

## MANAGEMENT- KEY PLAYER OR EXECUTIVE POWER OF AN ENTITY IN RURAL AREA IN THE TRANSITION PROCESS

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### Abstract

*Since independence, Republic of Moldova aligns among the developed countries and this process is related to the transition from the command to market economy. This process is lengthy, laborious and often contradictory, especially in rural areas. In the given article we consider the process of transition in rural areas from kolkhozy/collective farms to market economy entities through the prism of organizational policies, activities, staff of contemporary agricultural enterprises based on example of Brinzenii Vechi village, Telenesti, Moldova. That will be followed by some conclusions on the role of management as well as the impact on sustainability of local development.*

**Key words:** development, management, market economy, policy, rural area

### INTRODUCTION

As it is known, agriculture is the main branch of economy in all the world countries. Republic of Moldova passed in the last two decades through a difficult and controversy process from the command to market economy, which affected the development of farming itself and rural areas as a whole.

The purpose of the present investigation is to consider the evolution of changes of the economic entities in rural areas from kolkhozes to market economy institutions and the role of management, making reference to the socio-economic development based on Brinzenii Vechi village.

The transition from the command to market economy is a topic under a continuous study especially with a focus on countries in transition, such as the CIS ones. Transition economies undergo economic liberalization, trade barriers are removed and the creation of fundamentally different or brand new public institutions focused on the promotion of private-owned and market oriented entities. [10] Usually, this is done by developed countries, like: USA, Japan and EU, through international and local financial institutions,

aiming the achievement of best practices policies and standards.

Moldova, after the collapse of the Soviet Union, was hassled by a turbulent restructure characterized by an economic decline, followed by stabilization and further growing process, as a result of consecutive reforms and projects, implemented due to technological and financial assistance of different international and developed countries institutions.

### MATERIALS AND METHODS

The materials used in the research are national legal acts, policies and mechanisms on market economy, agricultural enterprises and management related to our country that tends to the European integration. The study of statistical information on Brinzenii Vechi village has provided us relevant information on the evolution of agricultural institutions and the rural area development after the soviet period. In the research were applied specific methods and techniques of economic investigations.

## RESULTS AND DISCUSSIONS

With almost 300 years ago Moldova was devastated by Turks and Tatars, so that the natives could not lead a stable life and often changed their place of residence. Groups of people from Acherman parts, which were the center of Turkish domination, by the beginning of the 16<sup>th</sup> century they left the homeland, and went with herds of cattle and flocks of sheep toward the North reaching the shore of river Raut. Here, finding places away from oppressors and good pasture for cattle, settled down permanently. At first, there were only a few family clans, namely: Banari, Morari, Bolocan, which practiced sheep breeding and fishing and were skilled craftsmen in preparation of cheese. People from the neighbour settlements were coming to the cheese-makers *brinzarii* from Raut and bought cheese, hence the name of the village Brinzeni. The village is attested documentary as being founded on April, 20, 1555 in district Orhei. The residents became shortly servants for boyar Uvaliu, who had land in the nearby territory Cazanesti. [1]

Thus, the village Brinzenii Vechi began to develop and enhance the status of the community. The settlement is located on 26 ths ha in the center region of Moldova, along the national road M2, on the right side of river Raut, being just 40 km away from district Telenesti and 100 km from the capital city Chisinau, as seen on Map 1. There are 3150 inhabitants, of which: 1580 women and 1570 men with a population density of 83.6 inhabitants per m<sup>2</sup>.

The 1921 agrarian reform through the institution "Our House" allotted the villagers with over 3000 ha of land from the estate of Borodin, Calinescu and Uvaliu. Until 1940 there was a cooperative farming. The village suffered greatly as a result of overall massive collectivization process and other factors. In the village was formed a kolkhoz. Data from the end of the 20<sup>th</sup> century indicate that villagers are working in the local agricultural cooperative "Brinzeni". In the village had appeared the first appropriated peasants, working either individually or in the peasant association "Fountain of Musteata".

The village registered development during the late 80s, being on the 2<sup>nd</sup> place in the country, due to the activity and productivity of the poultry factory "Avicola" that recorded revenues of over 1 mil rubles. As the production quality was poor, this was not lasting and led to the rapid collapse of the farm. The kolkhoz from Brinzeni was average efficient as to the functioning of the cattle, sheep and pork farms, apiculture and pomiculture.

