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An Analysis of the Situation of Availability of Credit to Agricultural Entrepreneurs in Bosnia and Herzegovina



**This project has been prepared on behalf of Food and
Agriculture Organization (FAO) of the United Nation**

by

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EXECUTIVE SUMMARY

This document reports on the credit availability in Bosnia and Herzegovina (B&H) for the agriculture oriented businesses.

As it is well known, sector of agriculture in principle require more lenient conditions in financing and support due to its longer term investment cycle, natural and seasonal character of its production, perishability features, deeper distribution channels and similar. In B&H in particular, agricultural and food processing capacities have been mostly destroyed during the war in 1991-95, and the process of recovery, reconstruction and new investments is still underway.

B&H has yet not adapted long-term strategy either on state or entity level for supporting the agriculture development. Also, there is no an official policy about financing agriculture. The system in place is based on ad hoc decisions, and does not comprise long-term continuity.

Priority, if there is any, is in general given to the financing of (re)construction of the production and processing capacities of the agriculture producers. Financing of the current production and export oriented production is not regulated and is rarely implemented (planting, turn key projects, export focused production etc). Bank loans for these kinds of investments are still expensive.

The majority of the disbursed loans are directed to investments in livestock, agriculture mechanization, equipment, vegetable and fruit nurseries.

Special lines of finance for agriculture are extended by international institutions (like IFAD, and USAID - LAMP) or local development banks (like Federal Investment Bank), but even they don't meet sustainable conditions required for agriculture in dire situation. Subventions schemes offered by ministries of agriculture on entities' level devise the only program that offers acceptable conditions of financing to agriculture.

Main stakeholders in the financing of the agriculture developments and business in general in B&H may be divided into 4 target groups:

- Commercial banks
- International financing/development institutions (WB, EBRD, USAID, IFAD)
- NGOs and MCOs (Micro credit organizations, charities)
- Governmental initiatives (Entities, cantons, municipalities)

This document reports on the findings in all regions of Bosnia and Herzegovina.



AN ANALYSIS OF THE SITUATION OF AVAILABILITY OF CREDIT TO AGRICULTURAL ENTREPRENEURS IN BOSNIA AND HERZEGOVINA

1. Introduction

On behalf of UN Food and Agriculture Organization (FAO), Dr. Muris Cicic, Professor and the Dean of the Faculty of Economics in Sarajevo, with his associates have conducted an extensive research on agriculture oriented business financing availability in Bosnia and Herzegovina. From May 2004 until August 2004, the team has carried out field research in order to identify all existing credit lines, designed specifically for agriculture oriented businesses. The research work and communication with the main financing institutions have been facilitated by fax, e-mail and phone calls, but mostly through in-depth personal interviews with responsible persons.

This document reports on the findings from the whole territory of Bosnia and Herzegovina. The framework logic of the reports is based on analysis of the major financing stakeholders, which have been classified into four groups. The report represents in detail, per group, all identified financing authorities and institutions, together with financing details, addresses, contact persons, type of the loan available and required loan conditions.

2. General Overview

Apparently, in B&H there is no long-term strategy for supporting the agriculture development. Also, there is no an official policy about financing in agriculture. Current system of financing on both institutional and commercial levels is short-term oriented and decisions are made on annual basis, in best case.

The relationship and connections between different sources of financing are sporadic and rare. If particular projects with more participants are organized, then there are some joint activities. However, most of the institutions (banks, international financing institutions, NGOs) are acting autonomously and have their own in-house criteria/requirements. In particular, this is the case in situation of non-governmental organizations, humanitarian agencies and international institutions.

The priority in financing in general is given to the financing of new projects development or reconstruction of production capacities. The majority of the disbursed loans were oriented to the investments in livestock, agriculture mechanization, equipment, vegetable and fruit nurseries.

Financing of the ongoing production (meaning standard annual crop planting and harvesting) in agriculture, and export oriented production is not strategic and is rarely implemented (planting, turn key projects, export focused production etc). Bank loans for this kind of investments are also more expensive.



3. Main Sources (Stakeholders) of Financing in Agriculture

Main sources - stakeholders in financing of the agriculture developments and business in general may be divided into 4 target groups:

- Commercial banks
- International financing/Development institutions (WB, EBRD, USAID)
- NGOs, MCOs (Micro credit organizations), charities etc.
- Governmental initiatives (entities, cantons subventions)

a. Commercial Banks

Commercial banks are mainly financing development projects of market oriented agriculture producers: farms with 5 or more cows, poultry production, fruit nurseries, plastic tunnels production and similar.

To finance the agriculture development, the commercial banks use different available financing resources coming from international financial and domestic governmental institutions such as USAID, World Bank, EBRD, Saudi fund for development, Federal Investment Bank and others.

