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Agricultural Cooperatives and Unions of Cooperatives in Bosnia and Herzegovina: Opportunities for Improvement

by

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Abstract: Given the breakup of Yugoslavia and the ensuing war, there has been massive changes in the agricultural structure in Bosnia and Herzegovina. In particular, the remade cooperatives and the unions of cooperatives that are supposed to serve them are struggling. This paper examines the needs of the agricultural cooperatives to be more successful and identifies what support will likely come from the unions of cooperatives and what must come from other sources. Data was obtained in three ways: 1) questionnaires to a large group of cooperatives, 2) focus groups with a smaller number of cooperatives, and 3) personal interviews with union of cooperatives representatives. The findings indicated that the unions of cooperatives are working on institutional issues such as registering and auditing cooperatives, and resolving land ownership conflicts. However, since the cooperatives are not familiar with the market economy, they also need help in business management, marketing, legal services, and organizational effectiveness. It is not likely that the unions will be able to help the cooperatives with these issues. New partners such as the Ministry of Agriculture, colleges of agriculture, or non-governmental organizations should be tasked with providing this educational support.

Key Words: Bosnia and Herzegovina, agricultural cooperatives, union of agricultural cooperatives, agricultural development

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Introduction

There have been massive changes in the structure of agriculture since the breakup of Yugoslavia and the ensuing war. Generally speaking, in Bosnia Herzegovina (BiH), the large, state-controlled agricultural cooperatives have collapsed and in their place are smaller cooperatives that are attempting to survive in a free market economy. Unfortunately, the market economy is still a new concept to most farmers, and these new cooperatives do not have the requisite skill sets to ensure their success.

Navigating a market economy is difficult for farmers who, if they had been members of cooperatives under the Yugoslav system, were told what crops to grow and what price they would be paid. Or, for those new to farming, who after losing their guaranteed livelihoods as factory or office workers in state-owned companies, resorted to agriculture as a survival strategy. The membership of any given agricultural cooperative is often a mix of returnees to pre-war rural homes, displaced people who have chosen to 'start again' rather than returning to pre-war communities where they would remain as minorities, and so-called 'domicile' families who remained in place. Many of a cooperative's members may be fairly new to agriculture as a livelihood and all are relatively new to the market economy.

In BiH, there are three Unions of Cooperatives, one at the state-level as well as one in each Entity of BiH, that are called upon to provide help in improving cooperatives' production, marketing, and business operations. The three unions of cooperatives have the following characteristics:

- The Republika Srpska (RS) Union of Cooperatives was established in 1999 and has around 100 member-cooperatives (paying dues). According to the registration records at the court, there are more than 500 cooperatives, of which more than 300 are agricultural. However, these data are out of date, and a review of every cooperative is needed in order to determine exact information. This cooperative union has the following strategic objectives: 1) audit each cooperative, 2) increase the financial and staff resources of the cooperative union, and 3) strengthen the relationship of the cooperative sector with the Ministry of Agriculture.
- The Federation of Bosnia and Herzegovina (FBiH) Union of Cooperatives was established in 1998. In the FBiH there are approximately 200 cooperatives. This cooperative union has two strategic goals: 1) to provide continuing education and facilitate information sharing for member-cooperatives, and 2) through increased lobbying, advocate for the full implementation of the Law on Cooperatives in order to improve the cooperative sector overall.
- The state-level Bosnia and Herzegovina Union of Cooperatives was created in the 1970s. However, the 2003 Law on Cooperatives in Bosnia and Herzegovina updated its role in Bosnian society. Now, the exclusive authority of this Union of Cooperatives is to represent cooperatives abroad and collaborate with international organizations. It works

with the national government to pass rules that regulate cooperative practices and to set standards for auditing of cooperatives. In general, this state-level cooperative union does not work directly with the cooperatives like the entity cooperative unions do.

In an effort to overcome some of the problems associated with cooperatives, the BiH Law on Cooperatives was adopted on May 13, 2003, replacing the two entities' laws (RS and FBiH). This new law was created to instill principles of cooperatives as accepted around the world, such as voluntarism, democracy, freedom, and transparency. In addition, this law covers all aspects of the cooperative operations such as new cooperative creation, membership, recordkeeping, operations and management, property rights, and distribution of profits and losses. This Law on Cooperatives is a modern and well-developed law based on the best European principles and practices, and it offers potential for the development of the cooperative sector in the country. Unfortunately, as research in this paper will show, the difference between the possibilities offered by the new law and the reality in today's BiH are very different.

