



USAID | **BOSNIA-HERZEGOVINA**
FROM THE AMERICAN PEOPLE

ECONOMIC GARDENING IN BOSNIA-HERZEGOVINA

LINKING AGRICULTURAL MARKETS TO PRODUCERS (LAMP) PROJECT CASE

NOTES FROM THE FIELD NO.3



June 2008

This publication was prepared by ARD for the Business Growth Initiative Project, managed by Weidemann Associates Inc. and financed by the Office of Economic Growth of EGAT/USAID. This report is also available on the Business Growth Initiative project website at www.BusinessGrowthInitiative.org.

ECONOMIC GARDENING IN BOSNIA-HERZEGOVINA

LINKING AGRICULTURAL MARKETS TO
PRODUCERS (LAMP) PROJECT CASE STUDY

NOTES FROM THE FIELD NO.3

Authored by:

Jon Thiele, Chief of Party, USAID-LAMP Project

Submitted to:

USAID/EGAT/EG

Contract No.:

EEM-C-00-06-00022-00

www.BusinessGrowthInitiative.org

COVER PHOTO: Courtesy of Hammond Murray-Rust, ARD, Inc.

DISCLAIMER

This report is made possible by the support of the American People through the United States Agency for International Development (USAID). The contents of this report are the sole responsibility of ARD and do not necessarily reflect the views of USAID or the United States Government.

TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS.....	ii
1.0 PROJECT OVERVIEW	1
1.1 THE NEED FOR LAMP	1
1.2 CONCEPTUAL BASIS	2
2.0 PROJECT RESOURCES AND ACTIVITIES	3
2.1 PROJECT RESOURCES	3
2.2 PROJECT ACTIVITIES	3
2.2.1 Building Linkages	3
2.2.2 Access to Finance	3
2.2.3 Technical Assistance and Training	4
2.2.4 Policy Improvement and Environmental Issues.....	5
3.0 RESULTS TO DATE	7
4.0 BEST PRACTICES	8
4.1 APPLYING ECONOMIC GARDENING CONCEPT TO PRACTICAL PROJECT ACTIVITIES.....	8
4.2 EXPERIENCED LOCAL STAFF.....	8
4.3 DECENTRALIZED OPERATIONS	9
4.4 INTEGRATION OF EXISTING INSTITUTIONS	9
4.5 EVOLUTION OF THE PROJECT'S OBJECTIVES.....	9
4.6 CREATION AND USE OF A PROJECT DATABASE	9
4.7 GRANTS AND TECHNICAL ASSISTANCE	9
4.8 INTEGRATION OF POLICY ACTIVITIES INTO PROGRAM AREAS	10
5.0 CONCLUSION.....	11

ACRONYMS AND ABBREVIATIONS

BiH	Bosnia and Herzegovina
DCA	Development Credit Authority
EU	European Union
F&V	Fruits and Vegetables
HAACP	Hazard Analysis and Critical Control Points
HCN	Host-Country National
IMO	Institute for Marketecology
LAMP	Linking Agricultural Markets to Producers
MAP	Medicinal and Aromatic Plants
MCO	Micro-credit Organization
TA	Technical Assistance
USAID	U.S. Agency for International Development

1.0 PROJECT OVERVIEW

The Linking Agricultural Markets to Producers (LAMP) project in Bosnia and Herzegovina (BiH), was funded by the U.S. Agency for International Development (USAID) to foster economic growth through improving the competitiveness of the agriculture and agribusiness sectors. Now in its fifth year, LAMP applies many innovative approaches for linking domestic and international consumer markets with rural entrepreneurs, producer organizations, and communities. In its four and a half years of operation, LAMP has been successful in creating new farmer-to-market linkages along the value chain and bringing significant benefits to agricultural producers and processors throughout the country.

LAMP promotes business activity through the application of project resources grouped into four pillars: building linkages, facilitating access to finance, providing technical assistance (TA), and enabling policy improvement.

LAMP was based on an economic development approach, sometimes referred to as “economic gardening,” that operates on the premise that most new jobs are produced by growing businesses already existing in the community. Project management and staff identified suitable enterprises early into the project and provided them with long-term support. Target beneficiaries were farms, cooperatives, or agricultural processors that satisfied two criteria: 1) a demonstrated potential for growth, and 2) strong linkages to other area enterprises that would grow along with it. Agriculture in BiH is diverse, and three sectors were chosen as areas of focus based on their competitive potential: fruits and vegetables, dairy, and medicinal and aromatic plants. LAMP’s objective was to foster business growth in these sectors.



