SIPARUNTON
International Journal of
Interdisciplinary Research

ISSN 2337-0556 (Print)
ISSN 2337-0572 (Online)
Vol 1, Issue 2, October 2012

Agro-business as indicator of economic development – Case study Kosovo region

MSc Emin NEZIRAJ,
Faculty of Business ,Public University of Peja Haxhi Zeka

MSc Shahin AHMETXHEKAJ

Abstract

Kosovo has a surface area of 1.1 million hectares of land, out of which 53% is arable with the remaining 41% composed of forests and mountains. There are a total of 30 municipalities in Kosovo and 1500 villages. Agriculture is the key economic activity, and the biggest employer in rural areas.

Most farms in Kosovo are small family farms with approximately 80% ranging in size from 0.5 – 2.0 hectares. Farms are mainly used to support the needs of households. The infrastructure in rural areas is quite poor, and access to good machinery or technology is very limited. As a consequence, farms generate very few, if any, material goods to meet the requirements of households. Since farmers do not have access to loans or other business services there is a general lack of initiative to overcome this situation. As a result, poverty is highest amongst this group of Kosovo's population.

Key words: Agro business, Agriculture, Economic development, job creativities, land, cooperative

1. Introduction

The potential contribution of agriculture to economic growth has been an on-going subject of much controversy among development economists. Much of the early work on this issue coincided with the debate on the role of agriculture in promoting economic development in low-income nations in the aftermath of extended periods of colonial rule ((Lewis, 1954, Fei and Ranis, 1961; Jorgenson, 1961; Johnston and Mellor, 1961; Schultz, 1964). Much of these investigations were qualitative in nature and they emphasized the potential impact of the inter-sectoral linkages between agricultural and industrial manufacturing sectors. After a lull in research on this subject, the recent flurry of theoretical and empirical studies on the subject indicates that the debate has increased in intensity (Echevarria, 1997; Humphries and Knowles, 1998; Gemmell, Lloyd, and Mathew, 2000; Kogel and Prskawetz, 2001; Gollin, Parente, and Rogerson, 2002, 2007; Gardner, 2005; Olsson and Hibbs, 2005; Tiffin and Irz, 2006). Research on this issue is crucial because it helps inform domestic and international policy decisions regarding how scarce resources are allocated to agricultural research and infrastructure.

Nevertheless, recent empirical studies have yielded mixed and sometimes conflicting evidence and there remains a lack of consensus on the effect of agriculture on economic growth. While some researchers contend that agricultural development is a precondition to industrialization and economic growth, others strongly disagree and argue for a different path. Several authors argue that growth in the overall economy depends on the development of the agricultural sector (Schultz, 1964; Gollin, Parente, and Rogerson, 2002). Advocates of agriculture-led growth (ALG) contend that investment in agriculture and the accompanying creation of infrastructure and institutions in other sectors is a prerequisite for national economic growth (Schultz, 1964; Timmer, 1995, 2002). However there is agreement between different authors that agriculture is a impact of economic growth and also agriculture or agribusiness can be the main impact of new job creativity.

2. Kosovo's jobs and growth challenge in agriculture sector

Jobs and growth is Kosovo's highest development priority . Unemployment which has remained at around 40% since 2004 is a widely recognized problem. With 90% of Kosovo's unemployed having been out of work for more than one year Kosovo is justifiably labelled as a nation of the long term unemployed Most of these have no prior work experience and many are poorly educated. Young people (70% of the unemployed) and women (60%) are the hardest hit. 30,000 people enter the labour force every year, further exacerbating the problem.

Kosovo has traditionally depended heavily on remittances from migrant workers which is why Kosovo can sustain its large trade imbalance (exports cover at most 20% of imports). With Kosovo's independent status recognised by an increasing number of nations, there is a risk that Kosovan exiles working abroad may be forced to return to Kosovo. This would exacerbate the unemployment problem, and would cut off the vital remittance income.

Conversely, the export of labour holds real potential for Kosovo. While populations in the EU and other richer economies are aging, Kosovo's population is young. If Kosovo can build up its skills and secure continued, or even broadened access to international labour markets, Kosovo's youthful labour force could be a source of significant advantage. There are some positive signs that Kosovo's economy is beginning to grow, and beginning to diversify but from a low base. 2006 saw the first strong growth in the productive sectors of: mining, agriculture, wood products and chemical and metal products . This shift away from the service and trade sectors - driven mostly by aid flows and remittance - is the beginning of sustainable domestic growth.

