

# THE ROLE OF THE STATE IN THE PRIVATIZATION OF THE AGRICULTURAL SECTOR<sup>1</sup>

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## Abstract

*The Republic of Serbia is in the final phase of the transition, favorable to the world economic trends, in particular the World Bank, the International Monetary Fund (IMF), which was completed by all other countries of Eastern Europe, parts of Asia, South America and parts of Africa, where the business activity was predominantly performed in the form of various economic entities in which it transposed state or social capital.*

*The transition includes comprehensive changes in the country of origin, including the privatization of state capital, means, companies that have agricultural land on their property that represents good of general interest in Serbia. The buyer of capital in the process of privatization has the undoubted interest, for the good engagement of the company that it purchases in the privatization process, in order to achieve its own economic goal, the maximization of the profit of the company, for the return of invested funds, first of all, obtain own earnings, but also payment of the deserved indication to all other entities, to whom he directly or indirectly operated with.*

*Beside the responsibility for the successful operations of the majority owners of capital, the burden of responsibility for the operations of a privatized enterprise that owns agricultural land in a certain sense, has a state also, taking into account responsibility of the state for performing activity of general interest, primarily for the use of goods of general interest and performance of activities of general interest the choice of the manner of privatization and the choice of the buyer, as well as the permanent control of the performance of the obligations of the buyer from the privatization contract.*

**Key words:** *transition, good of general interest, privatization of the agrarian sector, conditions for privatization, majority shareholder, responsibility for performing activities.*

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## Introduction

Agriculture undoubtedly is a very important activity in the Republic of Serbia, which as a branch of activity is given priority in the strategic development plans of the Republic of Serbia, the amendments to the Law on Agricultural Land define the concept of agricultural land as a natural resource and a good of general interest for the Republic of Serbia. Agricultural land is used for agricultural production and can not be used for other purposes, except in cases and under the conditions specified by the law, which is a specialist law for this matter, is otherwise regulated<sup>4</sup>.

In the Republic of Serbia, most of the agricultural land has been privatized in accordance with the regulations on privatization, but the majority of contracts on these privatizations have been terminated by the state, because they were not only manually managed and manipulated enterprises. Everything was financed by the expulsion of other players from the company. Jobs are ruthlessly cracked, many workers have been left unemployed, and then re-employed as non-unionized with lower wages and fewer workers' benefits, and wage growth is reduced or prevented. Under the pressure of corporations, or in conjunction with them, corporate income tax is reduced. All this led to an increase in inequality of income, one of the most prominent features of globalization.

Throughout the world, for over a century, there is a permanent tendency to research and define the best solutions for regulating the management and use of agricultural land and adopting numerous rules on the best agro-economic practices and the principles on which the activity in this sector should be based. These regulations mostly focus on the role of policy makers in the country and the majority of existing rules have a national reach. Legal solutions should in fact encourage and encourage active cooperation between the state as owner of agricultural land and other persons interested in leasing agricultural land in creating wealth, employment and sustainability of financially healthy participants in agricultural sector.

In 2004 and 2007, ten and two countries respectively acceded to the EU in its enlargement with countries in Eastern and Central Europe. Until 1989, the agricultural sector in these countries was regulated by the state and dominated by large-scale state farms that cultivated state-owned land or by collective farms that typically used land that was still in private ownership on paper

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4 Law on Agricultural Land (Official Gazette of the Republic of Serbia, no. 62/06, 65/08 - other Law, 41/09, 112/15 and 80/17).

but over which the landowners did not have any decision rights as to its use or allocation. There were only two exceptions, Poland and the former Yugoslavian countries, where collectivization largely failed, such that a considerable share of agricultural land was already being used by individual farmers during the communist era. After 1989, land reforms were introduced and land was restituted to the former owners or distributed among the workers at the state farms. In addition, farm restructuring resulted in the introduction of hard budget constraints. The implementation of farm restructuring and land reform processes was difficult, and in some countries land reforms are still not yet fully completed (Ciaian, Swinnen, 2006).

