

## AGRICULTURE SECTOR IN THE REPUBLIC OF MACEDONIA – CURRENT SITUATION AND DEVELOPMENT PERSPECTIVES

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**Abstract:** Macedonia needs a balance between the goals of economic progress, social development and environmental protection. The basic reasons for this lies in the decrease of the exporting competitiveness of the Macedonian agricultural sector. This negative tendency results in losing the export markets, and also in a strong pressure put by the foreign producers. What is known is that Macedonia has strong comparative advantages when it comes to food producing. Those comparative advantages have to be supported by enhancing the competitive advantages the main purpose of which would be enabling more dynamic export of high-quality agricultural products from Macedonia.

**JEL classification:** Q1, Q18

**Key words:** agriculture, development, Macedonia

### 1. Role of the Agriculture in the Economy

Agriculture (including hunting, forestry and fishery) is an important economic sector and is the third largest sector after services and industry. In the 2000-2006 period, the share of the agricultural sector in the overall GDP has remained relatively stable around 12% (compared to the 1.6% in the EU-25). If agro-processing is included, the percent increases to 16%. Agricultural GDP, in line with overall GDP, declined in 2001, but has recovered since.

**Table 1 Key Agricultural sector indicators (2002-2006)**

	2000	2001	2002	2003	2004	2005	2006
GDP (Euro current million)	3.893	3.839	4.001	4.105	4.325	4.500	4.827
Gross Agriculture Production	468.9	451.4	494.8	548.0	570.4	556.9	580.1
Agricultural % of GDP	12	11.8	10.0	11.4	11.3	12	12
GDP real growth (%)	4.5	-4.5	0.9	2.8	4.1	4.1	4.0
Agriculture growth (%)	1.0	-10.8	-2.0	4.8	6.2	1.8	3

*Source: State Statistical Office of the Republic of Macedonia (2007): Statistical Yearbook, Skopje*

Agriculture has served as shock absorber for the socio-economic and structural changes in industry and other sectors of the economy. Officially, the sector provides income and employment to approximately one fifth of the national workforce but the real contribution probably exceeds this percent as 36% of the labor force and 44% of

the poor live in rural areas and population in rural areas rely basically on farming as a major form of economic activity, forestry, craftsmanship and rural tourism. Population engaged in farming includes a high proportion of elderly persons and young people having little motivation to enter and remain in agriculture due to the low and uncertain incomes and poor working conditions.

Macedonia has some comparative advantages in agriculture, which comprise in fertile soils, a range of favorable micro-climate features, natural upland pastures convenient for production of some crops, horticultural produce and lamb. About 49 percent of the total area, or 1.27 million ha, is agricultural land, including about 700,000 ha of pastures. A further 37 percent of the country (950,000 ha) are forests. Most of the cultivable land (82 per cent or 461,000 ha) is used for production of cereal and other crops and vegetable gardens, 26,000 ha (5 per cent of the cultivable land) are vineyards, 15,000 ha (or 3 per cent) are orchards and the remaining 58,000 ha (10 per cent) are meadows. Around 1 per cent of the total agricultural land are swamps and fish ponds.

Agricultural products represent 15-17% of the total country's exports, although the country remains a net importer of agricultural and food products, which accounted for about 15 percent of total imports in 2004-06. The agricultural trade deficit in value terms has been widening in recent years, though a sizeable increase in tobacco and wine exports narrowed the gap in 2005-2006. The trade pattern (export of labor-intensive products and importing land-intensive products) reflects the country's comparative advantage for labor intensive production systems, and the relative land-scarcity.

Promotion of the competitiveness of the production and increase in the income of the rural population is one of the preconditions for social stability in the country. Decline in agriculture, forestry and fishery and associated the country's agriculture is facing major challenges and structural reforms. WTO membership increased possibilities for export expansion but also competition on the domestic market from imported products. These challenges are going to be even more severe with the implementation of the Free Trade Agreements with the neighboring countries and the EU-27. Strengthening the competitiveness of the country's agribusiness is the focal point for its survival. This must be supported by the reform of the public institutions and by the implementation of well-targeted agricultural support policies and rural development measures.