USAID-LAMP

- Brings buyers and sellers together and actively facilitate contract discussions
- Secures a commitment to purchase a cooperative’s production even as farmers are organizing themselves
- Supports private businesses, cooperatives, and associations as they form productive, profitable relationships
- Links policy work tightly to the needs of business.

1.1 THE NEED FOR LAMP

Agriculture has always been important to the economy of BiH and the sector was in disarray when the war ended in 1995. Farmers could not reach their markets, large processors had lost their suppliers, and small processors had difficulty raising capital to start anew. In finance, access to small loans by farmers was hindered by high risk aversion by banks. The micro-credit sector in BiH had limited lending in the agriculture sector, and the growth of agriculture portfolio was limited by lack of funds.

1.2 CONCEPTUAL BASIS

Although small businesses are generally the focus of much economic development programming, research shows that it is not *small* businesses that drive job creation but rather *fast-growing* businesses. The real issue in economic development is rate of growth. The programming approach based on this—economic gardening—operates on the assumption that most new jobs are created by businesses already in the community. These high-growth enterprises are often called “gazelles.”

In the United States, gazelles comprise about 3–5% of all companies, and they create the great majority of new jobs. Gazelles rapidly spot market opportunities and explore them, are constantly improving productivity and efficiency, and can quickly adapt and expand. While these firms are significant users of technology and computers, research shows that only 3% can be called “high-tech companies.” The majority of these gazelles are involved in retail, services, and manufacturing sectors and three-quarters are family owned. Most are small, with only about 30% having more than 100 employees.

To apply this information to developing countries and the agro-sector, LAMP was challenged with identifying rural enterprises with entrepreneurial leaders and providing targeted support. The enterprises could either be cooperatives or for-profit companies. Once the competitive agri-business activity was identified, LAMP would provide assistance to the enterprises and their supply chain(s) by applying different project tools. The application of project resources to counterparts was demand driven and aimed to enhance the competitiveness of the entire supply chain.

An additional, significant part of LAMP’s development challenge has been to help BiH prepare for European Union (EU) accession. The accession process provides a clear direction for project design and implementation. For example, in LAMP’s work on policy development, EU regulations are explicit and provide for detailed models to follow. On the other hand, most EU standards are stringent and difficult for BiH firms to meet. To some degree, this has been the case for most Balkan countries undergoing market reforms. However, with many of BiH’s neighbors joining the EU, it is important that the country follow suit.

2.0 PROJECT RESOURCES AND ACTIVITIES

2.1 PROJECT RESOURCES

The LAMP project resources included four field offices, 37 local staff, and a local Chief of Party. The local staff's experience was largely in finance and technical aspects of agriculture and processing. LAMP leveraged local resources to provide training and TA in business and management, as well as technical experts in various aspects of agricultural production and processing. In addition, LAMP made extensive use of regional resources for training, including sponsoring a number of cross-border activities to promote trade. LAMP works proactively to integrate with other internationally-funded programs.

2.2 PROJECT ACTIVITIES

2.2.1 Building Linkages

LAMP's primary objective was to create sustainable commercial linkages between agriculture producers and processors and markets. A key activity in this area are networking meetings where producers and processors were brought together to explore collaboration. For example, LAMP organized a meeting between 190 farmers from Herzegovina and the lead wholesaler in that region, a supplier to a major regional supermarket chain. This meeting resulted in the export of 380 tons of fresh tomatoes through the lead firm. Building on this success, the wholesaler coordinated and led a consortium of local producers in southern Herzegovina that resulted in a contract in the autumn of 2006 to export 737 tons of fresh fruits and vegetables, worth over \$770,000.

The project also supports trade fair participation by clients and leads study tours for industry-specific groups to neighboring countries. These study tours exposed BiH producers and processors to regional and international best practices that many have implemented upon return.

2.2.2 Access to Finance

Grant Making

In LAMP's grants approval process there was a strong emphasis on results beyond the immediate activity that was being supported. It was important that the business activity reach a large number of cooperative members or suppliers to an enterprise. In making these grants, there was a conscious effort to avoid using the mechanism to replace borrowing in the commercial credit market.

