

ASSOCIATION AND COMMON INTEREST GROUPS IN AGRICULTURE – A MODEL OF THE TOWN SMEDEREVO¹

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Abstract

Different association forms of agricultural producers (producer groups, cooperative societies and clusters) were considered in this paper, as well as the status of the Republic of Serbia and the town of Smederevo as a model in this field were analyzed. The authors pointed out to necessity of joining of interest in agriculture, which provides series of advantages to agricultural holdings, first of all, competitiveness in agro-food supply chain, as well as adding a new value in the value chain of agricultural products. The answer to the question what forms of association are the most adequate for agricultural producers of a certain town/region has to be given by producers perceiving numerous factors (which are the association goals, who associates oneself with who, etc.), as well as advantages and imperfections of every form of association.

Keywords: *producer groups, cooperative societies, clusters, supply chain, value chain.*

Introduction

The subject of this paper is associating and joining of interest of agricultural producers in Serbia, bringing in focus networking of market actors in agriculture of the town Smederevo. Selection of a topic for this paper was determined by a fact that in condition of dynamic market, climatic and technological changes, associating and networking of agricultural producers is one of key methods to overcome difficulties, especially: 1) survival of small-sized agricultural holdings, with small and divided property and fragmentized and unstable market supply, 2) extensive production, 3) production of a high risk (climate changes,

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volatility of prices of agricultural products/inputs). In the Strategy of Agricultural Development of Serbia in 2005 (Official Gazette of the Republic of Serbia, No. 78/05, page 50) was emphasized that „cooperative societies and associations are extraordinarily important organizational units from production improvement, marketability and rural development point of view. Hence, while setting aside the grants for rural development, as well as the other subsidies, they have to be supported and have priority“.

The European Union establishes common organization of the markets in agricultural products by regulation No.1308/2013, and according to that document of EC (No.1308/2013, page 682) “producer organisations and their associations can play useful roles in concentrating supply, in improving the marketing, planning and adjusting of production to demand, optimising production costs and stabilising producer prices, carrying out research, promoting best practices and providing technical assistance, managing by-products and risk management tools available to their members, thereby contributing to strengthening the position of producers in the food chain”.

Also, the Regulation (EU) No 1305/2013 (page 491) on support for rural development highlights the following “producer groups and organisations help farmers to face together the challenges posed by increased competition and consolidation of downstream markets in relation to the marketing of their products including in local markets. Setting up of the producer groups and organisations should therefore be encouraged“. Support to the processes of association and networking in agriculture is responsible for the third EU priority for rural development (Ibidem, page 500): „Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture, with a focus on the following areas: (a) improving competitiveness of primary producers by better integration into the agro-food chain through quality schemes, adding value to agricultural products, promotion in local markets and short supply circuits, producer groups and organisations and inter-branch organisations; (b) supporting farm risk prevention and management“.

Related to farm risk prevention and management, it should emphasize that risk management instruments in Serbia are poorly developed, mainly due to the fact that Serbian agricultural sector was developed in the system that had the elements of planned economy for decades (Vasiljevic,

Kovacevic, Zakic, 2014, page 345). So, it is essential to develop tools for the risk management in agriculture, and association of agricultural producers can facilitate those processes.

Methodology

Analysis of different forms of association of agricultural producers (producer groups, cooperative societies and clusters) in Serbia and Smederevo is based on the secondary and primary research. Desk research included the analysis of official statistical data, planning and strategic documents, studying and quoting a number of scientific papers, communications and policy documents of the European Commission (EC) and the Government of the Republic of Serbia. In the primary research was using an interview method in order to found out whether association of agricultural producers in Smederevo existed and up to what point it was developed. Through the primary research the agricultural producer groups and cooperative societies in Smederevo are identified in a qualitative and quantitative way (their number, capacities, membership, area of activity, level of development, problems in functioning). The primary research was carried out through a survey, i.e. through direct interviews with the president or a member of producer group and cooperative society. The base for the survey was the prepared questionnaire, which contained all the issues relevant for functioning of a producer group/cooperative society. The market research was carried out during November 2015 and the interview was conducted by the telephone interview which lasted for approximately 30 minutes.

