Faculty of Economics, University of Niš, 18 October 2013

International Scientific Conference

THE GLOBAL ECONOMIC CRISIS AND THE FUTURE OF EUROPEAN INTEGRATION

APPROXIMATION OF MACEDONIAN AGRICULTURE AND RURAL DEVELOPMENT TO EUROPEAN COMMON AGRICULTURAL POLICY

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Abstract: *During the pre-accesion process, Macedonia as a candidate country strives to harmonize its legislation with the EU acquis communitaire, adapt its institutions and economic policies, strengthen the rule of low and develop market oriented economies. The objective of the paper is to describe Common Agriculture Policy and to identify performance of the Macedonian agriculture as one of the most important sectors in the national economy and the most complex in the EU accession negotiation process. Despite challenges and difficulties during the adaptation period, the adjustment of Macedonian agricultural development level to EU standards implies variation of agricultural economic performance, generally accompanied by polarization between the successful, organized, market oriented farmers and farmers on small non-competitive farms. Before real EU accession negotiation start, it is crucial for policy makers and the general public in Macedonia to consider what can be done to get the most out of the good ones.*

Key words*: CAP, agriculture, rural development, pre-accession.*

1. Introduction

Agriculture in Europe is expected to contribute to the supply of European citizens with safe and high quality food in a competitive market, to maintain valuable cultural landscape through sustainable land management and to help rural areas to remain attractive and viable. Thus, the functioning of an economically sustainable agricultural sector depends on developing the farmers' capacity for adapting to new market conditions and responding to new economic and technological opportunities.

The main agricultural challenges for developing countries are to address food security and poverty reduction, or wealth creation in the agricultural sector. Agriculture as a fundamental economic activity in Macedonia in the process of EU integration is facing problems and challenges with competitiveness, creating market institutions, establishing marketing and distribution chains, meeting EU quality, veterinary and phitosanitary standards and building the administrative capacity to support these processes.

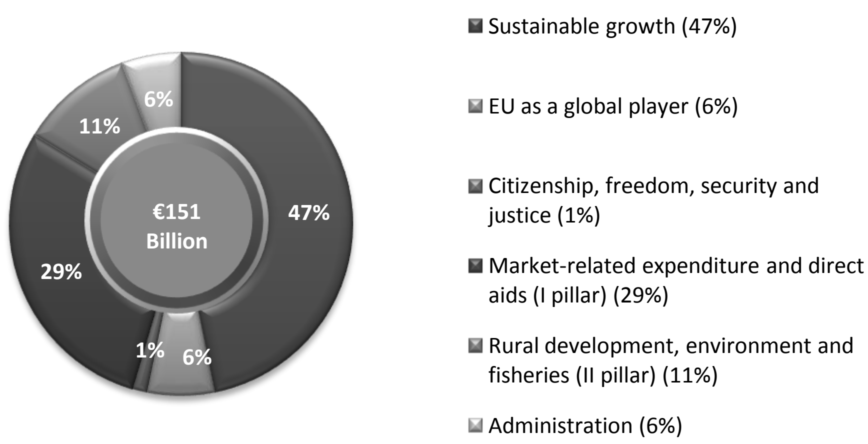
The purpose of this paper is to determine the progress of Republic of Macedonia as a developing country in EU accession processes regarding agricultural sector. Alignment on agriculture to the Common Agricultural Policy of the EU is assessed by adoption of pre-accession arrangements and institutional strengthening for their implementation, as well as the fulfillment of the *National programme for the adaption of the acquis* (NPAA). Whereas the direct impact of the reforms to the agricultural sector is indicated by the tendency in agricultural capacities, the value of agricultural productions and services, foreign trade of agro-food products, state financial support in agriculture and the absorption capacity of farmers by means of the IPARD program.

There are some wider discussions in the EU and the OECD on monitoring the effects of public policies on developing countries, but these are predominantly general in nature and advance at a slow pace. In addition, academic researchers, civil society, international financial institutions and others have invested in monitoring or are considering doing so, but uptake of such independent research by CAP and decision makers of the separate developing country has been low (Keijzer and King, 2012).

2. Main features of the European Common Agricultural Policy

The Common Agricultural Policy (CAP) as a common name for EU legal and budgetary instruments in the fields of agriculture and rural development, aims at responding to the public demand for a sustainable agricultural sector in Europe by enhancing the competitiveness of the agricultural sector, ensuring sufficient and secure food supply, preserving the environment and the countryside while providing for a fair standard of living for the agricultural community. The CAP accounts for a sustainable proportion, 45.31% in 2009 of the European Union budget or 39.8% in 2013 (graph 1).

