:

- Training and study tours to introduce new production technologies and standards to improve yields and product quality;
- Introduction of new berry varieties to ensure the sector gains a competitive advantage in the long run;
- Facilitating market linkages, through participation in fairs and direct contacts with potential buyers, to help POs access higher paying markets.

FARMA also cooperated with other donor projects to achieve its goals.

Introducing new production technologies and standards

In January 2010, FARMA delivered its first direct assistance by organizing and providing technical training to fruit growers. The training focused on tree fruit and berry growing technology. The sector survey conducted by the project's technical staff immediately after FARMA's launch indicated the severe lack of technical knowledge of fruit growers in such areas as proper growing technology, plant protection and proper orchard development. Training on proper winter pruning was a high priority due to necessary preparation for the upcoming season, and subsector history of unreliable quality and less than optimal yields in commercial production.

Winter pruning is especially significant for plants. Most perennial plants must be pruned each year to maintain their health, secure stable growth, ensure fruit growth, control their size and shape, and ensure elimination of damaged plants sections which may be affected by pests or diseases thereby reducing plant viability. Additional trainings in this subsector covered technology for berry-growing with explanations of the latest industrial trends, education on the most common strawberry diseases, and methods of protection in compliance with EU regulations and FARMA's approved PERSUAP.

In the period from January through the end of September, FARMA held 118 technical trainings, visiting 98 different field locations to provide hands-on experience to farmers/growers. More than 2,000 growers/farmers attended these training sessions held by the local short-term technical experts and project's subcontractors.

To ensure that farmers/growers indeed follow best-practices learned during technical training FARMA prepared and printed the Fertilization and Plant Protection Manual for Raspberry Growers. This manual will be distributed to farmers throughout collaborating local POs (cooperatives, associations) over the coming months.

The feedback received from the managers of cooperatives and associations indicated that more than 50% of all the training attendees had implemented what they learned in their farming practices. The percentage appears to be even higher in the central Bosnia region, where farmers increased fruit yields, maintained their orchards properly, and protected their plants. The post-season data indicate that Central Bosnia farmers alone produced and sold more than 200 tons of raspberries of very high quality, representing an estimated increase of 20% (valued at over 500,000 KM) compared to previous year. This amount is in addition to the value obtained from berries collected from the wild.

PHOTO:
FARMA expert Dr. D. Picha with Mr. Stanimirovic, berry producer and a project's training attendee.



Encouragingly, 40 new farmers started production in the spring, planting more than 100 dunums (10 hectares) of new berry plantations. Almost all of these new berry farmers attended FARMA training and had implemented modern growing technologies.

In parts of Eastern Bosnia (Bratunac, Srebrenica, Milici) there has been a fall in the quality of raspberries. This has been due to poor pest management and adverse weather conditions during May and June, and a growing phytophthora infestation. To improve the quality of berries, FARMA signed a subcontract with a private Extension Service in Bratunac to provide comprehensive assistance to farmers in production technologies and pest management. Our goal is to use the winter period to organize training covering aspects of production technologies, while practical training will be started in the spring. In this way, the farmer will be able to apply new production technologies during the 2011 season.

The agriculture cooperative PMG ViP from Gradačac is one of the leading cooperatives in the production and sales of predominantly fresh fruits and vegetables. During FARMA's work with the cooperative, the implementation of the GlobalGap standard quickly climbed to the top of the priority list. The project worked with the cooperative on implementation and adoption of the GlobalGap standard before the commencement of the agricultural season. As a result, PMG ViP successfully implemented the standard, and (in cooperation with Austrian partner) negotiated a deal to export almost 2,000 tons of fresh plums to Austria, Germany and Russia. In 2010, FARMA has been supporting about 20 POs to implement GlobalGAP (more details can be found in the EU Integrations, Standards and Environment part of the report).

The Agromerkantilija Cooperative from Velika Kladusa is one of the leaders in production of berries and pickles in BiH. FARMA provided technical training on various topics, such as: growing technology for berries and pickles, plant protection of conventional and organic berries, soil and plant preparation for new planting season, etc. As a result of the implementation of methods and techniques learned during FARMA training, most cooperative members succeeded in increasing their yield per cultivated surface. In 2010, the cooperative purchased more than 5,000 tons of pickles and 2,000 tons of berries from 3,000 farmers. A total of 95% of the purchased volume was exported to Croatia, Slovenia, Hungary, Sweden, and to other countries in the region. This represents a significant increase. For example, in 2008, Agromerkantilija exported 1,500 tons of pickles and in 2010, roughly 4,600 tons- representing an increase of little over 200% in two years.

In February 2010, the project organized its first study tour to Slovenia for POs from North-East BiH. Through that activity, FARMA established an excellent relationship with the Slovenian Agriculture Institute in Maribor, a collaboration that continues to this day. As a consequence of this relationship, the Director of the Institute and his team visited Tuzla and delivered a presentation on the Slovenian agriculture experiences in the EU pre-accession period, as well as the experience with the EU's agricultural policies after accession. The project recently signed a subcontract with the Institute. Under the terms of the contract, the Slovenian Agricultural Institute will provide various types of technical assistance and services for domestic POs and institutions in their efforts to meet EU requirements.

FARMA also organized a study tour to Poland for berry producers, which resulted in cross-border collaboration between the berry nursery Srebrenik and a Polish company which produces specialized agricultural machinery. The Srebrenik nursery purchased a planting machine which enabled them to improve the speed and quantity of planted material by 50%, significantly reducing costs in the long-run. Additionally, Srebrenik is in the process of obtaining new planting material from Poland with the goal of propagating this material to BiH.

FARMA also made an agreement with the German NGO Pharos e.V. from Stuttgart to provide technical assistance in various areas, in order to help with NGO's efforts on



developing berry farms in Fakovici-Bratunac region. The project provided technical assistance (a combination of classroom activities and practical training delivered by the local and international experts) to farmers from the Fakovici-Bratunac region, the NGO's current clients, and provided help to the NGO's new clients, farmers who had expressed their intent to engage in berry growing. These activities will be extended into next year.

Despite its successes, FARMA experienced a few significant setbacks in this sector. For example, the project worked with one of the

largest cooperatives in North-East BiH "Voćar". The Cooperative was founded and run by returnees to Zvornik region in RS. The cooperative consists of about 1,500 farmer and small producers, producing mainly gherkins. For this past season, the Cooperative had signed a number of contracts in advance, expecting that seasonal production would reach 2,500 tons of vegetables. However, extremely bad weather conditions and continuous rain followed by flash floods in some areas decimated the quantity of production while increasing the costs of production substantially. Estimated drop in cooperative's revenues in relation to 2009 are estimated at 22.5%.

Moreover, the production of fruits and vegetables in Una-Sana Canton suffered severe losses caused by hail storms. Our partner- ZZ Agromerkantilija lost 5 ha of pickles. Additionally, it will take Agromerkantilija two agricultural seasons for recovery of 5 ha of berries. The dairy producers and cattle farmers will also experience significant problems due to the fact that some of the obliterated crops are used in animal feed.

Introducing new berry varieties

FARMA introduced 20 new, modern berry varieties imported from the U.S. and U.K. nurseries. The new varieties included red, gold and black raspberries, and belong to the primocane and floricane groups of raspberries and include early and late bearing varieties. In order to ensure viability of the new varieties in BiH agro-climatic conditions, the project, in collaboration with the Agricultural Faculty Sarajevo, established a new varieties demo plot. After five months of testing, it was established that the majority of these varieties adapted to BiH conditions. The Agricultural Faculty Sarajevo will propagate plant material for testing to other BiH regions. Importantly, the BiH Agency for Plant Health Administration adopted 4 (four) new varieties for inclusion into the BiH National Variety List, with promising indications that the other varieties will be included into the List very soon. The introduction of new varieties is very important for BiH berry producers to maintain a competitive edge. The advantages of these varieties include extending the harvest season and providing handling characteristics that better lend themselves to selling raspberries in the fresh market. Some of them also have improved resistance to diseases.

