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Agricultural Cooperatives in Post-War Bosnia and Herzegovina: Internal and External Factors Affecting Cooperative Financial Performance

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Abstract

This article analyzes the first comprehensive survey of the post-war agricultural cooperative sector in Bosnia and Herzegovina (BiH). Its purpose is to explore which types of cooperatives are financially successful in BiH in order to inform the development of better management practices for modern cooperatives, particularly those that are still transitioning from Socialist-era groups into business-oriented organizations. The results highlight internal and external factors that have been instrumental for cooperative successes and failures in BiH. Cooperatives with businesslike management systems tend to be more financially successful, thanks to consolidated decision-making structures and relatively closed membership policies. Government interventions in cooperative property have tended to hurt cooperative development.

Keywords: Bosnia and Herzegovina, agricultural cooperatives, agricultural development

¹ Graduate fellow, Princeton University, Princeton, NJ (CynthiaBarmore@gmail.com). This article is the product of nine months of research on agricultural cooperatives in Bosnia and Herzegovina, carried out from September 2010 through May 2011. The author conducted all research in partnership with the Fostering Agricultural Markets Activity (FARMA) Project, the largest agricultural development project operating in BiH. The author was based in Sarajevo for the entirety of the research period, made possible through the support of Princeton University as provided to the author through the Scholars in the Nation's Service Initiative fellowship from the Woodrow Wilson School of Public and International Affairs. All other aspects of financial support for research were made possible through funding from the U.S. Agency for International Development and the Swedish International Development Cooperation Agency, as co-financers of the FARMA Project.

Introduction

This article is the first full assessment of the post-war agricultural cooperative sector in Bosnia and Herzegovina (BiH). The sector is young, poorly documented, and facing important challenges, particularly as many cooperatives continue to transition away from their roots as state-controlled enterprises and re-orient themselves as profitable businesses (Hanson et al., 2010). Limited research has been done on the BiH cooperative sector to date. Poor information has made it difficult to identify 1) which internal management strategies make cooperatives successful in BiH, and 2) which government activities have hindered the sector's development. To address these questions, this article relies on primary survey data encompassing nearly all cooperatives in BiH and consultations with in-country experts.

This research is motivated by an ongoing debate in BiH today, where there is little agreement between leaders of cooperatives dating to the Socialist period and leaders of newer, profit-oriented cooperatives about which types of cooperatives best promote the interests of cooperative members. Leaders of newer cooperatives tend to argue that it is necessary to consolidate management structures and operate like private businesses, while leaders of older cooperatives often emphasize the importance of collective decision making and membership openness. The primary research question is to quantify how the financial performance of BiH cooperatives differs between those that resemble private businesses and those with less-businesslike operations, with attention paid to internal structures and financial independence. A secondary research question is to quantify how government interventions have affected the cooperative sector, particularly government appropriation of cooperative property. While often discussed, the effects of government policies regarding cooperative property have not been systematically examined to date, and this article will add evidence to support future research on government interventions in cooperative property.

For the purposes of this article, cooperative financial success is measured by average revenue per member, which reflects possibilities to extend benefits to members and suggests the underlying financial health of the organization. Cooperatives are classified as businesslike or unbusinesslike based on the degree of consolidation in their decision-making processes, membership openness, types of cooperant services, and profit distribution policies, while financial independence is measured by cooperatives' revenue sources (explained in further detail under *Methodology*). It was hypothesized that the results would show businesslike cooperatives are more financially successful than unbusinesslike cooperatives in BiH, with consolidated decision-making

structures, closed membership policies, extensive cooperant services, and profit distribution to members expected to correspond to higher revenue per member. It was also hypothesized that financially independent cooperatives would be more financially successful than those that are heavily dependent on government subsidies or other public funding. Such results would help resolve the on-going debate among BiH cooperative leaders by providing the first quantitative evidence that businesslike structures promote members' interests in BiH.