Graph 1: EU financial framework for 2013



Source: European Commission, 2013

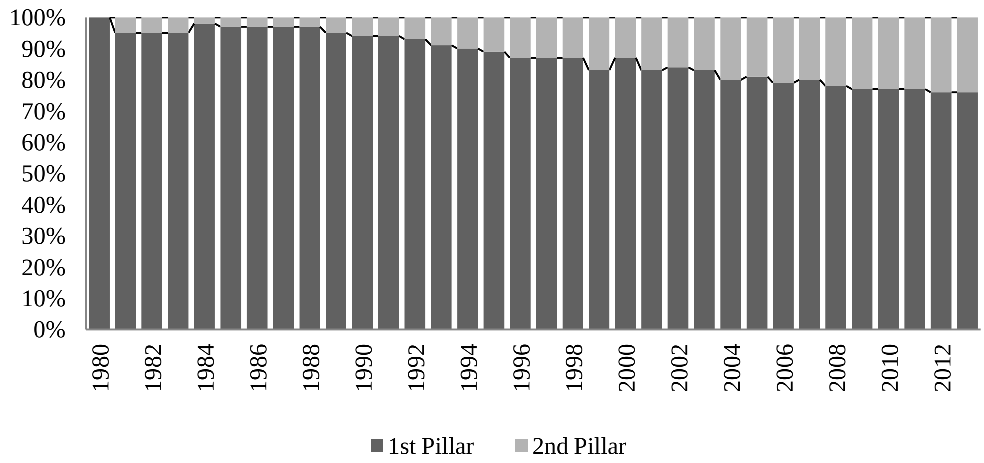
The expenditure for agriculture and rural development is financed by two funds:

i) The European Agriculture Guarantee Fund (EAFG) finances direct payments to farmers and measures to regulate agricultural markets such as intervention and export refunds – Pillar I.

ii) The European Agricultural Fund for Rural Development (EAFRD) finances the rural development programmes of the Members States – Pillar II.

Pillar I share dominant portion from the total finance in agriculture and rural development, although Pillar II has increasing allocation trend in the last period (graph 2).

Graph 2: Evolution of 1st and 2nd pillar expenditure



Source: European Commission, 2012

No single instrument can meet all of aforementioned needs, or can these needs be addressed in isolation. Agricultural policy in Europe needs coherent rules for the common market and a common approach towards providing basic income support. Following a path of successive reforms since 1992, the CAP is currently on three main policy axes, which aim to respectively support **product prices**, **producer income** and **structural adjustment**.

Why EU need CAP? There can be no doubt that without a common policy, Member States would proceed with national policies with variable scope and with different degrees of public intervention. A Community policy ensures common rules in a single market; addresses market volatility where needed; safeguards the progress made in recent reforms towards increased competitiveness of European agriculture; and provides for a common trade policy allowing the EU to negotiate as one vis-à-vis the global trading partners.

The CAP has undergone fundamental reforms over time, which demonstrates its proven capacity to respond to changing economic conditions as well as societal expectations and demands. In this process, the CAP has moved to a policy putting emphasis on market orientation and competitiveness, income support, environment, and the development of rural areas.

However, there is serious criticism that the new connotation of the CAP - *sustainable agriculture*, is only a new set of arguments aimed at saving the existing level of protectionism and instruments (Erjavec, 2007).

2.1 CAP direct payments

The direct payments currently make up the backbone of the CAP, and they take the largest share of the CAP budget. In 2007-2009, the share of EU direct payments in agricultural factor income was around 29% for the average EU farmer (31% in EU-15 and 19% in the EU-12). The financial crises substantially affected these figures, driving the EU-27 average up to 33% in 2009 compared to 26% in 2007.

Direct payments have been one of the main support instruments to the agricultural sector in the EU since the early 1990s, but their nature has changed significantly over the years. With the 1992 reform, they were introduced as coupled payments, linked to area or animals and compensating farmers for cuts in price support. In 2003, direct payments were then decoupled from farmers' production decisions. In order to decide the rate of payment each farmer was eligible for, previous support receipts (linked to either the individual farmers' or the regions' production history) were used as reference.

Cross compliance links the payments to the respect of basic rules related to environment, health and animal welfare. For instance, GAEC (Good Agricultural and Environmental Conditions) obligations are related to preserving landscape features, permanent grassland conservation and water courses, and obligations related to soil conservation. Farmers' direct payments are reduced when cross compliance obligations are not fulfilled. The design of the payments, delinked from production, has encouraged farmers to adapt to market conditions, thereby enhancing the competitiveness of the agricultural sector.

A lot of debates on the future CAP are focused to the *purpose* and *distribution* of the direct payments. A proposed "flat rate" distribution has an advantage that it is easier to explain, and would not discriminate producers based on history. However, in order to improve transfer efficiency, it could benefit from an element of adjustment for production conditions such as natural conditions an economic situation. In regards to role of direct payments, income support and basic public goods should therefore be considered as complementary rather than competing.

