Linking Farmers to Markets in the Western Balkans: an Unfinished Job

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Since the break-up of the former Yugoslavia, the agricultural and food sectors of the new countries of the Balkans have taken widely divergent paths towards development. Only Serbia has emerged as a net agricultural exporter, and Serbia has been most successful in promoting a recovery of export markets lost during the 1990s. The other countries, particularly Montenegro, Macedonia, and Bosnia and Hercegovina (BiH) have become increasing import dependent. This is not surprising—during the period of Communist Yugoslavia, these republics were primarily industrial and did not have well developed agricultural sectors. But these three countries have been devoting huge efforts towards promoting exports and becoming less import dependent. Results have only been modest so far, and it is worth asking just what is the agricultural potential of these countries, and how can this potential become closer to realization.

The problem. Primary producers throughout much of the Western Balkans continue to be isolated from the markets. Since the late 1990s, there has been considerable growth in food processing output throughout the Western Balkans. But this has not been matched by growth in primary production. Meat and dairy processors frequently complain that they are operating under capacity because they cannot procure sufficient quantities of high quality raw materials. Primary agriculture, throughout the region, even in much of Serbia, continues to be characterized by small-scale, fragmented farm structure; many producers continue to produce mainly for self consumption, and those that try to market their products continue to face barriers.

Both the country governments and the international community are well aware of this problem. Governments have responded with a wide array of subsidies, import barriers and other policies to try to stimulate production. The international community has come forward with generously funded projects aimed at linking agriculture to markets, building value chains, promoting exports, and similar goals. But government policies have been ad hoc and untargeted. International projects have had positive results on the firm level. However, the beneficiaries of these projects have tended to be small processing firms rather than producers of primary products. And the beneficiaries continue confront a number of barriers as they seek to expand their markets. Some of these barriers are institutional; but another constraint for many is difficulty in acquiring raw materials.

For example, a Macedonian pork plant has invested in its own pig farm rather than try to buy hogs from local producers. The managers insist this is the only way they can ensure consistent supplies of the requisite quality. The small producers either slaughter on farm or sell to smaller slaughterhouses. For the same reasons, the major Montenegrin slaughterhouses prefer to import live cattle from Serbia rather than buy from local producers. Dairy plants in the region do buy from local producers but complain that they are working under capacity because they cannot procure adequate supplies of raw milk.

Obejctive. The paper will focus on the meat and dairy sectors of Serbia, BiH, Macedonia and Montenegro. The objective will be identify the most serious obstacles and outline some initiatives that could help overcome the obstacles. At the same time, we want to emphasize that before any measures should be introduced, it is essential to do some careful analysis in order to determine just where these countries' comparative advantage lies. It may be the case that Montenegro should not try to promote beef cattle, concentrating instead on dairy production. Perhaps fruit or vegetable production has more potential than livestock. With better analysis, domestic and international support can be targeted to the sectors with the best potential.

Procedures. Conclusions in this paper are based on the author's experience implementing technical assistance in the region. The goal of the project was to build the capacity of government institutions and affiliated research institutes to analyze the supply and demand situation on important commodity markets. The paper draws from the studies completed by counterparts under these projects. It also synthesizes the results of numerous interviews with Government officials, farmers, and managers of processing plants.

Results. The paper presents the most serious obstacles that prevent integration of the region's livestock producers into the market. Some of these obstacles are:

Fragmented farm structure. Most cattle farmers have only 2 to 3 cows. A large farm is considered to be 20 cows. This situation greatly increases the transactions costs of purchasing raw materials.

Weak land markets. Most land was privately owned throughout the Communist period, and today over 90 percent is in private hands. But land markets are undeveloped. The ownership status of the former socialized farms remains unresolved in many cases, and private owners often lack proper documentation of ownership. The result is that farmers who wish to grow larger are often blocked by the inability to buy additional land.

Poor infrastructure. Many roads, particularly in mountainous areas are still in very poor condition. Wholesale markets are undeveloped; they tend to be large parking lots and lack any cold storage facilities.

Lack of market information. While the agricultural ministries of Serbia and Montenegro publish weekly reports of prices from agricultural markets, Macedonia and Bosnia so far do not have market information systems. The lack of such information makes it more difficult for buyers and sellers to find each other.

Lack of quality and food safety standards. There is no uniform system of quality standards in the region. Slaughterhouses must implement the SEUROP grading system in order to be licensed for export to the EU, and a number of plants throughout the region have implemented this system. But producers remain largely unaware of it. Slaughterhouse buyers pay producers cash on a liveweight basis, basing their payment on a visual inspection of quality of the live animal. But because producers don't understand the grading process that takes place within the plant, there is a considerable lack of trust in the procurement system on the part of producers.

Weak tradition of farm associations and cooperatives. This is a well-known problem among experts working in the region. It is almost a cliché to point out that farmers have little trust in the idea of cooperatives because of their communist past. There have been numerous international projects seeking to support the creation of true cooperatives, based on the premise that this is the only way for small producers to gain any market power. Most of these projects have not been successful. As soon as international donors withdraw their financial support, the cooperatives tend to collapse.

Need for farmer training. There is a critical role for agricultural extension in explaining the requirements of the markets to the farmers and helping them meet those requirements. While each of the countries in question has an extension service, these tend to be underfunded and unable to provide the needed services. Many of the extension staff continue to focus primarily on technical advice and do not offer adequate training in farm management or marketing. In some of the countries, the extension staff is also responsible for distributing government subsidies and do not have time to devote to farmer training.

Inadequate collection and reporting of basic agricultural statistics. There is an urgent need throughout the region to upgrade the central statistical offices. Bosnian officials complain that they have no clear idea just how much agricultural land is being cultivated. The Montenegrin statistical office provides no information on raspberry production, a sector the Ministry is actively trying to promote.

Haphazard, ad hoc policymaking. Ministries are seeking to boost production through a complex array of subsidies, price supports, and border measures. These are introduced to response to pressure from producer groups and are often based on inadequate or wrong information. The Montenegrin Ministry is trying to subsidize beef cattle production in order to reduce imports from Serbia. The Ministry is currently under pressure to subsidize feed production, even though all raw materials must be imported, and it seems unlikely that domestic feed production will ever be profitable. No analysis has been done to evaluate the effectiveness of this support.

The key to all these issues is more investment in some of the most basic market institutions—better farmer training, better statistics and market information, resolving ownership issues and freeing up land sales. Better analysis is needed to identify the comparative advantage of each country, and government support and international assistance needs to be targeted in a more coherent way to support those sectors.

Conclusions. In the end, for all the countries of the Western Balkans, the future lies in the EU. Macedonia and Croatia are now candidate countries; Serbia, Bosnia, and Montenegro soon will be. EU membership will bring needed investment to the region and will do much to boost farm income. But it will also bring more foreign competition and stricter quality standards. Many of the small slaughterhouses in Macedonia will likely close, and the small hog farmers will have to meet the requirements of the large buyers or cease producing for the market. A number of unique dairy products could be eliminated from the market if they don’t meet the strict hygienic standards of the EU.

Recent experience in Romania and Bulgaria illustrate these pitfalls very well. If the countries of the Western Balkans are to compete successfully in a single market, policymakers and international aid organizations need to give serious thought to determine the best way to overcome these obstacles.