

**INSTITUTIONS AND RURAL DEVELOPMENT IN TRANSITION ECONOMIES
WITH SPECIAL EMPHASIS ON THE REPUBLIC OF MACEDONIA**

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Abstract

Analysis begins with view of the impact of institutions on economic development in rural community as given in the theoretical concept of the new institutional economics with clearly pointed distinction of the different institutional levels, although both are important for transition economies and the Republic of Macedonia.

The paper emphasizes the importance of embedded institutions for the transformation of the rural economies in the transition countries and identifies and analyses institutional aspects regarding rural development common to the transition countries. It focuses on the institutional dimension of reform policies, i.e. on the institutional economy aspects of the transition process that were decisive for the success or failure of the reforms.

Studying the case of Macedonia shows that reform and transformation of the rural sector are caused inter alia by the failure of previous rural development institutional concept. The new institutional concept developed for establishing new institutions in rural institutional environment and strengthening property rights and expectations for a variety of rural sectors in terms of enhancing their efficiency and competitive position.

Key words: institutions, rural development, rural community

Introduction

Williamson (2000) distinguishes four levels of social analysis of institutions. The most basic set of constraints that shapes human behaviour in the society forms the so-called ‘embedded institutions’, which Williamson suggests as the first level of social analysis. Examples include traditions, cultural beliefs and religions. The second level consists of the rules of the game and in particular, how property rights are defined and established. The third level constitutes the play of the game, i.e. how the rules from the second level translate into actions of the economic agents. The traditional focus of institutional economics lies in the second and third levels of social analysis. The neoclassical analysis belongs, in Williamson’s classification, to the fourth level of social analysis.

This article starts from the premise that an economy’s transition requires large-scale institutional change. Moreover, “there are vast domains of institutional transformation that cannot be achieved simply by the dictates of a proclamation from the central government” (Stiglitz, 2000). Institutions are highly important, even if the term is not always well defined. North (1990) suggests a clear distinction between institutions and organizations: institutions constitute the rules of the game, while organizations, which are groups of individuals bound by common objectives, are comparable to the players in a game. Such a distinction is helpful in framing institutional problems. In contrast to North’s definition, the World Bank (2002) suggests that the term “institutions” refers to both rules and organizations. Recognizing the close interaction between institutions and organizations, this article utilizes North’s definition

of institutions, as is commonly done in institutional economics, but includes the analysis of organizations as well. Both are important for transition.

Some institutions may have emerge partly from a specific culture in a given society and have evolved over time; others have been formally introduced by a society as a whole or by some of its members in order to facilitate exchange. Finally, some important institutions may have been introduced informally by certain special interest groups in order to improve their particular well-being. The informal institutions may be in conflict with formal institutions and may reduce their effectiveness. Embedded institutions also affect the functioning of formal institutions, yet they have been largely neglected by western economists when giving advice to transition economies. Research over the last decade has shown that the same set of formal rules may have different consequences depending on the economic and cultural situation (Huntington, 2000) in the country at the outset of transition. According to Harrison (2000), progressive cultures emphasize the future; static cultures emphasize the present or past.

This article will emphasize the importance of embedded institutions because they may be of special concern for transforming the agricultural sector and rural economies given that rural societies are often more constrained by inherited rural sector in socialist conditions as well as tradition and cultural values in transition economies as in Macedonia. Also research special attention paid to the institutional environment and various specific features that it incorporates the South Eastern European Countries (SEECs) countries and Macedonia.

Nevertheless, it is possible to identify some privatization policies in transition phase and role of institutions in SEEC countries. Assessing the weakness of specific institutions requires referring to specific countries. In transition economies, at an early stage, the main emphasis of institutional changes placed on privatization and strengthening property rights while in the R.of Macedonia attention is given to the second stage - the creation of new institutions and organizations. In both cases, due to lack of data and empirical studies, the general hypotheses posed for a large set of countries, can not be fully tested and proven exact. Taking into account this fact, findings should be taken as an attempt to further clarify the important role of institutions in rural development and by no means as definite findings about the examined aspects. In the case of the R. Macedonia we are forced to rely on author's previous multi-research in this field, which in part can be used to extract information about the topic set.

