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CHAPTER VIII

THE ROLE AND POTENTIAL OF CO-OPERATIVES IN POVERTY REDUCTION AND LOCAL ECONOMIC DEVELOPMENT IN SERBIA

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CHAPTER VIII

THE ROLE AND POTENTIAL OF CO-OPERATIVES IN POVERTY REDUCTION AND LOCAL ECONOMIC DEVELOPMENT IN SERBIA¹

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1. Introduction

This paper presents the results from a research project in Serbia which set out to look at the role of co-operatives in poverty reduction and local economic development. The study involved two main strategies: (i) semi-structured interviews with a range of stakeholders: from government, international and local NGOs, private business federations and academics to the co-operative movement itself, and (ii) a face-to-face survey of 240 co-operative managers in five co-operative sectors (agricultural, consumer, industrial, youth and housing co-operatives) across three regions: Vojvodina, Central Serbian Plains, and the remainder of Central and Southern Serbia. The research had two main objectives. First, to consider whether co-operatives help to reduce poverty and develop local economies. Second, to examine whether co-operatives hold ‘organisational comparative advantages’ over other forms of organisation such as government, NGOs and private sector companies. This paper reports on some of the findings, and attempts to provide some answers to four key questions: ‘where have we come from?’, ‘where are we now?’, ‘where are we going?’, and ‘how do we get there?’.

2. Definition and Principles of Co-operatives

Co-operatives are member-owned businesses. A simple way to understand them is that they aggregate the market power of people who on their own could achieve little or nothing. In so doing they provide ways out of poverty and powerlessness. As they scale up, co-operatives also provide significant potential for local economic development. The representative body for co-operatives, the International Co-operative Alliance (ICA, 1995), defines a co-operative as:

An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise

The ICA (1995) also sets out seven fundamental co-operative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; co-operation among co-operatives; and concern for community. The first four of these are core principles without which a co-operative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is really a commitment to make membership effective and so is a precondition for democratic control, while co-operation among co-operatives is really a business strategy without which co-ops remain economically vulnerable (Birchall & Simmons, 2009).

The last principle, concern for community, is the most controversial. It recognises that, unlike investors, co-operative members tend also to be members of a particular community. For some, this principle is a business strategy to reinforce the sense of ownership. This may not apply in every co-operative, particularly where the ‘common bond’ between members is tenuous or missing. Yet where the interests of members and communities closely coincide, members may perceive the provision of collective as well as individual benefits to be appropriate (cf. Streeck & Schmitter, 1985). However, for some, concern for community represents a distraction away from the core aims of the co-

¹ Paper is part of research on project Role and Potential of Cooperatives in Poverty Reduction, conducted in cooperation of University of Stirling (UK); Faculty of Agriculture, University of Belgrade and Serbian Association of Agricultural Economists during 2008 and 2009.

operative. They argue that co-operatives are not ‘social’ organisations, and that the *primary aims* of the co-operative are to meet the members’ economic needs. While they acknowledge that co-operatives may create wider social benefits, they see these *as by-products* such as improved nutrition and increased capabilities, and *aggregate effects* in the wider society such as lower mortality rates or higher employment levels (Birchall & Simmons, 2009). Such aggregate effects are much sought after by governments. Paradoxically, however, in order to achieve these wider goals, research shows that governments need to respect the autonomy of co-operatives (Birchall & Simmons, 2009; 2010). The diversity of types of co-operative can be confusing. Birchall (2009; Birchall & Simmons, 2009) provides a simple way of classifying them. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a co-operative, usually one of these stakeholders is put at the centre of the business. This gives us three classes: consumer co-ops, producer co-ops and worker co-ops. There is one interesting complication. *Financial co-operatives* – co-operative banks, insurance societies and credit unions – often have in membership people who are consumers of their products and – in their own right – producers. So farmers and small businesses can be members alongside private individuals. As long as the interests of each group do not conflict, the co-operative works well. The potential of co-operatives is shown widely in the experiences of other countries (Birchall, 1997; 2003; 2004; Bibby & Shaw, 2005; Develtere, 2008) – including both more economically-developed and less economically developed countries. Globally, 800 million people are members of co-operatives and 100 million are employed by them (ICA, 1995) and the United Nations estimated in 1994 that the livelihoods of three billion people were made more secure by co-operatives. The UN, through its Secretary General, has made numerous statements in support of co-operatives (UN, 2001; 2005; 2007), and in 2001 it published ‘Guidelines aimed at creating a supportive environment for the development of co-operatives’. In 2002, the International Labour Organisation (ILO) adopted ‘Recommendation 193 on the promotion of co-operatives’. Similarly, in 2004, the European Commission sent a communication to the European Council and Parliament ‘on the promotion of co-operative societies in Europe’. There is now a large body of international support for co-operatives and this is reflected in the adoption by the UN of 2012 as the international year of the co-operative. In previous research, Simmons & Birchall (2008) show that, while there were considerable challenges to be faced by co-operatives, there are few better alternative ways of organising in key sectors like agriculture. This provides a ‘moral imperative’ for stakeholders to look beyond any sense of clumsiness for purpose and to establish more competent ways to support and manage them (Huxham, 2000). It should be noted here that the nature of the co-operative is important. In many major studies, experience shows the need to respect the ‘true’ nature of co-operatives, operating according to the ICA principles (e.g. Simmons & Birchall, 2008; Develtere, 2008). This is an important consideration in Serbia, where historically there have been organisations called ‘co-operatives’ that have not always met these criteria.