USAID-LAMP Actively Integrates Its Project Elements with Each Other

- Micro-credit organization (MCO) lending to borrowers with contracts for sale creates linkages
- The policy work is tied to association development
- Association development grows out of support to cooperatives in the target sectors
- Environmental improvement efforts are tied to export promotion



USAID-LAMP provided a grant for machinery, a greenhouse, and technical assistance to this processor of medicinal and aromatic plants in Rudo, Republika Srpska.

Freda Bagic, USAID-LAMP

LAMP grants created 301 new jobs with nearly 10,500 indirect beneficiaries. Grant making activities through LAMP originally financed equipment—feed mixers, lacto-freezers, irrigation systems, packaging machines and materials, etc. As the project went on, there was a shift toward marketing activities, broadly defined. One of LAMP’s grant programs provides amounts of up to \$25,000 to expand the commercial operations of its project clients.

A second and larger grant program, totaling \$8 million, was disbursed to four leading BiH micro-credit organizations (MCOs) to facilitate agricultural lending to farmers. Each MCO received \$2 million, with the following grant conditions:

- 100% of grant funds to be lent to farmers linked by contract with a food processor, cooperative, or retailer, thus ensuring that USAID grant funds were directed to farmers who were linked to the value chain;
- 40% of grant funds to be lent to first-time agricultural borrowers;
- 25% of grant funds to be lent for periods of two years or longer; and
- 15% of grant funds to be lent to minority returnees.

Collectively, the MCOs exceeded all of these grant conditions, and the 5,500 loans have created over 1,200 documented new jobs and sustained over 10,000. The average loan was \$3,000, and the average term was two years.

Each of the four MCOs substantially increased their lending to the agricultural sector since receiving these grants, and the grant funds were formally signed over to the MCOs to become part of their permanent capital.

Developmental Credit Authority

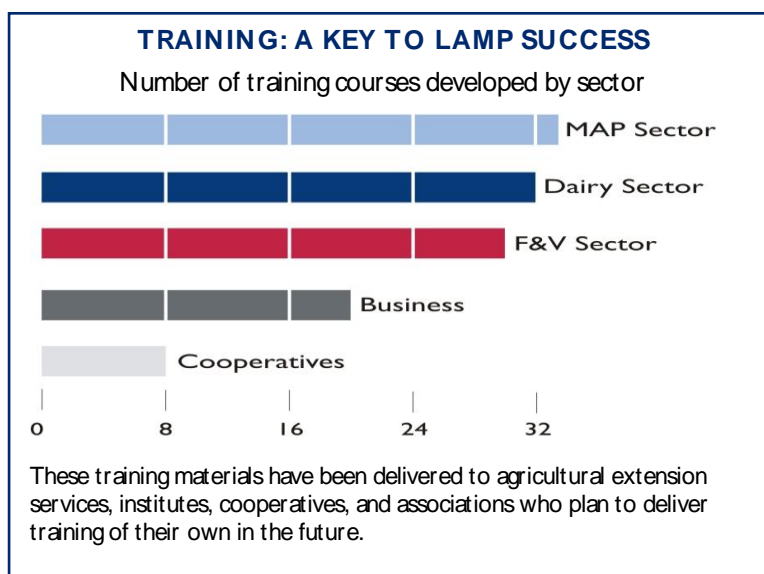
The MCO grants were part of a larger effort to improve access to credit for the agriculture and agribusiness sector. Access to commercial finance was facilitated through the use of the USG Development Credit Authority (DCA) program, which provides loan guarantees to commercial banks to cover up to 50% of the borrower’s risk.

LAMP staff assisted agriculture producers and processors to access commercial financing and take advantage of the DCA program. LAMP was now focusing on transitioning these skills to cooperatives and associations.

In total, there have been 160 applications assisted by LAMP staff. Of these, 77 have been approved with an average loan size of \$307,487. As a result, there has been a noticeable increase in agriculture lending by the DCA partner banks.