Commercial banks are also servicing some available financial resources from the NGOs, international institutions and cantons, such as IFAD, Cantons financial sources (from the budget, privatization sources), and employment funds.

It is estimated that the participation of the bank own resources in the financing of the agriculture is still very weak.

In general, banking loans are available with the repayment period from 3-7 years and interest rates between 8-14%.

b. International Financial/Development Institutions

International financial institutions are active in financing of the agriculture development, mainly, through commercial banks, which are servicing/managing their resources towards the end clients. Those institutions are mostly oriented towards the reconstruction and development of the food producing and processing industry.

In principle, loans are available under better/cheaper conditions when compared to the commercial banks loan requirements – repayment period up to 7 years, and interest rate up to 8%.

USAID, World Bank and EBRD are the leading institutions in the field.

c. Non-governmental and Micro-credit organizations

Non-governmental organizations (NGOs) provide financing for development/reconstruction of the production capacities which are essential for sustainable agriculture development and of strategic



importance for the refugees return. The examples are provision of cattle stock, small - scale agriculture mechanization, plastic tunnel production, smaller fruit nurseries and similar.

On a smaller extent NGOs are also involved into bigger market oriented agriculture projects such as 10 or more cows per farm, farm construction, fruit nursery (1ha or more)

NGOs act independently according to their own criteria. Business co-operation among NGOs is very weak, and they often lack a co-ordination with entity and/or canton agriculture related ministries (or Chambers of commerce).

NGOs most frequently involved in the agriculture development are UMCOR, Lutheran union, Partner, and Japanese Jen.

Micro-credit organizations (MCOs) are financing small - scale agricultural programs, which value ranges between 2.000 – 30.000 KM.

MCOs are also servicing financial resources of the international financial institutions. Loan conditions are not so attractive with very short repayment periods (up to 3 years) and rather high interest rates (8-20%).

MCOs loans are mainly used for short - term investments/interventions in the production.

d. *Governmental Initiatives (entities, cantons)*

- Federation of BiH

In the Federation of Bosnia and Herzegovina (FBiH) financial assistance to agriculture is given in three ways:

- First one is interest rate refinance (subvention), whereby the Federal government is approving allowances for the interest rate paid for particular loans.
- Further, through federal and cantonal employment funds there is facility to granting a loan in agriculture under specific conditions.
- And, some cantonal governments finance agricultural development and production from their own resources.

The law about financial support to the primary agriculture production activities has regulated **interest rate refinancing** (subvention) for the investment projects. Resources are coming from the Federal government budget and in 2004 the total amount available was 200,000 KM.

Eligible credits are among those within the repayment period from 2-7 years and with annual annuity not higher than 50,000 KM. Refinance - subvention is granted up to 5%, under the condition that the bank (or other financial source) interest rate is not higher than 10%. The ratio between the subvention and interest rate is the following:

| Interest rate % | Subvention % |
|-----------------|--------------|
| 5 | 1 |
| 6 | 2 |
| 7 | 3 |
| 8-10 | 4-5 |



Apparently, the aim of subvention is to bring the interest rate paid by lendeer down to the level deemed acceptable. Targeting level is about 5%, and authorities have calibrated the system in such way to come to that cost of finance in selected cases.

Agriculture companies and self-employed (registered individual) farmers may apply for the interest rate subvention. The procedure is the following:

- Application is submitted to the Ministry of Agriculture, Water Resources and Forestry
- Special department in the Ministry is reviewing the application and giving the approval
- The contract is made between the two parties
- Borrower pays the interest rate to the bank and gets refund by the Ministry twice per year.

Financing of the agricultural production, in function of the employment, is one of **the loan programs of the employment funds**. This way of financing is focused more on the development programs of the market oriented agriculture producers. Loan conditions are amongst the best on the market with repayment period up to 8 years and rather low interest rate (less than 3%).

The loans are reaching final clients through commercial bank operations and services.

The main problem of this initiative is that the program is oriented towards the individual agriculture producer, whose legal status usually is still not officially regulated, which often leads to ineligibility of the farmers. Also, very often projects undertaken by individual agriculture producers are not coordinated or concurred with food industry subjects, and that fact increases investment risks and reduces feasibility for financing.

Some **Cantons** are disbursing loans from their own resources (budget, privatization resources etc) to finance agriculture development projects. Loan conditions are in most case repayment period up to 10 years, grace period 2 years and interest rate from 2-3%.

Active Cantons in this sector are: Zenica-Doboj Canton, Tuzla and Una – Sana Canton. Sarajevo Canton has also financed some of the agriculture projects (project of berry fruit production and processing, implemented by “Klas” company).

