

Name of Organization:

**U.S. Department of Agriculture
Economic Research Service
1800 M St. NW
Washington DC 20036-5831**

Tax ID Number: 72-0564834

DUNS Number: 043889265

Primary Contacts:

Nancy Cochran
Agricultural Economist
U.S. Department of Agriculture
Economic Research Service
Market and Trade Economics Division
1800 M St. NW, Rm. 5088
Washington DC 20036
Tel.: 202-694-5143
Fax: 202-694-5795
E-mail: Cochrane@ers.usda.gov

Cheryl Christensen
Deputy Director for International Programs
U.S. Department of Agriculture
Economic Research Service
Market and Trade Economics Division
1800 M St. NW, Rm. 5118
Washington DC 20036
Tel.: 202-694-5203
Fax: 202-694-5792
E-mail: cherylc@ers.usda.gov

Proposal title:

Building a Regional Market Information System in Southeast Europe

Target Market: Southeast Europe (Croatia, Serbia, Bosnia and Herzegovina, Macedonia, Montenegro)

Project Summary

This project represents a second year of work towards the goal of building a regional market information system for Southeast Europe. Despite a decade of war and continuing political tensions, the region is becoming more economically integrated, and as this process moves forward, it will become a more attractive target for U.S. trade and investment. However, a major obstacle to increased U.S. presence in the region is a lack of market information in many countries of the region.

The goal of this project is to build on a previous USDA program, funded through the SEED Act, which developed market information systems in Serbia and Montenegro. Emerging Market funds will be used to develop market information systems in Bosnia and Macedonia and to create an integrated system for the region. During FY 2008, ERS achieved some concrete steps towards building market information systems in Macedonia and Bosnia; however, another year of work is needed in order to achieve the fundamental goal of the project, namely to create a regional market information system for Southeast Europe.

Background

ERS has been cooperating with the Ministry of Agriculture in Serbia since 2004 to develop the capacity for collecting, analyzing and disseminating commodity market information. ERS began a similar project in Montenegro in the fall of 2005. This project, carried out in cooperation with ICD/FAS and funded through the SEED Act (Support for Emerging European Democracies), has had two basic components. One was to establish an agricultural market information system (MIS) for the collection and dissemination of market prices. The other was to build a capacity for commodity market outlook analysis at the Ministry of Agriculture, similar to what ERS did in Poland, Romania, and Bulgaria during the 1990s.

As a result of these efforts weekly reports of fruit, vegetable, and live animal prices can now be found on the Ministry of Agriculture websites of both Serbia (www.stips.minpolj.sr.gov.yu) and Montenegro (www.amis.cg). Serbia also reports prices of grains and oilseeds. In both countries, media coverage is slowly expanding, and farmers are becoming more aware of the program. There is already evidence that some farmers are changing their behavior in response to improved access to information. These trends should strengthen in the coming years.

During FY 08, ERS received \$78,000 to initiate a program to expand on the work in Serbia and Montenegro and create a regional market information system that would include Bosnia, Macedonia, and Croatia. With these funds, ERS took some concrete steps towards that objective. Activities undertaken in FY 08 were the following:

Assessment mission to Macedonia, March 2008. The goal was to find out what institutions were already involved in market information, to identify potential counterparts, and to develop a training plan. We learned that the Ministry of Agriculture is seriously interested in setting up a market information system (which they will call AMIS) and is receiving support for this initiative from recently initiated World Bank project. The ultimate goal of the Ministry is to create a system fully compliant with EU requirements. The World Bank is principally providing equipment and software, so there is still a need for a donor to provide training. In this way, the USDA visit was perfectly timed.

Assistance to Macedonian Officials in the System Design, April 2008. The ERS project manager and a consultant recently retired from USDA's Agricultural Marketing Service visited Macedonia for one week in April. During this visit, we met with Ministry officials responsible for market information and reviewed their plans for a market information system. We agreed to start with a small number of fruit and vegetable and livestock and meat commodities. The system will be managed and financed by the Ministry and the Ministry plans to use its own staff as reporters for green markets, wholesale markets, and livestock markets. In addition, they have preliminary agreements with processors to provide information on their purchases and sales. We helped the Ministry draft a contract to be signed between the Ministry and participating processors detailing the specific requirements to be met by the Ministry and the processors.