A central complication for cooperatives in BiH is the country's divided system of governance. The 1995 Dayton Peace Accords created the current BiH government structure, which consists of two entities and one district: the Federation of Bosnia and Herzegovina (FBiH), Republika Srpska (RS), and Brčko District. They are largely autonomous and loosely overseen by a weak state-level government. This article examines cooperatives by entity, to account for differences between entities that may affect cooperative financial performance, excluding Brčko District because of its minor size. It was hypothesized that businesslike cooperatives would be more common in FBiH than in the RS, due to differences in taxation laws that create greater incentives for FBiH businesses to register as cooperatives rather than companies. It was also expected that RS cooperatives would face greater challenges resulting from government interventions, due to a 2009 RS law that appropriated unclearly titled cooperative property.

The results confirm the original hypothesis that businesslike cooperatives report better financial performance than unbusinesslike cooperatives in both entities. As expected, consolidated decision-making structures and closed membership policies correspond to higher revenue per member in both entities, but cooperatives with extensive cooperant services do not have statistically different revenue levels in FBiH and there is insufficient information to draw conclusions about profit-distribution policies. The results also confirm prior expectations that businesslike cooperatives are more common in FBiH than in the RS. As hypothesized, the results for financial independence confirm that, in both entities, cooperatives with a high level of dependence on public financing perform worse than moderately dependent cooperatives, but self-sufficient cooperatives were not as financially successful as expected. Finally, survey data suggest that the government appropriated more than 14 million KM² in RS

2 KM is the accepted sign for *konvertibilna marka*, or convertible mark, the currency of Bosnia Herzegovina. The international code for convertible mark is BAM. The convertible mark was established by the 1995 Dayton Agreement and replaced the dinar as the currency of Bosnia and Herzegovina in 1998. Since 2009 the exchange

cooperative property, although data limitations prevent the results from being definitive.

BiH in context: background information on cooperatives, cooperative property, and related laws

Many cooperatives operating in BiH began during the Socialist period, and their history creates challenges that undermine the sector's effectiveness today. Members owned the cooperatives during that time, but the state often wielded indirect control, particularly over cooperative property. Similarly, membership was technically voluntary under 1946 and 1949 legislation governing cooperatives, but the state aggressively pursued other means of inducing farmers to join cooperatives, including higher taxation rates and restricted access to credit for non-members (Pejovich, 1966). These policies led to an increase of agricultural land in the cooperative sector from 0.9% of total agricultural land in 1947 to 15% in 1951 throughout the former Yugoslavia (Bicanic, 1973). Due to widespread cooperative inefficiency, farmer opposition to near-compulsory participation, and a general crisis in the agricultural sector, the state passed reforms from 1951 to 1954 that eased discriminatory policies towards non-members (Neal, 1958). During the author's consultations with leaders in the cooperative sector, a commonly cited impediment to cooperative participation today is the state's aggressive promotion of cooperatives during the Yugoslav era, which is believed to be partially responsible for the lingering distrust that BiH farmers have of cooperatives.

In 2003 BiH passed the Law on Cooperatives at the state level, which created a new regulatory framework for establishing and operating cooperatives based on voluntary membership. In 2009 the RS passed additional regulations with the Law on Agricultural Cooperatives of the Republika Srpska, requiring all RS cooperatives to re-register under the entity-level law, regardless of prior state-level registration.³ The grace period for re-registration

rate has fluctuated between 1.30 KM and 1.60 KM to US\$1. In January 2012, the exchange rate was US\$1 = 1.51 KM.

3 While the fragmentation of BiH governance is beyond the scope of this article, it is worth noting that the 2009 Law on Agricultural Cooperatives of the Republika Srpska appears to be part of a general trend in the RS government to distance itself from the state-level government. While it is too early to measure the full impact of the 2009 Law, qualitative differences between it and the 2003 Law may hinder RS cooperative development and widen the gap between FBiH and RS cooperative financial performance in the future.

Strategies for Agricultural Cooperation in Contemporary China¹

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Abstract

A movement is emerging in rural China for a new type of cooperation that is more oriented toward democratic participation. Analytically distinguishing these cooperatives is important for the evaluation of their success as economic enterprises and their role in building a more democratic China. We identify them as community-based cooperatives, as opposed to other types of cooperatives that tend to be grounded in private (“dragon head”) enterprises or Party/State programs. The absence of reliable, consistent data at the national level makes comparative analysis difficult across this diverse nation. Hence, most of the work on Chinese cooperatives tends to be provincial-level case studies. We propose a set of criteria to guide these case studies toward comparative analysis in several dimensions: specialization, organizational structure, substance, geographic scope, the role of elites, and farmer/member differentiation. We briefly examine data in a case study of Shaanxi Province in terms of these variables.