- Republika Srpska

Interest rate allowances (subvention) for the investment projects have been regulated by the law about agriculture allowances (subventions). Resources are coming from the RS Government budget. There are no limitations in regard to the amount of the loan. Ministry is negotiating conditions with the bank (case by case basis). Allowances are granted to refinance interest rate of loan up to 6%.

The importance of those allowances - subventions is that the interest rates of commercial banks are brought down to the more acceptable level for the agriculture producers (around 5%). This appears to be good way to increase the financial resources for the agriculture activities (mainly the commercial banks resources). Apparently, interest rates of 5% or less are considered by government as appropriate for agriculture, and intention of allowances program is to enable a certain number of farmers to enjoy those rates.

Total budget amount for those purposes is determined on yearly basis, which makes uncertain planning for agriculture producers and the banks on the long run.



4. Commercial Banks Sources Overview

Commercial banks in B&H do finance agricultural production, but mostly under standard conditions and based on base-to-base assessment of the need for sector – adopted conditions. Apart from managing special financing facilities invented by international organizations and institutions, which will be described in the next chapter, most banks finance agricultural production from their own capital base and portfolio. The major problem is that there are no differences among treatment of agriculture and other sectors, that renders agricultural firms and farmers incapable to take the loan.

Just few banks claim to have special line and conditions for agriculture – UPI Banka, in particular. It regularly gives one year grace period for agriculture, with other banks willing to negotiate the terms.

An overview of banks and their standard conditions for agricultural loans has been presented in Table1.

Table 1: Commercial banks agricultural loans conditions overview

| Name of the Bank | Fund available per loan in KM | Repayment period | Interest rate |
|---|--------------------------------------|-------------------------|----------------------|
| Federation BiH | | | |
| - ABS Banka , Sarajevo | up to 500,000 | 1.5 – 7 years | 8% |
| - HVB – Central profit banka, Sarajevo | over 20,000 | 1.5 - 7 years | 6 – 9% |
| - Federalna investicijska banka BiH | over 10,000 | 1.5 – 7 years | Eurobor + 5% |
| - Raiffeisen bank, Sarajevo | up to 100,000 | up to 5 years | 10 – 12% |
| - ProCreditbanka, Sarajevo | up to 50,000 | up to 5 years | 1- 2% per month |
| - Union Banka, Sarajevo | not limited | 1 – 7 years | 6 – 11% |
| - Unicredit Zagrebacka Banka, Sarajevo | up to 700,000 | up to 5 years | 8 – 10% |
| - UPI Banka, Sarajevo | over 50,000 | up to 7 years | 10% |
| - Hypo – Alpe Adria Bank, Sarajevo | agreement | up to 5 years | 10 – 12% |
| - International commercial bank, Sarajevo | up to 100,000 | agreement | 12% |
| - Travnička banka, Travnik | up to 20,000 | up to 3.5 years | 18% |
| - Tuzlanska banka, Tuzla | up to 10,000 | 3 – 4 years | |
| - Volksbank, Sarajevo | over 3,000 | up to 5 years | 10 – 12% |
| - Zagrebačka banka, Mostar | up to 20,000 | up to 5 years | 7 - 8.5% |
| - Gospodarska banka, Sarajevo | over 10,000 | up to 5 years | 12 – 16% |
| - Investiciona komerc. banka , Zenica | not limited | agreement | 11 – 14% |
| Republika Srpska | | | |
| - Bobar banka, Bijeljina | over 5,000 | agreement | 12 – 18% |
| - Cepter banka, Banja Luka | over 10,000 | agreement | 15% |
| - VB banka, Banja Luka | up to 20,000 | 2 years | 10 – 12% |
| - Razvojna banka, Banja Luka | up to 20,000 | | 12 – 15% |



5. International Financial/Development Institutions

International institutions have played very significant role in reconstruction of Bosnian economy in years after the war. Through combination of donations, aid, loans, refinancing, support in kind, employment schemes and other, the situation in the field have greatly improved.

Unfortunately, agriculture has not received the same amount of support and assistance like other sectors. The most of assistance in agriculture have been given through small and micro donations and revolving funds. Those didn't show as efficient as they have been expected.

Today, there are two main initiatives in financing agriculture in B&H, from USAID and IFAD.

a. USAID (United States Agency for International Development) – Linking Agricultural Markets to Producers (LAMP)

USAID is supporting a new economic development initiative, called Linking Agricultural Markets to Producers - LAMP.

Address: Josipa Stadlera 24, Office Sarajevo, tel: 033 273630
Marsala Tita 34/A/3, Office Tuzla, tel: 035 250400
Petra Kocica 33, Office Banja Luka, tel: 051 315 418
Husnije Repca bb, Office Mostar, tel: 036 580920

Contact person: Nedim Dzano (Sarajevo Office)

Sources of financing are available to selected agribusinesses to enhance their processing facilities. Funds will also be made available to qualifying producers and producer groups through BiH Micro finance institutions to support their improved crop and livestock production. Additionally, a guarantee fund was established with three commercial banks (UPI Banka, Unicredit Zagrebacka Banka BH and VolksBank), which would support access to credit by agricultural producers and processors.