The project worked to promote the Polka variety of berries for the fresh fruit market, drawing on technical assistance and expertise provided by an international expert engaged by FARMA. Practical and theoretical training sessions on growing technology of this variety

were delivered to individual farmers. As a result of this assistance and education, just 4 months later, an additional 15 dunums (1.5 ha) of Polka berry were cultivated in Una-Sana Canton alone. Farmers in this Canton already announced their plans to plant additional 60.000 seedlings this fall. These activities will be done together with *Legambiente Friuli Venezia Giulia*, an Italian NGO operating in Una-Sana Canton. These raspberry varieties command a much higher price in the fresh fruits market and the demand for this variety is very high.

Facilitating market linkages



In the area of market linkages, FARMA (in collaboration with the Federal Cooperative Association) facilitated an arrangement between Mercator (a Slovenian supermarket chain) and the raspberry farmers and cooperatives (e.g. Matica, Agropodrinje, Agropromet, etc.) to sell their fresh fruits and vegetables in their stores. In the first phase of the agreement implementation, farmers and cooperatives will supply Mercator stores in Sarajevo, Mostar and Tuzla with plans to expand offerings to other regions.

Mercator will have “special buyer status” with cooperatives and in turn, Mercator will provide a special “fresh fruits and vegetables corner” in their supermarkets. This will be a first time in BiH that consumers will have an opportunity to buy cultivated raspberries in August and September. With favorable weather conditions, the harvest may extend even into October. This agreement comes will go into effect in November 2010. It is expected that the sales and revenues of berry producers will increase significantly, as they had no access to large supermarket chains prior to FARMA intervention. FARMA will continually monitor the sales and products to ensure good quality of products, sufficient quantities and absence of marketing issues in participating cooperatives.

Additionally, FARMA’s direct beneficiaries made significant strides during the past year. For example, FARMA supported H&H Fruit from Bugojno to attend the BioFach Fair. As a result of contacts and deals made at the fair, H&H increased exports of frozen berries (organic and conventional) by about 40%. The project also assisted the company in developing a business plan and loan application. The sound business plan was crucial to the loan request and the Intesa San Paolo bank approved the loan. The loan was used to expand the cold storage capacity, which in turn enabled H&H to increase exports even further. Currently, H&H Fruit exports 90% of its production (frozen organic and cultivated berries). Moreover, the nursery succeeded in exporting a significant quantity of seedlings (to Kosovo) for the first time since the company’s establishment.

Sectoral Baseline Revision:

While calculating the baseline figures for the fruit and vegetable sector in the process of development of the life-of-project Work Plan, FARMA estimated the sectoral value at 450 million BAM - a figure which included value of fresh and processed fruits and vegetables production. Thus, the contractually mandated coverage of 40% of sectoral output translated into a requirement for the project to work with producer-partner organizations producing 180 million BAM. Extensive sectoral exploration conducted during FARMA’s field work revealed significant reduction in production due to reduction of productive capacities and closures of some processors.

Contrary to the initial estimates, the value of production of processed and fresh fruits and vegetables in 2009 amounted to 124 million BAM. [Source: BiH Statistics Agency; Thematic Publications; Industrial Production in BiH in 2009 and Purchased and Sales of F&V products in 2009].

Considering the official data, the revised project target (for working with organizations producing 40% of the sectoral output) equals to 49.6 million BAM. As noted earlier, currently available data register that the value of project PO’s output is currently at 82.3 million BAM (2009).

Leveraging with other donors

Throughout the course of the year, FARMA established working relationships and succeeded in leveraging its activities with other donor and NGO activities in the same sector. For example, the project provided training for UNDP's agronomist, who will be responsible for providing technical support to farmers in raspberry planting technology issues. UNDP aims to commence this activity in the fall, with the distribution of 350,000 berry seedlings and other planting material free-of-charge to farmers in Srebrenica, Bratunac, Konjic and Visoko. All plant material will be purchased from local nurseries. Moreover, FARMA collaborated closely with Caritas in organization of workshops and roundtables on prevention of *Erwinia* fruit-tree disease. The project also worked on promotion of berry farming while simultaneously providing technical assistance to, for example: REDAH - in promotion berry farming in Herzegovina; Italian NGO "Gesvi" – providing technical support to fruit growers in Srebrenica region; Centar za održivi razvoj "UNA" – providing technical assistance in development of raspberry production for fresh market in Una Sana Canton.

FARMA trained the Partner MCO's agronomist who will later provide additional assistance to farmers

At the very outset of the project, FARMA established cooperation with the MCO "Partner" from Tuzla. The focus was on delivering technical training for MCO "Partner" clients with established fruit orchards and to those planning to take a loan to plant berries.



Allan Reed, Mission Director of USAID/BiH and Anders Hedlund, Director of the SIDA attended a ceremony introducing new crop varieties held on May 26, at the Center for Plant Genetic Resources in Sarajevo.

The Fostering Agricultural Markets Activity (FARMA) project, in partnership with the Faculty of Agriculture and Food Science at the University of Sarajevo, presented new berry varieties to determine if they are suitable for growing in BiH's agro-climatic conditions and to establish if they should be included on the National Variety List.

BiH farmers would then be able to plant these new varieties in BiH, ultimately leading to production of berries for fresh market, higher yields, better profit margins and improved market opportunities.



COLLEGIUM AGRONOMICUM

POLAND STUDY TOUR

The FARMA project, in cooperation with NUPP Association, organized a study tour of farmers to Poland.

Poland is one of the leading berry-producing countries in the EU. Hence, the purpose of the study tour was to enable BiH producers to exchange experiences with their Polish hosts on issues relating to production and processing of berries and seedlings.

Additionally, the group visited the Polish Fruit Production Institute and laboratories for product certification and testing, in order to expose BiH farmers to EU certification processes and requirements.

The study tour took place from 28 March to 3 April 2010, with 30 BiH farmers participating in this activity.

PHOTOS:

- BACKGROUND: Field of blueberries
 - FROM THE TOP:
 - BiH participants in front of the Polish Agricultural Faculty
 - Dormant blueberry fruit
 - Hands-on demonstration in planting raspberries
- Credits: FARMA project

EU INTEGRATION, STANDARDS AND ENVIRONMENT

A. CONTEXT

The years 2009 and 2010 were difficult for Bosnia and Herzegovina as the country continued to suffer from the aftermath of the global financial crisis and the biggest global recession since the 1930s. Financially, FBiH fared much worse than the RS due to the outsized and inefficient public sector. Administration remained large, cumbersome and ineffective, with governmental expenditures in FBiH and RS in 2009 reaching 6.2 billion BAM (EUR 3.2 billion) and 3.3 billion BAM (EUR 1.7 billion).

A consultant from the International Finance Corporation (IFC), retained by the government to review laws and regulations and recommend improvements, estimated 30 to 40 percent of the laws and regulations differ among FBiH administrative units, contrary to the RS which overhauled regulations between 2006 and 2008.

The agriculture policy and largesse remained under the respective Entity's jurisdictions. In 2009, the Federal Ministry of Agriculture, Water and Forestry spent 50 million BAM on agricultural subsidies. To put this in perspective, the amount of the Federation's agricultural incentives amounted to 0.8% of the total governmental expenditures. At the same time, agricultural subsidies in the RS were higher but still below 2% of the governmental expenditures. In absolute terms, Croatia subsidy rates are about 10 times higher than in BiH, while in Serbia they are about 4 times higher than in BiH. Hence, it remained far below neighboring countries' averages.

The issue of subsidies is a sensitive one, throughout the world. They result from a complex mix of economic and political concerns. They are easy to put in place and devilishly difficult to do away with. They distort markets and promote inefficiency. While FARMA can do little about most of them during its life, the FARMA philosophy is that taxes are good and subsidies are bad. Taxes are a more appropriate and effective device than subsidies for governments to encourage specific private sector actions.