The policy and strategic background of agricultural associations

Most of the European and national strategic documents recognize the significance and role of association in agriculture and development of rural communities.

The role of agricultural producer groups and the system of cooperative societies are emphasized in *the Strategy of Agricultural and Rural Development of the Republic of Serbia for the period 2014-2020* as very important for realization of the following priority areas (Official Gazette of RS, No. 85/14, pages 70-78):

- The priority area 5 “Improvement of the system of knowledge transfer and development of human resources” (counselling with the groups, cooperative societies and associations);

- The priority area 7 “Technological development and modernization of agricultural production and processing” (operational objective 7.7 “Technical-technological improvement of storing and processing facilities of cooperatives, aiming to produce the recognizable cooperative products of standard quality”),
- The priority area 8 “Development of market chains and logistics in the sector of agriculture” (operational objectives: 8.3. Enhancing motivation of producers for the different forms of association, 8.4. Strengthening the cooperative’s capacities in order to make them the financial, market and the extension service of agricultural producers, 8.7. Strengthening horizontal and vertical connections in the production chain, based on the market principles);
- The priority area 12 “Improvement of the social structure and reinforcement of the social capital” (operational objective 12.3. “Promotion of cooperative organization and their inclusion into the local action groups).

Serbia will be able to use financial resources of the pre-accession EU fund for rural development (IPARD II 2014 – 2020) (after accreditation of IPARD II operation structure), by obtaining the status of the EU candidate-member, and in accordance with the EU regulatory rules in this field and the national document „**Republic of Serbia IPARD Programme for 2014-2020**“. The largest percentage of support from this EU fund is meant for the measures of improvement productivity and competitiveness of the agro-food sector, as well as adjusting to the EU standards (Republic of Serbia IPARD Programme for 2014-2020, pages 87, 88-90, 93-94, 98). The Republic of Serbia IPARD II Programme will **mainly support viable agricultural holding and private recipients** (farmers, SMEs from agro-food sectors etc.), while other national measures are mainly addressed to help smaller agricultural holdings (Ibidem, page 167). Taking into consideration the prospective users of IPARD Programme and the principle of co-financing measures, there can expect that interest in using these funds in the following period could motivate augmentation and association of the local producers in agro-food sector.

The significance of cooperation and association in agricultural sector of the Danube district was recognized in the **European Union Strategy for the Danube Region** and in accompanying **Action Plan**. The third pillar of the EUSDR is worked out via priority area 8 “To support the

competitiveness of enterprises, including cluster development” (EUSDR, Action plan, 2010, page 54-73). One of the activities which contribute to realization of the stated 8th priority field is: “To improve the competitiveness of rural areas and in particular of the agricultural sector” by facilitating rural entrepreneurship, supporting innovation and cooperation in the agricultural industry (Ibidem, pages 67-68).

By the **Regulation No 1305/2013** on support for rural development for the programming period 2014-2020 (Regulation No 1305/201, pages 487, 499, 500) the EU provides support to the processes of association and networking in the sectors of agriculture, forestry and in the food supply chain, through following measures:

- **Article 16** „Quality schemes for agricultural products, and foodstuffs“ (Ibidem, page 505);
- **Article 17** „Investments in physical assets“. Support to improve the overall performance and sustainability of the agricultural holding shall be granted to farmers or groups of farmers (Ibidem, pages 506-507);
- **Article 27** „Setting-up of producer groups and organisations“. Support under this measure shall be granted in order to facilitate setting up of the producer groups and organisations in the agriculture and forestry sectors for the purpose of: (a) adapting the production and output of producers who are members of such groups or organisations to market requirements; (b) jointly placing goods on the market, including preparation for sale, centralisation of sales and supply to bulk buyers; (c) establishing common rules on production information, with particular regard to harvesting and availability; and (d) other activities (Ibidem, page 511).
- **Article 35** „Co-operation“. Support under this measure shall be granted in order to promote forms of co-operation involving at least two entities and in particular (Ibidem, page 516): (a) co-operation approaches among different actors in the Union agriculture sector, forestry sector and food chain and other actors that contribute to achieving the objectives and priorities of rural development policy, including producer groups, cooperatives and inter-branch organisations; (b) the creation of clusters and networks, etc. Co-operation shall relate, in particular, to the following (Ibidem, page 516): (a) the development of new products, practices, processes and technologies; (b) co-operation among small operators in organising joint work processes and

