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## **FAO Regional Office for Europe and Central Asia**

### ***Policy Studies on Rural Transition No. 2013-1***

# **Association of farmers in the Western Balkan countries**

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This paper was prepared within the “*Cooperatives and their alternatives*” component of the *Agrarian Structures Initiative (ASI)* which is a regional program of FAO in Europe and Central Asia. The aim of this project is to identify the advantages, disadvantages of integrating small farms into markets through farmer cooperative groups and direct contracting in the region. Studies are prepared in different countries of the region to understand the enabling environment for these institutional innovations, and to propose policy changes in order to develop inclusive and fair value chains.

More information on the Agrarian Structures Initiative and its projects is available here: <http://www.fao.org/europe/agrarian-structures-initiative/en/>

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In this paper Bosnia and Herzegovina and Serbia were chosen for a more detailed overview as typical examples. Serbia forms the largest part of a region with significant land potential, similar to the Former Yugoslav Republic of Macedonia (FYRoM) and parts of Croatia, while Bosnia and Herzegovina is a mostly hilly and mountainous area that concentrates on cattle-breeding. Moreover, these two countries provide the best and most typical depiction of the situation in the Western Balkan region in terms of politics, tax, legislation and other important questions regarding associations.

## **I. Agriculture and farmers in the Western Balkans**

The Western Balkan countries (Bosnia and Herzegovina, Serbia, Montenegro, Macedonia, Albania and UNmik Kosovo) are still in the process of *transforming their economies from the socialist system of the Socialist Federal Republic of Yugoslavia (SFRY) into a capitalist one* following the Western model. This transformation has included many structural and legislative reforms.

*Another transition process; namely EU accession* has taken place concurrently, and this process has even more precisely defined the direction of reforms. However the Western Balkan countries are all at different stages of EU accession<sup>1</sup>. Agriculture has been a central part of these processes. Below we list some of the challenges the creators of agricultural and economic policy in the region are facing:

- Privatization of agricultural estates, old cooperatives and manufacturing capacities;
- Building of agricultural credit markets based on private banks;
- Privatization of farmland;
- Building of commodity markets;
- Developing of services based on private initiatives;
- Developing of market entrepreneurship and the related mind-set;
- Building of institutions of support following the EU model such as institutions for accreditation, payment, registration and labelling.

Some countries have been faster and more efficient regarding certain adaptations and reforms while others have been slower; nevertheless, the general conclusion is that a lot has been done, although the job is still not finished. One of the reasons why the changes are happening more slowly than expected is that people's mind-set is changing more slowly than the law.

Nevertheless, the EU integration process, which all of the countries of the region are aiming at, makes the goal of the reforms fixed; namely, becoming a part of the EU Common Agricultural Policy. This is a difficult road characterized by high investments but it also brings numerous benefits, not only to consumers, but to farmers as well. *Agriculture and farmers have it hardest in the EU membership process, but they will also have the most*

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<sup>1</sup> In July 2013 Croatia became a full member, in 2012 Montenegro entered into negotiations and three countries have been granted candidate statuses and are now waiting for the negotiations to start: Serbia (2011), Albania (20XX) and FYRoM (20XX), the first one from 2011, the second from XX, Bosnia and Herzegovina has signed the SAA and UNMIK Kosovo is in negotiations for the SAA.

***benefit upon accession***<sup>2</sup>. There is no reason that anything should be different in the case of the Western Balkan countries, especially considering that the CAP is based on the principles of the integrated market, financial solidarity and primacy of the union and this policy has proved very open and good toward new member states. Furthermore, ***agriculture in the region has the potential to contribute to the CAP, not so much in terms of production quantity, as in terms of quality and variety.***

Some of the key features which will determine development of the farmers' cooperatives and associations in Western Balkan are related to:

- Changes occurring (adjusting production to the global distribution of competitiveness, changing the structure of producers and increasing yields)
- Problems they face (short market chains, inclusion of small-scale farmers into the modern market chain and production of low-value products)
- Changes they are going to face (customs liberalization, Croatia's accession to EU, changes in consumer habits, ways of trade and getting the EU pre-accession funds)

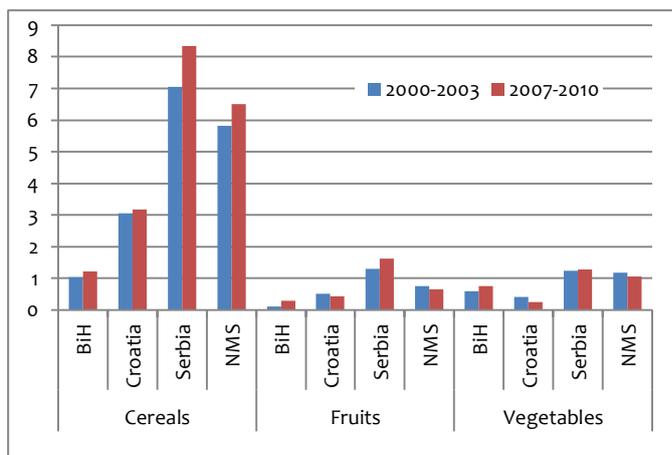
***Increasing yields, adjusting production and changing the structure of producers are intensive in the Western Balkans region***

Even though the war set back both the economy and agriculture in the Western Balkans region, and even though there was very little to start with, it is obvious that ***yields have increased in almost all sectors and branches***. Regarding production, there are adjustments – some production lines have increased, and some have been reduced. The main stimuli to these changes in production are: (1) liberalization of domestic customs which has provided an increase in the competitiveness of goods and easier access to new technologies; (2) gaining preferential access to the EU market and other markets; (3) development of the market based on the private initiative; (4) changes in consumer behaviour; (5) changes in how sales are conducted such as opening supermarkets, wholesale markets and commodity markets.

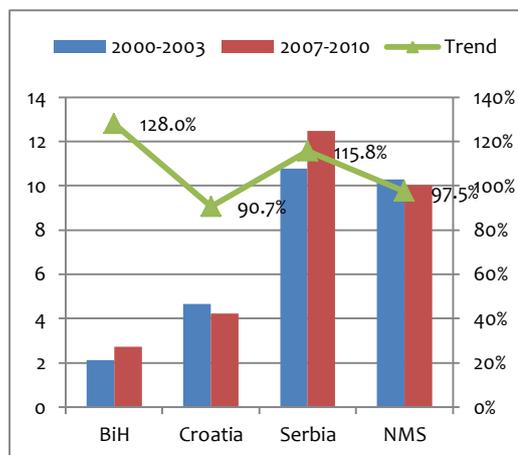
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<sup>2</sup>To corroborate this, there are data about the reduction in the number of farmers in the countries in the EU and CAP accession processes, but also the increase of yields upon EU accession.

**Graph 1: Comparing average production per sector in 2000-2003 and 2007-2010 in Croatia, BiH, Serbia and NMS, in million tonnes**



**Graph 2: Comparing total production in 2000-2003 and 2007-2010 in selected countries in million tonnes**



Source: FAO

**The period since 2005 has been characterized by positive trends in the production and trade of fruit**, especially apples, raspberries, cherries and plums, and periodically other stone-fruits (peaches, nectarines and apricots). All of the countries in the region are experiencing these trends, and the growth of total fruit production in BiH is +7.5 percent relative to the global figure, +11 percent in Serbia, +4 percent in Croatia, and +3.5 percent in NMS. Among pomes, NMS has a higher growth rate relative to global figures, although BiH (+4 percent), Serbia (+5.7 percent) and Croatia (+4.7 percent) also recorded significant increases.

**The dairy sector in the region has maintained production levels, although the number of dairy cows and the number of farmers have both decreased<sup>3</sup>**. In all countries of the region, productivity has increased significantly<sup>4</sup> and processing has improved. However, the average size of dairy farms in the region (except Croatia) is still very small. A high percentage of milk is purchased through dairy plants and a low percentage of extra and first class milk is produced, while there are still a large number of small dairy plants.

**Significantly lagging behind EU countries in the production of vegetables**, especially non-perishables and those prepared to be sold in supermarkets (continuously delivered, packaged and homogenous). After the production of pork, vegetable producers have had the most problems maintaining existing levels of production in the period before the EU accession. The situation is more complicated with vegetables due to the dearth of varieties, but it is also simpler due to the same rule for all sorts – imports are necessary because it is not possible to preserve vegetables (when it comes to non-perishable vegetables) or at the time when Bosnia and Herzegovina has no production (when it comes to perishables).

**Increased areas are being used to produce corn** due to good prices and increased yields. In areas with large plots of land but also on farms with a few cattle fed by feed produced on that farm, areas under corn have increased continuously since 2008. Relatively small technological requirements and good prices – starting from 2007 – have caused significant increases in maize production.

<sup>3</sup> In Croatia in 2004, milk was bought from 54,000 farmers and in 2011 from 14,000 farmers, while the extra class of milk increased to 97%. In Serbia, in the period 2000-2009, the number of cows was reduced by 28.5% but the level of production remained constant.

<sup>4</sup> At the least by the percentage of reduced number of cows while maintaining production.

***Stagnation or declining production of wheat*** compared to other crops. Yields have increased at the slowest pace in the production of wheat. As well as the introduction of new technologies, this is because sowing is linked to requirements for crop rotation, land improvements and food security, while it is linked less and less with good profits.

