

Competitiveness and Private Sector  
Development



# Western Balkans Competitiveness Outlook 2024: North Macedonia





Competitiveness and Private Sector Development

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# Foreword

The *Western Balkans Competitiveness Outlook (CO) 2024* is the fourth edition of the OECD's flagship publication that offers an in-depth assessment across 15 policy areas key to bolstering economic competitiveness in the Western Balkans. The CO provides comprehensive guidance to navigate economic reforms, enhance regional co-operation and help the region's economies align their legal frameworks and policies with those of the OECD and EU. It also enables policy makers to track performance over time, by comparing outcomes against those reported in the previous editions since 2016.

The CO 2024 comprises seven reports: one regional and six economy profiles. Each economy profile evaluates performance across each of the 15 policy dimensions, highlighting areas of progress as well as those requiring continued improvement. The regional profile presents findings for the whole Western Balkans across five policy clusters – *infrastructure and connectivity, skills, business environment, digital transformation and greening* – and seeks to evaluate the broader regional trends in these areas.

Complementing these reports, the publication's findings are accessible for the first time through a landmark interactive digital tool: the [Western Balkans Competitiveness Data Hub](#). By providing policy makers with an enhanced ability to assess and benchmark economic reforms seamlessly, the Data Hub aims to support policy makers in designing economic reforms that drive competitiveness and convergence.

The North Macedonia profile of the CO is the outcome of work co-ordinated by the OECD's South East Europe Division. The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations and Co-operation Directorate, and Marzena Kisielewska, Head of the OECD South East Europe Division.

Umur Gökçe and Ali-Fuad Turgut (OECD South East Europe Division) took the lead in the work, which was initially also managed by Martin Kohtze. The project also benefited from inputs by William Tompson (OECD Global Relations and Co-operation Directorate) as lead reviewer of the publication.

Our special thanks also go to the North Macedonian government officials and other stakeholders who have been actively involved in the data collection, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of Stojne Danilova Ivanoski and Dimitar Vanchov, CO National Co-ordinators of North Macedonia, and Marina Mijovska, the National Statistical Office Coordinator of North Macedonia, as well as the following individuals, who supported the data-gathering and verification process.

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The report was prepared for publication by Jennifer Allain, with the strategic support of Robert Akam (OECD Global Relations and Co-operation Directorate). It was edited and proofread by Randall Holden. The following people also contributed to the success of the project: Dardan Gashi, Vojtech Holik and Stefano Ottino.

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# Reader's guide

## Assessment process

**Following the first three *Western Balkans Competitiveness Outlook* assessments, published in 2016, 2018 and 2021, the fourth assessment cycle was launched on 27 April 2023.** In North Macedonia, the cabinet of the Deputy Prime Minister of the Government in charge for Economic Affairs, Coordination of Economic Sectors and Investments held the main role of co-ordinator for the assessment process, while for each of the 15 thematic policy dimensions, a relevant line ministry was delegated as policy dimension co-ordinator responsible for input collection. Once the assessment was launched, the OECD team introduced new digitalised frameworks for assessing each of the 15 policy dimensions. Consisting of qualitative questionnaires and a statistical data sheet, these frameworks were presented and explained by the OECD, with particular attention paid to new questions and indicators.

**Following the launch of the assessment, the National Co-ordinators disseminated the assessment materials among the co-ordination network and completed the assessment between April and August 2023.** They assigned a score to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessment materials were returned to the OECD team between August and October 2023. The OECD then reviewed the inputs and, where necessary, requested additional information from the National Co-ordinator. The updated assessment materials were sent back to the OECD over the defined period until November 2023.

**Upon final completion of the assessment materials, the OECD organised a fact-finding meeting in Skopje on 10 October 2023 to gain a better understanding of the policy landscape, to collect additional information for indicators where necessary, and to discuss the first set of selected draft findings.** Based on the additional inputs received and the outcome of the discussions on preliminary analyses and recommendations, the OECD compiled the key findings for each of the 15 policy dimensions. These findings were then presented during a dedicated preliminary findings meeting held on 13 December 2023 and discussed with the National Co-ordinators of the Western Balkan economies. The OECD then held consultations on these findings with local non-government stakeholders, including chambers of commerce, academia and NGOs, in January and February 2024. The draft Competitiveness Outlook economy profile was made available to the Government of North Macedonia for its review and feedback from February to March 2024.

## Assessment approach

### Coverage

**This publication features data from and a comprehensive analysis of the six Western Balkan economies** – Albania, Bosnia and Herzegovina, Kosovo\*, Montenegro, North Macedonia, and Serbia – and provides a comprehensive analysis of their key sectors, trends, and challenges for achieving convergence with the European Union and OECD area.

**The data collection and assessment are standardised for the region, with some differences in the case of Bosnia and Herzegovina.** As policy making in Bosnia and Herzegovina is much more decentralised than that in the other Western Balkan economies, information from the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as from the state level has been taken into account in the assessment and scoring of policy dimensions. While Brčko District was not directly included in the assessment, its policies have been specified in various sections of the report, as appropriate. For more information on the exact methodology of the scoring, refer to the Bosnia and Herzegovina profile of CO 2024.

### Timeline

**The assessment and monitoring of the policy developments were conducted between 1 March 2021 and 1 March 2024.** Any policy changes and new developments after 1 March 2024 have not been considered in the assessment.

### Scoring

**The assessment comprises a total of 15 policy dimensions that are key to economic competitiveness; these constitute the central building blocks under national economic reform agendas.** Each policy dimension is divided into several sub-dimensions (generally between 2 and 4), which are further comprised of granular indicators.

**The methodology consists of assessing a total of 147 qualitative indicators across the 15 policy dimensions, presented in Table 1.** In addition, there are a total of 265 quantitative indicators that provide insights into the policy outcomes, demonstrating whether policies bring out the desired results and the extent to which they help to achieve the Western Balkans' socio-economic convergence with the OECD area and EU.

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\* This designation is without prejudice to positions on status and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

**Table 1. Policy dimensions and indicators**

Dimension	No. of qualitative indicators
Investment policy and promotion	8
Trade policy	6
Access to finance	8
Tax policy	11
State-owned enterprises	11
Anti-corruption policy	13
Education policy	9
Employment policy	12
Science, technology and innovation	9
Digital society	11
Transport policy	10
Energy policy	11
Environmental policy	10
Agricultural policy	8
Tourism policy	10

**The 2024 assessment retains the 0-5 scoring scale from previous cycles. However, the scoring criteria have been revised to reflect current best practices and policy trends in OECD and EU countries, as well as policy developments in the Western Balkans.** Each indicator is assigned a numerical score ranging from 0 to 5 based on the level of policy development, implementation and monitoring & evaluation, enabling performance comparison across economies and over time. Level 0 represents the weakest performance, while Level 5 indicates the strongest, signifying a higher level of policy convergence towards OECD good practices and standards.

**Each criterion that is met on the scale of Level 0 to Level 5 indicates a level of policy sophistication.** This form of scoring allows for more nuanced score progression along the scale, and permits the consideration of more refined inputs in scoring. For this assessment, the OECD team has also prepared simplified versions of the scoring methodology, using benchmark criteria to better illustrate the rationale behind the scores. It is only a simplified representation, however, and does not encompass all the elements that influence the scoring. Table 2 presents an example indicator for accommodation quality (Tourism policy), with assessed criteria in the second column.

As part of the current assessment cycle, **the *Western Balkans Competitiveness Data Hub* ([www.westernbalkans.competitiveness.oecd.org](http://www.westernbalkans.competitiveness.oecd.org)) has also been developed to access all the scores by indicator, showcasing the fulfilment of criteria by each economy and offering the rationale behind scores.** Scores can be explored through policy dimensions as well as over time, and in comparison to other Western Balkan economies.

**Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality**

Score level	Policy requirements	Criterion met
Level 0	A consistent accommodation quality standard framework has been adopted.	✓
	Measures facilitating investments in high-quality private accommodation development or renovation have been adopted.	✓
	Measures facilitating investments in renovation or in building up new high-quality private accommodation are implemented.	✓
	Accommodation quality standard framework is in the process of implementation.	✓
	Energy efficiency requirements are included in the accommodation quality standard framework.	✓
	Regular inspection of quality standards is in place.	X
	Requirements for persons with disabilities are included in the quality standards for accommodation.	
	The sharing economy is regulated.	X
	Accommodation facilities that enhance energy efficiency efforts are supported by the government.	X
	Regular monitoring of the accommodation framework is conducted.	X
Level 5	An independent ex post evaluation has been conducted to assess the effectiveness of the implemented measures and to take corrective action.	X
<b>Score for North Macedonia</b>		<b>2.5</b>

Notes: The indicator and criteria shown in the table above do not reflect the actual score for North Macedonia and are included solely for demonstration purposes. Moreover, there is no methodology for specific criteria being assessed, which would translate directly into a score. In other words, no criterion necessarily results in a score increase.

**The final scores represent a simple average of all indicators**, and not individual sub-dimensions. Table 3 illustrates an example of the dimension scoring system and thus the final scores. The number of indicators included in each sub-dimension varies depending on the complexity and scope of the policy area concerned. Therefore, the sample average of the sub-dimension scores can be different from the final dimension scores.

**Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.7	3.6
	1.2: Investment promotion and facilitation			3.3	3.0
	1.3: Mobilising sustainable investment			2.3	2.6
<b>North Macedonia's overall score</b>		<b>3.3</b>	<b>3.0</b>	<b>3.2</b>	<b>3.1</b>

For further details on the *Competitiveness Outlook* methodology and individual scores for each indicator, as well as the changes in scope compared to the last assessment cycle in 2021, please refer to the detailed assessment methodology on the *Western Balkans Competitiveness Data Hub*.

### Comparability

**The *Western Balkans Competitiveness Outlook* reflects a continual process of methodological refinement aimed at enhancing the robustness and comparability of indicators.** However, evolving policy trends in the OECD area and EU Member States, alongside shifting priorities in the Western Balkans, can sometimes make a direct comparison of scores difficult over time. In the 2024 edition, scores are compared back to 2021 and 2018. Due to vast methodological changes, direct comparisons to the first edition in 2016 are not feasible.

**Since the 2018 edition, indicators have also been reorganised into different sub-dimensions, reflecting the policy aspects that are of key importance for the Western Balkans.** This does not have any impact on the overall score comparability, i.e. dimension scores remain comparable. However, sub-dimension scores cannot be compared across earlier editions.

# Acronyms and abbreviations

5G	Fifth-generation Technology Standard for Cellular Networks
ADR	Alternative dispute resolution
AEC	Agency for Electronic Communications
AEOI	Automatic exchange of information
AFSARD	Agency for Financial Support of the Agriculture and Rural Development
AI	Artificial Intelligence
AIFM	Alternative investment fund manager
AIFMD	Alternative Investment Fund Managers Directive
AKIS	Agriculture Knowledge and Innovation System
ALMP	Active labour market programme
AMLD5	Fifth Anti-Money Laundering Directive
APERM	Agency for the Promotion of Entrepreneurship
API	Application Programming Interface
ASIFI	Agency for Foreign Investments and Export Promotion
B2B	Business-to-business
B2C	Business-to-consumer
BAN	Business Angel Network
BAU	Business Accelerator UKIM
BCRD	Broadband Cost Reduction Directive
BEPS	Base erosion and profit shifting



BEWOP	Boosting Effectiveness of Water Operators' Partnerships
BITs	Bilateral Investment Treaties
CAP	Common Agricultural Policy
CBA	Cost-benefit analysis
CBAM	Carbon Border Adjustment Mechanism
CbC	Country-by-country
CDPS	Electronic System for Customs and Excise Declaration
CEEPUS	Central European Exchange Programme for University Studies
CEFTA	Central European Free Trade Agreement
CEO	Chief Executive Officer
CERT	Computer emergency response team
CFCS	Centre for Cyber Security
CIT	Corporate income tax
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CO	Competitiveness Outlook
CO <sub>2</sub>	Carbon dioxide
CP	Consumer protection
CPR	Central Population Register
DBNM	Development Bank of North Macedonia
DLT	Distributed ledger technology
DMMOs	Destination management and marketing organisations
DMOs	Destination management organisations
DSO	Distribution System Operator
DTIDZ	Directorate for Technological Industrial Development Zones
EBRD	European Bank for Reconstruction and Development
EC	European Commission

ECAA	European Common Aviation Area
ECE	Early childhood education
ECEC	Early childhood education and care
EEA	European Environment Agency
EFSA	European Food Safety Authority
EFTA	European Free Trade Association
EIB	European Investment Bank
eIDAS	Electronic identification, authentication and trust services
ELA	European Labour Authority
EMD2	Second Electronic Money Directive
EMIS	Education management information system
ENER	Unique National Electronic Register of Regulations
ENISA	European Union Agency for Cybersecurity
ENTSO-E	European Network of Transmission System Operators for Electricity
EOSC	European Open Science Cloud
EPO	European Patent Office
EPR	Extended producer responsibility
EQF	European Qualifications Framework
ERA	European Research Area
ERC	Energy Regulatory Commission
ERI SEE	Education Reform Initiative of South Eastern Europe
ERP	Economic Reform Programme
ESA	Employment Services Agency
ESFRI	European Strategy Forum on Research Infrastructures
ETF	European Training Foundation
EU	European Union

EUIPO	European Union Intellectual Property Office
EUR	Euros
EURES	European Network of Employment Services
EUSAIR	EU Strategy for the Adriatic and Ionian Region
FAB	Functional Airspace Block
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign direct investment
FHTP	OECD Forum on Harmful Tax Practices
FINA	Financial Agency, Croatia
FIT	Feed-in tariffs
FITD	Fund for Innovation and Technology Development
FTAs	Free Trade Agreements
FVA	Food and Veterinary Agency
GAP	Good Agricultural Practices
Gbps	Gigabytes per second
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GERD	Gross domestic expenditure on research and development
GFF	Green Financing Facility
GHG	Greenhouse Gas
GI	Geographical indications
GIS	Geographical Information System
GloBE	Global Anti-Base Erosion Rules
GMI	Guaranteed minimum income
GMO	Genetically modified organism

GO	Guarantee of origin
GRECO	Groupe d'États contre la corruption
GST	Goods and services tax
ha	Hectare
HE	Higher education
HEIs	Higher educational institutions
IACS	Integrated administration and control system
ICT	Information and communications technology
IFI	International financial institution
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
IMF	International Monetary Fund
INNOFEIT	Centre for Technology Transfer and Innovations
IoT	Internet of Things
IP	Intellectual property
IPA	Instrument for Pre-Accession Assistance
IPA III	Instrument for Pre-accession Assistance III
IPARD	Instrument for Pre-accession Assistance for Rural Development
IPR	Intellectual property rights
IT	Information technology
ITF	International Transport Forum
ITS	Intelligent Transport Systems
JSC	Joint-Stock Company
JSI	Joint State Initiative
LAG	Local Action Group
LPCCI	Law on Prevention of Corruption and Conflict of Interest

LPIS	Land parcel identification system
MAFWE	Ministry of Agriculture, Forestry and Water Economy
MAKSTAT	Macedonian Statistical Office
Mbps	Megabytes per second
MEDF	Macedonian Enterprise Development Foundation
MELQO	Measuring Early Learning Quality and Outcomes
MoES	Ministry of Education and Science
MiFID II	Markets in Financial Instruments Directive II
MiFIR	Markets in Financial Instruments Regulation
MISA	Ministry of Information Society and Administration
MKD	Macedonian denar
MKD-CIRT	Computer Incident Response Team of North Macedonia
MNE	Multinational enterprises
MoE	Ministry of Economy
MoEPP	Ministry of Environment and Physical Planning
MQF	Macedonian Qualifications Framework
MRL	Maximum residue levels
MSCA	Marie Skłodowska-Curie Action
MSE	Macedonian Stock Exchange
MW	Megawatt
NARDS	National Strategy for Agriculture and Rural Development
NBCO	National Broadband Competence Office
NBRNM	National Bank of the Republic of North Macedonia
NCTS	New Computerized Transit System
NDCs	Nationally Determined Contributions
NEA	National Extension Agency

NEC	National Export Council
NECP	National Energy and Climate Plan
NEMO	Nominated Electricity Market Operator
NGO	Non-governmental organisation
NI4OS	National Initiatives for Open Science in Europe
NIS2	Network and Information Security Directive
NISN	National Information Sharing Network
NODE	North Macedonia Digital Economy
NOSCI.mk	National Open Science Cloud Initiative of North Macedonia
NPRD	National Programme for Agricultural and Rural Development
NQF	National Qualifications Framework
NTB	Non-tariff barriers
NTS	National Transport Strategy
OECD	Organisation for Economic Co-operation and Development
OGP	Open Government Partnership
ÖREK	Österreichisches Raumentwicklungskonzept (the Austrian Spatial Development Concept)
ÖROK	Österreichische Raumordnungskonferenz (Austrian Conference on Spatial Planning)
OSH	Occupational safety and health
PDP	Personal Data Protection
PEM	Pan-Euro-Mediterranean
PES	Public employment services
PIRLS	Progress in International Reading Literacy Study
PISA	Programme for International Student Assessment
PIT	Personal income tax
POOCC	Prosecutor's Office for Organized Crime and Corruption
PPPs	Public-private partnerships

PRO	Public Revenue Office
PSD2	Second Payment Services Directive
QDMTT	Qualified domestic minimum top-up tax
R&D	Research and development
R&I	Research and innovation
RAMS	Road Asset Management System
RBO	Register of Beneficial Owners, Croatia
RCC	Regional Cooperation Council
RECA	Registry of Encumbered Moveable Property
REMIT	Regulation on Wholesale Energy Market Integrity and Transparency
RES	Renewable energy sources
RIA	Regulatory impact assessment
RIMS	Rail Infrastructure Management System
RITTD	Research, innovation, technology transfer and digitalisation
S3	Smart Specialisation Strategy
SAA	Stabilization and Association Agreement
SCPC	State Commission for Prevention of Corruption
SEPA	Single Euro Payments Area
SES	Single European Sky
SEZ	Special Economic Zones
SGIF	Strategic green investment fund
SME	Small and medium-sized enterprises
SOE	State-owned enterprise
SOIP	State Office for Industrial Property
SPIs	Safety performance indicators
SPoSC	Single-Point of Service centres

SPP	Single project pipeline
SPS	Sanitary and phytosanitary
SSC	Social security contributions
SSO	State Statistical Office
STI	Science, technology, and innovation
STP	Science and technology park
SWG RRD	Regional Rural Development Standing Working Group
TA	Tax Administration, Croatia
TALIS	Teaching and Learning International Survey
TE	Tax expenditure
TFA	Trade Facilitation Agreement
TFEU	Treaty on the Functioning of the European Union
TFI	Trade Facilitation Indicators
TIDZ	Technological Industrial Development Zones
TIMSS	Trends in International Mathematics and Science Study
TPP	Third-party payment service providers
TSA	Tourism Satellite Accounts
TSO	Transmission System Operator
TTO	Technology Transfer Office
UCITS	Undertakings for Collective Investment in Transferable Securities Directive
UNDP	United Nations Development Programme
UNDRR	United Nations Office for Disaster Risk Reduction
UNECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services

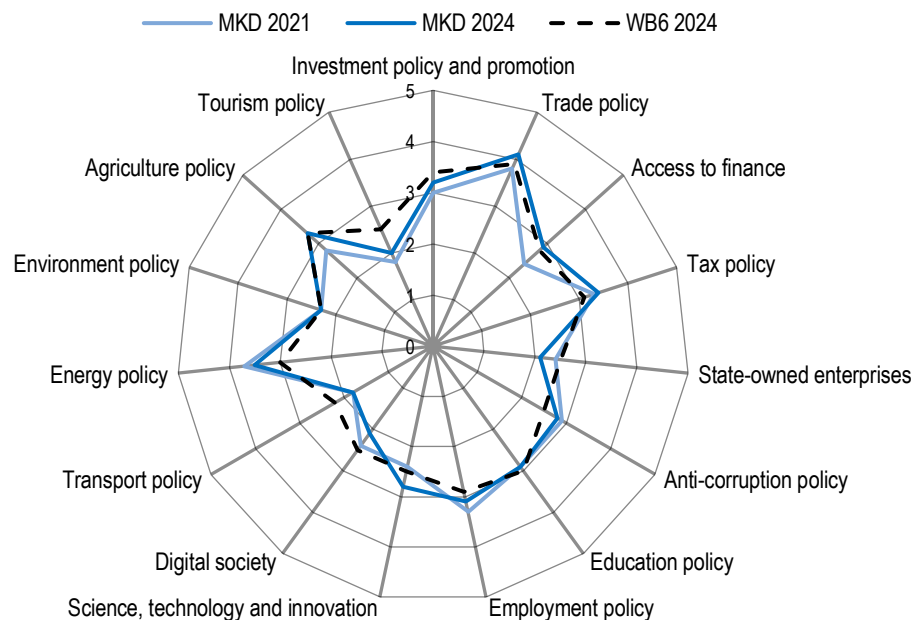


USAID	United States Agency for International Development
VAT	Value added tax
VET	Vocational education and training
WB6	Western Balkan 6
WBIF	Western Balkans Investment Framework
WBL	Work-based learning
WEEE	Waste from Electrical and Electronic Equipment
WEI	Water Exploitation Index
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organisation
WWTP	Wastewater Treatment Plant

# Executive summary

North Macedonia has made mixed progress since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), advancing in 7 of the 15 policy dimensions, regressing in 5 and stagnating in 3. The economy experienced the strongest score increases in the areas of agriculture and tourism policies and access to finance. Figure 1 illustrates that North Macedonia is outperforming the average of the six Western Balkan (WB6) economies across seven policy dimensions. Moreover, the economy positions itself amongst regional leaders with the highest score in trade, tax and energy policies. By contrast, North Macedonia is among the lowest performers in the areas of tourism, digital society and transport policy, scoring below four of its Western Balkan neighbours, highlighting the areas requiring improvement for achieving convergence with the European Union (EU) and the OECD. For additional insights into North Macedonia's performance across various dimensions, trends over time or comparisons with other economies, please refer to the Western Balkans Competitiveness Data Hub at [westernbalkans.competitiveness.oecd.org](https://westernbalkans.competitiveness.oecd.org).

**Figure 1. Scores for North Macedonia across Competitiveness Outlook policy dimensions (2021 and 2024)**



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub for information on the assessment methodology and the individual score assigned to indicators.

StatLink  <https://stat.link/28arnj>

## Main progress areas

The main achievements that have led to increased performance for North Macedonia since the last assessment are as follows:

- **Streamlined and digitalised processes have contributed to facilitating trade.** North Macedonia's overall trade, as a percentage of GDP, reached 171% in 2022, the highest in the Western Balkans. This has partly been due to enhanced trade facilitation measures. In November 2023, North Macedonia launched a green customs declaration system, reducing the time required for import and export procedures and eliminating paper documentation entirely. Additionally, the customs administration rolled out the Electronic System for Customs and Excise Declaration (CDPS), streamlining customs submissions into a paperless, electronic format. These improvements were supported by efficient co-ordination across the relevant ministries and agencies that oversee trade regulations.
- **Developing alternative financing sources has diversified businesses' finance options.** Since 2021, ongoing endeavours have sought to introduce or revise legal frameworks governing alternative financing methods. These efforts have focused on aligning capital market legislation with pertinent EU regulations, with the overarching aim of bolstering investor protection and fostering greater transparency within financial markets. Concurrently, amendments to leasing regulations have coincided with a surge in leasing volumes, resulting in a 75% increase between 2017 and 2022, growing from EUR 62.3 million to EUR 140.1 million.
- **Increased alignment with EU and international standards has strengthened the competitiveness of the agriculture sector.** In 2022, the export of agrifood products increased by 17% compared to the previous year's averages, and constituted around 8.5% of the economy's total exports. Supported by a good network of certification bodies and laboratories, new legislations in food safety and animal health have bolstered policy alignment and ensured the access of Macedonian agrifood products to international markets. Continued alignment with EU regulations, especially in organic farming, will enhance the sector's competitiveness and further facilitate integration into the European market.
- **Advances in bolstering tourism governance have improved collaboration and data collection.** The establishment of a new working group to spearhead the development of a new tourism strategy reflects the government's commitment to promoting inclusive and responsive policy making. North Macedonia has also improved its data collection practices by increasing adherence to international standards. The creation of a permanent data repository, complemented by a monitoring and evaluation mechanism, has enhanced the credibility and reliability of tourism statistics, thereby supporting evidence-based decision making.
- **New policy developments and enhanced financial contributions have improved the science, technology and innovation (STI) landscape.** The new Smart Specialisation Strategy (2023-27) serves as the strategic framework for STI policy and delineates priorities to strengthening research and innovation activities. Although overall investments into research and development (R&D) remain low at 0.38% of GDP, they are growing. Notably, increased funding to the Fund for Innovation and Technology Development (FITD) – the economy's main vehicle for STI activities – has spurred innovation activities. Between 2016 and 2021, the fund supported over 669 projects with almost EUR 50 million through nine programmes that covered commercialisation support, acceleration programmes, and technology development and extension support.

## Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, North Macedonia is encouraged to:

- **Strengthen the governance of state-owned enterprises (SOEs) to enhance efficiency and performance.** North Macedonia has 30 SOEs that operate in a decentralised manner due to the absence of a state ownership policy. Half of these SOEs are not incorporated under company law, which creates an uneven playing field between SOEs and private firms by allowing loss-making SOEs to continue to operate without facing market pressures. In the first quarter of 2023, more than half (17) of North Macedonia's SOEs were loss-making, reflecting a broader trend visible since 2020. This pervasive poor performance highlights structural shortcomings that lead to inefficient resource allocation and unfair competition.
- **Strengthen the planning and management of transport infrastructure.** North Macedonia's outdated strategic framework and project selection processes create obstacles to identifying and delivering cost-effective transport projects. The single project pipeline (SPP) for the selection of priority transport infrastructure projects has not been updated since 2018, and project appraisal tools specifically for transport infrastructure have yet to be developed. The adoption of a consistent framework for transport project selection that assesses the impacts (environmental, accessibility, connectivity, safety, economic, resilience, distributional/equity and social) of proposed projects remains key to improving infrastructure for enhanced competitiveness.
- **Accelerate digitalisation efforts to improve the economy's competitiveness.** Digital government remains underdeveloped, with most e-services rarely used and only a fraction fully transactional. Among businesses, the uptake of information and communication technologies remains limited due to a lack of awareness of available technologies and insufficient workforce capacities. With only 34% of individuals possessing basic or above-basic digital skills, far below the EU average of 54%, digital skill development remains relatively low, hindering the digitalisation efforts of the public and private sectors. Enhancing adult learning initiatives on digital skills and better embedding the digital competence framework in education curricula will be key going forward.
- **Improve investment in the education sector for enhanced skills development.** There has been no evidence of progress toward establishing sufficient budgets to efficiently support the implementation of policy reforms in education systems. Public spending on education remains low, and the resulting reliance on donor funding engenders uncertainty regarding the sustainability of existing initiatives. This issue is particularly acute when it comes to expanding the quality and accessibility of professional development for teachers and introducing the necessary equipment to foster the skills needed for evolving labour markets.
- **Intensify efforts to strengthen environment policies to improve citizens' quality of life and workforce productivity.** Air pollution remains one of the most pressing environmental issues in North Macedonia, with levels nearly four times the World Health Organization's recommended limits (22.3  $\mu\text{g}/\text{m}^3$  vs. 5  $\mu\text{g}/\text{m}^3$ , respectively). Water pollution also remains a challenge due to the prevalence of untreated sewage and wastewater and the absence of treatment plants in many cities. Pollution levels affect the health of citizens, reducing the overall productivity of the workforce. Improving the implementation of depollution policies and practices is crucial for reducing environmental health risks to the economy's population.

# 1 Context

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This chapter offers an overview of North Macedonia's economic developments since the *Competitiveness Outlook 2021*, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for North Macedonia's accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

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## Economic context

### *Key economic developments*

**North Macedonia is a small upper-middle-income economy, with a total gross domestic product (GDP) of EUR 14.6 billion in 2023.** Its economy is predominantly services-based, with the services sector accounting for 58.8% of its GDP. Industry and agriculture respectively contribute 22.9% and 8.1% to GDP (World Bank, 2024<sub>[1]</sub>). Meanwhile, 60% of employment is concentrated in services, while industry (including construction) and agriculture comprise 30% and 10% of employment, respectively (ILO, 2024<sub>[2]</sub>). The informal sector is estimated to account for 13.8% of employment as of 2019 (ILO, 2023<sub>[3]</sub>).

**Over the Competitiveness Outlook assessment period, North Macedonia's economy has shown some resilience to crises, though recovery has been slower and modest relative to other economies in the Western Balkans.** North Macedonia's economy suffered a decline in GDP of 6.1% in 2020 due to the COVID-19 pandemic. GDP growth recovered by 5.5% in 2021 and decelerated to 2.1% in 2022. In 2023, it slowed even further to approximately 2% (European Commission, 2024<sub>[4]</sub>). North Macedonia's recovery in GDP growth has been primarily demand-driven by higher private consumption and strong foreign direct investment. On the production side, recent growth has been largely driven by services and domestic trade, while industry has grown more modestly and construction and agriculture sectors have continued to struggle (World Bank, 2023<sub>[5]</sub>).

**While North Macedonia's inflation rate remained steady over 2020 and 2021, it peaked in 2022 and showed signs of cooling in 2023.** Consumer price inflation peaked at 14.1% in 2022 due to rising international food and energy prices (European Commission, 2024<sub>[4]</sub>). Annual inflation slowed to approximately 5.7% in 2023 as the rise in energy, food and transport prices decreased (IMF, 2023<sub>[6]</sub>). Interest rates have increased considerably to counter inflationary pressures, rising from a historic low of 1.25% in spring 2022 to 6.15% as of August 2023 (European Commission, 2024<sub>[4]</sub>).

**The economy's labour market has been consistently improving, with unemployment steadily declining since 2019 and reaching 14.5% in 2022** (European Commission, 2024<sub>[4]</sub>). Youth unemployment likewise declined to 25.6% in 2022, but remained above the EU average (European Commission, 2024<sub>[4]</sub>). However, the labour force participation rate among adults between the ages of 15 and 64 has decreased consistently since 2019, falling from 66% in 2019 to 63.8% in 2022 (ILO, 2024<sub>[2]</sub>). Average salaries and wages have continued to rise, partially owing to a rise of the minimum wage in 2023. These are expected to rise even further, due to a new government agreement that will raise public sector wages by 10% into 2024 (see the employment policy chapter for more details on labour market developments).

**Despite an increasing trade deficit and rising external sector imbalances in recent years, North Macedonia's external sector shows signs of improvement in 2023, with a narrowing current account deficit owing to lower imported energy prices.** The trade deficit shrank by more than 6 percentage points to 20.5% of GDP as of 2022, while exports rose to a record of 74.9% of GDP (European Commission, 2024<sub>[4]</sub>). Amid higher international energy prices resulting from the Russian Federation's war of aggression against Ukraine (see Box 1.1), North Macedonia reduced its energy imports, which helped improve its current account deficit from 6.1% in 2022 to approximately 3.7% in 2023 (IMF, 2023<sub>[7]</sub>; World Bank, 2023<sub>[5]</sub>; European Commission, 2024<sub>[4]</sub>). Remittances increased slightly from EUR 415 million in 2021 to EUR 433 million in 2022, while net foreign direct investment (FDI) inflows reached EUR 810.8 million, or 5% of GDP, covering the current account deficit (World Bank, 2022<sub>[8]</sub>; World Bank, 2024<sub>[1]</sub>; European Commission, 2024<sub>[4]</sub>). Respective to 2022, foreign exchange reserves were higher by 17.4% in 2023, covering about 4.1 months of anticipated imports of goods and services (European Commission, 2024<sub>[4]</sub>). The exchange of North Macedonia's dinar in relation to the euro has largely been held stable over the assessment period, owing to the active monetary policy interventions of the National Bank of the Republic of North Macedonia (NBRNM).

**The government’s fiscal position faces ongoing pressures, and public debt levels remain elevated.**

Public revenues increased over the assessment period and continued to rise into the first months of 2023, supported by elevated inflation and tax increases (European Commission, 2024<sup>[4]</sup>). Expenditures decreased from 36.4% of GDP in 2020 to 34.7% in 2022 but are expected to remain elevated. The recent increases in public sector wages are estimated to have fiscal implications approximating 0.7–0.8% of GDP on average per year (World Bank, 2023<sup>[5]</sup>). In order to accommodate the wage increase, the government has undertaken cuts to investments (European Commission, 2024<sup>[4]</sup>). In 2022, the fiscal deficit narrowed to 4.4% of GDP, remaining above its ceiling of 3% of GDP, and further fiscal consolidation is expected to bring the fiscal deficit in line with the ceiling rate into 2024 (European Commission, 2024<sup>[4]</sup>; IMF, 2023<sup>[7]</sup>). Public debt increased by nearly 10 percentage points over 2019 to 2020 alone and has generally risen since, reaching 60.2% of GDP as of 2023. North Macedonia’s sovereign ratings remain stable though below investment grade. In April 2023, Fitch Ratings agency affirmed North Macedonia’s long-term issuer default rating at “BB+” and revised its outlook from negative to stable, where it maintained into fall 2023 (Fitch Ratings, 2023<sup>[9]</sup>).

**North Macedonia’s financial sector has been relatively stable, with improved capitalisation and slightly lower liquidity, while tighter financing conditions have led to decreased demand for private credit.**

The capital adequacy ratio of banks rose to 18% in 2023, while liquidity rates dropped to 19.1% in the same year but remain above requirements (World Bank, 2023<sup>[5]</sup>). At the same time, private sector credit growth has slowed dramatically, and lending growth turned negative in 2023 among tighter financing conditions, at -4.2% (World Bank, 2023<sup>[5]</sup>). Nonperforming loans reached a historic low of 2.8% in 2022 (World Bank, 2023<sup>[5]</sup>).

**Table 1.1. North Macedonia: Main macroeconomic indicators (2019-23)**

Indicator	Unit of measurement	2019	2020	2021	2022	2023e
GDP growth	% year-on-year	3.9	-6.1	5.5	2.1	1.8
National GDP	USD billion	12.61	12.36	14.00	13.56	..
Inflation	% average	0.8	1.2	3.2	14.2	..
Current Account balance	% of GDP	-3	-2.9	-2.8	-6.1	..
Exports of goods and services	% of GDP	62.4	57.8	65.4	74.9	..
Imports of goods and services	% of GDP	76.2	70.5	81.3	95.9	..
Net FDI	% of GDP	3.2	1.4	3.3	5.0	5.2
Public and publicly guaranteed debt	% of GDP	49.4	59.8	61	59.6	60.2
External debt	% of GDP	72.4	78.7	81.9	83.6	n.a.
Unemployment	% of total active population	17.5	16.6	15.6	14.5	..
Youth unemployment	% of total	35.5	35.5	36.1	32.4	..
International reserves	In months of imports of G&S	4.6	5.3	4.5	3.7	..
Exchange rate (if applicable local currency/euro)	Value	61.51	61.67	61.63	61.62	61.56
Remittance inflows	% of GDP	..	3.1	2.9	2.7	2.9
Lending interest rate	% annual average	5.61	5.19	4.86	4.63	5.44
Stock markets (if applicable)	Average index	3 939	4 377	5 382	5 888	5 844

Notes: G&S = goods and services. “..” indicates data are collected but not available.

Sources: European Commission (2024<sup>[4]</sup>); World Bank (2021<sup>[10]</sup>; 2023<sup>[5]</sup>); EBRD (2023<sup>[11]</sup>); IMF (2024<sup>[12]</sup>); UNCTAD (2024<sup>[13]</sup>).

### Box 1.1. Economic impacts of Russia's war of aggression against Ukraine on North Macedonia's economy

The ongoing large-scale aggression of Russia in Ukraine has had negative economic implications for North Macedonia that have slowed its post-pandemic recovery, owing to high energy, commodity and food prices and disruptions in supply chains (European Commission, 2023<sup>[14]</sup>). Following the conflict's outbreak, North Macedonia approved the UN resolution condemning the attack on Ukraine and aligned itself with EU sanctions on Russia. As of February 2024, North Macedonia was host to 8 027 Ukrainian refugees (UNHCR, 2024<sup>[15]</sup>).

North Macedonia's overall **trade** volumes have been minimally affected, as trade with Russia and Ukraine accounted for less than 3% of North Macedonia's total trade volumes prior to the war (UNDP, 2022<sup>[16]</sup>). From 2020 to 2023, exports of North Macedonia to Russia – its main products being agricultural and packaged medicines (UN, 2024<sup>[17]</sup>) – decreased from EUR 52.9 million to EUR 44.4 million (UN, 2024<sup>[17]</sup>). Meanwhile, the value of imports from Russia increased from EUR 129.2 million in 2020 to EUR 245.3 million in 2023 owing to higher energy prices. Russia accounted for about one-fifth of fertilisers imported in 2021, which together with gas and metals comprised most of the imports (UN, 2024<sup>[17]</sup>). As of 2023, Russia accounted for around 0.53% of North Macedonia's total trade exports and 2.2% of its imports.

**Trade** with Ukraine, which represents an even smaller share (less than 0.1%) of total trade, has decreased overall since the start of the conflict. North Macedonia's exports to Ukraine initially increased from EUR 15.47 million in 2021 to EUR 36.1 million in 2022 and fell to EUR 20.1 million in 2023. North Macedonia's exports to Ukraine mostly consist of agricultural products, laboratory ceramic ware, textiles and packaged medicines (UN, 2024<sup>[17]</sup>). Meanwhile, imports from Ukraine, which primarily consist of metals and seed oils, have consistently declined, from EUR 127 million in 2021 to EUR 87.8 million in 2022, and EUR 46.6 million in 2023 (UN, 2024<sup>[17]</sup>).

The conflict provoked an ensuing **energy** crisis, as the cost of household electricity rose continually from the start of 2020 into the first semester of 2023 at a rate of 45% while the cost of gas for household consumers rose by 90% over the same period (Eurostat, 2024<sup>[18]</sup>). While prior to the conflict North Macedonia had been almost entirely dependent on imports of natural gas from Russia, it has placed the focus on building infrastructure to diversify its energy sources. Plans are under way to develop a natural gas interconnection pipeline with Greece, which would supply North Macedonia with gas through the Trans-Adriatic Pipeline and liquefied natural gas (LNG) terminals in Greece, and also provide the possibility of supplying neighbouring Serbia (EBRD, 2024<sup>[19]</sup>). At the same time, interconnection projects with Serbia and Kosovo are under way through the Western Balkans Investment Facility (WBIF, 2023<sup>[20]</sup>).

In response to the social and economic impact of the energy crisis spurred by the Russian war of aggression against Ukraine, the EU allocated EUR 80 million to North Macedonia under the 2023 Energy Support Package, which aims to assist vulnerable families and small to medium-sized enterprises (SMEs) in managing the increased energy costs, and to support policies that accelerate the energy transition (European Commission, 2023<sup>[21]</sup>).

Source: United Nations (2024<sup>[17]</sup>).



## Sustainable development

**North Macedonia's progress towards achieving the targets of the UN's 2030 Agenda for Sustainable Development has been modest at best** (Sachs et al., 2023<sup>[22]</sup>) (Table 1.2). As of 2023, North Macedonia has achieved or is on track to achieve 46.2% of its target indicators and has made limited progress in 36.9%, while performance is worsening across 16.9%. This in part can be attributed to the absence of any formal document at the national level referencing the Sustainable Development Goals (SDGs) and is compounded by the absence of a set of indicators to measure progress towards achievement of the SDGs (UNECE, 2021<sup>[23]</sup>). These gaps indicate that integration of the SDG Agenda into North Macedonia's national policy practices requires improvement, even though the first and only state-led Voluntary National Review providing an overview of the country's progress toward achieving the SDGs took place in 2020 (Sachs et al., 2023<sup>[22]</sup>). While North Macedonia has a designated unit nominally responsible for the co-ordination and implementation of the SDGs across ministries, the National Council for Sustainable Development does not meet on a consistent basis (UNECE, 2021<sup>[23]</sup>). North Macedonia's progress is further challenged by the fact that personal investment of the SDGs is low, as is awareness among local government authorities (UNECE, 2021<sup>[23]</sup>).

**Table 1.2. North Macedonia's progress towards achieving the SDGs (2023)**

SDG	Current assessment	Trends
1 – No poverty	Challenges remain	On track or maintaining SDG achievement
2 – Zero hunger	Significant challenges	Moderately improving
3 – Good health and well-being	Significant challenges	Moderately improving
4 – Quality education	Significant challenges	Stagnating
5 – Gender equality	Significant challenges	Moderately improving
6 – Clean water and sanitation	Significant challenges	On track or maintaining SDG achievement
7 – Affordable and clean energy	Significant challenges	Stagnating
8 – Decent work and economic growth	Significant challenges	Moderately improving
9 – Industry, innovation and infrastructure	Significant challenges	Stagnating
10 – Reduced inequalities	Significant challenges	On track or maintaining SDG achievement
11 – Sustainable cities and communities	Major challenges	Stagnating
12 – Responsible consumption and production	Significant challenges	Stagnating
13 – Climate action	Challenges remain	Stagnating
14 – Life below water	Information unavailable	Trend information unavailable
15 – Life on land	Significant challenges	Moderately improving
16 – Peace, justice and strong institutions	Significant challenges	Moderately improving
17 – Partnerships for the goals	Challenges remain	Moderately improving

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges; major challenges. Source: Sachs et al. (2023<sup>[22]</sup>).

**While North Macedonia has not yet achieved any of the SDGs to date, it is nearing achievement in poverty (SDG 1), quality education (SDG 4) and partnerships for the goals (SDG 17) relative to other goals.** However, compared to 2021, it has backtracked on its SDG attainment for education (SDG 4). Performance likewise decreased in the areas of affordable and clean energy (SDG 7) and climate action (SDG 13). The declining performance in these respective areas is mostly attributable to the increase in carbon intensity (CO<sub>2</sub> emissions) of energy production and exports, respectively.

**Progress has been mostly positive in the areas of clean water and sanitation (SDG 6) and reduced inequalities (SDG 10), with further room to improve.** While access to basic sanitation services has increased across the population, wastewater treatment rates remain low. Meanwhile, the Gini coefficient for inequality remains relatively high but has been on a declining trend since 2015, reaching 34.5% in 2020 and nearing the target value of 27.5% (Sachs et al., 2023<sup>[22]</sup>).

**Significant challenges remain for North Macedonia across most performance areas of the Sustainable Development Goals; the most substantial gaps remain in the areas of sustainable urban development (SDG 11) and marine life (SDG 14).** Impediments to progress in SDG 11 lie in high pollution rates and citizen dissatisfaction with public transport (Sachs et al., 2023<sup>[22]</sup>). Meanwhile, no data are available for its performance in the area of marine life (SDG 14). Moderate progress has been made in the areas of nutrition (SDG 2); health and well-being (SDG 3); gender equality (SDG 5); economic growth (SDG 8); protection of terrestrial ecosystems (SDG 15); and institutional integrity (SDG 16). Progress has stalled in the area of education (SDG 4), with notably lower rates of secondary school completion (Sachs et al., 2023<sup>[22]</sup>). Progress has likewise stagnated in the area of clean energy (SDG 7) due to a declining share of renewable energy in final energy consumption. Low expenditure on research and development hinders performance in the area of industry, innovation and infrastructure (SDG 9).

### ***EU accession process***

**North Macedonia applied for EU membership in March 2004, and its Stabilisation and Association Agreement entered in force the following month.** North Macedonia was granted candidate status in December 2005, and accession negotiations formally began in July 2022, which launched the screening process. Accession negotiation with North Macedonia is conducted in line with the revised enlargement methodology set out by the EU in February 2020, which focuses even more strongly on the fundamentals of the accession process proposed by the EU. The emphasis is particularly on credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021<sup>[24]</sup>). As of September 2023, explanatory screening meetings had been conducted across the six thematic clusters, including (i) fundamentals, (ii) internal market, (iii) competitiveness and inclusive growth, (iv) green agenda and sustainable connectivity, (v) resources, agriculture, and cohesion, and (vi) external relations.

**According to the latest enlargement report, North Macedonia faces considerable challenges regarding political criteria for accession, while political polarisation has delayed the adoption of many reform laws and key appointments.** North Macedonia is moderately prepared to apply the EU *acquis* and European standards in the areas of public administration reform, while its judicial system is between some and moderate level of preparation. No progress was achieved in justice reform over the period, which remains affected by issues of independence and undue political influence (European Commission, 2023<sup>[14]</sup>).

**On the economic criteria, North Macedonia is at a decent level of preparation but has made limited progress in developing a functioning market economy** (European Commission, 2023<sup>[14]</sup>). The prior recommendations of the European Commission were addressed to a limited extent, with further efforts needed in the areas of fiscal consolidation and accountability, SOE reform, and reduction of the informal economy. The economy's capacity to cope with competitive pressures and market forces within the EU is also at a moderate level of preparation, with some progress made in education, attraction of private investors, green and digital transition, and performance in key sectors such as metallurgy and tourism. However, further efforts are needed to address shortcomings in its education system, infrastructure gaps, diversification of the economic base, and increasing the productivity and competitiveness of firms.

**On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of their convergence toward the EU** (European Commission, 2023<sup>[25]</sup>). Backed by EUR 6 billion in non-repayable support and loan support, the Growth Plan has the potential to boost socio-economic convergence and bring the WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023<sup>[26]</sup>). The new Growth Plan is based on four pillars, aimed at:

1. “Enhancing economic integration with the European Union’s single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;
2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster<sup>1</sup> supporting the Western Balkans' path towards EU membership, improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans” (European Commission, 2023<sup>[25]</sup>).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the gap between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region’s performance in achieving economic convergence toward the EU and OECD area, and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (OECD, 2023<sup>[27]</sup>) (Box 1.2).

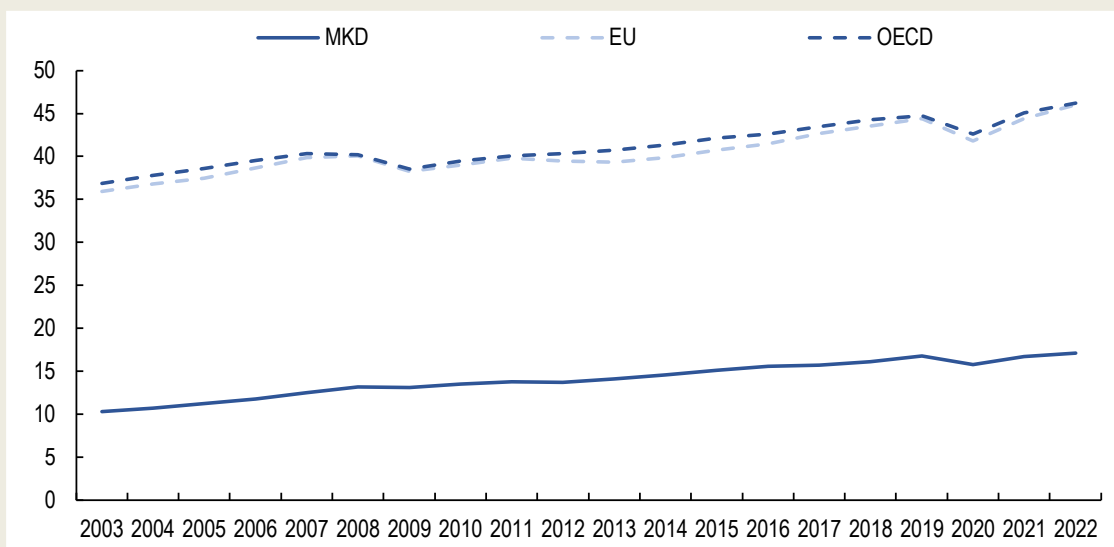
As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission economy-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan’s funding. All Reform Agendas are structured along the same four policy areas: 1) business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes’ chapter IV on structural challenges, as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

### Box 1.2. Economic Convergence Scoreboard for the Western Balkans 2023: A spotlight on North Macedonia

North Macedonia's GDP per capita has increased by 66% from 2003 to 2022 in comparison to the EU's and OECD area's comparatively modest increases of 27% and 25%, respectively. From 2003 to 2022, North Macedonia steadily decreased the disparity in GDP per capita with the EU and OECD area, reducing the percentage difference from 250% in 2003 to 168% in 2022. However, compared to its Western Balkan neighbours, North Macedonia produced the slowest growth during the observed period. The economy's 2022 GDP per capita stood at USD (PPP international \$) 17 128 (EUR 16 271)<sup>1</sup>, whereas the EU and OECD figures were notably higher at USD 45 978 (EUR 43 679) and USD 46 208 (EUR 43 897), respectively (Figure 1.1). While North Macedonia is making strides in narrowing this gap, achieving convergence requires more robust and comprehensive policy development and implementation.

**Figure 1.1. North Macedonia's GDP per capita convergence with the OECD area and the European Union (2003-22)**

In Purchase Power Parity 2017 USD



Source: World Bank (2022<sub>[28]</sub>).

StatLink  <https://stat.link/h96xwd>

In this context, the OECD developed the Economic Convergence Scoreboard for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool for evaluating the extent of economic convergence of the Western Balkans with the EU and OECD area. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters are the business environment, skills, infrastructure and connectivity, greening, and digitalisation.

Since 2008, North Macedonia produced noteworthy advancements across the five policy clusters, but there were also considerable regressions, underscoring the necessity not only of adopting policies in alignment

with the EU *acquis* and OECD standards, but also of ensuring their effective and long-term implementation. North Macedonia exhibited notable progress in both the *skills* and *digitalisation* clusters. In the context of *skills*, North Macedonia consistently increased the employment rate since 2008. It also demonstrated advancement within education, as the economy produced a higher Programme for International Student Assessment (PISA) average score and tertiary education achievement. As for *digitalisation*, North Macedonia is performing near parity with the EU in digital payments and mobile cellular penetration, although the latter has decreased over the observed periods. The economy is also experiencing positive improvements in the total employment of information and communications technology (ICT) specialists, indicating that investments in a digital transition are being reflected in the workforce.

By contrast, the *business environment* and *infrastructure and connectivity* clusters require more rigorous efforts. North Macedonia is showing positive progress with trade openness and FDI net inflows, yet SMEs in total exports, new business density and informal employment are trending negatively. Informal employment is consistently increasing over the observed periods, and new business density is equally declining, suggesting that fostering formal employment in the small business sector presents an opportunity for growth. As for *infrastructure and connectivity*, transport infrastructure (road and rail) is showing minor or no progress. North Macedonia's performance relative to the EU in these areas is already less than 50%, reflecting a necessity for economy-wide advancement in transport.

In terms of aligning with OECD area standards, North Macedonia has demonstrated inconsistent progress in the adoption of OECD good policy practices, standards, and tools, emphasising the necessity of improving policy making to foster a more competitive economy. North Macedonia produced noteworthy gains in Competitiveness Outlook (CO) 2021 in employment, energy, and environment policy. However, North Macedonia equally regressed in the *OECD Services Trade Restrictiveness Index* and *Digital Services Trade Restrictiveness Index*, and CO anti-corruption and transport policy and digital society.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international \$ into EUR.

Source: OECD (2023<sup>[27]</sup>).

## ***EU financial and development support***

**North Macedonia continues to receive significant support from the European Union, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*.** The European Union's financial support to the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, and long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank (EIB) loans, Western Balkans Investment Framework grants and more.

**Over 2007-20, the EU allocated EUR 608.7 million under the Instrument for Pre-accession Assistance I and II.** IPA II introduced priority sectors for assistance, which included democracy and governance, rule of law and fundamental rights, environment and climate action, transport, competitiveness and innovation, transport, education, employment and social policies, agriculture and rural development, and regional and territorial co-operation (European Commission, 2024<sup>[29]</sup>).

**The European Union has been crucial in financially supporting North Macedonia in the wake of COVID-19.** The cumulative sum of economic support packages totalled approximately EUR 1 billion for both short- and long-term fiscal measures to maintain the liquidity of companies and jobs and support the financial sustainability of the economy and municipalities. The European Investment Bank has invested EUR 100 million to support North Macedonian companies since the start of the pandemic and invested an additional EUR 50 million at the end of 2021 to support faster recovery of the local economy from COVID-19 and help accelerate the green transition and climate adaptation of SMEs (EIB, 2023<sup>[30]</sup>).

**For 2021-23, North Macedonia was allocated IPA III funding amounting to EUR 265 million.** This includes the aforementioned EUR 80 million from the 2023 Energy Support Package immediate measures (European Commission, 2023<sup>[21]</sup>) and EUR 100 million of macro-financial assistance from the EU accompanied by a 24-month support programme concluded with the International Monetary Fund (IMF) amounting up to EUR 530 million. Additionally, the new Growth Plan launched in 2020 foresees infrastructural funding for flagship projects with North Macedonia in the areas of sustainable transport, clean energy, and environment and climate. Under the Economic and Investment Plan (EIP) for North Macedonia, the EU has already mobilised EUR 1.6 billion in investments, out of which EUR 566 million were in grants (European Commission, 2023<sup>[21]</sup>). In December 2023, the European Union, along with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), announced a support package totalling EUR 560 million for a key railway project aimed at finalising North Macedonia's connection to the Bulgarian border. This assistance, provided under the Global Gateway initiative through Team Europe, marks the largest EU grant ever allocated for North Macedonia under the Western Balkans Investment Framework (EIB, 2023<sup>[31]</sup>).

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## Note

<sup>1</sup> In line with Communication on “Enhancing the accession process – A credible EU perspective for the Western Balkans” COM(2020)57, the fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights; chapter 24 – Justice, freedom and security, the economic criteria, the functioning of democratic institutions, public administration reform; chapter 5 – Public procurement; chapter 18 – Statistics; and chapter 32 – Financial control (European Commission, 2023<sup>[25]</sup>).



# 2 Investment policy and promotion

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Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

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## Key findings

North Macedonia's performance remained constant in the investment policy and promotion dimension, partially due to suboptimal performance in mobilising sustainable investment (Table 2.1). The economy's score has slightly increased to 3.2 in the 2024 Competitiveness Outlook (compared to 3.3 in the 2018 assessment, despite making modest progress in investment policy and promotion).

**Table 2.1. North Macedonia's scores for investment policy and promotion**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			3.7	3.9
	1.2: Investment promotion and facilitation			3.3	3.3
	1.3: Mobilising sustainable investment			2.3	2.8
<b>North Macedonia's overall score</b>		<b>3.3</b>	<b>3.0</b>	<b>3.2</b>	<b>3.4</b>

The **key findings** are:

- In January 2023, the Law on Technological Industrial Development Zones was supplemented to adopt the rules for granting aid in accordance with the requests of the OECD Forum on Harmful Tax Practices (FHTP) and for introduction of the “nexus” conditions.<sup>1</sup>
- In 2021, North Macedonia implemented an updated mediation law, resulting in a nearly twofold increase in launched mediation cases.
- The government adopted the Strategy on Intellectual Property 2022-26, aimed at further aligning with the EU *acquis* and streamlining intellectual property rights governance.
- North Macedonia currently lacks a dedicated strategic framework for sustainable investment, but there are noteworthy support measures in place. The Strategic Green Investment Fund and the Green Financing Facility stand out, poised to offer funding for eligible initiatives focused on renewable energy and energy efficiency within the green economy.
- To simplify the legal framework for investment promotion, the government is drafting a new law to create a unified investment promotion agency, merging the existing investment promotion agency with the Directorate for Technological Industrial Development Zones.

## State of play and key developments

Annual inward foreign direct investment (FDI) flows have tended to be rather volatile in North Macedonia compared to other WB6 economies. Having reached a pre-pandemic peak of EUR 663 million (USD 725 million) in 2018, inflows dipped in 2019 before falling further to EUR 210 million (USD 230 million) at the height of the pandemic in 2020. Inflows recovered strongly in 2021, increasing further to reach an all-time high of EUR 725 million (USD 793 million) in 2022 (UNCTAD, 2023<sup>[1]</sup>). In terms of GDP, annual net FDI inflows reached 6.4% in 2022, a level not seen in North Macedonia since 2006-08 (World Bank, 2023<sup>[2]</sup>). North Macedonia's stock of inward FDI continues to trend gradually upwards, reaching 54% of GDP in 2022 (UNCTAD, 2023<sup>[1]</sup>), or EUR 7 billion (National Bank of the Republic of North Macedonia, 2023<sup>[3]</sup>). Manufacturing accounts for more than a third of inward FDI stocks (35% in 2021), with the financial sector accounting for more than a fifth (22%) and wholesale and retail accounting for just over an eighth (13%) (National Bank of the Republic of North Macedonia, 2023<sup>[3]</sup>). Nearly two-thirds of inward FDI is sourced from the EU (65% in 2022), followed by the United Kingdom (9%) and Türkiye (7.6%) (National Bank of the Republic of North Macedonia, 2023<sup>[3]</sup>).

### **Sub-dimension 1.1: Investment policy framework**

Although North Macedonia's **legal framework for investment** activities is favourable to investment, it remains complex and complicated to navigate, with no stand-alone investment law in place. These continued shortcomings in the institutional and policy framework hinder productivity growth in the long run (World Bank, 2023<sup>[4]</sup>). First introduced in 2007, the Law on Technological Industrial Development Zones is an important vehicle for attracting investment. In January 2023, the Law was amended to adopt the rules for granting aid in accordance with the requests of the OECD Forum on Harmful Tax Practices (FHTP) and for introduction of the "nexus" conditions. Invest North Macedonia, the economy's investment promotion agency, publishes the relevant legal documents and strategies, although not all documents are available in English.

North Macedonia has an open market with very limited **exceptions to national treatment**. Its 2019 score on the OECD FDI Regulatory Restrictiveness Index, which evaluates market access and exceptions to national treatment, was 0.026. This indicates minimal restrictions, primarily in the transport sector, making its FDI regime less restrictive than the OECD average of 0.064. While the economy does have some discriminatory restrictions on real estate ownership by foreign legal entities, with exceptions for EU and OECD area residents, overall North Macedonia's foreign investment rules do not hinder FDI (OECD, 2020<sup>[5]</sup>).

When it comes to **dispute settlement**, foreign investors have the same rights and remedies before the national court system as domestic investors. While North Macedonia continues its efforts to reform its legal system in line with the necessities of the EU *acquis*, much remains to be done to tackle corruption, increase transparency, improve enforcement and ensure consistent application laws (European Commission, 2023<sup>[6]</sup>). Following the implementation of the Strategy on Judicial Reform for the period 2017-22, with an accompanying Action Plan, a new comprehensive strategy on judicial reform for the period 2023-27 is under preparation. North Macedonia offers alternative dispute resolution (ADR) mechanisms – a new Law on Mediation came into force in January 2021 with the aim of improving the quality of mediation as well as ensuring consistent application of the law by all licensed mediators. To implement the new regime, the authorities established in September 2022 a National Council for Mediation while a national co-ordinator was appointed to chair it. The Council is tasked with assessing and ensuring the quality of mediation (European Commission, 2023<sup>[6]</sup>). The use of mediation saw a notable uptick, rising from 475 initiated cases in 2021 to 772 in 2022. Nevertheless, mediation is underdeveloped in North Macedonia, with only 2.5 mediators per 100 000 inhabitants, falling below the regional Western Balkan average of 14 (The

European Commission for the Efficiency of Justice, 2023<sup>[7]</sup>). There remains scope for increased awareness raising around mediation, as well as for the development of ADR, including a domestic arbitration regime.

The economy is revising the current model agreement for Bilateral Investment Treaties (BITs), due to be finalised late 2024.

North Macedonia is working to further strengthen its **intellectual property rights legal framework**. In January 2023, as part of the ongoing EU accession process, it had its first bilateral screening for Chapter 7 (IPR) of the *acquis* to assess the extent to which relevant EU legislation has been transposed and implemented in North Macedonia. There were some advancements observed in reinforcing the strategy framework for IPR, as the government adopted the Intellectual Property Strategy for the period 2022-26. The strategy covers industrial property, intellectual property and copyright and related rights. It encompasses not just the obtaining of intellectual property rights and their legal safeguarding, but also addresses pertinent legal aspects of generating IP assets and their subsequent commercialisation and use in business operations. It also envisions transferring responsibilities for safeguarding copyright and related rights, currently under the Ministry of Culture, to the State Office of Industrial Property, to consolidate all intellectual property rights aspects within a single regulatory body. Moreover, the strategy outlined plans to launch an online information platform for law enforcement institutions to enable electronic data exchange on IPR (Government of North Macedonia, 2021<sup>[8]</sup>). However, the platform is not yet operational.

Although the IPR laws and regulations align broadly with EU standards, enforcement leaves room for improvement. Efforts are being made to make use of digital tools to facilitate activities related to IPR. For example, the World Intellectual Property Organization (WIPO) information technology (IT) platform<sup>2</sup> can, since July 2022, be used for international patent applications; however, no economy-wide tools have been developed yet. However, in October 2023, the State Office for Industrial Property (SOIP) initiated the operational deployment of the Front Office platform, enabling the online submission of patent applications and subsequent actions. It also began making full use of the European Union Intellectual Property Office's (EUIPO) standardised database of products and services when registering trademarks.

While the legal framework is relatively well aligned with that of the EU, there is significant room for improvement in terms of **IPR enforcement** (US State Department, 2023<sup>[9]</sup>). The institutional framework for enforcement and implementation remains relatively fragmented. While there are no specialised courts dealing with IPR cases, judges and public prosecutors are regularly trained on IPR laws and enforcement. Due to the relative rarity of IPR cases, however, judges and prosecutors lack adequate experience (US State Department, 2023<sup>[9]</sup>). The government continues its **IPR awareness-raising** efforts. The SOIP leads IPR awareness seminars, workshops and training courses that are included in its annual work programme.