sharing facilities and resources and for the development and/or marketing of tourism services relating to rural tourism; (c) horizontal and vertical co-operation among supply chain actors for establishment and development of the short supply chains⁴ and local markets; (d) promotion activities in a local context relating to the development of short supply chains and local markets, etc.

Main characteristics of cooperatives, associations of agricultural producers and clusters in agriculture of Serbia

The authors in this section provided a short description of the existing forms of association in Serbian agriculture: farmers' cooperatives, associations of agricultural producers and clusters.

Agricultural cooperatives. External study of cooperative societies in EU financed by EC (Support for Farmers' Cooperatives, 2012, page 110) summarises derived implications for facilitating and supporting farmers to organise themselves in cooperatives as a mean of improving their market position and thus generate a solid market income, particularly given the observed imbalances in bargaining power between the contracting parties along the food supply chain. Authors of that study emphasize the following (Ibidem, page 110): (a) cooperatives are typically hybrid governance structures, and this means that cooperatives combine elements of markets (like the price) and hierarchy (like the ownership relationship between members and the cooperative firm); (b) joint ownership and joint control of farmers over firms downstream in the food chain is not limited to cooperatives (other companies with other legal forms may also be owned and controlled by farmers, often through producer organisations or farmer unions).

According to the Law of cooperatives in Serbia (Official Gazette of SRY, No. 41/96 and 12/98 and Official Gazette of the Republic of Serbia, No. 101/2005 – the other law and 34/2006), cooperative is a form of physical persons organization in which they make their economic, social and cultural interests, by doing business at cooperative principles (Clause 1). Farmer cooperative can establish at least ten farmers and other physical

⁴ Short supply chain means a supply chain involving a limited number of economic operators, committed to co-operation, local economic development, and close geographical and social relations between producers, processors and consumers (Regulation EU No 1305/2013, page 499).

persons who have their own land, facilities or working tools in agriculture or use them on other grounds (Clause 9). In almost all national documents the attention is paid to major problems in the cooperative sector. For example, in the Agriculture Development Strategy of Serbia in 2005 was pointed out to (Official Gazette of the Republic of Serbia, No. 78/05, page 49): “main problem in the system of cooperative societies of Serbia is that the most cooperative societies do not observe of cooperative regulations, i.e. they are not managed by their members, but employees in cooperatives or directors in so called “private cooperatives”, as well as unsolved ownership over the cooperative property”. Current Strategy of Agricultural and Rural Development of the Republic of Serbia for the period 2014-2020 (Official Gazette of the Republic of Serbia No. 85/14, page 32), accentuates that: “unsolved problem of property-rights relations (and cooperative property as the collective form of private property), unequal approach to capital market, the grey economy effect, lack of storing and processing facilities have an effect on a fact that an identity of cooperative property and trust in the system of cooperative society are lost.”

According to (Parausic, Cvijanovic, 2014, page 209-210), a large number of cooperative societies in Serbia does not operate after the cooperative principles, do not have necessary facilities and equipment for production, processing and sale of agricultural products, they have major financial problems, as well as the problems in demarcation of assets.

Associations of agricultural producers. Legal basis in establishing the agricultural producer association is the Law of Associations (Official Gazette of RS, No. 51/09) and according to it, an association is voluntarily, non-government, non-profit organization based on free joining of more physical persons or legal entities (Clause 2). This law has created a stimulating environment for development of civil sector in Serbia, first of all, because it has provided correlation of physical persons and legal entities.

Besides, the agricultural associations are not developed or they are not sufficiently active (especially associations of producers in a particular line of production). They are unrecognizable in the market and they don't have the projects that support the agricultural producers to make their better position in the market (especially in the sales market and/or processing of agricultural products) and they mostly have only the educational-promotional role.