2.2.3 Technical Assistance and Training

Workshops, seminars, and consulting were important activities of LAMP. The project provides training in technical issues, business management, and institutional development. All training materials were in the local language, and the vast majority of LAMP’s training events have been delivered with local training partners in order to



contribute to the sustainability of these training activities. To date, 27 local organizations have collaborated with LAMP on at least one training. It was a key objective of the project's extension period to transfer full training responsibility to such organizations.

For the project's more promising cooperatives, there was intensive training supplemented by TA delivered by project experts. As part of their training, each cooperative prepared a marketing plan and was expected to implement at least one priority strategy out of the several that they have developed. The training and field work were co-funded by LAMP, and implementation was led and funded by the cooperatives.

2.2.4 Policy Improvement

Agricultural cooperatives and processors working across different parts of BiH were hindered by a complex regulatory system that incurred significant costs for businesses, both in terms of time and money. Producers were frustrated by the multiple government permits required. In its Ease of Doing Business ranking in 2008, the World Bank graded BiH 105 out of 178 countries. BiH was particularly poorly ranked in starting a business, registering property, and dealing with licenses. A rift exists between agri-business needs and government policy, as government was not fully responsive to the concerns of producers and processors. At the same time, the producer and business associations were weak to articulate and lobby for market friendly policies and regulations.

To address these policy constraints, LAMP has assisted the sector and cluster groups in identifying policy issues that impede their growth and has assisted the cluster groups and/or associations in advocating to government for reform on these issues. The project also works with the various levels of BiH government to help the relevant public institutions understand the needs of the private sector and of entering into constructive dialogue. A recent public-private partnership resulted in the introduction of modern milk quality regulation. (Raising the level of milk quality in BiH, an EU requirement, will allow for the production of certain highly-valued cheeses.)

The main policy objective in BiH was to move toward accession to the EU, thus the policy agenda was dominated by topics that improve compliance with EU regulations. BiH's weak institutional capacity in the area of product certification for export has hindered the sale of agricultural products in EU markets. Leveraging other donor resources, LAMP has provided assistance with food export licensing requirements.

Project activities in the policy sector have evolved over time. LAMP initially focused on improving regulations in many agricultural fields and harmonizing those regulations within BiH according to priorities determined with stakeholders. Most policy activities focused on direct contact with government officials by LAMP staff to discuss issues raised by clients, and on helping to draft regulatory and strategy documents.

While the project continues to work with various government offices and agencies on a selective basis, LAMP's focus has shifted to building capacity of agricultural associations to take the lead in improving the agricultural business environment. Specifically, LAMP has helped various associations develop positions on issues

USAID-LAMP also worked with clients to bring them into a more active role in the process. Among these activities were a series of roundtable discussions, organized with the Farmers Association and attended by more than 120 private farmers, and several meetings between larger dairies and government officials to address issues facing the dairy sector.



The Association of Women Farmers acquired a 500-liter lacto-freezer through USAID-LAMP's assistance. The equipment allows the farmers to store their surplus milk for sale to processors.

Frejla Begovic, USAID-LAMP

important to their members, prepare policy papers, and undertake advocacy and lobbying activities.

To move the national policy agenda forward, LAMP's policy component now focuses on selected associations, farmer associations, and agricultural processing associations. The efforts will build the practical and effective capacity of partner organizations to ensure that they were able to continue with reform efforts when the project was finished.

3.0 RESULTS TO DATE

The results of LAMP's four and a half years of work are impressive:

- Over 280 new linkages created, with initial values totaling more than \$11 million;
- A US\$8 million dollar grant fund that grew to US\$18 million, with 5,500 small loans disbursed to small farmers that created 1,250 new jobs and supported 10,000 indirect beneficiaries. In addition, 77 producers and processors received larger, longer term loans that totaled over \$23 million. Almost half of these loans were made possible by the USAID DCA guarantee;
- One hundred and thirty-six small grants disbursed, totaling more than \$2.8 million, that created 301 new jobs and sustained 10,500 more; and
- Over 38,000 producers trained.

These results were achieved through coordinated application of the project elements. More importantly, they have contributed to increased competitiveness of the BiH food sector as reflected in the country's export and import statistics. For example, dairy exports have tripled since 2003, and imports have declined by 40% in that same time period. Exports of processed fruits and vegetable have increased 30% in the last five years, while imports have been reduced by 20%.

