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## Municipality-level Revolving Fund Model Creates New Financing Opportunities for Small Farmers and Growers in Serbia

As financial lending institutions in Serbia work to diversify lending products and offerings to a broader segment of the market, there still remains a gap between presently available financing options and agribusiness' real-world financing needs. In general, access to finance for micro, traditional farmers remains a key obstacle preventing them to enter profitable supply chains, attract subsidies and credit and thus drive new investments in equipment and machinery needed to scale and grow their businesses. Specifically, there is a lack of financial services and programs available for micro clients operating in the agriculture and food processing industry, who are often perceived as “riskier” borrowers by local banks. This is partly because commercial lending institutions predominantly develop loan and credit products for small and medium-sized companies (SMEs) and large-scale industry clients. Additionally, few banks tailor products to accommodate business seasonality and the specific risks profiles of smaller agribusinesses.

Further compounding the problem is the lack of other financing opportunities available to micro growers and producers. Presently, one of the largest financing programs targeting agribusinesses, the EU-sponsored IPARD program, lacks suitability for micro clients as they are frequently ineligible due to small arable land plots and insufficient operating revenues. Other available sources of finance, such as state-tailored programs and subsidies and international donor programs focused on equipment financing, fall short in addressing the financing needs of micro-producers as they are generally offered as one-time events to a limited number of beneficiaries. As such, many micro-producers and growers lack alternatives and must raise personal funds to invest in new equipment purchases. Faced with lack of opportunity, rural households are currently suffering from the highest levels of immigration – abandonment of farms is visible and apparent to all.

In an effort to address this financing gap on the local market, the USAID Competitive Economy Project (Project) established a new model for creating an alternative financing mechanism at the municipality level specifically targeted at small, “unbankable” growers and producers. Primary target groups of this financing model include small-scale fruit and vegetable producers.



*Fund representatives visit one of the beneficiaries, fruit grower Savo Čekeranac from Kriva Reka*

In April 2020, the Project partnered with the Divac Foundation to develop the Revolving Fund (RF) model with local municipalities. This new, innovative financing scheme enables local municipalities to re-use funds raised from multiple stakeholders to benefit a broader group of local beneficiaries. Over time, initially raised funds are invested and re-used by other beneficiaries as the original disbursements are



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paid back into the fund. Through a competitive process, funds are awarded with streamlined rules and procedures, while financial terms are transparent and borrower friendly. This form of financing also complements other available financing programs, subsidies, and grants on the local market, and enables small famers and growers to tap into new financing opportunities to expand growth and production.

The first pilot RF project was established in the Zlatibor district, with a joint 40,000 USD co-investment by the Divac Foundation and the Municipality of Čajetina, through a local municipal company Zlatiborski Eko agrar. This represented the first time in Serbia that a private foundation and a local municipality partnered in leveraging joint funds to create a long-term, sustainable financing mechanism targeting local agricultural development and food production.

Through an open call, 19 local raspberry, honey, and cattle producers received financing in the amount of 2,000 USD for new investments in small machinery, hail-protection systems, and livestock registration. Selected participants pledged a personal bill of exchange to receive interest-free borrowing to be returned in quarterly installments over a three year period. The first round completed in October 2020. The Municipality of Čajetina also provided an additional subsidy of 30% ontop of the Revolving Fund's total dispursed amount via its regular agricultural subsidy program, thereby successfully coupling new RF financing with an existing local agriculture support program. Importantly, by the end of 2020, when the first installment came due, all beneficiaries had timely fulfilled all payment obligations to the Revolving Fund.



*One of the Revolving Fund's beneficiaries, the Jovanović family from the village of Tripkova in Zlatibor, acquired a mill cutter and tractor sprinkler which significantly helped cultivate their 1-hectare blueberry farm. "With the new equipment we no longer have to manually finish that part of the job. Next, we plan to invest in a new drip irrigation system for the farm," says Stefan Jovanovic. The family is also engaged in rural tourism and rents out accommodation on their agricultural holding.*



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To further raise awareness among more municipalities across Serbia, the Project and Divac Foundation organized regional events and online webinars about the RF model's local-level benefits in the Fall of 2020. These events generated extensive positive media coverage in national-and local-level media outlets and online social media channels. As a result, 15 municipalities and three Regional Development Agencies expressed strong interest to implement similar financing mechanism in the near future.



*"In total, we've supported 19 local agricultural farms, which will return funds received over the next three years. The idea is that in three years, this project will be sustainable long-term, and we will move on to another municipality," explained Ana Košel, Director of the Divac Foundation.*

**Presenting the revolving fund model**

Next year, the RF will disburse new funds to selected beneficiaries once the first group of beneficiaries returns the originally dispersed amount. The RF fund remains open and can be supplemented with new capital from the local municipality, the Ministry of Agriculture, Divac Foundation, and other donor organizations. This enables partners and stakeholders to raise new funds from diverse sources to be deployed to local growers and producers on an on-going, year-round basis.

Building on the initial success, the Project plans to replicate the Revolving Fund model in four new municipalities over the next year and a half. The expansion of the Revolving Fund model to new regions across the country will help contribute to long-term agricultural growth in local municipalities and surrounding regions. Going forward, more and more small-scale producers will have access to new capital and financing needed to scale their businesses, thereby helping secure sustainable livelihoods and local economic growth.