Objective and Purpose

The objective of this study was to identify and quantify the demands of the agricultural cooperatives and the services being supplied by their cooperative unions and determine which of the cooperatives' needs are and are not being met by the unions. A clear set of performance expectations should be developed for the unions of cooperatives. Similarly, a list of activities that are demanded by the cooperatives but not provided by the unions should be developed. These tasks could be assigned to other institutions such as the ministry of agriculture, colleges of agriculture, international aid agencies, or local nongovernmental organizations (NGOs).

Background and Literature Review

Bosnia and Herzegovina covers a land area of 5.1 million hectares and has a population of 3.8 million. Fifty percent of the land is arable land and 48% is forested. Of the agricultural land, 20% is located in river valleys and is suitable for intensive agricultural production. Forty-five percent of the agricultural land is hilly and suitable for semi-intensive, pasture-based livestock production (Custovic, 2005).

Bosnia was traditionally a net exporter of livestock products, wine, and fruits and vegetables. However, after the war, agricultural export activities lagged and import activities increased significantly because of production problems. In 2001, 25% of food and agriculture were imported in the country and only .5% exported. In the same year, agricultural production was 70% of 1989-91 levels (Csaki and Zuschlag, 2004).

Besides the devastation to the agricultural infrastructure due to the war, another major problem is land tenure and ownership. Approximately 80% of the agricultural land is privately owned (Casaki and Nucifora, 2002). However, the average farm size is only 3 hectares and that is fragmented among 8 to 10 plots (Custovic, 2005). It is difficult to establish legal title to this land because many of the records were destroyed during the war and also there are different land titling situations between the Federation BiH (FBiH) and the Republika of Srpska (RS). Besides these impediments, there are additional problems associated with the former cooperative land

that had been state-owned. Even with the 2003 Law on Cooperatives, it is not always clear who the previous owners of the state-owned land were. The Law on Cooperatives returned state-owned land to the cooperative that operated it. Also, not all of these cooperatives are operational now and it may be that previous members are using the land for their private benefit. In addition, displaced people that were removed from their lands during the war, sometimes are now on land that is not their own. Finally, land mines are still a major consideration throughout the country. As a result of all these factors, only 50% of the arable land in the country is being farmed (Bojnec, 2005).

Agricultural cooperatives offer a way of overcoming some of the problems that Bosnians face such as small scale, fragmented holdings, lack of production capacity, and better access to inputs (Heijman, Moll, and Wals, 2002). Experiences from the former Soviet republics in the Commonwealth of Independent States (CIS) and Central and Eastern Europe (CEE) indicate that opportunities for cooperatives lie with marketing and input supply rather than production. Fortunately, the negative connotations usually associated with cooperatives across the former USSR are less for Yugoslavia and Poland where collectivization had not been forced and agriculture was based on individual peasant farms (Gardner and Lerman, 2006). As argued by some, rebuilding social organizations, such as agriculture cooperatives, are as important as rebuilding roads and bridges (Acker, Androulidakis, Lansdale, Lansdale, Smith, and Warner, 2001).

One advantage of agriculture, even subsistence agriculture in countries like Bosnia and Herzegovina, is the safety net that it provides to poor people. For example, about half of the households in BiH are agricultural households. It has been estimated that each of these households has an unemployed member looking for employment off the farm. The farms form a social buffer by providing subsistence food security for those without incomes – either to those living on farms or to relatives and friends in towns (Bojnec, 2005). Any support that more functional cooperatives could add to the agricultural sector would be beneficial to improving this social safety net.

Methodology

Information was gathered in three ways: 1) questionnaires to a large group of cooperatives, 2) focus groups with a smaller number of cooperatives, and 3) personal interviews with cooperative union representatives. In the initial phase, the International Orthodox Christian Charities (IOCC), with two partners, the local NGO, Nesto Vise, and the BiH (state-level) Cooperative Union, sent questionnaires by mail to 60 cooperatives in both entities of BiH in November 2006. Seventeen responded by mail and 25 by interview for a total of 42 completed surveys.

