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TOWARDS A SHIFT FROM AGRICULTURAL TO RURAL DEVELOPMENT POLICY.

THE CASE OF THE REPUBLIC OF MACEDONIA

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Abstract

Public support for agriculture in R. Macedonia is characterized by a significant evolution, but it is still largely affected by the lack of a consistent long-term development-oriented strategy. Within this framework measures for agricultural and rural development are changing on annual basis generating consistent disorientation among final users.

However, with the Strategy for Approximation of the Macedonian Agro-Food Sector to the CAP of the EU, Macedonian agricultural policy has taken a major step towards the process of identification of its own resources in order to create the necessary basis for the design of a new agriculture and rural development policy.

The paper aims at assessing the place that agriculture has in the overall economy and especially in the rural areas of R. Macedonia, analyzing the basic structure and income and investigating how subsidies and support strategies are evolving in light of the European integration process.

Keywords: subsidies, policy, resources, rural development, JEL Q18.



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1. Introduction

Agriculture is still the basic economic activity in rural Macedonia. Taking into account the importance of the primary sector in the overall economy of the country and the number of people that it employs, agriculture is continuously recognized by the policy makers as a strategic activity for the sustainable development of rural areas and for bridging the gap between the urban and the rural spaces. Consequently, the agricultural policy debate has been characterized both by the call for change coming from the evolution of the sector at the local and international level and by a strong conservatism wield by a number of stakeholders. The advancement of the European integration process has also contributed towards emphasizing additional elements that are at the center of the European model of agriculture (and rural development) and that need to be embedded in the national policy as multifunctionality, agro-environmental standards, income diversification, and sustainable use of the local territorial capital.

2. Background and objectives

The development path and the European integration process which have been followed in the past years by the Central-Eastern European Countries (CEECs), can be considered an important milestone for the Western Balkans (WB) countries. At the same time, the enlargement of the EU in 2004, and even more so in 2007, have created a political, economical and social pressure towards the integration of the WB with the Enlarged Europe.

Republic of Macedonia is among the frontrunners in the Western Balkan enlargement wave and it is reviewing its policy strategies, including the agricultural and rural ones, in light of the European policy framework. Thus the evolution and the changes in the Common Agricultural Policy (CAP) and in the European Rural Development Policy (RD) are increasingly entering in the national discourses related to the future of the agricultural sector and rural areas.

In the last decades the Common Agricultural Policy has undertaken a significant change with the rural policy becoming the second pillar and social and environmental issues playing a major role in the policy formulation process. A major change involved the relationship among agriculture, agricultural policy and rural development. Economic and sociological scientific literature has defined the concept of rural development adopting different criteria. Within the European framework, rural development has been defined as an appendix of the agricultural policies, while rural areas have been often analyzed by use of the territorial approach (Y. Leon, 1999). Then, in an ideal evolution, rural development, also within the European academic and administrative worlds, has shed its agricultural character, to discover its multifunctional vocation and its deep connection with local and territorial development.

A modern definition of rural development overcomes the concept that agriculture is the only non-urban element of a territory and it moves to a broader view that looks at all the resources of a territory and to its whole economic structure: natural and human resources, handcraft, small industrial laboratories, tourism, recreational spaces (A. Ciani, 2002).

This shift of focus from agriculture to rural space is a new vision of socio-economic interest, in which the modernization of agriculture depends upon development of other economies-upstream and downstream of agriculture- that sometimes has no link with agriculture. Moreover cultural factors and entrepreneurial spirit play an essential role in realizing the potential of the agricultural sector in rural areas.

Within this framework the paper aims at assessing the place that agriculture has in the overall economy and especially in the rural areas of R. Macedonia, analyzing the basic structure and income and investigating how subsidies and support strategies are evolving in light of the European integration process.

