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# Analysis of economic diversification in Bosnia and Herzegovina

## Preparation of IPARD Sector Analyses in Bosnia and Herzegovina

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FAO Regional Office for Europe and Central Asia

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Preparation of IPARD Sector Analyses in
Bosnia and Herzegovina
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# Analiza ekonomske diverzifikacije u Bosni i Herzegovini

## *Kontekst i ciljevi analize*

### Opći kontekst analiza sektora: Pripreme za pristupanje EU

Bosna i Hercegovina (BiH) je potencijalna zemlja kandidatkinja za pristupanje EU od sastanka Evropskog vijeća u Thessalonikiju iz 2003. U junu 2008., EU i Bosna i Hercegovina su potpisale Sporazum o stabilizaciji i pristupanju (SSP). Privremeni sporazum o trgovini i trgovinskim pitanjima je stupio na snagu 1. jula 2008., a Vijeće je usvojilo novo Evropsko partnerstvo sa Bosnom i Hercegovinom 18. februara 2008[1].

Bosna i Hercegovina je imala korist od autonomnih trgovinskih mjera EU od 2000. godine. Nakon što je Privremeni sporazum stupio na snagu 1. jula 2008., pristup proizvodima iz BiH Evropskoj uniji je proširen, a za izvoz iz EU u BiH su odobrene trgovinske preference.

Kada su EC i BiH 31. jula 2008. potpisale Nacionalni program Sporazuma o finansiranju instrumenta za pred-pristupnu pomoć (IPA) 2007, to je bio veliki korak ka EU integracijama. Ukupna sredstva za raspodjelu u okviru IPA iznose € 11,47 milijarde (za trenutne cijene) u periodu 2007. - 2013.

Kao zemlja pred-kandidatkinja, Bosna i Hercegovina još uvijek ne može u potpunosti koristiti IPA pomoć, iako se vrše pripreme koje bi trebale biti okončane do trenutka kada BiH postane kandidatkinja za EU, i kada se pokrene implementacija IPARD pomoći za poljoprivredni i ruralni razvoj.

### Kontekst sektora

Kako bi Bosna i Hercegovina imala koristi od pred-pristupne pomoći u sklopu IPARD-a, neophodno je:

- Da dobije status zemlje kandidatkinje
- Da ima IPARD Program koji je usvojila Evropska komisija
- Da sklopi okvirne i sektorske sporazume
- Da uspostavi IPARD operativne strukture i dobije državnu akreditaciju
- Da dobije akreditaciju i odobrenje upravljačke odluke od Komisije
- Da zaključi Sporazum o višegodišnjem finansiranju

Uredba za provedbu IPA (718/2007) (član 184., stav 2.b) navodi da se IPARD program treba temeljiti na analizi postojećeg stanja u ruralnim područjima i temeljitoj analizi sektora. Između ostalog, IPARD program treba sadržavati kvantificirani opis postojeće situacije, ukazati na razlike, nedostatke i potencijal za razvoj. Program također treba sadržavati kvantificirane ciljeve. Analiza stanja i određivanje prioriteta među područjima za potencijalne intervencije treba izvršiti uz pomoć neovisne ekspertize.

S obzirom na gore navedeno, glavni cilj sektorskih analiza je pružiti čvrste ulazne parametre za izradu IPARD programa i osigurati temelj za opravdano i prikladno ciljanje mjera uključenih u IPARD program. Dakle, studije sektora kao takve ne predstavljaju dio IPARD programa, već pružaju osnovne ulazne informacije neophodne za procesa programiranja.

Nadalje, treba naglasiti da državne vlasti mogu koristiti studije sektora kao izvor informacija za pripremu intervencija usmjerenih na poljoprivredni i ruralni sektor, i kao takve, studije sektora ne doprinose isključivo izradi IPARD programa.

IPARD podrška će se baviti slabijim karikama u lancima proizvodnje i snabdijevanja (vrijednosnim lancima). ciljevi IPARD intervencije su doprinos postizanju usklađenosti sa standardima EU, jačanje sveukupne konkurentnosti i rezultata, te pomoć održivom razvoju sektora u kontekstu pristupanja EU. U tom smislu, analize sektora

[1] Vidi internet stranicu Delegacije EU za Bosnu i Hercegovinu: http://www.delBIH.ec.europa.eu/

se bave najzahtjevnijim sektorima u smislu troškova zadovoljavanja standarda za koje se očekuju najveći potencijali i dodatna vrijednost intervencije.

Analize poljoprivrednog sektora izvršene u Bosni i Hercegovini su odabrane putem konsultacija sa lokalnim vlastima, i zasnivaju se na relevantnosti u smislu standarda EU i privrednoj relevantnosti. Analize su izrađene za:

- Meso, preradu i mlijeko i mliječne proizvode
- Voće i povrće
- Žitarice (pšenica i kukuruz)
- Vino
- Diversifikaciju

Analize sektora pružaju detaljne analize stanja u sektorima te identificiraju slabosti i pitanja od interesa za sektor koje je potrebno riješiti IPARD intervencijom, kao i drugim intervencijama na državnom i entitetskom nivou. analize sektora u obzir uzimaju potrebe regionalnog razvoja, tamo gdje je to podesno.

## Šta je diverzifikacija

Šta je u stvari „diverzifikacija"? Uzimajući u obzir početne tačke navedene u literaturi napisanoj na ovu temu, postaje jasno da se klasifikacija diverzifikacije, a samim tim i jedinica analize, može bazirati na različitim aspektima. Drugim riječima, ne postoji samo jedan način shvatanja i pristupa diverzifikaciji i teško da ju je moguće definisati kao sektor na isti način na koji govorimo o sektorima mesa, mlijeka, voća i povrća, itd.

Na primjer, moguća je analiza sa početnom tačkom u djelatnosti – da li je u pitanju djelatnost na gazdinstvu ili van gazdinstva? Ili se može posmatrati iz perspektive prihoda, kroz prihod od plate ili preduzetništva, odnosno da li se odnosi na pojedinačna gazdinstva (domaćinstva) ili na komercijalna gazdinstva. Neki istraživači imaju široko shvatanje koncepta diverzifikacije gazdinstva i izjednačavaju ga sa multifunkcionalnošću (pluriactivity). Ovo uključuje pri-hodovne djelatnosti na gazdinstvu i van gazdinstva. Kao kontrast ovome, neki smatraju da diverzifikacija uključuje samo ne-poljoprivredne djelatnosti na gazdinstvu. Konačno, jedna od najuobičajenijih klasifikacija ruralnih prihodovnih djelatnosti se odnosi na mjesto na kom se obavlja djelatnost.

Drugi pristup je da se pogleda Anketa o strukturi poljoprivrednih gazdinstava (Eurostat). Ovdje je diverzifikacija definisana kao *bilo kakva prihodovna djelatnost koja ne uključuje poljoprivredne radove* a koja je direktno povezana sa gazdinstvom. Ovo na primjer može uključivati: turizam, rukotvorine, preradu proizvoda gazdinstva kao što je sir, akvakultura, itd.[2] S druge strane, koncept multifunkcionalnosti se odnosi na upravitelja gazdinstva i znači postojanje drugih prihodovnih djelatnosti za poljoprivrednika nevezanih za gazdinstvo. Ovo bi uključivalo bilo kakvu djelatnost osim poljoprivrednih radova, ali uključuje djelatnosti koje se obavljaju na gazdinstvu (kamp mjesta, turistički smještaj, itd.), usluge (iznajmljivanje mašinerije, itd.), proizvode (kao što je prerada proizvoda gazdinstva, proizvodnja energije iz obnovljivih izvora, itd.). Sve vrste djelatnosti koje imaju ekonomski efekat na ekonomiju gazdinstva.[3]

U ovom izvještaju će se koristiti gore navedene definicije. Potrebno je napomenuti da, s obzirom da u BiH postoji mnogo poljoprivrednih gazdinstava sa mješovitom djelatnošću, već postoji veoma visok stepen „tradicionalne diverzifikacije". Pitanje i izazov stoga postaje više da se odredi gdje su moguća proširenja i proizvodnja velikog obima.

## *Metodologija*

Sektorska studija je bazirana na višestranom pristupu kako bi se osigurala triangulacija podataka. Ovo podrazumijeva kvalitativne i kvantitativne metode. Kombinacija različitih metoda prikupljanja podataka omogućava da se iskoriste jače strane pojedinih metoda

[2] FSS, 2009. god.

[3] FSS, 2009. god., Ludvig, Eberlin & Percze, 2010. god.

i da se istovremeno umanje njihovi negativni aspekti. Primijenjene su sljedeće metode:

- Sekundarno istraživanje
- Statistike
- Ankete
- Razgovor-intervju sa akterima i ključnim poznavaocima
- Analiza slučajeva
- Radionice

## Sekundarno istraživanje i statistike

Prvo je provedeno istraživanje literature, sačinjene dijelom od naučne literature a dijelom od različitih tipova empiričke literature na ovu temu, npr. programi ruralnog razvoja, zakonodavni dokumenti, izvještaji pripremljeni u sklopu različitih projekata o npr. gljivama ili pčelarstvu, ali i izvještaji koji se bave npr. društvenim kapitalom u BiH i slično. Sekundarno istraživanje je uključivalo i pregled internet stranica.

Preliminarni opisi trenutne situacije u sektoru diverzifikacije su bazirani na opštim podacima iz Agencije za statistiku BiH, Republičkog instituta za statistiku, Ministarstva vanjske trgovine i ekonomskih odnosa, Ministarstva poljoprivrede, šumarstva i vodoprivrede i drugih relevantnih institucija, uključujući i sljedeće izvore:

- Prekogranična izgradnja institucija (CBIB), Izvještaj o analizi procijenjenih potreba, 2006. god.
- FAO, Koncept diverzifikacije ruralne privrede i kratki pregled iskustava u Evropi, 2010. god.
- Statistički godišnjak FBiH za 2010. godinu
- Statistički godišnjaci FBiH i RS za 2009. godinu
- Operativni program FBiH za poljoprivredu, hranu i ruralni razvoj (2007. godina)
- Ministarstvo finansija FBiH, različiti izvori statističkih podataka
- Procjena regionalnih dispariteta – Bosna i Hercegovina 2010. god
- Operativni program RS za poljoprivredu, hranu i ruralni razvoj (2007. godina)
- Statistički godišnjaci RS za 2010. godinu
- Razvoj malih i srednjih preduzeća – Strategija u Bosni i Hercegovini 2009.-2011. (http://www.mvteo.gov.ba/vijesti/posljednje_vijesti/Default.aspx?id=1204).
- Statistike na nivou kantona u FBiH
- UNDP, Veze među nama – Društveni kapital u BiH, 2009. god.
- UNDP Bosna i Hercegovina 2010 – Razvoj sektora gljivarstva, održivo i inkluzivno tržište
- UNDP Bosna i Hercegovina 2011. godine – Studija izvodljivosti za farmu koza
- UNDP, Studija izvodljivosti za vunu u BiH
- UNDP, EkoMozaik API centar i organska proizvodnja meda, projekat „Scope“
- Izvještaj Svjetske banke, 2008. godina
- Zijad Džafić (2006. god.) “ Komparativna analiza prepreka u razvoju malih i srednjih preduzeća u Bosni i Hercegovini i zemljama Zapadnog Balkana ” UNECE (2011. god.)
- http://www.ruralpovertyportal.org/web/guest/country/home/tags/bosnia%20and%20herzegovina

## Ankete

U sklopu ove studije su provedene dvije vrste anketa, jedna od njih je unakrsna sektorska anketa koja se bavi uglavnom sektorom voća i povrća a nekoliko pitanja je uključeno i u anketu o mesu i mliječnim proizvodima. Na ovaj način je analiza sektora diverzifikacije mogla iskoristiti i kvantitativne podatke iz ove ankete. Ukupno je anketirano 242 poljoprivrednika u FBiH i RS.

Pored glavne ankete su provedene i mini ankete u 40-50 opština u FBiH i RS. Cilj ove mini ankete je da otkrije:

- Da li postoji lokalna razvojna strategija i, ako da, na čemu leži naglasak te strategije?
- Kakvi su kapaciteti opština po pitanju pripreme prijedloga projekata, kakav nivo znanja imaju o IPA i IPARD projektima i da li su, i u kojoj mjeri, uključene u bilo koju vrstu diverzifikacijih aktivnosti.
- Da li postoji lokalni fond sredstava za aktivnosti i, ako da, šta i koga podržava.

- S kim opština sarađuje (npr. nevladine organizacije)?
- Da li postoje javne poljoprivredne savjetodavne službe?
- Status ruralne infrastrukture (obrazovanje, javni prijevoz, putevi, vodovod, kanalizacioni sistem, uklanjanje otpada i kulturne manifestacije)?
- Koje su jake strane opštine?

### Razgovor sa akterima i ključnim poznavaocima

Pored sekundarnog istraživanja i anketa, proveden je i određeni broj intervjua sa akterima. Cilj je bilo sticanje uvida i saznanja o konkretnim projektima diverzifikacije, informacije i naučene lekcije iz provedbe diverzifikacije u drugim zemljama, tržišni potencijali, itd.

### Analiza slučajeva

U sklopu studije obavljeno je 17 analiza slučajeva. Ciljevi ovih analiza su da se odrede *uspješne prakse i konkretni faktori uspjeha* u odnosu na određene investicije u diverzifikaciju i/ili karakteristike proizvodnje (tehnološki nivo, objekti, znanje, standardi kvaliteta, uska grla i slabe tačke u lancu vrijednosti, npr. pristup tržištu).

**Analize primjera**

| |
|---|
| Kotor Varoš - / "Sunce", Ljubica Marković |
| Udruženje "Snop" – Rogatica |
| Kneževo – Mješovito poljoprivredno gazdinstvo / više aspekata djelatnosti / diverzifikacija Dane Đuranović |
| Suveniri sa etničkim motivima – BL |
| Udruženje žena "Duga", BL |
| Pčelarstvo i pčelinji proizvodi "Batinić" Sokolac |
| Ruralni turizam – Milenko Ećimović, Bjelosavljevići, RS |
| **Šekovići – pčelarstvo i plastenik** (EKO Bilje – Mozaik fondacija) |
| Lukavac eko selo – Fadil Ibišević - |
| Hadžihalilović proizvođač RAKIJE Orašje |
| **Čeliković Bihać** |
| ECON – Sarajevo |
| Zelenara – Fojnica internet portal za prodaju proizvoda putem interneta |
| Ađelić – Trebinje – izvozno orijentisani proizvođač organskog ljekovitog bilja i ulja |
| Kamenorezac iz regije Konjic |
| Pleahan eko-kooperativa koju vodi crkva (Mala braća) grupa različitih proizvoda – Derventa |
| Agroinkubator Žepče |

Pored ovoga, sekundarni ciljevi analize su:

- Doprinos procjeni ekonomskih performansi ili potencijala projekata diverzifikacije,
- Identifikacija mehanizama koji doprinose alternativnim izvorima prihoda (zadruge, udruženja, ugovorna poljoprivreda).

**Intervjui**

| Intervjuisana osoba, ime i institucija | Ključne tačke razgovora |
|---|---|
| Britanska ambasada Sarajevo | Bivši zaposlenik UNDP-a odgovoran za različite studije o proizvodnji meda, koza, gljiva i vune u BiH. Diskusija o potencijalima i mogućnostima u BiH |
| UNDP | UNDP strategija i tekući projekti na polju diverzifikacije |
| Mozaik fondacija za društveni razvoj | Diskusija o jakim aspektima BiH gdje je moguće napraviti značajne projekte diverzifikacije. Praktična iskustva sa problemima tokom osnivanja preduzeća u BiH |
| GIZ, Sarajevo | Iskustva iz turističkih projekata u Crnoj Gori, naučene lekcije o strategijama diverzifikacije u Crnoj Gori i, konkretnije, razgovor o prilikama i mogućnostima za diverzifikaciju u BiH |
| Ambasada Češke Republike | Saznanja o fokalnim područjima češkog finansiranja u njihovoj strategiji razvoja poljoprivrede i ruralnih područja. Takođe, njihovo mišljenje o mogućnostima za diverzifikaciju u BiH |
| GIZ, Crna Gora | O internet anketi o evropskim *outdoor* trendovima koju je pripremio Trend |
| FAO Budimpešta | Pregled projekata i studija iz FAO-vog konteksta koji su relevantni za ovu studiju o diverzifikaciji |
| USAID | Dobiti bolja saznanja i uvid u njihove turističke projekte i mapiranje interesantnih turističkih lokacija koje je bilo dio prvog USAID projekta za razvoj turizma |

Ovih 17 primjera je odabrano uz razmatranje više indikatora:

U izboru primjera morali smo uzeti u obzir:

- Geografiju – napravljen je pokušaj da se pokrije cijela BiH;
- Ciljne grupe (proizvođači, mala privatna preduzeća, organizacije/nevladine organizacije);
- Djelatnosti (različite vrste djelatnosti, npr. pčelarstvo, turizam, infrastruktura, usluge);

## Radionice

Tokom projekta su održane dvije vrste radionica, SWOT (snage, slabosti, mogućnosti, prijetnje) radionica i radionica za provjeru. Za svaku radionicu su održana dva susreta, jedan u Sarajevu i jedan u Banja Luci.

### *SWOT radionica*

Prve dvije SWOT radionice su održane u Sarajevu i Banja Luci, 6. i 8. juna 2011. godine. Svakoj radionici je prisustvovalo otprilike 25 učesnika iz redova raznih organizacija, ministarstava, poljoprivrednika, međunarodnih donatora, nevladinih organizacija, itd. Predstavnici državnog nivoa vlasti nisu prisustvovali.

Većina identifikovanih snaga i slabosti su bile identične u Sarajevu i u Banja Luci. Ipak postojale su neke razlike u fokusu: radionica u Banja Luci je bila veoma aktivna u poređenju sa onom u Sarajevu. Tu je naglasak bio više na političkoj strukturi, administrativnim pitanjima i nedostatku transparentnosti. Ovo se vjerovatno može povezati sa prisutnim akterima. U Sarajevu su učestvovali predstavnici administrativnog sistema i nevladinih organizacija dok su u Banja Luci učestvovali poljoprivrednici, mikro preduzeća i proizvođači. Za obje radionice je pripremljen izvještaj.

### *Radionica za provjeru*

Svrha ovih radionica je bila sljedeća:

- Prezentacija preliminarnih nalaza i zaključaka,
- Prezentacija preporuka za izradu mjera i sadržaj mjera,
- Diskusija sa akterima o nalazima i zaključcima, kao i predloženim mjerama.

Ishod radionica je bio dobivanje operativnih podataka u cilju formulacije mjera.

U Banja Luci je prisustvovao 51 učesnik (od 61 pozvanih) a u Sarajevu 21 (od 37 pozvanih). Vjerujemo da je broj učesnika prihvatljiv. Doduše razočaravajuće je to što je samo 4% učesnika u Sarajevu učestvovalo na obje radionice.

Na obje radionice je postojala dobra atmosfera a interes za preliminarne nalaze i preporuke se ocjenjuje kao visok. Učesnici koji su bili pozvani i koji su prisustvovali ovim radionicama su bili veoma različiti. U Banja Luci su radionicom dominirali stanovnici ruralnih područja, turističke organizacije, ruralna mreža, različite vrste udruženja (poljoprivrednici, žene, med/pčelari, itd.), proizvođači, itd. Zajedničko svim učesnicima je bilo to što se svakodnevno i direktno susreću sa poteškoćama. Ovo je rezultiralo veoma konkretnim i operativnim mišljenjima i povratnim informacijama o predloženim mjerama.

U Sarajevu su učesnici pripadali nešto „višem nivou“, odnosno radilo se o osobama iz federalnih ministarstava, institucija za ekološku kontrolu i inspekciju, kantona, UNDP-a, itd. Učesnici su bili relevantni iz mnogo razloga i diskusija je bila važna i korisna ali dosta apstraktna i manje operativna zbog činjenice da je dnevni život učesnika relativno udaljen od onoga što se trenutno dešava u ruralnim područjima.

U poređenju sa SWOT radionicama, ovaj put je bilo dosta teže pokrenuti grupne radne aktivnosti i diskusije. Ovo je vjerovatno zbog činjenice da je ovaj put cilj za učesnike bio „apstraktniji“. Nema sumnje da je komplikovanije voditi diskusiju o vrstama mjera i njihovoj izradi ili investicijskim nivoima nego diskutovati o snagama, slabostima, itd.

## *Zaključak*

Glavni zaključak analize diverzifikacije u BiH je sumiran dole.

## Dostupnost podataka

Važno je naglasiti sljedeću činjenicu. Zvanični podaci za sektor su fragmentirani, odnosno donekle nepouzdani ili čak ne postoje. Na primjer, agencija za statistiku BiH i instituti za statistiku ne navode bilo kakve socio-ekonomske indikatore za npr. ruralno stanovništvo ili žene koje žive u ruralnim područjima, što za studiju poput ove predstavlja važne podatke. Umjesto toga, upotrijebljeni su podaci iz različitih studija koje su provele npr. donatorske organizacije (UNDP, SIDA, USAID, itd.). Ove studije predstavljaju najbolju opciju i navode ključne indikatore o trenutnoj situaciji u ruralnoj BiH, ali se ne radi o reprezentativnim podacima. Pored toga, navedeni podaci za npr. broj organski certificiranih proizvođača nisu uvijek konsistentni; na primjer, po zadnjoj verziji podataka iz Organske Kontrole, postoji sedam BiH preduzeća iz oblasti diverzifikacije koja su certificirana za izvoz u EU. Ovaj broj se kosi sa brojem spomenutim u Oprativnom programu za poljoprivredu, hranu i ruralni razvoj (2008.-2010.) za RS i FBiH. Ovdje se navodi da postoji otprilike 60 certificiranih organskih proizvođača u BiH.

Stoga se ishod ove analize dobrim dijelom bazira na sopstvenom istraživanju i prikupljanju podataka, odnosno podataka iz analiza slučajeva, ankete i razgovora sa akterima, te iz sekundarnog istraživanja drugih dostupnih izvještaja, čime je primijenjen kvalitativniji pristup.

## Ekonomska diverzifikacija u BiH

Sektorska studija jasno pokazuje da danas u BiH ne postoje sistematični programi ili pristupi kojim se podržava diverzifikacija. IPARD program za ruralni razvoj predstavlja priliku da se napravi sistematičniji pristup, možda podržan programom na državnom nivou i strategijom za privrednu diverzifikaciju.

Sektorska studija pokazuje da ruralno stanovništvo u BiH ima želju da poboljša i/ili proširi svoj glavni izvor prihoda, što je važna početna tačka za razvoj solidne i održive diverzifikacije. Mnoge vrste djelatnosti, kako na gazdinstvima tako i van njih, su već u toku. Anketa pro-vedena u sklopu sektora voća i povrća pokazuje da 51% ima dodatnu djelatnost pored poljoprivrede. Poljoprivrednici u RS su u mnogo većoj mjeri aktivni u smislu diverzifikacije od poljoprivrednika u FBiH. 59% poljoprivrednika u RS ima dodatni prihod nevezan za poljoprivredu, dok je u FBiH postotak 44%. Objašnjenje ne leži u činjenici da su u FBiH gazdinstva za proizvodnju voća i povrća manja nego u RS, jer mala gazdinstva površine od 0-4,9 ha nisu manje zastupljena u smislu dodatnih prihodovnih djelatnosti od većih gazdinstava. Jedina razlika u diverzifikacijskim djelatnostima između gazdinstava različitih veličina je između gazinstava srednje veličine i ostalih. 57% gazdinstava površine od 5 do 9,9 ha ima dodatnu djelatnost pored poljoprivrede.

Pored toga, i opštine postaju svjesne važnosti stvaranja novih radnih mjesta i mogućnosti zarade koji nisu primarno vezani za poljoprivredu. Kao odgovor na ovaj izazov, 60% opština je odlučilo da podrži mala i srednja preduzeća a 17% opština ima poslovne inkubatore, ali samo jedna opština ima poljoprivredni inkubator . Fondovi za privredni razvoj su uspostavljeni u 38% opština a dodatnih 17% opština navodi da su uspostavili fondove za ruralni razvoj. Drugim riječima, u toku su postojeće inicijative na opštinskom nivou za podršku alternativnim izvorima prihoda i stvaranje radnih mjesta. Međutim, nije bilo moguće ustanoviti tačan broj projekata vezanih za alternativne izvore prihoda.

17 analiziranih slučajeva (vidi tabelu gore) ilustruju raznolikost, od inicijativa u ruralnom turizmu do kamenorezačke djelatnosti, od udruženja fokusiranih na osnaženje ruralnih žena i očuvanje ruralnih tradicija do ambicioznih investicionih projekata velikog obima kao što je primjer u Šekovićima, te izvoza ljekovitog bilja i trava, što ilustruje različitost tekućih projekata.

Posjećeni slučajevi pokazuju da ključ uspjeha u velikoj mjeri leži u posvećenosti i strasti uloženoj u projekat, kao i podrobnom (stručnom) znanju o npr. proizvodnji bilja, meda, rakije ili rukotvorina, itd. – što je preduslov za proizvodnju visokokvalitetnih proizvoda.

Drugi zajednički činilac je nivo ambicije i otvorenosti za nove ideje, ali uključuje i spremnost na naporan rad, poslovni plan i dostupnost finansijskih sredstava. Većina posjećenih slučaja nema prijašnje iskustvo sa apliciranjem za finansiranje. Poduzeli su investicije nakon što su uštedjeli novac za to. Nekoliko projekata, npr. Šekovići i Duga, su aplicirali i primili međunarodnu finansijsku podršku i time stekli iskustvo u ovoj vrsti poslova. S druge strane, pristup od dna prema vrhu i motivacija u smislu osjećaja angažovanosti i posmatranja kako stvari rastu je samo po sebi ključni faktor iz perspektive vlasnika. Što znači da je strukturu podrške potrebno postaviti u okvir koji će uključiti ove ključne faktore uspjeha.

Pored toga postoji potreba za investiranjem u ruralnu infrastrukturu (putevi, kanalizacija, internet, itd.) i omogućavanjem pristupa istim, što se smatra okvirnim uslovom koji je potrebno unaprijediti u cilju podrške privrednoj diverzifikaciji, npr. internet je neophodan da bi se odgovorilo na potrebe turista.

Studija takođe navodi potrebu za boljim i bolje organizovanim savjetodavnim sistemom, ne samo za ruralne poljoprivrednike već i za ruralna preduzeća (mikro i SME). Anketa o voću i povrću jasno pokazuje da poljoprivrednici u RS imaju bolji pristup savjetodavnim službama te stoga i informacijama o diverzifikaciji, poljoprivrednim metodama, itd. u poređenju sa poljoprivrednicima iz FBiH, gdje ne postoji savjetodavna služba osim savjetodavnih usluga koje pruža kantonalni nivo u dva glavna hercegovačka kantona sa značajnim obimom proizvodnje vina. Ovo je važan faktor za jačanje privredne diverzifikacije. Pošto se radi o novom konceptu u BiH, ne postoji dobro razumijevanje toga šta je privredna diverzifikacija i kako je započeti.

Drugi ključni faktor je nizak nivo socijalnog kapitala u smislu međusobnog nepovjerenja i nepovjerenja u institucije i vlasti. Ovo opstruira razvoj privrede a samim tim i privredne diverzifikacije. Primjer je nedostatak udruženja proizvođača i posrednika u BiH. Drugi primjer je teškoća pokretanja preduzeća (mikro ili SME) u BiH. Puno je birokratije, komplikacija i relativo nejasnih procedura.

### Diverzifikacija – tržište

Sektor privredne diverzifikacije pati od neregulisanih tržišta, malih i fragmentiranih gazdinstava, kao i nedostatka povjerenja na mikro, meco (srednjem) i makro nivou, što između ostalog rezultira lošom saradnjom između proizvođača i udruženja. Studija navodi nekoliko slučaja neregulisanog tržišta, npr. možemo spomenuti gljive, ovce, ljekovito i aromatično bilje i pčelarstvo. Uobičajen faktor je nedostatak organizovane, bolje kontrolisane i zaštićene poljoprivredne proizvodnje – proizvođači se u najvećoj mjeri moraju oslanjati na sopstvenu proizvodnju i nisu u mogućnosti da konkurišu velikim stranim proizvođačima zbog nepostojanja ušteda posredstvom velikog obima proizvodnje i samim tim nemogućnosti ponude konkurentnih cijena gotovih proizvoda. Možemo navesti i izuzetke za svaki od navedenih sektora, kao što je primjer Šekovića (EKO Bilje – Fondacija Mozaik) izuzetak za pčelarstvo i proizvodnju meda u kombinaciji sa proizvodnjom bilja.

Većina napravljenih proizvoda koji nisu direktno vezani za poljoprivredu se proizvode za sopstvene potrebe i za lokalno tržište. Izvozni dio je, drugim riječima, ograničen. Proizvodi koji se izvoze su uglavnom med, ljekovito bilje i trave, kozji sir i vino (molimo pogledajte izvještaj o vinu za dodatne informacije).

Okvirno govoreći, diverzifikacijski proizvođači se mogu podijeliti u tri grupe u pogledu izvoza i trgovine:

1. Oni koji imaju ambicije za proširenje i povećanje izvoza,
2. Oni koji imaju ideje o tome kako bi proširili svoj biznis,
3. Oni koji proizvode za sopstvene potrebe, npr. vidi primjer dole.

Proizvođači iz prve dvije grupe često spominju iste prepreke i često imaju ograničenu proizvodnju ili zalihu proizvoda zbog određenog broja prepreka, od kojih su najčešći sljedeći:

- Otežan pristup finansijskim sredstvima za razvoj i proširenje proizvodnje,
- Birokratija i poteškoće – postoji nedostatak znanja o načinu pokretanja izvoza ili proširenja poslovanja – šta raditi, kako raditi, koja zakonska pravila se primjenjuju a koja ne?
- Nejasno nacionalno zakonodavstvo,
- Nedostatak znanja o npr. EU zahtjevima za usklađenost po pitanju prerade i obilježavanja proizvoda,
- Nedostatak znanja o marketingu, analizi tržišta i ulasku na tržište – lokalno ili globalno,
- Nedostatak povjerenja, npr. prema organizacijama proizvođača ili drugim posrednicima.

Drugo pitanje koje se isto naglašava su problemi sa kapacitetima i objektima potrebnim nakon žetve jer često zahtijevaju velike investicije u kapacitete za preradu i pakovanje.

Dalje, napori i vještine u promociji i marketingu su na niskom nivou, što isto postaje barijera u pristupu novim tržištima (lokalnim, regionalnim ili globalnim). Ovo je barijera koja se pojavljuje u brojnim sektorima, bez obzira da li se radi o proizvodnji kozjeg sira, ruralnom turizmu (pansioni, restorani, etno turizam, itd.), rukotvorinama ili proizvodnji rakije. Izazov je jako vezan za činjenicu da imaju vrlo ograničeno poznavanje i znanje o načinima stvaranja interesa za svoje proizvode, odnosno kako da obavljaju jednostavne maketinške aktivnosti kao što je izrada internet stranice, procjena potencijala svog tržišta, itd.

## Institucionalni i regulatorni izazovi i EU standardi

Najveći izazov za ovaj sektor je poslovanje u okruženju bez harmonizovanog regulatornog okvira – ili za diverzifikaciju ili za neke od pojedinačnih sektora kao što su ljekovito i aromatično bilje, med, ruralni turizam, itd. U nedostatku ministarstva na državnom nivou koje bi bilo zaduženo za zajedničke odnosno horizontalne okvirne uslove za sektor diverzifikacije, entitetska i kantonalna regulativa različitih vrsta i karaktera stvara neharmoniziranu i nefer konkurenciju u sektoru. Na primjer, proces dobijanja certifikata za obavljanje ruralne turističke djelatnosti se razlikuje između RS i FBiH a isto važi i za sistem savjetodavnih službi, itd.

Kako bi se podržali projekti diverzifikacije koji su na bilo koji način povezani sa hranom i poljoprivredom, mora se osigurati poštovanjem minimalnih EU standarda u oblasti higijene, dobrobiti životinja, okoliša i prirode, kao i sigurnosti hrane.

## Investicione potrebe

Jedan od ciljeva ove sektorske analize je utvđivanje investicionih potreba za privrednu diverzifikaciju. Na osnovu analiza slučajeva, ankete, intervjua sa akterima i sopstvenim opservacijama, utvrđeno je nekoliko različitih vrsta investicionih potreba.

Okvirno govoreći, investicione potrebe se mogu podijeliti u tri kategorije investicija:

1. Investicije u nove tehnologije, npr. mašineriju, skladišta, itd.
2. Investicije u nove turističke pogodnosti, npr. kupatila i toaleti, restorani, smještajni objekti, itd.
3. Investicije u marketing, npr. marketinški materijali, internet stranice, marketinška strategija, itd.

Osnovna prepreka je nedostatak finansiranja i dostupnost kredita. Ovo je bez sumnje najčešće spominjana prepreka. Ruralno stanovništvo i preduzeća se ne smatraju atraktivnim klijentima za komercijalne banke te su stoga kamatne stope veoma visoke. Uslovi su bolji za mikro kredite ali i dalje sa relativno visokom kamatnom stopom, koja se u zadnje vrijeme i povećala. Ne postoje podaci za RS o kamatnim stopama za ovaj sektor ali generalno, za sve sektore, i u FBiH, ponderirani prosjek kamatne stope za poljoprivredu iznosi 33% za dugoročne i 25% za kratkoročne kredite. Generalno, kamatne stope za mikro kredite u FBiH su oko 9% više nego u RS. Procijenjeni obim kreditnih potreba poljoprivredog sektora u BiH je između 200 i 300 miliona godišnje.

Zavisno od toga koju vrstu investicija posmatramo, iznos troškova varira. U mjeri 5.6 „Investicije u diverzifikaciju i razvoj ruralnih privrednih djelatnosti" iz Operativnog programa za poljoprivredu, hranu i ruralni razvoj RS (2008.-2010.) donja i gornja granica investicija podobnih za podršku je određena na 5.000 KM do 50.000 KM (oko EUR 2.750 – 27.500), što je niže nego u drugim zemljama

Pregledom programa za ruralni razvoj 2007. – 2013. drugih zemalja kao što su Hrvatska, Bugarska i Rumunija, trošak za razvoj mikro preduzeća je između 5.000 EUR i 400.000 EUR, dok se projekti ruralnog turizma finansiraju u iznosu od 10.000 EUR do 200.000 EUR. Iskustva iz Crne Gore, ipak pokazuju i važnost malih investicija u jednostavne infrastrukturne projekte kao što je određivanje planinarskih ili biciklističkih staza, investicije u obilježavanje ili čišćenje staza, postavljanje oznaka i informacionih panela, itd. Što indicira prioritizaciju većeg broja manjih projekata.

Projekti ruralne infrastrukture su često veći i variraju od 10.000 EUR do 3.000.000 EUR za opštinske i NVO projekte. Primjeri iz Rumunije u prosjeku imaju vrijednost od 170.000 EUR, ali ako se izdvoje projekti ruralne infrastrukture ovaj prosjek se značajno smanjuje na 15.000-20.000 EUR.

### Slabosti u lancu vrijednosti

Sektorska analiza pokazuje nekoliko slabih karika u lancu vrijednosti privredne diverzifikacije. Većina navedenih barijera se odnosi na fazu planiranja lanca opskrbe i pristupa tržištu:

a. **Planiranje** (poslovni plan, strategija, finansiranje)
b. **Pristup tržištu** – (kako ući na tržište, kako obavljati marketing i šta uraditi prvo – povećati proizvodnju za tržište ili pronaći tržište i tada povećati proizvodnju, nivo kvaliteta, itd.).

Ovo ne znači da ne postoje izazovi ili barijere u proizvodnom ili prerađivačkom dijelu lanca. Sektorska studija ukazuje i na to. Međutim, ovi izazovi su ipak više strukturalnog karaktera i stoga povezani sa nacionalnim inicijativama kao što su npr. unapređenje zakonodavnog okvira, izrada nacionalnih smjernica za zahtjeve kvaliteta, itd. Ovo su uslovi koji podupiru i regulišu ne samo tržište već i proizvodni i prerađivački dio lanca vrijednosti.

Pored toga, ruralno stanovništvo je temeljno upoznato sa načinom na koji obavljaju svoju proizvodnju. Ovo znanje se često prenosi s generacije na generaciju. Drugi izazov u vezi ovoga je nedostatak pristupa finansijskoj pomoći i kreditima.

### Utvrđivanje potencijalnih sektora ili oblasti za privrednu diverzifikaciju

Studija je utvrdila da u BiH postoji potencijal za rast i razvoj u određenom broju oblasti. Pored ruralnog turizma, čini se da postoji visok potencijal u sljedećim oblastima:

- Uzgoj koza i proizvodnja kozjeg sira
- Ljekovito i aromatično bilje
- Med i pčelarstvo
- Uzgoj gljiva

Čini se da postoji slabiji potencijal za proizvodnju vune, zbog značajne konkurencije iz Kine i drugih zemalja koje proizvode jeftine tekstilne proizvode.

Sektorska studija pokazuje da postoji potencijal za razvoj ruralnog turizma u BiH – nekoliko posjećenih slučajeva navodi da strani turisti sve češće provode odmor u BiH. Međutim, strani turisti postavljaju i traže više standarde, što rezultira potrebom za dodatnim investicijama u, npr. nova kupatila, internet, slobodne aktivnosti, itd. Osnovnu ponudu ruralnog turizma u BiH trenutno predstavljaju rekreativne i edukativne aktivnosti, sportski i rekreativni objekti, gastronomija, kao i druge seoske aktivnosti kao što su trgovine suvenirima.

Pored toga treba spomenuti i da se mogu uspostaviti očigledne veze između vinskog sektora i ruralnog turizma putem uspostavljanja i promocije vinskih cesta za turiste. To isto tako mogu biti i turističke ceste za obilazak proizvođača i prerađivača ljekovitog i aromatičnog bilja, koje bi turistima pružile mogućnost da kupe neke od biljnih proizvoda.

## *Preporuke*

### Zajednički koncept za razvoj ruralnih područja kroz aktivnosti privredne diverzifikacije u BiH

Uključeni akteri će predvoditi razvoj privredne diverzifikacije u BiH. To će se desitiu zavisnosti od postojećih i budućih okvirnih uslova za različite podsektore vezane za diverzifikaciju. To nam govori sa pogleda razvoja da je vrijedno razmotriti pripremu zajedničkog koncepta za ove podsektore u privrednoj diverzifikaciji. Bila bi prednost imati zajednički koncept koji definiše diverzifikaciju ? U kojoj mjeri bi on mogao biti dalje razvijan ? Koja tržišta su ostvarljiva išta bibio glavni proizvod koji bi pokrivala diverzifikacija ? Kako bi uslovi okvira mogli ovo podržati ? Odgovor na ova pitanja je ključan u formulaciji zajedničkog koncepta za razvijanje aktivnosti diverzifikacije i razvoj poljoprivrede i ruralnog sektora generalno. Da bi se ovo uradilo potrebno je uključiti entitete i različta ministarstva koja se bave pitanjem diverzifikacije u ruralnim područjima.U svjetlo svega ovoga jako je važno imati na umu da je privredna diverzifikacija horizontalno pitanje i da nije vezano samo za MPŠV nego i za ministarstva privrede, infrastrukture, obrazovanja, itd. Kao što je prije pomenuto civilno društvo takođe ima važnu ulogu u ovom razvoju. Jako je bitno da svi budu uključeni u pripremu zajedničkog koncepta ili pristupa diverzifikaciji.

**Ovakav koncept za razvoj aktivnosti privredne diverzifikacije mora kao što je rečeno biti vođen od strane entiteta i državnog nivoa zajedno sa drugim zaintersovanim stranama.** Stoga je relevantno uključiti investicione potrebe prikazane od samih podsektora kao realne razvojne ciljeve. Drugi put naprijed je da se formuliše koncept zasnovan na više zahtjevnim i ambicioznijim dugoročnim ciljevima.

Koji god scenario bude izabran kao direktiva za razvoj privredne diverzifikacije, okvirni uslovi (pravni okvir i šema podrške) moraju pod bilo kojim okolnostima biti uspostavljene u cilju podrške faktora diverzifikacije i krenuti naprijed prema realizaciji definisanih ciljeva.

### Preporuke za pravni okvir

Najveći izazov za ovaj sektor je poslovanje u okruženju bez harmonizovanog regulatornog okvira – ili za diverzifikaciju ili za neke od pojedinačnih sektora kao što su ljekovito i aromatično bilje, med, ruralni turizam, itd. U nedostatku ministarstva na državnom nivou koje bi bilo zaduženo za zajedničke odnosno horizontalne okvirne uslove za sektor diverzifikacije, entitetska i kantonalna regulativa različitih vrsta i karaktera stvara neharmoniziranu i nefer konkurenciju u sektoru. Na primjer, proces dobijanja certifikata za obavljanje ruralne turističke djelatnosti se razlikuje između RS i FBiH a isto važi i za sistem savjetodavnih službi, itd.

Kako bi se podržali projekti diverzifikacije koji su na bilo koji način povezani sa hranom i poljoprivredom, mora se osigurati poštovanjem minimalnih EU standarda u oblasti higijene, dobrobiti životinja, okoliša i prirode, kao i sigurnosti hrane.

Sa pozicije pravnog okvira preporučuje se :

**Usvajanje državne strategije za diverzifikaciju/ ruralni razvoj**.

**Kontrola uvoza i izvoza harmonizovana i implementirana**

**Kontrola kvalitete, porijekla**

### Šema harmonizovanih mjera za ulaganje

Analizom slučajeva je postavljena jasna granica između projekata koji imaju ambicije da „postanu veliki" i projekata gdje je ambicija da se obezbijedi održiviji svakodnevni život kroz polu-egzistencijalnu poljoprivredu, proizvodnju za sopstvene potrebe i za lokalno tržište.

Na osnovu nalaza se preporučuje da se buduće aktivnosti diverzifikacije podijele na dvije osnovne kategorije, čime se postavljaju različiti zahtjevi za projektne aplikacije po pitanju, recimo, poslovnog plana, iznosa sredstava, itd. Sve zavisno od stepena ambicioznosti projekta (kategorija 1 ili 2):

1. Djelatnosti sa potencijalom za *stvaranje privrednog razvoja i radnih mjesta,* npr. ljekovito i aromatično bilje, turizam, pčelarstvo, itd. Trenutno su ove vrste projekata uglavnom pokrenute i podržane od strane projekata finansiranih donatorskim sredstvima i/ili jako aktivnih NVO-a/fondacija koje pružaju svu potrebnu finansijsku pomoć, znanje i veze s tržištem. Ovo su često i veći projekti u finansijskom smislu.
2. Djelatnosti uglavnom za *samozapošljavanje (sticanje prihoda) i sopstvenu potrošnju,* takođe i projekti manjeg finansijskog obima.

Sektorska analiza je takođe ukazala na određeni broj tematskih jedinica koje imaju potencijal za privrednu diverzifikaciju, u smislu tržišnih potencijala i stvaranja radnih mjesta, npr. proizvodnja meda, ljekovito i aromatično bilje, ruralni turizam, koze, i slično, zatim inicijative vezane za tradicionalne sektore kao što je proizvodnja vina, što je opisano u jednom od analiziranih sektora, itd. Ovo je naravno od važnosti i već postoje studije koje su izvršile pregled nekih od ovih oblasti i utvrdile njihove potencijale, kao što su npr. UNDP-ove studije izvodljivosti za med, farmu koza, vunu, gljive ili studije koje su pripremili USAID i SIDA.

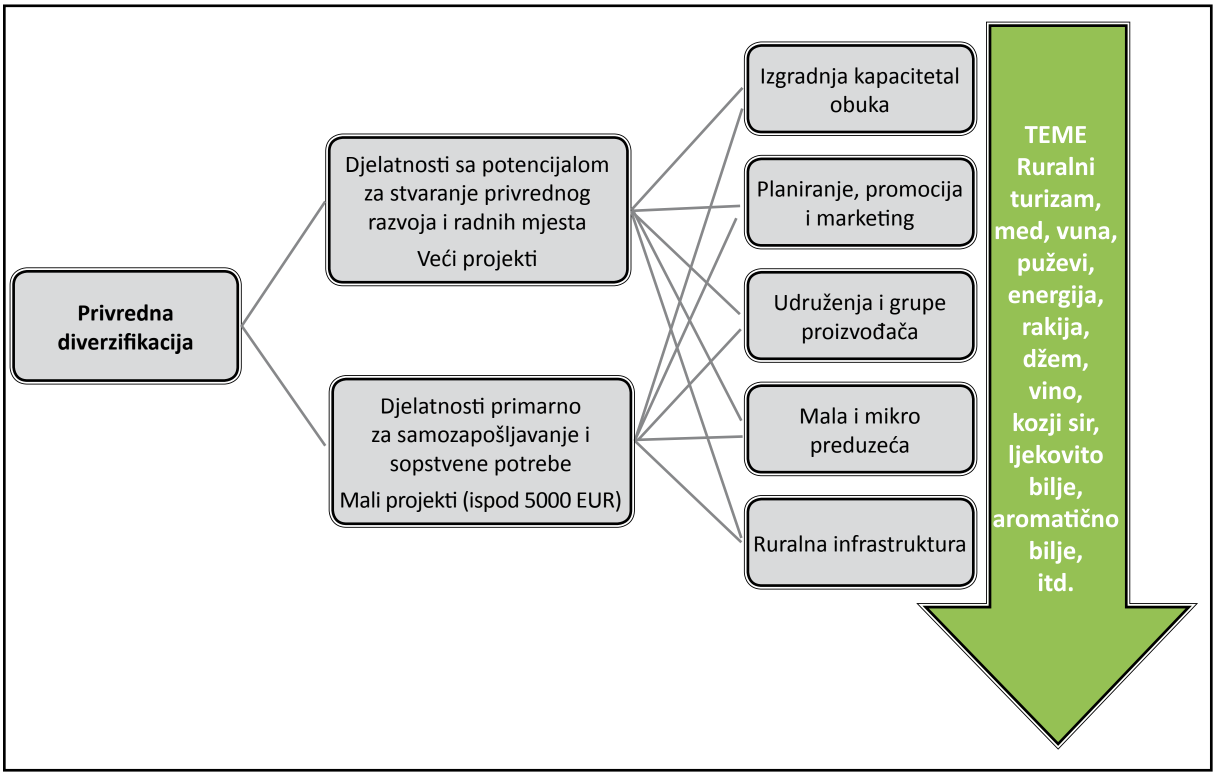
Početna tačka naših preporuka je stoga identifikacija ključnih opštih okvirnih uslova koji će olakšati i podržati projekte privredne diverzifikacije i investicije s ciljem stvaranja radnih mjesta i boljih mogućnosti zarade.

S obzirom na to, preporučuje se fokus na pet opštih IPARD mjera, navedenih ispod, koje podržavaju okvirne uslove bez obzira na vrstu diverzifikacijskih proizvoda ili djelatnosti. Ovaj pristup je ilustrovan i sumiran u donjoj slici.

## IPARD intervencije

I. **Podrška planiranju, promociji i marketingu.** Kao što je gore navedeno, postoji potreba za podrškom u pisanju i provođenju poslovnog plana, pripremi manjih analiza tržišta i marketinških strategija, pomoć u izradi marketinških proizvoda ili provedbi marketinške strategije, koristeći na primjer priče, bajke ili legende iz BiH kao poslovne

**Slika 1. Opšte mjere**



marketinške inicijative ali i za podršku usklađenju sa EU standardima.

II. **Podrška pokretanju udruženja i grupa proizvođača.** S jedne strane, analiza sektora ukazuje na potrebu da se poveća povjerenje unutar društva i socijalni kapital. S druge strane, da se uspostavi bolje koordiniran, strateški pristup tržištu (posrednici), ali i u smislu postizanja boljih cijena a eventualno i većeg tržišnog udjela. Udruženja i grupe proizvođača bi tu mogli biti od koristi

III. **Pokretanje i razvoj mikro i malih preduzeća.** Podrška pokretanju i razvoju mikro i malih preduzeća je preduslov za postizanje više stope razvoja i preduzetništva i u ruralnim područjima. Jedan vid podrške bi mogao biti ruralnim poslovniim inkubatorima. Analiza slučajeva i literature dijelom pokazuje da postoji potreba za ovim vidom podrške, a drugim dijelom da se poslovni inkubatori čine kao efektivno sredstvo.

IV. **Izgradnja kapaciteta i obuka** ruralnog stanovništva i preduzeća u pripremi aplikacija, poslovnih planova, itd. Ali i obuka trenera i edukacija savjetodavnog sistema po pitanjima: 1) šta je diverzifikacija, 2) kako možemo podržati i savjetovati ruralno stanovništvo o apliciranju, itd. i „kako prenijeti ideje na papir".

V. **Podrškaruralnojinfrastrukturi**zarazvoj i unapređenje osnovne infrastrukture, radi potpore privrednim i društvenim aktivnostima i s ciljem skladnog rasta. Investicije u osnovnu infrastrukturu su jedan od preduslova za razvoj skladne ruralne ekonomije i poboljšanje socio-ekonomskih uslova života za ruralno stanovništvo. Treba naglasiti da se radi o ruralnoj infrastrukturi koja je od značaja za diversifikaciju.

Pored gore navedenog, određeni broj intervencija bi se mogao podržati i provesti na državnom i na entitskim nivoima

## Intervencije na državnom nivou

Kako bi se pružila potpora privrednoj diverzifikaciji, preporučuje se prioritizacija i provedba sljedećih intervencija:

- Priprema IPA programa za ruralni razvoj na državnom nivou, koji bi zacrtao perspektive i fokalna područja za privrednu diverzifikaciju.
- Postoji potreba za uvođenjem mjere za podizanje svijesti i distribuciju informacija o IPARD programu, njegovim mogućnostima i načinima za dobijanje savjeta i informacija o programu. To bi mogle biti nacionalne kampanje o IPARD-u uopšte ili konkretno o diverzifikaciji.

