

Transition support of new emerging Balkan economies – the case of Macedonia

by Metodija Stojanovski¹

Background

Transition from a socialist/ planned to a market economy has not finished yet in Macedonia. Up to now all means of support were welcomed, and Macedonia received a lot. Since 1995 more than a billion dollars has been brought to Macedonia be it as donations or in the form of soft loans (loans with low interest and a grace period). A large amount of that sum consisted of humanitarian donations during and after the Balkan crisis. Likewise a large amount was money aimed at restructuring the economy, as support to governmental organizations, businesses and at training people for the upcoming changes (i.e. eight years support from the Macedonian Business Resources Center fiananced by USAID).

There is no doubt about the good intentions of the efforts and the money spent. And there is no doubt either about the existing needs as well. Being engaged in the agricultural sector, I should like to give my personal point of view regarding the needs in that sector.

Recent experiences in former socialist countries making the transition to a market economy and a democratic political system have shown both strengths and

It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be... This, in turn, means that our statesmen, our businessmen, our everyman must take on a science fictional way of thinking.

Isaac Asimov

weaknesses in the agricultural sector. The countries tend to have a sound agricultural research base with regard to specific production technologies. They also have plenty of literate people that can be trained. And there are already technicians trained in agricultural production technologies at national, regional and local levels.

In these countries, however, there is a lack of knowledge and of practical skills required by private farmers and by agribusiness to survive in a market economy. The newly established private farmers may have tilled the soil and achieved agricultural production goals, but they never had to independently manage an agricultural enterprise in a business-like manner – from obtaining credits for inputs to finding markets for their produce.

Most of the emerging entrepreneurs trying to establish an agribusiness have been workers or supervisors in state-run enterprises. They have no experience in developing a business plan for an enterprise in a market economy, handling cash flow problems during the production cycle, paying there workers on time, or developing a marketing strategy.

Neither do emerging entrepreneurs have the required knowledge of the functioning of the various organizational arrangements for farms and agribusiness, be it single ownership, partnership, publicly held compa-

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nies or western-style cooperatives. Many Macedonians don't know the advantages of different organizational arrangements and their purpose.

What has been done in the last 10 years

Plenty of seminars, conferences, workshops and long term training have been realized in Macedonia. Many international support organizations and donors like the United States Agency for International Development (USAID), Gesellschaft für Technische Zusammenarbeit (GTZ), SOROS Foundations (Open Society Institute Macedonia), Swedish International Development Cooperation Agency (SIDA), Swiss Agency for Development and Cooperation (SDC), International Finance Corporation (IFC), Programme for Cooperation with Emerging Markets – The Netherlands (PSO), United Nations Development Programme (UNDP), The World Bank, are still present trying to realize successful projects. Most of them have rural development as a focus of their work and organize training and seminars all over the country.

There is no doubt that some results have been achieved, particularly in changing the attitude and the mind set of people. The impact on the social changes in the economic sector is obvious. During this period more than 150'000 companies have been registered, and more than 50'000 are active, meaning they survived. Most of them are trading companies with one employee, but some also became capable small enterprises in almost all economical sectors (i.e. producing cheese, drying fruits, offering advisory services, etc.) Just by comparison, less than 4'000 companies were existing in Macedonia in 1989.

But in terms of economic growth results are not as satisfactory. In 2005 Macedonia has realized about 80% of the GDP in 1989. Due to a different way of calculation the percentage may not be accurate. However, many sources confirm the given numbers. Looking at employment, the situation is catastrophic. In 1989 the employed people numbered around 500'000; much more than today's 350'000. The chaotic privatization

creates no effective resource utilization. A previously stable market of 20 million people was dismantled, and because of the wars and sanctions even the transport routes were closed. During many years the only developed route to markets was blocked because of political pressure.

A free lance consultants point of view

During my 25 years of experience I was continually exposed to both economic systems – socialist self-governance and free market economy. As a result, I believe having a good understanding of the processes that are happening in our economy during this period of transition. Thus, I shall try to formulate my understanding of the processes looking specifically at training and the consulting business and their influence on the economic development.

Without comparing the Macedonian case with the Japanese experience, and just as a basis for my further comments, a small extract from Deming's book about the Japanese miracle happening during the fifties of the previous century shall be cited:

The whole world is familiar with the miracle of Japan, and knows that the miracle started off with a concussion in 1950. Before that time, the quality of Japanese consumer goods had earned around the world a reputation for being shoddy and cheap. Yet anyone in our Navy will testify that the Japanese knew what quality is. They simply had not yet bent their efforts toward quality in international trade.