Training for market price reporters in Macedonia. The ERS project manager and two consultants recently retired from USDA's Agricultural Marketing Service spent one week in Macedonia in June 2008 to train staff from regional offices of Macedonia's Ministry of Agriculture in the fundamentals of price reporting. We spent one day working with the headquarters staff in Skopje to review reporting forms they had put together and to finalize plans for the workshop. We then conducted a three-day workshop for the price reporters. The final day of our visit, we spent with representatives from processing companies that the Ministry hopes to include in the system.

Study tour to Poland for Macedonian Ministry officials. The objective was to give the Macedonians a first hand view of a successful market information program in a transition economy. The group met with the office in the Polish Ministry of Agriculture responsible for managing the market information system, where they learned about the structure of the program and how the information is used by various agencies and disseminated to the industry. Subsequently, the group visited a selection of providers of information including the Warsaw fruit and vegetable wholesale market, two grain milling companies, and a meat processor. In these meetings the group learned how the companies collected and reported their price information, and they also came to understand how the industry uses the information extensively to make marketing decisions and to establish marketing contracts. The final visit was to a regional agricultural extension office that collects and disseminates market information on a regional basis and helps local producers use the information in their decisionmaking.

Assessment Mission to Bosnia and Hercegovina (BiH). In March 2008, the ERS project manager made a ten day visit to BiH to assess possibilities for establishing a market information system there. As this moment, not only is there no MIS in BiH, but government officials have not even begun discussions on how this could be done. There have been at least two failed attempts in the past by EU projects to create a market information system. But these projects proved unsustainable principally because of a lack of political will and the complexity of the BiH political system. There is hope, however, that we will be more successful than previous efforts. Bosnian officials now have a better understanding of the need for market information, and they have observed the success of the MIS program in Serbia. Since this visit, the Bosnian parliament finally passed an agricultural law that stipulates, among other things, that the Ministry of Foreign Affairs will set up and supervise a market information system. Bosnian officials are now much more willing to invest their own resources in developing an MIS than they were in earlier years.

In September, ERS will organize a workshop in Bosnia to present the fundamentals of a market information system and facilitate discussion among stakeholders as to the best way to organize the system, given the complicated political system in the country.

Thus at the end of FY 08, Macedonia will be well on its way towards creating a market information system. We expect the first reports to be issued in early September. With our assistance, the Bosnians will be taking the initial steps towards setting up a system. With an additional year of funding, we will provide further training to the Macedonian

Ministry staff, help the Ministry include some processing companies in the system, and initiate training in Bosnia. Most important, we will organize regional meetings among managers of market information systems in Serbia, Montenegro, Bosnia, Macedonia, and Croatia to discuss common reporting procedures and trends on the regional market.

Current Conditions in the Target Market

The former Yugoslavia was a strong player in international agriculture: it was usually a surplus producer of grains and livestock products and was market for a number of U.S. agricultural products, including oilseeds, livestock breeding materials, and poultry. These trade ties were seriously disrupted during the wars of the 1990s. Since 2000, all the countries in the region have made significant progress towards recovery, and all are aspiring to EU membership.

But the region remains highly fragmented, and the gains have been unevenly distributed. There are a small number of successful commercial farmers in Serbia, and Serbia as a whole is a net exporter of agricultural products. But most farmers in the other countries, as well as a significant number of farmers in Serbia, remain semi-subsistence farmers isolated from markets. Farmers in northern Montenegro produce a number of high quality fruits, wine, and dairy products, but have been unable to market these products to the major tourist centers on the coast. Macedonian slaughterhouses raise their own pigs because the small farmers are unable to provide the quantities and quality that the slaughterhouses demand. Serbian tomato growers complain about low prices, but remain ignorant of alternative products that might bring higher prices.

Bosnia, Macedonia, and Montenegro are also large net importers of agricultural products—much of it coming from Serbia, and much of it unregistered. These countries are trying to reduce their import dependence. But they are having difficulty identifying subsectors where they have a comparative advantage, and they tend to resort to a variety of protectionist measures to boost their output and reduce imports.

