THE ROLE OF RURAL AREAS IN THE ECONOMIC DEVELOPMENT OF MACEDONIA

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Abstract: Rural areas have a special place in the economic development of every country. Mainly rural areas can significantly contribute to reducing unemployment and poverty because they can employ a significant proportion of the working population, especially in agricultural production, but also in agrotourism, in processing, in trade and so on. Rural development and its contribution to overall economic development mostly depends on: utilization of pastures in the mountainous villages, infrastructure living conditions (roads, schools, health services, sports fields and facilities, etc.), renovation and development of villages, realization of local development strategies in rural areas, assistance in carrying out agricultural activity and the preservation of rural areas and genetic diversity, development of organic production, subsidies for production, training, information and advisory services for farmers and so on.

Agriculture is the primary economic sector in rural areas where there are natural opportunities for primary agricultural production which is essential for the development and survival of a country. Each national economy needs into strategies for economic development to pay special attention to the development of rural areas and their contribution to overall economic growth. Therefore, in this paper we aim to assess the current rural development in the country with special emphasis on the development of the agricultural sector and to point out some measures of its improvement for faster economic development.

Key words: agrarian sector, economic development, rural areas, the Common Agricultural Policy

1. INTRODUCTION

Economic and social development of the rural sector is a key prerequisite for increasing food safety. The significance of rural areas can be seen through their participation in GDP, total employment, in the provision of basic conditions for survival of the population, etc. Poverty, hunger and malnutrition are the main causes of accelerated migration from rural to urban areas in developing countries. Rural areas in developing countries lack the technical and financial resources as well as adequate educational infrastructure. For development of rural areas, it is necessary to ensure their adequate protection through direct aid and support of primary agricultural production which is the main activity in these areas, by granting subsidies on products per livestock or arable land.

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Agriculture is of great importance for the development of rural areas, given that the workforce in these areas is mostly engaged in agricultural production. This is particularly important for developing countries where unemployment rates are relatively high. Population in rural areas usually works in other activities apart from agricultural activities, such as trade and handicrafts. In developing countries relative share of rural areas in GDP and in employment is much higher compared to that in developed countries.

Economic development has also influenced the further growth and development of rural areas with the increased purchasing power of the population due to increased living standards. Economic development means the development of markets for agricultural products produced in rural areas, improved educational profile of the population providing skilled labor and increased labor productivity, improved infrastructure that means improved road network and construction of new national, regional and local roads, construction of modern production facilities, production of modern machinery for greater automation of production and productivity, development of scientific research and introduction of new types of products, new ways of producing and packaging the products.

Rural areas are essential for future growth and development of the European Union that can be seen from their relatively large share in the territory of the European Union, total employment, investments, GDP, etc. Rural development policy of the European Union aims at sustainable development of rural areas, environmental protection is an integral part of this policy. Rural development policy strengthens European agriculture sector, improves the competitiveness of rural areas and contributes to the preservation of the rural heritage of the European Union.

Macedonian agriculture and income from agriculture as well as related processing industry and services are still a major source of income for the rural population. Macedonian agro-food

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sector is in the early phase of restructuring. The majority of Macedonian agricultural holdings, because of their structures are not able to compete equally with competing agricultural products of the European and world producers in terms of the amount of production costs and marketing characteristics of the products.

2. MEANING OF AGRICULTURE AND RURAL DEVELOPMENT TO THE ECONOMIC DEVELOPMENT

In the economic theory, there are different definitions of agriculture depending on the aspect of consideration, a number of theorists set out in definition the primary production not taking into account the interconnectedness and interdependence of agriculture with industry, primarily with the manufacturing industry. The definition of agriculture is often general and imprecise and may include one or more of the following activities: processing soil, cultivation and harvesting, livestock breeding and breeding of other animals, production of animal agricultural products, production of seeds and plants, production and protection of forest, initial processing of agricultural products. A generally accepted definition is that agriculture is an economic activity which involves the production of plant and animal origin and domestic processing of agricultural products.

