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INSTITUTIONS AND INSTITUTIONAL CHANGE: WHAT IMPEDES FARMERS' COOPERATION IN NORTH MACEDONIA?

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ABSTRACT

Small farmers struggle to accomplish their best interests in environments and value chains with large and organized buyers. Farmers in general should be able to recognize their interest in joining some form of cooperative organization such as an association, an agricultural cooperative or a producer organization. However, despite the large number of agricultural operators in North Macedonia, the number and functionality of agricultural cooperatives are still very low. The historical, cultural and socio-economic features largely influenced the way associations, cooperatives and organizations of agricultural producers in the country are formed. These features may also provide answers on the crucial conditions for these association to function. The norms of human behavior in the agricultural sector in North Macedonia are difficult to alter. The multiple changes in the social order and the negative experiences in the association of the rural population in the past have great impact on the cooperative models to this day. In this context, the paper focuses on the historical and current perspectives impeding the formation and functioning of agricultural cooperatives in the Macedonian agriculture.

Key words: cooperatives, human behavior, institutions, rural development.

INTRODUCTION

Small and fragmented agricultural holdings pose one of the largest obstacles in the development of modern and competitive agricultural production in North Macedonia. The further development of agriculture depends on the processes that will follow in the EU accession negotiations. However, the agricultural producers in the country are still trapped in the historical whirlwind of negative experiences with cooperation and are reluctant to the idea of cooperation. The only way for small farmers to survive in the modern and fast changing agricultural environment is to organize their production and join their activities in cooperatives.

In liberal market conditions, with relatively small agricultural farms, agricultural cooperatives present one of the most effective solutions for improvement of their competitiveness, both in terms of purchasing agricultural inputs and the sale of final agricultural products. These organizations can improve the position of primary agricultural producers in the value chains.

Cooperatives are one of the main types of organization allowing small farmers to survive and gain a stronger position.

In North Macedonia, currently there are 683 agricultural associations, from local to national level (CRM, 2020), and 60 registered agricultural cooperatives (Register of Agricultural Cooperatives MAFWE, 2020). Still, there are no producer groups and by analogy, no inter-branch organisations in North Macedonia.

In the last two decades, state policies supporting agricultural cooperatives started to receive a more systemic approach. In order to encourage the establishment and functioning of agricultural cooperatives, several measures for financial support of agricultural cooperatives have become part of the national program for rural development, in accordance with the provisions of the Law on Agriculture and Rural Development adopted in 2010. However, despite of the increased budgetary support to the sector, which in the past 15 years has cumulatively reached around one billion euros, the expected outcomes have not been achieved and the cooperation levels in the agricultural sector are still unsatisfactory. Therefore, it is necessary to find approaches to motivate farmers to become aware of the benefits of cooperation. In this respect, the aim of this paper is to emphasize the importance of institutions and the institutional change through history, as a major factor that impede farmers' cooperation and agricultural cooperatives in North Macedonia.

MATERIAL AND METHODS

Materials from different sources were used in order to construct a realistic portray of the historical and current position of agricultural cooperation and cooperatives in North Macedonia. In this respect, secondary sources were consulted to comprehend the adequate legislative framework (laws, strategic documents, programs, implemented policies and measures), as well as relevant research papers and reports related to the agricultural cooperatives issue in North Macedonia.

Additionally, a semi-structured interview with 22 agricultural cooperatives was constructed and carried out. The interview was conducted with the management representatives of the cooperatives (presidents or managers) in the period of August 2020. Due to the COVID-19 pandemic constraints, the interviews were carried out by telephone.

According to the Register of Agricultural Cooperatives (MAFWE, 2020), there are 49 active cooperatives, 19 of which were established recently in 2019 and 2020, as a result of the activities of and EU funded project aimed to support agricultural cooperatives in the country. In order to obtain a representative number of the agricultural cooperatives, 25 were selected and contacted. Three of the contacted representatives refused to be interviewed on the grounds that they are in the process of closing the cooperatives.

The interview was divided into three parts: 1) general data about the cooperative, 2) management structure of the cooperative, and 3) the institutional environment in which cooperative functions. For the purpose of this paper, the emphasis is put on the cooperative representative's opinion on the current institutional environment and its influence on functioning of the cooperative. The analysis applies qualitative methods, with in-depth description including most of the aspects which impede establishing and functioning of the agricultural cooperatives in North Macedonia.