While Moldova achieved independence in 1991 as a middle-income country, it is now one of the poorest countries in Europe, with GDP per capita significantly below the average of the Central European countries. Moldova is ranked 117th in the 2009 Human Development Report, with a Human Development Index (HDI) value of 0.72. Thus, Moldova is one of the lowest ranking countries, in terms of HDI, covered by the European Neighborhood Policy. With a per capita income of US\$ 880 (GNI Atlas method, 2005) Moldova is the poorest country in Europe and the only one currently classified as a low-income country by the World Bank. [8]

Many of those who recently moved out of poverty are just above the poverty line and are vulnerable to an economic downturn. Thus massive land privatization and institutionalization of National Castrate System fertilized the land for local development.

The evolution of the entities after 90s declined continuously due to the inefficiency of institutions and their activities that lead to social exclusion. Social exclusion is a complex phenomenon, dynamic and multidimensional, linking various dimensions of life from which people are excluded. There is no single, agreed definition, mainly due to the difficulty in defining an ideal referenced state of inclusion.–Social exclusion refers to marginalization from employment, income, social networks such as family, neighborhood and community, decision making and from an adequate quality of life. The problems of social exclusion are often linked and mutually reinforcing. It is often difficult to disentangle the causes and consequences. The risk of

social exclusion is highest for those with multiple disadvantages. [7]

However, unemployment is the major factors contributing to social exclusion, as employment and job security promise an income to satisfy basic needs and provide social integration and social identity at the same time. Financial exclusion can be described as the inability of individuals, households or groups to access necessary financial services in an appropriate form. The causes and consequences of financial exclusion can contribute to social exclusion. Those unable to access finance for enterprise development or personal consumption have greater difficulty in integrating economically through employment and self-employment.

Eastern Europe has experienced dramatic economic change in the past 17 years where in the former communist countries structural reasons for social exclusion prevail. These reasons are first of all unemployment caused by the collapse of state owned industry and farms followed by significant social welfare cuts. [6]

In Western Europe social exclusion is also linked to unemployment. Here, however, unemployment is in part the result of the shift from an industrial based economy to a service oriented and technology dominated economy. And although the welfare state is under pressure, when compared to Eastern Europe, it continues to provide significant benefits in the form of income support, national health and retirement payments.

The fight against social exclusion has been a major concern of EU policy since the early 1990s. Facilitating participation in employment and access to resources, rights, goods and services for all have become key European goals. In order to increase transnational policy cooperation, all Member States have been asked to prepare national action plans on social inclusion.

During the soviet period, a branch of the saving bank existed in almost every village, mobilizing important amounts of savings from the population. Low interest credit facilities allowed young families to start off a new livelihood; this concerns especially credits for the construction of houses. The system

collapsed because of high inflation during the early 1990's, in the first years after the proclamation of independence of the Republic of Moldova. This led to the loss of all savings. Because peasants have lost their life savings, it was difficult for financial institutions to start new saving activities, even in the self-managed saving and credit associations.

This is why the collection of deposits by commercial banks was highly insignificant during 1998-2002. Farmers lost their trust in these institutions, so whenever there was cash, it was immediately invested in assets or consumed. Trust in financial institutions had to be regenerated.

After 1991, with the start of market economy relations, a process of informal lending has been developed in rural areas. In the villages, the money lending process was not being conducted on a constant basis. Farmers used to borrow money when there was an urgent need, and they lent money to others when they were able to.

Table 1. Comparative analyze of donors approaches

Approaches	WB group	GTZ
Management	Project implementation unit with local experts combined with short-term visits of international experts teams (1-2 week/visit)	Established office in Moldova with a permanent international experts team based on mid-term assignment (3-4 years)
Transfer of Knowledge	Sort-term trainings of trainers and SMEs developers	On-job training on a day by day base
SMEs development	Use of trained NGO developers with a seldom site visits	Trained NGOs together with international expert
Institutional development	Built from scratch	Use of local existing ones, selected through tender
Financing	Creation of intermediary non-banking financial institution	Use of local banking system,
SMEs assistance	Permanent tuition since the first founders meeting	Initial support up to the first month of activity and after Jungle rule – The strongest will survive is applied
Consultancy	Permanent	On demand

Source: Developed by author based on ex-post evaluation

Nowadays, the financial sector still resists to the effects of the financial crisis, but its capacity to credit the economy, in the current circumstances, is seriously affected, thus

determining the transition economic process of the country.