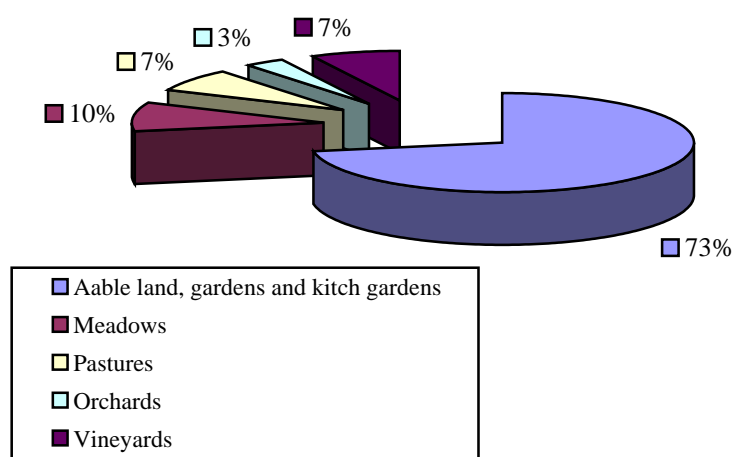
3. Methodological notes

The present work is based on an extended analysis of secondary data including selected studies, articles and reports; publications of governmental and non-governmental institutions; the collection of data from a range of databases of national and international organizations. The desk research served as basis for a more comprehensive macroeconomic analysis that has been completed by the use of a SWOT analysis and a number of interviews with relevant stakeholders (including researchers, civil servants, and policy makers). Interviews have been aimed at analyzing the logic and the effects of the different measures and strategic choices. Respondents included representatives of: Ministry of Agriculture, Forestry and Water Economy; Agency for Financial Support in Agriculture and Rural Development; Institute of Agriculture; Faculty of Agricultural Sciences and Food; advisory agriculture projects and NGOs in Macedonia; Universities and Research Centres. Results have been combined with the macroeconomic analysis and presented as a narrative report.

4. The agricultural sector in R. Macedonia

Agriculture and industry have been the two most important sectors of the R. Macedonia economy over the past decade. Moreover the agricultural sector plays a key role in the successful implementation of structural reforms in the country due to its social role in providing food and stable income. The rural areas in the country stretch on 86.7% of the national area which represents the living space for 40.62% of the overall population in the country (census 2002). Agriculture is still the basic economic activity of the rural population and the households which have individual agricultural holdings take significant share in the overall agricultural structure (73% of the arable soil, 90% of the livestock, 96% of tractors) and with this they have an extremely important role in primary sector production results. (Jakimovski, 2004).

Figure1. Agriculture soil distribution in R. Macedonia



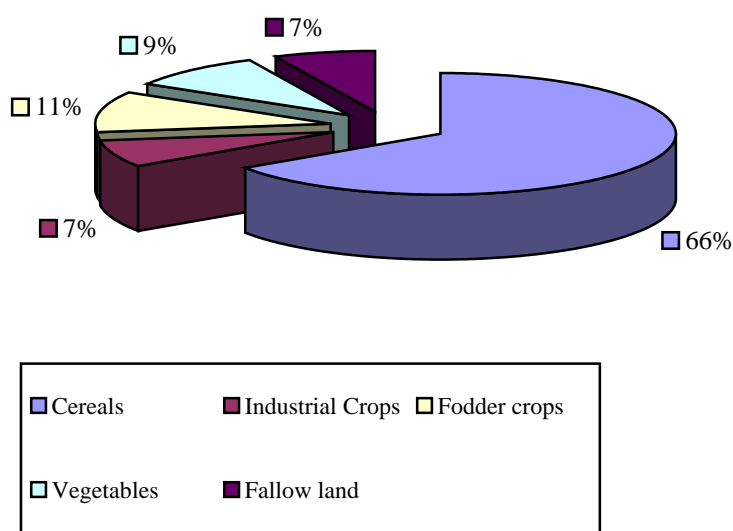
Source: authors elaboration on SSO data

According to the agricultural census 2007, there were 192 378 agricultural holdings and 471 069 people engaged in agricultural activities on individual holdings, with no regard of the number of working hours and the kind of agricultural activities they are performing (principal, supplementary or occasional) which accounts for approximately 50% of the working force of R. Macedonia.