In general, the sale of agricultural land is considered superior to land rental because 1) land sales transfer full ownership rights to the new users, 2) sales are more likely to increase access to credit, since owned land can be used as collateral, and 3) sales provide optimal incentives for investment by entailing the permanent security of rights. In most EU member states, however, the rental market seems to be more important than the sales market and a large share of the agricultural area is rented, although there are substantial variations in the shares of rented land. In the old member of European Union, the share of rented land ranges between 18% in Ireland and 74% in France, while in the new member of European Union it ranges from 17% in Romania to 89% in Slovakia (Ciaian et al., 2012).

### **Role of states in privatizing agricultural land**

Diverse agricultural extension funding and delivery arrangements have been undertaken since the mid-1980s by governments worldwide in the name of “privatization”. This chapter reviews these actions and their implications (Amanor, Farrington, 1991). When agricultural extension is discussed, privatization is used in the broadest sense - of introducing or increasing private sector participation, which does not necessarily imply a transfer of designated state-owned assets to the private sector. In fact, various cost-recoveries, commercialization, and other so-called privatization alternatives have been adopted to improve agricultural extension.

The evolution of public agricultural sector arrived at a worldwide turning point in the 1980s, one that represented the end of a major phase in the growth of publicly funded extension in both the developed and developing world (Birkhauser et al., 1988). In developed industrialized countries, which often provide models for extension service delivery elsewhere, the declining relative importance of agriculture for economic growth, the increasing education and affluence of smaller populations of rural producers, and the increasing use of externally purchased inputs have changed the nature of publicly funded extension services and led to a questioning of the means of delivery of extension services by governments (Bunney, Bawcutt, 1991). In developing countries, where publicly funded extension is often more important, there has been considerable questioning of the structure and forms of extension delivery.

### **Global Competition**

The consequence of the ratification of the General Agreement on Tariffs and Trade (GATT) is that countries will have to more actively develop comparative agricultural advantages in the production and marketing of food and fibre. Coincidental with a shift toward more conservative political ideologies and free-market economics, global developments suggest increased competition in agriculture. While countries will focus more on their comparative advantages, they also, in many cases, still face national food security concerns and abject rural poverty.

### **Reassessment of Public Extension**

Against this background, governments in recent times have found that they are less able to continue providing all the services previously provided. With costs rising, limited resources available, and changes in the prevailing philosophy of the appropriate extent of government intervention, governments have been slow to increase appropriations for many publicly funded activities. Some functions of government have been curtailed, and others have been privatized. Such changes have been particularly significant in the formerly centrally managed economies.

While the unit cost of extension staff in many countries is low, large staff sizes translate into large government outlays. As a result of financial concerns, many countries have examined alternative structural arrangements, including the feasibility of reducing public sector extension expenditures (with associated staff reductions), changes in tax raising, charges for government extension services, and

commercialization and privatization (Howell, 1985). A number of countries have moved towards reducing, recovering, or shifting the burden of the costs associated with provision of public sector agricultural extension, particularly transferring “private good” functions to private industry.

Concerns about the costs of extension need to be judged against the economic and social returns associated with successful extension. While more research is needed on measuring the economic payoff from investment in public sector extension services, available research tends to indicate, in contrast to some current criticisms, that extension in many instances provides high rates of return and is, therefore, a profitable public investment. In addition, not all extension expenditure can be measured by benefits from technology transfer; the benefits of extension concerned with human development are difficult to quantify in the short term.

### **Strategies for change**

Public agricultural sector, facing criticism for its cost and its lack of efficiency and for not pursuing programs that foster equity, is confronted with a number of possibilities for change.

There has been a trend, perceptible throughout various extension systems undergoing adjustment, of greater flexibility and multiple partners in funding agricultural advisory services (OECD, 1989; Le Gouis, 1991). Le Gouis observed three major policies adopted by government and farm organizations regarding privatization of extension:

1. Public financing by the taxpayer only for the kinds of services that are of direct concern to the general public
2. Direct charging for some individual services with direct return (in the form of improved income)
3. Mixed funding shared between public and private professional association contributions for some services where the benefits are shared.

A pervading development in new forms of financial support for extension is the trend to mixed sources of funding, reflecting strategies to gain access to additional sources of funding. In several developing countries, public-private extension coordination is already established. Alternative patterns indicate a fostering of private corporate initiative, encouraging cooperative ventures by farmers, coordinating public-private extension services, and privatizing the public system.