## Intervencije na entitetskom nivou

Preporučuje se provedba sljedećih mjera na entitetskom nivou:

- Savjetodavni sistem – postoji potreba za izgradnjom savjetodavne službe u FBiH s ciljem podrške i unapređenja djelatnosti privredne diverzifikacije Studija je jasno ukazala na ovu potrebu.
- S druge strane, postojećoj savjetodavnoj službi u RS je potrebna obuka na temu mogućnosti i prilika za projekte diverzifikacije.
- Anketa provedena među opštinama takođe ukazuje na potrebu za pokretanje poslovne savjetodavne službe za preduzeća (mikro i SME), kako bi se pružili savjeti novim preduzećima i preduzetnicima ali i postojećim preduzećima u rastu i razvoju.
- Pregled mogućih alternativnih, atraktivnijih modela za finansiranje i pristup kreditima koji bi privukli preduzetnike (mikro i SME) i poljoprivrednike.

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## Abbreviations and Acronyms

| | |
|---|---|
| AIS | Agricultural Information System |
| BAM | BiH currency; 1 EUR = 1.9558 BAM |
| BD | Brčko District |
| BiH | Bosnia and Herzegovina |
| CAP | Common Agricultural Policy (of the European Union) |
| CEFTA | Central European Free Trade Agreement 2006 |
| EU | European Union |
| EUR | Euro |
| EUROSTAT | Statistical Office of the European Community |
| FADN | Farm Accountancy Data Network |
| FAO | Food and Agriculture Organization of the United Nations |
| FBiH | Federation of Bosnia and Herzegovina |
| FVO | Food and Veterinary Office of the European Commission |
| GDP | gross domestic product |
| IPA | Instrument for Pre-accession Assistance |
| IPARD | Instrument for Pre-accession Assistance for Rural Development |
| LAG | Local Action Group |
| MAP | medicinal and aromatic plants |
| MCO | Micro credit organizations |
| MoAFWM | Ministry of Agriculture, Forestry and Water Management |
| MoFTER | Ministry of Foreign Trade and Economic Relations |
| NGO | non-governmental organization |
| NTB | non-tariff barriers to trade |
| PDO | Protected Designation of Origin |
| PGI | Protected Geographical Indication |
| RS | Republika Srpska |
| SAA | Stabilization and Association Agreement |
| SIDA | Swedish International Development Cooperation Agency |
| SME | small and medium-sized enterprise |
| SWOT | Strengths, Weaknesses, Opportunities and Threats (analysis) |
| TBT | Technical Barriers to Trade |
| TRIPS | Agreement on Trade-Related Aspects of Intellectual Property Rights |
| TSG | Traditional Speciality Guaranteed |
| USAID | United States Agency for International Development |
| WTO | World Trade Organization |

# Currency Equivalents

Exchange rates

USD for 1 EUR
**2005- 2009 1.3483**

BAM for 1 USD
**2012 1.58557**

BAM for 1 EUR
**Since 2002 – 1.95583**

European Central Bank: *http://www.ecb.int/*

# Introduction

This is one of five sector analyses (Meat and Dairy; Fruit and Vegetables; Cereals; Wine; Diversification) prepared between spring 2011 and spring 2012 for the agricultural authorities in Bosnia and Herzegovina (BiH) at state, entity and Brčko District level. The sector analyses are inputs for use during the design of measures to be financed under the European Union (EU) Instrument for Preaccession Assistance for Rural Development (IPARD)[1]. They are also for use during the design of entity level interventions in general. The analyses were commissioned by the EU and monitored by task manager Ms Timea Makra, EU Delegation in Sarajevo. The analyses were coordinated by Mr Morten Kvistgaard, International Team Leader under the overall management of Mr Gerold Boedeker, Budget Holder and Mr Raimund Jehle, Lead Technical Officer, Regional Office for Europe and Central Asia of the Food and Agriculture Organization of the United Nations (FAO) in Budapest.

Further information on the studies themselves and on the IPARD planning process is provided in Chapter 1 of this report.

## *Diversification Report Structure*

The report is structured as follows:

Besides this introduction, the report contains an executive summary that presents the conclusions and recommendations of the analysis. Chapter 2 presents the context, objectives and methodology of the analysis as well as the background data and key figures on the BiH agricultural sector and specifically on diversification. Chapter 3 explains what economic diversification is. Chapter 4 includes a description of the current situation in BiH from an economic diversification point of view. Chapter 5 provides an analysis of the production of diversification products and services in BiH, while Chapter 6 introduces the processing element. Chapter 7 outlines the government policies for the sector, at entity and state level, including information on the support schemes being implemented, and on the general regulatory framework. Chapter 8 provides an analysis of trade and markets, with a focus on the international trends in trade and the position of BiH in this context. The domestic market is also explored. Chapter 9 describes to what extent the relevant EU standards have been obtained, while Chapter 10 analyses the past trends and future developments of diversification related investments. Chapter 11 describes the challenges and potential of diversification factors, while Chapter 12 outlines the training requirements and the need for competence development. Chapter 13 completes the analysis with conclusions and recommendations. Finally, several annexes containing detailed data and information are attached to the report.

## *Study Team*

This report was conducted by a team whose members were as follows:

- Core team:
  - Ms Aleksandra Figurek, PhD, Faculty of Agriculture, University of Banja Luka
  - Mr Aleksandra Nikolic, Doc. Dr, Faculty of Agriculture and Food Sciences, University of Sarajevo
  - Ms Heidi Skov Andersen, MA Political Science, FAO Consultant
- Support:
  - Dr Željko Vaško, Faculty of Agriculture, Banja Luka, background papers
  - Ms Vesna Mrdalj, Faculty of Agriculture, Banja Luka, background papers
  - Mr Vlado Pijunović, FAO Consultant, coordination, support and background papers
  - Mr Vlado Čirko, logistics and other important support

[1] The final concept for pre-accession assistance to agriculture and rural development after 2013 is not yet known, and it may be different from the current IPARD model. As a matter of simplicity, reference is made to IPARD throughout the sector analyses.

The report was reviewed by Richard Eberlin, Katalin Ludvig, Raimund Jehle and Dmitry Zvyagintsev, (all FAO). Valuable support regarding language editing was provided by Tom Hunter and Valerie Guidi.


## *Acknowledgements*

The FAO team would like to extend its sincere thanks for the assistance and close collaboration in the implementation of the project to the following organizations and individuals:

- BiH *Ministry of Foreign Trade and Economic Relations* (MoFTER):
  - Mr Dušan Nešković, Assistant Minister
  - Ms Melisa Ljuša, Expert Advisor, Policy Analysis, and key daily contact
  - Ms Jelena Prorok, Expert Advisor
- Federation of BiH, *Ministry of Agriculture, Water Management and Forestry*
- Republika Srpska (RS), *Ministry of Agriculture, Forestry and Water Management*
- Brčko District, *Department of Agriculture, Forestry and Water Management*
- BiH *Agency for Statistics*
- FBiH *Federal Office of Statistics*
- RS *Institute of Statistics*
- EU-funded project “Strengthening and harmonization of the BiH agriculture and rural sectors information systems (AIS)” led by Mr Colin Scott
- Several key interviewees representing diversification related activities.

# 1. Executive Summary of the Diversification Analysis

## 1.1 *Context and Objectives*

### 1.1.1 Context of the sector analyses: Preparation for EU accession

Preparing independent and objective analyses focused on value chains − from agricultural producer to the market − is an important part of the EU accession process. The sector analyses are the basic input to the **formulation of an IPARD programme for BiH** − supported financially by the EU − when BiH becomes a candidate country for EU membership.

**The analysis of economic diversification** in rural areas is one of five sector analyses that FAO has prepared within the framework project "Preparation of IPARD Sector Analyses in Bosnia and Herzegovina" funded by he European Union. These analyses were prepared in close cooperation with local stakeholders and particularly with Universities in BiH. These reports will serve as a basis for the design of measures to be financed under the IPARD programme. The Ministry of Foreign Trade and Economic Relations (MoFTER) was the primary beneficiary, together with agricultural ministries in FBiH, RS and BD. BiH has already taken several steps towards EU integration, including opening its markets to the EU **This is the first time that within the sector reviews required by IPARD an analysis of economic diversification in rural areas has been undertaken**. It demonstrates the importance of rural development and acknowledges that the development of rural areas is not only based on agricultural development but requires a holistic approach. Taking a holistic approach in turn requires a comprehensive analysis of non-agricultural factors in rural areas.

### 1.1.2 Objectives of the report

The main objective of the report is to provide a comprehensive **analysis of the current state of economic diversification in rural areas activities** in BiH.

The report contributes towards determining the **conditions and factors that are important for rural development in terms of diversification**. It focuses on internal strengths and weaknesses as well as on external opportunities and threats. In light of the needs and problems that the sector faces now, as well as future challenges, investment needs are being discussed and policy recommendations are being formulated. **The report will contribute to the formulation of a number of possible policy interventions linking it with development needs.**

The analysis provides policy recommendations that will help improve the **conditions of economic diversification on the domestic market and also contribute towards opening new export markets.**

### 1.1.3 Defining diversification

Based on the available literature on this subject, **economic diversification can be defined in various ways**. In other words, there is not one way to understand and approach it, and it is difficult to define it as a sector in the same way as for example meat and dairy or fruit and vegetable are considered sectors of agriculture. However, economic diversification can be defined according to the type of activity; for example on-farm and off-farm activities, or it can be viewed from an income perspective, looking either at wage income or enterprise income. Alternatively, it can be defined based on whether it refers to households or corporate farms.[2] Some researchers have a broad understanding of the concept, defining farm diversification as an identical concept to pluriactivity. This involves income-generating activities both on-farm and off-farm.[3] In contrast, some

[2] Chaplin, Davidova & Gorton. 2004, Agricultural adjustment and the diversification of farm households and corporate farms in Central Europe, JOURNAL OF RURAL STUDIES, 2004, Vol:20, pages:61-77

[3] Delgado & Siamwalla. 1997, Rural economy and farm income diversification in developing countries. Discussion Paper No. 20. Markets and Structural Studies Division. Washington, D.C.

consider diversification to solely involve on-farm non-agricultural activities.[4] This being said, one of the most common classifications of rural income-generating activities refers to the *place* where the activities are carried out.

Yet another approach is to look at the Farm Structure Survey (Eurostat), which defines diversification as any gainful activity that does not comprise specific agricultural activities on the farm, but is directly related to the holding. Tourism, handicrafts, processing of farm products and aquaculture would fall into this category.[5] On the other hand, the concept of pluriactivity is related to the farm manager, and more specifically the existence of other gainful activities that do not relate to the holding. This involves any activity other than farm work as such, including activities carried out on the holding itself (campsites, accommodation for tourists, etc.), services (renting out machinery etc.) or products (such as processing farm products, renewable energy production) and all other types of activity that have an economic impact on the holding.[6]

**Summing up, the definitions provided above have been used as a guideline for this sector report, especially the definition that takes both on- and off-farm activities into consideration.** However, since BiH is categorized as having mixed farms, a considerable amount of "traditional diversification" activities are already going on. The challenge is thus to identify the areas where expansion and large-scale approaches are possible as well as those for which *framework conditions* are needed in order to enhance diversification activities and to a lesser extent pinpoint specific products or production.

## *1.2 Methodology and Demarcation*

The description of the current situation surrounding economic diversification is based on overall **State, FBiH, BD and RS statistics supplemented by EU and United Nations statistics on exports and imports.** The expert team also used data from the United Nations Development Programme (UNDP), USAID reports and for statistical data, other sources such as the UN Statistical Yearbook, economic bulletins, chambers of commerce and foreign chamber bulletins. Data from the BiH Master Sample − compiled by the BiH Agency for Statistics − as well as data from the Pilot Agricultural Census and the Pilot Farm Accountancy Data Network (FADN) − implemented by the EU supported Agricultural Information System (AIS) project in the Ministry of Foreign Trade and Economic Relations (MoFTER) − have been used as far as possible. However, the team has noted that official state level data is inaccurate and to some extent unreliable. In light of this the team has done its best to establish a realistic statistical basis for the analysis based on its own research and other data sources.

These data sources include a **telephone-based survey among 40-50 municipalities in FBiH and RS and a cross-cutting sector survey related to the fruit and vegetable sector and the meat and dairy survey).** In this way, the diversification analysis has also benefited from the survey having a quantitative input. In total, 242 farmers were surveyed in FBiH and RS. Results from the survey and the case studies related to the wine sector have also been used.

**Furthermore, 17 diversification case studies have been completed. These focus on different types of economic diversification initiatives all over BiH**. The case studies have helped to map the current economic and technological status, as well as future investment plans and needs. The case studies provide additional input to the survey and several interviews with key informants and stakeholders have also been carried out and reported.

[4] Katalin Ludvig, Richard Eberlin, Laszlo Percze, 2010 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', Food and Agriculture Organization of the UN

[5] Farm Structure Survey (FSS). 2009

[6] Katalin Ludvig, Richard Eberlin, Laszlo Percze, 2010 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', Food and Agriculture Organization of the UN

**Finally, four workshops were organized.** The SWOT (Strengths, Weaknesses, Opportunities and Threats) workshops were held at Banja Luka University and Sarajevo University, on 6 and 8 June 2011 respectively. More than twenty participants (excluding the organizers) attended each workshop. The workshops presented the current situation surrounding diversification and contributed to mapping the most important internal strengths and weaknesses and external opportunities and threats. The verified SWOT matrix is shown in the table below.

A second round of workshops was held on 5 and 7 October 2011, where the preliminary conclusions and recommendations of the analysis were presented and constructively discussed with the stakeholders. The participants confirmed the conclusions and recommendations.

The study is based on an understanding of diversification as outlined above. This approach was also discussed carefully with BiH stakeholders before the report was structured.

**Another demarcation made for this report concerns the areas selected for the closer analysis.** On the one hand, the study reflects the viewpoints of core BiH stakeholders, the results of desk research, and case studies, and on the other the resources already available for the study. This means that areas such as forestry and aquaculture were not included in the analysis. Also, forestry is not eligible

**Table 1.1: Economic Diversification SWOT Matrix**

| Internal Strengths | Internal Weaknesses |
|---|---|
| 1. Favourable climatic, natural and environmental conditions<br>2. Human resources (low cost labour)<br>3. A few local rural development programme (RDP) strategies and one project on LEADER initiatives have been created<br>4. Cultural heritage and tourism potential; namely, spas, fishing, river rafting, traditional foods, handicrafts, churches and tourism<br>5. Increasing awareness of the need for economic diversification<br>6. Organic food production<br>7. Tradition and good climate for beekeeping, medicinal herbs and mushrooms. | 1. Small and fragmented holdings<br>2. Poor cooperation between producers and associations<br>3. Unregulated markets<br>4. Lack of a common BiH institutional structure and strategy<br>5. Difficult to get access to funding<br>6. Lack of trust (Social Capital)<br>7. Demography: A relatively large proportion of old people (Age structure: 0-14 years: 14%, 15-64 years: 71% and 65 years and over: 15%)<br>8. Bad infrastructure, especially rural roads (approximately 20,000 km of roads, of which 60% are local roads, 23% are regional roads and 17% national roads)<br>9. Lack of education and marketing skills<br>10. Lack of entrepreneurial spirit<br>11. Depopulation/migration<br>12. Insufficient involvement of women in developing rural areas |
| **External Opportunities** | **External Threats** |
| 1. EU, national, federal and cantonal financial support and interest subsidies<br>2. Access to IPARD funding at some point in the future[7]<br>3. Access to EU markets for exports<br>4. Increasing demand for organic food in EU countries<br>5. Protection of agricultural products of specific geographical origin | 1. Increased competition<br>2. Complex and inconsistent legislation<br>3. Lack of control (over exports, imports, quality and seedlings) and compliance<br>4. Unresolved legal and property relations<br>5. High interest rates on loans (25-33% for long-term loans)<br>6. Underground economy<br>7. No market potential; e.g. for wool |

[7] It is not certain when BiH will have access to IPARD. Furthermore, the diversification measure is not included in the first drafts of the programmes and during the first accreditation rounds.

under the IPA regulation, which is another reason that it is not included.

## *1.3 Conclusions*

The main conclusions of the diversification analysis in BiH are summarized below.

### 1.3.1 Data availability

**The official data that was available to use for the study was fragmented and not always reliable.** Sometimes there was no data at all. For instance, the BiH Statistical Agency and the entity level statistical authorities do not provide any socio-economic indicators on rural dwellers or on women living in rural areas, which for the study would be important. In order to supplement the missing data, studies prepared by other donor organizations were used (UNDP; Swedish International Development Cooperation Agency (SIDA), USAID, etc.) These studies provided crucial indicators on the current situation in rural BiH. However, the data is not representative. In addition, data is not always consistent and can differ from source to source. For example, according to the most recent update from Organska Kontrola[8], 12 BiH companies working in diversification are certified to export products to the EU and 13 are certified to sell products on the BiH market and other markets outside the EU. This number contradicts the figure quoted in the Agricultural, Food and Rural Development Operational Programme (2008–2010) for RS and FBiH. Here it is noted that there are approximately 60 certified organic food producers in BiH.

**Therefore, the outcome and recommendations of the report are based predominantly on research and data collected through the case studies, the survey and stakeholder interviews, as well as on desk research of other available reports.** This made it more difficult to include quantitative analysis and so there is a **stronger focus on qualitative analysis.**

### 1.3.2 Economic diversification in BiH

There is no systematic programme for, or approach to, diversification in BiH at state level today. The initiatives and strategies that have been developed are delegated to entity level; for example, the 2010-2015 Strategic Plan for Rural Development for RS and the 2008-2010 Agriculture, Food and Rural Development Operational Programme for FBiH. This is due to the fact that the authorities at state level have neither responsibility nor authority for agriculture and rural development. This fact makes it extremely important to have a clear, well-defined strategy and systematic approach towards diversification in which the IPARD programme and measures can play a crucial role as one of the instruments to contribute to the implementation of the approach/strategy.

**The study shows that rural dwellers in BiH are keen to supplement their main income, which is an important point of departure for developing solid and sustainable economic diversification**. Already, a great deal of both on-farm and off-farm activities are going on; these include mushroom production, handicrafts and beekeeping. The survey carried out as part of the review of the fruit and vegetable sector shows that 51 percent of respondents had extra income earning activities apart from farming. Farmers in RS are more active in diversification than those in FBiH. Fifty nine percent of farmers in RS have extra income on top of what they make from farming, while in FBiH the figure is 44 percent. The only difference in diversification activities between the sizes of farms is between the medium-sized farms and the other types of farms. Fifty seven percent of farms of between 5 and 9.9 hectares partake in extra income activities apart from farming.

**In addition, municipalities are becoming aware of the importance of creating new jobs and income possibilities that are not primarily related to agriculture.** In order to face this challenge, many municipalities

[8] Organska Kontrola certifies standards for organic production and processing in BiH

have decided to support small and medium-sized enterprises (SMEs) and others have business incubators. However, only one municipality has an agribusiness incubator.[9] Moreover, funds for economic development have been established in about a third of the municipalities and some others have established funds for rural development. In other words, some municipalities are supporting alternative income possibilities and job creation. However, it has not been possible to identify the exact numbers of projects supported.

**The 17 case studies illustrate a great diversity in activities**; ranging from rural tourism initiatives, to rural women's associations and keeping rural traditions alive. There are also ambitious and large-scale investment projects like Sekovici and the export of medicinal plants and herbs, which illustrate the diversity of the ongoing projects.

**The case studies demonstrate that the keys to success are dedication, passion and an in-depth knowledge of the field in question.**

**Ambition and being receptive to new ideas were common attributes of the case study subjects, but of course hard work and a business plan, including access to funding, are also required**. The majority of the case study subjects had no experience of applying for funding; rather they tend to make investments from their own savings. A few of the projects, such as Sekovici and Duga, have applied for and received international funding and thus gained experience with this type of work. On the other hand, a bottom-up approach and motivation in terms of feeling involved and seeing things grow is in itself a key factor for many owners. This indicates that it is important to frame the supporting structure in such way that these key success factors are underpinned.

**Better infrastructure is required and so is a more effective and better organized advisory system, not just for farmers but also for rural enterprises (micro and SMEs).** The fruit and vegetable survey clearly demonstrates that farmers in RS have better access to extension services than farmers in FBiH do (where extension services are essentially non-existent). Access to information about what diversification is and the type of projects that can be categorized as diversification projects is essential, including information about financing opportunities.

**Another key factor is the low level of social capital,** which takes the form of farmers' lack of trust in each other, institutions, and the authorities. This hinders economic development and thus economic diversification. Another example of the lack of social capital is the lack of producer associations and middlemen in BiH, and yet another is how difficult it is to start up a business (micro or SME) in the country; which is bureaucratic and complex with long and difficult procedures.

### 1.3.3 Diversification: Market

**Economic diversification activities are cauterized by unregulated markets, small-scale and fragmented farms and a lack of trust at micro, mezzo and macro level,** which results in poor cooperation among producers and associations. The study gives several examples of unregulated markets; e.g. mushrooms, sheep, medicinal and aromatic plants (MAP) and beekeeping can all be mentioned. It is a common factor that due to a lack of organized, better controlled, and protected production; producers are often left to produce on a purely individual basis. Local producers are often unable to compete with large overseas producers because economies of scale cannot be applied and due to an inability to competitively price their final products. There are, however, some exceptions to this.

**The majority of products not directly related to agriculture; for example, handicrafts are produced for self-consumption and for the local market and exports are limited. Some**

[9] According to our own survey among municipalities

**products like honey, medicinal plants and herbs, goats' cheese and wine are exported in larger quantities**.

Generally speaking the diversification producers can be divided into **three groups** in terms of export and trade:

1. Those that have an ambition to expand and export more than they do currently;
2. Those that have ideas about how to expand their business;
3. Those that only produce for self-consumption.

Farmers face several barriers to achieving their goals**. A common barrier is the lack of access to capital needed to make the required investments; e.g. in post-harvest facilities and storage**. Another barrier is lack of knowledge about how to prepare marketing plans and other simple marketing activities.

### 1.3.4 Institutional and regularity challenges and EU standards

**First of all, it is a challenge for the subsectors to operate in an environment in which there is no common regulatory framework**, either for diversification as such or for several of the specific sectors treated in the study, like honey, medicinal plants and tourism. There is no state ministry that is responsible for the common or horizontal framework conditions for diversification, and entity and canton level regulations cause unharmonized and unfair competition in the sector. It is crucial that diversification be implemented in a decentralized way, although it is considered important to have a common framework that lays out the principles for "what diversification in BiH is" in order to harmonize procedures and regulations within the existing institutional structure.

In order to support diversification projects related to food and agriculture, the minimum requirements defined by the EU in relation to hygiene, animal welfare, environmental protection, and food security need to be ensured.

### 1.3.5 Investment needs

One of the objectives of this analysis is to map the investment needs of rural dwellers involved in activities related to economic diversification. Based on the case studies, the survey, stakeholder interviews and observations, a number of different types of investment needs have been identified.

Generally speaking investment needs can be categorized as follows:

1. Investment in new technologies (e.g. equipment, storage facilities).
2. Investment in new tourism facilities (e.g. restaurants and accommodation facilities in order to meet EU standards).
3. Investment in marketing (e.g. marketing materials, websites and marketing strategies).

The lack of funding and access to credit is the barrier most frequently mentioned by farmers. Rural dwellers and enterprises are not seen as attractive customers and banks do not have enough experience of the risks surrounding diversification activities and so are unable to evaluate business plans and credit requests. This makes interest rates very high. The conditions are better for micro loans; that is, the interest rates are lower, although these have also increased recently.

Looking at the EU Rural Development Programmes 2007-2013 for countries like Croatia, Bulgaria and Romania, they are spending a great deal more on micro enterprises and rural tourism projects. Experiences from Montenegro show the importance of small investments in simple infrastructure projects, such as identifying hiking and biking routes and setting up post and information boards. In Stara Planina National Park in Serbia, they have good experience of supporting the construction of small bridges and roads, which contributes to improving the opportunities for rural tourism and diversification in general.

Rural infrastructure projects are often larger and vary from EUR 10,000 to EUR 3,000,000 for municipality and non-governmental organization (NGO) projects. Examples from Romania show that diversification projects require an average of EUR 170,000. If rural infrastructure projects are excluded from the calculation, the average project size is reduced significantly to around EUR 15,000-20,000.

### 1.3.6 Weaknesses in the value chain

The sector analysis reveals several weak links in the value chain for economic diversification. Most of the barriers identified are related to the planning part of the supply chain and access to markets:

- **a. Planning** (business plans, strategies and funding)
- **b. Access to markets** (how to get there, how to undertake marketing and what to do first; boost production for the market or identify and explore new markets and then boost production, quality levels, etc.)

This does not mean that there are no challenges or barriers connected with production or processing, as the sector analysis shows that there are. However, these challenges are more structural and connected to national initiatives (e.g. upgrading legal frameworks and creating national guidelines for quality requirements). These are the conditions that would underpin and regulate not just the market, but also the production and processing part of the value chain.

However, rural dwellers have an in-depth knowledge and insight about how to run their production and this knowledge is often passed down from generation to generation.

### 1.3.7 Identification of potential sectors or areas for economic diversification

The study has identified potential for growth and expansion in a number of areas in BiH. Besides rural tourism, there seems to be excellent potential for developing the following areas:

- Goat farming and goat’s cheese
- Medicinal and aromatic plants (MAP)
- Honey and beekeeping
- Mushroom production

There seems to be less potential in **wool production** due to intense competition from China and other countries that produce cheap textiles.

The study shows that there is potential for developing rural tourism in BiH. Several of the case studies demonstrate that an increasing number of foreign tourists are spending their holidays in BiH. However, foreign tourists are also setting higher standards, which require further investments. The main attractions of rural tourism in BiH today are typically reflected through recreational and educational facilities, sports and recreational facilities, gastronomy and other ventures in villages, such as souvenir shops.

In addition, obvious links can be made between diversification and rural tourism by enhancing and promoting ventures that are already in place, such as the current wine routes. Other tourist routes could also be established for visiting MAP producers and processors. Alternatively, a network of routes, as in other countries, focusing on different product categories such as ham, wine, cheese and culture could also be considered.

## *1.4 Recommendations*

### 1.4.1 Common concept for development of rural areas through economic diversification activities in BiH

The relevant actors (entrepreneurs, farmers, processors, organizations and NGOs) will drive the development of economic diversification in BiH. This will happen independently of the existing and future framework conditions for the different subsectors related to diversification. This being said, and from a development viewpoint, it is worth considering **preparing a common concept for these subsectors with regard to economic diversification**. It would be an advantage to have a common concept about; what defines diversification, how much can it be further expanded, which markets are feasible targets and what the main diversification products should be. It is also worth asking how the framework conditions can support the concept of diversification. Answering these questions is essential in order to formulate a common concept for the development of diversification activities and thus develop the agricultural and rural sectors in general. In order to achieve this, it is important to involve the entities themselves and various ministries that deal with diversification issues in rural areas. **In light of this, it is important to bear in mind that economic diversification is a cross-cutting issue** and is not only related to the Ministries of Agriculture Forestry and Water Management in RS, FIBIH and BD, but also to the ministries of Economics, Infrastructure, Education, etc. As we have already mentioned, civil society also has an important stake in this development. It is crucial that all of these stakeholders are involved in preparing a common concept or approach to diversification.

Therefore, it is important to include investment needs as presented by the subsectors themselves as one set of realistic development objectives. Another way forward is to formulate a concept based on more demanding and ambitious long-term objectives.

Whatever scenario is chosen as a guideline for the development of economic diversification, the framework conditions (the regulatory framework and support schemes) must be established in every case to support diversification factors and move forward towards the realization of the objectives as defined.

### 1.4.2 Recommendations on the regulatory framework

From a regulatory point of view, a harmonized framework is recommended:

**A state level strategy for diversification and rural development should be adopted**

In outlining the framework for the adoption of a strategy on diversification and rural development, a support mechanism for implementation, and possibly enforcement in practice, needs to be considered. A common approach across entities could contribute to establishing a common approach for and a regulation on diversification.

**Export and import controls should be harmonized and implemented**

It is important to incorporate export and import control as an integral part of the harmonized state level regulation of trade, independently of the products and sectors in question.

**Controls on quality, origin and of traceability should be implemented**

Improved quality control on products such as honey, medicinal plants and herbs is required throughout the entire value chain order to ensure the credibility of the sector, which is aiming to be competitive in terms of quality rather than quantity. Traceability is also a key concept in this regard. Therefore, it is recommended that a coherent control system for key products be set, which would help producers document their production methods.

### 1.4.3 Harmonized investment support schemes

Another aspect of the harmonized regulatory regime relates to the investment support schemes available for farmers and processors in BiH at state level, as well as at entity, BD, canton and municipalities levels. It is highly recommended that a one-stringed state system be established, which would eliminate regulatory differences among the entities, thus contributing to a fair state competitive environment for the subsector. A transparent rural and agricultural policy including diversification at BiH level is also essential.

**Breaking it down further and becoming even more operational in the recommendations, the study and the case studies show a clear difference between projects that have ambitions to "go big" and projects**

**Table 1.2: Figures for Subsectors**

| | Wool | Sheep | Goats | Honey | Mushrooms | MAP |
|---|---|---|---|---|---|---|
| **Holdings/numbers of animals** | | 63,000 holdings<br><br>1,515,000 sheep in total<br><br>1,059,000 breeding ewes | 63,000 goats (including all goats, not just breeding females)<br><br>38,000 goats provide milk | 3,000 registered beekeepers<br><br>367,000 beehives in 2010 | | |
| **Annual production** | 1,400 tonnes | 20,000 tonnes | | 3,300 tonnes in 2010 | 2,042 tonnes button mushrooms in 2010<br><br>92 tonnes oyster mushrooms in 2010 | Between 1,500 and 9,000 tonnes of MAP is harvested annually in BiH |
| **Jobs** | 138 full-time | | | | | Collectors affiliated with BiH companies are approx. 100,000 |
| **Annual value** | Less than 1% of sheep farmers' gross income. | Lamb and mutton output: estimated at BAM 232 million (€118 million) | 8 million litres in 2012 | 1 kg of honey on green markets is approximately BAM 8-10 (depending on the type of honey)<br><br>In 2009, 1 kg of sage honey was valued at BAM 18 on the unofficial markets. | Export 2009: 692,198 kg to a value of BAM 9,729,243 | Export in 2009: 1,346,306 kg to a value of BAM 2,040,901 |
| **Increase since 2005[10]** | (+18%) in tonnes | (+16%) in thousands | | (+24%)in tonnes | n/a | n/a |

*Source: summary from different sources used in this report*

[10] Calculations based on statistics from FBiH's and RS' Statistical Yearbooks of 2010

**where the ambition is to make daily life more sustainable through semi-subsistence farming, and producing for self-consumption and the local market.**

Based on the findings, it is recommend dividing future diversification activities into two overall categories; these would each set different requirements or frameworks for project applications in terms of business plans and the volume of funding. The components of the two categories of activities, depending on the level of ambition of the project are:

1. Activities with the potential to **create economic development and jobs;** e.g. medicinal plants/herbs, tourism and beekeeping. In BiH today these types of projects are established and supported to some degree by the RS Ministry of Agriculture and FBiH Ministry of Agriculture, Forestry and Water Management, as well as through donor funded projects and/or very active NGOs and foundations, which provide all the necessary funding, knowledge and market connections.
2. Activities mainly for **self-employment (income generation).** These are smaller projects in terms of financing. They are often ventures that aim at supplementing the current income of an individual or family and there is no intention to enhance or expand the business to include other employees.

**The study has clearly identified some high potential activities (**goat farming and goat's cheese, medicinal and aromatic plants, honey and beekeeping, and mushroom production) based on demand conditions and comparative advantage, while at the same time identifying some activities (wool and textile production) that have limited market demand and which would be better avoided. The table below summarizes **available key figures** for various relevant subsectors.

There are approximately 3,000 registered **beekeepers** in BiH today and their number has increased steadily over the past five years. Leading experts and studies of the sector in the Western Balkans have concluded that the potential for effective beekeeping could be up to 10 times more than its current level. Twenty-four percent more honey was produced in 2009 than in 2005. If this potential were to be exploited to the full, it is estimated that some 30,000 quality jobs could be created in this sector alone. This is before taking into account additional jobs in packaging, marketing, sales and transport.

**MAP** is another area indicated as having potential. According to data from the EU Final Report (Analysis and Mapping of Value Chains), between 1,500 and 9,000 tonnes of MAP are harvested annually in BiH (depending on demand and climatic conditions). Industry experts and producer organizations suggest that about 20 of the most important plants are traded in BiH. Approximately 85 percent of these plants are exported and these are mainly bulk-packed in jute or paper bags or in cardboard boxes and shipped to the EU. The analysis shows that there is potential for expanding this trade.

**Tourism** is also identified as an area for potential growth. As the table below indicates, there has been an overall increase in the number of both foreign and domestic tourists. On average, foreign tourists stay slightly longer than domestic tourists. In 2009, average stays were 2.1 and 1.9 nights respectively. However, the opposite is true in RS where domestic tourists stay longer: 2.2 nights versus 2.7 nights. Over the past decade the number of tourists in BiH has grown steadily.

In terms of pinpointing specific areas, some **caution needs to be taken**, because the segments are mostly niche and small volume segments of the market and detailed demand assessments are required to help make realistic plans. **Therefore, the approach of this diversification study has not been to select specific products for support, but rather to identify which framework conditions need to be supported in order to stimulate the increase and development of economic diversification in BiH**. The choice of what to produce is for the specific farmer or rural dweller to decide.

**Table 1.3: Number of Tourist Arrivals and Nights Spent in BiH, 2009**

| | Number of arrivals (thousands) | | Number of nights (thousands) | |
|---|---|---|---|---|
| | Domestic | Foreign | Domestic | Foreign |
| State level | 254,860 | 305,379 | 586,325 | 661,706 |
| FBiH | 121,813 | 211,469 | 230,844 | 453,096 |
| RS | 133,047 | 93,910 | 355,481 | 208,610 |
| BD | n/a | n/a | n/a | n/a |
| Percent growth since 2005 | (+20%) | (+43%) | (+13%) | (+40%) |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

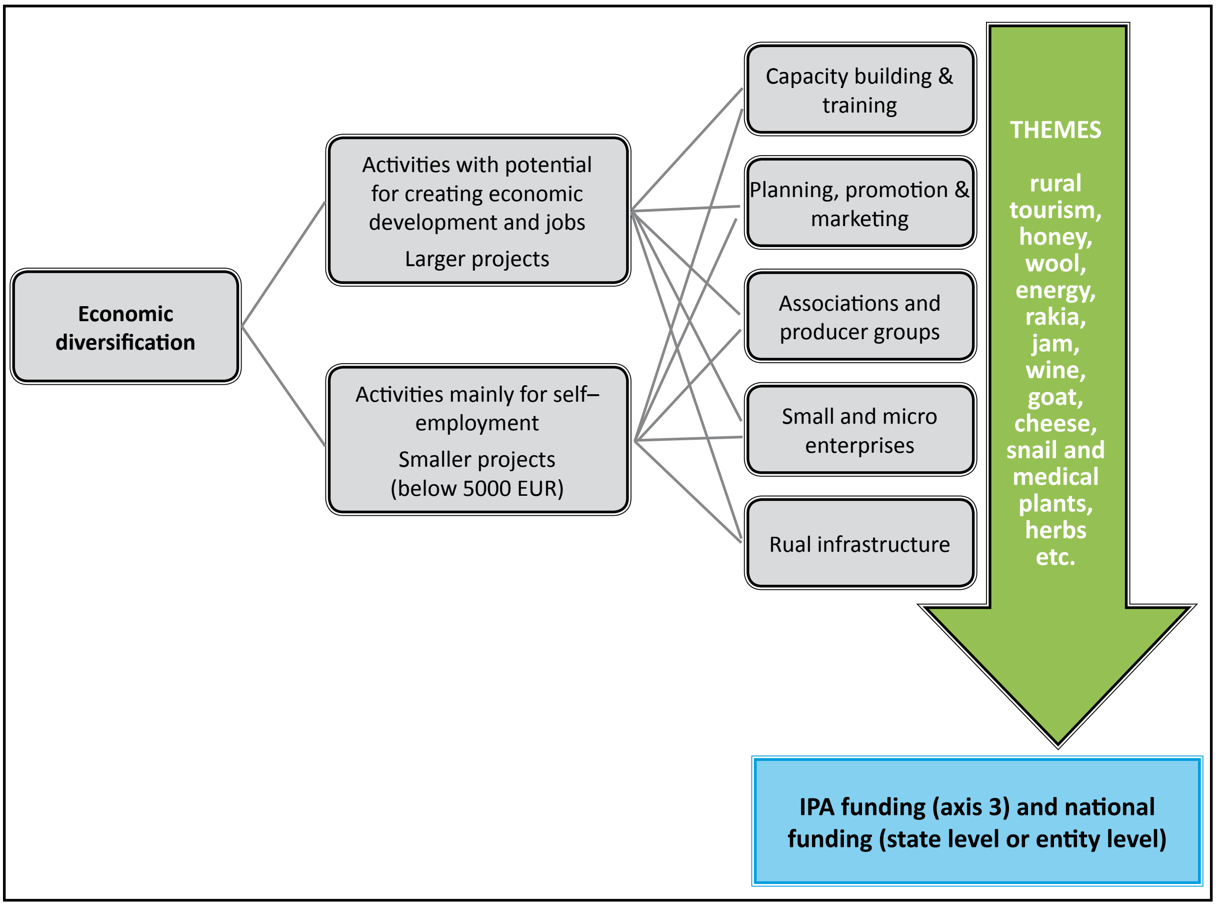
In light of this, the point of departure for our recommendations has been to identify a number of **key generic framework conditions** that facilitate, stimulate and support economic diversification projects and investments in order to create jobs and better income possibilities. The study identifies the importance of linking producers to markets. An effective way of making markets work is to provide everyone with high quality, up-to-date and accurate price information. This is a recommendation that is relevant not just for diversification activities, but also for the other sector studies.

Bearing this in mind, the recommendation is to focus on the **five generic IPARD measures** that support **framework conditions** no matter what kind of diversification product or activities are involved.

### 1.4.4 IPARD interventions

Harmonized investment support can benefit from the measures included in the IPARD

**Figure 1.1: Generic Measures**



regulation. For diversification, the main focus will be on the three measures available under axis 3, section 5 of the IPA regulation.[11] The interventions suggested below are all within the framework of the IPA measures.

1. **Improvement and development of rural infrastructure (article 179).** This measure is crucial in order to support the framework conditions and the infrastructure needed to enhance ongoing and future diversification activities. This type of measure can develop and improve basic infrastructure to foster economic and social activities for balanced growth. Investment in basic infrastructure is one of the preconditions for the development of a balanced rural economy and for enhancing the socio-economic living conditions of the rural population. Rural infrastructure, such as small roads and the internet, is closely linked to diversification activities. These types of projects will be 100 percent public financed with EU funding.
2. **Support for planning and promotion (article 180).** It is necessary to support the preparation and creation of business plans on the one hand, and on the other to support promotion activities such as websites. Several of the case studies illustrate this point. The potential beneficiaries are extremely capable with regard to their own professions but lack knowledge on how to approach the market, which includes, among other things, preparing business plans, cost-benefit analyses and formulating strategies to make their businesses more visible.
3. **Support and facilitate the establishment and development of micro and small enterprises (article 180).** Supporting the establishment and development of micro and small enterprises is a prerequisite for promoting growth and entrepreneurship in rural areas. The case studies show that to some extent here is a need for this type of support, but also that it can be difficult to locate sufficient financial backing to get it started. Support for micro and small enterprises under IPARD will be 50 percent public (75 percent from the EU and 25 percent from national funds) with the 50 percent coming from the beneficiary's own funds.
4. **Capacity-building and training (article 181).** There is also a continuous need for capacity-building support; this being training and capacity-building for rural dwellers, owners of micro and small enterprises, and training for extension service providers. No training needs assessment (TNA) as such has been prepared as an integral part of this report, but the case studies and survey results show that a broad range of competences are needed, particularly with regard to the production of high quality commodities where manual labour, together with modern technologies, can contribute to good results. It would also include training trainers and training the advisory system in i) what diversification is, and ii) how we can support and advise rural dwellers when preparing applications for diversification projects.

As already indicated, the investment level for projects that support diversification activities varies. At one end of the spectrum we have rural infrastructure projects, which are often large projects and can vary from EUR 10,000 to EUR 3,000,000 for municipality and NGO projects.[12] Then, at the other end of the spectrum we have small diversification projects that are primarily aimed at supporting self-employment and income generation for individuals and families. These projects have investment levels as low as EUR 5,000 (see Chapter 9 for more details).

[11] COMMISSION REGULATION (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

[12] The figures are based on monitoring data from other EU countries concerning rural infrastructure and diversification projects.

Examples from Romania show that the average diversification project has funding of EUR 170,000. However, if rural infrastructure projects are excluded, average project costs are approximately EUR 15,000-20,000. This is roughly the same range as in BiH (see Chapter 9). In RS, approximately 960 rural development projects have been supported, with average funding of EUR 20,000, and in FBiH 800 projects have been supported with average funding of EUR 18,000. For BD, the total is 300 projects with average funding of EUR 15,000.

If we assume average project costs of EUR 20,000 for diversification projects that are not related to rural infrastructure, and we also assume a total of 300 projects in the entire country in one year, **EUR 6,000,000** would be needed per year.

For rural infrastructure projects, if we assume an average investment of EUR 150,000 with 30 projects per year over the entire country, **EUR 4,500,000** would be needed per year.

This indicates an overall investment need of **EUR 10,500,000** per year for diversification projects. This amount would be divided into IPARD support and national budget and beneficiary co-funding.

**Other IPA relevant interventions**

1. Other measures under the IPA regulation are also considered to be relevant for supporting diversification activities in BiH when assessed in light of the sector analysis. Support for establishing **Associations and Producer Groups (article 175)** is one of the other IPA measures that from a diversification point of view is highly relevant; although it is also complicated. The sector analysis also outlines the need to enhance social trust and social capital, and facilitate a more coordinated and strategic approach towards the market (home market and export) both in terms of obtaining access to the market (middlemen) and getting better prices and hopefully gaining larger market shares. In other words, cooperation within the value chain is currently not optimal and needs to be improved. Stronger cooperation among the diversification producers is needed if expansion is the goal. Furthermore, support for setting up and operating producer organizations is recommended.
2. Preparing and implementing **local development strategies** and supporting the development and proper management **of products with Geographic Indication** and **regional labels,** including an inventory of potential geographic indications, information to producers on the benefits and challenges of Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) could be considered. This could be supported under axis 2 of IPA. Processed products, jams, wine, preserved, dry fruit and vegetables could be concerned, or fresh fruit and vegetables with specificities linked to the area of production (see both the wine sector report and the sector study for fruit and vegetables).

### 1.4.5 State level and entity level interventions

In addition to the above, a number of interventions could be supported and implemented at both state and entity levels. In order to support and underpin economic diversification it is recommended that the following interventions be prioritized and implemented:

- **Prepare an IPA rural development strategy for BiH** that outlines the overall perspectives and focus areas for economic diversification. This needs to be undertaken in close cooperation with the entities and BD.
- **Prepare an initiative focusing on awareness and information dissemination about the IPARD programme**, its possibilities and how to gain advice and knowledge about the programme. This could include national campaigns about IPARD in general and about diversification specifically.

At entity level, it is recommended that the following action be taken:

- **Compliance with requirement**. The study identifies a need for compliance with either national minimum requirements and/or EU requirements.
- **Advisory system**. There is a need to build up an extension service in FBiH to support and boost economic diversification activities, and to strengthen the existing extension services in RS. Extension service staff needs to be trained in the possibilities and opportunities of diversification projects.
- The municipality survey also identifies a need to establish **a business extension service for enterprises** (micro and SME). This would support and provide advice to new enterprises and entrepreneurs and would also advise existing enterprises on how to expand. Another task for a business extension service could be to support rural business incubators.
- Looking into alternative – and more attractive – **models for financing** and access to loans in order to attract entrepreneurs (micro and SME) and farmers.
- Professionalization of the agricultural sector through the **registration of farmers** in a national farm register. Only professional full-time farmers with bookkeeping systems in place and who are registered in the VAT system would be registered in the farmers' register and thus be eligible for support. No subsistence, semi-subsistence or less professional farmers would be registered.
- **Measures to reduce the fragmentation** of farms and small-scale production. This would necessitate **land consolidation.**
- **Resolve ownership** issues.

The challenges identified above are not exclusive to diversification, but are generic challenges for the whole rural and agricultural sector in BiH. They will not be addressed further here as they are outside the scope of this report.

# 2. Background and Key Figures

## 2.1 General information about BiH

Bosnia and Herzegovina (BiH), one of the federal republics that constituted the former Socialist Federal Republic of Yugoslavia, is located in the western part of the Balkan Peninsula and covers an area of 51,129 km$^2$. In 1990, BiH held its first democratic multiparty elections and in early 1992 it became an independent country.

BiH has borders with Serbia to the East, Montenegro to the South East, Croatia to the North and West, and a 20-kilometre coastline on the Adriatic Sea. Its landscape varies from high altitude central mountains to arable land in the north and Mediterranean vineyards in the south, with most of the major towns being located in valleys. Climatically, Bosnian summers last from May to September and are warm and humid, whilst winters tend to be foggy and snowy and last from November to February. Autumn and spring are usually short.

Within BiH's recognized borders, the country is divided into two entities and the Brčko District (BD). The Federation of Bosnia Herzegovina (FBiH) covers about 50 percent of the territory and Republic of Srpska (RS) covers about 49 percent of the territory. BD covers the remaining one percent of the total territory. According to the OECD definition of rural areas, 95 percent of BiH is rural (150 inhabitants per km$^2$). In 2010, the European Commission agreed on a new typology of predominantly rural, intermediate, and predominantly urban regions based on a variation of the OECD methodology. The aim of this new typology is to provide a consistent basis for the description of predominantly rural, intermediate, and predominantly urban regions in all Commission communications,

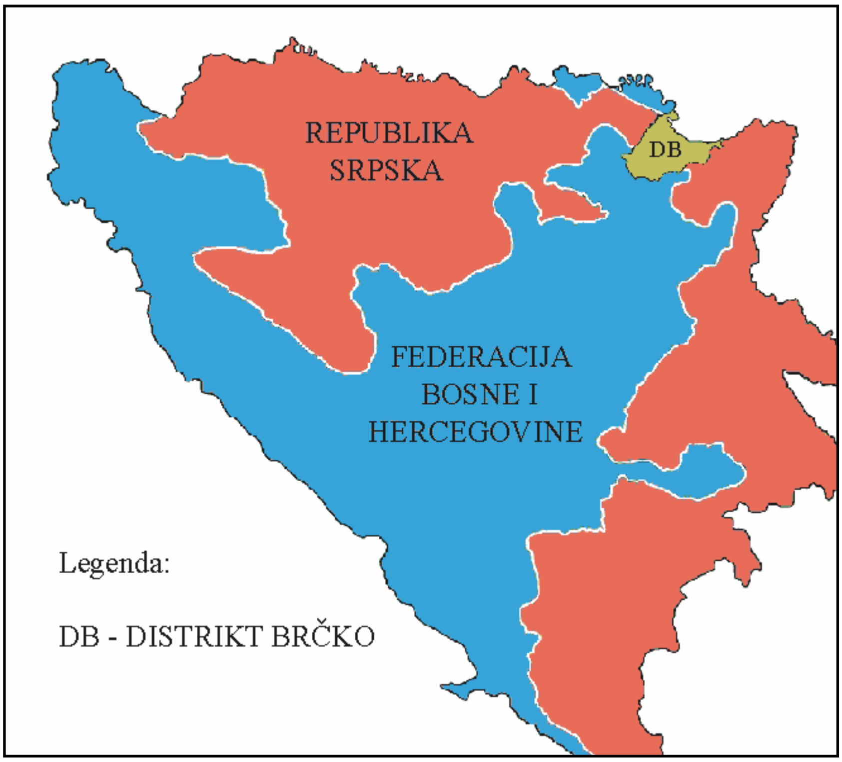
**Fact box**

| | |
|---|---|
| • Total Area: 51,209.2 km$^2$<br>• Population: 3,839,737 (BHAS, 2011) | • Capital: Sarajevo<br>• Major languages: Bosnian, Croatian and Serbian |

**Figure 2.1: Map of BiH cities**

The territorial and administrative division in BiH is shown in the map below:

**Figure 2.2: Administrative division of Bosnia and Herzegovina**




reports and publications. The new typology builds on a simple two-step approach to identifying populations in urban areas:

- A population density threshold (300 inhabitants per km²) is applied to grid cells of 1 km²;
- A minimum size threshold (5,000 inhabitants) is applied to grouped grid cells above the density threshold.

The population living in rural areas is the population living outside urban areas identified using these criteria.

The current administrative divisions (Figure 2) are based on the lines drawn up as part of the Dayton Peace Agreement in 1995. The FBiH, RS and BD all have their own constitutions. The total BiH population is estimated at 4 million, although a precise figure is not available since a population census has not been conducted recently (the most recent census was in 1991). The FBiH is decentralized. It is divided into 10 Cantons (each with its own government) and 79 municipalities. The government of FBiH shares and delegates some of its competencies with the Cantonal administrations. Both the government and the Cantons have the right to determine policy and to adopt laws that pertain to any of their competencies. Where competencies are further delegated to the municipalities (the lowest administrative level), their activities are financed and supervised by the Cantons.

The RS is centralized and has no Cantons. It shares and delegates some of its competencies directly with 61 municipalities and two cities.

**Table 2.1: Fact box**

- GDP: EUR 12,678 million (2010)
- Agricultural GDP: EUR 927 million (2009)
- GDP per capita: EUR 3,300 (2010)

The BD (comprising the entire territory of the former Brčko municipality) is a self-governing administration under the direct jurisdiction of BiH.

## 2.2 Context and objective of the sector analyses

### 2.2.1 Preparation for EU accession

BiH is a potential candidate country for EU accession following the Thessaloniki European Council of June 2003. In June 2008 the EU and BiH signed the Stabilization and Association Agreement (SAA). An Interim Agreement on Trade and Trade-related issues entered into force on 1 July 2008 and the Council adopted a new European partnership with BiH on 18 February 2008.[13]

BiH has benefited from EU autonomous trade measures since 2000. After the Interim Agreement came into force on 1 July 2008, EU access to products from BiH has expanded, and EU exports to the country have been granted trade preferences.