3. Co-operatives and Poverty Reduction in Serbia

While absolute poverty is declining in Serbia, an estimated 490 000 members of the population remain affected in this way (Government of Serbia, 2007) – and relative poverty is much more prevalent. This situation had been improving steadily (Sunderic, 2008). However, it is thought that the recent global financial crisis has reversed the previous downward trend. Moreover, Bogdanov (2008) observes that “*agriculture is closely related to poverty: the poorest areas are those with high employment rates in the agricultural sector*”. Market liberalisation has also affected the country’s industrial base, with high levels of unemployment being seen. It has been argued that for agricultural and redundant workers in Serbia, co-operatives provide clear potential for people to regain productive employment and/or improve their incomes (Ognjanov & MacKellar, 2008). Examples are given of how co-operatives might be successful here are given by Bateman and Pennarz (2009). However, the eventual findings of the recent UNDP ‘Severance to Job’ study showed low levels of interest from redundant workers in establishing co-operatives. This may reflect a resistance to the idea of co-operatives, which are often identified as being part of the ‘old regime’ in Serbia. It may also reflect a

low level of understanding of what genuine co-operatives can achieve (as demonstrated widely throughout the world).

Some parts of Serbia are more affluent than others. However, the scope for economic development remains high even in relatively well-developed areas. We believe there is therefore scope for examining the role and potential of co-operatives in broader terms, taking in Local Economic Development (LED) as well as Poverty Reduction (PR) issues. The purpose of LED is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation (World Bank, 2009). The role and potential of co-operatives in LED is substantial (Campbell, 1997; Merrett & Walzer, 2001; 2004). For example, many studies show that by empowering their members and raising their incomes co-operatives can add to their members' quality of life and provide employment opportunities for other local people. We employed many of these perspectives in the research upon which this paper is based. In all of these roles, there are some particular issues and challenges facing the development of co-operatives in Serbia as a means for poverty reduction and/or local economic development. Some of these challenges result from general structural conditions such as poverty and related social issues (Government of Serbia, 2007; Sunderic, 2008), particularly in rural areas. Others relate to general issues surrounding agricultural policy in Serbia (e.g. Njegovan & Boskovic, 2006). Many respondents in our research recognised this as a priority and prerequisite for maximising the success of agricultural co-operatives. The importance of these issues should not be underestimated.

However, some of the issues and challenges facing the development of co-operatives in Serbia are the result of historical development of the co-operative movement itself and how this has impacted on the nature of the co-operatives that remain today. In the next section of this paper, we will therefore describe the history of co-operative development in Serbia, before giving an assessment of the current situation for co-operatives, sector by sector. Based on our interview data and written sources we will then identify areas of potential development, and give some indication of the key processes by which the modernisation and reform of co-operatives might be given momentum.

4. History of Co-operatives in Serbia

(i) *Early Development:* Co-operatives became important from the 1890s with the movement away from the feudal system. This transition was hard for the villagers, and co-operatives were a natural solution to their problems – e.g. agricultural co-operatives in Vojvodina; agricultural, credit and consumer co-operatives in the Kingdom of Serbia. When the International Co-operative Alliance was formed in 1895, Serbia was one of the 11 founder members. However, there were many wars in Western Balkan in the early 20th century, including the Great War, and this slowed the development or shut down co-operatives. The establishment of the new state – Kingdom of Yugoslavia in 1918 brought new problems, with a fragmented structure of cooperative unions and different cooperative laws in different regions. There were also power struggles: 'political parties tried hard to gain control of the co-operative movement, as to a large extent it would mean control of the peasantry, the largest social stratum' (Sljukic, 2002: 180). However, until 1941 co-operatives had a key role in the development of agriculture and the villages.

(ii) *Socialism/Collectivisation of Agriculture:* After WW2 the Yugoslav communist government rewarded its peasant soldiers by expropriating and redistributing all arable land of over 45ha in hilly and mountainous regions and 25ha in the plains (Sljukic, 2002: 184). Co-operatives, known as SRZ, were organised on the Soviet kolkhoz model. This was accompanied by the collectivization of agriculture, with higher delivery quotas. However, resistance from the peasant was strong. By 1953, with output falling, the communists realised that the kolkhoz system was not working. Sljukic (2002:185) observes that "the Yugoslav communist elite introduced a 'softer' version of the communist ideology and social system called 'self management'. Most Yugoslav kolkhozes were dismantled overnight". Nevertheless, the assessment of one of our key informants was that the damage done to co-ops between 1945-1953 was 'extensive'.

'Self-management' was to become the next important phase for the co-operatives under the socialist system. Private ownership was limited. Peasants were forbidden to hire non-family labour or own larger

agricultural machinery and were forced by government monopoly conditions to sell their output to state-run agro-industrial companies and state marketing co-operatives. Here they were exploited by low prices, incorrect measuring, and delays in payments and so on (Sljukic, 2002: 186). During much of the 1960s, self-managed agricultural producer co-operatives were important as a way of organising for around 100 000 'middle stratum' peasant families (Mrksic, 1987; cited in Sljukic 2002). These co-operatives bought land and machinery, and farmers were generally in control over these resources. However, according to one of our key informants, this worried the politicians and the communists' propagated the claim that co-operative ownership was a 'lower' type of social ownership. As a result, between 1974 and 1976, the politicians decided to transfer all co-operative ownership into social ownership. This included 194 000ha of land purchased by co-operatives during the 1960s, as well as co-operative machinery and facilities for food processing. The existing co-operatives were transformed into enterprises in which the peasant members lost all their legal rights. One respondent told us that this was particularly difficult for some members who had chosen not to be paid by the co-op but buy land instead, and/or had worked without charge to build up the co-op. At this time the workers within the cooperatives, particularly the managers, gained control at the members' expense.

