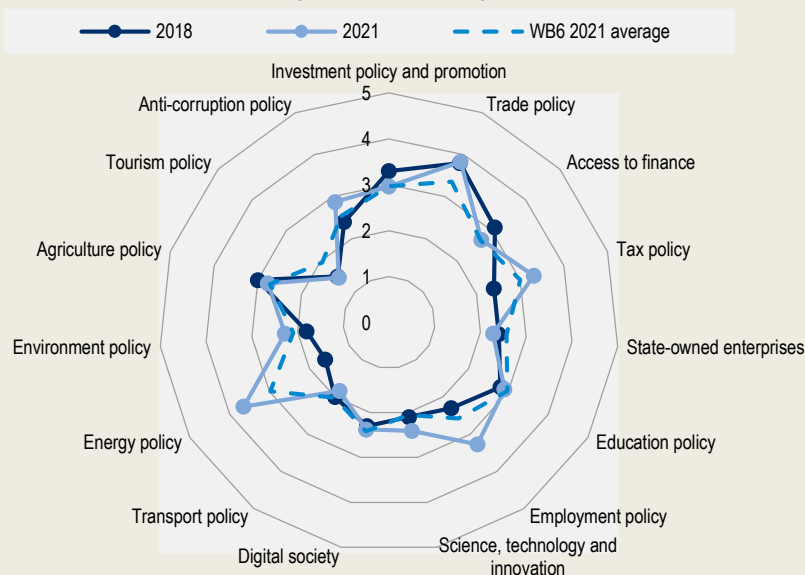


# 24 North Macedonia profile

## Key findings

Figure 24.1. Scores for North Macedonia (2018 and 2021)



Note: Dimensions are scored on a scale of 0 to 5. Scores for 2021 are not directly comparable to the 2018 scores due to the addition/removal of relevant qualitative indicators. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See Scoring approach section for information on the assessment methodology. Scores for Dimension 5 (Competition policy) are not included in the figure due to its different scoring methodology (see Scoring approach).

Since the publication of the 2018 Competitiveness Outlook (CO), North Macedonia has improved its performance in 8 of the 15 policy dimensions<sup>1</sup> scored in the assessment (Figure 24.1). Although there is clear progress in setting up policies to enhance competitiveness – at least in about half of the dimensions covered in this assessment – if they are to have a lasting impact then their effective and continuous implementation, monitoring and upgrading should remain a key priority. North Macedonia's highest average scores are in the dimensions on trade, energy, tax, employment and anti-corruption policy (above or just marginally below 3.0). North Macedonia also outperforms the WB6 average for these five policy dimensions. Its main achievements since the last CO assessment have been the following:

- **Greater international tax policy alignment and co-operation, and a stronger capacity to model and forecast tax revenues.** In August 2018, North Macedonia joined the Inclusive Framework on Base Erosion and Profit Shifting (BEPS); in January 2020 it signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS. North Macedonia has prepared a first legislative draft on country-by-country reporting, based on OECD model legislation, which is currently under internal review. It also signed the Convention on Mutual Administrative Assistance in Tax Matters in June 2018, which entered into force in January 2020. Since the last assessment, North Macedonia has also strengthened its forecasting capacities and expanded its simulation models.
- **A less restrictive trade policy, greater regulatory transparency, improved public consultations and a sound e-commerce policy framework.** The conclusion of the Additional Protocol 6 on Trade in Services to the Central European Free Trade Agreement (CEFTA) in December 2019 created an important stimulus for reducing services restrictions between parties

and for making services markets more attractive to third-country investors. All 12 service sectors in North Macedonia analysed here using the OECD Services Trade Restrictiveness Index methodology have become more open. This assessment also reveals progress in increasing regulatory transparency, improving public consultations and increasing inclusiveness in trade policy. Several amendments to the 2007 Law on Electronic Commerce have continued to strengthen the e-commerce policy framework and to align it with European Commission recommendations and the Directive on Electronic Commerce 2000/31/EC.

- **Significant upgrades to the energy policy and legislative framework.** With the adoption of its Energy Law in 2018, the economy has transposed a significant part of the European Union's Third Energy Package and the Energy Community *acquis*. In December 2019 North Macedonia adopted its Energy Development Strategy 2040, aiming to increase the share of renewable energy to 35-45% of gross final energy consumption by 2040. The strategy foresees the introduction of carbon pricing and convergence with the EU's Emission Trading System. Significant efforts have also been made on energy efficiency. The Law on Energy Efficiency, adopted in February 2020, is considered best practice by the Energy Community Secretariat.
- **Better employment policies, particularly for bringing the most vulnerable into the labour market.** North Macedonia's 2018 pilot Youth Guarantee Scheme to tackle high youth unemployment is now being implemented more widely. This has seen a strong fall in the youth unemployment rate, from 44% in the fourth quarter (Q4) of 2018 to 35% in Q4 of 2019, although this is still above the WB6 and EU average. Notable improvements have also been made to co-operation between social services and employment services in order to bring vulnerable groups into employment. North Macedonia has also increased the institutional capacities of its public employment service, in particular by categorising unemployed people according to their employability profiles, the use of case management and setting up individual employment plans.
- **A strengthened national anti-corruption body.** The State Commission for the Prevention of Corruption (SCPC) has expanded its responsibilities through a 2019 law on the prevention of corruption and conflicts of interest. The SCPC has made major progress in drafting the National Strategy for Combatting Corruption and Conflict of Interest 2020-24, a holistic policy document aimed at guiding anti-corruption efforts in key sectors (the political system, judiciary, law enforcement bodies, healthcare and education) and two cross-cutting areas (public procurement and employment in the public sector). The SCPC's annual budget has also been increased, from MKD 27 million (Macedonian denar) in 2018 to MKD 55 million in 2020 (around EUR 0.9 million), although staffing concerns remain an issue given the SCPC's high caseload.

### Priority areas

Of the 15 policy dimensions in this assessment, North Macedonia scores lowest for tourism policy, transport policy, environment policy, state-owned enterprises and digital society (Figure 24.1), with its scores for tourism policy, transport policy and state-owned enterprises below the WB6 average. To improve its performance in these five policy areas, North Macedonia should:

- **Improve municipal waste and wastewater management.** Less than 1% of solid waste is recycled in North Macedonia (compared to a 47% average in the EU), meaning almost 99% goes to landfills. Moreover, only 24 wastewater treatment plants (WWTPs) were operating in 2019, which is 24.5% of the required capacity. Municipal waste management and wastewater treatment depend largely on donor funds, impeding regular maintenance. North Macedonia needs to invest in WWTPs and ensure regular maintenance of the existing network. Effective implementation of recycling and circular economy policies will require a whole-of-government approach, with collaboration among the relevant ministries to steer the transition. The government's next step should be to encourage exchanges between municipalities by helping

local government associations or environmental non-government organisations (NGOs) to develop guidelines, training and initiatives to recognise best practice.

- **Develop strategies for environmentally sustainable and combined transport.** Transport is a significant contributor to North Macedonia's emissions, at 13% of all greenhouse gas emissions in 2014. Integrating environmental sustainability goals into its transport strategy is crucial; these are currently scattered across various policy documents, making progress harder to monitor. The use of combined transport, a more environmentally friendly and cost-efficient mode of moving freight, is increasing: the total tonnage of goods transported through this mode increased by 30% in the period 2017-19. However, combined transport still accounts for only 1.3% of total freight, compared to the EU average of 6.2% in 2017. North Macedonia also lacks a policy framework to develop this mode; creating one will help it to fully capitalise on its potential.
- **Strengthen the tourism governance and institutional set up at national, regional and local levels.** North Macedonia lags behind in tourism development, mainly due to inefficiencies in the overall governance of the tourism sector. As a result, few of the policy measures in the National Strategy for Sustainable Tourism Development have been implemented. North Macedonia should establish an intra-governmental body to improve co-ordination among ministries and other public institutions, while actively involving private and public stakeholders in developing and implementing tourism strategies. The government should also develop regional and local destination management organisations, as defined in the tourism strategy. These could take over managing tourism development within individual destinations and design and implement destination tourism master plans.
- **Step up support to digital government and private sector information and communication technology (ICT) adoption, while promoting digital inclusion.** Only 25% of individuals in North Macedonia used the Internet to interact with public authorities in 2019, compared to 55% in the EU. Many important services are unsophisticated, allowing only one-way interaction. Policy makers need to prioritise and support the digitalisation of the most frequently used services. This should include harmonising legacy legislation on e-services and e-payments, while creating a publicly available dataset of e-government indicators to evaluate service quality. Digital transformation of the private sector should also be supported through an overarching national strategy and adequate financial support schemes. The public procurement of ICT products and services should include accessibility requirements to ensure digital inclusion.
- **Develop a comprehensive state ownership policy for state-owned enterprises.** The ownership arrangements for North Macedonia's centrally held state-owned enterprises (SOEs) are dispersed across the administration and there is no unified state ownership policy to guide corporate decision making on SOE performance. There has been no attempt to define, disclose or estimate the costs of SOEs' non-commercial objectives, which can be quite wide ranging, including delivering public services and supporting local employment. As a result, many SOEs are loss-making. Developing a state ownership policy that outlines the rationales for state ownership and the expectations on SOEs would be a first step towards professionalising state ownership practices. The policy should clearly outline the main principles guiding state ownership decisions, such as setting objectives and board nominations, and define the roles and responsibilities of the different state bodies responsible for state ownership decisions and monitoring SOEs' activities. At a later stage, the authorities could establish a co-ordinating entity to monitor implementation of the state ownership policy, and other subsequent policies or decisions applicable to SOEs, across the public administration.

1: Please note that Dimension 5 (Competition policy) is excluded from the key findings section as it uses a different scoring model (See the Scoring approach section for information on the assessment methodology).

## Economic context

### **Key economic features**

The Republic of North Macedonia is a small, open economy with a sizable and diversifying service sector and an expanding manufacturing base. The economy is dominated by services, which account for 54.5% of gross domestic product (GDP) (World Bank, n.d.<sup>[1]</sup>) and 55% of employment (ILOSTAT, 2021<sup>[2]</sup>). The largest contributions among services come from wholesale and retail trade, ICT, transport, and logistics (MAKStat, 2019<sup>[3]</sup>). Industry, including construction, has expanded significantly over the past decade and now accounts for 23.9% of GDP (World Bank, n.d.<sup>[4]</sup>) and 31.1% of employment (ILOSTAT, 2021<sup>[2]</sup>). The most notable expansion in the industrial sector has been the increase in manufacturing from 8.8% of GDP in 2009 to 13.3% in 2019 (MAKStat, 2020<sup>[5]</sup>) on the back of significant inflows of export-oriented foreign direct investment (FDI). There has also been a considerable increase in public and private construction activity. The contribution of agriculture, forestry and fishing has been declining continuously since the 1990s and now accounts for only 4% of GDP (World Bank, n.d.<sup>[6]</sup>). However agriculture still accounts for nearly 14% of total employment (ILOSTAT, 2021<sup>[2]</sup>) and there is considerable scope to increase the growth and productivity of this sector.