This initiative is aimed to promote agricultural sector growth in B&H. Increased growth in the B&H agriculture sector will achieve:

- Fewer food imports to B&H and greater food exports,
- More jobs for people involved in the agriculture sector, and
- Increased incomes for B&H farmers

It is expected that results will be realized by improving the competitiveness of agricultural products produced in BiH, particularly those products that can successfully compete with imported agricultural goods. This initiative will improve linkages between producers, food processors and consumers.

Regarding loan conditions, for the funds available through commercial banks we refer to Table 1 of this project. Also, for condition of loan issued by micro – credit organization, we refer to the next chapter of this project.



LAMP is also providing grants to the interested agricultural producers. The total fund available is 80 grants of USD 25,000 (USD 2 millions). The conditions are very strict. Main one is that the producers should invest another USD 25,000 in the equipment and prove in the well prepared and developed business plan that he is financially able to do it. The whole procedure takes between 60 and 90 days. Until now 20 grants have been approved.

b. IFAD (International Fund for Agriculture Development) - Livestock and Rural Finance Development project

IFAD is a specialized agency of the United Nations. It is implementing Livestock and Rural Finance Development project in BiH.

Contact details: Project Implementation Unit (Sarajevo)
Muhammed Serbo
Marsala Tita 8
tel: 387 33 666538

Project Implementation Unit (Banja Luka)
Slavka Rodica 4
Milenko Obradovic
tel: 387 51 305777

The overall objective of the project is to develop a replicable model of sustainable, small-scale commercial livestock production, which will demonstrate the income-earning potential of the livestock sector and contribute to the revival of the rural areas. To achieve this, the project will seek to help the rural poor, men and women, in the development of small-scale, private-sector, market-oriented livestock production with a view to generating sustainable increases in household incomes, ensuring food security and contributing to the social stability and prosperity of rural communities. Specific objectives are to:

- (i) Support the development of smallholder livestock production through the provision of credit;
- (ii) Provide farmers with access to appropriate technical support services;
- (iii) Develop and improve linkages with the market with special reference to dairy marketing;
- (iv) Develop complementary/alternative non-farm income-earning opportunities that support the provision of backward and forward linkages for the livestock producers and contribute to the revival of rural services; and
- (v) Reconstruct essential rural infrastructure to provide an environment for people to return and pursue economic activities.

Around 21,000 households in 16 localities will benefit from the increase in incomes, enhanced food security and an improved rural environment. Women will benefit from access to credit, previously unavailable to them, thereby helping them to better provide for their families and to achieve a measure of economic independence. Their knowledge and skills will be increased. Also, their recognition and influence in the community will be enhanced through their role as demonstration farmers and their involvement in the management of producers associations and savings and credit associations (SCAs).



In Table 2 we present the amount and regional distribution of IFAD sources, as well as funding sources of total fund.

Table 2: IFAD fund structure

| IFAD Project financing | | | | | | | |
|------------------------|---------------|--------------|------------|---------------|------------|---------------|------------|
| | | RS | | FBiH | | BiH | |
| No | Financiers | 000 USD | % | 000 USD | % | 000 USD | % |
| 1. | IFAD loan | 6,000 | 68.0 | 5,960 | 36.7 | 11,960 | 47.7 |
| 2. | OPEC loan | 0 | 0 | 5,000 | 30.7 | 5,000 | 19.9 |
| 3. | Government | 2,107 | 23.9 | 3,452 | 21.2 | 5,559 | 22.2 |
| 4. | Beneficiaries | 722 | 8.2 | 1,846 | 11.4 | 2,568 | 10.2 |
| | Total | 8,829 | 100 | 16,258 | 100 | 25,087 | 100 |

Total project funds are estimated at USD 25 million, of which USD 5.0 million will be provided by the Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund).

Out of total fund, USD 16 million is available for the Federation of BiH and 8.8 million for RS. The fund available supports small scale commercial agriculture production through the following: (i) credit lines, (ii) farmers training programs, (iii) establishment of producers' associations.

IFAD in the Federation B&H is lending agricultural producers through HVB - Central Profit Bank. The total fund available is USD 3.5 million (from 2003 till 2008).

Size of loan is not limited, repayment period is 12 years, with 1 – 2 years of grace period. Interest rate is 6%. The major prerequisite for getting the loan is credit history.

