

# **SUPPORT TO THE MANAGEMENT OF STATE OWNED AGRICULTURAL LAND IN FYR MACEDONIA**

**Kristina MITIC ARSOVA, FYR Macedonia**

**Key words:** Agricultural land management, state owned agricultural land, land management tools, Former Yugoslav Republic of Macedonia

## **SUMMARY**

Since its independence in 1991 FYR Macedonia was going through long way of transition from a centrally-planned to a market economy. The progress is quite significant with unemployment and poverty showing signs of declining, but much remains to be done towards continuous economic growth and improvement of the business environment. Agriculture is the third most important sector of Country's economy. The current status of EU Candidate Country enables access to financial assistance mechanisms, but it also requires adjustments and reforms in the agricultural sector. The 230 000 ha of state owned agricultural land are considered as significant national asset and improvement of its management is one of the priorities of the Ministry of Agriculture, Forestry and Water Economy (MAFWE). Notable progress has been achieved in this area with joint work of FAO and MAFWE through implementation of the technical assistance project. This paper presents the situation until 2009 and the project implementation process with specific focus on the introduction of Electronic System for Land Management (SUZ) within MAFWE. Improvement of the land management of state owned agricultural land is expected to be a step forward towards strengthening the agricultural industry and preparation of land markets for EU accession.

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## **1. COUNTRY BRIEF**

The Former Yugoslav Republic of Macedonia is a small land-locked country with diversified natural endowments and climate and “melting pot” of variety of ethnic groups and cultures.

The Country with an area of 25 713 km<sup>2</sup> and population estimated over 2 million is located in the South Western part of the Balkan Peninsula geo-strategically positioned at the crossroads of two major transport corridors linking the Central Europe to the Adriatic, Aegean and Black Seas.

As an independent state from 1991, after the breakdown of former Yugoslavia, the Country was going through long way of transition from a centrally-planned to a market economy. Progress in this area is quite significant with unemployment and poverty showing signs of declining, but much remains to be done towards sustained economic growth and improvement of the business environment.

Membership of the European Union is a strategic goal of the FYR Macedonia, ever since the country’s independence. The current status of EU Candidate Country enables access to financial assistance mechanisms, but it also requires adjustments and reforms in the Country.

## **2. THE IMPORTANCE OF THE AGRICULTURAL SECTOR**

The country is largely hilly and mountainous. The combination of Continental and Sub Mediterranean climate, characterized by long, warm summers and short, not too severe winters, and fertile soil provide generally excellent conditions for production of a range of food products. The agriculture sector plays an important role in the country’s economy, its contribution to GDP accounts for nearly 10% and is relatively stable. Together with food processing the percentage increases to 17%. Agriculture has always served as a shock absorber for the socio economic and structural changes in industry and other sectors of the economy.

As in many Western Balkan countries, almost half the population lives in rural areas.

The structure of the agricultural sector is characterized by small-sized family farms - around 80% of agriculture holdings are estimated to be 2.5 – 2.8 ha on average; they are owned or leased, and are highly fragmented into small parcels.

Almost the totality of the Gross Agricultural Output (70%) is generated by crop production, where vegetables are the main contributors. Tomatoes, peppers and melons dominate the vegetable production and make the Former Yugoslav Republic of Macedonia a net exporter of processed vegetables. Other important agricultural products are fruit, cereals, tobacco and grapes for wine production as well as for direct consumption. Livestock output has a smaller contribution; dairy farming with cow milk production dominates this sub sector.

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### **3. STATE OWNED AGRICULTURAL LAND – FACTS AND FIGURES**

About 39% of the total area of the Former Yugoslav Republic of Macedonia, or 1.01 million hectares, is agricultural land, split almost evenly between cultivated land (arable land orchards, vineyards and meadows) and permanent pastures. Another 37% of the land is upland or mountainous forestland, while the rest includes lakes and urban areas (or not used for agricultural purposes). The majority of the cultivated land is arable land, permanent crops represent 7% (35 000 ha) and meadows 58 000 ha. State-owned agricultural land covers 237,882 hectares (according to the Agency for Real Estate Cadastre), or about 30 percent of all agricultural land, of which about half is already let to more than 6000 tenants/concessionaires. The manner in which this land is owned, occupied and farmed is of considerable national economic and social significance.