Following the collapse of the Soviet-era supply and trade links, agriculture experienced a downturn in terms of yields and trade volume. Kolkhozy (the large collective farms) and sovkhozy (the Soviet farm or collective management) were the two components of the socialized farm sector that began to emerge in Soviet agriculture as an antithesis to individual or family farming. The Soviet farms were gradually broken up into more than 1 million small, private holdings. [9]

Since independence the land was divided into allowances, so that some peasants gave their land on lease, others decided to work it out by themselves, while another part formed their own enterprise. Once with the privatization process, which started in 1998, replacing the soviet kolkhoz, in the village appeared several economic entities, as are indicated in the bellow table:

Table 2. Economic agents in Brinzenii Vechi

Economic agents	2002	2003	2004	2005	2006
Individuals, including: - Individual enterprises	3	4	5	6	6
- Patent holders	1	1	2	3	4
- Stock companies	1	1	1	1	1
Enterprises eligible to legal entities, including: joint stock companies	0	0	0	1	1
<b>Total</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>11</b>	<b>12</b>

Source: Authors' analysis on the basis of data from Brinzenii Vechi Local Council Decision, 2007

The intravilan resources of the village Brinzenii Vechi in 2002-2006 were of 3940.01 ha, including reserves of 3.92 ha and land under construction of 11.29 ha, while the agricultural land resources of the village of the total 3806.57 ha in 2002, including arable land (2398.72), perennial plantings, such as vineyards, orchards (37.91 ha and 163.05 ha), pastures and meadows (613.22 ha) and fallow land (22 ha), recorded indicators of 2178,37 ha - arable land, 141.20 ha - perennial plantings, 553.22 ha - pastures and meadows and 75 ha for fallow land. [4] These data changed over the time, because some lands

were transformed into pastures, rented by the economic agents or given under construction usage.

The main economic agents in the village are: LTD "Brinzeni Agro" - 744.4 ha of rented farmland, LTD "Export-Agro Stincari" - 41.7 ha of apple orchard, LTD "Marodinal" - abator for slaughter of the animals, LTD "Iurinic Prod" - breeder for youth poultry, LTD "Alina&Roberto", COOP "Cazanesti", IE "Prencu Gr.St." - 598.61 ha of agricultural land. [2] These agents solve the problem of animal breeding of the village, since in the late years the locals cannot afford to grow animals, because of the lack of resources and high cost of their maintenance.

According to data provided by the State Registration Chamber [3], in district Telenesti are recorded 1614 individual enterprises and legal status in 2012, of which in Brinzenii Vechi are as shown in Table 3.

Table 3. Enterprises in district Telenesti and Brinzenii Vechi

Enterprises	Telenesti	Brinzenii Vechi
Industrial enterprises:	118	0
Constructions enterprises	35	0
Commercial enterprises:	1187	12
Fuel Stations	18	1
Crop production purchasing enterprises	9	2
Livestock production purchasing enterprises	17	2
Transport enterprises	31	2
Production cooperatives	24	3
Agricultural enterprises	123	2
Other services	81	2

Source: Authors' analysis on the basis of data from Brinzenii Vechi Local Council Decision, 2007 and Telenesti District Council Decision Nr. 1/1, March, 14, 2013.

For the Republic of Moldova, agriculture was, is and, in the nearest future, will remain the most important segment of our national economy. That is why the leading economic agents in the village are oriented towards the agricultural aspect.

The first integration stage subsequent to the privatization process, involved the program "Leader" implemented by USAID, according to which the villagers were encouraged to unite around a leader. Such was the case of the individual enterprise founded by Cotlau Nicolae in 1999. This leader gained an experience of a good management practice

when he worked as a mechanical engineer in the Association of Agricultural Land Improvement from Telenesti. The main duties of the company were to rent peasants land and to provide processing and maintenance services.