Agriculture counted for 9.4% of GDP in 2007. Adding related processing industry increases this share to approximately 15%-16% of GDP. Moreover during the period of economic restructuring, agriculture played a critical role in the social and economic stability of the country. Despite the fact that agricultural trade is permanently facing a negative trade balance its share in the total trade is relatively high and important: it ranged from the 11.5% to the 14.4% of the total imports and from the 14.2% to the 17% of the total exports over the 2004-2009 period.

From the available arable soil (approximately 400 000 ha) about 334 000 ha are used for agricultural production with a large prevalence of small holdings as gardens and kitchen gardens. However, the area under orchards and vineyards (11 264 ha and 24 585 ha respectively) should not be underestimated. Arable land, gardens and kitchen gardens (240 968 ha) are divided on the bases of commodity production in several categories. Most of the land is used in production of cereals (157 332 ha), industrial crops (17 579 ha), fodder crops (25 528 ha) and vegetables (22 695 ha). In the cereals sub sector more then a half of the land is under wheat (88 735 ha) while for the industrial crops, tobacco is the main one (12 200 ha or 70% of total land under industrial crops) with a significant increase registered in the past 5 years due to the consistent public support (0.73 €/kg in 2009).

Figure 2. Arable land, gardens and kitchen gardens divided on the base of commodity production



Source: authors elaboration on SSO data

5. Farm structure and farm income

Agriculture in R. Macedonia is characterized by a dual structure: small family farms operating on privately owned land possessing 80% of agricultural land and large private enterprises. According to the 2007 census there were 192 675 registered agricultural households cultivating 334 226 ha separated in 637 588 lots. Only 297 registered SME's covers 69 887 ha (20.9% of total cultivated land) divided in 677 lots. Consequently, the average lot for SME's is 103 ha whereas individual holdings present an average lot of 0.41 ha. These numbers suggest the resilience of agricultural practices characterized by low efficiency and outdated technologies and still strongly based on traditional low cost inputs as labor and time. Moreover farm data available at the micro level are still inadequate:

- National official statistical sources provide scarce data sources both in quantity and quality terms;
- Farmers are still not obliged to keep farm books or conduct farm accounting, therefore, they do not collect accurate farm income calculations.

Within this frame the first attempt to apply and test the EU-FADN methodology on a sample of agricultural holdings in the country was conducted in 2008 and data was presented in the paper "Farm income analysis of agricultural holdings in Macedonia using FADN methodology " (Martinovska-Stojčeska at al., 2008). Collected data shows that the agricultural holdings in R. Macedonia are on average more than five times smaller than the agricultural holdings in the European Union but still relatively close to the farm size of some of the EU Member States as Slovenia, Greece and Poland. In terms of engaged labor, the Macedonian farm sector employs an average of two annual working units, which is significantly higher than the 1.7 annual working units registered within the EU-25.

Macedonian farms are also lagging behind the EU considering the average wheat yields: in 2004 the Macedonian average wheat yield was 3.8 t/ha while the average European figure exceeded 6.7 t/ha. Considering cow milk results suggest a mean of 4 557 l/head¹ for R. Macedonia and 6 908 l/head for EU. (Martinovska-Stojčeska at al., 2008).

Overall off-farm income demonstrates a consistent decline as the economic size of the farm increases. The gross farm income of the Macedonian sample is around 5 500 EUR/farm, representing about 15% of what an average EU farm generates at that level.

6. Agricultural MAFWE budget as a share of total state expenditures

After the sharp increase of 40% in 2004 compared to the previous year, the MAFWE budget was stable amounting to around €24 million. In relative terms, the share of expenditures allocated to agricultural sector through MAFWE budget, out of the total country's expenditures, doubled from 1.1% in 2001 to 2.2% in 2004 and 2005. In 2006 due to double increase of the central budget the share reduced to 1.64% since the amount of MAFWE budget remained unchanged.