As with other New EU member states, there has been a ***silent agricultural revolution in the Western Balkan*** countries in the last decade, as a consequence of which, a little more than twenty years since the abolition of the ten hectares maximum of land<sup>5</sup>, tens of thousands of farmers (mostly in the Vojvodina and Slavonia regions) have cultivated over 200 hectares and hundreds of others have cultivated over 1000 hectares. They obtained their land through privatization of estates or by buying or renting land from their neighbours. Three crucial factors led to this revolution. Firstly, the opening of borders, enabling access to foreign inputs, technologies and mechanization; secondly, the privatization of agricultural estates and the release of public land to market, and thirdly, the development of the credit market.

### ***Production and trade are dominated by low-value products and short market chains***

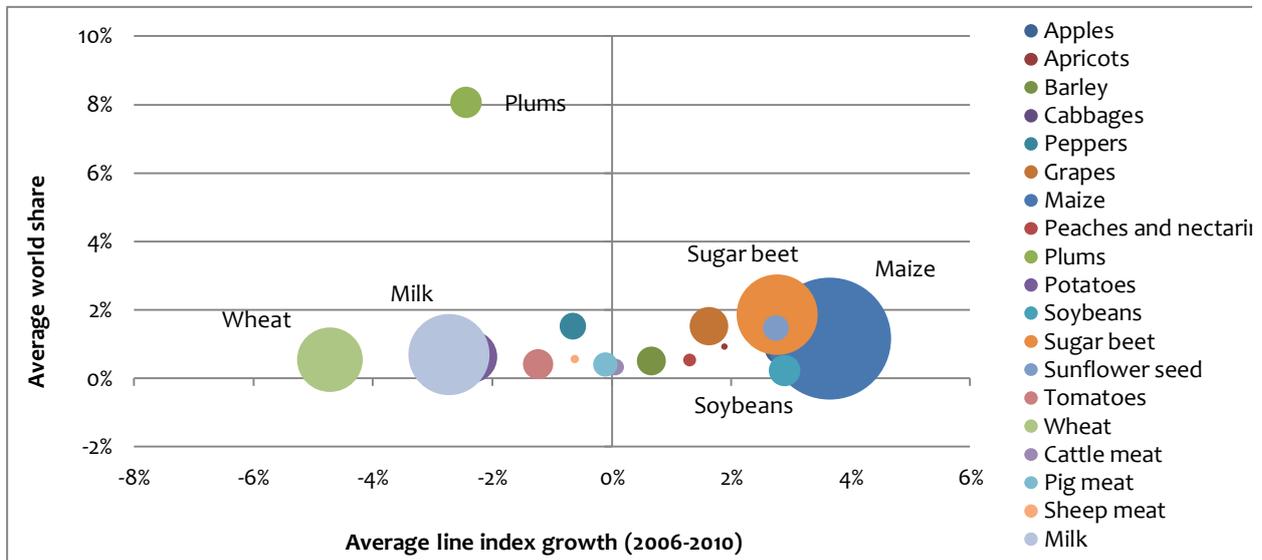
There are two basic problems relating to the functioning of market chains. The first is that only a ***small number of agricultural producers are included in modern market chains*** because many are uncompetitive and operate through informal channels while the costs of standardizing their production is high. The other problem is low competition when it comes to processing facilities, conditioned by the producers' inability to increase consumption through penetrating new markets. ***Great competition in primary production combined with a low competitiveness when it comes to food processing*** is one of the fundamental traits of Western Balkan agriculture. The reasons for this lies in the failure to attract investments to the food processing sector, which has led to an inability to fulfil EU export standards for a great number of products. Other reasons include unreliability of political support, underdeveloped institutions and lack of knowledge concerning real competitiveness due to high tariff protection. This has resulted in ***short market chains for the small producers, usually ending on the local green market, in the neighbourhood or with a wholesale buyer.***

The consequence of this is that ***low-value products*** such as cereals and industrial crops constitute a large share of production and trade. The cattle-breeding sector especially is facing crisis because a significant decrease has been observed in the number of cattle and volume of production in all countries. Corn is the dominant crop in all countries and it has also seen the highest increase in production, primarily due to the increase in prices. Corn is mainly used on the same farm on which it is produced (since 2008, with the increase in food prices, Serbia has begun to export corn extensively). It is normally kept in baskets in a natural way and as a rule it is not traded or produced through cooperatives, but individually.

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<sup>5</sup> In the SFRY there was a provision of the law where one farmer might not own more than ten acres.

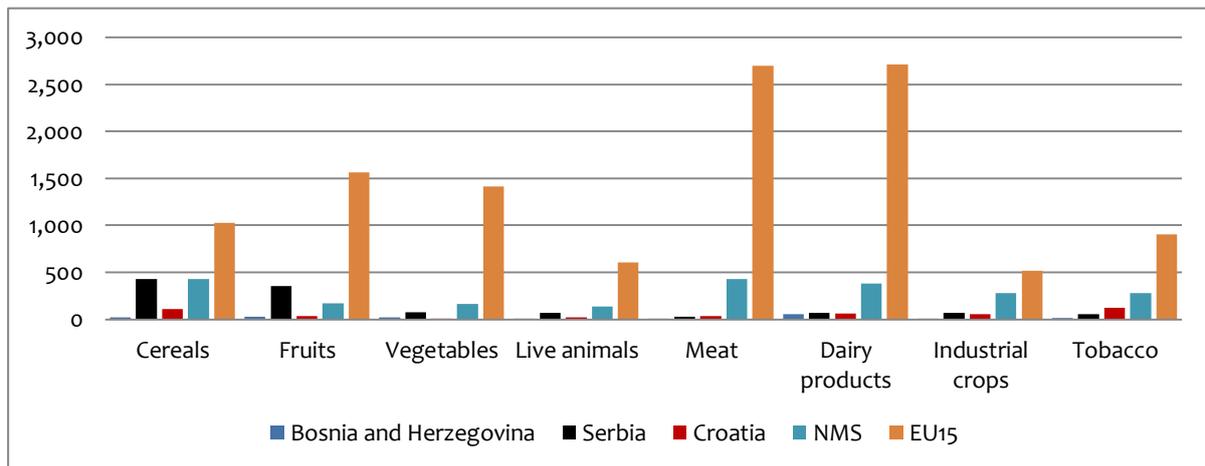
**Graph 3: Share of the export in overall world exports (vertical ose), average value of export (bubble size), average export of share, share of the production overall world production (vertical ose), value of production (bubble size), average producton for CEFTA countries and position in relation with world exports (world = 0, horizational ose) in selected products 2005-2010**



Source: UN Comtrade

This production structure clearly contributes to the negative structure of exports. In the Western Balkan countries, exports are dominated by cereals. Only Serbia has developed a number of fruit export market chains (frozen raspberries to the EU and fresh plums and apples to Russia), while other countries export extremely small amounts and mainly to the CEFTA market. This structure also largely defines the development of the market chains and consequently the association of farmers.

**Graph 4: Average export per country of selected groups of products in the 2006-2010 period**

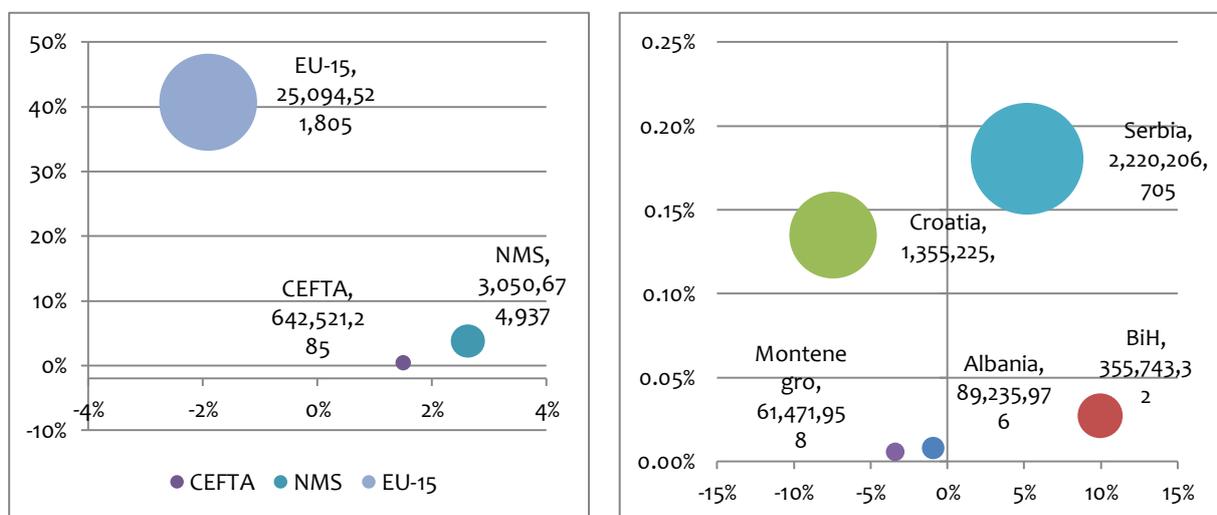


Source: UN Comtrade

## *Agriculture and farmers from the Western Balkans are about to face various changes*

As a State Party to the GATT, the former SFRY charged high customs tariffs on agricultural products, and thus one of the ***first tasks of adjusting to the market economy was promoting a freer flow of goods***. When the country itself was not ready to open its borders, the EU assisted in these processes. In this way, the Western Balkan countries started the liberalization process within: (1) The Stabilization and Association Agreement with the EU countries; (2) first bilateral, then CEFTA agreements with the countries in the region; (3) agreements within STO; (4) numerous bilateral agreements.