Over the past decade the economy's growth has become more broad based and balanced. Prior to the global financial crisis, growth was mainly driven by domestic consumption and investment, underpinned by strong credit growth and significant FDI inflows into the banking sector. Between 2001 and 2008, exports accounted for just 34.2% of GDP and the heavy dependence of consumption on imports resulted in large current account deficits that peaked at 12.4% of GDP in 2008 (World Bank, n.d.<sup>[7]</sup>). In the post-crisis period, moderating domestic demand and rising external demand have resulted in a significant improvement of the external balances and the current account deficit remained below 3% of GDP throughout most of the past decade.

The rise in external demand in the post 2008/09 crisis period was driven primarily by significant inflows of export-oriented manufacturing FDI into North Macedonia's special economic zones. These investments, mainly related to the automotive industry, resulted in a significant increase in total exports, which in 2019 accounted for 61.7% of GDP, the highest share in the Western Balkan region (World Bank, n.d.<sup>[8]</sup>). Exports of services have also increased considerably but are still only 25% of total exports. This is the case despite the strong potential for the development of services linked to manufacturing global value chains (e.g. transport and logistics), the rapidly growing domestic ICT sector, and strong potential for growth in food processing exports and tourism.

Despite the positive developments in diversification and the expansion of the tradable sector, their impact on overall GDP growth has been moderated by weak links between the export-oriented FDI sector and local small and medium-sized enterprises (SMEs). Supplier linkages remain relatively weak as foreign investors rely on imports for most of their inputs other than low-cost local labour. In fact, the share of imported inputs is higher in North Macedonia than in its regional and global peers. Combined with the fact that they have been mainly in labour-intensive manufacturing activities, these investments have thus made a limited contribution to value added and GDP growth. With domestic demand moderating, the limited value added from exports has meant that GDP growth overall has declined from an average rate of 3.5% during 2001-08 to 2.6% between 2010 and 2019 (World Bank, 2021<sup>[9]</sup>).

**Table 24.1. North Macedonia: Main macroeconomic indicators (2015-20)**

Indicator	Unit of measurement	2015	2016	2017	2018	2019	2020
GDP growth <sup>1</sup>	% year-on-year	3.8	2.8	1.1	2.7	3.2	-4.5
GDP per capita <sup>2</sup>	Current international \$	13 827	15 078	15 650	16 672	17 583	16 927
National GDP <sup>2</sup>	USD billion	10.1	10.7	11.3	12.7	12.5	12.3
Inflation <sup>1</sup>	Consumer price index, annual % change	-0.3	-0.2	1.4	1.5	0.8	1.2
Current account balance <sup>1</sup>	% of GDP	-2.0	-2.9	-1.1	-0.1	-3.3	-3.5
Exports of goods and services <sup>1</sup>	% of GDP	48.7	50.9	55.0	60.2	62.1	58.1
Imports of goods and services <sup>1</sup>	% of GDP	65.0	66.2	69.1	72.9	76.5	70.9
Net FDI <sup>1</sup>	% of GDP	2.2	3.3	1.8	5.6	3.2	1.9
Public and publicly guaranteed debt <sup>3</sup>	% of GDP	46.6	48.8	47.7	48.4	49.4	60*
External debt <sup>4</sup>	% of GDP	69.3	74.7	73.4	73.3	71.9	..
Unemployment <sup>1</sup>	% of total labour force	26.1	23.8	22.4	20.7	17.3	16.4
Youth unemployment <sup>2</sup>	% of total labour force ages 15-24	47.3	48.2	46.7	45.4	35.6	..
International reserves <sup>1</sup>	In months of imports of G&S	4.2	4.9	4.1	4.4	4.6	5.3
Exchange rate (if applicable local currency/euro) <sup>1</sup>	Value	61.61	61.60	61.57	61.51	61.51	61.7
Remittance inflows <sup>2</sup>	% of GDP	3.0	2.7	2.8	2.7	2.5	3.4
Lending interest rate <sup>5</sup>	% annual average	7.5	7.0	6.6	6.1	5.6	5.2
Stock markets (if applicable) <sup>1</sup>	Average index	1 731	1 887	2 406	3 154	3 939	4 378

Note: G&S = goods and services; \* estimates for 2020

Source:

1. (EC, 2021<sup>[10]</sup>), EU Candidate Countries' and Potential Candidates' Economic Quarterly (CEEQ) Q1 2021,

[https://ec.europa.eu/info/sites/default/files/economy-finance/tp048\\_en.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/tp048_en.pdf).

2. (World Bank, 2021<sup>[11]</sup>), World Bank WDI data, <https://databank.worldbank.org/source/world-development-indicators>.

3. (World Bank, 2020<sup>[12]</sup>), World Bank Western Balkans Regular Economic Report, <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.

4. (EBRD, 2020<sup>[13]</sup>), Transition Report 2020-21, <https://2020.tr-ebd.com/countries>.

5. (IMF, n.d.<sup>[14]</sup>), IMF Data, <https://data.imf.org/regular.aspx?key=61545855>

Low and weakly growing productivity is at the core of many of the above-mentioned trends over the past decade. Productivity growth slowed considerably in the period following the global financial crisis, due to both weaker productivity growth within sectors and slower reallocation of labour from less productive to more productive sectors (World Bank, 2020<sup>[16]</sup>). This poor productivity growth in the midst of strong growth in public and private investment since 2009 suggests weaknesses in how investment has been allocated. In particular, in the public sector considerable amounts were invested in public works related to monuments with limited potential to increase productivity (IBRD/World Bank, 2018<sup>[17]</sup>). It also points to significant market friction, preventing the reallocation of capital and other inputs to the most productive sectors and firms. This friction stems from numerous structural challenges including inadequate access to finance; inadequate competition, including from the informal sector; and unpredictable and discretionary enforcement of regulations and corruption (see the Structural economic challenges section below).

Modest growth and weak integration of enterprises into global value chains (GVCs), whether through the FDI sector or otherwise, also reflects enterprises' limited capacity to innovate and adopt new technology. Enterprises in North Macedonia tend to invest considerably less in research and development (R&D) or other innovation activities than their aspirational peers in the EU. They cannot meet the quality standards required by the automotive or other relevant industries and value chains. This reflects first and foremost difficulties accessing finance that are particularly pronounced for micro and small enterprises and start-ups. It also reflects problems with access to human capital and skills, which, in turn, reflect underlying challenges with the quality and relevance of the education system and weaknesses in the implementation of active labour market policies. This challenge is exacerbated by the emigration of highly skilled people to the EU and other developed economies, which has intensified over the past decade (see the Structural economic challenges section below).

Gaps in North Macedonia's infrastructure undermine connectivity, trade and GVC integration. Despite significant investment and improvement in its physical infrastructure over the past decade, some gaps remain. Combined with weaknesses in its "soft" infrastructure (customs, logistics) these undermine connectivity and further trade integration. They also undermine efforts to strengthen the FDI and export sectors (see the Structural economic challenges section below).

Despite notable improvement in labour market indicators, which was in part thanks to significant fiscal support provided to FDI investors and domestic companies in the post-crisis period, unemployment remains high at 16.4% and labour force participation is still relatively modest at 55%. This is particularly the case among the youth, with unemployment at 35.6% and labour force participation at 37.7%. Likewise, the share of young people who are not in education, employment or training is high at 23%, double the OECD and EU averages. Participation rates for women are also low, at 43%, contributing to the underutilisation of domestic human capital (World Bank, 2021<sup>[9]</sup>).

Looking ahead to the next decade, North Macedonia has considerable potential to accelerate its convergence with EU income levels on the back of further expansion and upgrading of the export-oriented manufacturing sector. This could come through continuing to attract FDI but also fostering a more conducive environment for the growth of dynamic, productive, adaptive and innovative SMEs that can be externally competitive and take part in global value chains across a variety of sectors with high development potential. Addressing the key constraints identified in this economy profile, as well as the Competitiveness Outlook more broadly, will support this agenda.

### ***Sustainable development***

North Macedonia has committed to the United Nation's Agenda 2030 for Sustainable Development. It also takes part in the National Voluntary Review Programme, which encourages countries to conduct regular and inclusive reviews of their progress on the Sustainable Development Goals (SDGs) at both the national and sub-national level. The goal is to foster the exchange of experiences, success stories and lessons learned in order to strengthen the implementation of the 2030 Agenda (Sachs et al., 2021<sup>[18]</sup>).

Overall, over the past two decades, North Macedonia has made positive progress towards achieving the goals of Agenda 2030, but the pace of progress has been relatively modest on most of the key indicators across all dimensions of the SDGs (Table 24.2). North Macedonia is on track to achieve or has maintained its achievement of the SDGs only in one main area – poverty rates are declining with proportions of the population that lives on less than USD 1.90 and USD 3.20 decreasing (Sachs et al., 2021<sup>[18]</sup>).



**Table 24.2. North Macedonia's progress towards achieving the SDGs**

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

Source: (Sachs et al., 2021<sup>[18]</sup>), *Sustainable Development Report 2021: the Decade of Action for the Sustainable Development Goals*, <https://s3.amazonaws.com/sustainabledevelopment.report/2021/2021-sustainable-development-report.pdf>.

Moderate improvements have been noted across most SDG thematic areas. While North Macedonia's health outcomes have improved in most areas and are on track to achieve the SDG targets, the high prevalence and death rates from non-communicable diseases including cardiovascular disease, diabetes and cancer remain a significant problem (SDG 3). Significant challenges remain in education, in particular in lower secondary completion rate (SDG 4). In the area of work and economic growth, unemployment still remains high and poses considerable challenges for well-being (SDG 8). High air pollution also has a strong impact on the health and life expectancy of the population (SDG 7 and 11) (Sachs et al., 2021<sup>[18]</sup>).

According to the SDG assessment, the most significant challenges lie in the areas of institutions (SDG 16) and inequality (SDG 10). Corruption remains an important challenge as does the prevalence of child labour. Likewise important issues are still noted in the area of property rights. Inequality, as measured by the Gini Coefficient, also remains high (Sachs et al., 2021<sup>[18]</sup>).

### **Structural economic challenges**

North Macedonia faces a number of key structural challenges that undermine its competitiveness, investment and GVC integration.

*Lack of skills is undermining economic growth and the development of a knowledge economy*

- **Quality of education** is at the root of this issue. For example, student performance on standardised tests like the Programme for International Student Assessment (PISA), is well below not only the OECD average but also most regional peers: fewer than 50% of students in North Macedonia achieved the minimum level of proficiency in reading (45%) and mathematics (39%) and only 51% achieved this for science, compared to the OECD average of over 75% (OECD, 2019<sup>[19]</sup>). This, in turn, reflects inefficient use of resources in the education system. Student



performance is weak despite low student-teacher ratios at all levels of education up to tertiary. The low teaching quality partly reflects the low compensation of teachers, outdated curricula, etc.