2.2 CAP market measures

Since the beginning of the CAP, price support was the main instruments for ensuring market stability and reasonable income to farmers based on guaranteed price levels. The effective operation of this system relied on significant border protection. European farmers were essentially isolated from world market, thus this system of high guaranteed prices led to overproduction. In this situation, export refunds were paid to bridge the gap between EU and world market prices, in consequence the over quantities were withdrawn to third countries. In today's CAP, intervention prices are set at levels that ensure they are used only in times of real price crises.

In the past, when overproduction became an apparent problem, one way of limiting production was to introduce quantitative restrictions. This was done for the sugar and dairy sectors through production quotas. The problems experienced by the sector over the last couple of years have rather been related to the functioning of the whole dairy supply chain. Quotas, as well as public intervention, are no longer as relevant as in the past, as the context in which the tools are operated has changed considerably. Today, the focus of the CAP has shifted away from supporting agricultural prices towards supporting producers.

The increased market orientation had effects of exposing EU farmers to more volatile agricultural markets. Excessive volatility of prices makes it more difficult for farmers to undertake long-term planning, if market fundamentals are not reflected in prices, thereby the increased market orientation may be having the adverse effects than the one aimed for, as farmers who are risk averse may not undertake the necessary investments to sustain the level of competitiveness.

It is clear that an essential piece when putting together the puzzle on the future CAP will be to find the right balance between old and new instruments to help farmers enhance their economic situation and deal with income variation, and thereby contribute to global food security.

2.3 Rural development policy

The Rural development policy the so-called 2nd pillar of the Common Agricultural Policy (CAP) address climate change, resource efficiency and territorial balance treated as high up on the agenda in the EU. With 20% of the CAP budget, rural development works alongside the 1st pillar (direct payments and market instruments) to support sustainable agriculture and dynamic rural areas across the EU.

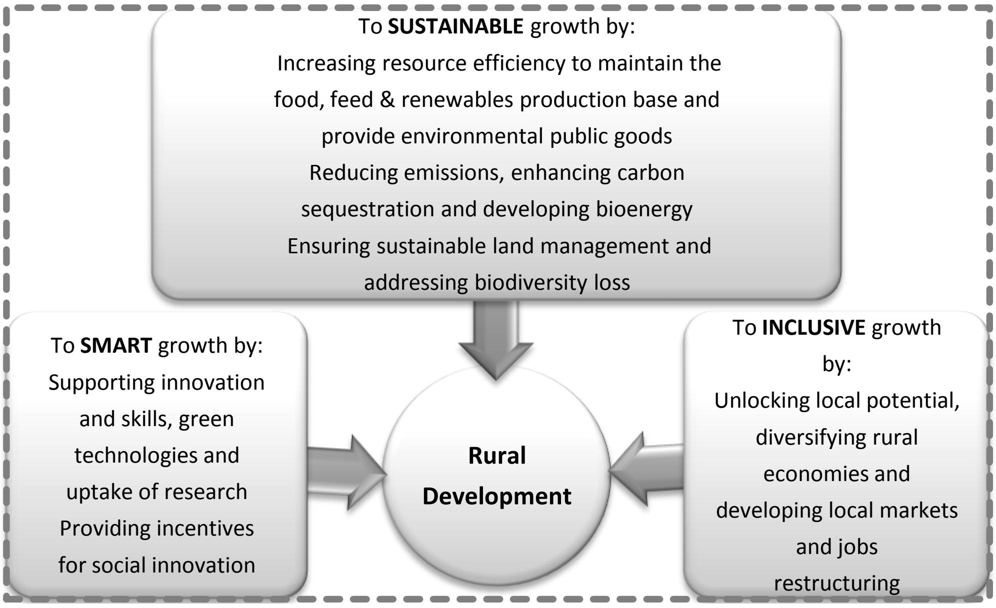
Rural development became the 2nd pillar of the CAP with the reform in 2000, Agenda 2000, by bringing together under a common umbrella various structural and territorial measures, such as support for Least Favored Areas (LFAs).

In the 2003 CAP reform, the policy benefited from additional resources transferred from direct payments by means of the so-called modulation mechanism. In the Health Check of the CAP (2008) rural development was further strengthened with additional resources earmarked for a range of new challenges, mostly environmental: climate change, biodiversity, water management, renewable energy, innovation and dairy restructuring.

The debate about the future of rural development is part of the broader debate about the future of the CAP, its link with the Europe 2020 strategy and with the budgetary framework of the next Financial Perspectives. This means that we cannot look at rural development in isolation, but must also take into account changes in direct payments and market instruments, as well as the broader policy context.

