

# ECONOMIC DIVERSIFICATION OF RURAL HOUSEHOLDS IN THE REPUBLIC OF MACEDONIA

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## Abstract

Sustainable rural development is vital to the national social and economic situation of the Republic of Macedonia since 43% of the population lives in rural areas, which make up 86.7% of the total territory. Most of the rural households are engaged in agriculture (primarily family farms) and very small portion in other activities. Agricultural wages tend to be significantly lower than other sectors and almost half of the labour force is consisting from unpaid family members. To that end, modern understanding of rural development exceeds the concept that agriculture is the only non-urban element of territorial areas and move to a broader concept that refers to all resources of the territory and its entire economic structure: natural and human resources, crafts, small industrial facilities, tourism, recreation etc. The goal of this paper is to review the new direction of rural development in Macedonia - income diversification, focused on contribution of non-farm activities to total rural household incomes. The methods of descriptive statistics of data analysis were used to process official data for incomes, from State Statistical office. The findings demonstrate that number of rural households with incomes from non-agricultural activities accounts only 16%, with highest proportion (69%) of households with share of only up to 10% of non-farm incomes in total turnover. Policy for strengthening of the conditions for development of the rural diversification activities, as one of the tool for economic stability of rural households is recommended to be one of the highest governmental strategic priorities for rural development.

**Keywords:** *rural development, income, diversification*

## Introduction

The rural households compared to urban areas, face more limited economic opportunities and undeveloped markets as well as other socio-economic problems (World Bank, 2008). Distinguishes between the rural and urban economy occurs because the specifics of the rural way of life and work of the rural population (Čustović & Associates, 2013). Viewed globally, the majority of poor household's lives in rural areas in developing countries and depend mainly on agriculture and related activities by providing life existence. The pressures of limited available resources and environmental degradation create additional challenges to the well-being of the population in rural areas and accelerating rural-urban migration (ibid). Therefore, it is important that the members of rural households, through a good way of managing, to combine their abilities, skills and knowledge with the resources at their disposal to create activities that will enable better living conditions (Messer and Townsley, 2003).

Rural households that operate farms often provide, in addition to their reword from farming, income from running non-agricultural businesses, from waged employment, from social transfers

etc. Hence, the rural non-farm economy (RNFE) may be defined as comprising all those non-agricultural activities which generate income to rural households (including income in-kind and remittances), either through waged work or in self-employment. In some contexts, rural non-farm activities are also important sources of local economic growth (e.g. tourism, mining, timber processing, etc.) (Davis, 2004). The RNFE is of great importance to the rural economy because of its production linkages and employment effects, as well the non-farm income represents a substantial and sometimes growing share of rural incomes. Often this share is particularly high for the rural poor. There is evidence that these contributions are becoming increasingly significant for food security, poverty alleviation and farm sector competitiveness and productivity (*ibid*).

In the Republic of Macedonia, agriculture and income from agriculture and related processing and services are still sustainable source of income for rural population. The country's rural areas are home to 43 per cent of the population and two thirds of its poor people (IFAD, www). Most rural households depend largely on crop and livestock production for their income. Poor people in rural areas are either members of traditional small-scale agricultural households eking out a livelihood at subsistence level, or they are among the poor rural unemployed, who may be even more disadvantaged than poor landholders (IFAD, www). Approximately 60% of the villages are affected by de-population, particularly the sensitive hill and mountain regions (Jakimovski, 2002). Food security and poor nutrition are not critical development issues in the country, but rural households are extremely vulnerable to external economic shocks. Because of economic transition and regional instabilities the reliability of local food production is far from assured. (IFAD, www).

Therefore, the non-farm sector is crucial to rural households in transition economies as it is Macedonian economy, since it offers employment, reduces urban migration and can contribute to poverty reduction, economic growth and a more equal income distribution (Judith *at all.*, 2006). Assessment of the Ministry for agriculture, forestry and water economy in Macedonia indicates that efforts to promote entrepreneurship and crafts in rural areas outside agriculture is constrained by low educational status labor and lack of professional experience (National Strategy for agricultural and rural development, 2014-2020). Application of measures for encouraging entrepreneurship in rural areas through grant support capital investments from IPARD establishment of micro and small businesses in rural areas identified that there is a lack of mature business ideas entrepreneurial skills and knowledge. New businesses are constrained by low incomes and low purchasing power of rural residents and saturation of activities that require low initial capital (small shops, restaurants, services) (*ibid*).

## **Materials and methods**

In order to determine the differences between urban and rural household income, data for three year period 2012-2014, from survey on Income and Living Conditions from State Statistical Office (SSO) has been used. Data are collected, from 5030 households, through using of questionnaires and direct interviews. The same data base was used to calculate share of incomes from non-farm activities in rural households in the total turnover.

