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# EU Support for Rural Development in the Republic of Macedonia

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## ABSTRACT

According to the standard definition, more than 91% of the EU territory is represented by rural settlements and this area represents the home of more than 56% of the EU population. The special treatment of this area is due to the fact that rural development is a solid platform for economic diversification in rural communities, although the concern for the rural environment often triggers financial costs. The EU Lisbon strategy for growth and employment, like the Gothenburg one for sustainable development are relevant strategies for the development of villages and towns in rural areas. Nevertheless, rural development policy is connected to a number of other policies established at EU level. The medium-term period 2007-2013 is focused on three "thematic axes": improving the competitiveness of agriculture and forestry, improving the environment, improving the quality of life in rural areas and encouraging diversification of rural economy. In order to ensure a balanced approach of the policy, member-states and regions are bound to spread their rural development funding across all three of these thematic axes. Some of the funding must be supported by individual projects through the "Leader approach". The national strategic goal of the Republic of Macedonia is oriented towards agriculture and rural development, also, towards increasing the competitiveness of the rural sector, achieving food quality and safety, achieving sustainable resource management, improving living conditions in rural areas, reform of regulatory and institutional framework. In support of the strategy, the EU provides financial assistance for Macedonia, in order to enhance the rural development and to establish a new framework for programming and delivery of financial assistance to this candidate country for EU membership.

## 1. INTRODUCTION

According to the standard definition, more than 91% of EU territory is rural and this area is home to more than 56% of EU population. The strengthening of EU rural development policy still remains a priority of EU, whose policy has an active part, since it helps to achieve valuable goals for natural resources as well as for the people who live and work there.

Agriculture and forestry remain key sectors of land use and natural resources management in rural areas of EU. Their development is a good platform for economic diversification in rural communities. The basic rules of rural development policy for the period from 2007 to 2013 are set out in Council Regulation

(EC) No. 1698/2005. According to this regulation, rural development policy for 2007 – 2013 is focused on three themes (known as "thematic axes"). These are:

- competitiveness of agriculture and forestry improvement;
- environment and nature improvement;
- quality of life in rural areas improvement and encouraging diversification of the rural economy.

In order to assist in a balanced approach to rural policy, Member States and Regions are bound to spread their rural development funding in all three thematic axes. Before 2007 also, each Member State (or region where authority is delegated to the regional level), had to establish an external programme for rural development, which determines the amount that will be

spent and which rural development measures will be used.

Overall, the new function for 2007-2013 favours a coherent strategy for rural development in the EU. This is achieved through the use of national strategic plans, based on the strategic directions of the EU, i.e. the coherent strategy for rural development is directed towards:

- identifying areas that will be supported by the EU;
- establishing a connection with the EU main priorities (e.g. those set forth under the Lisbon and Gothenburg agendas)<sup>1</sup>;
- ensuring consistency with other EU policies, especially those for economic cohesion and improving the environment;
- implementation of new market orientation and re-structured of existing rural areas in Member States.

## 2. FINANCIAL PROGRAMS IN EU

Alignment around financial resources means providing funds in the amount of 862 billion Euros for the period 2007-2013. Of the total amount, 35.7% is for policy connection that, locally and regionally, is available under three conditions:

*Convergence (approximation):* 282.8 billion Euros have been granted to accelerate economic convergence of the least developed regions in the European Union. Here, the focus is on physical capital and equity in people, innovation, scientific staff, environment and administrative efficiency. Funding is applied through the European Regional Development Fund and European Social Fund.

*Regional competitiveness and employment:* 55 billion have been granted to all regions of the EU which do not belong under the policy convergence; the funds are intended to improve competitiveness, employment and attractiveness of regions through innovation, promote entrepreneurship and Environmental Protection. Funding is applied by the European Regional Development Fund and European Social Fund<sup>2</sup>.

*European territorial cooperation:* 8.7 billion Euros have been granted to promote the regional cooperation among EU regions with a special emphasis on the urban, rural and coastal development, economic development, and environmental development too. Financing is applied through the European Regional Development Fund.

Legislative proposals to EU regulations expose a few funds that are available to the regions and provide financing within the period from 01.01.2007 to 31.12.2013 year.

*European Regional Development Fund (ERDF)* is designed to reduce the imbalances among the regions of European Union in order to increase the economic and social cohesion. This fund assists in providing direct assistance and investing in companies (especially in micro and medium enterprises), infrastructure financing, issued by the fund contributes risk capital, inclusion of local development funds and technical assistance measures. ERDF is involved in all three regional policies.