### **4. STATE OWNED AGRICULTURAL LAND MANAGEMENT UNTILL 2009**

#### **4.1 Policy**

The Ministry of Agriculture Forestry and Water Economy (MAFWE) does not have formal statement of policy relating to management of state owned agricultural land. The management of the state owned agricultural land in the past decade was mostly influenced by short term political decisions correlating with the processes of privatization of the state owned enterprises (socialist agro – combinats and cooperatives), local demand from farmers or simply, by political strives to temporary influence the economic stability in particular regions of the Country. In addition, no informed discussion or debates are held among the state institutions or stakeholders regarding the state owned agricultural land.

The Macedonian Government recognized the need for improvement in the respective area and requested a technical assistance from FAO for assessment of the situation, preparation of proposal on viable policy options and implementation of specific measures for enhancement of the MAFWE's technical capacities on agricultural land management.

#### **4.2 Legal bases**

Agricultural Land Law from 2007 (The Official Gazette of the Republic of Macedonia No. 135/07, 17/08, 18/11, 42/11, 148/11, 95/12) stipulates the leasing, conversion, consolidation (to some extent), protection and building on agricultural land in state ownership.

Some of the important aspects of the law with regard to the state owned agricultural land are:

- Bar on sale of state-owned agricultural land;
- Obligation to lease the state owned agricultural land in accordance with the Cadastral records;
- Long term leasing arrangements stipulated for a period from 10 to 50 years;
- Bar on sub – letting of state owned agricultural land;

#### **4.3 Practice**

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### 4.3.1 Institutional arrangements

The agricultural land management structure is divided in several interlinked units within the Land Registration and Management Department (LRMD) and other structures in the MAFWE (33 branch offices and special committees for approval of the land leases, the State advisors and the Minister for Agriculture). The overall responsibility for land management, however, lies in the LRMD.

The hierarchical scale of the Ministry of Agriculture, Forestry and Water economy (MAFWE) with regard to agricultural land issues is shown bellow [figure 1].

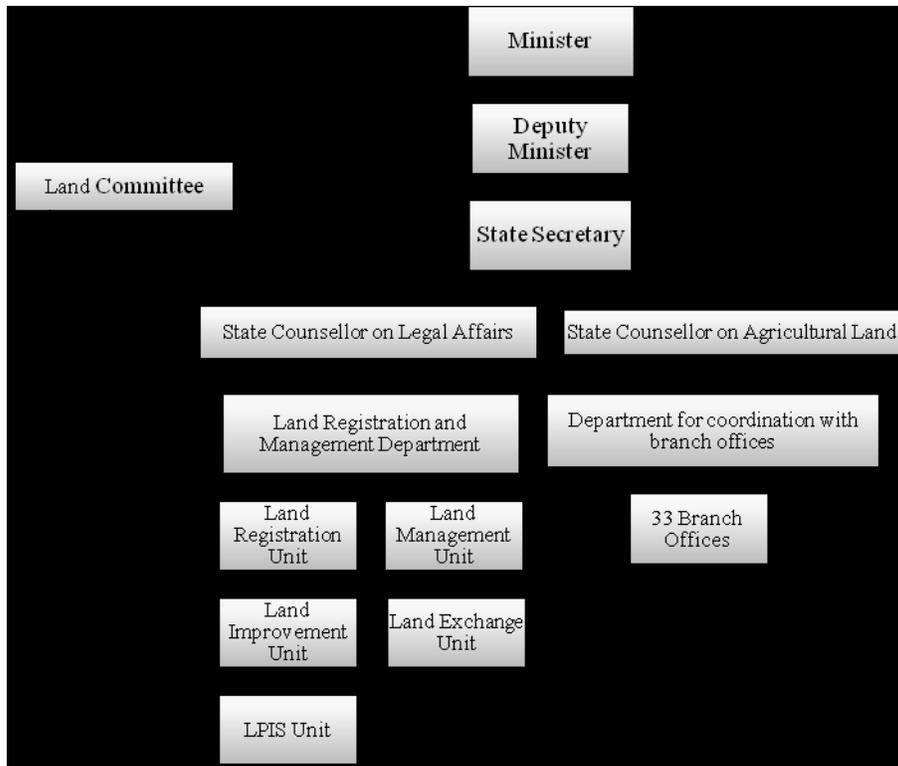


Figure 1

Management actions require communication and data exchange with other relevant state institutions like the Agency for Real-Estate Cadastre (AREC), Ministry of Finance (MoF), Ministry of Economy (ME), IPARD Payment Agency.