(iii) *Post-Socialist Transformation:* Radical changes were introduced in both the political and economic spheres in the post-socialist environment of the late 1980s and early 1990s. Private ownership was not limited any more, and co-operatives returned to the economic system with emphasised of international cooperative principles. A new law was enacted in 1990 giving more freedom to co-operatives. However, according to one of our respondents, there was a lack of understanding about what a genuine co-operative was, and therefore a lack of knowledge about how to implement the new laws. For another of our respondents, by this time co-operatives were 'weak and uneconomic due to their previous history' and 'entered the transition period open, unprotected and vulnerable'.

For many people, little has happened to change this position. For example, another new law enacted in 1996 promised to return to co-op members the "assets taken from them by the state after 1953 and transformed into so-called 'social property'" (Sljukic, 2002: 200). However, this commitment has not been met. The return of estate to the co-ops is a legal process that can take 15 years or more, and one respondent told us that the courts are overburdened and have never completed this process. However, there also remain a number of vested political and economic interests for whom the return of these assets is unpalatable. As Sljukic (2002: 201) observes:

"The co-operative movement remains relatively weak, fragile and exposed to the will of much stronger actors on the agricultural scene: large commercial companies, agro-industrial companies and large landowners. They all see agricultural co-operatives as potentially dangerous competitors who might organise the peasantry and reduce their exploitation... [These] 'Big players' in agriculture have established links with the new political elite in order to preserve their dominant position".

The demotivating effects of these issues cannot be underestimated. The failure to return co-operative land and other assets is a particularly emotive subject. In a particularly vivid example of this, on one field visit during our research an elderly co-operator was reduced to tears as we drove past a former 'co-op home' (the co-operative's facility in the villages). He told how many years before he had gladly joined with other members to help build the home in his own time for no pay. The building had been taken away with the co-operative's other assets and was recently sold to a private individual for a small fraction of its true value. In his eyes, the members that had built the home had been left with nothing, while somebody else was now enjoying cheaply the benefits of their voluntary efforts.

The current situation is fluid. There appears to be lukewarm political support for the co-operatives and a working group on the co-operative law was established in 2009. However, the prospects for the co-operative sector do not seem to provoke widespread optimism. This is despite the fact that the rural population and way of life is being decimated by the lack of productive agricultural activity, and that co-operatives are widely acknowledged as the best (and often only) way to arrest this decline. One of our respondents went so far as to predict that "over 1000 villages will be gone in the next decade without co-operatives".

One of the authors of this paper (Ševarlić M, 2006) suggested that all social ownership in cooperatives should be transformed in cooperative ownership by enacting of *lex specialis*. It would be the fastest,

most simple and most equitable way of solving this essential question of cooperative sector in Serbia. This proposal was not accepted or understood by the government, nor unfortunately by the cooperative sector.

5. Current Position of Co-operatives in Serbia

A historical analysis of co-operative development in Serbia is important if we are to establish an answer to the question, ‘where have we come from?’. However in this section we attempt to address a different question: ‘where are we now?’. In doing so we offer a more nuanced analysis, based on our survey research. The following section of the paper presents the details and key findings from this survey. We look at some of the key aspects of co-operative activity. We then seek to establish how co-operatives compare with other organisations working in poverty reduction and local economic development.

5.1.1. General Information about the Sample of Co-operatives

We spoke with 240 primary co-operatives, interviewing predominantly either the General Manager or another manager. These 240 primary co-operatives were spread throughout the Republic of Serbia, which we divided into three regions: Vojvodina, Central Serbian plains and the rest of Central and Southern Serbia. The sample is quite evenly spread between these three regions. A detailed breakdown of the sample by region is shown in Tables 1-3.

Tables 1-3: Breakdown of Sample in each Region by District

Vojvodina			Central Serbian Plains		
District	Frequency	Percent	District	Frequency	Percent
Borski	3	3.9	Macvanski	24	28.9
Zajecarski	10	13.2	Belgrade City	46	55.4
Nisavski	15	19.7	Podunavski	4	4.8
Jablanicki	7	9.2	Branicevski	9	10.8
Peinjski	3	3.9	Total	83	100.0
Kolubarski	6	7.9			
Moravicki	6	7.9			
Sumadijski	12	15.8			
Raski	11	14.5			
Rasinski	2	2.6			
Toplicki	1	1.3			
Total	76	100.0			

Rest of Central and Southern Serbia		
District	Frequency	Percent
Sremski	12	15.2
North Banat	9	11.4
South Banat	13	16.5
Middle Banat	4	5.1
West Backa	16	20.3
South Backa	16	20.3
North Backa	9	11.4
Total	79	100.0

Most co-operatives are small and medium-sized enterprises (SMEs). Most have fewer than 10 staff (80%) and fewer than 100 members (67%). One-third have fewer than 25 members. In terms of market share almost half have a small market share and the other half a medium market share.

Most co-operatives in the survey are agricultural co-operatives (N=136). We also interviewed managers from consumer, housing, manufacturing and youth co-operatives (see Table 4). Consumer cooperatives have been in decline for some time and are very poorly represented. A potentially greater problem is that there are no financial or credit cooperatives at all in Serbia. This is very unusual for an economy in which agriculture plays a significant role.

Table 4: Breakdown of Sample by Type of Co-operative

Type of Co-operative	Frequency	Percent
Multi-purpose/Consumer	10	4.2
Housing	19	7.9
Agriculture/fishing	136	56.9
Manufacturing/industrial	19	7.9
Youth	46	19.2
Other	9	3.8
Total	239	100.0

6. Member Democracy and Co-operative Membership

In terms of member involvement and democracy, the figures from our survey look encouraging. 65% of the co-operatives in our sample considered themselves to be very democratic. Turnout in elections for new board members was more than half of all members in 86% of co-operatives, and more than three-quarters of all members in 44% of co-operatives. 82% of co-operatives reported that elections for board members were contested, and in 77% of co-operatives ‘new blood’ was often elected onto the board rather than the ‘old guard’ being left to retain control. This led a total of 76% of co-operatives to say that member participation was satisfactory in their cooperative.