Table 1 Growth rate percentage of Kosovo

	2004	2005	2006	2007 (est)	2008	2009	2010	2011
Growth Rate (%)	3.4	2.4	3.3	5.4	6.0	5.2	5.1	4.4

Source: MTEF 2009-2011 and IMF staff estimates

2.1 Key characteristics economic growth of Kosovo and impact on agrobusines development

Kosovo has: (i) sustained macroeconomic stability (ii) a liberal trade regime, and (iii) a partially established system which allows the market to allocate resources. In addition, Kosovo has (iv) a very flexible labour market, (v) a stable and growing financial sector, (vi) a favourable geographic location in Europe, (vii) natural resource endowment, and (viii) a population with strong linguistic skills. The adoption of the Euro as the national currency is also in Kosovo's long term economic interests.

These are positive signs, but Kosovo needs a broader base for growth. And it needs to consolidate these gains to continue to grow. Achieving that will mean

gaining access to markets outside its borders; Kosovo's small domestic market can never sustain growth. The rest of this note looks at the key policy actions Kosovo should take to achieve this. But it should be noted that the public sector can also help achieve improvements in jobs. A key constraint to growth is weak infrastructure. Public spending is needed here and the Government of Kosovo fully recognises this. But also by speeding up the execution of the public investment programme some jobs will be created, giving a short term boost to employment in Kosovo.

The agricultural sector accounts for a significant share of economic activities in the province. In 2011 the value of primary agricultural production in Kosovo was estimated at US $213 million, representing 30% of provincial GDP, or 35% of GDP with the inclusion of forestry and food processing. These figures are likely to be an underestimate of the full sector output given a considerable amount of unrecorded activities. Kosovo has traditionally been a net importer of food and agricultural products, such as wheat. While part of the agricultural area is fertile and well suited to the production of grains and industrial crops (such as sunflower or sugar beet) it is unlikely to have a comparative advantage in the production of these high volume, low value commodities.

Rather, within agriculture the comparative advantage is likely to be in more labor intensive production activities, such as vegetables and some fruits., and in some livestock production (such as ruminant-based meat and milk production). Kosovo has significant pasture resources which have little alternative use and can provide a low cost production basis for a competitive, forage-based livestock industry. In the aftermath of the conflict and in the absence of significant alternative economic activities in rural areas over the medium term, agriculture is likely to remain an important element of the province's food security, in particular at the household level in rural areas.

Kosovo, which embraces about 1.1 million ha, is characterized by four main watersheds rising in a westerly and northerly crescent of mountains, from which rivers run south and southeast to intersect elevated (300-1000 m) and relatively fertile plains. Approximately 430,000 ha is Forested (39%) and 577,000 ha is classified as agricultural land (52%) . Of the latter, about 180,000 ha (31%) are pastures and about 400,000 ha (69%) is cultivable. Erosion in upland areas and water logging (55,000 ha) are common. The climate is continental in the east with an average 660 mm rainfall and 170-200 frost-free days, but Mediterranean influences in the southwest bring wetter (780 mm) and warmer (196-225 frost-free days) conditions to that area.

Approximately 67% of agricultural land, including 90% to 95% of cultivable land, 30% of pastures, and 38% of forestland is privately owned. Socially owned *agrokombinats* (18) or

agricultural cooperatives (145), established through self-management agreements, control the

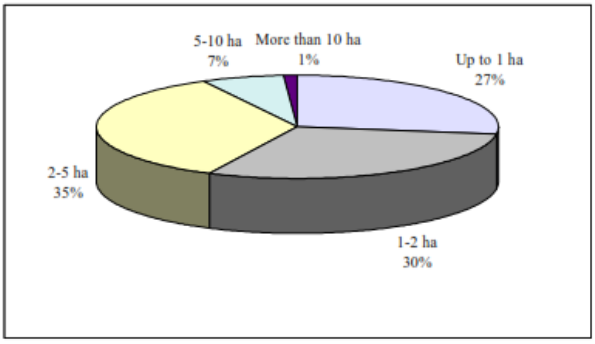
balance of the non-urban land resource and most medium and large scale agro-industry. Average

private land holdings per family are about 3.2 ha, including about 2.4 ha of arable land, often

Table 2 Land Use of Private Farms (2010)

	Average Farm Size (ha)	Share of Land (%)
Total Farm Land[1]	**3.22**	**100%**
Agricultural Land [2]	**2.43**	**75.5%**
Arable Land	1.57	64.6%
Pasture	0.73	30.0%
Perennial Crops	0.13	5.4%
Forest	**0.79**	**24.5%**

Figure 1 shows the distribution of family farm by size. The farms greater than 10 ha include about 630 medium-scale farms established under private ownership in the 1980s.