In Republika Srpska IFAD lending agricultural producers through Nova Banjalucka Banka. The total fund available is EUR 2.5 million. Individual loan is limited to 30,000 KM, with 3 – 5 years of repayment period and 1 year of grace period. Interest rate is between 6 – 7.5%. Prerequisite for getting the loan is a promissory note with two guarantors or insurance policy from bank.



6. Nongovernmental and micro – credit organizations

Among nongovernmental and micro – credit organizations we recognized UMCOR (The United Methodist Committee on Relief), four micro – credit organizations (Eki, PRIZMA, PARTNER and Mikrofin) that are facilitating LAMP project of USAID, and eleven micro – credit organizations, that are lending money to farmers from their own funds.

a. Non - profit international humanitarian aid organization of the United Methodist Church UMCOR (The United Methodist Committee on Relief), Sarajevo

Address: Tvornicka 3, Sarajevo, +387 33 465 182
Contact person: Maja or Amer

UMCOR is managing credit line for supporting individual returnees/entrepreneurs wishing to start the agriculture production. There is possible combination with grant too.

To react to changing needs in B&H, UMCOR/B&H undertook a major reorganization of the Income Generation (IG) Department in 2002, with the Agriculture Department being folded into the IG department to better integrate assistance efforts. In addition, there was a steep increase in the rate of monthly disbursements over the year, with the number of grants or loan packages increasing from 25 at the beginning of the programme to 155 in October. UMCOR distributed IG packages from its four existing field offices (Banja Luka, Kupres, Mostar and Zenica), and opened an office in Zvornik at the beginning of the year. During 2002, UMCOR had also begun to distribute packages from the Visegrad office. During December 2003, UMCOR/BiH was granted an agreement amendment by USAID to extend its grants and loans programme to the municipalities of Prijedor, Bratunac, Srebrenica and Milici, backed by an additional \$600,000 of funding.

Locations of beneficiaries for UMCOR program are area of Banja Luka, Modrica, Mostar, Kupres, Bratunac, and Visegrad.

Loan conditions are interest rate of 6.5% per year, loan range between 1,000 and 10,000 KM, repayment period of 15 months, with three months grace period. Loan security requirement is the proof of credit history.

UMCOR applies specific eligibility criteria, since loans are granted to returnees only. First criteria is that returnee must be at the same address as the one in 1991, further he/she must be able to prove return on investment and non ability to meet the repayment requirements of most Micro Credit Organizations (MCOs), and third, factors such as number of children, elderly and beneficiary health are taken into account as well.

UMCOR/BiH has provided over 1,660 agricultural packages and facilitated the creation of more than 230 new jobs for returnees and vulnerable persons. In addition, UMCOR/BiH provides rural capacity building through trainings, forums, and donations of agricultural equipment and livestock. The IG programme has resulted in increased self-reliance through food security and private income through the sale of surplus produce and other products. These activities have been funded by the USAID, the U.S. Department of Agriculture, the Dutch Government, the Swiss Government, and



Interchurch Organization for Development Co-operation (ICCO), with funding from the Swiss Government and USDA.

During 2002, UMCOR issued 777 grants and loans worth a total of \$1,323,385.00 through its field offices in Banja Luka, Kupres, Mostar, Zenica and Zvornik to beneficiaries who met UMCOR's strict selection criteria. The Review Board considered factors such as the number of children or elderly, beneficiary health, return on investment, and whether there are Micro-credit Organizations (MCOs) who would be more appropriate credit providers. UMCOR's grants and loans were targeted towards beneficiaries who would not be able to meet the repayment requirements of most MCOs. UMCOR/BiH made a strategic decision not to become a micro-credit organization in 2000, in order not to add to an already crowded sector in BiH. In lieu of directly providing credit, UMCOR decided to provide sub grants to existing viable MCOs who would meet UMCOR/BiH's programme objectives. In accordance with this strategy, sub grants were made to three local micro-credit organizations (Partner, Mi-Bospo and Prizma) worth a total of \$450,000. In addition, Prizma provided \$201,000 of credit to Canton 7 of FBiH (Hercegovacko-Neretvanski) for an UMCOR programme sponsored by ICCO. Emphasis was placed on agencies that could make credit available to under-covered rural regions, and which could provide loans to farmers or agribusinesses.

b. Non profit international humanitarian aid organization of the United Methodist Church UMCOR (The United Methodist Committee on Relief) Mostar

Address: Marsala Tita 35/I, Mostar, +387 36 552 240
Contact person: Nevzet Sefo

UMCOR in Mostar is providing grants for supporting agriculture associations, returnees initiatives in field of agriculture and all other organizations wishing to start the agriculture production (CEAS program)

The registered agriculture associations may apply for the grant for the equipment, machinery, livestock and materials that the association is making use of. Example of grants:

- Equipment or machinery for the production
- Equipment for packing
- Agriculture equipment/machinery
- Seeds, seedlings etc
- Livestock
- Office equipment, financial and technical assistance for registration of the association