RESULTS AND DISCUSSION

Institutions and institutional change – theory and the case of North Macedonia

Economists have long overlooked the power of informal institutions over norms, behaviour and social values (Williamson, 2000). Williamson (2000) proposed a theory of the time required for institutional change to occur and the influence of informal institutions in the decision-making process. This belongs to the New Institutional Economics (NIE) field, integrating the theory of institutions with economics. In the world of neo-classical theory,

only instrumental rationality is present; ideas and ideologies do not matter; institutions are unnecessary; and the economies are characterized by highly efficient markets both on political and economic level. But, in a world of incomplete information, with factors determined by human behaviour, where ideas and ideologies exist, many determinants do and will affect the cost of transaction and therefore the formation of the institutions (North, 1990). So, rather than fully abandoning the neo-classical theory, as in the case of the Old Institutional Economy, the New Institutional Economics builds up and expands by saying that the basic assumption of perfect information and rationality does not entirely fit reality, so the need for introducing the concept of institutions for dealing with imperfect information and bounded rationality is inevitable (Menard and Shirley, 2005; Doner and Schneider, 2000).

As in the case of any other sector in the economy, the organizational arrangements in the agricultural sector are closely embedded in its institutional environment (Menard and Klein, 2004). Therefore, enabling a proper institutional environment is especially important, but at the same time, difficult in countries that experience economic reforms due to the collapse in their social and economic systems. Political and economic instability issues, problems with law enforcement, lack of public institutions for enforcing property rights and contractual agreements, are only part of the serious constraints for the development of the economy (Dries et al, 2009).

Williamson (2000) conceptualizes NIE as a field that combines three interdisciplinary parts: (i) law (contract law), (ii) economics, and (iii) organization theory (where the behavioural assumptions originate from). He considers four levels of social analysis which are described in a fully interconnected system (Figure 1).

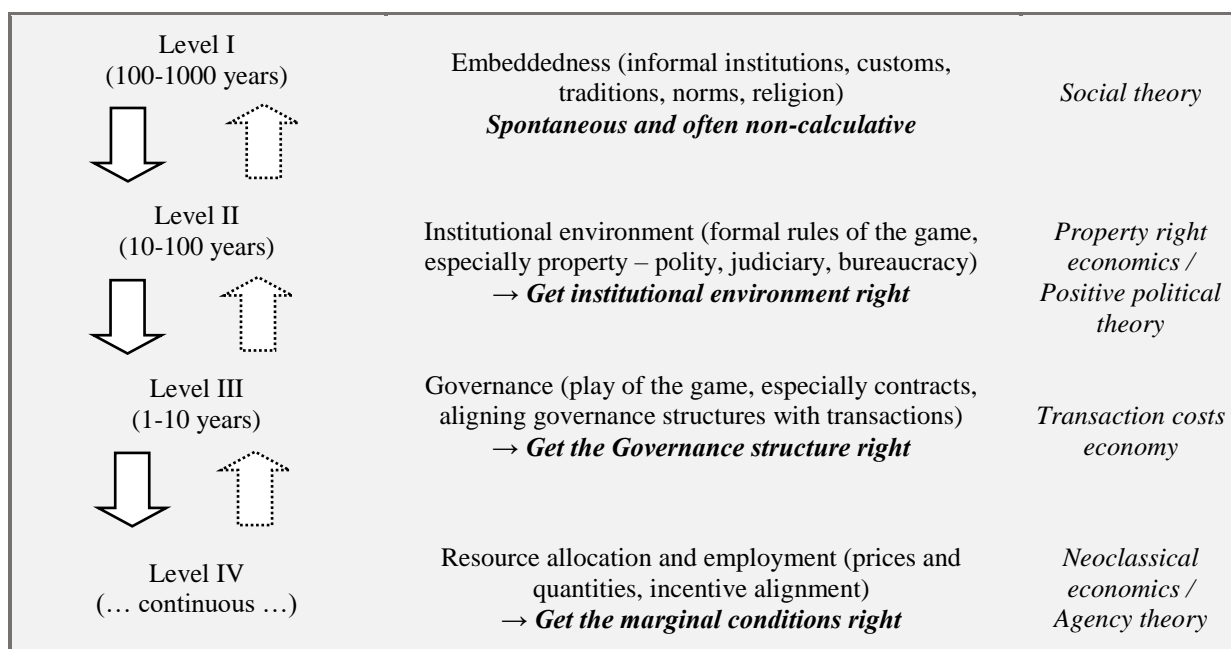


Figure 1. Level of social analysis and economics of instructions (Williamson, 2000)

Social embeddedness (Level I) is the level where norms, customs, traditions, etc. are located. Most institutional economists take this level as given since institutions at this level change very slowly (centuries or even millennia). Williamson (2000) places the institutional environment in the second level (Level II), where he classifies the formal rules (constitutions, laws, property rights). This is where when the enforcement of property rights and contract laws are considered, “getting the formal rules of the game right” is of key importance. It takes much less time (relative to Level I) *i.e.* 10 to 100 years for the institutional environment to

change (North, 1990). Institutions are formed to reduce uncertainty in human exchange, and this happens in the second level of the system. Together with the technology employed they determine the costs of transacting (and producing). They are defined as the “rules of the game”, formal rules, informal norms and the enforcement characteristics. Formal rules are known for the possibility of fast changes, whereas the informal norms change slowly and only gradually.