### 4.3.2 Agricultural land leasing modus operandi

The management of agricultural land in state ownership can be operationally segmented into four levels. The order and hierarchy of performance levels and functions in each of them arise partly from the legal provisions and mostly from traditional activities [Figure 2].

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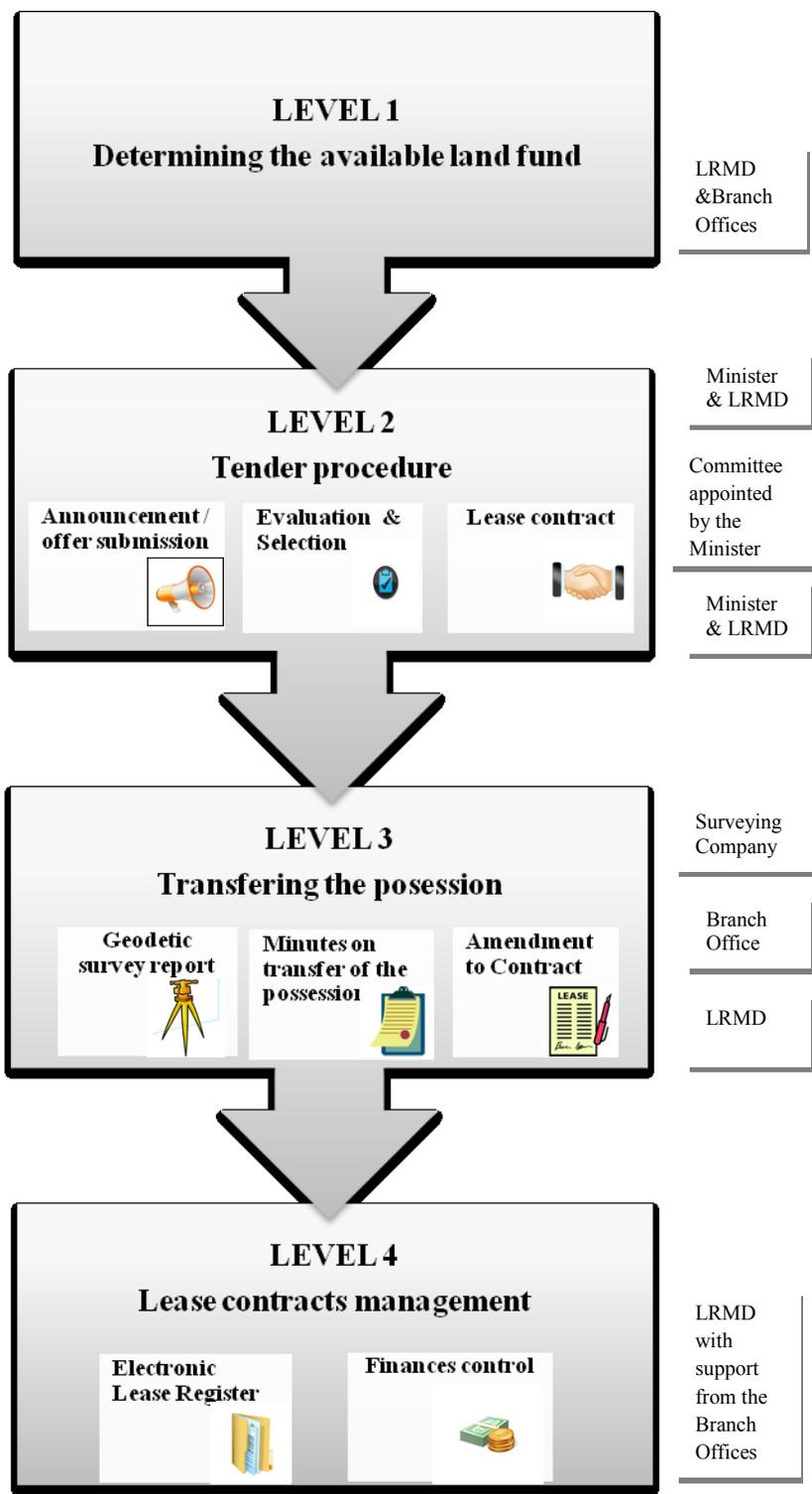