In order to review the standard output and to calculate share of economic size by types of the agricultural holdings, data from the survey of SSO conducted in 2013, for typology and structure of agricultural holdings has been used. The economic size is determined on the basis of the total standard output of the holdings taken as the average monetary value of the agricultural output at

farm-gate price. The agricultural holdings are classified according to their economic potential in 14 economic size classes.

## Results and discussion

Data for disposable household income in the table 1 shows that the total average income of rural households for period of three years (2012-2014) is lower for 12% compared to households in urban areas, with dominance of incomes from wages and salary (49% in rural and 61% in urban areas). This indicates that people living in rural and urban areas have a similar standard, especially taken into account 2014 where the difference is only 5.5%. However, separate field surveys demonstrate higher differences between rural and urban incomes values than the data from the State Statistical office, what fits with the fact that two third of poor people lives in rural areas. As a source for income, wages and salary in urban areas are higher by 30% compared to rural. However, there is a visible difference in source of income from self-employments in rural households (share of 28% in rural and 11% in urban areas), due to the large scope of agricultural activities, accounting 128% higher average income share compared to urban areas, which part of the income is mostly exposed to high production and market volatility of agricultural production. This is in fact the main potentials for development of rural diversification activities. Positive corrections in this part can be done through using of available resources and creating of non-farm activities. Also, the difference in income received remittances are almost twice higher in rural than in urban areas.

Table 1: Total disposable household income by types in urban and rural areas, 2012 - 2014 - annual average per household in euros.

Indicator	2012			2013			2014			Average		
	All house.	Urban area	Rural area	All house.	Urban area	Rural area	All house.	Urban area	Rural area	All house.	Urban area	Rural area
Total income	4,890	5,293	4,263	5,109	5,340	4,791	5,213	5,338	5,047	5,071	5,324	4,701
Wages and salary	2,852	3,327	2,113	2,840	3,257	2,268	2,909	3,237	2,476	2,867	3,274	2,285
Income from selfempl.	781	542	1,152	967	644	1,411	903	538	1,384	883	575	1,315
Income from property	52	82	5	6	7	5	6	7	6	22	32	5
Pensions	978	1,105	780	1,037	1,184	836	1,181	1,371	931	1,065	1,220	849
Social transfers	182	203	149	187	206	161	134	139	127	168	183	146
Received private transfers	60	49	75	86	58	123	97	66	137	81	58	112
Other income	1	2	-	1	2	0	1	1	0	1	2	0
Paid private transfers	(15)	(18)	(10)	(16)	(18)	(13)	(18)	(21)	(14)	(16)	(19)	(12)

Source: State statistical office, 2016

In regards to agricultural activities, according to the last executed derivative classification of agricultural holdings as a result of structural survey in 2013, the largest portion, 34.4% shares agricultural holdings specialist in manufacture of cereals and industrial crops within 9 structured agricultural holdings groups according to type of agricultural production. The second place shares agricultural holdings with mixed crops-livestock production, with 18.2%, followed by specialist for permanent crops (mostly in vineyards and fruits) with 17,3%, 10.3% are classified in the type - mixed cropping, and 9.6% specialised in grazing livestock (cattle, sheep, goats). The smallest share or 2.1% are specialist in horticulture production. The high percentage of holdings with multifunctional or mixed farming is mostly due to the reduction of the risk of climate and market volatility.

According to the classification of economic size of the farm (SSO, 2015), 49.6% of farms are classified in the first lowest category, EUR 2,000 standard gross margin or 1.5 units of economic size which is equivalent to about 1.8 ha cereals or 2 cows or 25 sheep or a combination thereof according to the categorization of the European Union. The biggest number of agricultural holdings with highest economic size from VII till IX class (from 50,000-500,000 euros) are in group of specialised grazing livestock, however mixed farms with plant and livestock production takes third place in this group. The agricultural holdings in the European Union are on average more than five times the economic size of the agricultural holdings in Macedonia. These figures indicate unfavorable level of economic power of agricultural households in Macedonia, what has negative impact on boosting of entrepreneurship and creating of new businesses within farm households.

In terms of gainful activities, data in Figure 1 shows that only 10,467 rural households (16% of total number of rural households) are dealing with non-agricultural production activities, mainly focused on processing of animal production (39%) and picking of forest plants (24%). Very small portion (less than 1%) takes households with aquaculture, tourism and accommodation and handicraft activities, which from globally perspectives represents the most often potential diversified activities out of agriculture. Data for non-farm activities in Macedonia, compared with EU countries where over one third of EU-27 family farmers (36.4%) carry out another gainful activity with increasing tendency (European Commission, 2014), implies very low diversified rural economy in the country.