BiH and the EC signed the Financing Agreement for the Instrument for Pre-accession Assistance (IPA) 2007 National Program on 31 July 2008, which was a major milestone on BiH's road to Europe. The total financial allocations within the IPA are EUR 11.47 billion (current prices) for the 2007-2013 period.

As a potential candidate country, BiH cannot yet take full advantage of IPA support. Preparations are being made and should be accomplished by the time BiH becomes an EU candidate country, and when the implementation of the IPARD supports for agricultural and rural development is initiated.

### 2.2.2 Sector context

In order for BiH to become a candidate country and benefit from the pre-accession assistance under the IPARD, it must:

- Have an IPARD Program adopted by the European Commission
- Conclude the Framework and Sectoral Agreements
- Establish IPARD operational structure and receive national accreditation
- Receive accreditation and conferral of management decisions from the Commission
- Conclude a Multi-annual Financing Agreement

The IPA Implementing Regulation (718/2007) (Article 184, Paragraph "2.b") indicates that the IPARD Program should be based on an analysis of the current situation in rural areas and on in-depth analysis of the sectors concerned.[14] Among other things, the IPARD program should include a quantified description of the current situation, showing disparities, shortcomings and potential for development. The program should also include quantified objectives. The analyses of the situation and prioritization of the areas for potential intervention should be made with the help of independent expertise.

Bearing this in mind, the main objective of the sector analyses is to provide a solid input to the preparation of the IPARD Program and to provide the grounds for justified and appropriate targeting of the measures included in the IPARD Program. Therefore, the sector studies are not a part of the IPARD program as such, but rather constitute a basic input to the programming process.

Furthermore, it should be emphasized that the national authorities may use the sector studies as inputs for the preparation of any intervention targeting the agricultural and rural sectors. As such, the sector studies do not exclusively contribute to the preparation of the IPARD program.

IPARD support will, if so decided, address the weaker links in the production and supply chains. The objectives of the IPARD

[13] See EU Delegation web-site for Bosnia and Herzegovina: http://www.delBIH.ec.europa.eu/

[14] The final concept for pre-accession assistance to agriculture and rural development after 2013 is not yet known, and it may be different from the current IPARD model. As a matter of simplicity, reference is made to IPARD throughout the sector analyses.

intervention are to contribute towards upgrading to EU standards, strengthening overall competitiveness and performance as well as fostering the sustainable development of the sector in the context of EU accession. In this respect, the sector analyses the most demanding sectors in terms of the costs of meeting the standards for which the highest potential and added-value of the intervention is anticipated.

The agricultural sector analyses carried out in BiH have been selected based on a consultation process with local authorities and are based on EU standard relevance as well as economic relevance. Analyses have been prepared for:

- Meat (including rendering) and Dairy
- Fruits and Vegetables
- Cereals (wheat and maize)
- Wine
- Diversification

The sector analyses provide a comprehensive analysis of the current state of the sectors. They identify the weaknesses and sector concerns to be addressed by the IPARD intervention and by other state, entity and district level interventions. Where appropriate the sector analyses take into account specific regional development needs.

### 2.2.3 Objectives of the report

The economic diversification sector analysis is one of five sector studies prepared in 2011 as a basis for the design of the EU Instrument for Pre-accession Assistance for Rural Development (IPARD).

The global objective of the Study for Economic Diversification *is to contribute towards the preparation of IPARD sector analyses*. The IPA Implementing Regulation (718/2007) (Article 184, Paragraph “2.b”) indicates that the IPARD Program shall be based on an analysis of the current situation in rural areas, as well as on an in-depth analysis of the relevant sectors. Among other things, the IPARD program shall include a quantified description of the current situation and show disparities, shortcomings and potential for development. The program shall also include quantified objectives.

The overall objective of the sector analysis for economic diversification is to provide a concrete input to the preparation of the IPARD Program and to prepare a framework for the measures included in it (i.e. to find the weakest points in the value chains). The sector analyses themselves are not actually part of the IPARD program, but rather precursors to the programming process.

More *specifically* the objectives of the study are to:

- Describe the current status of economic diversification;
- Identify and address the weak links in the production and supply (value) chains;
- Identify areas which most need investment to meet EU and accepted standards;
- Identify areas with high potential for economic diversification;
- Recommend measures to be implemented.

## *2.3 Methodology & demarcation*

The study is based on a multi-stringed design so as to ensure data triangulation. This means combining qualitative and quantitative methods. Combining different methods in data collection makes it possible to utilize the strengths of the individual methods and at the same time to minimize the disadvantages of individual methods. The following methods have been applied:

- Desk research
- Statistics
- Surveys
- Stakeholder and key informant interviews
- Case studies
- Workshops

The study is based on an understanding of diversification as a concept that is used in an EU perspective (see the section below discussing how diversification is approached). FAO and BiH stakeholders carefully discussed this approach before structuring the report.

Another demarcation made for this sector report concerns the sectors that were chosen. The study reflects the viewpoint of core BiH stakeholders, desk research and case studies on the one hand, and resources that were already available for the study on the other hand. Sectors such as forestry and aquaculture have not been included in the analysis.

The current report provides a valuable input for further analyses and investigations and is thus paving the way for further initiatives which are beyond the scope of our work (e.g. including analyses of the forestry sector and the sector for aquaculture).

### 2.3.1 Desk research and Statistics

The desk research included a literature study being conducted. This covered scientific literature and as well as other types of empirical background literature (e.g. rural development programmes, the strategic plan of rural development in RS 2010–2015, the FBiH Agriculture, Food and Rural development Operational Programme 2008–2010, legislation, reports prepared under different projects and reports describing social capital in BiH). The desk research also included looking into various websites for projects, organizations and ministries.

Preliminary descriptions of the current situation in diversification were based on general data from the Agency for Statistics of BiH, the Republic Institute for Statistics in BiH, MoFTER, and the RS and FBiH Ministry of Agriculture, Forestry and Water Management, the Brčko District Department of Agriculture, Forestry & Water Management and other relevant sources, including the following:

- ITA (Indirect Taxation Authority of Bosnia and Herzegovina)
- FAO statistics
- EUROSTAT
- UN statistics
- UNDP statistics and reports
- Statistical data (Statistical Yearbook, Economic Bulletins/Chambers of commerce, foreign chamber Bulletins)
- National Statistical Office of BIH: Master Sample Survey
- MoFTER: Pilot FADN data
- MoFTER: Pilot Agri-Census data
- Review of previous research
- Data from state administrations (Ministry of Agriculture FBiH, entities, cantons, etc.) and other available sources

### 2.3.2 Surveys

Two types of survey were conducted as a part of this study. One of these is a cross cutting sector survey related mainly to the fruit and vegetable sector. A few questions were included in the meat and dairy survey as well. In this way, the diversification sector analysis has also benefited from the survey having a quantitative input. In total, 242 farmers were surveyed in FBiH and RS. Inputs from the international processing expert have also been included.

In addition to the main survey, a mini survey of 42 municipalities in FBiH and RS was conducted. The purpose of the mini survey is to find out:

- Whether local development strategies exist, and if so, what they focus on;
- What capacities the municipalities have for preparing project applications, what level of knowledge they have on IPA or IPARD projects, and how involved they are (if at all) in diversification activities;
- Whether there are local funds for activities, and if so, what and who they support;
- Who the municipalities cooperate with (e.g. NGOs);
- Whether extension services operate in the municipalities;
- How good rural infrastructure is (education, public transport, roads, water supply, waste water treatment, waste management and cultural events);
- What the municipalities strengths are.

### 2.3.3 Stakeholder and key informant interviews

In addition to the desk research and the surveys, 11 stakeholder interviews were conducted. The purpose of these was to get an insight into concrete diversification projects, knowledge, and lessons learned about how diversification is implemented in other countries, as well as market potential. A list of the stakeholder interviewed is attached in appendix B.

### 2.3.4 Case studies

Seventeen case studies were completed as a part of the study. The objective of the case studies was to identify *good practices and specific factors of success* in relation to particular diversification investments and production characteristics (technology, facilities, know-how, quality standards, bottle necks and weak points in the value chain, e.g. access to markets).

The secondary objectives of the case studies were:

- To contribute towards assessing economic performance and potential for diversification projects;
- To identify mechanisms that contribute towards alternative types of income generation (coop, associations and contractual agriculture);

When selecting the 17 case studies a number of indicators were taken into consideration:

- Geography: We tried to cover the entire BiH;
- Target groups (producers, small private enterprises, organizations and NGOs);
- Activities (diverse types of activities such as beekeeping, tourism, infrastructure and service).

The case studies were identified by representatives from Sarajevo University and the University of Banja Luka. See appendix C for an overview of selected cases.

### 2.3.5 Workshops

Two types of workshops were held during the project. One was a Strengths Weaknesses Opportunities and Threats (SWOT) workshop and the other was a verification workshop. Each workshop had two sessions, one in Sarajevo and one in Banja Luka.

**SWOT workshop**

The first two SWOT workshops were carried out in Sarajevo and Banja Luka on 6 and 8 June 2011 respectively. Approximately 25 participants attended each of the workshops. The participants included representatives from various organizations and ministries, farmers, international donors and NGOs. There were no state level participants.

The two workshops in different cities identified mainly the same strengths and weaknesses. However, there were some differences in focus: The workshop in Banja Luka was very active compared to the Sarajevo workshop, where the focus was more on political structure, administrative issues and lack of transparency. This probably has to do with the stakeholders that participated. In Sarajevo representatives from the administrative system and NGOs were present whereas in Banja Luka the participants were farmers, micro enterprises and producers. Reports have been prepared for each of the workshops.

**Verification workshops**

The purpose of the verification workshops was to:

- Present preliminary findings and conclusions
- Present recommendations for the design and content of measures
- Stakeholder discussions about findings, conclusions and proposed measures

The outcome of the workshops was to get operational inputs on the formulation of measures.

There were 51 participants in Banja Luka (61 were invited) and 21 in Sarajevo (37 invited) and these workshops were held on 5 and 7 October 2011. The University of Banja Luka and Sarajevo University arranged the workshops. Overall, these participation rates are good, although it was disappointing that only four participants in Sarajevo participated in both workshops.

The atmosphere at both workshops was good and the participants were interested in hearing about the preliminary findings and recommendations. The participants each workshop were very different. In Banja Luka the workshop was dominated by rural dwellers, tourist organizations, the rural network, various associations (farmers, women and beekeepers) and producers. The thing that all the participants had in common was that they had first-hand experience of the day to day difficulties of working in agriculture and the rural sector. This resulted in very concrete and practical feedback on the suggested measures.

In Sarajevo there were more "high-level" participants, from federal ministries, the Control and Inspection Institution for Ecology, the cantons and UNDP. Discussions were insightful and useful, but more abstract and less practical, maybe due to participants having less of a connection to day to day rural activities. However, the outcomes of both workshops have been useful in finalizing this study.

Unlike the SWOT workshops it was rather difficult to kick start the group work sessions and discussions. This is probably due to fact that the objective was more abstract. It is, without doubt, more complicated to discuss measure types and design, and investment levels than it is to discuss strengths and weaknesses. However, at both workshops there was a consensus about the need for differentiating between large and small diversification projects and to support the framework conditions for further diversification initiatives and projects.

# 3. What is economic diversification?

## *3.1 Diversification as a policy concept*

EU rural development policy aims to improve several – and to some degree opposing – issues, ranging from enhancing competitiveness in agriculture, environmental protection and conservation to improving people's quality of life in rural areas and the diversification of rural economies. The agricultural sector has undergone modernization and specialization and has become more automated and less labour intensive. At the same time the importance of industry and services within the economy has increased. These factors together mean that agriculture is no longer such an important source of jobs.[15] Rural dwellers' responses to these economic challenges have been – and still are – that they leave the farming sector completely (and seek jobs in other sectors) or to seek to supplement their household incomes from sources other than conventional farming. Economic diversification initiatives help with this, and are either directly related to specific holdings, but without comprising farm work (on-farm activities), or through other productive activities that are not related to the holding ("pluriactivity" or off-farm activities depending on which terminology applied).[16] The box below provides a brief look at the diversification rate in EU.

Due to this change in focus and prioritization, diversification of the rural economy has become increasingly important. Since 2000, a number of complementary support measures under the second pillar of the CAP have been targeted towards the increasing challenges that farmers are facing such as protecting biodiversity, preserving broad-based cultural landscape, creating and maintaining jobs. These support measures have also focused on the notion of regional products as cultural assets. The items in the list below have reinforced the concept of diversification in the EU Rural Development Policy towards a semi-sectoral approach including rural micro and small entrepreneurs as eligible beneficiaries, as well as by stressing territorial approaches with the mainstreaming of the LEADER approach. LEADER stands for "Liaison Entre les Actions de Development Rural", the English translation meaning "Links between actions of rural development".[17]

- The growing importance of regional value added chains to the broader rural economy;
- The mobilization of local endogenous capacities and resources for living in rural areas;
- Intensifying economic activities and the creation of employment opportunities for the rural population.

**Diversification rate in EU**

In the EU-27 just about one in ten (9.9 percent) of agricultural holdings have reported that they have another gainful activity directly related to their holding. A slightly higher proportion of commercial holdings (13.5 percent) report this than family holdings do (EUROSTAT 2010: 433). Looking at the figures in more detail, there are clear disparities within the EU along east-west and north-south lines (Eurostat 2010). This indicates that transitional issues need to be considered and that achieving successful economic diversification projects is a real challenge (Fritzsch et al. 2010). In other words, it indicates that it takes time to get the "diversification formula" right in terms of types of project approach (size, activities, organization etc.) and in terms of having the right mind-set and understanding of what diversification is and how to implement these types of projects.

Individual member states report positive tendencies in terms of the length (success stories), depth (share of farms with more than one diversified activity), and width (across all groups of farms), especially when linked to territorial business clusters (Seiffert and Fink-Keßler 2007).

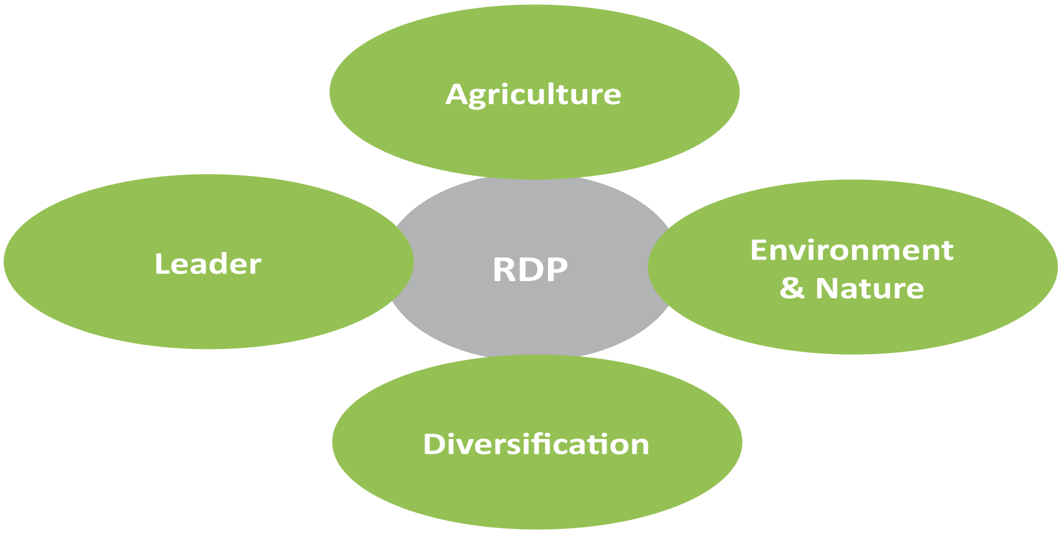
[15] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Farm_structure

[16] Katalin Ludvig, Richard Eberlin, Laszlo Percze 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', FAO 2010

[17] European Commission 'Fact sheet, The LEADER approach, basic guide', 2006

The figure below illustrates the focus areas of today's EU Rural Development Policy.

**Figure 3.1: Focus area in EU Rural Development Policy**




As noted above, the Leader Approach has been integrated into the rural development policy since the start of the 2007–2013. Before this and back to 1991 when it was launched, it had its own budget framework and programmes. There have been three generations of Leader:

- Leader I (1991-93);
- Leader II (1994-99);
- Leader+ (2000-06).

Leader differentiates itself from other rural development measures by being an area based and bottom up approach, which has proven to be useful in identifying and implementing other diversification projects (see section six). The share of EU territory in which the Leader approach is being applied, the number of Leader groups, and the level of funding allocated to Leader-type approaches have all increased substantially since Leader was first launched in 1991.[18]

### 3.1.1 What is diversification?

Taking our point of departure from the literature written on this subject, it becomes clear that there is more than one way to understand and approach diversification (it can hardly be defined as a sector in the same way that we can talk about the meat and dairy or fruit and vegetable sectors).

One place to start is to look at the type of activity involved; for example whether activities are on-farm or off-farm. Alternatively, diversification can be viewed from an income perspective looking at wage income and enterprise income or whether the focus is on households or corporate farms.[19] Some researchers have a broad understanding of the concept, defining farm diversification as an identical concept to pluriactivity. This involves income-generating activities both on-farm and off-farm.[20] In contrast, some consider diversification to solely involve on-farm non-agricultural activities.[21]

[18] European Commission, 'Factsheet, The LEADER approach, basic guide', 2006.

[19] Chaplin H, Davidova S, Gorton M, Agricultural adjustment and the diversification of farm households and corporate farms in Central Europe, JOURNAL OF RURAL STUDIES, 2004, Vol:20, Pages:61-77

[20] Delgado, C. and A. Siamwalla. 1997. Rural economy and farm income diversification in developing countries. Discussion Paper No. 20. Markets and Structural Studies Division, Washington, D.C.

[21] Katalin Ludvig, Richard Eberlin, Laszlo Percze 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', FAO 2010

This being said, one of the most common classifications of rural income generating activities refers to the place where the activities are carried out.

Another approach is to have a look at the Farm Structure Survey (Eurostat). This defines diversification as any gainful activity that does not comprise farm work, but is directly related to the holding. This could be tourism, handicrafts, processing of farm products or aquaculture.[22] On the other hand, the concept of pluriactivity is related to the farm manager, and it means the existence of other gainful activities for the farmer, which do not relate to the holding. This would involve any activity other than farm work as such, but including activities carried out on the holding itself (campsites and accommodation for tourists etc.), services (renting out of machinery etc.) or products (such as processing farm products and renewable energy production). All of these types of activity have an economic impact on holdings.[23]

The box below provides one explanation of the distinction between on-farm and off-farm activities:

Since BiH is categorized as having mixed farms, a lot of "traditional diversification" activities are already going on. The challenge is therefore to identify the areas where expansion and large-scale approaches are possible. In order to do this, a broad definition of economic diversification is used in this report. **Economic diversification is defined as including both on and off-farm activities.**

### 3.1.2 Diversification measures in the EU Rural Development Policy

The EU Rural Development Policy under the EAFRD and IPARD 2007-2013 includes a number of measures targeted at economic diversification, especially under Axis 3. These measures target both farm households and small and micro entrepreneurs in rural areas. The measures are formulated in Council Regulation (EC) No 1698/2005 and for candidate in Council Regulation (EC) No 1085/2006 and Commission Regulation (EC) No 718/2007 referring to Council Regulation (EC) No 1698/2005.

Roughly speaking, the measures can be divided into two categories depending on their impact (see Figure below[25] showing

**On-farm and off-farm activities**

#### On-farm activities

**Extension of core or conventional agricultural production**: Novel or high value crop production, animal husbandry, organic production and energy crop production.
**Increase of added value (vertical extension):** Processing of food and non-food crops, local and regional products (PDO, PGI), as well as marketing and direct sales.
**Diversification not directly related to agriculture production:** Agro-tourism, catering, services related to sport, cultural and other recreational activities, handicrafts, care farming, agricultural services (such as renting out machinery), harvesting non-wood forest products[24] etc.

#### Off-farm activities

**Wage labour:** Employment in enterprises and service providers in rural areas, including daily, seasonal or yearly migration of the wage earner leaving part of the family behind to take care of the farm.
**Self-employment**: Any kind of small and medium sized enterprise in rural areas.

[22] Eurostat, Farm Structure Survey (FSS). 2009. http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Farm_structure [Accessed 24 May 2010]

[23] Katalin Ludvig, Richard Eberlin, Laszlo Percze 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', FAO 2010

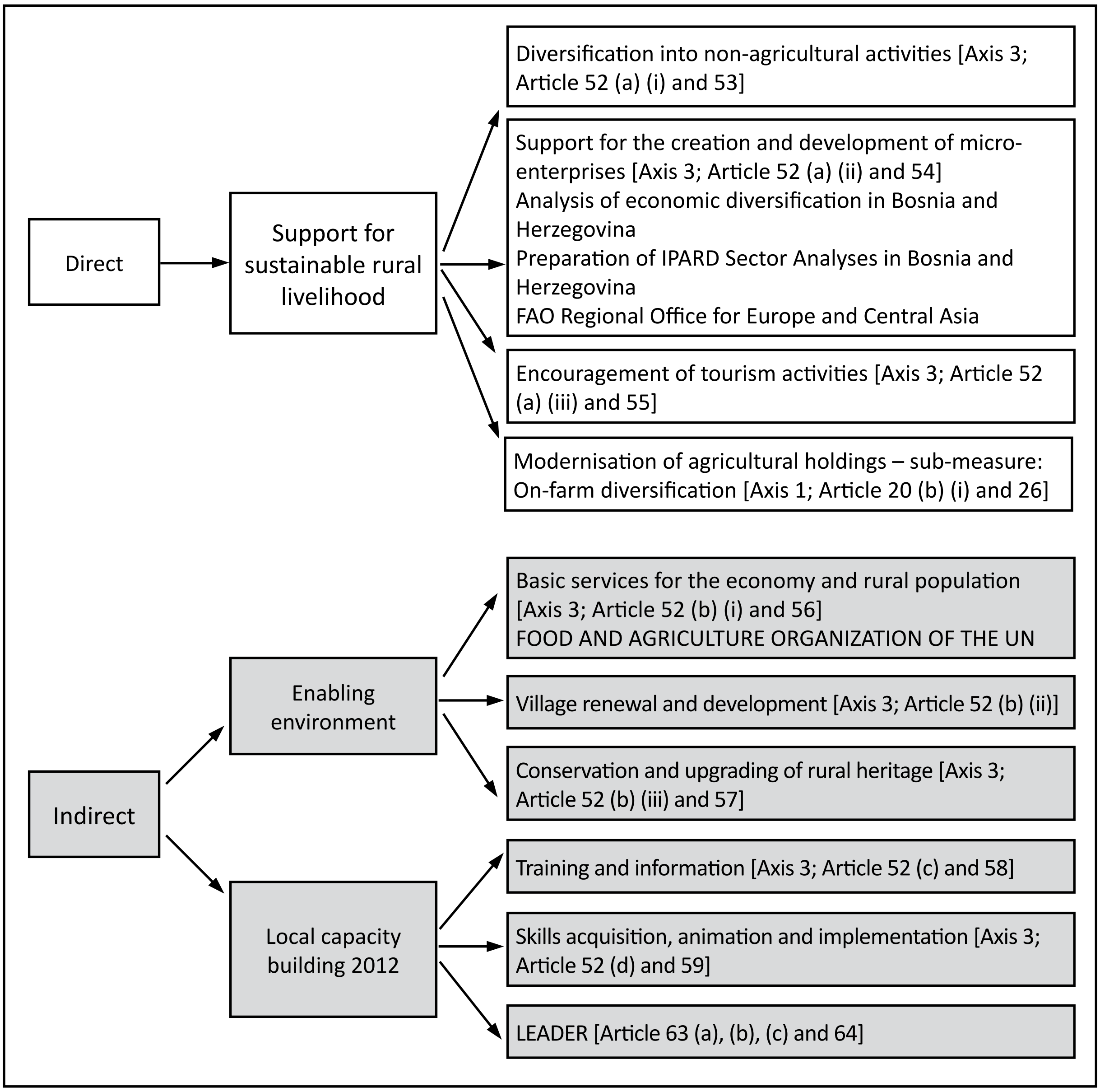
[24] Non-wood forest products may include various animal and plant species: herbs, wild spinaches, mushrooms, edible fruits, edible insects, wild honey and reeds for weaving, etc. However, the harvest of non-wood forest products are realized outside the farm, we consider it as a form of on-farm diversification, because their possible processing is carried out on the farm.

[25] Katalin Ludvig, Richard Eberlin, Laszlo Percze 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', 2010

as an example the measures under EAFRD). Group one is characterized by measures that *directly support* economic diversification; e.g. by encouraging entrepreneurship, improving the situation of micro-business and the development of crafts and tourism. It also provides an opportunity for agricultural farms to increase added value by processing agricultural goods produced on-farm.

Group two contains measures that *indirectly support* economic diversification. The measures within this group are clustered around "capacity building" in terms of preserving traditional skills, training young people in various skills, generating preconditions for business creation and developing natural and cultural heritage, as well as providing a basis for improving the quality of life of rural economies. Group two also aims to improve the appearance of rural areas, establishing community meeting places, encouraging local initiatives and strengthening the identity of local communities. The distinction between the two groups is illustrated in the figure below.

**Figure 3.2: Diversification measures under EAFRD**




*Source: Katalin Ludvig, Richard Eberlin, Laszlo Percze 'A Concept for Rural Economy Diversification and short Review of its Experience in Europe', 2010.*

# 4. Description of the current situation in BiH

## 4.1 General economic indicators for BiH

This section of the report provides basic economic information about the development of the BiH economy to be used as reference data in the specific sector analysis. Development between 2004 and 2010 in terms of Gross Domestic product (GDP) is presented in the table below. The economy demonstrated very positive performance from 2004 to 2008 with an average yearly growth of 13 percent (in current prices), until the international financial crisis changed the scene dramatically. There was a decline in 2009, while 2010 brought the economy back on a positive track and back to the same level as in 2008.

Each entity's contribution to state-level GDP was quite stable over the period, even though RS saw an increase to the share it contributed from 32 percent in 2004 to 34 percent in 2009. FBiH and BD both experienced a decrease in their contributions to the overall economy from 2004 to 2009.

### 4.1.1 Agricultural indicators

A key constraint to improving agricultural sector management in BiH is the lack of accurate, reliable and up-to-date information. Despite substantial EU and international donor assistance with initiatives such as a pilot Farm Accountancy Data Network (FADN) and a Pilot Agricultural Census, current information collection, collation and dissemination is still often undertaken in a rather *ad hoc* manner. Existing sector information is relatively limited and the information made available is often considered to be of a relatively poor quality, lacking statistical rigour or relevance to the emerging market economy.

Bearing these caveats in mind, the following section is a summary of the situation in BiH agriculture based on the statistics that are available.

**Agricultural land in Bosnia and Herzegovina**

BiH has a total area of 51,209 km$^2$, of which lakes and rivers cover 12 km$^2$ and land covers 51,197 km$^2$.[26] Of the total land area, plains

**Table 4.1: Development of GDP in BiH from 2004 to 2010**

| Item | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| GDP BiH, million BAM | 15,946 | 17,157 | 19,272 | 21,778 | 24,718 | 24,004 | 24,484 |
| GDP BiH, million EUR | 8,136 | 8,754 | 9,833 | 11,111 | 12,611 | 12,247 | 12,678 |
| GDP BiH per capita, BAM | 4,150 | 4,464 | 5,015 | 5,668 | 6,433 | 6,246 | 6,371 |
| Population BiH, million | 3.842 | 3.843 | 3.843 | 3.842 | 3.842 | 3.843 | 3.843 |

*Source: Agency for Statistics BIH, own calculations, exchange rate BAM to € = 1.9558 all years.*

The following table gives a breakdown of Gross Domestic Product by entity:

**Table 4.2: Gross Domestic Product by entity, 2004-2009 million BAM and %**

| Item | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| GDP FBiH, million BAM | 10,350 | 10,945 | 12,261 | 13,879 | 15,647 | 15,231 |
| GDP RS, million BAM | 5,116 | 5,763 | 6,544 | 7,351 | 8,489 | 8,233 |
| GDP BD, million BAM | 480 | 449 | 467 | 548 | 581 | 550 |
| FBIH share of total GDP | 64.9% | 63.8% | 63.6% | 63.7% | 63.3% | 63.5% |
| RS share of total GDP | 32.1% | 33.6% | 34.0% | 33.8% | 34.3% | 34.3% |
| BD share of total GDP | 3.0% | 2.6% | 2.4% | 2.5% | 2.4% | 2.3% |

*Source: Agency for Statistics BIH*

[26] Ministry of Foreign Trade and Economic Relations, 'A report of the Agriculture Sector in Bosnia and Herzegovina' p6. 2008

cover five percent, hills 24 percent, mountains 42 percent and karsts 29 percent. Forests and woodlands cover about 50 percent of BiH territory, and agricultural land totals 2.5 million hectares or 0.7 hectares per capita.[27] Land cover in BiH is heterogeneous. About 86 percent consists of automorphic soils, and the remaining 14 percent of hydromorphic soils. A large part of BiH is exposed to water erosion, particularly its central and southern part.

As with other data for BiH, data on agricultural land is not always consistent. Depending on the source, figures for agricultural land varies considerably, this is for example shown by Jaksic.[28] According to official statistics, agricultural land in BiH occupies 2.163 million hectares, or 42.2 percent of its total territory. This figure is based on the five-year average farm size in the Republika Srpska, the Federation of BiH and Brčko District, according to data from the entity and state agencies for statistics (see table below).

**Table 4.3: Agricultural areas in BiH, 2005-2009**

| **Total BiH** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
|---|---|---|---|---|---|---|
| Arable land and gardens (‘000 ha) | 1,034 | 1,034 | 1,025 | 1,016 | 1,005 | 1,023 |
| Orchards and vineyards (‘000 ha) | 95 | 96 | 95 | 84 | 97 | 93 |
| Meadows (‘000 ha) | 452 | 452 | 440 | 442 | 438 | 445 |
| Total arable land (‘000 ha) | 1,585 | 1,586 | 1,563 | 1,547 | 1,544 | 1,565 |
| Pastures (‘000 ha) | 586 | 585 | 592 | 590 | 611 | 593 |
| Wetlands, reeds and fishponds (‘000 ha) | 5 | 6 | 6 | 4 | 3 | 5 |
| Total agricultural land (‘000 ha) | 2,176 | 2,177 | 2,161 | 2,141 | 2,160 | 2,163 |
| **Federation of BiH** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Arable land and gardens (‘000 ha) | 411 | 409 | 400 | 400 | 391 | 402 |
| Orchards and vineyards (‘000 ha) | 42 | 43 | 43 | 43 | 43 | 43 |
| Meadows (‘000 ha) | 262 | 263 | 257 | 264 | 254 | 260 |
| Total arable land (‘000 ha) | 719 | 719 | 703 | 712 | 692 | 709 |
| Pastures (‘000 ha) | 419 | 418 | 427 | 441 | 442 | 429 |
| Wetlands, reeds and fishponds (‘000 ha) | 2 | 2 | 2 | 2 | 2 | 2 |
| Total agricultural land (‘000 ha) | 1,140 | 1,139 | 1,132 | 1,155 | 1,137 | 1,141 |
| **Republika Srpska** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Arable land and gardens (‘000 ha) | 593 | 596 | 596 | 587 | 584 | 591 |
| Orchards and vineyards (‘000 ha) | 50 | 50 | 49 | 48 | 51 | 49 |
| Meadows (‘000 ha) | 189 | 188 | 182 | 177 | 183 | 184 |
| Total arable land (‘000 ha) | 832 | 834 | 827 | 802 | 818 | 823 |
| Pastures (‘000 ha) | 166 | 166 | 164 | 148 | 168 | 162 |
| Wetlands, reeds and fishponds (‘000 ha) | 3 | 4 | 4 | 2 | 1 | 3 |
| Total agricultural land (‘000 ha) | 1,001 | 1004 | 995 | 952 | 988 | 988 |
| **Brčko District** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Arable land and gardens (‘000 ha) | 30 | 29 | 29 | 29 | 30 | 29 |
| Orchards and vineyards (‘000 ha) | 3 | 3 | 3 | 3 | 3 | 3 |
| Meadows (‘000 ha) | 1 | 1 | 1 | 1 | 1 | 1 |
| Total arable land (‘000 ha) | 34 | 33 | 33 | 33 | 34 | 33 |
| Pastures (‘000 ha) | 1 | 1 | 1 | 1 | 1 | 1 |
| Wetlands, reeds and fishponds (‘000 ha) | 0 | 0 | 0 | 0 | 0 | 0 |
| Total agricultural land (‘000 ha) | 35 | 34 | 34 | 34 | 35 | 34 |

*Source: Agency for Statistics BiH, FBiH, RS and BD*

[27] Ministry of Urbanism, Housing and Services, Civil Engineering and Ecology and the Federation Ministry of Spatial Planning and Environment. Action Plan for Environmental Protection BiH (National Environmental Action Plan of Bosnia and Herzegovina), p10, 2003

[28] Jakšić Duško, Postdejtonska stvarnost i perspektiva, Atlantik, Banja Luka, 1997, p. 95,

BiH has 2.16 million hectares of agricultural land. A little less than a half is arable land and gardens (1.023 million hectares or 47.3 percent of total agricultural land). The second half of the agricultural land used for livestock production is meadows (445,000 hectares or 20.6 percent) and pastures (593,000 hectares or 27.4 percent). Fruit orchards and vineyards (3,500 hectares) cover 98,000 hectares (4.5 percent of total agricultural land).

Although both entities occupy roughly the same area, RS has a higher share of total arable land (58 percent), and the Federation of BiH more of the total meadows (59 percent) and pastures (72 percent). This is the result of the natural geography of each entity, which in turn means that RS is more focused on crop production, while in FBiH greater importance is given to livestock.

### Agricultural land use

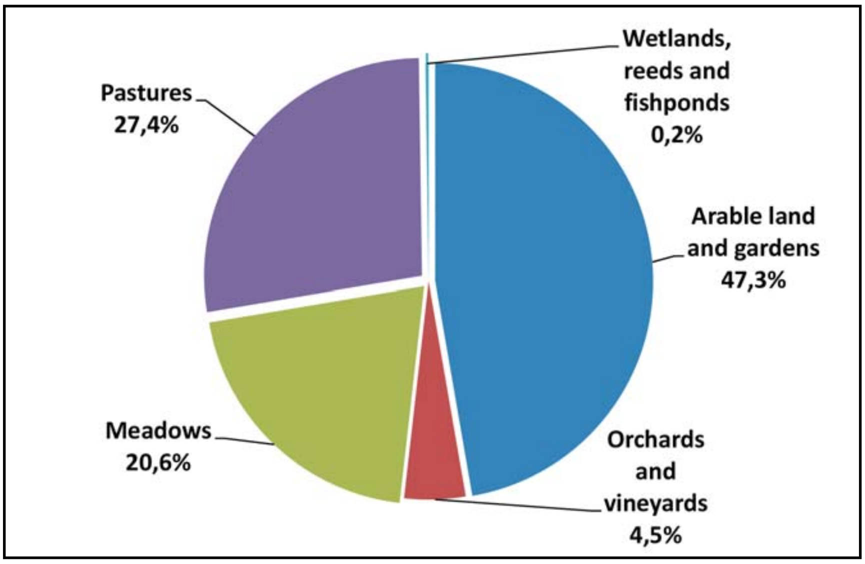
Most of the agricultural land in BiH is used for the production of grain (319,000 hectares of 58 percent). This production is more significant in RS (65 percent) than in FBiH (43 percent). One quarter (142,000 hectares of 26 percent) of the area is under forage crops, and 15 percent (82,000 hectares) is under vegetables. Areas under industrial crops are constantly decreasing, and by 2009 had fallen to 7,000 hectares in BiH as a whole (1.7 percent of agricultural land). The table below shows a detailed breakdown of agricultural land use:

Close to half of the arable land in BiH is uncultivated (450,000-480,000 hectares). There are many reasons for this, including the presence of mines,[29] the absence of any economic motivation for producers, the aging of rural households and the number of properties still vacant after the war.

### Household and farm structure

When BiH was part of the Socialist Federal Republic of Yugoslavia, the size of private farms was limited to 10 hectares on flat and hilly land and to about 30 hectares in mountainous regions. Moreover, private properties and farms were not much favoured by the government during that time, and

**Figure 4.1: Structure of agricultural land in BiH (average 2005-09)**




[29] According to the BiH Mine Action Strategy (2009-2019), the Council of Ministers BiH, 2008, pg. 6, BiH in the end of 2008, had suspected 1,573 $km^2$ (mined) areas, which is slightly more than three percent of the territory. According to the Managing Director of BHMAC, the suspected area is today (June, 2012) 1,544 $km^2$ equal to 3.04 percent of the territory; see Atlantic Initiative Newsletter, June, 2012. The capacity of demining is 35-40 $km^2$ per year from 2012 to 2019, if fully operational. Recent data from EUD indicates a suspected area of 1,442 $km^2$ equal to 2.81 percent of BiH territory.

**Table 4.4: Structure of agricultural land use in Bosnia and Herzegovina, '000 ha and %**

| **Total BiH** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
|---|---|---|---|---|---|---|
| Crops | 323 | 318 | 318 | 322 | 312 | **319** |
| Industrial crops | 10 | 11 | 11 | 8 | 7 | **9** |
| Vegetables | 85 | 83 | 83 | 83 | 78 | **82** |
| Fodder crops | 139 | 146 | 145 | 147 | 132 | **142** |
| Total sown area | 557 | 558 | 557 | 560 | 529 | **552** |
| Nurseries, flowers, ornamental plants | 2 | 2 | 2 | 2 | 2 | **2** |
| Fallows and uncultivated arable land | 476 | 474 | 469 | 454 | 474 | **469** |
| Total arable land and gardens | 1,035 | 1,034 | 1,028 | 1,016 | 1,005 | **1,024** |
| % fallows and uncultivated arable land | 46.0 | 45.8 | 45.6 | 44.7 | 47.2 | 45.9 |
| **Federation of BiH** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Crops | 85 | 83 | 82 | 87 | 85 | **84** |
| Industrial crops | 2 | 2 | 2 | 2 | 2 | **2** |
| Vegetables | 46 | 45 | 45 | 45 | 43 | 45 |
| Fodder crops | 64 | 67 | 64 | 64 | 62 | **64** |
| Total sown area | 197 | 197 | 193 | 198 | 192 | 195 |
| Nurseries, flowers, ornamental plants | 2 | 2 | 2 | 2 | 2 | **2** |
| Fallows and uncultivated arable land | 212 | 210 | 209 | 200 | 197 | **206** |
| Total arable land and gardens | 411 | 409 | 404 | 400 | 391 | 403 |
| % fallows and uncultivated arable land | 51.6 | 51.3 | 51.7 | 50.0 | 50.4 | 51.0 |
| **Republika Srpska** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Crops | 227 | 225 | 226 | 225 | 216 | **224** |
| Industrial crops | 7 | 8 | 8 | 5 | 4 | **6** |
| Vegetables | 38 | 37 | 37 | 37 | 34 | **37** |
| Fodder crops | 74 | 78 | 80 | 82 | 69 | **77** |
| Total sown area | 346 | 348 | 351 | 349 | 323 | 343 |
| Nurseries, flowers, ornamental plants | 0 | 0 | 0 | 0 | 0 | **0** |
| Fallows and uncultivated arable land | 247 | 248 | 244 | 238 | 261 | **248** |
| Total arable land and gardens | 593 | 596 | 595 | 587 | 584 | 591 |
| % fallows and uncultivated arable land | 41.7 | 41.6 | 41.0 | 40.5 | 44.7 | 41.9 |
| **Brčko District** | **2005** | **2006** | **2007** | **2008** | **2009** | **Av. 2005-09** |
| Crops | 11 | 10 | 10 | 10 | 11 | **10** |
| Industrial crops | 1 | 1 | 1 | 1 | 1 | **1** |
| Vegetables | 1 | 1 | 1 | 1 | 1 | 1 |
| Fodder crops | 1 | 1 | 1 | 1 | 1 | **1** |
| Total sown area | 14 | 13 | 13 | 13 | 14 | 13 |
| Nurseries, flowers, ornamental plants | 0 | 0 | 0 | 0 | 0 | **0** |
| Fallows and uncultivated arable land | 17 | 16 | 16 | 16 | 16 | **16** |
| Total arable land and gardens | 31 | 29 | 29 | 29 | 30 | 30 |
| % fallows and uncultivated arable land | 54.8 | 55.2 | 55.2 | 55.2 | 53.3 | 54.7 |

*Source: Agency for Statistics BiH, FBiH, RS and BD* full attention was paid only to state farms, which accounted for about five percent of all agricultural land.[30]

In 2006, it was estimated that there were over 500,000 agricultural holdings in BiH. More than 50 percent of these agricultural holdings were estimated to be less than two hectares in size, and over 80 percent less than five hectares in size. These small farms are often further divided into 7-9 small parcels, creating major problems for productivity and overall efficiency. Although the size of land areas actually cultivated by individual farms may be larger, the extent of land fragmentation restricts the adoption of more modern agricultural systems.

Recent surveys prepared as a part of the pilot FADN and other sector analyses indicate that subsistence and semi-subsistence farms, which use the majority of their production for their own consumption and produce only a little marketable surplus, remain the dominant type of farm in BiH. However, in recent years, there has been increasing evidence of more and more farmers producing for the market. Most commercially-oriented farms tend to be larger, though they are often restricted in their development due to their status as partially privatised entities, which limits their access to and use of modern management and investment capital. Consequently many have leased parts of their land to smaller private farmers. Overall, the need for consolidation of fragmented farm holdings into more viable economic units is recognised as being one of the most pressing agricultural policy issues in BiH today.

The general problem of inadequate and uncoordinated data also extends to cadastral and land ownership data, much of which has not been updated since the war and so does not reflect the current situation. There is as yet no comprehensive farm or statistical register, so no official data is available on the numbers of landowners or agricultural households. In the immediate post-war period there was evidence that the number of landowners was growing and the average size of holdings was contracting, in marked contrast to the patterns shown in almost every country in Europe.[31] As the economy returns to a more normal condition, progressive migration to towns (shown consistently in Yugoslavia throughout its existence) can be expected to resume.

### Agricultural GDP

The recent development of agricultural GDP is presented in the following table:

**Table 4.5: Agricultural GDP, 2004-2009, million BAM and %**

| Item | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| BiH GDP of agriculture & related services, million BAM | 1,425 | 1,524 | 1,664 | 1,784 | 1,895 | 1,817 |
| of which: | | | | | | |
| - FBiH | 618 | 639 | 703 | 763 | 813 | 791 |
| - RS | 698 | 768 | 859 | 918 | 978 | 921 |
| - DB | 109 | 118 | 103 | 103 | 105 | 105 |
| Agriculture, share of total GDP, % | 8.9 | 8.8 | 8.6 | 8.2 | 7.7 | 7.6 |
| GDP agriculture index, previous year = 100 | 107.6 | 107 | 109.2 | 107.2 | 106.2 | 95.9 |

*Source: Agency for Statistics BiH, Agency for Statistics RS (Statistical yearbook 2010, Agency for Statistics FBiH, own research, exchange rate BAM to € = 1.9558 all years. Data for 2010 not available*

30 Čustović Hamid, Ljuša Melisa, Participatory Land Use Development in Bosnia and Herzegovina, p. 1, publisning year not known

31 Čustović Hamid, Ljuša Melisa, Participatory Land Use Development in Bosnia and Herzegovina, p. 3

The share of agriculture in overall GDP decreased steadily between 2004 and 2009, and is relatively low compared with other counties in the region. In 2004, FBiH generated 43 percent of total agricultural GDP in BiH. RS generated 49 percent and BD the remaining 8 percent. In 2009, FBiH generated 43.5 percent, RS 50.7 percent and BD 5.8 percent, which represents a relatively stable distribution.

## *4.2 Indicators relevant to economic diversification: current situation*

As with other data for BiH, sets of data on economic diversification – both in terms of activities and target groups − can vary considerably from source to source. The next section provides a summary of on-going activities and the business environment. The section is based on the best data sources available.

### 4.2.1 Small and medium-sized enterprises: Business environment

The fact that small and medium-sized enterprises (SME) in BiH are underdeveloped may be attributed to the country's historical business structures. Throughout the pre-war period, the country's economy was based on large enterprises and complex integrated business systems and the socialist economic model did not recognize the private sector as an economic vehicle. Due to the fact that all policy measures supported large socially owned enterprises, small private enterprises received no institutional support and there was no tradition of building infrastructure − such as business incubators − to support small business. However, the socially owned enterprises were obligated to develop research centres and to cooperate with Universities and individuals. Furthermore, innovators were recognized and supported through associations of innovators and similar groups. In spite of this though, the environment for SMEs was seriously challenged in the pre-war period and the establishment of small enterprises was actually constrained by systemic measures imposed by the state.[32] Even now the vestiges of this system pose a difficult challenge for creating a business friendly environment and supporting SMEs.

Compared to other transition countries, BiH has the lowest number of enterprises per 1,000 inhabitants, and setting up companies is the most expensive in the region. It is even more expensive than in any EU country[33] (the costs associated with starting-up an enterprise is 46 percent of per capita income in comparison to a 14 percent average in South East Europe.[34]

The total number of enterprises is based on data from the RS SME Development Strategy, the FBiH Program for Economic Development and the BD Economic Report for 2007.[35] It has not been possible to obtain information about the structure of SMEs in rural areas; e.g. what the share of service oriented SMEs is, or information about industries, crafts etc. This makes it more difficult to point out specific SME types or areas with the highest potential development basis.

The number of SMEs and the number of employees are listed below for BiH as a whole.

The SME sector accounts for only 36 percent of GDP in BiH, which is one of the lowest in the region. In FYR Macedonia the figure is 60 percent, in Croatia 56 percent, in Serbia

[32] "Small and Medium-Sized Enterprise Development - Strategy in Bosnia and Herzegovina 2009-2011" (http://www.mvteo.gov.ba/vijesti/posljednje_vijesti/Default.aspx?id=1204).

[33] Zijad Džafic (2006) "A Comparative Analysis of Obstacles Obstructing the Development of Small and Medium Enterprises (SMEs) in Bosnia And Herzegovina and Countries of the Western Balkans".

[34] http://www.unece.org/fileadmin/DAM/ceci/publications/eed.pdf

[35] "Small and Medium-Sized Enterprise Development - Strategy in Bosnia and Herzegovina 2009-2011" (http://www.mvteo.gov.ba/vijesti/posljednje_vijesti/Default.aspx?id=1204).

**Table 4.6: Number of SMEs according to number of employees, 2007**

| Number of employees | Total number of legal entities | % of the total number of SMEs |
|---|---|---|
| 1-9 | 151,107 | 93.6 |
| 10-49 | 8,712 | 5.5 |
| 49-249 | 1,476 | 0.9 |
| Total | 161,295 | 100 |

*Source: Small and Medium-Sized Enterprise Development - Strategy in Bosnia and Herzegovina 2009-2011*

47 percent and in Albania 40 percent.[36] Despite this, 99 percent of all enterprises in BiH are SMEs[37]. According to Zijad Džafic,[38] it is necessary to make access to financing easier for SMEs; it is also necessary to privatize state firms and to increase the amount of GDP that SMEs contribute to overall growth. In Džafic's view, there is an intense need for medium sized enterprises to grow and to become able to compete with foreign companies. In comparison to other countries in the Western Balkans, BiH is lagging behind both in terms of the number of institutions and in terms of a lack of support for SMEs. The SME sector has not absorbed the workers laid off in the process of restructuring and privatizing large companies, nor has it created jobs for new workers.

"The Small and Medium-Sized Enterprise Development – Strategy in Bosnia and Herzegovina 2009-2011" points out that some major causes of the failure of SMEs are a poor business climate and complex legal frameworks, the absence of real institutional support from the state, a lack of capital at realistic costs and unfair competition. Another issue is the lack of skill on the part of founders or managers, who have inadequately managed their own businesses. Entrepreneurship education, both as part of regular education, and as life-long-learning (e.g. training, seminars, and similar forms of education) has developed much more slowly than is needed in practice.[39]

BD has neither agency nor an institution that deals with the development of SMEs. The department for town planning, property rights relations and economy in BD is in charge of projects and programs related to entrepreneurship development.[40]

### 4.2.2 Infrastructure

Some sources state that there are approximately 20,000 km of roads in BiH, of which 60 percent are local roads, 23 percent are regional roads and 17 percent are national roads.[41] However, the entities' yearbooks give a more conservative estimate (shown in the table below). When it comes to railways, FBiH has a total of 601 km of tracks, of which 68 km (11 percent) are double tracks and are electrified. Of the remaining 533 km single tracks, 70 percent are electrified. In RS there are 416 km of railway tracks, of which 25 km are double tracks.

In 2006, BiH is said to have domestically produced 60 percent of all the electricity it needed. The remaining 40 percent was imported from neighbouring countries.[42]

[36] Zijad Džafic (2006) "A Comparative Analysis of Obstacles Obstructing the Development of Small and Medium Enterprises (SMEs) in Bosnia And Herzegovina and Countries of the Western Balkans".

[37] Ibid.

[38] Ibid.

[39] "Small and Medium-Sized Enterprise Development - Strategy in Bosnia and Herzegovina 2009-2011" (http://www.mvteo.gov.ba/vijesti/posljednje_vijesti/Default.aspx?id=1204).

[40] Ibid.

[41] Ministry of Foreign Trade and Economic Relations, BiH's Agriculture, Food and Rural Development Operational Programme (2008-2010), 2007

[42] Ministry of Foreign Trade and Economic Relations, BiH's Agriculture, Food and Rural Development Operational Programme (2008-2010), 2007

**Table 4.7: Roads and railway lines, 2009**

| | Modern roads (km) | Local roads (km) | Railway lines (km) |
|---|---|---|---|
| State level | 11,951 | 6,476 | 1,017 |
| FBIH | 7,267 | 5,825 | 601 |
| RS | 4,652 | 651 | 416 |
| BD | (32) | n/a | n/a |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

**Table 4.8: Water and sewage systems, 2009**

| | Water network (km)[43] | HH with access to drinking water (%)[44] | Sewage network (km)[45] | HH with sewage system (%)[46] |
|---|---|---|---|---|
| State level | 14,612 | 94,1 | 3,749 | 47.7 |
| FBHI | 8,503 | 96,9 | 2,478 | 55.3 |
| RS | 6,109 | 89,6 | 1,271 | 33.8 |
| BD | n/a | 88,9 | n/a | 57.3 |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

The majority (94 percent) of people in BiH have access to drinking water. However, fewer than half of the population is covered by the sewage system, which requires large investment. In this respect the lowest percentage is in RS (see table below). The Pilot Agricultural Census from 2010 showed, that 11 percent of farmers in BD had access to a community sewage system, but only one percent of farmers in FBiH and two percent in RS had this kind of access. Farmers without community sewage systems often install their own sewage systems.