The Republic of Macedonia is in the process of acquiring full membership of the European Union and is thus eligible for the pre-accession assistance in accordance with EC Regulation 1085/2006 of 17 of July on establishing an Instrument for Pre-accession Assistance (IPA). As a candidate country<sup>106</sup>, the Republic of Macedonia has access to all five IPA components. The overall objective of pre-accession assistance is to support the country's efforts to comply with the Copenhagen accession criteria in terms of establishing stable institutions guaranteeing democracy and the rule of law, operate functioning market economy and adoption and implementation of the Acquis and show ability to assume the obligations of EU membership. This also involves preparing for the implementation of the Community's cohesion policy and rural development instruments by introducing strategic planning and management principles, which guide the implementation of EU structural instruments. Consequently, under the IPA fifth component for rural development (IPARD), the country is entitled to preaccession financial aid for sustainable agriculture and rural development with focus on preparation for the Common Agricultural Policy and related policies and for the

European Agricultural Fund for Rural Development (EAFRD) and adjusting the sector towards the Common Market.

## **2. National Agricultural and Rural Development Strategy**

The National Strategy for Rural and Agricultural Development 2007-2013 (NARDS) has two interlinked purposes. The **first one** is to provide the Macedonian Government (and, more in particular, the Ministry of Agriculture, Forestry and Water Economy - MAFWE) and to the stakeholders (rural dwellers, farmers and their associations, producer groups and processors) a multi-annual reference material – strategy and a tool for the development of Macedonian agriculture and rural areas. The **second one** is to establish a base for supporting the drafting of the hierarchically lower-level agricultural and rural development operational plans, in particular the Instrument for Pre-Accession for Agricultural and Rural Development (IPARD) plan, and for their discussion with the European Commission.

In fact, according to the EU Council Regulation no. 1085 dated 2006, establishing an Instrument for Pre-Accession Assistance (IPA) – the Preamble, point 16 stipulates that: “Assistance should be provided on the basis of a comprehensive multi-annual strategy that reflects the priorities of the Stabilization and Association Process, as well as the strategic priorities of the pre-accession process”. This is reinforced in Title 1, article 6 Planning of assistance – “For countries listed in Annex I, assistance shall be based in particular on the Accession Partnerships. Assistance shall cover the priorities and overall strategy resulting from a regular analysis of the situation in each country and on which preparations for accession must concentrate ...”. The mentioning of the strategic document for IPA reflects and resemble the provisions for EU Member States, that are included in the EU Regulation no. 1698 of the year 2005, that requires – specifically for rural development – that “each Member State should prepare its rural development national strategy and plan constituting the reference framework for the preparation of the rural development programmes...”.

Agricultural and Rural Development are key elements for Macedonia’s pre-accession to the European Union. Following Macedonia’s application for EU Membership in 2004, in December 2005 the European Council granted the Republic of Macedonia the status of candidate country for European Union membership. Negotiations for accession will start only when the EC considers that the country has reached a sufficient degree of compliance with the membership criteria.

MAFWE has adopted the following **strategic objective** as the basis for agricultural and rural development and the formulation of agricultural policy:

**To strengthen the ability of Macedonian agriculture to compete in the integrated regional markets of the European Union and south-eastern Europe through measures to increase the efficiency of agricultural production, processing and marketing, and to build appropriate, effective public and private institutions; to improve farm incomes; to ensure that consumers have access to safe, healthy food; to optimize the use of scarce land, forest and water resources, in an environmentally sustainable manner; and to build viable rural communities through sustainable rural development.**

To achieve the stated strategic objective, six strategic policy focal issues should be addressed during the period (2007-2013), which are outlined below:<sup>34</sup>

1. Increase Agriculture sector competitiveness by enhancing the efficiency of the key factors of production namely land, labor and capital, and improving agricultural support policies and the modernization of the processing industry.
2. Improve structural linkages of the agricultural sector through a more structured horizontal and vertical integration, in line with EU requirements.
3. Achieve Food Quality and Safety through increased control and appliance of food safety systems (both at production and processing levels) and increased quality of plant and animal products.
4. Achieve sustainable resource management in an environmentally acceptable manner.
5. Improve living conditions in rural areas through the improvement of the physical infrastructure, favoring of creation of off-farm employment and income generation opportunities, and through diversification of agricultural production.
6. Reform the regulatory and institutional framework in the key areas of food safety, veterinary, phytosanitary, seeds and propagating materials and animal nutrition; Common Markets Organization and Rural development (by establishing enabling legislation and administrative structures that are capable of rural development planning, identifying the structural needs in rural areas, the development, implementation and management of rural development programs; control of financial flows and measures undertaken; monitoring, reporting, control and evaluation of programs).

So far, the various national support schemes for Agriculture and Rural Development, (detailed in Part II, Section 2.4.), have insufficiently incorporated all necessary measures to improve the quality, hygiene, environmental and animal welfare standards in the production and processing sectors, as well as to stipulate effective economic development and social cohesion to achieve a sustainable rural development process, particularly being deficient of instruments to support investments for achieving mentioned goals as a result of limited funding availabilities in the period of sustaining Macro-economic stabilization and control of Budget spending.