In terms of the share of rural nonfarm incomes in total rural incomes in Macedonia, analysed data in figure 2 demonstrates that the biggest portion (69%) of the rural households what are dealing with non-agricultural production has only 10% income source of the non-farm activities and only 9% of this group of rural households with non-farm activities has non-farm income accounting with more than 50% in total income sources. This data conforms that in the most cases, other gainful (non-farm) activities has low influence in the total income in the rural households.

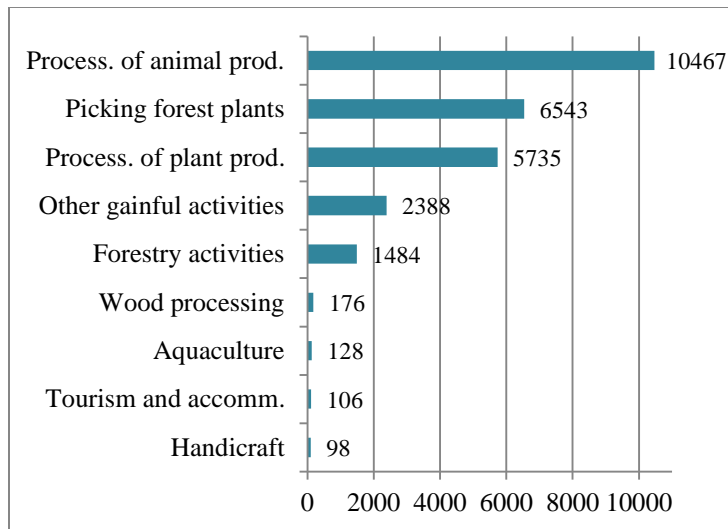


Figure 1. Number of individual agricultural holdings with other than agriculture gainful activities, by type of activity.  
Source: SSO, 2014

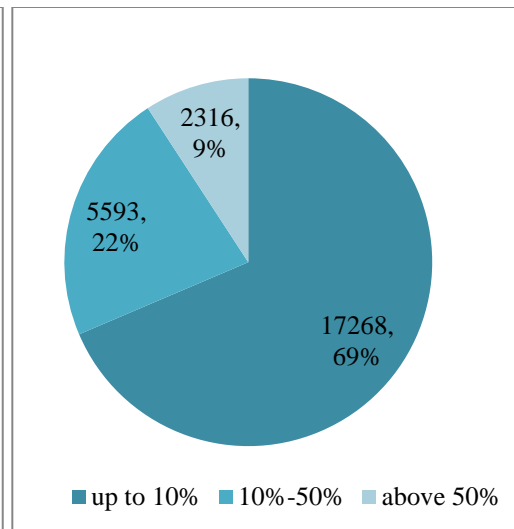


Figure 2. Share of turnover of other gainful activities in total income.  
Source: SSO, 2014

Much of the rural non-farm economy literature highlights the role of the following determinants of capacity to engage in rural non-farm (RNF) employment household composition (availability of surplus labour, gender constraints and patterns, decision-making responsibility) education and skills (appear to be a stronger determinant of higher income in the non-farm sector than in on-farm incomes); access to finance (closely linked to land ownership and farm size in rural areas in some but not all countries); infrastructure (helps create the conditions for growth – and also improves access to employment); and social capital, vertical and horizontal network issues and differential conditions of access due to socio-economic status (Gordon, 1999).

### Conclusion

The rural economic development in Macedonia is very important due to 43% of the total population lives in rural areas, but also two third of poor population are coming from these areas. Many villages in the Republic of Macedonia have suffered from demographic, economic and social decay over the past decade.

The rural income households compared to incomes in urban areas are smaller due to less economic opportunities and undeveloped market in rural areas. In addition, the weather, especially climate change, market conditions and other factors can significantly affect the yields and incomes from agricultural activities, which implies high risks for sustainability of rural households. The rural economy in Macedonia is mainly characterised with large portion of traditional small scale farms, with agricultural activities as main source of income. The most of farms are specialised in field crop production but also mixed farms, with both, plant and livestock production are dominant, in order to alleviate climate and market risks. Although Macedonian rural areas and rural population poses huge potential and has available investment opportunities in IPARD programme, non-farm activities are insufficiently developed, deploying only 16% of the total rural households, with insignificant share in total income.

The competitive part in rural income structure can be found in self-implements activities showing only stronger position compared with urban incomes from these activities, where are the mainly human potentials for non-farm activities.

In order to be boost entering of the rural non-farm economy, affordable finance means need to be made available in rural areas; as well education and quality extension services are also necessary in order to encourage people to start competitive and sustainable businesses. In addition, the public infrastructure and services such as utilities, health and roads are of great importance for development of diversified households' incomes and diversified rural economy.

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