- **Lack of skills** also reflects the relevance of education. About one-third of employers have noted that they had difficulty filling job openings because they could not find workers with the required skills. Moreover, about 50% of employers, many of whom are in the automotive industry, have noted that their employees do not have sufficient skills for the jobs that they occupy and require significant on-the-job training. In addition to technical skills, the skills gaps also include cognitive and soft skills, such as communication, management and interpersonal skills, many of which are critical for the development of the services sector (World Bank, 2017<sup>[20]</sup>). These challenges reflect underlying issues with the vocational and tertiary education system – see Education policy (Dimension 7). They also include lack of adequate labour market information systems and lack of active labour market policies – see Employment policy (Dimension 8).
- **The incentives to learn and acquire skills** are significantly diminished by the fact that job prospects, salaries and career advancement are strongly determined by other factors such as political or family connections, monetary compensation or bribery in the public sector. According to the latest Balkan Barometer survey, the top two assets for finding a job identified by respondents were a network of family and friends in high places (39%) and personal contacts (38%). In comparison, only 19% of respondents identified the level of education/qualifications as one of the top two assets for getting a job (Regional Cooperation Council, 2019<sup>[21]</sup>).
- **Early childhood education** lays the foundations for cognitive and other skill development. Yet in North Macedonia, participation in early childhood education is very low and this also negatively affects women's participation in the labour market. Enrolment is particularly low for the poorest 20% of households, where it is less than 1%, while even among the richest quintile it is just 55% (World Bank, 2017<sup>[20]</sup>). In most OECD countries, the average rate of enrolment is over 80% (OECD, n.d.<sup>[22]</sup>).

#### *The economy underuses its human capital*

- **Low labour force participation** remains a problem: in 2019, more than half of the population (53%) was either unemployed or inactive. Young people are particularly underused: 15-24 year-olds have a labour participation rate of only 31% (World Bank, n.d.<sup>[23]</sup>) and an unemployment rate of 38% (World Bank, n.d.<sup>[24]</sup>). Women have even lower activity rates (43% compared to more than 50% for the total population), which reflects, in part, limited affordable childcare options and social norms in some segments of the population. The ageing population (the median age is 39 years) and high levels of emigration, particularly of highly skilled youth, further exacerbate the challenges of underutilised and underdeveloped human capital.

#### *A challenging business environment stifles enterprises, particularly SMEs*

Over the past two decades, North Macedonia has made considerable progress in reducing the administrative and regulatory burden on businesses by introducing the so-called regulatory guillotine, as well as other measures. As a result, North Macedonia's ranking in the Doing Business report has increased significantly and is now 17<sup>th</sup> globally (World Bank, n.d.<sup>[25]</sup>). Nevertheless, many outstanding challenges in this area undermine enterprises' competitiveness, investment and growth:

- **Contract enforcement** is lengthier and costlier than in peer countries and well below the global leaders (634 days compared to 590 days for the OECD average and 120 days for the global leaders). Likewise, there are still outstanding challenges with insolvency, with considerably lower recovery rates (48% compared to 70% in the OECD) (World Bank, n.d.<sup>[25]</sup>). Businesses also complain about unpredictable changes in regulation and uneven and discretionary oversight and

enforcement of regulations. This latter partly reflects the weak governance and capacities of inspection bodies (World Bank, 2018<sup>[26]</sup>).

- **Inefficient customs** impede the development of the export sector and GVC integration. While the special economic zones circumvent some of these issues by introducing dedicated customs terminals for their investors, the majority of other firms still face challenges in this area. In the latest Logistics Performance Index, North Macedonia's score was lowest in the customs indicators compared to its performance in other indicators, leading to an overall ranking of 81<sup>st</sup> out of 160 countries (World Bank, 2018<sup>[27]</sup>).
- **Unfair competition**, particularly from the informal sector, represents an important constraint for businesses in North Macedonia. In the latest Business Environment and Enterprise Performance Survey (BEEPS), 54.5% of firms stated that they compete against informal competitors (World Bank, n.d.<sup>[28]</sup>). Informal employment is also high at 17.2%, as is the prevalence of other practices including under-reporting of wages and envelope wages in cash, under-reporting sales and not issuing fiscal receipts (WIIW, 2020<sup>[29]</sup>). This not only creates an uneven playing field for some firms, it also significantly reduces public revenues and consequently limits public spending and investment on priority development areas.

*Firms' capacities to innovate and adopt technology are still relatively limited*

- **Investment in R&D** by businesses remains low (0.1% of GDP compared to the EU average of 1.5%), as is their adoption of quality standards (World Bank, 2020<sup>[16]</sup>). The low amounts firms invest in innovation reflect some of the constraints in the business environment that limit the flow of resources from less to more competitive firms. Lack of skills, including management and entrepreneurial skills, also limit innovation.
- **Limited Access to finance** (Dimension 3) has a significant impact on firms' capacity to invest in new technology and quality standards, particularly for small and micro-enterprises and start-ups. These firms cannot meet the commercial banks' stringent lending standards (for collateral, credit history, turnover and other requirements) but have limited access to alternative financing. In recent years, some progress has been made in improving access to finance through the Fund for Innovation, but the gap still remains significant, especially in the context of limited private-sector alternatives to bank finance.

*Cross-cutting and sector-specific constraints undermine the growth of key sectors*

- **Agriculture:** Agricultural productivity is very low (less than 25% of the EU average) undermined by fragmented land (the average farm is 1.62 ha), lack of adequate infrastructure for irrigation and limited access to machinery. The sector is also plagued by significant inefficiencies. Studies have shown that the average farm could produce the same output with 55% fewer inputs. High agricultural subsidies, which are well above the EU average, make matters worse by reducing the incentives to restructure the sector to enhance productivity – subsidised farms are less efficient than non-subsidised farms (World Bank, 2018<sup>[26]</sup>) – or to reallocate labour from agriculture to the more productive manufacturing and service sectors.
- **Tourism:** The tourism sector has significant potential due to North Macedonia's location, natural endowments, and rich history and culture. The sector is constrained by the lack of people with the skills needed for higher value-added activities, limited capacity to innovate and adopt new technology, and limited access to finance high-quality transport services. Businesses in the sector also complain about the bureaucratic red tape and corruption when it comes to accessing utilities, permits and licences (World Bank, 2018<sup>[26]</sup>).
- **ICT:** The ICT sector has grown significantly in recent years but it still has a great deal of unfulfilled potential especially in the area of service exports. The sector is constrained by the limited size of

the domestic market, insufficient supply of skilled workers and their high turnover across firms, underdeveloped collaboration between the sector and the relevant educational institutions, and lack of access to finance, particularly for start-ups and high-risk venture capital.

*Weak revenue performance and high and rising current expenditure limit the government's fiscal space*

- **Fiscal policy has been expansionary** for most of the past decade in order to support economic recovery in the wake of the global financial and Eurozone crises and increase employment. Support for employment has been both direct (through public construction projects) and indirect (through subsidies and tax exemptions for FDI investors and domestic companies as well as ad hoc increases in pensions, although the latter are also linked to the election cycle). At the same time, revenue performance has been relatively weak, down from 32.9% of GDP in 2008 to 29.6% of GDP in 2019 (Ministry of Finance, n.d.<sup>[30]</sup>) due to low tax rates, a narrow tax base and considerable tax avoidance from the informal economy. This has resulted in deficits widening from an average of less than 1% in the pre-crisis period to 2.9% between 2009 and 2019 (Ministry of Finance, n.d.<sup>[30]</sup>), and public debt doubling from 24% in 2008 to 51% in the second quarter of 2020.
- **Narrowing fiscal space** has important implications. Since the local currency is pegged to the euro, the central bank has limited monetary policy options to stimulate the economy in times of crisis, leaving fiscal policy as the main instrument. Moreover, with roughly 80% of government expenditure going on public wages, social transfers and subsidies, which are difficult to cut, the government's ability to adjust expenditure in response to declining revenue or to redirect spending toward other pressing needs such as the ongoing economic crisis has become much more limited. This is also why capital expenditures are most frequently cut mid-year to accommodate the higher current expenditure needs.

*A greener growth model would improve well-being*

- **Air pollution** has become one of the most acute problems in North Macedonia with significant consequences for health, mortality and economic development. At 33  $\mu\text{g}/\text{m}^3$  (in 2017) exposure to  $\text{PM}_{2.5}$  (particulate matter) air pollution is the highest in the Western Balkan region, more than double the EU average of 13.1  $\mu\text{g}/\text{m}^3$  and the OECD average of 12.5  $\mu\text{g}/\text{m}^3$ , and well above threshold limits recommended by the World Health Organization (WHO) air quality guidelines of 10  $\mu\text{g}/\text{m}^3$  annually (EEA, 2020<sup>[31]</sup>). Pollution is particularly acute in winter when residential heating, including from burning of solid fuels, compounds the pollution from transport, power generation and industry. In fact, residential heating accounts for 63% of all  $\text{PM}_{2.5}$  air pollution and 46% of all  $\text{PM}_{10}$  pollution (MEPP, 2017<sup>[32]</sup>). Transport pollution is also high, particularly in urban areas, due to the high numbers of old vehicles on the streets. According to the State Statistics Office, the average car is 19 years old. (MAKStat, 2020<sup>[33]</sup>).
- **Climate change.** North Macedonia is vulnerable to the impacts of climate change due to its high exposure and low resilience to natural hazards. Yet the transition to low-carbon growth has been slow and efforts to strengthen resilience to these hazards have been relatively weak. The economy is still highly dependent on highly polluting lignite coal and the intensity of energy consumption is high. Water resource management also remains a challenge, increasing the risks of future droughts. The lack of a coherent national strategy and policies to enhance climate change preparedness and resilience as well as slow progress in the development of emergency response systems makes the economy more at risk from future disasters.

*More inclusive growth is also needed to improve well-being*

- Even though living standards have improved significantly over the past two decades (GDP per capita increased by 60%), high poverty levels and inequality remain an important challenge for North Macedonia. Nearly 18% of the population still lives on less than USD 5.5 a day, and there is also considerable inequality across different regions and ethnic groups. For example, Macedonians of ethnic Albanian origin represent more than 40% of the poorest quintile of the population and only 15% of the richest, while the ethnic Roma community is overwhelmingly in the bottom two income quintiles (World Bank, 2018<sup>[26]</sup>). The Roma population lag significantly behind others in education completion rates: only 31.3% of the Roma ethnic group have completed secondary education compared to over 86.8% for the rest of the population in North Macedonia. Gender inequality is also persistent. Lower activity rates, employment and entrepreneurship among women are estimated to have reduced GDP by 16% (World Bank, 2018<sup>[26]</sup>).