## **Cost Recovery**

Other public extension systems have moved toward cost-recovery approaches. Mexico has developed a fee-based system among large-scale farmers in the northwest region and plans the development of a similar arrangement among small-scale farmers in the south central region. The Agricultural Development and Advisory Service (ADAS) in England and Wales, notionally “commercialized,” operate on a partial cost-recovery basis. Clients of ADAS pay a fee for advice which formerly was free of charge. This process of cost recovery, introduced in 1987, was directed towards the agency receiving 50 per cent of its income from commercial fees by 1993-94.

## **Gradual Privatization**

In 1990 The Netherlands “privatized” approximately one-half of its public extension service by transferring field extension personnel, with initial government financial support, to the farmer associations. The elements of the extension service responsible for linking research and the privatized extension services, policy preparation, implementation, and promotion and regulatory tasks remained under the aegis of the Ministry of Agriculture. The “privatized” extension service is governed by a board on which farmers’ organizations and the governments are equally represented.

Dutch farmers make a partial contribution to the cost of the new organization through membership subscriptions to farmer associations, as well as through direct payment for individual analyses. Farmers will eventually contribute 50 per cent of the cost of the service: special services such as individual analyses will be fully paid for by the farmer clients. The Dutch government has established new government-funded structures for integrating subject-matter specialists into extension teams to facilitate the transfer of information and knowledge and for the provision of information on government policy.

In order for rural industry organizations to take a greater responsibility for technology transfer, the Victorian government has proposed “outsourcing” for delivery of future extension programmes. Outsourcing means that the government extension agency will retain a core pool of extension project staff and “buy in” private sector professional services with skills that the agency considers unnecessary to maintain. Agricultural consultants and contract staff will be employed to help deliver

services in specific projects funded by rural industry and the federal government. Such projects are likely to be broad and industrywide and not tailored to individual farm circumstances.

In most cases, governments have not actually “privatized” their agricultural extension services. In its pure sense, privatization implies a full transfer of ownership (usually by way of sale) from government to a private entity, with that entity meeting all costs and receiving any profits. In the case of extension, governments have followed a number of distinct pathways such as commercializing the service while retaining it as a public agency, shifting public sector delivery services to private sector delivery of the service while maintaining oversight and basic funding of delivery, or pursuing cost-recovery measures to pay for the service. Thus the phrase “privatization of agricultural extension” generally is misleading.

### **Other Arrangements**

Some countries have never developed public agricultural sector, leaving the function of agricultural sector to private sector commodity enterprises or industry agencies, albeit often with some government financial subsidy. In France, while chambers of agriculture and private sector companies provide extension services, the former are substantially supported financially by public funds. In New Zealand, extension services to the dairy industry for many years have been delivered by the Dairy Board consulting service, financed by the dairy industry.

In other cases, nongovernmental organizations have been used to supplement public sector extension services, especially in the area of rural development. This arrangement has certain advantages for increasing extension coverage and encouraging farmer participation in technology systems, but it also has certain inherent limitations.

In most countries, private sector companies are already important contributors to technology transfer and the advancement of agricultural development through, mainly, contract arrangements with farmers. Rightfully, the private sector has come to be acknowledged as a major information provider to both large and small farmers involved in monocropping (Cary, 1993). The characteristic of “privatized” extension systems is a focus on commercial farms. It is salutary to state the obvious in relation to decisions regarding private and public provision of extension: when extension is delivered privately, it represents a commercial decision; when exten-



sion is delivered publicly, it is a political or bureaucratic decision. In determining whether to privatize, it is important, in the first instance, to establish whether an extension programme is designed to help commercial enterprises or small-scale farming and rural development.

### **Alternative funding and delivery**

Diverse directions have been taken and multiple means of payment (public and private) have emerged as governments have opted for alternative financial and delivery arrangements to pay for and deliver public sector agricultural extension services. Extension provision is often multi-institutional and organized in ways that are not necessarily independent.