The third level (Level III) is considers the governance: the game itself, where alignment of governance structures with transactions takes place (institutions of governance) – related to the transaction cost economics. Organizational arrangements or organizations are the players or the group of individuals connected by a common purpose to achieve certain objectives. They can take the form of firms, political bodies, economic bodies, educational bodies, etc. (North, 1989). So, as human behaviour largely contributes in shaping the institutions and institutional environment, studying institutions also urges a need to include studies of the human behaviour, or their interactions and interpretation of reality (Menard and Shirley, 2005). The changes in the institutional environment can happen in a 1 to 10 years’ period.

Level IV describes the resource allocation and employment level, which is a continuous process and the level at which neoclassical analysis works (marginal analysis, production function). The period of this level is presumed to be continuous.

Correspondingly, in the context of North Macedonia, informal institutions (norms of behaviour, customs and traditions) have great influence on the acceptance of the idea of economic association of agricultural producers. Although the agricultural cooperatives in North Macedonia have a tradition of over a century (the first agricultural purchase and sale cooperative was established in 1908 in the village of Rabovo, Berovo region - Achkovska, 1993), the vividly changing political arrangements in the last century on the territory of today's North Macedonia produced significant averseness towards the idea of cooperation. Cooperation in agricultural cooperatives was not only forced but the opposition was severely punished (Achkovska, 1993). This changes of the political environment caused changes in the laws and the institutions that passed them, all of which led to an increasing distrust in authorities and governmental institutions and an increasing influence of informal institutions on people's behaviour and decision making processes. An overview of social order in the past and the impact of the redistribution of agricultural resources connected to the cooperation of agricultural producers in North Macedonia is given in Table 1.

Table 1. The impact of the redistribution of agricultural resources and social order in the past as a negative factor in the cooperation of agricultural producers in today’s North Macedonia

	State governance	Processes that affected the agricultural land ownership	Implications on cooperation and association
Phase I Period of the Ottoman Empire <i>Second half of 19th century - beginning of 20th century</i>	Ottoman feudalism	”Chiflik” system	1. For the most part, farmers do not own their own agricultural land (owned by the Sultan). 2. Cases of informal cooperation in family patriarchal cooperatives.
Phase II Period from the Balkan Wars to the Second World War <i>First half of 20th</i>	Monarchy socialism	First Agrarian Reform, Colonization	1. Farmers own land and establish the first forms of formal organizations in with non-kinship members. 2. Association in family patriarchal cooperatives.

<i>century</i>			
<p>Phase III</p> <p>Period after the Second World War until the independence</p> <p><i>Second half of 20th century</i></p>	<p>Socialism</p>	<p>Second Agrarian Reform Nationalization, Collectivization, Rural-urban migration, Consolidation, giving-up of the right to ownership of agricultural land for social benefits (child allowance)</p>	<ol style="list-style-type: none"> 1. Change of land ownership by violent and voluntary means. 2. Mass forced association of farmers in rural labor cooperatives. 3. Voluntary association in agricultural cooperatives - successful cooperatives.
<p>Phase IV</p> <p>Contemporary North Macedonia</p> <p><i>From 1991 – independence, to the present</i></p>	<p>Democracy</p>	<p>Denationalization Lease of state agricultural land</p>	<ol style="list-style-type: none"> 1. Liquidation of previous successful cooperatives in the transition process. 2. Starting a new process of voluntary association of landowners in agricultural associations and agricultural cooperatives.

Source: Systematization of historical aspects from different literature sources (Apostolov, 2019; Ackovska, 1993; Pandevski, 1976)

The norms of human behaviour established in these geographical areas have not changed for long time and this affected the overall social and economic life of the rural population. Until the mid-seventies of the 20th century, the Macedonian peasant cooperated on voluntary basis, in informal organizations formed by blood relatives (family patriarchal cooperatives). This was based on the negative experience and the collective memory of forced cooperation in the so-called “Rural labour cooperatives”. A large impact on creating this negative attitude of the rural population on cooperation, was due to the redistribution of the agricultural resources, where the same agricultural land forcibly changed ownership several times, in several social arrangements, for a period of just over a century (from Ottoman feudalism to the present day).

The structure and institutional setting of agricultural cooperatives in North Macedonia – farmers’ perspective

Besides of the historical perspective, which is one of the most important aspect for shaping institutions, organization and human behaviour, in this paper we aimed to depict the present structure and institutional setting in which the agricultural cooperatives in North Macedonia function. This was done through a semi-structured interview with 22 of the 49 managers of functional agricultural cooperatives in the country.