**Graph 5 and Graph 6: Share of exports in overall world exports (vertical ose), average value of exports (bubble size), average exports of agricultural products and growing rate in relation with world exports (world = 0, horizontal ose) in selected countries and group of countries in 2005-2010**



Source: UN Comtrade

These processes have led to a considerable improvement in trade on both sides. Still, trade in the Western Balkan countries has a ***lower growth rate compared than the NMS, but it is higher than the overall growth achieved globally and especially in the EU 15 countries***. At country level, Serbia is the largest exporter, while Bosnia and Herzegovina had the highest average growth rate in the period 2006-2010.

In addition to the liberalization of customs, agriculture and farmers in the Western Balkan countries will face many other changes, to which they will have to adjust. Some of these changes will be global; such as climate change, variations and increase in food prices, the world economic crisis, changes in consumer habits and ways of trade, etc. On the other hand, some of them are local and regional; such as the possibility of using the EU pre-accession funds and Croatia's accession to the EU.

***All of these changes have specific impacts on the development of cooperatives and associations of farmers in the Western Balkan countries.***

## II. Association history

In order to understand the current situation with cooperatives in the Western Balkans, it is necessary to comprehend the legacy of the socialist era in the cooperative societies. It is typical to say that one of the greatest challenges surrounding stronger association is the legacy of the past and the socialist approach that was applied from World War II until the collapse of the SFRY. However, it can be argued that this memory (whether positive or negative) is often given too much influence because the cooperatives in the former SFRY were nothing like those in the former USSR, either in terms of their organization and impact, or their operating environment, where the key fact is that 85 percent of land in the SFRY was privately owned.

*The first associations of farmers were formed in the Balkans as early as 19th century*

In the Balkans, cooperative societies and associations in general ***started several years after the arrival of the first cooperatives*** in the first half of the 19th century. The oldest form of cooperatives in Serbia – as well as in the rest of the world – was savings and loan cooperatives. The first such cooperative was founded in Bački Petrovac, Serbia, in 1846. They were connected to agriculture and tried to solve the problem of the lack of capital. Besides building up savings and granting credit, they also dealt with procuring inputs. This was a time when ***cooperatives were very widespread***. In 1913, there were 782 cooperatives in Serbia, and by 1939 this number had reached 3,647, out of which 1,819 were purchasing and selling, 1,077 were credit cooperatives and 751 were specialized cooperatives. The main alliance of agricultural cooperatives in Serbia was founded in 1895, and it represented one of the 11 national cooperative federations that formed the International Co-operative Alliance that same year in London.

In other parts of the Kingdom of Serbs, Croats and Slovenes, later the Kingdom of Yugoslavia, the situation was similar. Thus, in Bosnia and Herzegovina the first agricultural cooperative was founded in 1904. With the onset of World War I, Bosnia and Herzegovina had 207 agricultural credit cooperatives and six dairy cooperatives, while in 1938 there were 544 agricultural cooperatives in Bosnia and Herzegovina, organized into three alliances, based in Sarajevo. During this period, cooperative societies in Bosnia and Herzegovina developed following the model of the European Cooperative Movement.

This period left us with:

- A developed awareness about the need to associate
- A significant number of different kinds of cooperatives
- One or several alliances connected to international cooperative associations

*In the time of socialism, cooperatives were numerous and had considerable assets but were not fully managed by their members*

After World War II, cooperative societies advanced through four stages in the development of farmers' associations. The first period started immediately after World War II, which was a ***period of collectivization following the Soviet model***. As of from 1947, the Law on Agricultural Cooperatives defined two types of associations for farmers – general and farm cooperatives. Farm cooperatives were formed by merging private property, similar to Soviet kolkhozes, and general cooperatives were designed to be places of gathering, rural

development and introduction of socialism in the country. Although defined by law, the Soviet model never caught on in Serbia, and after rejecting the Soviet ideal in 1948, the Soviet model of agriculture and association development was abandoned too.

The second period begins with the adoption of the Law of 1957 when the emphasis was put on general agricultural cooperatives, which aside from *procuring inputs, purchasing products* needed for processing, providing services to farmers and other jobs related to improving agriculture, also had a *significant role in rural development* because these were places of gathering and the development of social and cultural life, which helped to improve life in the country. The biggest drawback of this type of cooperative was that a certain number of cooperatives owned land and cattle and they dealt with production and not only providing services to cooperative members. These cooperatives were for the most part managed by the cooperative members.

In 1965, it was made possible for farmers to make direct agreements with processors and retailers which denoted the beginning of the third period in the development of cooperative societies. As a consequence of this decision *many cooperatives were shut down*, especially the small ones. In addition, a considerable portion of the cooperatives' assets were nationalized by merging them into government-owned corporations, while the assets and the operating of cooperative alliances were merged with the Chamber of Commerce. This made the alliances lose legal entity status, which returned to them the Law in 1976, unlike their assets. In any event, the cooperative alliances (regional, republic and federal) did not represent members of cooperatives, but rather the employees in the cooperatives, because they were also members of the assembly and these were by and large the employees most interested in its functioning.

At that time, there were no associations of farmers established to represent and fight for a better position of farmers, either at the national, regional or local level. Yet, there were sectoral associations with minor or major impact. These were essentially beekeeping organizations organized from the local to the central level but there were other associations as well, such as producers of seeds, meat, milk, industrial crops, etc. However, these associations were organizations established by the government rather than real representative associations of farmers and producers. Their work was done within the existing institutions, and thus it was largely controlled by politics. The representatives of the state-owned companies expressed a greater interest for participation in these organizations, and so they predominantly represented their interests.

Table 1: Number of farmers and employees in agriculture in former SFRY countries in 1985

|                                    | SFRY             | SER              | MAK            | SLO            | CRO            | MON           | B&H            |
|------------------------------------|------------------|------------------|----------------|----------------|----------------|---------------|----------------|
| <b>N<sup>o</sup> of farmers</b>    | <b>2,676,341</b> | <b>1,139,497</b> | <b>176,296</b> | <b>192,090</b> | <b>569,221</b> | <b>58,939</b> | <b>540,301</b> |
| <b>N<sup>o</sup> of employees</b>  | <b>170,905</b>   | <b>85,904</b>    | <b>24,707</b>  | <b>12,688</b>  | <b>34,858</b>  | <b>2,272</b>  | <b>10,476</b>  |
| <i>In Enterprises</i>              | <b>158,845</b>   | <b>80,687</b>    | <b>22,656</b>  | <b>10,622</b>  | <b>33,311</b>  | <b>2,233</b>  | <b>9,436</b>   |
| <i>In Cooperatives</i>             | <b>12,060</b>    | <b>5,217</b>     | <b>2,051</b>   | <b>2,066</b>   | <b>1,547</b>   | <b>39</b>     | <b>1,040</b>   |
| <b>N<sup>o</sup> of agronomist</b> | <b>31,738</b>    | <b>16,940</b>    | <b>3,952</b>   | <b>2,300</b>   | <b>5,513</b>   | <b>357</b>    | <b>2,676</b>   |
| <i>In Enterprises</i>              | <b>28,106</b>    | <b>15,218</b>    | <b>3,680</b>   | <b>1,480</b>   | <b>5,186</b>   | <b>344</b>    | <b>2,248</b>   |
| <i>In Cooperatives</i>             | <b>3,632</b>     | <b>1,722</b>     | <b>272</b>     | <b>820</b>     | <b>327</b>     | <b>13</b>     | <b>428</b>     |

Source: SFRY Bureau of Statistics

The socialist legacy of agricultural associations comprises the following:

- A significant number of cooperatives with these positive and negative characteristics:
  - ☺ Producers use them to procure inputs and buy their products
  - ☺ They are often the only organizations in villages, and thus represent places for social and cultural events
  - ☺ They have considerable assets that are not only production, but also trade-oriented
  - ☺ They are to some extent managed by cooperative members
  - ☹ The party, not the cooperative members have the final say in the decision-making process
  - ☹ A significant number of them deal with production on their own land or with their own cattle
  - ☹ The biggest part in the assembly is played by the employees in the cooperatives
- Lack of understanding of the fundamental process of associating and therefore little interest of the producers in participating in the management of the association/cooperative
- Not having any independent associations of producers managed by the producers themselves
- Cooperatives having considerable assets whose legal owner is not clearly defined

### III. The current situation

The fourth and final stage in the development of cooperative societies began at the end of the 1980s when economic and social reforms had already been initiated. This period is primarily characterized by the collapse of the SFRY, where, in the first stages of the war and conflicts, the development of cooperative societies was not on the agenda. Having established peace, the new states started to develop their own economies, agriculture and cooperative societies. Some of them started this process earlier and some more intensively than others, but with slight differences, the process of forming associations in all new-formed states went in the same direction with the same or similar problems and achievements.