The expansion of the 2007 MAFWE budget by 37.7 % compared to previous year was the second significant increase in the allocation of funds for the agricultural sector in the last decade after the one that took place in 2004. The share of expenditures allocated for the agricultural sector through the MAFWE budget out of the central budget almost doubled between 2001 and 2007 moving from 1.37 % to 2.52 %.

In 2008 and 2009 MAFWE budget share was increased up to 4.8% and 5.2% respectively which was the third large increase in MAFWE budget after 2000. The 2009 increase (by 200% compared to 2007) placed agriculture among the most important sectors in budget terms renewing the interest given to the sector in the policy agenda.

Table 1 MAFWE expenditures in State budget (million €)

	2003	2004	2005	2006	2007	2008	2009
State Budget	1095	1084	1081	1440	1293	1453	1876
MAFWE	14.5	24.3	23.7	23.8	32.5	69.2	97.7
Share	1.32%	2.24%	2.19%	1.64%	2.52%	4.80%	5.20%

Source: authors elaboration on MAFWE data

7. Direct farmer's income support

Direct payments to farmers provided by the MAFWE budget are part of the Agricultural Support Program (ASP), especially its sub-programs for financial support of livestock and crop production, and, since 2007, rural development programme. Within this framework significant reforms were introduced in 2004 and 2005, after the country's full membership in WTO.

Table 2. Agricultural Support Programme in '000 €

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sub-programme for crop production	1120	501	467	312	4337	3948	4894	18712	18118	37373
Sub-programme for Livestock production	1713	1315	16332	945	2983	4225	1626	12187	11364	23296
Sub-programme for rural development								750	2435	6829
Total Agriculture Support Programme	4018	3856	3472	3330	8755	9642	7235	32552	34652	63821

¹ The official data from the SSO is almost half of this amount 2 362 l/head

Source: authors elaboration on Ministry of Finance data

In 2004 a new system for delivering budgetary support based on payments per hectare and/or per animal head was introduced. The total value of the approved Agriculture Support Program was approximately €8.75 million out of which €7.3 million were allocated for the crop (60% of total) and the livestock (40%) sections. Overall in 2004 the support to 6 major products counted for more than 90% of the total amount of direct subsidies. Most-subsidized products were barley, with more than a quarter of the total budget, followed by lamb production, through the measure of maintaining and increasing of the basic sheep flocks (23%), and maize (20%). This type of payments and schemes continued in the 2005 MAFWE budget with a 10% increase from the previous year (€9.6 million) mainly due to the increase of financial support for livestock production (from €3 million to €4.2 million in 2005), which was representing 52% of total direct subsidies in 2005.

In 2007, 2008 and 2009 ASP and the budget of MAFWE had major increase. Financial support for crop production increased up to €37 million in 2009 and the one for livestock production up to €23 million. Since 2007 significant changes in the agricultural support programme were introduced. These changes introduced new direct payment schemes for various products. However, since 2007, payment schemes were constantly changing in every consequent year causing relevant decision making problems for small scale and scarcely informed farmers. In this sense a significant example was the scheme of direct payment for cereals. In 2007 the scheme ensured 73 €/ha for the wheat produced and sold to mills on the condition to yield at least 2 500 kg/ha and for a sown area of minimum 1 ha and maximum 50 ha. The scheme changed consistently in 2009: the amount paid per hectare moved to 100 € (with a subsequent addition of 40 €/ha after the revision of the budget), while the sown area had to range between 0.3 ha and 20 ha to receive the 100% of the support, between 20 and 100 ha to receive the 60%, between 100 and 300 ha to receive the 30% and over 300 ha to receive the 10%. Moreover the condition of 2500 kg/ha that restricted the use of low fertile soils in cereal production was emended since it was in contrast with some of the major elements introduced in the last reform of the European Common Agricultural Policy (i.e. decoupling). With this changes in the 2009 ASP additional 19 400 farmers with sown area under 1 ha and more then 120 farmers with over 50 ha were eligible for direct payments. Although the lack of farm accounting makes rather difficult to estimate the changes in terms of distribution between 2007 and 2009, data suggest a significant evolution within the period (Table 3).