Figure 2  
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### **4.3.3 Agricultural land management practice challenges**

Without well structured system for land management, MAFWE was meeting series of challenges in the management process. Land management related challenges identified in the period from 2007 – 2009 in MAFWE were both technical, inter – institutional and policy related<sup>1</sup>.

#### **Challenges related to production of accurate records:**

- No official register of leases on state owned agricultural land was maintained within the MAFWE thus the figures of total area let and number of tenants were subject to speculation;
- By-laws for implementation the Agricultural Land Law regulating the detailed selection procedures of leasing agricultural land were not drafted;
- Mechanisms for determination of the state owned land fund do not function properly. MAFWE does not have regular data exchange mechanism with the Agency for Real Estate Cadastre and the alpha numerical data used in the leasing process are mainly outdated and in most cases irregular this situation is producing lease enforcement problems in significant percentage and overburdening the land managers with additional work on daily bases.
- Mechanisms for rent collection and payment enforcement were not properly developed. The Ministry of Finance responsible for the State budget management was not supplying the financial information on rent payments to MAFWE on regular bases; As a result MAFWE was not able to undertake legal measures towards the debtors due to lack of figures of total rent collected and arrears. To override such situation MAFWE established quite complicated and inaccurate system of manual collection of bank payment documents from tenants through the branch offices. Out of same reasons MAFWE was not able to regain possession after lease contract termination resulting in significant budget losses.

#### **Identification of responsibilities:**

Although the MAFWE in the past decade tends towards rather centralized land management structure with the leading role of LRMD, the land managers within the department operated without clear division of responsibilities and administrative guidelines. The above mentioned provoked a tendency of individual interpretation of the legal provisions and procedures among LRMD employees causing inconsistency in the land management actions.

## **5. TOWARDS IMPROVEMENTS - FAO PROJECT**

TFYR of Macedonia has recognized that its real estate assets have not been utilized in a best possible way to serve the interests of the citizens of TFYR of Macedonia. This has been recognized also among the donors and in particular by World Bank project, which addresses land registration, land policy and other land-related matters (Real Estate Cadastre and Registration

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<sup>1</sup> See chapter 4.1

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Project) and by another World Bank project (Agriculture Strengthening and Accession Project) that support MAFWE.

In 2006, MAFWE approached FAO for assistance in carrying out an investigation in a rural area and preparation a project proposal for improving the state land management of TFYR of Macedonia designed to meet the needs of the Department managing about 230 000ha state owned arable agricultural land. The request led to a now completed TCP Facility Project, which resulted in the identification of an economically important asset with a clear separate organizational identity.

A relatively small, but very well structured, FAO technical cooperation project followed from September 2010 - 2012. The project achieved results in following areas:

- Initiation of policy improvements through advising the Macedonian Government of viable policy options for state owned agricultural land and financial implications for each proposed option and starting up a broader land policy related discussions among stakeholders;
- Improvement of financial and overall management control by introduction of complex IT system for land management
- Organizational improvements and upgrading of land management skills through preparation of draft administrative guidelines, developing the land managers ToR, transfer of international knowledge and conduction of trainings and lectures on valuation, accounting and bookkeeping, land and contract law, map reading and improvement of IT skills.
- Technical up grade by provision of necessary IT equipment and software for optimal functioning of the IT system.