### ***Sub-dimension 1.2: Investment promotion and facilitation***

North Macedonia continues to reinforce its solid **investment promotion agency structure and strategy**. The government is preparing a draft Law that would establish a single, unified investment promotion agency which will incorporate the two existing agencies, the Agency for Foreign Investments and Export Promotion (ASIFI) and the Directorate for Technological Industrial Development Zones (DTIDZ). It is expected that this will contribute to a more efficient system and procedures in the area of investment support, both foreign and domestic, such that investors can avail of a single contact point. It will be important that the new agency is assigned sufficient financial and human resources to fully implement its mandate, and particularly to promote linkages between small and medium-sized enterprises (SMEs) and multinational enterprises effectively.

North Macedonia retains a strong institutional setting and co-ordination mechanisms for its investment facilitation services and aftercare activities. The DTIDZ has a dedicated department for handling aftercare services. During COVID-19 pandemic lockdowns it helped companies operating in Special Economic Zones (SEZs) to obtain special permits for the movement of their employees. During this time, they also actively assisted companies in the implementation of the salary programme. In February 2021, DTIDZ adopted a new “single entry point” approach to aftercare based on the principle of personalised support and active two-way communication enabling full professional support for each investor. The strategy is based on two pillars: i) a personalised aftercare system, where each company has its own designated contact person in a position to provide dedicated support and present new opportunities for expanding existing capacities, and ii) “TIDZ dialogues”, a series of discussions with the business community aimed at improving services and the business climate for investment. In April 2023, a new AI-based public sector digital assistant, ADA, was launched to ensure client companies can get comprehensive information about the investment conditions in the economy as well as state aid being offered. This innovation is expected to improve transparency and communication. The DTIDZ investor relations team also enables an online option for the majority of the required procedures.

A wide range of **investor incentives** is available in North Macedonia, provided through a network of investment-related legislation that includes the Law on Financial Support to Investment, the Law on Technological Industrial Development Zones and the Strategic Investment Law. Tax incentives within the TIDZ contain sunset clauses of up to 10 years of exemption from tax payment, or earlier if the tax exemption and other measures of regional aid have already reached the maximum aid intensity expressed as a percentage share of the aid in the investment expenditures (Box 2.1). The Law on Strategic Investment offers various subsidies for job creation, capital investments and financial assistance to exporters. Investors benefit from customs duty exemptions on equipment, machinery and spare parts. Additionally, they are not required to pay utility taxes to the local municipality or fees for land building permits.

### Box 2.1. Technological Industrial Development Zones (TIDZ): The key driver of inward FDI

Since the Law on Technological Industrial Development Zones was first introduced in 2007, it has been amended and updated on several occasions. These updates have sought *inter alia* to improve the attractiveness of investment incentives on offer and to streamline procedures.

Among the investment incentives available in TIDZs are low-cost, long-term land rental, free connection to utilities, and exemptions for building permit fees and local municipality utility taxes. In addition, investors are entitled to a 10-year tax holiday for corporate and personal income tax as well as exemption from paying VAT (value added tax) on imports. There is also an exemption from payment of custom duties for equipment, machines and spare parts as well as rebates of 10% on investment in land, plant and machinery (Invest North Macedonia, 2023<sup>[10]</sup>). These tax incentives are specific to the TIDZs but are not specifically for foreign investors. They are a form of regional aid to the users of the zones, and the state aid rules and conditions apply to these measures. Direct state assistance of up to EUR 1 million is also available. The experience of large foreign firms operating in the zones is generally reported as positive, as are relations with government officials (US State Department, 2023<sup>[9]</sup>).

The Directorate for Technological Industrial Development Zones, part of the Ministry of Economy, is responsible for overseeing development of the TIDZs. This involves the establishment of a service centre for each zone, through which the Directorate and the Customs Administration can provide administrative consultations and services for investors, as well as facilitate customs clearance.

By late 2023, 15 TIDZs had been established throughout North Macedonia, with varying levels of construction; 7 are considered to be fully operational (US State Department, 2023<sup>[9]</sup>). In 2022, the most recent zone, Skopje III, was announced. Located on a 44-hectare site 10 kilometres east of the capital, it will be the economy's first dedicated high-tech TIDZ (TIDZ, 2022<sup>[11]</sup>). Whereas past efforts to attract inward investment focused on lower value-added activities – notably including the automotive sector, for which low wages were a key attraction – the Skopje III TIDZ aims to attract higher value added activities, and higher-paying, higher-skill jobs. In this respect, it represents an effort to move up the value chain.

When constructed, the Gevgelija TIDZ, located on a 50-hectare site at the Bogorodica border crossing with Greece, will be the first dedicated green, or eco, zone in the Western Balkans. As with other TIDZs, it is being developed on state-owned land using a PPP model. An international call for investors with a competitive bidding process is envisaged. The zone will aim to attract investors in the medical components sector among others, and aims to have zero greenhouse gas emissions by 2050.

Recent years have seen the legal regime underpinning the TIDZs come under scrutiny by the OECD Forum on Harmful Tax Practices (FHTP). To meet the substantial activities requirements in relation to IP aspects, the authorities committed at the FHTP meeting of October 2020 to amend the TIDZ Law with substantive requirements based on the “nexus approach”. The relevant implementing legislation came into force on 23 January 2023.

Source: TIDZ (2023<sup>[12]</sup>).

### ***Sub-dimension 1.3: Mobilising sustainable investment***

North Macedonia does not yet have a dedicated **strategic framework and governance for sustainable investment**. This may reflect, or inhibit the development of, an integrated vision across government for linking investment promotion to sustainable development policy and objectives. However, there are several forms of **financial and technical support for sustainable investment**. The Green Financing Facility (GFF),<sup>3</sup> which is supported by the European Bank for Reconstruction and Development (EBRD), the United Nations, the government, and private banks, aims to assist in funding eligible initiatives focused on renewable energy and measures promoting energy efficiency within the context of the green economy. It is the first initiative of its kind to focus on renewable energy investments. The GFF provides access to affordable green financing for small and medium-sized enterprises (SMEs) and individuals and households for investments in renewable energy and energy efficiency solutions. Within the existing network of 15 SEZs, DTIDZ is developing the first “eco zone” in the Western Balkans in Gevgelija; it is also developing a Strategic Green Investment Fund (SGIF) (Box 2.2). Despite the existence of financial and technical supports for sustainable investment, North Macedonia has yet to undertake a thorough needs assessment to evaluate the scope of financial and technical support required. This evaluation aims to identify and address existing market failures that pose obstacles to sustainable development. Conducting such an assessment is crucial for formulating targeted strategies and interventions to foster a more robust and sustainable economic landscape.

### Box 2.2. North Macedonia establishing a Strategic Green Investment Fund (SGIF)

In October 2021 the government of North Macedonia announced that it would establish a fund to finance green structures, technologies, and infrastructure within the SEZs. This adds a new element to the economy's already wide range of investor incentives.

Developed jointly by the TIDZ and the World Bank, the SGIF aims to support investments totalling EUR 750 million, to create 15 000 jobs, to increase exports by EUR 2.8 billion, and to boost economic growth by one percentage point by 2025.

The fund is to operate on two pillars: i) promoting green investments and ii) upgrading the technological capacity of local companies to assist them in integrating into global value chains. The SGIF is to be established with an initial EUR 70 million capital investment from a combination of public (capped at 10%), private and international financial institution (IFI) sources.

Operating on a public-private partnership basis, DTIDZ would initiate the PPP while public funding of any SGIF-financed projects is to be capped at 40%. To incentivise private investment in the SGIF, the public equity element is subordinated, such that private investors get paid first upon the completion of investment and payment of royalty period. Private investors also get priority in terms of returns of 50-75%. Once this hurdle is met, returns are divided according to investors' equity share.

Green investment projects financed by the SGIF include energy, transport and service infrastructure projects, located both within and connecting to the existing SEZs. Other bespoke projects (e.g. build and lease options for investors) may be designed to serve specific investor needs.

Among the initial projects expected to be financed by the SGIF are the Balkans' first eco-SEZ, the Gevgelija TIDZ, and the installation of solar power plants in the SEZs. It has been reported that 90% of the EUR 120 million cost of these projects would come from private sources.

Sources: TIDZ (2021<sup>[13]</sup>); Spasic (2021<sup>[14]</sup>).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress in implementing 2021 Competitiveness Outlook Recommendations has been overall limited, with modest progress achieved only in reinforcing the independence and capacity of the court system through steady implementation of judicial reforms (Table 2.2). Advancements have been limited in improving the transparency of the investment framework, raising awareness about alternative dispute resolution, and improving co-ordination between IPR implementation and enforcement bodies. No progress has been made on reinforcing the implementation capacity of ASIPI, as the agency's human and financial resources declined since the last assessment.

**Table 2.2. North Macedonia's progress on past recommendations for investment policy and promotion**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to simplify and increase the transparency of the investment framework	Progress was limited in this respect.	Limited
Reinforce the independence, resources and capacity of the court system, particularly for commercial disputes	North Macedonia continues to make modest progress through steady implementation of the judicial reform strategy. In addition, the authorities began to implement significant anti-corruption reforms in 2022 with the aim of improving judicial independence and impartiality.	Moderate
Increase public awareness and implementation of the recently adopted mediation mechanisms	Even though the new law has been implemented, the uptake remained low with businesses not fully capitalising on the potential benefits that mediation offers.	Limited
Reinforce the co-ordination between IPR implementation and enforcement bodies, increase IPR agency capacity and resources, and step up IPR awareness-raising efforts	Progress was limited in this respect. The institutional framework for enforcement and implementation remains relatively fragmented. Nevertheless, the SOIP continues to organise capacity-building activities and workshops to raise awareness about the importance of IPR.	Limited
Give ASIPI the capacity and resources it needs to fully implement its mandate	The agency has seen a decline in both financial and human resources since 2019.	None
Streamline existing investment incentives and reinforce the evaluation of their costs and benefits, appropriate duration and transparency	Progress was limited in this respect.	Limited

### The way forward for investment policy and promotion

North Macedonia continues to take steps aimed at improving its investment climate. However, limited progress has been made on those Recommendations set out in the 2021 Competitiveness Outlook, many of which remain valid. In addition, further efforts will be needed to incorporate the sustainable investment agenda into its policy framework and institutional setting:

- **Ensure that the new Investment Promotion Agency is adequately resourced to deliver on its mandate.** Plans to integrate the Agency for Foreign Investments and Export Promotion (ASIPI) and the Directorate for Technological Industrial Development Zones (DTIDZ) into a new agency will clarify and streamline the institutional framework for investment. It will be important that the new agency is assigned sufficient financial and human resources to deliver on its revised mandate. In particular, more resources should be assigned to the new agency than is currently received by ASIPI for the purpose of promoting linkages between SMEs and multinational enterprises.
- **Continue advancing judicial system reforms, particularly in the context of improving transparency.** While North Macedonia's judiciary reform aligns with its European Union membership negotiations, there is room for improvement in strengthening the accountability of the judiciary. Furthermore, the enforcement mechanisms of legal provisions demand strengthening to ensure effective implementation across the board. Achieving consistency in the application of laws is another essential facet of legal reform, requiring careful attention to avoid discrepancies and ensure a fair and just legal environment. Moreover, to bolster trust and accountability within the judiciary, the justice system needs to make significant strides in investigating, prosecuting, and adjudicating cases related to corruption.
- **Develop a strategic framework and governance apparatus for sustainable investment.** Establishing a clear, long-term, overarching, and comprehensive strategic framework for sustainable investment promotion policy fosters the creation of an integrated vision across government and the setting out of long-term strategic objectives, quantifiable targets, policy pillars, related programme actions and clearly defined roles for all the institutions involved. At the policy implementation level, clarifying the mandates of inter-agency working groups, committees and task



forces and integrating a sustainable investment focus into the existing structure can help policy makers pull resources from different parts of government to effectively advance specific policy agendas.

- **Conduct a comprehensive needs assessment to ascertain the scope and scale of financial and technical supports that may be required to address remaining market failures hampering sustainable development.** The provision of such forms of support should be transparent and subject to regular review, including ex ante cost-benefit analyses, and eventual phaseout once the relevant market has reached sufficient maturity.

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## Notes

<sup>1</sup> The "nexus approach" permits a taxpayer to obtain benefits for intellectual property income based on the expenditures connected to its generation.

<sup>2</sup> The international Patent Cooperation System (PCT) helps individuals in pursuing global patent protection for their inventions, supports patent offices in making decisions on patent grants, and enables public access to a vast repository of technical information associated with these inventions. As of July 2022, ePCT-Filing is available for online submission of documents.

<sup>3</sup> [www.ebrd.com/work-with-us/projects/psd/53583.html](http://www.ebrd.com/work-with-us/projects/psd/53583.html).

# 3

## Trade policy

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Effective trade policy is vital for regional integration and alignment with the European Union. This chapter examines how Western Balkan governments use trade policy to ease market access and harness digitalisation for enhanced trade facilitation. The first sub-dimension, trade policy framework, assesses the government's ability to formulate, implement and evaluate trade policy, examining the institutional formulation and co-ordination of trade policy, public-private consultations and the network of free trade agreements. The second sub-dimension, digital trade, focuses on the legal framework for digital trade policy and digital trade facilitation and logistics. The third sub-dimension, export promotion, explores the effectiveness of export promotion agencies and programmes, especially in the context of deepening regional integration.

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## Key findings

North Macedonia improved since the 2018 and the 2021 cycle (Table 3.1). The improvements were largely driven by positive developments in North Macedonia's trade policy framework and digital trade policy. While export promotion was not covered under the 2021 assessment cycle, the score also improved since the 2018 evaluation. In two sub-dimensions, North Macedonia outperforms the region and ranks above the regional average for the trade policy dimension.

**Table 3.1. North Macedonia's scores for trade policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Trade	2.1: Trade policy framework	3.8	3.8	4.3	4.4
	2.2: Digital trade			4.3	3.8
	2.3: Export promotion			3.8	3.6
<b>North Macedonia's overall score</b>		<b>3.8</b>	<b>3.8</b>	<b>4.1</b>	<b>3.9</b>

The **key findings** are:

- North Macedonia is making strides in digital trade facilitation at borders by ongoing efforts to digitalise customs procedures. The introduction of a green customs declaration streamlines import and export processes; these can be completed within one hour and eliminate the need for paper documentation.
- In November 2022, the government reinforced consumer protection by expanding the Law on Safety of Goods to include the Law on Consumer Protection, containing measures for e-commerce and e-payments.
- North Macedonia improved its export promotion structures by establishing the National Export Council in March 2023. Its objective is to facilitate public-private dialogue and complement the mandate of Invest North Macedonia. Despite a broad range of export promotion programmes available, neither of the entities provides direct financing to support exports.
- North Macedonia is drafting a new National Strategy for Sustainable Development (2022-42), which will aim for enhanced economic competitiveness by optimising trade flows for sustainability. However, the process has stalled as of early 2024, signalling a shift in government priorities.

## State of play and key developments

In 2022, North Macedonia continued to further integrate into the EU market through trade and investment. There was a notable increase in the share of high-value products in exports and trade openness, both reaching record highs. The share of high-technology exports doubled since 2016 to reach 4% of manufactures' exports in 2022, though still lagging behind the OECD and the EU average of 18% (World Bank, 2022<sup>[1]</sup>). North Macedonia's trade percentage in GDP reached 171% in 2022, the highest in the Western Balkan region, up from 148.5% in 2021 (European Commission, 2023<sup>[2]</sup>). In 2022, North Macedonia's goods exports amounted to EUR 7.9 billion (USD 8.7 billion), while imports reached EUR 11.7 billion (USD 12.8 billion) (WTO, 2023<sup>[3]</sup>). Services exports reached EUR 2 billion (USD 2.2 billion) in 2022, while services imports stood at EUR 1.5 billion (USD 1.6 billion) in 2022. However, the higher rate of import growth compared to export growth led to a negative contribution from external trade to overall economic growth (European Commission, 2023<sup>[2]</sup>). In 2022, the European Union stood out as the economy's primary trading partner, making up 59.6% of total trade. This included 78.3% of total exports, up from 77.3% in 2021, and 46.8% of total imports, a slight increase from 46.2% in 2021. As the second most significant trading partner, the Central European Free Trade Agreement (CEFTA) contributed 10% to overall trade, with exports making up 12.1% and imports at 8.6%, showing a slight shift from the previous year (European Commission, 2023<sup>[2]</sup>).

### **Sub-dimension 2.1: Trade policy formulation**

North Macedonia efficiently co-ordinates its **trade policy formulation** through a well-developed system of official committees, councils and working groups, all overseen by the Ministry of Economy (MoE). These interministerial committees focus on various aspects, including the execution and negotiation of regional and global agreements such as CEFTA and the World Trade Organization (WTO). They also play a crucial role in facilitating the economy's progress toward European Union accession by preparing the necessary trade policy-related chapters of the *acquis* and developing or modifying specific trade measures. The Ministry of Economy is also responsible for overseeing and implementing compliance with Articles 34-36 of the Treaty on the Functioning of the European Union (TFEU) related to the free movement of goods in the EU Internal Market.<sup>1</sup> A comprehensive screening of the national legal framework has been conducted by the Ministry to identify areas that do not align with these articles. Currently, there is an ongoing effort to draft an Action Plan aimed at eliminating non-tariff trade measures (NTMs)<sup>2</sup> and ensuring adherence to Articles 34-36 of the Treaty (European Commission, 2023<sup>[2]</sup>). Given that in North Macedonia the most frequently encountered challenges for traders include customs bureaucracy, operating hours of customs offices, proficiency of customs officers, and sampling, testing, and inspection procedures associated with sanitary and phytosanitary (SPS) measures, an Action Plan aimed at eliminating NTMs would be a welcome development (GIZ, 2022<sup>[4]</sup>).

The interministerial committees have established co-ordination mechanisms to address the complexities of trade policy. Under the MoE's guidance, these committees meet whenever a trade-related matter arises, or a new regulation is under way. Legal mandates ensure that consultations with relevant ministries take place before presenting projects at government sessions. Ministries and institutions responsible for providing information on trade issues must seek input from the MoE. North Macedonia's trade policy aligns with CEFTA's Action Plan for a Common Regional Market for the Western Balkans for the period 2021-24. The economy's commitment to environmental objectives is evident in the formulation of trade policy, where considerations include the support of environmentally sustainable global supply chains, responsible business conduct, and adherence to due diligence requirements. North Macedonia is currently in the process of formulating a new National Strategy for Sustainable Development 2022-42. The strategy incorporates improvement of economic competitiveness through the optimisation of trade flows for greater sustainability as one of its key objectives. However, as of early 2024, the strategy has not been adopted, as the focus has shifted towards the Development Framework 2030,<sup>3</sup> due to be adopted in late 2024.

North Macedonia has a formalised **public-private consultation** process constituting an integral part of the legal procedures for adopting legal acts. The government has taken steps to enhance transparency and inclusivity by establishing a dedicated website that allows the private sector to provide transparent feedback on proposed laws. This initiative actively promotes stakeholder inclusivity through the Unique National Electronic Register of Regulations (ENER) platform. As of June 2023, the government introduced several new functionalities,<sup>4</sup> which further streamline the public-private consultation process.

However, it is important to note that while consultation summaries are available on line, the timelines, objectives, and topics of consultations are not published in advance. Despite this, the consultation mechanism is continually adjusted based on evaluation results, reflecting a commitment to refining and improving the overall consultation process in North Macedonia.

The economy has moderately broadened its range and scope of bilateral and multilateral **free trade agreements** (FTAs) since the last assessment cycle.<sup>5</sup> Despite some moderate advances in broadening the coverage of bilateral and multilateral FTAs, North Macedonia's trade co-operation network remains limited. This limitation could present a challenge to the overall trade integration of the economy – particularly for North Macedonia which, being a small and landlocked economy, considers trade integration as a prerequisite for achieving export-led growth.

### ***Sub-dimension 2.2: Digital trade***

North Macedonia has a robust **policy framework for digital trade**, spearheaded by the 2007 Law on Electronic Commerce. This legislation not only establishes conditions for information services in electronic commerce, but also outlines the responsibilities of service providers, regulates commercial communications, and sets rules for the validity of electronic contracts. The comprehensive nature of this law introduces standardised regulations covering various aspects, including electronic contracts, e-commerce practices, limitations of liability for intermediary service providers, and transparency requirements for online service providers. In a recent development, the government, in November 2022, adopted the Law on Consumer Protection, an extension of the Law on Safety of Goods. This new Law incorporates specific provisions addressing e-commerce and e-payments, reinforcing the legal framework for consumer protection in the digital landscape. Simultaneously, the government in April 2022 enacted the new Law on Payment Services and Payment Systems. Aligned with European Union directives<sup>6</sup> and regulations, this law addresses e-payment services, ensuring North Macedonia adheres to international standards and practices. The laws are well integrated into the broader SME Strategy (2018-23) and are in accordance with the government's National Information and Communications Technology (ICT) Strategy (2021-25).

The oversight of digital trade regulations is well distributed across various institutions within North Macedonia's institutional structure. This ensures efficient co-ordination among ministries and agencies in the area of electronic commerce. Specifically, the Ministry of Economy plays the main role in enforcing e-commerce legislation and associated documents, with a focus on laws related to consumer protection.

North Macedonia continued to implement **digital trade facilitation measures** at borders to ensure the smoother flow of goods. The ongoing process of digitalising customs procedures progressed, marked by the introduction of a green customs declaration. This innovation facilitates the completion of import and export procedures within an efficient one-hour timeframe, eliminating the need for paper documentation entirely (Box 3.1) (Customs Administration, 2023<sup>[5]</sup>).

### Box 3.1. Green customs declaration in North Macedonia

**In November 2023, the Customs Administration of North Macedonia launched its new system on green customs declarations.**

This innovative declaration system marks a significant step towards a fully digitalised and highly efficient customs operation. The system allows economic operators to expedite processes, resulting in substantial time and resource savings.

Under the new system, a total of 833 import and 538 export green customs declarations were processed on its first day, representing 80% of the total lodged declarations. Notably, the customs clearance process for these declarations was successfully concluded within the one-hour timeframe.

For customs clearance within an hour, declarations must be accurately filled out and automatically validated, with all supporting documents attached electronically through the online application system. The system identifies these declarations as non-risky, or "green," exempting them from additional checks and controls, provided customs duties are paid or secured. Once a declaration is placed on the green channel, a one-hour timer begins running, culminating in automatic release into free circulation.

A noteworthy aspect of this digital transformation is that customs agents can execute this streamlined clearance procedure remotely, eliminating the need for physical visits to customs terminals and direct communication with customs officers. Moreover, communication for other declarations, selected either by the system or customs officers for document control based on additional information, also occurs in the system without obstacles.

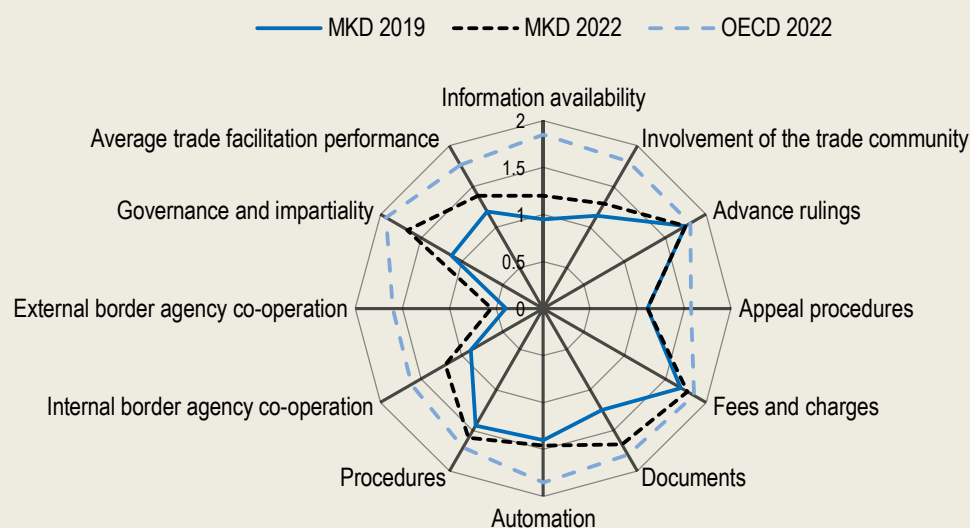
Source: Customs Administration (2023<sup>[5]</sup>).

North Macedonia uses an electronic application system, EXIM, for export/import licences and tariff quotas. This online platform links 16 major cross-border regulatory agencies, allowing traders uninterrupted access to licensing information, document submission, and electronic licence receipt through a unified submission. This advanced system elevates digital trade by providing a fully electronic environment, connecting all cross-border agencies throughout the supply chain. Standardised processes, encompassing declarations, licences, permits and certificates, will be implemented across all agencies, with the added convenience of supporting electronic fee payments, de facto extending EXIM's capacity. In November 2023, the Customs Administration implemented the Electronic System for Customs and Excise Declaration (CDPS), streamlining the submission of customs declarations through a paperless and electronic format. CDPS also encompasses modules for electronic signatures, authentication, and electronic processing of customs duties payments. Apart from digital trade facilitation measures, North Macedonia also advanced in streamlining border procedures through the Green Lanes project as the first Green Lane border crossing between North Macedonia and Greece opened in 2022. The exchange of pre-arrival information with Greece enables targeted risk assessments and expedites controls. This development paves the way for extending the Green Lanes initiative to additional EU Member States. These initiatives aim to elevate border processes and streamline the exchange of data. As a result of such efforts, North Macedonia has emerged as a frontrunner among the OECD Trade Facilitation Indicators, surpassing its counterparts in the Western Balkan region (Box 3.2).

### Box 3.2. North Macedonia's performance under the OECD Trade Facilitation Indicators 2022

The OECD has developed Trade Facilitation Indicators (TFIs) to aid governments in streamlining border procedures, lowering trade costs, boosting trade volumes, and maximising benefits from international trade. These indicators also function as a tool for economies to assess the status of policy implementation across various areas and measures specified in the WTO Trade Facilitation Agreement.

Figure 3.1. OECD Trade Facilitation Indicators 2022



Source: OECD (2022<sup>[6]</sup>).

StatLink  <https://stat.link/Odrgit>

North Macedonia improved in nine out of eleven of the assessed indicators: information availability, involvement of the trade community, fees and charges, simplification and harmonisation of documents, automation, procedures, internal and external border co-operation, governance and impartiality. Its overall trade facilitation performance increased from 1.20 in 2019 to 1.39 in 2022. The closest convergence to OECD levels was observed under fees and charges, documents and advance rulings, although North Macedonia did not reach or exceed OECD scores in any of the indicators. The economy outperformed the Western Balkan average<sup>7</sup> in advance rulings, fees and charges, documents, automation, procedures, internal border co-operation, governance and impartiality. Average trade facilitation performance also exceeded the regional average, positioning North Macedonia as one of the leaders among the Western Balkan economies.

Source: OECD (2022<sup>[6]</sup>).

In terms of adhering to international instruments and WTO agreements governing digital trade, North Macedonia lags behind other WTO members among Western Balkan economies ratifying or adhering to seven international instruments dedicated to digital trade (Table 3.2). North Macedonia actively engages in the WTO Joint Statement Initiative (JSI) on electronic commerce, participating in discussions that span various aspects of e-commerce. These encompass cybersecurity, privacy, business trust, transparency, and consumer protection. Alongside Bosnia and Herzegovina and Serbia, North Macedonia



is one of the few Western Balkan economies that have ratified the Convention 108+, which is an extension of the first legally binding treaty ensuring protection of privacy and data. Moreover, North Macedonia adopted its own law regulating data protection in 2020. Looking beyond the Western Balkans, North Macedonia's commitment to various instruments within the JSI framework remains limited. The economy has yet to adhere to the Information Technology Agreement, which eliminates tariffs for a broad spectrum of IT products, and the legally binding UN Electronic Communications Convention, which aims to simplify the use of electronic communications in global trade. Similarly, the economy has not yet embraced essential instruments for electronic transactions, including the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Commerce. This Model Law establishes three key principles for e-commerce legislation: non-discrimination, technological neutrality, and functional equivalence between electronic communications and traditional paper documents, complementing the UN Electronic Communications Convention.

**Table 3.2. OECD's Digital Trade Inventory**

	Instrument	Description	North Macedonia's adherence
E-transaction frameworks	JSI Participant	WTO Joint Statement Initiative comprises discussion on trade-related aspects of e-commerce, including cybersecurity, privacy, business trust, transparency, and consumer protection.	✓
	UN Electronic Communication Convention	Convention encourages standardisation of national laws and regulations governing e-commerce transactions.	✗
Consumer protection	OECD Recommendation of the Council on Consumer Protection in E-commerce	The OECD Recommendation on Consumer Protection in E-commerce provides guidelines and recommendations for member countries to enhance consumer protection in the context of electronic commerce. The recommendations typically cover various aspects of online transactions to ensure that consumers can engage in e-commerce with confidence and trust.	✗
Paperless trading	WTO Trade Facilitation Agreement	The Trade Facilitation Agreement (TFA) includes clauses aimed at accelerating the transit, release, and clearance processes for goods, encompassing those in transit, and outlines measures for fostering efficient collaboration between customs and relevant authorities concerning trade facilitation and customs compliance matters.	✓
Cross-border data transfer/privacy	Convention 108	Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data is the first legally binding international treaty dealing with privacy and data protection.	✓
	2001 Additional Protocol to the Convention	The Additional Protocol reinforces the protection of individuals' rights in the context of automated processing of personal data, and encourages international co-operation on privacy and data protection matters.	✓
	Convention 108+	2018 Amending Protocol to Convention 108 updates the provisions on the flow of personal data among signatories.	✓
Cybersecurity	The Convention on Cybercrime of the Council of Europe (Budapest Convention)	An international treaty aimed at addressing crimes committed via the Internet and other computer networks. It serves as a framework for international co-operation in combating cyber threats and promoting a harmonised approach to cybercrime legislation.	✓
Goods market access	The Information Technology Agreement	The Information Technology Agreement, which, on a most-favoured-nation basis, removes tariffs for a broad range of IT products, including computers and telecommunication equipment.	✗
	Updated ITA concluded in 2015	Covers the expansion of products covered by the Information Technology Agreement by eliminating tariffs on an additional list of 201 products.	✗

Source: OECD (2021<sup>[7]</sup>).

### ***Sub-dimension 2.3: Export promotion***

North Macedonia has demonstrated a proactive approach to export promotion through collaborative efforts co-ordinated by the Agency for Foreign Investment and Export Promotion (Invest North Macedonia).<sup>8</sup> Established in 2005 in accordance with the Law on Foreign Investment and Export Promotion, Invest North Macedonia serves as the designated **export promotion agency** in the economy. Collaborating with various institutions,<sup>9</sup> clusters and associations, the agency plays a crucial role in trade and investment facilitation. Its broad mandate encompasses export promotion, inward foreign direct investment (FDI), outward investment promotion, and the screening and approval of investors.

As of early 2024, Invest North Macedonia is in the process of developing a new Export Promotion Strategy to provide support for domestic companies to improve their export performance and shift the focus to exporting higher value added goods and services. There is currently no defined timeline for adoption and implementation.

To complement Invest North Macedonia's export promotion mandate, the National Export Council (NEC) was established in March 2023 with the objective of actively serving as a primary mechanism to facilitate public-private dialogue, addressing issues related to export promotion and providing support to exporters. While Invest North Macedonia's mandate is focused on investment attraction, promotion of North Macedonia's companies on foreign markets and implementing the forthcoming Export Promotion Strategy, the NEC is tasked with developing strategic recommendations for export promotion and co-ordinating and monitoring export promotion efforts. NEC is overseen by the Economic Chamber of North Macedonia in collaboration with the United States Agency for International Development (USAID). The NEC is positioned to rectify North Macedonia's unfavourable export structure, with 66% of total exported products concentrated within the top 25 export items. Moreover, out of a total of 3 500 exporting companies, only 450 export at values exceeding EUR 914 000 (USD 1 million) (MAKSTAT, 2023<sub>[8]</sub>), signalling high concentration. The export promotion mandate will be split between the NEC and the Economic Chamber of North Macedonia: the former will be dedicated to reinforcing its internal capacity through the Exporters' Club and the Council for Promotion of Industrial Production and Export; the latter will continue promoting Macedonian companies by organising international trade fair missions and business-to-business (B2B) meetings.

Invest North Macedonia offers a broad range of **export promotion programmes** and services. Since the last assessment cycle, Invest North Macedonia has introduced a dedicated export database portal to help domestic companies gain insights into export opportunities. Through this portal, companies can showcase their products and services on a global marketplace, boosting their exposure to international importers. The website also hosts a B2B matchmaking portal, fostering connections between potential export and investment partners. In addition to educational support, SMEs can use the website to apply for international trade fairs, streamlining administrative processes. Invest North Macedonia endorses the concept of national stands as a means of collaborative participation in international fairs.

Despite offering an extensive array of support measures for companies focused on exports, Invest North Macedonia does not provide financial support directly to companies. In 2019, through the adoption of the Law of Financial Support of Investment, the agency's role in approving financial support for companies was reinforced: the agency operates autonomously, regulating types, amounts, conditions, and procedures for providing financial support to investing business entities. However, unlike common practices in the Western Balkans region and among OECD member countries, the agency does not handle direct payments. Typically, export promotion agencies in these regions have a broader mandate allowing them to directly allocate grants to SMEs (OECD, 2018<sub>[9]</sub>). Furthermore, the low 0.5% annual growth in new exports suggests a need for financial support targeting companies not currently engaged in exporting (World Bank, 2023<sub>[10]</sub>). By providing financial assistance, there is a potential to encourage new entrants into the export market and consequently increase overall export growth.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

**Table 3.3. North Macedonia's progress on past recommendations for trade policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen inter-institutional co-ordination and stakeholder participation in consultations	Interministerial committees, guided by the MoE, establish co-ordination mechanisms to address trade complexities. They meet when trade issues arise, following legal mandates for consultations with relevant ministries before presenting projects at government sessions. The public-private consultations are conducted through the Unique National Electronic Register of Regulations (ENER) platform, which has improved stakeholder participation. With new functionalities added to the ENER platform, stakeholders can provide their feedback more easily.	Strong
Improve the evaluation and monitoring of implemented trade measures	No evidence of improved evaluation or monitoring of implemented trade measures in this assessment cycle.	None

### The way forward for trade policy

- Ensure effective development and implementation of the new strategy to eliminate non-tariff trade barriers.** This strategy should involve identifying and addressing various non-tariff barriers, thereby facilitating smoother and more efficient cross-border trade activities in order to comply with Articles 34-36 of the Treaty on Functioning of the European Union. The implementation of this new approach involves adopting targeted measures, fostering collaboration with relevant stakeholders, and continually assessing and adapting the strategy to ensure its effectiveness in promoting a more seamless and inclusive trade environment.
- Further expand and deepen the regional trade agreements (RTAs).** North Macedonia has achieved notable advancements in regional trade liberalisation. Nevertheless, exploring opportunities in the global trade network should not be overlooked and emphasis should be placed on further export diversification. The economy should continue its endeavours to enhance global trade integration. The significance of RTAs becomes apparent in export growth, as firms engaging in markets with more comprehensive agreements tend to demonstrate higher productivity, profitability, and larger operational scale. Comprehensive trade agreements need to be complemented by a range of domestic policies that enable companies to benefit from them. Establishing a conducive business environment to enhance the productivity of local firms is crucial to realising the anticipated advantages from deeper RTAs with all North Macedonia's trading partners (Box 3.3) (World Bank, 2022<sup>[11]</sup>).
- Expand Invest North Macedonia's mandate to include the provision of financial assistance to companies seeking to export their goods and services.** This expansion could involve offering various forms of financial support. For instance, Invest North Macedonia might provide grants, loans, or other financial instruments to help companies cover expenses related to market research, product adaptation, marketing strategies, and participation in international trade fairs. Additionally, financial assistance could be directed towards supporting companies in complying with international standards and certifications, thereby enhancing their competitiveness in foreign markets.

### Box 3.3. Policy considerations for assessing an economy's trade integration strategy

Over the last decade, there has been a growing trend of moving beyond the WTO rules-based system in international trade with bilateral, multilateral, and regional free trade agreements gaining popularity. These modern trade agreements go beyond market access and include provisions that tackle diverse policy areas to address global challenges. Consequently, they offer a comprehensive framework for promoting sustainable development, fostering innovation, and enhancing international co-operation.

In 2023, the World Bank released a toolkit for policy makers to evaluate the potential impact of deep trade agreements (DTAs)<sup>1</sup> and facilitate their implementation.

#### 1. What aspects should be considered while considering deepening and expanding the scope of DTAs?

- economic impact of trade and GDP stemming from deepening existing trade agreements
- distinction whether it is more beneficial for the economy to deepen existing trade agreements or sign new ones
- selection of potential partners for new trade agreements based on economic considerations.

#### 2. How should existing DTAs be benchmarked?

- Assess the depth of commitments in signed agreements.
- Select the scope and policies to be prioritised to expand existing agreements.
- Select the scope and policies to be prioritised for new negotiations.
- Consider other comparable free trade agreements to learn from peer experience in expanding the network and scope.

#### 3. How can the implementation of DTAs be improved?

- Identify the economy-specific measures, tools and steps necessary for the effective implementation of DTAs. This includes enhancing capabilities and institutional mechanisms within the ministry responsible for implementation; improving cross-agency co-operation; and developing a trade strategy that would complement the goals of the DTAs.

1. Deep trade agreements (DTAs) encompass preferential trade agreements (PTAs) that extend beyond conventional tariff reductions, addressing a broad spectrum of policy domains such as services, investment, competition, intellectual property, labour, and the environment. Source: World Bank (2023<sup>[12]</sup>).

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## Notes

<sup>1</sup> Articles 34-36 of the TFEU constitute fundamental principles supporting the free movement of goods within the EU single market. They expressly forbid restrictions on imports and exports along with measures having equivalent effects, with specific allowances for public policy exemptions.

<sup>2</sup> In particular, non-tariff trade barriers (NTBs), which refer to various measures and obstacles that hinder international trade without involving the imposition of tariffs. That can include quotas, licensing requirements, technical barriers to trade, customs procedures, intellectual property barriers, subsidies, sanitary and phytosanitary measures, and currency restrictions and sanctions.

<sup>3</sup> The MKD Development Framework 2030 outlines the long-term priorities of the government, which include digitalisation, environmental protection and sustainability, accelerated economic growth and education, and inclusive development.

<sup>4</sup> The portal became more user-friendly by introducing an advanced search bar, a clearer interface and interactive maps. The users can now subscribe to alerts and notifications about new regulation uploaded for comments on the portal. Moreover, the portal's legislation database has been expanded and is available in the local language and in English.

<sup>5</sup> In January 2021, the Partnership, Trade, and Cooperation Agreement between North Macedonia and the United Kingdom of Great Britain and Northern Ireland came into effect. The agreement addresses various topics, including trade in goods with provisions on preferential tariffs, tariff rate quotas, rules of origin, trade in services, intellectual property (including geographical indications) and government procurement.

<sup>6</sup> Directive on Electronic Commerce 2000/31/EC, <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32000L0031>.

<sup>7</sup> The assessment covers Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

<sup>8</sup> <https://investnorthmacedonia.gov.mk>.

<sup>9</sup> The Chamber of Commerce, Union of Chambers of Commerce, Chamber of North West Macedonia, Textile Trade Association, Macedonian Association of Processors, Macedonian Association for Metal-Electric Industry, Wines from Macedonia, Macedonian Association for Information Technology.

# 4 Access to finance

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Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

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## Key findings

The North Macedonian access to finance score has increased since the 2021 assessment, from 2.4 to 2.9 (Table 4.1). North Macedonia has undertaken substantial measures to align its banking framework with international standards and has initiated various efforts to develop alternative financing sources, leading to improved scores in these sub-dimensions.

**Table 4.1. North Macedonia's scores for access to finance**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Access to finance	3.1: Bank financing framework			3.3	3.5
	3.2: Access to alternative financing sources			2.8	2.4
	3.3: Digital finance			2.3	2.3
<b>North Macedonia's overall score</b>		<b>3.1</b>	<b>2.4</b>	<b>2.9</b>	<b>2.8</b>

The **key findings** are:

- North Macedonia has undertaken significant regulatory changes to align its banking industry's legal framework with international standards. Notably, the European Commission adopted the Decision 2021/1753 in October 2021, assessing that the banking regulations and the supervision related to capital requirements implemented by the National Bank of the Republic of North Macedonia (NBRNM) are in line with the standards of the EU.
- Access to bank finance for the smallest businesses is impeded. The stringent collateral requirements, the limited size of credit guarantee schemes, and the absence of policies supporting microfinance are contributing factors. Consequently, SMEs constitute only 28.0% of total loan recipients from commercial banks in 2022, while this figure stands at 39.0% on average in the Western Balkan region. That discrepancy underscores the need for targeted interventions to improve SME financing conditions.
- Backed by a strategic framework, active efforts are under way in drafting legislation to establish comprehensive capital market legislation. As noticeable outcomes, the combined preparations of a Law on Alternative Investment Funds, Law on Financial Instruments, and Law on Securities Prospects and Transparency Obligations for Issuers are in progress.
- North Macedonia has made good progress in strengthening its legal framework for digital payments as part of its Single Euro Payments Area (SEPA) integration efforts. The legal framework aligns with the EU's Second Electronic Money Directive (EMD2) licensing for e-money institutions, facilitating electronic money issuance. Moreover, North Macedonia has extended banks' payment services to third-party payment service providers with appropriate security requirements in line with the EU's Second Payment Services Directive (EU PSD2).
- Alternative forms of financing, such as private equity and crowdfunding, currently lack regulation in North Macedonia. However, there are ongoing efforts in the drafting phase to introduce legal frameworks for these alternative financing forms. Notably, legislation to implement the EU Alternative Investment Fund Managers Directive (AIFMD) in North Macedonia entered the drafting process.



## State of play and key developments

North Macedonia's financial sector is primarily anchored in the banking industry, although there has been a slight decrease in its share of the overall financial assets, dropping from 84.7% in 2016 to 79.2% in 2022. This contrasts sharply with the euro zone, where the banking sector represents only 50% of total financial assets (European Central Bank, 2023<sup>[1]</sup>). Banking sector consolidation was pursued in North Macedonia as the number of commercial banks decreased to 13 in 2022 (from 15 in 2019 and 16 in 2013), but competitive pressures remained relatively stable. Notably, the top three banks in North Macedonia collectively held around 56.5% of total assets of the banking industry in 2022, compared to 61.1% in 2013 (World Bank, 2022<sup>[2]</sup>). This percentage remains considerably lower than the averages observed in the Western Balkans (68.8%) and the EU (71.5%).

Over the past decade, the Macedonian financial sector has experienced a decline in overall credit provision, indicating a contraction in the country's primary avenue for accessing finance. The total credit provided by the North Macedonian financial sector substantially receded over the past decade. In 2022, domestic credit to the private sector was equivalent to 48.4% of GDP, while 53.7% in 2013. This figure is comparable to the Western Balkan region (46.4% in 2022) but falls short compared to the European Union (69.5%) (World Bank, 2022<sup>[2]</sup>).

### **Sub-dimension 3.1: Bank financing framework**

North Macedonia's legal framework for the **banking industry** is moderately developed, fully implementing Basel II standards. Ongoing harmonisation with Basel III suggests a continual enhancement in the reliability of the bank finance supply for businesses thanks to increased financial stability. Substantial legal progress has been achieved since the last assessment cycle to further comply with international standards by adopting several amendments implemented from April 2021 to February 2023. These amendments cover a large spectrum of banking regulation, such as the determination of systemic banks, the definition and infringement of monetary penalties, the countercyclical capital buffer for exposures, the scope of audit of banks' annual financial statements and operations, and the methodology for liquidity risk management.<sup>1</sup> On capital requirements, the European Commission adopted Decision 2021/1753 in October 2021, assessing that the banking regulations and the supervision implemented by the National Bank of the Republic of North Macedonia (NBRNM) are in line with the standards of the EU.<sup>2</sup> Finally, the NBRNM restructured its organisational setup by establishing a new department for banking regulation and bank resolution, separate from the bank supervision sector. Aligned with international standards, this restructuring aims to improve the overall quality of supervision.

Further alignment with the EU has been achieved by implementing the Decision on the Methodology for Credit Risk Management in January 2024, aiming to define non-performing and forbore credit exposures and enhance criteria for credit risk management. Additionally, the forthcoming Decision on Reports and Data Disclosure by the Bank, effective as of January 2025, will require banks to disclose more detailed qualitative and quantitative data, particularly related to risk management practices, exposures, and corporate governance. Furthermore, two draft projects are under way to ensure compliance with Basel III capital adequacy requirements (Decision on the Methodology for Determining the Capital Adequacy) and to strengthen resolution processes during bank failures (Law on Bank Resolution).<sup>3</sup> However, no specific timeline for adoption and implementation has been communicated.

Regarding lending requirements, tangible and intangible assets can be used as collaterals. However, there are no loan thresholds below which collateral requirements are flexible for small and medium-sized enterprises (SMEs), limiting their access to bank finance.

North Macedonia established functional **registration and information systems** based on two registers and has experienced marginal legal changes since the last assessment cycle. The Real Estate Cadastre Agency manages cadastres that are publicly accessible on line and updated automatically. On the other hand, the register of pledges over moveable assets falls under the responsibility of the Central Registry of the Republic of North Macedonia. Information from this register, which is also automatically updated for each transaction, can be accessed upon request. Nonetheless, as assessed in the previous cycle, the registry still lacks ownership information for pledges on all registered assets. This incomplete coverage may impact the assessment of collateral values for Macedonian banks, potentially restricting access to bank finance for owners of unregistered assets. The RECA (Registry of Encumbered Moveable Property) had a strategic plan from 2020 to 2022 to expand its registry of pledges. As part of this plan, available data indicate that 9 452 assets that were not previously registered were registered in 2021, while the official target was the registration of 14 428 assets. Although no data are available from 2022, registration efforts are still ongoing in North Macedonia.

Regarding credit information systems, both the public Credit Registry of the NBRNM and the Private Credit Bureau oversee data collection.<sup>4</sup> The latter keeps credit information data provided by financial institutions for a period of five years after payment of the obligation or closure of the subject's account. Financial institutions can request online data with written borrower consent. Non-regulated entities, including non-bank financial institutions, retailers and utilities, have their credit information collected by the Private Credit Bureau in North Macedonia, ensuring a comprehensive coverage of credit information. Implementing amendments to the Decision on the Contents and the Manner of Functioning of the Credit Registry in July 2023 introduced additional macroprudential measures on credit data protection, such as the individual right to challenge collected data. Overall, both institutions allow full coverage of credit information in North Macedonia, which facilitates comprehensive and accurate assessments of individuals' and businesses' creditworthiness by banks.

Macedonian businesses face challenges in **accessing bank finance**, and there is a limited presence of policy initiatives to facilitate SMEs' access to finance. In 2022, loans from commercial banks directed to SMEs accounted for only 28.0% of the total bank loans in North Macedonia (International Monetary Fund, 2023<sup>[3]</sup>), marking a significant decline from 34.9% in 2013. This percentage is lower than the Western Balkans' average of 39.0% and considerably falls short compared to comparable economies from the EU, such as Slovak Republic (60.5%) or Latvia (76.0%) (OECD, 2022<sup>[4]</sup>). While relatively modest, credit guarantee schemes and credit lines aimed at improving SMEs' access to bank finance are active in North Macedonia. Support from the Development Bank of North Macedonia (DBNM), a key institution providing credit guarantee schemes and credit lines to Macedonian SMEs, remained similar to the COVID-19 pandemic levels. In 2020, the DBNM extended EUR 81 million in loans to the Macedonian economy, accounting for 0.75% of GDP (Development Bank of North Macedonia, 2021<sup>[5]</sup>). In 2022, total loans amounted to EUR 92 million (0.71% of GDP), complemented by EUR 10 million in credit guarantees (0.08% of GDP) (Development Bank of North Macedonia, 2021<sup>[5]</sup>). The DBNM's activities are expected to be maintained, supported by its main funder, the European Bank of Investment (EIB), which renewed a EUR 100 million loan initially signed in November 2020 in July 2023 (European Investment Bank, 2023<sup>[6]</sup>).<sup>5</sup> Continuing the largest Macedonian credit guarantee scheme and public credit lines will be crucial in preventing further deterioration in businesses' inclusion in accessing bank finance.

The smallest Macedonian businesses can also rely on microfinance to access finance but without specific microcredit provision regulations. In this regard, no legal progress has been recorded since the last assessment cycle. The entities providing microcredit are the DBNM, the Macedonian Enterprise Development Foundation (MEDF), saving houses, financial companies, and associations (European Microfinance Network, 2019<sup>[7]</sup>).<sup>6</sup> While public institutions like the DBNM and the MEDF provide microcredit programmes, the Macedonian Government has not implemented financial incentives, such as tax deductions or specific interest rate caps, that could further foster the development of microfinance.

### **Sub-dimension 3.2: Access to alternative financing sources**

**Capital markets** in North Macedonia remain underdeveloped. In 2021, the stock market capitalisation in North Macedonia accounted for 31.1% of GDP (CEIC, 2022<sup>[8]</sup>), which aligns with the averages of the Western Balkans (34.3%) but significantly lags behind the EU (75.4%) (World Bank, 2022<sup>[2]</sup>). Moreover, corporate bonds do not exist in North Macedonia on the bond market.

However, legal progress in establishing dedicated frameworks has been recorded since the last assessment cycle. In July 2021, the Law on Investment Funds was amended to advance in alignment with the EU *acquis*, including the Undertakings for Collective Investment in Transferable Securities (UCITS) directive. Such legal advancement is expected to develop the Macedonian fund management industry by facilitating cross-border investments stemming from the EU capital market. In February 2022, the government of the Republic of North Macedonia adopted the Financial Market Development Strategy to expand demand for domestic securities to increase individual and institutional investor participation; broaden investment alternatives through increased equity and debt securities offerings; and enhance financial education and awareness for both the corporate sector and households. The first noticeable outcome of the Financial Market Development Strategy has been the preparation of the Law on Financial Instruments and the Law on Securities Prospects and Transparency Obligations for Issuers.<sup>7</sup> These laws will be implemented to respectively harmonise with the EU Markets in Financial Instruments Directive (MiFID) II and Markets in Financial Instruments Regulation (MIFIR) regulations.<sup>8</sup> Aligning with these standards would bolster the demand for capital market investments by implementing measures that enhance investor protection and increase transparency in financial markets, aligning with EU standards and facilitating investments from the EU capital market.

It should also be mentioned that the Macedonian Stock Market (MSE) offers greater flexibility for smaller companies, enhancing accessibility for SMEs. The MSE categorises listings into four categories: 1) super listing, 2) exchange listing, 3) mandatory listing, and 4) listings for small joint-stock companies. The last, designed for SMEs, requires a minimal capital of EUR 250 000 (compared to EUR 10 million for super listing) and audited financial statements for the past year (or the previous three years for super listing). However, despite flexible regulatory requirements that help increase the accessibility of the stock market, no financial incentives are in place to promote its use.

The development of **private equity** remains very limited, with barely any active equity funds present and no specific legal framework that governs them. These activities are currently regulated by the Law on Investment Funds, but a specific Law on Alternative Investment Funds is being prepared, with no particular timeline communicated. This Law will transpose the EU Alternative Investment Fund Managers Directive (AIFMD) in North Macedonia to create a specific set of rules to regulate and standardise the operations of managers handling alternative investment funds, which will be aligned with EU legislation.<sup>9</sup> This initiative is expected to encourage the development of private equity in North Macedonia by attracting investments from the EU capital market. Finally, in the absence of policies fostering the development of Business Angel Networks (BAN), the Macedonian operating BANs – i.e. Association of Business Angels, CEED Macedonia Business Angels Club, and Network of Macedonian Business Angels I2ban – continue to attract limited amounts of investment. In 2022, EUR 0.4 million was raised, a similar figure compared to the investment raised in 2019 (EUR 0.5 million) (European Business Angels Network, 2023<sup>[9]</sup>).

The legal framework for **factoring** experienced strong development since the last assessment cycle. In July 2023, amendments to the Law on Financial Companies addressed various aspects of factoring, including categorising factoring types (domestic, international, with or without the right of recourse, and reverse factoring). The amendments also defined the content of factoring agreements and established bankruptcy procedures for both the factor and the creditor. This legal advancement is anticipated to stimulate the growth of factoring activities in North Macedonia, which were initially marginal.

The **leasing** regulation is more advanced and has progressed further, achieving additional milestones with the amendments to the Law on Leasing implemented in August 2022, which explicitly addresses legislation on offences and penalties, reducing transaction costs on leasing contracts. In tandem with this legal progress, leasing volumes have substantially developed, accounting for 1.09% of GDP in 2022 (approximately EUR 140.1 million), while only 0.62% in 2017 (EUR 62.3 million) (National Bank of the Republic of North Macedonia, 2023<sup>[10]</sup>). However, they remain far from the EU's level, where leasing volumes represented 2% of GDP in 2022 (Leaseurope, 2023<sup>[11]</sup>).

### ***Sub-dimension 3.3: Digital finance***

North Macedonia has made good progress in strengthening its legal framework for **digital payments** as part of its SEPA integration efforts, by implementing the amendments to the Law on Payment Services and Payment Systems in April 2022. Achieving the alignment with the EU's Second Electronic Money Directive (EMD2) licensing for **e-money institutions**, thereby facilitating electronic money issuance, this law also extended banks' payment services to Third Party Payment Services Providers (TPPs) with appropriate security requirements by complying with the Second Payment Services Directive (PSD2).<sup>10</sup> Furthermore, the Law on Cryptocurrencies is currently being prepared to establish a framework for the utilisation and regulation of cryptocurrencies, paving the way for their potential use as a payment method in the future. In tandem with the improving legal framework, the digital payment and e-money services sector has continued to slowly expand in North Macedonia, with the number of firms reaching four in 2022 compared to only three in 2019 and two in 2013.

Despite the progress made in developing the legal framework for digital payments, their adoption remains limited. In 2021, only 74.3% of the North Macedonian adult population reported having made or received a digital payment (World Bank, 2022<sup>[21]</sup>), which remains significantly lower than the EU average (93.0%). The data suggest that North Macedonia may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods. The overall low penetration of digital payments poses several challenges, ranging from increased business transaction fees to hindered financial accessibility and higher citizen remittance costs. This is particularly crucial for North Macedonia, considering the importance of remittance inflows standing at 3.9% of GDP in 2022 (World Bank, 2024<sup>[12]</sup>). Moreover, increased digitalisation of the financial system can promote the use of bank accounts (Khera et al., 2021<sup>[13]</sup>). However, North Macedonia faces a challenge, with 85.3% of the adult population possessing a bank account in 2021 – a figure still falling below the EU's 95.1% (International Monetary Fund, 2023<sup>[3]</sup>). To foster financial inclusion, North Macedonia implemented the Strategy for Financial Education and Financial Inclusion (2021-25), which prioritises improving financial understanding, management skills, consumer protection, and information accessibility through initiatives such as a fee-comparison website launched in September 2023. However, this strategy does not explicitly address digital skills gaps, which might not foster the development of digital finance.

North Macedonia currently lacks a legal framework for **crowdfunding**, leaving it without active operators. Moreover, the absence of a legal structure for **Distributed Ledger Technology (DLT)** for financing indicates that smaller businesses cannot yet circumvent traditional banking requirements and regulatory requirements associated with capital markets using digital assets (OECD, 2019<sup>[14]</sup>). Nevertheless, North Macedonia has proactively addressed the security requirements related to using Distributed Ledger Technology (DLT) for financing. Implementing the Law on the Prevention of Money Laundering and Financing of Terrorism in June 2022 demonstrated the country's commitment to aligning with the security standards specified in the EU Anti-Money Laundering Directive (AMLD5).<sup>11</sup>

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia has made significant progress in aligning the legal framework of its banking industry with EU standards. However, the development of capital markets and alternative funding sources, such as private equity and crowdfunding, has been more limited. The critical developments based on the previous CO Recommendations are elaborated in Table 4.2.

**Table 4.2. North Macedonia's progress on past recommendations on access to finance**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to align North Macedonia's banking regulations with international standards.	Regulation is being harmonised with Basel III standards, and significant legal progress has been achieved since 2021.	Strong
Continue to build a business environment with diverse financing sources. Given the economy's limited success in attracting venture capital, supporting crowdfunding by adopting a dedicated legal framework and targeting the diaspora could be a more successful approach.	Efforts are being made to diversify alternative financing sources by developing specific legal frameworks. Preparing a Law on Alternative Investment Funds is in progress. Additionally, amendments to the Law on Financial Companies, implemented in July 2023, significantly enhanced the legal framework for factoring. Despite these advancements, there is currently no legal framework for crowdfunding, and no active crowdfunding platform has been observed since 2022.	Moderate
Create a comprehensive strategy for capital market development involving government and private sector stakeholders, and formulate an action plan for undertaking appropriate development activities. One solution to increase available financial sources of the private sector could be establishing a special framework for private bond placements by SMEs.	North Macedonia's capital markets' legal framework is still developing, and the corporate bond market is still nascent. There is no explicit mention of a dedicated legal framework for SMEs.	Limited

## The way forward for access to finance

To ensure diverse financing options are available in the financial markets, policy makers should:

- **Achieve harmonising banking regulations with Basel III standards.** As in the other Western Balkans, the banking sector is the primary player in the financial industry. Given the importance of the banking sector for access to finance, it is essential to create a more robust and more stable global banking system that can withstand economic downturns and financial shocks.
- **Make bank finance accessible for all businesses.** To facilitate the growth and innovation of innovative businesses, it is crucial to expand the financing options available to SMEs, particularly those in knowledge-intensive sectors. Additionally, extending existing permanent credit guarantee scheme programmes could broaden financing opportunities for SMEs. Additionally, policies to develop the activity of existing microfinance facilities, such as interest rate caps and active platforms for SMEs, can help remove barriers to finance for the smallest businesses.
- **Continue efforts to diversify financing sources.** Non-bank financial intermediaries (e.g. leasing or factoring companies), as well as alternative investment funds (e.g. private equity) and capital markets can provide financing alternatives for larger corporates and mitigate the lack of availability of early (e.g. seed or venture) capital financing, which constrains the growth opportunities for promising SMEs.
- **Make digital finance available to all individuals.** Financial services are becoming increasingly digitalised, and individuals with low education levels, those residing in rural areas, and elderly people face more significant financial exclusion because of insufficient digital skills, which should be considered in financial inclusion strategies (Box 4.1).

### Box 4.1. A national financial strategy for Austria

Austria's national financial literacy strategy establishes a comprehensive framework aligning with the OECD Council Recommendation on Financial Literacy, adopted by OECD member countries at the Ministerial Meeting in October 2020.

The strategy focuses on four main policy priorities: fostering sound financial decision making early in life and preventing over-indebtedness; promoting responsible financial planning for long-term well-being; raising financial literacy awareness; and ensuring access to quality financial education. Additionally, it incorporates three crosscutting priorities: achieving gender equality, encouraging sustainable financial choices, and addressing the impact of digitalisation on financial services.

**The Austrian strategy has a strong focus on digitalisation.** The strategy will provide the Austrian population with learning resources and tools to profit from the opportunities offered by the digitalisation of retail financial services taking place in EU financial markets, while ensuring they know how to protect themselves and their personal data (OECD (2018<sup>[15]</sup>); OECD (2020<sup>[16]</sup>)). Austrian citizens will increasingly be confronted with using digital communication channels by established providers they are familiar with and new fintech actors entering the market. They will also need to master the integration of digital technologies in financial services: Application Programming Interfaces (API) under the EU PSD2, payment apps, digital authentication, and authorisation, as well as new digital products. Citizens will also need to learn how to defend themselves from scams and fraud that take place digitally. There has been a significant increase in fraud since the onset of the COVID-19 crisis, which was most notable in phishing practices, i.e. attempts at luring individuals into disclosing confidential account information. Around 60% of victims of fraud lost their money over the Internet, and around half of all fraud methods are linked to investments in crypto assets.

Source: Federal Ministry of Finance of the Republic of Austria (2021<sup>[17]</sup>).

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## Notes

<sup>1</sup>The related amendments are respectively associated with the [Decision on the Methodology for Determining Systemically Important Banks](#) (April 2021), the [Banking Law](#) (June 2021), the [Decision on the Methodology for Determining the Rate of the Countercyclical Capital Buffer for Exposures in the Republic of North Macedonia](#) (June 2021), the [Decision on the Scope of the Audit of Bank's Annual Financial Statements and Operations](#) (March 2022) and the [Decision on the Methodology for Liquidity Risk Management](#) (February 2023).

<sup>2</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021D1753&from=EN>.

<sup>3</sup> The draft project also includes implementing legislation and amendments to the Law on the Central Bank and the Banking Law.

<sup>4</sup> The Private Credit Bureau is regulated by the Law on Credit Bureau, while the public registry was established under the National Bank of the Republic of North Macedonia Law.

<sup>5</sup> The renewal addresses SMEs' liquidity and investment needs, focusing on the green transition. It should also be pointed out that the temporary credit guarantee schemes funded by the European Bank for Reconstruction and Development (EBRD) addressed to SMEs during the COVID-19 Pandemic – a EUR 20 million loan extended to Sparkasse Bank Makedonija in July 2020 and a EUR 15 million loan to ProCredit Bank Macedonia in November 2020 – have also both been renewed. The EBRD credit line to Sparkasse Bank Makedonija was renewed in October 2022, now totalling EUR 23 million with an additional EUR 7 million lines extended in October 2023 to support SMEs in their green transition endeavours (European Commission, 2023<sup>[18]</sup>). On the ProCredit Bank Macedonia loan, EUR 9 million was allocated in November 2023, mainly to promote the green transition of SMEs (Eurostat, 2023<sup>[19]</sup>).