The importance of agriculture as share of total income decreased sharply over the last three years to around 11% in 2011. This is a result of the largely lost cropping season of 2010. Rural families had to rely on remittances and on aid donations to a large extent. Aid donations amount to almost 40% of farm household income in 2011. In the present crisis situation people heavily relying on agriculture can be considered as one of the most vulnerable groups as they missed out at least one year's crop and often lost a large amount of their livestock.

Table 3 Income from farming

Year	Income from Farming	Off-farm Income	Remittances	Aid donations	
	50.2	25.5	23.7	0.6	
	38.4	23.4	26.9	11.2	
	11.2	19.8	29.9	38.7	
Share of farm income in total income in 1997	0-20 %	20-40 %	40-60 %	60-80 %	80-100 %
Share of farmers in category in 1997	31.8%	18.3%	13.2%	10.9%	25.7%

Source: Kosovo: Damage and Needs Assessment

Of the roughly 400,000 ha of cultivable area in 1997, about 291,000 ha (50% of agricultural land) was arable (cropped) land, 86,000 ha was meadows, which are typically lower and wetter than the upland pastures, 12,000 ha was in orchards and 8,000 ha in vineyards (**Table 4**). Winter wheat and spring barley have been the main food crops, while maize, primarily used for animal feed, has been the other principal crop. Fodder crops, vegetables and industrial crops have also been of importance (Kogel and Prskawetz, 2001: 34).

Table 4: Land Use in Kosovo, 2010

Cropped Land	291,000 ha
Meadows	86,000 ha
Orchards	12,000 ha
Vineyards	8,000 ha
Pastures	180,000 ha
Total Agricultural Land	**577,000 ha**

Wheat	110,000 ha
Maize	95,000 ha
Fodder Crops	36,000 ha
Vegetables	28,000 ha
Spring Barley	16,000 ha
Industrial Crops	6,000 ha

Source: Official Yearbook of the EX Yugoslavia REC,2010

More than one quarter of the cultivable area, or roughly 106,000 ha, is under irrigation (76,500 ha under managed irrigation schemes and about 30,000 ha of private smallholder irrigation). In 1992, 12% of orchards in Kosovo belonged to the social sector and 88% have been privately owned. Vineyards were 40% socially and 60% privately held. Most production from these lands went to Agrokosovo's refrigerators, juice plants or wineries, mostly located in the South-west of Kosovo.

Agricultural equipment and machinery is a very important asset that gives farmers opportunities for longterm investments with high productivity potential. It is important that these assets can also be used as col-lateral for loans. According to the UNDP-Kosovo Human Development Report survey from 2004, around 60% of rural families do not have agriculture machinery or equipment, thus hampering the increase of production and of yields in rural areas.

So far the provision of loans is short-term in nature, very rarely for investment purposes and generally characterized by a low level of risk, and high interest rates. The investment loans for agriculture are hardly functioning in rural areas. According to the World Bank's Economic Memorandum of Kosovo 1, loans in the agricultural sector are at a minimum level, namely 2% from the total amount of loans provided by banks

Currently, urban markets in Kosovo sell mostly imported products; due, in part at least, to the fact that local farmers are scattered, and cannot provide suicient supplies of agricultural products for large markets. Therefore, the improvement of access to markets and enhancement of opportunities for better access of local products to markets is essential to boost economic development.

Agro-Combines (industrial complex consisting of related production of processing units) dominated the agriculture sector until 1991 at which time they collapsed and were no longer able to play an important role in agricultural product collection centers, or in the provision of information on prices, or the control of agricultural inputs.

Today, sale of agricultural products by rural families is mainly carried out in local markets. The majority of farmers (87.6%) sell their products themselves and only 2.8% of them sell their products thorough associations or cooperatives.

3. Importance of Joining Agricultural Cooperatives

Agriculture is a very important sector for the rural population; it is a key activity and the best opportunity to generate income and new jobs in rural areas. The promotion of institutions (organizations) like those that exist in other countries is urgently needed to help the development of agriculture and processing industries (Chioccioli, E., 1998:67)..