*COVID-19 has exacerbated structural challenges*

The Macedonian economy has been strongly affected by the COVID-19 pandemic, which resulted in significant declines in domestic and external economic activity. Domestic demand was strongly reduced by the confinement measures imposed in the second quarter of 2020, as well as the slow restart of the economy following their relaxation. Meanwhile, slowing economic activity in key trading partners and related disruptions in the automotive value chain notably affected external demand, resulting in a decline in exports of over 30% in Q2 of 2020. Even though economic activity picked up in the second half of the year, the recovery has been subdued. As a result, annual GDP contracted by 4.5% on the back of declining investment (-10.2%), exports (-9.6%) and private consumption (-5.6%). Declining imports (-9.2%) meanwhile mitigated the impact on GDP (Table 24.1) (EC, 2021<sup>[10]</sup>).

The pandemic strongly affected a number of critical sectors including industry, trade, transport and tourism. Industrial production declined strongly in the second quarter of 2020 as a result of the confinement measures as well as disruptions in the global supply chains. Automotive and textile manufacturing were particularly badly hit, with their volumes nearly halving compared to the same period in the previous year. Retail was affected by lower household spending related to the confinement and declining consumer confidence amid the uncertain economic recovery (EC, n.d.<sup>[34]</sup>). Air and rail transport were particularly strongly affected by limitations on travel and reductions in the movement of goods (MAKstat, 2020<sup>[35]</sup>) (EC, 2021<sup>[10]</sup>).

However, the fiscal support measures that the government took in the wake of the pandemic have helped moderate its impact on the economy, and particularly the labour market. This support included liquidity support for firms (subsidising employees' social security contributions for companies that retained employment, deferring income tax payments, more favourable lending terms and credit guarantees) as well as sector-specific support for the most affected sectors, including tourism, agriculture and catering through direct payments and grants. As a result, employment declined by just 0.3% compared to 2019 and unemployment continued to decline from 17.3% in 2019 to 16.4% in 2020 (EC, 2021<sup>[10]</sup>). **Error! Reference source not found.** outlines some of the tax measures in response to COVID-19.

The impact on household incomes and poverty was also mitigated by the government's support measures. Social security schemes provided additional support to individuals who lost their jobs as a result of the crisis (e.g. a new unemployment insurance scheme and accelerated access to the social protection system). Low-income households were also supported through cash vouchers as well as delays in rent demands for social housing. At the start of the crisis, the government also introduced price controls on basic food products, medicines and disinfection products, and abolished the import duties on medical supplies and select goods.

Many of the structural challenges discussed above have played a role in either amplifying the impact of the COVID-19 pandemic or limiting the scope of the policy responses to it. The crisis has, therefore, provided important lessons on how to build more resilient economies and institutions:

- **Fiscal policy:** Among its political and administrative responses to the COVID-19 pandemic, North Macedonia introduced a number of tax policies including:
  - Advance corporate income tax (CIT) payments for certain sectors were postponed in March 2020 for five months. This deferral was available to companies which had suffered a 40% decline in revenues. Companies which took advantage of it could not pay dividends or reduce the number of employees. This provision was extended until February 2021.
  - The threshold for CIT liability was increased from MKD 3 million to MKD 5 million.
  - Advance personal income tax (PIT) payments for independent activities were also postponed in March 2020 for five months. This provision was also extended until February 2021.
  - Direct cash transfers of EUR 150 were paid to individuals with monthly incomes below EUR 250, EUR 100 to students and up to 40% of their salary to medical workers.
  - During April, May and June 2020, entrepreneurs could opt for a subsidy of up to 50% of social security contributions (SSCs).
  - For businesses that suffered a 30% loss in revenues, a wage subsidy scheme was implemented of up to the minimum wage (paid to the employer). Beneficiaries of this scheme could not pay dividends or reduce the number of employees. This subsidy was capped at EUR 350 per month during October, November and December 2020.
  - The value-added tax (VAT) refund system was simplified and facilitated.
  - A new 10% VAT rate was introduced for restaurants and catering services from January 2021. The VAT rate was also reduced for craft activities from 18% to 5% in January 2021.
  - More flexible tax-debt repayments, notably by lowering penalty interest rates.
  - The ability to carry forward losses was extended from three to five years.
  - North Macedonia has implemented a wider set of responses to COVID-19 than other WB6 economies. For example, few implemented wage subsidy schemes or direct cash transfers to households, but these are centrepieces of North Macedonia's response. North Macedonia's comprehensive COVID-19 response package broadly aligns with those of OECD/G20 countries (OECD, 2020<sup>[36]</sup>). While the fiscal response has been critical to preventing significant economic fallout from COVID-19, especially for the labour market, it has resulted in a significant narrowing of the fiscal space. With revenues likely to be weaker in the wake of the crisis, particularly if the recovery is slow, improving the efficiency of public spending will be critical over the coming months, as will prioritising expenditures that can support the recovery and promote productivity growth and structural transformation for stronger and more resilient long-term growth. This also includes increasing public investment which has suffered significantly due to high and rising current expenditure. The crisis also highlights the importance of rebuilding fiscal buffers in the post-crisis period. In addition to better management of expenditure this will also require tackling some of the structural constraints that undermine revenue performance.
- **Innovation and technology adoption:** The COVID-19 crisis starkly demonstrated the importance for firms of being able to adapt to new challenges and changing circumstances. It also revealed the advantages to firms of embracing digitalisation and modern practices. The resilience of the post-pandemic recovery will therefore depend on addressing the structural issues limiting innovation and technology adoption among firms and to what extent digitalisation and digital skills become mainstream.



- **Access to finance:** The crisis has highlighted the significance of having a well-developed and diversified financial sector that can respond to the financing needs of enterprises not only during a crisis but also during the recovery phase. As in the rest of the region, the main instruments for providing additional liquidity for enterprises during the crisis came from government support through subsidised lending or lending guarantees. But a robust financial sector comprised of diversified financial institutions that can provide financing for riskier and innovative ventures, and not just established enterprises, will be very important during the recovery phase and beyond.
- **Informality:** The large informal sector – and significant levels of informal employment even within the formal sector – have limited the scope of measures aimed at protecting the income and employment of workers in the most affected sectors. Informality is widespread in these sectors, including retail and tourism, and informal firms have not been able to benefit from government subsidies, favourable loan terms and loan guarantees, and other support measures. Developing a more resilient economy will depend on enhancing the incentives for formalisation and improving the oversight and sanctioning of non-compliance.
- **Health sector:** North Macedonia's vulnerability to the pandemic was increased by its already comparatively poor health outcomes and inefficient health system. This challenge is compounded by relatively low spending on health care (6% of GDP in 2017 compared to 12.6% in the OECD) (World Bank, 2020<sup>[16]</sup>). The health sector's revenues are highly sensitive to employment and economic downturns since they depend on payroll contributions. North Macedonia will need to strengthen the resilience of its health sector through measures such as increased funding; improving pandemic preparedness, including training of health workers and increasing the supply of relevant equipment; and strengthened supply chains for essential medicines and other supplies.

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

Following the signing of the Cooperation Agreement with the European Community in 1997, North Macedonia was the first Western Balkan economy to sign a Stabilisation and Association Agreement (SAA) with the EU in 2001. The government formally applied for EU membership in March 2004 and was granted candidate status in December 2005. The EU adopted the Accession Partnership for North Macedonia in February 2008.

For over a decade, North Macedonia's accession negotiations were stalled by the bilateral dispute with Greece over the name "Macedonia". However, in 2018, the breakthrough Prespa Agreement which, among other things, changed its name from Republic of Macedonia to North Macedonia, renewed the prospects for the start of accession negotiations. On 24 March 2020 the EU foreign ministers approved the start of negotiations and on 1 July 2020, the European Commission (EC) presented to the member states the negotiating framework with North Macedonia. However, at the time of the writing of this report, North Macedonia's EU accession course had hit another roadblock as Bulgaria vetoed the start of the negotiations over disagreements regarding the origins of the Macedonian language. It has demanded that the resolution of this bilateral issue be added to the framework for the accession negotiations.

Despite these political challenges to its quest to become an EU member state, the importance of advancing the socio-economic reform agenda remains a priority for North Macedonia. As the government negotiates its accession to the EU, the findings in this Competitiveness Outlook 2021 offer monitoring relevant to a number of critical chapters of the *acquis*, while its recommendations provide the guidance needed to meet the accession requirements. The Competitiveness Outlook also provides a good basis for assessing the critical challenges that the economy faces as a starting point for the development of the Economic Reform Programmes (Box 24.1).

### Box 24.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates prepare Economic Reform Programmes (ERPs) which play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness, and improve conditions for inclusive growth and job creation. The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda.

The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. Public Financial Management
2. Green transition
3. Digital transformation
4. Business environment and reduction of the informal economy
5. Research, development and innovation
6. Economic integration reforms
7. Energy market reforms
8. Transport market reforms
9. Agriculture, industry and services
10. Education and skills
11. Employment and labour market
12. Social protection and inclusion
13. Healthcare systems

The structural reforms part of the ERPs is organised in two parts:

- A first part identifies and analyses the three key challenges across those 13 areas. The identification and prioritisation of key challenges imply a clear political commitment at the highest level to address them and the ERPs should propose a relevant number of reform measures to decisively tackle each of them in the next three years.
- A second part provides an analysis of the remaining areas (not included as key challenges) and may propose additional reforms to address them.

The European Commission and the European Central Bank then assess these programmes, which form the basis for a multilateral economic policy dialogue involving the enlargement economies, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include economy-specific policy guidance reflecting the most pressing economic reform needs. The findings of the Competitiveness Outlook provide guidance to the six Western Balkans EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: (European Commission, 2021<sup>[37]</sup>), Guidance for the Economic Reform Programmes 2022-2024 of the Western Balkans and Turkey, [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp\\_2022-2024\\_guidance\\_note.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp_2022-2024_guidance_note.pdf); (European Commission, 2018<sup>[38]</sup>), Economic Reform Programmes: Western Balkans and Turkey, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.



### *EU financial and development support*

North Macedonia has received considerable financial support from the EU, which has been its largest provider of financial assistance. Under the Instrument for Pre-Accession Assistance (IPA), North Macedonia received a total of EUR 1.25 billion between 2007 and 2020. North Macedonia has also received EUR 832.6 million in loans from the European Investment Bank since 1999. Finally, EUR 185.2 million in grants through the Western Balkans Investment Framework have leveraged an estimated EUR 2.1 billion in financing since 2009 (EC, 2021<sup>[39]</sup>).

On 6 October 2020 the EC adopted the Economic and Investment Plan for the Western Balkans, which seeks to support the long-term economic recovery of the region, a green and digital transition, and regional integration and convergence with the EU. The plan envisages the mobilisation of up to EUR 9 billion in investment in sustainable transport, human capital, competitiveness and inclusive growth (EC, 2020<sup>[40]</sup>).