4.0 BEST PRACTICES

4.1 APPLYING ECONOMIC GARDENING CONCEPT TO PRACTICAL PROJECT ACTIVITIES

At the beginning of the project, the LAMP team took steps to identify agricultural sectors with which to work. The team performed a thorough analysis of the agricultural sectors and their potential to grow, so as to focus most of its efforts on those sub-sectors of the agricultural economy determined to have high promise. Within the selected agricultural sectors, LAMP identified major processors with a history of growth and a strong presence in the domestic market. (It was also advantageous if processors had an export orientation.) LAMP established relationships with these processors and, with their support, researched their raw material base to identify the largest suppliers and primary producers. After this initial research, LAMP was able to create a list of major cooperatives, associations and other market indicators who were bearers of agricultural production in BiH.

Through a network of cooperatives, associations, and other private sector organizations, LAMP was able to reach small farmers and provide a broad range of technical, financial, and capacity building training sessions. These were delivered in two ways: through on-farm training that involved several farmers at one site, and classroom training (usually conducted during the off season) with, on average, more than 45 farmers per session. All these training sessions were organized by partner cooperatives, associations, and/or extension services. Through participation and capacity building, these groups were eventually able to provide training without LAMP's assistance. In the early project stages, LAMP used both US and regional short-term technical assistance to train farmers within the selected sub-sectors on technical topics such as feeding ratios, milk hygiene, forage and silage sowing and preparation, fruit and vegetable growing techniques, and techniques for the sustainable collection of medicinal herbs.

Capacity building training sessions were conducted in cooperation with local subcontractors on sales skills, negotiation and advocacy skills, marketing, and finance. For selected cooperative representatives, and in cooperation with two cooperative unions, LAMP conducted a series of training sessions on cooperative auditing. Learning tours were organized for selected farmers, cooperatives, associations, extension services, and institute representatives. These tours were a great success, allowing participants to learn best production practices from other regional and European farmers.

Expanding enterprises is the engine of an economy's growth; support to these enterprises increases employment both directly and at the supplier level. LAMP refers to these growing enterprises as "market integrators," as the project builds linkages that use growth to pull others along. By strengthening market integrators, improving their position in the market, and supporting their growth, LAMP has enabled these enterprises to help other small farmers produce better quality produce using best agricultural practices and up-to-date technology to achieve higher sales and profits.

4.2 EXPERIENCED LOCAL STAFF

The LAMP project began with a team of five expatriates, one for every field office. This allowed a fast and effective start-up and enabled the transfer of skills and knowledge to host-country national (HCN) managers. When authority was passed to the BiH team, the local

knowledge available brought the project forward at an increasing pace and sustained productivity for years.

4.3 DECENTRALIZED OPERATIONS

The LAMP project structure allows the HCN branch managers true authority, enabling the project to act more quickly and be more responsive. This arrangement encourages initiative and ownership by the HCN team and builds substantive relationships with field resources of other international and local projects.

4.4 INTEGRATION OF EXISTING INSTITUTIONS

LAMP established cooperative relationships with other development resources in order to save money and time, gain local knowledge, and establish contacts. For example, the lending program arranged through existing MCOs not only helped the project but also supported the MCOs as legitimate financial intermediaries and not just bank substitutes. Additionally, LAMP's collaborative relationship with BiH training institutions, extension services, faculties, and agricultural institutes provided training and TA on best production practices. Moreover, local nongovernmental organizations and consultant firms received priority in subcontracts for the provision of training and technical assistance.

4.5 EVOLUTION OF THE PROJECT'S OBJECTIVES

As LAMP's activities progressed, the project shifted to increased capacity building and a focus on sustaining activities, i.e., the activities were first proven to be successful, and then sustainability became the watchword.

4.6 CREATION AND USE OF A PROJECT DATABASE

LAMP has a comprehensive client database that was accessible from all field offices. The database contains profiles of each client, tracks each client's growth, and provides relevant information to refine project design and target activities and programming.

4.7 GRANTS AND TECHNICAL ASSISTANCE

To date, LAMP has awarded 136 small grants to qualified cooperatives, associations, and companies. This project segment has been a success, as small grants produce significant results through the purchase of a single piece of equipment or payment for a marketing campaign. The development of the small grants approach was the result of assessing client needs and applying knowledge received during various training sessions.