The remaining 24% of our sample that did not say that participation was satisfactory were asked what could be done to improve this. Their answers related closely to the three key cooperative principles of member ownership, member benefits and member control. In terms of member ownership and member control, one manager told us that the co-operative needed to “cultivate the belief [amongst members] that the cooperative is theirs”, and another that “constructive suggestions given by co-op members must be respected more often”. In terms of member benefits, the key matters that were identified for action were to increase members’ capital through favourable credits and new investment, and to increase the volume of business activity, with rewards for excellent results.

Co-operatives were happy to look at their own practices and reflect honestly about them. For example, one manager told us that co-ops needed “to have an honest approach in relation to the payment of debts to farmers”. However, they also recognised that their cooperative did not operate in vacuum, and that the government should provide economic environment so that cooperative members have positive and key role in cooperatives. One manager told us that “the current political and economic situation determines everything, even how co-ops will work. It is hard to increase interest unless something is changed globally”. Two things in particular were identified here: (i) adequate legislation on agriculture and co-operatives, and (ii) to have less interference and more support from government. This support could include financial help through tax incentives or reasonably priced loans.

In one group of co-operatives, representing around half of our sample, less than 20 percent of people that are eligible for membership are actually members. More than half of these co-operatives (52%) have less than 25 members. In a second group of co-operatives, representing the other half of our sample, more than 50% of those who are eligible are members. In this group, just a quarter of the co-operatives have less than 25 members. Indeed, co-operatives with less than 25 members are significantly more likely to say that less than 20% of people who are eligible for membership are actually members ($p < 0.05$). This would seem to suggest that these co-operatives are either failing in their member recruitment strategies or deliberately restricting membership.

The first group of co-operatives may include those where membership has been contained to the minimum number of members required by law, as opposed to being based on international co-operative principles of voluntary and open membership. This raises two further potentially important issues: the first is ‘associate membership’; the second is what have become known as ‘private co-ops’.

(i) *Associate members*: Many co-operatives have far more associate members than members. So there may be 15 members, but 300 associate members. The internationally-accepted co-operative principles,

which lead to strong co-operatives around the world, would expect membership to be made open to these associate members (subject to some minimum criteria being met). So we might expect the ratio to be the other way around, with 300 full members and 15 associate members (who would themselves be granted full membership once they have met the criteria). If co-operatives are deliberately restricting membership, this is far less likely to lead to effective local economic development.

(ii) *'Private co-operatives'*: A number of so-called 'private' co-operatives have been established in Serbia. These are not true co-operatives, but flags of convenience for entrepreneurs who wish to start new business at the most favourable conditions. Our respondents complained that such organisations are unpopular in their communities and that they are helping to give genuine co-operatives a bad name.

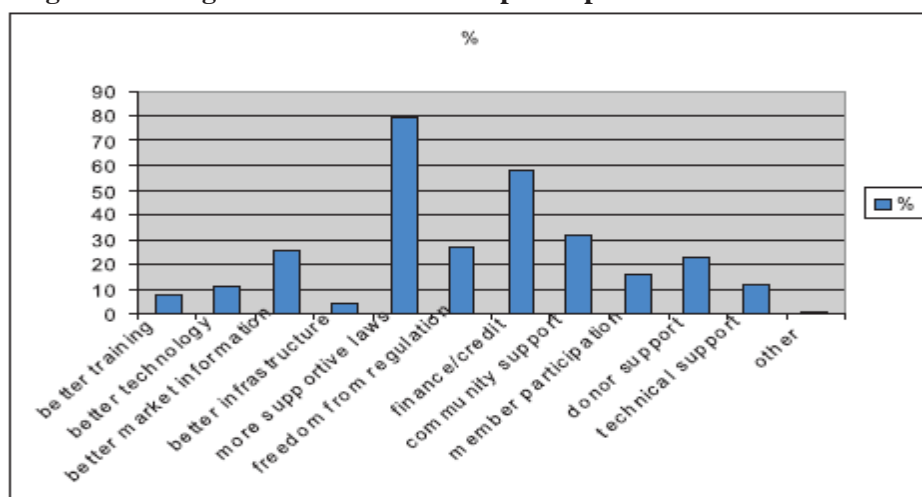
7. Co-operative Trading Performance

Looking at their current trajectory, 35% of co-operatives are growing. 45% are staying the same and one in five (20%) are getting smaller. However, these figures hide some variation between different types of cooperative: only 10% of agricultural cooperatives say they are getting smaller, compared with 45% of housing and manufacturing cooperatives. Some types of co-operatives therefore seem able to manage better than others in the transitional economy.

Around half of all cooperatives made a surplus every year in the last five years. However, more than one in five co-operatives did not make a surplus in more than one of the last five years. The latter co-operatives are surviving but are barely breaking even, and one must ask how much longer they can continue. Analysis confirms that the less regularly a co-operative makes a surplus, the more likely it is to be getting smaller, and vice versa ($p < 0.05$). As with any other business, there is an argument that unprofitable cooperatives should simply be allowed to fail. However, in some of these cooperatives the underlying business may be sound. They may simply be unable to operate effectively because of external issues that are beyond their control. This leaves scope for them to be saved – given a more supportive environment. This decision is probably best made on a case-by-case basis, and should be informed by people that properly understand co-operative businesses.