In addition to grant funding the EU also provides important guarantees that support public and private investment by reducing the risks and costs associated with those investments. The new Western Balkans Guarantee Facility is expected to mobilise up to EUR 20 billion in investment over the coming decade (EC, 2020<sup>[40]</sup>).

The Connectivity Agenda seeks to support investments in sustainable transport and clean energy. Set up under the Western Balkans Investment Framework, the latest package, which was presented at the Western Balkans Summit in Sofia on 10 November 2020, completes the delivery of the EU's 2015 pledge to finance EUR 1 billion of investment in support of better connectivity in the WB region. It also represents the first step in implementing the flagship projects under the Economic and Investment Plan for the region.

The EU has also been instrumental in supporting North Macedonia as it deals with the fallout from the COVID-19 pandemic. At the start of the pandemic, the EU reallocated bilateral financial assistance to support North Macedonia's health sector in combatting the disease (EUR 4 million) and to support the government in its efforts to combat the economic impact of the crisis (EUR 62 million) (EC, 2020<sup>[41]</sup>). This help was followed by EUR 160 million in macro-financial assistance to further support the government in dealing with the economic fallout from the pandemic, EUR 80 million of which was disbursed in July 2020 (EC, 2020<sup>[42]</sup>).<sup>1</sup>

## Scope and methods

### **Process**

Following the first two Competitiveness Outlook assessments, published in 2016 and 2018, the third Competitiveness Outlook assessment cycle for the WB6 economies was launched virtually (due to the COVID-19 pandemic) on 3 April 2020. The OECD team introduced North Macedonia's Competitiveness Outlook Government and State Statistical Office coordinators to the new digitalised assessment frameworks (see Assessment methodology and process chapter for details). The two primary documents for assessing each of the 16 policy dimensions – the qualitative questionnaire and statistical data sheet – were explained in depth, giving particular attention to new questions and indicators. The OECD team also explained digital solutions to be used to disseminate the material together with the detailed guidelines, tutorials and information on the assessment process, methodology and timeline.

Following the launch of the assessment, the Cabinet of the Deputy President of the Government of the Republic of North Macedonia disseminated the materials among all 16 Policy Dimension Co-ordinators and Statistical Office contact points in North Macedonia. Where additional guidance was needed, the OECD team held teleconferences with Dimension Co-ordinators and Statistical Office contact points in April and May 2020.

All 16 Dimension Co-ordinators and Statistical Office contact points completed the assessment between April and May 2020. They assigned a score (see Scoring approach) to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessments (qualitative questionnaires and statistical data sheets) were returned to the OECD team between May and July 2020.

The OECD reviewed the inputs and, where necessary, requested additional information from the Cabinet of the Deputy President of the Government of the Republic of North Macedonia, Policy Dimension Co-ordinators and Statistical Office contact points. The updated assessment materials were sent back to the OECD between July and September 2020. In addition, the OECD organised policy roundtable meetings between October and November 2020 to fill in any remaining data gaps, to get a better understanding of the policy landscape, and to collect additional information for indicators where necessary.

Based on the inputs received, the OECD compiled the initial key findings for each of the 16 policy dimensions. It then held consultations on these findings with local non-government stakeholders (including chambers of commerce, academia and NGOs) in November 2020. As a follow up, the OECD presented the preliminary findings, recommendations and scores to the Competitiveness Outlook Government Co-ordinator,<sup>2</sup> Policy Dimension Co-ordinators and Statistical Office contact points at a virtual meeting on 9 December 2020. The draft Competitiveness Outlook economy profile of North Macedonia was made available to the Government of North Macedonia for their review and feedback from mid-January to mid-February 2021.

### **Scoring approach**

Each policy dimension and its constituent parts are assigned a numerical score ranging from 0 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 0 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 24.3).

For further details on the Competitiveness Outlook methodology, as well as the changes in the last assessment cycle, please refer to the Assessment methodology and process chapter.

**Table 24.3. Competitiveness Outlook scoring system**

<b>Level 5</b>	Level 4 plus independent impact evaluation. Results of monitoring and impact evaluation inform policy framework design and implementation updates in line with OECD good practice
<b>Level 4</b>	Level 3 plus evidence that the framework is monitored and, if necessary, adjusted accordingly
<b>Level 3</b>	Level 2 plus some concrete indications that the policy framework is being implemented effectively
<b>Level 2</b>	Framework specifically addressing the policy area concerned is solidly in place, officially adopted by the government or parliament (where applicable). The framework includes policy features necessary for it to have an impact
<b>Level 1</b>	Existing draft or pilot policy framework with signs of government activity addressing the policy area concerned
<b>Level 0</b>	No framework (e.g. law, institution, project, initiative) exists for the policy topic concerned

### *Exceptions*

Unlike the other 15 policy dimensions, competition policy (Dimension 5) is assessed using yes/no answers to 71 questions in a dedicated questionnaire. A “yes” response (coded as 1) indicates that a criterion has been adopted, whereas a “no” (coded as 0) indicates the criterion has not been adopted. The overall score reflects the number of criteria adopted. Moreover, some qualitative indicators which have been added to this edition of the assessment for the first time, are not scored due to the recent character of the policy practice they capture and the unavailability of relevant data.

## Investment policy and promotion (Dimension 1)

### Introduction

North Macedonia's performance has slightly worsened in the investment dimension. Its score has decreased from 3.25 in the 2018 Competitiveness Outlook to 3.0 in the 2021 assessment. While the economy has made notable progress in enhancing its investment policies, North Macedonia ranks fourth among the six Western Balkan (WB6) economies for this dimension (Table 24.4), as its investment promotion and facilitation as well as its green investment framework are limiting its potential to attract foreign investors.

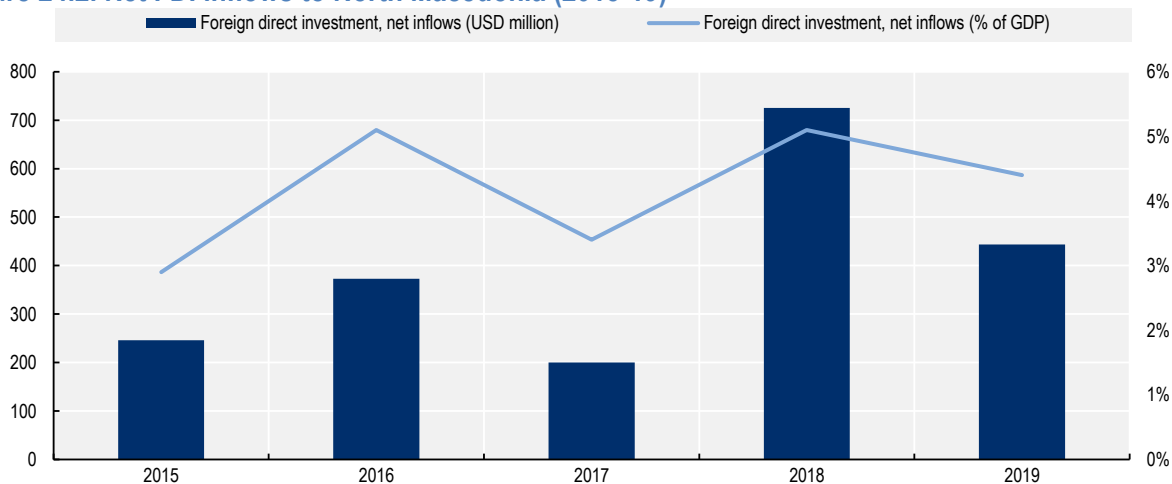
**Table 24.4. North Macedonia's scores for investment policy and promotion**

Dimension	Sub-dimension	Score	WB6 average
Investment policy and promotion dimension	Sub-dimension 1.1: Investment policy framework	3.5	3.2
	Sub-dimension 1.2: Investment promotion and facilitation	2.8	3.0
	Sub-dimension 1.3: Investment for green growth	1.5	2.0
North Macedonia's overall score		3.0	3.0

### State of play and key developments

In 2020, North Macedonia attracted net FDI inflows of USD 444 million, representing 3.8% of its GDP (Figure 24.2) (EC, 2020<sup>[43]</sup>). This level is below most of its regional peers: Montenegro attracted net inflows worth 8.4% of GDP, Serbia 8.3% and Albania 7.9%. North Macedonia was on a par with Kosovo, also at 3.8% of GDP, and outperformed Bosnia and Herzegovina which attracted FDI worth only 1.9% of GDP in 2019 (World Bank, 2020<sup>[16]</sup>). Its total FDI stock was estimated at USD 6.4 billion in 2019 with investments originating primarily from the United Kingdom (14%), Austria (13%), Greece (9%), the Netherlands (8%) and Slovenia (7%). The manufacturing sector attracts the most FDI, ahead of financial and insurance activities.

**Figure 24.2. Net FDI inflows to North Macedonia (2015-19)**



Source: All calculations based on data from the National Bank of the Republic of North Macedonia (NBRNM),<sup>3</sup> the World Bank and the International Monetary Fund.

StatLink  <https://doi.org/10.1787/888934256026>

### *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. Its investment framework is comprised of several laws including the Law on Trading Companies, the Law on Technological Industrial Development Zones, the Law on Financial Support of Investments, the Law on the Establishment of ASIPI, the Law on State Aid Control, and the Law on Strategic Investment, adopted in 2020.<sup>4</sup> In 2018, the Law on Technological Industrial Development Zones was amended to introduce a new built-to-lease option that provides leaseholders with the opportunity to build a facility to meet the needs of new investors in development zones, which allow greater flexibility and competitiveness.

However, the legislation could benefit from some clarification. For instance, the national laws have no unified definition of a foreign investor. Despite the government's efforts, the overall regulatory environment remains full of complexities. Frequent changes and inconsistent interpretation of the rules tend to create an unpredictable business environment conducive to corruption (US Department of State, 2020<sup>[44]</sup>).