According to the MoFTER Pilot Agri-Census data 2010, 29 percent of farmers in FBiH have access to the internet in their households. This makes FBiH the best connected entity among the three. This shows that even where the internet is available, farmers are often not open to capitalizing on its potential. It is essential to change this mentality and increase awareness of the advantages of internet marketing.

In RS, one in five farmers has access to the internet in their households. As in FBiH, very few of the farmers use their computers for marketing (three percent in total) and 14 percent of farmers with an internet connection use their computers for marketing purposes. This suggests that, even though the region faces challenges, farmers in RS are more ready to use the internet than those in FBiH, both in absolute terms and relatively[47].

In BD, only 12 percent of farmers have access to the internet in their households, which poses a considerable challenge in terms of marketing farms and diversifying production, especially for things like tourism products. Despite this, more farmers in BD (five percent) use their computers for marketing than in FBiH.

As can be seen from the table below, the numbers of subscribers to fixed-lined phones is expected to decrease, whereas subscribers to broadband and mobile phones are increasing. However, penetration is still not 100 percent. For mobile phone penetration is expected to be approximately 85 percent in 2012.

[43] FBiH's and RS' Statistical Yearbooks of 2010
[44] Figures are from 2007 located in Regional Disparity Assessment – Bosnia and Herzegovina 2010
[45] FBiH's and RS' Statistical Yearbooks of 2010
[46] Edin Sabanovic, Nedim Catovic, Envesa Hodzzic-Kovac and Nikol Nixon, 'Disparity Assessment – Bosnia and Herzegovina', UNDP, 2010
[47] Ministry of Foreign Trade and Economic Relations, Pilot Agricultural Census of 2010, Rural Development

**Table 4.9: Internet connection (Percentage of farmers having internet in their households)**

| | BD | FBiH | RS |
|---|---|---|---|
| Internet connection | 12% | 29% | 20% |

*Source: MoFTER: Pilot Agricultural Census 2010, Rural Development*

**Table 4.10: Bosnia-Herzegovina telecoms statistics 2010 and 2012 (projected)**

| Sector | 2010 | 2012 (estimate) |
|---|---|---|
| **Subscribers to telecom services (thousand)** | | |
| Fixed-line telephone subscribers | 989 | 950 |
| Broadband subscribers | 360 | 480 |
| Mobile phone subscribers | 3,013 | 3,190 |
| **Telecom penetration by service** | | |
| Fixed-line telephony | 26% | 23% |
| Broadband | 9.5% | 13.5% |
| Mobile phone | 83% | 85% |

*Source: BuddeComm based on industry data*

### 4.2.3 Other gainful activities

According to EUROSTAT, **other gainful activity** is: "an activity that does not comprise of any farm work but which is directly related to the holding and uses its resources (land, machinery, buildings, etc.) or the products of the holding which have an economic impact on the holding. It is carried out by the holder, his or her family members, or one or more partners on a group holding. Such activities include: providing accommodation, processing farm products and renewable energy production".

The following section is based on the UNDP study "Growing inclusive markets (GIM) in Eastern Europe and the CIS: Annual Project Progress Report 2010" and other feasibility studies that are available on the various production segments in rural areas of BiH. The subsectors it focuses on include beekeeping and honey production and processing, wool and sheep, and the collection of natural medicinal herbs, mushroom production, tourism, small scale goat production and processing, and the poultry industry.

**Table 4.11: Segment production**

| | Wool | Sheep | Honey | Mushrooms[48] | Eggs | Poultry |
|---|---|---|---|---|---|---|
| **Unit** | **tonnes** | **Thousands** | **tonnes** | **Kilograms** | **millions** | **thousands** |
| State level | (1,500)[49] | 1,050 | 3,221 | (2,134) | 775 | 26,225 |
| FBiH[50] | 732 | 534 | 1,870 | 1,150 | 235 | 16,652 |
| RS[51] | 701 | 516 | 1,351 | 874 | 540 | 9,573 |
| BD | n/a | n/a | n/a | 110 | n/a | n/a |
| *Increase since 20051*[52] | (+18%) | (+16%) | (+24%) | n/a | (+36%) | (+134%) |

*Source: Growing inclusive markets (GIM) in Eastern Europe and the CIS – Annual Project Progress Report 2010, UNDP*

[48] UNDP Bosnia and Herzegovina 2010 – Development of mushroom sector, Sustainable and inclusive market
[49] Bases on figures from the Wool Feasibility Study, UNDP
[50] FBiH's Statistical Yearbooks of 2010
[51] RS' Statistical Yearbooks of 2010
[52] Calculations based on statistics from FBiH's and RS' Yearbooks of 2010

Based on data from the Pilot Agricultural Census in 2010, one in five farms from all three entities indicated that they carry out other gainful activities.[53] FBiH is the most active in carrying out other gainful activities, followed by RS (see table below). In FBiH these other gainful activities are mainly related to the construction industry, the public sector, trade and services (see table below). The least common activities are tourism and transport. The picture is almost the same in RS, although there 19 percent are involved in the manufacturing industry, which represents a much larger share than in the Federation.

The BD is the least active entity in carrying out other gainful activities. In the BD the five most common areas of other gainful activity are services, trade, agriculture, the public sector and the manufacturing sector. BD differs from the other regions in that farms are not very active in the construction industry, but very active in conducting other gainful activities in agriculture.

The following sub-sections go into more detail on diversification oriented production in the following sectors: Wool and sheep, honey production, the collection of natural medicinal herbs, mushroom collection and tourism.

#### *4.2.3.1 Honey production and beekeeping*[54]

The geographical position of BiH, its diverse terrain and geological past give its flora unique characteristics. BiH has some 3,700 varieties of native flowering plants. Although these are not the total number of existing varieties, it is reported that half of all flowering plants known to grow in the Balkan Peninsula are present in BiH. The country also possesses a natural competitive advantage in the honey (api) sector and in the production of medical and aromatic herbs. Two large floral areas meet in BiH; namely, the Euro-Siberian and the Mediterranean areas. The Iranian-Turkish floral area is also represented.

There are about 3,000 registered beekeepers in BiH and their number has increased steadily over the past five years. Leading experts and studies on the sector in the Western Balkans

**Table 4.12: Other gainful activities at agricultural holdings**

<table>
<tr><th colspan="2"></th><th>FBiH (%)</th><th>RS (%)</th><th>BD (%)</th></tr>
<tr><td colspan="2">Agricultural holdings that carry out other gainful activities</td><td>22</td><td>19</td><td>18</td></tr>
<tr><td rowspan="4">Importance</td><td>Major activity’</td><td>18</td><td>16</td><td>11</td></tr>
<tr><td>Subsidiary activity</td><td>4</td><td>3</td><td>6</td></tr>
<tr><td>Directly related to the farm</td><td>4</td><td>0</td><td>2</td></tr>
<tr><td>Not directly related to the farm</td><td>18</td><td>19</td><td>16</td></tr>
<tr><td rowspan="8">Areas of activity</td><td>Construction industry</td><td>16</td><td>21</td><td>5</td></tr>
<tr><td>Manufacturing industry</td><td>7</td><td>19</td><td>10</td></tr>
<tr><td>Public sector</td><td>20</td><td>24</td><td>10</td></tr>
<tr><td>Agriculture’</td><td>9</td><td>3</td><td>18</td></tr>
<tr><td>Transport</td><td>5</td><td>8</td><td>0</td></tr>
<tr><td>Trade</td><td>19</td><td>10</td><td>23</td></tr>
<tr><td>Tourism and hospitality</td><td>4</td><td>4</td><td>0</td></tr>
<tr><td>Services</td><td>20</td><td>12</td><td>33</td></tr>
</table>

*Source: Pilot Agricultural Census 2010, Labour Force data (N-2461)*

[53] According to EUROSTAT, Other gainful activity is: “an activity that does not comprise any farm work but which is directly related to the holding and uses its resources (land, machinery, buildings, etc.) or the products of the holding which have an economic impact on the holding. It is carried out by the holder, his or her family members or one or more partners on a group holding. Such activities include: providing accommodation, processing farm products, renewable energy production etc”.

[54] Project: EkoMozaik API Centre and Organic honey production

have concluded that the potential for effective beekeeping could be up to 10 times more than it currently is. Twenty four percent more honey was produced in 2009 than in 2005. If this potential could be exploited to the full, it is estimated that some 30,000 quality jobs could be created in the sector alone. This is before taking into account additional jobs in packaging, marketing, sales and transport.

In 2010 honey production was approximately 3,300 tonnes, and while this is an impressive quantity, an additional 2,150 tonnes per year are imported to meet local demand (almost three times national production) mainly from Croatia, Macedonia, Slovenia and Italy.[55] Even though it may seem that there is room for growth to meet local demand, local beekeepers often complain that they cannot sell their produce. The reason for this is that they cannot compete with the lower prices of imported honey, while simultaneously tackling the low honey consumption in BiH. Therefore, beekeepers see an opportunity to increase exports to EU niche markets, where they would be able to get a higher price than on the local market.[56]

However, it is difficult to estimate production volumes, as the majority of honey is sold on unofficial markets. It is estimated that less than 30 percent of the total honey produced in BiH is sold through official channels and to honey packers and traders. Beekeepers tend to sell their produce through unofficial channels, because in this way they are able to sell everything that they produce. There is no law forcing them to sell through official channels and they get a better price when selling in small quantities on the unofficial market.[57]

As a result of this, practically every municipality has its own beekeeping association. Associations also exist at the cantonal level in FBiH, and FBiH and RS have entity level associations. No state level association exists as of yet, although there have been several attempts to establish one. The advantage of having a state level association would be a better position for advocacy and lobbying for the benefit all beekeepers and better bee disease control and prevention. The Union of Associations of Beekeepers of RS is a member of Apimondia – the worldwide beekeepers association − because it has the required number of beekeepers. However, there is no representative from BiH as a whole, because there is no state level association. According to the Book of Rules of Apimondia (the association facilitating the exchange of information and

**Table 4.13: Honey production in BiH**

| Bee hives | Thousands | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| State level | | 258,300 | 281,000 | 309,600 | 321,900 | 345,000 | 364,600 |
| FBiH | | 158,300 | 168,300 | 175,600 | 185,900 | 198,500 | 204,600 |
| RS | | 100,000 | 113,000 | 134,000 | 146,000 | 147,000 | 160,000 |
| BD | | n/a | n/a | n/a | n/a | n/a | n/a |
| **Honey** | | | | | | | |
| State level | tonnes | 2,600 | 3,000 | 2,800 | 2,600 | 3,300 | 3,300 |
| | per bee hive | 10.15 | 10.6 | 9 | 7.7 | 9.4 | 9.1 |
| FBiH | tonnes | 1,500 | 1,600 | 1,500 | 1,400 | 1,800 | 1,700 |
| | per bee hive | 9.2 | 9.5 | 8.8 | 7.8 | 9.4 | 8.3 |
| RS | tonnes | 1,200 | 1,400 | 1,200 | 1,100 | 1,400 | 1,600 |
| | per bee hive | 12.0 | 12.4 | 9.0 | 7.5 | 9.5 | 10.0 |

*Source: Statistics agencies of FBiH and RS, 2010*

[55] Fostering Agricultural Markets Activity (FARMA), Beekeeping industry in Bosnia and Herzegovina, 2010
[56] Fostering Agricultural Markets Activity (FARMA), Beekeeping industry in Bosnia and Herzegovina, 2010
[57] IBID

experiences) only a state level associations can officially represent one country.[58]

Statistics on the quantity of honey produced per hive showed a small decrease in 2008. There are a number of reasons for this; mainly adverse weather conditions but also a lack of education and training that would have helped to prevent losses and increase production (in Germany, the average yield per hive is 10-15 kg compared to some 9.47 kg in BiH).

There is little awareness of the synergies that honey and herb crops can create: on the one hand, bees would enable much better pollination and provide a base for higher output, while on the other hand, bees would collect honey and related products that can reach premium prices.

Naturally, honey prices depend on market supply. For many years the price of one kg of honey in green markets was about BAM 8-10 (depending on the type of honey) while in 2009, the price increased by 50 percent compared to 2008. Beekeepers have reported that 2009 was quite a bad year with low per hive yields, which was the reason for the higher prices. In 2009, the price for one kilogram of sage honey was up to BAM 18 on unofficial markets.

#### *4.2.3.2 Collection of Mushrooms*

Mushroom collection in BiH has doubled over the last few years. Production volumes have remained largely unaffected by the increased involvement of individuals and legal entities in production; rather, the increase has been driven by increased production volumes in those production facilities that existed already. A significant increase (25 percent) in overall production comes from a single producer ("Bio-Šamp" – Šije – Tešanj).[59]

Mushroom exports almost doubled between 2008 and 2009, although the value only multiplied by 1.4 times (see table below).

Imports of both fresh mushrooms and mushrooms at different stages of processing have shown small increases every year. Dried mushrooms are most commonly imported as a result of partnerships between firms and due to extreme demand. Nevertheless, the import of mushrooms has decreased, while the value of the imports has risen. Overall, export prices decreased and import prices increased in 2008-2009.

**Table 4.14: Volume of production of mushrooms in BiH in 2010**

<table>
<tr><th>no</th><th colspan="3">FBiH</th><th>DB</th><th colspan="2">RS</th><th colspan="2"></th></tr>
<tr><th rowspan="2"></th><th rowspan="2">Canton</th><th colspan="5">Type of mushroom</th><th colspan="2">Total</th></tr>
<tr><th>Button mushroom (tonnes)</th><th>Oyster mushroom (tonnes)</th><th>Button mushroom (tonnes)</th><th>Button mushroom (tonnes)</th><th>Oyster mushroom (tonnes)</th><th>Button mushroom (tonnes)</th><th>Oyster mushroom (tonnes)</th></tr>
<tr><td>1</td><td>Sarajevo</td><td>120</td><td>14</td><td rowspan="8">110</td><td rowspan="8">830</td><td rowspan="8">44</td><td rowspan="8"></td><td rowspan="8"></td></tr>
<tr><td></td><td>BPK</td><td>12</td><td>0</td></tr>
<tr><td></td><td>Canton 10</td><td>60</td><td>6</td></tr>
<tr><td></td><td>ZDK</td><td>480</td><td>7</td></tr>
<tr><td></td><td>TZK</td><td>160</td><td>7</td></tr>
<tr><td></td><td>USK</td><td>110</td><td>6</td></tr>
<tr><td></td><td>HNK</td><td>130</td><td>0</td></tr>
<tr><td></td><td>Posavina</td><td>30</td><td>0</td></tr>
<tr><td></td><td>Grand total</td><td>1102</td><td>48</td><td>110</td><td>830</td><td>44</td><td>2042</td><td>92</td></tr>
</table>

*Source: UNDP Bosnia and Herzegovina 2010 - Development of mushroom sector, Sustainable and inclusive market*

[58] IBID

[59] UNDP Bosnia and Herzegovina 2010 - Development of mushroom sector, Sustainable and inclusive market

**Table 4.15: Export of mushrooms in 2008 and 2009**

| | | 2008 | | 2009 | |
|---|---|---|---|---|---|
| No | Various structures of mushrooms | Amount | Value | Amount | Value |
| 1 | Fresh mushrooms | 153,748 | 2,380,471 | 273,851 | 3,155,137 |
| 2 | Frozen mushrooms | 96,645 | 1,176,572 | 262,527 | 2,342,389 |
| 3 | Canned mushrooms | 46,506 | 536,572 | 64,633 | 471,528 |
| 4 | Dried mushrooms | 54,817 | 2,770,092 | 91,187 | 3,760,189 |
| | **Grand total** | **351,726** | **6,863,411** | **692,198** | **9,729,243** |

*Source: UNDP Bosnia and Herzegovina 2010 - Development of mushroom sector, Sustainable and inclusive market*

**Table 4.16: Import of mushrooms in 2008 and 2009**

| | | 2008 | | 2009 | |
|---|---|---|---|---|---|
| No | Types of mushrooms | Amount | Value | Amount | Value |
| 1 | Fresh mushrooms | 1,153 | 2,681 | 2,029 | 6,836 |
| 2 | Frozen mushrooms | 4,451 | 9,950 | 2,910 | 24,364 |
| 3 | Canned mushrooms | 17,407 | 32,095 | 12,258 | 73,338 |
| 4 | Dried mushrooms | 33,361 | 631,545 | 27,690 | 690,192 |
| | **Grand total** | **56,372** | **676,545** | **44,887** | **794,730** |

*Source: UNDP Bosnia and Herzegovina 2010 - Development of mushroom sector, Sustainable and inclusive market*

Six to seven economically important types of mushrooms are collected but only one type of mushroom is widely grown (button mushrooms). Many collectors and growers have suggested that price distribution is unfair. Selling prices mainly favour wholesale suppliers, especially for the purposes of the retail network. However, the fairness of trade relations in the mushroom sector does not refer only to the price; other factors that need to be taken into consideration include the distribution of risk, whether payments are made on the spot or in advance, transportation costs and training.

Button mushrooms are mainly grown close to or actually in urban areas and a very small number of oyster mushroom are also grown in these areas. Young people account for 15 percent of mushroom collectors, Middle aged people for 55 percent and elderly people for 30 percent. All ages and types of mushroom collectors (domiciles, returnees and refugees) tend to live in extremely difficult conditions and are among the poorest people in society. Incomes from both growing and collecting mushrooms are inconsistent. For example, 60 percent of people that collect mushrooms and medicinal herbs count this as their main source of income; for 30 percent of collectors, it is 50 percent of their income; and 10 percent of rural population are less dependent on these resources.[60]

In some cantons in FBiH, incentive programmes for agriculture help to stimulate mushroom production by providing one tonne of imported compost to growers. Growers need to be tactical in obtaining recourse to loans, longer grace periods and

[60] IBID

repayment periods, as well as exemption from customs duties for imported equipment and raw materials. The basic raw materials for the production of compost and casing soil are imported from Hungary, Italy, Serbia and other neighbouring countries. With only minor investments, compost production in Gradačac, can meet producers' requirements. Compost used for growing oyster mushrooms could easily come from local resources such as wheat, buckwheat straw and maize stalks.

Despite the positives, the mushroom sector is facing a number of problems. One important issue is the lack of a clear vision or strategy for how to develop the subsector. Also, there is a high dependence on the import of raw materials (compost and casing soil) and the market is still relatively unregulated.

#### *4.2.3.3 Medicinal plants*

The history of MAP collection and use in BiH has not been well documented, although it has been an important activity for centuries. Throughout history, people have collected MAP for their own use or to provide income for their families. Even today, despite intensive agricultural systems, harvesting wild plants is still an important activity in BiH and an important economic factor in rural areas. Currently there are about 50 small and medium sized enterprises operating in this sector. The vast majority are involved in collecting and selling wild MAP raw materials. In addition, many of these companies sell wild berries, wild mushrooms and other non-wood forest products.

Collectors affiliated with BiH companies (approximately 100,000 people) collect raw materials mainly in areas owned by the state, where they have free access. Small-scale collecting is also carried out on private property. According to data from the EU Final Report (Analysis and Mapping of the Value Chain), between 1,500 to 9,000 tonnes of MAP is harvested annually in BiH (depending on demand and climatic conditions). These plants are mostly dried, packed and sold in 25 kg sacks.[61]

Industry experts and producer organizations suggest that about 20 of the most important plants are traded in BiH. Approximately 85 percent of these plants are exported and are mostly bulk packed in jute or paper bags, or in cardboard boxes and shipped to EU countries. Export data for 2007 and 2008 is shown below.

**Table 4.17: Export of Medicinal Plants and Forest Fruits**

| Export of Medical Plants and Forest Fruits | | | | |
|---|---|---|---|---|
| Type | Export 2007 | | Export 2008 | |
| | Qty.(kg) | Value (KM) | Qty.(kg) | Value (KM) |
| Vaccinium-family fruits | 118,07.00 | 645,005.00 | 41,483.00 | 246,648.00 |
| Forest cranberries | 1,280.00 | 5,979.00 | 0 | 0 |
| Forrest blackberries | 108,582.00 | 597,657.00 | 40,983.00 | 226,112.00 |
| Other | 8,208.00 | 41,369.00 | 500.00 | 20,536.00 |
| Frozen blackberries | 332,502.00 | 2,053,882.00 | 99,127.00 | 500,606.00 |
| Frozen cranberries | 1,830.00 | 17,180.00 | 0 | 0 |
| Tea | 9,455.00 | 210,061.00 | 1,955.00 | 57,262.00 |
| Herbs and herb pieces | 540,577.00 | 3,259,930.00 | 655,968.00 | 4,195,830.00 |
| Lincura-root | 15,420.00 | 257,220.00 | 0 | 0 |
| Essential oils | 8,363.00 | 902,811.00 | 6,790.00 | 989,737.00 |
| TOTAL | 1,038,024.00 | 7,991,094.00 | 846,806.00 | 6,236,731.00 |

*Source: Foreign Trade Chamber BiH*

[61] IBID

**Table 4.18: Import of Medicinal Plants and Forest Fruits**

| Import of Medical Plants and Forest Fruits | | | | |
|---|---|---|---|---|
| Type | Import 2007 | | Import 2008 | |
| | Qty.(kg) | Value (KM) | Qty.(kg) | Value (KM) |
| Vaccinium-family fruits | 2,917.00 | 27,000.00 | 4,947.00 | 46,948.00 |
| Forest cranberries | 2,177.00 | 19,946.00 | 2,733.00 | 26,825.00 |
| Forrest blackberries | 5.00 | 52.00 | 31.00 | 579.00 |
| Other | 735.00 | 7,002.00 | 2,183.00 | 19,544.00 |
| Forzen blackberries | 22,403.00 | 132,152.00 | 5,081.00 | 35,277.00 |
| Frozen cranberries | | | 0 | 0 |
| Tea | 29,815.00 | 508,209.00 | 47,161.00 | 738,495.00 |
| Herbs and herb pieces | 291,328.00 | 4,449,327.00 | 436,113.00 | 5,369,826.00 |
| Gentian - Lincura-root | 506.00 | 2,037.00 | 0 | 0 |
| Essential oils | 14,255.00 | 321,261.00 | 14,897.00 | 326,153.00 |
| TOTAL | 364,141.00 | 5,466,986.00 | 513,146.00 | 6,563,647.00 |

*Source: Foreign Trade Chamber BiH*

It is believed that BiH has over 700 species of medicinal and aromatic plants, of which around 200 are exploited.[62] Several endangered species are among plants that are most often traded (for example, Gentiana lutea, Arnica montana, Arctostaphyllos uva ursi and Orchis). No Red Book has been developed for BiH.

The World Conservation Union (IUCN) estimates that the global medicinal plant trade is worth USD 40-60 billion annually. With increasing popular demand for medicinal plants internationally, trade is expected to grow to USD 5 trillion by 2050.[63] BiH contributes a large share of the global medicinal plant trade and it is estimated that about eight percent of exported medicinal and aromatic plants come from the Balkans.[64]

There is growing interest an increasing the number of companies and organizations that formally cultivate MAP in BiH (especially Chamomile, Mint, Melissa, Buckwheat, Marigold, Valerian and Artichoke). Due to increasing international demand for MAP, especially for the most vulnerable species, it is necessary to initiate or intensify systematic cultivation of medicinal plants in BiH in order to conserve biodiversity and protect endangered species.

Medicinal plants are still mainly collected from the wild, which is unsustainable and damaging to biodiversity and eventually leads to plant species becoming endangered. The Natural Products Alert (NAPRALERT) database suggests that globally, at least 20 percent of medicinal plant species are threatened.[65] Relatively small numbers of MAP are cultivated as crop plants[66] but to be increased in order to ensure their availability and to protect biodiversity.[67] In addition to the

[62] Gatarić, Đ., Radanovic, D., Cvikiv, Z. Durman, P. 'Experience in cultivation and production economy of medicinal and aromatic plants in Banjaluka region, Republic of Srpska, Lekovite Sirov' Vol. XL VII No. 18, Belgrade,1988

[63] FRLHT, Foundation for revitalisation of Local Traditions, 1996

[64] IBID

[65] Farnsworth, N.R &D.D.Soejarto. 1991. Global Importance of Medicinal Plants. In: Akereb O., Heywood V. and Synge H. (Eds) Conservation of Medicinal Plants. Cambridge University Press, Cambridge

[66] Kala, C. P, Status and conservation of rare and endangered medicinal plants in the Indian trans-Himalaya. Biol. Conserv. 93:371-379, 2000

[67] Fostering Agricultural Markets Activity (FARMA), Medical and Aromatic plant in Bosnia and Herzegovina, 2010, USAID & SIDA

lack of care taken for the survival of certain spices, medicinal plant collectors do not have adequate knowledge of the characteristics of the plants, the protection of threatened species, the legal limitations related to plant species and the quantities and the areas where the collection is allowed. Also, medicinal plant collection is insufficiently regulated and sanctioned. Cultivated plant growing should be given priority, given that BiH has a significant area of uncultivated agricultural land, which could be used for the production of medicinal and aromatic plants.

Furthermore, some plant species should be grown only in the areas where there is a certain amount of the substances that gives them their medicinal or aromatic properties.

#### *4.2.3.4 Tourism*

Tourism is a growing sector in many rural areas and can create new employment opportunities and increase the overall attractiveness of these areas. Rural areas have many places of natural beauty to draw upon, including mountains, rivers and forests.[68] However, tourist facilities in rural areas are normally limited to conventional hotels. Other accommodation like small family hotels, private rooms or on-farm accommodation is largely undeveloped. The lack of these non-conventional types of accommodation means that people in rural areas are missing out on employment and income opportunities.[69] Eco-tourism (e.g. tourism on fast-flowing and still waters and hunting and fishing tourism) has been recognized as an area for strategic development for RS, FBiH and BD.

As the table shows, there has been an overall increase in the number of both foreign and domestic tourists. On average, foreign tourists stay slightly longer than domestic tourists do. In 2009 average stays were 2.1 and 1.9 nights respectively. However, the opposite is true in RS and domestic tourists stay longer: 2.2 nights night and 2.7 nights respectively. Over the past decade the number of tourists in BiH has grown steadily, but in 2009, for the first time for both entities, fewer tourists came than the previous year. This is probably due to the global financial crisis. The top five countries from which tourists visit BiH in 2009 are listed below:

| For FBiH: | For RS: |
|---|---|
| 1. Croatia (40,091 persons – 19%) | 1. Serbia (40,421 persons – 43%) |
| 2. Slovenia (24,736 persons – 12%) | 2. Croatia (9,872 persons – 11%) |
| 3. Germany (14,448 persons – 7%) | 3. Slovenia (9,057 persons – 10%) |
| 4. Serbia (14,207 persons – 7%) | 4. Montenegro (4,612 persons – 5%) |
| 5. Turkey (13,303 persons – 6%) | 5. Italy (4,285 persons – 5%) |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

**Table 4.19: Number of tourist arrivals and nights spent in BiH, 2009**

| | Number of arrivals | | Number of nights | |
|---|---|---|---|---|
| | Domestic | Foreign | Domestic | Foreign |
| State level | 254,860 | 305,379 | 586,325 | 661,706 |
| FBiH | 121,813 | 211,469 | 230,844 | 453,096 |
| RS | 133,047 | 93,910 | 355,481 | 208,610 |
| BD | n/a | n/a | n/a | n/a |
| percent growth since 2005 | (+20percent) | (43percent) | (+13percent) | (+40percent) |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

[68] Ministry of Foreign Trade and Economic Relations, BiH's Agriculture, Food and Rural Development Operational Programme (2008-2010), 2007

[69] FBiH's Agriculture, Food and Rural Development Operational Programme 2008-2010, 2007

Tourists in FBiH spent a little more than half of their nights in Sarajevo (55 percent for foreign tourists). Neum hosted 21 percent of tourist nights, six percent in Mostar and less than one percent at spa-resorts. The fact that so few people visit spa resorts in FBiH suggests that this is a resource that is not being fully utilized. In RS, the share of tourists that choose spa accommodation is 34 percent although the figure is only 13 percent for foreign tourists. Also, 21 percent of all tourists stay in mountain resorts (27 percent of foreign tourists). In FBiH, 91 percent stay in hotels. However, this share is decreasing and more and more tourists are choosing smaller accommodation such as motels, boarding houses, and other catering establishments. For RS on the other hand, 74 percent of tourists stay solely in hotels and for foreign tourists the number is 79 percent.[70]

Looking only at FBiH's cantons, in 2009 almost half of all tourists (both domestic and foreign) went to Sarajevo Canton; approximately one in five went to Hercegovacko-neretvanski and one in ten to Tuzlanski. In the bottom three least visited are Canton 10, Zapadno-hercegovacki and lastly Bosansko-podrinjski, which only two percent of all tourists visited (for foreigners only 1.5 percent). The foreign tourists that do come to the bottom three cantons are mainly from Croatia (61 percent), Serbia (five percent), Austria (five percent) and Germany (five percent).[71]

The trend in the global tourism industry has for some years been moving toward niche tourism. Countries are attempting to reposition themselves into niches in which they feel that they have strengths and in this way hope to attract more tourists.

According to the "Survey on the attitudes of Europeans towards tourism" from 201,2[72] respondents almost half (48 percent) go on holiday for rest and recreation (including wellness and health treatments), while just under a third (32 percent) took holidays in order to spend time with their families. Over a quarter (28 percent) of respondents say they go on holiday for the sun or the beach, with the same proportion (28 percent) saying that they went to visit relatives or friends. For 18 percent of respondents, nature was a main reason for their holiday, a slightly higher proportion than went away for city trips (16 percent). Over one in 10 respondents (14 percent) took their holidays for cultural or religious reasons, with 10 percent going on sports-related holidays, such as scuba-diving or cycling.

The USAID study from 2005, "Tourism in BiH: An assessment of key market segments", points out a number of niche tourism areas in which BiH could position itself in. From a diversification point of view the types of tourism that BiH could consider focusing on include:

- Cultural Heritage
- Religious Heritage
- Soft Adventure
- Eco-Tourism

The box below describes these four type of tourism, identifies the target market for BiH in terms of demographics and geography, identifies what makes BiH an attractive destination for these types of tourism and identifies the key drivers and trends for these types of tourism.

[70] FBiH's and RS' Statistical Yearbooks of 2010
[71] FBiH's Statistical Yearbook of 2010
[72] Directorate-General Enterprise and coordinated by Directorate-General for Communication (DG COMM "Research and Speechwriting" Unit), Attitude Of European Towards Tourism, 2012

### Box: Different types of tourism and their potential in BiH

**Cultural tourism** can be defined as enjoying the traditional and contemporary culture of a certain area. This includes the performing, visual, and literary arts, language, museums, heritage, crafts, architecture, design, film, and broadcasting. To some extent there is no agreed definition, which makes the size of the market difficult to estimate. However, most Europeans listed typical cultural activities as attractions that they visit during their holidays such as museums, monuments and traditional local events

*Target Market:* The market for cultural tourism consists of young urbanites, aged between 25 and 35, and the ''Grey Panthers'', aged over 50. Both groups have a relatively high disposable income. The international market includes independent travellers, group travellers aged over 45, independent travellers aged 35-55 and independent city-breakers. For BiH, the target markets for cultural tourism are likely to be European countries. Balkan countries and Western European countries such as Germany, United Kingdom, Italy and Austria are the best prospects for BiH.

*Attractions in BiH*: There are cultural attractions throughout the country. The best sites tend to be in Herzegovina, where there are sites of significance from the prehistoric periods and from Roman times to the more recent periods. Sarajevo and the surrounding region also have much to offer. The National Museum is one of the best in the Balkans, the History Museum contains exhibits that focus on the recent siege of the city and the Art Gallery of Bosnia and Herzegovina has a small but impressive collection. In addition, in the surrounding region there are several medieval sites and towns such as Jajce and Travnik. BiH has rich and diverse gastronomic offerings often based on traditional food preparation and preservation methods.

*Drivers and Trends:* The drivers of cultural tourism are often the sites themselves. BiH has many interesting cultural sites. In addition, festivals and museums also bring tourists for cultural purposes.
According to WTO, cultural tourism accounts for about 37 percent of global tourism. These estimates are based on the "broad" definition of general cultural tourism. More conservative estimates of "specific" cultural tourism done by the Association for Tourism and Leisure Education (ATLAS) surveys reveal that cultural tourism accounts for about five to eight percent of the total tourism market. However, cultural tourism is definitely becoming a more powerful driver in the overall global tourism market, especially in terms of enhancing city tourism.

**Religious tourism** can often be confused with cultural tourism. They are similar in that they are both focused on ancient and modern cultures. However, cultural tourism is predominantly secular. It is most likely to be focused on religious history, architecture and artefacts rather than the religious experience. Religious tourism only becomes a reality when believers participate with an intensity of conviction that can be experienced and shared. The aim of religious travel is not merely cultural interest, but a mission of faith.

*Target Market:* The target market for religious tourism consists of people to whom the various sites hold some type of religious significance. As such, a non-believer visiting Medjugorje would not be considered a religious tourist but a cultural tourist and the line can often blur between the two niches. The target markets for religious tourism sites in BiH include the surrounding Balkan countries such as Croatia, Slovenia, Serbia and Montenegro and possibly Kosovo and Turkey.

*Attractions in BiH:* In terms of sites, Medjugorje is already a significant site and several other locations in the country are of minor local importance to Catholics. Ajvatovica – an Islamic site – currently attracts thousands of local and regional tourists on a particular date (although it is questionable if the Islamic religion accepts pilgrimage places outside Mecca and Medina) and several Orthodox monasteries have minor legends attached to them although they are having no major pull as yet.

*Drivers:* The key drivers are the importance of the sites themselves. It is the importance given to Medjugorje that makes it an important site that tourists want to visit. Therefore, it is incumbent upon BiH to market these sites to believers in such a way that makes them want to come and see them.

**Soft adventure** may involve a modest degree of physically demanding activity on the part of the guests, although standards of safety and comfort are well above average. Soft adventure travel is designed so that if an individual client wishes to abstain from any particular activity in the program, he or she may do so without penalty (or guilt!) and without affecting the enjoyment of the rest of the group. For example, some travellers may choose to skip river rafting and meet their group at the next destination point. In extreme adventure travel group this could ostracize the non-participating person(s) from the group or they may not even have the alternative to skip an activity.

*Target Market:* In principle, soft adventure should appeal to all tourists and is suitable for all age groups from six to 60. Many of the same people that are interested in soft adventure will also be interested in ecotourism. The target markets for BiH for this type of tourism are primarily the "western" countries such as Germany, the United Kingdom, Italy, Austria and perhaps the United States and Australia

*Attractions in BiH:* The Krajina region (Bihac-Banja Luka link) is known for water and white water rafting and general soft outdoors activities. The Sarajevo basin is famous for winter sports and medium to hard mountaineering, caving and rock climbing. Herzegovina has some water sports on the Neretva (currently rafting but under threat of power stations) and the lakes. Medium to hard mountaineering, alpinism and rock climbing also are popular. Fishing is available throughout the territory. There is an extreme diversity of natural heritage – diverse configurations, some endemic plants and several animal species that are not found in other regions of Europe. For example, in Bjelasnica there are peaks that are inhabited by wolves, wild boar and bear and its numerous trails have been marked and maintained by mountaineering clubs in the region.

*Drivers:* Uniqueness is a major driver for soft adventure and ecotourism. More and more tourists want to have a unique experience on their travels. As such, BiH is well positioned to capitalize on the position that few have "been there and done that". However, adventure and ecotourism needs to be done in safe locations. Currently, the perception is that BiH is unsafe and so many people from Western Europe and the United States are reluctant to come to the country.

**Eco-Tourism** can be defined as responsible travel to natural areas that conserves the environment and improves the wellbeing of local people. Eco-tourism must be ecologically sustainable travel, which usually takes place in destinations where the flora, fauna, and cultural heritage are the primary attractions. Responsible eco-tourism includes programs that minimize the adverse effects of traditional tourism on the natural environment, and enhance the cultural integrity of local people.

*Target Market:* The target market consists of 35-54 years old, although age varies with activity and other factors such as cost. Eco-tourists are just as likely to be female as male although clear differences by activity were found. Eco-tourists are usually well educated (82 percent were college graduates), but these types of activities are becoming mainstream. A majority (60 percent) stated they prefer to travel as a couple. Eco-tourism trips typically last 8-14 days and eco-tourists spend more than general tourists, stating they were prepared to spend $1,001-$1,500 per trip. The target markets for ecotourism are the same as for soft adventure; namely, Germany, the United Kingdom, Italy, Austria, USA, Australia and Japan.

*Attractions in BiH:* Experienced eco-tourists want a wilderness setting where they can enjoy nature and the scenery. They also want to view wildlife, go hiking or trekking and experience new places. Some attractions in BiH that would appeal to eco-tourists include Sutjeska National Park, which contains Europe's last primeval forest. Its mountains, lakes, rivers and forests have been preserved and are thriving with wildlife. Hutovo Blato is a shelter for hundreds of species of birds and game. Many come here to go on a photo safari and enjoy nature and the local cuisine.

*Drivers:* Much like soft adventure tourists, eco-tourists want to have a unique experience. In a survey, 50 percent expect to stay in accommodation run by locals. Forty-five percent want to go hiking and want to be furnished with good information. Finally, 41 percent expect to eat local cuisine with local ingredients and to be in surroundings that reflect the strong local hospitality of the area.

*Source: 'Tourism in BiH: An assessment of key market of segments' from 2005*

Experiences from other countries show that in order to develop and promote domestic tourism a viable tourism industry is necessary. The experience is that domestic tourism helps to increase hotel occupancy rates and to strengthen local economies. In addition, domestic tourism enables local people to become acquainted with their own culture. Therefore, a point of departure could be to identify the potential for short domestic trips and to develop special packages for domestic tourists. BiH could begin by identifying opportunities for local tourists to enjoy their own country.

This economic diversification study − along with various other studies − shows that BiH has the potential for growth as a tourist destination. However, it is equally evident that the industry will not develop without government support and common guidelines (such as for farmers who want to become tourist service providers). As far as tourism products are concerned, BiH is already well positioned, especially in eco-tourism.

#### *4.2.3.5 Small scale wool and sheep production and processing*

The textile sector in BiH has almost vanished. It was once a strong economic segment employing thousands of workers. However, it collapsed during the war, and its decline continued once the war was over. Only a few businesses have survived, although these can barely compete with cheap Chinese and Indian textile imports.

There are five segments within the wool market in BiH; namely, production, collection, wholesale, processing and production of final products. Production is organized on farms and estimates indicate that 1,400 tonnes of wool is produced annually. Sheep shearing is a seasonal job that takes place between April and June (the exact timing depends on the entity). Sheep shearing in BiH is usually done manually and wool prices are low. Apart from the majority of wool that is produced in BiH being inappropriate for industrial use, dealers and processors also complain that the wool has too much dirt and burr. Approximately 77 percent of wool (some 1,150 tonnes) is coarse wool and the remainder (about 350 tonnes) is finer wool. The coarse wool does not meet textile industry requirements and is exported to Turkey as greasy wool.[73]

At present, the wool chain and other wool related businesses support 138 full time jobs and some 500 contracted jobs. The current estimates for the wool processing sector indicate that it cannot support any new jobs and companies are all recording decreases in their production. Revenue from wool constitutes less than one percent of sheep farmers' gross income.

The price of raw wool has always been low and wool has never presented a significant source of income for farmers. The price of greasy wool and coarse wool (35 µm to 40 µm) is BAM 0.3 to BAM 0.6 per kg. The price of finer wool (28 µm to 32 µm) is BAM 0.8 to BAM 1 per kg. For comparison, the price of Merino wool on the international market is about USD 8. The price of one kg of washed wool is BAM 2.2 to BAM 2.5 and the price of carded wool is BAM 3.5 per kg. The price of wool in final industrial products varies from 32 to 35 BAM per kg. These products are industrial carpets, bedding, mats, mattresses pillows and other similar items. However, the price of one kg of wool can reach several hundred BAM in handmade garments, hats, carpets, and other more luxury items (good marketing also contributes to the high prices of such products).[74]

**Sheep breeding** is an important traditional activity in BiH, particularly in the hilly and mountainous regions of the country where there are few alternative forms of production or income generating opportunities. The sheep sector is currently in the process of recovery. There are, according the Meat and Dairy Sector Report, 63,000 sheep holding in BiH and official statistics estimate a population of 1,046,000 sheep and 747,000

[73] UNDP, Wool Feasibility Study, publishing year unkown
[74] IBID

**Table 4.20: Sheep population**

| Year | 1990 | 1996 | 2007 |
|---|---|---|---|
| Sheep population | 1,318,673 | 787,759 | 1,020,654 |
| Index (%) | 100 | 59.7 | 75.9 |

*Source: BIH state veterinary office*

breeding ewes on 31 December 2010[75]. The figures are significantly higher in the Master Sample and the Legal Units with 1,515,000 sheep and 1,059,000 breeding ewes. Please refer to the Meat and Dairy Sector report for a more in depth explanation and analysis of sheep production.

Wool yields are now some 1,400 per annum. As well as wool production, farmers in BiH also keep sheep for both meat and milk. The production of lamb for barbecuing (lamb roasting) has a long tradition in BiH and is still considered to be the most important market for producers (with the exception of some specific areas such as Travnik, where ewe's cheese is the main focus of production).

Overall it is estimated that the genetic productive potential of the breed today is greatly underutilized (approximately 60-70 percent). This is due to problems surrounding poor feeding and housing, resulting in both low milk and meat yields. Improved production conditions on some farms suggest that meat and milk yields can be increased by 30-40 percent. Estimates indicate that over 80 percent of BiH sheep are of the local Pramenka breed, with some different regional varieties. The remaining 20 percent tend to

**Table 4.21: Farms with sheep and sheep numbers**

| Group | Name | Description | Number and share of: | | |
|---|---|---|---|---|---|
| | | Marketing | Farms with sheep | Total sheep | Breeding ewes |
| 1 | Household sheep fattening | 1-5 lambs; no ewes<br>Primarily for use by the extended family, though a small amount may be sold informally. | 1,600<br>2.5% | 3,300<br>(av. 2.1 sheep)<br>0.2% | - |
| 2 | Commercial sheep fattening | > 5 lambs; no ewes<br>Producing for informal and formal sale. | 3,200<br>5% | 87,000<br>(av. 27 sheep)<br>6% | - |
| 3 | Household sheep breeding | 1-5 ewes<br>Primarily for use by the extended family, though a small amount may be sold informally. | 21,000<br>33% | 91,000<br>(av. 4.4 sheep)<br>6% | 69,000<br>(av. 3.3 ewes)<br>7% |
| 4 | Commercial sheep breeding, small | 6-20 ewes<br>Producing primarily for informal sale. | 27,000<br>44% | 451,000<br>(av. 16 sheep)<br>30% | 312,000<br>(av. 12 ewes)<br>30% |
| 5 | Commercial sheep breeding, medium | 21-100 ewes<br>Producing primarily for informal and formal sale. | 8,800<br>14% | 513,000<br>(av. 58 sheep)<br>34% | 386,000<br>(av. 44 ewes)<br>36% |
| 6 | Commercial sheep breeding, large | > 100 ewes<br>Producing primarily for informal and formal sale. | 1,000<br>1.5% | 370,000<br>(av. 374 sheep)<br>24% | 283,000<br>(av. 287 ewes)<br>27% |
| | Total | | 63,000<br>100% | 1,515,000<br>(average 24) sheep) | 1,059,000<br>(average 17) ewes) |

*Source: Meat and Dairy sector study, 2011*

[75] Goss Steve, Meat and Dairy Sector Report for BiH, FAO 2011

be Pramenka-Merino with a smaller number being other crossbreeds.[76]

The traditional sheep production system, both pre and post-conflict, has tended to use small flocks kept on small-scale mixed farms. Sheep production was, and still is, seen as a minor farm activity, predominantly undertaken for home consumption purposes (with only small marketable surpluses generated). The Meat and Dairy Sector Study Report (2011) estimates that there are 63,000 households in BiH that keep sheep and the average number of sheep per household is 24 (see Table 4.21).[77]

#### *4.2.3.6 Small scale goat production and processing*

It is impossible to find accurate records on the size of the goat population in BiH. In the Meat and Dairy Sector study report it is estimated that there were 63,000 goats in BiH in 2010.

The Meat and Dairy Sector Study also indicates that 38,000 goats provide a total of 8 million litres of milk. Milk is used to feed new-born kids for the first few months and the remainder is either used at home or is sold. Some 400,000 litres of milk is delivered to the market annually as raw milk. Approximately 27 tonnes is provided to processors annually.[78]

In BiH milking sheep and goats tend to be kept rather extensively with little investment in buildings and equipment for milking and milk storage. They are typically milked by hand in the pasture or stable. Milk and dairy products remain destined for informal sale direct to customers and via lightly-regulated green markets, which is a viable approach. However, within the EU the supply of sheep's and goats' milk to registered dairies for processing and sale on national markets is subject to regulations almost as tight as those applicable to cows' milk, requiring substantial investment on the part of producers. Given the much lower milk yield of small ruminants, only relatively large flocks are able to repay such investments, and farmers would have to be able to command premium prices for their products in order to do so.

Therefore, the sheep and goat milk sector in BiH has two main possibilities for development:

- Small-scale milk production and on-farm processing to generate "small quantities of product for direct sale to the final consumer", which will remain subject to national rather than EU regulation;
- Development of large flocks of milking sheep and goats, with modern hygiene standards and good yields, supplying specialist dairies that are able to sell their products for a premium price. This kind of niche development might well be supported under the IPARD diversification measures, and is discussed further in current study.

According to the UNDP study "Goat Farm Feasibility Study", in 2011 the average goat herd in BiH was small and unsuitable for commercial production due to the poor performance of domestic breeds. A certain number of farmers and entrepreneurs have recognized the

**Table 4.22: Key figure for three species in 2010**

| | Number of animals | | Milk production | |
|---|---|---|---|---|
| | Total | Milking | Quantity | Share |
| Cows | 320,000 | 277,000 | 693 m ltrs | 96.3% |
| Ewes | 747,000 | 311,000 | 18 m ltrs | 2.5% |
| Goats | 63,000* | 38,000 | 8 m ltrs | 1.1% |
| TOTAL | | | 720 m ltrs | 100.0% |

*Source: BiH Statistical Agency*

** Includes all goats, not just breeding females.*

[76] IBID

[77] IBID

[78] IBID

potential of the sector and in the last couple of years have established goat farms. These mainly focus on milk production and herd sizes are between 50 and 200. However, there is one herd with over 700 animals. The herds are composed of Alpine or Saanen goats, the German fawn goat, or crosses of these breeds. In some rare cases pure breed Alpine or Saanen goats can be found, but only in smaller herds of about 20 goats.[79]

These farms produce and deliver raw milk, pasteurized milk, cheese and whey to the market. They have developed their own sales networks and are located near cities such as Sarajevo, Banja Luka, Mostar, Zenica and Travnik Goražde.[80] Both FBiH and RS financially support and invest in goat farming. Subsidies are divided into several groups depending on whether they are for investments, certification or production (among other things). Subsidies in FBiH are more generous than those in RS. In FBiH the production of raw goats' milk is subsidized by BAM 0.30 per litre if the producer delivers at least 400 litres with a minimum fat content of 3.2 percent. In RS production of raw goats' milk is subsidized by BAM 0.10-0.22 per litre depending on the quality. For first class milk the price is 0.22 BAM (for 2012 0.35 BAM).[81] Goat breeders in FBiH are subsidized by BAM 15 per reproductive animal, as long as they have at least 25 reproductive goats in a herd. Goat breeders in RS do not receive subsidies.[82]

Goat meat production is seasonal, which, as well as the low number of goats, makes the supply of goat meat irregular and occasional. Another factor which affects goat meat production is the poor performance of domestic breeds (low reproduction rates and low daily gains). For those who breed goats for meat only, one solution could be to cross their goats with meat breeds; the first choice for this would be the Boer breed.

Kid meat consumption in BiH reaches its peak around the religious holidays like Christmas, Easter, Bajram and New Year, and prices are also highest at these times. Prices can reach BAM 7 per kg (live weight) while for the rest of the year prices are usually BAM 4.5-5 (following prices for lamb meat). Between February and May supplies are at their lowest levels and live weight prices can go up to BAM 7-9 per kg. Various herd management techniques make it possible for farmers to have kids of commercial weight at this time of the year.[83]

BiH farmers export various types of goats' cheese to other countries in the entity. The "mjesinski" cheese is made in the Herzegovina region. It is made of whole milk and packed in lamb's or kid's skin for ripening. This cheese is ripened for about four months in ripening chambers under controlled temperature and humidity. Ten litres of milk is needed to make one kilogram of cheese. The price for this cheese is BAM 22 per kg at the farm gate while the retail price is BAM 26 per kg. Limited quantities can be found in specialized shops or ordered directly from farms. Exports

**Table 4.23: Pricelist of goat meat throughout year**

| Category of animal | Sale period | Price BAM per kg of meat |
|---|---|---|
| Kid | Religious holidays | 7 |
| | February to May | 7-9 |
| | Rest of year | 4.5-5 |
| Culled animal | Throughout the year | 3.5-4 |

*Source: UNDP Bosnia and Herzegovina 2011 – Goat Farm Feasibility Study*

[79] UNDP Bosnia and Herzegovina, Goat Farm Feasibility Study, 2011

[80] IBID

[81] Ministry of Foreign Trade and Economic Relations, Rulebook on Requirement and Manner of Implementing Incentives for agriculture and rural development (2010 - 2012)

[82] IBID

[83] IBID

of this kind of cheese mainly go to Croatia, Serbia, Montenegro and Albania.