An example of one such small grant success was the Jezerski Association. In 2004, the association had a membership of 24 dairy farmers who supplied large dairies in northwest Bosnia. The group wanted to increase membership and increase milk production per cow to improve economies of scale. Through LAMP trainings, the farmers learned how to increase productivity through improved nutrition. To emphasize this, LAMP arranged a study tour to the Netherlands where nine BiH trainees, including one from the Jezerski Association, learned about soil nutrition management and how to increase forage productivity while decreasing feed costs. The association members realized that their cows would particularly benefit from better grass silage. Properly bailed silage stores better and was better preserved, ultimately increasing milk yields. Through a small grant, LAMP assisted the association to purchase a bailing machine. The motivated and enthusiastic association trained all their members to use this equipment. The improved nutrition significantly increased the cows' milk production by 10–15% during winter feeding. Today the Jezerski

Association has 96 members, and it supplies dairies with approximately 5,200 liters of milk per day.

Company Mushroom D.O.O. from the Banjaluka region was another small grants success story. When the company began receiving more orders than could be filled, LAMP began collaborating with the business to provide TA and a grant to increase its cooling and drying capacity. Working with LAMP, Mushroom D.O.O. increased sales from 130 tons in 2003 to 200 tons in 2007, all of which was exported to the EU. Due to increased productivity and processing capacity, the firm was also able to greatly increase its number of full-time and part-time employees. Additionally, the business has generated significant rural employment of wild mushroom collectors that increased from 300 in 2003 to 600 in 2007.

As Company Mushroom was aware that its economic well-being depends on sustainable harvesting of mushrooms, it has established harvesting procedures according to organic principles. The company was organically certified by IMO of Switzerland which has helped the company access niche markets in Europe. Additionally, the company has implemented a HACCP system to ensure high hygiene standards and product quality as demanded by buyers.

“After implementing the purchase of new equipment, supported by USAID grant funds, we increased income by more than 30% in the first year. With this increased capacity, our company will be able to double the quantity of raw mushrooms we process. Also, with the new freezing chamber, the company does not need to rent cooling space any more. This means that the company will save 8,000 KM per year”

— Milan Zoric, owner, Company Mushroom

4.8 INTEGRATION OF POLICY ACTIVITIES INTO PROGRAM AREAS

The LAMP policy team focused on providing assistance to several associations, in particular to the cooperative unions, in order to strengthen capacity in advocating for change in the policy and regulatory framework. This was done through training and TA provided by the Center for Civil Initiatives and LAMP staff so that associations could agree on and formulate a clear position prior to advocating for policy changes. The overall goal was to improve the business environment for the private sector while also being mindful of the need to harmonize regulations according to relevant EU directives.

LAMP staff maintained contact with government authorities to keep abreast of upcoming policy changes. The project encouraged key associations to work with the technical committees that draft regulations, while at the same time urging government authorities to include key associations in these technical committees. Together with these authorities, LAMP organized public-private sector forums that provided an opportunity for associations to comment on early drafts of regulations and advocate their policy positions. LAMP worked to invite as many associations to these public meetings as possible so that all groups had an opportunity to advocate their positions before new regulations were adopted and enforced.

Most recently, activities for continued dialogue between cooperative unions and other government institutions have intensified. This has resulted in a mutual understanding of the need to create a better business environment for cooperatives. Together with cooperative unions, a series of documents were developed that today represents a platform for the transformation of the cooperative sector in BiH. The implementation of these measures should, in a relatively short period of time, create an environment where cooperatives and cooperative unions are modern service providers for their members.

5.0 CONCLUSION

LAMP was designed to address a range of problems common in developing and post-conflict countries. Economic growth is fostered by supporting fast-growing companies and connecting them to other growing enterprises. The most productive approach and the key to sustainability, is to leverage local resources. The targeted application of a complementary set of project activities driven by the needs of the beneficiaries is better than a “cookie-cutter” approach.

Much work remains, however, and ultimately progress is in the hands of the people of BiH.

For further information, please visit the project Web site: www.usaidlamp.ba.

USAID/Bosnia and Herzegovina

39 Hamdije Cemerlica

71000 Sarajevo, Bosnia-Herzegovina

Tel: 387 33 702-300

Fax: 387 33 611-973

www.usaid.ba