Location of beneficiaries is whole Bosnia and Herzegovina

Loan terms and conditions are interest rate of 6.5% per year, size of a loan available 50,000 KM in average (45 grants available in year 2004), repayment period 12-18 months, and grace period 6 – 9 months. Security requirements is proof of credit history + developed business plan. Selection criteria are that the grant is available for local association (already registered), informal groups wishing to start an agriculture producers association, organizations located in areas with minority returnee rate etc.

c. EKI – Micro Credit Organization

Address: Sarajevo Office, Zvornicka 9, tel/fax +387 33 610279
Contact person: Tima Becirovic



Credit line for supporting agriculture producers, associations and other agriculture oriented business activities.

LAMP project of USAID has placed USD 1,600,000 which are to be disbursed through EKI towards agriculture producers. Until August 2004, USD 800,000 has been distributed. Agriculture producers may apply for financing of fixed assets, small scale production or working capital.

Location of beneficiaries: Bosnia and Herzegovina. Field offices established in: Tuzla, Zenica, Bugojno, Dobo, Bijeljina, Mostar, Brcko, Derventa, Laktasi, Prnjavor, Zvornik, Gradacac, Zivinice, Visegrad, Gracanica, Maglaj, Breza, Jajce, Banja Luka, Teslic, Vlasenica, Bratunac and Trebinje.

Loan terms and conditions comprise interest of 10% + 1% administrative cost, loans size between 300 – 20,000 KM, repayment period of up to 36 months and grace period of 6 - 9 months. Security requirements depend on activity and amount required. Selection criteria as per LAMP requirements (mostly detailed and developed business plan).

EKI has also its own financing fund and has portfolio which is worth about KM 33 million. More than 50% of this portfolio is oriented towards agriculture producers. The loan conditions are the same as the one stated above except the interest rate which may vary from 10%-14%.

d. PRIZMA – Micro Credit Organization

Address: Sarajevo Office-Ilidza, Semsudina Sarajlica 4, tel/ +387 33 628154, contact person: Irma Murgic

PRIZMA is facilitating LAMP credit line for supporting agriculture producers, associations and other agriculture oriented business activities.

LAMP project of USAID has placed USD 1,600,000, which are to be disbursed through PRIZMA towards agriculture producers. Until August 2004, USD 700,000 has been distributed. Agriculture producers may apply for financing of fixed assets, small scale production or working capital. Group credit line is available as well as individual. One group or one producer may apply more than once for the credit.

Location of beneficiaries is whole Bosnia and Herzegovina. Field offices are established in Zenica, Mostar, Bihac and Banja Luka.

Loan terms and conditions are interest rate of 10% + 0,83% administrative cost, size of loan 1,000 – 10,000 KM (special case 15,000 KM), repayment period up to 36 months, grace period 6-9 months. Security requirements depend on activity and amount required. Selection criteria as per LAMP requirements (detailed and developed business plan).

For PRIZMA this activity is completely new as the organization was helping uniquely women in business set-up and other women related activities.

e. PARTNER – Micro Credit Organization

Address: Tuzla Office- Sjenjak, 15 maj bb, tel/ +387 35 250900
Contact person: Dzenana Music



PARTNER is facilitating LAMP credit line for supporting agriculture producers, associations and other agriculture oriented business activities. LAMP project of USAID has placed USD 1,600,000, which are to be disbursed through PARTNER towards agriculture producers.

Location of beneficiaries is whole Bosnia and Herzegovina. Field offices are established in Mostar, Modrica, Tuzla and Banja Luka.

Loan terms and conditions comprise interest rate of 8.9% + 1% administrative cost, size of loan available in average of 7,500 KM (5,000-30,000 KM), repayment period of up to 36 months, grace period 6-9 months. Security requirements depend on activity and amount required. Selection criteria as per LAMP requirements (detailed and developed business plan).

f. Mikrofin – Micro Credit Organization

Address: Banja Luka Office- Save Kovacevica, 5 tel +387 51 301535
Contact person: Velimir Zdjelar

Mikrofin is facilitating LAMP credit line for supporting agriculture producers, associations and other agriculture oriented business activities. LAMP project of USAID has placed USD 1,600,000 which are to be disbursed through PARTNER towards agriculture producers.

Location of beneficiaries is whole Bosnia and Herzegovina. Field offices established in Sipovo, Mrkonjic Grad, Teslic, Laktasi, Prnjavor, Prijedor, Bosanski Novi, Bosanska Dubica, Bosanska Gradiska, Srbac, Derвента, Bosanski Brod, Doboј, Modrica, Bosanski Samac, Bijeljina, Zvornik, Bihac, Cazin and Brcko.