It is important to link the above analysis to other data in the survey to get a clearer picture of the current situation. As we might expect, the data tells us that co-operatives that make a surplus more often than not (i.e. at least 3 years out of the last 5) are significantly more likely to raise their members' incomes than co-operatives that do not (i.e. those that made a surplus no more than 2 years out of the last 5) ($p < 0.05$). However, the data also tells us that even of the co-operatives that made a surplus every year, only 70% could say conclusively that they raised their members' incomes. While 70% is a strong result, the fact that this is not conclusively the case in the remaining 30% of these co-operatives demonstrates that it is one thing for co-operatives to make a regular surplus, but another for the size of that surplus to be sufficient to raise members' incomes.

Figure 1: Things that Would Most Help Co-operatives to Perform Better



We asked co-operative managers to identify which three things would most help their co-operative to perform better (see Figure 1). Overall, by far the most important factor (78%) was more supportive laws for cooperatives. It is worth noting that a particularly important aspect of this concerns the status of co-operative property. In our survey, more than forty percent of co-operative managers said that this was an issue, and this rose to nearly fifty percent in agricultural co-operatives.

The need for more supportive laws for co-operatives was followed by another highly important consideration: better access to finance/credit (58%). While more supportive laws for co-operatives and better access to credit are the two most important factors for all co-operatives, there were important differences between co-operatives with certain characteristics

Those co-operatives that had either failed to make a surplus in any of the last five years or had only made a surplus in one of the last five years were more likely to emphasise their need for financial support. Here, better access to finance/credit was of an equal level of importance to more supportive laws (71% v.73%) as one of the three most important things that would help them to perform better. The availability of credit is known to be a key factor in the development of cooperative organisations – some co-operatives appear to have fallen into a parlous state as a possible result of credit being unavailable. 29% of these identified financial support from donor organisations as important.

Those co-operatives that had made a surplus in either four of five of the last five years had a slightly different perspective. Here, the emphasis was slightly higher on more supportive laws being enacted (85%), and slightly lower on financial issues – although better access to credit was still very important (54%). This data suggests that to support the current fifty percent of cooperatives that return regular surpluses, more supportive laws are vital. Allied then to better access to credit, these co-operatives can be expected to develop and grow significantly in a more supportive environment. However, in the twenty percent of cooperatives that are barely breaking even, the need for immediate credit is urgent for their survival. More supportive laws may then allow them to revive in a more conducive environment and start returning more regular surpluses for their members.

The focus on the above major factors is particularly important. However, this should not be allowed to overwhelm some of the other things that co-operatives have identified as being important. For example, support from the local community (31%), greater freedom from government regulation (27%), better information about markets for the co-operative's products (26%) and financial support from donor organisations (23%). All of these show clearly in the findings.

Support from the local community is predominantly about activating new members who will contribute to the co-operative, and/or clients who will trade with it. Local markets are generally important success factors in small to medium-sized co-operatives. *Better information about markets* ensures firstly that trading opportunities are not missed altogether, but secondly that better prices are also achieved for the co-operative's products by selling while the market price is high. Meanwhile, *financial support from donor organisations* is recognised as necessary by some co-operatives, who acknowledge that there may be too few resources available from either the state or the private sector banks to enable them to achieve their objectives. *Greater freedom from government regulation* is another important factor in levelling the playing field for co-operatives compared with their competitors. When we asked co-operative managers about the effects of competition from private traders, one of their main concerns was with the fact that co-operatives faced a stricter regulatory environment. The other side of this coin was that there should be stricter controls on private traders, many of whom were considered to operate outside the law in the 'grey economy'. Smaller numbers of co-operatives in our survey identified the *need for management training and technical support* as one of the three most important factors that would help them to perform better. Interestingly, however, these factors were more likely to be identified by the more successful co-operatives than by those that are struggling. This may be because the successful co-operatives are dealing with more complex business operations, but perhaps it is also a signal that the more successful co-operatives are more open to notions of modernisation and continuous improvement.

8. Poverty Reduction and Local Economic Development

We asked co-operative managers to estimate what proportion of the local population was poor (using the UN Definition of earning less than a dollar a day). We then asked them to estimate what proportion of their co-operative members were poor and compared the two figures. Their answers indicate that around half of co-operative members are less poor than the local population as a whole, around a quarter are the same, and around a quarter are poorer than the local population as a whole. These figures do not vary significantly between different regions of Serbia.

Overall, it is unclear from our findings as to whether co-operative members tend to be less poor than the local population as a whole as a result of their co-operative membership, or whether it is simply necessary to have a greater level of resources in the first place to become a co-operative member. The evidence points in both directions, and it seems likely that both of these explanations apply in combination. The above differential between co-operative members and the local population as a whole leads to questions over whether co-operatives are able to reach the poorest members of society. Certainly cooperative organisations are present even in the poorest communities. This would suggest that co-operation works in environments where there is widespread poverty.

We can now move on to ask one of the central questions in this research: do co-operatives raise their members' incomes? Overall, our results tend to show that they do. 64% of managers reported that their co-operatives are successful in raising their members' incomes, and only 18% that they are not. A further 18% were unsure. Our findings show that the majority of all types of co-operative raise their members' incomes, but that cooperatives in Vojvodina are slightly more likely to raise their members' incomes (see Table 5). This would indicate that cooperatives in Vojvodina are perhaps able to achieve slightly higher surpluses than those in the other two regions.

Table 5: Regional Variations in Co-operatives' Ability to Raise their Members' Incomes

Region	Raise members' incomes? (%)			
	Yes	No	Not sure	Total
Vojvodina	73.4	13.9	12.7	100.0
Central Serbian Plains	57.8	20.5	21.7	100.0
Rest of Central and Southern Serbia	61.8	19.7	18.4	100.0
Republic of Serbia	64.3	18.1	17.6	100.0

Many reasons were given for co-operatives' ability to raise incomes. Some of these reasons were practical. For example, managers identified the advantages of collective action, so that members could achieve more together than they could on their own. One manager pointed out that 'the co-operative represents the interests of the member mutually, so we can travel more easily to our goal'. This includes the scaling up of activity. As another manager put it, 'bigger production means everyone has more money to finance their own project'. At the practical level, cooperatives also provide necessary inputs to members, along with transport, storage facilities and so on.