A fundamental question, especially given the broad scope of rural development policy, is how to ensure the best fit with the EU priorities, notably the Europe 2020 strategy for smart, sustainable and inclusive growth (figure 1).

Figure 1: Rural development policy to Europe 2020 strategy



Source: European Commission, 2011

Seen in this light, fostering innovation, fighting climate change and mobilizing the full potential of rural areas emerge as important priorities that cut across all policy objectives. For instance, when looking at farm investments, the future policy should give priority to green investments and investments in new technologies.

3. Alignment of Common agricultural Policy in Western Balkan countries

During the pre-accession process, the candidate countries harmonize their legislation with the EU *acquis communitaire*, adapt their institutions and economic policies, strengthen the rule of law and develop market oriented economies. Currently, Western Balkan countries (WBs) are all on the path to joined the European Union, Republic of Macedonia (MK), Montenegro (ME) and Serbia (RS) has the status of candidate countries, others WBs – Albania (AL), Bosnia Herzegovina (BA) and Kosovo under UNSCR 1244/99 (XK) – are potential candidate countries with the prospects of joining the EU as and when they meet the established conditions, and Croatia (HR) already joined the EU (1st July 2013).

The WBs began their democratic reforms and transition to a market economy in the early 1990s. The initial phase of the transition process resulted in a significant decline in production and real incomes, rising unemployment and inflation. From 2000-2008, all WBs experienced faster economic growth than the EU, averaging an annual growth of real gross domestic product (GDP) between 6.1% in Albania and 2.7% in Macedonia and Kosovo (compared to 2% in the EU 27) (Volk T., 2010).

In all the WBs, agriculture is still an important sector for the national economy. In 2008, the share of total gross value added (GVA) generated from the agriculture, forestry and fishery sectors and the share of these sectors in total employment ranged from 6.4% and 13.2% for Croatia, to 18.5% and 57.4% for Albania respectively, compared to the EU 27 average, (1.8% and 5.4%, respectively).

Major feature of all the WBs is the small average size of farms ranging from below 2 ha in Albania, Kosovo and Macedonia, to about 4 ha in Serbia. Compared to the EU 27 (12.7 ha per farm in 2007), in the WBs the average farm is three to ten times smaller (table 1).

Table 1. Farm structure of the WBs

Farm structure	AL 2008	BA (est.)	HR 2003	XK 2008	MK 2007	ME 2003	RS 2002	EU 2007
No. of farms ('000)	357	515	450	177	193	43	779	13,633
Agricultural area '000 ha	428	1,700	1,077	264	334	137	2,869	172,485
Average farm size (ha/farm)	1.2	3.3	2.4	1.5	1.7	3.2	3.7	12.7
Share of farms with up to 2 ha	89%	50%	67%	81%	90%	66%	46%	47%
Share of farms with over 10 ha	/	4%	5%	1%	1%	5%	6%	20%

Source: Agriculture in the Western Balkan Countries, Volk T., 2010

In general, all WBs set up the strategic goals which are more or less harmonized with EU principles, and can be summarized as ensuring stable production of quality food at reasonable prices and food security; sustainable resource management; increase in competitiveness and ensuring an adequate standard of living (income) for agricultural producers and the rural population. However, in terms of operative programs and the implementation of agricultural policy, as well as adjustment to the CAP, quite large differences exist between countries.

4. Performance of the EU integration processes of the Macedonian agriculture and rural development

4.1 Macroeconomic development of Macedonia

Great recession in the economy caused by the crisis in the euro zone still has a major impact on the macroeconomic situation in the country. The real growth rate of GDP in 2011 was 2.8% but -0.4 in 2012. The level of inflation followed the economic situation in the country and fluctuated in the past few years. After a sharp decline (-1.6%) in 2009, inflation remained stable in 2010 (3.0%), 2011 (3.9%) and 2012 (3.3%). Unemployment rate still remains one of the most problematic issues in the national economy. Following the downward trend in 2012 this rate reached its minimum of 30.6%. The trade balance is in the range between € -1,622 million in 2010 and € -1,954 million in 2008. (Table 2).