Unwieldy, divided coalitions at State and Federation levels, which will likely be formed based on the results of general elections (3 October 2010) have to confront urgent economic and social woes.

All of these, of course, had a direct effect on agriculture development in BiH and the ability of FARMA to have a larger impact in improving agricultural sector performance.

B. KEY CHALLENGE & INTERVENTION LOGIC

The focus of the project's intervention was in three key areas:

1. Assisting POs to implement standards to prepare them for certification so they increase food safety standards and reach desired markets;
2. Improving the quality, infrastructure and the general business environment, to align with the EU *acquis*, improve market access and increase competitiveness of the BiH agriculture sector; and
3. Ensuring environmental compliance to satisfy with the project IEE and promote sound environmental practices in alignment with environmental sustainability goals.

C. RESULTS

Assisting POs to implement standards to prepare them for certification

As meeting EU standards is a key requirement for EU market access, the project focused on assisting POs reach the standards required for their desired markets.

The focus was in three segments:

1. HACCP system,
2. GlobalGAP, and
3. Organic

HACCP is a requirement under EC Regulation EC/852/2004, which specifies requirements for most food businesses to have a HACCP system in place. A HACCP-based system is also a requirement under BiH Law. Awareness of HACCP is relatively high, particularly among large food processors. However, smaller food processors are still grappling with the concept hence FARMA initially started raising awareness of HACCP through 2-day training seminars conducted in Banja Luka, Tuzla, Sarajevo and Mostar. A brochure was also published on general HACCP principles. However, the rate of implementation and certification is still low hence FARMA developed a comprehensive 2-month HACCP implementation program, which includes classroom training and on-site visits. Sixteen POs are participating in the program, which started in October 2010. The goal of the program is to prepare the POs for certification, which is a very arduous process. Even once the majority of technical aspects of HACCP are implemented, there are two major constraints for certification: the cost of potential capital investments to comply with HACCP; and the cost of certification (likely to be between 4,000 and 8,000 BAM for most POs).

GlobalGAP (formerly EurepGAP) is widely seen as the global benchmark for Good Agricultural Practice. Although a voluntary standard, producers wishing to supply fresh produce to large retail chains in the EU are usually required to obtain GlobalGAP certification. This is particularly important for fruit and vegetable producers (although the standard also covers aquaculture, livestock, ornamentals and coffee). While not many BiH POs have the volumes required to export fresh fruits and vegetables to the EU, those that are able and interested to export require assistance with GlobalGAP implementation. Hence, FARMA has initiated a one-on-one advisory assistance program, which ended in October 2010, to provide direct technical assistance to 20 POs to implement GlobalGAP. Local advisory consultants were engaged for the task – ACED from Banja Luka and REDAH in Mostar. Brochures on GlobalGAP were also developed as well as record keeping documents. As a result of the program, with relatively little additional improvements or minor capital investments, 10 POs will be eligible for certification in 2011. Major constraints for certification are: GlobalGAP not being required for the local market hence certification would be only of interest to those wishing to export; the complexity of “group certification” (this problem exists when not all of the members of a cooperative/association are interested in certification); potential capital investments; and the cost of certification and annual re-certification (the cost of maintaining certification includes not only certification fees but also the cost of laboratory tests, namely pesticide residues).

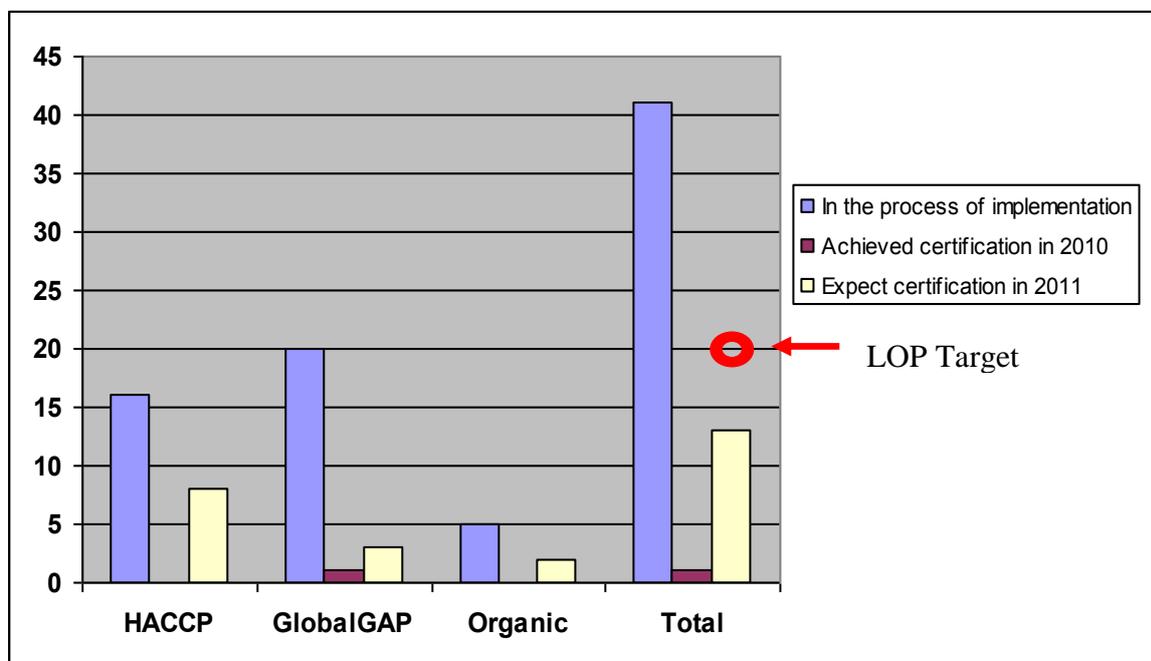
Organic certification is of interest to producers where the organic product earns a premium compared to conventionally produced products. However, as production following organic standards is very demanding, it is mainly of interest to those farmers who are environmentally conscious or have produced products in ‘organic fashion’ in the past, making organic conversion easier. In addition to cultivated products, plants or fruits collected in the wild are also sometimes certified as organic to gain desired market access (usually the

export market). Honey can also be certified as organic and gain a premium price. FARMA is assisting 5 POs to obtain organic certification. To aid in the process, FARMA produced guidelines for fertilization and plant protection under organic production as well as the guidelines for organic certification in honey production. The process of organic conversion is long; however, at least 2 POs are expected to obtain organic certification in 2011.

In the past year, FARMA provided assistance to more than 40 POs to implement desired standards. However, standards implementation normally takes at least 6 months and therefore it was not expected that any PO would obtain certification in Year 1 of the project. One PO obtained GlobalGAP certification in 2010 (PMG VIP Gradacac), but this was primarily due to prior knowledge and implementation of the standard. Provided that POs are able to overcome the constraints identified above (using internal capacities and potential additional FARMA and other donor assistance), FARMA expects that at least 13 POs will obtain certification in 2011, which will place FARMA on target to assisting 20 POs with certification over the LOP.

Improving the Quality Infrastructure and the General Business Environment

As a potential candidate for EU accession, BiH needs to harmonize its veterinary, phytosanitary, and food safety legislation with those of the EU. The quality and regulatory infrastructure is still being developed to meet EU requirements, and BiH products still cannot be exported. FARMA has prepared a report on EU Market Access constraints for food and agricultural products, which identifies issues affecting their export and includes an action plan for FARMA to aid in overcoming key constraints. In addition, FARMA assisted the Sector for Agriculture in MoFTER to prepare a Road Map to create conditions that will enable export of products of plant and animal origin. The full implementation of the Road Map would lead to the development of quality and regulatory infrastructure that meets the EU requirements. The draft Road Map was submitted to the Cabinet of Ministers on 20 July 2010 and the Council of Ministers on 9 August 2010 for review and adoption.