In the Strategy of Agricultural and Rural Development of the Republic of Serbia for the period 2014-2020 (Official Gazette of the Republic of Serbia No. 85/14, page 33) emphasizes that “a number of the existing producer associations of all types is large, especially in primary agricultural production. The producer associations are poorly developed, and their role and activities are minor. Most of the producers' associations are at the low level of organization which primarily means the low level of professionalism and a lack of management personnel. In recent years, the associations have been increasingly noticeable, first of all, in situations when problems in the market appear, but their negotiating power has been mostly weak, due to a high dependence on processing industry.”

Limitations for more significant development of association are both linked to agricultural producers and the state. The most important limitations for the associations development affecting the agricultural producers are (Parausic, Cvijanovic, 2014, page 209): a) mentality of agricultural producers (distrust in the state, other agricultural producers; domination of personal and short-term interests over long-term and common) and b) negative experiences in the functioning of the associations/cooperatives. At the same time, the limitations for development of the associations affecting the state are (Ibidem, page 209): a) lack of financial, legal and consulting support of the government in establishment and work of the existing associations, b) undeveloped business environment for engaging in agriculture, processing of agricultural products and in non-agricultural activities.

Clusters. In numerous studies and scientific works which have clusters as topic, researchers start from Porter's definition of clusters. According to this author (Porter, 1998, page 78) “clusters are geographic concentrations of interconnected companies and institutions in a particular field” or “critical masses in one place, of unusual competitive success in particular fields”. In addition, Porter (2008, pages 2013-214) defines clusters as “geographic concentration of interconnected companies, specialized suppliers, service providers, companies in related industries and associated institutions (universities, agencies, chambers of commerce) in a particular field of activity that compete but also cooperate”. Regulation (EU) No 1305/2013 on support for rural development (page 499) defines cluster as a „grouping of independent undertakings, including start-ups, small, medium and large undertakings as well as advisory bodies and/or research organisations - designed to stimulate economic/innovative

activity by promoting intensive interactions, the sharing of facilities and the exchange of knowledge and expertise, as well as contributing effectively to knowledge transfer, networking and information dissemination among the undertakings in the cluster“.

According to (Parausic, Cvijanovic, Mihailovic, pages 724-725), clusters in Serbian agribusiness are still without visible results and effects on the growth of production, employment, export, productivity, innovation and competitiveness at the level of enterprises (cluster members), or at community level. Also, clusters do not have critical mass of participants, since there is no membership of big and strong market companies/producers, and very often the membership of some companies and institutions is only formal (Ibidem, pages 718-719). The market analysis showed that clusters in agribusiness are still new, unrecognized, underdeveloped, not operative, and they are very much similar to associations or cooperatives. The main reasons for underdeveloped clusters are external ones (unfavourable macroeconomic and microeconomic business environment), but the reasons also lie in the nature of clusters, or in their small financial strength, low production capacity, inbuilt trust and cooperation among cluster members.

Development of association in agriculture of the town Smederevo

Smederevo is a port town on the river Danube, which belongs to the region of South and East Serbia and the Danube District (with the municipalities Velika Plana and Smederevska Palanka). The total number of population is 108,209, of which in the urban settlement live 64,175 inhabitants, and in the rural settlements (totally 27 rural settlements) 44,013 inhabitants (Population by age and sex in settlements, 2012).

In the spatial plan of Serbia (Law on Spatial Plan of the Republic of Serbia from 2010 to 2020, pages 46-47), the town of Smederevo belongs to the Danube developmental zone and it represents one of key points (the Danube Gate), together with the cities Novi Sad, Belgrade and Pancevo. The spatial plan of the town Smederevo 2010-2015-2020 (page 69) points out that the most significant advantage of Smederevo is extremely favourable in regard to neighbouring towns, in fact, strategically the most favourable geographical-traffic location.