What is undeniable is the progress that was made in founding and establishing true cooperatives and associations in which farmers could participate in decision-making processes and receive the needed service. And these processes are still only beginning, when compared to the western countries, who had far fewer interruptions in their development. This is why one of the main characteristics of cooperative societies and associations is a great variation both in the type of association and in their level of development.

#### *What is expected from cooperatives and associations contrasts with their current significance in Western Balkan agriculture*

Cooperatives and associations can be one of the most efficient ways of organizing farmers and supporting agriculture and rural areas. Every farmer in the Western has heard this many times because Ministers, donors and experts keep repeating it. There are so many expectations surrounding cooperatives and associations that it seems as though all a farmer has to do is to join an association and all of his or her problems will be solved. Minister often ask “why haven’t you formed an association, you would feel better and you wouldn’t complain to me”. Similar logic has been applied by many donors for whom the final goal of every project is associating; if in the end an association is formed, the project is considered a success.

There are no clear statistics on how many farmers in the Western Balkans have signed applications for associations, either at the constituent assembly of a cooperative or at associations. However, it is realistic to suggest that the majority of farmers have not signed such applications. Nevertheless, ***the majority of associations exist only for several meetings, and the majority of cooperatives do not even file the annual financial statement*** in the first year after completing the donor programme. Surely this kind of approach creates many disappointments which, apart from all the other reasons (see Chapter 4) means that cooperatives cannot grow. In Serbia, the numbers<sup>6</sup> are of little significance:

- GVA of the agricultural cooperatives amounts to only 1.5 percent of GVA from agriculture, the greatest part of which is made in primary agriculture, namely 81.5 percent (3.467 million CSD).
- Agricultural cooperatives make up the majority (1,425 or 67.1 percent) of all cooperatives (2,124) registered in Serbia in 2012.

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<sup>6</sup> Satellite accounts for cooperative economy of the Republic of Serbia, 2009. Authors: Andra Milošević, MSc., Rade Ćirić, MSc., Mirjana Smolčić, Suzana Karamarković, Marina Pavlović, Vesna Simonović, Bojka Stevanovski. Publisher Statistical Office of RS, Belgrade, 2011.

- Agricultural cooperatives are not dominant in terms of the number of members. There are 31,113 members or agricultural cooperatives, which is only 39.7 percent of the total 78,355 cooperative members in all cooperatives.
- The structure of agricultural cooperatives is increasingly dominated by micro cooperatives that have up to nine employees (with a total of 1,265 members or 88.8 percent of the total). Small cooperatives with 10 to 49 employees have 134 members (9.4 percent of the total) and medium sized cooperatives with 50 to 249 employees have 26 members (1.8 percent of the total). Large cooperatives with 250 and more members do not exist.
- Agricultural cooperatives also have the most workers (6,744) and participation of employees (79.1 percent) in the total number of employees in all sectors of cooperative societies (8,524 workers), which means that agricultural cooperatives (excluding cooperatives with no employees) employ on average 4.7 workers.

The survey that was published by the Ministry of Agriculture of the Republic of Serbia<sup>7</sup> in 2010, and which is based on the answers of 24 percent of 1,751 registered cooperatives in Serbia in 2009, indicated that 41 percent of cooperatives were founded between 2001 and 2010, and that the majority of them (45 percent) had between 11 and 35 members, and 29 percent of cooperatives had only the minimum, statute-appropriated number of members; namely ten. On average, one *agricultural cooperative has four to five times more contract farmers than cooperative members*. In the employee structure in a cooperative, cooperative members account for 56 percent. As many as 88 percent of the managers administering the cooperative are also cooperative members. In the owner structure of the surveyed cooperatives, the most widespread is the cooperative property (58 percent), while 32 percent of cooperatives do not own any property, and 10 percent still hold state-owned property.

The situation is similar in Bosnia and Herzegovina and other countries. *Bosnia and Herzegovina has 554 registered agricultural cooperatives* (from a total of 850 cooperatives) which, based on the overall number of registered agricultural cooperatives is less than in Serbia (2,124) and Croatia (1,600). However, bearing in mind the volume of agricultural production and the number of farmers, this number is relatively equal to, if not higher than that in neighbouring countries. However, it is still less than the 751 cooperatives registered in 1991, before the beginning of the war in Bosnia and Herzegovina.

*Thirty percent of cooperatives in Bosnia and Herzegovina are operating at a loss, around 50 percent are breaking even, and around 20 percent are making a profit.* Cooperatives have almost no processing capacities, which further complicates their work and business operations. As in all the other Western Balkan countries, cooperatives in Bosnia and Herzegovina are facing the problem of the “grey economy”, as well as the impossibility of providing credit instruments, because they do not have assets to guarantee the loaned funds.

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<sup>7</sup> Janković, S., Tomić, V., Kosanović, N., Kuzevski, J., Anđelić, B. (2010) Agricultural cooperatives in the Republic of Serbia – state analysis. Ministry of Agriculture of Serbia and Jaeren Produktutvikling, , 1 - 52.

### *The majority of existing cooperatives lack what is needed to be considered true cooperatives*

Cooperatives in the Western Balkan countries are different from those other countries with more developed cooperative societies. In a small number of cases, cooperatives are founded by farmers who have clear goals, stating that they can do something better if they are part of an association than they can as individuals. In addition, there is a big ignorance of the essence of the cooperative process, over 50 percent of cooperative members said that they are not familiar with the cooperative principles<sup>8</sup>.

The cooperatives registered under the Cooperatives Act and listed in the commercial register as Cooperatives in the Western Balkans Area can be divided into two big groups. The first group are ***pseudo-cooperatives, and the second are true cooperatives***. “Pseudo-cooperatives” can also be divided into two groups. The one is the so-called “old cooperatives” where farmers do not have the right to administer, but instead the employees do this, and the other, the “private cooperatives” are registered as cooperatives but are really private companies owned by one or several individuals.

### *The old cooperatives concentrate more on production than on marketing*

***Old cooperatives represent the interest of their employees***, who, as a rule, account for the majority in the cooperative assembly. They have considerable assets including land, livestock, warehouses and managing facilities. This is exactly why the person who manages them has a great interest in using every possible means to circumvent cooperative principles and manipulate the cooperative members. While doing this may in many ways fall under the auspices of the cooperative alliances which is the only authority empowered to perform the audit. ***The very fact that these cooperatives own agricultural land***, the legal status of which is not regulated, makes it impossible for them to truly provide services to farmers, because the majority of their resources are directed towards their own production. Moreover, farmers see them more as competition than as support providers. However, it is also possible to find old cooperatives in which cooperative members participate in managing and where the cooperative serves its members.

Cooperative property is perhaps the most common motif around which old cooperatives carry on existing. It can also be said that the debate on cooperatives is reduced on peripheral issues of property and not on future mechanisms and support to farmers’ organizations. The problem with cooperative property is that it is rarely acquired through the joint business of cooperative members, but rather as a result of political decisions such as nationalization of private property and its import into cooperatives or turning cooperative property into government-owned property. This is due to unresolved legal and proprietary relations.

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<sup>8</sup> Janković, S., Tomić, V., Kosanović, N., Kuzevski, J., Anđelić, B. (2010) Agricultural cooperatives in the Republic of Serbia – state analysis. Ministry of Agriculture of Serbia and Jaeren Produktutvikling

***Private cooperatives do not have a democratic structure and are usually formed with the aim of using the legal benefits provided to cooperatives***

This is, as a rule, the biggest group of cooperatives in the Western Balkans and they are quite efficient in providing services to farmers. However, they ***do not wish to include farmers in the decision-making process***, but rather wish to conclude subcontracts with them. Many business entities that were established in the nineties and at the beginning of the new century were registered as cooperatives because the registration of any kind of legal form of business except cooperatives was expensive and complicated. To register a cooperative one needed to meet the legal minimum of members, which were usually family members or friends that the founders trusted<sup>9</sup>.

These legal entities assumed the role in rural areas and the agricultural market chain that the cooperatives had played in socialist times; namely, that of production organizers. Better producers, more capable and hard-working farmers or members of the management of the old cooperatives who above all had good connections with the banks, processors and sellers of input have become intermediaries between the industry and farmers. Since small-scale farmers did not and still do not have capital, and the credit market is inefficient, the cooperatives/companies assumed the role of input procurers (seeds and fertilizer) and signed contracts on exchange of commodities. Very often, the interest that farmers used to pay was several times higher than that charged by banks, and because of this many cooperatives increased their capital considerably.

Private cooperatives ***almost exclusively focus on purchasing cereals and industrial crops*** receiving the standard 5 percent margin from processors (such as mills, oil factories and sugar refineries) for organizing production. This kind of process does not require farmers to have their own storage facilities, so these cooperatives often do not have any assets.