The LTD “Brinzeni Agro” was founded in August 2011 and collaborates with CB “Moldova Agroindbank” SC. The workforce of the company is stable, relying on the people from the village as full-time employees, and recruiting people from the neighboring villages for seasonal work (harvest gathering from orchards in spring-summer seasons). Throughout its development, the revenue growth of the company influenced the wage growth.

The leader Mr Cotlau Nicolae participated in 2003 at an exchange program experience held in the Netherlands and in 2009 at a forum in Turkey.

Meanwhile, during the years 1999 – 2000, in the village were instituted two micro-financing organizations, and namely the Savings and Credit Associations: “Rusu Veaceslav” and “Condrea Svetlana”, a fact that gave the inhabitants the opportunity to take out a loan for their several necessities.

Microfinance refers to the provision of financial services - micro-loans, savings, insurance or transfer services - to low income households. It is widely seen as improving livelihoods, reducing vulnerability and fostering social as well as economic empowerment. Microcredit refers to provision of micro-loans for microenterprise development and can be a tool for social as well as financial inclusion, as it helps to prevent and redress all the areas of exclusion – poverty, low income, lack of employment - which are evidenced as a major component and reason for social exclusion. Moreover, programs that provide training, advice and networking opportunities enhance skills and social empowerment of underprivileged groups, further contributing to inclusion.

The question of how best to provide financial services to the poor has fueled intensive debates worldwide. The debate can be summarized into two different schools of thought: the institutionists and the welfarists.

Although both view poverty alleviation as their prime objective, each camp defines poverty differently, and, consequently, each has a different view of what is the best means of helping the poor gain access to financial services.

The *institutionists* believe that microfinance will make a significant and permanent dent in poverty only if microfinance is significantly scaled up through its integration into formal financial systems which can guarantee permanent and financially self-sufficient services for large numbers of poor people.

*Welfarists* do not believe that full financial self-sufficiency is a prerequisite for them to be able to reach poor people. They fear that the need to be financially self-sufficient (profitable) in order to attract private capital, will divert the industry from its paramount goal of poverty alleviation. Microcredit programs implemented in the most of the East European countries generally fall into the *institutionists'* school of thought and those implemented in the West generally fall into the *welfarists approach*. This difference is the result of historical, structural and legal factors. This difference creates excellent opportunities for cross regional sharing of best practices but also potential conceptual as well as practical difficulties in their application. [5]

The Republic of Moldova is the only place where two approaches met at the same time, from 1998 to 2004. Institutionists were represented by World Bank group and Welfarists by German Technical Assistance (GTZ) and Brinzenii Vechi village is one of the places that benefit from both international donors, which explains the existence of two microfinance institutions within a limited geographic area.

As a result, appeared various economic agents that activate in trade, such as those 544 peasant households - 767.89 ha and the individual enterprises “Bunescu Nicolae”, “Bulmaga Vladislav”, “Morari Ludmila”, “Morari Serghei”, “Darii Gheorghe”, “Deleu Raisa”, “Stincari Ludmila”, “Comerzan Veaceslav”, “Berliba Lilia”, TC “Agrospic Service”, 2 offices for artificial insemination of animals, 2 milk collection points –

providers for the three large companies: JSC "Incomlact" - Balti, LTD "Lapmol" – Calarasi and JSC "JLC" from Chisinau, and in the associative sector activates the association PA (Producers Association) "Prometheus Brinzenii Vechi" supporting the educational process. [2]

Even though, the kolkhoz was disbanded, each individual maintained according to specific forms and has been reorganized. This fact allowed stopping migration phenomenon of the years 1995 – 2003.

Nowadays, the management role lies both to the local administration and each economic asset entity in the locality. The public administration management is the science that studies how public administration bodies work, how they respond to social needs, how they use them rationally material and financial resources are entrusted, as serving the people and also provide solutions to ensure the optimal functioning of the administrative apparatus at all levels, because it can solve in a short time with minimal costs faced problems, improve style, methods and techniques of leadership, managing people.