Privatization policies in transition phase and role of institutions in SEEC countries

In the early transition phase it was widely expected that the SEECs would quickly restructure their agricultural sector towards family farms. Those expectations have not been fulfilled. It is important the role of institutions for the governance of farms, the comparative advantage of farm sizes and the choice of specific legal forms of farms.

People could no longer rely for decision-making on the hierarchy in place during socialist times; instead, they had to take responsibility upon themselves. Socialist legislation that impeded changes in large farms delayed the birth of privately-owned farms. Labour legislation and issues concerning corporate governance of large farms were extremely important. Those SEECs that dismantled the old farm structure either by restitution or by allocating property widely among the population suffered less from the legacy of the people's socialist behaviour. In particular, labour legislation and the old style of public and private governance obstructed the restructuring of the agricultural sector less when the old farm structure was dissolved at the very beginning of the transformation process.

The mode of privatization may have created a strong lobby for securing property rights if the new owners feel that they could use their property more efficiently if it were

better protected. This outcome can only be expected if privatization has led to private ownership with personal direct use of the property. If privatization has led to collective ownership or private ownership that is used collectively, there will be less lobbying for securing property rights. It is not a surprise that the SEECs, which created private ownership in the first years of transition, enjoy more highly secured property rights in agriculture than other countries.

In that context, past policy decisions have affected the structure, conduct and performance of political markets. Privatization policies created new stakeholders interested either in further policy reform – mainly by securing property rights – or in blocking further reforms by inhibiting further private ownership in agriculture:

- The mode of privatization has affected the political market for policy reform and has had an impact on the change in mental models;
- The creation of new collective farms (i.e. those farms which succeeded the former collective and state farms) has given birth to new players in the political market and has strengthened some players while weakening others. This concerns farm managers, regional governments and the central government;
- The lack of an adequate system of public finance, which would permit financing the social health and education systems in rural areas, has created stronger support for the survival of the large-scale farm sector in the SEEC;
- The strength of individual players in the political market is dependent on, among other things, the performance of the agricultural sector. Political support for the sector is easier to obtain if its income situation is rated badly;
- The new institutional environment created by the mode of privatization and the establishment of the new collective farms increased the income-earning capacity of the managers in most cases.

Institutional changes and institutional environment of rural sector in Macedonia

Restructuring of agricultural enterprises complexes as large agri-industrial firms and companies that handled much of the agricultural land was required before privatization, or being sold separately, according to their individual activities. The logic of this kind of privatization and restructuring was the need to increase efficiency and competitiveness in the sale of business units, i.e. of certain small parts of agro industrial enterprise. In addition, 15% of agricultural land was in possession of a large agro industrial enterprises were taken and given to the free sale of private farmers. The aim of this measure was to encourage the development of the land market in Macedonia.

Land was partially revoked by the Law on Agrarian Reform Law of 1945 and the nationalization in 1953 and agricultural policy in Macedonia was aimed at changing property relations in agriculture, which was considered a non socialist sector and was not responsible for the development of productive forces. In an effort to abolish private sector and restore state capitalism did not allow farmers to dispose of own machinery. The main objective of the reform and privatization was mainly strengthening property rights to improve economic efficiency.

Building new institutions in rural sector – second level of institution

Legal and institutional framework

Currently there is no systemic legal act for horizontal regulation of the agricultural sector and rural development.

Agricultural and rural sector legislation

- Law on Agriculture and Rural Development;
- Legislation on the budgetary means for agriculture development;
- Legislation on agriculture land;
- Legislation on support of rural areas;
- Legislation on setting up registers in agriculture.

Institutional framework

1. The Ministry of Agriculture, Forestry and Water Economy (MAFWE),
2. The Agency for Financial Support in Agriculture and Rural Development
3. The Ministry of Local Self-Government, the Ministry of Transport and Communications, The Ministry of Environment and Physical Planning, and other state institutions.

Strategic documents

1. The National Strategy for Agriculture and Rural Development for the period 2007-2013
2. The Action Plan for Agricultural Development and Action Plan for Rural development

Awareness of the rural policy makers about the importance and opportunities of the rural sector and expectations of such policy

Below are some of the important issues related to awareness of the rural policy makers and their expectations.