### 4.2.4 Civil Society

Historically, there is a deeply rooted tradition of engaged, socially responsible civic activities in BiH. Yugoslavia's relative openness, even under the communist regime, gave citizens many opportunities to resolve their problems through private "projects", under the condition of not interfering with politics, which was under the monopoly of the communist nomenclature. During the war, the civil sector played a very important role in distributing international humanitarian aid, and after the war it made a significant contribution to the main political processes, such as returning refugees and displaced persons, political stability, integration, maintaining peace, protecting human rights and promoting social inclusion.[84]

Today, there are new political circumstances that demand that civil society organizations become more powerfully engaged. This is especially true in terms of adapting and harmonizing BiH standards to EU standards. Civil society also has a special role to play in promoting the participation of BiH citizens in defining public policies, monitoring and analyzing the effects of public policies, the fight against corruption and meeting demands that will allow BiH to become a full member of the European Union.

The reality is that most organizations focus on very strictly defined areas of work that are of interest to their members (veterans' associations, disabled war veterans, sports associations, etc.) Civic activities are widespread with over 12,000 registered non-governmental organizations (Papić, Ž. Ninković, R. Čar, O. 2007. p. 58, data from research: Žeravčić, G. Biščević, E. 2009, p. 74) which are quite well organized. The estimate is that out of this high number of organizations, barely 50 percent are active.[85]

Civil society faces many obstacles. Firstly, members of societies who do not have direct access to centres of power and decision-making must have enough of their own resources, "discretionary money" and spare time, to be able to dedicate themselves to voluntary activities and engagement. However, people who have the time and resources are less likely to be motivated to engage, as they tend not to struggle to get by, and do not have many issues to be unhappy about. Secondly, the civic organizations that focus on social problems, rather than the narrow interest of their members, lack social capital and good advocacy and lobbying skills. However, the factor that most limits the influence of civil society and generates most obstacles is that the organizations lack legitimacy. The political maturity of people who are responsible for civil society is now leading to an understanding of how important legitimacy is. This is a process that has just started in BiH.[86]

### 4.2.5 Poverty and Women in rural areas

The BiH statistical agency and institutes do not provide any socio-economic indicators on women living in rural areas, although a number of studies that focus on this topic have been carried out. One of the most important of these is the Living Standards Measurement Survey (LSMS), organized by the World Bank first time in 2001. This is the first data for BiH showing gender disaggregated indicators for urban and rural areas. The survey was repeated in 2002, 2003 and 2004.[87] The survey assesses the demographic situation and the level of education among women in rural areas together with a number of general poverty indicators. Several indicators that

[84] Dmitrovic, Tijana:"The Actual Influence of Civil Society in Bosnia and Herzegovina" for "Initiative for Better and Humane Inclusion", 2011

[85] IBID

[86] IBID

[87] http://microdata.worldbank.org/index.php/catalog/68

influence poverty in rural areas – and not just among women − were identified; namely:

- Access to resources;
- Lack of information;
- The influence of the war;
- Health insurance;
- Gender awareness.

The survey also showed that rural areas in BiH are characterized by poverty-related problems such as unresolved housing conditions; unemployment, poor infrastructure and a lack of institutions that are able provide assistance. These are not gender specific issues, but apply to poverty in general. The distance from municipality centres, centres for social work, health care institutions, and employment institutes also presents problems. A World Bank study from 2011[88] which analyzed the effect of rising food prices in BiH from a gender perspective concluded that:

The majority of participants from all cities included in the research identified unemployment as being the most severe problem in the country, followed by rising food and utility costs. For the very poor, this combination of unemployment and high prices has resulted in a higher percentage of their available income being used to purchase food (and the food they are buying is of worse quality and in smaller quantities). The results are more or less the same in both urban and rural households. Poor households have little access to relief from either their local governments or from humanitarian organizations.

Moreover, the income gap in BiH is widening, with an elite, powerful and rich group controlling both politics and money. Poor people can only generate small amounts of income, and usually from pensions, temporary work, child support and welfare payments and sometimes transfers from relatives abroad, loans from relatives or friends, and some small-scale agricultural production. To counter the rising costs of food and other basic needs, an increase in less socially acceptable coping mechanisms, such as begging, petty theft, and drug use has been identified. Another problematic coping strategy is for women and older girls to take insecure and often risky employment as domestic workers, caregivers, entertainers, and sex workers, in order to raise income for family needs. Also, the study shows that for families finding themselves in ever deepening poverty, the economic crisis is having a negative impact on the physical and psychological health of individual people and that even their children are not spared. There also seems to be an increase in domestic conflict and violence, and in abandonment and abuse, especially of women, which seems to be a direct result of the food and economic crises[89].

In 2009 and 2011, the RS Gender Centre and the MoAFWM of RS conducted a study on the "Situation of Women in Rural Areas".[90] The findings are similar to previous studies; namely, that rural women tend to be in a difficult situation due to poverty, patriarchal traditions, the heavy burden of numerous household responsibilities – which are not acknowledged – and a general poor quality of life caused by powerlessness and very limited participation in the decision-making processes that concern them.

Having recognized the specific role of women in rural areas in RS in overcoming their own unfavourable socio-economic status, the Gender Centre and the MoAFWM of RS have brought an Action Plan for the advancement of rural women in to place. This action plan is being implemented as a temporary

[88] Hourihan, John, Efendic Adnan and the Prism Research Group 'Rising food prices in BiH – a gender impact assessment of vulnerabilities and coping mechanism', May 2011

[89] IBID

[90] Agency for Agriculture advisory service, 'Mapping of entrepreneur potential of woman in rural communities in Republic of Srpska, with special attention on their educational needs', report about results of research, Agriculture faculty Banja Luka, Agriculture institute, June 2011

measure as part of the Strategic Plan of Rural Development in RS. In order to determine the entrepreneurial potential and the training needs of women in rural areas, a survey was conducted in 36 municipalities of RS with 305 individual representatives (women) of rural households. The survey was conducted at 60 associations in 25 municipalities of RS, a number of associations of municipalities that have entered the sample was determined by the number of existing associations of municipalities of the relevant research in this subject (Doboj, Prijedor, Nevesinje and Teslic interviewed five associations while some smaller municipalities in the survey included only one association). The total number of members in 60 associations was 6009.

More than 60 percent of women were aware of the opportunity of receiving subsidies paid by the RS MoAFWM in agriculture and rural development and more than 30 percent (39 percent in the group sample) were actually beneficiaries of the program incentives. Female beneficiaries of the incentives often take advantage of incentives from the support measures for livestock (approximately 59 percent).

Most women in rural areas are interested in participating in some form of association as they consider them useful for developing business activities. Over 85 percent were interested in becoming involved in a cooperative.

Based on the results of research the following statements were identified:

- Most women in rural areas are in most cases not owner(s) of the farms on which they live, and do not have assets (houses, land or other types of real estate);
- Most women do not decide on the allocation of jobs on the farm;
- The average woman works full time;
- Over 50 percent of women in rural areas are unemployed;
- Only 30 percent of women in rural areas are members of associations;
- A large number of women in a rural areas fall into the category of unpaid family members;
- A negligible number of women are self-employed,
- The main barriers to self-employment are a lack of funds, a *lack of ideas,* a lack of initiative and information, and a lack of support;
- Women in rural areas have an average or below average knowledge of, among other things, the rules of incentives in agriculture, about the Law on Gender Equality, about the performance of institutions for social protection and about the labour market.

In 2009, as part of the reform of public budgets in RS and FBiH, an extensive action was launched aimed at introducing the concept of gender responsible budgeting. For this purpose, entity gender centres, supported by UNIFEM and the Austrian Development Cooperation performed a gender analysis of agricultural and rural development budgets. The basic findings were:

- Existing measures cannot be classified as gender neutral, gender blind or discriminatory to women needs but women are often discouraged from applying for them due to a lack of mobility, inadequate access to resources, a lack of information,

**Table 4.24: Type of incentives available**

| The percentage of the beneficiary categories of incentives: | |
|---|---|
| Husbandry: | 14.04% |
| For the fruit | 9.65% |
| For livestock | 58.77% |
| Capital investment | 7.89% |
| Other | 8.77% |

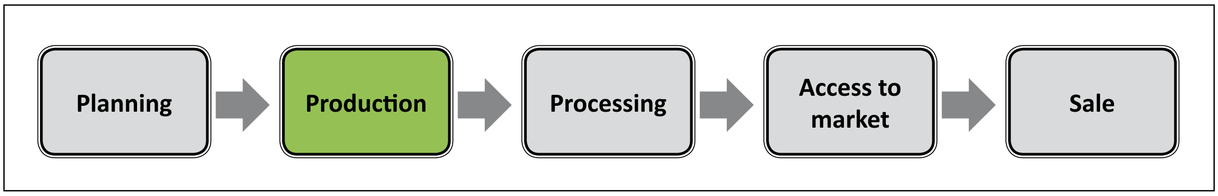
*Source: RS Ministry of Agriculture, Forestry and Water management* and poor representation in farmers' organizations.

- At that time, there was no special program within the Ministries that recognized the problems of rural women; meaning that addressing these problems was very difficult. Since then it has become an area of priority in the 2010-2015 Strategic Plan for Rural Development of RS. The plan defines support to women in rural areas among other development of women's entrepreneurship.
- The existing monitoring and evaluation system does not keep any gender disaggregated data, or any criteria for measuring women's participation in community initiatives.
- Agricultural and rural development strategic objectives are indiscriminately directed towards the problems that face the rural population, regardless of gender. However, there are no defined indicators by which MoAFWM can measure and define the different impacts on women and men.

# 5. Producers of diversification products

This section focuses on production part of the value chain and outlines in the current status of economic diversification production and what the future visions are. This section also tries to provide a profile of those rural dwellers that are involved in economic diversification activities.

**Figure 5.1: Value chain – Production**




The section is based on case studies, interviews with stakeholders, surveys of farmers and municipalities and literature research.

## *5.1 The current situation: Case study summary*

The case studies can be divided into five groups according to their main business focus:

1. Tourism
2. Honey production
3. Herb production
4. Four different types of organizations promoting or implementing various policies
5. Miscellaneous goods.

The family is central to most businesses. Family businesses are often initiated in order to supplement household income, as agricultural income alone is often insufficient. Some businesses have expanded and hired full time employees (that are not relatives) and seasonal workers, thus developing into small enterprises.

There is great potential in entrepreneurship and striving to be the best in their field characterizes several of the case studies here. Most of the subjects have plans to expand their businesses, to take on new business or to add new products to their portfolios.

The challenges identified are various and dependent on the sector in which the subjects work. This having been said, two challenges in particular emerge from the analysis, the first of which is financing. The case studies are very diverse in their funding structure, but a common denominator is that banks are rarely the first choice when looking for financing. Interest rates are considered to be too high and some applicants cannot get loans simply because they are small enterprises. The second challenge is the general lack of knowledge on how to run a business. In a lot of case studies business plans are lacking and owners are seeking training in marketing in order to get new customers, recognition and to expand their businesses.

The following section covers the plans of farmers and organizations and the barriers that they face in more detail.

### 5.1.1 Tourism sector

The case studies in the tourism sector cover family businesses, although some of them have expanded to having full time and seasonal workers. Both the restaurant and the hotel mention the unspoiled nature of BiH as being the main attraction to tourists. All of the case studies, especially the restaurant and hotel, see opportunities to expand their businesses. The guests are increasingly international, which can create new demands in terms of quality, such as having to improve bath and toilet facilities. The subjects of the case studies in the tourism sector are generally very open to expanding their business and offering new services.

The biggest barriers to their expansion and success are financing and a lack of knowledge on marketing. The Ethno restaurant tavern

**Case study: Ethno restaurant tavern OGNJIŠTE**

Ognjiste is a small authentic restaurant, which focuses on rural tourism. The restaurant serves traditional dishes like lamb, roasted veal, polenta with sour milk, kajmak and home-made cheese. It is a family business, but it collaborates with 15 rural households. The 15 households sell their eggs, milk, cheese, lamb and other products to the restaurant. The restaurant is important for the whole village because it provides income for local households.

Because agriculture is not so profitable, and because the state cannot fully finance all investments, the owners of Ognjiste had to find alternative ways to make money. They decided that rural tourism was the best way to do this, especially because the countryside of the area itself is very attractive to tourists. for the area is good for walking, recreation, sports, and organized tours to nearby destinations such as caves and springs. It is also possible to go hunting and fishing, horseback riding and hiking, as well as berry and herb picking.

The focus on rural tourism is significant and now 90 percent of the restaurant's guests come from abroad. Ognjiste has invested about BAM 400,000 (EUR 200,000) over the last six years. Due to lack of funds, they took out a loan of BAM 60,000 (EUR 30,000) at an interest rate of nine percent.

*Source: case studies*

OGNJISTE is the only case study in this sector that has taken out a bank loan. The interest rate of the loan of BAM 60,000 was nine percent, which is about the average in BiH (see chapter 10). The hotel-owner expressed a desire to not take out any loans at all.

All three subjects of the tourism case studies (see table 22) either lack a business plan or lack information on how to promote rural tourism. A summary of one of the tourist case studies can be seen below.

### 5.1.2 Honey production

Farmers in BiH have very good conditions for producing honey and there is both domestic and foreign demand for high quality organic honey. Honey products are sold in shops, herbal pharmacies and at trade shows. Most businesses are family owned but with employees that are not family members. These businesses tend to train their own employees.

Financing comes from a number of different sources. USAID helped one farm that also received donations from Czech development aid, municipalities and took out bank loans. The other farm was subsidized by the RS MoAFWM. The farms want to expand their product portfolio and export their products.

The barriers that honey producers face are primarily related to financing of new projects and expansion. Another barrier is bad infrastructure in terms of roads and access to the market. One producer also mentioned a bottleneck in the packaging part of the process.

### 5.1.3 Production of medical herbs

All three case studies on medical herbs were family businesses that have expanded into small firms. Training and the direction of the business are highly dependent on the family structure. Production is very dependent on seasonal workers and plant collectors, which represent the core of these companies.

Financing is a constraint for these farmers, as banks in BiH are not willing to lend money to this type of business. All three case studies received donations from USAID.

Producers are motivated to expand their businesses, enlarge capacity and to supplement the production of medical herbs with agro-tourism. A key issue to these producers is the possibility of exporting their goods. Local purchasing power is too low and the market is not big enough to create sufficient demand for these products. It is key that they achieve internationally recognized certificates in order to be able to export to both EU and non-EU countries. It is difficult for the farmers to get these certificates because they do not take into account the varying needs of specific companies. However, these international certificates are essential, especially since BiH lacks national regulations on medical herbs, which is a significant restraint for these farmers.

Lastly, the case study subjects are facing the challenge of working as middlemen between the consumers and the farms, with whom they collaborate in the production of herbs. This is because the farms cannot be trusted to deliver the quantities of herbs they promise, which poses a great difficulty for the producers.

### 5.1.4 Service sector

These organizations range from an association that promotes equality for women to a corporative that helps organic farms. Three of the organizations are implementing international projects, either directly, by purchasing machines and creating centres for promoting specific policies, or indirectly through their work in general. The organizations are highly orientated towards international donations from international organizations such as the EU and USAID, as well as governments and private donors. However, in general the organizations' networks are diverse. Two of the four subjects of the case studies worked together with local administrations, while yet another worked with a Czech NGO. Two of the case studies received EU project funding.

The one thing that the organizations all have in common is that they are internationally oriented, both in terms of how they started and in terms of funding. Another common denominator is that they combine different activities to provide a solution to their political aims; for example, the cooperative has established an education centre in addition to its agricultural work.

The barriers that these organizations face also vary a lot. Some need additional information on potential donors or a better understanding of the standards that are necessary to get permission to go out on the market. Some cited marketing and financial development as barriers, while others need more production oriented support.

### 5.1.5 Miscellaneous production

The study included three case studies that did not fit into any of the previously mentioned categories. These include a web portal selling boxes of fresh organic vegetables, a Rakjia producer and a monumental mason. All three were small family owned businesses that sell primarily to a local market. For the monumental mason, this market has proven to be too limited to keep up the business, and the owner cannot run the risk of investing in accessing a larger market.

The success of these case studies is the transformation from a hobby or a personal interest into a small business with help from close family and neighbouring farmers. The businesses have been financed either through their own capital or by bank loans. Plans for the future include expanding production and establishing quality systems.

The barriers that these case study producers face are similar to those mentioned in the other case studies. One is the lack of trust between suppliers and middlemen. The owner of the web portal cannot trust the farmers to deliver the products if they get a better offer. Access to funding is also a barrier, as is a lack of knowledge on how to present the business to the market in a professional way.

## *5.2 Profile of potential diversification beneficiaries: Fruit and Vegetable and Meat and Dairy Surveys*

This section analyses the results from the surveys done in collaboration with the fruit and vegetable sector (F&V) review and the meat and dairy (M&D) review. In the case of F&V it is based on a survey of 100 farmers.[91] In the case of the M&D analysis farmers were taken into consideration in the survey.

[91] The survey was conducted among 100 farmers in the fruit and vegetable sector. Another 100 interviews were planned among livestock farmers. Unfortunately not all questions about diversification were included. See the two sector studies for more information on the methodology.

The main purpose of this survey was to look into whether primary production is supplemented with additional or non-agricultural income activities and if so, what kind of economic diversification is taking place. For those that do not currently supplement their incomes, the purpose was to investigate whether diversifying is a part of their plans. The results are reported in percentages, although it is important to bear in mind that we only have 98 observations and so the conclusions are not fully representative.

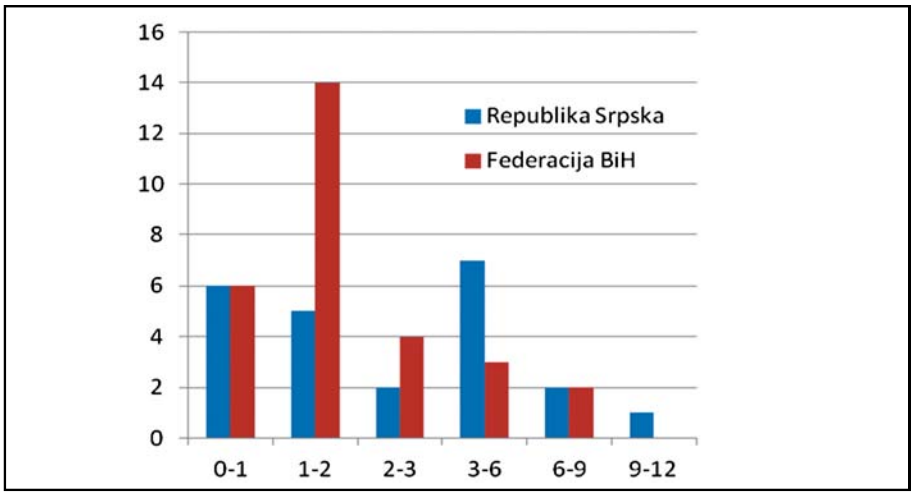
### 5.2.1 Farm profiles

Based on the case studies and the key-informants interviews conducted by the F&V team, four types of fruit and vegetable producers were identified:

The two graphs below show the farm size of the producers interviewed during the farm survey. Though not statistically representative, the data confirms that there are a lot of producers with less than two hectares (even the market-oriented producers). This pattern of very small growers seems more acute in FBiH than in RS.

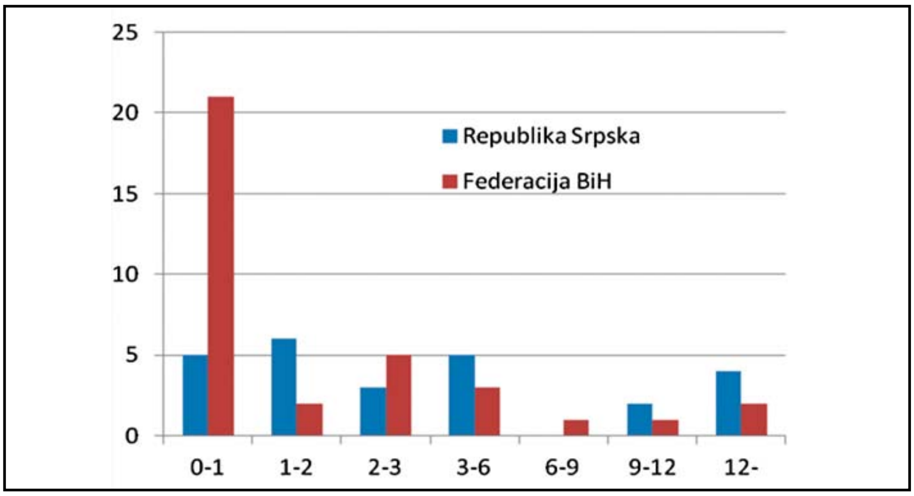
Many of the fruit and vegetable producers actually operate on mixed farms, where they also grow some cereals and breed animals. The fruit and vegetable farm survey that focused on market-oriented producers showed that more than one third of producers had cattle and half had other animals. The 100 interviews provided a good indication of the situation on the F&V farms and of their

**Graph 5.1: Fruit growers farm structure**




*Source: Farm survey – F&V Sector study*

**Graph 5.2: Vegetable growers farm structure**



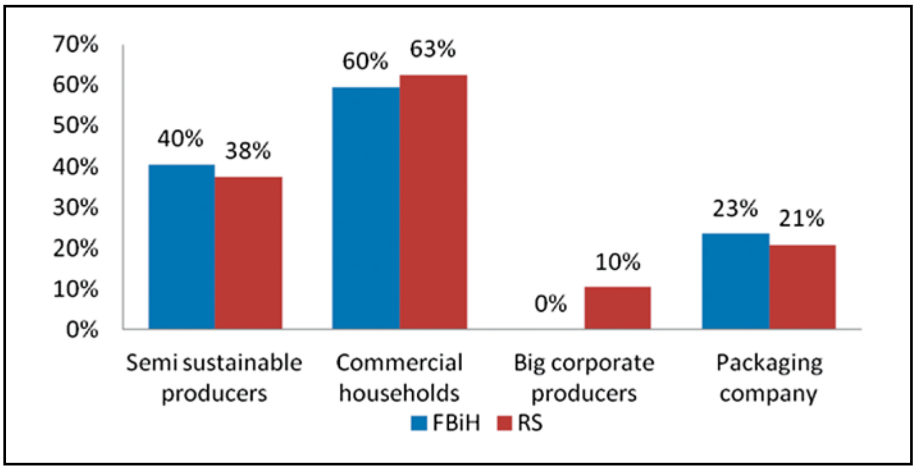

*Source: Farm survey – F&V Sector study*

**Table 5.1: Typology of F&V producers participating to the F&V market and their characteristics**

| Producer type | Main characteristics and investment challenges | | |
|---|---|---|---|
| | **General** | **Fruit producer specific** | **Vegetable producer specific** |
| Semi-subsistence producers | Small-scale holdings with small surpluses or no surpluses at all depending the year and the crop in questions.<br>Mixed farms cropping cereals and breeding cattle and pigs or a small number of sheep.<br>Non-registered, non-VAT payers, informal market channels.<br>Elderly people or part-time workers. High social vulnerability for young households without second source of income. | Exploit old orchards, with few new orchards.<br>Quickly transform high volumes of fruits into distilled spirits.<br>Other processed products for self-consumption. | Low level of investment, with the exception of some cases of small PGH to increase tomato, cucumber and pepper production.<br>Processed pickles for winter consumption and sometimes for green market sales. |
| Commercial family farms | | | |
| Medium sized estates | Limited land area and high fragmentation hinder increases in production and threaten the viability of their holdings.<br>They are usually under-equipped for post-harvest management and still perform most of their tasks manually.<br>Low on farm storage capacity.<br>A large portion of these farms are mixed farms (other crops and animal production). | *3-5 ha orchards or 0.5-1.5 ha of berries.*<br>Erratic yields and inconsistent quality.<br>Direct selling via middleman to green markets. | 1-5 ha open-field or 0.3-1 ha PGH<br>Diversified marketing channels, based mostly on farm-gate, green markets and wholesale. |
| Large estates | They have to establish regular business relations with buyers in order to sell larger volumes.<br>Single producers are not in a position to meet the requirements of exporters and larger retailers, especially in terms of volumes.<br>They have not yet reached the threshold in terms of post-harvest management and logistics to satisfy modern supply chain requirements. | *5-30 hectares of orchards or up to 10 ha of berries*<br>Good technological level with intensive orchards.<br>High harvest labour costs<br>Basic and sometimes advanced storage facilities<br>Supply chain integration, e.g. seedling production and sales, or production of packaging (wooden trays) | *5-30 ha of open-field vegetable or 5-10 ha of PGH*<br>High harvest labour cost for non-perishable vegetables.<br>Satisfactory agricultural machinery and equipment. |
| Firms | High labour costs<br>Financial challenges due to credits reimbursement and sometimes unwise investments<br>Lack of experience in the agricultural sector | *More than 50 ha orchards*<br>Supply supermarket and export market (apples to Russia) | Capital and mechanisation intensive production on more than 50 ha, manly privatised former large companies |

*Source F&V sector study, 2011*

**Figure 5.3: Type of farm**




*Note: It was possible to give multiple answers to this question therefore summing to more than 100 percent*
*Source: fruit and vegetable survey*

challenges and needs. Since the total number of F&V farms is unknown, solid statistics cannot be calculated.

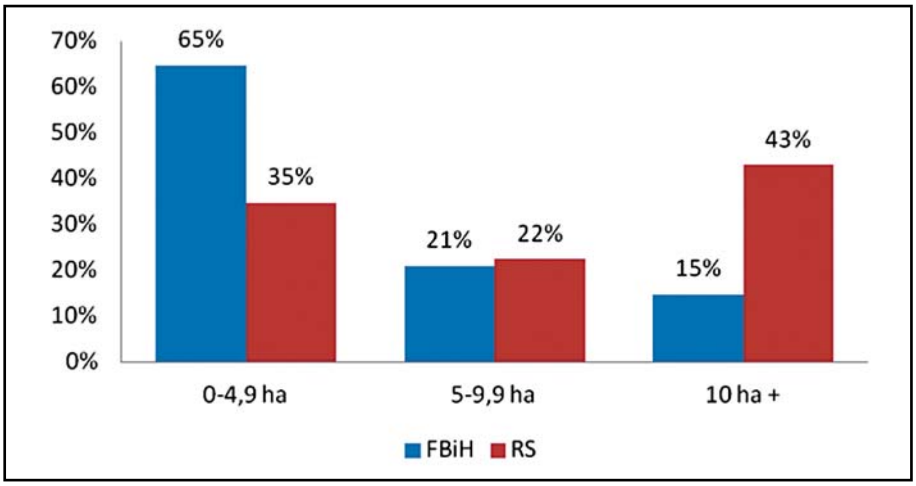
Of all respondents, 39 percent see themselves as semi-subsistence producers, 61 percent are farmers or producers, five percent are big corporate producers and 22 percent are packaging companies. Some of these farms carry out multiple functions, meaning that one farm can be both a packaging company and farm household. There are no great differences between the distribution of types of farms in FBiH and RS.

There were noticeable differences between the sizes of farms in the two entities, where farms in FBiH are smaller than in RS. The share of farms in FBiH is 65 percent, while only 35 percent of all farms are in RS. Correspondingly, a larger share of farms in RS (43 percent) are bigger than 10 hectares while this figure is 15 percent in FBiH (see table below). In FBiH 13 percent of the farms produce organic crops while in RS this number is only two percent.

### 5.2.2 Economic diversification activities

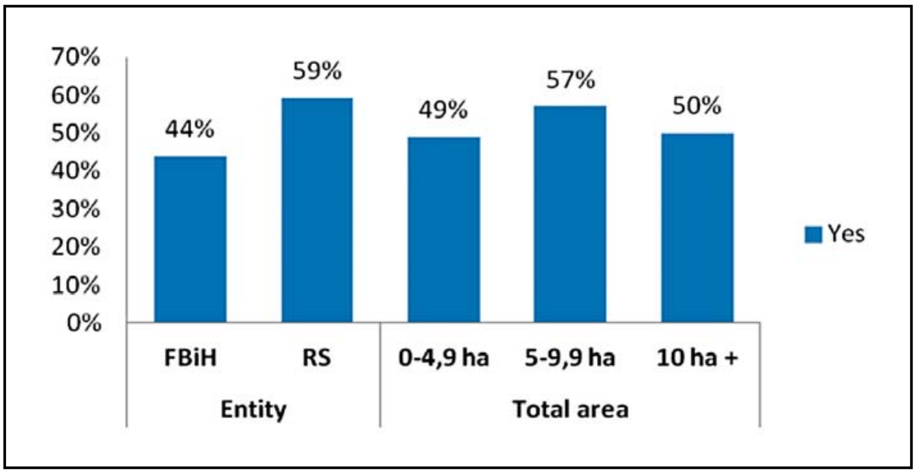
Fifty one percent of farmers have additional income from non-farming activities, although farmers in RS are much more active in diversification than the farmers in FBiH. Fifty nine percent of farmers in RS have a non-agricultural income while in FBiH this figure is only 44 percent. The explanation for this does not seem to be that FBiH has smaller scale fruit

**Figure 5.4: Size of farms**




*Source: fruit and vegetable survey*

**Figure 5.5: Do you have an extra income generating activity apart from farming?**



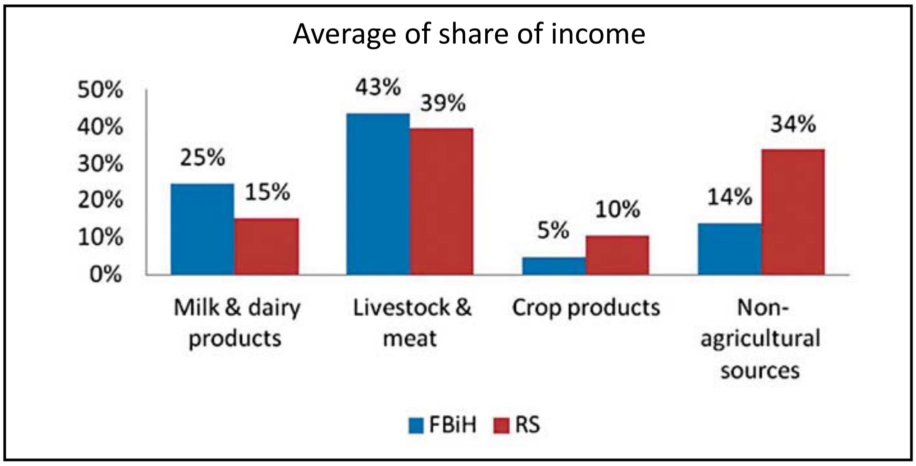

*Source: fruit and vegetable survey*

and vegetable farms than RS, but rather that the small farms (up to 4.9 hectares) carry out more diversification activities than the bigger more commercial farms. The only difference in diversification activities between the sizes of farms is between the mid-sized farms and the others. Fifty seven percent of farms between five and 9.9 hectares indicated that they carry out an additional income generating activity apart from farming. It is worth noting that the share of farms of this size was almost the same in RS and FBiH. This suggests that the explanation for the difference in diversification activities is to be found in structural differences between the entities.

For farmers that do have income from additional activities, these activities tend to take up rather a large part of their total labour. The majority of these farmers use more than 30 percent of their total labour on these activities. There are only minor differences between RS and FBiH (see section one and the results from the Pilot Agricultural Census 2010, Labour Force on "other gainful activities").

From the survey conducted for the Meat and Dairy Study, we also know that besides their primary farming income, processed milk and dairy products account for an average of 25 percent of household income in FBiH, whereas non-agricultural sources of income account for an average of 34 percent of household income in RS. Furthermore, in FBiH livestock farmers seem to have an all or nothing approach to non-agricultural income, as 43 percent of the farms do not have any non-agricultural income, and 55 percent gain 70-100 percent of their income from non-agricultural activities.

**Figure 5.6: Average share of income (Meat and Dairy survey)**




*Source: Meat and dairy survey*

**Table 5.2: Additional sources of income as a share of household income and total farm area**

| | | Share of household income - Non-agricultural sources | | | |
|---|---|---|---|---|---|
| | | 0% | 1-39% | 40-69% | 70-100% |
| Total area | 0-9.9 ha | 35 | 16 | 11 | 38 |
| | 10-49.9 ha | 36 | 19 | 14 | 31 |
| | 50+ ha | 44 | 19 | 6 | 31 |

*Source: Meat and dairy survey*

In order to estimate which farms and which farmers conduct non-agricultural business, the following tables shows the association between size of the farm and the non-agricultural sources of household income, and between the age of the farmer and the non-agricultural sources of household income (again based on the data from the Meat and Dairy study).

The first table below shows that there is no clear correlation between farm size and the share of non-agricultural sources of household income. For all farm sizes, there is an all or nothing-approach to non-agricultural sources, as non-agricultural sources account to either almost none or to 70-100 percent for most farms. The additional income sources are less often a part of household income for farms with more than 50 hectares of land.

The youngest farmers in the survey (30-39) are, surprisingly, the most reluctant to conduct non-agricultural activities. Fifty five percent do not have any additional income, while 25 percent indicated that it accounts for 70-100 percent of their total income. Farmers between 40 and 59 are most likely to supplement their incomes.

In both FBiH and RS farmers with non-agricultural incomes mainly obtain this income

**Table 5.3: Non-agricultural sources' share of household income and age (M&D survey)**

| | | Share of household income - Non-agricultural sources | | | |
|---|---|---|---|---|---|
| | | 0% | 1-39% | 40-69% | 70-100% |
| Age | 30-39 years | 55 | 15 | 5 | 25 |
| | 40-49 years | 36 | 17 | 8 | 39 |
| | 50-59 years | 27 | 22 | 14 | 38 |
| | 60-69 years | 40 | 20 | 20 | 20 |
| | 70+ years | 20 | 0 | 20 | 60 |

*Source: Meat and dairy survey*

**Table 5.4: Different types of workers' share of non-agricultural income (M&D survey)**

| | Share of non-agricultural income | | | | | |
|---|---|---|---|---|---|---|
| | 0% | | Up to 50% | | Over 50% | |
| | FBiH | RS | FBiH | RS | FBiH | RS |
| Full-time employment | 76 | 63 | 0 | 14 | 24 | 23 |
| Part-time employment | 93 | 92 | 2 | 9 | 5 | 0 |
| Pension | 88 | 79 | 2 | 18 | 10 | 3 |
| Help from family | 100 | 98 | 0 | 1 | 0 | 1 |
| Other | 83 | 82 | 0 | 16 | 18 | 8 |

*Source: Meat and dairy survey*

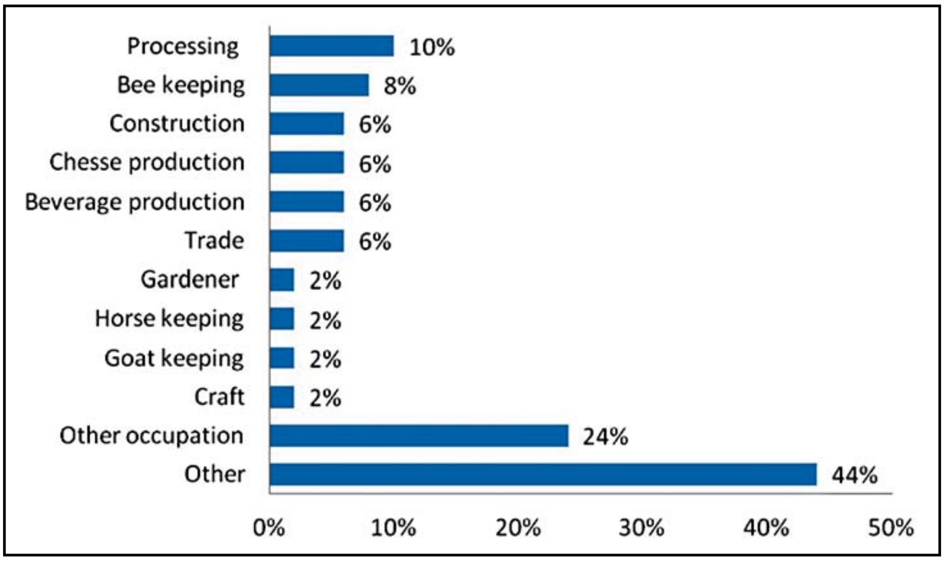
from full-time employment. The second largest source of non-agricultural income is pensions. In FBiH, 12 percent of pensioners carry out agricultural activities, while in RS this figure is 21 percent. This is due to the fact that pension payments are not enough to survive on and so pensioners need to supplement their pensions with income from selling what they produce.

Ten percent of farmers that participated in the fruit and vegetable survey make their non-agricultural income from processing products that are produced on the farm, eight percent are in beekeeping, while six percent are either in construction, cheese production, beverage production or in trade. Only two percent keep goats.

Forty four percent of the farmers answered "Other", which gave them the opportunity to write their type of activity in their own words. Here, four percent answered that they were retired, while the other answers were very varied, ranging from jam production to catering. There was even a physiotherapist.

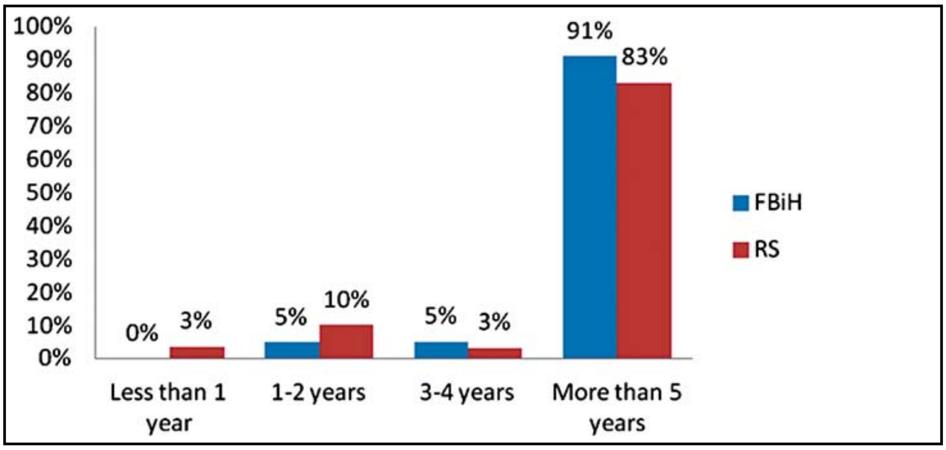
Most of the farmers have been carrying out their supplementary activities for some time. Eighty six percent have been conducting these activities for more than five years, while only two percent have been doing them for less than one. There is a slight tendency towards farmers in RS having had an additional income activity for a shorter time than farmers in FBiH. Ninety one percent of

**Figure 5.7: Type of additional income**




*It was possible for the farmers to give multiple answers, why the percentages sum up to more than a 100 per cent.*
*Source: fruit and vegetable survey*

**Figure 5.8: For how long did you have this extra income activity?**




*Source: fruit and vegetable survey*

the farmers in FBiH have been conducting the supplementary activities for more than five years, against 83 percent in RS.

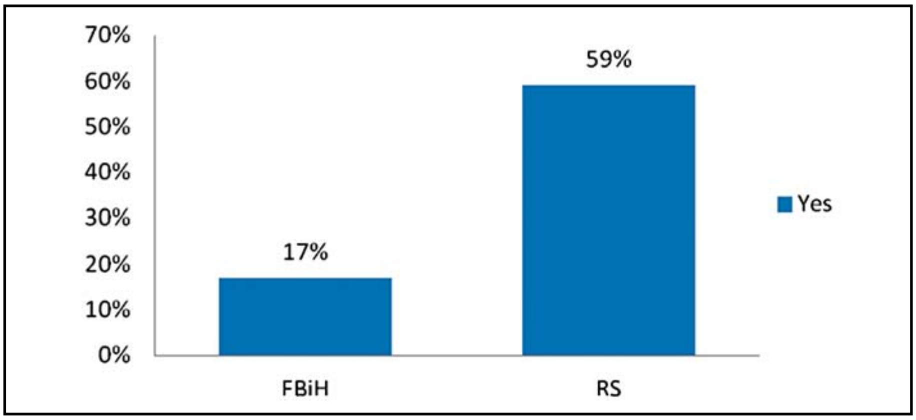
It is primarily the farm owner that is responsible for the extra income generating activity. The entire household is responsible for the extra income activity in 22 percent of the cases. The remaining six percent of respondents indicated their spouses do this work.

### 5.2.3 Use of advice

Thirty eight percent of the fruit and vegetable farmers have received some kind of external advice. This is more prevalent in RS than in FBiH. This is probably because FBiH does not have an agricultural extension service, whereas RS does. However, the fact that more FBiH farmers considered gaining extra income than RS farmers did, suggests that the will is there, even if the conditions for producing this extra income are not.

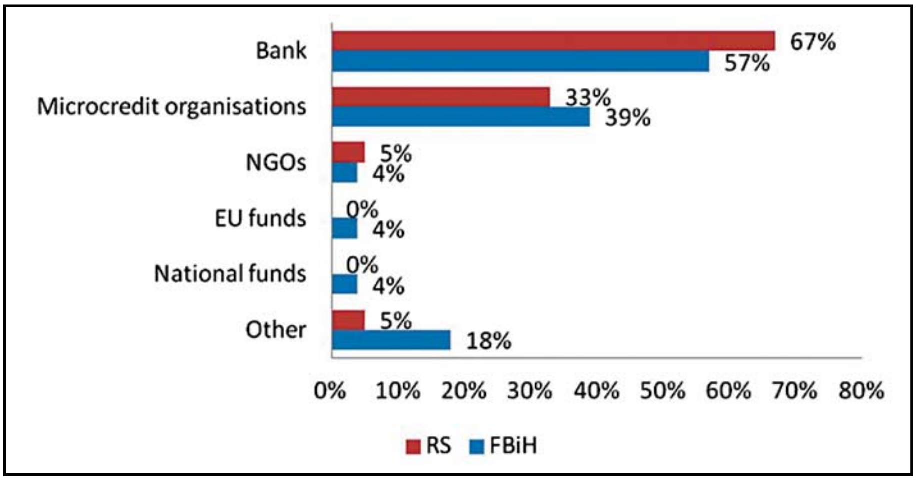
The official support structure is different in each of the two entities. The figure below shows that almost every respondent in RS (97 percent) has received some kind of information or advice from the extension service. The survey also shows that, in both FBiH and RS, advice from friends makes up the majority of advice that all farmers receive. The primary source of advice for farmers in FBiH – apart from friends – is the municipality. Another finding is that the extension services in RS seem to be mostly oriented towards bigger farms. No more than 25 percent of the small farms (up to 4.9 ha) have received advice from extension services, while 41 percent of farms larger than five hectares have received advice from the extension service.

**Figure 5.9: Did you receive support in terms of advice or information?**




*Source: fruit and vegetable survey*

**Figure 5.10: Where did you receive support, advice or information?**




*It was possible to give multiple answers to this question and therefore will the figures not sum to 100 percent*
*Source: fruit and vegetable survey*

Most advice is not related to economic diversification, but is rather about farming practices and farming in general. The survey of municipalities, stakeholders and case studies corroborate this. A better qualified advisory and information system as a lynchpin of economic diversification projects is identified as one area where further training and capacity building is very much needed (see section on training).

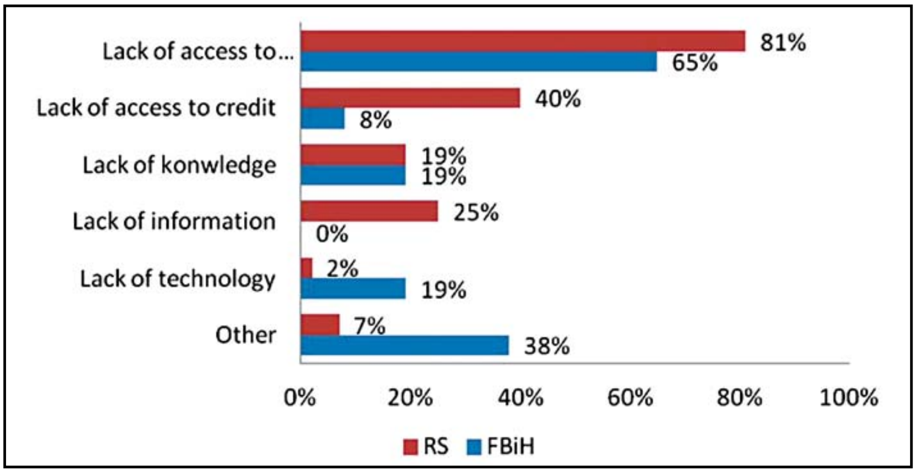
### 5.2.4 Barriers to initiating additional income generating activities

The barriers to starting additional income generating activities are mostly economic. Eighty one percent of fruit and vegetable farmers in RS and 65 percent in FBiH mentioned lack of access to financing (such as not having any savings) as the main obstacle. The second major obstacle in RS is the lack of access to credit including being eligible for credit (40 percent). This is very much confirmed by all the other information sources as well (see chapter 8 for more information).

The second major obstacle for farmers in FBiH is a lack of information, while this is not a problem at all for farmers in RS. The farmers that answered "other" mentioned their age as a problem, that diversification is a big risk, or that they do not have a business partner.

Farmers normally take out loans to buy houses, machinery, supplies or raw materials, or to build greenhouses or buy perennial plants. In line with the results from Figure 15, farmers in FBiH have had more access to credit over the last five years (58 percent), against only 43 percent in RS.

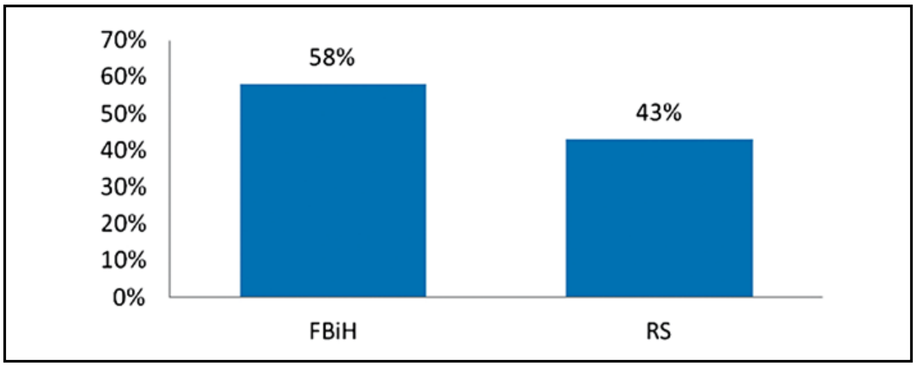
**Figure 5.11: What is the main obstacle for you to start some other business?**




*It was possible to give multiple answers to this question therefore not summing to 100 percent*

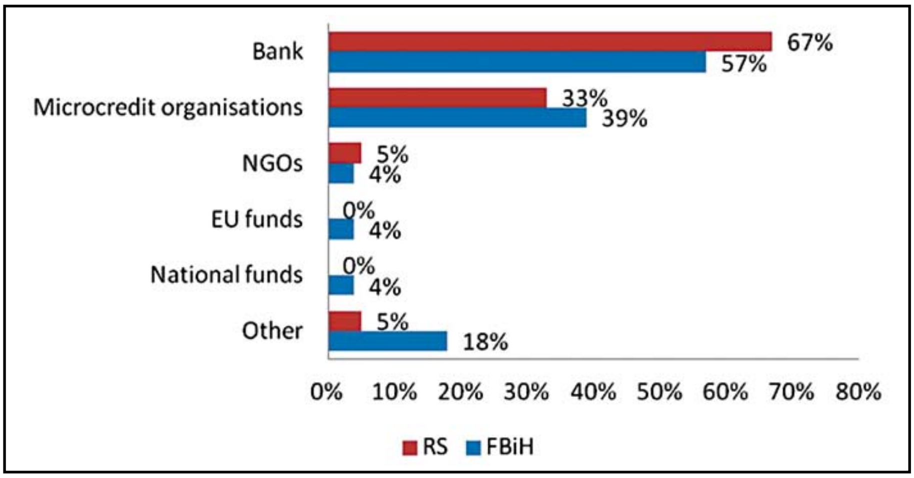
*Source: fruit and vegetable survey*

**Figure 5.12: Have you received any financial support to facilitate your extra income generating activity within the last five years?**




*Source: fruit and vegetable survey*

**Figure 5.13: From whom did you receive financial support to facilitate your extra income activity?**




*It was possible to give multiple answers to this question therefore it is not summing to 100 percent*
*Source: fruit and vegetable survey*

Farms of five to ten hectares get credit more often than farms of other sizes. Sixty two percent of farms of five to 9.9 hectares have received credit within the last five years. The distribution of sources of financial support is similar in the two entities, although there are also some significant differences. In both RS and FBiH the majority of the farmers gain financial support from the bank (67 percent in RS and 57 percent in FBiH). In FBiH micro credit organizations have gained more popularity than in RS. Thirty nine percent of farmers in FBiH receive support from micro credit organizations against 33 percent in RS (see chapter 8).

The average amount of credit available is greater in RS than in FBiH, which is possibly because RS has a greater share of farms of over 10 hectares in size. The average interest rate is also lower in RS than in FBiH and the average grace period is longer. However, in FBiH the average length of loans is much longer than in RS. In FBiH, only 10 percent of the farmers' bank loans are connected with a central fund, while in RS the share is 16 percent

The reason that 40 percent of farmers in RS saw the lack of access to credit as the major obstacle to starting a new business against only 8 percent in FBiH does not lie in the credit conditions. Farmers in RS mentioned lacking their own capital for the requested co-financing, along with a lack of collateral as the main obstacles to obtaining finance.

This is also confirmed by the *Pilot Agricultural Census 2010, Rural Development.* According to this data, 28 percent of the farmers in DB have used credit or loans in the past three years. The remaining 72 percent indicated that they had not used credit or loan financing because they have not felt the need to develop their businesses (32 percent) or because interest rates were too high (20 percent). Eighteen percent were unable to put up sufficient collateral.