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He became PhD in 2003 at the Faculty of Economics in Prilep, defending his doctoral dissertation on "Long-term effects of foreign investment, with special reference to Macedonia."

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The significance of agriculture to the economic development of a country can be seen through its basic functions, such as: environmental protection, economic and social group of functions130. The function of environmental protection underlines the fact that agriculture can mitigate the effects of climate change, maintain biodiversity, contribute to the preservation of water quality and its availability, and reduce pollution. The economic function indicates that agriculture is the foundation for the growth of the economy, even in highly industrialized countries. The main function of agriculture and forestry is the production of goods/commodities. It is, above all, the primary food for human consumption, either directly or by trade (as commodities) for the feeding of animals, raw materials for energy, biogas, medicines and other products for clothing or for other purposes. The social function of agriculture is perceived to maintaining rural communities, where the agriculture is primary and dominant sector. Increased productivity in agriculture, achieving higher returns and diversification of agricultural production means an increase in the number of employees in agriculture, thereby reducing unemployment.

130 Food and Agriculture Organization of the United Nations, Netherlands Conference on the Multifunctional character of Agriculture and land
In the experts there are different definitions of the term "rural areas" presents a particular problem in the analysis of rural development policy. The reasons for the different definition of this concept are the different perceptions of what is rural or urban and the elements that should be considered during categorization, such as natural, economic, cultural characteristics, etc. Differences arising from the need for which form the definition of rural areas and the difficulties in collecting relevant data on the basic geographic units such as, for example, administrative units. In 2010 the European Commission adopted new terminology for predominantly rural, intermediate and predominantly urban regions. This terminology is based on the OECD methodology and primary objective is to provide a consistent basis for the description of the Regions. The method is based on a simple approach to urban clustering of cells with a minimum density of 300 inhabitants per km2 and a population of at least 5000. The cells that are located outside of these clusters are considered rural.

In essence, it makes classification of the regions at the level of "NUTS 3" based on the share of rural population in total population. If more than 50% of the total population lives in rural areas, the region is considered as predominantly rural, if the rural population accounts for 20% to 50% of the total population, the region is considered as mainly rural, and if the rural population accounts for less than 20%, then that region is considered to be predominantly urban / urban. This methodology corresponds to the methodology of the OECD, taking into account the existence of large urban centers of a certain number of people. For comparison, according to the European methodology, 24% of the population live in regions classified as predominantly rural, which is 4% more compared to the results obtained in accordance with the methodology of the OECD.

Rural development is in direct correlation with the following factors: the rate of migration, the human factor, the electronic business, information technology and development of new technologies. Importance of rural areas for economic development of a country is perceived by their relative participation in employment, the total investment, in exports, in GDP etc. Rural areas in developing countries are more significant because the unemployment rate is much higher in these countries and the rural areas may affect its reduction by engaging the population living in these areas primarily in agricultural activities which has natural conditions, but also in manufacturing, making of handicrafts, rural tourism, manufacturing industry (especially for production of environmentally friendly products), etc.

3. RURAL DEVELOPMENT POLICY IN THE EUROPEAN UNION

General rules for managing rural development policy, which is implemented by the European Agricultural Fund for Rural Development (EAFRD), are governed by the Regulation 1698/200 adopted by the Council of the European Union. Rural Development in the European Union is financed only by EAFRD unlike previous programming when the projects were funded from several funds. Member States of the European Union are required to submit a program for rural development before the period of adoption of the Rural Development Programme of the EU, which more closely determine how much money will be spent on certain measures. All this contributes to: identifying areas that need the most support for rural development, establishing a link with the main EU priorities, consistency with other policies of the European Union in terms of economic cohesion and environmental protection, support of the Common Agricultural Policy terms of increasing competitiveness of the agricultural sector, improving the environment and improving the quality of life in rural areas and promoting diversification.
Rural areas have a high share in the territory of the European Union, employing more than half of total employees, have a significant share in investments, in GDP etc. Table 1 lists several indicators of the importance of rural areas in the economy of the European Union.  