It is important to emphasise that 77% of the agricultural cooperatives included in the sample are small in size (with 10 to 19 members, as determined in the Law on cooperatives 2010), and this is a general reflection of the fragmented situation in the country. The cooperatives are consistent in incorporating the basic cooperative principles and structure (regulated in the Law of cooperatives, 2013, however with very few employees (an average of 1.4 per cooperative) and lack of professional managers to lead the operations. In most instances, the managers are at the same time founders of the cooperatives, which in some cases are in close kinship relations with the members of the cooperative.

The most important internal problems in the operation of the agricultural cooperatives, pointed out by the respondents, include the following: lack of premises, lack of computer and

office equipment, nonparticipation and lack of motivation, as well as low awareness of the possibilities for development of the cooperatives.

The strategic planning is yet another weakness of agricultural cooperatives and 77% of the 22 agricultural surveyed cooperatives do not have written strategic plans, defined vision and mission of the cooperative, while only 23% of agricultural cooperatives have medium-term five-year strategic work plans.

Operational shorter-term planning of agricultural cooperatives is their stronger side, mostly because when applying for support programs, this is one of the conditions for the agricultural cooperative to be able to apply.

The problems in the external environment of agricultural cooperatives arise from the fact that 50% of the interviewed agricultural cooperatives refer to the remark of non-compliance between the laws that regulate different aspects of the cooperatives' functioning. Respondents' point to the following institutional problems, perceived as important development constraints: non-existence of a guarantee fund that will provide bank guarantees to agricultural cooperatives, absence of regular calls for support of agricultural cooperatives within the agricultural and rural development policy, nonexistence of monitoring body for the functioning of the agricultural cooperatives, lack of a calendar for payments of measure 131 for support of agricultural cooperatives, problem with double taxation of agricultural cooperatives and its members, policy interference in the work of agricultural cooperatives, problem in recruiting new members due to possible loss of benefits from the State employment office (if the agricultural producers are registered in the central register as members of an agricultural cooperative), problem of the founders of the cooperatives who are registered as employees in the State employment office, inactivity of the line Ministry towards the cooperatives (proposed programmes versus realization), delays in payments of measures for agricultural cooperatives for more than one year, etc.

Cooperative managers were also asked to state on the experiences they face in terms of the legal and other types of related institutional frameworks, as well as to provide recommendations on how to improve or overcome them. One of the main obstacles was seen in the form of lack of leadership in both the cooperative sector and the non-governmental and governmental sectors. There is also failure to follow the strategic directions set out in the Law on Agriculture and Rural Development (2010) and the strategy for agricultural development where producer organizations fail to survive and their formation is constantly delayed. Additionally, cooperative representatives do not consider assigned funds as sufficient to support cooperatives, thus do not see prospects of significant development without substantial investments (minimum of 150,000 euros).

CONCLUSIONS

Over the past three decades, many attempts have been made to encourage farmers' cooperation in North Macedonia. Primarily foreign donors but also the Government, which put this issue high on its priority agenda, initiated these attempts. Nevertheless, agricultural cooperatives failed to establish themselves as the leading force in agricultural development besides the obvious necessity and large number of small agricultural producers. This in large extent stems from the historical institutional setting and background that was not arranged in favour to their existence, but also due to the inherited negative experience during the different political and economic systems in which cooperation in agriculture was forced by the authorities.

Hence, if we want to apply the Western principle of cooperation in these settings, it is inevitable to take into account different approach to raising community awareness of the need and importance of farmers' association and cooperation, which is quite different from that in the Western European countries.

The legal and institutional environment is still unstable with many inconsistencies and still not always successful policies for the sustainable existence of cooperatives in agriculture. This resulted in the currently small number of agricultural cooperatives (only 49 active agricultural cooperatives in 2020) with undefined vision and future plans. Even though the agricultural cooperatives development in North Macedonia has long tradition, still they face substantial insufficiencies such as lack of basic functional and human capital. There is lack of leadership, managerial and entrepreneurial experience of the cooperative leaders, as well as educated professional staff in the management of cooperatives (a large share of existing managers are at the same time founders of cooperatives).

Grants and other financial benefits have proven to have positive impact on the formation of agricultural cooperatives, yet they failed in the primary aim of establishing their sustainability. Therefore, it is necessary to provide appropriate institutional environment and institutions (legislative framework, regulations, institutional set-up etc.) which will support their proper functioning by primarily eliminating the pointed irregularities by the cooperatives' representatives, which took part in our survey. It is important to find a context based approach to motivate the rural population in changing the norms of behaviour, which according to Williamsons' institutional framework may take very long time. Nevertheless, it is necessary to involve the wider professional public in the field of agriculture and rural development, which in sending a clear and unequivocal message that associations, and especially agricultural cooperatives, are very important actors in the economic life in the country.

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