One of the most important institutions required to promote the sustainable development of agriculture is the Agricultural Cooperative which is controlled and managed by farmers themselves. Agricultural Cooperatives are established by farmers with the aim to assist in the provision of inputs (seeds, fertilizers, animal food, agriculture equipment, pesticides, etc) and establish better links to help farmers ind new markets by collecting, processing, selling and marketing agricultural products, as well coordinating the joint utilization of equipment and machinery.

In addition to these activities, Cooperatives provide other services, such as: 1) training on the application of new agriculture production technologies; 2) establishing links with banking institutions and 3) protection of farmers interests by advocating in governmental decision-making institutions for more favorable development policies.

The agriculture sector in Kosovo is characterized by very small farms, the lack of an inputs supply chain and difficulties in finding access to organized markets. Development of Cooperatives oriented towards organized markets, may play an important role in the inclusion of farmers in markets by facilitating the sale of their produce (Colman, D., 1985: 23).

Through Cooperatives the amount of agricultural products on offer will be much larger, and farmers will be able to diversify their products, thus becoming more competitive. In addition to improving the chain of sale, Cooperatives can also organize other important activities for their members and for the region where they operate. Taking into account the situation of industry in Kosovo and the limited opportunities that currently exist for the creation of new jobs in the services sector, agriculture has the potential to generate new jobs in Kosovo.

As from lessons learned from European Union countries and countries around the world, the development of Agricultural Cooperatives can create a large number of beneits for the rural economy, including the following:

1. Small farms will be able to relate to market requirements much more efectively, through marketing eforts of Cooperatives and higher income generation;
2. Promotion of an important chain of agricultural inputs supply;
3. Establishment of advisory services on the application of new technologies;
4. Establishment of mechanisms for the joint utilization of agricultural equipment and machinery;

Cooperatives marketing farm products and providing farm supplies, credit, and other services vary widely in success. So their benefits and limitations also vary. Benefits of cooperatives are difficult to measure. Some are tangible or direct as in the case of net margins or savings. Others are intangible or indirect such as cooperatives' effect on market price levels, quality, and service. Some are most evident at the time the cooperative is organized but become more obscure as the years pass. Benefits are greater for some types of cooperatives or in specific areas. Most benefits are evaluated in economic terms but some also may be social.

Cooperatives increase farm income in a number of ways. These include Ivanović, S., (ed), 1999:56):

(1) Raising the general price level for products m a r k e t e d or lowering the level for supplies p u r c h a s e d ;

(2) reducing per-unit handling or processing costs by assembling large volumes, i.e., economies of size or scale;

(3) distributing to farmers any net savings made in handling, processing, and selling operations;

(4) upgrading the quality of supplies or farm products handled; and

(5) developing new markets for products.

By pooling supply purchases, sales, and handling and selling expenses, cooperatives can operate more efficiently-at lower costs per unit-than farmers can individually. This principle also can be applied to succeeding levels in terminal marketing of commodities and in wholesaling and manufacturing of supplies. Farmers usually judge the benefit of belonging to a cooperative by its net margins or savings-a tangible measure. More specifically, they look at the amount currently paid to them in cash.

Next is the amount allocated to them in noncash forms that may be revolved later. Many cooperatives annually make substantial cash payments of earlier deferred refunds from revolving funds. The net margins realized by 5,900 marketing and supply cooperatives were about $1.3 billion in 1976, after eliminating intercooperative distribution of patronage refunds and dividends on member capital. These savings were equal to about 21 percent of the $6.14 billion investment members had in these cooperatives that year. Measured another way, such a savings constituted about 7.1 percent of the total $18.8 billion net income U.S. farmers earned in 1976.

4. Conclusion

The influence of agriculture to economic development is an important factor especially in countries that have

natural resources. Such an example we have in Kosovo, where natural resources are available.

An essential element in the development of agriculture is the creation of cooperatives, the new model would enable cooperatives primarily and greater reemployments and attraction for domestic and foreign investors.

New management model should be found at on the basis of other people's experiences of countries that have passed the period of transition, especially to explore the future of the principle of a new management and new economy developments agro-culture in part as an economic factor welfare and economic development.

For sustainable development it is necessary that the state it self through its macroeconomic policy allowing farmers to better orientation on the market, as the answer to this policy must be GDP growth and the levers of economic development.

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