Rural areas within the European Union represent 91% of the territory and about 59% of the total population. Because of these, rural areas are particularly important to the economy of the European Union. Economic activity tends to concentrate more in urban areas, but 48% of gross value added in the European Union are produced in rural areas and 56% of employment is in rural areas. These percentage holdings are greater in the new Member States of the European Union, where 66% of gross value added and 75% of employment are created in the rural areas. More rural areas are characterized by low population density, the level of the European Union population density varies from 48 inhabitants per km$^2$ in the predominantly rural areas to 514 inhabitants per km$^2$ in the predominantly urban areas.

<table>
<thead>
<tr>
<th>Table 1. Important indicators for the rural sector in the EU</th>
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</thead>
<tbody>
<tr>
<td>Participation of rural areas in total territory</td>
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<tr>
<td>Participation of rural areas in the total population</td>
</tr>
<tr>
<td>Participation of rural areas in GDP</td>
</tr>
<tr>
<td>Participation of rural areas in total employment</td>
</tr>
<tr>
<td>Population density in rural areas (population of m$^2$)</td>
</tr>
<tr>
<td>Population density in urban areas of the EU (population of m$^2$)</td>
</tr>
<tr>
<td>GDP per capita in rural areas (% of EU average)</td>
</tr>
<tr>
<td>Participation of primary agricultural production in employment</td>
</tr>
<tr>
<td>Unemployment rate</td>
</tr>
<tr>
<td>Labor productivity in agriculture in the old Member States in relation to the European average</td>
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<tr>
<td>Labor productivity in agriculture in the new Member States in relation to the European average</td>
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<tr>
<td>Rate of investment in the EU</td>
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<tr>
<td>Rate of investment in the old EU member states</td>
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<tr>
<td>Rate of investment in the new EU member states</td>
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<tr>
<td>Participation of the food industry in total employment</td>
</tr>
<tr>
<td>Participation of the food industry in GDP</td>
</tr>
</tbody>
</table>

Source: "European Commission DG Agriculture and Rural Development"

Gross domestic product per capita is higher in urban than in rural areas. EU income per capita in rural areas is 83% of average. The gap between rural and urban areas is greater in the new Member States of the European Union. Rural regions in the new Member States grow faster than rural areas in the old Member States, but the growth of urban areas on the other side is lower than that of the old Member States, and therefore the gap between rural and urban areas is increasing.

Primary agricultural production in rural areas accounts for 9% of employment and 3% in value added. In the new Member States this has been sharpened with a share of 12% in
employment and 6% of gross value added. Most of the economic activity belongs to the service sector. The downward trend in the share of primary agricultural production, employment and participation in the creation of the gross added value is continuing.

The employment rate in rural areas is lower than in urban areas. In the old member states of the EU employment rate increased by the same rate in both rural and urban areas as opposed to the new Member States where the growth rate is lower in rural areas compared to urban areas.

The primary agricultural sector (agriculture, hunting and forestry) accounts for approximately 5.5% of total employment in the European Union. In the UK agriculture accounts for 1% of the total number of employees, in Romania for 30%, in Bulgaria for 20%, and in Poland for 14%. The importance of primary agricultural sector in the economy of the EU is in constant decline, which is due to the productivity of labor and capital from other sectors of the economy and the sharp decline in prices. In terms of value added, the level of EU primary agricultural sector accounted for 1.7% of total gross value added.132

Labour productivity in agriculture measured as the ratio of gross value added at basic prices for one annual working hour varies within the EU, between the new and old Member States. Productivity is higher in the old Member States where is about 78% higher than the European average, as opposed to the new Member States where productivity is only 28% of the European average.