*The European social Fund (ESF)* is a part of the goals of convergence and regional competitiveness and employment, within the EU. The Fund helps workers and enterprises in providing programmes of lifelong learning, creating and spreading innovative working practices, improving employment opportunities for job seekers, unemployed, women and immigrants, it provides also social integration of people with disabilities and active fight against discrimination in the labour force, and strengthening human capital through education network reform.

*Cohesion Fund (CF)* is created by the Member States with GDP per capita less than 90% of EU average in this endeavour to reduce the backlog and to stabilize the economy. In the period 2007-2013, these countries were: Bulgaria, Cyprus, Czech Republic, Greece, Latvia, Hungary, Poland, Malta, Lithuania, Estonia, Portugal, Slovenia, Romania and Slovakia. This fund supports the activities for the construction of modern road networks and environment projects.

New aspects of the development programme of 2007-2013 include three initiatives:

- JASPERS - Joint Assistance in Supporting projects in European Region;
- JEREMIE - Joint European Resources for micro and medium Enterprises;
- JESSICA - Joint European Support for Sustainable Investment in City Areas.

These programmes are new initiatives in policy connection and they are formed as collaboration among the European Commission, European Investment Bank and other international financial institutions that offer financial solutions in order to provide additional credit resources, to support the operation and development of the regional European level. These initiatives also provide expertise in the field of finance and management by specific institutions, for instance European Investment Bank, and provide a support combined with donations and loans, and support of the overall long-term sustainability of projects.

*European Grouping of Territorial Cooperation (EGTC)* is a new measure aimed at encouraging cooperation between local and regional

<sup>1</sup> Lisbon strategy for growth and employment, and Gothenburg strategy for sustainable development, are relevant strategies for villages and rural town's development. It is considered that rural development policy of the EU is designed to deal with all the challenges facing rural areas, as well as the opening of their potential.

<sup>2</sup> Idem.

level in Europe. In contrast with the previous initiative in other programming periods, EGTC has a legal identity and therefore can help to avoid the difficulties that prevent territorial cooperation. EGTC aims to facilitate and promote cross-border, interstate and regional cooperation. Its members are the EU Member States, regional and local authorities, their associations and other public bodies. This group is unique in the terms that it is the only measure that can unite the authorities of different Member States, with no need of previous agreements ratified by national parliaments. Nevertheless, the member states still have to announce their agreement to participate in Government.

*The Instrument for Pre-Accession Assistance (IPA):* IPA for the countries candidates for EU membership and potential candidate countries for EU membership was established in 2006 by European Union Council<sup>3</sup>. It is strengthened by the adoption of Regulation 718/2007 by the Commission of European Communities of 12.06.2007.

This regulation was adopted in order to improve the efficiency of Community external assistance. This legislation provides a new framework for programming and delivering aid to candidate countries for EU membership and potential candidate countries for EU membership. The present instrument presents one of the general instruments, which directly support European foreign policy help. This measure also replaces a certain number of EU programmes and mechanisms of financial assistance to candidate countries and potential candidates, such as: PHARE [7], PHARE CBC, ISPA, SAPARD, CARDS, as well as financial assistance for Turkey.

This measure is aimed to EU candidate countries which include Croatia, Turkey, Macedonia and potential candidates from the Western Balkans: Bosnia and Herzegovina, Montenegro, Serbia, Albania and Kosovo. All these countries are eligible for financial assistance in the transition and institutionalization, trans-boundary cooperation, including relations with other member states. IPA Funds should provide support for regional development that includes traffic, environment and economic development, strengthening of human capital and combating social note, as well as initiatives for rural development [4].

### 3. RURAL DEVELOPMENT POLICY OF RM

Rural Development Policy of Republic of Macedonia was defined by several strategic documents in 2007. Thus, in 2007, it marked the entry into force of the Law on Agriculture and Rural Development, and National Strategy for Agriculture and Rural Development 2007-2013, IPARD Programme 2007-2013 and the beginning of the annual programs for rural development.

In the following years, a new law (2010) was passed and first IPARD calls and projects have been in progress.

National strategy for rural development for the period 2007 - 2013 has set up new principles, and support measures, which are refined and adapted to expected changes in legislation, institutions and systems of control. The focus is on several axes:

Axis 1 - Market efficiency improvement and implementation of EU standards, which include investments in agricultural restructuring and upgrading the standards of EU, producer group's support; investments in processing and marketing of agricultural products to restructure and upgrade the standards EU.