Other reasons identified by co-operative managers were directly financial. Here, we were told about the ways in which cooperatives were able to help in lowering the costs of inputs to members, improving sales of their products, and achieving higher prices in the market. The provision of credit by cooperatives to their members was another important input. This enabled co-operative members to diversify and/or scale up their production. Cooperatives are also able to provide their members with education about how to add value to their activities, and networking between cooperatives and other organisations was also considered to be important in developing the business.

The ability of co-operatives to raise members' incomes was a particularly important aspect of our research. However, in addition to the direct economic benefits of membership we also sought to establish the extent to which cooperatives are able to provide wider benefits in poverty reduction and local economic development.

In terms of poverty reduction, we examined a number of factors. These are based on 'poverty traps' identified by Stephen Smith (2005), and included whether co-operatives provide basic food and fuel; improve the quality and quantity of the food members eat; provide safe drinking water; improve housing and security of tenure; help to reduce depression and alcohol abuse; help to reduce crime and the fear of crime; help people to stay out of poverty when they are ill or suffer a setback; provide mutual insurance against illness or unemployment; take action to prevent people selling themselves into bonded labour; increase gender equality and the empowerment of women; increase the numbers of children attending school; and/or increase numbers of people who can read and write. In terms of local economic development, we examined a further range of factors, including whether co-operatives help people to gain useful skills; provide information about job opportunities; provide good employment (higher wages, job security, safety at work); encourage members to take risks and find new ways of making a living; provide working capital for small businesses; help members start small businesses; increase the earnings of small farmers; help to solve common problems in the community; help people to overcome political and economic barriers at local level; and/or help members to diversify farm incomes.

Our findings for the above indicators are quite complex and nuanced. As Simmons and Birchall (2008) point out, certain poverty traps and development issues tend to be more important within some communities than others. In particular, different traps may be more or less visible in communities with slightly higher or lower income levels. Using official statistics for the average income levels in each of the districts represented in our sample, we were able to break the sample down into income quartiles. This allowed us to examine the above factors in a way that helps us to understand some of the complexity in the data.

In general, it was possible to see that cooperatives made a greater contribution to reducing the effects of the above factors in the two 'middle' income quartiles rather than the upper and lower quartiles. In the upper quartile it is likely that most of the above issues are simply less prevalent. In the lower quartile, it may not be possible for the co-operative to make a sufficient difference to people's lives for it to reduce the effects of these factors. In the two middle quartiles, however, it may be that raising member's incomes is sufficient to make a more significant difference to other important areas of people's lives. This is consistent with previous research, which suggests that cooperatives can provide a useful bridge between the poorest in society and those on higher incomes. Moreover, experience in other countries shows that this tends to be a 'law abiding' bridge, which allows co-operative members to link up with the formal rather than informal economy (Birchall, 2004; Bibby & Shaw, 2005).

One very important factor that was identified by co-operative managers was the provision of good employment. Managers told us that the co-op enabled members to have an additional job, or that they were able to increase the quantity of jobs in the local area (including seasonal jobs in agricultural cooperatives). Again, an important factor was that the co-operative provided safe and stable work and favourable conditions in terms of pay and social protection. The provision of employment opportunities was mentioned as being important in all the different types of cooperative in our sample. In youth cooperatives particular mention was made of the non-discriminatory approach taken to employment in relation to some of the poorest groups in society, such as students and Roma. Again, the 'Decent Work' agenda is important internationally, and is being taken forward by the International Labour Organisation (ILO) with the support of the ICA.

Another very important factor was the provision of useful skills to members. Managers in each different type of co-operative identified the education of their members as being crucial. Co-operatives offered education to their members to gain different qualifications, from computer courses to education on agriculture to business skills. Training in computer skills were seen as particularly important. The provision of education, training and information is, of course, one of the key co-operative principles of the International Co-operative Alliance (ICA, 1995).

It is also clear from our survey that many cooperatives take their central role in their communities seriously, helping their members to solve common problems and overcome barriers. For example, one manager told us how the co-operative had helped in constructing the village waterworks, and another how the co-op had made 22 km of road in the village. Other co-ops help to organise cultural and/or sporting activities. Co-operatives are therefore helping to develop their communities both economically and socially. Concern for community is another of the key co-operative principles.

The above summary gives just a small range of examples of how co-operatives work to reduce poverty and develop local economies. While it is clearly important to ensure that members' incomes are raised, data from the survey shows that cooperatives are also able to make a much wider range of contributions.

It seems that few other organisations operating at the local level are able to make such claims. As Simmons & Birchall (2008; Birchall & Simmons, 2009) have shown, it is very difficult to generate in other forms of organisation the combination of advantages that genuine co-operatives can provide. However, it may be feasible to minimise or eliminate the disadvantages that are found in co-operatives. Our findings from the survey of co-operatives in Serbia tend to support this position. In a genuine co-operative, if one removes the disadvantages, one tends to be left with the advantages. In the next section we seek to identify what this means for co-operatives in Serbia.

9. Developing the Potential of Co-operatives in Serbia

In this section we follow the questions 'where have we come from?' and 'where are we now?' with the questions 'where are we going?', and (later) 'how do we get there?'. Here we attempt to establish what the current trends of co-operative development tell us, and what stimuli might be provided in order to steer the co-operative movement towards the greater realisation of its potential.