The status of standard implementation and certification among FARMA-assisted POs

The Council of Ministers adopted the Road Map during the 131st session held on 26 August 2010. Subsequently, meetings were held with Agency Directors to facilitate the implementation of the Road Map. Reports and road maps are not useful, however, if they are not implemented. Hence FARMA has been working with institutions to overcome constraints to EU market access, focusing on potatoes and honey as two new potential products that could be exported to the EU.

Project Coordination Body and Advisory Council

To ensure more effective exchange of information about the activities of the USAID/Sida-funded FARMA project, FARMA formed a Coordination Body and an Advisory Council. The Coordination Body is comprised of relevant institutions in BiH, while the Advisory Council is comprised of private-sector representatives. The goal of the Coordination Body is to allow members, through exchange of information and suggestions, to contribute to enriched implementation of the project and to avoid potential duplication of activities. Meetings will be held twice a year. The first meetings were held in June 2010.

The potato is one of the most important crops grown in BiH covering an area of more than 37,000 ha. and could be an important export product to the EU. However, the EU does not permit imports of potatoes unless the exporting country meets EU phytosanitary requirements. Specifically, Bosnia and Herzegovina must establish a monitoring system for five quarantine pests: *Clavibacter michiganensis* (Smith) Davis *et al.* ssp. *sepedonicus* (Spieckermann et Kotthoff) Davis *et al.*, *Ralstonia solanacearum* (Smith)

Yabuuchi et al. (*Globodera rostochiensis* Woll.), (*Globodera pallida* Stone) and *Synchytrium endobioticum* (Schilb.)Perc. The BiH Plant Health Administration has already adopted regulations on the systematic control and management of the above mentioned pests, and prepared a monitoring plan, in accordance with relevant EU Directives.

FARMA assisted the BiH Plant Health Administration with implementing the monitoring plan. FARMA engaged local experts to raise awareness of the quarantine pests among potato producers, agronomists and agricultural inspectors. A key step, however, is to ensure the capacity of BiH laboratories to undertake the required tests. In coordination with the BiH Plant Health Administration, FARMA has assessed phytosanitary laboratories interested in undertaking the required tests and has provided recommendations to improve diagnostic procedures. Agreements were reached with the National Institute of Biology and the Agriculture Institute in Ljubljana to train BiH laboratory staff in October 2010 in diagnostic methods of quarantine bacteria and nematodes, respectively. Additional technical training in diagnostic methods and EPPO (European and Mediterranean Plant Protection Organization) standards will be undertaken in December 2010. Most laboratories are not aware of or do not follow EPPO standards which would enable them to work at the required accuracy level. In addition, FARMA plans to conduct training of inspectors in proper sampling procedure. With the system in place, the BiH Plant Health Administration aims to start implementing the monitoring program in January 2011.

Similarly, FARMA has been working with the BiH Veterinary Office to overcome constraints for the export of honey to the EU. As honey is a product of animal origin, stringent rules apply to export products to the EU. In order to get on the EU third country list for honey, all beekeepers have to be registered by the BiH State Veterinary Office. The registration is still in progress. Furthermore, BiH needs to demonstrate that the residues in honey, especially pesticides and antibiotics are monitored and within the acceptable limits. A residue monitoring plan has been submitted to the EU, but is still awaiting approval. EU FVO Inspection was conducted in September 2010 and the interim report is expected in October 2010. It is likely that BiH will need to improve certain aspects of the system, namely relating to registration of beekeepers, improvement of standards of production in packaging facilities for honey, inspection, and to build capacity of laboratories to conduct tests (currently analysis is conducted in Serbia and Croatia). FARMA has worked with the State Veterinary Office staff to assess the capacities of existing honey packing facilities for export. Only three

producers have some potential but standards of production need significant improvement, including HACCP certification. FARMA and a representative from the State Veterinary Office also conducted meetings with the State veterinary Office in Serbia to learn from their experience in overcoming constraints for the export of honey to the EU. Site visits were also conducted with Serbian honey producers (as mentioned in the MAP and Honey part of the report). As a result of the visit, additional training is planned in BiH to inform all relevant stakeholder of actions required to meet the EU requirements for the export of honey. As inspection is a general problem (low numbers of samples are collected) FARMA staff visited Inspection Services to encourage more frequent sampling, to identify sampling constraints, and the need for additional training. Furthermore, in cooperation with the BiH Food Safety Agency, FARMA organized a public discussion on regulations on honey and other bee products and quality control. In addition, FARMA has been cooperating with Swiss Caritas to improve the management of "Fireblight" disease, which is caused by *Erwinia amylovora*, a pathogenic bacterium. The disease is major concern because under optimal conditions it can destroy an entire apple or pear orchard in a single growing season. The disease must be monitored and managed to prevent further spread. Because the disease is not well understood, FARMA cooperated with the Swiss Caritas and BiH Plant Protection Society to organize training events and a conference on the management of *Erwinia*. Experts were engaged from Switzerland and Serbia. In addition, Swiss Caritas and FARMA organized technical training in Switzerland for two BiH agronomists. FARMA will continue to coordinate with Swiss Caritas to support the BiH Plant Health Administration to develop and implement the fireblight monitoring and management plan.

To improve the competitiveness of rural landholdings, which are predominantly very small and highly diversified, FARMA has undertaken several activities to strengthen the cooperative sector. The BiH General Law on Cooperatives was adopted in BiH Parliament in the middle of 2003, following several democratically conducted public debates in both Entities (BiH Official Gazette no. 18/03). It was based on experiences of cooperatives in developed countries, namely Germany. An important aspect of this Law is the process of cooperative auditing, which has a control and advisory component. This is still a relatively new concept for cooperatives as they are being transformed from a state-owned entity to independent private enterprise. Cooperative auditors have been trained in the past with the engagement of Specialist Cooperative Auditors from Germany. Unfortunately, many of the trained auditors have since left the Cooperative Associations and new staff need to be trained. Training of cooperative auditors is a priority for achieving normal functioning of Cooperative Associations and cooperatives themselves in accordance with the general Law on Cooperatives. Hence FARMA organized training for current and potential cooperative auditors. A total of 13 auditors were trained (six from each Entity and one from the Brcko District), in legislation, and class-room and practical training in cooperative auditing. In addition, representatives from the Entity Cooperative Associations visited Vojvodina Cooperative Association to exchange ideas on cooperative auditing and cooperative development. As a result of this visit, the Vojvodina Cooperative Association will provide training and database software on cooperative auditing.

EXTENSION MATERIALS PRODUCED

- | | |
|---|---|
| 1 | Guide to HACCP implementation |
| 2 | GlobalGAP |
| 3 | Fertilization and plant protection in organic production |
| 4 | Safe pesticide use |
| 5 | Certification of organic production in beekeeping |
| 6 | Range of presentations on standards, and cooperative auditing |
-

The table of FARMA products presents a summary of FARMA's activities in the policy area. It includes activities completed in Year 1 and activities that have been started and expect to be completed in Year 2 or 3 of the project (x- indicates completed activity – 5 were a target for year 1).

Products produced pertaining to policy related issues		Year 1	Year 2	Year 3
1	EU Market Access Constraints for Agricultural and Food Products from Bosnia and Herzegovina (FARMA Report)	x		
2	Road map to create conditions to enable exports of products of plant and animal origin (Report, adopted by the Council of Ministers)	x		
3	Regulation on honey and other bee products (public discussion)	x		
4	Regulation for honey and other bee products quality control (public discussion)	x		
5	The capacity of BiH phytosanitary laboratories to perform analytical tests on quarantine pests of potatoes according to EU standards (report by FARMA)	x		
6	National Variety list updates with new berry varieties	x		
7	The State of laboratories in Bosnia and Herzegovina (joint report by FARMA and FIRMA)		x	
8	Monitoring plan developed for Erwinia amylovora			
9	Regulation on fruit variety lists			
10	Regulation on fruit and grapevine plant materials			
11	Program for production of certified seedlings in BiH			
12	Proposed amendments to existing cooperative laws			
13	Draft BiH Law on organic agriculture			
14	Plan for the collection and disposal of waste			
15	Amendments to existing regulations on NWFP			

x indicates the activity has been completed.