<sup>6</sup> The Ministry of Finance supervises financial companies on a discretionary basis with scheduled and unscheduled inspections. However, only the savings houses and financial companies are supervised, suggesting that banks' supervisory requirements do not fully extend to the entire microfinance sector.

<sup>7</sup> It should also be pointed out that in August 2022, the Securities and Exchange Commission of the Republic of North Macedonia issued a Handbook for Initial Public Offering to support companies interested in going public.

<sup>8</sup> MiFID II is a comprehensive set of regulations enhancing investor protection, increasing transparency and standardising regulatory disclosures across financial markets (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0065>). MiFIR is a set of regulations that complements MiFID II within the European Union. It directly addresses issues such as transaction reporting, pre- and post-trade transparency, access to clearing and trading venues, and regulating commodity derivatives (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0600>).

<sup>9</sup> The AIFMD directive regulates the activities of alternative investment fund managers (AIFMs) within the EU (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32011L0061>).



<sup>10</sup> EMD2 directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110>; PSD2 directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366>.

<sup>11</sup> EUAMLD5 directive: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018L0843>.

# 5 Tax policy

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A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

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## Key findings

North Macedonia's overall score increased slightly since the previous Competitiveness Outlook, remaining above the regional average (Table 5.1). The relatively low tax policy framework score is driven by the economy's weak performance in terms of personal income tax and social security contributions (PIT & SSC) analysis. In all other areas of tax policy however, North Macedonia's score remained either unchanged or increased. Performance in the tax administration score increased due to continued improvements in accessibility and ease of filing procedures and taxpayer services.

**Table 5.1. North Macedonia's scores for tax policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tax	4.1: Tax policy framework	2.4	3.3	2.7	2.5
	4.2: Tax administration			4.0	3.8
<b>North Macedonia's overall score</b>		<b>2.4</b>	<b>3.3</b>	<b>3.4</b>	<b>3.1</b>

The **key findings** are:

- Systematic analysis of the interaction between the PIT and SSC systems and structural trends is conducted. The Ministry of Finance and the Ministry of Labour and Social Policy jointly monitor demographic changes to assess potential policy changes to PIT and SSC rates. Regular analysis of these trends in the economy's tax system is essential, particularly given its rapidly ageing population.
- North Macedonia uses tax policies to further its work to incentivise work in the formal sector. Although only employees are responsible for paying social security contributions (SSCs), the low personal income tax (PIT) rate lessens the tax burden levied on labour. Moreover, the government has implemented a series of measures designed to increase the number of workers in the labour market.
- The government has started the process of considering the impact of the EU Carbon Border Adjustment Mechanism (EU CBAM). There is an ongoing process regarding how businesses in the industries subject to the CBAM will be impacted.
- Filing and payment processes in North Macedonia are relatively simple. E-filing is available for all types of taxes, and while it is only mandatory for value added tax (VAT), its use is nearly universal for both PIT and corporate income tax (CIT) returns. Taxpayers are further assisted by the provision of free software for tax compliance.
- The economy remains an active participant in the international taxation framework. It participates in, and tracks the developments of, the Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Moreover, it has signed the Convention on Mutual Administrative Assistance in Tax Matters and implemented transfer-pricing rules in line with OECD guidelines.
- North Macedonia is the only economy in the region that has plans to review the effect of reforming its domestic tax system in response to the international implementation of the Global Anti-Base Erosion (GloBE) Rules. Moreover, it will evaluate the potential impacts of introducing a qualifying domestic minimum top-up tax (QDMTT). Such assessments are especially important for North Macedonia, which offers low CIT rates and generous tax incentives – both of which may be impacted by the GloBE Rules.

## State of play and key developments

### Sub-dimension 4.1: Tax policy framework

**Tax revenues** as a share of GDP in North Macedonia are relatively low, measuring below the regional and OECD average (Table 5.2). North Macedonia's tax-to-GDP ratio in 2021 was 27.7%, compared to the WB6 average of 30.4% and the OECD average of 33.6%. Conversely, North Macedonia's tax mix is comparatively more balanced. Corporate income tax (CIT) revenues account for 2.0% of GDP, which is close to the WB6 average of 2.1% and below the OECD average of 2.8%. However, CIT makes up a greater share of total tax revenue in North Macedonia (7.2%) compared to the WB6 average (6.9%), but is below the OECD average (9.0%). Personal income tax (PIT) revenues account for 3.0% of GDP, which is higher than the WB6 average of 1.9% but considerably lower than the OECD average of 8.3%. This is also reflected in the tax structure of North Macedonia, where the PIT raises 10.8% of total tax revenues, which is almost twice the proportion of the WB6 average (6.4%) and slightly less than half of the OECD average (24.1%).

**Table 5.2. North Macedonia's tax revenues as a share of GDP (2022)**

	CIT	PIT	SSCs	Goods and services	Total tax/GDP ratio
North Macedonia	2.0%	3.0%	9.8%	11.2%	27.7%
WB6	2.1%	1.9%	9.9%	14.9%	30.4%
OECD	2.8%	8.3%	9.2%	10.6%	33.6%

Note: Information on North Macedonia is from 2022 and information from the OECD is from 2020.

Sources: Data for North Macedonia come from the Ministry of Finance, the Department of Public Revenues, Tax and Customs Policy and the State Statistical Office. Data on the OECD are from OECD (2022<sup>[1]</sup>).

Relative to other WB6 economies, North Macedonia is less dependent on indirect tax revenues. **The social security contributions (SSCs)** in North Macedonia contribute to 9.8% of GDP, which is aligned with the WB6 average of 9.9% and the OECD area average of 9.2%. When examined as a share of total tax revenue, SSCs in North Macedonia account for 35.3%, which is greater than the WB6 average (31.7%) and the OECD average (26.6%). Tax revenues from goods and services, which constitute 11.2% of GDP, fall short compared to the WB6 average of 14.5% of GDP, but slightly exceed the OECD area average of 10.6% of GDP. Nevertheless, the contribution of these taxes to the total tax revenue in North Macedonia (30.3%) is significantly lower than the WB6 average (48.8%) and close to the OECD area average (32.1%).

The **corporate income tax (CIT) rate** in North Macedonia is 10%, which is on the lower end of WB6 economies and significantly below most OECD countries. In terms of investment income, capital gains realised by corporations are incorporated into the CIT base. Corporate dividend income received by companies registered in North Macedonia is exempt from CIT, while dividends directed to non-resident entities attract a 10% withholding tax, a measure that also applies to corporate interest payments (to both resident and non-resident entities). As in other WB6 economies, but unlike many EU and OECD countries, North Macedonia has a worldwide CIT system. Under this system, resident companies are taxed on both their domestic and foreign-sourced income, whereas non-resident entities are only taxed on income generated within North Macedonia. While worldwide CIT systems are in place in all WB6 economies, they are not common among small open economies.

North Macedonia offers an array of **investment tax incentives**, including both cost- and profit-based tax incentives. Reinvested profits can be deducted from taxable corporate profits, which also applies to investments into research and development. Additionally, North Macedonia has Special Economic Zones (SEZ). Businesses operating within these zones enjoy several tax advantages, including a CIT exemption for up to ten years. Moreover, companies that are found to be investing productively within these zones

can benefit from PIT exemptions for the employees as well. The tax incentives in the SEZ can last up to ten years or potentially conclude earlier if the combined regional incentives exceed 50% for investments of up to EUR 50 000 000. Although these incentives were amended in light of the 2022 OECD Forum on Harmful Tax Practices (FHTP), the effectiveness and efficiency of such tax incentives could be significantly impacted by the Global Anti-Base Erosion (GloBE) rules.

Furthermore, North Macedonia operates a **presumptive** (or simplified) **tax regime** for small businesses based on annual turnover. Companies with annual turnover under MKD 3 000 000 (EUR 48 700) are exempted from CIT and companies with income between MKD 3 000 000 and MKD 6 000 000 (EUR 97 400) may opt for a simplified tax regime with a 1% rate levied on their turnover, instead of the 10% CIT rate levied on profits. The 1% rate levied on turnover is low in international comparison and will result in a low effective tax rate, particularly for highly profitable businesses. When they are well designed, simplified tax regimes can reduce compliance costs for micro-businesses and vulnerable self-employed workers, lowering the barriers to entry into the formal sector (Mas-Montserrat et al., 2023<sup>[2]</sup>).

North Macedonia will review the impact of reforming its domestic tax system in response to the international implementation of the **GloBE Rules** and the **qualifying domestic minimum top-up taxes** (QDMTTs) in order to determine the need for reform. While countries are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether a multinational enterprise (MNE) is subject to an effective tax rate of at least the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022<sup>[3]</sup>). For North Macedonia that means that in-scope Ultimate Parent Entities of MNE Groups – that have their headquarters in a jurisdiction that has implemented the GloBE Rules and that operate a subsidiary (or Constituent Entity) in North Macedonia – may be subject to a top-up tax in the residence jurisdiction, if the profits earned in the subsidiary located in North Macedonia are taxed at an effective rate below 15%.

Given that North Macedonia's statutory CIT rate is below the global minimum effective tax rate and because reinvested profits are tax deductible, the GloBE Rules are indeed likely to have implications for the subsidiaries of MNEs that are in-scope of the Rules and operate within its jurisdiction. MNE groups are considered to be in-scope if their annual revenue is EUR 750 million or more (OECD, 2021<sup>[4]</sup>). North Macedonia will therefore assess the impact of introducing a QDMTT, which would increase the effective tax rate of relevant subsidiaries to 15% and, consequently, not forgo CIT revenues in the short run.

Although North Macedonia has continually expanded its international co-operation in tax matters, namely through its active participation in the Inclusive Framework on Base Erosion and Profit Shifting (BEPS), there is still room for improvement in its **exchange of tax information**. The economy has not yet implemented the OECD Automatic Exchange of Information (AEOI) standards, although it intends to do so by mid-2025. Strengthening its capacity in this area will also help North Macedonia more effectively tax capital income from its top earners (OECD, 2017<sup>[5]</sup>). Moreover, North Macedonia has yet to implement the Country-by-Country (CbC) Reporting Package. However, the government plans to adopt a draft law adopting this package in 2024.

Income at the individual level is taxed at a flat 10% **personal income tax** (PIT) rate with an annual allowance of MKD 108 456. The tax base includes income from labour, pensions, and capital income including capital gains, dividends, and interest payments. Only employees pay SSCs at a total rate of 28% of the gross salary, and the amount contributed is then deducted from the PIT base. This includes 18.8% for pension and disability, 8% for health insurance, and 1.2% for unemployment insurance. The same rates apply to the self-employed who are also subject to the PIT.

North Macedonia engages in significant efforts to increase formal employment and reduce disincentives to work in the formal sector. Importantly, North Macedonia has implemented tax measures to encourage workers to enter the labour market, including exempting employers from withholding PIT payments for up to three years of newly hired employees that were previously registered as unemployed. Every year, the government releases an Operational Plan for active programmes and measures, designed to increase the number of people in the labour market and the formal sector. Among those programmes are targeted PIT subsidies for new hires, newly created jobs, and previously unemployed workers that fulfil a set of conditions.

Although the population in North Macedonia is relatively young, decreasing fertility rates and high levels of emigration will lead to population ageing in the medium and long term (WHO, 2021<sup>[6]</sup>). In 2021, a national census showed that the total population had declined by almost 10% compared to 20 years ago, with 150 000 fewer young people. Moreover, between 2012 and 2022, the share of the population aged 65 years or over in the economy increased by 5.3 percentage points – higher than in any EU Member State (Eurostat, 2023<sup>[7]</sup>). The impact of these demographic changes on the economy's tax revenue and the functioning of its SSC system was assessed as part of the government's Strategy on Demographic Policies 2015-24. The ever-changing landscape of demographic shifts, however, necessitates regular analysis of these issues and their fiscal impact.

Additionally, North Macedonia has an aggregate tax revenue **forecasting model** and micro-simulation models for PIT and CIT revenues, which were developed with the assistance of the International Monetary Fund (IMF). The former is regularly assessed to ensure its reliability, while the latter models are only adjusted when deemed necessary (although the PIT model is expected to be adjusted in the near future).

With respect to the **design and structure of the value added tax (VAT) system**, the standard VAT rate in North Macedonia is 18%, which is similar to the OECD area average of 19.2%. North Macedonia has a VAT registration threshold of MKD 2 000 000 (EUR 32 000) and two reduced rates of 10% and 5% which apply to restaurants, essential food products, pharmaceuticals, accommodation services, computers, solar systems and other specific goods and services. Exported goods, international transport, the supply of gold to the Central Bank of North Macedonia, and intermediary services related to the above-mentioned goods and services are zero-rated. In recent years, North Macedonia has decreased the number of goods and services for which reduced rates apply, which is in line with OECD recommendations. Reduced rates and exemptions add to the complexity of the VAT system and are not the most effective way of promoting certain sectors of the economy or addressing equity concerns (OECD, 2022<sup>[8]</sup>). Other measures, such as providing targeted support through the income tax system, tend to be more effective (Thomas, 2020<sup>[9]</sup>).

Regarding **digital taxation**, North Macedonia has not yet fully implemented the International VAT/GST (goods and services tax) Guidelines, although it does levy VAT on cross-border digital services. Additionally, the rules determining the place of taxation reference the usual residence of the private consumer, aligned with the destination principle in the Guidelines. Involving digital platforms in the VAT collection and remittance process can lower administrative costs and increase efficiency.

In terms of **environmentally related taxes**, North Macedonia levies excise taxes on gasoline and diesel fuel. As of 2020, motor vehicles are no longer subject to the standard excise tax but are instead taxed based on the vehicle's CO<sub>2</sub> emissions (Box 5.1). For some energy sources such as natural gas, coal, coke, and biofuels, however, the excise tax is set at 0%. Additionally, there is currently no carbon tax, and North Macedonia has not yet assessed how it will be affected by the EU's Carbon Border Adjustment Mechanism (CBAM).<sup>1</sup> However, the government of North Macedonia is currently in the process of discussing the impact of the EU CBAM on the performance of companies in the affected industries, which will subsequently inform the decision-making process regarding the introduction of carbon taxes.

### Box 5.1. North Macedonia's taxation on motor vehicles

In January 2020, North Macedonia adopted the new “Motor Vehicle Tax Law,” which introduces taxation based on the carbon emissions of the vehicle. The overarching objective of this law is to increase the citizens’ environmental awareness and incentivise them to drive and purchase vehicles that pollute less and consequently reduce air pollution and contribute to achieving a cleaner, greener environment.

Calculation of the motor vehicle tax consists of two components: the *ad valorem* component, which consists of taxation as a percentage of the vehicle’s value, and the specific component, which uses the carbon dioxide emission data from the vehicle. Notably, the *ad valorem* component includes a mechanism for distinguishing between cheaper and more expensive vehicles: in other words, citizens who own more expensive cars will pay a higher amount of tax. This stipulation helps to protect and compensate lower-income groups of the population.

The law also includes an exemption from this tax for environmentally friendly vehicles, such as self-propelled passenger vehicles with electric motor and electric motorcycles and scooters.

Source: Republic of North Macedonia Ministry of Finance (2020<sub>[10]</sub>)

Similar to environmental taxes, the role of **health taxes** can be strengthened further. Tobacco and alcohol products are subject to excise taxes in North Macedonia. For all tobacco products, the excise tax consists of a specific and *ad valorem* component. But unlike for cigarettes, where the *ad valorem* component is 9% of the retail price, the *ad valorem* component for other tobacco products (such as cigars) is 0% of the retail price. As is common, the excise tax on alcohol consists only of a specific component. Combining specific and *ad valorem* taxes for tobacco products is an effective strategy to discourage consumption of, or maximise revenue from, both high- and low-value products (OECD, 2020<sub>[11]</sub>). Moreover, the total tax burden on the most popular brand of cigarettes is at least 75% of the retail price, which is the minimum level recommended by the World Health Organisation (WHO) (WHO, 2021<sub>[12]</sub>). Furthermore, North Macedonia is in the process of introducing a track and trace system to help increase compliance with health taxes.

Expanding and regularising public **tax expenditure reporting** increases transparency and improves efficiency. Currently, North Macedonia has only prepared one tax expenditure (TE) report, but it plans to regularly report TEs in the budget starting in 2025. Estimating the tax revenue forgone of all TEs including tax incentives allows policy makers to conduct important cost-benefit analyses that can help inform tax reforms.

### **Sub-dimension 4.2: Tax administration**

With respect to **tax administration functions and structure**, the Public Revenue Office (PRO) of North Macedonia is a unified administrative body managing all direct and indirect taxes. Tax fraud investigations are conducted by the Financial Police Department. The internal organisation of the PRO follows both a functions and a taxpayer group approach, as it is generally organised by function but also has an office dedicated to large taxpayers. Furthermore, the PRO is regularly audited, and employees are trained by the Tax Academy.

The PRO’s General Tax Inspectorate, along with its six regional offices, handles **compliance assessment and risk management**. The Audit Plan is determined using a risk-based approach. The General Tax Inspectorate prepares a monthly list of risky taxpayers that will be subject to audit during the month. The list is informed by a data-based risk assessment system, analysis of individual cases, and random

selection. The performance of the audit selection methods is measured against the randomly selected ones in order to evaluate their effectiveness.

Despite progress in the **independence and transparency** of the PRO, there are areas that require improvement. In matters of independence and transparency, North Macedonia has yet to establish an independent management board of the tax authority and ensure that the tax administration is separate from the Ministry of Finance. The PRO's budget is determined in the annual budget process but also receives additional funds in proportion to the amount of additional revenue raised from certain activities. Employees are subject to a code of conduct and are clearly and directly under the control of the chief executive of the tax authority.

**Tax filing and payment procedures** in North Macedonia are simple, and there is regular monitoring of the tax administration's efficiency. Broad access to e-filing is available for all major taxes, and for the VAT it is mandatory to file electronically. Almost 100% of VAT and PIT returns and over 96% of CIT returns are filed electronically, and the software to e-file is available free of charge.

There is a wide range of **taxpayer services** available, and there are regular surveys to measure the satisfaction of taxpayers. As part of taxpayer services, the PRO provides online access to information, electronic communications, and in-person inquiries. 75% of written correspondence is answered within 15 working days, and 98% of questions over the phone are answered immediately after the call and must be addressed within 5 working days otherwise.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia has made largely positive advances toward implementing past CO Recommendations, with moderate or strong progress achieved in most areas since 2021. Particularly impressive strides were made toward strengthening tax expenditure reporting and considering the implications of GloBE Rules. However, in other domains, such as shifting the employee SSC burden to PIT, progress was limited. Table 5.3 shows the economy's progress on implementing past recommendations for tax policy.

**Table 5.3. North Macedonia's progress on past recommendations for tax policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to support the economy and facilitate the economic recovery from COVID-19 with targeted tax and subsidy measures	All COVID-19 related tax measures have been phased out.	Strong
Assess the balance between employee SSCs and PIT	Some assessment has been undertaken in the government's annual Operational Plan for active programmes and measures, designed to increase the number of people in the labour market and the formal sector. This resulted in targeted PIT measures to increase formal employment.	Moderate
Continue to strengthen the tax expenditure report and publish it as part of the annual budget, as planned	North Macedonia has prepared a Tax Expenditure report and plans to do so regularly starting in 2025.	Strong
Follow the discussion of the OECD/G20 Tax Challenges Arising from Digitalisation project and in particular the work on Pillar 2	North Macedonia has indicated that it will assess the impact from the GloBE Rules.	Moderate
Re-evaluate the merits and disadvantages of worldwide taxation for resident companies	No indication that this assessment has taken place or resulted in policy action.	None
Strengthen the available forecasting and micro-simulation models to assess the tax system and reforms, as planned	Micro-simulation models for CIT and PIT continue to be used and strengthened.	Moderate
Continue to engage with the international tax community and implement international best practices	North Macedonia is actively participating in, and tracking the developments of, the Inclusive Framework on Base Erosion and Profit Shifting (BEPS).	Moderate



Foster regional co-operation and co-ordination on common tax issues	North Macedonia has signed additional Memorandums of Understanding with most WB6 economies and other economies in the broader region.	Moderate
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## The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which North Macedonia could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Consider broadening and diversifying the tax base by increasing taxes on personal and corporate income in addition to expanding health and environmentally related taxes.** Expanding the sources of tax revenue in the economy enhances the capacity to fund crucial public services for economic competitiveness and, if executed effectively, can mitigate economic costs arising from negative externalities related to climate change.
- **Strengthen carbon pricing by levying excise taxes on more energy sources.** There exists significant scope to strengthen carbon pricing, which has the dual benefit of reducing CO<sub>2</sub> emissions and raising tax revenues that can be used to offset distributional impacts and finance other government initiatives (OECD, 2022<sup>[13]</sup>). Such fiscal incentives will make North Macedonian economic growth more sustainable in the long run.
- **Assess the implications of the EU's Carbon Border Adjustment Mechanism.** Analysing and planning for the implementation of the EU's CBAM is important to avoid forgoing tax revenues that would otherwise be collected by the EU.
- **Assess the impact of GloBE Rules on large in-scope MNEs operating in North Macedonia.** North Macedonia has indicated that it will assess the impact that the GloBE Rules have on the domestic economy and its tax incentives. Depending on the outcome of such a review, policy makers may wish to consider implementing a QDMTT.
- **Conduct a cost-benefit analysis of profit-based tax incentives, especially in the Special Economic Zones, in light of the GloBE Rules.** Profit-based tax incentives are less efficient than their cost-based counterparts. Additionally, they are in some instances more likely to be impacted by the GloBE Rules.
- **Assess the impact of future demographic changes on revenue and the functioning of the SSC system.** This evaluation would serve as a step towards developing a plan to make North Macedonia's public finances more resilient.
- **Implement a vendor collection regime supported by streamlined registration and collection procedures.** This regime would help collect VAT on B2C supplies of services and intangibles supplied by non-resident providers (OECD, 2019<sup>[14]</sup>). This approach to digital taxation can simplify the VAT compliance process for consumers, particularly in the case of cross-border transactions as non-resident providers may be unfair competitors to local suppliers.
- **Regularise public tax expenditure reporting to increase transparency and improve efficiency.** Public tax expenditure reporting allows for independent evaluations of the economy's tax incentives, which can lead to improved fiscal policies impacting businesses and increased trust in government. Box 5.2 presents a list of OECD good practices that could help North Macedonia improve its tax expenditure reporting.

### Box 5.2. Best practices in tax expenditure reporting

The main goal of tax expenditure (TE) reporting is to increase transparency and accountability and, in this way, contribute to well-informed choices on allocation of resources. Some best practices include:

- *Publication of TE reports should be integrated into the budgetary process compulsorily.* Bringing TEs into the budgetary process should increase transparency by subjecting them to a similar level of scrutiny as direct expenditures.
- *Reporting should ideally be on an annual basis, which is the practice in most countries.*
- *The benchmark should be clearly defined and documented.* The report should include a clear description of the benchmark tax system. Ideally, the TE report (or an accompanying methodological annex or background document) should include a discussion and justification for the choice of that benchmark.
- *The TE estimation method should be described in detail on an item-by-item basis within the TE report, either as part of the main body of the report or as an annex within the report.* This will provide transparency and clarity to the reader the underlying calculations and TE estimates.
- *TE reports should classify provisions along different dimensions.* Ideally, TEs should be classified by tax base (PIT, CIT, VAT, excise taxes, etc.), type of TE (credit, allowance, exemption, reduced rate), the function to which they are attributable (education, fuel and energy, health, defence, etc.), their policy objective (employment, R&D and innovation, housing, reducing poverty, etc.) and the targeted beneficiary group (corporations, individuals, SMEs, the self-employed, etc.).
- *Ranking all TEs by their value or otherwise listing the top TEs can improve clarity and guide users to the main provisions in terms of revenue forgone.* While the United States ranks all TEs by total value, France, Germany and Australia provide a non-exhaustive list of the top ten or fifteen TEs. All TEs should be listed. The cost of certain TEs may not be reported because of lack of data or disproportionate estimation costs among other factors. TE reports should nonetheless list all TEs identified, irrespective of whether they are measured or not.

Sources: IMF (2020<sup>[15]</sup>); Kassim and Mansour (2018<sup>[16]</sup>); Redonda and Neubig (2018<sup>[17]</sup>);

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## Note

<sup>1</sup> The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects the EU's commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM's transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.

# 6

## State-owned enterprises

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State-owned enterprises are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

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## Key findings

The Republic of North Macedonia performs slightly lower than the Western Balkans' regional average for the overall state-owned enterprise (SOE) policy dimension (Table 6.1). This reflects, among other things, its highly decentralised ownership portfolio that is not subject to a common ownership policy or central co-ordination; the absence of any independence requirements for SOE boards; and the comparatively large proportion of SOEs not subject to the Law on Companies. Since the last assessment, North Macedonia improved its score on one board-related indicator, reflecting 2022 legislative amendments that have established clearer criteria for the board members of certain SOEs (those subject to the Law on Public Enterprises). Another improvement has been the publication by the Ministry of Finance of basic financial data on SOEs; while not yet comprehensive enough to affect North Macedonia's scores on transparency, this step forward could provide the basis for developing more in-depth aggregate reports on SOEs in line with good practice.

**Table 6.1. North Macedonia's scores for state-owned enterprises**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
State-owned enterprises	5.1: Efficiency and performance through improved governance			1.8	2.3
	5.2: Transparency and accountability			2.4	2.7
	5.3: Ensuring a level playing field			2.3	2.8
<b>North Macedonia's overall score</b>		<b>2.3</b>	<b>2.4</b>	<b>2.1</b>	<b>2.5</b>

The **key findings** are:

- North Macedonia's 30 SOEs are overseen in a decentralised manner by several ownership ministries, with no state ownership policy to guide ownership decisions.
- 2022 amendments to the Law on Public Enterprises establish heightened qualifications criteria for the supervisory boards of SOEs with the special legal form of "public enterprise". SOE board nominations will continue not to be publicly announced and the framework will not be applicable to all SOEs. Shortcomings in SOE board composition and responsibilities include the absence of independence requirements and the fact that for many SOEs, the state appoints the chief executive officer (CEO), depriving the board of a role that is crucial for shielding corporate decisions from political interference.
- Significant shortcomings in SOEs' ownership and board arrangements heighten their risks related to corruption. Although some safeguards are in place, such as board member liability for corporate damages for certain SOEs, the authorities have not elaborated any SOE-specific expectations for anti-corruption and integrity.
- SOEs are generally subject to sound standards of basic financial reporting, although many SOEs are not required to undergo a financial statement audit by an external commercial firm. Non-financial reporting requirements are minimal. Although the state does not publish an aggregate report on SOEs, basic income data are published on line by the Ministry of Finance since 2020.
- Concerning the level playing field with private companies, about half of North Macedonia's SOEs are not incorporated according to the company law and are subject primarily to a Law on Public Enterprises, which establishes some differences in legal treatment compared to private enterprises. Approximately half of SOEs are regularly loss-making, pointing to structural shortcomings that lead to an inefficient allocation of resources.

## State of play and key developments

The central government of North Macedonia manages an SOE portfolio comprising a total of 30 enterprises, according to publicly available information posted on the Ministry of Finance's website.<sup>1</sup> 15 of these SOEs have the special legal form of "public enterprise" and are subject primarily to a special Law on Public Enterprises, while the remaining 15 are fully corporatised and subject to the Law on Companies.<sup>2</sup> Fully corporatised SOEs that perform activities in the public interest are additionally subject to the Law on Public Enterprises.

The authorities of North Macedonia do not maintain a centralised dataset on SOEs with enterprise-specific information on their employment levels or corporate valuation, making it difficult to paint a complete picture of SOEs' economic footprint. However, since 2020, the Ministry of Finance publishes a list of central government-owned SOEs with very basic quarterly revenue and expenditure data (Table 6.2). This list shows that SOEs are notably present in the primary sectors, including the national forest enterprise; the electricity and gas sector, including the power plant enterprise and transmission system operator; transportation, including rail transport and infrastructure, public roads and the national airport; telecommunications, including the public broadcasting company; and other utilities, including water supply and postal services. The central government also notably owns two real estate companies, the national lottery and a sports arena.

Concerning the performance of SOEs in the central government's portfolio, as shown in Table 6.2, 17 of the state's 30 SOEs were loss-making during the first quarter of 2023. Although some losses may only be temporal, an examination of annual and quarterly data for earlier years also finds a large proportion of loss-making SOEs: 19 SOEs in 2020, 10 in the last quarter of 2022 and 14 in the last quarter of 2021.<sup>3</sup> For SOEs that are established to undertake public-interest activities, their financial losses may be partly explained by the costs associated with these activities. However, a more in-depth analysis of the actual costs associated with such obligations would be warranted to assess the reasons for SOEs' underperformance. Good practice calls for the costs of public-service obligations to be clearly defined and financed directly from the state budget.

**Table 6.2. Financial results of North Macedonia's 30 centrally owned SOEs (Q1 2023)**

In MKD millions

Name of state-owned enterprise	Financial result Q1 2023
ESM – Power plants of North Macedonia, joint-stock company (JSC) - Skopje	52.1
Electricity Transmission System Operator of the Republic of North Macedonia, a JSC for electricity transmission and power system control, in state ownership - Skopje	6.1
Public enterprise for state roads - Skopje	1 316.0
Railways of the Republic of North Macedonia Transport, JSC - Skopje	-142.3
Public enterprise for managing forests "National Forests" - Skopje	-112.6
State-owned JSC for postal traffic "Post of North Macedonia" - Skopje	-32.5
Public enterprise for railway infrastructure Railways of Republic of North Macedonia - Skopje	-162.5
Public enterprise for the maintenance and protection of national and regional roads - Skopje	74.2
Public enterprise "National Television" - Skopje	4.3
JSC for construction and management of residential and commercial property significant to the country - Skopje	-14.9
Air Navigation service provider of the Republic of North Macedonia, JSC "M- NAV" - Skopje	-22.9
JSC Water Economy of the Republic of North Macedonia	-55.6
Public enterprise for water supply "Strezevo" - Bitola	-42.9
JSC "TEC Negotino" - Negotino	1.9
JSC "State lottery of North Macedonia" - Skopje	-7.6
Public enterprise Hydrosystem "Zletovica" - Probitip	-31.2
Public enterprise "National Broadcasting" - Skopje	-0.5
JSC for airport services "Airports of the Republic of North Macedonia" - Skopje	0.1
"Boris Trajkovski", state-owned limited liability company established by one person - Skopje	-9.3
Public enterprise for water supply "Lisice" - Veles	-6.0
JSC for management of state-owned business premises - Skopje	1.9
Public enterprise <i>Official Gazette of Republic of North Macedonia</i> - Skopje	3.0
Public enterprise for water supply "Studencica" - Kicevo	2.2
Media information agency - Skopje, a state-owned JSC	0.2
Public enterprise "JASEN" - Skopje	-1.2
Public enterprise for management of pastures - Skopje	-0.3
JSC "Nomagas" - Skopje	0.0
Public enterprise "Agro - Berza" - Skopje	2.7
Public enterprise "Collector system" - Skopje	-5.4
State-owned limited liability company established by one person "Naftovod" - Skopje	-1.2

Source: Republic of North Macedonia Ministry of Finance (2023<sup>[1]</sup>).**Sub-dimension 5.1: Efficiency and performance through improved governance**

Concerning the **clarification of ownership policy and rationales**, the Macedonian authorities have not elaborated a state ownership policy that articulates the rationales for state ownership of enterprises or defines the overarching objectives of the state as shareholder. For the 15 central government-owned SOEs that are incorporated under the special legal form of "public enterprise", the Law on Public Enterprises essentially communicates the overarching rationale for state ownership by stating that these enterprises are established to undertake activities in the public interest. However, for the SOEs that are incorporated as joint-stock or limited liability companies and that do not undertake public-interest activities, the rationales for state ownership are not explicitly defined. For these companies, the rationales for state ownership can sometimes be implicitly ascertained, for example from sectoral policies or company-specific documents such as articles of association. In the context of this assessment, the authorities reported that state enterprise ownership is undertaken primarily to 1) support national "strategic" interests and 2) provide goods and services where no market exists.



In practice, SOE-specific objectives are either defined in SOE statutes or bylaws, or are determined in an ad hoc manner, for example via communication between state shareholding entities and SOE boards or managers. The authorities report that for the majority of SOEs, the state does not set quantifiable performance objectives. Without an ownership policy in place to steer shareholding ministries' decisions, the SOE **objectives-setting process appears to be ad hoc** and characterised by an unclear division of responsibilities between the state as owner, boards of directors and management. The lack of clearly defined objectives and responsibilities undoubtedly exacerbates SOEs' frequent performance issues.

Efforts to **professionalise state ownership** practices in North Macedonia are limited by the dispersed nature of the SOE portfolio and the aforementioned absence of a state ownership policy to harmonise practices across the public administration. Public bodies with state ownership responsibilities include the Ministry of Finance, the Ministry of Economy, the Ministry of Transport and Telecommunications and the Ministry of Agriculture, Forestry and Water Supply. No co-ordinating agency has been established to harmonise state ownership practices across the SOE portfolio, although the Ministry of Finance has established an SOE monitoring unit, which as mentioned previously publishes quarterly financial data for all SOEs.

April 2022 amendments to the Law on Public Enterprises introduced new qualifications criteria for SOE supervisory boards, contributing to a more **robust board nomination framework** for certain categories of SOEs (those undertaking public-interest activities and thus subject to the Law on Public Enterprises). The three-member supervisory boards of these SOEs are henceforth required to include: one member with at least five years of work experience in the field of public enterprise activity; one member with at least five years of work experience in the field of financial operations; and one member with at least five years of work experience in the field of legal affairs. These new criteria constitute a positive step towards strengthening the professional qualifications of SOE supervisory boards. However, the criteria do not apply to fully corporatised SOEs that do not undertake public-interest activities, meaning that their boards of directors will continue to be selected by the government (often based on recommendations of line ministries) without any broadly applicable requirements regarding their qualifications. Additionally, the authorities have not elaborated more detailed guidelines outlining the exact process that shareholding institutions should follow when appointing SOE board members in accordance with the new criteria. SOE board recruitment procedures are currently not open to the public, contributing to a general lack of transparency. These shortcomings add to the risk for politicisation of the SOE board nomination process, and the concomitant possibility that management decisions are influenced by political concerns rather than corporate objectives.

On a related point, stakeholders interviewed for the 2021 assessment noted that the CEOs of SOEs often change with political cycles, indicating that SOE boards are not able to play their good-practice roles of overseeing management in the long-term interest of the enterprise and shielding SOEs from political influence.

Efforts to establish **independent and professional boards** in Macedonian SOEs have been limited. For fully corporatised SOEs, the company law includes some basic good-practice elements, notably that 1) board members are liable for any damages inflicted on the company as a result of their decisions and 2) boards must comprise at least one-quarter independent directors, which are non-executive members without any family ties to management; do not hold more than 10% of shares in the company; and do not have any business relationships with it. Beyond these basic elements, several shortcomings in SOE board responsibilities and independence persist. First, for SOEs with single-tier boards, the state shareholder (the Annual General Meeting), rather than the board of directors, has the right to appoint the CEO, depriving these boards of their good-practice role of overseeing management with no political interference. Secondly, there is no practice of appointing independent directors to the boards of statutory SOEs ("public enterprises"). Thirdly, the boards of some SOEs frequently include acting politicians, greatly jeopardising their ability to shield SOE management from political interference. Finally, the authorities report that in some SOEs, board members receive instructions from the state shareholder on how to vote on agenda

items at the general shareholders' meeting, pointing to a system in which boards are not fully empowered to professionally exercise their role of overseeing management with no shareholder interference. These elements, together with the aforementioned lack of a harmonised board nomination framework applicable to all SOEs, create a situation wherein SOE boards cannot be considered adequately equipped to exercise objective judgement – and supervise SOE management – in the interest of the enterprises they oversee.

Concerning **privatisation practices**, North Macedonia does not currently have an active privatisation programme in place and the authorities did not provide any information on privatisations undertaken over the past decade. In 2021, the previous government announced plans to explore the possible privatisations of several loss-making SOEs, including the national postal services operator, but those plans have not been carried out (BNE Intellinews, 2021<sup>[2]</sup>). More recently, the prime minister announced an ambition to pursue the partial or full privatisation of Macedonian Post, noting that the enterprise regularly operates at a loss of approximately EUR 3 million per year that must be covered by the government budget (Fokus, 2022<sup>[3]</sup>).

Unsurprisingly, given the lack of a state ownership policy outlining why the state owns specific companies, the legislation applicable to privatisations similarly does not specify in which circumstances SOEs should be privatised. A certain degree of transparency is required during the privatisation process, e.g. through the requirement that the state publish information about forthcoming privatisations, including about the concerned company and the value of shares being sold, within 15-20 days prior to the completion of the sale. However, there is no requirement that planned privatisations be announced before a seller is identified. Concerning institutional responsibilities, the Privatisation Commission of the Government of the Republic of North Macedonia is responsible for the management and disposal of state capital. It proposes the method of sale and the initial selling price of shares. The Commission receives technical support from the Ministry of Economy, the Ministry of Finance or the Pension and Disability Fund.<sup>4</sup>

### ***Sub-dimension 5.2: Transparency and accountability***

The authorities of North Macedonia have not elaborated SOE-specific **financial and non-financial reporting** requirements applicable to all SOEs, but SOEs are required by applicable legislation to submit financial statements to the central registry, which subsequently must make them publicly available. SOEs subject to the Law on Public Enterprises must publish their financial statements directly on enterprise websites. In line with good practice, financial statements must be prepared in accordance with international financial reporting standards (IFRS). Non-financial reporting practices are less developed across the SOE sector and SOEs are not subject to any sustainability reporting requirements. The absence of sustainability-related reporting requirements represents a missed opportunity for strengthened monitoring of SOEs' role in contributing to the low-carbon transition. This is particularly relevant for SOEs operating in sectors with a high carbon footprint, such as energy production. As is the case across the region, very few SOEs systematically report on their public-service activities.

The state does not produce an annual aggregate report on the performance of the SOE portfolio as a whole. However, as highlighted previously, the Ministry of Finance has since 2020 published basic financial information (total revenues and expenditures) on all SOEs on a quarterly basis. While this information does not constitute an aggregate report, it does represent a step toward greater transparency and improved central monitoring of SOEs.

Regarding **auditing practices**, applicable legislation requires that some SOEs' annual financial statements be audited by an independent external auditor, but there is a lack of clarity regarding exactly which SOEs this requirement applies to. The Law on Audit requires external audits for public-interest entities (which should include all SOEs under the scope of the Law on Public Enterprises). However, the authorities report that such external audits are only undertaken for companies with mixed capital and that the financial statements of statutory SOEs ("public enterprises") are only audited by the state audit office in an ad hoc manner. In practice, such state audits are generally undertaken for no more than one or two

SOEs per year. In 2022, the state audit office conducted an audit of the financial statements, together with an audit of compliance with applicable laws and regulations, of the electricity transmission system operator JSC MEPSO. The auditors expressed an adverse opinion on the quality and reliability of the enterprise's financial statements (State Audit Office of North Macedonia, 2023<sup>[4]</sup>). Similar audits were undertaken for Power Plants of North Macedonia in 2021, which found that in the period 2011-20, a “significant amount of funds” was invested in projects that were not completed and in equipment that was not put to use (State Audit Office of North Macedonia, 2022<sup>[5]</sup>). This audit also pointed to weaknesses in the enterprise's application of public procurement laws. The negative conclusions of these two audits suggest that there is scope to also examine financial-reporting practices in other SOEs, to assess the quality and credibility of their financial statements.

Concerning **anti-corruption and integrity measures**, there are important shortcomings in SOEs' ownership arrangements and board responsibilities and independence that increase the risk for political interference in SOE management decisions and operations. The fact that CEOs in some SOEs are appointed directly by the government is one element that is not aligned with good practice, as it increases the risk that management decisions will be motivated by factors other than corporate performance. Some basic legal elements are in place to somewhat mitigate corruption risks, for example the fact that board members can be held liable for damages to the company caused by their decisions. More specifically, the Law on Companies establishes individual and collective liability for the boards of fully corporatised SOEs, while the Law on Public Enterprises establishes that the general manager and management board members are responsible for any damages the enterprise incurs as a result of their decisions. However, the authorities have not elaborated specific expectations for SOEs regarding the establishment of anti-corruption and integrity measures, and SOEs are not required to carry out corruption risk assessments. The aforementioned weaknesses in some SOEs' financial-reporting practices points to another avenue for corruption risk: without reliable reporting on how funds are used within the companies, irregular transactions can go unnoticed.

There are very few SOEs with non-state minority shareholders in North Macedonia, making the **protection of minority shareholders** a low-priority issue when it comes to state ownership reform.<sup>5</sup> However, if the authorities decide to increase private capital in SOEs, which can drive performance improvements, then minority shareholder rights will increase in importance. Currently, there is sound basic legislation in place ensuring shareholders' equal treatment under the law. There are also additional measures to allow for minority shareholders' participation in corporate decision making, e.g. the right for shareholders with at least 10% of shares to call a general meeting or request a meeting of the board of directors. This particular provision differs from practices in most other Western Balkan economies, where shareholders with at least 5% of shares have such rights (in Kosovo a similar provision applies to shareholders with at least 10% of share capital). In this respect, it can be concluded that certain minority shareholders in North Macedonia have weaker rights than their counterparts in some neighbouring economies. However, international practices differ regarding the existence and amount of such shareholding thresholds that confer specific rights, and there is no internationally agreed “good practice” in this respect.

### ***Sub-dimension 5.3: Ensuring a level playing field***

The fact that 15 SOEs in North Macedonia are incorporated under the separate legal form of “public enterprise” constitutes an important difference in these SOEs' **legal and regulatory treatment** compared to private companies. Additionally, some of the provisions in the Law on Public Enterprises may have unintended negative consequences on the level playing field between SOEs and private companies. For example, provisions requiring an uninterrupted provision of public services by SOEs may contribute to the perception that these companies cannot be allowed to fail. As a result, many loss-making SOEs continue to operate with the aid of state subsidies and are not subject to the market pressures that would cause a private company to undertake structural reforms to improve efficiency, with significant implications on fair competition and the level playing field.

Concerning **SOE financing conditions**, one of the most notable factors contributing to unequal **financing** conditions compared to private companies is the fact that approximately half of all SOEs in North Macedonia are regularly loss-making. SOEs are not subject to minimum target rates of return and are allowed to continue operating despite their significant losses. As mentioned previously, in some cases these losses may be explained by public-service obligations that are subsidised from corporate earnings. However, there is very limited transparency on the actual costs of such public-service obligations. More rigorous data collection and an in-depth review of the sources of SOEs' underperformance are warranted.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress in implementing earlier CO 2021 Recommendations on state ownership has overall been limited, with no measures taken to elaborate a state ownership policy, to corporatise the country's large number of statutory SOEs ("public enterprises"), or to strengthen disclosure by individual SOEs (Table 6.3). However, small steps have been initiated in line with two of the Recommendations outlined in the CO 2021. These steps include efforts to introduce a more transparent SOE board nomination process, ongoing at the time of writing, and to institute greater transparency of SOEs' operations through the continued publication of very basic revenue and expenditure figures on SOEs, commenced in 2020.

**Table 6.3. North Macedonia's progress on past recommendations for state-owned enterprises**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Develop a state ownership policy that outlines the rationales for state ownership and the expectations of SOEs	The authorities have not elaborated a state ownership policy.	None
Clarify and streamline the legal forms of SOEs	The authorities have not taken steps to corporatise any of the 15 SOEs that are incorporated under the special legal form of "public enterprise".	None
Establish a transparent and objective board nomination process	In 2022, amendments to the Law on Public Enterprises introduced new qualifications criteria for the supervisory boards of SOEs with the special legal form of "public enterprise". However, the authorities have not yet elaborated a dedicated SOE board nomination framework applicable to all SOEs clearly outlining the process by which shareholding ministries should undertake board recruitment procedures.	Moderate
Develop centralised data and publicly available aggregated reporting on SOEs	In 2020, the Ministry of Finance began publishing basic quarterly financial information on central SOEs, reporting on their net revenues and expenditures. The information is not very detailed, but publishing it constitutes a step towards greater transparency and improved central monitoring of SOEs. There remains scope to strengthen reporting on SOEs' activities and performance by developing more detailed aggregate reports.	Limited
Review and improve the quality of disclosure by individual SOEs	No reforms have been undertaken to review or improve the quality of disclosure by individual SOEs.	None

## The way forward for ownership and governance of state-owned enterprises

North Macedonia has taken steps to begin implementing OECD recommendations from the previous assessment cycle related to SOE board nominations and, to a lesser extent, disclosure by the state on SOEs' performance. Despite these positive efforts, many of the past recommendations remain relevant and the authorities are encouraged to:

- **Develop a state ownership policy that outlines the rationales for state ownership and the expectations of SOEs.** This would constitute a first step towards professionalising state ownership practices in North Macedonia. The policy should provide a clear overview of the reasons for state ownership of enterprises, the state's expectations of SOEs, and the main principles guiding state ownership decisions, including setting objectives and board nominations. Moreover, it should define the roles and responsibilities of the different state bodies responsible for executing state ownership decisions and for monitoring SOEs' activities. At a later stage, the authorities might consider establishing a co-ordinating entity to monitor implementation of the state ownership policy and harmonise ownership practices across the public administration.
- **Clarify and streamline the legal forms of SOEs.** Several SOEs, including some undertaking commercial activities, still operate as "public enterprises". The authorities should review the rationale for keeping SOEs in this separate legal form and consider fully corporatising those that are engaged in predominantly commercial activities, to align their legal and regulatory treatment with that of private companies and level the playing field. Where the authorities determine that it is more appropriate for an entity to remain a public enterprise, the rationale for this decision should be clearly and publicly stated.
- **Elaborate an SOE board nomination framework that is transparent, merit-based and applicable to all SOEs.** New provisions in the Law on Public Enterprises can help strengthen the professional competencies of SOE supervisory boards, ensuring that they comprise qualified professionals with an adequate mix of public- and private-sector expertise. The authorities should build on these strengthened criteria by elaborating dedicated SOE board nomination guidelines – applicable to all SOEs and to be implemented by all shareholding institutions – that establish a transparent and merit-based process for appointing board members. It is considered good practice for SOE board nomination procedures to involve input from independent commissions, to strengthen external scrutiny and to make the process more transparent. The SOE board nomination framework should ultimately ensure that all SOE boards have sufficient skills and independence to make decisions in the interest of the enterprises they oversee and without undue political interference. In line with good practice, the SOE board nomination framework should prohibit acting politicians from serving on SOE boards.
- **Further strengthen centralised data and produce publicly available aggregate reporting on SOEs.** The publication of basic financial data on SOEs by the Ministry of Finance, initiated in 2020, constitutes a step toward greater transparency and improved central monitoring of SOEs. The state should build on this information to produce more detailed annual aggregate reports on the activities and performance of the SOE sector as a whole. The authorities should also consider strengthening non-financial disclosure requirements applicable to SOEs, in particular concerning, as relevant, their delivery of public service obligations and their contributions to the low-carbon transition.<sup>6</sup>
- **Review and improve the quality of disclosure by individual SOEs.** The authorities should undertake a thorough review of SOEs' compliance with reporting requirements and the quality of their disclosures, to identify gaps and establish mechanisms to improve disclosure where necessary. The state should clarify SOEs' auditing requirements and ensure that at least all large SOEs undergo an external audit of their financial statements by an independent audit firm.

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## Notes

<sup>1</sup> The number of SOEs in North Macedonia is based on public reporting on the website of the Ministry of Finance. In the context of this assessment, the authorities reported a larger SOE portfolio of 54 entities, but this included 25 companies with state shareholding percentages of less than 1% of share capital, as well as other companies in which the state does not hold 50% or more of shares. Minority state-owned companies could be considered SOEs if the state exercises effective control (for example through veto rights on certain corporate decisions), but such information goes beyond the scope of this assessment. Only SOEs with majority share ownership are considered SOEs for the purpose of the current assessment.

<sup>2</sup> Of the 15 SOEs that are subject to the Law on Companies, 13 are incorporated as joint-stock companies and two as single-owner limited liability companies.

<sup>3</sup> Based on OECD analysis of SOE financial data published on the website of the Ministry of Finance. References are as follows: (Republic of North Macedonia, 2023<sup>[6]</sup>). Please note that annual aggregate data on SOEs' performance were not published for 2021 and 2022.

<sup>4</sup> The Macedonian Privatisation Agency was disbanded in 2005 (after concluding the privatisation of over 1 600 enterprises) and its responsibilities were divided among the Ministry of Economy, the Ministry of Finance, the Pension and Disability Fund and the Public Company for Real Estate Management.

<sup>5</sup> This assessment has not identified any SOEs with non-state minority shareholders, although definitive information on this topic was not provided by the authorities or readily available on line. The CO 2021 assessment found that three SOEs were listed on the national stock exchange, but did not include any private investors in their shareholding structure.

<sup>6</sup> For general information on the role of SOEs in the low-carbon transition and international practices setting related objectives, see OECD (2022<sup>[7]</sup>).

# 7 Anti-corruption policy

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An effective anti-corruption policy is essential for promoting fair competition. This chapter, along four sub-dimensions, explores the effectiveness of the prevention, investigation and prosecution of corruption cases. The first sub-dimension, anti-corruption policy and risk management, assesses the planning, co-ordination and monitoring of anti-corruption policies, including corruption risk assessments and corruption proofing of legislation. The second sub-dimension, prevention of corruption, focuses on anti-corruption public-awareness as well as the effectiveness of the legal framework regarding corruption prevention bodies, conflicts of interest, and whistleblower protection. The third sub-dimension, business integrity and corporate liability, explores the robustness of the framework for businesses integrity and regulatory mechanisms, as well as the liability of legal persons. The fourth sub-dimension, investigation and prosecution, assess the capacities of specialised anti-corruption investigative and prosecutorial bodies in investigating and prosecuting high-level corruption cases.

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## Key findings

Since the Competitiveness Outlook (CO) 2021 assessment, North Macedonia has begun implementing the National Strategy for Prevention of Corruption and Conflict of Interest 2021-25, but its implementation levels remain limited (Table 7.1). The overall legal and institutional anti-corruption framework of North Macedonia has changed little except for amendments to certain legal sanctions. The economy has made significant efforts to improve practices in preventing corruption. However, shortcomings in institutional capacity have been a key obstacle hindering a stronger general performance in the area of anti-corruption policy.

**Table 7.1. North Macedonia's scores for anti-corruption policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Anti-corruption	6.1: Anti-corruption policy and risk assessment			3.0	2.4
	6.2: Prevention of corruption			3.1	2.9
	6.3: Business integrity and corporate liability			2.3	1.9
	6.4: Investigation and prosecution			2.7	2.4
<b>North Macedonia's overall score</b>		<b>2.4</b>	<b>2.9</b>	<b>2.8</b>	<b>2.5</b>

Notes: Scores for 2024 are not directly comparable to the 2021 scores due changes in the scoring methodology of this indicator. Sub-dimension 6.3 as well as several indicators in the other sub-dimensions is scored for the first time in this assessment. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy.

The **key findings** are:

- In 2021, the parliament adopted the National Strategy for Prevention of Corruption and Conflict of Interest 2021-25. However, its low level of implementation is a challenge, as 89 out of 166 scheduled activities until the year 2023 were not completed in time.
- The State Commission for Prevention of Corruption (SCPC) is the main corruption prevention body and has multiple responsibilities, including developing an anti-corruption policy and overseeing conflicts of interest and declarations of public officials. While the SCPC's annual budget and staff numbers have been increasing in recent years, staffing levels continue to fall substantially short of the intended target. Despite these shortcomings, the SCPC effectively contributes to countering corruption.
- The Law on Protection of Whistleblowers deviates from the European Union (EU) Directive 2019/1937 on the protection of persons who report breaches of EU law. For example, external whistleblowing to the Ministry of Interior, the public prosecutor's office, the SCPC, the Ombudsman or other competent institution in North Macedonia is subject to conditions rather than the whistleblower's free choice. Moreover, the Law contains no waiver of liability for whistleblowers when breaching restrictions of disclosure.
- The economy's Corporate Governance Code covers certain ethics-related matters and applies to companies whose shares are listed on the stock market. The Stock Exchange published a report on compliance with the Code in 2022, setting a good-practice example for encouraging business integrity.
- North Macedonia has a track record of investigating and prosecuting high-level corruption. However, numerous challenges prevail in this area, such as insufficient financial investigations and a limited track record of recovery of proceeds of corruption, especially from abroad. Criminal

proceedings were also undermined by the softening of provisions of the Criminal Code in 2023, as well as lengthy trials that have sometimes led to the expiration of limitation periods.

## State of play and key developments

The perceived level of corruption of North Macedonia has been fluctuating, and improved in 2022-23. On a scale from -2.5 (worst) to +2.5 (best), North Macedonia's score in the World Bank's Control of Corruption indicator has slightly improved, from -0.39 in 2018 to -0.32 in 2022 (Table 7.2). The Transparency International Corruption Perceptions Index reflects a similar change. On a scale from 0 (highly corrupt) to 100 (very clean), North Macedonia scored 37 in 2018 and 42 in 2023. North Macedonia's scores have risen above the Western Balkan regional average in 2021-23.

**Table 7.2. North Macedonia's perceived anti-corruption policy performance in 2018-23**

	2018	2019	2020	2021	2022	2023
<b>Control of Corruption Index</b>						
MKD (percentile rank)						
MKD (score)	-0.39	-0.46	-0.49	-0.37	-0.32	
WB6 (score)	-0.41	-0.45	-0.44	-0.41	-0.38	
<b>Corruption Perceptions index</b>						
MKD (rank)	93/180	106/180	111/180	87/180	85/180	76/180
MKD (score)	37	35	35	39	40	42
WB6 (score)	38.67	37.67	37.5	38.67	38.67	39.50

Note: Percentile rank (0-100) indicates rank of economy among all economies in the world. (0 corresponds to lowest rank and 100 corresponds to highest rank.)

Sources: World Bank (2023<sup>[1]</sup>); Transparency International (2023<sup>[2]</sup>).

According to the Balkan Barometer, a minority of people in North Macedonia agree that the government fights corruption successfully. The share increased in 2021 when it reached 31% (RCC, 2021<sup>[3]</sup>), compared to 24% in 2020 (RCC, 2020<sup>[4]</sup>).

### **Sub-dimension 6.1: Anti-corruption policy and risk assessment**

North Macedonia has a robust **anti-corruption policy framework** in place, but its implementation has been slow. The National Strategy for Prevention of Corruption and Conflict of Interest 2021-25, prepared by the State Commission for Prevention of Corruption (SCPC) and adopted by the Assembly, forms the basis of the economy's anti-corruption policy. The strategy identifies two priority horizontal areas, public procurement and employment in the public sector, as well as 15 sectors, including the political system, the judiciary, law enforcement bodies, healthcare, and education. The accompanying Action Plan contains simple indicators of completion, so-called outputs, and simple yes-no remarks regarding whether the actions carry "financial implications", which seemingly refer to the actions' costs (SCPC, 2023<sup>[5]</sup>). The SCPC monitors and reports on the strategy's implementation.

In 2023, upon the initiative of the Ministry of Justice, the government reactivated the inter-agency body for co-ordination of anti-corruption activities, chaired by the deputy prime minister and comprising 19 representatives of different state authorities, including the SCPC. Independent experts were commissioned to carry out a qualitative analysis of the vulnerable sectors identified by the strategy: health, education, sports, environment, agriculture, public enterprises and state-owned companies. The analysis

found that the percentage of implemented activities was small and in some sectors none had been implemented (Gjorgievski, Mateski and Zafirov, 2022<sup>[6]</sup>). The low level of implementation remains a challenge, with 89 out of 166 activities remaining unimplemented at the end of 2023. The largest numbers of unimplemented activities were in the sectors of law enforcement authorities (13), education (12), and economy and business (11) (SCPC, 2024<sup>[7]</sup>).

The majority of central-level public bodies in North Macedonia carry out **corruption risk assessments** on a systematic basis, but the practice is not universally implemented. Corruption risk assessment and management generally take place within the framework of internal financial control. In 2017, the Ministry of Finance published Guidelines for Fraud and Corruption Risk Management (Ministry of Finance, 2017<sup>[8]</sup>), and other relevant guidelines and methodologies have been prepared since then. Moreover, in 2022, the government obliged all state administration bodies to develop and publish corruption risk assessment plans (Government of the Republic of North Macedonia, 2022<sup>[9]</sup>). According to the government, only 69.39% of central-level entities had adopted risk registers in 2022, compared to 70.59% in 2021, and 74.40% in 2020. At the local level the share was much lower, with only 39.51% in 2022. The SCPC has the competency to prepare sectoral corruption risk analyses. According to the government, one sectoral assessment was carried out in 2020, five in 2021 and none in 2022. However, the annual report of the SCPC for 2021 only mentions analyses carried out by NGOs, particularly regarding employment practices with a special focus on nepotism, cronyism and clientelism, as well as in the area of spatial planning, urbanism and construction (SCPC, 2022<sup>[10]</sup>). This suggests a deficiency in the SCPC's capacity to carry out these sectoral assessments using its own resources.

The State Commission for Prevention of Corruption (SCPC) is also responsible for **corruption proofing of legislation** and has adopted the Methodology for Anti-Corruption Review of Legislation. The scope of anti-corruption reviews includes laws, bylaws and other general acts that are in the process of being drafted or that are already in force. As such, the SCPC reviews all draft laws that it identifies as priority, in addition to other acts listed in an annual plan for review (SCPC, 2015<sup>[11]</sup>). In 2022, the SCPC started using software with a view to digitalising the anti-corruption review and expediting the identification of provisions that contain corruption risks. The SCPC has been increasing its activity of corruption proofing of laws, from 5 laws in 2019 to 19 and 18 in 2021 and 2022, respectively. In 2022, the SCPC's recommendations have been accepted regarding three laws, but in nine cases no responses were received or the recommendations were not implemented, suggesting that it could be useful to envisage a legal obligation for the competent legislative institutions to respond (SCPC, 2023<sup>[12]</sup>).

### ***Sub-dimension 6.2: Prevention of corruption***

The State Commission for Prevention of Corruption (SCPC) is North Macedonia's main **corruption prevention body**. It is legally autonomous and independent, and accountable to the Assembly. The SCPC operates based on the Law on Prevention of Corruption and Conflict of Interest (LPCCI) adopted in 2019. The agency has multiple responsibilities, such as developing anti-corruption policy, monitoring policy implementation and compliance with legal requirements, overseeing conflicts of interest and declarations of public officials, probing corruption-related acts, conducting misdemeanour procedures and instigating initiatives for determining the liability of officials as well as for criminal prosecution. Multiple elements of the legal framework are designed to safeguard the independence of the SCPC, including a transparent and competitive procedure for the selection and appointment of its president and six members. To do so, a seven-member selection committee, which includes two representatives of civil society, proposes the best-ranked candidates to the Assembly; they will be appointed for a period of five years, without a right to reappointment. The annual budget of the SCPC has been steadily increasing: from MKD 27 million (EUR 438 676) in 2018 to MKD 55 million (EUR 897 170) in 2020 and MKD 66 million in 2023 (around EUR 1.07 million). The number of SCPC staff also rose significantly, more than doubling from 23 employees in 2020 to 48 in 2022. However, the number remained below the planned 64 positions in

2022 (SCPC, 2023<sup>[12]</sup>). Despite insufficient specialist staff, international assessments highlight the important role played by the SCPC in proactively providing public institutions in North Macedonia with guidance and showing leadership in the fight against corruption (European Commission, 2023<sup>[13]</sup>) (GRECO, 2023<sup>[14]</sup>).

There have been no major developments since the last Competitiveness Outlook assessment regarding **conflicts of interest**. The Law on Prevention of Corruption and Conflict of Interest (LPCCI) determines the rules for official persons, defined comprehensively as all elected or appointed persons and public sector employees. Other laws, regulations and codes of conduct contain rules on conflicts of interest specifically for members of parliament, members of the government, judges, public prosecutors and other public officials. The law defines an actual and potential conflict of interest, and clearly requires official persons to be cautious of potential conflicts of interest and take steps to avoid them. To clarify the application of the rules, the SCPC has published in 2020 a practical guide on ad hoc detection and management of conflicts of interest for government members (SCPC, 2020<sup>[15]</sup>), and guidance on the development of an internal act on management of conflict of interest in 2016 (SCPC, 2016<sup>[16]</sup>). When the SCPC determines the existence of a conflict of interest, it shall request that the official in question resolve the conflict. If the request is not complied with, depending on the category of the official, the SCPC can demand that a disciplinary procedure is initiated, or the official dismissed, or it can impose a public warning and start a misdemeanour procedure. The number of imposed misdemeanour sanctions used to be low but has increased significantly since 2020 (Table 7.3). This uptick is attributed to the LPCCI provisions from 2019, which made the SCPC Misdemeanour Commission the competent body to conduct misdemeanour procedures and to impose sanctions for misdemeanours under the LPCCI. This has significantly improved the efficiency of imposing sanctions. Formerly, the SCPC submitted initiatives for conducting the misdemeanour procedure to the court.

**Table 7.3. Sanctions for conflicts of interest in North Macedonia in 2020-22 (all final and in force)**

	2020	2021	2022
Disciplinary sanctions	4	1	2
Dismissals	1	0	2
Misdemeanour sanctions	15	28	29
Public reprimand	0	1	0

Source: Based on data provided by North Macedonia's authorities in the context of the CO 2024 assessment.

The number of sanctions imposed for post-employment violations has been low: 1 in 2019, 1 in 2020 and 2 in 2022. Furthermore, there is no practice of invalidating decisions or contracts because of the violation of conflict-of-interest regulations, even though the LPCCI outlines such a possibility.