Gross investments in fixed assets in agriculture are higher in the old Member States (about 93% of total gross investments in fixed assets are generating in the old Member States). The rate of investment is the ratio between the gross investments in fixed assets and gross value added and it is around 39% in 2008 in the EU, but is much lower in the new Member States (16%) than the old member states (about 42%).

Candidate countries for EU membership used Special Programme for Agriculture and Rural Development ("SAPARD") in order to be supported the implementation of EU legislation and to implement measures for rural development. In the period from 2007 to 2013 is created the European Agricultural Fund ("EAFRD"), which finances rural development policies of the Member States of the European Union. Candidate countries for EU membership, ie Macedonia, Croatia (before becoming a member of the Union) and Turkey introduced a special instrument for pre-accession assistance - "IPA" with a component relating to the rural development - "IPARD".

The main goal of rural development policy of the European Union is sustainable development of rural areas. At the beginning this policy was oriented to the development of certain production sectors in agriculture. Protecting the environment is an integral part of rural policy and in the framework of rural policy increasingly reinforces the support and partnership, as well as the flexibility of the support of more than 20 measures to meet the specific needs of the Member States of the European Union. Rural development policy aims to strengthen the agriculture and forestry sectors, improve the competitiveness of rural areas and to preserve the environment and rural heritage of the European Union.
4. ASSESSMENT OF RURAL DEVELOPMENT IN THE REPUBLIC OF MACEDONIA

The development of agriculture and rural development are directly dependent on the number and structure of the population living in rural areas, the educational profile of the population living in rural areas and infrastructure in rural areas.

The number and structure of the population living in rural areas have an impact on agriculture and rural development because the workforce is one of the production factors, and agriculture is labor-intensive activity that requires labor to a greater extent than in other sectors. The highest concentration of the population in Macedonia is in the urban centers, with 23.1% in Skopje - the capital, 5% in Kumanovo, 4% in Bitola, 3.5% in Tetovo, 3% in Veles and 24% in other towns. The territorial distribution of the population shows that about 44% of the total population lives in rural areas. Much of the villages are completely abandoned or have indicated a small population (under 100 people).

The education system certainly plays an important role in reducing the disparities between urban and rural areas. The low rate of education in rural areas is a result of: emigration of young and working age population, lack or small number of educational institutions, isolating the undeveloped villages, etc. The educational problem is obvious among the unemployed because in 2010 about 10.97% of them have higher or university education; the majority (53.8%) had secondary education, and the remaining 35.2% are without qualifications. About 18% of young people (aged 15 to 25 years) are unemployed and accounts for 19% in the number of total unemployed. In the country, despite a developed system of formal secondary and university education, there is a lack of additional (informal) education and training, especially in the retraining of manpower and training. Most of the illiterate population is in rural areas that are most affected and with the highest degree of poverty (48%) compared with other urban areas (40%) and the City of Skopje, which has the lowest poverty rate (12%).

Infrastructure in rural areas has a direct impact on the quality of life of the population living in rural areas or inadequate infrastructure result in decreased quality of life of the rural population in terms of those living in urban areas because there is a trend of migration of young people from villages in cities or abroad. Electricity is available to 99.75% of the population in rural areas and is made possible by a well developed transmission and distribution network with sufficient capacity, electric energy sources that provide a regular supply, but agricultural areas are not connected to electricity which is required for introducing modern systems, automation and computerization.

Council of the European Union in 2006 established the Instrument for Pre-Accession Assistance to candidate countries for EU membership and to the countries potential candidates (Regulation 1085/2006)\(^\text{133}\).

The five components established under IPA are: component for assistance in transition and institution building, component for regional and cross-border cooperation, regional development component, component for human resource development and rural development component (IPARD).