***Modern cooperatives concentrate on marketing and have democratic decision-making processes***

Unlike the pseudo-cooperatives, which make every effort not to follow the rules of cooperatives in the Western Balkans, there are also cooperatives that ***fully respect the rules of cooperatives and associate in order to achieve common goals*** (usually a joint purchase, sale or investment), and whose members fully manage the cooperative. These cooperatives often have not only the minimum number of cooperative members, but are also open to other members. Some of them have considerable property as well (including silos and cold storage) acquired by joint investments and often supported by the state or donors. However, ***their number remains small and their overall economic significance is negligible***. Nevertheless, they do ***have immense importance for the development of new cooperatives*** because their example shows that it is possible to create a true cooperative that can provide adequate services to its members. Encouragingly, it seems that there are more and more of these cooperatives in the Western Balkans and with the Western Balkan countries approaching EU membership, there will be even more of this kind of cooperative. The reasons for this are threefold: Firstly, the possibility of using pre-accession funds is an important incentive; secondly increasing competition is strengthening the belief that association leads to an easier existence and thirdly the various possibilities offered by the existence of CAP, which farmers can more easily achieve if they are part of an association.

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<sup>9</sup> We can very often hear the term „my cooperative” but not signifying something that I belong to, but something that belongs to me

**Box 1: There are too many interests trying to preserve the »pseudo-cooperatives«**

**Chamber of Cooperative union**

Mn 1 Mn 2 Mn 3 Mn 4 Mn 5 Mn 6 Mn 7 Mn n

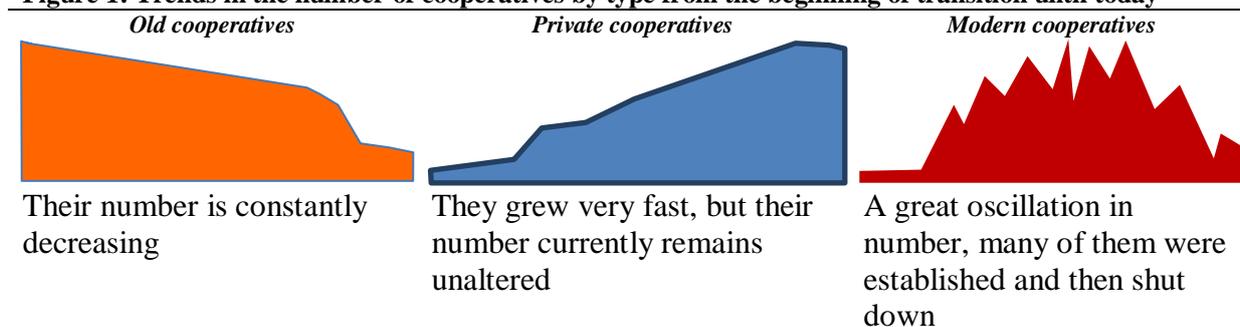
Coop 1 Coop 2 Coop 3 Coop 4 Coop 5 Coop 6 Coop 7 Coop n

● **Relatives**      ● **Employees**      ● **Farmers**

The overall development of the cooperative sector in the Western Balkan countries permanently inhibits and will continue to inhibit the “pseudo-cooperative” sector, because the majority of pseudo-cooperatives do not have the intention of becoming true cooperatives, but instead aim to maintain their current status. It is clear that their interests are opposed to the development of true cooperatives. The cooperative alliances do not wish – or are unable – to face this problem in their midst, for the most part because in their structures they are mainly represented by managers of the “pseudo-cooperatives”, and not the producers. They are, naturally, satisfied with this situation and want nothing to change. The entire system of existing and functioning of the pseudo-cooperatives is secured with laws and institutions (cooperative alliances) which are often organized to prevent the modernization of cooperative societies. The elements of this situation can be recognized in all of the Western Balkan countries, but the greatest level of destruction can be seen in Serbia.

It is difficult to estimate the accurate number of a certain type of cooperatives in each of the Western Balkan countries because their characteristics are often intermingled. Sometimes an old cooperative has many elements of a modern cooperative, or a modern cooperative becomes a private one in time.

**Figure 1: Trends in the number of cooperatives by type from the beginning of transition until today**



However, due to the existence of a significant number of pseudo-cooperatives, one of the characteristics of cooperatives in the Western Balkans is the existence of highly developed cooperative relations with third parties, who are not cooperative members. Therefore, cooperatives tend to have a small number of cooperative members (because the pseudo-cooperatives do not want them) but an ample number of sub-contractors. Generally, there are three groups of persons in cooperatives: (1) cooperative members, (2) employees and (3) sub-contractors.

- 1) **Cooperative members** are the founders and form the Cooperative Assembly. In the majority of old cooperatives very often only a certain group of people is aware of who the cooperative members are and who forms the Assembly. In the private (managing) cooperatives, cooperative members are often family members or friends of the family while in the cooperatives of the new generation, cooperative members tend to be actual farmers who have joined in order to achieve a certain goal for their business.
- 2) **Employees in a cooperative** are people with or without the status of cooperative members. In most cases, the cooperative is closed to new members and these cooperatives are dominated by employees with the status of cooperative members, especially if the cooperative disposes of its own property.
- 3) **Sub-contractors** are farmers who occasionally or continuously do business with the cooperative without the right to participate in the distribution of income within the cooperative, but also without the obligation to bear the risk if there are losses. Sub-contractors represent the most numerous group in pseudo-agricultural cooperatives and they dominate by number and scope of activities when compared to cooperative members. In the majority of cooperatives in Serbia, business with sub-contractors (non-members) is significantly larger than business with cooperative members, and the income acquired in doing business with sub-contractors is distributed between the cooperative members.

Another feature of the cooperatives in the Western Balkan countries is the *small number of specialized cooperatives which deal with some forms of treatment or processing* of agricultural products in order to increase their value and visibility in the market. Still, we believe that with the Western Balkan countries approaching EU membership, this segment of association will develop the most.

Along with all these characteristics, we can also identify the following additional features of cooperatives which are more or less typical of all Western Balkan countries.

- Poorly developed horizontal connection among cooperatives
- Poorly developed sectors of cooperative societies (savings, loans, consumers and insurance)
- Inconsistent application of the legislation on cooperative societies
- Constant debates and clashes regarding the impact and possibilities of cooperatives, where on one hand, people see the possibility of resolving all problems by associating and on the other that forming associations undermines the possibility of achieving anything

*There is a great number and a broad variety of different associations of farmers, whether old or new, sectoral or territorial*

In the Western Balkans *there is a great variety of non-commercial associations*, whether organized as representative associations, advocating certain interests or a certain group of producers or as inter-professional associations advocating the interests of all the participants in one market chain. Territorially speaking, a few of them cover the entire country, while the majority are regional or local. In Serbia, farmers' associations are organized equally by

branches of production and the territorial principle. In Central Serbia, 46 percent of them are represented by territory and 54 percent by branches of production. On the other hand, in Vojvodina, a historically, administratively and geographically defined region, the number of associations organized on the territorial principle is bigger (65 percent).

Regardless of how they are organized, their objectives are set, and these are most often the following:

- Advocating the interests of the farmers with the Government
- Improving business conditions
- Providing professional assistance and support to farmers (information on taxes, legal issues, social policy, etc.)
- Cooperating with donors, other associations and institutions.

Nevertheless, a certain number of associations still do not have clearly defined goals and what often happens is that the roles of non-commercial farmers' organizations, including associations and commercial ones have become interchangeable with the role of cooperatives. Furthermore, the objectives of the associations are often unrealistic and expectations are too high. Consequently *many associations are shut down shortly after being formed*, because they are unable to fulfil their roles. For example, in Serbia, *out of 724 associations listed in the register, no less than 409 associations are inactive*. The average number of members in the associations in Serbia is 99 and the range of the number of members is from 4 to 2,800. After analyzing the survey completed by 258 associations, it turned out that until 1945, only farmers who dealt with beekeeping joined associations. From 1946 to 1996, beekeepers' associations were the most numerous, as well as those that gathered farmers dealing with land cultivation (when considering the total number of members, and not the number of organizations). Since 2002, the number of associations and the number of members have risen considerably and 84 percent of farmers' associations were founded between 2002 and 2010. The greatest interest for associating was expressed by the producers dealing with cattle breeding.

Essentially, the situation in Bosnia and Herzegovina is similar to the one in Serbia and other Western Balkan countries, but there are also several unique features, the main one being that *Bosnia and Herzegovina has 980* registered farmers' associations, which in comparison to other countries and the size of the agricultural production and the number of farmers is a large number. The reasons for this are:

- Bosnia and Herzegovina has two entities and one district, and the territorial regulation of the Federation of Bosnia and Herzegovina recognizes cantons that have important powers.
- Over a period of many years, Bosnia and Herzegovina has had very notable donor support and one important part of this support is directed towards agriculture, and a large number of projects are aimed at establishing associations.
- There is a very pronounced politization of the associations in Bosnia and Herzegovina; much more than in other Western Balkan countries, because certain political parties have recognized these associations as a possible way of achieving both economic and political influence

- The agricultural budget, especially in the Federation of Bosnia and Herzegovina is very generous towards associations and being organized in associations is often a prerequisite for support.

All of the Western Balkan countries are making efforts towards creating associations that represent the majority of farmers; following the model of the EU countries. Sometimes these efforts are genuine and sometimes they are politically motivated. Sometimes they are more successful and sometimes less. What is important to understand is that these actions require time and cannot be accomplished overnight and without large investments, both in terms of time and resources. There is no doubt that one day, in the Western Balkan countries all the farmers will be organized at national level, but the question is when and in what sort of associations? Such an association could be a farmers' association or an institutionalized chamber, which apart from fighting for their own rights, could also provide additional services.