North Macedonia has a framework for **asset and interest disclosure** in place, but legal gaps persist. High-level officials, responsible persons in public enterprises or other entities with state capital, high civil servants, notaries, enforcement agents, and advisers in the cabinets of political office holders are subject to asset and interest disclosure. Officials have to provide data about themselves and their family members upon assuming an official position and after termination. They must also report increases in property as well as any changes of interests. The last Competitiveness Outlook noted the SCPC's opinion that annual declarations for all declarants would be preferable but no improvements in this regard have been implemented. The declaration does not explicitly require disclosing certain important assets, including cash savings outside financial institutions, virtual assets (e.g. cryptocurrencies), or beneficial ownership other than formal ownership (SCPC, 2023<sup>[17]</sup>). While these assets could be covered implicitly, for example under the category of "other assets", there is a risk that some declarants may not clearly understand the obligation to disclose these specific types of assets. As of end-2023, the SCPC was still testing a new digitalised system for declarations which could allow the electronic submission of declarations in a standard format

feeding the data directly into the database; automate data entry and analysis; ensure cross-checking with other databases; and improve transparency.

The law guarantees the SCPC access to data from financial institutions on request as well as direct electronic access to the databases of 17 other institutions. Compared to the previous assessment, the SCPC has increased its capacity to carry out verifications of asset and interest declarations, as the number of dedicated employees for this workstream rose from three to five in mid-2023 (GRECO, 2023<sup>[14]</sup>). The number of verifications has been slightly increasing, with 54 officials included in the verification plan for 2022 compared to 42 in 2021 (SCPC, 2023<sup>[12]</sup>) (SCPC, 2022<sup>[10]</sup>). In 2022, the SCPC issued 367 misdemeanour payment orders for non-submission or late submission of declarations and 5 for failing to report increases in assets. This is a steep increase compared to previous years, with 86 in 2021 and 73 in 2020, suggesting that the pilot digital system has enhanced efficiency in identifying such misdemeanours. Furthermore, the SCPC displayed heightened vigilance in identifying misdemeanours, likely motivated by strong public support in addressing potential corrupt activities involving public servants and members of parliament. The Criminal Code establishes liability for provision of false or incomplete data regarding property or sources of revenue for its acquisition, when those significantly exceed the legal income of the public official or their family members. In practice, the track record of detection of illicit enrichment or unjustified assets is weak, with only one case detected in 2021 and in 2022.

**Whistleblower protection** in North Macedonia, in accordance with the Law on Protection of Whistleblowers adopted in 2015, extends to both the private and public sector, but falls short of fully meeting international good practice. The Law deviates from the EU Directive 2019/1937 on the protection of persons who report breaches of European Union law. For example, while whistleblowers are not required to prove their good faith, they could face the risk of unfair and unnecessary deprivation of protection if implementers decided to probe their motives because good intention is still a required element of protected reporting. External whistleblowing to the Ministry of Interior, the public prosecutor's office, the SCPC, the Ombudsman or other competent institution is subject to conditions rather than the free choice of the whistleblower. However, the authorities stated for this assessment that in practice no whistleblower has been challenged based on the good faith requirement or denied protection in case of external whistleblowing for failure to meet conditions. The conditions for public disclosure do not encompass all circumstances envisaged in the EU Directive 2019/1937. North Macedonia's law contains multiple provisions to protect whistleblowers but there is no provision for waiving liability in cases of breaching restrictions on disclosure or acquiring/accessing the reported information. In any dispute regarding a violation of the right of whistleblowers and people close to them, the burden of proof lies with the institution. However, the definition of close persons does not explicitly comprise facilitators of whistleblowing or legal entities connected with the whistleblower. Legally guaranteed support for whistleblowers is limited. There are no explicitly envisaged channels of counselling, no access to free legal aid apart from that based on the general rules regarding such aid, and no rules regarding provisional judicial protection before the review of the case is completed (Regional Anti-Corruption Initiative, 2021<sup>[18]</sup>). In 2020, North Macedonia lowered sanctions for violations of the Law on Protection of Whistleblowers, as part of changes in the general misdemeanour policy (Transparency International - North Macedonia, 2022<sup>[19]</sup>).

In recent years, the SCPC has been receiving increasing numbers of whistleblower reports, rising from six in 2020 to ten in 2022. Yet only a few of these reports have led to the detection of corrupt activity. In most instances, the investigations could not confirm the allegations (SCPC, 2023<sup>[12]</sup>). In 2021, the SCPC launched an online application for whistleblower reports and follow-up communication, reporting that no whistleblower protection measures were applied between 2020 and 2022. The sentiment in North Macedonia society mirrors this trend, with 50% of survey respondents in 2020 expressing belief that whistleblowers were either inadequately protected or not protected at all, while only 19% felt that they were sufficiently safeguarded by law (SCPC, 2020<sup>[20]</sup>).

The SCPC and other institutions conduct various **anti-corruption public awareness and education** activities. The SCPC has organised several campaigns, including the campaign “Be Heroes of Honesty” in 2023, which aimed to educate students about the consequences of corruption and lack of personal and common integrity. Public events have also been prominent, such as a yearly conference for the presentation and discussion of the annual report on the implementation of the National Strategy 2021-25, last held in April 2023. Furthermore, a roundtable on the topic “Public Sector Integrity Standards in accordance with the United Nations Convention against Corruption (Articles 7, 8 and 10)” was held in October 2022, organised by the Ministry of Justice with the support of the United Nations Development Programme (UNDP). Moreover, a public debate on “Discretionary power in adopting secondary legislation as a corruption risk in urban planning” was conducted on line in June 2022, arranged by the SCPC. Additionally, since 2022, the SCPC has been providing various training activities in a modern training centre on its premises, and engages in the development of digital training resources. In 2022, the Ministry of Education and Science asked higher education institutions to consider developing public education programmes aimed at promoting a culture of integrity in North Macedonia. Several higher education institutions reported their involvement in such activities, including presentations and lectures to students and employees on the prevention and reporting of corruption. The national budget allocates funds for anti-corruption awareness-raising and education activities, but data on the exact amounts are not available. Furthermore, there has been no evaluation or measurement of the effectiveness of public information and education measures.

### ***Sub-dimension 6.3: Business integrity and corporate liability***

The formal framework for promoting **business integrity** remains limited, with no significant advancements noted since the last Competitiveness Outlook assessment. The Corporate Governance Code, which covers ethics-related matters, is applicable only to companies whose shares are listed on the official market of the Macedonian Stock Exchange (Macedonian Stock Exchange, Securities and Exchange Commission, 2021<sub>[21]</sub>). The Stock Exchange published a report on compliance with the Code in 2022. The report found that 17 companies fully complied, 5 complied partially and 5 did not comply with the requirement to adopt and publish a company code of ethics. More encouragingly, 67% of companies fully complied with the requirement to publish a whistleblowing procedure (Macedonian Stock Exchange, 2023<sub>[22]</sub>). The Company Law mandates that the supervisory body of a joint-stock company is obliged to organise an independent internal audit service, which should among other things assess the adequacy and efficiency of internal control systems as well as the implementation of risk management policies; however, there are no specific requirements regarding corruption risks.

In accordance with the Law on Prevention of Money Laundering and Financing of Terrorism, the Central Registry shall establish, maintain and manage a register of beneficial owners; it became operational in 2021. The definition of beneficial owner is generally in line with EU anti-money laundering directives. The name, date of birth, citizenship and country of residence of a beneficial owner, as well as their ownership share or other form and type of ownership or control is available to any legal or natural person. Both financial institutions and designated non-financial businesses and professions have to identify beneficial owners as part of their customer due diligence. Information provided by the government indicates 182 inspections carried out in 2021-23 to check the fulfilment of duties to provide and keep data on beneficial owners, but no violations have been detected. On the other hand, MONEYVAL has raised concerns with regard to the trustworthiness of the recorded beneficial ownership information and insufficient verification of the submitted data (Council of Europe, 2023<sub>[23]</sub>).

The government named several institutions that may assist businesses in resolving concerns, potentially including corruption-related challenges. These institutions include the National Coordinating Body on Corporate Social Responsibility, the Invest North Macedonia Agency, the Single Entry Point – Aftercare System of the Directorate for Technological Industrial Development Zones, and the Cabinet of the Deputy Prime-Minister in Charge of Good Governance Policy.

The Criminal Code of North Macedonia prescribes criminal **liability of legal persons** for all offences. A legal entity shall be liable for crime committed by a responsible person within the legal entity, or on behalf, for the account and for the benefit of the legal entity. Under certain conditions, an entity shall also be liable for crime committed by its employee or representative where a significant property benefit has been acquired or significant damage has been caused to a third person. The element of significant benefit or damage limits the application of liability in corruption cases where no such benefit or damage is found – for example, if a bribe has only been offered.

The liability of legal persons is autonomous, i.e. an entity shall be liable for a crime even when there are obstacles to determining the criminal liability of the natural person as offender. Fines are the main sanctions for legal entities. The general upper limit of fines is MKD 30 million (around EUR 488 000) with the possibility of increasing the amount for crimes committed out of covetousness and crimes which lead to a greater benefit or damage. Provisions on the calculation of fines link the maximum amounts of fines to ranges of prison sanctions. For offences that would lead to imprisonment of less than five years, fines would be many times lower (up to MKD 1 million or around EUR 16 000). For many corruption offences the maximum prison sanctions are five years or more. The amendment to the Criminal Code in February 2023 heightened prison penalties for active bribery, which also leads to an indirect increase of the maximum sanctions applicable to legal entities involved in bribery. However, for certain offences, such as the less severe form of active trading in influence, the maximum sanction is three years. The law does not explicitly envisage due diligence, compliance, internal control, or other internal anti-corruption policies as mitigating circumstances, nor is it possible to defer the application of sanctions due to such circumstances. Thus, there is scope to consider introducing new incentives for compliance in the criminal law. Authorities do not publish detailed statistics on prosecution, trial and sentencing of legal persons. According to the government, the number of monetary fines imposed on legal persons for corruption offences were 1 in 2018, 2 in 2019, 0 in 2020, 11 in 2021 and 2 in 2022. In all cases of 2021-22, confiscation of proceeds has been applied.

#### ***Sub-dimension 6.4: Investigation and prosecution***

North Macedonia has established a certain track record of **investigation and prosecution of high-level corruption**. According to the government, the number of convictions (subject to appeal and final) for high-level corruption was 4 in 2020, 6 in 2021, and 18 in 2022. During the same period, the number of final sanctions for such corruption that entailed imprisonment without conditional or other type of release was 4. In 2018-22, there were no high-level corruption cases where proceeds located abroad have been recovered. Parallel financial investigations still do not accompany corruption investigations in all relevant cases. The government provided information on two cases where proceedings were terminated due to the expiry of the periods of limitation. The European Commission also expresses concern regarding the increasing number of delays and trial reversals, which in some cases have resulted in the expiry of limitation periods (European Commission, 2023<sup>[13]</sup>). Important proceedings against high-level corruption have been negatively affected by the softening of sanctions for some corruption offences adopted in September 2023. These amendments removed among others the heightened sanction for abuse of official position if performed during execution of public procurement or resulting in harm to public funds (Magleshov and Marusic, 2023<sup>[24]</sup>).

North Macedonia has some institutional capacity for anti-corruption investigation, with several entities operating as **specialised anti-corruption investigative bodies**. There are three entities within the Ministry of Interior:

- the Economic Crime and Corruption Department (Unit for Fight against Corruption, with a staff target number of 6 employees for the Criminal Police Division)
- the Unit for Corruption (staff target: 18 employees) in the Organised and Serious Crime Division

- the Unit for Corruption and Counterfeits (staff target: 12 employees) in the Skopje Regional Department of Interior Affairs.

Furthermore, there are two anti-corruption units within the Financial Police under the Ministry of Finance:

- the Unit for Detection of Abuse of Official Position (staff target: 6 employees)
- the Unit for Detection of Corruption in Public Procurement (staff target: 4 employees).

These specialised units have no special safeguards of their autonomy and are subject to the general oversight mechanisms of their sectors, such as professional integrity tests (in the Ministry of Interior) and oversight by public prosecutors. The CO 2021 noted that the selection of unit heads of the Ministry of Interior took place following internal announcements. Despite the government's claim in 2023 that vacancies in all mentioned entities within both ministries are advertised on line by default, independent verification of this statement is challenging. Although the ministries' websites feature dedicated "careers sections", it cannot be ruled out that informal recruitment methods are employed alongside regular online recruitment practices. The government has reported fluctuations in staffing levels within specialised units, noting a slight increase in the Ministry of Interior to 29 staff in 2022. However, there has been a decrease in the Financial Police, with staffing reduced to 9 employees in 2022 from 13 in 2019. The units' budgets are not provided as separate budget lines, which does not allow for a granular assessment of their capacities.

North Macedonia has a **specialised anti-corruption prosecutorial body** in place, which, however, suffers from limited capacity and resources. The Prosecutor's Office for Organized Crime and Corruption (POOCC) serves as a specialised anti-corruption prosecutorial body for certain corruption offences as defined in the Law on Public Prosecution. The POOCC has several special safeguards of its autonomy. For instance, the Chief Public Prosecutor of the POOCC is appointed by the Council of Public Prosecutors following a vote by all public prosecutors. This appointment procedure was applied in 2022, but faced public scrutiny due to the initial lack of qualifying criteria and concerns regarding undue influences (Ristovska et al., 2023<sup>[25]</sup>) (European Commission, 2023<sup>[13]</sup>). Without the consent of the Chief Public Prosecutor of the POOCC, the Public Prosecutor of the Republic cannot undertake criminal prosecution or perform certain activities for which the POOCC is competent; nor can the Public Prosecutor authorise another prosecutor's office to conduct proceedings or to perform activities within the competence of the POOCC, except when the function has not been performed within legal deadlines. Public prosecutors of the POOCC are dismissed by a two-thirds majority of members of the Council of Public Prosecutors. The annual budget of the POOCC increased yearly in 2019-22 and was around MKD 64 million in 2023 (approximately EUR 1.05 million). The POOCC had 10 public prosecutors until 2021, when the number increased to 14. Nevertheless, the POOCC remains a small institution with limited capacity and lacks, among others, financial experts or analysts (European Commission, 2023<sup>[13]</sup>).

North Macedonia also has specialised courts for corruption cases. A specialised court department within the Criminal Court of First Instance in Skopje handles cases of organised crime and corruption across the whole territory of North Macedonia.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress on implementing past CO Recommendations has been modest, with the most significant efforts directed at strengthening the SPCP. In certain areas like the registration of beneficial ownership data and liability of legal persons for corruption, there have been some advances, yet these achievements still fall short of good practice. Table 7.4 below illustrates the economy's progress in implementing past recommendations for anti-corruption policy.



Table 7.4. North Macedonia's progress on past recommendations for anti-corruption policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure full staffing of the SCPC with qualified personnel	The SCPC's financial and human resources have been strengthened. However, the staff number still remains below the intended target for 2022.	Moderate
Develop and launch the electronic system for asset and interest disclosure	As of mid-2023, a digital system for asset and interest declarations was procured but the SCPC is still testing the system.	Moderate
Continue to disseminate information for potential whistleblowers	The SCPC has made efforts to disseminate information to promote whistleblowing and facilitated whistleblowing with a digital application. However, data show that few whistleblowing reports lead to the detection of corrupt activity. Support measures for whistleblowers have not been expanded.	Limited
Implement the registration of beneficial owners of legal entities	The register of beneficial owners became operational in 2021. No evidence of sanctions for failure to collect beneficiary ownership data or to enter the data in the register. No independent evaluation of the accuracy of the registered information.	Limited
Strengthen corporate liability	While the corporate liability framework has not been amended, the amendment to the Criminal Code in February 2023, which heightened prison penalties for active bribery, also resulted in an indirect increase in the maximum sanctions applicable to legal entities involved in bribery.	Limited
Strengthen the practice of financial probes alongside corruption investigations	No evidence of progress.	None
Consider how to strengthen the independence of specialised anti-corruption law enforcement units	No evidence of progress.	None

## The way forward for anti-corruption policy

Considering the varied levels of implementation of the previous recommendations, North Macedonia may wish to further strengthen its anti-corruption framework and practice by continuing to follow the policy advice of the CO 2021, while adapting its approach as appropriate in the context of recent developments. In addition, North Macedonia should also consider two new recommendations:

- **Incentivise public bodies to improve the overall level of implementation of national anti-corruption policy documents.** The rate of implementation of the national anti-corruption Strategy and Action Plan has been strikingly low. Effectively combating corruption requires not only successful functioning of strategic laws and institutions but also a comprehensive effort across the entire public sector. Possible further incentives for public bodies could be the publication of data on implementation progress in an easily accessible visualised manner reflecting the degree of accomplishment of each public body. Furthermore, the progress of anti-corruption actions could be embedded in the key performance indicators of the public bodies and performance appraisal of the managers. Moreover, the introduction of a legal guarantee that all planned anti-corruption actions are secured with adequate state budget funding would enable sustainable efforts in the combat against corruption.
- **Further enhance the system of declaration of assets and interests** by eliminating remaining gaps and ambiguities in the declarations and by launching the new digital system for asset and interest declarations. Additionally, consider the introduction of an annual submission of declaration regardless of changes of property or interests, and strengthen analysis to detect possible inexplicable wealth. The Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials recommends that income and asset declarations show the fullest picture possible of incoming and outgoing cash and asset flows during the time in office (Ethics and Integrity Network of ReSPA, 2014<sup>[26]</sup>). Moreover, the verification process should not be limited

to comparing data but should aim at detecting undeclared cash flows and their possible illicit origin (Ethics and Integrity Network of ReSPA, 2014<sup>[26]</sup>).

- **Strengthen oversight of compliance with the obligation to provide correct beneficial ownership data.** The EU Anti-Money Laundering Directive requires that the information held in the central register of beneficial ownership information is adequate, accurate and current. EU Member States shall put in place mechanisms to this effect, e.g. the requirement that obliged entities and competent authorities report any discrepancies they find between the beneficial ownership information available in the central registers and the beneficial ownership information available to them. The authority that supervises the central register should have the legal and institutional capacity to monitor and enforce the reporting obligations (OECD, Inter-American Development Bank, 2021<sup>[27]</sup>). Croatia could serve as inspiration for strengthening the role of the Central Registry in North Macedonia (Box 7.1).

### Box 7.1. Supervision of registration of beneficiary ownership information in Croatia

In Croatia, all relevant legal persons and arrangements must register their beneficial owners in the Register of Beneficial Owners (RBO). The Financial Agency (FINA) maintains the register on behalf of the Ministry of Finance, and is in charge of the technical maintenance of the digital database. The legal persons and arrangements are responsible for entering and updating their beneficiary ownership information in the register.

The FINA and the Tax Administration (TA) supervise the RBO. The FINA verifies whether the information has been entered into the register in accordance with the requirements and deadlines prescribed by law. The TA carries out supervision in the form of on-site investigations and audits to make sure that the information entered into the register is accurate and up to date. When conducting tax supervision of legal persons, the TA checks all the beneficiary ownership data provided and whether there are secret society arrangements (a contractual arrangement for one party to obtain the economic benefit of another person's business). Beneficiary ownership information can also be checked upon notification provided by a reporting entity. If information on irregularities in the beneficiary ownership database is submitted to the TA, an inspection of the legal person is initiated.

Croatia has established fines for legal persons that do not record appropriate, accurate and up-to-date information in the register in the prescribed manner and within the designated deadlines. The fines can also be imposed on members of the management board, trustees and other responsible persons within the legal entity. Both the FINA and the TA can start misdemeanour proceedings. The fines range from EUR 670 to up to EUR 100 000 for the most severe misdemeanours.

Note: Arrangement in this context means an agreement between several persons to work for some business purpose without creating a new separate legal personality.

Sources: Adapted from OECD and IDB (2021<sup>[28]</sup>); MONEYVAL (2021<sup>[29]</sup>).

- **Strengthen corporate liability** by ensuring that the applicable fines for all corruption offences conform with the standard of effective, proportionate and dissuasive sanctions, and by introducing incentives for compliance in criminal law, such as treating the due diligence and anti-corruption policies of companies as mitigating circumstances. Monetary sanctions should be sufficiently severe to affect large corporations that may engage in corrupt acts that, if accomplished undetected, would yield millions of euros in profits. In certain economies, the OECD Working Group on Bribery in International Business Transactions found that statutory sanction ceilings of several million euros to still be insufficient. The Working Group has encouraged setting maximum fines as a share of a company's turnover (OECD, 2022<sup>[30]</sup>). While such high levels of fines may not appear

relevant for an average company, North Macedonia's law should provide the option of applying adequate sanctions in the event of a large business player engaging in corruption.

- **Strengthen the practice of financial probes alongside corruption investigations** to increase the amounts of corruption proceeds that are detected and confiscated, especially those located abroad. This Recommendation from the CO 2021 remains relevant and echoes the recommendation of the European Commission to improve repression of high-level corruption, including through the “confiscation of criminal assets, value-based confiscation, extended confiscation and third-party confiscation” (European Commission, 2023<sup>[13]</sup>). Corruption crime is mostly perpetrated for obtaining pecuniary benefit, and its recovery for the public is presumably one of the most effective remedies. Therefore, North Macedonia's authorities should make the maximum effort to ensure that these benefits are identified, seized and confiscated when law enforcement bodies detect large-scale corruption, and that the judiciary convicts the involved persons.
- **Consider how to strengthen the independence of specialised anti-corruption law enforcement units.** The Recommendation remains unchanged from the CO 2021. The United Nations Convention against Corruption sets the standard that a body or bodies or persons specialised in combating corruption through law enforcement shall be granted the necessary independence, in accordance with the fundamental principles of the legal system of the State Party, to be able to carry out their functions effectively and without any undue influence (Article 36) (United Nations, 2004<sup>[31]</sup>). North Macedonia should consider introducing additional means to safeguard the independence of these bodies, such as strengthened guarantees and transparency of dedicated budget funding and stronger barriers against arbitrary transfer or dismissal of managers.

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# 8 Education policy

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A robust education policy framework is essential for developing human capital and meeting the labour market's need for a skilled and productive labour force. This chapter, composed of four sub-dimensions, assesses the presence and efficacy of education strategies, legislation, programmes and institutions. The first sub-dimension, equitable education for an inclusive society, examines system governance and the quality of pre-university education starting from preschool. The second, teachers, looks at the selection, initial training and ongoing professional development and management of the teaching workforce. The third sub-dimension, school-to-work transition, focuses on VET governance and the labour market relevance and outcomes of higher education. The fourth sub-dimension, skills for green-digital transition, explores the frameworks and initiatives for fostering green and digital skills in education curricula.

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## Key findings

North Macedonia's overall score for education policy has remained stable since the previous Competitiveness Outlook assessment, positioned slightly below the regional average (Table 8.1). This stagnation in score is primarily attributed to the economy's weaker performance in promoting green and digital skills – an area assessed for the first time in this assessment cycle. However, North Macedonia made progress in several other areas, namely through bolstering system governance and improving the labour market relevance of higher education.

**Table 8.1. North Macedonia's scores for education policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Education	7.1: Equitable education for an inclusive society			3.3	3.3
	7.2: Teachers			2.8	3.1
	7.3: School-to-work transition			4.0	3.4
	7.4: Skills for the green-digital transition			1.3	2.0
<b>North Macedonia's overall score</b>		<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>

The **key findings** are:

- North Macedonia possesses a strong education governance system, as reflected through comprehensive strategic documents, such as its Education Strategy 2018-25. However, the strategy lacks specific targets on learning outcomes, which is notable given the economy's relatively weak performance in international assessments such as the Programme for International Student Assessment (PISA).
- Recent reforms aimed at enhancing early childhood education and care (ECEC) underscore ongoing efforts to improve enrolment and quality in education. Yet despite these efforts, the overall enrolment rate of 3-6 year-olds in ECEC was only 42% in 2022 – less than half of the EU target of 96%.
- There is a substantial need to increase the priority given to ensuring accessible, high-quality professional development opportunities for teachers. Currently, insufficient funding from the Bureau for Development of Education limits teachers' ability to fulfil legally prescribed 60 training hours, which in turn can hinder the quality of instruction provided in schools.
- Ongoing efforts to expand opportunities for work-based learning (WBL) and to establish several Regional VET Centres signal a positive development toward improving VET programmes' linkages to the demands of the labour market. However, given that these initiatives are still relatively nascent, their impact on improving graduates' employability has yet to be observed.
- Although North Macedonia has several policies in place that aim to integrate digital skills into curricula and promote the use of technology in classrooms, the lack of a comprehensive, systematic data collection and monitoring system limits the ability to assess existing initiatives' efficacy.

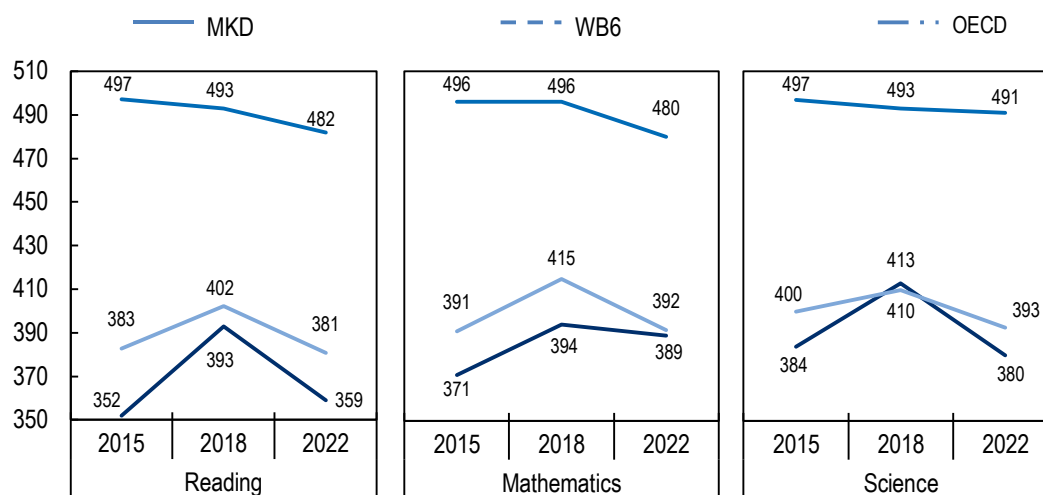
## State of play and key developments

In the past few years, the enrolment rates at different levels of education in North Macedonia have shown diverging trends. For instance, there has recently been a slight decrease of nearly 3 percentage points in the gross enrolment rate in primary education, which fell from 94.0% in 2017 to 91.4% in 2022 (UIS, 2024<sup>[11]</sup>). On the other hand, gross enrolment rates in secondary education have steadily grown over the same period, rising from 77.7% to 81.4%. However, despite this increase, enrolment in secondary education remains far below EU and OECD area levels (106.7% and 105.9%, respectively). It is worth noting that the use of gross enrolment rates is due to the lack of availability of data on net enrolment rates and therefore makes comparability with the other WB6 economies more difficult.

North Macedonia's Programme for International Student Assessment (PISA) 2022 scores are below both the regional and OECD averages (Figure 8.1). Furthermore, compared to 2018, its score significantly decreased in mathematics, reading and science by 14, 34, and 33 points, respectively. 66% of participating students scored below Level 2 in PISA 2022, more than double the OECD average of 30%. In addition, 81% of students at the bottom of the PISA index of economic, social, and cultural status also were considered to be low performers in PISA 2022, highlighting the correlation between lower socio-economic status and poor academic performance (OECD, 2023<sup>[21]</sup>).

**Figure 8.1. Performance in mathematics, reading and science in North Macedonia, the Western Balkans and the OECD (2015-22)**

Scoring in mathematics, reading and science is expressed in points



Note: WB6 average excludes Bosnia and Herzegovina for PISA 2015 and PISA 2022, and excludes Serbia for PISA 2015.

Source: OECD (2023<sup>[21]</sup>).

### **Sub-dimension 7.1: Equitable education for an inclusive society**

North Macedonia's **system governance** is among the most robust of the WB6 economies; its impressive performance is underpinned by the ongoing or completed alignment of several features of its education system with policies and practices found in European and OECD area systems. For instance, there is a comprehensive strategy for education, the Education Strategy 2018-25, which outlines the major challenges and strategic priorities at all levels, ranging from preschool to university education as well as adult learning. Namely, there are goals to expand coverage for preschool education, to make school curricula more relevant to labour market demands, and to strengthen the competency of teaching staff at



all levels of the system. The strategy is complemented by an Action Plan, which translates the priorities outlined in the strategy into specific measures, complete with output indicators, deadlines, and the responsible government entities for implementation. These high-level strategic documents were developed in consultation with a range of stakeholders and contain clear timelines and allocations of responsibilities. However, the strategy does not include targets to raise learning outcomes despite North Macedonia's relatively weak performance in international assessments. The Ministry of Education and Science (MoES) is the primary institution responsible for developing strategic, legal and policy documents for all levels of education apart from pre-primary education.

Regarding the collection and analysis of educational data, several government institutions issue annual reports on education performance: the MoES tracks progress on its working programme; the State Educational Inspectorate conducts school inspections and publishes its findings; and the State Examination Centre assesses student performance in national and international assessments. Additionally, the State Statistical Office publishes data on the economy's education system annually. However, there are no independent assessments or research on the economy's education strategy, such as ex ante reviews of major policies or thematic evaluations on specific topics. Moreover, while North Macedonia has had an operational education management information system (EMIS) since 2010, education data remain fragmented, as various ministries and agencies continue to collect their own information. Information about the education system's performance is published on each institution's respective website.

The Education Strategy 2018-25 aims to enhance **early childhood education and care (ECEC)** quality and equity, but this requires refined monitoring mechanisms and budget allocation. Efforts aimed at restructuring financing methods, improving accessibility among socio-economically disadvantaged families, and reinforcing staff training are some of the ongoing reforms for inclusive and higher-quality ECEC provision in North Macedonia.

The Law on Child Protection establishes that the Ministry of Labour and Social Policy (MLSP) (rather than the MoES) has the primary responsibility for ECEC, meaning that it regulates and ensures adherence to prescribed requirements (e.g. on infrastructure, heating, hygiene, etc.). The Law also mandates that the MoES and the Bureau for Development of Education oversee the competency of ECEC professionals as well as the relevance of the curriculum. However, there is a lack of co-ordination among government institutions when developing policies and legislation, hampering their implementation (European Commission, 2023<sup>[3]</sup>).

While the Education Strategy 2018-25 analyses and reviews the activities related to improving the quality and equity of ECEC, its monitoring mechanisms are not well defined. Targets and indicators are not sufficiently clear to allow a proper evaluation of implementation of the reforms (European Commission, 2023<sup>[3]</sup>). Funding from the national budget and international sources is generally used to support activities, yet there is no specific budget set for the individual activities proposed in the Action Plan. Moreover, North Macedonia spends much less on ECEC compared to the average across OECD countries (0.34% of GDP versus 0.80%, respectively) (Eurydice, 2023<sup>[4]</sup>; OECD, 2023<sup>[5]</sup>). However, investing in the sector is now one of the top priorities of the MLSP. Work is under way to change the formula for financing the education and care system, which will also change the costs for parents. The intention is for socio-economically disadvantaged families and single parents to be exempted from payment.

North Macedonia's Government has pledged to expand preschool enrolment for children aged 3 to 6 by 50%. In that regard, the MLSP is working in co-operation with the municipalities to expand the capacities for care and education of children (Eurydice, 2023<sup>[6]</sup>). Some progress was made on preschool education, although the overall level of enrolment remains lower than the EU target: indeed, whereas the EU set the goal of having a 96% enrolment rate in ECEC, only 42% of 3-6 year-olds in North Macedonia were enrolled in ECEC in 2022 (European Commission, 2023<sup>[3]</sup>). Rates are even lower among diverse groups, including children from socio-economically disadvantaged families or Roma children. For example, the average

enrolment rate rises to more than 50% for the children in the wealthiest quantile in North Macedonia – yet it is less than 10% among those from the poorest quantile (World Bank, 2023<sup>[7]</sup>). However, while preschool coverage remains limited, the quality of this education has been increasing through the licensing of professional and management staff as well as training for employees.

To monitor the ECEC sector, the MLSP collects data on enrolment, child-staff ratios and staff qualifications monthly. Additionally, the World Bank, through the Social Services Improvement Project, began developing a tool for measuring early childhood development through analysis of the quality and results of early learning. Called MELQO (Measuring Early Learning Quality and Outcomes), this tool has provided a baseline that has subsequently been enabling follow-up research since 2021. However, it is important to note that while there are mechanisms for improving ECEC's quality and equity, the lack of alignment and integration between the goals of ECEC and primary education curricula can impede children's transition between the two levels of education.

The Education Strategy 2018-25 and its Action Plan outline objectives for **quality education for all** and additionally allocates responsibilities for actions and establishes timelines for implementation. However, these documents do not set out any specific, measurable goals for the sector or budget allocation, apart from mention of the need for additional funding, nor is there a defined process for monitoring progress and implementation. To complement these strategic documents, North Macedonia has also developed the National Roma Strategy of North Macedonia 2022-30 and its draft Action Plan as well as the draft National Strategy for the Rights of Persons with Disabilities of North Macedonia.

Learning standards are in place to detail the knowledge and competencies that students should possess at different levels of education. One notable development since the last assessment cycle has been the ongoing reform to the national curriculum for primary education, based on the “Concept of primary education” adopted in March 2021.<sup>1</sup> The new curriculum prioritises inclusiveness, gender equality and multiculturalism. By defining the goals and expected results for students to achieve in each respective subject and grade, it also aligns with the new National Standards for Students Achievement (also adopted in 2021). The revised curricula were fully introduced for Grades 1 to 6 by the academic year 2023/24.

North Macedonia uses national assessments and examinations as well as its participation in international assessments to gather data on student learning. Regarding the former, the State Matura is the primary national examination at the end of upper secondary education, serving both certification and tertiary placement purposes. It is managed by the National Examinations Centre. For students not taking the State Matura, the school matura exam is mandatory, indicating completion of upper secondary education but not granting access to tertiary education. Additionally, a new national assessment in Grades 3 and 5, financially supported by the World Bank, began being implemented in Grade 3 in 2022. The assessment will be implemented in a sample of students in public primary schools with Macedonian and Albanian languages of instruction.

The National Examinations Centre also manages the economy's participation in international assessments, such as PISA, the Teaching and Learning International Survey (TALIS), the Trends in International Mathematics and Science Study (TIMSS) and the Progress in International Reading Literacy Study (PIRLS). In 2023, North Macedonia completed the main testing for TIMSS 2023 as well as pre-testing for TALIS 2024. However, it is worth noting that the economy's participation in PISA 2025 has not yet been confirmed, potentially interrupting its involvement after three consecutive assessment cycles (2015, 2018 and 2022).

Policies are in place to prevent early school leaving, with a particular focus on Roma children. Additionally, there are policies aimed at enhancing inclusion and interethnic integration, supporting students with special educational needs and ensuring universal access to early learning for children aged 3 to 6 years. Various scholarships are available, including those for students facing financial barriers to tertiary education, awarded through annual open competitions with varying criteria. Furthermore, students with disabilities and those lacking parental support are exempt from tuition fees.

### **Sub-dimension 7.2: Teachers**

The Law on Higher Education Institutions for Teaching Staff in Pre-school, Primary and Secondary Education<sup>2</sup> was drafted to regulate higher educational institutions (HEIs) that offer **initial training education** (ITE) programmes for teachers. It defines minimum entry thresholds for ITE such as high school graduation and proof of admission to tertiary education. Due to insufficient human and financial resources, the Law's policies had not been implemented during the last assessment cycle, leading to a subsequent postponement of its entry into force.

Despite these issues with the policy framework guiding ITE, there are several mechanisms for selection into ITE programmes in place in North Macedonia. The main requirement for entry is that students must have completed four years of secondary school and passed the State Matura examination (corresponding to a level IV qualification within the North Macedonia Qualifications Framework<sup>3</sup>). Admission is generally not competitive, as most candidates who apply receive a place. Moreover, due to the ongoing shortage of mathematics and physics teachers, the MoES incentivises high school graduates to pursue further education in these fields by providing a monthly scholarship of MKD 18 000 (EUR 292) for the duration of the school year to those who enrol with an average grade point average of over 7.0 (out of 10.0). Candidates must complete a practicum in the field as part of their studies.

There are alternative pathways to enter the teaching profession mid-career for individuals with relevant skills and experience gained outside of education. However, these individuals must complete pedagogical-psychological and methodological preparation in the form of attending classes and taking exams, as well as performing at least 45 days of practical classes in primary or secondary school.

To formally enter the teaching profession, individuals are required to have obtained a diploma from a teaching facility and a licence issued by the Academy of Teachers. They also must be formally registered in the Register of Licensed Teachers. Other requirements include being a citizen of North Macedonia and possessing knowledge of both Macedonian standard language and any other relevant languages of instruction. Additionally, teachers must complete a one-year traineeship (which takes place during their first year) under the direction of a professional mentor who is chosen by the school principal. At the conclusion of this traineeship, candidates must pass an examination to secure continued employment.

The Education Strategy 2018-25 addresses the issue of the **professional development of teachers**. The Law on Teachers and Professional Associates in Primary and Secondary Schools (adopted in 2019) promotes the professional development of teachers and other teaching staff in primary and secondary schools. The Law on Teachers introduced a model for their career development and promotion based on differentiated teacher standards. To be promoted from teacher to “teacher mentor”, teachers must meet several requirements: possess a permanent contract, have at least seven years of experience, and fulfil the relevant professional standards. Promotion from “teacher mentor” to “teacher advisor” requires at least nine years of work experience, spending at least three of these years as a “teacher mentor”. Teachers are required to devote at least 60 hours of training during the three school years as part of their continuing professional development, 40 of which must be from programmes accredited by the Bureau for Development of Education. The remaining 20 hours of professional development can be realised through projects supported by the MoES, inter-school learning teams, training provided through schools, or individual training. Professional development needs are determined using a range of sources, such as self-appraisals or surveys and appraisals by school leadership. There is some variety in the types of activities and programmes; however, there are no online courses or seminars nor peer or self-observation and coaching.

The Bureau for Development of Education is expected to pay for the cost of continuous professional development programmes for teachers. However, the Bureau's budget historically has not been allocated sufficient budget to meet the legally prescribed number of training hours for teachers. Therefore, with financial support from the World Bank through the project "Improving the quality of primary education in North Macedonia", a Catalogue of accredited training courses for teachers on various subjects was prepared for the first time in 2020. As stipulated by this Catalogue, during 2022 and 2023 all primary schoolteachers chose and attended two training sessions (16 hours in total) on topics of their interest to improve their professional competencies. While this donor assistance has proved integral to expanding the professional development opportunities available to educators, there is little indication that this practice will be continued through expanded funding from the state budget.

### ***Sub-dimension 7.3: School-to-work transition***

A number of institutions are responsible for **vocational education and training (VET) governance** in North Macedonia. The Centre for VET develops curricula for professional subjects, while the Bureau for Development of Education focuses on general subjects. The MoES approves the programmes prepared by the Bureau, which are then implemented by VET schools. Chambers, or organisations representing various sectors or industries,<sup>4</sup> oversee employers' compliance with practical training conditions and monitor agreements between VET providers, employers and students. The MLSP adopts occupational standards proposed by the MoES and collaborates on professional qualification standards. The Centre for Adult Education validates adult education programmes in accordance with occupational and qualification standards.

Several mechanisms are in place to assess and certify the quality of VET programmes. New VET providers undergo an approval process and accreditation, while existing programmes are regularly evaluated and inspected, with ongoing assessments to ensure that VET qualifications are both rigorous and transferable. Moreover, to ensure that students have accrued the necessary skills and knowledge through these programmes, they are required to take a final exam upon completion of their respective courses. For graduates who attended a four-year VET programme (ISCED 4), they can either pass the State Matura exam (if they want to continue to higher education) or a final exam (to enter into the labour market). Conversely, students in three-year VET programmes (ISCED 3) only have the option to take the latter examination.

Since the last assessment cycle, there have been notable developments aimed at enhancing the VET system in North Macedonia. One has been the recent efforts to establish several Regional VET Centres, which seek to provide students with high-quality VET education and thus facilitate their entrance into the labour market (Eurydice, 2023<sup>[8]</sup>). In 2023, the government made progress toward opening two centres in the cities of Strumica and Veles. These efforts are supported by the EU-funded project, "EU for Youth"; while this initiative has a component focused on vocational education, it also aims to counter youth unemployment through the implementation of the Youth Guarantee Scheme (see Chapter 9). However, an ongoing challenge with the creation of these Regional VET Centres is that their exclusive location in cities engenders significant disparities in access between individuals living in urban versus rural areas of the economy.

North Macedonia has also made progress in developing its work-based learning (WBL) framework, which is guided by the Law on Vocational Education and Training. There are incentives schemes in place to encourage employers' participation in apprenticeships and WBL programmes – a vital development given that a significant obstacle to expanding WBL is the lack of placement opportunities.<sup>5</sup> The Centre for Vocational Education and Training collects a wide variety of data to monitor WBL outcomes, including information on the locations and types of WBL opportunities, attendance and completion rates of WBL programmes, duration of WBL placements, and wages earned. However, there are no data gathered on

post-apprenticeship employment, which limits the ability to evaluate and reform existing programmes to further facilitate the school-to-work transition.

The Law on Higher Education and the Education Strategy 2018-25 cover issues related to **higher education** (HE). Both documents emphasise that study programmes should prioritise employability as a key goal. Relevant stakeholders are included in the process of designing, approving and evaluating study programmes. The Education Strategy's Action Plan delineates the measures linked to advancing higher education content for greater employability of the graduate students, the mobility of academic staff and students, enhancement of the quality assurance system, and the internationalisation of the education system. Internationalisation in higher education is a regular part of the government's activities related to the Bologna Process and as such it is promoted and a regular part of HEIs' policies and programmes. HEIs are mandated to use at least 40% of the revenue generated from tuition fees for the mobility of academic staff and students and the system's overarching internationalisation. North Macedonia actively participates in the Erasmus+ (as a member) and CEEPUS programmes (Central European Exchange Programme for University Studies). Mobility is usually part of bilateral agreements as well. Accreditation of HEIs is under the responsibility of the Higher Education Accreditation and Evaluation Board, which is an independent body; however, the Higher Education Quality Agency was recently established and will also oversee HEIs' accreditation once it reaches full functionality. There is also a National Qualifications Framework Board (established in 2019) that aims to ensure the transparency and visibility of qualifications.

A range of data sources, such as employer surveys, surveys of workers or graduates, quantitative forecasting models and data on employment rates by field of study, are used by the State Statistical Office to monitor labour market information. However, one notable gap in this data collection is the absence of sector studies, which seek to identify the skills, knowledge and competencies demanded by employers in key sectors, such as information and communications technology (ICT) or agriculture. Data are publicly available on the State Statistical Office website. HEIs use the data provided by that Office or the State Employment Agency to understand labour market outcomes. There are several mechanisms to align HE with labour market demand, such as grants, scholarships for in-demand programmes, communications/awareness campaigns for select programmes and the use of labour market data to inform curriculum design.

#### ***Sub-dimension 7.4: Skills for the green-digital transition***

There is no framework for **digital skills** for students, but some provisions are made in some policy documents in the field of education and cybersecurity. Digital skills development is incorporated into primary and secondary education curricula. Within the national standards, there is an area for digital literacy. This area includes the competencies that ensure active involvement in the technologically sophisticated modern society. Policies related to digital skills for students have been informed by co-operation between the public and private sector, academia and other relevant stakeholders.

For every new syllabus, seminars are organised for all teachers that teach Informatics. Syllabi for developing digital skills (technical education and informatics for primary education, informatics and programming for secondary education and also advanced syllabi for math and informatics gymnasium) are developed with the collaboration of the faculty for computer science and informatics. Also, teachers are involved in the process for developing syllabi. The Education Strategy 2018-25 includes objectives aiming to continue introducing computers with Internet access into classrooms to promote development of digital skills. However, the process of monitoring indicators on digital skills for students is weak.

**Green skills** are then elaborated in the curricula from Grades 1 to 9 and include the acquisition of knowledge and skills, as well as attitudes and values in the field. The acquisition of knowledge and development of green skills is emphasised in the natural sciences curriculum, which aims to develop these skills and form attitudes and values among students for the care and protection of the environment. There is an opportunity to study optional subjects of the students' choice in the direction of improving health, the

living environment and climate change. Within the framework of the national standards, there are competencies that students should achieve in the natural sciences that refer to the ability and readiness to apply knowledge and evidence-based approaches in explaining natural phenomena and improving people's lives, as well as to gaining an understanding the changes in nature that are caused by the impact of human activities on the environment.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's level of progress in implementing CO 2021 Recommendations has been varied. The economy achieved strong progress in finalising the development of and administering a national standardised assessment for primary education. On the other hand, no advances were made toward establishing clear budgets to ensure sufficient funding for the education agencies so as to facilitate their planned activities. Table 8.2 shows a more detailed picture of North Macedonia's progress on implementing past recommendations for education policy.

**Table 8.2. North Macedonia's progress on past recommendations for education policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen the collection and management of education data	It is unclear whether there has been progress in establishing the education management information system (EMIS) as the central source of information about the education system. However, North Macedonia continues to collect data at different levels of education, ranging from ECEC to higher education.	Limited
Finalise development of the national assessment and set national targets for improving student learning outcomes	A new national assessment in Grades 3 and 5, financially supported by the World Bank, was implemented for the first time among Grade 3 students in 2022.	Strong
Establish clear budgets to support the implementation of policy reforms	There is no evidence of progress.	None

## The way forward for education policy

Considering the level of the previous recommendations' implementation, there are still areas in which North Macedonia could strengthen its policy framework and institutional capacities in the domain of education policy. As such, policy makers may wish to:

- **Ensure continuity between ECEC and primary education.** There is a crucial need for improved collaboration between the MLSP, the MoES, and the Bureau for Development of Education. Augmented co-operation among these entities could help to align strategic system goals and curriculum standards between ECEC and primary education. Moreover, these entities should work together to develop cohesive policies and frameworks to ensure smooth transitions for children from ECEC to primary education, promoting continuity and coherence in their educational journey, as is done in Japan (Box 8.1).

### Box 8.1. Promoting the transition between early childhood education and care (ECEC) and primary education in Japan

To facilitate children's transitions between early childhood education and primary school, Japan has instituted several measures. The country has established four distinct curricular guidelines for children aged 0 to 8 years, with three focusing on ECEC.

Local governments possess the autonomy to develop and carry out accompanying strategies that further promote a smooth transition. For example, some local governments implement an "Approach" curriculum as children approach the end of their time in ECEC. This curriculum employs a strengths-based approach to help children prepare for primary school. Conversely, during the initial months of primary education, several local governments use a "Start" curriculum, which aims to ease the adjustment by utilising teaching and learning strategies already familiar to children (such as shorter class periods and floor-based activities).

Moreover, in conjunction with these local government efforts, the national government also reviews all curricular guidelines simultaneously to ensure their alignment with a common overarching concept. The most recent revision, which took place in 2017, delineated common competencies that should be developed from ECEC through secondary education, emphasising the smooth transition between different education levels.

Source: Shuey et al. (2019<sup>[9]</sup>).

- **Allocate sufficient funds to support comprehensive implementation of professional development initiatives**, as outlined in the Law on Teachers and Professional Associates in Primary and Secondary Schools. Ensuring that teachers have access to accredited training programmes and resources by addressing funding limitations is key to facilitating ongoing professional growth and career advancement opportunities.
- **Improve collaboration with the private sector to ensure alignment between curricula and labour market needs.** Despite recent progress in improving the labour market relevance of VET and higher education programmes, ongoing challenges in the school-to-work transition underscore the need to enhance curriculum quality. Partnering with employers, especially in the private sector, could boost the quality of education and promote a greater focus on work-based learning and practical experience.
- **Strengthen data collection mechanisms to monitor post-apprenticeship employment outcomes effectively.** The government of North Macedonia could develop a comprehensive system for tracking the employment status of VET graduates after completing WBL programmes. By collecting and analysing this data on hiring rates and job placements, the findings could be used to evaluate the effectiveness of vocational education initiatives in facilitating successful transitions to the workforce.
- **Improve the monitoring and assessment of digital skills acquisition among students.** The MoES should implement robust data collection mechanisms to track students' progress in developing digital competencies, including the use of standardised assessments and surveys. The ministry should also gather data to evaluate whether current mechanisms for integrating digital skills into education curricula are effective, and subsequently identify areas for further improvement.

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## Notes

<sup>1</sup> The “Concept on primary education” note can be accessed here: <https://mon.gov.mk/stored/document/Koncepcija%20MK.pdf>.

<sup>2</sup> This law can be accessed here: <http://mon.gov.mk/stored/document/zakon-za-visoko-obrazovni-ustanovi-mk.pdf>.

<sup>3</sup> Level IV within the North Macedonia Qualifications Framework corresponds to ISCED 3, or upper secondary education.

<sup>4</sup> Specific chambers involved in VET governance include the Chamber of Commerce, the Association of Chambers, and the Craftsmen Chamber.

<sup>5</sup> This insight came from the OECD fact-finding mission with stakeholders that took place in October 2023 in Skopje, North Macedonia.

# 9 Employment policy

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Effective employment policies are crucial for forging a strong economy and fostering economic development and social inclusion. This chapter aims to assess the regulatory framework and policies governing employment, as well as the institutional capacity for implementation. The first sub-dimension focuses on inclusive labour market governance, specifically looking at the employment regulatory and policy framework, labour inspectorates, social dialogue and inclusive employment policies. The second sub-dimension, social protection and activation policies, analyses the public employment services, mutual obligations framework and active labour market programmes. The third sub-dimension, skills for adaptable labour markets, assesses the skills mismatches in the labour market and initiatives for developing digital and green skills. The fourth sub-dimension, expanding the skills pool, focuses on attracting highly skilled migrants and diaspora.

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## Key findings

North Macedonia's overall score for employment policy has slightly declined since 2021, although it remains above the average for the region (Table 9.1). This decrease in score was largely attributable to the economy's limited efforts toward developing a comprehensive policy framework to expand its skills pool, which was analysed for the first time in this assessment cycle. However, North Macedonia exhibited some progress in other areas, particularly in strengthening its social protection and activation policies.

**Table 9.1. North Macedonia's scores for employment policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Employment	8.1: Inclusive labour market governance			3.3	3.2
	8.2: Social protection and activation policies			3.7	3.1
	8.3: Skills for adaptable labour markets			3.2	2.6
	8.4: Expanding the skills pool			1.8	2.4
<b>North Macedonia's overall score</b>		<b>2.3</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>

The **key findings** are:

- Recent initiatives, including the new Strategy for Gender Equality (2022-27) and a new project on developing a roadmap to support female entrepreneurship, have sought to increase the employment rates of women in North Macedonia. Despite these efforts, women's employment rate in the economy stood at 49.2% in 2022, lagging behind the EU average (67.7%) by 18.5 percentage points.
- Informality remains a persistent challenge, accounting for approximately 30% of national GDP. There is a sustained need for the economy to expand its efforts in this area, particularly through strengthened roles for labour inspectorates. The recent adoption of the new Strategy for the Formalisation of the Informal Economy (2023-25) is a step in the right direction.
- Active labour market programmes (ALMPs) in North Macedonia are relatively well developed. One notable advance has been the recent implementation of the new Youth Guarantee Implementation Plan (2023-26), which aims to increase the employability of young individuals and bring them into the economy's labour market. However, ensuring that these programmes effectively target and engage various vulnerable or disadvantaged groups will be crucial going forward.
- Substantial improvements have been made toward promoting the development of digital skills, as evidenced by the inauguration of "MladiHUB-Digital Youth" initiative and a voucher programme for co-financing digital skills training. However, further advances are limited by the absence of a comprehensive digital skills strategic framework.
- Inconsistent progress has been achieved toward strengthening North Macedonia's approach toward leveraging foreign talents. While the government recently adopted the Resolution on Migration Policy (2021-25), which aims to attract and integrate immigrants to address labour market needs, progress in aligning national legislation with the EU *acquis* on labour market access has remained slow. Moreover, ongoing high emigration rates of local talent exacerbate this challenge of addressing skills shortages and maintaining a highly skilled workforce.

## State of play and key developments

In recent years, North Macedonia has experienced steady improvements in its employment outcomes, although its labour market is still characterised by relatively low activity and employment rates. In 2022, the economy's employment rate was around 56.7%, which marked a notable increase of around six percentage points since 2017 (ILOSTAT, 2023<sup>[1]</sup>; ILO, 2019<sup>[2]</sup>). Additionally, the activity rate among individuals aged 15-64 reached 66.2% in 2022, although it remained the second lowest among the six Western Balkan economies. Despite the gains, there remains a significant disparity between these figures and those observed in the EU, where employment and activity rates stood at 69.8% and 74.5%, respectively.<sup>1</sup>

### **Sub-dimension 8.1: Inclusive labour market governance**

Since the previous assessment cycle, progress has been made toward strengthening the **legal framework for employment**, primarily through the planning and adoption of new legislation. Namely, a new rulebook on occupational safety and health (OSH) was published in October 2022, while a consultative process for the drafting of a new Law on OSH was also recently launched. These changes to OSH regulations were spearheaded by the National OSH Council, an advisory body to the government that includes diverse stakeholders with relevant expertise.<sup>2</sup> Beyond new laws, other legislation was amended – for instance, amendments to the Law on Labour Relations extended the maximum duration of work engagements for projects of national interest and established Sunday as a day of rest for all workers.<sup>3</sup> These recent changes aim to engender improvements in work hour regulations and health and safety conditions, two key areas that ensure a healthy working environment for employees.

The current regulatory framework is comprehensive, as minimum standards are established regarding working time, paid holidays, and health and safety conditions. Both standard and non-standard forms of employment are included under the employment framework. Non-standard forms of employment – including self-employment, fixed-term contracts, seasonal work, part-time work, and employment contracts involving working from home – are all incorporated into the Law on Labour Relations. The prevalence of work from home (or digital freelancing) has surged since the COVID-19 pandemic; between May 2020 and August 2021, the number of online freelancers per 100 000 population showed the strongest increase in the region (ETF, 2022<sup>[3]</sup>).<sup>4</sup>

The **policy framework for employment** is comprised of several key documents, most notably the National Strategy on Occupational Safety and Health 2021-25 and its accompanying Action Plan. This strategy outlines the government's overarching vision as well as its more specific objectives and priorities for the five-year period. Namely, the three strategic priorities are strengthening the OSH legal framework, bolstering the government's organisational capacities and human resources, and empowering existing systems to respond to emerging threats.<sup>5</sup> There are also ongoing efforts, through the drafting of a new Law on Labour Relations, to encourage a better work-life balance among labourers through the introduction of new measures, such as introducing paternal leave and the possibility to request flexible work (part-time or remote work or adjusted hours) for workers with children up to age eight. Moreover, the new General Collective Agreement, signed in July 2023 between unions and the Ministry of Labour and Social Policy, increased employees' right to paid leave due to personal or family circumstances from seven to ten days.

An emerging component of this policy framework has been efforts to combat informality in the economy. While informal employment has declined in recent years, it still remains significant in North Macedonia, accounting for approximately 30% of GDP according to the latest government estimates (Ministry of Finance of North Macedonia, 2023<sup>[4]</sup>). As such, the government adopted its new Strategy for the Formalisation of the Informal Economy 2023-27 and an accompanying Action Plan (2023-25) in September 2023. The strategy aims to reduce the number of unregistered entities and informal activities as well as

facilitate the integration of informal businesses and self-employed workers into the formal economy. Proposed measures include establishing an infrastructure for detecting and monitoring informal work, establishing offices to provide counselling to small businesses seeking to register and enter the formal economy, and the creation of the National Council for Coordinating the Activities and Monitoring the Implementation of the Action Plan related to the Strategy for the Formalisation of the Informal Economy (Ministry of Finance of North Macedonia, 2023<sup>[4]</sup>). Given the document's nascent status, its impact on reducing informality has yet to be observed, although it contains performance indicators to facilitate regular monitoring and evaluation of planned activities, including the objective of reducing the informal economy to 26% of GDP by 2027.

Another objective related to countering informality is outlined in the National Employment Strategy 2021-27, which seeks to reduce the share of workers in informal employment to 10%, also by the end of 2027 (ETF, 2023<sup>[5]</sup>). Apart from this strategy, there has been no progress in some policy areas that could reduce informal employment, such as alleviating the burden on the low-wage sector through social security and tax reductions. The low level of remuneration and poor conditions in some sectors and occupations can partially incentivise workers to remain in the informal economy.

While the policies guiding **labour inspectorates** are clearly defined in the Strategic Plan of the State Labour Inspectorate 2022-24, there have been limited efforts since 2021 to further strengthen the capacities of these entities in North Macedonia. In 2022, the 110 labour inspectorates performed a total of 24 965 inspections (16 026 for labour relations and the remaining 8 939 for OSH), resulting in 500 payment orders, 84 misdemeanour proceedings initiated, and 14 criminal complaints filed. Given that the State Labour Inspectorate only had around 102 fully active inspectors,<sup>6</sup> this means that each inspector was responsible for conducting an average of 247 inspections annually, reflecting a high burden placed upon this entity. No new tools or processes have been introduced to render the work of labour inspectorates more effective, nor has these inspectorates' role been strengthened in the areas of awareness raising or prevention – although they had a stronger envisioned role in detecting and preventing informality under the new Strategy for the Formalisation of the Informal Economy 2023-27. While their inputs and outputs are monitored on a monthly, quarterly and yearly basis, there is no public audit performed on labour inspectorates' operations and capacities. This lack of assessment means that no mechanisms exist for using results to increase personnel numbers, salaries, or training opportunities, which in turn can limit these entities' ability to carry out their duties.

In recent years, North Macedonia has experienced a revitalisation in **collective bargaining** and social dialogue. Chapters 8 and 9 of the Law on Labour Relations outlines the rights of workers and employers to organise and conduct collective bargaining as well as regulates the conditions under which this process can occur. Collective bargaining takes place at both the sector and national level and has led to changes regarding wages, working time, access to training and non-standard forms of employment, underscoring the breadth of issues covered during these processes. Similarly, tripartism and social dialogue cover numerous key issues, ranging from minimum wage and pension policies to new forms of work. Tripartite social dialogue is overseen by the Economic and Social Council.

To further strengthen performance in this area, North Macedonia has undertaken several measures. Firstly, the new Decent Work Programme 2023-25 includes outcomes and outputs that seek to promote both collective bargaining and social dialogue. This programme was signed not only by the government but also by trade unions, employers' organisations and the International Labour Organization (ILO). Moreover, the signing of the new General Collective Agreement in July 2023 – the first one in 15 years – represented a success in social dialogue's ability to develop systemic solutions to promoting labour rights. Finally, given that wages are a central point for both collective bargaining and social dialogue, the repeated increases in the minimum wage may contribute positively to poverty reduction without exerting an adverse effect on employment (Nikoloski, 2022<sup>[6]</sup>). Indeed, the most recent increase in 2023 marked a 12% rise from the previous year, driven by the implementation of a new methodology that set the minimum net wage at MKD 20 175 (EUR 327). Yet, despite these increases to minimum wage, there are no policies or

initiatives to reduce non-wage labour costs or taxes for low-wage earners, highlighting an area for further action.

**Inclusive employment policies** are moderately developed, underpinned by a high level of priority allocated by the government as well as a wide scope of potential beneficiaries. Indeed, vulnerable groups – including Roma and other ethnic minorities, people with disabilities, low-skilled workers, older jobseekers, homeless individuals, and formerly convicted persons – are all covered in respective employment policies. To ensure that these policies realise their intended objectives, impact assessments for programmes targeting disadvantaged groups are conducted and revised regularly. Nevertheless, poverty and social exclusion remains a pressing issue among vulnerable groups, in particular Roma and people with disabilities. Implementation of Roma inclusion policies is found to be slow (Mojsoska-Blazevsk, 2021<sup>[7]</sup>).

Measures to improve the inclusivity of the labour market also have heavily centred on addressing gender inequality and improving the participation of women. However, North Macedonia exhibits a gender employment gap twice as large as that of the EU, and women’s employment rates are 18.5 percentage points lower than the EU average (49.2% versus 67.7%, respectively) (Eurostat, 2023<sup>[8]</sup>). In response to such low levels of women’s employment, the Ministry of Labour and Social Policy has passed several new policies aimed at reducing gender-based discrimination in the labour market, including the Strategy for Gender Equality 2022-27 and the National Strategy for Equality and Non-Discrimination 2022-26. Moreover, there has been continued progress in monitoring gender equality – as highlighted by the publication of the second edition of the Gender Equality Index in 2022 – and in analysing barriers to employment as well as conducting impact assessments to reduce gender inequalities.

These initiatives are supported by designated gender budgeting in place since 2019, although there is no specific budget assigned to the strategy for supporting the labour force participation of women. External donors also contribute financial assistance: one prominent example is the study launched in May 2023 with the support of the European Bank for Reconstruction and Development to support the development of a roadmap aimed at fostering female entrepreneurship (Pyrkalo, 2023<sup>[9]</sup>). However, persistent issues, such as insufficient access and quality of childcare services, limited flexible work options, and the lack of shared parental leave limit further progress toward closing this gender employment gap.

Of note, a central policy in this area is the National Employment Strategy (2021-27),<sup>7</sup> which identifies the key challenges, priorities, objectives and targets for improving employment policies and outcomes. One of the three key goals is to strengthen the inclusiveness of labour market policies, with success measured through reducing the gender employment gap, the proportion of individuals experiencing long-term unemployment, and the share of citizens at risk of poverty and social exclusion.