Funds for implementation of the measures of the program co-financed at 25% of the Macedonian Budget and 75% of the EU budget for a given year. Financial assistance from the

\(^{133}\) COUNCIL REGULATION (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)
EU budget is paid in the amount of 75% of the total funds paid by users after full funding from the State Budget.\(^{134}\)

**Table 2. IPARD financial plan 2007-2013, the maximum share of EU funds in IPARD**

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>2.100.0</td>
<td>6.700.0</td>
<td>2.806.1</td>
<td>474.1</td>
<td>16.000.0</td>
<td>17.991.6</td>
<td>2.157.7</td>
<td>48.229.5</td>
</tr>
</tbody>
</table>

Source: Agency for Financial Support of Agriculture and Rural Development

**Table 3. IPARD financial plan by priority axes, 2007-2013, in euros**

<table>
<thead>
<tr>
<th>Priority axis</th>
<th>Total public support</th>
<th>Rate of participation of EU</th>
<th>EU participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority Axis 1 - Improving market efficiency and implementation of Community standards</td>
<td>56.169.647</td>
<td>75%</td>
<td>42.127.235</td>
</tr>
<tr>
<td>Priority Axis 2 - Preparatory actions for implementation of agri-environmental measures and LEADER approach</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Priority Axis 3 - Development of rural economy</td>
<td>5.379.160</td>
<td>75%</td>
<td>4.304.370</td>
</tr>
<tr>
<td>Measure 501 - Technical Support</td>
<td>2.247.466</td>
<td>80%</td>
<td>1.797.973</td>
</tr>
<tr>
<td>Total</td>
<td>64.156.273</td>
<td></td>
<td>48.229.578</td>
</tr>
</tbody>
</table>

Source: Agency for Financial Support of Agriculture and Rural Development

Republic of Macedonia insufficient use EU pre-accession funds intended to support agriculture and rural development, but as can be seen from the data in Table 4, taken from the "2013 Annual Report on Financial Assistance for Enlargement of European Commission\(^ {135}\)," the same problem faced by all candidate countries for EU membership. In Macedonia, according with the data presented in Table 4 (for Macedonia data are obtained from the Agency for Financial Support of Agriculture and Rural Development and the Ministry of Agriculture, Forestry and Water Management), the EU disbursed a total of 2.67 million euros.

**Table 4. Status of implementation of the financial assistance IPA Component V as at 31 December 2013 (EUR million) implemented by "DG Agriculture and Rural Development"**

<table>
<thead>
<tr>
<th>Country</th>
<th>Paid</th>
<th>Percentage of funds paid by the EU in relation to the approved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Croatia</td>
<td>33.33</td>
<td>23%</td>
</tr>
</tbody>
</table>

\(^{134}\) EU INSTRUMENT FOR PRE-ACCESSION FOR RURAL DEVELOPMENT (IPARD), Final version of the modified IPARD programme- sixth modification, Skopje, 6 November 2014

The reasons for the low efficiency in the use of IPARD are\textsuperscript{136}: lack of awareness of potential users, complicated documentation, non-compliance of national legislation with the EU, the reluctance of applicants to meet conditions and difficult access to finance.

According to the data presented in Table. 5, from the EU IPARD in 2011 were used only 6.3\%, 6.6\% in 2012 and 22\% in 2013. This suggests that while the percentage of utilization of appropriations is very small, there is a trend of constant growth, which suggests that the capacity of Macedonian agriculture for application and utilization of the EU funds is improved.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
 & 2011 & 2012 & 2013 \\
\hline
The total allocated funds for rural development according with the financial plan & 16.000.000 & 17.991.604 & 2.157.737 \\
\hline
Realised payments from IPA & 1.010.641 & 1.188.152 & 474.447 \\
\hline
\% of realized payments from the total approved & 6,3 & 6,6 & 22,0 \\
\hline
\end{tabular}
\caption{IPARD financial planned and allocated funds for the period 2011-2013, the maximum participation of EU in the IPARD funds}
\end{table}

Financing of rural development policy is carried out within the national budget and the EU budget for the measures under the Instrument for Pre-Accession for Agriculture and Rural Development. **Rural development measures** are implemented with the following support mechanisms:

- Unrecoverable financial support for investments;
- Financial aid
- Direct payments for rural development.