Smederevo is one of the richest towns in Serbia (Spatial Plan of the Town of Smederevo 2010-2015-2020 page 19), by its agricultural resources. In

the town agriculture is a dominant economic activity, and rural area is the largest social and natural wealth, whereby it is indicative that the current organization of agricultural production and use of the available resources have not been adjusted to a significant competitive advantage (vicinity of the biggest consumer centre, the city of Belgrade) (Ibidem, page 39). The most common agricultural productions in Smederevo, which contribute to significant market surpluses are: a) crop production (maize, wheat), b) fruit-viticulture production and c) milk production (production of meat and eggs is of local significance, while more significant market surpluses are not expressed) (Programme of support measures for the implementation of agricultural policy and the rural development policy on the territory of Smederevo for the year 2015, pages 7, 11). In the field of processing industry, after the “Godomin” bankruptcy, processing industry had considerable losses in grapes processing and production of wine and rakia (brandy), fruit processing and warehouse and crops finishing (Agricultural Development Strategy on the territory of the town of Smederevo for the period 2008-2013, page 8).

Smederevo is the town of a long cooperative tradition, regarding that in the village Vranovo, in vicinity of Smederevo, was established the first credit farmer cooperative society in Serbia in 1894. Lately, the system of cooperative societies in Smederevo was characterized by separation of the cooperative societies from the combine “Godomin” (1989), when the cooperative “Smederevo” was founded. This cooperative had stop working after only several years, and out of it were founded five new cooperative societies, of which only one continued to work successfully (cooperative “Mihajlovac”).

Insufficient association and correlation in agriculture of Smederevo reflects negatively on the condition in agriculture, and this primarily refer to supply of inputs and sale of agricultural products” (Programme of support measures for the implementation of agricultural policy and the rural development policy on the territory of Smederevo for the year 2015, page11).

In this moment, according to data of the City Hall Smederevo, Department of Economy, Entrepreneurship, Local Economic Development and Public Procurement of the Town Smederevo (Questionnaire, November 2015) on the territory of the town operate successfully only two cooperatives (high turnover and/or a large number of subcontractors): (1) “Mihajlovac” and (2) “Zelena bašta” (“Green

Garden”). Some of the cooperative societies do not work, due to the liquidity problem, as: “Sloga”, Lugavcina; “Pomoravlje” Smederevo; “Podunavlje”, Smederevo (Enforced collection of Claims, National Bank of Serbia, November 2015).

In the following items, according to the interview with the cooperative members or directors of cooperatives (Survey of farmers' cooperatives on the territory of the town Smederevo, November 2015) the basic characteristics of the farmers' cooperatives in Smederevo were given:

- Cooperative “Mihajlovac”, Mihajlovac. The cooperative society was established in 1992; it has 27 members (the cooperative society-members assembly) and over 1,000 subcontractors. It has 40 ha of agricultural land, of which 11 ha is registered in the cadastre land registry as the cooperative ownership, and 29 ha of land is public property and it is in the process of cooperative ownership argumentation. A basic activity of the cooperative society is to negotiate on production and purchase of crops (wheat, maize, sunflower, rape) and raw milk from the primary agricultural producers. Since the cooperative society neither have adequate storage capacities for crops, nor the processing capacities for milk, the value chain of agricultural products is short and there is no new value added (reselling of crops directly after purchase, without drying, processing; reselling of raw milk). As one of the business problems are the collection problems from some primary agricultural producers.
- Cooperative “Green Garden” Saraoci is the cooperative of vegetable growers and the example in what way joint producers can survive in the market, along with the production modernization, knowledge and experience. The cooperative society has 10 cooperative members. It was established in 2007, and the cooperative society members are specialized for vegetable production (tomato, cucumber, paprika) in plastic foil houses, which realizes in strictly controlled conditions (integral production), in modern plastic foil houses, with application of all necessary agro-technical measures, standards (the GlobalGap was introduced in 2015), as well as respecting the demands of the market. The total area of the plastic foil house is about 10-12 ha, which provides the cooperative society to realize the negotiated sale of vegetables into a large retail chain. As a big problem the cooperative society members see strong price competition of

import vegetables from Macedonia, Albania, Turkey, as well as the unfavourable credit lines for cooperative societies and the agricultural sector in general.