### ***Sub-dimension 8.2: Social protection and activation policies***

In 2023, the unemployment rate in North Macedonia was 13.2%, which was the second highest rate in the Western Balkans (World Bank, 2024<sup>[10]</sup>). Furthermore, this rate is significantly above the EU-27 average of 6.0%. The unemployment rate of young people was high, at 27.2% in 2023, which again was among the highest in the region and nearly double that of the EU (15.8%) (World Bank, 2024<sup>[11]</sup>). In 2021, North Macedonia had the highest share of long-term unemployed (meaning more than one year) among unemployed in the region (79.5% in 2021), roughly twice as high as the EU-27 average (Vienna Institute for International Economic Studies, 2024<sup>[12]</sup>).

North Macedonia boasts one of the most well-developed **public employment services** (PES) in the region, although there is still substantial scope to strengthen their capacities and activities. In June 2022, 112 733 jobseekers were registered with North Macedonia’s PES, the Employment Services Agency (ESA), a figure that remains higher than pre-pandemic levels recorded in 2019. It is important to note that this number likely underestimates the number of unemployed individuals in the economy; particularly, individuals from vulnerable groups may be less likely to register. Yet, even only accounting for registered

jobseekers, this figure significantly exceeds the number of registered vacancies (9 130 as of June 2022).<sup>8</sup> Nevertheless, the number of registered vacancies<sup>9</sup> has been increasing over the past years; these are required to be registered with the ESA.

Apart from overseeing the registration of jobseekers and vacancies, the ESA offers a host of services, ranging from counselling for unemployed individuals (including intensive support for vulnerable groups) to providing outreach activities and recruitment services to employers. With respect to counselling services, the first interview for registered jobseekers usually aims to briefly gather key information, and subsequent sessions will help develop an individual action plan. Individuals who are judged to have “major employability problems” are identified and offered more tailored, intensive services (ETF, 2023<sup>[5]</sup>). A total of 65 552 persons benefited from employment services provided by the ESA in 2022.

Given the importance of the ESA to the labour market of North Macedonia, initiatives to increase its capacity are vital. Yet, its capacities remain weak given the level and structure of unemployment with a high share of vulnerable groups. There is a relatively high caseload for PES counsellors, with a ratio of one staff member to every 1 226 beneficiaries (ETF, 2023<sup>[5]</sup>). Moreover, there are persistent challenges arising from limited government funding as well as insufficient investment in IT infrastructure (although there has been some progress in digitalising employment services). No progress can be recorded in performance management or in assessing PES functioning, complicating efforts to gauge the impact of such obstacles on their own effectiveness.

There have been no changes made to North Macedonia’s **unemployment benefit system** in recent years. Rights to benefits are defined by the Law on Employment and Insurance in Case of Unemployment; eligibility is contingent on proving an individual is actively searching (which can be demonstrated through participating in active labour market programmes, regularly re-registering with the ESA, or attending arranged interviews), and they cannot decline suitable offers. Active jobseekers are eligible to receive benefits equivalent to 50% of their average wage over the past 24 months; after 12 months, the benefit decreases to 40% of this net wage. Only 4% of registered jobseekers received unemployment benefits in 2022,<sup>10</sup> one of the lowest levels among the Western Balkan economies. Part of the reason for this low level of coverage might be attributable to the relatively restrictive eligibility conditions. Recipients of unemployment benefits must prove that they have completed at least nine months of continuous work (or twelve months with breaks) in the previous eighteen months – a condition that excludes first-time jobseekers or long-term unemployed individuals (Mojsoska-Blazevsk, 2021<sup>[7]</sup>).

The framework for social assistance is less generous. The base minimum assistance (guaranteed minimum income, or GMI) for one household member is MKD 4 000 (EUR 65) per month; for each additional household member, different coefficients are applied depending on the number or specific circumstances of these individuals.<sup>11</sup> Unlike unemployment benefits, the amount does not decline over time, which could potentially discourage looking for work. Similar to those receiving unemployment benefits, beneficiaries of social assistance must accept any suitable job offer or risk facing sanctions if they are registered as unemployed with the ESA. Additionally, they are advised to develop an individual employment plan and, for their first three years, participate in employment services provided by the ESA.

The design and implementation of **active labour market programmes** (ALMPs) in North Macedonia are relatively advanced compared to other Western Balkan economies, although there is potential to enhance their use and impact. ALMPs largely target the relevant vulnerable groups, although a notable exclusion is of older workers, who have higher inactivity rates than other age groups. As such, there is an opportunity for ALMPs to engage this demographic to prevent early exit from the labour market, which could make better use of the available labour force as the economy struggles with emigration and an ageing workforce. Conversely, while little attention is paid to older jobseekers, there is a substantial focus of ALMPs on combating youth unemployment. Notably, North Macedonia was the first of the WB6 economies to implement a Youth Guarantee scheme, launching its pilot programme in 2018. By 2019, the initiative was successfully implemented throughout the economy and benefited from EU funding in the period 2020-23.

More recently, the government adopted its new Youth Guarantee Implementation Plan (2023-26), which aims to continue improving service delivery and collecting and dispersing appropriate job offers to this target population. The initiative represents a relatively ambitious effort to increase the employability of young individuals and bring them into the labour market (ILO, 2023<sup>[13]</sup>).

There is scope to improve the delivery of ALMPs to vulnerable groups. The ESA has set up a Roma mentoring programme to provide better information and to refer them to ALMPs. According to a 2022 report by the European Centre for Social Welfare Policy and Research, 431 Roma participated in some form of ALMPs in 2020, an increase from 251 in 2019 (Mojsoska-Blazevsk, 2021<sup>[7]</sup>). However, selected ALMPs – primarily those related to training measures and wage subsidy programmes – have undergone an impact evaluation carried out by the Regional Cooperation Council (RCC) in 2021 (Nikoloski, 2021<sup>[14]</sup>). The study found that most ALMPs were not optimally targeted and that their impact varies depending on the group receiving the treatment. For example, most programmes yielded better employment prospects, but this benefit was less likely to be observed across the subset of recipients who were older or experiencing long-term unemployment. Bolstering the efficacy of these programmes could lead to their broadened use: in 2022, only 11 631 individuals participated in ALMPs – with a meagre 2 300 participating in training measures (ETF, 2023<sup>[5]</sup>). Incentives to participate in training measures for vulnerable groups may not be sufficiently strong, given that individuals must (temporarily) halt their income-generating activities to take part in these programmes.<sup>12</sup>

### ***Sub-dimension 8.3: Skills for adaptable labour markets***

In terms of cultivating skills for the labour market, there is significant scope to improve skills development and adaptation in North Macedonia. In 2021, the employment rate of low-skilled workers was only 27.4%, compared to 61.1% of medium-skilled workers and 79.7% of high-skilled workers.<sup>13</sup> In fact, the majority of the low-skilled working-age population do not participate in the labour market at all. Of this subset of the population, women are even more disadvantaged, with low-skilled women reporting an average employment rate of only 16.3% (Vienna Institute for International Economic Studies, 2024<sup>[12]</sup>). Moreover, according to the European Survey on Jobs and Skills, North Macedonia reports a low rate of participation in both school-based and workplace-based learning compared to EU levels (ETF, 2023<sup>[15]</sup>). Participants in the survey responded that their performance would likely improve given better IT and technical training, highlighting the existence of unmet needs related to continuous work-related training.

North Macedonia has made some progress in addressing **skills mismatch** since the last assessment. There is an institutional framework in place for co-ordinating activities between different government entities (including ministries and national agencies) and social partners to address this mismatch, including through curricula revisions. Each January, the Ministry of Labour and Social Policy hosts meetings with representatives from companies (as well as educational stakeholders) to discuss the desired educational profiles by employers and encourage student enrolment according to labour market needs. Moreover, there have been recent efforts to involve companies more closely in the curricula design for dual vocational education and training. Another instance of bolstering this co-operation has been the ongoing “Learn smart, work professionally” campaign (Box 9.1).



### Box 9.1. Fostering dialogue to address skills mismatch in North Macedonia

In 2022, the government of North Macedonia launched the “Learn smart, work professionally” outreach campaign. The overarching objective of this initiative was to foster engagement between the government, employers, and secondary vocational schools in the economy to better understand the skills and qualifications that were in demand in the labour market. The most recent round of dialogue took place between February and March 2023 throughout all regions of North Macedonia. The outcome of this dialogue was that hundreds of companies expressed their interest in hiring students for internships or practical education learning experiences.

Such an initiative, which holds the explicit aim of harmonising school systems with the needs of the labour market, is especially impactful in an economy like North Macedonia, which has particularly high rates of unemployment. By fostering dialogue between the school systems and companies, this “Learn smart, work professionally” campaign represents a significant advance toward reducing skills mismatches across all sectors and levels of education.

Source: Adapted from the inputs collected from the Ministry of Education and Science as part of the CO 2024 assessment framework.

Apart from these efforts to strengthen collaboration between employers and the education sector, the government has undertaken several measures to promote work-based learning to further reduce skills imbalances. Students can participate in “practical educational learning” (an apprenticeship) during which they work with an employer to gain experience and cultivate skills during summer holidays. Additionally, a strategy establishing an adult learning framework was in place, although it expired in 2023; a new Adult Education Act is currently in the process of adoption. This new legislation will introduce a system of skills validation and certification, which would help to accurately assess individuals’ qualifications and enable employers to identify candidates with the specific desired skills needed for open roles.

North Macedonia stands out as one of the regional frontrunners in fostering **skills for the digital transition** due to its multitude of programmes dedicated to supporting these competencies. While the economy lacks a comprehensive digital skills strategic framework, the government has started to work on the elaboration of a strategy – an aim further bolstered by North Macedonia’s participation in a regional dialogue on digital skills development through the Western Balkan Digital Skills Multi Stakeholder Working Group (ETF, 2022<sup>[3]</sup>). However, there have been several programmes implemented to support the development of digital skills of young people at different education levels. One illustrative example was the “MladiHUB-Digital Youth” initiative; funded by the UK Government, the programme offers young people vouchers for digital and soft skills training courses in exchange for work in community initiatives.<sup>14</sup> Another instance was a national initiative launched during the COVID-19 pandemic to provide 2 500 vouchers to young people in tertiary education to co-finance IT and digital skills training (ETF, 2022<sup>[3]</sup>). A broader example includes raising awareness about the importance of digital skills in the modern workforce, to encourage both employers and employees to prioritise upskilling. Additionally, there are studies conducted on the current and future development of employment in key ICT occupations and the IT sector.

Yet, despite these numerous measures, digital skills development among the citizens of North Macedonia remains relatively low, with only 26% of individuals possessing basic digital skills and an additional 8% with above-basic skills (Table 9.2). This is far below the EU average of 54%. Moreover, a lower share of employees in North Macedonia reported participating in digital skills training than those in the EU. According to the European Survey in Jobs and Skills, only 23% of respondents from North Macedonia reported that new digital technologies were introduced at their workplace – only slightly over one-half of EU averages (ETF, 2023<sup>[15]</sup>).

**Table 9.2. Individuals with basic or above-basic overall digital skills in North Macedonia, the WB6 economies and the EU (2021)**

Percentage of all individuals

	MKD	WB6	EU
Individuals with basic or above basic overall digital skills	34.6	34.8	53.9

Note: Kosovo data (used to calculate the WB6 average) were from the latest available year (2019).

Sources: Eurostat (2023<sup>[16]</sup>; 2020<sup>[17]</sup>).

Compared to digital skills, efforts to promote **skills for the green transition** have been much more limited in scope. Currently, there are no strategies or action plans that outline comprehensive objectives and measures for supporting the acquisition of relevant skills or preparing workers for the green transition. The most relevant strategy is North Macedonia's Long-term Strategy on Climate Action, published in 2021, which sets the goal of creating 10 000 "green jobs" by 2035. Other policies, such as the Industrial Strategy (2018-27) and the Strategy for Energy Development until 2040, underscore the importance of ensuring that skills match market needs, but no clear reference is made to skills for the green transition in particular (Nedanovski and Daniloska, 2022<sup>[18]</sup>). The economy has developed a Roadmap for a Just Transition that addresses the issue of the closure of coal mines and the impact on employment, indicating some preliminary efforts to mitigating the negative effects of downsizing coal mining (see Chapter 14). However, major challenges to cultivating skills for the green transition in the labour force persist due to the insufficient institutional capacity of the Ministry of Labour and Social Policy and limited knowledge regarding the importance of these skills.

#### **Sub-dimension 8.4: Expanding the skills pool**

North Macedonia's Resolution on Migration Policy (2021-25) outlines key objectives governing migration, including the management of regular and irregular migration, integration, and attracting skilled immigrants to address labour market needs (Government of North Macedonia, 2022<sup>[19]</sup>). Despite a delay due to political instability, the resolution was adopted in late 2021, and an intra-governmental co-ordination body was established to ensure effective implementation. The lead authority in migration matters is the Ministry of Internal Affairs.

With the aim of **making the most of foreign talents**, the Resolution on Migration Policy envisages policies for residence, the admission of foreigners, visa regulations, and social cohesion. Indeed, improvements to the asylum system are seen as an investment in the development and recognition of skills. Despite various strategic documents in place, the adoption of a new strategy for the integration of refugees and foreigners has been pending since September 2021.

Annual disaggregated data on socio-economic indicators for both immigrants and emigrants are published on line by the State Statistical Office.<sup>15</sup> Although publications like the Migration Profile 2021 and the Migration Governance Index contain migration-related data, there is an absence of census data, limited institutional exchange of information, and inadequate collection of data on emigration and returnees – all of which restrict access to reliable, accurate data on the extent of migration movements. To address this, North Macedonia supplements census data with information on regular as well as illegal entries and exits collected by the Ministry of Internal Affairs.

Progress in aligning national legislation with the EU *acquis* on labour market access, specifically concerning non-discrimination rules against EU workers in all sectors based on nationality, has been slow. This is evident in the case of foreign workers entering the economy who are required to obtain a work permit from the ESA. The issuance of various work permits aligns with annual quotas established in the Law on the Employment of Foreigners (European Commission, 2023<sup>[20]</sup>). EU citizens remain ineligible for

public administration positions, and specific roles within private companies are restricted exclusively to citizens of North Macedonia. In 2022, North Macedonia granted 800 work permits to foreign workers, and an additional 334 during the first five months of 2023.

North Macedonia is actively advancing its integration with the European network of employment services (EURES) and the European Labour Authority (ELA), concurrently focusing on enhancing the skills of public servants. Training activities are under way to strengthen the capacity of the Employment Service Agency, align legislation, and share best practices in accordance with EURES and ELA regulations. The economy also faces the imperative to continue negotiations for bilateral agreements on social security co-ordination and healthcare insurance with EU Member States, given the current limited number of agreements. Moreover, challenges persist in the mutual recognition of professional qualifications, attributed to the non-adoption of a relevant law and pending alignment with EU directives, necessitating efforts to strengthen the institutional capacity of the Ministry of Education and Science (MoES).

With nearly 700 000 Macedonian citizens residing abroad, North Macedonia has taken significant steps in engaging its diaspora, as outlined in the National Strategy for Cooperation with the Diaspora (2019-23) (Prague Process Secretariat, 2022<sup>[21]</sup>).<sup>16</sup> The country has re-established the position of Minister without Portfolio in Charge of Diaspora in 2022, who has the lead on implementation of the strategy and collaborates with the National Council on Diaspora and other key institutions (OECD, 2022<sup>[22]</sup>). While prioritising an increased political involvement and the realisation of civil as well as social rights, the strategy aims to map the diaspora, identify priorities, foster co-operation, and establish cultural and business connections. In the fields of education, science and youth, North Macedonia aims for enhanced collaboration through networking platforms, joint research projects, and educational initiatives, promoting return migration and knowledge transfers. The policy framework, which includes the National Strategy, Migration Policy Resolutions, and relevant laws, reflects a recent shift towards a dedicated diaspora engagement approach. Despite bureaucratic and political challenges in the policy-making process, the government successfully published the strategy in 2019 (Qaisrani et al., 2023<sup>[23]</sup>). However, it should be noted that the Strategy expired in 2023, and there is no available information regarding plans for a new strategy.

North Macedonia has implemented diverse initiatives to **attract diaspora skills**, with notable efforts from the independent think tank Macedonia2025, which focuses on economic co-operation, leadership development, and capacity building. Collaborating with the organisation United Macedonia Diaspora, Macedonia2025 organises internships for young diaspora graduates in local companies. The group also hosts the annual Macedonia2025 Summit and operates the Connect2MK online platform, linking local businesses with diaspora experts for mentorship and partnerships. In the meantime, the MoES has established the Skills Observatory, while the Ministry of Labour and Social Policy employs econometric models for skills forecasting (albeit with untapped potential). Additionally, the Bitove Entrepreneurship Programme, funded by a Macedonia2025 member, collaborates with the Canadian Executive Service Organization, offering in-depth mentorship for small and medium-sized enterprises.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia has exhibited varied progress toward implementing the recommendations of the previous Competitiveness Outlook assessment (Table 9.3). Specifically, the economy achieved more progress in further strengthening its regulatory framework guiding working conditions as well as combating the informal economy. Conversely, its advances toward monitoring the employability of graduates or investing in adult learning were much more limited.

**Table 9.3. North Macedonia's progress on past recommendations for employment policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue improvements to working conditions, to align with the EU <i>acquis</i> .	Progress has been made in regulating Sunday work through amendments to the Law on Labour Relations, and the new National Strategy on Occupational Safety and Health 2021-25 has made some strides in strengthening OSH regulations for workers.	Moderate
Define and implement activities to combat informal employment.	In September 2023, the government of North Macedonia adopted the new Strategy for the Formalisation of the Informal Economy (2023-27) and an Action Plan (2023-25). Moreover, programme inputs and outputs for combating informal employment have been monitored.	Moderate
Assess the impact of the minimum wage on both poverty reduction and informal employment.	While no analysis of the wage structure has been undertaken by the government, there has been a recent assessment of the impact of increasing the minimum wage.	Limited
Increase employment rates among women by improving access to and coverage of high-quality childcare.	North Macedonia published the second report on the measurement of the Gender Equality Index. Additionally, the government adopted the Strategy for Gender Equality 2022-27 and the Action Plan for Gender Equality 2022-24. These policies are supported by a system of gender budgeting. However, women still have lower labour market activity rates, lower employment rates, and on average work as unpaid family workers more often than men.	Limited
Monitor the employability of graduates from the VET system, differentiating between various VET streams, dual VET streams and universities, through regular tracer studies.	The Economic Chamber of North Macedonia conducts surveys on the participation of employees in continuing training and education.	Limited
Introduce incentives to invest in adult learning.	The government of North Macedonia is currently in the process of adopting the new Adult Education Act, which will serve as the new adult learning framework. However, there have been no improvements in introducing vocational guidance for adults, nor is there a well-defined strategy for developing digital skills among adult workers.	Limited

## The way forward for employment policy

Given the level of progress toward implementing previous recommendations, there is still significant room for North Macedonia to continue strengthening its employment policy framework and subsequently achieve improved labour market outcomes. In particular, policy makers should aim to:

- **Continue to increase the capacity of labour inspectorates.** Given the prevalence of unregistered workers in the economy, including in the public sector, it is crucial that labour inspectorates are adequately resourced so that they can effectively detect poor working conditions and informal employment. Moreover, labour inspectorates should expand the implementation of preventive measures, particularly against the misuse of non-standard and undeclared work. It is recommended to develop a comprehensive and publicly available monitoring system on working conditions and to analyse results to draw policy conclusions. Improved co-operation among relevant stakeholders is also crucial.
- **Increase support for vulnerable groups to expand their access to the labour market.** Despite the policy priority conferred by the government on improving the inclusivity of labour market policies, unemployment and poverty rates remain high among certain groups, including Roma individuals, older individuals, and those with disabilities. One potential avenue for bolstering this support is by monitoring implementation of the National Strategy for Equality and Non-Discrimination (2022-26) to evaluate ongoing or unanticipated obstacles.

- **Continue activities to reduce gender inequalities.** Despite the progress made toward implementing targeted policies aiming to reduce the gender employment gap in North Macedonia, employment and activity rates among female workers remain much lower than for their male counterparts. One important measure is to define a specific budget to support the strategy for enhancing labour force participation of women.
- **Strengthen efforts supporting the development or adaptation of relevant skills for the green transition.** The government of North Macedonia should begin preparations for developing a strategic framework that explicitly and comprehensively addresses the context, challenges, and goals for promoting skills for the green transition in the economy as well as an accompanying action plan and monitoring plan. This strategy should also incorporate plans for mitigating the negative employment effects of downsizing carbon-intensive sectors, such as coal mining (Box 9.2).

### Box 9.2. Adapting the labour force in support of the green transition: Efforts of Estonia

Estonia's efforts to support the green transition are most evident in terms of restructuring the carbon-intensive economic activities of one of its counties, Ida-Viru. The government of Estonia sought to reduce – and eventually cease – all energy production from oil shale, an objective complicated by the fact that nearly 50% of Ida-Viru's GDP came from fossil fuels. Thus, measures were designed to concurrently support the diversification of the economy away from oil shale while still protecting employment and incomes.

At a national level, the Estonian PES developed an array of mechanisms to incentivise both employees and employers to participate in this restructuring effort. Some of these measures included grants for employers who transition from a carbon-intensive sector to a different industry; allowances for employees who worked in carbon-intensive sectors to return to school and acquire a new profession; and micro-credential allowances for employees in the oil shale industry to obtain new qualifications.

Moreover, the European Union has pledged EUR 354 million in grants from its Just Transition Fund to further support phasing out the use of oil shale in energy production in Ida-Viru. These funds will be used to support the reskilling and upskilling of an estimated 11 000 workers and jobseekers as well as the creation of approximately 1 100 jobs in the renewable energy sector.

Sources: Duell (2023<sup>[24]</sup>); European Commission (2022<sup>[25]</sup>).

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## Notes

<sup>1</sup> The Eurostat database can be accessed here: <https://ec.europa.eu/eurostat/databrowser/view/tipsIm60/default/table?lang=en>.

<sup>2</sup> These stakeholders include trade unions, employers' organisations, government institutions, professional associations, and universities with OSH-related programmes.

<sup>3</sup> Exceptions can be made in certain sectors of activity. These employees will be paid a salary supplement for work on Sundays.

<sup>4</sup> Based on data accessible at: <http://gigmetar.publicpolicy.rs/en/region5-2/>.

<sup>5</sup> The strategy can be accessed here: [https://www.mtsp.gov.mk/content/pdf/bzr/New%20node/Strategija%20BZR%202021-2025%20sl%20\(12.2021\).pdf](https://www.mtsp.gov.mk/content/pdf/bzr/New%20node/Strategija%20BZR%202021-2025%20sl%20(12.2021).pdf).

<sup>6</sup> As of June 2023, there were 131 inspectors employed by the State Labour Inspectorate. However, 29 of these 131 inspectors either did not own a licence or did not perform inspection supervisions.

<sup>7</sup> The National Employment Strategy 2021-27 can be accessed here: [https://www.mtsp.gov.mk/content/pdf/2021/trud/strategija\\_vrabetovanje\\_2021\\_eng.pdf](https://www.mtsp.gov.mk/content/pdf/2021/trud/strategija_vrabetovanje_2021_eng.pdf).

<sup>8</sup> See: <https://www.stat.gov.mk/PrethodniSoopstenijaOblast.aspx?id=112&rbrObl=14>.

<sup>9</sup> Over the whole year 2022, ESA registered 402 439 vacancies in total, with the largest numbers recorded for jobs in manufacturing; wholesale and retail trade; repair of motor vehicles and motorcycles; and accommodation and food services. In terms of major occupational groups, the largest number of vacancies was for service and sales workers, elementary occupations and professionals (ETF, 2023<sup>[5]</sup>).

<sup>10</sup> See: <https://av.gov.mk/korisnici-na-prava2.nspix>.

<sup>11</sup> For additional household members, the coefficients are as follows: 0.5 for the second member, 0.4 for the third and fourth members, and 0.2 for the fifth member. The base amount increases by 0.1 for each child member of the household. Pregnant single women and single parents also receive an increase in assistance (0.5) for a specific duration. Finally, individuals who are unable to work due to disabilities or



health conditions receive increased coefficients for up to three household members (by 0.5, 0.2, and 0.2, respectively).

<sup>12</sup> Views shared during a fact-finding mission.

<sup>13</sup> To determine skill level, the International Standard Classification of Education (ISCED) is used. Low-skilled workers fall between ISCED 0 and 2, obtaining a maximum of lower secondary education. Medium-skilled workers constitute those with a level of either ISCED 3 (upper secondary education) or ISCED 4 (post-secondary non-tertiary education). Finally, high-skilled workers must have completed either a short-cycle tertiary education (ISCED 5) or a bachelor's degree or above. See: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International\\_Standard\\_Classification\\_of\\_Education\\_\(ISCED\)#Implementation\\_of\\_ISCED\\_2011\\_levels\\_of\\_education.29](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_Standard_Classification_of_Education_(ISCED)#Implementation_of_ISCED_2011_levels_of_education.29).

<sup>14</sup> See: <https://masit.org.mk/wp-content/uploads/2019/11/one-pager-mladihab-project-nmsm-eng.pdf>.

<sup>15</sup> This data can be accessed here: [https://www.stat.gov.mk/Default\\_en.aspx](https://www.stat.gov.mk/Default_en.aspx).

<sup>16</sup> The National Strategy for Cooperation with the Diaspora can be accessed here: [https://north-macedonia.iom.int/sites/g/files/tmzbdl2301/files/documents/2023-02/National%20Strategy%20of%20the%20Republic%20of%20North%20Macedonia%20for%20cooperation%20with%20the%20diaspora%202019-2023\\_0.pdf](https://north-macedonia.iom.int/sites/g/files/tmzbdl2301/files/documents/2023-02/National%20Strategy%20of%20the%20Republic%20of%20North%20Macedonia%20for%20cooperation%20with%20the%20diaspora%202019-2023_0.pdf).

# 10 Science, technology and innovation

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An effective institutional and policy context for science, technology and innovation (STI) is essential to boost the knowledge economy. This chapter, along three sub-dimensions, analyses the overall STI trends and performance in the region, the development of sustainable and impactful STI policies and processes. The first sub-dimension, STI system, assesses the STI regulatory framework and strategies, including smart specialisation strategies and the institutional framework for STI policy. The second sub-dimension, public research systems, analyses the governance of the public scientific research sector, funding approaches and human resource capacity to foster academic research excellence. The third sub-dimension, knowledge exchange and co-creation, assesses policies that support integration between scientific research and the private sector, which is critical for technology transfer, as well as policies and initiatives to promote European and regional collaboration in STI.

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## Key findings

North Macedonia has made steady progress in the science, technology and innovation (STI) dimension since the previous Competitiveness Outlook (Table 10.1). With an overall score of 2.8, the economy performs above the Western Balkan regional average. Some progress has been made to stimulate business-academia collaboration, and despite the adoption of a Smart Specialisation Strategy in 2023, further efforts are needed to steer STI policy and implement relevant, effective and efficient policy measures.

**Table 10.1. North Macedonia's scores for science, technology and innovation**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Science, technology and innovation	9.1: STI system			3.5	2.9
	9.2: Public research system			2.7	2.5
	9.3: Knowledge exchange and co-creation			2.3	2.0
<b>North Macedonia's overall score</b>		<b>2.1</b>	<b>2.4</b>	<b>2.8</b>	<b>2.5</b>

The **key findings** are:

- In late 2023, the government adopted the Smart Specialisation Strategy 2023-27 (S3) and its accompanying Action Plan, designed to be the new strategic framework for STI policy. There are, however, no strategic guidelines in place to regulate scientific research, making the framework incomplete. The absence of a comprehensive strategic framework presents an obstacle to further enhancing the economy's STI performance in a holistic way.
- The Fund for Innovation and Technology and Development (FITD) continues to be North Macedonia's primary vehicle for innovation policy implementation. It has operated several large-scale STI programmes, mainly targeting small and medium-sized enterprises (SMEs). However, its future structure is unclear, with ongoing discussions on its potential merger with North Macedonia's Agency for the Promotion of Entrepreneurship (APERM), and a recent audit has revealed the need to improve financial management and monitoring of financial support.
- Overall investments into research and development (R&D) remain low at 0.38% of GDP in 2021 (compared to the EU average of 2.23% in 2022). While public funding has increased in recent years, albeit from low levels, private sector participation remains subdued. Business-academia collaboration in North Macedonia remains constrained by a lack of incentives for co-creation and an inadequate support infrastructure. A pilot financial support programme has been discontinued, and renewed efforts to financially stimulate collaboration between academia and industry are subject to legislative amendments. Non-financial support mechanisms are largely absent in this context.
- In 2021, North Macedonia took steps to promote open science by establishing the National Open Science Cloud Initiative (NOSCI.mk), with over 100 researchers publicly declaring their commitment to open access to research. However, further efforts are needed to maintain the momentum and embed open science principles into national legislation and practices to further support its development.

## State of play and key developments

### **Sub-dimension 9.1: STI system**

North Macedonia's **STI policy framework** expired in 2020 with the conclusion of the Innovation Strategy 2012-20. However, the government's Economic Reform Programme (ERP) 2022-24 outlines key priorities and policy measures to drive North Macedonia's knowledge economy agenda (Ministry of Finance, 2022<sup>[1]</sup>). This includes initiatives such as establishing a hybrid fund for green and digital start-ups and innovative SMEs, as well as enhancing co-operation between academia and industry. The Fund for Innovation and Technology and Development's (FITD) 2020-23 work plan also incorporates elements from the expired Innovation Strategy, ensuring some continuity in the economy's STI vision. In addition, while a Strategy for the development of a start-up ecosystem (2021-25) and its Action Plan (2021-23) for early-stage companies are in place, previous plans to develop a strategy for the development of artificial intelligence and a national strategy for information and communications technology (ICT) have yet to materialise. There is currently also no dedicated strategic document in place to govern scientific research activities, neglecting an important aspect of STI policy. As a result, in 2023, the European Innovation Scoreboard classified the economy as an *emerging* innovator, performing at only 46.3% of the EU average (EIS, 2023<sup>[2]</sup>).

The new **Smart Specialisation Strategy (S3)** (2023-27), adopted at the end of 2023, will constitute North Macedonia's main strategic framework for STI policy. It prioritises smart agriculture, ICT and the electro-mechanical industry, as well as smart buildings and infrastructure, which can support North Macedonia's transition to a digital and low-carbon economy.

The S3 strategy also envisages the creation of a National Committee and S3 steering group. Unless clearly aligned and complementary to the existing **institutional framework** for STI policy, this may add further complexity to North Macedonia's already multi-layered institutional setup. The Ministry of Education and Science (MES) formally oversees STI policy, while the National Committee for Innovation and Entrepreneurship, presided over by the prime minister's office and comprising several ministries, higher education institutions (HEIs), state agencies and the private sector, *de facto* co-ordinates STI policy implementation. Additionally, a National Council for Higher Education, Scientific and Research Activity was established in 2021 to advise the government on higher education policy and review the funding model for research and development (R&D) and HEIs. In the same year, a National Start-up Committee was also established, focusing on the development of a coherent approach to building a supportive ecosystem for start-ups. The involvement of multiple institutions involved in STI policy development implementation somewhat hinders a smooth and well-co-ordinated approach to research and innovation.

The Fund for Innovation and Technology Development (FITD), established in 2014, serves as North Macedonia's dedicated innovation agency, with a mandate to improve access to financial support for the stimulation of innovation activity. Additionally, it aims to bolster the development of a triple helix infrastructure<sup>1</sup> and strengthen business-academia collaboration through targeted funding programmes. The FITD operates with adequate human resources and has benefited from significant capacity-building support through the World Bank and with EU funding. However, large-scale funding provided by the World Bank under the "Skills Development and Innovation Support Project" expired in 2021, leaving the FITD dependent on budgetary support under the Economic Reform Programme (ERP). Furthermore, a working group tasked with merging public institutions in North Macedonia is considering a potential merger between the FITD and the Macedonian Agency for Promotion of Entrepreneurship (APERM). In 2022, the Fund also underwent a compliance audit by the State Audit Office, which identified several compliance issues that remain to be addressed. Namely, the audit concluded that there is a need to reinforce the FITD's financial governance, align its support programmes with policy priorities, and improve performance indicators for its financial instruments (State Auditing Institution, 2023<sup>[3]</sup>).

The FITD's donor-funded programmes are regularly monitored. Moreover, a portfolio analysis of the FITD's project activities between 2016 and 2020 was conducted in 2021, indicating improved economic performance among enterprises that received FITD support. In contrast, however, there has been no independent evaluation of the implementation of the expired Innovation Strategy, and an FITD report on the strategy's implementation is not publicly accessible.

### ***Sub-dimension 9.2: Public research system***

The newly adopted S3 strategy places a strong emphasis on **public research excellence** as a crosscutting priority. To foster research excellence, the strategy envisages measures to develop human resources for R&D, improve research infrastructure, promote research activities related to the green and digital transformation, and increase the internationalisation of North Macedonia's research sector. The Law on Scientific and Research Activities regulates those activities of HEIs and R&D institutions, while plans to harmonise it with the Law on Higher Education and develop a new regulatory framework have not yet materialised. As part of the National Council for Higher Education and Scientific Research Activities' 2023-24 work plan, preparations have commenced for a new National Programme dedicated to science that could help elevate the strategic importance of scientific research.

Overall investments into R&D activities, particularly from the private sector, remain low at 0.38% of GDP. However, according to the latest data available on gross domestic expenditure on research and development (GERD) from 2021 (UNECE, 2021<sup>[41]</sup>), there has been a substantial increase in public spending on R&D since the establishment of the National Council for Higher Education and Scientific Research Activities. Between 2021 and 2022, the government provided EUR 3.8 million to support selected research projects of public interest, including funds to upgrade laboratory resources and assist research by public scientific research institutions. In total, 51 projects received funding during this period. In 2023, an additional EUR 3.6 million was allocated to research projects and other scientific activities. A call for proposals for innovative and collaborative projects related to S3 specialisation, green, and digital transformation in the manufacturing industry was launched, but overall funding of the public research system continues to be primarily based on non-merit-based institutional block funding.

The FITD is the government's main financial support vehicle for STI activities. Between 2016 and 2021, the fund supported over 669 projects with almost EUR 50 million through nine programmes, ranging from grant support for start-ups and spinoffs to commercialisation support, acceleration programmes, and technology development and extension support. In total and until end-2023, over 1 177 projects have been implemented, largely to the benefit of private business entities. In 2022, the FITD had an annual budget of over EUR 16 million. Moreover, in 2023, preparatory work to launch a new "greening businesses" facility with EU support started, suggesting an increased focus on eco-sustainability.

North Macedonia continues to face limited capacity in **human resources for research and innovation**, with the number of active researchers (per one million inhabitants) showing a decline in recent years after a significant increase between 2010 and 2015. Progress in aligning human resource policies with the principles of the Charter and Code of the EU's Human Resources Excellence in Research framework has stalled, with only two research institutions currently holding the award for human resources excellence. Some policy measures have been implemented to encourage and attract young researchers to the field, for example through government scholarships for postgraduates and Ph.D. studies. Moreover, under the FITD's Young Minds Fund, young researchers can access grant support via the Challenge for Young Researchers initiative. In 2021, the FITD also launched FabLabs, providing young people with access to laboratories to offer them space, technical facilities and guidance to design prototypes or small-scale productions of innovative solutions for further testing. A similar initiative, MAKERSPACE, was launched in 2022 but remains to be fully implemented.

North Macedonia engages actively in **international and regional co-operation** for R&D activities. Since 2014, nearly 170 projects have received financial support under the EU's framework programmes; participation has accelerated greatly under Horizon Europe in recent years, reflecting the economy's greater involvement in European innovation networks. Since 2021, 46 participants have received EUR 8.5 million in EU contributions, compared to 123 and EUR 14.41 million under Horizon 2020 (2014-2020) (Horizon Europe, 2023<sup>[5]</sup>). North Macedonia is also in the process of joining the European Research Area (ERA) and participates in the European Strategy Forum on Research Infrastructures (ESFRI). As a result, and with support of the Regional Cooperation Council (RCC), a new research infrastructure roadmap was adopted in 2022. In addition, North Macedonia has numerous bilateral co-operation agreements in place, including with the People's Republic of China since 2021, to strengthen scientific and technological collaboration. However, the uptake and implementation of these agreements remain subdued.

### ***Sub-dimension 9.3: Knowledge exchange and co-creation***

**Incentives for business-academia collaboration** remain overall limited in North Macedonia. The innovation voucher scheme, piloted by the Fund for Innovation and Technology and Development (FITD) in 2020 to encourage businesses to collaborate with R&D institutions for prototyping and testing innovative ideas, has been discontinued. In addition, plans to establish a competitive collaboration grant scheme, under way since 2021, have faced delays due to necessary legislative changes. In 2021, the FITD also launched a EUR 9 million programme to co-finance grants for commercialisation of innovations for SMEs where collaboration projects with R&D institutions were eligible (although not mandatory), but information on its impact remains limited. Nevertheless, a working group was established in 2023 to develop relevant amendments to the Law on Innovation Activities, marking a positive step that could result in the launch of new targeted financial incentive schemes in support of collaboration. In addition, the ongoing Economic Reform Programme (ERP) (2022-24) highlights the strengthening of synergies between the business community and public research sector as a key priority to address persistently low levels of private sector investment into R&D.

Non-financial incentives to stimulate business-academia collaboration equally remain limited. While researcher mobility is available under the Marie Skłodowska-Curie Actions (MSCA),<sup>2</sup> the level of engagement in such activities remains below potential and there are no national support schemes in place to encourage research collaboration. In a positive development, support is available for the preparation of patent applications, and the number of patent applications filed with the European Patent Office (EPO) has seen a substantial increase since the previous Competitiveness Outlook, albeit from low levels. This rise suggests an increase in commercially viable research activity, but most applications have remained unsuccessful. There has also been limited progress since the last assessment to increase the enforcement of intellectual property (IP) protection. A database on IP-related aspects to improve co-ordination and exchange between different law enforcement bodies has been set up, but has yet to be fully operationalised.

Efforts to enhance the research and innovation **(R&I) infrastructure for business-academia collaboration** in North Macedonia continue, albeit at a slow pace. There has been no progress in establishing North Macedonia's first science and technology park (STP), despite the ERP envisaging an allocation of up to EUR 5 million for the construction of the site by 2025. Once established, the STP is expected to provide incubation services and a technology transfer office, but there are currently no plans to design services that specifically target the promotion of co-creation and exchange between scientists and the private sector. In contrast, the Centre for Technology Transfer and Innovations (INNOFEIT), operational since 2018, has become an important cornerstone in the local research and innovation ecosystem. INNOFEIT successfully hosts the Business-technology Accelerator UKIM. Moreover, in addition to offering incubation and mentoring services for start-ups, it provides a number of services, including co-working spaces, matchmaking with scientists, empirical research for proof of concept,

collaborative research opportunities, and access to laboratories. There are ambitions to elevate INNOFEIT into a centre of excellence, a status that very few R&D institutions in North Macedonia currently reach. Furthermore, the draft National ICT Strategy includes plans for the establishment of Digital Innovation Hubs that could support North Macedonia's digital transition. In 2023, the European Institute of Innovation and Technology (EIT) established a new community hub in North Macedonia as part of its regional innovation scheme, aimed at serving as a platform to strengthen co-operation between the private sector and R&D institutions.

North Macedonia has taken several steps to promote **open science**. In 2020, the economy joined the European Open Science Cloud (EOSC) governance board and, in 2021, the Faculty of Information Technology and Computer Engineering at the University Ss. Cyril and Methodius in Skopje became a member of the EOSC. North Macedonia also successfully participated in a regional project on Open Access Research Infrastructure in the Western Balkans, implemented by the RCC in 2020: four institutions contribute to the development of open access policies and receive capacity building to introduce open access principles in their research. In addition, several initiatives were taken to raise awareness about open science. Most prominently, in 2021, the National Open Science Cloud Initiative (NOSCI.mk) was established as a consortium by North Macedonia's leading universities, with over 100 researchers publicly declaring their commitment to open access to science (Box 10.1). Despite these advances, there currently is no policy framework in place to regulate open access to science in North Macedonia, and the pace of activities has slowed down in 2023, requiring additional efforts to maintain the momentum.

#### Box 10.1. NOSCI.mk – North Macedonia at the forefront of promoting open science principles

In 2021, the National Open Science Cloud Initiative of North Macedonia (NOSCI.mk) was established with the support of the National Initiatives for Open Science in Europe (NI4OS) and funding under Horizon Europe. The initiative aims to bring together all stakeholders within the R&D community to promote and disseminate open science principles. Led by North Macedonia's eight leading universities, the key objectives of NOSCI.mk include:

- participation in EOSC governance and advocacy
- promotion of national EOSC-related services
- integration of science principles into national legislation and strategies.

One of the main achievements of NOSCI.mk is the establishment of an online “Declaration on Open Science Cloud Research”, allowing researchers to publicly commit to open access research. Over 100 individual researchers and four R&D institutions have signed this e-declaration. NOSCI.mk is also collaborating with the Ministry of Education and Science, which is not a member of the initiative, to develop national legislation that incorporates open science principles. Additionally, the initiative created a glossary and best practice guide, as well as open access research repositories. In 2022, NOSCI.mk launched a programme called “Scientific Spectrum” on national television to raise awareness about the benefits of open science for the general public, business community, institutions and researchers.

Source: National Initiatives for Open Science (2021<sup>[6]</sup>).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

Only a few of the policy Recommendations set forth in the CO 2021 have been fully or partially addressed (Table 10.2). Compared to the previous assessment, North Macedonia's STI policy framework is incomplete following expiration of its Innovation Strategy (2012-20), which poses a risk to the positive momentum achieved through recent STI developments. While government spending on R&D activities has increased significantly, overall GERD remains very low, particularly from the private sector. Additionally, North Macedonia's main vehicle for distributing financial support programmes for STI is facing uncertainty and is not actively issuing calls for proposals. Financial and non-financial incentives aimed at stimulating business-academia collaboration continue to be scarce.

**Table 10.2. North Macedonia's progress on past recommendations for science, technology and innovation**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Complete the development of the Smart Specialisation Strategy	While North Macedonia adopted its Smart Specialisation Strategy (2023-27) in 2023, STI policy co-ordination remains complex.	Strong
Increase investments in the public research system	GERD remains low at 0.38% of GDP (in 2021), with over two-thirds of investments stemming from the public sector. However, investments into public sector research have increased significantly to EUR 3.6 million in 2023. While the FITD has increased its financing schemes for STI, few programmes directly support scientific research activities.	Moderate
Increase participation in Horizon 2020	Overall participation rates have accelerated since the launch of the successor programme, Horizon Europe.	Moderate
Promote business-academia collaboration through a systematic and targeted approach	Some efforts have been made to stimulate business-academia collaboration, particularly via the FITD. However, a robust R&I institutional infrastructure is lacking and efforts remain non-systematic.	Limited
Strengthen enforcement of industrial property rights (IPR)	An information platform for law enforcement bodies to exchange IP-related data has been set up, but needs to become operational. Other enforcement challenges remain unaddressed.	Limited

## The way forward for science, technology and innovation

While North Macedonia continues to make progress in advancing its STI policy framework and performance, the pace of reform has slowed down. The authorities should maintain their commitment to policy reforms that draw from the economy's STI potential to support a sustainable and digitalised economy, with a particular emphasis on the following:

- **Update the strategic framework to cover all aspects of science, technology and innovation.** The adoption of the Smart Specialisation Strategy (S3), accompanied by a comprehensive Action Plan and adequate budget, is an important step toward renewing North Macedonia's STI framework and demonstrating the government's continuing commitment to strengthening research and innovation activities. However, while the S3 covers important elements of STI policy, there is a need to complement the S3 to create a more comprehensive strategic vision that also includes scientific research and makes use of its role in creating a knowledge-based economy.
- **Accelerate synergies between industry and academia as a priority to facilitate the green and digital transition.** A systematic approach to encourage greater engagement between the private sector and scientific research institutes will be key for creating relevant research outputs with commercialisation potential, particularly in areas of strategic economic importance. The FITD can play a critical role in this process by implementing targeted support programmes that incentivise



engagement and require collaboration activities in priority domains. Importantly, the government should also follow up on its plans to create a hybrid fund for green and digital start-ups that can contribute to a more sustainable and technologically advanced economy.

### Box 10.2. Brno Technology Park in the Czech Republic

Established in 1995, the Brno Technology Park (BTP) is strategically located in the heart of Brno, the second-largest city in the Czech Republic. The park was envisioned as a catalyst for innovation, providing a conducive environment for research institutions, universities, and technology-based companies to collaborate and thrive.

The primary objectives of the Brno Technology Park are:

- to stimulate innovation and technology transfer
- to support the growth of technology-based start-ups and SMEs
- to foster collaboration between academia and industry
- to attract foreign investment and talent
- to contribute to regional economic development.

With this in mind, BTP was designed with the following key features:

1. *State-of-the-art infrastructure* – The park offers modern facilities equipped with cutting-edge technology, including laboratories, office spaces, and conference rooms, to accommodate the diverse needs of its tenants.
2. *Incubation and acceleration programmes* – BTP provides comprehensive support programmes for start-ups and SMEs, offering mentorship, access to funding, and networking opportunities to accelerate their growth and market entry.
3. *Research and development (R&D) partnerships* – BTP facilitates collaborative R&D projects between academia and industry, fostering knowledge exchange and technology transfer to address real-world challenges.
4. *Internationalisation* – Through partnerships and networking initiatives, BTP actively promotes international collaboration, facilitating access to global markets, investment, and expertise.
5. *Education and training* – BTP organises workshops, seminars, and training programmes to enhance the skills and knowledge of entrepreneurs, researchers and professionals, thereby strengthening the innovation ecosystem.

The example of BTP can inspire policy makers in North Macedonia to better understand the potential of an STP in fostering regional development through science and technology and promoting collaboration between businesses and the scientific community, as well as understand the prerequisites and key factors for an STP's success.

Source: Technology Park Brno (2024<sup>[7]</sup>).

- **Adhere to plans to build the science and technology park.** The authorities should implement plans to establish North Macedonia's first STP in a timely manner to demonstrate their commitment to strategy and predictability. To ensure the efficient use of funds for such large-scale infrastructure investments, the set-up of the STP should go beyond traditional business incubation models and focus on creating a genuine co-creation space for businesses and R&D activities. This could involve the timely establishment of a fully equipped technology transfer office and state-of-the-art

laboratories to attract and facilitate collaboration. The establishment of the Brno Technology Park in the Czech Republic can serve as an example of good practice (Box 10.2).

- **Sustain the momentum to promote open access to scientific research.** North Macedonia's authorities should use the momentum generated to continue educating researchers and advocating for open access to science. By making published academic research freely, readily and permanently available on line for everyone to access and (re-)use, they can maximise the academic, societal and economic impact of research. Such efforts will also bolster the integrity and rigour of research by fostering greater openness and transparency.

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## Notes

<sup>1</sup> The triple helix model refers to the engagement and collaborative relationships between academia, industry and government.

<sup>2</sup> Marie Skłodowska-Curie Actions (MSCA) is an EU programme, which provides grants to support research careers and encourages transnational, intersectoral and interdisciplinary mobility (<https://marie-sklodowska-curie-actions.ec.europa.eu/>).

# 11 Digital society

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Digital transformation, driving efficiency and productivity through the adoption of digital technologies and data utilisation, holds promise for fostering economic activity and competitiveness. This chapter, across four sub-dimensions, assesses the scope and quality of the policy framework and strategies and the implementation and adoption by North Macedonia. The first sub-dimension, access, explores government policies and initiatives to enable network infrastructure investment and broadband services take-up and increase data accessibility. The second, use, delves into the government's plan to implement programmes to develop a user-centric digital government and help businesses achieve a digital transformation. The third, society, assesses whether governments have planned and implemented programmes to reduce the digital divide and create an inclusive society through green digital technologies. The fourth, trust, examines the economies' frameworks and how they are being implemented to protect data and privacy, build trust in e-commerce and ensure cybersecurity through effective digital risk management systems.

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## Key findings

North Macedonia's overall performance decreased since the 2021 Competitiveness Outlook (OECD, 2021<sub>[11]</sub>).<sup>1</sup> The economy enhanced its performance in digital government and digital business development, cybersecurity, and consumer protection in e-commerce. Additionally, it maintained good performance in broadband development and the communications regulatory framework. On the other hand, scores indicate stagnation in terms of digital inclusion and privacy and personal data protection. Moreover, the assessment reveals that the economy slowed down regarding data accessibility. North Macedonia's overall performance lies below the average Western Balkan regional performance for digital society policy (Table 11.1).

**Table 11.1. North Macedonia's scores for digital society**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Digital society	10.1: Access			3.2	2.9
	10.2: Use			1.7	2.3
	10.3: Society			1.0	1.7
	10.4: Trust			2.3	2.7
<b>North Macedonia's overall score</b>		<b>2.3</b>	<b>2.4</b>	<b>2.1</b>	<b>2.5</b>

The **key findings** are:

- North Macedonia has yet to address disparities in **broadband development** between urban and rural areas. After the cancellation of the Western Balkans Investment Framework (WBIF) North Macedonia Digital Economy (NODE) project, a new project was launched in 2023 to conduct a feasibility study for the construction and development of the National Transport Optical Network, which has been pending since 2019.
- **Digital government** development remains below expectations, despite progress made in establishing a government interoperability system connecting the e-government portal and the electronic population register. As of early 2024, 246 e-services are available on the national e-service portal, with only a fraction of these being fully transactional services eliminating the need for over-the-counter service.
- North Macedonia currently lacks a **digital business** policy framework and corresponding initiatives that effectively support the adoption of information and communications technologies ICTs by private sector companies. Business digitalisation progresses gradually, driven by the government's efforts to digitalise services and initiatives supporting innovation and start-up development, such as the Fund for Innovation and Technology Development.
- The digital divide in North Macedonia is expanding due to the lack of a comprehensive approach to **digital inclusion**, including essential components such as digital training for disadvantaged groups, affordable high-speed Internet access for all citizens, diverse channels for accessing online services, and integration of e-accessibility tools on public sector websites.
- The new Law on consumer protection has enhanced **protection for online consumers** by introducing out-of-court dispute resolution and strictly defining the role of competent authorities. Implementation of the law remains in the early stages, as complementary secondary legislation is pending.
- Unsatisfactory **cybersecurity** policy implementation and inadequate allocation of human and financial resources have been limiting North Macedonia's capacity to address emerging challenges. However, the new cybersecurity strategy under preparation and the new Law on

Information Security, pending adoption in 2024, are expected to strengthen North Macedonia's cybersecurity capacity and improve alignment with the EU *acquis*.

## State of play and key developments

North Macedonia's ICT infrastructure is predominantly centred in the capital, Skopje, hampering the inclusion of rural populations. While ICT equipment is readily available, companies across the board need enhanced educational efforts to fully harness the benefits of digital technologies (ITU, 2023<sup>[2]</sup>). Despite the challenges, the ICT industry exhibits robust growth, emerging as one of the country's fastest-growing sectors even without significant institutional support. Notably, the information technology (IT) software and services segment spearheads this expansion, emerging as the largest employer in the ICT industry. The IT industry itself witnessed a remarkable 37% increase in total revenue from 2021 to 2022, accompanied by a notable 42% surge in net exports during the same period (MASIT, 2023<sup>[3]</sup>). Official data from the State Statistical Office reveal promising trends, indicating a 13% rise in the average monthly gross salary per employee in the IT sector (specifically in computer programming). Furthermore, the total number of employees in the ICT sector increased to almost 20 000 in 2022, 13% higher than 2021 (MASIT, 2023<sup>[3]</sup>). However, the growing demand for skilled IT professionals has led to a persistent shortage, primarily due to an insufficient number of ICT graduates. Both public and private stakeholders encounter challenges in talent acquisition and retention, exacerbated by escalating salary expectations influenced by globalisation and the remote working trend. Complicating matters further, frequent changes in the Ministry of Information Society and Public Administration, coupled with unresolved issues regarding the planning and management of ICT programmes, have delayed the adoption of the ICT Strategy since its development in 2018 with EU support.

### **Sub-dimension 10.1: Access**

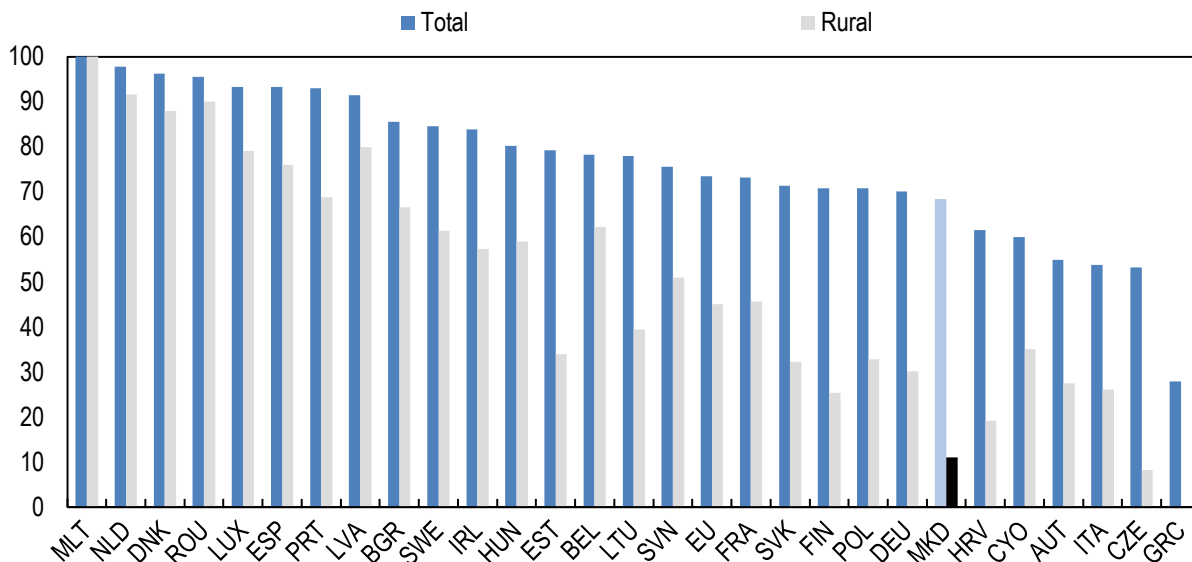
North Macedonia's **broadband infrastructure** has advanced significantly over the past three years, with a notable focus on fixed and 5G network expansion in urban areas. Implementation of the National Operational Broadband Plan 2019–29 remains a cornerstone of the economy's integration into the EU, marked by consistent co-operation between state and private actors, overseen by the National Broadband Competence Office (NBCO). The Plan sets ambitious targets for achieving a Gigabit Society by 2029, aiming for 100% symmetrical Internet access with speeds of at least 1 Gbps for all public institutions, including schools, research and academic institutions, healthcare facilities, courts, public sector bodies and local authorities. As of September 2023, 88.8% of households in North Macedonia have access to high-speed broadband networks exceeding 30 Mbps, while 73.67% have access to ultra-fast broadband with speeds exceeding 100 Mbps, which is still trailing behind the EU average of 86.6% in 2022 (NBCO, 2023<sup>[4]</sup>; Eurostat, 2022<sup>[5]</sup>). Moreover, household fixed broadband adoption rates (i.e. subscriptions) stand at 76.93% as of end-2022, with only 5.8% of connections exceeding 100 Mbps, significantly lower than the EU average of 55.08% (DESI, 2023<sup>[6]</sup>). Additionally, North Macedonia prioritised 5G network development, granting two mobile operators 5G licences in the 700 MHz and 3.6 GHz bands in July 2022. Thus, 5G commercial services are available in the main urban centres. By Q2 2023, 5G coverage extended to 31.5% of settlements or 62.15% of the population. Overall mobile broadband take-up was 79.4% as of the end of 2022 (NBCO, 2023<sup>[4]</sup>), while the EU average was already 86.53% in 2021.

However, despite overall progress in fixed and mobile broadband penetration, rural areas continue to face challenges due to uneven broadband development. In April 2023, only 15.3% of households in underserved rural areas had access to high-speed broadband, compared to 69.8% in well-served areas (NBCO, 2023<sup>[4]</sup>). Similarly, while household coverage in fixed Very High-Capacity Networks (VHCN) reached 68.67%, rural settlements lag significantly behind with 10.96% (NBCO, 2023<sup>[4]</sup>). This rural-urban

disparity is substantial compared to EU Member States, where the average VHCN coverage in rural settlements is 45.08% (Figure 11.1). Delays in rural broadband development were primarily attributed to the cancellation of the North Macedonia Digital Economy (NODE) project, supported by the WBIF instrument, which put on pause the Feasibility Study project for the development of the National Transport Optical Network. Nevertheless, an EU Integration Facility-supported project was launched in June 2023 to resume the planned feasibility study, anticipated in mid-2024. This study aims to determine the optimal financing model, including state aid and commercial investment stimulation, and define the characteristics of the national backhaul fibre network, which will connect all settlements in the country with gigabit speeds.

**Figure 11.1. Fixed Very High Capacity Networks penetration in North Macedonia and OECD economies (2023)**

Percentage of total population



Sources: EC (2023<sup>[7]</sup>); NBCO (2023<sup>[4]</sup>).

StatLink  <https://stat.link/726nb3>

North Macedonia has made strides in enhancing its **communications regulatory framework** in the past three years, although full alignment with the EU framework is yet to be achieved. The Ministry of Information Society and Administration (MISA) has prepared a new Law on Electronic Communications in accordance with the European Electronic Communications Code.<sup>2</sup> Currently, this draft law is undergoing review. The anticipated adoption of the new Law is expected to boost the independence of the Agency for Electronic Communications (AEC), particularly in light of concerns raised regarding the 5G spectrum auctions. The need to reinforce AEC's independence has been highlighted by the European Commission since 2022 and reiterated in its latest monitoring report for North Macedonia (EC, 2023<sup>[8]</sup>).

In September 2023, the AEC adopted a regulation aligning with the EU Broadband Cost Reduction Directive<sup>3</sup> (BCRD), while also incorporating elements of the 2023 EU proposal for the new Gigabit Infrastructure Act,<sup>4</sup> which is poised to replace the BCRD. This rulebook delineates the methodology and conditions for construction of and access to public electronic communication networks, marking a significant advance in simplifying broadband infrastructure development and stimulating additional private sector investments in network construction. However, full alignment is still pending, particularly in harmonising legacy legislation concerning administrative procedures and construction permits at the local

self-government level. Moreover, AEC has enhanced predictability for mobile operators by adopting the Rulebook on quality parameters for 5G technology and obligating them to submit 5G coverage data quarterly. Despite granting 5G licences to Makedonski Telekom and A1 Makedonija in 2022, the AEC has yet to adopt a permit-exempt deployment regime for small-area wireless access points, in alignment with the relevant EC regulation.<sup>5</sup> Such a regime would facilitate the timely deployment of 5G networks, delivering high capacity, increased coverage and advanced connection speeds.

The framework on **data accessibility** and data reuse is not sufficiently developed in North Macedonia. The economy has yet to articulate a vision for data openness and data-driven innovation, prioritising the establishment of an enabling environment and institutional support for the creation of new services. The government also has yet to prepare a dedicated policy framework since the Open Data Strategy completed in 2020, although it adopted the Transparency Strategy with Action Plan 2023-26 in December 2023. Transparency initiatives are also supported by the ongoing implementation of the Open Government Partnership (OGP) Action Plans. However, despite five OGP action plans implemented so far, boasting relevant legal enhancements regarding access to public sector information, progress in legal reforms that facilitate data sharing and data reuse is marginal. The new Law on the Use of Public Sector Data, improving North Macedonia's alignment with the Open Data Directive,<sup>6</sup> has been under preparation since 2021 with its adoption still pending in early 2024. Thus, North Macedonia is not yet compliant with the common set of rules for establishing government-held data marketplaces, adopted by EU Member States and some of the Western Balkan economies.

The national open data portal in North Macedonia remains significantly underdeveloped, hosting some 625 datasets from 74 public institutions as of February 2024 (North Macedonia Ministry of Information Society and Administration, n.d.<sup>[9]</sup>). The majority of published datasets fail to comply with international open data-sharing principles, lacking machine-readable formats, consistency, completeness and timeliness. Consequently, this is limiting their reuse potential in the creation of data-driven innovative services. Progress among local self-government authorities, including municipalities, in publishing and making data available in open formats varies widely (Metamorphosis, 2022<sup>[10]</sup>). Moreover, due to the absence of updated legislation on public sector data reuse, the government has yet to identify high-value datasets that could potentially foster public-private partnerships aimed at delivering data-driven applications for societal benefit. Furthermore, the public sector's capacity to manage the open data process remains inadequately addressed. Insufficient training opportunities within the public sector on data sharing, pooling, and innovation practices, coupled with a lack of understanding of the benefits of data partnerships with the private sector, exacerbate the situation (Metamorphosis, 2023<sup>[11]</sup>). Additionally, there is a notable absence of institutional support for the establishment of data innovation hubs, which could play a crucial role in strengthening the emerging domestic data innovation ecosystem. Without such support, the full potential of data-driven innovation in North Macedonia may remain untapped.

### ***Sub-dimension 10.2: Use***

North Macedonia has made continued efforts to implement **digital government** initiatives focused on modernising the legal framework and enhancing the ICT infrastructure within public administration. However, the absence of a clear vision for e-government development, coupled with the lack of a results-oriented implementation plan, undermines the quality and effectiveness of government digitalisation initiatives. Additionally, inefficient activity monitoring and absence of impact assessments impede overall progress in digitalisation. The Strategy for Public Administration Reform, initially adopted in 2018 and updated in 2023 to extend until 2030, governs digitalisation efforts. North Macedonia has established an enabling legal framework comprising three interconnected laws: the Law on electronic documents, electronic identification and trusted services, in line with the EU eIDAS<sup>7</sup> Regulation; the Law on electronic management and electronic services; and the Law on the central population register. While these laws align with the EU framework, challenges persist, including the absence of a user-friendly public eID system and the harmonisation of existing legislation, which hinder effective enforcement of

e-government laws and seamless digitalisation of services. An estimated 100 laws require amendment and supplementation to align with the general laws on digitalisation, posing legal challenges that impede referral to and use of data from the Central Population Register (CPR) (Metamorphosis, 2022<sub>[12]</sub>). Furthermore, the acceptance of electronic documents issued through electronic services when printed and submitted to certain public sector institutions remains a challenge (Metamorphosis, 2022<sub>[12]</sub>).