Axis 2 - Preparatory activities for implementation of agro-environmental measures and local rural development strategies, which include activities to improve the environment and nature [2].

Axis 3 - Rural economy development, which covers the development and diversification of rural economic activities, improvement and development of rural infrastructure;

Axis 4 - Technical assistance, which means technical assistance, information and advertising campaigns and vocational education and training.

In addition, the Government increased financial support from the state budget aimed mainly in agriculture.

It was required to carry out more research, in order to adopt the national Strategy for Agriculture and Rural Development of the RM... Therefore, in 2004, UNDP, the State Statistical Office and Ministry of Local Government of the Republic of Macedonia, made socio-economic mapping of diversities among municipalities in Macedonia; they marked six zones based on population density.

Table 1. Municipality and population density.

Zone definition	Inhabitants per m <sup>2</sup>	No. of municipalities per zone
Weak density zone	Up to 50	61
Medium density zone	51-100	26
Overpopulated zone	101-150	7
Significantly overpopulated zone	151-500	19
Very significantly overpopulated zone	501-1,000	4
Extremely overpopulated zone	Over 1,000	6

According to this study, almost half of the municipalities (61) were included in the group with low density and another 26 municipalities in the group with medium density, 7 were overcrowded, 19 significantly overpopulated, 4 significantly overpopulated, and 6 municipalities had over 1000 inhabitants per square km.

Because rural development is closely linked to regional development, there had to be obtained statistical data for regions in the country of population censuses in 1994 and 2002.

They are shown in the table below as a more complete picture of rural socioeconomic backgrounds.

Table 2. Overview of population per region.

Region	Total population		Change -Increase 1994-2002		Growth rate	Migration	Population density	
	1994	2002	Number	%			1994	2002
National level	1,945,932	2,022,547	76,615	3.94	0.48	-30,992	76.0	79.0
Pelagonija	242,614	238,136	-4,478	-1.85	-0.23	-5,297	49.7	48.8
Vardar	131,035	133,180	2,145	1.64	0.20	-1,670	40.7	41.4
Northeast	163,841	172,787	8,946	5.46	0.66	-1,557	70.6	74.4
Southwest	211,226	219,741	8,515	4.03	0.49	-6,191	64.2	66.8
Skopje	545,228	578,144	32,916	6.04	0.73	243	314.6	333.6
Southeast	168,481	171,416	2,935	1.74	0.22	-4,743	64.8	66.0
Polog	281,982	305,930	23,948	8.49	1.02	-8,472	116.8	126.7
East	201,525	203,213	1,688	0.84	0.10	-3,305	48.3	48.7

Today, the new Agriculture and Rural Development Law provides a definition of rural areas in the country, taking into consideration population size and population density. It should be pointed out that the census was the first agricultural one taken in the last 40 years.<sup>3</sup>

#### 4. INVESTMENTS: FINANCED BY EU PRE-ACCESSION ASSISTANCE IN MACEDONIA FOR RURAL DEVELOPMENT IPARD FUNDS

According to regulations and the instrument for pre-accession assistance to candidate countries and potential candidate countries, this assistance should be directed to strengthen:

- democratic institutions and the rule of law;
- public administration reform;
- implementation of economic reforms;
- human and minority rights respect;
- promote gender equality.

Support of civil society development and promote regional cooperation as well as reconciliation and reconstruction, and contribute to sustainable development and reducing poverty in these countries.

In order to use the funds of The Instrument for Pre-Accession Assistance for Rural Development of the European Union, an IPARD program has been adopted for the period 2007-2013 [6]. First it was adopted by the European Commission in 2008, but certain changes were made in 2009. The method and procedure for

using the financial support of IPARD 2007-2013 are prescribed in the Regulation on the manner and procedure for allocation of financial support; rural development measures are financed by the fifth component of IPA Rural Development of the European Union [6].

The IPARD's program 2007-2013 aim is to support agriculture and rural development through appropriate measures and to improve competitiveness of agricultural production and agro-food sector through their harmonization with EU standards; to achieve sustainable environmental and socio-economic development rural areas by stimulating economic activity and increasing employment opportunities.

The main goals of development policy for agricultural and rural development in RM will be implemented through three measures:

**Financing Method.** Financial assistance is paid by the principle of co-financing of total accepted costs for co-financing in amount up to 50% of the accepted costs under the agreement for use of IPARD funds [1].