Environmental Compliance

FARMA implemented procedures to comply with USAID Environmental Regulations (22 CFR 216), specifically as per the FARMA-approved Initial Environmental Examination and the FARMA-approved Programmatic Environmental Assessment (PEA) and the Pesticide Evaluation Report and Safer Use Action Plan (PERSUAP).

FARMA prepared the Programmatic Environmental Assessment (PEA) and Pesticide Evaluation Report and Safer Use Action Plan (PERSUAP) to ensure compliance with US Environmental Regulations (22 CFR 216) and specifically the Initial Environmental Examination (IEE) approved for the FARMA project. Both documents have been used by FARMA as the guiding documents for environmental compliance. As per the PEA and PERSUAP, FARMA's approach to environmental compliance can be divided into three segments:

1. Addressing sectoral and cumulative environmental impacts;
2. Addressing site specific environmental impacts; and
3. Promoting safe pesticide use and Integrated Pest Management.

Addressing sectoral and cumulative environmental impacts

Sectoral, indirect and cumulative environmental impacts, as well mitigation measures, were defined in FARMA's PEA. The PEA has been used by FARMA as the guiding document for initiating activities that promote improved environmental practices.

For the fruit and vegetable sector, the first priority was to prepare a PERSUAP for the main crops supported by FARMA. This was completed in May 2010. The second priority was to implement a comprehensive plan to introduce Good Agricultural Practices in BiH. FARMA's

approach was to facilitate the introduction of GlobalGAP, as the global framework for Good Agricultural Practices. Since May 2010, 20 POs are participating in the FARMA-supported program which is implemented through local advisory services- ACED and REDAH (described in more detail above). This program is almost complete. The third priority for the project was to promote organic agriculture in BiH. FARMA has been supporting 5 POs in the process of organic certification. In some instances, this included a series of training activities and visits to individual farmers (e.g. ZZ Agromerkantilija) to assist farmers implement organic principles in farming, particularly with respect to fertilization and pest management.

In the dairy sector, the priority has been to promote good agricultural and hygiene practices, and good practices according to the EU nitrates directive, in dairy farming. FARMA's dairy team has driven these activities with an aim to minimize environmental pollution and achieve better quality milk meeting to higher hygiene standards. This included comprehensive sets of training activities in various parts of BiH as well as local and regional study tours. In addition, the dairy team produced extension materials on good hygiene and agricultural practices as well as a brochure on the EU Nitrates Directive, which is the first of its kind in BiH. The knowledge about the EU Nitrates Directive was close to zero prior to these activities. These activities are described in more detail in the Dairy section of this report.

In the MAP and honey sector, FARMA has strategically chosen to support MAP POs in activities that lead to greater cultivation of MAPs or add value, as opposed to greater harvesting from the wild. The MAP team has initiated a range of activities to promote greater cultivation of MAPs – which would lead to lower harvesting rates from the wild. Training and study tours have been organized in various parts of BiH. The MAP team also worked with international experts to prepare a feasibility study for Mozaik to expand the cultivation of MAPs in the Šekovici region (see MAPs report section). Future activities will include initiatives to promote sustainable collection of wild plants.

Addressing site specific environmental impacts

This PEA proposed a methodology for screening and assessing project activities, and assigning suitable mitigation measures described in the Environmental Management and Monitoring Plan (EMMP) of the PEA. FARMA has been screening its activities, namely those funded through the Partners Development Fund (PDF), to determine if additional assessments were necessary or to immediately assign environmental mitigation measures for that activity as per the PEA and PERSUAP. So far only two PDF grants have been recommended for approval. One was determined to be a categorical exclusion (meaning no environmental mitigation measures are required as per IEE and PEA), while the other was further assessed (site level EDD-PPA assessment) and mitigation measures were assigned.

Promoting safe pesticide use and Integrated Pest Management

The PERSUAP provides guidelines to FARMA for all activities involving the use or procurement of pesticides. While FARMA does not anticipate procuring pesticides, FARMA is conducting activities that may indirectly encourage the use of pesticides (for example, training on integrated pest management). Therefore, FARMA has been applying the mitigation measures identified in the PERSUAP to ensure that FARMA promotes conservative pesticide use, integrated pest management and the use of only the pesticides approved in the PERSUAP.

As per the PERSUAP, FARMA has completed the following:

- Reference guide of permissible pesticides per crop;

- Integrated Pest Management (IPM) plans for raspberries, as well as crops produced under organic principles. Brochures on potato quarantine pests are also being produced.
- Safe pesticide use brochure jointly with the BiH Plant Health Administration.
- Developed and initiated a comprehensive program to facilitate the implementation of the GlobalGAP standard among major farmers groups in BiH.

Additional activities, as described in the PERSUAP, such as training of phytosanitary inspectors and agronomists, are planned in Year 2 of the project.

ACCESS TO FINANCE

A. SECTORAL CONTEXT

What began as a banking crisis in the West has turned into a general financial and economic crisis, exported to regions the world over. Often described as an “imported” crisis, because its origins stem from countries in Western Europe and North America, the global downturn affected South East Europe. Due to falling demand from key EU trade partners, the region’s exports declined. This had fed through to lower industrial production, aggravated by reduced private consumption as remittances sink and growth in private credit has come to a standstill. Indeed, the Economist Intelligence Unit (EIU) predicted the negative real growth of about -0.6 in the region for 2009.

The local economy fared much worse than the predicted SE Europe average. After rising by 5.7% in 2008, it dropped 3.2% in 2009. To stabilize the economy, the government entered into a 36 month \$1.57 billion standby agreement with the IMF in July 2009. In its approval report of the agreement, the IMF noted that recent strong economic growth has been accompanied by macroeconomic imbalances, such as rapid credit expansion, funded by large capital inflows that drove domestic demand past sustainable levels. The loosening of fiscal and income policies in 2008 further aggravated the overheating and left public finances vulnerable when the global financial crisis hit.” In return for the loan, the government of FBiH promised to enact EUR 207 million in spending cuts. This is equivalent to 10% of its entity, cantonal and municipal budget.

For the FBiH, wholesale and retail trade and repairs of vehicles was the largest sector of the economy in 2008, accounting for 13.1% of GDP, manufacturing had a 13.0% share and public administration, defense and social security were responsible for 8.7%.

In the RS, wholesale and retail trade accounted for 13.5% of GDP in 2008, agriculture, hunting and fishing was 11.5% and manufacturing had an 8.7% share.

The government of RS had to make EUR 73 million in cuts. Under the terms of the loan, money from the standby agreement is to be used to ease the foreign debt burden, fund capital spending projects and to close the budget deficit. None of it though can be allocated for social spending.

The unemployment rate was 42.6% in February 2010. This was up from 40.4% in the same period of 2009. The very high official unemployment rate however is misleading as many people earn their living in the large informal economy.

Estimates of the rate of unemployment including the informal sector are around 24.0%.

In January, the IMF indicated that it would not issue the second tranche of its standby facility unless the Parliament of FBiH passed a law to cut cash transfer payments to war veterans. Passage of the measure was also a precondition for a World Bank USD100 million loan that will be used for budgetary purposes and EUR 100 million of assistance from the European Commission. Previous attempts to revise the system of benefit payouts have failed and have even led to the collapse of the government. In late February 2010, the government of FBiH complied with the IMF demand effective May 1.

While the first half of 2008 and the two previous years were characterized by rapid growth in lending by commercial banks, commercial lending declined with the onset of the financial crisis. This contraction of credit was, and still is hurting BiH economy as buoyant credit conditions have for some time supported country’s growth (alas, mainly supporting consumption, as the majority of commercial banks loans were pure consumer credit loans).