As of 2022, only 95 e-services on the national e-government portal (Uslugi, n.d.<sub>[13]</sub>) were fully transactional, out of a total of approximately 392 e-services available, many of which are rarely used (EC, 2023<sub>[8]</sub>). Despite the government's efforts to improve interoperability, only 50 institutions are connected to the interoperability platform, the Macedonian Information Highway. Poor utilisation of the platform, attributed to uncoordinated digitalisation efforts without attention to compatibility issues and the lack of ICT equipment and communications software, hampers the development of higher-quality e-services (SPAR, 2023<sub>[14]</sub>). Additionally, numerous e-services from various public institutions are still offered through individual websites and portals instead of the national e-government portal.

On a positive note, North Macedonia has prepared significant legislative reforms, pending adoption as of early 2024. The draft Law on the Security of Network and Information Systems and Digital Transformation aims to transition from a distributed digital infrastructure to centralised access to the government cloud within two years of adoption. The new Law will establish the Agency for Security of Network Systems and Information Systems and Digital Transformation for managing and co-ordinating the digital transformation process of public administration. Other legislative reforms seek to address capacity issues and enhance the effectiveness of public administration while implementing an omnichannel approach for the provision of public services, in line with relevant OECD recommendations (OECD, 2020<sub>[15]</sub>). The government plans to enable the use of the wide network of facilities of the Post of North Macedonia for increasing the availability of "Single Points of Service" locations (MISA, 2023<sub>[16]</sub>). However, the effectiveness of these reforms hinges on their adoption within 2024.

**Digital business** development in North Macedonia is predominantly driven by private sector investments and government support for technological innovation. Unfortunately, the overarching ICT Strategy 2023-27, which aims to provide a comprehensive digital agenda for the whole spectrum of public and private sector digitalisation activities, is yet to be adopted. In the absence of a clear strategy and focus on business digitalisation and ICT sector development, the government has not prioritised financial support programmes specifically targeting SMEs for ICT adoption through subsidies, tax incentives or e-business and e-commerce development. Additionally, insufficient awareness of available digital technologies and their capacity to propel a company's productivity and profitability poses challenges, hindering digital business uptake. Moreover, addressing the need to develop workforce digital capacities is only partially met by the government and the private sector. While the Employment Agency trained around 400 unemployed individuals per year in digital skills in 2021 and 2022, the private sector remains the primary source for employee ICT training. Data from the State Statistical Office, in 2023, reveal that only 52.5% of businesses in North Macedonia had a website, trailing behind regional economies like Montenegro (85.4%), Serbia (85.1%) and Bosnia and Herzegovina (64.4%), as well as the EU average of 78.1% (MAKSTAT, 2023<sub>[17]</sub>; Eurostat, 2023<sub>[18]</sub>). Additionally, only 14.3% of businesses in North Macedonia received orders on line in 2023, which is lower than in other WB economies (e.g. 28.7% in Serbia and 22% in Montenegro) and the EU average of 19.7% (MAKSTAT, 2023<sub>[17]</sub>; Eurostat, 2023<sub>[19]</sub>).

On a different note, the ICT industry emerged as a key beneficiary of the government's business innovation policies in North Macedonia. The Fund for Innovation and Technology Development (FITD) has played a pivotal role in transforming the IT industry. In the period 2016-21, the Fund had co-financed 699 projects with a joint investment of EUR 88.25 million (55% FITD, 45% private companies), of which 326 corresponded to start-ups (FITD, 2021<sub>[20]</sub>). The Fund also supported the development of three accelerators (X Factor, Seavus Accelerator and Business-Technology Accelerator UKIM) with nearly EUR 1.5 million (FITD, 2024<sub>[21]</sub>). Additionally, in 2021 the government established the National Startup Council to foster a conducive environment for start-up development. Despite these positive initiatives, the



government has yet to address the shortage of technical talent adequately, with the ICT sector grappling with rapidly rising salaries and challenges in retaining skilled ICT professionals. Addressing these issues is critical to sustaining and furthering digital business development in North Macedonia.

North Macedonia has yet to establish a dedicated policy for the development and utilisation of **emerging digital technologies**, such as artificial intelligence (AI), the Internet of Things (IoT) and blockchain. Nevertheless, both the Public Administration Reform Strategy 2030 and the Law on the Central Population Register are laying the groundwork for incorporating innovative solutions, like AI, to deliver higher-quality services to citizens and businesses. Moreover, the draft ICT Strategy 2023-27 acknowledges the importance of using advanced technologies, such as AI, Big Data, IoT and Cloud Services to achieve strategic goals in the economy's digital transformation process. The Ministry of Information Society and Administration intends to form a working group for the development of a national artificial intelligence strategy, aiming to explore opportunities and challenges in applying AI solutions within the public sector. Initial efforts in this direction began in September 2021, with the formation of a working group to develop the country's first National Strategy for Artificial Intelligence, at the initiative of the Fund for Innovation and Technological Development. Furthermore, in December 2023, the NGO Metamorphosis Foundation announced the launch of a process to establish a Coalition for Responsible Artificial Intelligence in North Macedonia. The Coalition, comprising non-governmental organisations, business experts and academia members, aims to facilitate discussions on rules for the responsible and equitable use of AI. It also seeks to review guidelines for regulated and transparent procurement of AI solutions, while addressing concerns like technophobia and personal data protection within the evolving AI landscape.

### ***Sub-dimension 10.3: Society***

North Macedonia has yet to prioritise the establishment of a policy framework ensuring **digital inclusion**, especially since adoption of the draft ICT Strategy is still pending. The Strategy on Public Administration Reform includes some measures to reduce the digital skills gap and enhance accessibility of e-services through advanced availability of "Single-Point of Service centres" (SPoSC), first established in 2018. However, in 2023 such centres exist in only five cities in North Macedonia. Furthermore, although efforts were made to enhance the legal and regulatory framework in 2020 to promote inclusiveness with service optimisation guidelines and standards for service delivery, little progress has been achieved in adopting and implementing standards for e-accessibility for public sector websites and mobile applications. The e-government portal has yet to integrate accessibility tools to ensure the e-inclusion of persons with disabilities. Similarly, the adoption of accessibility standards for the public procurement of ICT products and services remains a low priority for the government. Positively, an intersectoral working group was formed in 2023 to align legislation with the relevant EU directive,<sup>8</sup> and a project is under way to implement unified public sector websites, incorporating the Web Content Accessibility Guidelines (WCAG) 2.0 standard. However, the Strategy for people with disabilities 2023-30 is still in preparation and the National Coordination Body for implementation of the Convention on the Rights of Persons with Disabilities has undertaken a limited number of activities, such as developing a Macedonian and Albanian language reader for blind individuals and creating electronic versions of some textbooks for primary education. Despite these efforts, such initiatives hardly constitute a comprehensive response to mitigate the risk of digital exclusion for persons with disabilities.

Digital literacy remains a major barrier to e-inclusiveness and increased usage of digital services in North Macedonia. Particularly for the elderly and other marginalised groups, digital skills training is not yet effectively implemented (FRA, 2023<sub>[22]</sub>). According to the State Statistical Office, in 2023, 11.5% of individuals aged 15-74 have never used the Internet (10.9% men and 12.5% women). The percentage of individuals never using the Internet is mainly concentrated in the 55-74 age group, amounting to 22% of all individuals in this group. These statistics are considerably higher than in some of the regional economies (7.71% in Montenegro and 8.98% in Serbia) and the EU average of 5.97% (Eurostat, 2023<sub>[23]</sub>). Alarming, the percentage of households with no Internet access in 2023 is 10.5% (12.5% in rural and 9.4% in urban

settlements) (MAKSTAT, 2023<sup>[24]</sup>). In effectively addressing the digital divide, North Macedonia could learn from other countries' implementations of digital upskilling programmes for seniors (Box 11.1).

### Box 11.1. Addressing the digital divide with seniors' digital upskilling initiatives

Despite undeniable progress in digital service delivery, the digital divide widens, leaving room for enhancing Digital Citizen Engagement (WBG, 2022<sup>[25]</sup>). Several EU Member States implement measures and initiatives that focus on strengthening older persons' digital literacy skills, such as the following.

In **Estonia**, the Central Library of Tallinn offers classes to all readers who wish to develop their digital literacy skills. Older persons can learn skills in using computers, the Internet and digital public services. The course is free of charge and can be held both virtually through Skype and on-site.

In **the United Kingdom**, the Digital Champions Programme 2022-26 combines four key services to address the common barriers to digital inclusion for older people. The Programme aims to tackle digital exclusion by recruiting and training Digital Champion volunteers to provide support for older people to improve their digital skills as well as providing loan technology to those older people without access. The Programme aims to engage with 120 000 older people between 2022 and 2026.

In **Austria**, the Austrian Institute for Applied Telecommunications runs the nationwide service centre "Digital Seniors" (Digitale SeniorInnen), aimed at promoting improved access to the benefits of digitalisation to all Austrian citizens, and especially older people. It offers consulting services to educational institutions and trainers on how to plan and implement educational offers on digitalisation for older persons. The initiative provides free training materials, free workshops and counselling sessions to educators, a quality seal on digital education measures for older persons, and a training course on teaching digital literacy to older persons.

Sources: FRA (2023<sup>[22]</sup>); Tallin Central Library (2023<sup>[26]</sup>); e-Estonia (2023<sup>[27]</sup>); AgeUK (2022<sup>[28]</sup>); Austrian Institute for Applied Telecommunications (2024<sup>[29]</sup>); EU (2023<sup>[30]</sup>).

North Macedonia has yet to adopt specific policy measures to ensure the development of **green digital technologies**. The draft ICT Strategy is the first policy document affirming that specifications for broadband infrastructure and the government data centre should incorporate technically balanced and economically justifiable state-of-the-art green digital technologies, aligning with the principles of the European Green Deal<sup>9</sup> policy. Nonetheless, without formal adoption of the strategy, these positive objectives may remain unrealised due to the absence of budgeted programmes and initiatives in this domain. An interesting project, the "Computing power goes green" project,<sup>10</sup> is being implemented by the Bureau for Regional Development, a body of the Ministry of Local Self-Government, in collaboration with regional entities and EU co-financing. This project aims to assess the current status of and obstacles to green digitalisation in North Macedonia, while raising awareness about creating ecologically sustainable digital infrastructure. Additionally, the Energy Development Strategy 2040 promotes energy savings through the utilisation of digital technologies for enhancing energy efficiency in various sectors, including construction, industry, transport, heating and cooling, and energy distribution. Similarly, the National Strategy for Agriculture and Rural Development 2021-27 envisions the introduction of precise agricultural production and processing of agricultural products through data-driven, smart decision making, robotics and IoT solutions focused on efficient resources utilisation. Furthermore, e-waste management is addressed in the Law on the management of electrical and electronic equipment and waste electrical and electronic equipment, adopted in 2021. This law is accompanied by the Law on Extended Producer Responsibility (EPR) for managing special waste streams, enacted in the same year to establish a professional, accountable and efficient EPR system. This system ensures that manufacturers consider the

full life cycle of their products, from the design phase to the end of the product's life, promoting sustainability and environmental responsibility.

### **Sub-dimension 10.4: Trust**

North Macedonia has not made sufficient progress in strengthening its policy and legal framework on **privacy and data protection** since 2021. In 2022, the Personal Data Protection (PDP) Agency received 19 notifications of data breaches, with 14 originating from controllers in the private sector, and 5 from controllers in the public sector. This indicates that personal data protection is still in the early stages of development in North Macedonia. The Agency has prepared a strategy for the period 2024-30, expected to be adopted in 2024. However, the existing legal framework for personal data protection is not yet fully aligned with the EU's General Data Protection Regulation (GDPR)<sup>11</sup> or the EU Police Directive.<sup>12</sup> Efforts are under way to amend the PDP law to improve alignment with EU standards, particularly regarding strengthening the Agency's institutional and financial independence and facilitating data transfers to third countries and international organisations. However, while the Agency continues with consistent implementation of the framework, it faces significant challenges, notably due to a shortage of human and financial resources. Currently staffed with 20 employees, only 40% of the optimal 50 staff members, the Agency lacks financial resources to motivate, retain and facilitate further professional development of its skilled personnel. Dependency on donor funding for training, awareness-raising events, and staff capacity building exacerbates these challenges. Moreover, public authorities hinder law enforcement efforts, with registered cases indicating disrespect for the Agency's work, disregard of issued decisions and opinions, and noncompliance with the obligation to submit legislative proposals with implications for personal data protection for review and recommendations by the Agency. Despite these adversities, the Agency performs its supervisory, awareness-raising and capacity-building activities. It conducted 13 personal data protection training sessions in 2022, attended by 317 participants representing 176 controllers or processors from the public and private sectors (AZLP, 2023<sup>[31]</sup>).

**Consumer protection in e-commerce** has advanced in North Macedonia over the past three years. The government has consistently implemented a comprehensive Consumer Protection (CP) Programme with annual plans spanning from 2021 to 2023. Currently, the Ministry of Economy is preparing a new programme for 2024, emphasising consumer protection in electronic commerce. Activities integrated into the implemented CP programmes have focused on increasing transparency in terms of information provided to consumers, educating and supporting consumer NGOs, strengthening co-operation among competent public institutions, harmonising consumer protection legislation, and ensuring the availability of alternative dispute resolution mechanisms. However, transparent monitoring and evaluation of implemented activities are not yet prioritised. Importantly, the new Law on Consumer Protection, adopted in 2022, aligns with EU Directives on Consumer Rights,<sup>13</sup> contracts for the supply of digital content and digital services<sup>14</sup> and the sale of goods.<sup>15</sup> The new Law introduces out-of-court settlements, delineates the role of competent authorities in consumer protection including consumer associations, and outlines traders' obligations. Moreover, it regulates the initiation of procedures for the protection of consumer rights in case of transboundary violations, and ensures enhanced consumer education on protecting their rights, including in online purchases. The Law's implementation, however, is subject to the adoption of corresponding secondary legislation, which is an ongoing process.

North Macedonia has enhanced consumer awareness-raising activities and made efforts to conduct inspections in e-commerce businesses, but the relevant initiatives are not yet sufficiently prioritised. The State Market Inspectorate has jurisdiction to perform inspections for consumer protection purposes in the area of the Law on Electronic Commerce. However, activities in this domain remain limited. In the first half of 2023, only 3 regular inspections pertaining to e-commerce were carried out, in a total of 16 427 inspections (regular, extraordinary and control) conducted in the same period) (DPI, 2023<sup>[32]</sup>). The Ministry of Economy annually grants funds to consumer protection associations for raising consumer awareness about their rights and operating free counselling centres for consumers. In 2023, the Ministry

of Economy granted consumer associations across North Macedonia a total amount of EUR 32 500. In addition to these funds, consumer associations receive grants for awareness-raising activities from local authorities and other public institutions involved in the implementation of the Consumer Protection Program. However, only a fraction of funded awareness-raising activities refers to online consumer protection, which is hardly sufficient for widespread campaigns, particularly considering the rapid growth of e-commerce take-up in North Macedonia. In 2023, 53.5% of individuals using the Internet ordered products or services on line in the past 12 months, up from 49.5% since 2022 (MAKSTAT, 2023<sup>[17]</sup>). While this percentage lags behind the EU average of 75.14%, it is second only to Serbia's 64.18% in the WB region.

North Macedonia has yet to strengthen its **cybersecurity** capacities, despite experiencing a series of cyberattacks in 2022 that caused significant disruptions in both public administration and industry functions. The implementation of the Cybersecurity Strategy 2018-22 remained incomplete with key measures, such as fortifying the national computer emergency response team CERT – the Computer Incident Response Team of North Macedonia (MKD-CIRT) – left unaddressed. MKD-CIRT operates as an organisational unit of the Agency for Electronic Communications with inadequate human resources, consisting of only three staff members, and insufficient financial and technical means. Moreover, resources allocated to cybersecurity are insufficient across the public and private sectors. Participation in MKD-CIRT's National Information Sharing Network (NISN) remains voluntary, which limits experience and data sharing among its 160 members. While MKD-CIRT provides some cybersecurity training for private sector employees and public officials, public awareness-raising and educational activities fall short of expectations. Additionally, cybersecurity incident reporting is regular, but policy implementation monitoring, indicator data collection, evaluation and impact assessment processes are not systematic or transparent.

North Macedonia's existing cybersecurity framework is not aligned with the EU *acquis* (EC, 2023<sup>[8]</sup>). The government is currently preparing a comprehensive legal and policy framework for cybersecurity, including the protection of Critical Information Infrastructure, aimed at achieving a higher level of cyber resilience and an enhanced response to cybercrime. A draft strategy for the next period, 2024-27, has been under preparation since 2022 and is currently undergoing further review to align with recent updates in the EU cybersecurity framework. The government has revised two draft laws to comply with the EU NIS2 Directive<sup>16</sup> enforced in 2023: the draft Law on Critical Infrastructure to align with the “sectors of high criticality” of the Directive, and the draft Law on Security of Networks and Information Systems and Digital Transformation. As of February 2024, these draft Laws are in the pipeline for adoption. The law on network security will reinforce cybersecurity capacities in North Macedonia, aiming at the same standards as EU Member States and ensuring heightened cybersecurity training for public sector employees and upskilling for citizens. However, its delayed adoption inevitably postpones the establishment and operationalisation of the Agency for Security of Network Systems and Information Systems and Digital Transformation. Moreover, the government signed an MoU with the US Government in October 2023 on 5G security, which is expected to lead to an amendment of the Electronic Communications Law imposing stricter rules for 5G equipment procurements. North Macedonia has established a methodology to assess the risk profile of suppliers and manufacturers of network equipment, as well as a list of critical components and sensitive parts of electronic communication networks. However, the methodology has not fully aligned with the shared principles outlined in EU's 5G Cybersecurity Toolbox,<sup>17</sup> and has yet to adopt cybersecurity certification processes for ICT products, services and processes, in accordance with the EU Cybersecurity Act.<sup>18</sup>

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress on implementing CO 2021 recommendations has been mixed. The economy has made strong advances in consumer protection, while progress was also registered in strengthening public administration digitalisation infrastructure. Conversely, progress has stagnated in domains such as

digital inclusion and open data reuse and innovation, as well as in comprehensively reinforcing cybersecurity capacities. Below, Table 11.2 shows the economy's progress in implementing past recommendations for developing a digital society.

**Table 11.2. North Macedonia's progress on past recommendations for digital society policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen the demand for open data innovation by enabling private sector reuse of public sector data through inclusive co-creation processes to deliver e-services to citizens	Data openness is in the early stages of development. There is no dedicated Open Data policy framework in place to promote data-driven public-private partnerships (PPPs). The draft Law on the use of public sector data is not yet adopted to set standards for data sharing and reuse, similar to those applied in EU Member States. The data innovation ecosystem, still in its infancy, is not yet institutionally supported.	Limited
Accelerate the reform and harmonisation of legacy legislation, particularly in the fields of e-identification and e-payments, and prioritise the digitalisation of the most frequently used services	An enabling legal framework for digital governance was adopted, including legislation on e-identification, aligning with the EU eIDAS regulation. E-payment systems have been enhanced. However, a public eID system has yet to be implemented, and legislation harmonisation challenges hinder effective enforcement and digitalisation of services. The interoperability platform is underutilised, while the e-Gov portal comprises a modest number of low-impact e-services.	Moderate
Prioritise policies supporting the digital transformation of private sector companies, possibly under the umbrella of the forthcoming National ICT Strategy 2021-25	The adoption of the draft ICT Strategy is still pending. Policy support for the digital transformation of non-ICT companies is not yet prioritised. Insufficient awareness on available digital technologies and their capacity to propel a company's productivity and profitability is another obstacle in advancing digital business take-up. However, institutional support for digital innovation and start-ups is available.	Limited
Adopt legal provisions to promote accessibility requirements in the public procurement of products and services in the ICT domain and create corresponding certification schemes	No progress has been made so far in adopting and implementing standards for e-accessibility for public sector websites and mobile applications. Similarly, the adoption of accessibility standards for public procurement of ICT products and services is a low priority. An intersectoral working group was formed in 2023 to align legislation with the relevant EU Directive on e-accessibility.	Limited
Accelerate the adoption of the Consumer Protection Strategy and ensure that it promotes realistic measures for educating consumers on their rights and how to exercise them	Although a Consumer Protection strategy is not in place, North Macedonia has consistently implemented a Consumer Programme since 2021, which is annually renewed. The government grants funds to consumer protection associations annually for the purpose of raising consumer awareness, but the amounts are relatively small and only a small part is spent on educating the public on their rights in e-commerce transactions.	Strong
Ensure the national Computer Incident Response Team has sufficient human, technical and financial resources and adopt the legal and regulatory provisions for defining North Macedonia's critical information infrastructure	MKD-CIRT, the national CERT, continues to operate with three employees and limited resources as a unit of the electronic communications regulator, AEC. The National Agency for Cybersecurity is not yet established to incorporate the MKD-CIRT, since the draft law on Security of Networks and Information Systems and Digital Transformation is still in the pipeline for adoption. Similarly, North Macedonia is yet to adopt the draft Law on Critical Infrastructure. Critical information infrastructure sectors are handled according to ENISA guidelines (European Union Agency for Cybersecurity) but not yet defined by law.	Moderate

## The way forward for digital society

Considering the level of the previous recommendations' implementation, there are still areas in which North Macedonia could enhance the digital society policy framework and further improve aspects of access to electronic communications and public data, digitalisation of government and businesses, inclusiveness of the digital society, and trust in digital technologies. As such, policy makers may wish to:

- **Expedite the development of the National Transport Optical Network and simplify investments in and construction of ultra-high-speed infrastructure.** The government needs to accelerate the implementation of the optical backhaul network in North Macedonia, taking advantage of insights from the forthcoming feasibility study in 2024. It is critical to prioritise harmonisation of procedures and co-ordination of civil works for network construction, particularly at the local self-government level. It is also important to align state aid rules with the revised EU Broadband Guidelines (2023).<sup>19</sup> Additionally, North Macedonia should adopt a permit-exempt deployment regime for small-area wireless access points to facilitate 5G network deployments.
- **Modernise the open data framework and promote data innovation partnerships for the creation of new services.** The government should update legislation in alignment with the Open Data Directive and the EU Data Governance Act,<sup>20</sup> expanding legal obligations of public institutions and enabling greater reuse of public sector data. It is critical to identify and introduce high-value datasets (e.g. geospatial, meteorological, statistics, mobility, etc.) after thorough assessment of potential demand. It is imperative to combine legislative implementation with capacity-building efforts for public officials in data management and distribution, and foster partnerships with private sector and civil society on data-driven e-services development.
- **Prioritise the development of fully high-quality, fully digitalised e-services tailored specifically for businesses.** North Macedonia should prioritise the development of fully transactional digital services tailored to meet the specific needs of private sector companies. These services should encompass critical functions such as online business registration, tax filing, permit applications, funding and support programme applications, complaint submissions, and other essential administrative tasks. To ensure accessibility and efficiency, these services should be centralised within a dedicated business services platform or integrated into a single-point-of-access digital government portal. User-friendly interfaces, seamless integration with eID and e-payment systems, and connectivity to digital government databases are essential features to eliminate the necessity for physical visits to public administration offices, streamlining processes for businesses and promoting digital adoption.
- **Increase resources for cybersecurity and enhance institutional capacities for cyber resilience.** The government should prioritise adoption of the Cybersecurity Strategy and strengthen institutional capacities and horizontal co-ordination for its implementation. It needs to enhance protection of Critical Information Infrastructure and raise awareness while increasing capacity-building efforts for public and private sector employees. It is critical to expedite the establishment of the Agency for Security of Networks and Information Systems and Digital Transformation, incorporating the MKD-CIRT and ensuring efficient staffing and fully operational capacity by the end of **2024**. **It is imperative that both the public and private sectors boost collaboration and increase preparedness for a higher level of cyber resilience (Box 11.2).**

### Box 11.2. Knowledge sharing is key to effective cyber resilience

Cyberattacks surged by 38% globally in 2022 driven by geopolitical instability, underscoring the critical importance of cybersecurity on the agendas of nations worldwide. Denmark, a digital-first nation, swiftly recognised the imperative of readiness to share, prepare, and simplify as fundamental to building robust cyber resilience. Denmark's approach to cyber resilience embodies a proactive governance model, fostering public-private collaboration, promoting cybersecurity awareness, investing in research and innovation, implementing regulatory measures, and engaging internationally. These concerted efforts aim at fortifying Denmark's cyber defences, mitigating risks, and ensuring the resilience of its digital infrastructure and society. Consequently, Denmark was ranked the world's most cyber-secure country in the world in 2023, among 75 countries assessed by the security research firm Comparitech.

At the heart of Denmark's cyber resilience strategy lies the national Centre for Cyber Security (CFCS), entrusted with the crucial mandate of monitoring and analysing cyber threats, providing guidance and support to organisations, and co-ordinating responses to cyber incidents. Serving as a focal point for cybersecurity collaboration and expertise, the CFCS facilitates collaboration among government agencies, law enforcement bodies, private sector entities, academic institutions, and international partners. Through the sharing of information, expertise and resources, these stakeholders work together to enhance Denmark's cyber resilience and effectively address cyber threats. Furthermore, the CFCS actively conducts cybersecurity awareness campaigns and initiatives targeting citizens, businesses, and government personnel to educate them about cyber risks and best practices for online safety. These efforts are geared toward enhancing cybersecurity hygiene, reducing vulnerabilities, and empowering individuals to recognise and mitigate cyber threats proactively.

Sources: Centre for Cyber Security (2024<sup>[33]</sup>); Denmark Ministry of Foreign Affairs (2024<sup>[34]</sup>); Comparitech (2024<sup>[35]</sup>).

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## Notes

<sup>1</sup> Decreased scores in the Use and Society sub-dimensions in the current assessment (CO 2024), compared with scores in the CO 2021 assessment, are mainly attributed to the incorporation of two new, forward-looking qualitative indicators in the current digital society assessment framework. Scores for these new indicators, namely emerging digital technologies and green digital technologies, are relatively low since they are still in the early stages of development in the Western Balkan region. Furthermore, the scores from the CO 2018 assessment are not directly comparable with current scores due to a significant restructuring of the digital society assessment framework.

<sup>2</sup> Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code (Recast) (Text with EEA relevance), <http://data.europa.eu/eli/dir/2018/1972/oj>.

<sup>3</sup> Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks (Text with EEA relevance), <https://eur-lex.europa.eu/eli/dir/2014/61>.

<sup>4</sup> Proposal For a Regulation of the European Parliament and of the Council on measures to reduce the cost of deploying gigabit electronic communications networks and repealing Directive 2014/61/EU (Gigabit Infrastructure Act), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC0094>.

<sup>5</sup> Commission Implementing Regulation (EU) 2020/1070 of 20 July 2020 on specifying the characteristics of small-area wireless access points pursuant to Article 57 paragraph 2 of Directive (EU) 2018/1972 of the European Parliament and the Council establishing the European Electronic Communications Code (Text with EEA relevance), [http://data.europa.eu/eli/reg\\_impl/2020/1070/oj](http://data.europa.eu/eli/reg_impl/2020/1070/oj).

<sup>6</sup> Open Data Directive: Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the reuse of public sector information (recast), <http://data.europa.eu/eli/dir/2019/1024/oj>.

<sup>7</sup> Regulation (EU) No 910/2014 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market and repealing Directive 1999/93/EC, <http://data.europa.eu/eli/reg/2014/910/oj>.

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<sup>9</sup> The European Green Deal - Striving to be the first climate-neutral continent, [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en).

<sup>10</sup> Computing Power Goes Green – GO\_GREEN project, co-funded by the Interreg V-B Balkan – Mediterranean Cooperation Programme 2014-2020, [https://brr.gov.mk/en/computing-power-goes-green-go\\_green/](https://brr.gov.mk/en/computing-power-goes-green-go_green/).

<sup>11</sup> Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation), <http://data.europa.eu/eli/reg/2016/679/oj>.

<sup>12</sup> Directive (EU) 2016/680 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties, and on the free movement of such data, and repealing Council Framework Decision 2008/977/JHA, <http://data.europa.eu/eli/dir/2016/680/oj>.

<sup>13</sup> Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules (Text with EEA relevance), <http://data.europa.eu/eli/dir/2019/2161/oj>.

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<sup>16</sup> Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No. 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive) (Text with EEA relevance), <http://data.europa.eu/eli/dir/2022/2555/oj>.

<sup>17</sup> Cybersecurity of 5G networks - EU Toolbox of risk mitigating measures, <https://digital-strategy.ec.europa.eu/en/library/cybersecurity-5g-networks-eu-toolbox-risk-mitigating-measures>.

<sup>18</sup> Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification, and repealing Regulation (EU) No. 526/2013 (Cybersecurity Act) (Text with EEA relevance), <http://data.europa.eu/eli/reg/2019/881/oj>.

<sup>19</sup> Communication from the Commission Guidelines on State aid for broadband networks 2023/C 36/01, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023XC0131%2801%29>.

<sup>20</sup> Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance), <http://data.europa.eu/eli/reg/2022/868/oj>.

# 12 Transport policy

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Through the development of a modern, sustainable, efficient, interoperable and integrated transport network, a sound transport policy can promote closer co-operation with neighbouring economies and be a key driver of competitiveness, both for an economy as well as for the region. The first sub-dimension, planning and management, measures the extent to which an orderly, coherent, consistent and transparent process is in place for developing transport policy and implementing infrastructure projects. The second sub-dimension, regulation and connectivity, determines how well transport modes and networks are regulated and operated, as well as how they are leveraged to promote regional connectivity. The third sub-dimension, sustainability, measures progress towards resource efficiency, environmental protection, reducing health impacts and increasing safety as well as social inclusion.

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## Key findings

Since the last Competitiveness Outlook (CO) assessment (2021), North Macedonia has shown overall limited progress in transport policy. Very little progress has been made in improving the policy and planning framework or in introducing effective project prioritisation and selection tools. Progress has been made in improving environmental sustainability through the adoption of the National Energy and Climate Plan, as well as in efforts to contribute to regional connectivity.

**Table 12.1. North Macedonia's scores for transport policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Transport	11.1: Planning and management			1.9	2.6
	11.2: Regulation and connectivity			1.6	1.9
	11.3: Sustainability			1.8	2.1
<b>North Macedonia's overall score</b>		<b>1.8</b>	<b>1.8</b>	<b>1.8</b>	<b>2.2</b>

The **key findings** are:

- The monitoring and evaluation of transport policies needs to be improved. North Macedonia has been implementing its National Transport Strategy 2018-30 since 2018. No monitoring reports have been published since that time and it is unclear if monitoring is taking place or if so, whether it is regular. The strategy has not been updated since its inception, which is concerning given its long-term horizon.
- North Macedonia's single project pipeline (SPP) for the selection of priority transport infrastructure projects has not been updated since 2018 either, putting into question its continued relevance for the planning of strategic transport investments.
- No project appraisal tools specifically for transport infrastructure have been developed. In their place, regulatory impact assessment (RIA) is being used as a crosscutting policy assessment tool. Moreover, the general shortcomings of the administration in conducting effective RIA, such as administrative capacity constraints, further prevent this tool from being used consistently and effectively.
- Asset management systems for transport infrastructure are underdeveloped. Besides road transport, there are no asset management systems in place for the other modes. However, the last road maintenance plan ended in 2017.
- North Macedonia's National Energy and Climate Plan (NECP) contains targets and measures to guide the decarbonisation of the transport sector. Several actions have been taken to contribute to greening transport, such as the electrification of railways and the introduction of incentives for electric vehicles.
- North Macedonia has co-operated well with neighbouring economies to improve regional connectivity. It established common crossing points with Albania and Kosovo. Together with Serbia, North Macedonia inaugurated a joint integrated electronic toll payment system, facilitating the flow of people and goods between the two economies.

## State of play and key developments

### **Sub-dimension 11.1: Planning and management**

North Macedonia has been implementing its National Transport Strategy (NTS) 2018-30 since 2018. The NTS sets out the **transport vision** for the economy and covers all transport modes. It plans for 104 actions, with indicative timeframes. Monitoring of the NTS is foreseen on a two-year basis, yet no monitoring reports are publicly available and it is unclear whether any form of monitoring is taking place. Another cause for concern is the fact that the strategy has not been updated or revised since its adoption, meaning that no actions can be taken to adjust the strategy and respond to potential challenges in implementation. A midterm evaluation is planned for 2024, which could potentially address these shortcomings if it is conducted properly.

The National Transport Strategy does not mention or foresee the development of any methodology for **transport project selection**. North Macedonia has a single project pipeline (SPP), but it has not been updated since 2018, putting into question its continued use and relevance as a tool for project prioritisation. Regulatory impact assessment (RIA) is used for evaluating transport projects, but for assessment of policies in general. It is not specific to transport or infrastructure projects, and therefore cannot be considered a fully fledged project appraisal tool. As part of the RIA process, all government agencies and ministries are obliged to take into account assessments of environmental, safety and economic impacts. However, due to insufficient resources, regulatory impact assessments are often considered as a formality rather than as a gauge of the potential impact of new policies, and are therefore not always thoroughly conducted (European Commission, 2023<sup>[1]</sup>). No national cost-benefit analysis (CBA) guidelines, tailored to North Macedonia's context and providing for adapted discount rates and benchmarks, have been developed.

The **procurement** process for all transport infrastructure projects adheres to the regulations outlined in the Law on Public Procurement,<sup>1</sup> which was last updated in 2021. North Macedonia is implementing its Strategy for development of the public procurement system 2022-26. During the strategy's preparatory activities, in the context of the project "Strengthening Budget Planning, Execution and Internal Control Functions", experts identified the main weaknesses of the procurement system and future challenges. Namely, they highlighted the lack of capacity for implementing good practices and limited official co-operation among the key institutions in the procurement system. In order to transpose the Directive 2014/23/EU on the award of concession contracts, North Macedonia prepared the Draft Law on Public-Private Partnership to be adopted in the forthcoming period. Adoption of this Law could strengthen the capacity of the institutions responsible for acting in the field of public-private partnerships, and set the stage for the further development of alternative procurement methods (Ministry of Finance, 2022<sup>[2]</sup>).

An **asset management** system is still not in place for every transport mode. Public Enterprise State Roads is responsible for managing the Road Asset Management System (RAMS). The RAMS is currently used as the road databank and road reference system. At the end of 2021, a call for tender for the Bridge Management System was launched and is currently under development. The development of a Rail Infrastructure Management System (RIMS) is under the responsibility of the Public Enterprise Macedonian Railways, but the system is not yet operational.

Investment in road infrastructure was considerably higher in 2022 than investment in rail infrastructure (Table 12.2). This investment even surpasses the EU and OECD average when it comes to the share of GDP spent on road infrastructure in 2022. However, compared to 2019, investment in rail infrastructure increased by more than 50%, indicating an effort to improve the rail network. Maintenance spending decreased in 2022 and the share of GDP spent on maintenance is one-quarter of the EU and OECD area averages, showing the potential for further efforts towards maintenance of infrastructure.

**Table 12.2. Transport infrastructure investment and maintenance, North Macedonia (2019-22)**

	Investment					Maintenance				
	Change 2019-22 (%)	Value in 2022 (million EUR)	Share of GDP 2022 (%)	Share of GDP, OECD 2021 (%)	Share of GDP, EU 2021 (%)	Change 2019-22 (%)	Value in 2022 (million EUR)	Share of GDP (2022)	Share of GDP, OECD 2021 (%)	Share of GDP, EU 2021 (%)
Road infrastructure	-21	192.46	1.49	0.57	0.59	-25	9.54	0.07	0.27	0.28
Rail infrastructure	54	27.64	0.21	0.30	0.30	-2	4.54	0.04	0.17	0.18

Note: OECD and EU averages represent the average value for the countries with available data.

Source: ITF (2024<sup>[3]</sup>)

### **Sub-dimension 11.2: Governance and regulation**

North Macedonia has advanced in updating and aligning its **rail regulations** more closely with the EU Rail Action Plan. At the end of 2023, North Macedonia approved amendments to the Railway System Law. This reform brought North Macedonia into compliance with the Transport Community Treaty and advanced harmonisation with the EU *acquis* (Transport Community, 2023<sup>[4]</sup>). Thanks to the new legislation, the rail market is now open at the domestic level, although there are no private operators in the market yet. The drafts of the Railway Safety Law and Interoperability Law have been finalised and are expected to be adopted in 2024.

At the end of 2023, the European Union (EU), European Bank for Reconstruction and Development (EBRD) and European Investment Bank (EIB) have announced a EUR 560 million package to complete Corridor VII connection to the Bulgarian border in North Macedonia. The project consists of the construction of 24 kilometres of track between Kriva Palanka and the Bulgarian border, and the electrification of 88 kilometres of track between Kumanova and the border. The implementation of this project has the potential to enhance the connectivity between the country and the European Union, with clear economic benefits (EBRD, 2023<sup>[5]</sup>).

The legal framework for **road transport** is broadly aligned with the EU *acquis*. However, since the last CO assessment, North Macedonia has made little progress in this regard. The last five-year road maintenance plan ended in 2017 and there does not seem to be a plan to update it (European Commission, 2023<sup>[1]</sup>). A legal entity to conduct a conformity assessment on the existing equipment for the transport of dangerous goods is still missing.

North Macedonia's rail and road network utilisation are presented in Table 12.3. Between 2019 and 2022, rail network utilisation decreased both for passenger and freight and is substantially lower than the EU average. In contrast, the road network utilisation for freight transport increased in the same period and is higher than the EU average. The road network utilisation for passenger transport remained almost unchanged between 2019 and 2022. This results in the fact that 98% of freight in North Macedonia is transported on roads, showing significant room for improvement in increasing the capacity for rail as a more environmentally sustainable mode of transport for freight.



**Table 12.3. Rail and road transport in North Macedonia and the EU (2019-22)**

	Change MKD 2019-22 (%)	Value MKD 2(022)	Value EU (2021)
<b>Rail network utilisation</b>			
Passengers (passenger-kilometres/km of track)	-26	0.05	0.99
Freight (tonne-kilometres/km of track)	-18	0.32	2.02
<b>Road network utilisation</b>			
Passenger (passenger-kilometres/road network)	-3	0.79	1.24
Freight (tonne-kilometres/road network)	26	0.96	0.60

Sources: European Commission (2023<sup>[6]</sup>); ITF (2024<sup>[7]</sup>).

Since the last CO assessment, regulatory reforms have continued in the field of **aviation reforms**. A new Aviation Act is under approval of the parliament; it will bring the law provisions into line with the standards and recommended practices of the Annexes to the Chicago Convention, the EU regulations and the directives of the European Common Aviation Area (ECAA) Agreement. Since January 2021, several bylaws were enacted, mainly for aircraft construction and maintenance and personnel requirements.

The Single European Sky II (SES II) package remains partially transposed. While North Macedonia is not a member of any Functional Airspace Block (FAB), it is an observer of the DANUBE FAB and signed a Memorandum of Cooperation with the BLUE MED FAB (Eurocontrol, 2022<sup>[8]</sup>). North Macedonia has also signed agreements with Bulgaria, Albania, Serbia and Greece for radar data sharing. It has a bilateral agreement of co-ordination for the air traffic management with Bulgaria and an agreement with Albania regarding the delegation of air traffic services.

Since the last Competitiveness Outlook assessment, North Macedonia has co-operated well with several neighbouring economies to enhance **regional connectivity**. In July 2023, the one-stop-shop system at Kjafasan-Qafë Thanë border crossing with Albania was launched, easing the flow of people and goods through the border. As part of the Open Balkan initiative, North Macedonia together with Serbia inaugurated the joint integrated electronic toll payment system at the Preshevo border crossing. This system allows electronic payment for citizens of Serbia and North Macedonia only by pre-registering on the Internet portal (Euronews, 2023<sup>[9]</sup>). North Macedonia and Kosovo agreed to establish common crossing points and avoid double checks (Koha, 2023<sup>[10]</sup>). Regarding rail transport, in November 2023 the railway section connecting Fushe Kosove/Kosovo Polje in central Kosovo to Hani i Elezit near the Macedonian border reopened after an overhaul (See News, 2023<sup>[11]</sup>). The call for tender was launched for building the Rail Joint Border Crossing station in Tabanovce, on the border with Serbia, on rail Corridor X (EBRD, 2023<sup>[12]</sup>). There is no progress on the Cross Border Agreement with Greece, which would support connectivity along a key transport corridor.

The National Transport Strategy aims to increase the importance of **combined transport**. A location for establishing a multimodal transport node near Skopje was pre-selected and technical experts started working on setting it up. Relevant legislation still needs to be adopted and systems for electronic freight transport information exchange need to be created.

Continued efforts are observed in North Macedonia to support the development of **smart transport** systems. The National Strategy for Intelligent Transport Systems (ITS) has been prepared and sent to the government for adoption (Transport Community, 2023<sup>[13]</sup>). The document includes 26 actions on legal, institutional and technological frameworks to implement ITS solutions according to European standards. It also allocates the necessary budget for each action and sets the timeline lasting to 2032 (Ministry of Transport and Communications, 2023<sup>[14]</sup>). In the second half of 2023, the Ministry of Transport and Communications launched a call for tender for the deployment of ITS on the south part of Corridor X. The project will be carried out in 2024. In 2024, the Macedonian Customs Administration plans to put into

production the New Computerized Transit System (NCTS) phase 5. This system is necessary to be part of the Convention on a Common Transit Procedure<sup>2</sup>.

### ***Sub-dimension 11.3: Sustainability***

North Macedonia has taken a number of steps to advance towards an **environmentally sustainable transport** system. The National Transport Strategy 2018-30 includes the objective of introducing green mobility and logistics focused on the environmental performance of the transport sector; the target is to reduce the greenhouse gas emissions from transport by 5% in 2025 and 7% in 2030. The NTS suggests that this target can be achieved through environmentally friendly and low-carbon transport measures, and by shifting freight and passenger transport from road to rail.

North Macedonia's National Energy and Climate Plan (NECP), developed in 2020 and adopted following revision in 2022, has a strong focus on decarbonising transport through measures focusing on electrification, the promotion of biofuels, and energy efficiency. The NECP plans to increase the share of renewables in transport to 10% by 2030 (up from a very low baseline of 0.1% in 2018), and aims to reduce transport's energy demand by 19% in the same timeframe.

The Energy Law implemented the provisions and obligations from the Third Energy Package of the EU regarding the Directive for Renewable Energy Sources and their use in transport. However, essential provisions regarding the use of biofuels have not yet been transposed. In 2021, the Ministry of Economy prepared a final draft text of the Law on biofuels in transport. The draft Law passed the public consultation process, but due to delays caused by COVID-19 and the energy crisis, its approval is still pending.

In 2021, the EBRD financed the construction of a new 10 kilometre-long motorway subsection from Skopje to Blace Interchange. This project catalyses the development of North Macedonia's electric vehicle fleet and charging infrastructure in the country. Building on these efforts, the EBRD is now also supporting North Macedonia with the development of a national e-mobility strategy and action plan for the deployment of electric vehicles (EV) and charging infrastructure. At this time EV penetration is progressing slowly, with only 0.02% of the car fleet being electric and 40 charging stations operating in the entire country (EBRD, 2022<sup>[15]</sup>). As mentioned above, in 2024, 88 kilometres of tracks between Kumanovo and the border with Bulgaria will be electrified (EBRD, 2023<sup>[5]</sup>).

North Macedonia does not have any stand-alone policy on **road safety**, as its previous road safety strategy expired in 2020. However, one of the main objectives of the National Transport Strategy 2018-30 is the safety of all transport modes. The draft Law on Road Safety includes the establishment of a high-level coordination body consisting of experts and the Road Safety Agency. The Agency will be responsible for drafting a new Road Safety Strategy. The Ministry of the Interior is the responsible body for collecting road safety data. The quality of collected data is improving but is still not fully compliant with the Common Accident Data Set (CADaS). Road deaths decreased by 6% in 2022, compared to 2019 and 2012 (Table 12.4). The mortality rate per one million inhabitants is slightly higher than the EU average.

**Table 12.4. Road safety in North Macedonia and the EU (2012-22)**

	Change 2012-22 (%)	Change 2019-22 (%)	Value 2022
Change in the number of road fatalities (MKD)	-6%	-6%	
Change in the number of road fatalities (EU)	-22%	-9%	
Number of fatalities per million inhabitants (MKD)			60
Number of fatalities per million inhabitants (EU)			46

Sources: European Commission (2023<sup>[6]</sup>). North Macedonia data – Information provided by the government for the *Competitiveness Outlook* assessment.

Rail infrastructure safety includes the implementation and improvement of signalling equipment on collision spots and of the security of level crossings. The draft of the new Railway System Law is finalised as well as the drafting of the Railway Safety Law and Interoperability Law.

The principle of mobility for all is included in North Macedonia's NTS, aiming to increase the inclusiveness of the transport system and ensure that it is just and fair. This principle serves as a crosscutting element of the strategy and aims to ensure the accessibility of transport to disadvantaged groups through both financial and physical means (such as refurbishment and adaptation of infrastructure).

Despite this crosscutting focus given to improving transport accessibility, the level of ambition and comprehensiveness of measures to attain this goal is limited. Moreover, due to the lack of monitoring and evaluation of the NTS, progress toward their implementation and their impact cannot be properly measured.

### Overview of implementation of Competitiveness Outlook 2021 recommendations

Overall, North Macedonia has made limited progress in following up on the Recommendations of the CO Assessment 2021 (Table 12.5). Since 2021, the economy has demonstrated progress in facilitating regional connectivity and enhancing transport sustainability. North Macedonia prepared the National Strategy for Intelligent Transport Systems (ITS) with 26 actions having clear budget allocation and timelines. While the Macedonian National Transport Strategy 2018-30 shows good intentions towards sustainability, safety and smart transport, there are no reports or evaluations available to assess the advancement of the plans. Governance reforms include aligning rail regulations with the EU and opening the rail market at the domestic level. North Macedonia needs to finalise adoption of the Law on Road Safety and establish the Road Safety Agency. It will then be possible to prepare a new Road Safety Strategy.

**Table 12.5. North Macedonia's progress on past recommendations for transport policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Develop a national centralised monitoring system	No reports or evaluation are available to assess the advancement of the plans in the NTS 2018-30.	None
Update the National Transport Strategy every four years	The strategy has not been updated since 2018.	None
Develop and tailor cost-benefit analysis guidelines specifically for North Macedonia	There are no national CBA guidelines developed for North Macedonia.	None
Develop a tool for project identification, selection, prioritisation and implementation	The Regulatory Impact Assessment is used for project selection. It is not specific to transport projects. The single project pipeline (SPP) has not been updated since 2018.	Limited
Ensure that transport facilitation remains a key priority	Several agreements have been signed and adopted to improve regional connectivity and enhance transport facilitation. While the practical progress of these agreements remains slow, their adoption suggests willingness and efforts to improve regional connectivity.	Moderate
Implement asset management principles in the transport sector in line with the national inventory system	The Road Asset Management System (RAMS) exists only for road. North Macedonia does not have asset management systems in place for other modes of transport. The Bridge Management System is currently under development.	Limited
Develop an integrated environment and transport action plan and a framework for environmental sustainability for the sector	North Macedonia adopted its revised NECP in 2022, which includes targets and measures to reduce the carbon footprint of the transport sector and improve its environmental sustainability. Several actions have been taken to enhance the sustainability of the transport sector. These include electrification of railways, use of renewable energy for public transport and incentives for EVs, to name a few.	Strong

## The way forward for transport policy

In order to implement key reforms that are holding back the potential of North Macedonia's transport sector and its successful future development, policy makers should:

- **Ensure proper monitoring and evaluation of the NTS and make use of the chance to keep the framework up to date.** The planned evaluation of the NTS, foreseen towards the end of 2024, is an opportunity to take stock of the strategy's implementation, identify main challenges and correct them for the next implementation period. This occasion also offers the opportunity to potentially update the strategy with new developments and policy considerations, which might be relevant given its long-term scope. Going forward, regular monitoring and evaluation practices should be ensured, and monitoring reports should be publicly available to enhance the credibility and accountability of the government's transport policy agenda for key stakeholders, such as donors and citizens.
- **Update the single project pipeline and reinforce its importance in the planning and project selection system.** North Macedonia should ensure that it regularly updates its SPP, including for transport infrastructure projects. The importance of the SPP as the main document identifying and planning for strategic transport infrastructure projects should be further reinforced.
- **Develop a tool for transport project selection.** Instead of relying on regulatory impact assessment, North Macedonia should develop and adopt a consistent framework for transport options generation and project selection that will feed projects under the SPP. The framework should assess the range of impacts – environmental, accessibility, connectivity, safety, economic, resilience, distributional/equity and social – of proposed transport infrastructure projects.

- **Establish asset management systems.** A systematic and well-documented asset management system is an integral component of the transport planning, identification, prioritisation, implementation and monitoring processes. The key objective of a well-developed asset management system should be to provide justification for the maintenance budget, and to help direct limited funds towards those areas where the return on investment will be greatest.
- **Develop national CBA guidelines for all transport modes.** A CBA allows for weighing the costs of a project versus its projected outcomes (positive impacts and externalities); it is frequently used for comparing options/alternatives and identifying the most beneficial and least costly ones. National guidelines can ensure that the proposed discount rates and relevant benchmarks are tailored to North Macedonia's own context and economic environment.
- **Ensure alignment and complementarity of measures for greening transport under different policy documents.** North Macedonia's NECP provides targets and measures to decarbonise transport and ensure its environmental sustainability. The evaluation and update of the NTS, which is an older document, should examine whether its measures are still relevant now that the NECP is in place. Such an assessment should seek to eliminate potential overlap between measures and ensure that measures implemented under the NECP and under the NTS are complementary.
- **Continue efforts to improve road safety,** chiefly through the adoption of a new Road Safety Strategy and the creation of a Road Safety Agency. Data collection on road safety can be further improved by adopting a safe system approach and developing safety performance indicators (Box 12.1).

### Box 12.1. Adopting the Safe System Approach and safety performance indicators for improved road safety

In the past decade, the International Transport Forum (ITF) has promoted the adoption of the Safe System Approach to road safety. This approach can drastically reduce road fatalities and is endorsed by the United Nations General Assembly. It now forms the basis for the new Global Plan for the Decade of Action on Road Safety 2021-30. The Safe System Approach is a proactive approach to road safety; it is preventive and predicated on the notion that people make mistakes and that these errors can result in traffic crashes. It seeks to identify and proactively address vulnerabilities in the transportation system in a holistic manner. Adopting the Safe System Approach is a concrete step that the WB6 economies can take to improve road safety outcomes.

The Safe System Approach requires road safety authorities to collect, analyse and use accurate road safety data and develop safety performance indicators (SPIs). The European Commission developed a list of SPIs with the correspondent methodology in the project baseline. These safety performance indicators are those related to driving behaviours, such as following speed limits, drunk driving, and seat belt usage. Indicators related to vehicles, infrastructure and trauma are also important. Road safety improvement can be further accelerated by identifying distinct at-risk user groups – or vulnerable user groups – and implementing safety performance indicators to improve road safety outcomes. The ITF report recommends SPIs, tailored for vulnerable road users such as pedestrians, cyclists, and motorcyclists. Implementing SPIs that are specific to these groups can help the WB6 economies advance on the Road Safety Action Plan goal of protecting Vulnerable Road Users.

Sources: ITF (2023<sup>[16]</sup>; 2022<sup>[17]</sup>).

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## Notes

<sup>1</sup> *Official Gazette of the Republic of Macedonia* No. 24/19, amended with *Official Gazette of the Republic of Macedonia* No. 87/21.

<sup>2</sup> The Convention on a Common Transit Procedure provides the legal framework setting out the obligations on traders and customs authorities for goods in customs transit from one contracting party to another. For more information. Please see: <https://customs.gov.mk/en-GB/pocetna/e-carina/nkts-5.nspj>.

# 13 Energy policy

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The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonization, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

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## Key findings

North Macedonia continues to have a largely well-aligned legal framework with the EU and Energy Community acquis. In the area of sustainability, it remains well positioned when it comes to renewable energy policy and energy efficiency but needs to enhance its efforts in decarbonisation and addressing energy poverty (Table 13.1). The go-live of the power exchange confirms North Macedonia's strong framework in the area of energy markets, but regional integration needs to be further enhanced.

**Table 13.1. North Macedonia's scores for energy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Energy	12.1: Governance and regulation			3.8	3.3
	12.2: Energy security			3.0	2.5
	12.3: Sustainability			3.4	2.8
	12.4: Energy markets			3.7	3.3
<b>North Macedonia's overall score</b>		<b>1.5</b>	<b>3.7</b>	<b>3.5</b>	<b>3.0</b>

The **key findings** are:

- North Macedonia was the first Western Balkan economy to adopt its National Energy and Climate Plan (NECP), in 2022. The NECP recognises renewable energy sources (RES) as a key driver of energy security and contains ambitious measures and targets for their development. The NECP also aims to bolster energy security by diversifying energy imports and improving regional interconnection capacity, especially for natural gas for which North Macedonia is entirely reliant on imports. To build on this positive momentum and complete the legal and policy framework for energy sector decarbonisation, key pieces of legislation such as the Law on Climate Action still need to be adopted.
- A day-ahead market for electricity in the bidding zone of North Macedonia has been deployed in May 2023 upon the appointment of a National Electricity Market Operator (MEMO). Moreover, MEMO has been designated by the government to perform the single day-ahead and/or intraday coupling.
- North Macedonia has transposed the Third Energy Package into its domestic legislation, and has made progress in developing amendments to advance on alignment with the Clean Energy Package. However, these key legislative updates have not yet been adopted. Moreover, the institutional capacities in the energy sector are underdeveloped and insufficiently equipped, which hampers the drafting, planning and implementation of energy legislation.

## State of play and key developments

### **Sub-dimension 12.1: Governance and regulation**

The National Energy and Climate Plan (NECP) of May 2022 marks a significant milestone in shaping **energy policy's legal and institutional framework** in North Macedonia. This was followed by substantial revisions to the Law on Energy in November 2022. These amendments align the Law on Energy with various pieces of EU legislation, including the Electricity Directive and Electricity Regulation, among others.

Despite those developments, North Macedonia has not fully transposed all elements of the Clean Energy Package or the Electricity Integration Package into its legal framework. However, efforts are under way to update the legal framework and advance on alignment with the *acquis*. Amendments to the Law on Energy Efficiency, a new Law on Energy and a new Law on Renewable Energy Sources have been developed. In general, all three legal texts are a step forward in alignment with the Clean Energy Package and the EU *acquis*; however, their adoption remains outstanding pending upcoming elections and the formation of a new government and parliament.

The full transposition of network codes and guidelines, including those of the Electricity Integration Package, is still pending. Some network codes have been partially adopted, such as the Forward Capacity Allocation and Guideline on Electricity Balancing. The recent amendments to the Law on Energy also include provisions from the cybersecurity network code.

Although the institutional framework is established, there is a clear need for additional resources and staff at the ministerial level to enhance the planning, drafting, and implementation of energy legislation. Moreover, the need for a coherent and co-ordinated energy policy became even more evident with the energy crisis, as also highlighted by the European Commission in its 2023 report on North Macedonia (European Commission, 2023<sup>[1]</sup>).

In terms of policy evaluation and performance assessment, there is ongoing data collection on key indicators related to the energy policy framework through various information systems and databases. However, there is a need for greater transparency regarding these indicators, especially in terms of their availability, regular collection, and updates.

The **Energy Regulator** of North Macedonia (ERC), while possessing adequate resources to perform its roles and tasks, could benefit from additional resources to alleviate occasional bottlenecks. The regulator's independence is legally enshrined, and ERC demonstrates that independence in its day-to-day operations (European Commission, 2023<sup>[1]</sup>). Nevertheless, there are areas where the ERC could see further improvement, notably in three key aspects.

Firstly, the ERC's ability to enforce regulatory measures is somewhat limited, as it can only bring cases to the Administrative Court. Secondly, ERC's financial independence is not fully ensured, which requires particular attention as a robust and independent financial status is crucial for any regulator to effectively carry out its duties. The ERC operates with its own budget, which it autonomously executes, although it is subject to parliamentary approval. The Energy Community Secretariat in its latest Implementation Report finds that the lack of annual budget approval by parliament in the previous years represents an obstacle to the ERC's financial autonomy (Energy Community Secretariat, 2023<sup>[2]</sup>). Finally, strengthening the regulator's institutional capacities remains a vital and ongoing task, especially considering the recent expansion of the ERC's responsibilities. With the latest amendments to the Law on Energy, the ERC has acquired new competencies for regulating waste management services. Additionally, the regulator is expected to undertake further roles and tasks in response to deeper regional integration in the future, and to the evolving nature of the energy *acquis*.

### ***Sub-dimension 12.2: Energy security***

In response to the energy crisis, the government swiftly declared a crisis in the electricity sector and adopted a range of emergency measures aimed at strengthening **crisis response and resilience**. To ensure preparedness for any future crisis, a structural process has been established that includes the formation of fast crisis reaction mechanisms and standing decision-making bodies, along with regular international co-ordination. Additionally, emergency plans are in place to address any temporary demand- or supply-side shocks.

To bolster security of supply, the Government Regulation on the Criteria and Conditions for Announcement of Crisis in the Electricity Supply, adopted in line with Article 14 of the Law on Energy, aims to enhance both resilience to future crises and emergency response capabilities. According to this Regulation and the Law on Energy, there is a requirement for the Transmission System Operator (TSO) and Distribution System Operator (DSO) to prepare emergency plans for energy crises. Work on transposing the Risk Preparedness Regulation is ongoing, as part of the new draft Law on Energy, which would mandate the Ministry of Economy to prepare a risk preparedness plan.

Regarding the management and maintenance of energy infrastructure, the Ten-Year Network Development Plan for the Period 2023-32 has been adopted by ERC. Yet, the implementation of investment projects often encounters delays due to budget constraints, permitting/licensing issues, or challenges with land purchase or usage rights.

In the context of **diversification of energy supply**, both the NECP and the Energy Strategy acknowledge renewable energy generation as a key driver of energy security. The NECP seeks to ensure energy security by supporting the growth of RES as well as diversifying import sources for natural gas, including through interconnection with neighbouring economies such as Albania, Serbia, Kosovo and Greece.

Regarding the natural gas supply framework, the Gas Storage Regulation and the Regulation on Measures to Safeguard the Security of Gas Supplies have not been transposed into national legislation. Currently, there are no emergency procedures in place for addressing temporary supply shortages, whether caused by supply restrictions or excessive demand, which is concerning considering North Macedonia's reliance on imported natural gas in its energy mix.

### ***Sub-dimension 12.3: Sustainability***

There have been some notable developments in the policy framework for **energy sector decarbonisation** in North Macedonia. While the NECP was adopted in May 2022 following extensive consultations with relevant stakeholders, the transposition of the Governance Regulation into the Energy Law has been only partial; this was primarily to create a legal basis for adoption of the NECP. Still, North Macedonia's proactive attitude in this area is worth highlighting, as it was the first economy in the Western Balkans to submit its draft NECP as early as June 2020, before such submission became binding under the Energy Community acquis.<sup>1</sup>

The Law on Climate Action is still in the drafting stage. Its adoption is necessary for the full transposition of the Governance Regulation and to establish a legal framework for the deployment of emission allowances, as well as for the monitoring and reporting of greenhouse gas (GHG) emissions by operators. In addition, the Greenhouse Gas Inventory, which has been prepared on a project basis, should be legally established with the adoption of the draft Law on Climate Action. Although there is currently no GHG pricing mechanism, the Energy Strategy until 2040 and the NECP anticipate the introduction of such a mechanism or a CO<sub>2</sub> tax in the medium term (2023-27). The government is seemingly committed to a pathway towards achieving climate neutrality by 2050, yet the 2050 target still needs to be formally integrated into the national legal and strategic framework. The adoption of a Just Transition Roadmap by the government in 2023 can also be regarded as an additional sign of the government's commitment to develop a

comprehensive approach towards climate neutrality, taking into account socio-economic impacts of the necessary reforms.

In terms of the implementation of the policy framework, competencies are divided between the Ministry of Economy and the Ministry of Environment and Physical Planning. There is a need for enhanced inter-institutional co-ordination to foster ownership among all institutions and to ensure optimal policy outcomes, particularly given the crosscutting nature of climate action and decarbonisation.

Concerning North Macedonia's **renewable energy policy** framework, it should be noted that the overall renewable energy target as specified in the NECP corresponds with the 2030 target established by the Energy Community. However, there is a need for alignment of the national legislation with the Clean Energy Package, specifically the revised Renewable Energy Directive.

Under the current legal regulations (as per the Decree on Measures Promoting RES), wind projects up to 50 MW (megawatt) and hydroelectric plants up to 10 MW still have access to administratively established feed-in tariffs (FIT), subject to available quotas. This is a general insufficiency, as such an approach is not in line with good practices following competitive procedures, and additionally is not in line with the Energy Community acquis.

Amendments to the Law on Energy to transfer the obligation for guarantees of origin from the Energy Agency to the market operator MEMO were adopted in November 2022. The national electronic registry for guarantees of origin in North Macedonia is established, and it awaits activation once the designated issuing body, MEMO, signs an agreement with the service provider.