**Box 2: It is necessary to constantly promote the vision of associating - 100 P plus**

*Association of citizens 100P Plus was founded in 2003 in Serbia with the objective of training farmers professionally, serving as a platform for exchanging expert and other information and also to advocate farmers' interests before state institutions. The association publishes a professional journal called the Agronomic Review and provides information for farmers on its website. It can be said that this association partially fulfils its mission – over several years it has organized various seminars, forums, visits and summer and winter schools for farmers where it has held discussions on all the topics that farmers found interesting and where they also defined their attitudes towards agricultural policy, which were to a great extent adopted by the ministries of agriculture. 100 P PLUS is a good example of an association that has not analysed its role and work on changing strategic goals, causing the activities to become boring and its power and influence to decline. Farmers associate around knowledge, information, debates, and at the moment that they stopped being interesting, the membership simply ceased to expand, and the association turned into a closed circle of friends who no longer had any major impact either on other farmers or on agricultural policy.*

At the moment, Croatia has a well-developed agricultural chamber whose foundation, role, activity, status, membership and funding is settled by law. This chamber should be able to fulfil the basic roles: representative, advisory and developmental. For now, it is only partially accomplished these role due to some pressing problems, arising primarily from the fact that a significant number of farmers think the Chamber is politicized and as a consequence they continue to develop their own representative organizations.

On the other hand, in other Western Balkan countries, the Chamber as a legally defined institution does not exist, although different Farmers' Associations operate at national level. In Serbia the most important one is the Serbian Farmers' Association – which was established as an association of the existing associations in 2008 – and the 100 P+ Club, while in Bosnia and Herzegovina, there is the Farmers' Association of Bosnia and Herzegovina and the Peasant Alliance of the Federation of Bosnia and Herzegovina, which are active in the Federation of Bosnia and Herzegovina, and the Association of Agricultural Producers and Cattle Breeders of Republika Srpska, which is active is Republika Srpska.

**Box 3: When created for political reasons, it can have short-term success but not a long-term respect – Farmers’ Association of Vojvodina, Farmers’ Association of Bosnia and Herzegovina**

*The Serbian Farmers’ Association was founded in 2008 as a non-governmental organization with the objective of representing farmers and promoting their interests. When founded, the members of the Association were 53 smaller farmers’ associations from all over Serbia. The office in Novi Sad and the regional offices in several towns in Serbia are financed through a Ministry of Agriculture project. Although the founding documents state that the association is established in order to solve the problems of farmers through communicating with the local, provincial and republic governments and to influence the creation of agricultural policy in the interest of farmers, it soon became the spokesperson of the Ministry of Agriculture and instead of influencing politics, it became an interpreter of politics to farmers. What are the symptoms of this sort of behaviour by the Association? The first is funding of the work; the association receives funds from the Project of the Ministry, Provincial Secretariat of Agriculture. The second is that the president of the association explains unintelligible acts in lieu of the Minister. The third is that if a political party that the Association supported leaves the Association, it practically collapses and ceases to operate.*

*Since its formation in 2003, the Farmers’ Association of Bosnia and Herzegovina has been oriented towards lobbying for the interests of farmers and especially before the Ministerial Council in charge of the important areas of agricultural policy. They have advocated the establishment of the Ministry of Agriculture in Bosnia and Herzegovina, pushed for the adoption of the Law on Agriculture, supported strengthening the state agencies in charge of agriculture, rural development and nutrition and lobbied for prompt acceptance of the EU standards regulating the mentioned areas. The association has members in the majority of municipalities in Bosnia and Herzegovina, as well as a local network of trustees who are presidents of the municipal and cantonal organizations of the association. The association has organized protests outside the headquarters of the state institutions in Bosnia and Herzegovina that lasted for over two years (“tent village”) in order to get the authorities to focus on agriculture related problems. Thanks to such activities, the association has become, according to the research conducted by the International Republican Institute (IRI), the most popular non-governmental organization among the public. However, during its entire existence, the association has not succeeded in resisting political pressure and has been connected to a certain political options. Therefore it has failed to represent all farmers, but instead has taken actions aimed at creating new associations with the ambition to gather more farmers and represent them better.*

*The function of legislation is to preserve existing associations rather than to develop new cooperatives and associations*

The laws on cooperatives represent a limiting factor for the development of cooperatives in the Western Balkans. In order to adopt a law, extreme amounts of energy are spent on years of debates<sup>10</sup> on laws which, even when adopted, in essence do not change anything because their **intention is to regulate everything**. Moreover, laws on cooperatives are being adopted so as to **keep the existing state and privileges**, primarily those of the cooperative alliances, and not in order to create a stable environment for cooperatives to work in or to facilitate the organization of new cooperatives. Even though cooperatives are different from other forms of businesses because: (1) they are owned and controlled by the members who use their services;

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<sup>10</sup> Since 2003, in Serbia 6 Bills on Cooperatives have been publicly discussed, but none of them have been adopted.

(2) the primary task of a cooperative is to provide a service to its owners and not to a broader circle of users; (3) cooperative members have democratic control, and every one of them has one vote regardless of the amount of capital they have invested or the quantity of the products or services acquired within the cooperative. There are no laws that regulate the formation and work of cooperatives in the Western Balkan countries, or that deal with defining these essential differences but establish the rules that can be defined by the very statute of the cooperative.

Table 2 shows that all countries in the region regulate how cooperatives function by exercising very complicated and detailed laws. Only Kosovo has a simple and short law that introduces innovations recognizing the practical functioning of cooperatives (it regulates that capital in cooperatives, dividing it into shares of even value with a minimal value of EUR 10). Also according to this law the director may not be member of the cooperative. In Serbia there is public consensus that cooperatives are not being formed or are not functioning due to the old law and also because for 20 years there has been no consensus on adopting a new law. The Law on Cooperatives adopted in 1996 represents the major legal framework for cooperatives and regulates establishment, membership, registration, management and other issues related to their business operations. But the Law on Accounting and Auditing regulates that in the same way as any other enterprise, cooperatives, cooperative unions and mutual societies are obliged to maintain business books and prepare and submit financial statements and business reports in a manner prescribed by the respective legislation. Financial statements consist of a balance sheet, a profit and loss account, a statement of cash flow and a statement of changes in equity and statistical annex.

**Table 2: Law on cooperatives adoption year and number of articles**

|                        | Adopted    | Number of articles |
|------------------------|------------|--------------------|
| Serbia                 | 1996       | 99                 |
| Montenegro             | New in Dec | -                  |
| Macedonia              | 2002       | 77                 |
| Croatia                | 2011       | 79                 |
| Bosnia and Herzegovina | 2003       | 98                 |
| UNMIK Kosovo           | 2003       | 23                 |

Source: Different Cooperative Laws

In Croatia, the new Law on Cooperatives came into force in March 2011. The adoption of the new Law on Cooperatives marks the end of enforcement of regulations concerning partnership relations, meaning that now cooperatives act as companies, and thus apply the Company Acts. For example, the law governs that the rules set by a cooperative may provide that the cooperative's members shall not perform activities independently and place their products and services on the market without the consent of the Assembly, nor be founders of a company or members of another cooperative performing the same activities as the cooperative. Furthermore, certain data about the business operation according to the rules of the cooperative can be declared secret by the cooperative with the obligation for all members and workers to keep the business secret for three years after their membership has ended. All cooperatives with headquarters in the Republic of Croatia are mandatory members of the Croatian Cooperative Alliance and membership starts from the day on which they are listed in the register. Unlike Croatia, the new Union of Agricultural Co-operatives of Macedonia was

created in 2007, an inauguration that introduced a reinvigorated element into the panorama of co-operative development in the Balkan region.

In Bosnia and Herzegovina, due to the specific political situation, the field of cooperative societies is defined by three Laws:

- The General Law on Cooperatives of Bosnia and Herzegovina, adopted in 2003, and related to the Federation of Bosnia and Herzegovina
- The Law on Agricultural Cooperatives of Republika Srpska, adopted in 2008
- The Law on Agricultural Cooperatives of the Brčko District, adopted in 2002

*The tax system does not recognize cooperatives and associations as entities which should be granted concessions*

The tax systems in Serbia and Bosnia and Herzegovina ***do not differentiate between cooperatives and other companies on any basis***. Even in the case of tax credits that reduce income taxes if there are investments the law does not distinguish between cooperatives and other companies dealing with agriculture. In the tax system, a cooperative member is considered a partner, and not the owner of the cooperative, and thus is subject to double taxation – once when the business is done through the cooperative, and the second time when paying the profit tax. When income is acquired, the cooperative pays the income tax as an economic subject for the first time. If a part of the acquired income is being distributed to the cooperative members, they are required to pay the income tax when the income is acquired from the membership equity or the value of doing business through the cooperative. Moreover, the funds from the profit that the cooperative allocates to the reserve fund are subject to income tax, which is not the case in some other tax systems that are no longer applied in the development of cooperative societies.

## IV. Basic problems

This study covers the basic problems that are divided into two groups: the first are problems that lead to a lack of new cooperatives and associations, and the fact that they are no longer influential, and the second are the problems that the existing and functioning cooperatives are facing.