Bank lending is expected to continue on a downward trend in 2010, as a result of banks being unwilling to lend amid deteriorating asset quality, demand for new loans falling concurrently with rising unemployment, and a poor outlook for corporate expansion. As a result, there will be few growth opportunities, particularly given the dire state of the wider economy. The commitment of Western parent banks to keep their subsidiaries well-capitalized is likely to prevent an outright crisis but a fundamental recovery is unlikely during 2010 and loan growth is expected to remain weak in foreseeable future. Simultaneously, the IMF forecasted economic growth of just 0.5% for 2010.

B. KEY CHALLENGES & INTERVENTIONS

With fragile financial markets, agricultural producers hesitated to seek out financing for their agricultural investments. Simultaneously, commercial banks tightened credit standards by maintaining elevated collateral requirements, stringent loan terms, and imposing additional requirements. The local banking sector traditionally exhibits difficulties in understanding the specifics of agriculture. Hence, banks rarely approve agricultural loans. Declining incomes in 2009 depressed repayment rates. This had the effect of increasing delinquency rates on commercial loans. By extension, agricultural loans were also affected.

Hence, the key challenge for the project was to enhance the flow of credit to agriculture.

C. RESULTS

FARMA completed an assessment of agricultural financing in January 2010 and designed interventions in response to issues established during the assessment.

Increasing access to finance is crucial for all agricultural subsectors in BiH. In order to strengthen the capacity of POs to apply for loans and develop business plans, FARMA provided training to improve business skills of agricultural producers and processors in Northwestern BiH. Seventeen trainings on business planning and farm record keeping were completed (104 POs and 127 farmers trained) by three training subcontractors (PLOD, ACED and Limitless). The training was adversely affected by timing. Training commenced in early summer, in the peak of farming season, due to delay of the project's work plan approval. However, these new skills are still expected to result in increased number of new loans in the following period, when POs prepare for the new crop cycle. Therefore, we expect that the Life of Project (LoP) goal of 100 training on loan applications will be met.

FARMA assisted three POs to attain additional financing required for production expansion. The total value of loans obtained from commercial lending institutions amounted to BAM 920,000, with one DCA loan valued at BAM 120,000. The annual target of USD 1 million in DCA loans was not met because of the global financial crisis. For example, the FARMA-assisted DCA loan constituted 50% of all DCA agriculture loans issued by UniCredit bank in 2010.



New packaging machine purchased by the DCA loan at Plantago

PHOTO: FARMA



New packaging produced at Plantago

PHOTO: FARMA

The project delivered technical assistance to F&V farmers in application of berrylike fruit growing technologies, thus building their capacities. A total of 40 farmers are now eligible to receive financing from the MCO Partner, totaling BAM 100,000 in 2010.

Attaining loan financing to fund business activities became extremely difficult given the macroeconomic situation in BiH. Due to those reasons, FARMA's annual goal of at least 6 POs successfully applying for funds was only partly met in first year. However, we expect to reach an LOP target of 20 POs by the end of the project. This will be a function of the expected lessening of the global crisis' effects and the

activation of the new DCA facility. These two factors should contribute to increased financing mobilized with DCA facility in the upcoming year.

Goals associated with attracting FDI (to hold one workshop per year for POs interested in attracting foreign investors; at least 10 POs strengthened and assisted to attract FDI during the LoP) were either modified or partially completed. As a result of the full brunt of the global financial crisis being felt in 2009, the FDI flow dropped precipitously by 40%. Consequently, FARMA had to change its approach by working one-on-one with POs interested in attracting FDI. Of those few which chose to participate in Sarajevo Business Forum in attempt to attract FDIs, none reported receiving any FDI inflow.

In this arena, FARMA assisted Prima-Impex d.o.o. from Gradiska to participate in the PSI Holland investment project with the potential to obtain FDI of EUR 550,000 for innovative project. Unfortunately similar type of business was established in BiH, so the Dutch investor pulled out. However, FARMA recruited two POs (HEKO d.o.o. and Usorac dairy farm) to participate in the Holland innovative FDI project for the year of 2010/2011, which they will do with FARMA assistance.

Additionally, the project assisted several POs in developing applications for foreign funding. One of those is Mozaik Foundation which received USAID grant of USD 1.9 million to establish synergy between organic farming (primarily lavender) and organic bee-keeping (3,000 bee-colonies to be positioned at 100 individual plots of land in East Bosnia). The project will develop the rural region of Sekovici through building a sustainable business;

promotion of reconciliation between the Serbs and Bosniaks; enabling further growth of the region by promoting organic production and women-led businesses.

Throughout the year, FARMA accomplished its objective of coordinating with other projects in designing (Excellence in Innovation, SIPPO, IFAD, etc.) of at least 3 financial topics (DCA, factoring, insurance, etc.) to be added to the training topics for all 3 sub-sectors. The project organized promotion of the existing DCA facility with representatives of UniCredit bank to 100 POs which attended FARMA's business planning trainings in North-West BiH. Additionally, the project organized presentations of Entities' subsidy programs to POs as an additional topic to regular technical trainings (presenters: RS Agency for Extension Service, and Una-Sana Ag. Institute). Also, FARMA organized the presentation in collaboration with the GTZ Banja Luka and the RS Chamber of Commerce on Croatian experiences with EU pre-accession funds IPARD/ SAPARD.

FARMA delivered regular presentations on Agrolink's services (BiH Info Center for Agriculture) during training.

FARMA worked with Uniqa Osiguranje, an insurance company, in preparing a presentation of their farm insurance products, scheduled to be presented to POs during winter training in the

upcoming year. In collaboration with Prvi faktor, factoring company, the project prepared a presentation of their factoring products scheduled for presentation during winter training.

In Year 1, USAID granted several organizations in Bosnia and Herzegovina funds through the Development Grants Program (DGP). These organizations include MFI MI-BOSPO, MFI Partner, Mozaik, Association Integrated Production, and Centre for Rural Development and Support (CRP) in Tuzla. Mozaik received a total grant amount of \$1,409,932. Mozaik is a PO which has received substantial technical assistance from FARMA in the development of feasibility studies for cultivation of medicinal and aromatic plants and expanding beekeeping in the Sekovici region. FARMA counts this grant as FDI as the feasibility studies formed the foundation upon which Mozaik applied for the USAID grant. FARMA will work with all of the USAID grant recipients to leverage its activities.

Being a demand-driven project, FARMA completed several activities not planned in Year 1, such as:

- Training on analysis of financial statements for BiH Coop auditors;
- Design of the Project Profile sheets for the Sarajevo Business Forum (BBI bank);
- Advising Development Agency Istocno Sarajevo on design of their guarantee fund;
- Twenty students of Agriculture Faculty Banja Luka actively participated in trainings on business planning. Under FARMA's guidance and supervision, these students provided technical assistance to POs, thus completing their practical work requirement (practical work is usually undertaken during the summer break and it must be in congruence with the academic curriculum).
- FARMA Financial manager visited the Agricultural Institute in Maribor and collected information on EU funding accessed by Slovenian agriculture, lessons learned, and the farm record keeping in accordance with the Farm Accountancy Data Network (FADN) methodology (EU requirement).

PARTNERS DEVELOPMENT FUND

In compliance with the terms of the contract, Chemonics developed a Partners Funds Manual (PDF) which incorporates FARMA's subcontracting rules and procedures and Development (Grant) Fund (DF) Manual within stipulated timeframe. The DF is designed to comply with European Commission Grant Award Processes and future IPARD funding requirements to the extent feasible. Although there are differences in general funding structures, FARMA DF fund is similar to IPARD's basic management rules and eligibility criteria. The FARMA DF objective, structure and characteristics do not differ from key IPARD principles.

The Partners Fund was designed to provide targeted subcontracts to engage local firms to expand project reach, and to access required short-term technical assistance. FARMA is committed to an approach that delivers rapid results so during the first project year the project committed almost 70% of available subcontract funds to support different activities that will produce an output or products that fit into the larger scheme of the project. Our experience in BiH suggests that a "Bosnian-owned" assistance is an excellent delivery model to maximize FARMA's resources whenever possible.