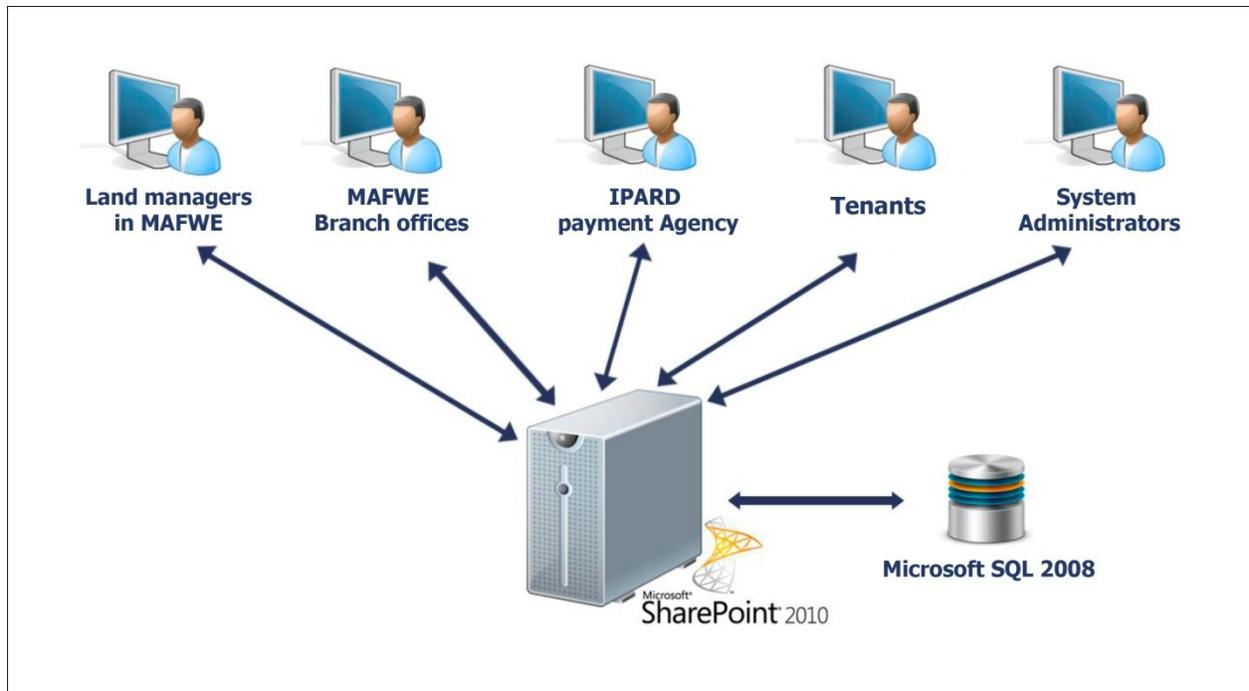
This paper presents, in brief, the situation until 2009 and the project implementation process with specific focus on the introduction of Electronic System for Land Management (SUZ) to MAFWE as a step forward towards improvement of the land management in FYR Macedonia.

## **6. IT SYSTEM FOR AGRICULTURAL LAND MANAGEMENT – AN EFFICIENT TOOL FOR MAFWE LAND MANAGERS**

The electronic system for land management (SUZ) is a complex IT solution working on Microsoft Share point platform designed to completely follow the administrative and legal procedures of the land leasing process of state owned agricultural land conducted by MAFWE. It was introduced in MAFWE in July 2012 and it is expected that by the end of 2012 all components of the system will be fully operational. <sup>2</sup>

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<sup>2</sup> For the challenges in the SUZ operation see chapter 6.3  
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Picture 1: Internal and external users of SUZ

Taking into consideration the complexity of the issue, a need for direct linkage with relevant state institutions was recognized in the early stage of the SUZ design and negotiations and discussion were initiated with the Cadastral Office and the Ministry of Finance as the main identified data providers for MAFWE. Future integration with other existing IT systems of MAFWE (LPIS, Farm Register) was carefully examined and possibilities for future integration were designed into the SUZ.

SUZ serves not only as a document management tool, but as an effective financial and accounting tool for MAFWE land managers. Comprised of three pillars covering the three most important aspects of the land leasing process, SUZ is capable to provide alpha-numerical data, analytical and statistical reports, as well as, tools for financial management.