Suddenly, Japanese quality and dependability turned upward in 1950 and by 1954 had captured markets the world over. The new economic age had begun. What happened?

The answer is that top management became convinced that quality was vital for export, and that they could accomplish the switch. They learned, in conference after conference, something about their responsibilities for the achievement of aim →

and that they must take the lead in this aim. Management and factory workers put their forces together for quality and jobs.

*“Out of the Crisis”, W. Edwards Deming,
MIT 1997*

What is similar, and what is different in the two cases? Both societies recognized the need of structural changes and the focus was put on training and informal education in seminars and on the job training. However, in Japan a “pull” principle was applied, meaning the need was recognized from within, and they were ready to spend as much time and effort as needed to achieve it. After 4 years only, they harvested the results being successful in the market.

In Macedonia, and particularly in the very beginning, the transformation was done by a “push” principle, meaning that organizations donated a lot of money and engaged plenty of consultants to bring about the changes. Ten years later, we are talking mainly about the impact in attitudinal changes, but not about practical results.

What happened to Macedonian consultants, what happened to the experienced local people who are able to drive the engine and to contribute to a faster development?

Well, they are still here. They are experts in the subject and besides that they are very experienced in writing project proposals and reports, in a way donors want them to see. But they are trying hard to survive by competing with free of charge (to local administration) international consultants. A huge number of projects with international consultants and just graduated young people as their assistants are offering free of charge or for a symbolic price their services in small business development or management techniques.

As an example: Currently, a tender is announced by the European Agency for Reconstruction for a consulting project called “Sector Analysis on Key Agricultural

Products: Fruits and Vegetables”. It should help the Macedonian Ministry of Agriculture to create a rural development component for the Instrument for Pre-Accession Assistance for Rural Development (IPARD). To my understanding, there are two issues at stake:

1. Is it necessary to pay for an additional sector analysis and
2. In case there is, who is supposed to realize it.

During the last ten years many sector analyses have been realized in Macedonia. Today, yet another one has been requested. Is it really necessary? According to the tendering documentation yes, because the former ones cover just parts or have become outdated. Even though I agree with this opinion, I still dare ask: what happened with all the money from tax payers spent on previously made sector studies? And in the same line: where has the money of the loans gone our children will have to repay after the grace period of 10 years?

With regard to the second question: who is supposed to do the next study? According to the same document it will be the consultant with “experience in making

*You have to learn to treat people as a resource.....
you have to ask not what do they cost, but what
is the yield, what can they produce?*

Peter F. Drucker

a sector analysis of fruit and vegetables in at least one of 10 new members of EU or candidate countries”. On the one hand local consultants might not have the experience of other countries, but on the other hand they sure do understand the sector in Macedonia and they are able to read the documents written in the local language?

There is another example. Since I have a problem to compete with, free of charge foreign experts (paid by development agencies), I decided to offer something unusual in the region. I am offering companies my experience and knowledge for 1 Euro per month, plus a part of the profit the company will make because of

my activities. For instance, there is a company for dry fruits and vegetables with some business management problems. And strange, companies are not interested in such a cooperation. Should my work, knowledge and skills be not even worth a Euro per month?

Conclusion

In rural development terminology probably the most used word is sustainability. In case of Macedonia this goal is far from being achieved. At least not at the present moment.

One possible reason for it is that the support which donating organizations were giving to Macedonian institutions and businesses is not coordinated. The rate of return for the money spent here is not the best one. Although I believe lessons have been learned and today's support has improved, mostly because the amount of money has been reduced. Support is no longer just financial or material donations, or free of charge consultancy. EU support is strictly controlled, even though this creates other difficulties: increased bureaucracy and time consuming procedures.

A positive outcome of this is that people doing business are focused more on the creation of new value rather than looking for a grant or an engagement in some project of a donor. Being exposed to the market, to the real world and forced to compete worldwide is the real challenge and the direction toward sustainability. Being supported in that sense is the real task for the donors.

I still believe that things will improve soon. The previously stated positive outcome will establish new contacts between the stakeholders in that process and will create a synergy, which is so badly needed. Supporting that process by joint ventures, strategic partnerships, etc. I guess, is the best way for development agencies to place their money.

In the meantime, shall I try to offer my services for 1 Euro plus benefits to the donor organizations working in Macedonia?