Table 3. Users of the program for financial support of cereals production 2009

	No. users under 1 ha	No. users 1-20 ha	No. users 20-100 ha	No. users 100-300 ha	No. users over 300 ha
Autumn sow	13455	20138	114	31	13
Spring sow	5945	2153	990	50	25
Total	19400	22291	1104	81	38

Source: authors elaboration on MAFWE data

The major change introduced in the past decade was probably the National Program for Rural Development (NPRD) launched in 2007. The NPRD introduced several measures aimed at enhancing farm competitiveness and promoting the modernization of agricultural holdings. Among the objectives of the program there was also the preparation of the sector, of farmers and of public services, for implementation of the upcoming Instrument for Pre-Accession Assistance for Rural Development (IPARD). Although the large majority of the measures of the NPRD were still heavily linked to agriculture and food production, the Program was the first attempt to fully include some of the priorities of rural areas in the national policy agenda. Moreover it was the first time that measures not directly linked with production were introduced in the national agricultural support system. In 2009 trough the NPRD almost €7 million were allocated. Compared to the overall Agriculture Support Programme, the NPRD accounted for less than 11%, a way above the 2.3% recorded in 2007. With a budget still strongly focused on direct support to agricultural production the implementation of the NPRD represents an important opportunity to review the national support system towards a shift from a sectoral to a multisectoral approach that embrace the multiple dimensions of rural development.

8. Towards a shift to a rural development policy

The strong consensus over national agricultural subsidies has to be related to the public awareness on food security issues and to the role of agriculture on the overall economy in a country that has historically been characterized by a significant rural population mainly engaged in the primary sector. Agricultural subsidies supporters suggest that looking macroeconomic indicators agriculture still accounts for a significant portion of Macedonian GDP and that agriculture played, and it still plays, a significant role in ensuring the viability of many household in remote and less remote rural areas therefore ensuring also a social buffer. However, there is also a strong criticism from the industrial lobbies that suggest a significant reduction in the support of the primary sector has to be recorded.

Moving from the justification to policy design and formulation it has to be emphasised that a bottom up approach is clearly a stated goal in the construction of every program and policy in R. Macedonia. This approach applies also in the construction of the agricultural programs. However, the lack of well developed NGOs and civil society organizations, as well as the absence of local action groups and weak institutional capacity of local governments, reduce in many cases the participation in the design of agricultural and rural programs meaning that the decision making process is still mostly based at central level. Consequently, there are a lot of programs that are not expressing the needs of the small local farmers even if they are design for their development. Additional factor that enlarge the gap between real needs and support measures is the influence of the SME's engaged in agricultural production over policy design.

Beside the consistent gap between policy measures and rural needs other weaknesses have to be highlighted. Agricultural policy in general and programs for financial support in particular are lacking of consistent long term development oriented policy. The programs for financial support of agriculture are changing every year in terms of subsidized products, amounts, eligibility. Those changes are producing a significant disorientation in farmers decisions and are a major constraint also for the identification of sustainable farm strategies. However this weakness should be overcome with the advancement of the negotiation with the EU and with the required harmonization of the national measures with the Common Agricultural Policy (CAP) that will require significant additional structural changes.

The strong orientation towards direct payments based on the produced quantity underpin also significant questions in terms of sustainability since producer choices are subsidy driven rather than market driven so that agriculture production is dependent on stimulations and payments as suggested by many studies analyzing the CAP before the 2003 reform. Nevertheless it is also true that subsidies in small countries like R. Macedonia can have a positive influence on agriculture markets and consequently on agricultural production. They should be aimed to stimulate the economic grow of rural areas narrowing the gap between urban and rural. Subsidies should strengthen the competitiveness of small farmers directing them towards open markets but also protecting them from heavily subsidized imported products.