9.1. Self-help and External Help

There is a sense in our data that co-operatives, especially the successful ones, are being 'held back' from achieving their full potential. When we asked them, 60% of co-operatives said that they 'could do more' to raise members' incomes. A further 20% were uncertain. Interestingly, it was the co-operatives that currently do well in raising their members' incomes that were more likely to say they could do more. When we then asked them what else the co-operative could do, there was no shortage of ideas. Many of these ideas were about 'self help'. We were told how the co-operative needed to make 'investments' – for example, in education, networking, market information and better organisation. We were also told of the need for the co-operative to 'scale up' its activities – for example through greater quantity and quality of production, diversification and membership. It was also hoped that greater scale would help to produce economies of scale to reduce costs.

However, not all of the required changes were thought to be possible by co-operatives acting on their own. Of those co-ops who said they could do more, 90% told us that they needed outside help. When asked what sort of outside help was needed, the answers were clear. There were three major items:

1. Government actions
2. Access to credit
3. Member/community support.

The first two of these relate to removing some of the disadvantages faced by co-operatives. The latter relates to promoting more widely some of the co-operative advantages.

(A) Government Actions

Co-operatives spoke here about financial and legal issues, issues of co-operative status and property, and issues of regulation and co-ordination:

- (i) **Financial:** Co-operatives were keen to see more supportive tax legislation that did not disadvantage them relative to other private companies. Many co-operatives also identified a lack of subsidies and incentive resources from government that are available to other companies.
- (ii) **Legal:** The feeling was strongly expressed in the survey that current laws for cooperatives are inadequate and restrictive. The proposed new law on co-operatives is widely anticipated.
- (iii) **Status:** There was widespread concern that co-operatives have 'No clear definition of status', and an 'undefined place in the economy'. The concern was that until a clear definition of the status of co-operatives was in place, it is very difficult to write effective policies applicable to them.
- (iv) **Property:** There was also a strongly expressed desire for co-operative property issue to be resolved. Co-operatives are urgently seeking a mechanism for property to be returned to them: first, for the ability this would give them to raise credit; and second, to be able to put this land and property to more productive use.

(v) **Regulation:** Regulation was also felt to be stricter for co-operatives than for other businesses, and that co-operatives faced a significant level of unfair competition from traders operating in the unregulated informal or 'grey' economy.

(vi) **Coordination:** There was a strong sense that government needs a more joined-up approach to institutional support. Respondents sought better co-ordination between central and municipal government, and between the different Ministries that have functions affecting co-operatives. The current Working Party for the new co-operative law provides a good example of bringing together people from different places to work on a common goal. It may be advantageous if this kind of approach were to be repeated in supporting the implementation of the new law once it is enacted.

B. Access to Credit

(i) **Access to Credit:** A lack of access to credit was a very widespread concern. A big problem for co-operatives is the lack of assets against which to borrow.

This is a key reason for co-operative property to be returned. However, the main banks also appear to be disinterested in lending to co-operatives and other SMEs: first, they perceive these organisations to be riskier. This is certainly not based on the international evidence, which shows the failure rate of new co-operatives to be substantially less than that of new investor-owned businesses. Second, the big banks have no incentive to lend, as there are larger and easier returns to be made in the market. In this case, there is an exceptionally strong case for financial co-operatives in Serbia. Credit co-operatives are successful all over the world in recycling local capital into local businesses and serving as an engine for local economic development.

Manufacture and agricultural saving-credit cooperatives were one of the oldest types of cooperatives in Serbia and had a significant role in improvement and development of manufacture, handicrafts and building first facilities in processing industry. However, their role in some periods of different political and economic systems in Serbia resulted in practically their liquidation by enacting Law on banks in 2005. However, the experience of others around the world suggests that credit cooperatives can have significant role in Serbia.

(ii) **International Aid:** International aid could be used as a way to help capitalise key co-operative projects and build their capacity. This must respect the nature of co-operatives as organisations of self help. Especially, it should not undermine the thrift incentive of credit co-operative members (World Bank, 2007). However, our findings show that in the spirit of self-help co-operatives requesting outside help are generally seeking 'reasonable loans' rather than donations. This provides an incentive for co-operatives to earn a rate of return on any credit given.

C. Member/Community Support

The final big issue for co-operatives is about member and community support. Here we found that while many co-operatives enjoyed the support of their communities, others did not. In these cases, work needs to be done to restore trust and to get people to engage with co-operatives again. This is largely about promoting the advantages of co-operatives – something that becomes easier if the above disadvantages are also being tackled.

9.2. Taking Action: Who and How?

Below, we identify three key groups that need to take action to help develop the co-operative sector in Serbia:

- Government
- Co-operative movement
- External bodies

Government can draw together involvement from different parties in a more joined-up approach: to take an example from Scotland, there could be a cross-party political group, a ministerial action team and within the civil service a cross-departmental implementation group. The new law needs to be decided and enacted. Model rules can be provided as guidance to ensure that co-operatives are established according to internationally-accepted co-operative values and principles. Regulation of co-operatives can be reviewed to ensure that those that are functioning effectively are given the autonomy they need to develop, while those that are struggling are given additional support. A review of financial support for co-operatives could be undertaken. Meanwhile, a more supportive institutional

environment, where co-operatives believe that the government is on the co-operatives' side (or at least not against them) is also important. Currently, this is not always the case. A key point is that being supportive does not mean taking over. Many governments around the world need to learn that good public policy does not always mean direct involvement in co-operatives, but rather the provision of a supportive and facilitative environment for them.