Table 2. Macroeconomic indicators of the Republic of Macedonia

Macroeconomic indicators	2008	2009	2010	2011	2012
GDP (million € at current prices)	6,720	6,677	6,905	7,504	7,521
GDP (per capita in €)	3,283	3,255	3,360	3,645	/
GDP real growth rates (%)	5.0	-0.9	1.8	2.8	-0.4
Inflations (%)	4.1	-1.6	3.0	3.9	3.3
Average exchange rate (MKD/€)	61.27	61.27	61.51	61.53	/
Unemployment rate (%)	33.8	32.2	32.1	31.6	30.6
Export of goods and services (million €)	2,689.2	1,925.2	2,497.5	3,197.7	3,113.5
Import of goods and services (million €)	4,643.4	3,615.8	4,119.1	5,038.5	5,061.8
Trade balance (million €)	-1,954.2	-1,690.6	-1,621.6	-1,840.8	-1,948.3
Trade balance (% of GDP)	29%	25%	23%	/	/

Source: National Bank of the RM, State statistical office of the RM, 2012

4.2 Pre-accession agreement and measures

Taking into account foreign policy and strategic goals for NATO and the European Union, in recent years there was no significant change. Republic of Macedonia still has received only recommendations by the European Commission for initiating negotiations for full membership of the Republic of Macedonia to the European Union.

Macedonia was the first country in the region to sign a Stabilisation and Association Agreement (SAA) in April 2001 (in force since 2004). An Interim Agreement covering trade and trade-related aspects of the SAA applied between 2001 and 2004, providing virtually free access to the EU-market. The SAA focuses on respect for key democratic principles and the core elements which are at the heart of the EU single market. Macedonia gradually started assuming the core obligations of membership, aligning its legal and economic framework with that of the EU. The main elements of this process are (1) economic reforms to ensure a functioning market economy capable to cope with competitive pressure and market forces within the Union; (2) institutional and legal reforms to ensure democracy, the rule of law, human rights and respect for and protection of minorities; (3) enacting legislation in order to bring national laws in line with the body of European law, the *acquis communautaire*. The first two points are also known as Copenhagen criteria of EU membership. This process has been guided by the *National programme for the adaption of the acquis* (NPAA), a specific instrument that gives details, timetables and costs for the fulfilment of each priority area defined by the EU.

The SAA has been serving as the basis for regular political and economic dialogue between the country and the EU. Macedonia applied for EU membership in 2004. In December 2005, the European Council granted Macedonia EU candidate status, but did not set a date for the start of negotiations. The EU provides guidance to the authorities on reform priorities through the Association Partnership (adopted in February 2008).

Financial assistance to the accession process was provided first through the Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme that was replaced by the Instrument for Pre-Accession Assistance (IPA). In the government the Secretariat for European Affairs (SEA), established in 2005, is in charge of the European affairs (and of the donor coordination) headed by the Deputy Prime Minister for Aid. Programming of the EU assistance is coordinated by SEA. After the Macedonian government had established the structure for Decentralised Implementation System for the management of EU funds, the management of IPA was decentralised to the country authorities in 2011. The Ministry of Finance became the contracting authority, having a sole responsibility for tendering, contracting and payment related to projects financed under IPA. Separately, the EU has also conferred the right for managing EU funds in the area of rural development (Instrument for Pre-Accession Assistance for Rural Development - IPARD) to the Agency for Financial Support of the Agricultural and Rural Development. While the objective of the decentralisation of the management of EU funds is to improve ownership and increase absorption capacity, the complicated and huge system of management (compared to the size of the country) and the uneven capacity among and within the ministries slows down the already cumbersome processes of using the funds.

The process of regional integration is marked with the sequence Free Trade Agreements (FTA) with the countries from the region. The global integration marked the entrance of the Republic of Macedonia in the World Trade Organization (WTO) in 2003, while the process for the European Integration is defined by the Stabilization and Association Agreement.

In alignment with EU policy on agriculture and legal requirements, following principal laws has been enacted:

- Law on agriculture and rural development (OG 49/2010, 53/2011, 126/2012);
- Law on IPARD Agency (OG 72/2007, 05/2009);
- Law on FADN (OG 110/2007, 53/2011);
- Las on livestock breeding (OG 07/2008, 116/2010);
- Law on quality of agricultural products (OG 140/2010, 53/2011, 55/2012);
- Law on agricultural inspection (OG 20/2009, 53/2011);
- Law on wine (OG 50/2010, 53/2011);
- Law on organic production (OG 146/2009,53/2011);
- Law on seeds an seedlings material (OG 39/2006. 89/2008, 171/2010, 53/2011).

Law on Agriculture and Rural Development enacted in 2010, which is constantly upgrading, represents a basis for system for planning the agricultural support policies, which includes adoption and implementation of: National Strategy for Agriculture and Rural Development for 7 years period, then three-year National Programme for development of agriculture and rural development and yearly programmes for financial support in agriculture and rural development adopted on the basis of Decrees.