Focus groups, with an average of 12 participants, were conducted in Mostar (FBiH) on December 11, 2006 and in Kostajnica (RS) on December 12, 2006. In Mostar, there were representatives from Nesto Vise and five cooperatives from the municipalities of Nevesinje, Jablanica, Mostar, Tarcin, and Trebinje. In Kostajnica, there were representatives from the five cooperatives of Derventa, Kostajnica, Dubica, Donji Agici, and Knezica. The same topics were discussed at both locations. The participants were asked to provide comments and/or suggestions to improve: a) information sharing between cooperatives and unions, b) agricultural marketing, c) the reputation of the cooperative sector, d) organizational and technical services

provided by the unions, e) agricultural laws, and f) the role of the cooperative before and after the breakup of Yugoslavia.

Individual interviews were conducted with the presidents of the Union of Cooperatives of Republika of Srpska in Banja Luka and with the State-level Union of Cooperatives in Sarajevo on December 14, and 15, 2006, respectively. The President of the FBiH Union of Cooperatives responded to the interview questions in writing in early January 2007.

Results

Interactions between Cooperatives and Unions of Cooperatives: A Cooperative Perspective

Responses from the survey (Figure 1) and comments gathered from the survey and focus groups include the following:

- Fifty-five percent of the cooperatives do not have sufficient knowledge about the activities and work of the unions of cooperative and 69% of the cooperatives would be willing to provide their own information to the union. Seventy-six percent of the cooperatives would like to receive an informational newsletter from the union and also help pay for it. Problems in communication stem from the situation that the unions are not that active with the cooperatives and a regular vehicle for communication has not yet been established. If they could, the cooperatives would like to tell the unions about their goals and objectives, current activities, and share with them problems that they are having with their municipalities. Zadrugar (a cooperative newsletter) should be re-established. The unions should hire a person to work on increasing the level of communication between the cooperatives and the unions. Some had access to the internet and thought that a webpage would be useful.
- Only one-third of the cooperatives have received any help from their union and 19% have had problems (approximately 60% of those who received help). For those that have received help, they note that the union helped them in registering the cooperative, mediated on behalf of them with government officials, and organized roundtables regarding land ownership. A problem is that the unions have not developed a strategy to encourage the new law on cooperatives to be applied in BiH. Also, it is difficult to get concrete answers from the unions to the questions that the cooperatives ask, it all comes to down to “we’ll see”.
- Sixty-seven percent of the cooperatives’ representatives attend union meetings or serve on a board.

Marketing: A Cooperative Perspective

Responses from the survey (Figure 2) and comments gathered from the survey and focus groups include the following:

- Seventy-one percent of the cooperatives have difficulties marketing their products and, as a result, the cooperatives would like help from their unions in improving their marketing success. Cooperatives are frustrated with the low and fluctuating price of agricultural products. The cooperatives produce small quantities and the buyers want large quantities.

The cooperatives lack storage and processing facilities. Unions should help cooperatives to market jointly so that they have sufficient production to meet the needs of the buyers. Also, cooperatives and groups of cooperatives need help in developing an overall marketing strategy that captures their comparative strengths. Cooperatives need help in finding buyers. A marketing database would be useful.

Role of Cooperatives in Society: A Cooperative Perspective

Responses from the survey (Figure 2) and comments gathered from the survey and focus groups include the following:

- The cooperative sector is not promoted enough (95%). Open forums and media campaigns should be established at all levels of government and society. The campaign would be based on the results achieved by the cooperatives and focus on the most successful cooperatives.
- Seventy-one percent of the cooperatives thought that the sector had lost the trust of society. To repair the trust, the capabilities of the unions should be improved and the status of those non-performing cooperatives should be resolved. Sometimes the cooperatives and unions are their own worst enemies. Cooperatives should hold themselves to international standards of performance and the public should understand that a well-operating cooperative system will help in joining the European Union.
- All cooperatives (100%) thought that lobbying on behalf of the cooperative sector would make a strong impact at all levels of government. An effective cooperative sector can make positive influences in the improvement of agricultural laws and policies and an equitable enforcement of those laws (93%).