The inclusion of small holdings move also through the simplification of the bureaucratic procedures that at the moment requires the farmers to collect long list of documents and forms from a variety of institutions. Economic costs, time and personal efforts are often so high that a significant share of farmers decide to not to present any application since the overall expenditures for the submission would be higher than the benefit they could receive from the subsidies. State offices for submitting the application are often very far, land ownership are still extremely complex, the animal identification process is still not finished, etc. Some of these obstacles could be removed organizing a general register, one-stop-shop, and an on-going registration of changes with the collaboration of the animal register and the state agency for real estate and cadastre.

Within this framework the strategically relevance of an alternative to direct subsidies appears even more urgent. Rural development measures could represent effective tools to provide economic and social support to rural communities. The introduction of the NPRD in 2007 and the access to IPARD funds in 2010 are consistent basis to speed up this transition toward a multisectoral rural policy. Moreover there is a strong consensus, emphasised also by some decision of the MAFWE that should be implemented in 2011, that traditional measures should be coupled to environmental, animal and plant welfare standards.

SWOT Analysis of subsidies in Agricultural Policy	
Strengths	<ul style="list-style-type: none"> • A bottom up approach in the design of agricultural and rural policy • A large financial support program to strengthen the competitiveness of local agricultural producers • The introduction of the NPRD in 2007 • Public awareness of the role of food, agricultural and rural policy
Weaknesses	<ul style="list-style-type: none"> • Disorientation of agricultural producers due to subsidies volatility • Lack of data at the farm level • Lack of a consistent long term development oriented policy • Lack of organized general register, one-stop-shop, and an on-going registration of changes • Most of the direct payments still coupled to production
Opportunities	<ul style="list-style-type: none"> • New potential markets after the accession in WTO • EU integration process • Access to IPARD funds from 2010
Threats	<ul style="list-style-type: none"> • Due to the trade liberalisation heavily subsidised agricultural products distort market prices • CAP implementation disorient scarcely informed and unprepared farmers • The absence of Local Action Groups and weak institutional capacity of local governments affect the implementation of the NPRD at the local level

9. Conclusions

Agriculture and rural development are in the focus of the policy makers and the general public is aware of the importance of the food security and share the opinion that agriculture plays an important role in the domestic economy.

Official statistics of agriculture are showing great improvement in the last years but there is still lack of accurate and up to date data. The data is missing not only on state level as a statistical information but even on farm level which indicates that, for better evaluation and structuring of the agriculture policy and due to the EU accession, FADN will have to be fully implemented. There is a need for a gradual implementation of cross-compliance CAP measures which is planned by the policy makers to be introduced in the 2011 support program. This will connect direct payments to agro-environmental standards, and will at the same time approximate the agriculture policy of R. Macedonia towards the CAP. There is an opinion among policy makers that financial support for agriculture should be prepared for every different agricultural area in the country. In this way the support to agriculture would be more area-based but on the other hand it could produce significant disorientation among farmers. A certain support to this proposal could be given by the creation of a general register organised at the state level, one-stop-shop, and of an on-going registration of changes. Additionally the application procedure for financial support to agriculture should be simplified reducing the time needed for application and the problems with scarcely informed farmers.

However, the shift from direct payment to more development oriented payments is still lagging behind and rural development is still strongly limited to the agricultural sector with only few measures encouraging multifunctionality, tourism and diversification. A more important role in policy design should be given to local governments, local action groups, NGOs and civil society organizations. They could provide a more effective identification of local needs and of the potential of each territory.

Finally, multifunctionality and off-farm income should be more in focus of the strategy for rural development, not necessarily reducing the agriculture standpoint.

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