- Cooperative “Ralja”, Ralja. The cooperative society was founded in 2005 and it had taken possession on the administrative building and warehouses of the previous FCS “Vranovo” from Vranovo. It deals with negotiations of crop production, repurchase and sale of crops.
- Cooperative “Suvodol”, Suvodol was founded in 2009. It has no cooperative property. It deals with service measuring and repurchase and reselling of crops for industrial processing.
- Cooperative “Agrozdravlje”, Ralja, was founded in 2008. The cooperative society deals with negotiations of production, repurchase and sale of crops. There is no cooperative property, and as the biggest problem appears difficulties in collection from some primary agricultural producers (subcontractors).

On the territory of Smederevo operate also several associations: fruit growers and vine growers, livestock producers, flower growers and bee-keepers. In accordance to the interview with the representatives/presidents of these associations (Survey of the associations in the field of agriculture of Smederevo, November 2015), their basic characteristics can be seen below:

- The association of livestock producers “Kapija Šumadije” (“The Gate of Sumadija”), Mihajlovac. The association was registered in 2015. It has around thirty members, of which a half is active. The goal of the association is to preserve heads of Simmental breed of domestic production. The association organizes traditionally the “Festival of milk and dairy products”, and at the festival exhibit dairies in the country and from abroad, as well as the agricultural producers of small handicrafts businesses, which deal with production of dairy products. Besides, the association organizes seminars, education of agricultural producers, etc.
- The association of fruit and vine growers “Zlatno brdo” Udovice. The association was founded in 2005, by 14 members (family agricultural holdings). During 2012, the association had got to use a dryer for fruits from the EU IPA funds (capacity is 100-130 kg of a finished product per a day. The dryer still doesn’t use sufficiently, because there is no interest of agricultural producers

(uncertainty of sale and unknown market are main constraints for more fruit drying). The association has, as we can freely say, just an inactive membership.

- “The association of bee-keeper – Smederevo” was founded in 1952. It has about 120 members and works on educational-promotional activities: seminars organization, professional business trips, visits to fairs, etc.
- The association of flower producers and flower lovers “Smederevo lily of the valley” was founded in 2008. It gathers 19 producers of flowers and young plants and about twenty members of lovers of flowers. The association aims to improve horticulture and nursery production of flowers. The members of the association have numerous mutual activities: joint ventures; they purchase the production material together; take part in donations; organize education, seminars; take part in many manifestations in the country, etc.

Conclusion and recommendations

Underdevelopment of association in agriculture of Serbia (and the town Smederevo) leads to exclusion of a high percentage of the primary agricultural producers from commercially-oriented agro-food chain, and this affects unfavourably on their negotiating position in regard to purchasers and processors, reduces their lobbying capacity, etc.

In agriculture of the town Smederevo, a small number of cooperative societies work successfully, while the system of cooperative societies has been characterized by many problems: a) cooperatives look substantially like enterprises (considering that the cooperative members play a small role in the cooperatives management, disrespect of the cooperative principles, etc.); (b) unsolved property-rights relations (especially of agricultural land used by so called “old cooperatives”); (c) cooperatives do not own the necessary storing and processing capacities, by which misses a new value added in the value chain of agricultural products.

The associations of agricultural producers have also been underdeveloped. Although Smederevo has four associations (fruit and vine growers, livestock producers, flower growers and bee-keepers), they are: a) inactive (have a passive membership) and/or b) their work doesn't contribute to the competitive position strengthening of individual

producers in the market (members often don't find any interest for membership).

What forms of association are the most favourable for the agricultural producers in Smederevo and how they should work? The agricultural producers have to answer to this question according to recognition of many factors (what are the goals of association, who teams up, etc.), as well as the advantages and imperfections of every form of association.