**Table 5.5: Credit conditions**

| | Average amount of credit available | Average interest rate | Average length of the loan | Average of grace period | Share of farmers, whose bank loans are connected with a national fund |
|---|---|---|---|---|---|
| FBiH | 7,779 BAM | 4.7% | 30.8 | 1.5 | 10% |
| RS | 21,816 BAM | 3.3% | 21.8 | 2.9 | 16% |

*Source: fruit and vegetable survey*

**Table 5.6: Overview on the use of loans in percent**

| | | RS | FBiH | BD |
|---|---|---|---|---|
| Have used credit/loan finance in the last three years | | 31 | 20 | 28 |
| Which kind of credit? | Commercial | 9 | 6 | - |
| | Micro credit | 13 | 10 | - |
| | Agricultural credit | 7 | 4 | - |
| | Not needed, no need for development | 17 | 13 | 32 |
| | Not needed, has sufficient capital from own resources | 5 | 4 | 3 |
| | High interest rates | 17 | 31 | 20 |
| | Unaware of credit | 2 | 0 | 0 |
| | No collateral | 16 | 26 | 18 |

*Source: Pilot Agricultural Census 2010, Rural Development (N=866)*

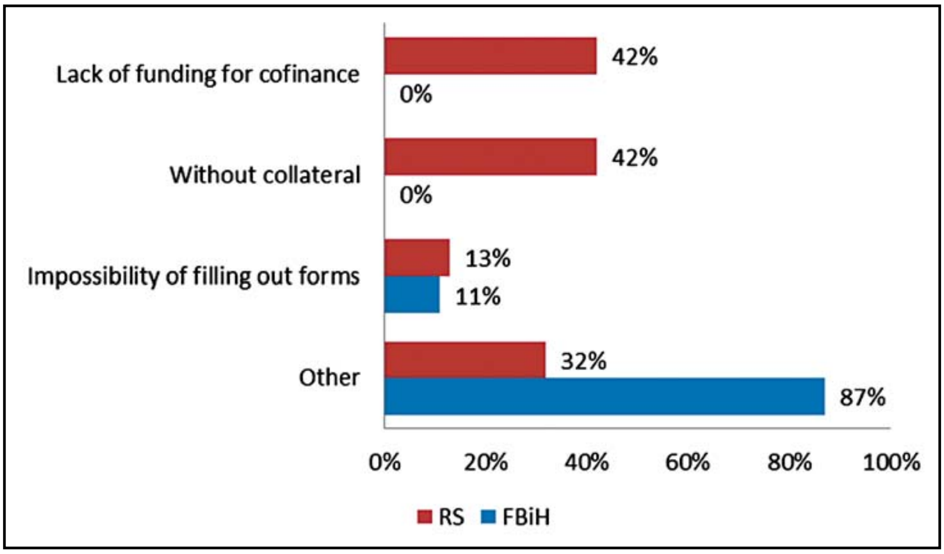
In FBiH, 20 percent have used credit or loan financing in the past three years, and from these, one half have used micro credit. The reasons for not making use of loans are the same as mentioned by the farmers in DB. In RS, 31 percent have used credit or loan financing in the past three years, 45 percent of whom used micro credit. The reasons not to use credit or loans are similar to those in BD and FBiH.

Farmers mentioned mortgages and having to find guarantors as "other" obstacles and some indicated that they simply do not want to borrow money.

### 5.2.5 Future additional income generating activities

Seventeen percent of fruit and vegetable farmers that do not have additional sources of income have considered gaining extra income. Farmers in FBiH are more positive in this respect than those in RS (25 percent and 10 percent respectively). Bearing in mind that more farmers in RS were actually producing extra income on top of what they receive from farming, we can assume that farmers in RS made the conscious choice not to do any additional activities besides those they are doing already, while the lower share of

**Figure 5.14: Obstacles to obtaining finance**




*It was possible to give multiple answers to this question. Impossibility of filling in the forms is a 'I do not know' answer.*
*Source: fruit and vegetable survey*

farmers in FBiH already doing extra activities gives room for the further development of extra income generating activities.

The farmers considering gaining an extra income mention agro-tourism, cottage industries and processing as the kinds of activities they would consider. Reasons behind not considering gaining extra income include a lack of funding, knowledge and time.

The Pilot Agricultural Census 2010 shows that in spite of the large share of farmers with an interest in developing their farms, no more than 10 percent of farmers have prepared concrete plans in any of the entities. It can be concluded that there is potential for entrepreneurship in BiH, but the inaccessibility of support is the most important reason for farmers not realizing their ideas.

The second and third most important constraints mentioned were directly linked to administration. Bureaucracy is a major impediment to farmers in realizing their plans. Several sources mention that if no money or services are provided or paid, the implementation of the project in question can be slowed down or even stopped.

The level of training that farmers have in non-agricultural business-related activities poses a considerable challenge to the development of Diversification. Skills such as creating business plans and developing farms are especially needed. Across the three entities only a very few have received training. The entity with the highest share is RS with six percent, probably due to the existence of an extension service; this corresponds to the results of our survey.

**Table 5.7: Future plans in percent**

| Do you intend to make a development, and if so, how advanced are the plans? | RS | FBiH | BD |
|---|---|---|---|
| Firm plans in place, and finance and permits are secure | 2 | 1 | 1 |
| Firm plans, all appropriate advice taken | 7 | 8 | 9 |
| Initial ideas only but no firm plans | 40 | 47 | 50 |
| No development planned | 51 | 44 | 40 |

*Source: Pilot Agricultural Census 2010, Rural Development (N=866)*

**Table 5.8: Have you received any training in order to develop your farm? (in percent)**

| | RS | FBiH | BD |
|---|---|---|---|
| Yes | 6 | 4 | 3 |
| No | 93 | 96 | 97 |

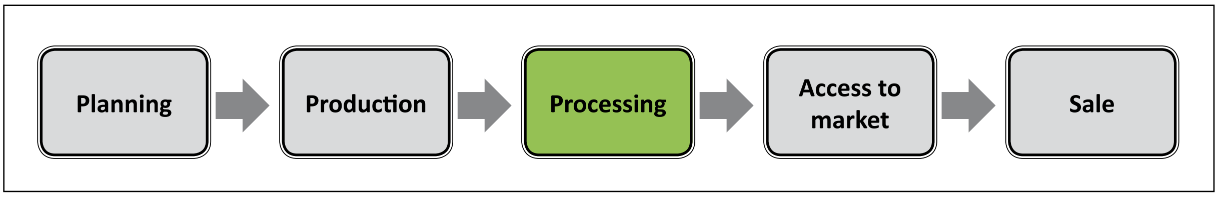
*Source: Pilot Agricultural Census 2010, Rural Development (N=866)*

# 6. Processing Industry: Economic diversification

This section focuses on the processing part of the value chain of economic diversification by providing both quantitative and qualitative descriptions.

in BiH. This treatment procedure is linked to over production. These kinds of mushrooms are mainly sold to businesses in the catering industry such as pizza houses and restaurants.

**Figure 6.1: Value chain – Processing**




The processing part of the economic diversification sector seems to be characterized by many minor home-based small scale processing facilities. There are, however, no official statistics and processing is not part of the Pilot Agricultural Census. Ten percent of respondents to the fruit and vegetable survey indicated having some kind of processing facility as an additional source of income. The same trend can probably also been found in other sectors (e.g. meat and dairy and wine). The interviews and workshop discussions confirm that the majority of processing that is taking place is for self-consumption (e.g. cheese, Rakia and flour).

## *6.1 Mushrooms*

Depending on which area we look at, the number and development level of commercial processing facilities varies. For example, according to the UNDP study[92] of the mushroom sector from 2010, treatment and processing of mushrooms has been reduced to negligible levels. Processing mushrooms is only the primary activity of a very few companies e.g. Čelinac –"Mašrum" and Šije-Tešanj "Bio-Šamp". According to this study a high percentage of processed mushroom products are imported. Mushrooms drying, partly using natural methods and party in special drying facilities, dominates the existing production facilities

In BiH, mushroom processing facilities (e.g. drying facilities) and mushroom production itself are mutually dependent and constitute an inseparable production structure. Production figures for various types of production facilities:

- Mushroom growing facilities 40 percent;
- Greenhouses for growing mushrooms 20 percent;
- Inadequate and improvised facilities 40 percent.[93]

Šije-Tešanj "Bio-Šamp", which produces mushrooms in greenhouses, is the leading mushroom producer in BiH. A significant portion of all oyster mushrooms and shiitake mushrooms are produced here. In Podnovlje, near Doboj, there is also a significant production of button mushrooms.

## *6.2 MAP*

MAP processing is more developed and more extensive than mushroom processing. According to data from the EU Final Report on Analysis and Mapping of the Value Chain,[94] annual harvesting of MAP in BiH varies from 1,500 to 9,000 tonnes (depending on demand and climatic conditions). This is mostly made up of raw dried plants packed and sold in 25 kg sacks.

About 50 private companies dominate MAP trading and processing activities, although

[92] UNDP, Development of Mushroom sector, sustainable and inclusive market, 2010
[93] IBID
[94] EU Commission, Analysis and Mapping of Value Chain, 2008

there are many smaller companies as well. At state level, it is estimated that there are approximately 5,000 collectors organized by larger companies, and many more who sell directly to processors and retailers.[95] A small number, e.g. ROING1 (Ljubuski, FBiH), are involved in the cultivation of MAP in collectives or on private plantations. A smaller number process MAP into products such as essential oils and vegetable extracts, and some even produce finished products such as medicaments, herbal teas and tisanes. About 80 medicinal and 65 other finished products are currently produced. Many companies produce semi-final or final products such as herbal teas and cosmetics in retail packs, even though the retail market in BiH is limited. However, the large bulk of MAP is exported as organic raw materials, with very low value added accruing to BiH. The BiH share of the total EU market for organic wild plants is estimated to be five percent.

Apart from simple air-drying, no further processing is carried out by the collectors. The principal actors in a typical value chain for MAP and MAP products in BiH can be grouped as follows:

**Collectors**: People who collect wild medicinal and aromatic plants and other non-wood forest products. Collection is seasonal work that takes place only during the vegetation period (from May to September). Collectors are usually very poor and vulnerable and are mostly women. Very often MAP collecting constitutes the household's only source of income. The number of people interested in collection has been rapidly declining. Collectors usually undertake initial (basic) drying, cleaning and, in some rare cases, cutting before sale. Collectors do not carry out any further processing and do not add any value.

**Farmers**: People familiar with cultivation technology and techniques who cultivate the herbs. Farmers usually produce under contract for a known buyer. This is especially the case in organic production, where farmers have to be registered and have to document their entire production process (according to organic standards). Large quantities of dried herbs are delivered to the buyers.

**Herbalists**: Throughout history the role of herbalists in healing has been very significant in BiH. People very often visit herbalists and use traditional medicines. Herbalists prepare various tea mixtures and tinctures. They prescribe and sell these to their patients.

**Middlemen**: People who buy dried MAP or other value-added products from the collectors and processors and then sell them to other actors in the value chain. These are then packed in large quantities and delivered to the next step in the chain. Middlemen can sell directly to foreign buyers. There are two types of buyers: namely, registered and non-registered (illegal).

**Producers/Processors (POs)**: Companies that conduct initial processing of raw materials or perform more complex processing of MAP such as blending herbal teas (loose or in tea bags), producing composite products such as cosmetics and pharmaceutical products, as well as various kinds of food. Production is usually confined to drying, cutting and extraction of essential oils. In most cases this group engages in further processing, packaging, product development, design, sale and market linkages (processes drying facilities, equipment).

**Retailers:** No explanation needed.

**Wholesalers:** They purchase unprocessed, processed or manufactured MAP in bulk from other traders or from POs (rather than direct from collectors) and then sell it to other participants in the value chain or export them.

**Others:** A group of small "enterprises" registered as "sole proprietorships" (STR) that collect and purchase smaller quantities of MAP, pack herbal mono-component teas or tea mixtures and sell them on the local market (shops, green market or supermarkets).

*Source: Fostering Agricultural Markets activity (FARMA), Medical and Aromatic Plants in BiH, 2010*

[95] Agricultural, Food and Rural Development Operational Programmes 2008-2010 for FBiH and RS

There are only a few **honey processors** (Medicom – Grude, Medprom – Cazin, Herzeg Med – Trebinje, PZ Api Med – Sanski Most, Solidmed – Zivinice) and it is estimated that less than 30 percent of the total honey production in BiH is sold through official channels and to honey processors.[96] Others sell their honey to small retailers because they do not have sufficient quantities to supply supermarkets. Furthermore, in order to be able to penetrate larger supermarket chains, beekeepers would have to improve their packing and would have to conduct regular quality analysis of their products and register themselves. Honey processors estimate that their additional expense per 1 kg jar of honey is approx. BAM 3 (jar, lid, label, transportation, analysis, taxes, and labour). The honey costs approximately BAM 350 per sample and it is often packaged in 1 kg jars, with simple labels that for the most part are designed by the beekeepers themselves.[97]

As a consequence, beekeepers mainly sell their products on green markets, to their relatives and neighbours and from door to door. From other studies[98] it is known that the prime reasons for selling through unofficial channels are that the beekeepers are able to sell everything they produce and because they can command higher prices when selling in smaller quantities.

On average, a beekeeper in BiH has 50 hives, although there are significant numbers of keepers with 100 hives or more. According to the Association of Beekeepers Kadulja from Ljubuski and their calculations, in Herzegovina, keeping a minimum of 100 beehives is sufficient to be economically sustainable. According to the Law on Subsidies in FBiH, it is estimated that 65 beehives is sufficient for a beekeeper to be profitable.[99]

### *6.3 Goats' milk and cheese*

Production of goats' milk − particularly on farms with more than 100 animals − requires specialized facilities such as milking parlours and storage. For farms with small-scale milk and cheese processing, hygiene is a challenge and violations of principal milking rules are known to take place. Most of the goat dairy sales in BiH are made through direct marketing with farmers selling directly to consumers and getting higher prices due to short marketing channels. Raw bottled milk is sold and delivered at about BAM 1.8 per litre.[100] On the other hand, and according to the UNDP study "Goat Farm feasibility study", farmers in RS and FBiH are not always aware of the possibility of getting subsidies for goats' milk. The Rulebook on Requirement and Manner of Implementing Incentives defines the support level for milk production. In RS, for example, the premium for top class milk is BAM 0.22 per litre, and covers about 30 percent of the total milk purchased. The total number of premiums paid for milk on a monthly basis was about 12,500.[101]

Several activities being carried out in the goat sector are currently showing encouraging signs. For example, farmers and entrepreneurs have begun recognizing the potential of the sector and during the last few years have established goat farms aimed at milk production.

"Pudja and Perkovic" from Livno collects more than 100 litres of milk per day, mainly from one producer. Cheese is the main product, which is primarily exported to Croatia. The management of Pudja and Perkovic say they are aiming to collect 1,000 litres a day and in the long-run maybe even increase capacity to 5,000 litres a day. However, quantities are

[96] Fostering Agricultural Markets Activity (FARMA), Beekeeping industry in BiH, 2010 USAID & SIDA
[97] IBID
[98] IBID
[99] IBID
[100] UNDP, Goat Farm feasibility study, Sustainable Business and Inclusive Markets, 2011
[101] Rulebook on Requirement and Manner of Implementing Incentives for agriculture and rural development (2010) & Report on incentive measures in agriculture and their implementation in 2010, (May 2011).

currently much lower, partly because they had to cancel two contracts due to poor hygiene.

The cooperative “Eko Vlasic” also collects goats’ milk for cheese production, of which it produces more than one tonne annually. They are planning to establish a stud goat farm with approximately 1,000 goats (maybe co-owned with one of BiH’s supermarket chains). Another that should be mentioned is “Meggle”, a milk processor from Bihac which produced approximately 250 tonnes of pasteurized milk in 2010.

The goat Cooperative “Una” (jointly supported by IFAD and private entrepreneurs worth more than EUR 400,000) in Bosanski Novi is planning to establish a modern goat farm with 500 dairy goats including a cheese making plant with a processing capacity of 7,500 litres a day.

The business corporation “Lijanovici” from Siroki Brijeg has three farms with 200 goats on each. They are planning to open another farm with the same capacity. They currently process more than 25 tonnes of goats’ milk into cheese, which is exported to Croatia, Serbia, and Albania. Milk processing is currently taking place at a plant of “Sapit” a dairy processor from Posusje. Another cheese processing plant with a capacity of 2,500 litres a day is also planned. The future plans are to have an organized cooperative network with 2,000 goats, which will provide milk for their plant.

# 7. Government policy affecting diversification activities

This section outlines governmental policies and regulations at the different levels which affect the development of diversification activities. More specifically, it describes the overall policies for agricultural and rural development as well as the specific frameworks and regulatory conditions at the various levels, including support schemes and control mechanisms.

Issues surrounding gender − with specific focus on rural women's rights − are also described. The section ends with an analysis of the survey of municipalities in BiH, which has been prepared as a part of this study.

## *7.1 The institutional setup: Key institutions*

The linkages and the division of responsibilities between the state level and the entities and DB in terms of rural development and economic diversification are as shown below: The responsibility for developing and implementing agricultural and rural development policy is delegated to entity level. This means that that the state plays a coordinating role.

### 7.1.1 State level

The **Council of Ministers** is the BiH executive body that is responsible for ensuring that the Government functions in accordance with the constitution and other legislation.

**Ministry of Foreign Trade and Economic Relations (MoFTER):** MoFTER is the ministry responsible for:

Implementing foreign trade policy

Tax and customs tariff policy

The creation of a single economic space

The development of business environments

Consumer protection

Competition

Veterinary and agricultural sector coordination

Tourism

Environmental protection

Article 3.1 of the Foreign Trade Policy Law ("Official Gazette of BiH", no. 7/98 and 35/04) defines the term foreign trade policy: "'Foreign Trade Policy' shall be understood to mean State Uniform Principles for the application of all unilateral measures concerning the international movement of Goods and Services, and for the negotiation and the conclusion of any agreements with third countries and regional or international organizations related to international trade". Furthermore, under the same Article, paragraph 3 states that "'Agreements with third countries related to Foreign Trade' shall be understood to mean: any agreement or instrument related to international trade and in particular any trade agreement with other Countries, any agreement with the European Union, any membership in Customs Unions, in free-trade areas and in the World Trade Organization".

MoFTER coordinates the creation of a single legal framework surrounding food, which implies coordination on the development of basic legislation in the veterinary, phytosanitary, quality control and food safety areas, along with the establishment of institutions that are directly responsible for the implementation of such legislation. The activities listed above are fully aligned with the BiH constitution and legislation, as well as with international requirements in this area.

There are a number of other important institutions at State level in BiH, which are relevant for this study. We present them briefly in the box below.

### State level institutions

**Plant Health Protection Administration of BiH** is an administrative organization within MoFTER, responsible for making policy in the area of plant health protection, as well as preparing legislation and dealing with its implementation. It also coordinates with the competent authorities of the entities and BD, and international cooperation is one of its responsibilities as well.

**Ministry of Civil Affairs (MoCA):** MoCA's responsibilities are, *inter alia*, performing duties within the competence of BiH, in terms of identifying basic principles for coordination activities, harmonizing plans made by the entity authorities and defining a strategy at international level in the areas of health care, science and education.

**Food Safety Agency of BiH (FSA):** This is an independent administrative organization whose duties and tasks are defined in the Food Safety Law of 2004. The FSA performs a range of scientific activities such as gathering and analyzing data on food and feed, as well as risk analysis. It also provides scientific opinions to the government, and implements international conventions and treaties in the domain of feedstuff safety. The agency also initiates, drafts and organizes the development of regulations on food and feedstuffs and is the contact point for the *Codex Alimentarius* Commission.

**Veterinary Office:** Established based on the Decision of the Council of Ministers of 18 December 2000. This state authority is under the direct jurisdiction of the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (MFTER BiH). The Veterinary Office harmoniously executes the legally set jurisdictions in accordance with the operative activities of the entity veterinary services, as well as in accordance with the activities of the veterinary service of Brčko District. This is done in order to improve the efficiency and effectiveness of the entire system of services in Bosnia and Herzegovina, and to maintain the status of the internationally recognized state veterinary service. In order to achieve these goals, the Veterinary Office continually carries out the following activities:

- It drafts regulations and co-ordinates the execution of the specific measures, methods and control procedures related to tackling infectious and parasitic diseases included in the A and B lists of the International zoo-sanitary codex of the OIE.
- It proposes veterinary conditions for international traffic of animals, raw materials, litter and products of animal origin (exports and import from and into Bosnia and Herzegovina).
- It prepares and submits proposals in connection with the special conditions for the registration of animal slaughter facilities and implementation of the specific procedures related to the registration of facilities for production, processing, tooling, finishing or keeping the products of animal origin intended for export and import, respectively.
- It drafts regulations for the implementation of the individual programs of monitoring and control of both the animal residuum and the products and raw materials of animal origin.
- It co-ordinates the work of the border veterinary inspectors and proposes regulations for the settlement of unique documentation for exports and imports of animals, raw materials, litter, and products of animal origin. It also establishes the unique information system of the border veterinary inspection.
- It co-operates with international veterinary, health and similar institutions and associations (O. I. E., WHO, FAO, European Commission, etc.)

**Accreditation Institute of BiH:** This is a state level independent administrative organization, which is responsible for conducting accrediting conformity assessment; certification of products, services, quality system and personnel; and inspection etc. The Institute is responsible for certifying processing facilities (dairies and meat processers) and laboratories according to established procedures. The Institute also initiates and concludes bilateral and multilateral agreements on cooperation and mutual recognition in the field of accreditation and represents the interests of BiH in European and international accreditation organizations.

**Institute for Standardization of BiH:** This is an independent state level administrative organization responsible for the preparation, acceptance, publication and maintenance of BiH national standards. It also keeps the register of BiH national standards. It is responsible for international cooperation and represents the interests of BiH in relevant international organizations.

*Source: Horizontal chapters prepared as a part of the sector studies*

### 7.1.2 Entity and Brčko District institutions

**Ministries of Agriculture, Water Management and Forestry**:[102] These Ministries are primarily responsible for the development and promotion of plant and animal production, fisheries and hunting, the protection and use of agricultural land, the food industry, animal feed production, water protection and public health protection. Recently, the inspection activities performed by these ministries have been adjusted by the adoption of the Inspection Laws at entity level, which has reallocated their management to Independent Inspection Administrations that report to the entity governments. In Brčko District this is done within the Department for Public Security.

**Health Ministries**:[103] In addition to their primary responsibility of protecting public health, these ministries are also responsible for sanitation in terms of food and water hygiene requirements (including state border sanitation). Under the new legislation on the entity-level inspection authorities, health-sanitary inspection (in RS) and the health-sanitary-pharmaceutical inspection (in FBiH) work outside the framework of the ministries and have been put into the framework of a special administrative authority; namely, the Administration for Inspections Affairs.

**Trade Ministries**: These are responsible for trade, entrepreneurship, tourism, catering, consumer protection, services and goods prices, stock reserves, food quality control (including the control of exports and imports of food) and trade-marking.

**BD Sub-departments**: These are responsible for matters of agriculture and public health and are part of the Department for Agriculture, Forestry and Water Management: Department for Health and Department for Economic Development.

**Administrations for inspection affairs**:[104] In 2006 the inspection supervision at entity level was established[105] as an independent administrative organization. Insofar as they deal with food and animal feed safety, the following inspections are responsible:

- Market-tourist inspection (in FBiH);
- Market inspection (in RS);
- Health-sanitary (in RS);
- Sanitary-health-pharmaceutical inspection (in FBIH);
- Agricultural and veterinary inspection.

The supervision of border-post inspections falls within the responsibility of the above inspectorates, except in the case of veterinary inspections organized at the state level. Supervision over of these inspections is performed by the entity-level governments, and therefore the entity-level ministries may not perform a direct supervision over their operations.

**Inspections of BD**: Phytosanitary, agricultural, veterinary, sanitary, health care and market inspections are organized within the Department for Public Security in the sub-department for Inspection.

**Non-governmental sector**: Producers in primary production are organized within the entity-level associations of agricultural producers. Manufacturers and dealers are organized within the entity-level chambers of commerce. At the same time, various associative groups, which are not affiliated with the chambers, have also been established. In the FBiH there is also a chamber system at the cantonal level. Consumers are organized in several consumer protection associations.

[102] The Federation MAWMF; RS MAFWM and BD DoA.
[103] Federation Ministry of Health, RS Ministry of Health and Social Welfare
[104] Federation Administration for Inspection Affairs; RS Administration for Inspection Affairs
[105] Law on Inspection in the Federation of B&H (FBIH Official Gazette», no. 69/05), RS Law on Inspections ("RS Official Gazette", no. 113/05)

## 7.2 *Relevant strategies at state level*

In terms of operations, the **"Strategic Plan of BiH for the harmonization of Agriculture, Food and Rural Development"** is the leading policy document at state level. It was adopted in January 2009 and its overall objectives are:

I. To gradually harmonize sector policies and mechanisms at state, entity and canton levels within BiH, as well as to harmonize with the EU (and specifically the gradual alignment with the IPA – Rural Development EC Regulation 1085/2005, Article 172, and its implementing Regulation 718/2007).

II. To progressively establish appropriate institutional structures, capacities, systems and procedures at state level to coordinate and guide the management of pre-accession harmonization preparations and to gradually adopt the agricultural *acquis communautaires*.

The **Harmonisation of the Operational Programme 2008-2011** more specifically targets improving the competitiveness of the agricultural and food processing sectors and harmonizing and implementing rural development measures throughout the country. It was intended to provide a framework for the introduction of pre-IPARD actions, starting in 2008 and allowing the foundations to be in place for the receipt of EU rural development funds by 2011. Furthermore, the AFRD Harmonization Strategic Plan provides a framework within which essential public sector reforms can be introduced. These are aimed at strengthening the coordination and management of the sector, enhancing the role and focus of executive agencies responsible for food safety, veterinary and phytosanitary issues, and accelerating legislative and institutional reforms to ensure gradual compliance with international standards.

**BiH Strategic Plan common framework of priority areas and measures**

To achieve the AFRD Harmonization Strategic Plan objectives stated above, implementation will focus on six priority areas ensuring complementarity and consistency. The six priority areas are:

I. Establish the required functional institutional capacity, coordination and implementation mechanisms at all levels;

II. Enhance the quality and safety of domestic products with a competitive advantage in production, processing and trade;

III. Support primary production with direct farm support measures to gradually align the entities and with EU mechanisms;

IV. Increase the competitiveness of the agri-food sector of BiH through indirect support measures for production, processing and trade;

V. Protect the rural environment of BiH through support for agri-environmental programmes;

VI. Diversify rural activities and improve the quality of life in rural areas.

The box below clarifies the link between two of the policy documents.

**State level harmonisation operational programme and medium-term development strategy**

The State level Harmonisation Operational Programme (2008-2011) provides a detailed action plan for the implementation of the BiH Strategic Plan for Harmonization of Agriculture, Food and Rural Development at state level. The actions have been developed taking those defined in the BiH Mid-Term Development Strategy (2004-2007) fully into account, many of which have either only partially implemented, or not implemented at all. The actions in specific technical areas such as the veterinary and phytosanitary spheres have been revised in consultation with the relevant state agencies.

*Source: Horizontal chapters prepared as a part of the sector studies*

The Draft BiH Development Strategy (2008–2013) and Social Inclusion Strategy has been written. The BiH Directorate for Economic Planning (body of the BiH Council of Ministers) is responsible for coordinating the development of the Strategies. Action plans for state, entity and BD levels have also been developed. Both strategies have been sent for adoption procedure. The focus of the BiH Development Strategy is divided into five strategic goals; namely, competition, macro-stability, employment, sustainable development and EU integration.

According to the Strategy, rural development will focus on:

- Building human resources in rural areas and improving people's access to information, skills and knowledge;
- Improving infrastructure for producing and purchasing agricultural produce in rural areas;
- Improving quality and safety surrounding agricultural products in line with EU standards;
- Sustainable managing agricultural and forest land, livestock and living space in rural areas in general;
- Improving the quality and accessibility of public services for the rural population;
- Improving the position of women in rural areas;
- Building and maintaining rural infrastructure;
- Protecting natural and cultural-historical heritage in rural areas; conservation;
- Diversifying agricultural and non-agricultural activities in rural communities;
- Supporting the establishment of all forms of micro, small and medium sized enterprises in rural areas;
- Developing agro and rural tourism in rural areas.

A large number of measures are defined in the Draft Development Strategy, including the six measures under priority four that relate to supporting diversification activities (see box below).

## 7.3 Republika Srpska

In RS the Rural Development **Strategic Plan for 2009-2015** was adopted in 2009. The plan contains three strategic goals, 16 specific goals, 54 measures and 161 sub-measures. The three strategic goals for RS RD are:

1. Improve competitiveness in agriculture and forestry;
2. Preserve nature and sustainable management of natural resources;
3. Improve living conditions and introduce income diversification in the rural economy.

For this study the third strategic objective is the most important, as are the four specific goals listed in below.

**Overview of measures set out in the Draft Development Strategy for BiH**

**Priority 4. Improving living conditions and introducing greater diversity in income generation in the rural economy:**

Measure 1. Improving rural infrastructure

Measure 2. Supporting the development of rural entrepreneurship, particularly among women

Measure 3. Supporting the production of specific geographically brand-named products

Measure 4. Promoting rural tourism

*Source: Horizontal chapters prepared as a part of the sector studies*

**Last four specific goals of the Rural Development Strategic Plan for 2009-2015**

1. Diversification of non-agricultural and agricultural activities in villages
2. Establishment of micro, small and medium-sized enterprises in villages
3. Improvement and development of rural tourism services
4. Support to local rural development initiatives

*Source: Horizontal chapters prepared as a part of the sector studies*

## 7.4 Federation of Bosnia and Herzegovina of BiH

FBiH is implementing the **Middle Term Strategy for Agricultural Sector Development (2006-2010**), which was adopted in **2007** together with the related Action plan. This plan is still in effect. The specific goals and priorities identified in the Strategy are:

1. Continue rehabilitating the sector from the consequences the war. Clear mine fields and restore land to its previous use. Support returns and improve quality of life in rural areas;
2. Establish sustainable development in the agriculture and food processing industries and increase profitability and competitiveness. Strengthen cooperatives, enterprises, and other producers' organizations;
3. Legally establish agricultural institutions and clearly define farms and other subjects in the agricultural sector;
4. Develop the agricultural market and support the lease of agriculture land;
8. Establish unified management of agriculture and rural development at state level. Establish a single economic space and support the market for agricultural products in BiH;
9. Ensure that agricultural products from BiH make it onto international markets under fair conditions. Prepare for WTO and EU membership. Elaborate support programs and prepare for the implementation of Payment Agency for distribution of EU funds;
10. Support exports of agricultural and food processing products. Carry out external media campaigns to attract tourists to BiH;
11. Protect and properly use natural resources. Support sustainable economic use of agricultural and forest land and waters.

**The Strategy and Action plan contains 12 measures,** several of which support diversification activities both directly and indirectly. The most important measures in terms of diversification are listed below.

**Measures in the FBiH Strategy and Action plan**

- Establish credit and micro-financing systems while giving special allowances for the development of agriculture, the food industry and other forms of non-agriculture related employment for the rural population;
- Develop a Strategy for setting up gender equality through strengthening the role of women in rural society;
- Establish a system of support to female entrepreneurs;
- Develop a Strategy for women and children's health and education;
- Define the set of traditional products with the potential to become products of protected origin, as well as craft products and souvenirs;
- Develop a Program for the development of new products (from the list of traditional products);

*Source: Horizontal chapters prepared as a part of the sector studies*

5. Provide sufficient quantities of good quality food to consumers for reasonable prices;
6. Harmonize the protection of animals and plants and support biological and ecological production;
7. Establish and accredit laboratories. Enable standardization and certification of agricultural products, and establish a system of guaranties and quality management. Build new facilities for food processing;

**The FBiH Operational programme** for agriculture, food and rural development is currently being drafted. It is expected to include activities related to the establishment of the Payment Agency and IPARD.

## 7.5 Brčko District

BD has also developed a **Strategy for Development of Agriculture, Food and Rural Development (2009-2013)** and an **Action plan,** both of which are currently in the process of being adopted. The strategic and operational goals of the strategy are:

1. Intensify crop and animal production;
2. Support revitalisation of the food processing industry;
3. Develop organic production, and apply principles to protect the environment;
4. Improve the use of, and protect, genetic resources in agriculture;
5. Support modernisation and the introduction of European and world standards in agricultural production and processing;
6. Improve the professional education and skills of agricultural producers food processors;
7. Develop vertical and horizontal integration by strengthening of market infrastructure;
8. Develop financial sources for the agricultural sector;
9. Promote rural development.

The strategy includes seventeen measures; most of which are somehow linked to diversification. These are:

- Establishing LAGs and developing capacities for rural development;
- Rehabilitating existing pastures and roads and building new ones;
- Constructing a waste disposal system;
- Improving the quality of the sewage system in BD;
- Creating a movable social infrastructure in the rural area of BD;
- Supporting the establishment of SMEs in rural areas;
- Supporting the development of non-conventional agricultural production;
- Supporting the development of complementary activities on farms;
- Supporting the development of agro-tourism;
- Supporting the preservation of the environment by raising the awareness of local people;
- Promoting the natural and cultural-historical heritage of BD;
- Supporting the preservation of traditional crafts;
- Supporting the restoration of forest resources;
- Improving the legal framework surrounding agriculture in BD;
- Supporting existing institutions that support agriculture and establishing new ones;
- Adapting the agrarian policy to good European practice and the real needs of sector;
- Increasing financial support to the agricultural sector.

## *7.6 Gender equality*

BiH has signed all major international conventions and documents on gender equality. For gender issues related to agriculture **The UN Convention on the Elimination of All Forms of Discrimination against Women (CEDAW)**[106] is the most important. The most important part on this convention in terms of this study is article 14, "Rural Women", which obliges State Parties to take into account the problems faced by rural women and the significant role that rural women play in the economic survival of their families.

**Council of Europe, Recommendation N° 1321 (1997)** on Improving the Situation of Women in Rural Society is another key document. It calls for action on the collection, analysis and dissemination of statistical data and information. It calls for women's participation in decision-making to be increased, ensuring equal access to social services. It also calls for the cultural revival of women as well as an increasing women's participation in the economy (work, education and training, land, and credit).

Besides the **Constitution of Bosnia and Herzegovina,** which secures all peoples rights regardless of sex, race, colour, language,

[106]CEDAW, Convention to Eliminate All Forms of Discrimination against Women

religion, political or other opinions, national or social origin, association with a national minority, property, birth or other status, there is also the **Law on Gender Equality in Bosnia and Herzegovina.**[107] This Law governs, promotes and protects gender equality and guarantees equal opportunities for all in both the public and private domains, and prohibits both direct and indirect discrimination on the grounds of gender. Article 10 of this Law guarantees equal treatment and opportunities and that the elimination of discrimination shall be assured for women in rural areas, so that they may secure subsistence for themselves and their families. **The BiH Gender Action Plan (GAP BiH)**[108] is a strategic document on gender mainstreaming and was adopted by the BiH Council of Ministers on 14 September 2006. The Gender Action Plan contains 15 areas were gender inequality has been identified.

Two of the cases visited focus on empowering women by raising awareness of, among other things, their rights.

## *7.7 LEADER and Local Action Groups*

The LEADER Approach, which is an EU initiative (see box below and chapter 2), should be mentioned in relation to gender equality as well. LEADER represents a method of mobilizing and supporting rural development in local rural communities by strengthening local governments and the democratization process.

A key issue within the LEADER Approach is the establishment of Local Action Groups (LAG), which are aimed at helping rural communities, improve their economic prosperity and quality of life. LAGs represent an innovative part of the EU approach to rural development and include useful networking mechanisms to facilitate cooperation between local government, local NGOs and local businesses. Inspired by the EU model and with UNDP support, LAGs have been initiated in 23 municipalities in BiH. Three of these are now formally registered and operating independently; these are in Doboj, Una-Sana Canton, and in a group of municipalities in North West Bosnia.[109] During 2011, another four LAGs were formally registered, and two started the process of formal registration.

**Case study Association "SNOP" Gučevo-Rogatica**

The focus of the organization is to inform women in rural areas about their rights and potential. SNOP works towards creating an equal environment in the local community. The mission of the organization is to improve the status of women in rural areas by involving them in social communities and to increase their economic empowerment by providing opportunities for greater diversity of revenue in rural areas.

*Priorities for the organization:*

- Area of agricultural production (initiation of innovative forms of production).
- Traditional and cultural values of rural areas (workshops - old crafts and traditional cooking).
- Infrastructure (improving living conditions in terms of access to basic services like water, healthcare and communications)
- Promoting the Gender Equality Law and improving the social lives of women in the community.
- Participation in the development of local strategies for rural development of the municipality Rogatica.

The projects the organization has completed include rebuilding rooms in the village's school, building sanitation facilities, regulating rural water sources, greenhouse production and creating an "Information-Education Centre for Women and Girls".

The organization contributes to household income but not to the extent that it would like to. Projects it has implemented have mainly been financed by donations, including from international organizations. Other funds come from local organizations and municipalities.

*Source: Case studies*

[107]The Official Gazette of Bosnia and Herzegovina", No. 16/03, 102/09
[108]The Official Gazette of Bosnia and Herzegovina", No. 41/09
[109]www.lag.ba

### The LEADER Approach

LEADER stands for "Links between actions of rural development". It is a method of mobilizing and supporting rural development in local rural communities. However, it is not a set of fixed measures, which we normally see with EC Rural Development Policies. Experience and the evaluation of both LEADER+ and the current programme period (2007-2010) has shown that LEADER can make a real difference to the daily lives of people in rural areas. It has generated valuable results in many rural areas in the EU-15 Member States, and it seems that it can play a significant role in assisting rural areas in new and future EU Member States to adapt to today's changing realities.

Since its launch in 1991, LEADER has provided rural communities in the EU with the tools to play an active role in shaping their own future. It has evolved over time, together with the rest of the CAP. Information from evaluations and rural stakeholders, indicate that the LEADER approach is a tool that works well, in quite different situations and types of areas, thus adapting rural policy-making to the extreme diversity of rural areas' needs. For these reason, it has now become an integral part of rural development policy. By encouraging local participation in the drawing up and implementation of sustainable development strategies, the LEADER approach may prove to be a precious resource for future rural policy.

*Source: The LEADER Approach: a basic guide, EC Commission*

Though international partnerships the LAGs have been assisted in developing their capacities for identifying the needs of their communities, defining development priorities, drafting project proposals, improving partnerships between the public and private sectors, but also ensuring that municipalities take appropriate steps to measure the impact of service delivery partnerships, including obtaining feedback from citizens. It is expected that several more LAGs will be established in the years to come.

The experiences that the LAGs have gained represent a prime example of how difficult and complicated it is to work with local involvement and diversification in BiH. The development of the three LAGs has been a long and painful process. The major limitations faced once establishing the LAGs are: (i) bad legislation, which does not recognize these kinds of associations; (ii) the concept of LAGs is new for the local communities, so they are not able to recognize the benefits they provide and (iii) the local communities lack knowledge of how to organize LAGs and how to make them operational. On the other hand, working with LAGs has also generated positive results and impacts, which the case study – conducted by UNDP as a part of their report on Social Capital – emphasizes.[110]

### LAG – Local economic development in the Doboj-Maglaj

Not far from the centre of Doboj, in northern BiH, is a recently restored 15th century fortress, containing an open air stage, a playground, a café, a souvenir shop and a small zoo. The fortress is the centre piece of the Tourism Development Strategy of Doboj's Local Action Group (LAG). The purpose of LAGs is to organize members of a particular community to decide together what projects would benefit the development of their community.

They set priorities, select projects and monitor their implementation and mobilize the necessary funding. One of the major benefits is the fact that LAGs are thereby able to mobilize a wide and diverse network of actors to focus their discussion on what matters to their community and its future. In this way, LAGs are an excellent example of inclusive social capital at work.

LAGs have been started in a number of different regions in the country. The most successful one so far has been the one around Doboj, founded in 2007, which spans the old frontline, including the municipality of Doboj in RS and the neighbouring municipality of Maglaj in the FBiH. So far it has 13 members including the Mayor of Maglaj, the president of the Doboj assembly and representatives of local NGOs and business. Today, cooperation among LAG members works very well and in addition to tourism development, strategies for rural development and environmental protection have also been developed for the two municipalities.

The LAG has successfully expanded the local communities' own capacity to plan and implement economic development projects, which is something that will be extremely valuable for the region as BiH edges closer to EU membership. Experience from other candidate countries has shown that many rural areas lack the capacity to "absorb" the extensive EU funds that become available for rural development. With a well-functioning LAG and with many more visitors enjoying the views from fortress, Doboj and Maglaj municipalities will be well prepared.

*Source: National Human Development Report, The ties that bind – Social Capital in Bosnia and Herzegovina, 2009*

[110]UNDP, National Human Development Report, The ties that bind – Social Capital in Bosnia and Herzegovina, 2009

## *7.8 Capacity at municipality level*

### 7.8.1 Capacity to handle and implement complicated programmes and projects

A survey of municipalities in FBiH and RS[111] was carried out because the municipalities are very important for the development of BiH, not just in the light of IPARD but also in terms of local level diversification. The survey[112] shows that the institutional capacity of local communities to support economic development is a key driving force in the process of diversifying rural economy and improving quality of life. In FBiH and RS, 50 percent and 53 percent of the municipalities respectively have a department, team or a local development agency that is responsible for defining and implementing rural and/or local development. Only 16 percent of these municipalities in FBiH and eight percent in RS have been able to develop a Local Development Agency. This indicates two important facts:

I. Local governments are still not able or willing to democratize the planning process in order to include all stakeholders and to respect the real needs and wishes of local communities. It means that there are a lot of institutional obstacles to applying the participatory approach to development. This might have a negative impact on the capacity of local community to develop and implement development plans, programs and projects.

II. Municipalities lack qualified staff that are able to underpin development (programs and projects) and who can speak and write English. In FBiH, only one quarter of the municipalities has more than four staff members who know how to prepare projects and to communicate in English. In RS, it is one out of ten municipalities. More than 15 percent of the municipalities in FBiH and 13 percent in RS have nobody who is able to do this kind of job. Also, in FBiH more than 90 percent of the municipalities state that they do not have the capacity to prepare applications for EU funds. Only very few FBiH municipalities state that they have a very good capacity to attract money from EU funds. In RS, the capacity for applying EU programs is even worse. One out of five municipalities does not have the capacity to do this at all. In other words, the capacity to apply, implement and monitor complex (IPA, IPARD) projects is low at the municipality level.

According to TACSO[113] 25 percent of municipality employees have never had any kind of higher education. Those who have received education gained knowledge about project preparation and strategy development, but less on how to support developmental processes like democratization. According to the survey, 24 percent of municipalities are implementing EU projects, while five percent are currently in the process of preparing projects. It is important to mention that five percent of the municipality officers that were interviewed (from departments in charge of agriculture) have no information on such issues. This concludes that municipality staff in charge of agriculture and rural development is isolated within their own institutions, which does not support the process of enhancing economic diversification in rural areas.

The survey also shows that 88 percent of municipalities have a strategy for economic development and 54 percent indicated that the strategy contains clear objectives and priorities emphasizing the following areas: Agriculture (64 percent), SMEs and industry (55 percent) tourism (50 percent) and infrastructure

[111] It was unfortunately no possible to include BD in the survey as we missed contact details.

[112] In total 70 municipalities were interviewed – 40 from FBiH and 30 from RS

[113] Project EuropeAid/127427/C/SER/Multi), referred to as TACSO or Tehnička pomoć organizacijama civilnog društva (TACSO) u IPA zemljama (2010): IZVJEŠTAJ O PROCJENI POTREBA, EuropeAid/127427/C/SER/Multi/5, Sarajevo, BiH

(27 percent). At the same time less than one percent of municipalities have created a strategy for rural development. Funds for economic development have been established in 38 percent of the municipalities. In addition 17 percent have established funds for rural development and 28 percent say they have funds available for co-financing EU projects.

### 7.8.2 Civil society and cooperation between municipalities and NGOs

The capacity of the local community to support economic diversification is determined not only by the capacities of municipalities, but also by the capacity and mind-set of NGOs, as well as the willingness of NGOs and municipalities to work together. Some information about NGOs in BiH is provided in the box below (there are very few NGO's working with economic diversification). Also, according to IBHI, NGO's generally have low or limited knowledge of the EU, EU programs and the EU integration process.[114]

New political circumstances demand the more powerful engagement of civil society organizations in order to adapt and harmonize BiH standards to the standards of EU; for example, principles of open society and citizens' participation in defining public policies and the fight against corruption. Currently, civil society organizations seem to have limited capacities for accepting these challenges and a limited willingness to engage in these socio-economic processes.[115]

The NGO sector does not yet have the capacity and influence and support rural development. According to Žeravčić,[116] institutional cooperation between local governments and NGOs is poor, which is illustrated by the fact that only 22 percent of municipalities have an official agreement and joint body to facilitate and coordinate institutional cooperation. These agreements are seen as a tool to distribute budget transfers dedicated to civil society development. At the same time, it needs to be kept in mind that municipalities are the biggest donors to NGOs as more than 60 percent of NGO funding comes from the municipalities. The funding process is, however, not transparent.[117] NGOs apply for annual funding without precise definition of expectations in terms of results, budgets or projects to implement. In other words criteria for how to support NGOs are unclear making it difficult to monitor the NGOs.

**Facts about NGOs in BiH**

The number of NGOs in BiH is increasing each year and according to IBHI it increased from 9,095 in 2005 to 12,189 in 2008. There is approximately one NGO per 280 inhabitants (in Croatia there is one NGO per 130 inhabitants). However, 50 percent of the NGOs are inactive and 60 percent focus on sport and culture.

More than half (60 percent) have an annual budget of less than EUR 15,000, which means that they are highly reliant on volunteers and have maybe one permanent employee. Thirty percent of these employees have an academic education. Only 57 percent of NGOs are members of the BiH NGO network, while 27 percent are members of an international NGO network. This underlines the low levels of trust within the NGOs community

*Source: Independent Bureau for Humanitarian Issues (2009): Analysis of NGO Sector from the Perspective of Social Inclusion, IBHI, Sarajevo, http://www.ibhi.ba/http://www.ibhi.ba/*

[114] Independent Bureau for Humanitarian Issues (2009): Analysis of NGO Sector from the Perspective of Social Inclusion, IBHI, Sarajevo, http://www.ibhi.ba/

[115] Dmitrović, Tijana (2011): Actual influence of civil society in BiH, IBHI, Sarajevo, http://www.ibhi.ba/

[116] Žeravčić, G. (2008): Aanliza Institucionale Suradnje Izmedu Vladinig i Nevladinog Sektora U Bosni I Hercegovini, Kronauer Consulting, Sarajevo, http://www.kronauer-consulting.com

[117] Tehnička pomoć organizacijama civilnog društva (TACSO) u IPA zemljama (2010): IZVJEŠTAJ O PROCJENI POTREBA, EuropeAid/127427/C/SER/Multi/5, Sarajevo, BiH and CPCD (2008): Izvještaj o stepenu razvijenosti civilnog društva u BiH, Sarajevo, BiH, http://www.civilnodrustvo.ba/files/docs/civilno/Index_Stepen_razvijenosti_CD_BiH.pdf

Since 2009, the EU and UNDP have supported the project Strengthening Local Democracy (LOD) project (phases I & II), which aims to improve the relationship between local governments and civil society organizations in BiH in order to maximize the effectiveness and sustainability of their crucial services to citizens and to contribute to democratic stabilization, reconciliation, and the further development of BiH. The total number of municipalities that have signed this Agreement is close to 100.[118]

The survey of municipalities shows that municipalities and big cities partake in the closest cooperation (Sarajevo, Banja Luka, Mostar, Tuzla etc.) and/or with NGOs from those cities. This is a bit of a paradox as on the one hand 51 percent of NGOs are operating in small towns in BiH,[119] although most cooperation is taking place with NGOs other than those from the rural communities.

The case study below is an example of a project which could gain from cooperation with local NGOs in order to boost the project and increase local ownership.

### 7.8.3 Support through Business Incubators

Supporting business enterprises (micro and SMEs) by developing their competences and improving their competitiveness is yet another important factor in enhancing economic diversification. This is usually done through the development of business incubators, especially through a type of agribusiness incubator. According to the survey, 17 percent of the municipalities in FBiH and 20 percent in RS have business incubators, but only one municipality in FBiH has an agribusiness incubator (see the box below). Those incubators usually offer locations (rooms, offices, workshops etc.) for businesses and share the costs of utilities, although support for marketing is not included. The effectiveness of the incubators has been evaluated as good (seven out of ten). This indicates that more effort could be put into supporting sector specific incubators.

**Case study: Eco Product Plehan, cooperative run by the Church: "Franciscans little brothers"**

The area was totally devastated during the war. All of the people that lived there before the war left and only a few people returned after the war. Excellent agricultural land has grown wild, covered by bushes and small forests. The monastery was also completely destroyed. After the war the reconstruction of the monastery started. The Government of Croatia financed the reconstruction of houses for returnees, as well as the partial reconstruction of the monastery. The monastery received various donations for reconstruction which included investments in agricultural machinery.

Four people from the village and the monastery established the EkoProduct cooperative four years ago. The main idea was to try to re-cultivate abandoned land. The monastery has 80 hectares of forest and 10 hectares of arable land, two big tractors and two multicultivators and stables for pigs (10), cows (5), sheep and goats (100 + 120). They are also registered dog breeders (Tornjak, BiH autochthonic breed).

This is remote area even though it is well connected with the town and there are no other employment opportunities. The cooperative employs ten permanent staff members and 10 to 15 seasonal workers. Currently there is no cooperation with local NGOs or other cooperatives.

The business was established with a few defined goals: (1) To find a way of using abandoned land and fruit from abounded orchards in order to raise money for the monastery's day to day activities; (2) To find a product that would ensure a constant and decent income for the monastery and ensure its sustainability; (3) To support local population and ensure opportunities for employment. Overall, this is essentially a development institution: Strengthening the capacity of local people to establish businesses (development of new innovative products and offering advice and practical training).

*Source: Case studies*

[118] Input from the EU delegation in BiH.

[119] Independent Bureau for Humanitarian Issues (2009): Analysis of NGO Sector from the Perspective of Social Inclusion, IBHI, Sarajevo, http://www.ibhi.ba/

The survey shows that 60 percent of municipalities in FBiH and 63 percent in RS have programs that support SMEs. The scope, size and types of programs vary and include:

- Building proper business environments; e.g. an industrial zone supporting establishment and management of associations of cooperatives;
- Developing public private partnerships;
- Establishing "one stop shops" for registration, and decreasing the costs of registration;
- Ensuring efficient credit lines and grant funds;
- Decreasing land and building rents;
- Agricultural subventions;
- Improving planning documentation: physical planning etc.;
- Expanding business infrastructure, especially for SMEs;
- Promoting programs to finance the development of SMEs;
- Improving education for SMEs and co-financing certification processes (quality standards);
- Developing business portals.