Ultimately, the development of the co-operative movement in Serbia is not the responsibility of government. It is the responsibility of the **co-operative movement** itself. Government has a role to play in levelling the playing field and providing the right environment for co-operatives to grow. But in the long-standing traditions of self help and mutual aid, co-operatives must play their part. Key matters identified for action for co-operatives were to increase members' capital through favourable credits and new investment, and to increase the volume of business activity, with rewards for excellent results. The more successful co-operatives in our survey were more open to notions of modernisation and continuous improvement. To achieve this, there is a need to build capacity through expanded education and training provision. There are also significant benefits to be gained through the co-operative principle of 'co-operation between co-operatives' as they seek to scale up their activity. This can include the setting up of secondary co-operatives (if these are made possible under the new law), action to support the development of financial co-operatives, and eventually the setting up of other national-level business arms to support primary co-operatives in such activities as food processing (where significant additional value can be created). There is also scope here for co-operatives to consider how they build networks. Finally, as a voice and a champion for the movement, it would appear that the current national federation needs to be rejuvenated, or a new one needs to emerge.

The setting up of new co-operatives is a particular challenge. Bateman and Pennarz (2009) argue for the establishment in Serbia of a Co-operative Development Agency. To ensure that the influence of the state remains benign, it might be advisable for this to be located within the national federation, although there would appear to be insufficient capacity within the current Co-operative Union of Serbia to fulfil this role effectively (Sevarlic et al, 2009). There is also a role to be played by setting up successful pilot projects, for example with donor funding. These could be used to demonstrate the potential of co-operatives to others in Serbia. While past experience might lead to some reluctance to get involved in co-operatives amongst Serbian producers, with the right information and support it may be possible to overcome these barriers and begin to develop new, successful co-operatives that are relevant and responsive to their members' needs.

Government and the co-operative movement can achieve much together to create a much better future for co-operatives and for the local communities they serve. However, in some instances there may also be a need for help from *external bodies*. In terms of technical advice, we think that there is value in working with international co-operative development agencies (such as those from Canada, Sweden, Norway or Italy) that really know co-operatives and how they work best. For financial co-operatives, organisations such as Developpement International Desjardin, the Rabobank Foundation or the Raiffeisen Foundation could serve a similar role. In terms of resourcing the implementation of policies to support co-operative development in the circumstances created by the new law, and also in helping to capitalise financial co-operatives, targeted financial support might also be sought from the donor community.

10. Conclusions

Looking at both official and unofficial statistics on the number of co-operatives in Serbia, it would appear that the sector as a whole is declining. There is some argument over the exact numbers, but general acceptance that the actual number of active cooperatives is lower than the 2000 or so cooperatives that are currently registered. While many cooperatives in Serbia are still healthy, they remain weak. Even in cooperatives that make a surplus every year, 30 percent of these say that they do not raise their members' incomes. This would suggest that their surpluses are just too small. While these cooperatives clearly have a sound business foundation that enables them to make a surplus, our evidence indicates that more action is required to strengthen co-operatives in Serbia before they are able to do significantly better

It seems that many cooperatives are surviving in spite of rather than because of their operating environment. In some ways they are becoming an endangered species – and without action very soon,

they are likely to decline further. However, any action taken needs to be the right kind of action. In response, this research has attempted to summarise what various stakeholders had to say about what they understand the 'right kind of action' to be. The results help to give a clearer picture of what life is like on the ground for co-operatives, and the things they feel would provide the greatest help to their ongoing development. The findings from this survey should be of use to a wide range of stakeholders – within government, development agencies and the co-operative movement itself.

So, are co-operatives worth supporting? The evidence from our survey is 'yes'. A minority of existing cooperatives may be beyond retrieval. However, almost everybody we spoke to told us how co-operatives were of vital importance to (i) the economy in general, and (ii) rural economies in particular. This is not to say that co-operatives are perfect. They are simply the best tool available in many cases in helping to develop local economies. We may paraphrase Winston Churchill's comment about democracy here – that co-operatives are the worst way of organising except all the others that have been tried from time to time. Based on sustainable principles of self-help and mutual aid, co-operatives can be highly effective. The presence of co-operatives also helps to keep other businesses 'honest', by providing a trustworthy and ethical alternative to some of the less scrupulous traders operating in some communities. This provides a bridge for local people to escape from the clutches of the informal economy.

As a starting point for discussion, this is quite clear cut. However, the interests of a wide range of different actors have to be aligned. There are a number of strong forces that will influence the future of co-operatives in Serbia. Resistance is inevitable, for example from strong actors in the agricultural sector. So discussions of co-operative development are difficult – but it is important to keep coming back to the same question: what are the other choices? Other strategies for the development of small and medium enterprises have not worked, particularly in agriculture. Another failed attempt to innovate is not seen as an option. In relation to poverty reduction and local economic development there is a strong sense that co-operatives hold significant future potential – and that in the medium to long term, attempts to realise this potential would be likely to be well rewarded.

Clearly, if the potential of co-operatives in Serbia is to be developed further, a number of things need to happen. Birchall & Simmons (2010) have devised an ideal-typical co-operative reform process based on existing experience and practices. Stages comprehended in this process are listed in Table 6 (Annex I). There is also presented a summary of how advanced this process currently is in Serbia. It shows that there is a lot of work to be done in order for co-operatives to re-emerge as key economic actors. The most obvious obstacles to this are legal reform to sort out land and ownership issues; financial support to allow co-operatives to re-establish themselves on a firm financial footing; technical support to ensure that all aspects of the co-operatives' operation are effective; and effective regulation to ensure that vested interests are not able to exploit co-operatives' physical or human assets. Our discussions with various stakeholders give cause for cautious optimism about the prospects for co-operative development. However, the effective navigation of this path will require those involved to display a number of important qualities: commitment, communication, coordination – and co-operation.

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