Where the public sector provides extension, the alternative funding arrangements include:

1. *General tax-based public funding* for agriculture, including funding of agricultural extension services, that is, the traditional public sector mode of funding extension
2. *Commodity tax-based public funding* (through cess or parafiscal tax), for example on an agricultural commodity such as coffee, as in El Salvador
3. *Fee-based public funding*, in which fees are charged, usually to large farmers for extension service, for instance in Mexico's grainrich northern region
4. *Contract-based commercialisation of public services*, whereby contract-based arrangements are made between farmer and public sector extension services, as in New Zealand

Where the *private sector* provides extension, the alternative funding arrangements include:

1. *Government revenue-based vouchers*, provided to farmers who then contract with private sector agents for extension information provision, as in Chile
2. *Public credit revenue-based coupon schemes* attached to agriculture loans, obligating the farmer-borrower to use a percentage of the loan for extension advising purposes
3. *Membership and fee-based, including commodity tax-based funding*, whereby farmers pay membership and service fees, and the private organization (e.g., a chamber of agriculture) also receives funds through a public cess or parafiscal tax charged on agricultural commodities, which funds are then transferred to the private sector organization; the private sector then provides



the extension services - although public sector officials generally sit on the chamber's governing board

4. *Membership fee plus commercial sponsorship by groups of input suppliers*, where farmer groups are provided nonadvisory, educational extension services by a consortium of privately employed agricultural consultants with partial financial support from rural sector commercial sponsors - such groups can operate on a large scale, with coordinated extension objectives<sup>3</sup>
5. *Privatization*, whereby provision and, eventually, agent salary payments are shifted to a farmers' association or other private entity.

### **The Privatization Debate**

There are two themes in the broader privatization debate: first, a "political economy" consideration of the role and size of government in an economy, which focusses on whether or not there is a failure of private markets; and, secondly, an expressed need to reduce government outlays. While many reassessments of publicly funded extension have reflected the second theme, it is worth considering the rationale for public versus private activity in an economy.

In mixed economies, the prevailing economic justification for government involvement in an activity such as agricultural extension is market failure, whereby the market mechanism alone cannot perform all economic functions for appropriate resource allocation. Market failure may arise because some goods or services are public goods (such as publicly funded agricultural research knowledge) which can be consumed in a nonrival fashion by all members of society without any individual's consumption reducing the amount available for other individuals. Because the benefit of providing such goods cannot be appropriated by individuals, individuals generally will not provide such goods in a society even though there may be significant gains for producers and consumers. Some extension activities are clearly concerned with public goods subject to market failure. Other activities (such as individually tailored advice) confer appropriable private benefits which could be adequately supplied by private markets.

Private goods sometimes are subject to market failure, whereby the operation of private markets does not provide certain services at a socially optimal level or where external costs or benefits are accrued by others rather than the provider of the goods. Market failure also may arise when current generations place insufficient value on preservation of resources for future generations. These latter

circumstances are particularly characteristic of land and water degradation. Publicly funded conservation extension is often directed to overcoming such market failures (Cary, Wilkinson, 1992).

Government support for the provision of extension services may reflect that such services would be inadequately provided without intervention or, for reasons of equity, because services would not be available to the extent thought socially desirable. Some situations for agricultural extension clearly reflect private goods; other situations clearly are characterized as public goods. There is a lot of fuzzy ground in the middle where it is not particularly clear that an extension activity is conferring a public or private good. In such situations, the extent of publicly funded extension is likely to be determined by the political influence brought to bear by relevant interest groups (Cary, 1993).

The philosophical thrust of the general privatization debate has centred, on the one hand, on whether certain government activities could be performed more efficiently by private agencies operating in private markets and, on the other hand, on whether inequities may arise because not all individuals have access to resources to purchase privately supplied services.

### **The Debate with Respect to Extension**

While much of the public policy debate related to extension has focused on so-called privatization or commercialization as means of reducing government outlays, other aspects need consideration. The commercialization experience of Agriculture New Zealand (Walker, 1993), while not without its problems, provides examples of some of the arguments for commercialization. Commercialization is perceived to have had a positive effect on moving “beyond the farm gate” into an involvement of the extension staff in the entire production-processing-transporting-marketing chain. There also has been the shift in focus to a client orientation and a concern to identify and produce results rather than simply to engage in activities.

In economically developed countries with a predominance of larger-scale commercial farming, increasingly the technologies of modern, industrialized farming are being developed by nongovernment industrial institutions; such technologies are appropriable for private marketing and generally have little need for government extension. In developed economies, it is more difficult to argue for publicly

funded extension for rural industries containing fewer producers who are closely linked and integrated with research systems.