### **3. IPARD Programme**

The pre-accession assistance strategy for the whole implementation period of 2007-2013 of the rural development component is provided within the frame of National Agriculture and Rural Development Plan (IPARD Programme) and in coherence with the national strategic objectives for EU Integration. Thus, the IPARD Programme is aimed at contributing to achieve the overall national development goals as well as the specific objectives for the agricultural and rural sector which are outlined below; in synergy with other national and international multi- and bi-lateral programmes and actions; and compliant to the structural and procedural frameworks set up for the purpose of preparation for EU accession.

The main purpose of the IPARD Programme is to act as planning document for implementing Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA) for the period 2007-2013.

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<sup>34</sup> MAFWE, 2007, pp. 72-80

The document has been prepared by the Ministry of Agriculture, Forestry and Water Economy (MAFWE) with the technical support provided by the Structural and Legal Reforms Project funded by the EU, in close collaboration with the Commission, other relevant institutions and the economic and social partners at various levels. The IPARD programme is in line with the Multi-annual Indicative Planning Document (MIPD) and other strategic documents on the integration process for Candidate countries.

The IPARD Programme consists of a coherent set of priority axis and developed appropriate implementing measures and operations (group of investments) to address a set of objectives for agriculture and rural development in the country, as well as description of the financial contribution which is needed to implement the defined strategies in the MIPD. Therefore, the set of priority axis of the IPARD Programme are in synergy with the National Strategy for Agriculture and Rural Development (2007-2013) relating to the strategy and objectives for development of the agriculture sector and the rural areas in the period of 2007-2013, and provide an added value to the pre-accession process.

The **overall objective** of the Programme is Implementation of the *Acquis communautaire* concerning the common agricultural policy and related policies for competitive and sustainable agriculture; strong, sustainable rural communities and diverse and sustainable rural environment.

The main general objective of the country's IPARD Programme is thus to: “Improve the competitiveness of agricultural holdings and the food industry developing them to comply with Community standards, while ensuring sustainable environmental and socio-economic development of rural areas through increased economic activities and employment opportunities.”

This shall be achieved through following specific objectives of the Programme:

- Improving the technological and market infrastructure of commercial agricultural holdings and food processing industry aimed at increased added value of agri-food products and achieved compliance with EU quality, health, food safety and environmental standards
- Improved quality of life of rural population, increased income and creation of new employment opportunities.

The set of priority axis and appropriate measures as outlined in the MIPD, are as follows:<sup>35</sup>

**Priority Axis 1**

Measure 101: Investments in agricultural holdings to restructure and to upgrade to Community standards

Measure 103: investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to Community standards

**Priority Axis 3**

Measure 302: Diversification and development of rural economic activities

**Supporting Measure 505:** Technical Assistance for the implementation of the IPARD Programme

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<sup>35</sup> MAFWE, 2008

The three main measures to be applied under this Programme were outlined in the Multi Indicative Planning Document (MIPD) developed for the purpose of the initial financing period starting 2007 until 2009 of the pre-accession instrument and further elaborated in detailed operations (projects and group of projects) on the basis of the encountered weaknesses in the frame of the in-depth analysis in the relevant sub-sector studies.

Additional measures will be considered to be introduced in the forthcoming financial period (2010-2013). These are:

**Priority Axis 1:**

Measure 102 Setting-up of producer groups

**Priority Axis 2:**

Measure 201 Pilot promotion of Agri-environment measures (Preparation for implementation of actions relating to environment and the countryside)

Measure 202 Leader approach (Preparation and implementation of local rural development strategies)

**Priority Axis 3:**

Measure 301 Development and the improvement of rural infrastructure

Measure 303 Improvement of training

The main beneficiaries of the measures applied under the Programme will be agricultural holdings, agriculture cooperatives, food industry, rural economic operators, rural entrepreneurs, and the rural population as a whole. The IPARD Programme will be implemented under the guidance of the Ministry of Agriculture, Forestry and Water Economy (Managing Authority) through its Department for Rural Development acting as Secretariat in collaboration with the IPARD Sartorial Monitoring Committee and the Agency for financial support of Agriculture and Rural Development (IPARD Agency). Communication with the EU Commission on financial matters will be carried out through the National Fund (Ministry of Finance) and on programming matters through the IPA Monitoring Committee and National IPA Coordinator.