Prosumers have been legally introduced in the Rulebook on Renewables (and the Law on Energy), but implementation faces several administrative obstacles. The Ministry of Economy published a public call in April 2023 for subsidising rooftop photovoltaic systems for household consumption. While North Macedonia did introduce a number of measures aimed at simplifying administrative processes and strengthening the role of prosumers over the past few years, the European Commission finds that the procedures for the installation of PV materials on buildings continue to be complicated and represent an obstacle to new investments (European Commission, 2023<sup>[3]</sup>).

The policy framework for **energy efficiency** in North Macedonia has seen some adjustments, particularly with the amendments to the Law on Energy Efficiency in November 2022. These amendments aimed to further harmonise the Law with other horizontal laws, including amendments to the Energy Law, and resulted in the postponement of the validation of licences and authorisations for energy audits until the new bylaws of the Law are published.

There is an evident need for a new Law on Energy Efficiency to align with the Clean Energy Package requirements and the amended Energy Efficiency Directive. This new law should address the remaining legislative gaps in North Macedonia concerning energy efficiency. A significant hindrance in the current state of affairs is that the secondary legislation for energy efficiency is not fully enacted, which impedes the implementation of existing legislation. To strengthen alignment with the Energy Community energy efficiency acquis and partially address this challenge, amendments to the Law on Energy Efficiency have been developed, but not yet adopted.

The legal framework necessary for the deployment of the Energy Efficiency Fund has not been established. Nonetheless, support schemes, including financial support such as subsidies for energy efficiency investments, are in place. To enhance the effectiveness of these measures, the institutional capacities for energy efficiency need to be further strengthened, primarily through the recruitment of additional staff. This step is crucial for facilitating the drafting of legislation without delays and ensuring a better enforcement record.

The Programme for the Protection of Vulnerable Energy Consumers serves as the primary policy framework for addressing **energy poverty** in North Macedonia. Despite the absence of a formal definition of energy poverty in the national legislation, as highlighted in the NECP, this programme does provide a definition of a vulnerable consumer. The NECP aims to introduce the term “energy poverty” into relevant legal acts in North Macedonia, and elaborates on protecting vulnerable customers from future price shocks.

Given that energy poverty is not yet a recognised term in the legislation, existing support schemes are currently focused on energy-vulnerable consumers. These consumers are protected through a decree and annual programmes adopted by the government. The system for protection of vulnerable customers has been further improved with the amendments of the Energy Law in 2022, as these established a stronger legal basis for a permanent framework for the support of vulnerable customers. The new draft Law on Energy also entails in its article 10 a definition of vulnerable customers and energy poverty.

A key design feature of the support schemes for energy-vulnerable consumers is the electricity bill subsidy, where they have a fixed amount deducted from their electricity bill. It is important to note that these measures are also linked to increasing energy efficiency and/or facilitating access for energy-vulnerable consumers to renewable energy sources.

### **Sub-dimension 12.4: Energy markets**

Following MEMO’s appointment as an operator of the organised electricity market, a day-ahead market for electricity in the bidding zone of North Macedonia has been established in May 2023. This marks a significant step in the area of **market operation** in North Macedonia. Establishment of the intraday market in North Macedonia is still pending. North Macedonia’s retail market is very well developed, receiving the highest score possible in the Energy Community Implementation Report (Energy Community Secretariat, 2023<sup>[2]</sup>). The well-advanced level of deregulation in North Macedonia is also illustrated by the development of market-driven household electricity prices, which have gradually been increasing over recent years (Table 13.2). This is apparent from the figure below, which shows a slight upward trend before the sharp spike induced by the energy crisis since 2022. Other key indicators such as the switching rates also attest to North Macedonia’s market’s competitiveness (Energy Community Regulatory Board, 2022<sup>[4]</sup>).

**Table 13.2. Electricity prices for household consumers in North Macedonia (2018-23)**

Consumption from 2500 to 4999 kilowatt-hours (kWh), all taxes and levies included in EUR

	2018	2019	2020	2021	2022	2023
Electricity price	0.0787	0.0790	0.0833	0.0840	0.1030	0.1053

Source: Eurostat (2023<sup>[5]</sup>).

The Rulebook on the procedure for following the functioning of the energy markets was adopted, marking the start of implementing the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT). Additionally, the EU Transparency Regulation has been fully transposed and largely implemented. Accordingly, North Macedonia regularly submits electricity data to the European Network of Transmission System Operators for Electricity (ENTSO-E) Transparency Platform.

Concerning **unbundling and third-party access rules**, differentiation is needed between the electricity and gas sectors (Box 13.1). In the natural gas sector of North Macedonia, the process of unbundling and certification, as stipulated by the Third Energy Package, is not yet complete. Third-party access to the natural gas infrastructure is in line with the EU *acquis* but transparency needs to be improved, as noted by the European Commission. This contrasts with the electricity sector, where unbundling and certification were successfully completed before January 2021. Moreover, access to and use of the system is based

on compliant and transparent tariffs as observed by the Energy Community Secretariat (Energy Community Secretariat, 2023<sup>[2]</sup>).

### Box 13.1. Unbundling as a fundamental basis for efficient energy markets

Unbundling refers to the separation of energy production, transmission, and distribution activities within the industry. This regulatory strategy aims to foster competition, enhance market efficiency, and improve service quality for consumers, and was already one of the cornerstones of the EU Third Energy Package. The essence of unbundling is to ensure that companies operating in the electricity and natural gas markets focus on specific segments of the value chain, thereby preventing vertical integration that could lead to monopolistic practices and inhibit market entry for new players.

The principles of unbundling are grounded in the desire to create a more competitive and integrated European electricity market. There are several forms of unbundling: ownership unbundling, where companies are required to have separate owners for production, transmission, and distribution operations; legal unbundling, which mandates the legal separation of these segments within a company; and functional unbundling, where operational and management activities must be independent, even if the company remains under a single ownership. Each of these models is designed to reduce conflicts of interest and ensure that the transmission and distribution networks operate in a non-discriminatory manner.

Unbundling is a fundamental principle for reforming the Western Balkan energy sectors, driving competition, efficiency, and innovation while also supporting broader policy objectives such as energy security, sustainability, and market integration. Its continued implementation and refinement are essential for achieving a resilient and future-proof energy system in the region.

Sources: Florence School of Regulation (2020<sup>[6]</sup>); European Commission (2010<sup>[7]</sup>); Mumovic (2018<sup>[8]</sup>).

In terms of legislative developments, the Law on the Settlement of the Dispute between the Government of the Republic of North Macedonia and Makpetrol Ad Skopje was adopted. This law facilitated a settlement that led to the merger of two state-owned TSOs, GAMA and National Energy Resources, into a new entity, NOMAGAS, a fully state-owned joint-stock company for the performance of energy activities, specifically the transmission of natural gas. An application for certification of the newly established company NOMAGAS was submitted to the Energy Community Secretariat in October 2023.

Regarding the gas distribution companies in North Macedonia, it is noteworthy that they have fewer than 100 000 customers – thus they are exempted from the requirements for unbundling.

To further strengthen **regional market integration**, it would be essential to fully transpose the Electricity Integration Package, including the required methodologies, into the national legislation in North Macedonia.

MEMO has been officially designated by the government to perform the single day-ahead and/or intraday coupling, and a notification of this designation was sent to the Energy Community Secretariat in June 2023. Despite these developments, there has been limited progress in the anticipated market coupling between North Macedonia and Bulgaria.

The amendments to the Law on Energy (*Official Gazette* 236/2022) provide further clarity on the roles of the Transmission System Operator (TSO) and MEMO, particularly concerning regional integration and market coupling with neighbouring markets. However, the transposition of the Capacity Allocation and Capacity Management (CACM) Regulation is only partial to date. According to Article 40 of the Energy Law, a foreign entity licensed or holding an appropriate document for trading or supplying electricity or

natural gas in an economy that is a contracting party in the Energy Community Treaty may engage in these activities in the Republic of North Macedonia. This is contingent upon the principle of reciprocity and requires a decision for entry in the Registry of foreign traders and suppliers of electricity and natural gas, maintained by the Energy Regulatory Commission. Essentially, reciprocity must be established by the national regulatory authority, after which mutual recognition of licences can be applied.

The regional capacity allocation platform Co-ordinated Auction Office in South East Europe (SEE CAO) is used for electricity trade with Kosovo and Greece. For trade with Bulgaria and Serbia, joint allocation rules, previously approved by the National Regulatory Authorities, are in effect. The Net Transfer Capacity is calculated according to a publicly available methodology.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia has made some additional progress in its transposition efforts but needs to focus on further transposition of the Clean Energy Package, the creation of markets, and working towards further regional integration (Table 13.3). Deficiencies remain in the area of adequate staffing of key institutions, and in the area of regional integration stronger efforts are also needed.

**Table 13.3. North Macedonia's progress on past recommendations for energy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Finalise the transposition and implementation of the Third Energy Package  Additionally, North Macedonia should consider starting to transpose the EU's Clean Energy Package	The transposition of the Third Energy Package has been finalised, though its implementation needs to be confirmed by completion of the unbundling of the gas transmission system in line with the requirements of the Third Energy Package. In addition, some of the implementing legislation in energy efficiency is still not enacted. North Macedonia has initiated its alignment with the Clean Energy Package, though considerable gaps in the legislation still exist, pending full adoption of the new Law on Energy and other key legislation.	Moderate
Expand human resources for key institutions	This is still pending and the need to strengthen the institutional capacities is even more pronounced upon the emergence of the energy crisis. Drafting and implementing of legislation is lagging behind due to insufficient human resources, especially in the area of energy efficiency.	Limited
Transform the Guarantee of Origin (GO) certification to allow more renewable energy generators to apply for it	An electronic system for issuing, transferring and cancellation of guarantees of origin is still not in place. The national electronic registry for guarantees of origin in North Macedonia was created and can be utilised as soon as the designated issuing body (MEMO) signs a direct agreement with the service provider. Upon signing the agreement, two or more Contracting Parties will be able to trade guarantees of origin through the regional system established by the service provider. This was supported under the regional project launched by the Energy Community Secretariat in January 2022.	Moderate
Deploy power exchanges for natural gas and electricity	Following MEMO's appointment as an operator of the organised electricity market, a day-ahead market for electricity in the bidding zone of North Macedonia has been established in May 2023. Moreover, MEMO has been designated by the government to perform the single day-ahead and/or intraday coupling. There is no progress concerning natural gas.	Moderate
Seek further market integration and market coupling	The amendments to the Law on Energy ( <i>Official Gazette</i> 236/2022) further clarify the role of the TSO and MEMO in relation to the regional integration and market coupling with the neighbouring markets. MEMO has been designated by the government to perform the single day-ahead and/or intraday coupling, and notification has been sent to the Energy Community Secretariat on 16 June 2023. Following this development, it is still expected the market coupling with Bulgaria will move forward. There are delays in the transposition of the Electricity Integration Package, both at national and regional level within the WB6, including the adoption of the required methodologies. This furthers slows down regional market integration.	Moderate

## The way forward for energy

While North Macedonia has made progress since the last Competitiveness Outlook in a number of areas, additional efforts are needed to close existing gaps and to further align with the EU and Energy Community acquis. The recommendations below provide an outlook on the main topics that, if tackled appropriately, would lead to a significant improvement of the Macedonian energy sector and its approximation efforts toward the applicable acquis.

- **Transpose the remaining elements from the Clean Energy Package.** Full alignment of primary as well as secondary legislation is needed to ensure proper enforcement. In this regard, adopting the draft legislation comprising the new Law on Energy, amendments to the Law on Energy Efficiency and the new Law on Renewable Energy Sources should be considered a priority. The currently noncompliant legal framework in the area of sustainability criteria for biofuels should also be revised. Additionally, transposing and implementing of the network codes will be of crucial importance not only in light of North Macedonia's obligations under the Energy Community Treaty but also given its enabling effect for further regional integration. Ensuring sufficient human, administrative and financial resources for full implementation of the Clean Energy Package's secondary legislation will be key in the medium term.
- **Finalise and adopt the Law on Climate Action.** This will enable North Macedonia to align with the relevant EU *acquis*, thus creating conditions for monitoring and reporting of GHG emissions by the relevant operators. This is of particular importance given that currently, North Macedonia lacks a legal framework for a national inventory system and has not yet implemented a proper reporting system.
- **Strengthen the capacity of the energy regulator.** By expanding its authority to directly issue penalties, the ERC would benefit from a more streamlined and efficient process to address noncompliance, enabling it to take quicker action and ensure adherence to regulations within the energy sector. Moreover, the regulator's human and financial resources need to be reinforced, especially considering its growing responsibilities.
- **Complete unbundling of the gas transmission system.** Full unbundling complemented by transposing the Gas Storage Regulation and the EU Regulation on measures to safeguard the security of gas supplies can further reduce the gas supply risks.
- **Ensure progress in regional market integration.** The transposition of the Electricity Integration Package into national legislation will strengthen the legal framework for regional integration. Additionally, the market coupling between the day-ahead markets of North Macedonia and Bulgaria should be accelerated.

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## Note

<sup>1</sup> Upon the adoption of the Clean Energy Package at the level of the Energy Community Ministerial Council in November 2021, <https://www.energy-community.org/news/Energy-Community-News/2021/11/30.html>

# 14 Environment policy

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A healthy and sustainable environment is crucial for economic competitiveness as it supports resource efficiency, enhances resilience to climate-related risks, fosters innovation, and attracts investments while mitigating environmental degradation and associated costs. The chapter analyses the robustness and comprehensiveness of environment policies across four sub-dimensions. The first sub-dimension, climate action, assesses strategies aimed at both mitigating and adapting to climate change. The second sub-dimension, circular economy, focuses on policies promoting waste minimisation, resource efficiency, as well as sustainable production and consumption. The third sub-dimension, protection of ecosystems, explores challenges in managing freshwater, biodiversity and forestry, as well as land-use. The fourth sub-dimension, depollution, analyses policies related to air quality, water supply and sanitation, and industrial risk management, paramount for enhancing competitiveness while ensuring environmental sustainability.

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## Key findings

North Macedonia's environment policy score has remained largely stable since the last Competitiveness Outlook and aligns with the regional average (Table 14.1). This is despite notable progress in developing a circular economy framework and strengthening climate change mitigation policies. However, the climate change adaptation framework is still in an early stage of development, and additional efforts are needed to enhance water and land use management.

**Table 14.1. North Macedonia's scores for environment policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Environment	13.1: Climate action			2.3	2.5
	13.2: Circular economy			2.0	2.2
	13.3: Protection of ecosystems			2.3	2.1
	13.4: Depollution			2.3	2.3
<b>North Macedonia's overall score</b>		<b>1.8</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>

The **key findings** are:

- North Macedonia has bolstered its climate change policy framework by adopting strategic documents that outline emission reduction targets until 2030 and projections until 2050. These documents also anticipate the phaseout of coal-fired power plants and the introduction of a carbon tax to meet the requirements of the EU's Carbon Border Adjustment Mechanism (CBAM). However, climate change adaptation has received comparatively less coverage, and there have been limited measures implemented to ensure preparedness and build resilience in the face of climate impacts.
- North Macedonia has undertaken the development of its Circular Economy Roadmap during the period 2023-24 with the involvement of a wide range of stakeholders, reflecting a commitment to strategic planning and development in this sphere. Simultaneously, circular economy considerations have gained prominence in waste and industry-related policies.
- While waste management remains an important challenge in North Macedonia, the revised legal and policy frameworks are expected to accelerate the circular transition by reducing waste production and increasing levels of reuse, recycling, and recovery of products.
- Ongoing efforts are under way to strengthen the protection of ecosystems, with specific initiatives focused on regulating freshwater, forestry, and biodiversity management. Despite these efforts, the framework for land use management remains unchanged and underdeveloped. Additionally, the monitoring of natural ecosystems remains limited, impeding the ability to make informed policy decisions regarding competitive uses of land and water.
- Air, water and soil pollution remain significant environmental challenges in North Macedonia. However, there are planned measures to address air quality issues through an improved policy framework and the modernisation of the monitoring network. Ongoing investments are dedicated to upgrading the water supply and sanitation system, and remediation efforts have been initiated for certain industrial contaminated sites.

## State of play and key developments

### **Sub-dimension 13.1: Climate action**

In the past decade, North Macedonia's greenhouse gas (GHG) emissions have fluctuated, ultimately rising by 1.3% from 2011 to 2019 (Eurostat, 2023<sup>[1]</sup>). The energy sector was the largest GHG emitter in 2019, responsible for 75.4% of emissions. Agriculture and industry followed, with 12.1% and 6.8% respectively (Republic of North Macedonia, 2023<sup>[2]</sup>). Energy consumption is still predominantly fossil fuel-based (84% in 2019) despite renewable energy's share doubling to about 14% since 1990. Facing significant climate change impacts, North Macedonia is particularly vulnerable to floods and wildfires, with an increasing frequency and severity of these events anticipated. The historical prevalence of flooding, coupled with the risks of landslides and wildfires, highlights the urgent need for enhanced climate adaptation and disaster preparedness. In particular, the anticipation of potentially damaging and life-threatening river and urban floods occurring at least once in the next decade emphasises the critical importance of proactive measures (IMF, 2024<sup>[3]</sup>).

North Macedonia has made substantial strides in strengthening its climate change framework, further aligning with the commitments set forth in the United Nations Framework Convention on Climate Change (UNFCCC) and the Green Agenda for the Western Balkans. The Long-Term Strategy on Climate Action and Action Plan and the revised Nationally Determined Contributions (NDC),<sup>1</sup> adopted in 2021, set a net GHG emissions target of 82% by 2030 compared to 1990 levels and projections until 2050. North Macedonia upholds its commitments under the UNFCCC, as evidenced by the submission of the Fourth National Communication on Climate Change in 2023, which includes the most recent GHG emissions inventory up to 2019. The Law on Climate Action, which is yet to be adopted, will transpose relevant EU directives<sup>2</sup> by regulating the mechanism for monitoring and reporting GHG emissions and removals by sinks and the permitting requirements for GHG emissions applicable to operators of stationary installations. Moreover, the law will consolidate co-ordination between relevant institutions and stakeholders, with the establishment of three bodies: the National Co-ordinating Council, the National Council for Sustainable Development and the Scientific Advisory Body. These bodies will provide guidance, opinion and recommendations for overall climate actions undertaken at the national level, with the aim of facilitating implementation and contributing to the integration of climate actions in sector policies, plans and measures. The framework is currently being implemented with the backing of a Global Environment Facility project, which primarily focuses on developing the “Transparency Platform for Monitoring, Reporting, and Verification of Climate Actions” and strengthening institutional and technical capacity in this regard. This platform aims to facilitate seamless co-ordination among government institutions on data sharing for regular reporting to the UNFCCC, EU, and Energy Community. Additionally, it will enhance the efficiency of monitoring climate actions outlined in the revised NDC.

In addition to the Long-Term Strategy on Climate Action, North Macedonia became the first economy in the Western Balkans to enhance its **climate change mitigation** efforts by adopting the National Energy and Climate Plan (NECP)<sup>3</sup> in 2022. The NECP document includes concrete targets for renewables and energy efficiency measures. It also foresees the phasing out of coal-fired power plants and the introduction of a carbon tax to comply with obligations of the EU's Carbon Border Adjustment Mechanism (CBAM).<sup>4</sup> Nevertheless, objectives to shut down all coal-fired thermal power plants, originally planned for 2027, have been postponed to 2030 to mitigate the effects of the energy crisis by reducing reliance on electricity imports. North Macedonia has continued to feed dated power plants by importing lignite coal and reactivating thermal power plants.<sup>5</sup> Nonetheless, in order to ensure a just and inclusive transition away from fossil fuels, North Macedonia developed the Roadmap for a Just Transition in 2023. This strategic plan incorporates measures promoting alternative energy sources, concurrently addressing the challenges faced by coal workers and vulnerable communities. The objective is to facilitate a smooth transition to environmentally sustainable practices while actively mitigating the social and economic impacts through the creation of new green jobs.<sup>6</sup>

While North Macedonia has made notable progress in developing a mitigation framework, its **climate change adaptation** and resilience framework lag behind. The Long-Term Strategy on Climate Action addresses adaptation considerations but to a lesser extent than mitigation measures, and the revised NDC lacks specific adaptation targets or a system of indicators for tracking adaptation measures. Additionally, the absence of established early warning systems leaves communities unprepared for climate-related hazards. However, the adaptation framework will be bolstered in the upcoming period with the drafting of the National Spatial Plan,<sup>7</sup> which will include adaptation measures and the National Adaptation Plan supported by the Green Climate Fund. The latter, still in its early stages of development at the time of writing, aims to incorporate both cross-sectoral and sector-specific adaptation actions, along with identified investment priorities for adaptation.

### ***Sub-dimension 13.2: Circular economy***

Shifting to a circular economy necessitates measures addressing the complete life cycle of products, from design and manufacturing to consumption, repair, reuse, recycling, and reintegrating resources into the economy. Currently, resource productivity remains low in North Macedonia (0.67 EUR/kg in 2021 compared to 2.26 EUR/kg in the EU) (Eurostat, 2022<sub>[4]</sub>). The adoption of circular practices remains limited though gradually picking up pace, involving various stakeholders, primarily civil society organisations and academia, in diverse activities and initiatives. However, the efforts currently lack co-ordination, primarily concentrating on waste management and awareness-raising measures. Nonetheless, concepts envisaging **sustainable resource use, consumption, and production** have been increasingly mainstreamed in policy documents across different sectors, namely the National Plan for Waste Management (2021-31) and the National Waste Prevention Plan (2022-28), the Long-Term Strategy on Climate Action, and the newly adopted Smart Specialisation Strategy.<sup>8</sup> Commitment to North Macedonia's transition to a circular economy has been backed by the government, notably as part of its strategic priorities for 2024<sup>9</sup> and with the development of the overarching roadmap toward a circular economy, undertaken with the support of the OECD. The roadmap was developed with the involvement of a wide range of stakeholders from all parts of society (relevant authorities, academia, civil society, the private sector, international organisations), with a view to ensure synergies between existing policy measures and initiatives (Box 14.1).

### Box 14.1. Roadmap Towards a Circular Economy in North Macedonia

Within the framework of the “Supporting Green Transition through Circular Economy Roadmaps” project, the Ministry of Economy, in collaboration with the OECD, has developed a Circular Economy Roadmap. The roadmap's design process comprised the following key pillars:

- *Co-ordination mechanism*: nomination of a Circular Economy co-ordinator and formation of a working group, incorporating stakeholders from relevant government institutions, academia, civil society, and the private sector. The Circular Economy Working Group was consulted throughout the entire design process.
- *Diagnostics*: development of a diagnostic report assessing the current state of the circular economy in North Macedonia, outlining key economic features, recent circular economy and environmental trends, ongoing initiatives, projects, critical sectors, and horizontal policy areas addressing barriers to the circular economy.
- *Prioritisation*: meetings and consultations held to pinpoint priority areas for inclusion in the roadmap. Of the 11 identified potential priorities<sup>10</sup> for the transition to a circular economy, North Macedonia has chosen 5 priority areas for which the OECD provided more in-depth analysis and recommendations.

The roadmap, published in March 2024 addresses five priority areas:

1. *Circular business models for SMEs*, which represent fundamentally different ways of producing and consuming goods and services from the traditional linear business models. They aim to reduce the extraction and use of materials, minimise waste generation, and use existing materials and products as inputs to production through reuse and recycling.
2. *Construction*, which is among the biggest consumers of energy and raw materials worldwide and an important economy sector in North Macedonia. The circular economy offers several opportunities for transforming the construction sector into a more sustainable industry with lower environmental impacts throughout the life cycle (production, design, manufacturing, use of buildings and end-of-life).
3. *Biomass and food*, with a focus on circular bioeconomy, encompassing economic activities in which biotechnology contributes centrally to primary production and industry. It also includes residues and “bio-waste” generated at different stages of the agricultural and forestry supply chains as well as waste from processing, consumption and bioenergy production stages.
4. *Textiles*, which create environmental impacts throughout their life cycle and are the second biggest industrial sector in North Macedonia. Circular potential in the economy mainly lies in sustainable textile production processes (manufacturing, treatment and dyeing) and waste reduction in fabric usage during the production of textile products.
5. *Mining and metallurgy*, which provide key materials central to the circular economy transition. Circular initiatives in the sector include circular supply and use of the physical infrastructure, equipment and assets of a mining and processing company, and circular management of resources that are extracted and used in mining and processing operations.

Each priority area contains between seven and ten recommendations, organised as short, medium and long term, and relevant good practice examples, accompanied by monitoring indicators.

Source: OECD (2024<sup>[5]</sup>).

More than 80% of the population in North Macedonia was served by waste collection services in 2022, mainly in urban areas. Despite increasing from 72% in 2008 to 83% in 2022, the figure falls short of the EU average of 98%, and did not attain the government's target of 90% by 2020 (MAKSTAT, 2022<sup>[6]</sup>) (Eurostat, 2023<sup>[7]</sup>). Waste disposal to landfills – often unsanitary – remains common practice in North Macedonia, though the process for closing non-standard landfills has commenced in some regions. Recycling rates remain extremely low (0.3%) and waste separation at source has remained limited (Eurostat, 2021<sup>[8]</sup>). While implementation of the National Waste Management Strategy (2008-20) has been limited mainly due to insufficient administrative and financial resources and lack of ownership (EEA, 2021<sup>[9]</sup>), the **waste management** legal and policy frameworks have been revised since then to include concrete objectives and targets. The Law on Waste Management and relevant bylaws<sup>11</sup> were adopted in 2021, further transposing the EU Waste Framework Directive and the Landfill Directive as well and regulating extended producer responsibility (EPR) schemes. Moreover, concrete objectives and targets have been set through the National Plan for Waste Management (2021-31) and National Plan for Waste Prevention (2022-28), which are expected to accelerate the circular transition by reducing waste production and increasing levels of reuse, recycling, and recovery of products. Since the law's adoption, North Macedonia has established seven EPR schemes and others are planned to be established in 2024. However, progress is currently tangible only in the packaging waste scheme, with a recycling rate of 40% observed in 2021. While the EU Single-Use Plastics Directive<sup>12</sup> has not been transposed in North Macedonia, the government banned single-use packaging and plastics in public procurement as of 2020, acknowledging the challenges posed by plastic pollution in North Macedonia's environment. In this regard, a rulebook on managing plastic packaging bags placed on the market was adopted in 2021 (MoEPP, 2021<sup>[10]</sup>). Although there have been positive strides in enhancing the waste management framework, there is a need for further efforts to improve data accuracy on waste generation and management. The current reliance on estimations, caused by the lack of weighing equipment at treatment facilities, hampers the effective implementation and monitoring of policies.

### ***Sub-dimension 13.3: Protection of ecosystems***

Renewable internal freshwater resources per capita in North Macedonia amounted to 2 606 m<sup>3</sup> in 2020, slightly below the EU average (3 037 m<sup>3</sup>) (World Bank, 2023<sup>[11]</sup>). In 2020, North Macedonia's Water Exploitation Index<sup>13</sup> was 2.9%, signifying the absence of significant water scarcity conditions. However, the index has showed notable fluctuations in recent years, peaking at nearly 66% in 2014, underscoring the economy's vulnerability to water stress and drought. In 2022, the majority of water was used by households (63%) followed by the industry sector (24%), mainly for cooling in electric power generation (MAKSTAT, 2023<sup>[12]</sup>). Anticipating the significant impact of climate change on **freshwater management**, with altered precipitation patterns and more frequent intense droughts, it is crucial to establish a robust framework to effectively address these challenges. North Macedonia's legal framework was improved with new regulations overseeing water monitoring and the determination of protective zones and wastewater discharges,<sup>14</sup> while the policy framework remains largely similar to that in 2021. The National Water Strategy (2012-42) remains the governing document for freshwater management, but its implementation remains limited, and there is no established monitoring mechanism in place. Furthermore, although three River Basin Management Plans were adopted in 2016,<sup>15</sup> two of them have expired without revision, and the operationalisation of river basin councils has not taken place, hindering their effective enforcement. There is no official national water information system collecting data on water quality and quantity, impeding informed policy decisions about competitive use of water and tradeoffs across sectors. However, water information is planned to be integrated within the framework of the National Environmental System managed by the Macedonian Information Centre. The system was enabled in 2022 and progressing as planned for data entry at the time of writing. Moreover, the groundwater cadastre, which aims to better manage and report on groundwater resources, is in the final stage of development but had yet to be adopted at the time of writing.

Significant steps are being undertaken to strengthen the **biodiversity and forestry framework** in North Macedonia. The revised Law on Nature, foreseen to be adopted in the end of 2024, will further transpose EU Habitats and EU Birds Directives; its objective is to safeguard biological and landscape diversity, encompassing planning both within and outside protected areas. Moreover, the draft CITES<sup>16</sup> Law regulating transboundary movement and trade with wild species, also planned for 2024, is in full accordance with the EU wildlife trade regime. The National Strategy for Nature Protection and its Action Plan (2017-27) and the National Biodiversity Strategy and Action Plan (2018-23) have been implemented in the assessed period. This implementation involved the designation of new protected areas and natural rarities accompanied by management plans (four for protected areas and ten for rarities) and the preparation of a National Red List for different species classes, among other activities conducted.<sup>17</sup> Nevertheless, while the share of protected areas has increased from 11.8% to 13.9% between 2020 and 2023, the lack of sustainable financing and of administrative capacity to manage protected areas remains a challenge. Moreover, biodiversity's conditions are not systemically monitored, with the last inventory dating from 1979, and the National Biodiversity Information System developed with the support of UNDP has yet to be operationalised.

In 2021, North Macedonia's land area covered by forests was 39.7%, a figure close to the EU's 39.9% (World Bank, 2023<sub>[13]</sub>). This share has been rising in the past decade thanks to ongoing afforestation initiatives, influenced by North Macedonia's commitment to restoring and afforesting 15 000 hectares of land, as a key component of its revised Strategy for Sustainable Development of Forestry, in line with the objectives of the UN Decade for Ecosystem Restoration.<sup>18</sup> The revised strategy is expected to be adopted in the second half of 2024, along with the revised Law on Forests, regulating forest planning, administration and management (including financing of forests). Reforms of the forestry framework are receiving support from an EU-funded project initiated in 2023.<sup>19</sup> As part of this initiative, co-ordination among pertinent institutions and stakeholders has been reinforced through the creation of decision making and technical working groups focused on forestry. While identification of forests with high natural values has been conducted in the initial phase of the project, an overarching forest inventory has yet to be conducted in order to ensure the protection of biological diversity.

North Macedonia still lacks an overarching **land use management** framework. Until 2020, spatial planning was governed by the Law on Spatial and Urban Planning and the Law on Implementation of the Spatial Plan. However, the enactment of the Law on Urban Planning in 2020, which excludes spatial planning, led to a legal void in this regard. Nonetheless, at the time of writing, the National Spatial Plan was in the process of preparation. A working group, comprising all relevant government and non-government stakeholders,<sup>20</sup> convened for the first time in 2022 to initiate its development. This plan will encompass separate spatial plans for regions, municipalities (including the city of Skopje), and areas of public interest for the state. Moreover, the revised National Strategy on Land Consolidation (2022-30), also under preparation and supported by an EU-funded project,<sup>21</sup> will aim to foster greater efficiency and resilience of the agricultural sector. The long-term National Development Strategy (2024-44), in the development process at the time of writing, is also expected to include spatial planning and equal regional development considerations in its priorities (National Development Strategy, 2024<sub>[14]</sub>). Since the last assessment, no measures to combat soil erosion, restore degraded land, or limit urban sprawl into green areas have been conducted. Additionally, key indicators pertaining to land use management are not regularly collected, and there is a lack of georeferencing and harmonisation across government entities, including property tax and forest management.

### ***Sub-dimension 13.4: Depollution***

Air pollution remains one of the most pressing environmental challenges in North Macedonia, with annual average concentrations of fine particulate matter (PM<sub>2.5</sub>) reaching 22.3 µg/m<sup>3</sup> (microgrammes per cubic metre) in 2021, the highest share in the Western Balkans and more than four times higher than WHO-recommended levels of 5 µg/m<sup>3</sup> (EEA, 2023<sub>[15]</sub>). Air pollution is predominantly caused by the



combustion of energy (mainly from lignite coal), industries, inadequately regulated vehicles, and the burning of outdoor waste and domestic heating. Promisingly, North Macedonia is strengthening its **air quality** policy framework to mitigate air pollution and associated health and environmental impacts through the development of the National Plan for the Protection of Ambient Air 2024-28. Furthermore, following the mid-2021 amendments to the Law on Ambient Air Quality, which outlines government competencies and local-level procedures for the preparation and adoption of air quality plans, several local air quality plans have been adopted. The plans are tailored to address specific local circumstances, targeting specific pollutants or sources of pollution through regulatory measures, public awareness campaigns, and targeted interventions, with the latest examples being the cities of Kumanovo in 2022 and Gostivar in 2023. Support for the design of such plans has been provided to local self-government units through several training courses.<sup>22</sup> The Draft Law on Industrial Emissions, which has been developed but has yet to be adopted, will also regulate emissions from industrial facilities, including power plants, in line with relevant EU Directives. Municipalities have successfully undertaken efforts to implement measures aimed at enhancing air quality, such as campaigns to raise public awareness on air pollution<sup>23</sup> and programmes proposing subsidies for energy efficiency and air filters.<sup>24</sup> Moreover, the air quality-monitoring network has been modernised and four new monitoring stations have been installed.<sup>25</sup> Obsolete measuring instruments have been replaced and new PM<sub>2.5</sub> instruments were installed on each urban monitoring station.

Untreated sewage and wastewater stand out as primary contributors to water pollution in North Macedonia. Around 80% of North Macedonia's population used a safely managed drinking water service in 2022; 80.8% was connected to piped sewers and only 5% of domestic wastewater was safely treated (UN Water, 2023<sub>[16]</sub>). To address these challenges, the economy plans to upgrade its **water supply and sanitation** services, particularly with the adoption of the water management programme in 2023. The programme outlines plans for designing and constructing new public facilities for water supply, as well as maintaining and improving existing ones, with a focus on regulating watercourses. Additionally, there are plans for new investments in water infrastructure to address the absence of urban sewage treatment plants, which currently results in significant volumes of untreated wastewater being released into the environment. Specifically, agreements have been signed for the construction of wastewater treatment plants in the cities of Skopje and Tetovo, as well as sewerage networks in Kicevo and Bitola, with additional projects currently being developed.<sup>26</sup> It is recommended that these investments facilitate the effective monitoring of discharged wastewater in municipal sewerage systems. Moreover, further efforts are needed to reduce shares of non-revenue water, which remain high (62%) with no concrete policies addressing this issue (Energy and Water Services Regulatory Commission of North Macedonia, 2023<sub>[17]</sub>). While there are existing limitations in institutional capacities to enforce new measures and address underlying challenges, support provided as part of the UNECE-WHO Protocol on Water and Health, which North Macedonia ratified in 2023, can assist water authorities. This support includes enhancing capacity building through providing advice for regulatory adoption, facilitating cross-country exchange, and offering technical assistance (UNECE, 2024<sub>[18]</sub>).

Moderate progress has been made in strengthening the **industrial risk management** framework in North Macedonia. The adoption of the Law on Industrial Emissions, which intends to regulate emissions from large combustion plants, waste incineration facilities, and installations using organic solvents, is pending. Additionally, there have been no advancements in integrated permitting. In the field of chemicals, North Macedonia has not established an official register of chemicals, and there is no mechanism in place to identify new chemical substances. Some strides have been made in aligning with the SEVESO III Directive<sup>27</sup> in North Macedonia's Law on Environment, which was amended in 2022 to include provisions for emergency plans related to industrial accidents. These amendments also introduce new measures for soil protection, encompassing the identification and management of contaminated areas. The recently adopted National Plan for Waste Management (2021-31) and National Waste Prevention Plan (2022-28) also include measures to enhance the remediation of contaminated areas with hazardous waste and promote the use of safer alternatives. Noteworthy projects in this regard include the operationalisation of the wastewater treatment plant in Jegunovce<sup>28</sup> and the cleanup of a toxic landfill site<sup>29</sup> in Skopje. Despite

these efforts, apart from ad hoc projects there is a lack of systematic data collection on contaminated sites. This deficiency hampers the identification of potential health risks associated with such sites and impedes the implementation of systemic remediation measures.

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress on implementing past CO recommendations has been moderate. Table 14.2 shows the economy's progress on implementing past recommendations for environment policy.

**Table 14.2. North Macedonia's progress on past recommendations for environment policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Involve all stakeholders in making the implementation of a circular economy a reality	North Macedonia has developed a roadmap for the circular economy, with the support of the OECD. The Ministry of Economy has taken the lead and was supported by a working group consisting of stakeholders from all parts of society (relevant ministries, civil society organisations, academia and the private sector). The working group has been involved in all processes to develop the circular economy roadmap.	Strong
Improve the wastewater system	A large share of wastewater remains discharged without prior treatment. Most bigger cities still have no treatment plants, which is why wastewater is either discharged into sewer pits, septic tanks and cesspools, or discharged directly into fields or streams. The lack of funding for the water supply and sanitation system has been addressed: agreements have been signed for the construction of wastewater treatment plants in Skopje and Tetovo, as well as sewerage networks in Kicevo and Bitola. Moreover, within the framework of IPA III, two large WWTP projects are proposed. It is further planned to conclude an agreement for a loan from the EIB in the amount of EUR 50 million, for a water supply and sewerage network for all municipalities in North Macedonia, so that smaller and rural municipalities can benefit from financial resources to improve services to their citizens.	Moderate

## The way forward for environment policy

Despite taking important steps to strengthen its environment policy framework, in particular in the areas of climate change mitigation and circular economy, North Macedonia could consider the following improvements:

- **Strengthen the climate change adaptation framework and ensure the capacity for its implementation.** While progress has been achieved in developing the overarching climate change framework, there is a need to enhance the inclusion of adaptation measures compared to mitigation ones. To enhance community resilience and mitigate disaster impacts, North Macedonia should conduct a Disaster Risk Assessment, aligning with the Sendai Framework for Disaster Risk Reduction 2015-30 (UNDRR, 2015<sup>[19]</sup>). This assessment should analyse priority risk groups and evaluate the technical, administrative, and financial capacities of the state to respond to disasters. It should also serve as a catalyst for fortifying early warning systems, particularly for hydrometeorological hazards like floods, droughts, and forest fires, to which North Macedonia is particularly vulnerable. Special attention should also be given to improving climate risk data and projections to ensure an evidence-based approach to policy decisions.

- **Focus on raising awareness on the circular economy and circular business models through communication campaigns and capacity-building programmes, including showcasing of good practices and access-to-finance possibilities.** North Macedonia should seize the momentum of its recent progress in developing a roadmap toward a circular economy by proactively enhancing stakeholder awareness, especially among businesses. Such activities could be conducted by the Agency for Promotion of Entrepreneurship of the Republic of North Macedonia (APPRM), which is responsible for the public provision of business support services, ranging from training, education initiatives, vouchers and co-financing to consulting services and tailored mentoring; or the Fund for Innovation and Technological Development (FITD), which introduced its own support mechanism for SMEs, providing both financial support and technical assistance. The Development Bank of North Macedonia, which already provides credit relief in the form of subsidised SME credit lines, including support from international co-operation development partners, could also step up awareness campaigns on available access-to-finance opportunities. Moreover, the creation of an ecosystem of creators and innovations in communities, regions and at the national level could also be supported to promote education and capacity building on circular business models, particularly in the sectors of construction, biomass and food, textiles, and mining/metallurgy, chosen as key priorities for the transition to a circular economy in North Macedonia (OECD, 2024<sup>[5]</sup>).
- **Improve water resource management by addressing high water losses from the water supply and sanitation system to effectively enhance resilience and manage present and future competitive uses for water.** Water scarcity is an important challenge for North Macedonia and is likely to become more pressing, as the impacts of climate change will alter the availability of and demand for water. Water service providers currently face competing pressures for water resources from households, industry, and agriculture, highlighting the importance of efficient water management practices to ensure adequate water availability for all sectors. In order to handle these competitive uses, North Macedonia will need to address the significant shares of non-revenue water from its systems (62%). In order to follow the EU Drinking Water Directive recast (2020) which addresses the issue of water leakage, North Macedonia needs to assess the leakage level nationwide and at least for drinking water suppliers serving more than 50 000 inhabitants (EUR-Lex, 2020<sup>[20]</sup>). Such assessment could be based on an internationally established index such as the Infrastructure Leakage Index, based on water balance calculations (Table 14.3). Considering North Macedonia's high non-revenue water levels, an action plan could also be developed to reduce losses. The action plan could follow good practice examples from training delivered from the International Water Association (International Water Association, 2024<sup>[21]</sup>) or the Roadmap to non-revenue water reduction and management developed by the Boosting Effectiveness of Water Operators' Partnerships (BEWOP) initiative (BEWOP, 2023<sup>[22]</sup>).
- **Adopt the National Spatial Plan as a guiding land use policy framework and strengthen institutional co-ordination among the different ministries responsible for land use issues** related to climate, biodiversity, agriculture, both horizontally (at national level) and vertically (between different levels of government) to achieve a more holistic governance of land use. The land use nexus involves multiple issues and affects multiple actors from both the public and private sectors, and requires a whole-of-government approach to co-ordinate policies across all relevant stakeholders, which North Macedonia currently lacks. One good practice example that provides such co-ordination is the Austrian Conference on Spatial Planning (Box 14.2).

**Table 14.3. Determining non-revenue water based on water balance calculations**

System input volume	Authorised consumption	Billed authorised consumption	Billed metered consumption (including water exported)	Revenue water	
			Billed unmetered consumption		
	Water losses	Unbilled authorised consumption		Unbilled metered consumption	Non-revenue water
				Unbilled unmetered consumption	
		Apparent losses (commercial losses)		Unauthorised consumption	
				Metering inaccuracies	
Real losses (physical losses)		Leakage in transmission and/or distribution lines			
		Leakage and overflows at utility's storage tanks			
		Leakage in service connections up to the measuring point			

Source: BEWOP (2023<sup>[22]</sup>).

### Box 14.2. Enhancing land use co-ordination with the Austrian Conference on Spatial Planning

The Austrian Conference on Spatial Planning (ÖROK, Österreichische Raumordnungskonferenz) is an organisation dedicated to co-ordinating spatial planning policies between the three levels of government in Austria (the national level, the states and the municipalities). Its decision-making body is chaired by the federal chancellor and its members include all federal ministers, the heads of all federated states and representatives of associations of local governments. Furthermore, business and labour organisations are represented on the body as consulting members. The work of the decision-making body is supported by a permanent secretariat with a staff of approximately 25-30.

One of the central tasks of the ÖROK is the preparation of the Austrian Spatial Development Concept (ÖREK, Österreichisches Raumentwicklungskonzept). The current Austrian Spatial Development Concept ("ÖREK 2030") was published in 2021 and covers a planning period of around ten years. Guided by the key theme of "Need for Transformation", it is a strategic instrument for overall spatial development in Austria. Beyond the preparation of the Spatial Development Concept, the ÖROK also monitors spatial development across Austria. It has developed an online tool that provides a mapping function of a variety of important indicators at the municipal and regional level and releases a report on the state of spatial development every three years.

The ÖROK is also the co-ordinating body for structural funds provided by the European Union. It manages the integration of structural funds into broader spatial strategies and was directly responsible for the programming work related to 1 of the 11 Thematic Objectives of the programming period 2014-20. The ÖROK also serves as National Contact Point within the framework of European Territorial Cooperation.

Sources: OECD (2017<sup>[23]</sup>); ÖROK (2024<sup>[24]</sup>).

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## Notes

<sup>1</sup> The Nationally Determined Contribution is a climate Action Plan to cut emissions and adapt to climate impacts. Each Party to the Paris Agreement is required to establish an NDC and update it every five years.

<sup>2</sup> More information at [https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/monitoring-reporting-and-verification-eu-ets-emissions\\_en](https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/monitoring-reporting-and-verification-eu-ets-emissions_en).

<sup>3</sup> The National Energy and Climate Plans are plans outlining pathways towards achieving national 2030 energy and climate targets. They play a pivotal role in shaping the transition of the energy sector toward decarbonisation and sustainability (Ministry of Finance, 2022<sup>[25]</sup>).

<sup>4</sup> The Carbon Border Adjustment Mechanism is expected to become operational in 2026 and gradually apply to a selected number of goods with a high risk of carbon leakage (iron and steel, cement, fertiliser, aluminium, and electricity generation). As EU importers will buy carbon certificates corresponding to the carbon price that would have been paid had the goods been produced under the European Union's carbon pricing rules, non-EU producers, such as North Macedonia, will be encouraged to green their processes and lower production-related emissions.

<sup>5</sup> North Macedonia launched negotiations to buy 3 million tonnes of lignite from Kosovo at the end of 2022. In this regard, the smaller coal power plant Oslomej was reactivated in 2021 after being dormant through 2020, and the Negotino fuel oil-fired power plant was reactivated after not being in use for 12 years.

<sup>6</sup> The Roadmap for a Just Transition is composed of four pillars: the path for clean energy (modernisation and development of the energy sector), the path for private investment and start-up support, the path for green and smart infrastructure, and the skills development path.

<sup>7</sup> The first working meeting of the co-ordinating body for the development of the new Spatial Plan was held in April 2022.

<sup>8</sup> The strategy includes four vertical priority areas: 1) smart agriculture and food with higher added value; 2) information and communications technologies (ICT); 3) electro-mechanical industry – industry 4.0; and 4) sustainable materials and smart buildings. Energy and tourism were also identified as horizontal priority domains. The transition to a green and circular economy is envisaged in all sectors, and in particular through: the reuse of agricultural waste to turn it into high added-value material; the application of new technological innovations in the electro-mechanical industry; more efficient use of natural resources in the production of construction materials and development of smart buildings, especially through their extraction and the development of innovative technologies enabling the production of construction materials from industrial waste; and developing the sustainable energy sector by using renewable energy sources, including biomass and biogas.

<sup>9</sup> "Supporting the industry for investments in the development of innovations for a circular and green economy and internationalisation of markets" is stated as one of the key goals of the Decision of the Government on Determining the Strategic Priorities of the Government in 2024.

<sup>10</sup> These included construction, textiles, mining, automotive, wood industry, municipal waste management, plastics, biomass and food, circular business models for small and medium-sized enterprises, economic instruments and awareness raising and education.

<sup>11</sup> These include the Law on Management of Batteries and Accumulators and Waste from Batteries and Accumulators, the Law on Management of Electrical and Electronic Equipment and Waste from Electrical and Electronic Equipment (WEEE), the Law on Packaging and Packaging Waste Management, the Law on Additional Waste Flow Management and the Law on Extended Producer Responsibility (EPR).

<sup>12</sup> From 2021, single-use plastic plates, cutlery, straws, balloon sticks and cotton buds cannot be placed on the markets of the EU Member States. In addition, the same measure applies to cups, food and beverage containers made of expanded polystyrene, and all products made of oxo-degradable plastic.

<sup>13</sup> The Water Exploitation Index (WEI) in a country is the mean annual total demand for freshwater divided by the long-term average freshwater resources. An index of over 20% usually indicates water scarcity.

<sup>14</sup> Two regulations were adopted:

- In 2022, the Methodology for determining the parameters for measuring and monitoring the quality and quantity of all water bodies was adopted.
- The Decision on the determination of protective zones for the protection of waters for the "Rashche" water catchment facility, protection measures, conditions, method of establishing the protective zones and cartographic display was adopted in 2021; and the Decision on the determination of protective zones for the protection of the waters of the water basin "Studenčica" source, protection measures, conditions, the way of formation of the protective zones and a cartographic display was adopted in 2023.

<sup>15</sup> Water Monitoring Programme Vardar River Basin 2016-21, Strumica River Basin Management Plan 2016-27 and Prespa Lake Basin Management Plan 2016-21.

<sup>16</sup> Convention on International Trade in Endangered Species of Wild Fauna and Flora.

<sup>17</sup> Other activities conducted include the establishment of a concept for ecosystem services at the national level, the development of a National Reference List in accordance with the EU Habitats and Birds Directive, and the identification of 12 potential Natura 2000 areas, covering around 7% of national territory. Moreover, basic ecosystems and ecosystem services were mapped at the national level as part of the Nature Conservation Programme (2012-20) and developed as part of a project of the Swiss Agency for Development and Cooperation, with the intention to promote the sustainable use and management of biodiversity and forestry in North Macedonia.

<sup>18</sup> The United Nations Decade on Ecosystem Restoration is a global initiative aimed at preventing, halting, and reversing the degradation of ecosystems worldwide. The United Nations General Assembly declared 2021-30 as the UN Decade on Ecosystem Restoration with the goal of promoting and scaling up efforts to restore ecosystems such as forests, wetlands, and agricultural lands.

<sup>19</sup> "Support to Forestry Reforms in North Macedonia", financed by the EU and implemented by the Ministry of Environment and Physical Planning.

<sup>20</sup> Key stakeholders involved in the development of the National Spatial Plan include the government of North Macedonia, which leads the policy of spatial development; planning regions; ministries in charge of separate departments that are subject to strategic planning; local self-government units and the City of Skopje; other relevant institutions that make their own contribution to the creation and implementation of strategic planning documents or provide an appropriate database; scientific educational institutions; and civil society organisations.

<sup>21</sup> "Enhancing Land Consolidation in North Macedonia", co-funded by the Food and Agriculture Organization of the United Nations (FAO) and implemented in close co-operation with the Ministry of Agriculture, Forestry and Water Economy.



<sup>22</sup> For instance, the Macedonian Center for Climate Change organised a two-day training course in March 2022 as part of the project on "The impact of air pollution on human health" to present the recent amendments to the Law on Ambient Air Quality to the municipality of Bitola and discuss obligations for the preparation and implementation of air quality plans.

<sup>23</sup> Since January 2022, the MoEPP has been running the air quality campaign "Warm Recommendations", which informs the public about correct firewood use during the heating season. Social media accounts have been created as part of the joint campaign on air quality between the Swedish Environmental Protection Agency, the Ministry of Environment and Spatial Planning, and the Embassy of Sweden in Skopje.

<sup>24</sup> More specifically, subsidies for inverters were awarded to citizens in Skopje through a public call. In the city of Strumica, street lightning is continuously becoming more energy-efficient. In the Centar municipality, window filters are installed in kindergartens to purify air by retaining high degrees of particulate matter.

<sup>25</sup> A total of four new monitoring stations have been procured and installed in Gevgelija (October 2020), Prilep (December 2021), Berovo (December 2021) and Ohrid (October 2022). There are now 21 monitoring stations.

<sup>26</sup> Within the framework of IPA III, large projects have been proposed: the construction of a wastewater treatment plant for Veles, one for Shtip and building a collector system for Vinica that will be connected to the existing wastewater treatment plant in Kočani. Furthermore, there is a planned European Investment Bank (EIB) loan of EUR 50 million designated for developing a water supply and sewerage network that spans all municipalities in North Macedonia. This initiative aims to provide smaller and rural municipalities with financial resources to enhance services for their residents.

<sup>27</sup> Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances.

<sup>28</sup> The plant will aim at addressing and remediating the health-damaging levels of chromium-6 in the water.

<sup>29</sup> The cleaning operation of landfills on OHIS factory premises in Skopje started in 2021 and is co-ordinated jointly by the North Macedonian Government, the MoEPP, the United Nations Office for Project Services (UNOPS) and the United Nations Industrial Development Organization (UNIDO). The project for remediating lindane (Hexachlorocyclohexane, HCH) and lindane isomers is ongoing. So far, 957 tons of HCH waste were transported to France for incineration and 125 tons of contaminated soil have been exported to Germany for treatment.

# 15 Agriculture policy

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Agricultural development remains a priority for all economies, not only in response to the essential resource needs of a growing population but also due to its substantial contributions to total employment and GDP. The chapter analyses the performance and trends of agriculture policies across three sub-dimensions. The first sub-dimension, rural development and infrastructure, assesses strategies and programs related to rural infrastructure, livelihood support, and irrigation systems. The second sub-dimension, agricultural support systems, covers the policy, governance and instruments in the agricultural sector. The third sub-dimension, food safety and quality, focuses on the policy framework regulating food safety and on the food quality legislation and agencies, which are key tools in an economy's path towards productive and sustainable agriculture.

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## Key findings

North Macedonia has increased its overall agriculture policy score since the previous Competitiveness Outlook (Table 15.1). This improvement is primarily attributable to the economy's strides in strengthening its policies and standards related to food safety and quality. However, less progress was made in terms of improving rural development and infrastructure, causing North Macedonia's score in this sub-dimension to remain below the regional average.

**Table 15.1. North Macedonia's scores for agriculture policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Agriculture	14.1: Rural development and infrastructure	3.0	2.8	3.0	3.2
	14.2: Agriculture support system			3.3	3.3
	14.3: Food safety and quality			3.5	3.4
<b>North Macedonia's overall score</b>		<b>3.0</b>	<b>2.8</b>	<b>3.3</b>	<b>3.3</b>

The **key findings** are:

- While the government of North Macedonia has supported several small-scale projects to expand rural infrastructure, most recent advances have been propelled by donor projects, namely those financed by the World Bank and the German Government. However, road and irrigation systems in particular remain underdeveloped and inadequately maintained, underscoring the need to sustain efforts to further improve this infrastructure.
- The IPARD III programme (2021-27), backed by EUR 97 million in financial support, is pivotal for North Macedonia as it strives to boost innovation and reinforce the economic sustainability of rural areas, in alignment with EU Common Agricultural Policy standards. While there is a commitment to address challenges from the previous programme, ensuring smooth execution requires careful monitoring and adequate resourcing of the implementation process.
- Ongoing efforts to strengthen agricultural information systems, including updates to the Land Parcel Identification System and a new plan to expand data collection for the Farm Accountancy Data Network, have resulted in full alignment with the EU *acquis*. This distinguishes North Macedonia's integrated administration and control system as one of the most robust in the region.
- There is significant scope to improve North Macedonia's agricultural research, innovation, technology transfer and digitalisation (RITTD), as the economy lacks both an overarching policy framework and government programmes promoting RITTD. However, its participation in a regional project to develop Agriculture Knowledge and Innovation Systems marks progress toward better fostering collaboration and knowledge exchange in the agriculture sector.
- Recent developments, including amendments to the Law on food safety and a new Law on animal health as well as the acquisition of a new veterinary information software, represented notable advances in enhancing the economy's food safety, animal and plant health policy framework and aligning it with EU regulations.
- Despite having comprehensive legislation and the necessary control bodies, North Macedonia's organic sector is still in its early stages, with only 0.5% of its total agricultural area dedicated to organic farming. While the government provides substantial legal and financial support, there is untapped potential in the sector that could be harnessed through increased technical and/or educational initiatives.

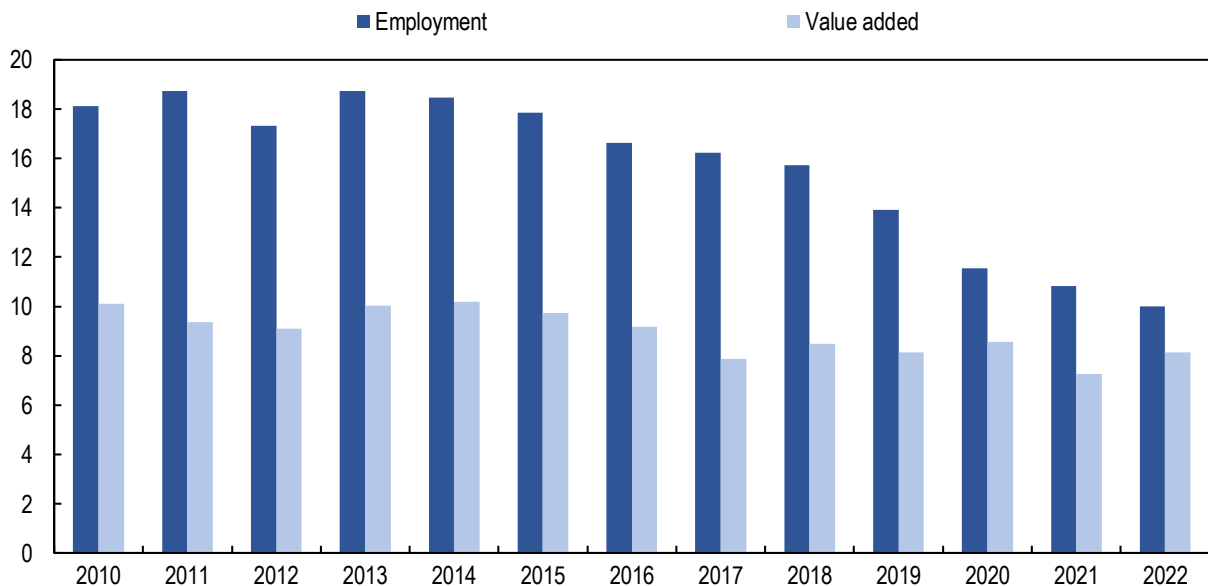
## State of play and key developments

The agricultural sector is a significant part of North Macedonia's economy, substantially contributing to both GDP and national employment. In 2022, agriculture accounted for approximately 8.1% of GDP, amounting to approximately USD 917 million (EUR 858 million) in real terms (World Bank, 2022<sup>[1]</sup>). However, this figure has been declining since reaching a relatively high level of 10.4% in 2014 (Figure 15.1). The decrease is partly attributable to the stagnation of the agricultural sector, compounded by faster growth of the overall economy. Indeed, agricultural productivity in North Macedonia is restricted by inefficient use of resources and the limited adoption of technologies (FAO, 2023<sup>[2]</sup>). Moreover, in the aftermath of the COVID-19 pandemic, disruptions to supply chains, mobility restrictions, and rising prices of inputs like fuel and fertiliser contributed to lower production quantities and the varying quality of agricultural products (Stojcheska, Nacka and Tuna, 2021<sup>[3]</sup>).

Employment in the agricultural sector followed a comparable pattern, falling from 18.7% in 2011 to 10.8% in 2021. The absolute and relative decrease in these employment rates is primarily attributable to increased agricultural productivity reducing labour demand within the sector, while productivity improvements in the wider economy encourage labour movement into other sectors. Demographic changes in the population as well as the modernisation of the agricultural sector are also contributing factors – a trend observed across the Western Balkans.

**Figure 15.1. Agriculture's contribution to total employment and value added in North Macedonia (2010-22)**

In percentage of total employment and value added



Source: World Bank (2024<sup>[4]</sup>).

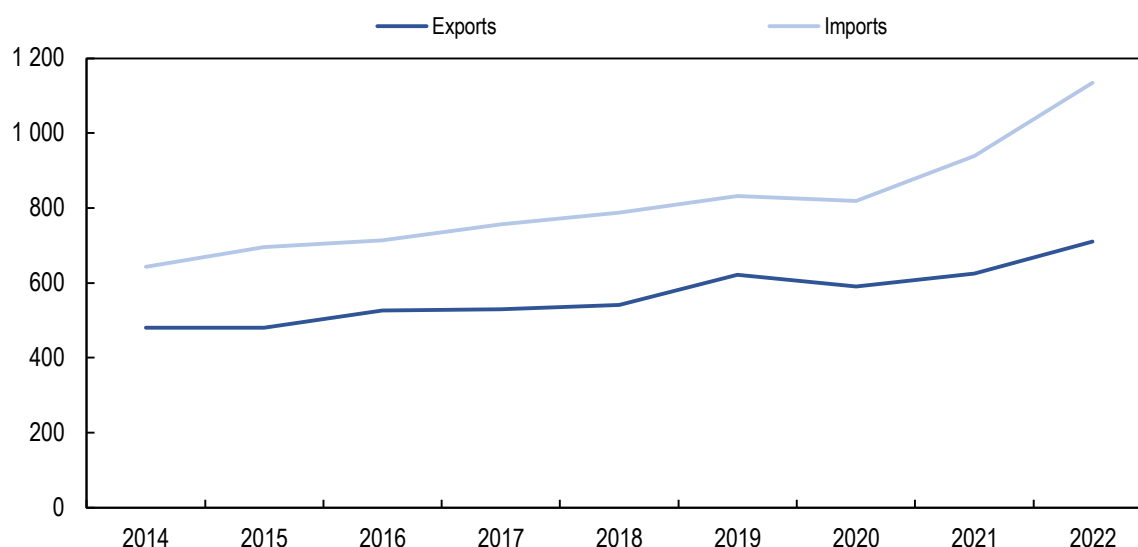
StatLink  <https://stat.link/iuymol>

Beyond the metrics of GDP and employment, the agricultural sector of North Macedonia also significantly influences the economy's trade dynamics. Specifically, the international trade of agrifood products plays a central role in shaping the sector's trajectory and economic contribution. In 2022, the export of agrifood products increased by 17% compared to the yearly averages of 2020 and 2021 (Figure 15.2). However,

during this same period, imports of these products rose by 29%, resulting in a 56% growth in the trade deficit. Despite this trend, the proportion of agrifood products in total imports and exports has slightly decreased over the years, as trade in non-agricultural goods has grown at a faster rate.

**Figure 15.2. 3**North Macedonia's international trade of agrifood products (2014-22)

In EUR millions



Source: SWG RRD (2023<sup>[5]</sup>).

StatLink  <https://stat.link/bgnraq>

### **Sub-dimension 14.1: Rural development and infrastructure**

North Macedonia boasts a relatively robust **rural infrastructure policy framework**. The key frameworks guiding this policy area in the economy are the National Programme for Rural Development (NPRD) and the EU's Instrument for Pre-Accession Assistance for Rural Development (IPARD III). The NPRD includes initiatives related to the modernisation and expansion of road, water, and electricity infrastructure, whereas IPARD III's Measure 6 is specifically allocated for investments in rural public infrastructure.