In regards to institutional alignment, integrated administration and control system (IACS) is already set up. The legal basis for the land parcel identification system (LPIS) has been established and the system is in operation in 2013. Registration is ongoing and already extends to over 45% of declared holdings. The real estate register is complete for agricultural land. The farm register, with a supporting automated IT system, is fully functional. Although the farm register is now integrated with LPIS information, compatibility between data registers is not fully achieved. A national strategy for consolidation of land parcels, including an operational plan, has been adopted. Institutional capacity to manage and maintain a functioning IACS is still insufficient. The capacity of the paying agency, the Agency for Financial Support for Agriculture and Rural Development (AFSARD), remains a cause for concern, given its wide range of responsibilities. The AFSARD is responsible for both national support schemes and measures under the Instrument for Pre-accession Assistance for Rural Development (IPARD). Number of the staff remains insufficient, despite recruitment of additional staff. (European Commission, 2012). Farm accountancy data network (FADN) covers 600 farms in 2012, additionally activities for quality improvement of data has been undertaken.

4.3 Agricultural financial support

In relative terms, the share of expenditures allocated to agricultural sector through Ministry of Agriculture, Forestry and Water Economy (MAFWE) budget, accounting in average approximately 4% out of the total countries expenditures (table 3). The Agriculture Support Policy that represents the first pillar of the Common Agricultural Policy of the EU is financed by national funds. The direct payment measures represent the basic instrument for a national agricultural support policy and consist of direct payments: per hectare in the production of crops, and per head in livestock production, as well per kg and per liter for certain products. Rural development policy is implemented primarily through the National Program for financial support for rural development, as well through IPARD program.

There is considerable increased of the MAFWE budget for the last period, which constitutes around €130 million higher budget allocation in 2013 comparing with 2006. (Table 3).

Table 3. MAFWE expenditures in State budget (million €)

	2006	2007	2008	2009	2010	2011	2012	2013
MK budget	1,440	1,293	1,453	2,391	2,557	2,733	2,719	2,950
MAFWE+PA	23.6	32.6	69.2	80.6	123.2	139.4	148.1	153.9
Share	1.6%	2.5%	4.8%	3.4%	4.8%	5.1%	5.5%	5.2%

Source: Ministry of finance of the RM

National policy for financial support of the agricultural sector was improved with adopting the National agricultural policy for the period 2013 – 2017, what defines measures of support for direct payments and rural development. According to this documents, planned support to agriculture and rural development for 2013 is €135 millions, for 2014 is €140 million and for 2015 – 2017 €150 million yearly.

4.4 Development of the agriculture in Macedonia

Traditionally, agriculture has been one of the most important sectors in the Macedonian economy. Its share of the GDP is approximately 10%, and coupled with the food industry the total share raises to about 15%. Moreover, the agricultural sector contributes some 19% to total employment. The agri-food trade is a significant contributor to the country’s economic performance. The average share of agri-food exports in total exports has been approximately 16%, while agri-food imports contribute about 13% to total imports for the last eight years. (Table 4).

Table 4. Share of agriculture in the Macedonian economy

Value in %	2005	2006	2007	2008	2009	2010	2011	2012
Share of agriculture in GDP	11	11	9	10	10	10	10	/
Share of agriculture in total employment	20	22	18	20	20	19	19	/
Share of agri-food exports in total goods' exports	17	17	14	14	19	17	15	15
Share of agri-food imports in total goods' import	13	12	12	12	14	13	12	13

Source: State statistical office of the RM, 2006 - 2013

Approximately 43% of the population lives in rural areas that are deployed on 86.7% of the total area of the country. Urban population is mainly concentrated in the capital city Skopje (23.1%), while the rest is distributed to other cities. Most of the villages are either abandoned or with significantly small population and because of the unfavorable age structure there is a big risk that they will remain without residents (Anakiev, Gjoseva Kovachevikj, Jakimovski, 2012).

Agriculture in Macedonia is characterized by a dual structure: small family farms and large private enterprises, operating on 80% of own or lease privately land, whereas the remaining 20% is owned by the state. Since June 2013, with enacting of the Law for sale of state owned agricultural land, the agricultural land is subject for sale. According to the last agricultural census in 2007 there were 192,675 agricultural household cultivating 334,226 ha separated in 637,588 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 a low efficiency, outdated technology and still strongly based on traditional low cost inputs as labor and time (Todorov & Vittuari, 2010)

In terms of engaged labor, Macedonian farms 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. The gross farm income as data from Macedonian FADN sample shows it is 5.500 €/farm, representing only 15% of what an average EU farm generates at that level. Moreover farm data available at the micro level are still inadequate. (Martinovska-Stojcevska at al., 2008).

Macedonian farms are also lagging behind the EU considering the average yields. For example the average wheat yields in 2012 was 2.7 t/ha while the average European figure exceeded 6.7 t/ha. Considering cow milk the yields is 2.9 t/head for Macedonia in 2012 and around 7 t/head in 2011 for EU countries.

In last three years there is increasing trend of agricultural land and pastures, with exception of cultivated land which is big concern as it represents the main resource for agricultural sector (Table 5).