According to IPARD 2007-2013 the amount of the eligible costs for co-financing (grant) is limited. Based on the estimated value of the expenses amount eligible for investments by sub-measures, the smallest and largest value of accepted costs for co-financing under individual measures, these are:

*Measure 101* - Investments in agricultural holdings in order to restructure and upgrade to EU standards; the smallest value of eligible costs for co-financing amounts to EUR 5,000 in MKD to conclude

<sup>3</sup> State Institute of Statistics announced that the census takes into account the recommendations of EUROSTAT and FAO (Food and Agriculture).

the agreement for use of funds, and its greatest values eligible costs for co-financing are:

- no more than EUR 200,000 in MKD equivalent on the date of signing the contract, for investment in accordance with EU standards for environmental protection, public health, animal health and plant health, animal welfare and occupational safety;

- no more than EUR 400,000 in MKD equivalent on the date of signing the contract, investments that are intended to adjust the whole agriculture to EU standards.

*Measure 103* – Investments for processing and marketing of agricultural and fishery products, their restructure and upgrade to EU standards. The smallest value of eligible costs for co-financing amounts to EUR 15,000 in MKD equivalent, and the greatest values are:

- no more than EUR 400,000 in MKD equivalent on the date of signing the contract, for investment in according to EU standards;

- no more than 800,000 Euros in MKD equivalent of the date of signing the contract, for investment that are intended to adjust the production capacity with EU standards;

- no more than 800,000 Euros in MKD equivalent of the date of signing the contract, for investment that are intended to adjust the production capacity with EU standards.

- no more than 3,000,000 Euros in MKD equivalent of the date of signing the agreement for investments aimed at opening new slaughterhouses for poultry adapted to EU standards.

*Measure 302* – Diversification and development of rural economic activities, the smallest value of eligible costs for co-financing amounts is EUR 5,000 in MKD to conclude an agreement on allocation of funds; the largest value of eligible costs for co-financing amounts is EUR 200,000 MKD equivalent on the date of signing of contract.

*IPARD Funds Using Regulations.* This Program 2007-2013 requires pre-signing the contract of potential users with the Agency of Financial Support of Agriculture and Rural Development and implementation of the approved investment under previously agreed conditions.

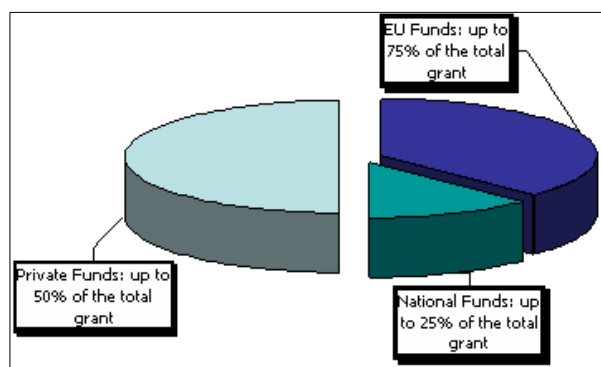


Fig. 1. The structure of the UE Funds in RM.

Quality Control on the spot and the supervision of the contract, are performed by authorized persons from the Agency of Financial Support of Agriculture and Rural Development and relevant institutions from Macedonia management, implementation and control of IPARD and the European Union.

Table 3. Financial Plan for IPARD 2007-2011 (in mil. EUR) [5].

	2007	2008	2009	2010	2011	Total
EU	2,1	6,7	10,2	12,5	14	45,5
Budgets of RM	0,7	2,2	3,4	4,2	4,7	15,2
Total	2,8	8,9	13,6	16,7	18,7	60,7

## 5. FINANCIAL SUPPORT OF AGRICULTURE AND RURAL DEVELOPMENT MAFWE BUDGET<sup>4</sup>

Agriculture and Rural Development are supported by two main sources: Budget of RM and EU IPARD. Government funding has been increasing significantly in recent years. In absolute meaning, this increasing is enormous; MAFWE Budget has increased four times, from 24 million Euros in 2005 to more than 101 million Euros in 2009. In relative sense MAFWE Budget is a part of the total national budget whose participation has increased from 2% to 4%. Government confirms a firm commitment of these trends in the following years. Annual figures can be seen below in table 4.