Loan terms and conditions are interest rate of 9.9% + 1% administrative cost, size of loan available in average 2,500 KM, repayment period of up to 36 months, grace period 6-9 months. Security requirements depend on activity and amount required. Selection criteria as per LAMP requirements (detailed and developed business plan).

g. Micro – credit organizations

Micro – credit organizations provide certain level of financing in agriculture. An overview of organizations and lending conditions is presented in Table 3.



Table 3: Micro – credit organizations credit activities in agriculture

| | Micro – credit organization | Fund available in KM | Repayment period | Interest rate |
|-----------|---|---|---|--|
| 1. | Federacija BiH - Bosansko Selo, Tuzla - Bos – Vita, Tuzla - Ce BEDA, Travnik - Farmer – Kalesija - LOK – Micro, Sarajevo - LNF – Mikrokredit, Sanski Most - Micro Aldi, Goražde | 1,000 – 5,000 max 10,000 10,000 – 50,000 max 20,000 max 20,000 max 5,000 max 20,000 | up to 18 months 18 months up to 3 years up to 2 years up to 2 years up to 2 years up to 2 years | 17% 14% 14% 10 - 12% 15% 12% 16% |
| 2. | Republika Srpska - Benefit, Sarajevo - Micro kredit office, Šipovo - Microfin , Banja Luka - Sinergija, Banja Luka | max 15,000 max 30,000 max 30,000 max 30,000 | 12 months 2 years up to 3 years up to 3 years | 20% 12% 18% 15% |

7. Governmental/Regional Initiatives

The major governmental schemes in direct financing of agriculture (apart from interest rate allowances/subventions, employment funds and cantonal/municipal activities) are contained in the Federal investment bank of Bosnia and Herzegovina. That bank has developed a wide range of agricultural facilities, aimed to offer rather favorable terms to various agricultural subsectors and activities.

Apart from Federal investment bank, there are schemes facilitated through regional agencies for development. However, those regional agencies are basically financed through already mentioned schemes, such as international institutions, commercial banks and governmental budgets.

- a. Federal Investment Bank of Bosnia and Herzegovina (founded by Federal Government of BiH)

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Federal investment bank (FIB) has developed a number of products supporting the agriculture production out of levies

Beneficiaries of FIB lines are agriculture producers, farmers, farmers association, and agriculture production companies.



Location of beneficiaries is the Federation of BiH.

Loan terms and conditions are with interest rate 4% if it is direct loan from FIB. To obtain credit directly from FIB the company should:

- be already FIB long-term loan beneficiary
- be regular and successful in repayment of utilized loans
- be leader within business activity
- be in good relation with commercial banks
- operate on result established basis and according to the plans

If the loan is obtained through partner commercial bank interest rate is between 8 – 10%. Size of loan available is 10,000 KM – 2,000,000 KM, depending on business activity. Repayment period is 18 months – 7 years, with grace period from 6 months to 3 years.

Security requirements are bank guarantee or mortgage (according to usual requirements of the Banking Agency in BiH).

Other required documents to get a loan include property prove of the agriculture land, or rental contract, description of the property and description of the equipment.

In table 4 presented is the list of banks through which FIB is channeling its credits for agricultural production.

Table 4: Commercial Banks – Partners of FIB

| | | |
|--|---|---|
| ABS dd Sarajevo Trampina 12 | BOR banka dd Sarajevo Obala Kulina bana 18 | HVB - Central profit banka dd Sarajevo Zelenih beretki 24 |
| CBS dd Sarajevo Džidžikovac 1 | HYPO ALPE ADRIA BANK dd Mostar Kneza Branimira bb | |
| Investiciono-komercijalna banka dd Zenica, Trg BiH 1 | | LT Gospodarska banka dd Sarajevo Ferhadija 4 |
| ProCredit banka dd Sarajevo Ćurčiluk Veliki 3 | | Raiffeisen bank dd Sarajevo Danijela Ozme 5 |
| Tuzlanska banka dd Tuzla Maršala Tita 34 | Union banka dd Sarajevo Dubrovačka 6 | Unicredit Zagrebacka banka dd Branilaca Sarajeva 20 |
| UPI banka dd Sarajevo Obala Kulina bana 9 a | Vakufska banka dd Sarajevo Ferhadija 4 | |

In tables 5, 6, 7 and 8 presented are conditions for financing various sub-sector within agriculture.