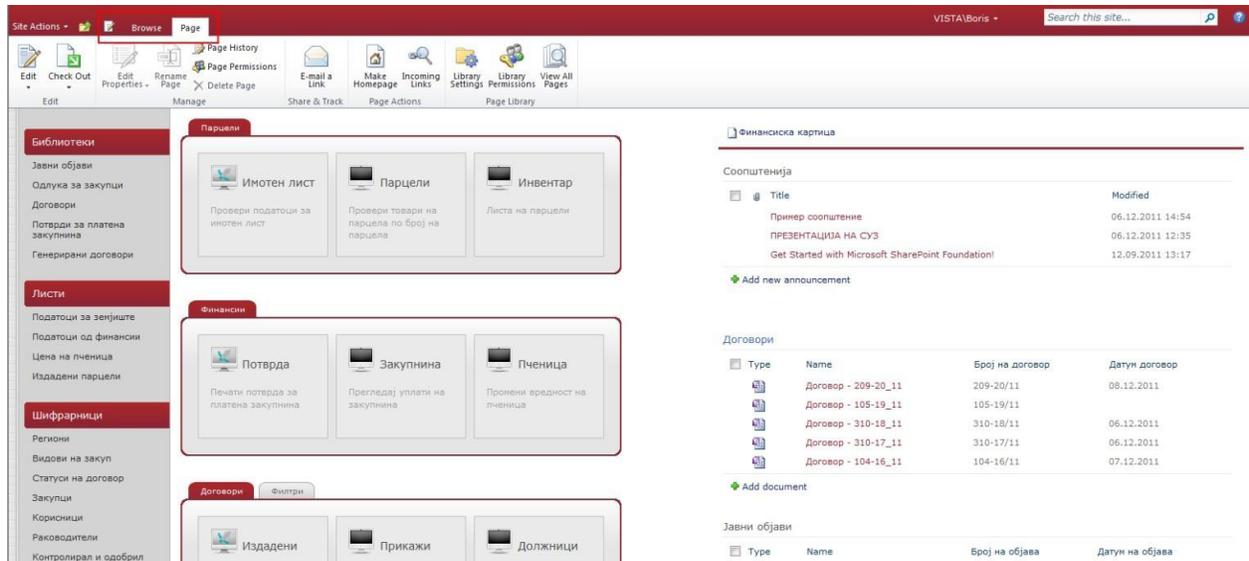
Designed to include as many leasing processes as possible with minimum human factor involvement, it provides automatic preparation of land mass for announcement, templates for all documents produced in the leasing process, calculations and inter-links with already existing data.

The system was designed and implemented with joint efforts of a dedicated team of professionals from MAFWE, project team and external consultants.

The specific pillars of the SUZ system and their functionalities are described below.

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Picture 2: Snapshot of SUZ system interface

## 6.1 SUZ pillar I: Land Inventory

Since MAFWE is legally binded to lease the state owned agricultural land according the real estate cadastre data, the first important step undertaken was to ensure a permanent data flow between MAFWE and the Agency for Real Estate Cadastre (AREC). For the needs of the LRMD, the AREC provides full inventory list of all state owned land parcels containing the basic alpha numerical data on the parcels registered in the property certificates (owner, location, class, land use, area). The up-dated inventory list is automatically uploaded in SUZ four times a year.

In addition, a web service was developed enabling access to all information per cadastral parcel or property certificate in real-time, including user rights, mortgages, leases or other real rights registered in the real estate or land cadastre.

Being able to follow the changes in the property through these above mentioned mechanisms MAFWE will avoid irregularities in future leasing procedures and in the existing lease contracts arising from utilization of outdated or partial data in the land management process.

The purpose of this part of the SUZ is not only correctional, as above explained, but it has even greater role as planning tool for the land managers. Using a number of statistical and analytical reports, including total area available and leased, analyses of the land mass by class, use, area, municipality, region, average size of parcels, average land use, on both national and regional level, SUZ provides necessary information for planning of land management future actions.

The quality of the information stored in this pillar of the system depends solely on the quality of the data received from the Cadastral office and any inconsistencies will consequently produce adverse effects to the land management process. It is expected such cases are not likely to occur in a significant percentage considering the massive and quite successful reform that the Agency for Real Estate Cadastre is undertaking.