The public administration is a system with a well-defined structure, which represents the overall connections between all its elements: the central and respective local councils and mayoralities. The mayoralty became the main key player in the transition by the activity process rules and principles that ensure effectiveness and legality of its actions.

In the period after independence, Brinzenii Vechi was led by 2 mayors, who were elected for 2 consequent mandates each. The stability of the public function of the mayors' states about the confidence the villagers had in the leaders and in the fact that they deploy efficiently the public administration tasks. Thus, the management functioned more as a key player than an executive power in the transition process in this rural area, for example along the last decade in the village the following projects were implemented and developed by the local administration:

- MSIF 1 (Moldova Social Investment Fund) - Capital repair of the school building (2003)
- Ecological Fund - Water supply (2012)

- FRMI (Forest Research and Management Institute) - Landscaping of meadows (2006)
- 2 KR ( Japan - Moldova Project) – Supply with modern agricultural machinery (2006) [11]
- MSIF2 - repair of the cultural house building (2005)
- MSIF 3 - repair of the central road connecting the villages Brinzenii Vechi and Brinzenii Noi (2010)
- the construction of a mini football field in the village center (2013)
- central street lighting (2013)

The local public administration has few skills to communicate openly and honestly with their citizens on solving existing problems relying on mutual trust. Mobilizing community resources to address demanding issues is a business activity that should be possessed by the local institutions. The entrepreneurship spirit should dominate in society, because without this component the local development is impossible. The relationship between local authorities and the citizens that serve them is the most important factor in assessing local democracy. From our point of view, this relationship depends heavily on the experience of both parties and their willingness to collaborate. The people cooperate and contribute to the positive development of their village, either by financial way or the labor force.

The experienced leaders of the local management know very well that effective leadership means first successful cooperation with all local agencies. Once local authorities have managed to convince businesses and community representatives to participate in the process of local economic development, cooperation and contribution is required to be recognized and appreciated.

Besides, the legal framework should define clearly the responsibilities of the central public authorities regarding rural development issues that will set the criteria for inter-institutional cooperation.

Gaps in rural area development regulation and the delineation of powers among the main central public authorities can affect the attention paid to rural development

and the effectiveness of related policies in continuing to focus on a narrow sectorial approach, ignoring the need for coordination, as well as damage the importance of rural development and focusing on other economic sectors.

Local public administration depends on its well-defined structure, but it also is influenced by the local development and the improvement of the entities activity effectiveness.

## CONCLUSIONS

Analyzing the evolution of SMEs system in the Republic of Moldova mainly focused on Brinzenii Vechi village we can observe the tremendous role of management in its development. During the last ten years huge amendments occurred, fact that come to support the thesis of management as a live body, reacting to major external changes and enable the vitality of the system through time. Definitely a lot of qualities such as adjustability, compatibility, uniformity, unity, etc. are characteristic for “set of rules” of this sector, being at the same time integrated and incorporated in the management system of a country.

In our opinion this is one of the most relevant examples of two major ways of system export with a lot of pros and contras. Probably the institutionist approach is relevant for countries in transition as well as for less developed countries in terms of time and is very important to find out the most appropriate moment to shift towards welfarists one.

In conclusion we have to state that the durable development of rural space in our country may be assured by development of institutional system and efficient usage of:

- Mobilization and thought-through use of human, natural and material capital;
- Promoting and support of economic activities in the rural space;
- Protection of environment and cultural patrimony specific to the rural localities;
- Preservation and transmission of specific traditional professions;

- Improvement of business climate and provision of support to the small agricultural producers;
- Assurance of a favorable investment climate for the development of business environment;
- Vocational education of human resources in the rural space.

Generally, the role of the local public administration implies:

- to create conditions for a better living environment;
- to form and attract new private economic agents
- to maintain a dynamic entrepreneurial culture, create partnerships with different sectors in terms of local development process
- to adapt the local comparative advantage to local economic activities, which lead to a level of economic prosperity according the expectations of the population.

It is necessary that the local authorities to constantly promote the concept of sustainable development, to preserve and create new jobs in the village, which will generate new income statement for raising the living standards of citizens, will strengthen the tax base to support local management. Each community depending on the economic conditions and the specific of the region, adopts its own development strategy, taking into account certain principles and laws.

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