Keywords: agricultural cooperation, community-based cooperatives, Chinese agriculture

- 1 The authors would like to thank the One Village, One Food Office of Shaanxi Agriculture Department for funding the survey. We also wish to express gratitude to the helpful comments on the earlier versions from Prof. Keiko Tanaka and the agro-food discussion group in the Sociology Department of the University of Kentucky.
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Introduction

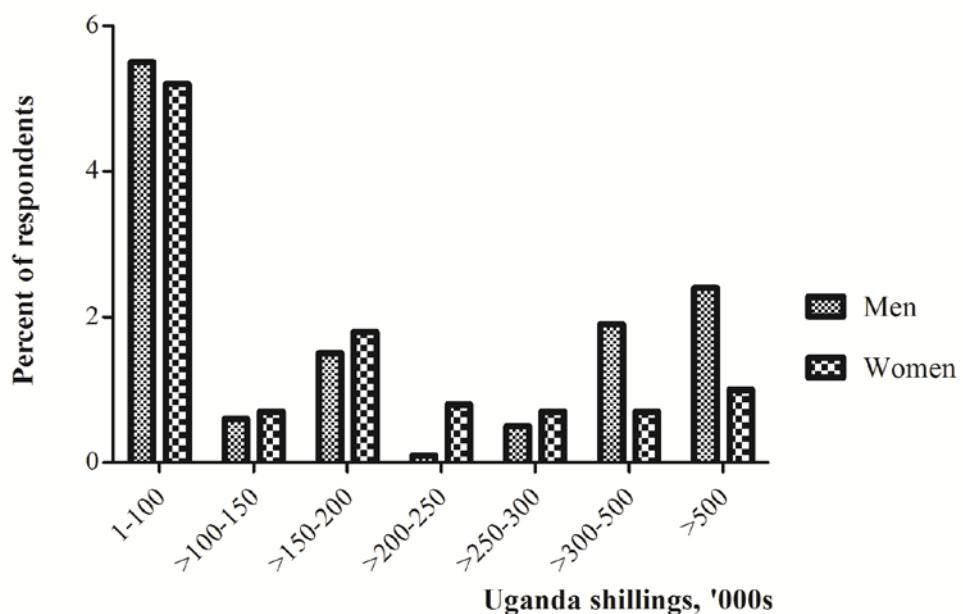
In declaring 2012 the International Year of Cooperatives, the United Nations has recognized the “contribution of cooperatives to socio-economic development, particularly their impact on poverty reduction, employment generation, and social integration” (UN-IYC, 2012). Under the theme “Cooperative Enterprises Build a Better World”, the UN seeks to encourage cooperative institutions in both developed and less developed nations. Perhaps nowhere is both the need and the potential for cooperative development greater than in the post-socialist world, where autocratic forms of political and economic domination often presented themselves as “cooperatives.” This aberration has left what Guo et al. (2008:171) identify as an “ideological obstacle” in which actors “misinterpret cooperative principles” in ways that limit their democratic control.

As China finds its own unique place as a post-socialist society, a new rural cooperative movement is appearing in the Chinese countryside (Zhao, 2011). The institutionalization of cooperatives in China is, of course, no small matter for the international cooperative movement as endorsed by the United Nations. The forms taken by the Chinese cooperative movement are also of considerable significance for the emergent relationship between the economy, the Party-State, and civil society. Zhao (2011: 680) points directly to the current uneasy juxtaposition of China’s “fast economic reform along with a slow political reform” as a point of entry for the new cooperative movement and its promise as a mechanism of democratization. However, China’s historical, geographical, and agricultural diversity as well as the current dynamism of its economic development renders the analysis of cooperative development quite problematic. Given the absence of consistent, reliable data at the national level, most analyses of cooperative development in China have been provincial level case studies, each with a distinct emphasis on different variables. Sultan and Larsen’s recent study (2011: 16), for instance, compared cooperative development in two Chinese provinces characterized by different levels of overall economic development. Interestingly, among their findings, was that while economic interests were primary for members in both regions, “democratic cooperative governance has a greater impact on farmers’ decision to join coops” in the less developed province characterized by a “less business-oriented culture”.