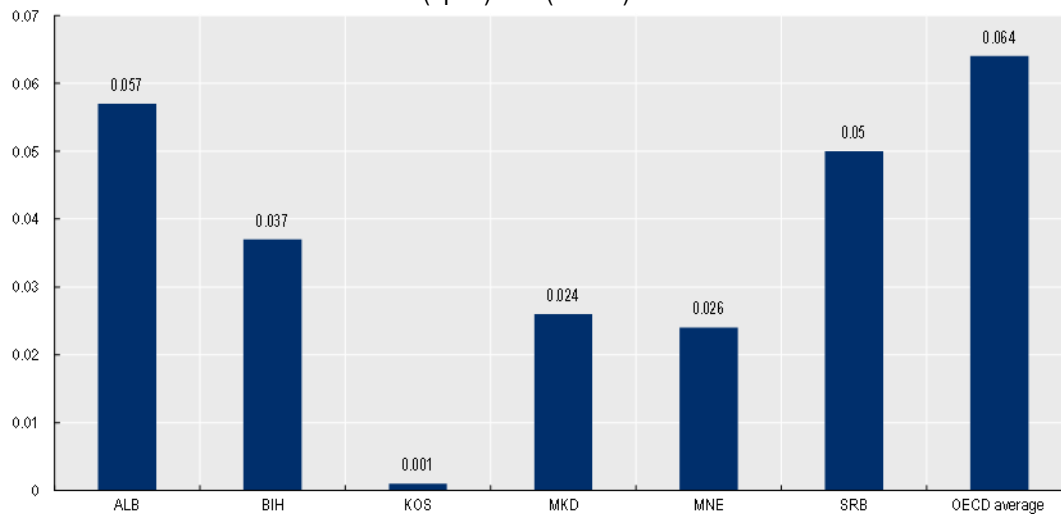
Despite recent improvements, transparency and consultation with key stakeholders could be further enhanced. North Macedonia does not have a single website or portal dedicated to investors providing investment laws and regulations, and English versions of laws are not always available. However, the government is striving to increase transparency and is in the process of gathering all regulations onto the Unique Electronic Register of Regulations (ENER) website.<sup>5</sup> This website also includes all draft regulations and encourages public consultations by allowing stakeholders to make comments and suggestions. Transparency has also been reinforced throughout the implementation of a regulatory impact assessment (RIA) programme,<sup>6</sup> which aims to improve the regulatory environment and increase and enhance consultations with stakeholders.

Based on stakeholders' feedback, the RIA and the consultation processes were recently improved. However, the RIA process for laws and consultation procedures provides little information on the background, rationale or expected goals of proposed laws. Moreover, the process only allocates a short amount of time for stakeholders to provide analysis and feedback and does not establish clear deadlines for submitting comments. Stakeholders also complained that consultations are not systematic and are sometimes marginalised or avoided by the government for key legislation. For instance, the Law of Strategic Investments was adopted in 2020 in the space of two months and without proper consultation with stakeholders or the involvement of key public bodies including, notably, the state aid authority.

The market in North Macedonia is open and **exceptions to national treatment** are very limited. Its score on the OECD FDI Regulatory Restrictiveness Index, which assesses and benchmarks market access and exceptions to national treatment, was 0.026 in 2019. This reflects the fact that it maintains only a handful of restrictions, specifically in the transport sector, making its FDI regime less restrictive than the OECD average of 0.064 (Figure 24.3). It does maintain discriminatory restrictions on real estate ownership by legal entities established abroad, which is subject to reciprocity with exceptions for EU and OECD residents, who have the same rights as local residents. In addition, foreign residents cannot acquire agricultural land in North Macedonia and the leasing of agricultural land by foreigners and foreign-owned enterprises is subject to reciprocity or approval from the Ministry of Justice. Overall, North Macedonia's foreign investment rules do not constitute impediments to FDI, however it does not have a negative list of sectors where foreign investment is prohibited or subject to discriminatory conditions.

**Figure 24.3. FDI Regulatory Restrictiveness Index (2019)**

Restrictions are evaluated on a scale of 0 (open) to 1 (closed)



Source: OECD (2019<sup>[45]</sup>), *FDI Regulatory Restrictiveness Index* (database), [www.oecd.org/investment/fdiindex.htm](http://www.oecd.org/investment/fdiindex.htm).

**Investor protection against expropriation** without fair compensation is enshrined in the Constitution of North Macedonia<sup>7</sup> and its modalities are defined by the Law on Expropriation.<sup>8</sup> The law stipulates that expropriation measures can only be used in a non-discriminatory manner, for a public purpose, under due process of law and with fair compensation. It also instructs public authorities to pay investors the market value within 15 days, after which interest will accrue. The Law on Expropriation clearly defines 1) the procedure for calculating the compensation value by a lawful assessor; 2) the process for paying compensation; and 3) the procedures for taking court action in the event of non-payment of the value of the private property. The Macedonian Model Agreement on the Encouragement and Reciprocal Protection of Investments provides additional protection against expropriation. However, the legal framework does not explicitly recognise the concept of indirect expropriation, which deprives investors of the certainty of compensation in cases where the state interferes indirectly with their operations and affects their benefits, investments or use without taking their property.

In 2019, North Macedonia adopted a new law on administrative disputes which aims to improve all administrative acts and procedures. Under this law, appeals against the expropriation decision to the administrative court and to the higher administrative court are better regulated and shortened.

When it comes to **dispute settlement**, foreign investors have the same rights and remedies before the national court system as domestic investors. The justice system is continuing the reform efforts of the 2017-22 Strategy on Judicial Reform. This primarily focuses on reinforcing the independence of the judiciary, which often suffers from executive interference, and strengthening the fight against corruption. The court system maintains a clearance rate of 100% and there is no backlog of cases (EC, 2020<sup>[46]</sup>). The judicial system is also stepping up its modernisation efforts through the use of information technology (IT) but these efforts are being hindered by limited funding. Judges are undergoing special training for mediation mechanisms and procedures in accordance with programmes of the Academy for Judges and Public Prosecutors.<sup>9</sup>

North Macedonia does not have dedicated commercial courts. Commercial disputes are handled by specialised court divisions in the basic courts with extended competencies. Following the amendment of the Law on Courts in 2019, 3 additional courts gained extended competency to decide on commercial cases, increasing the total to 16 courts. However, investors still complain that lengthy and costly commercial disputes through the court system are creating legal uncertainty (US Department of State, 2020<sup>[44]</sup>). In 2019, there were a total of 1 879 cases in progress (876 of which were from the previous

period) while the number of cleared cases was 1 000. In 2019, it took 320 days to complete a case (up from 268 days in 2018) with a 99.77% clearance rate (111% in 2018).

North Macedonia offers alternative dispute resolution (ADR) mechanisms but their use is limited. It has ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) and the 1958 Convention on the Recognition and enforcement of foreign arbitral awards (New York Convention). Local courts recognise and enforce foreign arbitration awards issued against the Government of North Macedonia. The economy has also developed a mediation framework following the Law on Mediation, adopted in 2013, and all commercial disputes under EUR 15 000 must be subjected to mediation before legal action can be initiated in the courts. However, as the use of ADR mechanisms is not common and has become less so in recent years, arbitration is not yet considered a viable tool to ensure justice by either parties or the courts (EC, 2020<sup>[46]</sup>).

North Macedonia has strengthened its **intellectual property rights (IPR) legal framework** adopting several intellectual property (IP) laws<sup>10</sup> and regulations, which are being harmonised with EU legislation and contain the minimum requirements of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).<sup>11</sup> It is a member of the World Intellectual Property Organization and adheres to the main international treaties and conventions on IPR. It has integrated the key dispositions of international IP agreements into its national legislation,<sup>12</sup> notably in the Law on Industrial Property, as well as its patent and industrial design regulations.

However, the institutional framework for **IPR enforcement** and implementation is fragmented, with multiple institutions with overlapping mandates and a lack of human resources, limiting their co-operation and efficiency. These institutions include the State Office of Industrial Property (SOIP), the Ministry of Culture and the Ministry of Agriculture, Forestry and Water Economy (MAFWE). In addition, the State Market Inspectorate is responsible for monitoring markets and preventing the sale of counterfeit and pirated goods in co-operation with customs, and the Ministry of Interior is in charge of IP crimes.

The Coordination Body for Intellectual Property, the body responsible for IP enforcement, has recently undergone improvements that have allowed it to increase the number of actions it takes against infringers including increasing its human resources capacity and securing increased funding from the SOIP. In response to requests for action by rights holders, about 30 co-ordinated actions were carried out against violations of industrial property rights, such as patents for inventions, industrial designs and trademarks, in North Macedonia in 2020 (20 in Ohrid and 10 in Skopje). Between 1 February and 31 December 2020, the Customs Administration received 45 requests for customs protection measures and 86 requests for extension of the deadline for customs protection. In the numerous actions conducted in the reporting period, customs impounded 69 518 individual items on account of reasonable doubt that the goods had violated IPR. Representatives of the State Market Inspectorate, the Public Revenue Office and the Ministry of Interior participated in the supervision and efficient implementation of these measures and activities.

The SOIP, the body responsible for industrial property rights, has improved its registration process, making it both quicker and cheaper; it now takes less than six months to register an industrial property right. The office provides information kits and databases of trademarks, patents and industrial design. It is expected to start offering online filing for patents in 2021 and to start the procedure for online filing for trademarks and industrial design. While there are no specialised courts dealing with IPR cases, judges and public prosecutors are regularly trained on IPR laws and enforcement.

While co-operation among the many institutions charged with IP enforcement is currently lacking, the SOIP is expected to begin implementing the EU-funded Technical Assistance for Development of a National Strategy on Intellectual Property 2020-25 project in March 2021. The programme will include the development of a dedicated e-network for data exchange between IPR institutions in as well as e-filing solutions for trademarks, patents, industrial designs and e-services. The new long-term National Strategy on Intellectual Property 2021-30 also includes a concrete set of proposals to improve the functioning of IP

institutions, including the establishment of special IP rights departments within institutions and increasing the number of staff dealing with IP-related issues.

The government has also reinforced its **IPR awareness raising and improved access to information**. The SOIP leads IPR awareness seminars, workshops and training courses that are included in its annual work programme. It recently organised seminars and workshops about IPR in co-operation with universities and private sector actors.<sup>13</sup> Additional activities include the organisation of training for judges on IP matters.

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

North Macedonia has a solid **investment promotion agency structure and strategy**. Two agencies are responsible for attracting FDI and servicing investors: the Agency for Foreign Investments and Export Promotion (ASIPi), also known as Invest North Macedonia,<sup>14</sup> and the Directorate for Technological Industrial Development Zones (DTIDZ, the national special economic zones authority). With the establishment of the new government in 2020, the role of supporting ASIPi to promote and facilitate investment has been transferred from the cabinets of four ministers in charge of attracting FDI to the cabinet of the Deputy Prime Minister in charge of economic affairs and co-ordination of economic sectors and investments as well as the department for FDI in the cabinet of the Prime Minister.

The co-ordination of investment promotion and facilitation activities is also enabled by the use of the national customer relations management (CRM) system which is used by all parties to communicate with potential investors. While ASIPi manages the system, the employment of economic promoters have made the functionality of the CRM limited, although it is in the process of being updated.

North Macedonia is doing well at fostering linkages between local firms and multinational firms. The Law on Financial Support of Investments encourages these linkages, providing financial support for the establishment and promotion of co-operation with suppliers registered in North Macedonia.<sup>15</sup> The economy also has active policies for developing clusters, of which there are currently 20 active groups. These policies are inscribed in the Competitiveness Strategy (2016-20) that aims to create an attractive business environment for foreign investors through reforms and public private dialogue, mobilising remittances from the diaspora, and improved data collection as well as in the Industrial Strategy (2018-27), and the Innovation Strategy (2012-20) that supports the integration of local companies into global value chains.