**Unrecoverable financial support for investments** is granted in the form of financing or co-financing of the value of investments undertaken and implemented in accordance with the eligible costs. Grant funding may be awarded for intangible assets in accordance with the

\textsuperscript{136} RESEARCH ON IMPROVING THE EFFICIENCY AND EFFECTIVENESS IN ALLOCATION OF IPARD PROGRAMME, Centre for Economic Analysis 2013
eligible costs. Approved and disbursed funds are non-refundable, wherein the user may not alienate or impair the purpose of the investment within five to seven years from the date of receipt of the final payment of support.

Financial aid is support for training and information of farmers, advisory services for the development of agriculture, to start agricultural activity, leaving the agricultural activity and for producer groups.

Direct payments for rural development is a compensatory payment to support the income generated from agriculture as compensation for losses incurred due to use of agricultural production practices for environmental protection or due to increased costs for implementation of higher standards of protection environment. Grant financial support for investment and direct payments to rural development are implemented with contract duration of five to seven years.

Rural development measures shall accompany and complement to the direct support measures (market policy and income support). Measures of the rural development policy aimed at increasing the competitiveness of the agri-food sector and to strengthen the economic and social position of rural areas by increasing the incomes of agricultural holdings, as well as by increasing the employability of rural population outside of the agricultural sector.

5. CONCLUSION

Economic and social development of the rural sector is a key prerequisite for increasing food safety. Poverty, hunger and malnutrition are the main causes of accelerated migration from rural to urban areas in developing countries. Rural areas in developing countries lack the technical and financial resources and adequate educational infrastructure for the population. In these areas there are not enough opportunities for new revenue, an inadequate crop cultivation, inadequate maintenance of production systems, inadequate distribution networks, limited access to public services and poor quality of such services. The development of rural areas is determined by the available labor force, infrastructure, markets for agricultural products and foreign investment in the agriculture sector. High skilled labor, investment and modernization of infrastructure or construction of irrigation systems for arable land, the construction of regional and local roads in rural areas, construction of health institutions, are essential for rural development. Development of markets for agricultural products allows the increased placement of manufactured products, while the growth of investment is main engine of economic growth.

The development of the Common Agricultural Policy of the European Union should be monitored during the process of Macedonia's integration in the European Union. Big part of the EU budget is allocated for the development of the agricultural sector and rural development. The given support by the European Union is in different forms and for different purposes, such as: subsidies for certain crops, the direct payments to farmers, support for investment and trade. Monitoring measures and policies of EU rural development policy helps to illustrate the steps that need to be made for the development of rural areas in the Republic of Macedonia. Diversification and improving the quality of life is the basic tool of rural development policy of the European Union. Building an appropriate infrastructure: roads, water and sewage systems, medical facilities, the development of rural tourism with usage of existing resources can improve the quality of life. It is necessary to stimulate the development of Macedonian rural areas by encouraging the development of small farms with sustainable intensification of agricultural activities, shifting to environmentally friendly production and
development of biodiversity, increase soil fertility, pollination, destroying pest and maintenance of water resources. The successful utilization of European funds- IPARD will be seen only with quality investments that will contribute to the introduction of new methods of production and to encourage entrepreneurship. It will be very important development momentum than quantitative volume of utilization of funds. For the realization of these investments, it is important to increase the volume and accessibility of credit resources, to advance the knowledge, information and transparency on the situation in agriculture, maximum application of the principle of partnership of all stakeholders, and building and raising the absorption and administrative capacity.

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[9] Research for improving the efficiency and effectiveness in the allocation of IPARD funds, Center for Economic Analysis 2013