Table 5: Terms and Purposes of the Revolving Credit Line for Financing Production of Herbs

| Type of business activity | repayment period | grace period |
|--|------------------|--------------|
| > Productions of fruits | 18 | 6 |
| > Production of grapes | 18 | 6 |
| > Production of vegetables on the open and close space | 18 | 6 |
| > Production of flowers and decoration herbs | 18 | 6 |
| > Production of mushrooms | 18 | 6 |
| > Production of wheat, rye and corn | 18 | 6 |
| > Production of tobacco | 18 | 6 |

Production of vegetables - development

| Type of business activity | repayment period | grace period |
|-------------------------------|------------------|--------------|
| > Fruit-growing (development) | 84 | 36 |
| > Grape-growing (development) | 84 | 36 |

Nursery garden and seeds production

| Type of business activity | repayment period | grace period |
|--------------------------------------|------------------|--------------|
| > Seed production | 36 | 12 |
| > Nursery fruit-growing gardening | 36 | 12 |
| > Nursery wine-growing gardening | 36 | 12 |
| > Other nursery gardening production | 36 | 12 |



Table 6: Financing Cattle Breeding Production

| Type of business activity | repayment period | grace period |
|---------------------------|------------------|--------------|
| > rabbit-raising | 24 | 6 |
| > sheep-breeding | 24 | 6 |
| > goat-breeding | 24 | 6 |
| > beef cattle-breeding | 24 | 6 |
| > pig-breeding | 24 | 6 |
| > poultry breeding | 24 | 6 |
| Type of business activity | repayment period | grace period |
| > Milk production | 36 | 12 |

Honey-bee production

| Type of business activity | repayment period | grace period |
|---------------------------|------------------|--------------|
| > Honey-bee production | 36 | 12 |

Breeding stock production

| Type of business activity | repayment period | grace period |
|---|------------------|--------------|
| > goat, sheep, pigs, - basic, drove; beef cattle, horses - basic herd | 36 | 12 |

Table 7: Financing of Fisheries

| Type of business activity | repayment period | grace period |
|---------------------------|------------------|--------------|
| > Fishery | 36 | 12 |

Table 8: Financing of Veterinary and Agriculture Stations (Laboratory, Equipment and Preparations)

| Type of business activity | repayment period | grace period |
|--|------------------|--------------|
| > Veterinary and agriculture stations (laboratory, equipment and preparations) | 48 | 12 |



8. Conclusions

Financing of agriculture is often instrumental part of an overall strategy to develop and maintain the sector of strategic importance for every economy. In Bosnia and Herzegovina that task would be essential from several reasons. Damages from the war require significant effort in order to reconstruct and revitalize food production. Further, employment problem could be alleviated by more energetic and efficient agriculture and rural areas development. Also, return of refugees is more likely if there are means and opportunities for farming and other agricultural activities development.

Current account deficit and foreign trade disparity in Bosnia and Herzegovina is in most parts originating from the lack in food production and inability to compensate for excessive import of agricultural and food products.

Even though the arguments for agricultural support and stimulation are numerous, it is apparent that BiH governments on all levels are making insufficient effort to stimulate larger, differentiated and productive agricultural production. That is clearly the conclusion of this report, which shows that financing facilities for agriculture are scattered, occasional, insufficient and nontransparent. The major initiatives are coming from international institutions and agencies (USAID, IFAD).

However, even specially created credit and support lines for financing agriculture, mentioned in previous paragraph, are lacking conditions required by agriculture that is underdeveloped and with capacities damaged and in urgent need for reconstruction. Financing obtained through those lines still bears interest rates above 6%, going to 10% and more. Further, commercial banks if they finance agriculture at all, offer loans with 10% and higher interest rate in general. Furthermore, majority of loans are short-term and without or with rather minimal grace period. Loans available from micro credit organizations are very expensive and short-term oriented exclusively.

The only relief given to agricultural sector in BiH in regards to financing is given by allowances/subvention schemes, developed by ministries of agriculture on entities' level. Those programs enable limited number of users to enjoy interest rate of 5% or less on annual bases, which is considered to be acceptable and feasible. Unfortunately, those programs are limited in scope and subventions availability. Also, Federal Investment Bank in Federation of BiH is offering loans with interest rate of 4% or even less, and with appropriate grace period. However, this is the only source of financing in BiH that is aimed for particular agricultural projects and with such favourable conditions. In a way, that line can offer an example what should be developed in the country on much wider scale.

Banking sector in BiH has gone through very positive development and growth in the last five years. Sectorial consolidation has brought the number of bank down (to about 35), with much better conditions of lending. However, the cost of banking procedures and administering the finance are still rather high. Also, most of finance in BiH is still short-term. And, agriculture as a sector does not enjoy the status in accordance to its natural and reproductive requirements. It seems like that the only way under the circumstances is to develop special development oriented lines for agriculture (FIB example), or to keep and extend subvention schemes managed by ministries of agriculture.



The information flow and agriculture business promotion should be more accessible and transparent. During the research it has been found around 40 registered MCOs (including all sectors) out of which only 30% are active, while others are just officially registered and had never undertaken any activity.