During the first project year FARMA concluded 17 subcontracts of which fourteen are with local organizations and three are with Slovenian institutions. The table below shows subcontracts committed during the first project year:

Subcontractor	Topic	Amount Approved (BAM)	Total Disbursed Amount (BAM)	To be reimbursed (BAM)
ACED	Finance School in Banjaluka region	21,200.00	9,000.00	12,200.00
Agricultural Faculty Mostar	Beekeeping School	18,000.00	12,000.00	6,000.00
Agricultural faculty Sarajevo	New Berry Varieties Demo Plots	15,050.00	5,800.00	9,250.00
Aster doo	Technical Assistance to FARM in Bihac	30,788.00	7,380.00	23,408.00
Bosper	Improving F&V Production Techniques	16,470.00	3,420.00	13,050.00
ECON	Organic Market Research	39,916.00	-	39,916.00
El-Mundo	Translation Services	3,072.48	3,072.48	0.00
Limitless	Finance School in Dobojski Region	5,240.00	5,240.00	0.00
Plod Centar	Finance School in Bihac Region	15,638.70	6,000.00	9,638.70
*REDAH	Training on GlobalGAP in Herzegovina, Middle Bosnia and Sarajevo	36,011.60	9,000.00	27,011.60
Veterinarian&Livestock Center	Artificial Insemination	26,664.00	-	26,664.00
ACED II	Training on GlobalGAP in Northeast and Northwest B&H	45,400.00	11,325.00	34,075.00
Razvojno savjetodavna služba Bratunac	Technical Assistance to FARMA in Srebrenica Bratunac Region	44,734.06	-	44,734.06
*NERDA	Organization of the participation of FARMA's Pos at Gradacac Fair	29,210.00	-	29,210.00
Agricultural Institute Bihac	Animal Feed Testing	19,679.00	-	19,679.00
Agricultural Institute Slovenia	Training on diagnostic methods for Potato cyst nematodes	16,820.00	-	16,820.00
Institute of Biology Slovenia	Training on diagnostic methods for Potato brown rot and ring rot	19,015.00	-	19,015.00
Agricultural Extension Service Slovenia	Technical Assistance to FARMA on EU Accession	73,764.00	-	73,764.00
Grand Total		476,672.84	72,237.48	404,435.36

*FARMA signed targeted subcontracts with two Regional Development Agencies, NERDA from Tuzla and REDAH to build the capacity of POs involved in agriculture production and processing.

y slow down subcontracting activities and utilize short-term technical assistance (STTA) and grant schemes to achieve FARMA goals.

In May, 2010, FARMA published Annual Program Statement. The project received and processed 123 concept papers as of the end of September. Twenty POs have not met mandatory requirements, 59 have not been accepted and 31 were recommended for development into a full grant application. Thirteen concept papers were in review process as of the end of September.

The table below lists POs which have developed or are in the process of developing full grant applications:

FARMA target sector	Dairy
Agromilk	45,000
Eko Vlastic	47,000
Zene Tesnja	75,000
Eko-Flora	79,000
Pro-Milk	78,000
Tarcin	75,000
Agrocentar	70,000
Grand Total	469,000

FARMA target sector	MAP&Honey
Andjelic	70,000
Ljekobilje	50,000
Zalfija	70,000
Apimed	40,000
Prirodno bilje doo	80,000
Radobolja	23,000
Roing	65,000
Obrtnicka komora	30,000
Smrcak	70,000
Mushroom II	70,000
Agaricus II	40,000
Grand Total	608,000

FARMA target sector	F&V
ECON	50,000
Poljar	50,000
Saradnja	64,200
Agrokoraj	65,000
Agromerkantilija	75,000
PMG ViP	42,500
Hepok	70,000
Eurolod	79,000
Drina	77,300
Grand Total	573,000

FARMA target sector	All
Zadruzni savez BiH	55,000
Okusi Hercegovinu	14,669
Agrolink	40,000
Organska kontrola	35,400

Planned activities in the next year:

- Prepare and publish at least three RFAs
- Award at least 30 grants to qualified POs

In September, 2010, two full grant applications were recommended for award and these are Okusi Hercegovinu from Mostar (FBiH) and cooperative Saradnja from Istocno Sarajevo (RS). Additionally, FARMA developed Get-to-

Grants Training to help potential applicants to better understand award process and how to complete full grant application. So far, 40 POs have attended Get-to-Grants trainings.

EQUAL OPPORTUNITY

FARMA recognizes and affirms USAID and Sida's commitment to equal opportunity. The project does not negatively discriminate based on age, gender, ethnicity or religion. FARMA actively seeks to be inclusive and provide producer organizations with opportunities to participate in FARMA activities and benefit from FARMA assistance. The project understands that gender and minority equality are necessary components for economic growth, not only for women or minorities and their families, but also for BiH's overall competitiveness and the performance of individual producer organizations. Inequalities create inefficiencies, impose costs on productivity, and impede competitiveness. FARMA does seek to positively discriminate in favor of women's organizations or other disadvantaged groups where significant social benefit can be gained. Even though FARMA does seek to benefit specific groups and organizations, it does so transparently, without inappropriate bias based on favors, personal relationships, or other ethically unacceptable factors.

In Year 1, for example, FARMA successfully facilitated an in-country study tour of 17 members of the Women's Association Podrinje 1, from Skelani (Srebrenica), to Ljekobilje, in Ljubinje. The Srebrenica women had an opportunity to see the MAP nursery, distillation of immortelle and plantations of lavender. Further collaboration between the two organizations was agreed upon, and Ljekobilje will organize trainings on practical MAP cultivation in three locations in Skelani. Additionally, "Lamaruz" (a company to which FARMA provided assistance in establishing business relationships with other actors in the value chain) is a women-owned business.

FARMA sought to actively include women in various project's activities. A total of 1,405 women took part in various FARMA-organized events by the end of the year. This constitutes 33% of the total number of participants⁵. A majority of women participants (53%) benefitted from FARMA training and other types of technical assistance (i.e. one-on-one training).

Event Type	NUMBER OF WOMEN PARTICIPATING				TOTAL
	Q4 2009	Q1 2010	Q2 2010	Q3 2010	
B2B	-	-	-	1	1
Field Visit	-	-	-	23	23
Financial Training	-	-	-	87	87
Grant Application Training	-	-	-	8	8
Information Session	-	8	8	9	25
Meeting	-	-	16	15	31
Negotiation meeting	-	-	-	-	-
Other	33	174	73	18	298
Round Table	-	-	13	86	99
Study Tour	-	9	37	12	58
Technical Assistance	-	159	289	292	740
Trade Fair	-	-	2	33	35
TOTALS					

⁵ 4,257 participants

	33	350	438	584	1,405
--	----	-----	-----	-----	-------

In total, during the last year, FARMA worked with 14 women-run beneficiaries directly and collaborated with a number of women organizations and associations, such as Zene Tesnja and Women Association Podrinje 1 for example. The list of beneficiaries is provided in the table below.

No.	BENEFICIARY	SECTOR
1	Sadika Siručić	Animal & Dairy
2	Srebric Remiza	Animal & Dairy
ANIMAL AND DAIRY COUNT: 2		
3	Prijedorcanka	F&V
4	Sajamski grad Trebinje	F&V
FRUITS AND VEGETABLES COUNT: 2		
5	EMBE	MAPs & Honey
6	Faveda	MAPs & Honey
7	Halilovic	MAPs & Honey
8	Herzeg Med	MAPs & Honey
9	Lamaruž	MAPs & Honey
10	Ljekobilje	MAPs & Honey
11	Mobis Pharm	MAPs & Honey
12	Neven	MAPs & Honey
13	Sunce	MAPs & Honey
14	Vita d.o.o.	MAPs & Honey
MAPs AND HONEY COUNT: 10		

A majority of the project beneficiaries⁶ came from the MAPs and Honey sector (10 beneficiaries, or 71% of all women-run beneficiaries to whom the project provided assistance last year); 2 beneficiaries (14%) came from the Fruits and Vegetables sector and 2 beneficiaries (14%) came from the Animal and Dairy sector.