1. Awareness of the importance of the role of agriculture and food industry in the national economy;
2. Awareness to create competitive production and increase income of the rural population that is one of the preconditions for social stability in the country;
3. Awareness decline in agriculture, forestry and fishery and associated industries could have significant adverse consequences in rural areas and to the overall economic and social stability of the country;
4. Geographic diversity in culture, customs, traditional events;
5. Lower education levels of rural population;
6. Absence of relevant rural organisations to represent the interests of rural communities and promote training;
7. Strengthening of civil society institutions and increased awareness of the benefits of the cross-sectoral partnerships;
8. Weak interest of the general public and lack of empowerment of inhabitants in finding solutions to rural problems;
9. Strengthening property rights;
10. Build an efficient agricultural sector that will be competitive and to contributes to economic development;
11. Increase income and improve the living standards of farmers;
12. Increasing the competitiveness of agriculture in order to its successful EU integration;

13. Strengthening farmers' organizations;
14. Optimal use and management of natural resources in an environmentally sustainable way;
15. Institutional strengthening of public institutions and increasing quality of services in the agricultural sector;
16. Integrated rural development policy;
17. Possible risks of (non)- implementation or insufficient quality enforcement activities.

Achieved awareness at institutional level is reflected in the design of government's agricultural and rural policies to support agriculture and rural sector (Programme for Financial Support of Agriculture and National Program for Rural Development) - established a second level institutions. Lack lays not so much in their implementation, but the conceptual framework in which a significant portion of the development is transformed into social policy of rural areas.

Rural institutional environment - overcoming some aspects of political and cultural obstacle

In practice, the importance of political structure and public culture for rural development in Macedonia entails a number of difficulties. To begin with, rural communities can be very slow to recognize that they are in crisis. The obvious risks of change often blind rural community members to the real costs of maintaining the status quo or some of them think that it is better to return to the old (socialist) system.

Second, the mere existence, and even perception, of shared rural community interests in change may not suffice to precipitate in the creation of needed public structures and strategies. Rational self-interested individuals will not necessarily act collectively to further what are in fact their shared interests. The welfare of the community is a public good that, like many others, will tend to be suboptimally supplied.

To help close this gap, a structure of organization and leadership is needed that can authoritatively allocate selective benefits to individual members of the community. But this functional requirement is not a "demand" that automatically generates its own "supply"; public as well as private entrepreneurship may be in short supply.

Finally, the emphasis on the importance of public culture and beliefs can bring more disappointment. It is easy to think of these variables as external and resistant to rapid change - in particular, through deliberate transformative efforts. For decision makers is far easier to deal with problems of infrastructure and capital rather than become involved with policies designed to alter a population's behavior and perceptions.

Solutions. What are the alternative ?

1. A crisis can become so acute that the rural community can no longer deny its existence, cost/benefit perceptions may shift massively against the status quo, and cultural constraints on change are decisively weakened. But while this option is important analytically, its policy relevance is less evident; it is difficult to imagine politically acceptable ways of engineering crisis for the purpose of promoting needed change.
2. The internal forces needed to overcome cultural and institutional obstacles can be decisively strengthened through appropriately structured external incentives (as the meaning and effects of the IPARD program and national government rural program).
3. Even in the absence of external incentives, local mobilization sparked by the perceived importance of local rural communities and places can make a real difference.

Conclusion

Institutions are largely country-specific, it is possible to identify a larger group of countries' institutions that are crucial for the transformation process. For example, all transition countries suffer from reforms that do not meet the expectations created at the outset of transition. Hence, the institutional aspects of the transition process would be crucial for the success or failure of the reforms. It is important to keep in mind, though, that institutions can be changed.

Owing to, in the SEECs rural people could no longer rely for decision-making on the hierarchy in place during socialist times; instead, they had to take responsibility upon themselves. The mode of privatization may have created a strong lobby for securing property rights if the new owners feel that they could use their property more efficiently if it were better protected. Further, are defined the important issues related to the institutional environment such as: past policy decisions that have affected the structure, conduct and performance of political markets, policy reform. The lack of an adequate system of public finance and the strength of individual players in the political market.

In the R. Macedonia, unlike SEECs, the main objective of the institutional reform and privatization was mainly strengthening property rights of previous small landlords to improve economic efficiency and privatization of large agri-industrial firms. Furthermore, need to continue building new institutions in rural sector (as second level of institutions) by the creation of new legal and institutional framework and better defined expectations of the new reformed agrarian system.

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