In addition, 71 percent of the municipalities in FBiH have not been able to establish business extension services that are capable of supporting the development of micro enterprises and/or SMEs in rural areas. Only 26 percent of the municipalities have been able to develop such services. Most municipalities are not too satisfied with their own performance in this respect even though they recognize the importance of a well-functioning business extension system (17 percent say they have an excellent system).

Summing up, there are no systematic programs to support economic diversification at the municipality level. Programs to support the development of new, creative ideas are especially lacking as are linkages and cooperation between municipalities and business associations and civil society. This link is important in order to improve social capital and economic diversification.

**Agroincubator, Udruga poduzetnika i poslodavaca, Žepče (UPIP)**

Agroincubator is a part of the Association of entrepreneurs and employers Žepče (UPIP). The association was established 11 years ago to provide support to small businesses on issues surrounding registration and developing a favourable business environment.

There is a high unemployment rate and poor purchasing power, which limit the re-development of small businesses. Therefore, UPIP focused on providing employment and income opportunities through the implementation of development projects. This project provides employment and income opportunities in the area with a very high unemployment rate. It creates opportunities for people to be self-employed and to use underutilized resources (land and forest). It provides partial support to almost 3,000 families.

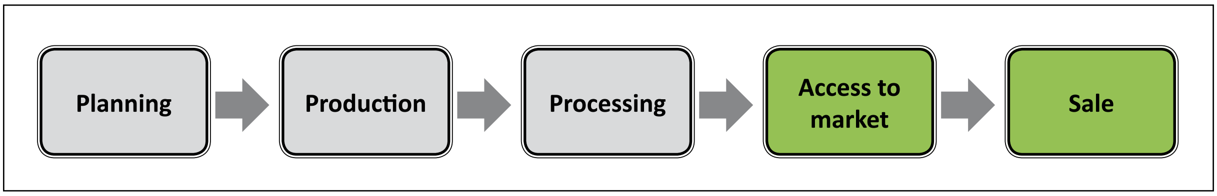
It employs eight permanent workers and cooperates with 27 business entities and around 3,000 individual farmers. The purpose of the project is to generate new jobs. The whole idea is based on cooperation with individual producers in order to decrease business risks and ensure stable income for rural families with few employment opportunities. They have implemented over ten different projects with various objectives; from rebuilding trust within local community and developing the capacity of human resources to establishing businesses and various income raising projects.

*Source: Case studies*

# 8. Market and Trade

This section focuses on market and trade in terms of identifying markets, while taking into consideration the availability of products, supply chains, consumption patterns and the legal framework for trade. Trade, and barriers to trade are also touched upon.

**Figure 8.1: Value chain – access to market & sale**




## *8.1 The market and trade policy facts*

In recent years BiH has made progress in economic development and integration into the world economy, particularly through the conclusion of international agreements such as SAA/IA and CEFTA; also, negotiations with WTO are in their final stage. It is expected that the negotiation of a Free Trade Agreement with EFTA countries will start next year, as will negotiations on bilateral agreements on preferential trade.

The current trade policy in BiH can be described as *ad hoc* at best and it relies on low import tariffs and a reduced number of non-tariff barriers that limit imports from neighbouring countries. More effective trade policy tools such as standards, export service

### Status of the Stabilization and Association Agreement (SAA)

The SAA between BiH and the EU was signed in June 2008 while the Interim Agreement, which focuses on trade-related areas of the SAA, has been in force since July 2008. The proper preparation for implementing the SAA is contingent on BiH meeting political rather than economic conditional ties. The process for legislative harmonization began with the establishment of the working groups in 2006 (most of the groups are still not operational). It is expected that these groups will be rearranged according to the Negotiation Chapters related to accession negotiations with the EU.

The negotiation structures have been established for all agreements (BiH groups for negotiations and participation in the sub-committees established under the CEFTA and IA agreements) and they are operational.

*Source: Horizontal chapters prepared as a part of the sector studies*

### Accession to the WTO

In July 1999, BiH filed its application for WTO membership and a WTO Working Party was established. BiH submitted a Memorandum on the Foreign Trade Regime in October 2002, just as several documents were submitted to the WTO Working Party Members and BiH responded to several sets of questions raised on agriculture, SPS, TBT and TRIPS. Bilateral market access negotiations are currently underway on the basis of revised offers in goods and services submitted by BiH.

An action plan for BiH's accession to the WTO has been developed and is being used to monitor the implementation of scheduled activities and the planning of further activities related to the harmonisation of legislation. The action plan is updated continuously with the progress made in the accession process and in line with future membership requirements.

Bilateral market access negotiations were held in September 2010, some aspects of which were finalised and some of which are still in progress. The process is now in its final stage. The 9th meeting of the Working Party took place on 28th September 2011. The draft Working Party report (revised version 3) was reviewed by Members. The draft Working Party report will be revised for the next meeting.

*Source: Horizontal chapters prepared as a part of the sector studies*

programmes and market development programmes are either absent or not used. BiH has signed a number of bilateral agreements with neighbouring countries that favour BiH. However, due to the inefficient trade policy mechanisms currently in place in BiH, this has not resulted in a significant increase in exports.

BiH's on-going efforts to comply with the requirements for accession to the World Trade Organization (WTO) and with the *acquis communautaire* are significant steps on the road to integration into the world economy and towards the goal of becoming a full member of the EU.

Even though BiH has generally observed the commitments of the Interim Agreement (IA), preparations for future obligations under the Stabilisation and Association Agreement (see box above) present a real challenge to the Government both in terms of capacities and competences. Another important challenge for BiH is the implementation of CEFTA, which is likely to significantly increase the benefits of BiH further integrating into the region.

## *8.2 Market and trade: Economic diversification in BiH*

The majority of products that are not directly related to agriculture are produced for self-consumption and for the local market. The products that are exported most often are honey, medicinal plants and herbs, goats' cheese and wine (see the wine sector analysis for more information).

Roughly speaking the diversification producers can be divided into three groups in terms of export and trade:

1. Those that have the ambition to expand and export more than they do today;

**Central European Free Trade Agreement 2006 (CEFTA)**

On 19 December 2006, BiH signed CEFTA. Aside from establishing a free trade area between its members, CEFTA serves as preparation for full European Union membership. CEFTA has replaced the bilateral agreements that were in place between BiH and individual CEFTA members. BiH ratified CEFTA in September 2007 and it came into force in November 2007. Although at the beginning there was a wide perception that CEFTA would bring no benefits because BiH opened its market to the CEFTA Members, BiH is currently making good progress in increasing its benefits from this regional integration process. However certain obstacles remain in the areas of Technical barriers to trade (TBT) and Sanitary and phytosanitary measures (SPS), and due to the lack of understanding of the diagonal cumulation provisions. Nevertheless, it should be noted that BiH is currently playing a very active role in all CEFTA sub-committees.

In September 2007, the Joint Committee decided to create a Secretariat and three Subcommittees: TBT and NTB, Agriculture and SPS, Customs and Rules of Origin. In 2011, BiH will chair the Subcommittee on TBT and NTB. In 2011 BiH will chair of the CEFTA Subcommittee on TBT and NTB.

*Source: Horizontal chapters prepared as a part of the sector studies*

**Case study: Handy crafts and souvenirs**

This case study represents an example of a project which is mainly targeted at self-employment. The woman in question studied applied art and she has a garage in Banja Luka that she uses as a showroom. She produces her ceramics at her husband parents' house and she also has a small production facility at home. She makes everything herself, although her husband helps to mix the clay. She could buy pre-made material from Germany, but this is much more expensive.

The garage is her showroom but the problem is that few people know about it and she cannot stay there because it is going to be demolished. Her art is mentioned in a UNESCO book on BiH art and tradition and some of her products have even been exhibited in China.

She gets her inspiration from nature (birds), BiH history, religion (white Angels), churches and dreams. Some pieces take three days to make plus the drying process and baking; others are simpler and can be made on the wheel. She makes the smaller items more quickly and she can make 50 pieces a day excluding the drying, baking and glazing processes.

*Source: case studies*

2. Those that have ideas about how to expand their business;
3. Those that only produce for self-employment.

It is quite common for ambitious people to grow more professional in how they run their businesses, and this includes seeing opportunities to export their goods. They often make their own market analyses. Some producers who already export a portion of their products have to turn down some requests since their production capacities are too small. The two case studies below illustrate this point.

Other producers are ambitious in their ideas on how to expand production. For these people it is mostly the local market that is of interest. The case study below reflects this.

**Biljna Apotka, s. Celikovic, Ihac**

This is a family business with more than 70 years of experience. It has now developed into a small company. During the last four years they have been exporting to France, Slovenia, Austria and Croatia. There is a high demand for medicinal herbs and they produce more than 300 types, 48 of which are exported. Five years ago they received an important quality certificate (Herr Elikance) from Switzerland. However, not every importer requests this; some only want to see a small sample of the herbs, which they then test themselves.

Besides the unfinished products, they also have their own brand products. These cannot be exported to the EU because they do not meet national regulations and other requirements. They have sold their own brand products at their pharmacy for many years. People come either with a diagnosis from the doctor or they help diagnose the illness themselves.

The company has four permanent employees and up to 50 seasonal workers. It has seasonal contracts with 40-50 local farmers, as well as international contacts. It is also part of the local organization for herbs producers.

The owner has never taken a bank loan to finance his project. It is not that he wouldn't do it, but Banks in BiH are not willing to lend money to these types of businesses. They are a small business and they cannot live up to the requirements defined by the bank.

The main market for the company is BiH, but if he had further certifications for quality he could sell much more. He often has to turn down requests; for example, a Slovenian company recently ordered 100 tonnes but he was unable to export such a large amount, although if he had the certificate and the credit to expand he could produce much more. His guess is that he could create between 300 and 500 new jobs.

*Source: case studies*

**Case RAKIJA producer Orašje**

In 2006 the owner and his brother invested EUR 30,000 in new processing equipment with money from a bank loan. Until 2006 it was more of a hobby for them, but since 2006 they have been taking it more seriously. The new equipment is the same used in France for producing cognac. In 2008 and 2009 they got a gold medal for quality at an international fair in Slovenia.

Today they produce 3,600 litres per year which requires 30 tonnes plums. They get the plums (bistrica-poxegaoa) from 6-7 farmers near Tuzla and Trebenicv. They buy them from the farmers for EUR 0.35 per kg and from 1 kg they can produce 0.35 litres. They always buy from the same farmers because the quality of the plums in their area is poor.

The 3,600 litres per year is only sold on the local market. In order to become a professional you need to produce 10,000 litres per year. He has the capacity to produce this but he would then need to invest in more equipment and approach the market more professionally than he does today.

They would like to do more professional marketing and have made a kind of market analysis. In their opinion it should be possible to sell the product to supermarkets, restaurants and cafes. The products they have in the supermarket today are of lower quality and more expensive than their product.

The production gives them the chance to work with their passion. He hopes to be able to quit his bank job one day and make a full time living from distilling.

*Source: case studies*

Producers in the first two groups (1) aim to expand and export more than today and (2) have ideas about how to expand their business and often mention the same barriers that either limit or stop production, the most common being:

- Access to funding for developing and expanding production is difficult to get;
- Bureaucracy: There is a lack of knowledge of how to get started exporting or expanding a business; for example, what to do, how to do it, which legislative rules are applied and which are not;
- Unclear national legislation;
- Lack of knowledge about EU compliance requirements for processing and labelling, among other things;
- Lack of knowledge about marketing, market analysis and how to reach the markets, whether local or international;
- Lack of trust in producers' organizations or middlemen;
- Problems with language and automatic communication in general;
- Complicated procedures for obtaining the necessary permits for export, particularly those related to the defining of origin.

Another issue surrounds post-harvest facilities and storage, which often require large investments. From an administrative and supply chain point of view this is essential in order to implement a better plan and sustainable business that is able to respond to demand peaks in a professional way.

# 9. Level of attainment of relevant EU standards

Harmonization of the national legislative framework with the EU *acquis communautaire* is an on-going process in BiH across all sectors. The political institutional structure (state level, entities, cantons and municipalities) makes the process complex thus slowing down adaptation.[120] It is clear that BiH needs to adopt the agriculture and food standards on its path towards the EU. Also, if BiH companies and agricultural producers wish to trade on the global market, they need to build their knowledge and capabilities to increase supply capacity, quality, competitiveness and compliance with standards.

The Study shows a need for more producer organizations taking the role as middlemen in order to enhance access to new markets. They also need to meet standards requirements. National, regional or international standards are considered a significant constraint to achieving this growth and a key limiting constraint to EU market access.[121]

With specific reference to the diversification measures currently available (see chapter 2, figure 2) it is worth mentioning that these differ in terms of eligibility criteria from the measures under axis 1 and 2, especially from the more "competitive" measures under axis 1.

The following issues need to be kept in mind as they are laid down in the EC regulative framework for IPARD with reference to Component 5 under Axis 3:

- "Micro" and "small" food processing units are eligible even though they do not yet have the processing capacities to fulfil the competitiveness requirements of the single European market under axis 1. However, they are viable enterprises for the local and regional markets in Western Balkan countries with some of them having the potential to extend their business activities. Therefore, in future they will more likely apply for support under axis 1.
- Assistance is not restricted to agricultural and fishery products that are covered by Annex I of the Treaty as it is under axis 1. Assistance may also include all agricultural and fishery products and all processing steps.
- Most of the businesses are "micro" or "small" scale, as well as start-up businesses. Therefore, a sophisticated business plan as required under axis 1 is not obligatory according to EC rules. A simple version of a business plan, demonstrating the motivation and business perceptions of an applicant including a sound economic, financial and employment concept is sufficient.

Suppliers from third countries that wish to export with organic labels must meet all the requirements for organic production specified in Regulation EC/834/2007. This indicates that operators need to register with an approved organic certification body and implement an organic certification scheme incorporating annual independent verification of compliance.

BiH has one certifying body for organic production; namely, Organska Kontrola, which has received IFOAM accreditation. This means that Organska Kontrola has adopted standards in accordance with the IFOAM standards. The Organska Kontrola standard is considered equivalent to the EC 834/2007 by IOAS. Any BiH producer with Organska Kontrola certification is able to export products to third countries.

Any applicant in FBiH (whether a producer, processor or collector) needs to apply either directly to Organska Kontrola or indirectly to the Federal Ministry of Agriculture, Water management and Forestry. Organska delivers all requests for support that it receives to

[120] Fostering Agricultural Markets Activity (FARMA), EU markets access constraints for Agricultural and Food Products from Bosnia and Herzegovina, 2010, USAID & SIDA.

[121] IBID

the Federal Ministry of Agriculture, Water management and Forestry. The Federal Ministry considers applications received and make proposals on approval or rejection, after which the Minister makes an appropriate decision.[122]

Twelve BiH companies in the area of diversification are certified to export to the EU market according to the most recently updated list on Organska's website (see appendix D for an overview).

ECON, which is one of the companies mentioned above, was also chosen as one of the case studies for this study (see box below).

been assessed that the Organska numbers are correct (see appendix E for the entire list).

There are two EU regulations that need to be considered in special relation to honey:

- Vertical legislation refers to specific products; e.g. Honey Directive: 2001/110/EC, 2001/158/EC, 2002/337/EC;
- Horizontal legislation refers to all food stuffs; e.g. for contaminants, additives, labelling, Regulation EEC 2377/90, 1530/2002, 2004/621/EC, 853/2004.

EU countries can import honey from outside the EU if the exporting country is on the EU list of third countries. Being listed as a third country means that the country has

**Case study: ECON d.o.o., Sarajevo**

Econ d.o.o. sells organic products through supermarkets. It is a cooperative and is an important implementer of international development projects as well as dealing with pilot farms and education centres. ECON d.o.o. was established through the project "Job creation through organic agriculture" and was financed by the EU and SIDA. The project was implemented between 2004 and 2006 and its total value was around EUR 500,000. It has four full time employees, five part-time employees and over 50 collaborators.

In total, ECON has the right to manage 15 hectares of land in the area of Goražde, Srebrenica and Mostar. The Mostar location, Carski vinogradi, is their largest farm; it is seven hectares with 720 $m^2$ of greenhouses and around 200 $m^2$ of plastic tunnels, one hectare of vineyards (table grapes), 1.5 hectares of orchards and two hectares of vegetable production. The irrigation system is only partially developed. The greenhouses are out of production during the winter as there is no cost-efficient heating system.

According to ECON, the market for organic products exists but it is still a niche market. However, it has enough capacity to increase organic production in BiH. The biggest challenge at the moment is to establish strong organic production across BiH and to establish good cooperation with farmers and other producers.

Another new market challenge has risen in the form of strong competition from Turkey, especially in grape production. Imports from Turkey are cheaper and are lowering grape prices.

*Source: case studies*

In addition to the list above, another 13 organic producers are certified to sell on the BiH market and to other markets outside EU. Both lists are changing and other companies are in the process of being certified. It is worth checking the Organska homepage for the latest numbers.

However, these numbers differ considerably from those presented in the Development Operational Programme (2008–2010) for RS and FBiH, which suggests that there are about 60 certified organic food producers in BiH. In spite of this much higher figure, it has met the EC animal health and public health requirements that govern trade and exports. For products of animal origin, a country must have a national residue control program in place. At the moment BiH is not registered as a third country. In February 2009, the Ministry of Foreign Trade and Economy adopted the Set of Rules on the maximum level of residues of veterinary drugs and pesticides in products of animal origin (including honey) upon suggestion of the State Veterinary Office. Based on this the State Veterinary Office has created a Residue Monitoring

[122]Rulebook on requirements, Federal Ministry of Agriculture, Water management and Forestry (page 44-46) 2010

Plan, which was one of the preconditions to starting negotiations on the inclusion of BiH in the Third Countries List.[123] BiH started to draw up Residue Monitoring Plans in 2004. A FVO mission took place in September 2010, which evaluated the control of residues and contaminants in live animals and animal products, including controls on veterinary medicinal products. The mission resulted in 10 recommendations, nine of which BiH has already implemented. Activities relating to the remaining recommendations, aimed at changing the authorization scheme for veterinary medical products (VMPs), are on-going. It is expected that BiH will be included on the third country list as of July 2012.[124]

Several honey producers have been certified organic by Organska Kontrola (namely, Beekeeping Cooperative Api-Med Sanski Most, Beekeeper Admir Halilovic from Sarajevo, beekeeper Amir Demirovic from Sanski Most). The price of certified organic honey in BiH ranges from BAM 24-30 per kg.

Despite the positive aspects, the study also shows a lack of national legislation, regulation and enforcement, which is hindering economic diversification to some extent. As the USAID and SIDA reports mention:

*"EU markets are increasingly demanding certified quality products and although BiH herbs are known and appreciated on foreign markets, these need to be controlled for quality. As BiH has not defined the national strategy, several agriculture products as well as honey are not allowed into the EU markets. Honey and herbs sectors in BiH have so far failed to recognise the importance and economic benefits the quality cooperation between these two sectors would offer. BiH is lacking legislation in the area of bee-control and quality control, and regulation on the entry of medicines and pesticides that lowers the quality of the final product. BiH honey could reach a premium price if collected from certified organic field of herbs. There are right now very few certified organic honey producers and their production is not significant, in terms of produced quantities, to reach the markets it deserves. Finally, business registration is difficult and time-consuming. Bee-keepers rarely decide to register their business as they are generally unfamiliar with benefits and process of registration".*[125]

**Case study: EKO Bilje – Mozaik foundation: Honey and largest, most modern greenhouse in the Balkans**

The aim of this project was to establish beekeeping and lavender production in Šekovići, which is one of the most remote areas of BiH. The project was constructed as a social business and began two and a half year ago. It took the subjects some time to decide on a social business model rather than a cooperative or a company structure, although it would have been most natural to go for one of these models since there is a tradition in BiH for this kind of business. They decided not to because a market analysis they carried out showed that only very few (4-5) cooperatives actually work well (and these only work well due to strong LEADERship, which means that it is only a cooperative on paper not in reality).

The Šekovići municipality has supported the project by giving them the right to use a former military area (70 hectares) and building for the first 20 years. They have also purchased 12 hectares of land.

The project has created 15 fulltime jobs and they expect to hire up to 50 full time employees in the future.

In the future it is important for them to be ready to export their products and to make contracts with international markets. This is also a focus for the business now. There are markets for high quality organic honey both in BiH and in other countries. Right now they are planning to try to export to Russia and Great Britain, among other countries.

*Source: case studies*

[123]Fostering Agricultural Markets Activity (FARMA), Beekeeping industry in Bosnia and Herzegovina, 2010

[124]Interview with Mr. Drago Nedic, Director of Veterinary Agency. EC representatives visited in Sarajevo during November 2011, and there is positive feedback they will include BiH on third countries latest February 2012

[125]Fostering Agricultural Markets Activity (FARMA), EU markets access constraints for Agricultural and Food Products from Bosnia and Herzegovina, 2010, USAID & SIDA

The case study below is interesting and can serve as a good practice example as it combines honey and lavender production; it brings women with different cultural and religious backgrounds together for work, and is at the same time very ambitious from a business point of view even though it is in one of the most remote areas of BiH.

The introduction of PDO, PGI and TSG systems is yet another important standard connected with economic diversification. The main objective of these systems is to differentiate food products by guaranteeing their region-of-origin or traditional production methods. Consumers are informed by product labels and the focus is on product quality. Council Regulation (EC) No 510/2006 on the protection of geographical indications and designations of origin for agricultural products and foodstuffs, and Council Regulation (EC) No 509/2006 on agricultural products and foodstuffs as traditional specialties guaranteed are relevant in this respect:

- PDO (Protected Designation of Origin) covers foodstuffs that are produced, processed and prepared in a given geographical area using recognized know-how;
- PGI (Protected Geographical Indication) covers foodstuffs for which the geographical link must occur in at least one of the stages of production, processing or preparation;
- TSG (Traditional Speciality Guaranteed) does not refer to the origin but highlights traditional character, either in the composition or means of production.

Summing up, in order to support diversification projects related to food and agriculture, the minimum requirements defined by EU, in terms of hygiene, animal welfare, the environment, nature and food security, need to be ensured.

## 10. Past trends and future developments in terms of investment

The focus of this section is the investment climate for economic diversification in BiH and in particular the investment trends present and past, as well as the planned capacity for the future.

### *10.1 Investment trends*

The situation today − as it has been in the past − is characterized by a **reluctant mind-set** when it comes to investment readiness. Investments, whether large or small, are made with money that has been saved. This is not to say that rural dwellers, micro enterprises and small businesses are unambitious; on the contrary. However, most producers and processors have no experience of applying for funding or bank loans. Both the surveys and the case studies confirm this.

There are various trends in terms of investment. On the one hand there is a mistrust of institutions ranging from authorities (local, entity and state) to politicians and banks, and on the other hand a growing awareness of opportunities and alternative income sources. Some of the case studies find themselves in a locked position. However, they could, if financial capital were available and central regulations were in place, enhance their production relatively easily, thereby creating more jobs. Until then they will continue doing business in the same way as they have done for years.

Only a few of the projects that were visited; e.g. Sekovici and Duga, have applied for and received international funding, thereby gaining experience with this type of work.

Lack of **social capital** in terms of low levels of trust in other individuals, institutions, and authorities affects economic development and thus economic diversification. This is one of the conclusions in "*The ties that bind, Social Capital in Bosnia and Herzegovina*" (National Human Development Report, 2009, UNDP). This study, along with some others,[126] proves that societies that are characterized by high levels of trust – within and across different groups – can help to reduce the costs of transactions between those groups. Low levels of trust between groups can have the opposite effect and facilitate the construction of pointless and burdensome procedures and bureaucracy, thus increasing transaction costs. The latter is − not surprisingly − rather prevalent in BiH, and the case studies, interviews and workshops confirm this. The study points out the difficulties with starting

**Case study: Ekološko-turistički kompleks Ontario – Lake Bistrac, Lukavac**

The owner of the hotel came back to Bosnia ten years ago after 20 years in Germany. He invested the money he had earned in Germany in land for tourist facilities. Today he has 200,000 square metres of land of which 64,000 square metres is covered by a lake. It is the only privately owned lake in this area. The lake contains fresh water and fish which people can catch and which provides the restaurant with fresh fish. Besides the hotel, the owner grows his own organic fruit and vegetables; including water melons, honeydew melons and peppers. These are used in the restaurant and sold on the beach.

It is primarily a family business, but it involves other people as well. No organizations or authorities are involved. So far it has created 15 full time jobs and up to 40 seasonal jobs. The owner's philosophy is to earn the money then reinvest it. He has never taken out any bank loans and he has never considered any funding.

The biggest barrier for his business is corruption; he pays tax to the tourist organizations but never sees any benefit from it as the money ends up elsewhere (he is not mentioned in the tourism brochure of the canton). This project it is very hard work and a bit of a risk. For the owner of the hotel it was also important to have some risk-free (read no loan) money to put into the project.

*Source: Case studies*

[126] Putnam, R. D. 1994. Making Democracy Work: Civic Traditions in Modern Italy. Princeton University Press, Princeton NJ. And Fukuyama, F. 2002. 'Social Capital and Development: the Coming Agenda.' SAIS Review, Vol. XXII, No. 1 (winter-spring), pp.23-37.

up a business, whether micro or SME, in BiH. The process is bureaucratic and complex with long and relatively unclear procedures. Indications of corruption and nepotism were also made by several of the projects that were interviewed, although they could not prove this.

According to data collected by the World Bank "Doing Business",[127] starting a business in BiH requires 12 procedures and it takes approximately 40 days. Globally, BiH stands at 162 in the ranking of 183 economies when it comes to starting up businesses. The table below compares BiH to other countries in the region.

- Commercial banks require documentation of business sustainability such as balance sheets;
- Commercial banks ask for a lot of collateral and for two guarantors who work for public organizations to guarantee the credit payments. Properties in rural areas (agricultural land and buildings) are generally not accepted as guarantees;
- Detailed business plans are required and need to be accompanied by marketing plans.

Besides the perceived risk, making small loans is simply not as attractive to commercial banks as providing larger amounts of credit.

**Table 10.1: How BiH and comparable economies rank on the ease of starting a business**

| | Macedonia, FYR | Regional average | Montenegro | Albania | Romania | Greece | Czech Republic | BiH |
|---|---|---|---|---|---|---|---|---|
| Overall Global Rank | 6 | 39 | 47 | 61 | 63 | 135 | 138 | 162 |

*Source: World Bank's 'Doing Business' assessment, June 2011*

The Global Competitiveness Index 2011-2012, rates BiH at stage 2 which is defined as "Efficiency-driven" and ranks BiH at place 100 out of 142 countries in the global competiveness index for 2011-2012, which is up two places compared to the index for 2010-2011.[128]

In line with above, there is only moderate interest from the **commercial banks** in providing loans to diversification and agricultural related projects, which limits the investment climate. The willingness among commercial banks to provide credit is limited as they perceive rural enterprises and farmers as risky businesses, thus placing high demands in order to decrease their own risks. These demands include:

- The interest rates are very high for start-ups in rural areas and also on agricultural loans to farmers, which they consider private individuals. Interest rates are higher than for other users;

Loan officers are usually not familiar with agribusiness and are not comfortable judging and evaluating requests for credit. Both the subjects of the case studies and the workshop participants mentioned this problem. The box below includes examples of some typical bank loans that were available in June 2011 to farmers and SMEs from the sector.[129]

It should be noted that significant funding for agriculture in BiH comes from loans from international financial institutions; mainly from the World Bank (WB) and the International Fund for Agricultural Development (IFAD), or donations from the governments of more developed countries. IFAD has implemented five projects in BiH since 1996. Since 2001 one of the mandatory components of IFAD projects has been a credit line intended for farmers and SMEs engaged in agriculture. These projects are used equally as extensively by financial intermediaries, banks and micro credit organizations.

[127] http://www.doingbusiness.org/~/media/fpdkm/doingpercent20business/documents/profiles/country/BIH
[128] World Economic Forum, The Global Competitiveness Report 2011 – 2012
[129] Based on data from web sites designated banks

**NLB Tuzlanska Banka a**pproved loans (including to farmers) of up to BAM 50,000 for a period up to seven years, with an effective interest rate of 12.29 percent.

**Nova Bank AD:** approved short-term loans to individual farmers to help them procure of raw materials, agricultural equipment and spare parts. The loans were of up to BAM 10,000, and the repayment periods were up to 12 months with the effective interest rate of 13.17 percent. The bank required that guarantors be provided (one for loans of up to BAM 5,000, and two for loan amounts BAM 5,000-10,000).

**BOR bank** in FBiH offered loans of between BAM 50,000 and 1 million for export-oriented programs and the agro processing industry with a repayment period of eight years, a grace period (for agriculture) of three years and an effective interest rate of 6.96 percent

**Bobar Bank Bijeljina** offered a specific type of loan to farmers for buying tractors, in cooperation with sellers. The repayment periods were up to 36 months, the mandatory contribution of the beneficiaries was 40 percent and the effective interest rate was 12.7 percent. The bank also provided short-term loans of up to BAM 500,000 to agricultural enterprises for a period of 12 months with an effective interest rate of 12.07 percent. it also provided companies loans to purchase agricultural machinery for a period of five years with an effect interest rate of 9.94 percent

**Bosnia Bank International Sarajevo** provided long-term loans for physical entities in agriculture with payment terms of up to 10 years. The loan amounts were dependent on the creditworthiness of the entity taking out the loan and the interest rates were not specified.

**ProCredit Bank** approved loans of up to BAM 50,000 (working capital) to farmers for up to 24 months and for fixed assets for a period to 84 months.

*Source: Horizontal chapters prepared as a part of the sector studies*

**Micro credit organizations** (foundations or companies) are a relatively recent development in BiH. All of the micro credit organizations that there are now were established in the post war period, mainly due to help from international financial and humanitarian organizations. For example, in the Local Initiative Project I alone, which was financed by a World Bank loan, 50,261 loans to approximately 20,000 customers were approved. By the end of 2010 BiH had approximately 25 micro credit organizations. During 2010, there was a 27 percent decrease in MCO loans in FBiH and a 15 percent in RS. This is largely the result of the economic crisis and tighter lending policies due to the significant increase in the number and value of risky loans in the previous period. Due to the aforementioned barriers to accessing bank loans, virtually the only source of loans that farmers have are loans from micro credit organizations. It is estimated that micro credit organizations make loans of between BAM 200 and BAM 300 million per year.

The interest rates that micro credit organizations charge to agricultural enterprises are relatively high and have increased in recent times. In RS, no data is available on interest rates in the sector, but generally for all sectors, and in the FBiH, the weighted average effective interest rate on long-term agricultural loans was 33 percent. It was 25 percent for short-term loans. Generally, interest rates on micro credits in the FBiH are about nine percent higher than in RS.[130]

Another issue that complicates access to funding relates to **ownership**. Women and young people in BiH face difficulties in getting loans since they are rarely the owners of the land or assets on which they want to make investments. Ownership is often is a prerequisite for getting a loan or being eligible for support. As a consequence, starting up a business is very difficult for these two groups. This being said, both women and young people are eligible to apply for funding under the 2010-2015 Strategic Plan of Rural Development. However, the envelope for diversification projects is small and cannot solve the problem of credit for women and young people on its own and co-financing also has to be considered. As mentioned above FBiH and BD do not have strategies on rural development and diversification.

[130]From Horizontal paper on agricultural lending.

Other studies and evaluations show that women are especially successful in creating new income and safeguarding jobs for their families. In terms of young people, although rural-urban migration among this demographic is unavoidable, it could be slowed down to some degree if it were easier for young people to get access to funding or loans.

These barriers definitely hinder economic diversification. The investment climate is very much based on tradition and caution, which is also an expression of low social capital.

## *10.2 Investment needs and plans*

One of the objectives of this sector analysis is to map the investment needs of economic diversification. This section provides information about the articulated needs, based on the case studies, the survey, stakeholder interviews and our own observations.

The 17 subjects of the case studies articulated their investment plans for the coming years (not in writing). Roughly speaking the plans can be put into three different categories:

1. Investments in new technologies such as equipment and storage facilities;
2. Investments in new facilities related to tourism; e.g. baths and toilets, restaurants and accommodation facilities;
3. Investments in marketing; e.g. marketing materials, websites and marketing strategies.

These three investment categories are supported by the survey of fruit and vegetable farmers.

Expenditure varies depending on the type of investment. In measure 5.6 “Investments in diversification and the development of rural economic activities” in the Agriculture, Food and Rural Development Operational Programme for RS (2008-2010) the lower and upper limits of the investments eligible for support are set to BAM 5,000 to BAM 50,000 (approximately EUR 2,750- EUR 27,500) respectively, which is lower than in other countries.[131]

Looking at Rural Development Programmes 2007–2013 from other countries such as Croatia, Bulgaria and Romania, we can see that expenditure on developing micro enterprises is between EUR 5,000 and EUR 400,000, whereas rural tourism projects are in the spectrum of EUR 10,000 to EUR 200,000. Experiences from Montenegro,[132] nevertheless, show the importance of small investments in simple infrastructure projects like identifying hiking or biking routes, investments to mark or clear the route, setting up signs and information boards etc. The point is that large numbers of smaller projects should be supported.

Rural infrastructure projects are often larger and vary from EUR 10,000 to EUR 3,000,000 for municipality and NGO projects. Cases from Romania show that diversification projects are EUR 170,000 on average. However, if rural infrastructure projects are not considered average project funding is EUR 15,000–EUR 20,000.

The Midterm evaluation of the Danish Rural Development Plan shows that small investments in economic diversification projects works as “seed money” and generates spin off effects both in terms of attracting more funding from other sources and in terms of involving people. An average project in Denmark has funding of EUR 25,000. The Danish case also shows that most of the funds are spent in the local area. Local craftsmen are hired and materials are brought locally. The survey among beneficiaries shows that 64 percent of project funds are used by actors within the same municipality, 18 percent used in other municipalities but in the same entity, 14 percent in other entities and the remaining five percent abroad. The study thus shows that the support also has an indirect effect on the local economy, because the beneficiaries spend a large portion of project funds locally and this multiplier effect greatly benefits the municipality in which the project is implemented. When all of these economic impacts are taken into account, it can

[131]The Agriculture, Food and Rural Development Operation Programme 2008 – 2010 for FBiH does not include a budget allocation or investment levels.

[132]Interview with GtZ.

**Table 10.2: Diversification projects supported in RS**

| | 2007 | | 2008 | | 2009 | | 2010 | | 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **No of projects** | **Funds spend (BAM)** | **No of projects** | **Funds spend (BAM)** | **No of projects** | **Funds spend (BAM)** | **No of projects** | **Funds spend (BAM)** | **No of projects** | **Funds spend (BAM)** |
| **Improving competitiveness** (support for associations, introduction of standards, support and additional training seminars | 99 | 998,288 | 263 | 2,456,485 | 142 | 1,247,951 | 53 | 592,927 | 187 | 1,720,938 |
| **Nature conservation and rational management of natural resources** | 3 | 24,327 | 8 | 29,800 | 5 | 372,540 | 72 | 808,515 | 48 | 671,127 |
| **Improving living conditions and the introduction of the diversity in income generation in the rural economy** | 146 | 4,103,379 | 174 | 5,672,660 | 181 | 5,514,209 | 635 | 19,558,275 | 111 | 1,334,664 |
| **Total** | 248 | 5.125.994 | 445 | 8.158.945 | 328 | 7.134.700 | 760 | 20.959.717 | 346 | 3.726.729 |

*Source: Ministry of Agriculture, Forestry and Water Management in RS on mail March 16th 2012.*

be seen that a small investment in an economic diversification project creates a relatively large impact on the local economy. The same can be seen in Montenegro. Bill Slee, Helen Farr and Patrick Snowdon have calculated the multiplier effect of different kinds of diversification projects in "the Economic Impact of alternative types of rural tourism" (1997).

In RS, the Ministry of Agriculture, Forestry and Water Management has supported diversification projects since 2007. In total 2127 projects have been supported with average funding of BAM 21,200.

MoAWF in FBiH has supported 800 projects with average funding of EUR 18,000. In BD the numbers are 300 projects with an average funding of EUR 15,000. The numbers of projects vary and the level of investment for rural development range from EUR 1,000 to EUR 100,000.

The example from Croatia below indicates an average project investment for "diversification and development of rural economic activities" of approximately EUR 40,000 and supports 575 projects. For "Improvement and development of rural infrastructure" projects receive average funding of EUR 143,000. Support was provided to 195 projects. The table below shows the number of projects distributed according to activities and year.

**Table 10.3: Expected number of diversification projects in Croatia 2007-2013**

| **Measure: Diversification and development of rural economic activities** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Total** | **Public expenditure (EUR)** |
| Rural tourism | 25 | 25 | 25 | 25 | 25 | n.a. | n.a. | 125 | |
| Crafts | 20 | 20 | 20 | 20 | 20 | n.a. | n.a. | 100 | |
| Direct marketing | 25 | 25 | 25 | 25 | 25 | n.a. | n.a. | 125 | |
| Processing plants | 15 | 15 | 15 | 15 | 15 | n.a. | n.a. | 75 | |
| Rural services | 10 | 10 | 10 | 10 | 10 | n.a. | n.a. | 50 | |
| Freshwater fishery | 8 | 8 | 8 | 8 | 8 | n.a. | n.a. | 40 | |
| Mushrooms | 10 | 10 | 10 | 10 | 10 | n.a. | n.a. | 50 | |
| Renewable energy resources | 2 | 2 | 2 | 2 | 2 | n.a. | n.a. | 10 | |
| Total | **115** | **115** | **115** | **115** | **115** | n.a. | n.a. | **575** | **23,.458,667** |
| **Measure: Improvement and development of rural infrastructure** | | | | | | | | | |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Total** | **Public expenditure (EUR)** |
| Local unclassified roads | 15 | 15 | 15 | 15 | 15 | n.a. | n.a. | 75 | |
| Fire prevention roads | 20 | 20 | 20 | 20 | 20 | n.a. | n.a. | 100 | |
| Sewerage system and wastewater | 2 | 2 | 2 | 2 | 2 | n.a. | n.a. | 10 | |
| Heating plants | 2 | 2 | 2 | 2 | 2 | n.a. | n.a. | 10 | |
| Total | **39** | **39** | **39** | **39** | **39** | **n.a.** | **n.a.** | **195** | **27,965,333** |

*Source: Croatian IPARD Programme 2007 – 2013*

# 11. Identifying potential and needs in the sector

The SWOT analysis is summarized in the table below. Economic diversification can best be described as fragmented in terms of target groups (farmers, rural dwellers and micro and SME businesses). Therefore, there are some quite different perspectives on needs and focus areas. One of the internal weaknesses mentioned by the stakeholders at both workshops is a lack of a clear institutional structure and strategy for economic diversification in BiH. According to the legal regulations of BiH, all competences for programming and implementation of measures related to diversification are delegated to the entity level. This said, a common or integrated strategy for Diversification was requested at both workshops.

## *11.1 SWOT – analysis*

The SWOT analysis below focuses on the common features that key stakeholders identified and repeatedly mentioned during the workshops. The issues are directly taken from the workshops in both Banja Luka and Sarajevo. This also means that not all issues are supported by the statistical data that is presented in the chapter 2.

**Table 11.1: Economic diversification SWOT matrix**

| Internal Strengths | Internal Weaknesses |
|---|---|
| 1. Favourable climatic, natural and environmental conditions<br>2. Human resources (low cost labour)<br>3. A few local rural development programme (RDP) strategies and one project on LEADER initiatives have been created<br>4. Cultural heritage and tourism potential; namely, spas, fishing, river rafting, traditional foods, handicrafts, churches and tourism<br>5. Increasing awareness of the need for economic diversification<br>6. Organic food production<br>7. Tradition and good climate for beekeeping, medicinal herbs and mushrooms. | 1. Small and fragmented holdings<br>2. Poor cooperation between producers and associations<br>3. Unregulated markets<br>4. Lack of a common BiH institutional structure and strategy<br>5. Difficult to get access to funding<br>6. Lack of trust (Social Capital)<br>7. Demography: A relatively large proportion of old people (Age structure: 0-14 years: 14%, 15-64 years: 71% and 65 years and over: 15%)<br>8. Bad infrastructure, especially rural roads (approximately 20,000 km of roads, of which 60% are local roads, 23% are regional roads and 17% national roads)<br>9. Lack of education and marketing skills<br>10. Lack of entrepreneurial spirit<br>11. Depopulation/migration<br>12. Insufficient involvement of women in developing rural areas |
| **External Opportunities** | **External Threats** |
| 1. EU, national, federal and cantonal financial support and interest subsidies<br>2. Access to IPARD funding at some point in the future[133]<br>3. Access to EU markets for exports<br>4. Increasing demand for organic food in EU countries<br>5. Protection of agricultural products of specific geographical origin | 1. Increased competition<br>2. Complex and inconsistent legislation<br>3. Lack of control (over exports, imports, quality and seedlings) and compliance<br>4. Unresolved legal and property relations<br>5. High interest rates on loans (25-33% for long-term loans)<br>6. Underground economy<br>7. No market potential; e.g. for wool |

*Source: Own data collection through SWOT workshop, 6 & 8 June 2011, interviews, case studies and survey, 2011*

[133]It is not certain when BiH will have access to IPARD. Furthermore, the diversification measure is not included in the first drafts of the programmes and during the first accreditation rounds.

Producers in BiH use the favourable climatic, natural and environmental conditions to produce high quality honey, medicinal plants and herbs and mushrooms. Tradition, knowledge and passion in the production of these products all contribute to their high quality, with specific characteristics representing the "terroir" of the region. Furthermore, the favourable climate, cultural heritage and nature are also considered to be strengths in attracting even more tourists to the country. Additionally, Human resources and cheap labour are strength, although this is partially cancelled out by the lack of education among rural dwellers.

### Lack of knowledge and unorganized markets: Beekeeping, sheep and wool production

**Beekeeping:** There is a low level of knowledge and skills when it comes to new technologies, management, production and strategies. Networking among the supply-chain stakeholders is also poor. These issues are typical for many industries in BiH (mushroom, wool, goats etc.); however, for beekeeping it has been suggested that with only modest inputs of resources this problem can be tackled (partly because this sector does not have a high entry barrier cf. Porter's five forces and his theory and framework for industry analysis and business strategy development). The case studies corroborate this assumption.

It is also known that the market and the environment have the potential to allow a large number of beekeepers to competitively work alongside each. However, due to lack of organized, better controlled, and protected production, beekeepers are often constrained to individual production and are unable to compete with large overseas producers due to a lack of economies of scale and inability to competitively price their final produce. The potential and current aggregators face difficulties in obtaining inputs for production and often need to import these from other markets, due to the highly fragmented market. The Sekovići case study (EKO Bilje – Mozaik foundation) is an exception to this, or more correctly, a good example of how to make larger scale honey production, combined with herb production.

As individual production is low, producers have to sell door-to-door, which keeps them actually producing more honey. These door-to-door sales have so far not been matched by processors or by middlemen.

The **Wool market** in BiH is also heavily fragmented and one segment of the market; namely organized collection is missing entirely. Each segment of the market lacks information from other complementary segments and this aggravates the situation. The main dealers estimate that approximately 400 tonnes of wool is not collected, which could be a job for associations, cooperatives and farmers groups. Currently, two wholesalers and three processors are making collections.

Links within the processing sector and its complementary segments are also weak or in some cases do not exist at all.

Farmers do not know where they can sell their wool although there is significant demand among wool dealers. While farmers across the country are reporting stocks of unsold wool from the last two or three years in their barns, the biggest wool dealer is planning to import 800 tonnes of wool from Croatia and export it to Turkey. Some processors complain that they cannot locate farmers who produce finer wool. The handicrafts sector is complaining that they are having difficulty finding yarn made of finer wool.

Wool production and collection as a primary part of the wool market was well organized in BiH before the war. Cooperatives (as part of business-agricultural corporations) collected and marketed all surpluses of wool from private farmers and state owned stood farms. Three different entities in different regions provided all the feed and agricultural commodities. Each of these corporations had totally closed production cycles.

Since the war the system of cooperatives has not recovered and in some regions wool collection does not exist at all. Also, the existing organizations do not have the capacity to perform their designated roles.

The **Sheep sector** is traditionally dominated by small scale sheep breeding and production systems. Farmers lack technical knowledge, which results in low productivity and profitability. Development strategies for individual agricultural sectors have not been implemented. There are no specialized breeding institutions and professional staff supporting the sheep sector. The number of indigenous pure bred high genetic Pramenka pedigree sheep is small and it cannot satisfy increasing demand on this market. Support of existing extension services (mainly at regional level) is insufficient to support producers and cannot offer valuable up-to-date advice and information. There are no permanent training and demonstration facilities for sheep farmers.

In order to meet the requirements of the wool market, farmers need to be advised on how to prevent fleece contamination, as well as on shearing techniques and how to wrap fleeces and pack them into sacks.

*Source: UNDP sector studies for wool and sheep as well as Bee keeping*

The weaknesses of diversification include unregulated markets, small scale and fragmented farms and a lack of trust at micro, mezzo and macro level, which among other things, results in poor cooperation between producers and associations. Furthermore, promotional and marketing skills are still weak. The box below gives an illustration of three unorganized markets (beekeeping, sheep and wool), in which knowledge is lacking.

Stakeholders expect a boost in tourism in BiH. It has been difficult to get solid tourist statistics, although case studies indicate that there has been an increase in tourist visits, although they have also seen stagnation in recent years due to the economic crisis. Sarajevo is a much bigger attraction to tourists than rural areas are. This is also touched upon in the Wine Sector Report, including an investment plan for wine tourism.

**Case study: Ekološko-turistički kompleks Ontario – Lake Bistrac, Lukavac**

The motivation for building the tourist complex was a wish to create a place for people to come and relax: Both for local and international tourists. They started by building the restaurant and today the place has the following facilities:

- Hotel with 20 rooms and a restaurant
- 10 bungalows with 2, 3 or 4 person bedrooms
- A place for auto campers
- A place where people can set up tents
- Basketball and volleyball courts
- A waterslide for children

On Sundays the house is almost always fully booked (200-500 visitors). During the week the hotel has approximately 1,000 visitors.

The place is primary visited by people from Bosnia but an increasing number of visitors from other countries (e.g. Italy, Germany and Holland) are coming, as are Bosnians who live abroad. The owner is very much aware of the fact that most tourists in BiH today go to Sarajevo. Most of the visitors come for a day but if they come for a longer period it is typically between five or seven days. There is a lot of potential for the hotel because people are prioritizing vacations more and more.

The challenge for the hotel is to be able to meet the demand of the tourists. At present they have too few beds and have to reject too many people because the hotel is fully-booked. However, he also needs to invest to ensure it remains attractive for the guests; for example by improving toilets and bath facilities and providing internet access.

The hotel owners are also feeling the financial crisis, specifically because families are deciding not to come because it is too expensive. People have less money to spend and unemployment rates are increasing. Also, the number of international tourists is decreasing; especially visitors from Italy. However the owner believes that in the future they will be able to expand somehow.

*Source: Case studies*

**Case study: Tourist route**

Along the wine route there are 22 wineries covering a total of 1,162 hectares which amounts to one third of all hectares, most of which are registered. On average they have 53 ha.. There are also a number of subcontractors. They are also buying grapes at the market for processing.

There are a total of 990 seats for tasting, all of which have shops for selling their wine. Ten of the wineries also provide accommodation. In total there are 312 beds, and on average 31 beds in 16 rooms at each winery. These ten also have restaurants for organised dinners and lunches.

Developing a medicinal plant and herb route is another idea. For instance Bihac is trying to brand itself as a tourist destination. One of the case study subjects wishes to make a tourist route where, after having been rafting on the Una river, visitors could go to farms growing medicinal plant and herbs, see how the products are processed and then buy products from their pharmacy.

*Source: Diversification study and case studies*

Another opportunity connected to tourism is cross-linking to MAP production and developing different various wine routes. According to the wine sector study, BiH already has a wine route with 22 wineries.

Another opportunity is the potential to enhance production and the export of medicinal plants and mushrooms. Mushroom production does have good potential for expansion and the unregulated market is the main constraint.

The international market for organic products in general is growing (demand is higher than supply) and is considered an opportunity for the sector, as well as a more proactive utilization of the *"terroir"* concept and protection of agricultural products with specific geographical origins. This opens the market to imports from non-EU countries like BiH (depending on compliance with EU requirements and inspection rules).[134] Getting access to IPARD funding will support this opportunity.

Desk research, the case studies and the survey all underline the fact that rural dwellers tend to lack knowledge and capacity in terms of economic diversification on the one hand, but have a great willingness to invest in their future on the other. Expansion and strengthening of agricultural extension services is one important method of taking advantage of the willingness to create a better life and expand business for the many rural dwellers that are already partaking in some kind of diversification activity.

**Mushrooms: Potential for additional production in an unregulated market**

There is a great diversity and quantity of mushrooms in BiH. BiH is located in a moderate northern zone, which is the best climate in which to grow mushroom thanks to rich deciduous and coniferous forests, an extremely large number of plant species and diverse soil types. Temperature, air humidity, vegetation and an abundance of quality nutritious substrate are the keys to growing wild mushrooms. Therefore, a great number of mushrooms and other wild edibles are present across the territory of BiH. The collection of a smaller number of economically important mushrooms dominates in BiH. These are primarily bolete (Boletus edulis); morel (Morchella conica); chanterelle (Cantharellus cibarius); Caesar's mushroom (Amanita caesarea); black trumpet (Craterellus cornucopioides) and saffron milk cup (Lactarius deliciosus).

The export of collected mushrooms is growing every year. According to the data there were from 2010 significantly more mushroom exports than in previous years. A considerable number of non-utilized facilities in rural areas can be adapted for oyster mushroom production in particular. "Bio Šamp" Šije – Tešanj indicates how production in greenhouses has a big advantage over purpose built structures. One of the reasons is the possibility for an organic mushroom production (disinfection with steam vapour only), which is far cheaper.

However, the biggest problem that mushroom producers face is that the growing market is completely unregulated. Numerous mushroom growers have reduced or given up mushroom farms as a result of the collapse of the economy in BiH, and due to nature of the market and low prices. Another problem is that as yet there is no social or business environment in this sector. Despite some individual successes, these have not been enough for the overall sector to succeed or to allow for a single business and economic environment or a single market to be built, nor has there been any progress in the entrepreneurial climate.