It must be noted that these beneficiaries represent actual producers of crops. In addition to producers, the project actively sought out other women organizations which operate in the agriculture in some way. For example, MI BOSPO is an MFI which gives small loans primarily to women and provides agricultural loans. Hence, FARMA worked with this MFI, but this organization is not listed in our table as a direct beneficiary.

The Srebrenica-Bratunac area has a high percentage of population represented by returnees and women-led households. In addition to the fact that the area is dominated by small farms, it is an area of low income. The project has increased its service in the area by contracting the services of a local NGO that works as a project directed extension service exclusively to this region with such a high population of disadvantaged, women run households.

The FARMA commitment to equal opportunity extends to the project's practices on contracting services and consultants. We advertise and transparently compete opportunities for individuals and organizations to sell services to the project.

This commitment to equal opportunity in general and seeking to specifically include women and disadvantaged groups will continue throughout the life of the project.

⁶ MoU signatories

FINANCIAL EXPENDITURES

FARMA is a \$13.6 million, three-year (plus one option year) program co-financed by the U.S. Agency for International Development (USAID) and the Swedish International Development Agency (Sida), and managed by Chemonics International.

The program is designed to provide technical assistance in BiH targeted subsectors of agricultural markets through demand-driven assistance aimed at improving the competitiveness of BiH agricultural products. Bosnia and Herzegovina is in a unique position in the current global economic environment to spur economic growth and establish a foundation for sustained access to regional and international markets.

Line 1- Contract Budget (base period) indicates the total allocated amount for the three-year period of the program. Line 2- Obligated Funds, indicate funds currently obligated by the donors; these are funds available to the project. Line 3- Expenditures, indicate the project expenditures for the reporting period, in this case through August 30, 2010. Line 4- Balance of Obligated Funds, indicate a differential between available (obligated) funds and expenditures of the project. Finally, Line 5- Percent of Obligated Funds Invoiced, indicates how much of obligated funds were expended by the project during the reporting period. Please see the table below for details on the Year 1 financials.

STATUS OF BUDGET EXPENDITURES		Year 1 (8/31/09-8/30/10)
1	Contract Budget (base period):	\$10,644,043.00
2	Obligated Funds:	\$5,481,370.06
3	Expenditures	\$2,509,595
4	Balance of Obligated Funds:	\$2,971,775
5	Percent of Obligated Funds Invoiced- Y1:	45.78%

Thus, by the end of Year 1, FARMA has spent 23.57 percent of the total contract value, and 45.78% of the current obligations. For the base period of the contract, one third of the time has elapsed, compared to 23.6 percent of the contract monies spent. This would suggest the project will under spend its budget by the end of the project. However, this level of utilization of funds was a direct consequence of the fact that during the first year of the project it was necessary to establish an approved system for managing grants, advertise for grants, evaluate concept papers and approve some to be developed into proposals, evaluate proposals, and receive donor approval. As a consequence, it was not until the end of the first project year that the first grants were poised to be awarded. It is expected that the apparent shortfall in expenditures will be rectified during the second year now that the grant development and award process is in place.⁷

⁷ See section "Partners Development Fund" for more details.

APPENDIX I- LIST OF BENEFICIARY PRODUCER ORGANIZATIONS

The list of beneficiary producer organizations include those organizations with whom FARMA signed MoU (thus formalizing relationships) and those producer organizations to which the project landed extensive technical assistance even without a formal MoU signed. The order in which the beneficiaries are listed is alphabetic. It must be noted that, in order to protect the confidentiality of organizational information, the data presented under each sectoral section are presented in intentionally different order to prevent the possibility of matching financial and other information with the list of clients presented here.

DAIRY SECTOR BENEFICIARIES

AD Planinsko Dobro

Agrocentar Dairy

AGROMILK PZ

Alešević Vahid

Andjelika MB

Begić Hamdo

Begić Muhamed

Čaušević Hasan

Čaušević Mustafa

Doo Arsenic

Džanić Esmir

E&S Suljkanović

Eko Vlastic

EKO-FLORA AZ

Farmer ZZ

Hariz Osmancevic

Jokic Farma

Ljubijankić Ibrahim

Malešićanka ZZ

Malić Ibrahim

Meggle

Mersed Omerović

Mikroprom

MILKOS

Mivas-Milk d.o.o.

Mlijekoprodukt

Mljekara Pađeni d.o.o.

Muhamed Mehmedovic

Mustafa Hasandic

Osman Muharemović

Ostoja Nikolić

PPM - Tuzla Dairy - Prerada i promet mlijeka Tuzla

PROMILK ZZ

Sadika Siručić

Sanel Omicevic

Skundric doo

Stočar - Association breeding cattle, pig, sheep and poultry

Tosic Radomir

Zijad Mešanović

Zlatna kap OPZ

ZZ Tarčin

BENEFICIARY COUNT= 41

FRUITS & VEGETABLES SECTOR BENEFICIARIES

Agro Eco Food d.o.o. Blagaj

Agro Koraj

Agrofruit

Agroimpex doo

Agromerkantilija ZZ

Agropromet ZZ

Agrounija Trebinje d.o.o.

Bašo d.o.o.

Dubrave PZ

Eco-Line

Europlod PZ

Frutti Fungi

Goldenagro d.o.o

H&H Fruit doo

Insieme OZZ

Jaffa - Komerc

Linija voća d.o.o

Maocanka - commerce d.o.o.

Matica PZ

OZZ "Saradnja" Istocno Sarajevo

Plant d.o.o

Plantaže Capljina

PMG - VIP

Poljar PZ

Popovka P.Z.

Popovo Polje A.D.

Prijedorcanka

Prima Impex doo

Revita Plant d.o.o.

Spektar drink doo

Staklenici d.d.

STELA Agricultural Cooperative

Sunce PZ

Turjak SVZ

UNAPLOD ad

VIP Krajina

Vitaminka

Voćar ZZ

Voce i povrce Krajina

Vocni rasadnik Srebrenik

Vrganj promet doo

ZZ Agrisan

BENEFICIARY COUNT=42

MAPs & HONEY BENEFICIARIES

ABC Mahic

Andjelic

Apimed

Bašo d.o.o.

Biljna Ljekarna "Vextra"

Elmar

Elmar- Aroma Care

Faveda

Halilovic

Heljda Eko

Herzeg Med

Kesten bee keepers association

Lamaruž

Ljekobilje

Ljekovito bilje Celikovic

Maocanka - commerce d.o.o.

Medicom

Mushroom

Neven

Plantago

Prirodno bilje

Radobolja

Roing

Smrčak d.o.o.

Šumski plod

Sunce

Zalfija

Zdrava Hrana

BENEFICIARY COUNT= 29

ACCESS TO FINANCE

H&H Fruit

Mushroom

Plantago

BENEFICIARY COUNT= 3*

* In accordance with the project's design (access to finance being a cross-cutting theme) these are not beneficiaries unique to this activity. One beneficiary comes from Fruits and Vegetables sector, and other two from MAPs and Honey sector.



FARMA Sarajevo
Kolodvorska 12
Phone: 033 722 090
Fax: 033 661 562

FARMA Tuzla
Maršala Tita 34 A
Phone: 035 277 520
Fax: 035 277 521

FARMA Banja Luka
Krajiškog korpusa bb
Phone: 051 327 530
Fax: 051 327 532

FARMA Čazin
Čuprija bb
Phone: 037 551 505
Fax: 037 551 505

FARMA Mostar
Buna bb
Phone: 036 480 935
Fax: 036 480 935

FARMA Trebinje
Stepe Stepanovića bb
Phone: 061 102 703
Fax: 036 480 935

www.bosniafarma.ba