Despite these clearly defined national policies, the economy continues to struggle with improving its infrastructure capacity. Developing road networks in rural areas – defined as settlements within a municipality with a population not exceeding 30 000 residents or a population density of less than or equal to 150 inhabitants per square kilometre according to the national census of households in North Macedonia (FAO, 2011<sup>[6]</sup>) – presents a significant challenge. Roads in North Macedonia are considered poor compared to EU standards, largely due to ageing infrastructure and inadequate maintenance (World Bank, 2020<sup>[7]</sup>). Moreover, challenges with transport and service delivery are one of the main factors driving the migration of rural residents to urban centres. However, several efforts have been initiated to address this issue. Since 2021, 34 small projects were designed and implemented to support the development of local roads, such as macadams and terrestrial roads. Additionally, the World Bank is currently funding the Local Roads Connectivity Project, scheduled to conclude at the end of 2024, with the aim of strengthening the capacity of all levels of government to manage local roads.

Conversely, while transportation infrastructure only partially addresses agricultural and rural development needs, electricity and ICT infrastructure are better developed. Electricity is available to 99.75% of the population in rural areas; the primary exceptions are arable land areas and pastures where a lack of electricity prevents processes that require electrical power (like irrigation). Similarly, access to the Internet remains high: approximately 85% of rural households had Internet access in 2023, compared to nearly 90% in the EU.<sup>1</sup> Use of ICT technologies can enhance farmers' access to information, leading to improved decision making, increased productivity, and innovation in agricultural practices.

Farmers' availability of information is further facilitated through two platforms. The first is the national electronic agriculture platform (E-Agri),<sup>2</sup> developed and managed by the Ministry of Agriculture, Forestry and Water Economy (MAFWE) with the technical support of the Food and Agriculture Organization (FAO) (Box 15.1). The goal of the platform is to offer access to information on the latest weather and market conditions. The other platform is the Agricultural Market Information System,<sup>3</sup> which connects consumers and buyers through registers containing information on products, quantities, and prices.

### Box 15.1. North Macedonia's E-Agriculture platform

In 2023, the MAFWE in North Macedonia, in collaboration with the FAO, introduced its innovative "E-agriculture" platform as part of ongoing initiatives to digitalise its agricultural information systems, enhancing sector productivity and sustainability. This platform acts a centralised hub, providing easy access to various relevant platforms, including the Agricultural Market Information System.

The key features of the E-agriculture platform include:

- *Weather and market conditions access* – The primary objective of this platform is to furnish users with up-to-date information on both weather forecasts and market conditions.
- *Spatial data with Earth Map integration* – Notably, the "Maps" section of the E-agriculture platform grants users access to national and international spatial data on agro-ecological conditions. North Macedonia is the first economy to have its sub-domain on Earth Map, a collaborative open-source platform by Google and the FAO. These spatial data not only aid farmers in decision making but also empowers policy makers to design or modify agricultural policies at local and national levels.
- *"My Farm" tool for farm management* – The platform includes a "My Farm" tool, enabling farmers to monitor input costs and income from their agricultural activities. This tool is designed to enhance farm management practices and overall productivity.
- *Food price monitoring and analysis tool* – There is a dedicated tool for monitoring and analysing domestic and international food prices, providing valuable insights for market participants.

As such, the E-agriculture platform in North Macedonia stands as a strong example of leveraging digital technology to enhance information accessibility, decision making, and overall efficiency in the agricultural sector.

Note: The E-agriculture platform can be accessed here: <http://e-zemjodelstvo.mk>.

Source: Slavkova (2023<sup>[8]</sup>).

North Macedonia's approach to promoting **rural livelihoods** is limited by the absence of a well-articulated national policy framework and comprehensive government programmes. Specifically, there are no programmes that address economic development, taxation, education or health – essential elements for a holistic approach to preserving and improving rural livelihoods. However, in 2023, the government of North Macedonia introduced two new programmes: the first focuses on providing social security to women engaged in agricultural activities during maternity, while the second offers grants to agricultural food

producers for equipment and expert assistance, facilitating compliance with product placement requirements in local markets. Although these two programmes are in a pilot phase, their permanent integration into the NPRD requires securing sufficient financial resources, a challenge facing many areas of the agricultural sector.

Local Action Groups (LAGs) serve as key actors in the space of rural development, as they bring together local stakeholders and help to plan and implement local development initiatives. As of January 2024, there are 13 LAGs in North Macedonia that are registered and operational. Under the NPRD, LAGs are potential beneficiaries of two support measures: the measure for support of the project activities, and that for supporting operational costs. These groups also participate in stakeholder consultations with state, regional and local government actors regarding the regulatory framework addressing rural livelihoods, showcasing their central role in influencing policies for rural communities.

North Macedonia's **irrigation policy framework** is moderately developed, although further progress has been limited by inadequate financial resources. The main legal base guiding irrigation policy is the Law on Water.<sup>4</sup> This document primarily addresses the construction of new irrigation systems and dams, along with the extension, maintenance and rehabilitation of existing systems. As evidenced by the priorities delineated in this law, the government emphasises the implementation of measures related to pressurised systems and pipeline distribution networks for both rehabilitated and new systems, particularly as part of its focus on mitigating water stress.

Several government institutions are involved in different aspects of the economy's irrigation policy. The MAFWE's Directorate for Water Economy is the institution primarily responsible for policy formulation. The Ministry of Environment and Physical Planning (MoEPP) is tasked with the overall management of water resources, although the Administration for Water Economy of the Joint Stock Company Water Management handles the operation and maintenance of public irrigation and drainage systems. Finally, the Agency for Financial Support of the Agriculture and Rural Development (AFSARD) implements state support for investment in irrigation (along with other investments for agriculture and rural development, which are detailed in Sub-dimension 14.2: Agriculture support system). Apart from these government actors, there are some agricultural co-operatives for irrigation and farmers associations, but there are no water use associations in North Macedonia.

External donors play a significant role in supporting the development and enhancement of North Macedonia's irrigation infrastructure. One recent development was the launch of the economy's Irrigation Programme, a EUR 80 million project funded by the German Government. Set to conclude in 2027, this initiative focuses on the rehabilitation and extension of four irrigation schemes in the Vardar River Basin in order to improve the availability and efficiency of water resource use. Moreover, there are several ongoing projects that are supported by EU funds under the IPARD programmes. These efforts include the construction of seven small irrigation systems (EUR 8.3 million), several new water systems in the municipalities of Konopnica, Pishica and Tearce (EUR 2.3 million), and new irrigation hydro systems in Sopot and Novaci (EUR 3.5 million) (MAFWM, 2022<sup>[9]</sup>). Between these three initiatives, North Macedonia is expected to irrigate an additional 2 205 hectares of agricultural land.

### ***Sub-dimension 14.2: Agriculture support system***

The **agricultural policy framework** of North Macedonia is moderately robust, supported by strong monitoring and evaluation practices and well-developed information systems. The framework itself is composed of two key documents. The first is the National Strategy for Agriculture and Rural Development (NARDS) 2021-27, which serves as the major long-term strategic document guiding agricultural and rural development. Its three primary objectives are improving the competitiveness and income sustainability of agricultural holdings, applying environmental practices that incorporate climate change mitigation and adaptation measures, and ensuring the sustainable development of rural areas. Despite strategic attention to environmental considerations, the translation of these goals into concrete measures has yet to be fully

realised. The NARDS aligns with the EU Common Agricultural Policy's (EU CAP) strategic programme periods as well as seven of the ten EU CAP objectives.<sup>5</sup>

The NARDS is accompanied by a multi-annual National Programme for Rural Development (NPRD). The most recent NPRD, which encompasses the period 2023 to 2027, is designed to streamline the implementation of the NARDS through planned measures and budgetary allocations. In general, these multi-annual programmes serve as the basis for ongoing implementation of yearly support initiatives in agriculture, rural development, fishery, and aquaculture. Each NPRD is adopted by the government after it is proposed by the MAFWE.

The MAFWE is the main institution responsible for agriculture and rural development policy design. Within this ministry, there is the Rural Development Department, which oversees the formulation, monitoring and evaluation of policies under the national support programmes. The MAFWE also houses the Department for the Management of EU Pre-Accession Funds for Rural Development, which handles policies and measures related to the EU's Instrument for Pre-Accession Assistance for Rural Development (IPARD) programme. The third body, the Agency for Financial Support in Agriculture and Rural Development, implements and oversees the distribution of both national and IPARD funds in support of national agricultural policy. Finally, the State Agricultural Inspectorate's mandate is to serve as the key inspection entity.

Building on experience from previous IPARD cycles, North Macedonia has continued to benefit from the newest cycle, IPARD III (2021-27), and is expected to receive EUR 97 million in EU contributions. IPARD III aims to boost investments in the primary and processing sectors, promote farm diversification, and foster business development. In 2023, the European Commission granted North Macedonia entrustment for the implementation of IPARD III funds, granting accreditation for Measures 1, 3 and 7.<sup>6</sup> Since then, AFSARD initiated its inaugural public calls for Measures 1 and 7, which concluded in late October 2023 (AFSARD, 2024<sub>[10]</sub>).

IPARD implementation has however been hampered by the limited administrative capacity of the Agency and limited transparency in the processes – recruitment of new staff has largely stalled and training for the existing staff has been limited. Moreover, the lack of electronic access to registers and complicated administrative procedures have raised transparency and efficiency issues in the programme's execution (Republic of North Macedonia, 2021<sub>[11]</sub>).

North Macedonia's national agricultural policies and programmes undergo regular impact assessments and revision based on monitoring activities. Specifically, the MAFWE annually reviews the implementation of the NARDS, and on a multi-annual basis the policy is assessed with technical assistance from external donors. The most recent revision occurred in early 2023 and involved several changes to the Programme for Direct Payments following consultations with local stakeholders. However, while these annual assessments are important tools for ensuring the continued efficacy of policies, there is still room to expand their scope. For instance, North Macedonia has yet to evaluate the impact of climate change on the agricultural sector, and consequently has not incorporated any findings into the formulation of new measures. Moreover, it is the only economy in the region that lacks specific policies related to climate change adaptation and mitigation in agriculture, despite a robust strategic framework.

Of the Western Balkan economies, North Macedonia has one of the most robust agricultural information systems. Its integrated administration and control system (IACS), which plays a pivotal role in managing payments within structures mimicking the EU CAP system, includes all necessary components and is fully aligned with the EU *acquis* (European Commission, 2023<sub>[12]</sub>). Specifically, the economy has succeeded in establishing a farm register, a Farm Accountancy Data Network (FADN), and a Land Parcel Identification System (LPIS). The FADN currently comprises a sample of 949 farms, and there is a new plan to select representative agricultural holdings, aiming to expand the data collection sample. The LPIS relies on a Geographical Information System (GIS), with data consistently updated to include newly registered parcels and changes to existing ones.



Concerning **producer support instruments**, there is still room to improve their design in North Macedonia to align more closely with EU standards. These instruments are outlined in three programmes: the national Programme for Direct Payments, the national Programme for Rural Development, and the IPARD III programme. Regarding the two national programmes, these are the vehicles through which the key strategic objectives of the NARDS are implemented, meaning that support instruments are fine-tuned based on this overarching strategy. These support policies and programmes are partially aligned with the EU Common Agricultural Policy (CAP). However, they still maintain a link between income support payments and commodity production, whereas the EU CAP encourages gradually decoupling such payments from specific product production.

Budgetary support to the agricultural sector has been increasing, rising from EUR 109 million in 2013 to EUR 154 million in 2022 (Table 15.2). Of the total budgetary support throughout this period, 97% involved transfers from the national budget, while the remaining funds stemmed mainly from the IPARD I (2007-13) and IPARD II (2014-20) programmes. Beyond the upward trend in nominal terms, support per hectare (ha) has also steadily risen, exceeding EUR 130/ha in 2022 (Stojcheska et al., 2024<sup>[13]</sup>). Yet despite this increase, these levels of budgetary support are much lower when compared to the EU levels (which averaged at least EUR 200/ha in 2023) (European Commission, 2023<sup>[14]</sup>). On the other hand, since most of these funds are dedicated to income support, the impact on structural improvements, modernisation and, most importantly, environmental and societal benefits remains limited. Most notably, support schemes currently lack conditionality with respect to environmental and social considerations, yet there is some ongoing work to align policies with the Action Plan on the Green Agenda for the Western Balkans.

**Table 15.2. North Macedonia's budgetary support for the agricultural sector (2019-22)**

In EUR millions

	2019	2020	2021	2022
Budgetary support for agriculture	150.3	141.3	164.0	153.6
Budgetary support to producers	124.2	114.0	134.3	118.7

Source: SWG RRD (2023<sup>[5]</sup>).

The main form of support is direct payments, which are available to farmers based on numerous criteria, including land area, number of livestock heads, output, and input use or purchase. This direct support aligns with the first pillar of the EU CAP,<sup>7</sup> which encompasses payments granted directly to farmers. Approximately 60% of direct payment support in North Macedonia is linked to factors of production, primarily measured by the area of agricultural land or per head of livestock. Additionally, these payments are contingent on compliance with GLOBALG.A.P. (Good Agricultural Practices).<sup>8</sup> However, eligibility for these payments is not conditional on meeting environmental or food safety standards.

The remaining 40% of total direct payments are linked to output, defined as per unit of agricultural product. They are mostly tied to production outputs supplied to the processing industry. Conversely, for certain strategically important groups of agricultural products, support is still determined by the payment of premiums per unit of product sold in processing facilities. In 2023, premium payments were applicable to tobacco, fruit and vegetables, as well as for milk, cattle, pigs and broilers slaughtered in a registered slaughterhouse.

Farmers and agricultural producers also have access to various instruments supporting risk management, notably subsidised agricultural insurance. In particular, state assistance for insurance premiums involves partially covering the expenses related to insuring primary agricultural production against natural disasters and adverse climatic events. This aid is capped at 60% of the insurance premium cost, with a maximum limit of MKD 150 000 (EUR 2 440) per agricultural holding for damage resulting from unfavourable climatic events.

Russia's war of aggression against Ukraine has led to shortages and rising prices of food and fuel, prompting the government of North Macedonia to restructure some of its policies and measures. Examples included the introduction of subsidies to offset rising fertiliser prices and to lower the cost of fuel (required for agricultural machinery) for farmers. The government also prioritised grain storage and its associated costs, offering preferential electricity prices to the agrifood industry. Additionally, the government adopted the National Plan for Food Production, which led to the establishment of an Intervention Fund worth MKD 400 million (EUR 6.5 million) to support the production of strategic crops. In the end, farmers received 40% additional assistance to buy fertilisers for corn and maize in addition to MKD 2 500 (EUR 40) per hectare for soybean and barley cultivation (Dimitrievska, 2022<sup>[15]</sup>).

North Macedonia also offers support aligning with the second EU CAP pillar, rural development. Between 2020 and 2022, financing for structural and rural development measures in North Macedonia exceeded EUR 35 million. Most of this funding sought to enhance the competitiveness of farming and agricultural entrepreneurship. Despite this emphasis, support for rural populations remains relatively limited, and payments for environmental and social services are not yet included in this funding.

**Agricultural trade policy** in North Macedonia is marked by ongoing liberalisation. While there are no import tariffs on inputs, tariffs are applied to agrifood products, with higher tariffs applied to those products that are deemed "highly sensitive", such as meat products, wine, and select produce.<sup>9</sup> The duty rates and tariff quotas for agricultural products as outlined in the relevant free trade agreements are available on the website of the Customs Office.<sup>10</sup> On the other hand, since its 2003 accession to the World Trade Organisation, North Macedonia has refrained from applying export subsidies, credit support, duties, or taxation to any agricultural product.

Although no changes to trade policies have been made since 2021, strategies and legislation related to agricultural trade policies are monitored every few years as part of the broader evaluation of the national agriculture strategy. These policies are then revised based on the outcome of evaluation activities, namely the feedback given by business operators and the results of the analysis of market conditions. This assessment is jointly carried out by the MAFWE, the Ministry of Economy and the Ministry of Finance. In 2023, the government of North Macedonia adjusted its free trade agreement with Ukraine. Through this revision, North Macedonia opens its market to certain agricultural products from Ukraine, including, among others, cattle and pork meat, chicken meat, milk, cream and butter, barley, maize, oil, sugar and confectionery products<sup>11</sup> (Government of Ukraine, 2023<sup>[16]</sup>).

With respect to the **agricultural tax regime**, the policy and legal framework for agricultural taxes in North Macedonia is limited. Individuals who receive income of up to MKD 1 000 000 (EUR 16 250) from the supply of their own agricultural products are exempt from personal income taxes under Article 46 of the Law on Personal Income Tax. Apart from this stipulation, there are no specific tax provisions for farms, co-operatives, or agriculture-related businesses. Moreover, the government does not conduct assessments on the impact of tax policies on natural resources and the environment, nor are there taxes on agricultural emissions.

North Macedonia does not have a well-defined policy framework or government programmes related to agricultural **research, innovation, technology transfer and digitalisation** (RITTD). Investments in research and development (R&D) and innovation are crucial for enhancing the productivity, sustainability, and resilience of agricultural production. However, the government is currently in the process of adopting a Law on Advisory Systems in Agriculture and Rural Development; while this legislation does not

encompass all potential RITTD areas, it would provide a formalised framework for offering agricultural extension and advisory services. Currently, these services are directly provided for free by the public sector, primarily through the National Extension Agency (NEA). Activities mainly target small-scale farmers. However, of the 150 000 farmers enrolled in the national farm register, fewer than 700 have received support from the NEA, which has only 70 agricultural advisors. To help address this gap, the NEA engages more farmers through group activities that aim to transfer knowledge and skills for the adoption of technologies and practices for competitive and sustainable production. The NEA also supports agricultural producers in understanding and aligning with standards required to achieve the requisite conditionality for receiving IPARD and national funds. Private advisory services for agriculture could potentially improve the economy's coverage; however, no regulated or institutionalised private services exist in North Macedonia.

One major development has been the MAFWE's participation in a regional project that aims to develop an Agriculture Knowledge and Innovation System (AKIS) (Kasimis et al., 2022<sup>[17]</sup>). As part of this project, North Macedonia has developed a roadmap for developing a functional and integrated national AKIS that has three main pillars: introducing new structures, strengthening the capacities of AKIS actors, and cultivating relationships among these actors. Given that the government of North Macedonia has already made efforts to adopt a law governing advisory services, the next milestones would be the establishment of private advisory services and establishing an academy for certifying experts.

Beyond its participation in this regional AKIS project, the MAFWE also participates in several other forms of cross-border, international collaboration in agriculture RITTD. For instance, the MAFWE engages in numerous training courses, workshops, scientific visits, and fellowship and technical meetings, primarily through the International Atomic Energy Agency's Technical Cooperation programme.

### ***Sub-dimension 14.3: Food safety and quality***

Overall, North Macedonia is fairly advanced in its alignment of **food safety, animal and plant health legislation** with international standards. The national policy framework concerning food safety and animal health endeavours to align with relevant EU legal principles, including the establishment of maximum residue levels (MRLs) in accordance with EU regulations. In December 2022, the government of North Macedonia amended its legislation to better align with the EU *acquis* on specific requirements for microbiological criteria for food (European Commission, 2023<sup>[12]</sup>). Moreover, a new Law on animal health was recently drafted to align with the latest EU regulations; its adoption is still pending. Policies in these areas are revised annually, which helps to promote a high degree of alignment with EU regulations.

However, regulations safeguarding plant health and protection remain only partially aligned with EU standards. The current Plant Health Law was harmonised with the EU Directive 2000/29, but in 2016 a new EU Plant Health Law was put in place and introduced additional reforms – with which the current Plant Health Law of North Macedonia is not totally aligned. However, a new Plant Health Law in North Macedonia is currently the subject of working group consultations. The law intends to transpose two key EU regulations – Regulation (EU) 2016/2031 and Official Control Regulation (EU) 2017/625. There is also no national strategy for phytosanitary policy.

Multiple institutions collaborate to oversee and manage the national food safety, plant protection, and veterinary policy framework. The Food and Veterinary Agency (FVA) serves as the primary authority for food safety and veterinary matters, responsible for liaising with EU institutions on related policies. While the FVA operates independently, other central entities, including the Phytosanitary Directorate and the State Agriculture Inspectorate, operate under the Ministry of Agriculture, Forestry, and Water Economy (MAFWE), each with distinct responsibilities. Institutional co-ordination ensures effective formulation and implementation of food quality policies, with ministries overseeing geographical indications (GIs) in specific sectors, and inspectorates conducting official controls, supported by ad hoc thematic groups and expert committees facilitating collaboration with external entities such as universities and consumer organisations.

Apart from these government bodies, another key actor in the food safety, animal and plant health field is the laboratories responsible for monitoring and safeguarding agricultural and food products. In North Macedonia, there are a total of 30 laboratories under the competency of the FVA that test products. They are all accredited under the MKS EN ISO/IEC 17025:2006 standard,<sup>12</sup> which defines the competency requirements for testing and calibration laboratories. The results of these laboratories are recognised by both Central European Free Trade Agreement (CEFTA) parties and the EU in the fields of food safety and phytosanitary health. Recognition from the EU stems from a multilateral agreement (in accordance with the “once accredited, accepted everywhere” principle) signed between the Institute of Accreditation of the Republic of North Macedonia and the European Accreditation Organisation. Moreover, the economy has established a food safety, veterinary and phytosanitary reference laboratory network through a memorandum for technical co-operation between the MAFWE’s State Phytosanitary Laboratory and several other countries’ counterparts (including in Greece, Italy, and Bulgaria).

North Macedonia employs risk-based inspections in the field of food safety. These risk assessment and management procedures are implemented in line with SPS rules and utilise the International Plant Protection Convention, Codex Alimentarius and European Food Safety Authority (EFSA) methodologies.<sup>13</sup> In 2020, a new risk assessment methodology was adopted for each subject-operator based on two elements: severity of harmful consequences and the probability of occurrence of harmful consequences. Based on this assessment, operators are categorised as low, medium or high risk.

In recent years, the economy has made several adjustments to its risk-based inspection system, particularly by upgrading technical standards. One example is the recent transfer of a new veterinary information software under a new project with the FAO (United Nations in North Macedonia, 2023<sub>[18]</sub>). As North Macedonia’s original veterinary information system is more than a decade old, it was outdated in terms of its technological capacities as well as its alignment with EU legislation. This new software is fully harmonised with EU standards and seeks to improve animal traceability and food safety. Another development was the preparation of standard operating procedures for phytosanitary inspection in 2022. Additionally, the State Agriculture Inspectorate is currently working to upgrade its IT system with a specific module on risk-based border phytosanitary inspection. Together, these advances ensure that agricultural products adhere to quality standards and regulatory requirements.

North Macedonia’s **food quality policy** is structured within a comprehensive national framework outlined in NSARD 2021-27. The MAFWE oversees Geographical Indications (GIs) in the agrifood and wine sectors, while the State Office on Intellectual Property manages GIs in the spirit drinks sector. National standards on food marketing are only partially harmonised with those of the EU; although standards related to obligatory marketing are harmonised, the perceived complexity of implementation by small producers has hindered complete alignment. The legal base on GIs, consisting of three laws guiding GIs for agricultural products, spirit drinks, and wine, is also only partially harmonised with EU regulations. Once again, full alignment is hindered by the perception among some agricultural producers that these standards entail more costs (i.e. through more frequent inspections) than benefits. Food quality regulations are generally harmonised, but specific measures have not been implemented in certain sectors – namely the dairy milk sector.

North Macedonia’s legislation on organic foods, as outlined in the Law on Organic Agricultural Products,<sup>14</sup> is mostly aligned with the EU *acquis*, although a new law on organic farming has yet to be adopted. Additionally, the national law on genetically modified organisms (GMOs) is in accordance with EU regulations. There are two local organic certification bodies: Balkan Biocert Macedonia and Pro Cert Control and Certification OKS, both of which were authorised by the MAFWE. Yet despite the high degree of policy alignment and presence of certification bodies, organic agricultural production remains relatively limited, with less than 0.5% of total agricultural area in North Macedonia used for organic production (SWG RRD, 2022<sub>[19]</sub>). There is significant scope to further strengthen the domestic organic market, taking advantage of the economy’s favourable climatic conditions and notable government and donor support (Association of Agricultural Economists of North Macedonia, 2022<sub>[20]</sub>).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia has achieved moderate progress in implementing most of the past CO Recommendations. Moderate improvements in the establishment of a monitoring and evaluation system have been made, while notable strides were also made in strengthening institutional co-ordination and improving farmers' access to information. Below, Table 15.3 shows the economy's progress on implementing past recommendations for agriculture policy.

**Table 15.3. North Macedonia's progress on past recommendations for agriculture policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Establish a monitoring and evaluation system	There is an existing Department for Analysis of Agriculture Policies within the MAFWE, but the need to establish a regular monitoring and evaluation system remains. Additionally, inter-sectoral co-ordination integrating the relevant databases and registries of different institutions is not yet fully functional. All elements of the integrated administration and control system (IACS) are in place and comply with the EU acquis. However, certain segments, notably the Farm Register, need to be strengthened, primarily by improving data transfers and the interoperability of the various elements.	Moderate
Review the agriculture support programmes	The National Strategy for Agriculture and Rural Development 2021-27 (NSARD) was adopted in 2021, outlining strategic goals toward increased competitiveness, environmental benefits and quality of life in rural areas. The financing of the NSARD has been budgeted under the 2023-27 National Programme for Agriculture and Rural Development, with nearly 80% of the funds allocated to direct support measures (mostly in the form of coupled schemes). Most of the rural development budget is dedicated to competitiveness, although limited funds are dedicated to environmental benefits and socio-economic aspects in rural areas. Support schemes are still not subject to conditionality, and policy alignment with the Action Plan on the Green Agenda for the Western Balkans has yet to be achieved.	Moderate
Strengthen institutional co-ordination and harmonise the standards and criteria for support measures	Institutional co-ordination has been improving, as demonstrated by receiving entrustment for IPARD III. However, the number of measures is still high, which creates difficulties in implementation while cross-compliance is not ensured.	Moderate
Improve farmers' access to information and channels of communication, especially market information	The current Agriculture Market Information System provides information on the agrifood market by recording prices for certain commodities and products and crops. However, the need to upgrade the system into a more functional and dynamic platform for the collection and dissemination of information remains.	Moderate

## The way forward for agriculture policy

Considering the gaps in the implementation of the previous recommendations, there are still areas in which North Macedonia could strengthen the policy environment for agriculture, including in the area of rural development, infrastructure, the agriculture support system and food safety and quality policies. As such, policy makers may wish to:

- **Continue to improve processes and capacities to ensure smooth implementation of the new IPARD III programme.** In line with evaluation findings,<sup>15</sup> it is vital that the government of North Macedonia, particularly the Agency for Financial Support in Agriculture and Rural Development, ensure the efficient use of IPARD III funds, particularly in support of the measures for which the MAFWM has recently obtained entrustment. This would allow the national agriculture sector to benefit from this additional investment.
- **Enhance support for the ongoing development of rural infrastructure, particularly roads.** Despite advances supported by funding by external donors (such as the World Bank), limitations

in the financial resources of the MAFWE have impeded a more rapid pace of progress. As such, the continuation and expansion of efforts – either independently or co-implemented by the government of North Macedonia – to improve this infrastructure would likely improve connectivity of and service delivery to rural areas. This in turn could reduce migration pressures, which are a major challenge currently impacting the economy’s agricultural sector.

- **Establish a well-defined framework for agricultural Research, Innovation, Technology Transfer, and Digitalisation (RITTD).** The government of North Macedonia should develop a policy framework and allocate increased resources to support research and development initiatives supporting innovation and technology transfers for farmers and agricultural producers. Additionally, the government should continue to work toward adoption of the formalisation of its novel Agriculture Knowledge and Innovation System (AKIS).
- **Continue to align food safety and quality regulations with the EU *acquis*.** While North Macedonia has succeeded in aligning its regulations on animal health and food safety with the relevant EU legal bases, there is still room to achieve better harmonisation with EU standards in the fields of plant health and food quality. For instance, the government should focus on aligning its draft Law on Plant Health with the most up-to-date EU regulations. As the economy advances on its EU accession journey, achieving alignment in this area is vital for ensuring the competitiveness of agricultural products and fostering a seamless integration into the broader European market.
- **Further develop the organic farming sector.** North Macedonia remains well below the EU average in terms of total agricultural area under organic farming (Box 15.2). As such, the MAFWE should develop and support programmes that aim to strengthen the provision of administrative and technical assistance that can reduce barriers to entry to the sector. Additionally, the NEA could offer advisory services that seek to improve farmers’ skills or competencies in order to consequently ensure sufficient professional knowledge to succeed in organic farming (World Bank, 2022<sup>[21]</sup>).
- **Integrate environmental standards into agricultural policies and programmes.** There is significant scope to better incorporate concerns regarding the environment, such as requiring compliance with environmental standards for eligibility for producer support instruments, or creating specific policies or targets related to climate change adaptation or mitigation in the agricultural sector. By mainstreaming environmental considerations into policies and programmes, the economy could promote a more sustainable, resilient agricultural sector.

### Box 15.2. Organic farming in the European Union

The European Union has increasingly prioritised organic farming, which has in turn emerged as one of the fastest-growing areas of European agriculture. This emphasis is notably reflected in two key policy frameworks: the European Green Deal's Farm to Fork Strategy, and the 2030 Biodiversity Strategy. Both initiatives aim to foster fair, healthy, and environmentally sustainable food systems across Member States. Within this strategic framework, the EU has set an ambitious target for 25% of its agricultural land to support organic farming by 2030 – even though only 9.9% of this land was certified organic in 2021. Nonetheless, that goal underscores the EU's dual commitment to improving the sustainability of its food systems and safeguarding biodiversity.

To effectively work toward this target, the European Commission introduced the Action Plan for the Development of Organic Production. This plan serves as a guide for EU Member States, urging them to incorporate national values or thresholds into their Common Agricultural Policy strategic plans. The objective is not only to meet the Green Deal's targets but also to conduct a comprehensive analysis of national agriculture sectors. This approach acknowledges the distinct starting points of each country – some, like Austria, Estonia, and Sweden, have already surpassed the 20% threshold, while others, including Ireland and Bulgaria, lag behind at less than 5%. As such, this tailored strategy promotes a nuanced and effective pathway toward enhancing organic farming across the diverse landscapes and contexts of the EU Member States.

Sources: European Commission (2021<sup>[22]</sup>); OECD (2023<sup>[23]</sup>).

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## Notes

<sup>1</sup> Data on North Macedonia came from [www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=77](http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbtxt=77). Data on the EU average came from [https://ec.europa.eu/eurostat/databrowser/view/isoc\\_ci\\_ifp\\_iu\\_custom\\_9520531/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/isoc_ci_ifp_iu_custom_9520531/default/table?lang=en).

<sup>2</sup> To access the E-Agri platform, please see: <https://e-zemjodelstvo.mk/>.

<sup>3</sup> To access the Agricultural Market Information System, please see: <https://ponudapobaruvacka.zpis.gov.mk/Default>.

<sup>4</sup> To read the Law on Water, please see: [www.moepp.gov.mk/wp-content/uploads/2014/10/LAW-ON-WATERS.pdf](http://www.moepp.gov.mk/wp-content/uploads/2014/10/LAW-ON-WATERS.pdf).

<sup>5</sup> The seven EU CAP objectives covered by the NARDS are: ensuring a fair income for farmers; increasing competitiveness; improving the position of farmers in the food chain; climate change action; preserving landscapes and biodiversity; protecting food and health quality; and fostering knowledge and innovation.

<sup>6</sup> The EU framework for IPARD III programming provides for 13 different measures, explained in the sectoral agreement concluded between the European Commission and each of the IPARD beneficiary countries. For more information see: [https://agriculture.ec.europa.eu/international/international-cooperation/enlargement/pre-accession-assistance/overview\\_en](https://agriculture.ec.europa.eu/international/international-cooperation/enlargement/pre-accession-assistance/overview_en).

<sup>7</sup> The CAP is divided into two pillars, namely direct support and market measures (first pillar) and rural development (second pillar). For more details see: [www.consilium.europa.eu/en/policies/cap-introduction/](http://www.consilium.europa.eu/en/policies/cap-introduction/).

<sup>8</sup> For more information about GLOBALG.A.P., please see: [www.globalgap.org/](http://www.globalgap.org/).

<sup>9</sup> These “highly sensitive” agricultural products can be found here: <https://customs.gov.mk/en-GB/carinska-tarifa.nspj/>.

<sup>10</sup> To see the duty rates and tariff quotas on the Customs Office’s website, please see: <https://customs.gov.mk/pocetna.nspj/>.

<sup>11</sup> The full scope of the free trade agreement concluded in 2021 can be found here: <https://wits.worldbank.org/GPTAD/PDF/archive/FYROM%20-%20Ukraine.pdf>

<sup>12</sup> MKS EN ISO/IEC 17025:2006 is a specific accreditation standard in North Macedonia. EN refers to European Standard, indicating alignment with European norms. ISO refers to the International Organization for Standardization, which is responsible for developing and publishing international standards. The IEC, or the International Electrotechnical Commission, is involved in the standardisation of electrical and electronic technologies. The ISO/IEC 17025 standard refers to the testing and calibration of laboratories. For more information, please see: [www.iso.org/ISO-IEC-17025-testing-and-calibration-laboratories.html](http://www.iso.org/ISO-IEC-17025-testing-and-calibration-laboratories.html).

<sup>13</sup> The International Plant Protection Convention (IPPC) addresses all aspects of plant pests in food. The Codex Alimentarius, or "Food Code", is a collection of standards, guidelines and codes of practice adopted by the Codex Alimentarius Commission. The European Food Safety Authority (EFSA) is an agency of the EU that provides independent scientific advice on food-related risks.

<sup>14</sup> Law on Organic Agricultural Production, *Official Gazette of the Republic of Macedonia* Nos. 146/09, 53/11, 149/15, 39/16 and 132/16).

<sup>15</sup> An ex ante evaluation of the IPA Rural Development Programme 2021-27 of the Republic of North Macedonia (IPARD III), co-ordinated by Ecorys Croatia, was carried out by a team of evaluators in the period August-October 2021: <https://ipard.gov.mk/wp-content/uploads/2021/11/Final-Ex-ante-IPARD-III-NM.pdf>.

# 16 Tourism policy

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Sound and robust frameworks are essential for the tourism sector to drive positive economic development, enhance competitiveness, and strengthen resilience within economies, particularly those heavily reliant on tourism. This chapter assesses the comprehensiveness of the legislative structure and practices governing tourism across three sub-dimensions. The first sub-dimension, governance and enabling conditions, assesses the effectiveness of efforts aimed at strengthening strategic co-ordination and co-operation in tourism across governance, vertical co-operation, public-private dialogue, and data collection. The second sub-dimension centred on accessibility, tourism offer and human resources, examines progress and challenges in addressing the sector's connectivity framework and infrastructure, accommodation capacity and quality, and availability of qualified workforce. The third sub-dimension, sustainable and competitive tourism, explores the impact of tourism branding and marketing strategies, natural and cultural heritage valorisation frameworks, and operations promoting sustainable development.

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## Key findings

North Macedonia's tourism policy dimension has seen its overall score rise from 1.5 in the CO 2021 assessment to 2.0 in CO 2024, albeit remaining below the WB6 average of 2.5 (Table 16.1). Positive developments in North Macedonia encompass tourism governance, public-private dialogue, connectivity, and the availability of a qualified workforce, while limited progress has been observed in data collection, the accommodation framework, and tourism marketing, highlighting the need for enhanced vertical co-operation, information sharing, and the promotion of sustainable tourism through a co-ordinated institutional framework for improved competitiveness.

**Table 16.1. North Macedonia's scores for tourism policy**

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tourism	15.1: Governance and enabling conditions	1.5	1.5	2.5	2.8
	15.2: Accessibility, tourism offer and human resources			2.3	2.7
	15.3: Sustainable and competitive tourism			0.8	1.9
<b>North Macedonia's overall score</b>		<b>1.5</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>

The **key findings** are:

- There is increased recognition that the current strategic framework is not reflective of current needs, signalling the imperative for the formulation of a new strategy. Existing strategies and policies are widely viewed as outdated, limiting the tourism sector's ability to fully realise its potential. Effective mechanisms and communication, including strong support from leadership and the creation of a dedicated department, will be essential in the development of such a strategy.
- Informed decision making on tourism and its economic contribution is now largely facilitated by the availability of datasets generated by the Tourism Satellite Accounts (TSA) in 2022. Any discontinuation or underdevelopment of these resources would be detrimental to the sound growth of the tourism sector.
- North Macedonia has taken notable steps towards the promotion of innovation across different areas of tourism. Nevertheless, there is a necessity to develop a detailed and comprehensive plan that seamlessly integrates innovative approaches into strategies and practices.
- Collaboration across different levels of government or organisations is still in the phase of finding solid ground. While some initiatives, such as the establishment of destination management organisations (DMOs), appear to be heading in the right direction, many hurdles and gaps still need to be overcome.
- North Macedonia is taking positive steps towards laying the foundation for skills development, with regional initiatives focused on enhancing the vocational education and training (VET) framework within the tourism sector to elevate qualifications and standards and address the skills gap for a qualified workforce.

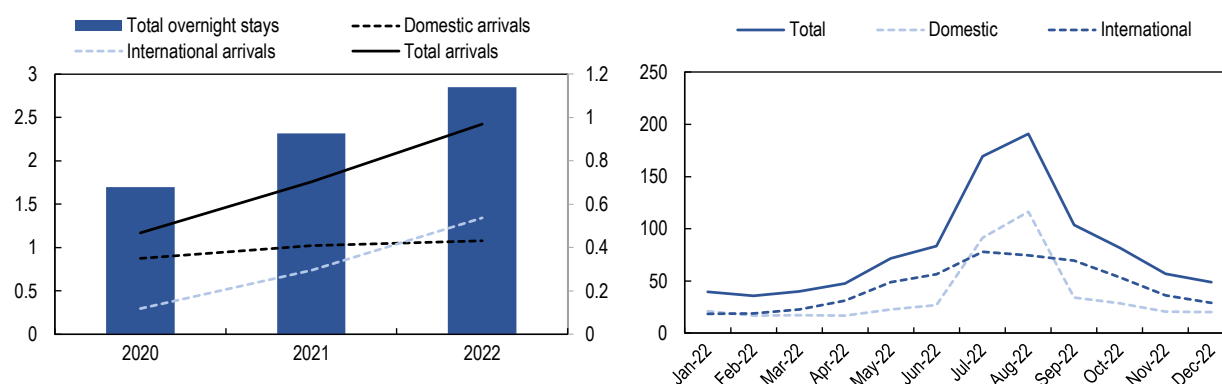
## State of play and key developments

The Republic of North Macedonia is experiencing an upturn in its tourism sector since the last assessment. The year 2022 was characterised with positive trends pointing to a return to pre-pandemic levels. However, tourism has been hit with serious challenges in recent years, such as COVID-19, the war in Ukraine and the energy crisis. In 2022, the tourism sector made a significant contribution to gross domestic product (GDP), both directly and indirectly, amounting to 5.6% (or EUR 0.73 billion). Forecasts for 2023 indicate a potential increase to 5.9%, underscoring the sector's role in the national economy. International visitors played a crucial role in bolstering the economy, with spending reaching EUR 0.40 billion in 2022, reflecting the economic significance of tourism. The tourism sector provided employment for 51 400 individuals in 2022, accounting for 7.1% of total employment, including jobs indirectly supported by the industry. Projections for 2023 suggest a slight decrease to 6.6%, reflecting the sector's ongoing role in providing livelihoods. (World Travel & Tourism Council, 2023<sup>[1]</sup>)

North Macedonia's accommodation establishments recorded 2 848 604 overnight stays in 2022, with international tourists contributing 55.3% (537 436) and domestic tourists 44.7% (431 841) of the total 969 277 arrivals, according to North Macedonia's State Statistical Office in 2023. The figure of 2.95 nights per tourist in North Macedonia is behind Serbia's (3.16) and Montenegro's (3.7) figures (State Statistical Office of North Macedonia, 2023<sup>[2]</sup>). Figure 16.1 shows a strong seasonal distribution of arrivals, centred on the summer months with a larger share of domestic arrivals.

**Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-22) and seasonal distribution of arrivals (2022) in North Macedonia**

Stays and arrivals are expressed in millions (left); seasonal arrivals are expressed in thousands (right)



Source: State Statistical Office of North Macedonia (2023<sup>[2]</sup>).

StatLink  <https://stat.link/q8yacr>

In 2022, North Macedonia offered a total of 321 accommodation establishments in hotels and similar establishments for visitors, comprising 11 175 rooms and 24 686 beds, increasing slightly by 0.63% compared to 2021. Albania recorded a more significant increase of 11.96%, while Bosnia and Herzegovina also recorded a considerable increase of 6.86%. North Macedonia recorded a slight increase in guest rooms by 1.28%, Albania by 18.61% and Bosnia and Herzegovina by 8.54%. In terms of bed capacity, North Macedonia recorded a slight increase of 1.14%, Albania 13.56% and Bosnia and Herzegovina 8.94%. (UN Tourism, 2023<sup>[3]</sup>)

### **Sub-dimension 15.1: Governance and enabling conditions**

North Macedonia's **tourism governance** faces several challenges that impact full implementation of existing tourism-related strategies. There has been growing awareness within the government that a new tourism strategy is necessary to reflect the current global situation and evolving nature of tourism, and further enforce the notions of innovation, sustainability and green policies. While under discussion, the new strategy will be designed to include a detailed action plan with clear policy measures. However, a clear timeframe and policy focus areas for the development and adoption of such a strategy are yet to be communicated. Efforts to promote innovation in tourism since 2021 have primarily consisted of strengthening the sector through initiatives such as promoting digitalisation, active and rural tourism and female entrepreneurship in the tourism industry. North Macedonia can learn from Montenegro's Smart Specialisation Strategy (2019-24) how to shape tourism as part of innovative strategy development (Box 16.1). Due to tourism's role in the economy's economic growth, tourism policies have been reflected and budgeted in national policies related to trade and investment promotion strategies but its contribution remains inadequately recognised with limited explicit references or sizeable budgetary allocations. A number of other strategies or policies include specific tourism-related measures (Table 16.2); however, these do not reflect current evolutions and therefore offer a limited framework for sustainable tourism development to meet current needs and criteria.

**Table 16.2. Tourism-related strategies**

List of tourism-related strategies
Sub-Strategy for the Development of Sports Tourism with Action Plan 2015-18
National Strategy for Rural Tourism 2012-17
Sub-Strategy for the Development of Active Tourism
Sub-Strategy for the Development of Cultural Tourism
Study on Wine Tourism
Study on Spa Tourism
Study with the Potential for the Construction of Mountain Bicycle Trails in the Entire Territory of the Republic of North Macedonia
Study on the Development of Tourism in the Sharplanina region.

Source: Government of North Macedonia, CO assessment 2024.

The implementation of measures is hindered by a number of challenges that include lack of commitment to the strategy, poor communication and co-operation among responsible ministries and public authorities, and limited training for staff involved in these processes. While there is evidence of co-operation with global and regional bodies in the field of tourism development, there are ongoing challenges in implementing a regular monitoring and evaluation system for tourism strategy implementation. Furthermore, the absence of a dedicated department for tourism strategy governance in the ministry responsible for tourism further exacerbates challenges for effective strategy execution. Currently, the Ministry of Economy holds the overarching responsibility for tourism development and strategic planning. Additionally, it oversees the Agency for Promotion and Support of Tourism, tasked with implementing the policies formulated by the ministry, and focal points in other ministries have been designated to address tourism-related issues. Numerous initiatives aimed at bolstering local and regional economies are presently under way, notably through projects dedicated to revitalisation, cultural heritage preservation, and innovation. Examples are projects such as “Lake Prilep – New Adventures, New Opportunities” and “Smart Lake Mladost”.<sup>1</sup>

### Box 16.1. Smart Specialisation Strategy of Montenegro 2019-24

Montenegro's commitment to sustainable and health tourism is embedded in its strategic framework led by the Council for Innovation and Smart Specialisation. Established in August 2019 and reconfigured in June 2021, the Council co-ordinates the implementation of science, technology, and innovation (STI) policies, including the Smart Specialisation Strategy (S3). This integration emphasises the promotion of innovation in tourism. The Council manages innovation activities and plays a crucial role in aligning sustainable and health tourism with cutting-edge technologies, reflecting Montenegro's dedication to a sustainable and innovative approach to tourism development.

In order to become a recognised destination for sustainable and health tourism, Montenegro has set a visionary goal for 2024 that focuses on innovative business models and services. The strategic plan aims to introduce breakthrough changes in the industry that include the introduction of advanced medical services, compliance with international quality standards and, as mentioned, the application of cutting-edge technologies.

Key objectives include the integration of innovative business models and services into the sustainable health tourism sector. Montenegro aims to improve its medical services to meet and exceed international quality standards and position itself as a hub for medical excellence. This strategic vision aims to boost economic growth and establish Montenegro as a leading destination for health and wellness seekers.

In the existing sector, Montenegro is focusing on the application of green and smart technologies in sustainable nautical tourism. In addition, the economy is developing standardised and innovative therapy and rehabilitation programmes for various health conditions, including methods such as balneotherapy, thalassotherapy and mineral water therapy. Looking to the future, the economy has identified potential in areas such as sports, leisure and wellness tourism, oncology using advanced technologies, development of pharmacotherapy, application of nanomaterials in medicine, and nutrition programmes.

Montenegro's solid research and innovation environment includes co-operation with scientific and educational institutions such as the University of Montenegro, the Adriatic University and the Montenegrin Academy of Sciences and Arts. Businesses, including hotels, holiday resorts, travel agencies and pharmaceutical companies, play an important role. The active participation of business associations, public institutions and the civil sector, represented by organisations such as the Chamber of Commerce and the Montenegrin Tourism Association, reflects a comprehensive and collaborative approach.

*Sources:* Montenegro Ministry of Education, Science and Innovation, (2019<sup>[4]</sup>); EC-OECD STIP Compass (2023<sup>[5]</sup>).

The effective implementation of tourism strategies, especially concerning the **vertical co-operation and information-sharing** indicator, has been hindered by the limited progress in co-ordinating efforts among tourism administrations at different levels. Nevertheless, a working group, chaired by a senior official from the Ministry of Economy and comprising representatives from the Chamber of Commerce, eight regions, municipalities, educational institutions, NGOs, and other associations, has been established as the formal co-ordination body for the development of the tourism strategy. While the establishment of a formal tourism vertical co-ordination body is a positive step forward, the collaboration, engagement, and information flow between national, regional, and local authorities on strategies and decision-making processes in the tourism agenda appear opaque. This opacity is further exacerbated by limited financial and human resources available to support the implementation of local/regional tourism strategies such as the Municipal Tourism Development Strategy Ohrid 2020-25, Strategy for the Development of Rural Tourism

Pehchevo 2018-23, Strategy for the Development of Tourism in the Eastern Planning Region with an Action Plan 2016-25, and Strategy for the Development of Tourism of Skopje 2020-23. Destination management organisations (DMOs) are the primary mechanisms to support tourism projects, but actions and systems to operationalise these mechanisms seem limited (Partale and Partale, 2019<sup>[6]</sup>). In North Macedonia, the framework for DMOs, including responsible entities and a timeframe, has been outlined under an IPA (Instrument for Pre-Accession Assistance) project. However, implementation of these structures is still pending. North Macedonia can gain insights from Greece into its approach to destination management and marketing organisations (DMMOs) and observatories (see Box 16.2). On the information-sharing front, the absence of a comprehensive tourist information system is a noteworthy gap that limits dissemination of relevant information for both tourists and stakeholders to ensure a positive visitor experience.

There is a solid foundation for **public-private dialogue** in North Macedonia. This is supported by the presence of a formal tourism management and co-ordination body, which includes private companies, academic representatives, and NGOs. This inclusive approach fosters collaboration among a diverse set of stakeholders and is a constructive starting point. However, addressing the challenges related to the operation of this body is paramount. Weak government commitment and a lack of financial resources undermine the effectiveness of this collaborative platform. The commitment to presenting the national tourism strategy at various levels and making it accessible to regional and local tourism organisations is commendable, as it ensures that the private sector is informed and engaged. However, the absence of a monitoring and evaluation mechanism for assessing the efficiency of co-operation at the national level is a notable gap.

North Macedonia has made progress in **data collection** by adhering to international standards, and the State Statistical Office (SSO) is using electronic systems for data collection (E-stat). SSO collects data on tourist arrivals and overnight stays (monthly), trips by the local population (quarterly) and foreign tourists in accommodation establishments, as well as surveys on foreign visitors at border crossings (every three years). According to the SSO, the first Tourism Satellite Accounts (TSA)<sup>2</sup> (OECD, European Union, United Nations, WTO, 2010<sup>[7]</sup>) were prepared in 2019 and the first dataset was published in 2022 (State Audit Office of North Macedonia, 2022<sup>[8]</sup>). The existence of a permanent data repository (MakStat Database) and a monitoring and evaluation mechanism increases the credibility and reliability of tourism statistics. Monitoring and evaluation are managed through an annual progress report. However, lack of expertise, skills, and knowledge, as well as a low level of co-operation among public institutions, hinders the effective implementation of data collection systems. Additionally, issues such as a lack of co-ordination and co-operation among institutions have the potential to disrupt the data collection process.

### ***Sub-dimension 15.2: Accessibility, tourism offer and human resources***

Since the 2021 assessment, very limited progress has been made on a **connectivity framework**. North Macedonia has not taken specific measures or adopted mechanisms to facilitate and monitor visa requirements and border crossing. On the other hand, North Macedonia is a member of the EU Strategy for the Adriatic and Ionian Region (EUSAIR) that aims to “connect people and institutions to build a common understanding of co-operation for a harmonised, integrated and sustainable region”. Furthermore, the focus on investments in more sustainable transport infrastructure and transport-related emissions showcases a commitment to environmental responsibility (EUSAIR, 2024<sup>[9]</sup>). The Agency for the Promotion and Support of Tourism has taken responsibility for the development of specific initiatives – such as bike tourism, which aims to map bike routes, including those intended for mountain biking. Cross-border hiking trails, such as the High Scardus Trail, improve the connection for tourist offers.

Concerning **accommodation capacity and quality**, North Macedonia has established consistent accommodation quality standards using EU standards and a mandatory categorisation system for accommodation facilities. Challenges include the absence of training courses for the categorisation



process and quality standards, potentially impacting consistency. While regular inspections occur, a shortage of budget and human resources may hinder efficiency.

North Macedonia has a defined human resources policy as part of the national tourism strategy, which shows a commitment to the **availability of qualified workforce** in the tourism sector. The economy has established a vocational education and training (VET) and higher education framework for tourism, laying the foundation for skills development. A significant development is the launch of a regional project aimed at improving the VET framework. This initiative, named “Towards regionally-based occupational standards TO REGOS”, began in 2019 under the leadership of the Education Reform Initiative of South Eastern Europe (ERI SEE) and focuses on enhancing the qualifications and standards within the tourism sector, contributing to a more skilled workforce. Regional initiatives support national efforts to close the skills gap. Despite these positive steps, challenges exist, including limited financial resources and qualified staff to support quality assurance and accreditation in the field of vocational training and higher education.

### ***Sub-dimension 15.3: Sustainable and competitive tourism***

North Macedonia has made progress in creating a tourism brand identity with “North Macedonia Timeless”. This branding initiative is an important step in promoting the economy’s offerings to potential visitors and remains under the responsibility of the Agency for Promotion and Support for Tourism. One notable challenge in **tourism branding and marketing** is the absence of a comprehensive tourism marketing strategy that identifies target markets and provides a framework for promotion. Although digital marketing activities are included in the overall strategy, there is a lack of government incentives to support private tourism operators and local destinations in the use of marketing tools. Monitoring and evaluation is carried out for a media campaign on annual basis but no mechanisms seem to exist for brand image and marketing strategy, which is a missed opportunity for tailored efforts based on real-time data and feedback, ensuring more effective and responsive marketing campaigns.

North Macedonia is making progress in the **natural and cultural heritage valorisation frameworks** by integrating them into the national tourism strategy and the environmental strategy. However, there is no specific government policy or framework for the valorisation of cultural heritage, although it is mentioned in various documents.<sup>3</sup> Furthermore, some foreseen strategies on heritage were never adopted and implemented, providing minimal targeted measures for the development of this indicator. Overall, progress on this has been very limited.

The economy did not provide any information on the important indicator **promotion of sustainable development and operations**, which is indicative of limited efforts towards sustainability. It is worth mentioning the rather poor ranking of 85 for investments in green energy and infrastructure, which is below average compared to the region and further impedes progress (World Economic Forum, 2022<sub>[10]</sub>). For sustainable tourism development, North Macedonia can gain insights from Greece in its approach to destination management and marketing organisations (DMMOs) and observatories (Box 16.2).

### Box 16.2. Destination management and marketing organisations (DMMOs) and observatories in Greece

In response to the growing importance of sustainable tourism, Greece has taken a proactive step by establishing a National Observatory of Sustainable Tourism Development. This initiative aims to centralise data collection at the national level, providing a comprehensive understanding of the economy's tourism landscape. One of the key outcomes is the publication of an Annual Tourism Sustainability Report, offering valuable insights into the progress of sustainable tourism development. This report serves as a critical tool for evidence-based policy making, allowing policy makers to make informed decisions that align with sustainability goals.

To ensure the success and sustainability of the National Observatory, Greece is actively building a network with various data providers. This involves signing memorandums of understanding to establish lasting co-operation and fostering regular updates of the database. Additionally, the creation of a digital platform and a dedicated website showcasing major sustainable tourism indicators enhances accessibility and transparency, making the information readily available to stakeholders and the public.

Complementing the national effort, Greece is also focusing on local and regional sustainable tourism development through the establishment of destination management and marketing organisations (DMMOs) and corresponding tourism observatories. These entities play a crucial role in creating a governance framework for efficient destination management and fostering collaboration among stakeholders and competent bodies. The Local/Regional Sustainable Tourism Development Observatories, integral components of this initiative, provide essential data for integrated planning of tourism strategies. Their responsibilities include conducting market studies, shaping policy proposals, and promoting local/regional thematic tourism products. This decentralised approach ensures that sustainable tourism efforts are tailored to the unique characteristics and needs of each locality, contributing to a holistic and impactful strategy for Greece's tourism sector.

Sources: OECD (2022<sub>[11]</sub>); Greece Ministry of Tourism (2022<sub>[12]</sub>).

## Overview of implementation of Competitiveness Outlook 2021 recommendations

North Macedonia's progress on the 2021 recommendations has been mixed. Moderate progress was achieved in improving the governance structure and regional destination management organisations. Nevertheless, room for improvement remains on many other fronts, such as advancing on the development of sustainable development and related infrastructure (Table 16.3).

**Table 16.3. North Macedonia's progress on past recommendations for tourism policy**

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Improve the efficiency of governance structure and institutional setup at the national level.	In response to the challenges faced by the tourism sector, the Ministry of Economy, in consultation with the tourism sector, recognised the need for a new tourism strategy. Progress has been achieved with the establishment of the working group responsible for developing the tourism strategy.	Moderate
Develop regional and local destination management organisations.	The whole structure for destination management organisations (DMOs) was prepared by the IPA project, the identification of a responsible institution and the start of work.	Moderate
Develop a programme promoting investment in high-quality tourism infrastructure.	Measures have been taken to promote and support investment in tourism. The Agency for Promotion and Support of Tourism in North Macedonia is actively involved in facilitating tourism investments.	Limited
Develop a sector-specific human resource policy for tourism.	The development of an HR policy and plan for the tourism sector is an integral component of the overarching national Tourism Strategy. A significant development is the launch of a regional project aimed at improving the vocational education and training (VET) framework, named "Towards regionally-based occupational standards TO REGOS".	Limited
Develop a comprehensive framework for the promotion of sustainable development and operation of the tourism sector.	No significant developments could be identified during the assessment period due to incomplete or missing information.	Limited

## The way forward for tourism policy

To ensure further successful development of tourism, policy makers should:

- **Establish a dedicated Tourism Strategy Department to drive the tourism agenda**, streamline the process, and ensure alignment of efforts among the various agencies and stakeholders in the development and implementation of a new tourism development strategy. North Macedonia can gain insights from other OECD countries (Box 16.3).
- **Allocate additional resources for vocational education and training (VET)** to support education and training programmes in the tourism sector. Implementing monitoring and evaluation mechanisms will help track the progress of the VET and higher education framework.
- **Develop and implement a comprehensive tourism marketing strategy.** The government should develop and implement a marketing strategy that clearly identifies target markets and provides a framework for promotion. A strategic marketing approach is essential for attracting specific visitor segments and promoting the economy's unique offerings. Additionally, the strategy should include digital marketing initiatives and incentives to support private tourism stakeholders in utilising digital tools.
- **Establish a framework to promote sustainable development and management of the tourism sector**, ensuring that sustainability criteria are mandatory for all investments in tourism infrastructure. This framework should be supported by public incentives and include initiatives to sensitise and train tourism sector stakeholders to sustainable business practices. It should also be based on monitoring the sustainability of tourism in the country. North Macedonia could learn from the Greek concept of the National Observatory for Sustainable Tourism Development (Box 16.2) and other OECD countries (Box 16.4).

### Box 16.3. Development of National Tourism Strategies: Selected country approaches

#### Estonia's National Tourism Strategy 2022-25

Estonia's National Tourism Strategy 2022-25 has a goal to become a sustainable tourism destination that offers visitors diverse and unique travel experience in all seasons. Estonia's cross-cutting approach on sustainability is defined by three principles: valorisation of the local culture, the environment and the community; co-operation; and contribution to fulfilling the UN SDGs. Activities already set out by the Estonian Tourist Board for the period 2022-25 to enhance the sustainability and resilience of Estonian tourism sector include:

- Participating in international Green Destinations programme, running annual GreenEST summit and circular economy programmes.
- Recognising sustainable tourism operators and enhancing application of eco-labels.
- Sharing information and best practices about green investment and resource saving support options and the best sharing practices.
- Providing financial support for sustainable and inclusive tourism sector product development (EUR 14.1 million from REACT EU measures).
- Supporting new business models.
- Developing thematic networks and routes.

The Strategy also sets out several measurable goals for the tourism sector to be achieved by 2025. These goals include increasing the average length of stay of international tourists to at least four nights, increase participation in the network of sustainable tourism businesses to include at least 150 firms, and at least six Estonian destinations have received the Green Destinations Award.

#### Germany: Integrated tourism policy development

In May 2022, Germany established a steering committee consisting of high-ranking members across all relevant ministries to tourism in Germany. The main task of this steering committee is to develop key points for the National Tourism Strategy and to agree upon a working programme for the Federal Government. Germany is now creating the national platform "Future of Tourism" as the central instrument for co-operation and integration for the development of a National Tourism Strategy. The platform will be expanded to include representatives of the sixteen federal states and stakeholders of the tourism sector early in 2023. Within this platform, all actors will work together to evaluate, adjust and amend the measures of the working programme. This will utilise different working groups to ensure the right people are addressing the right issues.

Source: OECD (2022<sup>[11]</sup>).

### Box 16.4. Measuring sustainable tourism progress: Portugal

A Tourism Strategy 2027 was launched in 2017 with the vision to affirm tourism as a hub for economic, social and environmental development, and to position Portugal as a key competitive and sustainable tourism destination. In line with the Strategy, and the UN SDGs, Portugal has since developed a Sustainable Tourism Plan 2020-23 which follows on from the recovery plan Reactivate Tourism - Building the Future. Under the Plan, a set of 43 sustainability indicators are used to benchmark and assess progress for tourism businesses and the sector as a whole. Regular surveys are carried out on environmental practices and social responsibility in hotels and golf courses. The Plan stipulates the following targets for 2023: 75% of tourism companies with energy efficiency, water and waste management systems, and not using Single-Use Plastics; Clean & Safe Seal: 25 000 members, 30 000 graduates and 1 000 audited; and 50 000 professionals trained in the areas of sustainability. The set of initiatives covered by the Plan contribute to promoting an increasingly distinctive offer and to accelerating sustainability of tourism companies.

Source: OECD (2022<sup>[11]</sup>).

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## Notes

<sup>1</sup> Information on the Agency for Promotion and Support of Tourism is available here: <https://tourismmacedonia.gov.mk/proekt-za-lokalna-i-regionalna-konkurentnost/?lang=en>.

<sup>2</sup> The Tourism Satellite Account (TSA) is a standard statistical framework and the main tool for the economic measurement of tourism. The TSA allows for the harmonisation and reconciliation of tourism statistics from an economic (National Accounts) perspective. This enables the generation of tourism economic data (such as Tourism Direct GDP) that is comparable with other economic statistics.

<sup>3</sup> North Macedonia has two properties inscribed on the World Heritage List: Ancient and Primeval Beech Forests in the Carpathians and Other Regions of Europe, and Natural and Cultural Heritage of the Ohrid Region, <https://whc.unesco.org/en/statesparties/mk>.

## Competitiveness and Private Sector Development

# Western Balkans Competitiveness Outlook 2024: North Macedonia

Inclusive and sustainable economic growth in the six Western Balkan (WB6) economies depends on greater economic competitiveness. Although the gap is closing gradually, the standards of living in WB6 are well below those of the OECD and EU. Accelerating the rate of socio-economic convergence will require a holistic and growth oriented approach to policy making.

This is the fourth study of the region (formerly under the title 'Competitiveness in South East Europe') and it comprehensively assesses policy reforms in the WB6 economies across 15 policy areas key to strengthening their competitiveness. It enables WB6 economies to compare economic performance against regional peers, as well as EU-OECD good practices and standards, and to design future policies based on rich evidence and actionable policy recommendations.

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence of the WB6 by fostering regional co-operation: business environment, skills, infrastructure and connectivity, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous 2021 study's recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.



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