## **6. Conclusion**

Globalization has, and will continue to have, a major influence on Macedonia's agricultural sector. All Macedonian governments since independence have drafted agriculture strategy documents whose overarching objective was achieving self-sufficiency in food production. The efforts to translate such an isolationist objective into concrete agricultural policies are particularly troublesome in the light of SAA and WTO agreements and lead to *ad hoc* government interventions to mitigate the increasing trade gaps for particular food products, with milk and cereals being two egregious examples.

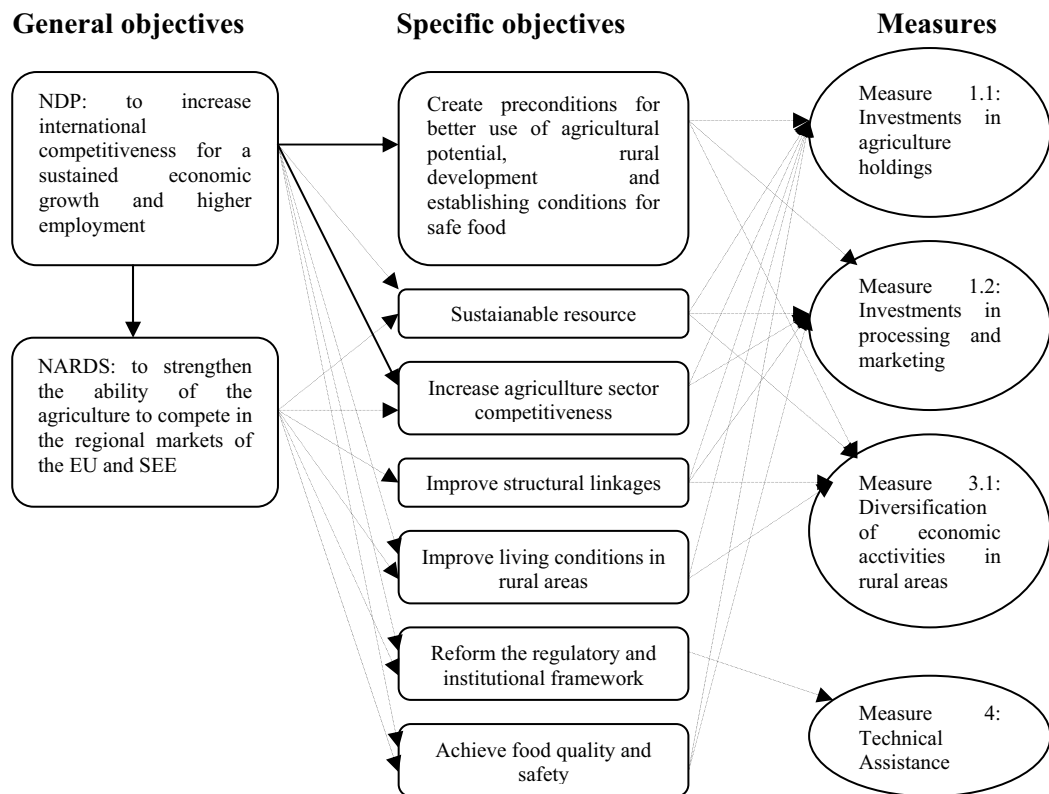


Figure 1. Hierarchy of Agriculture and Rural Development Objective

Hence, both in keeping with our recommendations for the greater globalization of the Macedonian economy and with the need to formulate a realistic agricultural policy, Macedonian policymakers need to abandon the goal of food production self-sufficiency and embrace a more realistic goal of making Macedonia a “net agricultural exporter” while maintaining the environmental sustainability of the agriculture resource base. Thus, Macedonia needs to carry out a fundamental realignment of its national agricultural policies and support programs toward helping farmers to produce commodities using efficient technologies that they feel will be most advantageous from a market perspective, for traders to move goods in the expectation of profits unconstrained by uncertainty about government intervention, and for consumers to be able to buy food at the lowest prices, whether from foreign or domestic sources. Such policy adjustments are long overdue given Macedonia’s commitments to reduce trade barriers under the SAA and WTO agreements as well as the forthcoming expansion of CEFTA, and future EU membership.

By acquiring EU candidate status, Macedonia became eligible to receive investment grants for rural development under the IPA program, and creating the administrative capacities for making effective use of these funds is an important task for the government. The introduction of EU and international standards regarding the origin, quality, health testing, and other components of food products, fresh and processed, will become increasingly important. Without their effective implementation, Macedonian market- and export-oriented agricultural surpluses have no real and sustainable prospects.

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