### IV.1. The reasons for the lack of new cooperatives and the fact that they are not more influential

If we presuppose that cooperatives in the Western Balkan countries are not widespread enough and that they do not have a big enough impact, then the reasons for this type of situation should be found in the facts identified in this chapter. On the other hand, some people argue that the number and level of the development of cooperatives completely correlates with the developmental stage that agriculture is in, as well as with the market in the Western Balkan countries. Anyhow, the basic reasons for why there are not more cooperatives and why their influence is weak are the same: A short market chain, an unwillingness to combat the grey economy, and legislation that is inconsistent with the reality and farmers' needs.

#### *A short market chain is the main reason for a small number of associations*

Market chains are underdeveloped in Western Balkan agriculture and for the most part they are short and do not include small-scale farmers.

**Fruit and vegetables** are mostly sold at green markets, which are still the dominant points of sale. Therefore, there is no need for most fruit and vegetable producers to join cooperatives because they usually run family businesses. Similarly, the increased sale of fruit and vegetables to supermarkets has not motivated producers to associate because there are bigger producers that can satisfy these kinds of buyers with large quantities and continuous deliveries. It is also easier to follow the product quality of a single producer than that of a cooperative. In addition, the introduction of standards is far more expensive and complicated in a group of producers than in one single farm. This is why supermarkets prefer to import or buy from single large producers who do not see the need to act as meeting places for other producers, who to them are seen as the competition.

When it comes to other products such as **cereals, industrial crops and milk**, purchasers such as millers, sugar mills, oil mills and dairy processors are often the only option. In these scenarios larger quantities does not mean better conditions of sale if you are a small cooperative at village or municipality level, but only if you are a big association (see Box 6).

There are two dominant market chains for selling **meat and animals**. The first one is for the sale of animals at livestock markets or to wholesale buyers and the second one is for sales to slaughterhouses at standard prices. Neither of these are very stimulating for establishing cooperatives.

There are two major challenges in establishing market chains. The first one is **how to include small-scale producers in the modern market chain**, because small producers are largely uncompetitive, they work through informal channels, and the cost of establishing standards is

high. The second one is *how to increase competitiveness at the level of processing capacities*, which will lead to the ability to increase spending by finding new markets. What is obvious is that there is intense competition at primary production level, and little competitiveness at processing level. This is mainly conditioned by being unattractive for investment because the EU exporting standards for a large group of products cannot be met; because support policies are unpredictable; because of a lack of institutions and because true competitiveness cannot be known due to intense customs protection.

The Western Balkan countries must take an active approach towards overcoming the problems related to how market chains function, which are primarily connected to increases in investments and the introduction of new technologies in production, storage, sales and processing, funded by private capital, and supported by governments and donors. Essentially, the objective should be to extend through processing or exports, be based on local production and be covered by standards and recognition as much as possible. If these aims could be achieved significantly more cooperatives would emerge. These processes are actually happening and the EU accession is stimulating them further.

**Box 4: When conditions are created for market chains to be extended, good farmers will easily associate – producers of the Futog cabbage have established an association, protected the geographical origin and now they make money**

*The Futog cabbage has become the first Serbian product to have a geographic certification mark, and this, as well as all previous successes related to preserving production, quality and building reputation, producers have been achieved through associating. **The organization of producers and processors of the Futog cabbage** has been supported by projects run by state institutions, as well as donors' developmental projects and agencies. Nevertheless, unlike many others, this association has not only survived, but has continuously developed thanks to, above all, the persistent and visionary management, continuous spreading of partnerships and the promotion of knowledge. After five years, about 50 producers and six processors of the Futog cabbage succeeded in getting a higher price for their product with a geographic certification mark (20 percent compared to the hybrid). By mutual marketing, the association has created a network of support to its "brand", whilst at the same time being a guarantee and coordinator of the process of quality control by preserving and promoting the reputation of the product and trust of the consumers. Members of the association are also the creators and promoters of the idea of the development of Futog through the development of its image, the Futog cabbage.*

*Legislation does not separate trade from property, and only this model is recognized in practice*

Both cooperative legislation and practice in the Western Balkan countries governs that all property of the cooperative is considered common property. This is understandable, but it excludes the possibility of investments and thus the acquisition of income through the distribution of income based on property, and not based on trade through the cooperative. For example, if a cooperative with 30 members decides to build a cold storage unit (not using their own profit, but investments of the cooperative members), they all have to invest equally in the cold storage unit, because it will be common (cooperative) property. The law does not recognize the possibility of cooperative members investing different amounts of money, and that profits are distributed accordingly. This model clearly hinders investments. When we add to this the previous socialist experiences where property was not exactly something that could not be changed with political decisions, it becomes all the more clear why farmers prefer not

to invest in cooperatives and why they prefer to establish Ltd companies. Therefore, farmers who associate nowadays do so in order to use the mutual service of the cooperative while not being willing to include their own private property in the cooperative or to turn their own profit into the profit of the cooperative. As cooperative legislation neither recognizes nor separates profit gained from mutual business, from the profit gained from ownership over resources, naturally, even those who have the possibility to invest, refrain from doing so.

In some cases, this obstacle is removed within the cooperative statute or mutual agreements, although such cases are rare and occur only when mutual trust has been developed through years of cooperation.

***Box 5: It is difficult to have joint property and equal investments, and consequently cooperatives either resort to distribution of profit by property and trade or to Ltd companies***

*The cooperatives of the new generation have been established mainly by fruit-growers, to whom association was the next necessary, logical, economically inevitable step towards better access to the market. In other words, all cooperatives which have actually only prospered for years were organized by fruit-growers who have had a stable, flourishing production of fruit for years and who have almost all the necessary infrastructure, including cold storage units whose capacity was such that their production covered it. Each of them realized that they would lose their buyers and reduce their prices if they did not improve their positions in the market. Consequently, there was a consolidation of the offer in almost all regions of Vojvodina where there were intensive plantations. **AC Prima** has 27 members, all of whom are fruit-growers that produce apples on about 200 acres of orchard. Their joint investment was an ULO cold storage unit for which each of them took out a loan and the share in the ownership of which is in proportion to the invested funds. They organized a joint purchase of pesticides, they pay the agronomist security together, but each of them sells their own apples. **AC Voćko** has 21 fruit-growers who produce on an area of over 400 acres. They, too have mutually invested in a cold storage unit, but in such a way that they share a mutual loan with completely equal shares of 6.3 percent. When they took out the loan, each producer guaranteed for all the other members. Unlike AC Prima, they sell fruit mutually, and they purchase materials individually. Both cooperatives, as well as several others, have been operating successfully for years, and the functioning is based on clear contracts and specific rules that they created together, as well as around mutual property and especially around mutual trade, although it is contrary to the legal regulation on cooperatives.*

*Private capital and the pseudo-cooperatives have taken the market and are very efficient*

Bearing in mind the overall economy, business conditions and resources in the Western Balkans, private capital still recognizes agriculture as an opportunity for investment and making profits. ***Where private capital sees its interest and where there is enough competition, the space for establishing new cooperatives is reduced.*** In the Western Balkans, there are several examples that confirm this rule; for example, production of tomatoes in the area of Strumica, production of raspberries in Western Serbia and contracting sunflower, soya, sugar beet and wheat in Vojvodina. In Serbia, there are no cooperatives dealing with organizing the production and purchase of raspberries, but there are over 250 cold storage units with private companies organizing production for thousands of raspberry producers, making Serbia the biggest exporter of raspberries in the world.

Right at the beginning of the transitional period, companies and “private cooperatives” recognized the possibilities and space that was created by the disintegration of the socialist cooperatives. They assumed the role of the latter, which led to strengthening and enrichment of individual entrepreneurs but to the impoverishment of the majority of small farmers who, today, after twenty years of this process, have no motive, strength, or chance to change something by associating. In addition, already established associations of companies or cooperatives (see Box 6) hold a large percentage of the market and can always negotiate a lower price for inputs and a higher sales price that exceeds the benefit a cooperative can achieve. This is why it is better for many producers to be sub-contractors in large associations than members of cooperatives with small turnover, as they all are at the beginning.

Although it is exactly the small producers that politicians and “experts” often advise to associate, they are not heeding this advice now and they will continue not to. This is because they do not have initial capital, human resources, or the inclination to take risks. Besides, the market is already divided between the established cooperatives and companies and new and necessarily weaker players do not stand a chance.

***Box 6: It is easiest for the large-scale producers to associate, so they could become even bigger - Agrar Vojvodina***

*Vojvodina Agrar is, unlike other representative associations, a commercial interest business association of primary agricultural producers of industrial crops registered as a limited company. It was founded in 2005. The association is composed of 26 companies registered for agricultural production and organization of agricultural production in Vojvodina. The member companies have an active cooperative relationship with over 25,000 registered farms and cover the production on over 150,000 hectares of agricultural land. Agrar Vojvodina accounts for about 35 percent of the purchase of soya beans, 21 percent of sunflowers, 14 percent of sugar beet and 18 percent of corn, as well as numerous other cultures. The fundamental philosophy driving Agrar Vojvodina is partnership – between members, with sub-contractors, buyers, suppliers, processors and institutions. The best indicator of how successful they have been in this is the economic growth and respect they have gained among partners. However, because of their size, they always have the lowest purchase prices, loans with the lowest interest rates and the highest selling prices.*

***Unwillingness to move out of the grey area***

The total turnover of fruit and vegetables at green and wholesale markets is made in the grey economy because producers do not pay VAT, the main tax in the Western Balkan countries. The situation is similar with the majority of the meat market. The situation is somewhat better in cereal trading, industrial crops and milk, which are purchased by processors. However, the percentage of untaxed sales is high. The reasons for this can be found in the unwillingness to make politically unpopular moves, difficulties in controlling the overall market and social pressures. This situation is discouraging for legal trade through cooperatives.