Legal and Business Support: A Cooperative Perspective

Responses from the survey (Figure 3) and comments gathered from the survey and focus groups include the following:

1. Cooperatives need legal services (81%) and they expect the union to provide legal assistance (79%). The cooperatives are having difficulties in resolving land ownership issues, registration and re-registration, and in making contracts with buyers and input providers.
2. Most cooperatives do not face difficulties in business planning, investments, and organization (38%), yet cooperative members would benefit significantly from business education (88%). Those cooperatives with problems do not think that their personnel are adequately trained to provide good business plans and are unsure of how to reduce their risk in a free market economy (e.g., low and fluctuating prices). Education in these areas would be helpful.
3. Many cooperatives have loans that need to be repaid (64%) and mastering good business practices are important.

Cooperatives before the Breakup of Yugoslavia and Now: A Cooperative Perspective

Statements from cooperative members, comparing their experiences before the breakup of Yugoslavia with the current situation, tended to emphasize today's problems. However, given the difficulties of the last 10 to 15 years, it is probably not surprising. The changing role of the cooperative has caused unanticipated social problems. For example, "Then, farmers had benefits such as pensions and health insurance, today they don't have any." Or, "Today, the relationship between the cooperatives and their members has been reduced to sales." In terms of production and marketing of agricultural products, "It is much more difficult now. In the past, there was a monopoly, there was not any private production. Everything that was produced, the cooperative could sell." And, "Then, we had all the services we needed and the whole system was organized." Also, land reform may redress historical wrongs, but for the person who grew up on these socialist cooperatives, "Today, we are tenants on our own property." Or, in terms of the relationship between the cooperative and the union of cooperative, then, "The cooperatives were much bigger in the past." "Then, the cooperative union was not very important." "The union is more necessary now if it (the cooperative system) is to function well."

Priorities for the Unions of Cooperatives

Republika of Srpska, Union of Cooperatives: Ljubo Rakic is the current President of the Union. The Union began in 1999. Mr. Rakic became President in 2004. There is a full-time manager and auditor and a book keeper who works part-time. All three employees have not been paid for the last four months and there is not any money to reimburse for operating expenses such as fuel. Their major accomplishments during 2005 and 2006 were that 77 cooperatives were audited according the specifications of the 2003 law. Their priorities for 2007 include the following: create a strategy for the development of the cooperative sector, permanently finance the cooperative auditing process, develop a process for cooperative registration, and resolve property issues.

Federation of Bosnia and Herzegovina, Union of Cooperatives: Esed Muhic has been the Acting President of the Cooperative Union since 2006. His first observations were that the financial situation, personnel, and equipment of the Union were not satisfactory. He has repaid some debts due to former problems, but there are still a few to settle such as former employees' salaries, pensions, and health insurance payments. Currently, there are two full-time and one part-time employee in the Union. His priority has been to familiarize himself with the situations in each Federation cooperative. He has had a series of meetings with representatives of the ministries and international organizations and taken the opportunity available to visit some cooperatives and agricultural markets, and to attend a number of seminars.

Bosnia and Herzegovina, Union of Cooperatives (state-level): Three representatives of the state-level Union of Cooperatives participated in the interview. They briefly described their recent efforts in resolving the land ownership issue, introducing a database on cooperatives in the country, and representing the BiH cooperative sector abroad. An important initiative has been the development of a cooperative business center approach. This process allows individual cooperatives to work together either to increase the efficiency of their input buying or marketing of products. While cooperatives have advantages of size over the average farm of 3 hectares, most cooperatives are still not large enough to compete on a world market.