Problem to be Addressed

One obstacle to increased trade and investment in the region is a lack of market information. Better market information would help farmers identify markets and understand the specific varieties and quality attributes that are demanded on the markets. But the need for information goes beyond the borders of the individual countries. There is a substantial amount of trade among the countries of Southeast Europe, and farmers and policy makers need to understand the markets of their neighbors, as well as their own markets. Work to date has already promoted an exchange of information among Serbia, Montenegro and Croatia—MIS reports in each of these countries now include prices from the other two, and we have already observed concrete results. For example, cattle breeders in the Montenegrin mountains have told us that thanks to MIS, they have been able to reestablish trade with Croatia that was interrupted by the war.

Rationale for a Regional Project

But much more needs to be done to provide for a smooth flow of information among the countries of Southeast Europe. A regional exchange of market information would bring concrete benefits to farmers in the region. There is considerable cross-border trade going on among the countries—early vegetables from Macedonia into Serbia and Montenegro, Serbian livestock sold to Macedonia, Bosnia, and Montenegro, Serbian vegetables sold in Romania. Some of this trade is legal, some not. But in all cases, farmers believe that traders and middlemen are making all the profits. If farmers had ready access to price information from markets in neighboring countries, they will be in a better position to capture a larger share of the profits from this trade. They will also better understand their own competitive position relative to producers in neighboring countries.

At present only Serbia, Croatia, and Montenegro have adequate systems for reporting prices. The Macedonian Ministry has made a good start, but more assistance is needed if they are to develop a comprehensive, sustainable program. There is no price reporting in Bosnia. However, there are no SEED funds available to USDA to support work in either Macedonia or Bosnia.

Benefits to U.S. Exports

Improved market information from Southeast Europe would benefit U.S. interests as well. While the United States has not regained the grain and oilseed markets it had in the former Yugoslavia, exports of higher value products have been growing in recent years. At present exports consist mainly of tobacco, meat, breeding materials, prepared and dietetic foods, alcohol, frozen seafood, pistachios, shelled almonds, snack food, and planting seeds. As incomes rise in the region, demand for these products can be expected to increase.

Taken individually, each of these countries is very small and may not seem worth the effort required to develop markets for U.S. exports or investment. But, the countries of Southeast Europe (including Albania and excluding Bulgaria and Romania, who are now members of the EU) have a combined population of 25 million, and the entire region is experiencing rapid economic growth. Despite the ten years of war and economic isolation, these countries are rapidly reestablishing trade ties with each other, and their markets are becoming increasingly integrated. Until recently, trade among the countries was governed by a confusing spider web of bilateral agreements. However, these countries have now negotiated a regional free trade agreement (CEFTA.) As the region becomes more integrated, it will become a more attractive target for U.S. investment. But with increasing integration, there will be an ever greater need for market information across the entire region.

Some of the countries are also still negotiating association agreements with the EU and WTO accession, and the lack of market information can be a serious obstacle to those goals. In Bosnia, for example, officials complain that calculating the aggregate measure of support (AMS) is close to impossible without price information. The lack of price

information (as well as a lack of reliable basic agricultural statistics) also makes it difficult to analyze the impacts of alternative proposals for tariff cuts. More generally, a USDA presence in the region can help encourage government officials to negotiate agreements more compatible with U.S. interests.

Project Objectives

- 1) To develop agricultural market information systems in Bosnia and Macedonia, which do not now have such systems;
- 2) To facilitate the exchange of market information among the countries of Southeast Europe and create a common system of reporting procedures such that the information can be readily compared across countries;
- 3) To encourage policymakers to use the information to make more rational policy choices;
- 4) To make this information available to U.S. policymakers and agribusiness interests so that they can make more informed decisions about establishing business relationships in the region;
- 5) To improve USDA's knowledge base about a dynamic region that is rapidly reintegrating into world markets.

Performance Measures

- 1) Macedonia will begin collecting and disseminating market information on a regular basis
- 2) Bosnia will develop a clear organizational structure for collecting market information, training of price reporters will be completed, and the initial price reports will be published
- 3) There will be an active exchange of market information among officials in Serbia, Croatia, Montenegro, Bosnia, and Macedonia.
- 4) There will be concrete progress towards developing a common set of standards and reporting terminology;
- 5) Policy makers will know how to use the information to evaluate policy options;
- 6) The information will be easy for interested parties in the U.S. and other countries to access.