States lose a lot of revenue through unpaid VAT in this way and farmers can be seen as making a loss as well as they are ineligible for VAT refunds (VAT for farmers who are not in the VAT system in both Serbia and Bosnia and Herzegovina is 5 percent, and for those who are in the system it is 20 percent, and in Bosnia and Herzegovina 17 percent). Aside from avoiding tax, work in the grey area is also characterized by less control of the adopted standards, hiring of workers, etc. This is exactly why there is no doubt that approaching EU

accession will gradually help regulate this area, and open the possibilities for the cooperatives to be established because this problem will be solved.

### *The state does not provide regular signals to encourage associating*

Although in the Western Balkan countries associating is considered a good practice in the agriculture, there is basically no framework which would motivate the farmers to associate. There are examples of funding only cooperatives within the framework of investment support, but such actions are ad hoc and not continuous measures of agricultural policy. The state should send positive signals primarily within the efficient legal system which would entail:

- A simple but effective legal framework for associating and cooperative review
- Equal tax laws
- Effective sanctioning of the violation of contract and quick legal proceeding

In all Western Balkan countries, the debate on associating begins and ends with the law on cooperatives but by 2010, only Croatia had adopted the law on the organization of the agricultural market and the rulebook on producers' organizations in the fruit and vegetable sector (2010) and olives (2011). The Rulebook does not prescribe a binding legal form, but the prevailing practice is that the producers' groups or producers' organizations are organized as cooperatives or limited companies, depending on the amount and ratio of shares of members, right to decide, division of profit and other elements. Croatia would probably never have adopted this legislation if the EU had not ensured that it committed to doing so. The other Western Balkan countries in this stage of EU accession still do not have to do it. However, they will soon have to, when they will make another step towards an environment that is more in the function of establishing associations and cooperatives.

There are two types of direct support for Western Balkan countries for the development of cooperative societies. The first is organizing special programmes of support to cooperatives such as contributions by paying a professional manager in Republika Srpska, or direct support to the representative associations in the Federation of Bosnia and Herzegovina. These measures are usually directed towards technical assistance. The second type of support implies that special conditions promoting associating are made for the regular support measures. It is most often the support to inputs conditioned by trade or investment support aimed to cooperative members for improvement of sales.

#### **Box 7: Support measure which made a great impact on the development of cooperatives and production of apples – support to the building of ULO cold storages for cooperatives in Serbia**

*In 2005, the Ministry of Agriculture started a programme of building ULO cold storage units where the subsidy was a maximum 40 percent of the investment or (EUR 400,000). The competition for funds was open only to cooperatives focusing on apple production. Until then, there had been around ten of these producers' groups, either registered or not. The possibility of getting non-refundable grants encouraged the cooperatives to associate and there were a total of seven applications and completed projects. All cold storage units are still operating and five of them are working as real cooperatives, while the remaining two cases are "pseudo cooperatives". This successful model has later also been used from other funds.*

**Box 8: Private company distributing oil provides discount for agricultural associations**

*During 2009 and 2010, the oil company NIS provided a discount of 2 Dinars per litre of Diesel fuel (2 percent) to all agricultural associations that applied and produced proof of the number of members and the size of the cultivated area. It is difficult to estimate how much this measure aimed at NIS selling more fuel than the competition, and how much it was an act of charity, nevertheless it resulted in many associations organizing their lists of members and increasing their number.*

*Declared commitment to associating, while in practice, maintaining the status quo*

Even though everyone declares that they are in favour of associating and the development of cooperative societies, many people with influence and those who are expected to contribute to the development are actually satisfied with the status quo; for example:

- The Ministry will publicly advocate the development of and support to associations, but in fact the emergence of associations that they would not be able to control is not in their interest. Moreover, there are numerous examples of the Ministry creating “its own” associations, and preventing the work and minimizing the influence of others.
- The processors benefit from having joint procurement through cooperatives, but what is not in their interest are large associations that have significant negotiating potential.
- Cooperative alliances do not want changes that would be hard for them to cope with. Their current monopolist position means that they carry out cooperative reviews and that all cooperatives have to pay mandatory membership fees. Therefore, it is in their interest to have as many members as possible, be they true cooperatives or pseudo-cooperatives. Also, a change in the Law which would proscribe that cooperative review can be conducted by all certified inspections would not be in their best interest, nor would the existence of more cooperative alliances. Accordingly, instead of developing cooperative societies, they would prefer things to remain as they are.
- “Pseudo cooperatives”, whether old or private do not want change.
- Associations do not want to cooperate among each other and it is more important who does what then what the goal and result of those activities are.

**Box 9: Three previous protests in Serbia were organized separately by four associations, each association in their own arrangement**

Due to their disagreement with the subvention system in 2011, two agricultural associations, supported by the majority of local associations, organized farmers’ protests by blocking roads. The protest ended with accommodating the farmers’ demands. Six months later, the Minister once again tried to impose the policy which was the reason why the farmers protested the previous time; only this time, the protest was organized by other associations, while those that had organized the previous protests did not want to participate. This protest also included blocking of roads, and ended with fulfilment of farmers’ requests. The animosity between associations is pronounced, despite the fact that their interests are common.

## IV.2. Those that function

The established cooperatives and associations have an even greater significance because they pave the way for others and each of their failures discourages others, while each time they succeed, it motivates the others to try the same. This is why positive examples are crucial and this is why the problem is that many donors took this process lightly and in the end significantly slowed down the process of establishing strong commercial cooperatives and representative associations.

As soon as they are formed, the cooperatives and associations all over the world, as well as in the Western Balkan countries, are faced with various challenges, the biggest of which are how to build trust and democratic structure of the decision-making process and have a clear vision of the wants. However, in addition to these two basic challenges, there are many others before the newly formed associations.

### *To have a vision and develop partnership and a democratic structure of the decision-making process*

The cooperative members and members of associations must have a clear ***vision of why they associate***. A problem that occurs frequently is that ***great expectations formed by donors, experts and cooperative members themselves***, which leads to shutting down of many young cooperatives. Impatience is often closely related to high expectations. Quick results are usually achieved through getting support from the state or donors and the mutual procurement of inputs while all other benefits from associating take time, which donors do not have. Also, producers quickly become impatient. Therefore, there is dissatisfaction among members, which often results in taking the cooperative or the association into a passive status. On the other hand, certain associations and cooperatives experience the reverse; namely, once they achieve something (agreement with one supplier or buyer, donation or acquiring a space from the local self-government) they do not progress, even though they have the potential to do so. This means that neither too much ambition or expectations, nor low expectations are good – this is why it is important to find one's vision, know why to associate and accomplish it. Naturally, the objectives should not be static, as they often are, but constantly changing and adjusting to the new circumstances, problems and possibilities. These changes are, of course, primarily related to the market. This is why it is paramount to thoroughly examine market opportunities and possibilities for development. A certain number of cooperatives were founded with the intention of export products not knowing needs, standards or export markets. It is logical that after failure comes disappointment.

Aside from the lack of vision, the other biggest “killer” of young cooperatives and associations is underestimating the significance of ***establishing a regular, democratically established and governed managing structure*** of a cooperative or association. Management must be professional with have clearly stated obligations and duties and according to the statute and the long-term development plan. Members have to decide and have full control over management and decision making must be in favour of the majority of members. If there are no clear rules and trust, this will very quickly result in privatization by individuals or groups, and thus the fundamental function of the association will be lost. If these structures are not established, the cooperative will very quickly grow into a pseudo-cooperative, and the association will lose its representativeness. Members cannot always be friends but this is why it is essential to clearly examine and face the relations between members.

In addition to these two main challenges that young cooperatives are facing, there are several more which considerably limit the development of cooperatives and associations in the

Western Balkan countries. The ***monopolized market that does not provide wide choice*** in establishing long-term relations and imposes the type of buyers and suppliers with whom we relate. This presents a problem for a young cooperatives because the members ask themselves how they will benefit from associating when the market chain, buyers and suppliers are the same, and the conditions of sale, procurement are the same.

The difficulties in ***investing in a good manager*** who can develop the cooperative. For young cooperatives, it is usually “expensive and unnecessary” to have a professional manager, which can often be a crucial moment in the development of a cooperative. Inability to comprehend the transactions happening inside the cooperative and with the outside buyers and suppliers is another problem. It is important that ***all members understand how the trade and distribution of profit functions*** and providing education on this issue is essential. It is even more important to be transparent and provide all information to all members.

The cooperatives that succeed in realizing mutual sales face a great challenge of ***quality organization and control*** in a way that every one respects the standards, that everyone knows which products come from where and that quality should continuously be improved. A small number of cooperatives in the Western Balkan countries has reached this stage of development because these processes require clear rules, trust and market possibilities. In addition, it is necessary to develop a payment system based on the differences in quantity and quality, rather than on average distribution.

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