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## **6.2 SUZ pillar II: E-register of lease contracts**

This part of SUZ is in accordance to MAFWE obligation to maintain a Land lease register envisaged in the Agricultural Land Law. All information from the active and terminated lease contracts are registered in this part of the system: tenants details, duration of the leases, dates of signature, numbers of the public announcement for granting, cadastral information on the parcels leased (this interlinked with the data from pillar I), date and area transferred into possession, inspection reports, ongoing or finished proceedings for termination, rent calculations, MAFWE employees responsible etc.

In addition, scanned copies of all documents connected to the lease are attached.

A number of statistical and analytical reports are produced by this part of the SUZ providing information on national and regional level on the number of tenants, their legal status, list of lease contracts and amendments per tenant, total area granted by the commission in comparison of the total area actually transferred into possession, average rent price per year. Notifications for the land managers following the process of contract fulfillment are also envisaged.

Since the intention of the project was not just to design the software but to hand over a fully functional system to MAFWE, joint LRMD and project team worked on the data entry of the existing lease agreements and supporting documentation. The data entry process initiated a revision of the respective documents, identifying and amending procedural irregularities and technical errors in attempt to feed SUZ with as accurate data as possible. The process of revision is expected to be finished by the end of 2012.

## **6.3 SUZ pillar III: Financial control**

The third very important part of the system turned out to be the most complicated one for introduction. Not standardized procedures for rent payment, technical errors in MAFWE's documents and insufficient entry data made the electronic financial control very hard at the moment of SUZ introduction in MAFWE. Although a permanent connection with the State Budget Holder – the Ministry of Finance had been successfully established, SUZ was not able to link the individual rent payment information received from the State Budget with the active lease agreement data. To mitigate this problem detailed payment instructions containing information that should be individually indicated on the bank transfer documents were delivered to the tenants through the branch offices. MAFWE will continue to work on amendments to the lease contracts in order to improve the quality of existing financial records. This being done in the expected timeframe, SUZ will be able to automatically calculate rent paid and arrears by the end of 2012 per tenant and on national level. This will also enable another operation available through SUZ - tenant's online access to the personal status of the contractual financial obligations.

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## **7. CONCLUSIONS**

Policy options are always constrained by what is possible in practice. Macedonian Government has recognized the need for identification of the technical and practical constraints of the state owned agricultural land management task and undertakes steps for enhancement with the help of international community. Improvement of the land management of state owned agricultural land is expected to be a step forward towards strengthening the agricultural industry and preparation of land markets for EU accession.

With the introduction of semi- automatic processes of land management within LRMD, a sound base for future planning is established. Now MAFWE has a useful tool for provision of information needed in the policy planning process. The revision of respective lease documentation statistical, financial and analytical reports on the situation improve the position of land managers and politicians in determining management priorities and long term policy goals. During the project period FAO prepared a comprehensive document laying down the possible policy options which, in combination with the SUZ information, might develop in sound agricultural land management strategy on national level. Although the Ministry has not taken any immediate actions towards adopting long term policy, the document already initiated discussions among stakeholders on national level and raised interest throughout the business community and high governmental and parliamentary structures. Once such policy decisions are made, legal changes should follow to close the circle of overall agricultural land management improvement.

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## **BIOGRAPHICAL NOTES**

The author presently works as Legal Expert in Fagricom – Association for Agricultural Marketing and Rural Development. Since 2006 has been involved in number of donor projects providing technical assistance to the Ministry of Agriculture, Forestry and Water Economy, Ministry of Justice, City of Skopje and Municipalities in FYR Macedonia as legal draftsmen and advisor.

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## **CONTACTS**

Legal Expert, Kristina Mitic Arsova  
Fagricom – Association for Agricultural marketing and rural development  
27 March St. No.14  
Skopje  
FYR MACEDONIA  
Tel. ++389 2 3179 066  
Fax. ++389 2 3179 065  
Email: [kristina.mitic@fagricom.org.mk](mailto:kristina.mitic@fagricom.org.mk)  
Web site: [www.fagricom.org.mk](http://www.fagricom.org.mk)

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