Better support could be given to the oyster and shiitake mushroom growers since these varieties make more profit and will require fewer investments. Also, production conditions are similar to natural conditions, and imported inputs are not needed as much. The focus today is almost solely on growing button mushrooms, although demand is low and the market may be saturated. Also, the emphasis is on price rather than on quality. In terms of wild mushrooms, combined with poverty and helplessness, most of mushroom collectors can only demand very low prices.

The main problem seems to be the lack of knowledge in production, processing and especially in networking. Also the European market demands a certain level of quality, a certified product, and that contractual agreements are followed. All in all, meeting these requirements would involve technical and technological adaptation of production to the European standards.

*Source: UNDP study for mushroom*

[134] http://ec.europa.eu/agriculture/organic/organic-farming/what-organic/imported-food_en

According to the municipality survey, 71 percent of municipalities in FBiH and 63 percent in RS are not able to establish extension services capable of supporting development of SMEs in rural areas, even though there is already an advisory service in RS. Without efficient extension services it will be difficult to improve the capability of human resources, develop social capital and transfer knowledge and technology. A sectoral and cross-sector association could also be one solution to poor cooperation and weak bargaining power, as well to the problem of the lack of trust.

Finally, regarding the external threats to the sector, the most commonly mentioned threat besides the general world economic crisis, was the lack of legislation and a common framework strategic plan for diversification at state level. Where there is legislation it is overly complex. As a consequence there is no overview and no coordination of on-going initiatives, which means that incorrect decisions can be made; e.g. supporting an area where the market potential is poor. An example of this is given below. Finally, high interest rates on loans from the financial sector are considered a threat to development in the sector.

**Wool: Very little or no market potential**

As revenue from wool constitutes less than one percent of gross income for sheep farmers the report does not see wool as having great market potential. An organized wool market would result in increased processing of greased wool. Still, when the greased wool does not meet textile industry requirements and when Chinese imports have devastated textile production in BiH, there does not seem to be a market for wool production.

Currently, wool is being thrown into rivers or set on fire as a result of the lack of a structured collection. Organized wool collection could perhaps resolve this issue. Vermicomposting could be another option. In addition to this, exploring sheep dairy production, increasing production of meat and the production of vermin-compost can increase productivity and profitability of sheep farms.

*Source: UNDP study for wool, publishing year unknown*

## 12. Identification of training needs in the sector

The analysis has shown the need for upgrading capabilities and skills in order to enhance economic diversification in BiH. These needs have been identified using several data sources, but primarily though the survey of municipalities, the farmer surveys, the two stakeholder workshops and the case studies. This having been said, the training needs that have been identified are in line with needs pointed out in other studies (e.g. the study on Social Capital from UNDP).

The table below provides an overview of the training needs including which target group the training should be targeted towards.

The motivations for the identified training needs are as follows:

**Lack of knowledge about IPARD:** At ministry level, at universities and among a few key stakeholders IPARD is well known and understood. However – and quite naturally – not a lot is known about IPARD at municipality and local level and among micro enterprises and rural dwellers as well, who are the ones that will be applying for IPARD funding thereby ensuring implementation of the programme. There is therefore a need to inform these target groups about the possibilities and the measures included in the IPARD programme.

**Lack of knowledge about EU and national compliance/requirements:** This was especially highlighted by the case studies and at the workshops. They mentioned the need to educate rural dwellers, extension service staff and maybe also municipality staff about national and EU requirements and compliance. There is a need to enhance the understanding of *"what do I need to do in order for me to gain a better income/export my goods etc."*

**Lack of knowledge about what diversification is**: Diversification is a new concept in BiH: Therefore, there is a need to train and inform not just those who will be responsible for informing and advising about diversification measures; e.g. extension services, municipalities, NGO's,

**Table 12.1: Identified training needs and target groups**

| Training Needs | Target group* |
|---|---|
| **EU and Diversification** | |
| Lack of knowledge about IPARD | Municipalities & potential beneficiaries (rural dwellers and micro enterprises) |
| National and EU compliance/requirements | Municipalities, extension service, micro enterprises & potential beneficiaries |
| What is Diversification? | Ministries at entity level (high level), Cantons, municipalities, advisors (training- of- trainers), NGOs/ associations & potential beneficiaries |
| **Project design** | |
| Preparation of a project application | Municipalities & potential beneficiaries |
| Preparation of a business plan | Municipalities & potential beneficiaries |
| How to do accounting | Potential beneficiaries |
| Training in attacking international funding | Cantons, municipalities & NGOs/associations |
| **Market related issues** | |
| Basic marketing skills | Potential beneficiaries |
| Web site designing | Municipalities and potential beneficiaries |
| **Other** | |
| Language skills (English) | Staff at NGOs, municipalities, micro enterprises |

**The target group list might not be complete*
*Source: interviews, workshops and surveys*

but also potential beneficiaries such as rural dwellers, micro enterprises and associations. During this study a lot of time was spent on explaining what diversification actually is to potential beneficiaries and stakeholders. At the workshop it was also pointed out that there is a lack of understanding of what diversification is at ministry level as well.

**Project applications and Business plans:** The study shows that there is a large knowledge and competences gap in terms of IPARD application forms and national funding. There is also a lack of knowledge on business plans. The case studies show that potential beneficiaries are not used to applying for any kind of funding. They do not know how to do it as a matter of course and they often need help transferring their ideas to paper. The municipality survey also shows a similar need among municipality staff. They have limited knowledge and experience of applying for funding, and making other kinds of applications.

**Accounting:** This is another issue that that several stakeholders mentioned. This training need is not directly linked to diversification projects but needs to be mentioned anyhow as it is a real problem for the potential beneficiaries.

### "Duga" Women's association

The Duga women's association was officially registered as one of the first NGOs in the Republika Srpska in May 1995. In the beginning, Duga helped women and children. Through their projects, Duga is coming up with ideas for many ways to help women and their families. Duga helps women who are part of work rehabilitation projects to make souvenirs and handicrafts.

Duga is one of the few organizations that has a lot of experience in making ethno-products and souvenirs, and in this way it cherishes and promotes traditions and culture in the region as well as further afield. Over the years Duga has cooperated with many international organizations which recognized the most important values of work on the democratization of society in Duga`s program. The international organizations with which Duga cooperates are: UNHCR, WFP, ODA, IOCC, Women's shelters, USAID, Fridrich Erbert Stiftung, Malteser Hilfsdienst, Soroptimist club Rosendal, etc. They also cooperate with local NGO`s and public organizations.

More and more people have become interested in traditional handicrafts and they are now sold on the internet. The domestic market is not big enough so they have to promote their products internationally. So far now they have sold products to UK, USA, Canada, Australia, Germany, Austria, Spain and Italy.

*Source: case studies*

### Case study: Web portal

This is totally new family business established by a young well-educated person with a big social network. Almir, who is the 30 year old owner and founder, has excellent work experience (IT company, bank and finally Turkish-Bosnian business development initiative). He is well informed and able to recognize market trends and still hidden market potential; namely, young, well-educated people with good jobs, who pay a lot of attention to way they eat, and who take special care of child nutrition.

He decided to innovate and to follow UK experience with organic boxes. He established an internet portal called krompir.ba (potato.ba) and service he named ZELENARA (this was the name of small old fashion stores that sold fresh vegetables and fruit). Today he has 60 customers who buy one box per month (on average). He delivers the boxes to the customers at the weekend. The plan is to have 1,000 customers per month in one year. He has employed his parents and two additional family members. He buys the vegetables from 15 farmers in the neighbourhood.

His intention is to sell top quality – and mainly organic – vegetables, although he does not have organic certification yet. His marketing strategy is to focus on high quality products and excellent service at a premium price (more than 100 percent higher than normal prices). The main market segment is young married couples with small children. These customers are well educated with good jobs and are well informed about all social and market trends and most of them are on Facebook. They know about good nutrition and how important it is for their children. They lack time to go to green markets so for them to have fresh vegetable delivered to their doors once a month or once a week is great.

*Source case studies*

**How to attract funding:** This concerns both national and international funding. The municipality study and the case studies of associations especially illustrate this need. The knowledge about potential donors and funding programmes is limited and the same goes for the skills and competencies of staff.

**Basic marketing skills and websites:** Access to the market has been identified as being one of the major challenges for rural dwellers, micro enterprises and associations. The challenge is very much linked to the fact that they have very limited insight into conducting simple marketing activities like designing websites and assessing their market potential. The case study below is an example of a new innovative way of marketing in BiH.

**English language courses:** This is a huge language barrier, especially for staff at municipalities, NGOs and micro business. Overcoming this barrier requires cooperation with international partners.

# 13. Outcome: Conclusions and recommendations

This final section of the report represents the main conclusions and recommendations for Diversification development in BiH.

## *13.1 Data availability*

**The official data that was available to use for the study was fragmented and not always reliable.** Sometimes there was no data at all. For instance, the BiH Statistical Agency and the entity level statistical authorities do not provide any socio-economic indicators on rural dwellers or on women living in rural areas, which for a study like this, are important. In order to supplement the missing data, studies prepared by other donor organizations were used (UNDP; Swedish International Development Cooperation Agency (SIDA), USAID, etc.) These studies provide crucial indicators on the current situation in rural BiH. However, the data is not representative. In addition, data is not always consistent and can differ from source to source. For example, according to the most recent update from Organska Kontrola,[135] 12 BiH companies working in diversification are certified to export products to the EU and 13 are certified to sell products on the BiH market and other markets outside the EU. This number contradicts the figure quoted in the Agricultural, Food and Rural Development Operational Programme (2008-2010) for RS and FBiH. Here it is noted that there are approximately 60 certified organic food producers in BiH.

**Therefore, the outcome and recommendations of the report are based predominantly on research and data collected through the case studies, the survey and stakeholder interviews, as well as on desk research of other available reports.** This made it more difficult to include quantitative analysis and so there is a **stronger focus on qualitative analysis.**

## *13.2 Economic diversification in BiH*

There is no systematic programme for, or approach to, diversification in BiH at state level today. The initiatives and strategies that have been developed are delegated to entity level; for example, the 2010-2015 Strategic Plan for Rural Development for RS and the 2008-2010 Agriculture, Food and Rural Development Operational Programme for FBiH. This is due to the fact that the authorities at state level have neither responsibility nor authority for agriculture and rural development. This fact makes it extremely important to have a clear, well-defined strategy and systematic approach towards diversification in which the IPARD programme and measures can play a crucial role as one of the instruments to contribute to the implementation of the approach/strategy.

**The study shows that rural dwellers in BiH are keen to supplement their main income, which is an important point of departure for developing solid and sustainable economic diversification**. Already, a great deal of both on-farm and off-farm activities are going on; these include mushroom production, handicrafts and beekeeping. The survey carried out as part of the review of the fruit and vegetable sector shows that 51 percent of respondents had extra income earning activities apart from farming. Farmers in RS are more active in diversification than those in FBiH. Fifty nine percent of farmers in RS have extra income on top of what they make from farming, while in FBiH the figure is 44 percent. The only difference in diversification activities between the sizes of farms is between the medium-sized farms and the other types of farms. Fifty seven percent of farms of between 5 and 9.9 hectares partake in extra income activities apart from farming.

**In addition, municipalities are becoming aware of the importance of creating new**

[135]Organska Kontrola certifies standards for organic production and processing in BiH

**jobs and income possibilities that are not primarily related to agriculture.** In order to face this challenge, many municipalities have decided to support small and medium-sized enterprises (SMEs) and others have business incubators. However, only one municipality has an agribusiness incubator.[136] Moreover, funds for economic development have been established in about a third of the municipalities and some others have established funds for rural development. In other words, some municipalities are supporting alternative income possibilities and job creation. However, it has not been possible to identify the exact numbers of projects supported.

**The 17 case studies illustrate a great diversity in activities**; ranging from rural tourism initiatives, to rural women's associations and keeping rural traditions alive. There are also ambitious and large-scale investment projects like Sekovici and the export of medicinal plants and herbs, which illustrate the diversity of the ongoing projects.

**The case studies demonstrate that the keys to success are dedication, passion and an in-depth knowledge of the field in question.**

**Ambition and being receptive to new ideas were common attributes of the case study subjects, but of course hard work and a business plan, including access to funding, are also required**. The majority of the case study subjects had no experience of applying for funding; rather they tend to make investments from their own savings. A few of the projects, such as Sekovici and Duga, have applied for and received international funding and thus gained experience with this type of work. On the other hand, a bottom-up approach and motivation in terms of feeling involved and seeing things grow is in itself a key factor for many owners. This indicates that it is important to frame the supporting structure in such way that these key success factors are supported.

**Better infrastructure is required and so is a more effective and better organized advisory system, not just for farmers but also for rural enterprises (micro and SMEs).** The fruit and vegetable survey clearly demonstrates that farmers in RS have better access to extension services than farmers in FBiH do (where extension services are essentially non-existent). Access to information about what diversification is and the type of projects that can be categorized as diversification projects is essential, including information about financing opportunities.

**Another key factor is the low level of social capital,** which takes the form of farmers' lack of trust in each other, institutions, and the authorities. This hinders economic development and thus economic diversification. Another example of the lack of social capital is the lack of producer associations and middlemen in BiH, and yet another is how difficult it is to start up a business (micro or SME) in the country; which is bureaucratic and complex with long and difficult procedures.

## *13.3 Diversification: Market*

**Economic diversification activities are cauterized by unregulated markets, small-scale and fragmented farms and a lack of trust at micro, mezzo and macro level,** which results in poor cooperation among producers and associations. The study gives several examples of unregulated markets; e.g. mushrooms, sheep, medicinal and aromatic plants (MAP) and beekeeping can all be mentioned. It is a common factor that due to a lack of organized, better controlled, and protected production; producers are often left to produce on a purely individual basis. Local producers are often unable to compete with large overseas producers because economies of scale cannot be applied and due to an inability to competitively price their final products. There are, however, some exceptions to this.

[136]According to our own survey among municipalities

**The majority of products not directly related to agriculture; for example, handicrafts are produced for self-consumption and for the local market and exports are limited. Some products like honey, medicinal plants and herbs, goats' cheese and wine are exported in larger quantities**.

Generally speaking the diversification producers can be divided into **three groups** in terms of export and trade:

1. Those that have an ambition to expand and export more than they do currently;
2. Those that have ideas about how to expand their business;
3. Those that only produce for self-consumption.

Farmers face several barriers to achieving their goals**. A common barrier is the lack of access to capital needed to make the required investments; e.g. in post-harvest facilities and storage**. Another barrier is lack of knowledge about how to prepare marketing plans and other simple marketing activities.

## 13.4 Institutional and regularity challenges and EU standards

**First of all, it is a challenge for the subsectors to operate in an environment in which there is no common regulatory framework**, either for diversification as such or for several of the specific sectors treated in the study, like honey, medicinal plants and tourism. There is no state ministry that is responsible for the common or horizontal framework conditions for diversification, and entity and canton level regulations cause unharmonized and unfair competition in the sector. It is crucial that diversification be implemented in a decentralized way, although it is considered important to have a common framework that lays out the principles for "what diversification in BiH is" in order to harmonize procedures and regulations within the existing institutional structure.

In order to support diversification projects related to food and agriculture, the minimum requirements defined by the EU in relation to hygiene, animal welfare, environmental protection, and food security need to be ensured.

## 13.5 Investment needs

One of the objectives of this analysis is to map the investment needs of rural dwellers involved in activities related to economic diversification. Based on the case studies, the survey, stakeholder interviews and observations, a number of different types of investment needs have been identified.

Generally speaking investment needs can be categorized as follows:

1. Investment in new technologies (e.g. equipment, storage facilities).
2. Investment in new tourism facilities (e.g. restaurants and accommodation facilities in order to meet EU standards).
3. Investment in marketing (e.g. marketing materials, websites and marketing strategies).

The lack of funding and access to credit is the barrier most frequently mentioned by farmers. Rural dwellers and enterprises are not seen as attractive customers and banks do not have enough experience of the risks surrounding diversification activities and so are unable to evaluate business plans and credit requests. This makes interest rates very high. The conditions are better for micro loans; that is, the interest rates are lower, although these have also increased recently.

Looking at the EU Rural Development Programmes 2007-2013 for countries like Croatia, Bulgaria and Romania, they are spending a great deal more on micro enterprises and rural tourism projects. Experiences from Montenegro show the importance of small investments in simple infrastructure projects, such as identifying hiking and biking routes and setting up post and information boards. In Stara Planina National Park in Serbia, they have good experience of supporting the construction of small bridges and roads, which contributes to improving the opportunities for rural tourism and diversification in general.

Rural infrastructure projects are often larger and vary from EUR 10,000 to EUR 3,000,000 for municipality and non-governmental organization (NGO) projects. Examples from Romania show that diversification projects require an average of EUR 170,000. If rural infrastructure projects are excluded from the calculation, the average project size is reduced significantly to around EUR 15,000-20,000.

## *13.6 Weaknesses in the value chain*

The sector analysis reveals several weak links in the value chain for economic diversification. Most of the barriers identified are related to the planning part of the supply chain and access to markets:

a. **Planning** (business plans, strategies and funding)
b. **Access to markets** (how to get there, how to undertake marketing and what to do first; boost production for the market or identify and explore new markets and then boost production, quality levels, etc.)

This does not mean that there are no challenges or barriers connected with production or processing, as the sector analysis shows that there are. However, these challenges are more structural and connected to national initiatives (e.g. upgrading legal frameworks and creating national guidelines for quality requirements). These are the conditions that would underpin and regulate not just the market, but also the production and processing part of the value chain.

However, rural dwellers have an in-depth knowledge and insight about how to run their production and this knowledge is often passed down from generation to generation.

## *13.7 Identification of potential sectors or areas for economic diversification*

**The study has identified potential for growth and expansion in a number of areas in BiH. Besides rural tourism, there seems to be excellent potential for developing the following areas:**

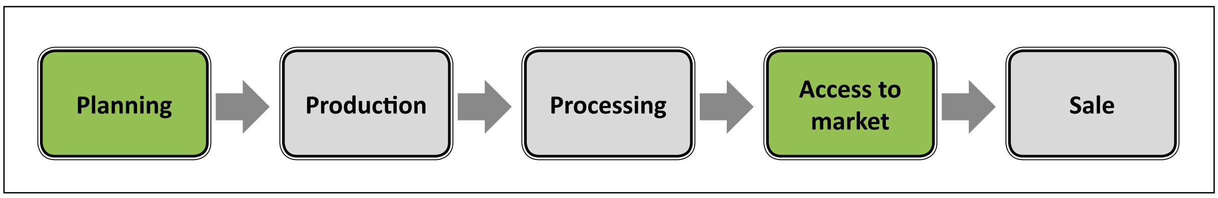
- **Goat farming and goat's cheese**
- **Medicinal and aromatic plants (MAP)**
- **Honey and beekeeping**
- **Mushroom production**

There seems to be less potential in **wool production** due to intense competition from China and other countries that produce cheap textiles.

The study shows that there is potential for developing rural tourism in BiH. Several of the case studies demonstrate that an increasing number of foreign tourists are spending their holidays in BiH. However, foreign tourists are also setting higher standards, which require further investments. The main attractions of rural tourism in BiH today are typically reflected through recreational and educational facilities, sports and recreational facilities, gastronomy and other ventures in villages, such as souvenir shops.

In addition, obvious links can be made between diversification and rural tourism by enhancing and promoting ventures that are already in place, such as the current wine routes. Other tourist routes could also be established for visiting MAP producers and processors. Alternatively, a network of routes, as in other countries, focusing on different product categories such as ham, wine, cheese and culture could also be considered

**Figure 13.1: Weak links in the value chain**



## 13.8 Recommendations

### 13.8.1 Common concept for development of rural areas through economic diversification activities in BiH

The relevant actors (entrepreneurs, farmers, processors, organizations and NGOs) will drive the development of economic diversification in BiH. This will happen independently of the existing and future framework conditions for the different subsectors related to diversification. This being said, and from a development viewpoint, it is worth considering **preparing a common concept for these subsectors with regard to economic diversification**. It would be an advantage to have a common concept about; what defines diversification, how much can it be further expanded, which markets are feasible targets and what the main diversification products should be. It is also worth asking how the framework conditions can support the concept of diversification. Answering these questions is essential in order to formulate a common concept for the development of diversification activities and thus develop the agricultural and rural sectors in general. In order to achieve this, it is important to involve the entities themselves and various ministries that deal with diversification issues in rural areas. **In light of this, it is important to bear in mind that economic diversification is a cross-cutting issue** and is not only related to the MoAFWM, but also to the ministries of Economics, Infrastructure, Education, etc. As we have already mentioned, civil society also has an important stake in this development. It is crucial that all of these stakeholders are involved in preparing a common concept or approach to diversification.

Therefore, it is important to include investment needs as presented by the subsectors themselves as one set of realistic development objectives. Another way forward is to formulate a concept based on more demanding and ambitious long-term objectives.

Whatever scenario is chosen as a guideline for the development of economic diversification, the framework conditions (the regulatory framework and support schemes) must be established in every case to support diversification factors and move forward towards the realization of the objectives as defined.

### 13.8.2 Recommendations on the regulatory framework

From a regulatory point of view, a harmonized framework is recommended:

**A state level strategy for diversification and rural development should be adopted**

In outlining the framework for the adoption of a strategy on diversification and rural development, a support mechanism for implementation, and possibly enforcement in practice, needs to be considered. A common approach across entities could contribute to establishing a common approach for and a regulation on diversification.

**Export and import controls should be harmonized and implemented**

It is important to incorporate export and import control as an integral part of the harmonized state level regulation of trade, independently of the products and sectors in question.

**Controls on quality, origin and of traceability should be implemented**

Improved quality control on products such as honey, medicinal plants and herbs is required throughout the entire value chain order to ensure the credibility of the sector, which is aiming to be competitive in terms of quality rather than quantity. Traceability is also a key concept in this regard. Therefore, it is recommended that a coherent control system for key products be set, which would help producers document their production methods.

### 13.8.3 Harmonized investment support schemes

Another aspect of the harmonized regulatory regime relates to the investment support schemes available for farmers and processors in BiH at state level, as well as at entity, BD, canton and municipality levels. It is highly recommended that a one-stringed state system be established, which would eliminate regulatory differences among the entities, thus contributing to a fair state competitive environment for the subsector. A transparent rural and agricultural policy including diversification at BiH level is also essential.

**Breaking it down further and becoming even more operational in the recommendations, the study and the case studies show a clear difference between projects that have ambitions to "go big" and projects where the ambition is to make daily life more sustainable through semi-subsistence farming, and producing for self-consumption and the local market.**

Based on the findings, we recommend dividing future diversification activities into two overall categories; these would each set different requirements or frameworks for project applications in terms of business plans and the volume of funding. The components of the two categories of activities, depending on the level of ambition of the project are:

1. Activities with the potential to **create economic development and jobs;** e.g. medicinal plants/herbs, tourism and beekeeping. In BiH today these types of projects are established and supported to some degree by the RS Ministry of Agriculture and FBiH Ministry of Agriculture, Forestry and Water Management, as well as through donor funded projects and/ or very active NGOs and foundations, which provide all the necessary funding, knowledge and market connections.
2. Activities mainly for **self-employment (income generation).** These are smaller projects in terms of financing. They are often ventures that aim at supplementing the current income of an individual or family and there is no intention to enhance or expand the business to include other employees.

**The study has clearly identified some high potential activities (**goat farming and goat's cheese, medicinal and aromatic plants, honey and beekeeping, and mushroom production) based on demand conditions and comparative advantage, while at the same time identifying some activities (wool and textile production) that have limited market demand and which would be better avoided. The table below summarizes **available key figures** for various relevant subsectors.

There are approximately 3,000 registered **beekeepers** in BiH today and their number has increased steadily over the past five years. Leading experts and studies of the sector in the Western Balkans have concluded that the potential for effective beekeeping could be up to 10 times more than its current level. Twenty-four percent more honey was produced in 2009 than in 2005. If this potential were to be exploited to the full, it is estimated that some 30,000 quality jobs could be created in this sector alone. This is before taking into account additional jobs in packaging, marketing, sales and transport.

**MAP** is another area indicated as having potential. According to data from the EU Final Report (Analysis and Mapping of Value Chains), between 1,500 and 9,000 tonnes of MAP are harvested annually in BiH (depending on demand and climatic conditions). Industry experts and producer organizations suggest that about 20 of the most important plants are traded in BiH. Approximately 85 percent of these plants are exported and these are mainly bulk-packed in jute or paper bags or in cardboard boxes and shipped to the EU. The analysis shows that there is potential for expanding this trade.

**Tourism** is also identified as an area for potential growth. As the table below indicates, there has been an overall increase in the number of both foreign and domestic tourists. On average, foreign tourists stay slightly longer than domestic tourists. In 2009, average stays were 2.1 and 1.9 nights respectively. However, the opposite is true in RS where domestic tourists stay longer: 2.2 nights versus 2.7 nights respectively. Over the past decade the number of tourists in BiH has grown steadily.

## Table 13.1: Figures for Subsectors

| | Wool | Sheep | Goats | Honey | Mushrooms | MAP |
|---|---|---|---|---|---|---|
| Holdings/ numbers of animals | | 63,000 holdings<br>1,515,000 sheep in total<br>1,059,000 breeding ewes | 63,000 goats (including all goats, not just breeding females)<br>38,000 goats provide milk | 3,000 registered beekeepers<br>367,000 beehives in 2010 | | |
| Annual production | 1,400 tonnes | 20,000 tonnes | | 3,300 tonnes in 2010 | 2,042 tonnes button mushrooms in 2010<br>92 tonnes oyster mushrooms in 2010 | Between 1,500 and 9,000 tonnes of MAP is harvested annually in BiH |
| Jobs | 138 full-time | | | | | Collectors affiliated with BiH companies are approx. 100,000 |
| Annual value | Less than 1% of sheep farmers' gross income. | Lamb and mutton output: estimated at BAM 232 million (€118 million) | 8 million litres in 2012 | 1 kg of honey on green markets is approximately BAM 8-10 (depending on the type of honey)<br>In 2009, 1 kg of sage honey was valued at BAM 18 on the unofficial markets. | Export 2009: 692,198 kg to a value of BAM 9,729,243 | Export in 2009: 1,346,306 kg to a value of BAM 2,040,901 |
| ***Increase since 2005***[137] | (+18%) in tonnes | (+16%) in thousands | | (+24%) in tonnes | n/a | n/a |

*Source: summary from different sources used in this report*

[137]Calculations based on statistics from FBiH's and RS' Statistical Yearbooks of 2010

**Table 13.2: Number of Tourist Arrivals and Nights Spent in BiH, 2009**

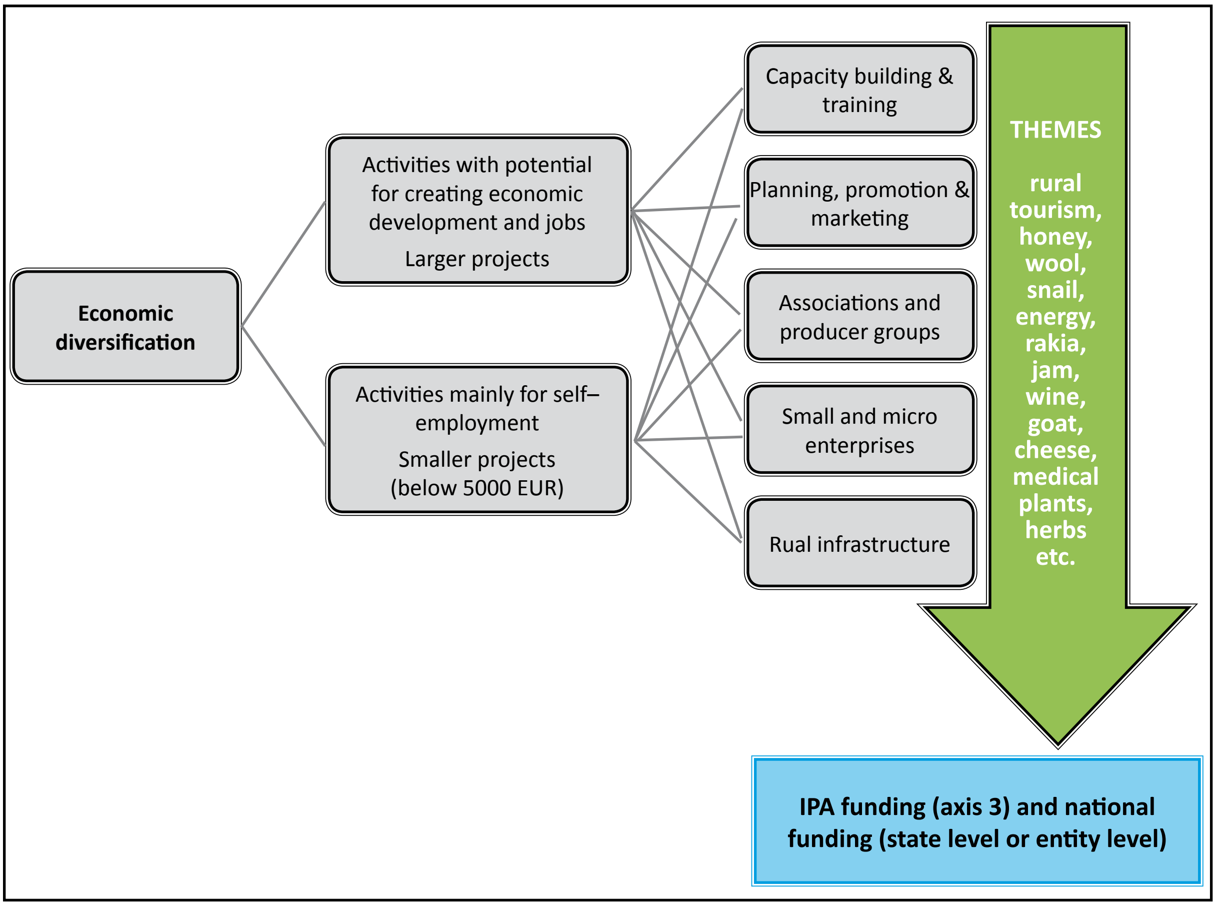
| | Number of arrivals | | Number of nights | |
|---|---|---|---|---|
| | Domestic | Foreign | Domestic | Foreign |
| State level | 254,860 | 305,379 | 586,325 | 661,706 |
| FBiH | 121,813 | 211,469 | 230,844 | 453,096 |
| RS | 133,047 | 93,910 | 355,481 | 208,610 |
| BD | n/a | n/a | n/a | n/a |
| Percent growth since 2005 | (+20%) | (+43%) | (+13%) | (+40%) |

*Source: FBiH's and RS' Statistical Yearbooks of 2010*

In terms of pinpointing specific areas, some **caution needs to be taken**, because the segments are mostly niche and small volume segments of the market and detailed demand assessments are required to help make realistic plans. **Therefore, the approach of this diversification study has not been to select specific products for support, but rather to identify which framework conditions need to be supported in order to stimulate the increase and development of economic diversification in BiH**. The choice of what to produce is for the specific farmer or rural dweller to decide.

In light of this, the point of departure for our recommendations has been to identify a number of **key generic framework conditions** that facilitate, stimulate and support economic diversification projects and investments in order to create jobs and better income possibilities. The study identifies the importance of linking producers to markets. An effective way of making markets work is

**Figure 13.2: Generic Measures**



to provide everyone with high quality, up-to-date and accurate price information. This is a recommendation that is relevant not just for diversification activities, but also for the other sector studies.

Bearing this in mind, the recommendation is to focus on the **five generic IPARD measures** that support **framework conditions** no matter what kind of diversification product or activities are involved.

### 13.8.4 IPARD interventions

Harmonized investment support can benefit from the measures included in the IPARD regulation. For diversification, the main focus will be on the three measures available under axis 3, section 5 of the IPA regulation.[138] The interventions suggested below are all within the framework of the IPA measures.

1. **Improvement and development of rural infrastructure (article 179).** This measure is crucial in order to support the framework conditions and the infrastructure needed to enhance ongoing and future diversification activities. This type of measure can develop and improve basic infrastructure to foster economic and social activities for balanced growth. Investment in basic infrastructure is one of the preconditions for the development of a balanced rural economy and for enhancing the socio-economic living conditions of the rural population. Rural infrastructure, such as small roads and the internet, is closely linked to diversification activities. These types of projects will be 100 percent public financed with EU funding.
2. **Support for planning and promotion (article 180).** It is necessary to support the preparation and creation of business plans on the one hand, and on the other to support promotion activities such as websites. Several of the case studies illustrate this point. The potential beneficiaries are extremely capable with regard to their own professions but lack knowledge on how to approach the market, which includes, among other things, preparing business plans, cost-benefit analyses and formulating strategies to make their businesses more visible.
3. **Support and facilitate the establishment and development of micro and small enterprises (article 180).** Supporting the establishment and development of micro and small enterprises is a prerequisite for promoting growth and entrepreneurship in rural areas. The case studies show that to some extent here is a need for this type of support, but also that it can be difficult to locate sufficient financial backing to get it started. Support for micro and small enterprises under IPARD will be 50 percent public (75 percent from the EU and 25 percent from national funds) with the 50 percent coming from the beneficiary's own funds.
4. **Capacity-building and training (article 181).** There is also a continuous need for capacity-building support; this being training and capacity-building for rural dwellers, owners of micro and small enterprises, and training for extension service providers. No training needs assessment (TNA) as such has been prepared as an integral part of this report, but the case studies and survey results show that a broad range of competences are needed, particularly with regard to the production of high quality commodities where manual labour, together with modern technologies, can contribute to good results. It would also include training trainers and training the advisory system in i) what diversification is, and ii) how we can support and advise rural dwellers when preparing applications for diversification projects.

As already indicated, the investment level for projects that support diversification

[138]COMMISSION REGULATION (EC) No 718/2007 of 12 June 2007 implementing Council Regulation (EC) No 1085/2006 establishing an instrument for pre-accession assistance (IPA)

activities varies. At one end of the spectrum we have rural infrastructure projects, which are often large projects and can vary from EUR 10,000 to EUR 3,000,000 for municipality and NGO projects.[139] Then, at the other end of the spectrum we have small diversification projects that are primarily aimed at supporting self-employment and income generation for individuals and families. These projects have investment levels as low as EUR 5,000 (see Chapter 9 for more details).

Examples from Romania show that the average diversification project has funding of EUR 170,000. However, if rural infrastructure projects are excluded, average project costs are approximately EUR 15,000-20,000. This is roughly the same range as in BiH (see Chapter 9). In RS, approximately 960 rural development projects have been supported, with average funding of EUR 20,000, and in FBiH 800 projects have been supported with average funding of EUR 18,000. For BD, the total is 300 projects with average funding of EUR 15,000.

If we assume average project costs of EUR 20,000 for diversification projects that are not related to rural infrastructure, and we also assume a total of 300 projects in the entire country in one year, **EUR 6,000,000** would be needed per year.

For rural infrastructure projects, if we assume an average investment of EUR 150,000 with 30 projects per year over the entire country, **EUR 4,500,000** would be needed per year.

This indicates an overall investment need of **EUR 10,500,000** per year for diversification projects. This amount would be divided into IPARD support and national budget and beneficiary co-funding.

**Other IPA relevant interventions**

1. Other measures under the IPA regulation are also considered to be relevant for supporting diversification activities in BiH when assessed in light of the sector analysis. Support for establishing **Associations and Producer Groups (article 175)** is one of the other IPA measures that from a diversification point of view is highly relevant; although it is also complicated. The sector analysis also outlines the need to enhance social trust and social capital, and facilitate a more coordinated and strategic approach towards the market (home market and export) both in terms of obtaining access to the market (middlemen) and getting better prices and hopefully gaining larger market shares. In other words, cooperation within the value chain is currently not optimal and needs to be improved. Stronger cooperation among the diversification producers is needed if expansion is the goal. Furthermore, support for setting up and operating producer organizations is recommended.
2. Preparing and implementing **local development strategies** and supporting the development and proper management **of Geographic Indications** and **regional labels,** including an inventory of potential geographic indications, information to producers on the benefits and challenges of PDO and PGI could be considered. This could be supported under axis 2 of IPA. Processed products, jams, wine, preserved, dry fruit and vegetable could be concerned, or fresh fruit and vegetable with specificities linked to the area of production (see both the wine sector report and the sector study for fruit and vegetable).

An estimate of the investment needed per IPA measure is provided in the Table 13.3.

### 13.8.5 State level and entity level interventions

In addition to the above, a number of interventions could be supported and implemented at both state and entity levels.

[139] The figures are based on monitoring data from other EU countries concerning rural infrastructure and diversification projects.

**Table 13.3: Investment need per IPA measure**

| MEASURES | No of beneficiaries | Average cost per beneficiary (EURO) | Total investment (EURO) |
|---|---|---|---|
| Axis 1 – Investment in agriculture | | | 375,000 |
| Support for setting up producer groups | 5 | 75,000 | 375,000 |
| Axis 2 –local rural development strategies | | | 350,000 |
| Preparation and implementation of local rural development strategies | | | |
| Support for the development and proper management of Geographic Indications and regional labels, including an inventory of potential geographic indications, information to producers on the benefits and challenges of PDO and PGI | 7 | 50,000 | 350,000 |
| Axis 3 – Development of the rural economy | | | 11,100,000 |
| Improvement and development of rural infrastructure | | | – |
| Rural infrastructure projects e.g. local roads, water supply, electricity, internet etc. | 30 | 170,000 | 5,100,000 |
| Diversification and development of rural economic activities | | | – |
| Support to Planning and Promotion (article 180). There is a need to support preparation/creating of a business plans on the one hand and on the other to support promotion activities e.g. like websites | 200 | 15,000 | 3,000,000 |
| Support/facilitate the establishment and development of micro and small enterprises. Supporting the establishment and development of micro and small enterprises is a prerequisite for promoting growth and entrepreneurship in rural areas | 150 | 20,000 | 3,000,000 |
| **Total investment for economic diversification in EURO** | | | **11,825,000** |

In order to support and underpin economic diversification it is recommended that the following interventions be prioritized and implemented:

- **Prepare an IPA rural development strategy for BiH** that outlines the overall perspectives and focus areas for economic diversification. This needs to be undertaken in close cooperation with the entities and BD.
- **Prepare an initiative focusing on awareness and information dissemination about the IPARD programme**, its possibilities and how to gain advice and knowledge about the programme. This could include national campaigns about IPARD in general and about diversification specifically.

At entity level, it is recommended that the following action be taken:

- **Compliance with requirement**. The study identifies a need for compliance with either national minimum requirements and/or EU requirements.
- **Advisory system**. There is a need to build up an extension service in FBiH to support and boost economic diversification activities, and to strengthen the existing extension services in RS. Extension service staff needs to be trained in the possibilities and opportunities of diversification projects.
- The municipality survey also identifies a need to establish **a business extension service for enterprises** (micro and SME). This would support and provide advice to new

enterprises and entrepreneurs and would also advise existing enterprises on how to expand. Another task for a business extension service could be to support rural business incubators.

- Looking into alternative – and more attractive – **models for financing** and access to loans in order to attract entrepreneurs (micro and SME) and farmers.
- Professionalization of the agricultural sector through the **registration of farmers** in a national farm register. Only professional full-time farmers with bookkeeping systems in place and who are registered in the VAT system would be registered in the farmers' register and thus be eligible for support. No subsistence, semi-subsistence or less professional farmers would be registered.
- **Measures to reduce the fragmentation** of farms and small-scale production. This would necessitate **land consolidation.**
- **Resolve ownership** issues.

The challenges identified above are not exclusive to diversification, but are generic challenges for the whole rural and agricultural sector in BiH. They will not be addressed further here as they are outside the scope of this report.

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# APPENDIX B

## Stakeholders interviewed

| Name of stakeholder | Name of institution | Key points from interview |
|---|---|---|
| Mr. Drago Nedic, Director of Veterinary Agency. | Veterinary Agency. | Among other about the EC representatives visit in Sarajevo in November 2011, the negotiations about including BiH on third countries list. |
| Corporate Services Manager at British Embassy Sarajevo – FCO, Amela Cosovic-Medic | British Embassy Sarajevo | Former UNDP employee and responsible for different studies in BiH on honey production, Goat farming, Mushrooms and wool. Discussions about potential and possibilities in BiH. |
| Almir Tanović, UNDP SPPD | UNDP | UNDP Strategy and projects that is on-going in terms of diversification. |
| Director at Mozaik Social Enterprise, Zoran Puljic | Mozaik Community Development Foundation | Discussions about areas where BiH has strengths and could create meaningful Diversification projects. Hands on experiences with difficulties of setting up a business in BiH. |
| Sector Manager, Ute Dannenmann | GIZ, Sarajevo | Experiences from tourist projects in Montenegro and lessons learned on diversification strategies from Montenegro and more specifically discussions about possibilities in BiH for diversification. |
| Assistance, Amela Avdagić | Embassy of Czech Republic | Knowledge about the focus area for Czech funding in its agriculture and rural development strategy. Also, the Czech takes on possibilities for diversification in BiH. |
| Team leader, Karin Hoerhan and Annika Lüttig | GIZ, Montenegro Support to Tourism Destinations in the Central and Mountainous Regions of Montenegro | About an online survey made by Trend scope on outdoor trends in Europe. |
| Rural Development Consultant, Ludvig Katalin and, Land Tenure and Rural Development Officer Richard Eberlin | FAO Budapest | Overview of projects and studies in FAO context that is relevant for this Diversification study. |
| | USAID | Get more insight and knowledge about their tourism projects and the mapping of interesting sights that was a part of the first tourist USAID projects |
| Advisor, Altijana Fejzic | ECON | Focus on their experience and their view on barriers and opportunities |
| Regionale representative, Sorienel Ghetau | Oxfam | Discussion about their approach toward diversification and experience with financing models |

# APPENDIX C

## Cases conducted

| Cases |
| --- |
| Kotor Varoš - / “Sunce“, Ljubica Markovic |
| Association “Snop” – Rogatica |
| Kneževo - Mixed farm / more aspects of activity / diversification Dane Djuranovic |
| Souvenirs with ethnic motifs – BL |
| Women’s Association “Duga”, BL |
| Beekeeping,  Honey products  “Batinic” Sokolac |
| Rural Tourism – Milenko Ecimovic, Bjelosavljevici, RS |
| Šekovići – beekeeping and green house (EKO Bilje – Mozaik foundation) |
| Lukavac eco village – Fadil Ibišević - |
| Hadžihalilović RAKIJA producer Orašje |
| Čeliković Bihać |
| ECON – Sarajevo |
| Zelenara – Fojnica webportal for online sale of products |
| Adjelić – Trebinje – export oriented producer of organic medical plant and oils |
| Stonegraver from Konjic region |
| Pleahan eco cooperative run by church (Little brothers) set of different productions – Derventa |
| Agroincubator Žepče |

# APPENDIX D

## List of organic operators certified -export to EU market

| Company | Category of production | Products | Status |
|---|---|---|---|
| Andelic d.o.o, Trebinje | Wild collection and processing | Wild grown herbs, berries and production of essential oils | Organic certified EU market |
| Boletus d.o.o., Hadžici | Wild collection and processing | Wild grown herbs, mushrooms and berries | Organic certified EU market |
| Bos Agro Food d.o.o, Sarajevo | Wild collection and processing | Wild grown berries Cultivated berries | Organic certified EU market |
| Heko d.o.o., Bugojno | Wild collection and processing | Wild grown berries and herbs | Organic certified EU market |
| Fruktus pak d.o.o | Wild Collection and processing | Wild grown herbs, mushrooms and berries | Organic certified EU market |
| Mushroom d.o.o | Wild collection and processing | Wild grown berries and mushrooms | Organic certified EU market |
| Bionatura d.o.o | Crop production | Buckwhat | Organic certified EU market |
| Econ d.o.o, Sarajevo | Handling of organic products | Fruit, vegetables, cereals, medical herbs, mushrooms, wild grown berries and herbs | Organic certified EU market |
| Rifet Hrnjica, Bihac | Crop production | Vegetable, cultivated medical and spice herbs | Organic certified EU market |
| Emir Muhtari, Sanski Most | Beekeeping | Honey | Organska Kontrola Standard |
| Carski Vinogradi ind. farma | Crop production | Vegetables, fruit and medical herbs | Organska Kontrola Standard |
| Rubus | Wild collection and processing | Wild grown berries and mushrooms | Organska Kontrola Standard |

*Source: http://www.organskakontrola.ba/site/index.php?sel=2&lng=en Last updated 22.09.2011.*

# APPENDIX E

## List of organic certified operators to BiH market and other markets outside EU

| Company | Category of production | Products | Status |
|---|---|---|---|
| Farma Zlatka Jokic | Crop production | Land | Organic certified BiH market and other markets outside EU |
| Njemcevic Fahrudin | Crop production | Buckwheat, artichoke, potato and medical herbs | Organic certified BiH market and other markets outside EU |
| Vranic bilje | Wild collection and processing | Wild grown herbs, mushrooms and berries | Organic certified BiH market and other markets outside EU |
| Carsji Vinigradi G.G | Crop production | Vegetables, fruit and medical herbs | Organic certified BiH market and other markets outside EU |
| PPI Ahmici | Crop production | Vegetables and medical herbs | Organic certified BiH market and other markets outside EU |
| Vladimir Usorac | Crop production | Land | Organic certified BiH market and other markets outside EU |
| Balic Ahmet | Beekeeping | Honey | Organic certified BiH market and other markets outside EU |
| Vukovic Emira | Crop production | Vegetables and corn | Organic certified BiH market and other markets outside EU |
| Admir Halilovic | Beekeeping | Honey | Organic certified BiH market and other markets outside EU |
| Salih Basagic | Beekeeping | Honey | Organic certified BiH market and other markets outside EU |
| Grabus Emsad | Crop production | Vegetables, cereals and medical herbs | Organic certified BiH market and other markets outside EU |
| Ivica Rajic | Crop production | Fruit | Organic certified BiH market and other markets outside EU |
| Pcelinjaci 'Demirovic' | Beekeeping | Honey | Organic certified BiH market and other markets outside EU |

*Source: http://www.organskakontrola.ba/site/index.php?sel=2&lng=en Last updated 08.09.2011.*

# APPENDIX F

## Survey questionnaires - diversification

1. Do you have any extra income activity apart from farming?
   - Yes
   - No
   - **If yes** – could you please describe which kind of extra income activity? [Interviewer instruction: please do not read the boxes below for the respondent, just mark of in one or more categories]
     a. Tourism, B&B
     b. Small shop
     c. On-farm sales
     d. Handicraft
     e. Providing services (e.g. machinery)
     f. Micro enterprise
     g. Beekeeping
     h. Goats
     i. Horses
     j. Beverage
     k. Cheese production
     l. Another job in e.g. the village
     m. Construction
     n. Gardening
     o. On-farm processing
     p. Other [please note down if the income activity is something else than the categories above]

2. For how long did you have this extra income activity?
   - Less than 1 year
   - 1-2 year
   - 3-4 years
   - More than 5 years

3. How big a share of your total labour income does this amount to? (total income =
   - 0-5 percent
   - 6-10 percent
   - 11-20 percent
   - 21-30 percent
   - More than 30 percent

4. Who is responsible for this extra income activity?
   - My self
   - My wife/husband
   - My children
   - All of us
   - Other [note down]

5. Have you received any financial support to facilitate your extra income activity?
   - Yes
   - No

6. If yes – from whom?
   - National funding
   - NGOs
   - EU funding
   - Donor funding
   - Bank loan
   - Other [note down]

7. How did you get the idea to your extra income source?

| |
|---|
| Note down |

8. Did you revive any support in terms of advice or information?
   - Yes
   - No

9. If yes, from whom? [Interviewer instruction: please do not read the boxes below for the respondent, just mark of in one or more categories, if 'other' note down the answer]
   - Municipality
   - Advisory service
   - Friends
   - NGO
   - Local development agency
   - School teacher
   - Other [Note down]

10. What was the main reason to start your extra income activity?

| |
|---|
| Note down |

11. Do you plan to further develop your extra income activity or start a new activity in the next five years?

| |
|---|
| Note down |

**If No in question 11**

12. Have you considered gaining an extra income source?
    - Yes
    - No

**If yes in question 11**

13. Which kind of extra income activity are you thinking about?

| |
|---|
| Note down |

**If No in question 11**

14. Why not?

| |
|---|
| Note down |

[ASK THIS QUESTION TO EVERY BODY]

15. Which kind of investments need do you have (if free of choice)

| |
|---|
| Note down |

16. What is the main obstacle for you to start some other business? [ Interviewer instruction: please do not read the boxes below for the respondent, just mark of in one or more categories, if 'other' note down the answer]
    - Lack of information,
    - Lack of knowledge,
    - Lack of access to financing
    - Lack of access to loan
    - Lack of technology
    - Other [note down]

17. What is in your mind the most important thing that either decreases or increases quality of life?

| |
|---|
| Note down |

# ANNEX G

## Questions to municipalities

1. Does your municipality have a Development Agency, Institute or Department within the municipality or team who is able to define and implement rural development project?
2. It there in the Municipality a local development strategy and/or rural development strategy? If yes, which issues are prioritized in the strategy?
3. Is there awareness within the municipality/ local authority regarding existing international, EU cross boarder programs that could be used for development?
    a. Yes – what kind of funds do you know of and are you using them?
    b. No
4. How would you rate your capacity to prepare projects for EU funds - IPA or IPARD:
    a. Very good
    b. Good
    c. Not so good
    d. No capacity
5. Do the municipality use already established networking institutions when preparing project for EU funds?
    e. Yes – how does this cooperation work?
    f. No- why not?
6. How many people/NGOs has the capacity to prepare international e.g. IPARD development project applications?
7. Do you in the municipality have a local fund for development/rural development or for co-financing development programs/EU projects?
8. Do you support SME? If yes: how and what kind of support are we talking about?
9. Do you have business incubators or agro incubator?
10. Do you have active extension services? Rate their capability to support SME in rural areas?
11. Do you have active cooperatives? Which kind and how many do you have? Rate their ability to support rural development?
12. Rate your rural infrastructure - education, public transport, roads, water supply, waste water treatment, waste management, cultural events etc. on a scale from 1to 10 where 1 is extremely poor and 10 is excellent
13. Rate development of NGO sector - number, activity capability?
14. Where do you think your municipality has its strengths and potentials? And why?
15. Which investment priorities would you mention if resources are available?

Please address comments and inquiries to:

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