Producer groups. The current Law on Associations (“Official Gazette of the Republic of Serbia”, No. 51/09, Clause 2) states precisely that the association is a non-profit organization and it cannot perform an activity aiming to gain profit, which significantly limits the associations business and investments in physical assets for agricultural production (equipment, facilities, storage capacities, agricultural mechanization) and processing and marketing of the agricultural products (plants for milk processing, construction and supply with equipment the slaughterhouses, the facilities and equipment for the fruit and vegetable processing, etc.). On the other hand, the Regulation of EC on support for rural development (Regulation EU, No 1305/2013, page 491) points out the following: “(a) only producer groups and organisations that qualify as **SMEs** should benefit from financial support; (b) in order to ensure that the producer group or organisation becomes a viable entity, a **business plan** should be submitted to the Member States, as a condition for granting support to a producer group or organisation“.

Taking into consideration everything previously mentioned, there can conclude that success of the agricultural producers' associations will considerably depend on two factors:

- (1) Creating the favourable business environment for work and business of all subjects in the sector of agriculture and processing of agricultural products,
- (2) Possibilities of association of agricultural producers with similar economic power “who speak the same language”, which will, through the confidence and foundation of SMEs and/or cooperatives, invest in physical assets (building the storage and processing facilities, purchase of equipment, mechanization, etc.)

Farmers' cooperatives. Associating in cooperatives (with respect of the cooperative values and principles) might bring the competitive advantage

to agricultural producers and adding a new value in the value chain of agricultural products, only through fulfilment of many preconditions:

- (1) Enactment of the new Law on Cooperative Societies, by which would define more convenient many questions important for work of cooperative societies: a mode and rights of a cooperative society management, the status changes (in order that a legal entity with the private capital could get a status of a cooperative society member; In order that a cooperative society could be a founder, i.e. a member of an economic entity and similar); solving the property-rights relations (especially the status of public/cooperative property),
- (2) Association of several specialized cooperative societies in the region (dairy cooperatives, fruits cooperative societies), by which reduces the production costs through economy of scale and strengthens negotiating power of cooperative societies in the market,
- (3) Strengthening the cooperative societies through investments in physical assets for agricultural production and processing and marketing of agricultural products, and along with support of the fiscal policy measures (lower burden of taxation), credit policy (lower interests), the measures of productivity strengthening and agricultural production competitiveness (subsidies, incentives, etc.).

Clusters. Agricultural producers, considering the fruit production development in Smederevo, with support of the Department for the Local Economic Development of the Town Smederevo and agricultural extension service “Smederevo”, could form a cluster of fruit growers, which could have as a members: (1) registered agricultural holdings, SMEs, entrepreneurs, farmers' cooperatives and farmers' associations in the area of production and trade of fruit, 2) suppliers of production materials (chemicals, packing etc.), 3) supporting institutions, such as: schools and universities, scientific research institutes, certification bodies, agricultural extension services, regional development agency, experts of various profiles and the like. As a cluster could be successful and provide a better competitive position of producers in the market, the next assumptions are important:

- (1) Government activities in order to eliminate limitations for development of agricultural holdings and SMEs, which are located in the macroeconomic policy and unfavourable microeconomic/business environment (agricultural policy

incentives, stimulating fiscal measures, measures to support employment and investment, efficient legislative and judicial framework etc.);

- (2) Success of clusters will also depend of internal cluster capacities (building trust, reconciliation of interests of different participants and forces, cooperation development between cluster members, increase the critical mass of clusters, increase production, innovation and export capacities) and entrepreneurial initiatives of business entities (farmers) in order to increase association and implement joint projects and activities. However, the most important requirement for cluster development and sustainability in the future will be solving the issue of cluster financing.

In general, Serbia will have an obligation to establish the producer organizations (associations of agricultural producers within one production line) in the process of EU accession, and the function of licensing and work control will perform the ministry authorized for the activities in agriculture. For development of all forms of association is inevitable:

- Improvement of the legal framework (especially the Law on Cooperatives). These improvements should concern: clear regulation of property relations in cooperative societies, establishment of possibilities that the legal entities could be the members of cooperative societies, creation of a mandatory guarantee fund, establishment of turnover of the cooperative allotments among the cooperative members, establishment of possibilities for re-registration of a cooperative society in some other form of a legal entity, etc.
- Advancement of the general business environment that is connected to cooperatives and agricultural associations business (stimulating fiscal policy and the support system in foundation and management of agricultural associations through reform of a professional extension service, etc.).

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