We model and identify six critical factors (specialization, organization, substantive practices, geographic scope, the role of elites, and farmer differentiation) associated with the analysis of Chinese cooperative development that vary among several possible development paths. We then

not have or are not willing to risk for fear of confiscation in case they failed to repay. These conditions limit the number of people who can save, thus reducing the number of RPO members and the amounts they can borrow from the RPO. Women are the most affected by such conditions since they may neither have monies to commit at start nor the necessary collateral to qualify for loans.

Figure 2: Amount of credit received by RPO members, 2008-2009 (n=164)

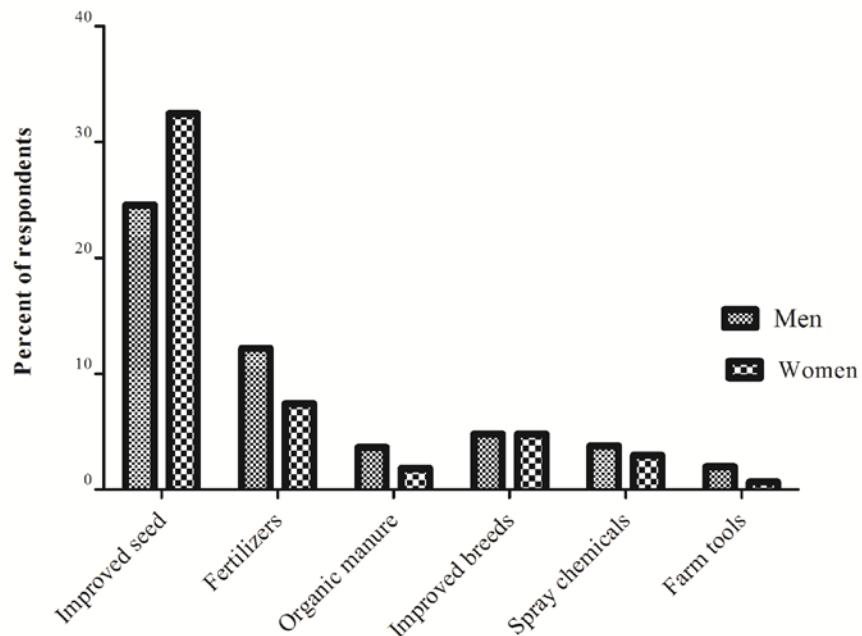


Additional field notes indicate that majority of women obtained credit through informal saving mechanisms, which are preferred to SACCOs because they do not require collateral and have no stringent conditions attached. The limitation with this source, however, is that smaller amounts can be obtained at a time, which in turn limits the farmer's level of productive investment.

Agro-inputs

Except for improved seed/seedlings, other agro-inputs (such as improved livestock breeds, inorganic fertilizers, spray chemicals, organic manure, and farm tools) were received by a limited number of RPO members (Table 2). Figure 3 presents a breakdown of the agro-inputs received by gender.

Figure 3: Agro-inputs received by RPO members (n=623)



Women had more access to improved seed compared to men. Men, on the other hand, had more access to inorganic fertilizers, spray chemicals, organic manure, and farm tools compared to women, which observations agree with earlier findings by Nayenga (2008). However, the chi-square test of association did not reveal any significant disparities between men and women access to inputs.

There are two possible explanations for the gender differences observed. First, inorganic fertilizer, crop protection chemicals, and farm tools are too costly for women to purchase. Second, since women do not own land (and, therefore, have no control over it), they may not be willing to undertake costly investments on it. A study evaluating the performance of the plan for modernization of agriculture (PMA) revealed that lack of land ownership or control by women in Uganda had led women to focus on production of annual crops, rather than long-term high-value cash-crops, and produced a reluctance to invest in land improvement (OPM, 2005).

To a large extent, inputs are supplied as handouts by service providers or through the national agricultural advisory service delivery system. They are normally delivered on a loan-recovery or member rotation basis. Women's