Conclusion

With varying degrees of success, the three unions of cooperatives are working on institutional issues facing cooperatives such as registration of cooperatives, cooperative audits, resolution of title disputes to land, and new organizational arrangements such as business centers. However, given the smallness of their staff and their meager funding, it is unlikely they will be able to respond much past these activities in the near future. In other words, they will not be able to help the cooperatives in improving their agricultural business and production capabilities. That said, the agricultural cooperatives still need help to improve their business skills and marketing savvy so as to increase the profitability of their cooperatives. There are other institutions that can work with the cooperatives besides the union of cooperatives. The RS and FBiH governments should consider funding people in their agricultural ministries or at the agricultural colleges to provide these educational services. It would also be appropriate for local non-governmental organizations to work with cooperatives in these in these areas. The following offers specific suggestions to the union of cooperatives, cooperatives and their partners (ministry of agriculture, colleges & universities, and non-governmental organizations) to improve the agricultural situation in Bosnia and Herzegovina:

Unions of Cooperatives (two entity unions of cooperatives and state-level union of cooperatives)

1. A permanent and continuous flow of quality information between cooperatives and cooperative union is needed. Information is necessary for both groups to succeed. Currently the only information that cooperatives sometimes receive is minutes from the previous union meeting. Types of information that the cooperatives could utilize and that the union should maintain:
 - a. Database about the cooperatives. This could include a list of the cooperatives and its members, list of their short and long term objectives, products sold, and which cooperatives have joined the union and pay dues. One advantage of such a database is that it would allow cooperatives with similar goals to partner with each other and link them with processors and buyers. Information in the database can be used to help certify a group claiming to be a cooperative as a cooperative and exclude those who are not. Currently, cooperatives are going through an audit process to determine their authenticity. Information from these audits could be put in the data base.
 - b. Newsletter: Current information that would not be entered in the databases could be shared through a newsletter. The cooperatives are willing to help share in the expenses of such a publication.

Cooperatives and their Partners (ministry of agriculture, colleges & universities, and non-governmental organizations)

1. Educational programs should be provided to cooperative members on the topics of markets, marketing principles, and quality standards. In addition, a marketing database should be developed that charts recent prices for different commodities, trends in

commodity yields, and trends in levels of production (e.g., crop hectares and livestock numbers).

2. Cooperatives need training in legal issues and business management. One of the major sources of uncertainty is land ownership by the cooperatives. Cooperatives need legal advice in terms of property issues and registration. Similarly, the cooperatives should be provided business advice about opportunities and analysis.
3. Educational programs should be provided to the managers and employees of the cooperatives to improve their leadership and organizational skills.

Cooperatives and Unions of Cooperatives – Joint Responsibilities

1. Cooperative principles should be promoted in Bosnian society. Advocacy and lobbying are activities that the union of cooperatives should pursue jointly with their member cooperatives.
2. The unions and cooperatives should work together to develop strategies and partnerships among cooperatives. Currently, the cooperative business center approach allows cooperatives to market together. This approach should be encouraged throughout the country.

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Figure 1. Responses to questions by 42 cooperatives in BiH regarding their relationship with their respective cooperative union, 2006.

Does your
cooperative.....