With regard to the purpose of MAFWE Budget support, it should be emphasized that far larger part is focused on direct payments (subsidies)<sup>5</sup>. The second part of this budget is allocated for rural development, with 6.8 million. The rest of the funds are aimed for sector programmes in the remaining areas. In the future the intention regarding budget is that more attention should be paid to improving the environment, land management and diversification of rural economic activities.

Component of rural development is designed to prepare the country for CAP and related policies of the EU. IPARD is funded from EU sources and national government and (where applicable) private sources of funding. ASFARD (Agency for Financial Support of Agriculture and Rural Development) is crucial for the implementation of IPARD (accredited in 2009). Among the approved final beneficiaries of this program include: individual farmers, micro and medium enterprises and

<sup>4</sup> The 5<sup>th</sup> meeting of the EU- Republic of Macedonia Civil Society Joint Consultative Committee. 18 October 2011 Brussels, Report on Rural Development and Employment in the Republic of Macedonia.

<sup>5</sup> For farmers subsidies are crops production per hectare; in livestock production is per capita.



large companies too, which are operating in agriculture and/or food processing industry. Most of the projects are for the first two measures, being defined as investments in agricultural holdings and investments in

processing and marketing of agricultural products. It seems that at present, the third measure, the diversification of rural economic activities, is the least interesting.

Table 4. MAFWE Budget is a part of the total national budget.

	2005	2006	2007	2008	2009
Budget of R. Macedonia	1,087	1,447	1,300	1,461	2,504
MAFWE Budget	24	24	33	70	101
Share	2.19%	1.64%	2.52%	4.80%	4.02%

Table 5. Allocated Budget for rural development.

Sector program	Total amount
Agriculture (crop production and animal husbandry)	64,134
Expanded forest reproduction	2,614
Animal health protection	4,134
Veterinary public health	327
Plant health	196
Seed and planting material	10
Village revitalization	245
Rural development	6,895

After the first implementation of the Programme in the Republic of Macedonia, still remain a few open questions that need to be overcome in the following period.

For instance, there are some complaints about the necessary administrative efforts for the application; that they exceed one typical farmer's administrative capacity. Also, there is no clear feedback for declined rate, quality for application or main obstacles with which the candidates are facing (e.g. obtaining permits, unrealistic business projections, pre-financing needs etc.).

Also, another open issue is for bank financing of IPARD projects whether there is a specific crediting ability for this purpose by Macedonian Development Foundation and its banks partners. This is important in order remedial measures to be undertaken in due time, and to obtain answers of the questions regarding: whether the pre-financing is stimulus or obstacle and whether the unfavourable number of candidates is due to the self-restrictive factors in application for IPARD funds.

As an open question for future remains the intention of IPARD Funds, they should become more accessible to a wider range of potential users.

## 6. CONCLUSIONS AND RECOMMENDATIONS

Based on the above views and assessments of rural development in the Republic of Macedonia the following conclusions and recommendations can be derived for future activities in this area.

For the rural development and the common agricultural policy EU can provide a solution by defining a framework for national rural development. However, it does not have to be seen as a panacea that can be without effect as a result of unreal expectations of the EU and/or government intervention. Instead, the country needs to develop entrepreneurial spirit in agriculture and rural development, namely in those sectors which build their long-term competitive strength of national specificities and EU unity.

It is recommended, carefully to follow the EU's efforts to align the definition and data on rural areas, which should be directed to the appropriate national data and provide easy access to data to all interested parties.

The country is under the complete implementation of the first rural development in 2007-2013. Benefit will be an evaluation of this period, or at least spreading the main data and figures for implementation in one document. This should be the basis for input in preparing the next strategic period.

Financial support for agriculture and rural development are provided by the Government. It is advisable to continue this support in terms of quantity and form of support to sectors that promise long-term competitiveness. Also, the gradual shift towards the environment and land management is greatly appreciated.

IPARD has enabled completion of the first projects. However, certain issues related to implementation of the process, require some investigation and clarification in order to run smoothly.

These issues are connected with: examination of the causes of declined rate, administrative process estimation, evaluation whether the requirements for pre-financing are the reason for the application or not for projects completion.

The agricultural sector is the second largest employer in the country, relying also on the engagement of seasonal workers (often unpaid) family members.

However, the tendency of employment in this sector is less secure for income generating than the rest of the economy. Hence, more attention should be paid to the diversification of economic activities in rural areas.

Improvement of the quality life in rural areas with government measures, in order to provide a basis for long-term reducing risks. Primarily, we need more investment in rural infrastructure and rural services.

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