Justification for Federal Funding

Collection and dissemination of market information is a public good that cannot be provided effectively without government supervision and at least partial funding from the national budget. USDA has a long and successful track record in carrying out this work on behalf of U.S. agribusiness and is uniquely positioned to share this experience with other governments. ERS has a long history of implementing similar projects in emerging markets, including other former Communist countries such as Poland, Romania, Russia, Ukraine, and Bulgaria, which have experienced problems similar to those in Southeast Europe. But ERS cannot carry out this project without Emerging Markets funding, since ERS is not allowed to use appropriated funds for this type of work.

Project Implementation

ERS proposes to use Emerging Markets funds to build on the work completed in FY 08 and previous work under the SEED program in Serbia and Montenegro to develop a regional system of market and economic information in Southeast Europe. The primary objectives will be to assist Bosnia and Macedonia in the creation of a market information system and to promote information exchanges between these two countries and Serbia, Montenegro, and Croatia.

We will investigate the feasibility of a centralized regional market information website for the region. But such an entity is unlikely to be sustainable without USDA assistance. It will be more feasible to assist the market information agencies in Bosnia and Macedonia to develop websites similar to those in Serbia, Montenegro, and Croatia, and each country website will have links to each of the others.

Project activities under Emerging Markets would include the following:

Continuation of market information training in Macedonia. By the beginning of FY 09, the Macedonian Ministry of Agriculture will have begun publishing weekly price reports covering fruits and vegetables from green and wholesale markets and live animal markets. ERS will make two trips to Macedonia to review the reports and make recommendations for improvements.

Expansion of Macedonian MIS to include prices paid by processing companies. The goal of the Macedonian Ministry is to conclude contracts with a selection of processors that will oblige them to report prices paid for raw products. ERS will assist the Ministry in developing contracts that clearly define the information to be provided and also guarantee confidentiality of the information. We will assist the Ministry in designing software for electronic transmittal of the data (but ERS will not purchase hardware or software.) ERS will also conduct a training session for processors on reporting procedures.

Initiation of training in Bosnia. The focus will most likely be fruits, vegetables, livestock and dairy markets. We will follow the successful model we have developed for Serbia and Montenegro, making adjustments for the unique institutional structure in each country. The cost of this phase will be considerably less than what we have spent in Serbia and Montenegro because we will not have to rely solely on USDA trainers. There are a number of excellent price reporters we have trained in Serbia and Montenegro who could be recruited to help with the training. Based on interactions we have already had with Bosnians and Macedonians, we believe those governments will be receptive to this idea.

Regional meetings among price reporters to develop common reporting procedures and discuss trends on the regional markets. These meetings will include key counterparts and Government officials in Macedonia, Bosnia, Montenegro, and Serbia. We will invite counterparts from Croatia to these meetings as well. Croatia has had a well-developed

market information system since the mid-1990s. Croatian reporters will be able to share some valuable insights, and it is likely that they too would benefit from an exchange of ideas among countries.

Dissemination: Together with local counterparts, we will explore all feasible channels for dissemination. Channels might include the internet, outreach by extension agents, newspapers, radio, television, and postings at town halls, entrances to markets and other places where people gather.

Time Line

The project will be implemented through four trips to the region:

December 2008; this trip will follow up on FY 08 work in both Bosnia and Macedonia. We will review price reports prepared by the Macedonian Ministry and assist the Ministry in its plans to include processors in the system. We will meet with Bosnian officials to help them decide how to organize their system—i.e. who will provide price reports and which markets will be covered.

March or April 2009: training of reporters in Bosnia and follow up to training in Macedonia.

May or June 2009: Follow up to April training in Bosnia and first regional meeting for Southeast Europe price reporters, probably to be held in Serbia.

September 2009: Follow up meetings in Bosnia and Macedonia and second regional meeting.

Budget

ERS or other USDA salary and benefits: 35 days @ \$475	\$16,625
Travel: 3 2-person trips and 1 3-person trip (9 total) @ \$6,500	\$58,500
Contracts/coop agreements with US experts	\$21,600
Workshops in Bosnia: local transport, payments for training venues, lodging and per diem for local participants, etc.	\$12,000
Workshop in Macedonia: local transport, payments for training venues, lodging and per diem for local participants, etc.	\$7,000
Regional meeting: local transport, payments for training venues, lodging and per diem for local participants, etc.	\$15,000
Total	\$130,725