Table 5. Agricultural area by categories of use

Indicator ('000 ha)	2006	2007	2008	2009	2010	2011	2012
Agricultural land	1226	1077	1064	1014	1121	1120	1268
Cultivated land	537	526	521	513	509	511	510
Pastures	688	550	542	500	611	608	757

Source: State statistical office of the RM, 2007-2013.

The value of the crop output is increased by 8%, and of the animal output by 14% compared 2006 and 2011 with variation between these two years. This difference does not derive from the big differences of the crop and animal output, here it is a result of a various increase of prices (according to the methodology applied "quantity x price"). The value of the services in agriculture is significantly increased by 102% in 2011 compared with 2006, as well as the value of the "subsidies of agricultural products" is increased by 318%. The net value added in the period of 6 years was increased by 37%. (Table 6).

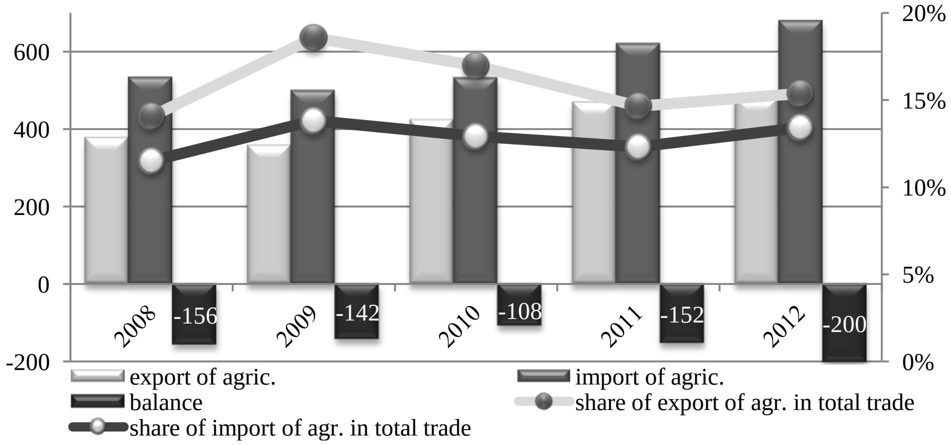
Table 6. Economic accounts for Agriculture-Production account

Indicator (million MKD)	2006	2007	2008	2009	2010	2011
1.Crop output	49,460	46,233	47,613	50,079	51,259	53,616
2. Animal output	14,356	15,721	18,448	21,719	18,058	16,362
3. Agricultural goods (1+2)	63,816	61,954	66,061	71,798	69,317	69,978
4. Agricultural services	171	259	248	201	361	345
5. Agricultural output (3+4)	63,987	62,214	63,309	71,998	69,678	70,323
6. Non-agricultural secondary activities	1,479	1,462	1,070	925	1,325	1,701
7. Subsidies on products	977	901	1,693	3,339	4,214	4,083
8. Output of the agricultural "industry" (5+6+7)	66,443	64,576	69,072	76,263	75,217	76,107
9. Total intermediate consumption	34,372	31,831	34,936	34,926	33,719	32,213
10.Gross value added (8-9)	32,071	32,745	34,136	41,336	41,498	43,894
11. Consumption of fixed capital	2,637	2,669	3,017	3,184	3,425	3,468
12. Net value added	29,434	30,077	31,119	38,152	38,073	40,426

Source: State statistical office of the RM

Agri-food imports actually surpass exports, creating a negative trade balance with annual average of €150 million in the analysed period. The trade deficit has increasing tendency from 2010 to 2012 for about 85%, accounting € -108,6 million, € -152 million, and reached the highest levels of € -200,4 million respectively. (Graph 3).

Graph 3: Total trade and trade with agro-food products (million €)



Source: State statistical office of the RM

4.5 Rural development

In the Republic of Macedonia the village population is facing with small incomes and unsolved basic infrastructural needs of the village community. The income of the village households are at a low level and insecure. The agriculture still has a dominant part in the village economy. In the countryside, 38.4% of the children from 0-17 years live under the official boundary of poverty (situation in 2011). Among the poorest households are the households in the hill and mountain areas. The serious economic and social problems are retained and cause decrease in the real life standard of the population which affects the development of the children (Jakimovki J. 2012).

The funds allocated from the state budget for the National Program of rural development is aimed for investments in improving of the agriculture and life in the villages. The principle of funding is similar with that of the IPARD program, representing a kind of preparation of farmers for application in IPARD program, which is more complex in regards to criteria. Financial support tends to increase and accounted for €18.9 million in 2013 what makes rise of 40% compared with 2012.