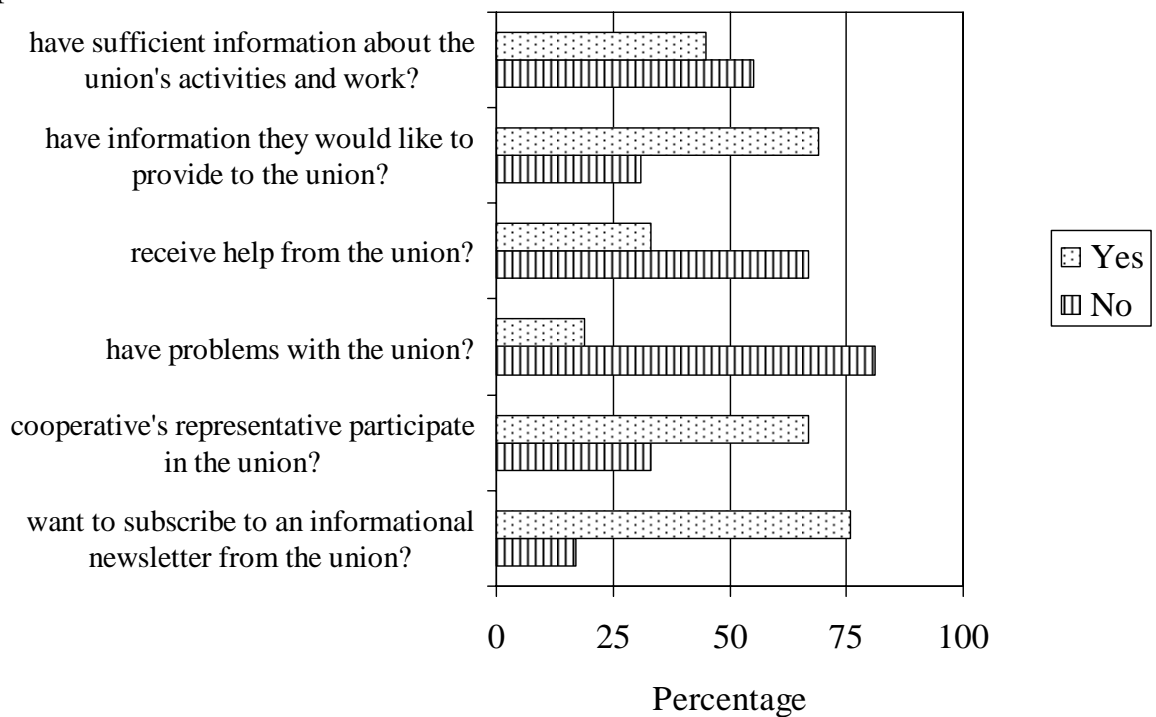


Figure 2. Responses by 42 BiH cooperatives to questions regarding marketing of agricultural products and the role of cooperatives in their society, 2006.

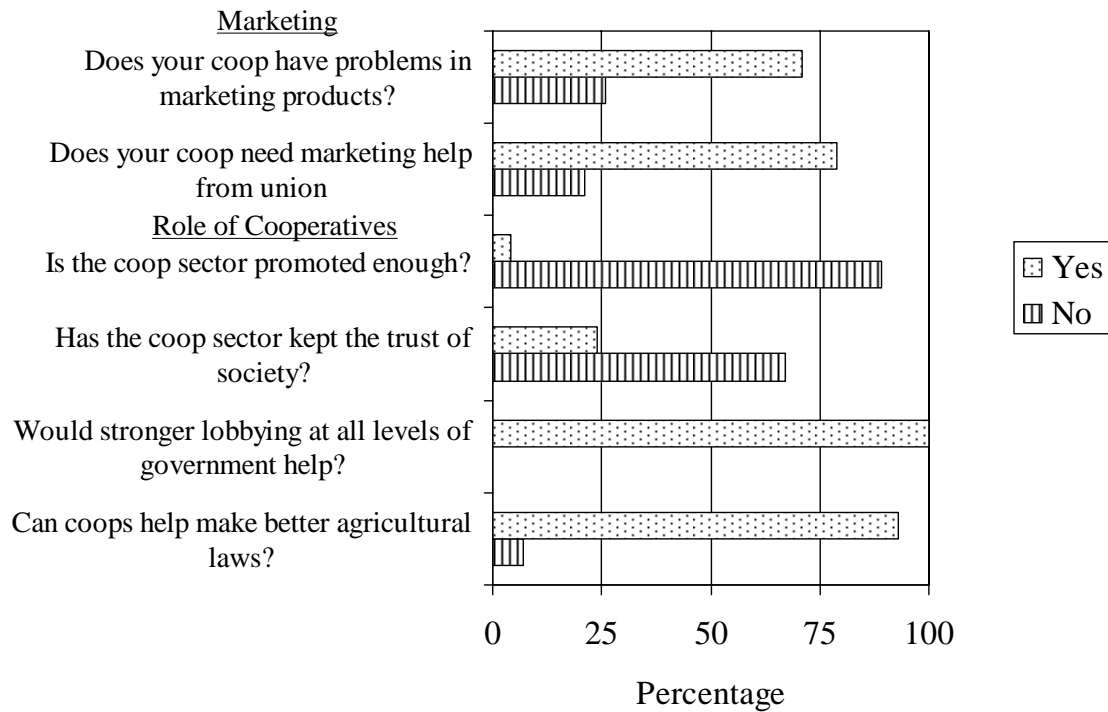


Figure 3. Responses by 42 BiH cooperatives to questions regarding legal services and business management from their respective cooperative union, 2006.