The weaknesses of privatization are more apparent in the context of developing countries, where the situation may be quite different. For instance in African agriculture, funding by user fees may not be viable. An erroneous assumption may be that recipients of government services are generally being subsidized by the government (Leonard, 1985). This is far from the case with African agricultural producers, who instead are usually subsidizing the rest of society. The most obvious shortcoming may be the difficulty of collecting user fees and establishing cost-accounting procedures to set charges at appropriate levels. The subsistence nature of most African farming leads to a much stronger case for state intervention in support of food production than in developed countries.

### **Institutional Considerations**

The search for appropriate institutional arrangements for different situations echoes the larger debate currently under way on creative use of the private sector for supplanting or supplementing public services. Privatization represents one position in the debate over how public functions should be organized. Wise has observed that “privatization... is not necessarily a simplifying strategy... the responsibilities of public organizations does not disappear, they merely change.” The primary issue may not be whether a certain function should be entrusted to public or private organizations, but, rather, what configuration of organizations, both public and private, is needed and what arrangements between them provide the most effective outcomes. In some instances, central government bureaucracies are seen as unresponsive and inefficient, and the diffusion of responsibility arises out of a concern that the public sector should be reduced in size. In other cases, however, the emphasis is less on reducing the size of the public sector and more on sharing authority among different units. The question of what role the government should play within an increasingly complex institutional arena is itself complex and not one to which, necessarily, there are simple answers (Wise, 1990).

### **Summary of Rationales**

The rationale for private sector provision of agricultural extension services is generally based on an expectation of increased efficiency with the operation of private markets and with the resulting efficiencies contributing to the growth of a coun-

try's GNP. In contrast, the rationale for public provision of agricultural extension services is based on the following points: (1) much agricultural information is a public good; (2) only government extension services are likely to promote concern for natural resources management; (3) public sector extension may enhance the education of farmers who often lack adequate access to educational institutions; (4) the public service often provides information that reduces risk to farmers; (5) the service may provide information that reduces transaction costs; and (6) an extension service may be concerned with community health issues related to possible human hazards such as accidents and poisonings linked to agricultural chemicals.

The argument for privatization is based upon:

- More efficient delivery of services
- Lowered government expenditures
- Higher quality of services

Privatization may have some attendant disadvantages because of unequal access to resources and because of a diversity of "agencies" and the associated difficulty of coordinating external groups and other government departments. Private delivery agents will be less responsive to government policy direction, and there may be linkage problems with public applied research organizations.

While the process of information transfer amongst farmers traditionally has been characterized by a cooperative, free exchange of information, industrial information traditionally has been a private good characterized by patent rights, process licensing, the use of paid consultants, and differentiated production and marketing processes. In developed economies with commercialized agriculture sectors, many of these features of industrial information transfer are becoming more common in agriculture. The trend to privatization will be stronger the more such circumstances exist. The range of different circumstances prevailing in agricultural extension worldwide suggests that a wide variety of approaches should prevail.

### **Implications of extension privatization**

In general, a more commercialized approach broadens the focus of extension personnel and makes an extension service more responsive to client needs and changing economic and social conditions. But other immediate implications of privatization appear to include (1) the tendency toward a reduction of linkages both among organizations and among farmers in the exchange of agricultural and other relevant information; (2) the tendency to enhance large-scale farm enterprise to the detriment

of small-scale farming; (3) the diminishing emphasis on public-good information and the advancement of knowledge as a saleable commodity; and (4) the trend toward agricultural development services that cater primarily to large-scale farming.

The Netherlands' experience in moving to a partially privatized system highlights some of the implications for agricultural extension, particularly in developed countries. The Netherlands' approach reduced government outlays as well as the government agency role conflict between concern for farmers' interests and the implementation of increasingly stringent environmental policies. With farmers paying for an increasing share of the extension services, their representatives have more influence on the direction of the extension service. New organizational structures and linkages have had to be established to link the "privatized" and private extension services with the research institutes, experiment stations, and regional experiment farms.

Consequent upon, or in parallel with, the changed Dutch arrangements, other changes have taken place in the Netherlands' extension system. There is some evidence, at least for the vegetable greenhouse sector, that the high level of cooperation among extension information organizations in both the public and private sectors no longer exists (Huang, 1992). The more commercial orientation of the system appears to be creating tensions between extension workers and their clients in a less "open" knowledge and information system, with farmers who used to share information during study-group meetings now being more reluctant to do so.