In 2006 the Council of the European Union adopted the Regulation No 1085/2006 establishing an Instrument for Pre-Accession Assistance (IPA). As a candidate country, Republic of Macedonia has access to all five IPA components. Consequently, under the IPA fifth component for rural development (IPARD), the country is entitled to pre-accession financial aid for sustainable agriculture and rural development with focus on preparation for the Common Agricultural Policy (CAP). Rural development (IPARD) aimed at assisting candidate-countries prepare their post-accession programmes on rural development, financed by the EU, by implementing pre-accession assistance through systems that are mostly similar to those imposed in the post-accession period. The financial assistance is on the basis of covering 50% of the eligible cost of the planned investment of the applicants, of which 75% are provided by EU and 25% by state budget.

Implementation of the IPARD programme started in December 2009 after the Commission decided to confer to the country management rights for three measures '101 Investments in agriculture holdings', '103 Processing and marketing' and '302 Diversification in rural economy'. Until 2012, 8 calls were launched for using funds from the IPARD program, of which the last two are in the process of receiving and processing. In total, 536 applications were received from the six calls of which: number of signed contracts is 167; number of contracts decreased by canceled contracts is 120; contracted amount is €3.98 million and paid amount is €1.9 million. Taking into account the financing rule n +3 years, from the allocated €10.2 million in 2009, the European Commission has the right to withdraw €7.3 million, and in 2013 there is a risk to lose €11.5 million from the budget allocation for 2010. The number of applications tends to decrease (133 applications were received at the first call in 2009, and 65 at the last call in 2012) but the approval rate is higher (18% in 2009, 21.5% in 2012).

The absorption capacity for component V remains a significant concern (European Commission, 2012). Reasons for poor implementation of the IPARD program are the following: lack of information and animation potential users; extensive and complicated documentation; inconsistency of conditions and procedures; vagueness and imprecision of the terms, procedures and processes; reluctance of applicants to meet the requirements;

difficult access to finance; measures not in line with farmers' capacities (Kovacev, G., 2013). IPARD program offers less financial resources compared to national programs for financial support of agriculture and rural development, but its implementation is a lot more about testing and learning Macedonian agro-complex and institutions for using of CAP funds.

5. Conclusion

Food security is the first and foremost role of CAP. European farmers face the challenge of food supply in a more competitive market. They are expected to produce at competitive prices and, at the same time, to respond to societal anticipations related to high levels of product quality and food safety, animal welfare and environmental good farming practices.

The EU's enlargement policy aims to create a safer, more prosperous, stronger and more influential Europe, nevertheless, the accession process is highly demanding. The countries aspiring to join the EU have to fulfill strict criteria. In recent years, all of the WBs adopted long or mid-term strategic documents, where objectives and priorities for agriculture and rural development were set. The agriculture still ranks among the most important sectors of the national economy of the WBs, with significant contributions to overall economic and social stability. Land and labor productivity are much lower than the EU average in WBs, mostly due to slow farm consolidation processes and inefficient use of production factors.

The overall economic performance of the Republic of Macedonia in the EU integration processes has been moderately positive, with GDP growth, low inflation and solid public finances. Agriculture remains an important sector of the national economy, contributing approximately 10% to the GDP and 20% to total employment. The development of the Macedonian agriculture is unquestionable, however it is not sufficiently high enough having in mind the natural conditions, the locality, the tradition and the relatively stable macro-economical conditions and the relatively free market. The decrease in the key production factors such as agricultural and especially the cultivated land had a strong reflection which is shown in the stagnation of some elements of the development.

Budgetary support through direct subsidies and support from national funds for rural development are significantly increased, aiming to assist farmers in the strong competitive market. Small scale farms dominate the agricultural structures. Nevertheless, recent years show that there has been a mild uptrend in production from the agricultural companies. The country is a net importer of agricultural and food products.

For better performance of the implementation of the IPARD program it is necessary to increase the volume and availability of favorable credit funds, promote knowledge, awareness and transparency about the situation in agriculture, maximum use of the principle of partnership of all stakeholders and building and increasing the absorption and administrative capacity. The investments through the use of IPARD funds will have a much greater effect in increasing the competitiveness of agricultural products, and encourage entrepreneurship than direct subsidies.

The general improvement of the income situation is expected on larger business-oriented farms. The subsequence agricultural holdings will not gain a lot from the accession, especially if regional and rural development policy does not increase employment opportunities (Erjavec, 2010). The effective alignment of national agricultural policy to that of the EU should mitigate worsening of the economic situation of rural areas and farmers after accession, what was a case with some of the new EU countries.

In conclusion, it may be presumed that the EU alignment provide not only important challenges but also opportunities for the future of rural areas and agriculture in developing countries in terms of maintaining rural vitality, stagnation of depopulation in rural areas, better market opportunities, general welfare and stability.

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