Finally, the government is providing support to local companies that are taking actions to increase their competitiveness and ability to link with foreign enterprises, such as adopting standards, digitalising, developing or improving products, improving their organisational structure, or investing in development and equipment.

North Macedonia also has a strong institutional setting and co-ordination mechanisms for its **investment facilitation services and activities**. This is reflected in its ranking in the World Bank's Doing Business index of 17<sup>th</sup> out of 190 countries. Since 2006, the National Registry has operated as a one-stop-shop for registration and allows rapid registration (1-2 days). North Macedonia is also implementing a one-stop-shop for business licences and permits to start and run a business, which was expected to be fully functional in 2020. The economy is also accelerating the digitalisation of public services used by investors. In 2018, DTIDZ also introduced a key change in the Law on Technological Industrial Development Zones in order to facilitate the establishment of businesses in the zones and allow more flexibility through a new build-to-lease option for investors in zones.

However, ASIPi has a limited investment facilitation mandate. This role was previously undertaken by the cabinet of the Vice-Prime Minister for Economic Affairs which organised a public-private platform called Learning From the Business Community, allowing representatives from the private and public sectors to discuss issues raised through yearly cycles of company visits.<sup>16</sup> However, this platform has recently ceased to operate and the role has been transferred to the Deputy Prime Minister who executes a programme of company visits throughout the year. These meetings discuss initiatives, problems, requests



and the needs of companies and business sectors in the economy, which are then brought to the government's attention.

North Macedonia has a clear **investor targeting** strategy and ASIPI has a well-defined set of priority sectors<sup>17</sup> that it promotes. The 2020 Strategic Investment Law also defines strategic sectors including energy, transport, telecommunications, tourism, manufacturing, agriculture and food, forestry and water economy, health, industrial and technological parks, wastewater and waste management, sport, science, and education. ASIPI continues to promote, target and attract investors to locations around the entire economy, including in development zones, while DTIDZ regularly reaches out to potential high value-added manufacturing companies about hosting in the technological industrial development zones in order to support a competitive environment and generate linkages with domestic firms.

North Macedonia has put complex and multi-layered **investment incentive** schemes in place to attract investments. In March 2018, the government passed the Plan for Economic Growth (Government of North Macedonia, 2020<sup>[47]</sup>) which provides substantial incentives to both domestic and foreign companies. These include a variety of measures including job creation subsidies, capital investment subsidies for the acquisition of new markets and financial support to increase competitiveness. All other incentives are included in the Law on Financial Support to Investment, the Law on Technological Industrial Development Zones and the Strategic Investment Law. Tax incentives introduced in the tax laws are under the authority of the Public Revenue Office (PRO) which is the institution authorised to carry out tax assessment and collection. The PRO also provides information to the state aid provider on how much state aid has been given in the form of tax incentives in accordance with the Law on Technological Industrial Development Zones.

In North Macedonia, **aftercare services** are provided by the cabinet of the Deputy Prime Minister, which is in charge of economic affairs, and co-ordinating the economic sector and investments, as well as ASIPI and DTIDZ. ASIPI helps investors to find suppliers through an online platform of local companies (Invest North Macedonia, 2020<sup>[48]</sup>) and facilitates communication with other administrations and local authorities. It is also actively involved in the work of the Foreign Investor Council (FIC).<sup>18</sup> This channel enables companies to raise problems which ASIPI then relays to the competent institutions. DTIDZ offers a wider range of services<sup>19</sup> to ease and streamline business procedures for investors in the zones. In addition, DTIDZ is developing an online aftercare registration platform to improve communication protocols and aftercare services to investors in the zones. Both organisations play a major part in policy advocacy, negotiating with the government on behalf of investors to help overcome their challenges.

### *Sub-dimension 1.3: Investment for green growth*

While North Macedonia has reinforced its commitment to green energy through several green strategies, the economy lacks a clear framework for **green investment policy and promotion**. The 2018 amendment of the Energy Law made it possible for investors using renewable energy sources to obtain the status of privileged power producer who could then use premiums and feed-in tariffs as support measures.

Meanwhile, the Law on Industrial and Green Zones regulates the conditions and establishment, management and activities of industrial and green areas; the conditions for their performance; and the obligations on the landowner on use of the area. The law aims to accelerate the economic development of local governments and increase employment and the competitiveness of the economy by attracting foreign and domestic capital to develop the zones. The regulation was amended in 2019 to include new provisions for regulating the benefits and opportunities for zone users, unifying applicable provisions for industrial and green zones, and better defining the conditions for performing activity in these areas.

Following the recommendations of the Innovation Strategy, which emphasises the importance of an effective national innovation system, North Macedonia established the National Fund for Innovations and Technology Development of North Macedonia in 2014. The fund aims to encourage innovation by providing additional resources for financing innovative activities through regular tenders and call for proposals.

Meanwhile, the 2020 Programme for Competition, Innovation and Entrepreneurship calls for expert analysis to contribute to the preparation of technical-project documentation and feasibility studies for planned investment projects, the establishment of enterprises to increase energy efficiency, and the introduction of the concept of a circular economy, such as a system for environmental protection and the green economy.

North Macedonia has primarily focused on transitional energy and the environmental practices of existing SMEs, while the promotion of green investments has lagged behind. ASIPI has posted for government approval on several renewable energy projects in the fields of solar, wind and hydropower to be opened to public tenders. However, while North Macedonia has reaffirmed its commitment to environmental good practice, it lacks a clear strategy or programme to attract or encourage green investments.

North Macedonia's framework for **choosing public and private partnerships for green growth** lacks specific provisions to mobilise and scale up green investments by leveraging public and private investments in large-scale infrastructure projects. However, the Energy Efficiency Law requires the contracting authorities to procure the most energy-efficient products, when procuring energy-related products that are not subject to energy labelling and valued over EUR 70 000, taking into account the competition between economic operators during public procurement. In accordance with the same law, as well as the Law on Concessions and Public Private Partnerships which is in the process of being amended, energy services contracts are established in the form of a public-private partnership when an energy services beneficiary is considered to be a public partner.

### ***The way forward for investment policy and promotion***

North Macedonia is striving to improve its investment climate and to attract FDI as a source for growth and job creation. It has made considerable efforts to create a favourable business environment. However, these efforts could be reinforced through the following actions:

- **Continue to simplify and increase the transparency of the investment framework** by accelerating the RIA programme and improving the consultation process. Providing additional information on the proposed laws such as background, rationale and expected goals; more time for stakeholders' analysis and feedback; and clear deadlines for feedback would improve the way the RIA process is applied and the consultations with stakeholders.
- **Reinforce the independence, resources and capacity of the court system, particularly for commercial disputes.** While the reform of the judiciary system has progressed very well over recent years and no backlog of cases remains, investors still complain about the uncertainty created by the slow and costly settling of disputes in the economy. As commercial cases are currently heard in general administrative courts, North Macedonia should focus on establishing a dedicated commercial court to effectively handle business disputes.
- **Increase public awareness and implementation of the recently adopted mediation mechanisms.** North Macedonia should use awareness-raising campaigns to increase businesses' access to information about alternative dispute resolution mechanisms. These mechanisms could be promoted by reinforcing the role, resources and capacities of the Chamber of Mediators as well as the work of the Permanent Elected Court-Arbitration at the Economic Chamber of Macedonia.
- **Reinforce the co-ordination between IPR implementation and enforcement bodies, increase IPR agency capacity and resources, and step up IPR awareness-raising efforts.** IPR bodies currently only have the capacity to conduct low-level awareness-raising campaigns and lack the capacity to train and allocate specialised judges and prosecutors to handle IPR disputes. Increasing the allocation of resources to IPR institutions would enable authorities to better implement IPR awareness raising campaigns and streamline inter-institutional co-operation when it comes to carrying out actions and seizures.

- **Give ASIPI the capacity and resources it needs to fully implement its mandate.** As its remit covers several sectors and divisions, ASIPI will need more resources to promote linkages between SMEs and multinational enterprises effectively. The government should also reinforce the co-operation between DTIDZ and ASIPI and clarify the institutional framework for investment and the competencies of the agencies and departments in charge of investment promotion, facilitation and aftercare
- **Streamline existing investment incentives and reinforce the evaluation of their costs and benefits, appropriate duration and transparency.** Simple and unified tax incentive regimes can make it easier for governments to evaluate the cost and benefits of such measures to allow for the better allocation of resources while improving the clarity of the system for investors.

## Trade policy (Dimension 2)

### Introduction

North Macedonia has made progress since the previous assessment round in all sub-dimensions analysed. The economy has increased its score on this dimension from an already high score of 3.7 in 2018 to 3.8 in 2021. Table 24.5 shows North Macedonia's scores for the trade policy sub-dimensions, and compares them to the WB6 average. The scores for Sub-dimension 2.2 do not follow the same scoring methodology hence are not displayed (for more information please refer to the STRI methodology displayed in Sub-dimension 2.2: Services trade restrictiveness).

In particular, North Macedonia has made progress since the last assessment in 2018 in implementing regulatory transparency, improving public consultations and increasing transparency in trade policy making, and in trade policy development and co-ordination. As a result, the climate in which the private sector operates has continued to improve. Public consultations have improved thanks to a dedicated online consultation system. However, some efforts still need to be made, as the government makes relatively frequent use of shortened and urgent procedures for the adoption of legislation. The quality of its regulatory impact assessments has slightly improved, but its budgetary impact assessments are still only partial. Together these explain its above-average score of 3.8 in Sub-dimension 2.1.

There have been significant reductions in restrictions on trade in services through the conclusion of Additional Protocol 6 to the Central European Free Trade Agreement (CEFTA) in December 2019. North Macedonia has not reported any protectionist legal changes. This is particularly important in a context where regulations restricting services have tended to increase among OECD economies in 2020 (OECD, 2021<sup>[49]</sup>). In general, North Macedonia has continued to make its economy more attractive to trade in goods and services. All of the service sectors analysed have demonstrated a greater degree of openness than in previous years, but more could be done. There are cross-cutting policies affecting foreign service providers such as restrictions on the acquisition and use of land and real estate by foreigners, as well as mandatory minimum capital requirements in the form of a deposit that must be placed in a bank or notary's office to register a limited-liability entity. North Macedonia also applies limitations on movement of people through quotas and labour market tests for work permits issued to third-country nationals. Reducing these and other efforts could significantly reduce the costs of trade in services.

Finally, North Macedonia has put in place a sound e-commerce policy framework, bringing it more in line with EU regulations, which explains its very high score of 4.0 in Sub-dimension 2.3.