Those extension services that have adopted a commercialization or privatization strategy most vigorously have traditionally employed an advisory approach to extension delivery. The advice given is more likely to be a private good. As well, the extension advisers are more likely to be able to adapt to providing services commercially. However, some staff will not make such a transition easily, new commercial skills will be required by newly commercialized advisers, and the dynamics of any change will have to be planned carefully. Le Gouis (1991) has noted that government "commercial" fees should be set at the market rate so as not to compete unfairly with existing private consultants.

### **Institutional Implications**

The new developments highlight greater institutional pluralism. Extension, interpreted broadly, now is often a mixed system or a "complex" where services are provided by private and public sector entities. The larger context in which a mix of

public and private services operates presents a new challenge with new potential roles and responsibilities for the public sector. A major premise of this chapter is that policy makers must consider the entire agricultural extension complex when planning to allocate funds or seeking alternative funding arrangements for the public sector.

### **State interest**

Responsible business of companies is one of the key solutions for achieving sustainable development, it is the right balance between economic interests, as the main driver of development and the interests of the society as a whole. According to the well-known principles of corporate governance, adopted in most countries of the world, the achievement of the company's target function - maximization of profit, that is, company value is the imperative of every company. The imperative of the corporation and its administration is a constant increase in profit, as it maintains a safe life of the corporation. Everywhere in the world companies perform a very important function for every state and society as a whole, they have a great influence on the community, so they have an obligation to act in the general social interest, respecting the good rules of socially responsible business. Jobs are ruthlessly cracked, many workers have been left unemployed, and then re-employed as non-unionized with lower wages and fewer workers' benefits, and wage growth is reduced or prevented. Under the pressure of corporations, or in conjunction with them, corporate income tax is reduced. All this led to an increase in inequality of income, one of the most prominent features of globalization.

The concept of corporate social responsibility was created primarily on the basis of voluntarism, which later turned into a field of legal obligation somewhat. At the same time, there exist the notion that, being socially responsible does not only mean fulfilling legal orders, but also to go "beyond" that companies are obliged, for example, increased investment in protection of human rights from the legally prescribed minimum of protection, greater protection of consumers from the legal minimum protection, higher investments in environmental protection, greater protection of other stakeholders besides the owner (employees, creditors, administration, local community, state). This approach also has its direct starting point in increasing the productivity, profit and competitiveness of the company. In this way, the demands of the state regarding the company's commitment to social responsibility, from the idea that it was originally con-

ceived, applies only to the largest multinational corporations, extended to small and medium-sized enterprises.

In support of the concept of social responsibility, the reasons for ethics and the reasons for marketing point out, but because both have their own economic expression in increasing profits. It is considered to be a kind of investment, so-called, socially responsible investment, not the cost so that it has the impression that, as such, they are not enough. Namely, it is about the real condition without which there is no sustainable development of the company in the long run, nor the development and stability of the society and each individual state.

### **Conclusion**

This chapter concludes with a recommendation for consideration of the various “privatization” arrangements mentioned herein, but also stresses the importance of individual country situational analysis and independent political and technical determinations, not the use of implantation or formulas, in developing funding and delivery arrangements to provide for agricultural extension. The diverse financial arrangements adopted in the last two decades by governments worldwide to fund agricultural extension services provide a valuable menu of options for consideration by other countries confronting the “privatizing” of public sector services.

Still, several countries have resisted the trend toward privatization of agricultural sector, concerned perhaps by the implications reviewed in this chapter. In both developed and developing countries, renewed debate and experimentation around extension is certainly needed, but not only around allocation decisions and how best to develop cooperative arrangements with the private sector. In most countries, government-funded extension is likely to focus its activities more selectively on public-good activities which exist and on areas where the marketplace is unlikely to provide services at a socially optimal level. Such areas will include “broad” rather than “specific” technology transfer, dissemination of environmental and resource technology, and human resource development.

The move in the public sector toward privatization and efforts to decentralize government functions can serve to highlight the continuing and key role of the public sector and focus the operative question on its responsibility as a coordinating agent. Its roles of regulation and providing service for priority audiences unserved by the private sector will be undiminished.



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