**Table 24.5. North Macedonia's scores for trade policy**

Dimension	Sub-dimension	Score	WB6 average
Trade policy dimension	Sub-dimension 2.1: Trade policy framework	3.8	3.5
	Sub-dimension 2.2: Services trade restrictiveness	n.a.	n.a.
	Sub-dimension 2.3: E-commerce and digitally enabled services	4.0	3.1
North Macedonia's overall score		3.8	3.4

### State of play and key developments

North Macedonia has an open economy and is highly integrated into international trade, with a total trade-to-GDP ratio of over 138.8%, (Table 24.5). Since 2017, its main trading partners have remained the 27 EU member states, which account for more than 80% of total exports and 53% of imports.<sup>20</sup>

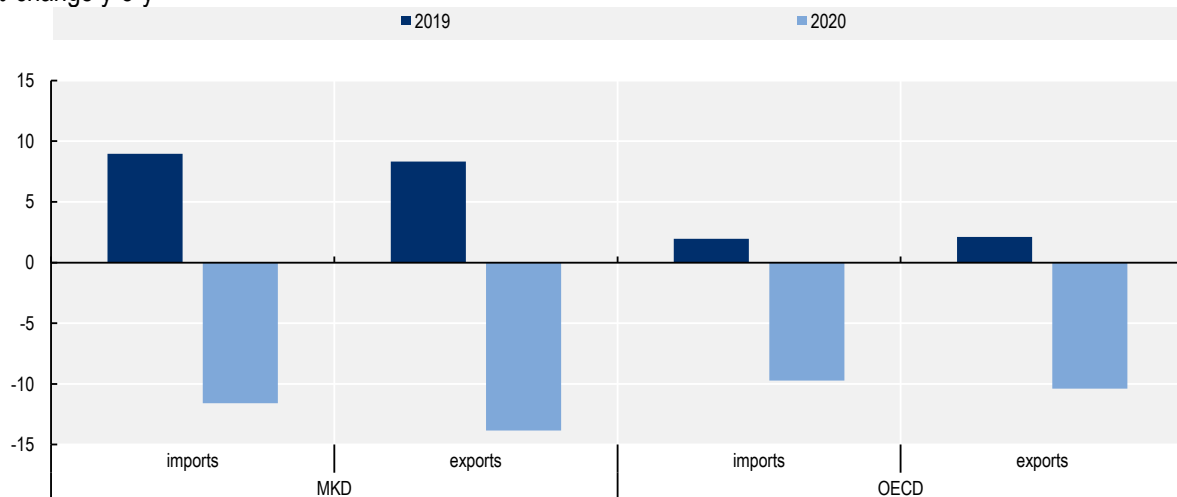
In 2019, exports of goods and services were worth EUR 6.5 billion – an increase of 24% since 2017 – and imports EUR 8 billion (+17% over 2017). In 2019, exports amounted to 62.2% of GDP and imports 76.5%. Although the gap between imports and exports was gradually narrowing before the COVID-19 pandemic,

the trade structure of North Macedonia remains in deficit and has been hovering at around EUR 1.8 billion since 2017. The overall trade deficit for 2019 was around 14.2% of GDP (EC, 2020<sup>[46]</sup>).

Although North Macedonia had one of the highest trade levels in the region in 2019. In 2020, pandemic-related export bans, restrictions on the movement of people, and closures of shops and services, led to a significant decline in imports and exports. Although North Macedonia was not the most severely affected economy in the region, imports declined by 11% and exports by 13% in Q2-Q3 2020. The similarity in the scale of both contractions meant the trade balance was comparable to that in 2019. Trade, tourism and transport, which are substantial drivers of growth in the economy, were the most affected, contracting by almost 12.3%.

**Figure 24.4. Impact of COVID-19 on trade, North Macedonia versus the OECD (2019-20)**

% change y-o-y



Source: IMF (2020<sup>[50]</sup>), *World Economic Outlook*, [www.imf.org/en/Publications/WEO](https://www.imf.org/en/Publications/WEO); OECD (2020<sup>[51]</sup>), *OECD Economic Outlook*, <https://doi.org/10.1787/0d1d1e2e-en>.

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**Slowdown in trade flows:** Industries in the WB6 were affected by the supply shock caused by the COVID-19 pandemic and the resulting slowdown in trade flows. The decline in North Macedonia's exports was primarily due to the breakdown of global value chains (GVCs). As one of the economies in the region with a greater level of integration into GVCs, it felt the immediate effects more severely (OECD, 2020<sup>[51]</sup>). In particular, it suffered from the disruption to supply chains from the manufacturing slowdown in the People's Republic of China and reduced demand in the United States and especially the EU, its main trading partner. GVCs are concentrated in a few sectors (automotive, electrical equipment, machinery, chemicals and metals) and are located around a few European economies (OECD, 2019<sup>[52]</sup>). In North Macedonia, the producers of machinery and equipment, and mechanical appliances were most affected, as they were the most integrated into European value chains. However, given the relatively high import content of its goods exports, the volume of trade is expected to recover once production resumes alongside the revival of GVCs and demand, especially in the EU.

**Slowdown in services:** Although they make up a smaller share of its exports as goods, services generate 55.2% of GDP in North Macedonia and 54.9% of employment (IMF, 2019<sup>[53]</sup>). They have been strongly affected by the fall in domestic and external demand during the pandemic, as well as by travel restrictions and social distancing measures.

**The benefits of green lanes:** The closure of EU borders to non-EU citizens and other regulatory responses, combined with the existing logistical challenges of the Western Balkans, have particularly affected freight transport services. The WB6 set up the CEFTA co-ordinating body to exchange information on trade in

goods at the beginning of the pandemic. They also set up priority "green lanes" (with the EU) and "green corridors" (within the WB6) to facilitate the free movement of essential goods within the WB6 and with the EU, involving priority green border/customs crossings. At the peak of the crisis (April-May 2020), most road transport in the WB6 economies passed along these green corridors. These have helped to maintain a certain degree of international trade in goods in the region. In fact, only about 20% of the goods benefitting from the Green Corridor regime were basic necessities, the rest being regular trade.

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

The importance of a transparent legislative procedure has increased over the past few years. A fundamental aspect of regulatory transparency is that the regulatory development process is open to all relevant stakeholders through formal and informal consultation channels before and after the adoption of new regulations. These consultation mechanisms have a positive impact on the efficiency of economic activities and the degree of market openness, as they can improve the quality and enforceability of regulations (OECD, 2012<sup>[54]</sup>). Governments in many economies are also adopting cross-cutting policies or guidelines to further improve the consultation process. This sub-dimension assesses the government's effectiveness in formulating, evaluating and implementing trade policy through two indicators: the institutional co-ordination of trade policy formulation, and public-private consultation and transparency.

North Macedonia has a solid **inter-institutional co-ordination of trade policy formulation** framework (Table 24.5) through official committees, councils and working groups led by the Ministry of Economy.<sup>21</sup> Inter-ministerial committees focus on the implementation and negotiation of regional and international commitments such as CEFTA and the World Trade Organization (WTO), facilitation of the EU accession process (through the preparation of relevant trade policy-related chapters of the *acquis*), and the design and amendment of specific trade measures. They also establish co-ordination mechanisms to address the more challenging areas of trade policy. Under the auspices of the Ministry of Economy, committees meet whenever a trade issue arises or a regulation is foreseen. For each issue of this nature, the law requires consultation with the ministries concerned before the project is discussed in government sessions.<sup>22</sup> Each ministry or institution preparing information on a trade issue is required to obtain the opinion of the Ministry of Economy and all other ministries and institutions concerned.<sup>23</sup> The opinion of the Secretariat for Legal Affairs is mandatory on any document sent to the government.<sup>24</sup>

One of the fundamental aspects of regulatory transparency is that the regulation-making process is open to all concerned stakeholders through formal and informal consultations prior to and after adoption. North Macedonia has formal instruments for **public-private consultation** with businesses and civil society, which involve the most relevant stakeholders (domestic and foreign companies, business associations, logistics providers, trade unions, consumer groups, etc.). The economy performs well on the frequency of its consultations, the depth of stakeholder participation in practice and the availability of online information through the Unique National Electronic Register of Regulations (ENER) platform.<sup>25</sup>

Since the last assessment, the recently started consultations for trade policy strategies cover both draft legislation and trade policy strategies. In 2018, North Macedonia had the highest number of stakeholders involved in regular public-private consultations among the WB6 economies (OECD, 2018<sup>[55]</sup>) and this trend has continued in this assessment cycle (Government of North Macedonia, 2019<sup>[56]</sup>).

A legally formalised consultation procedure exists within the legal processes for the adoption of acts. The authorities have set up a dedicated website to enable the private sector to comment on draft laws in a transparent manner. Inclusive participation in public consultations is encouraged through ENER. Stakeholders can therefore be consulted both while policy is being made and as it is implemented. The private sector has full access to draft trade normative acts, including relevant material from regulatory dossiers (supporting analysis, impact assessment results, reasons for regulatory decisions and other relevant data). Consultations include strategic, tactical and operational issues. The timelines, goals and topics of consultations are published in advance. Once the consultation process has ended, the law

mandates that the outcomes be made publicly available as the authority receiving the comments is required to respond within 15 days. This includes the reasons why comments were taken into account or discarded.

However, the system is not fully exploited, as business and citizens' associations are mainly consulted at the end of the development of strategies and are not sufficiently involved in their preparation. Moreover, feedback from local stakeholders found that in some ENER-supported consultations there were no responses to stakeholders' comments, complaints and recommendations. Stakeholders also raised sporadic concerns that they were given too little time to comment on some documents, effectively preventing some stakeholders from participating in consultations.

The various chambers of commerce and economy of North Macedonia are regularly involved when a new trade bill is being considered. The chambers then disseminate the proposals through their business networks for comment. Similarly, in the period after regulations enter into force, the chambers have the opportunity to feed back the private sector's comments about the effects of regulations on the business environment to government institutions.<sup>26</sup>

Compared to 2018, North Macedonia has improved its regulatory transparency by increasing the openness of its consultation mechanisms, in particular by making them simpler and more accessible. However, there is no systematic quality control of the public consultation process. Nor is the process always enforced: the number of laws adopted under shortened procedures, mainly on the proposal of members of parliament (MPs), has increased considerably, from 20% in 2018 to 61.6% in 2019 (EC, 2020<sup>[43]</sup>). These laws have not been subject to a genuine public consultation process and have not been regularly supported by impact assessments.

North Macedonia generally ensures that its policy and legislation development is based on evidence. The collection of administrative data has improved since 2018, but the information is not always used optimally in the decision-making process. One of the reasons for this is the lack of a specialised administrative unit for this type of analysis. Regulatory impact assessments (RIAs) remain an issue. Until mid-2019, the government regularly prepared RIAs for all regulations sent to parliament through the ordinary legislative procedure, but since then parliament has enacted an unusually high number of laws without impact assessment or public consultation (EC, 2020<sup>[46]</sup>). The government explanation for this is the large number of new bills, urgency and the lack of some of the information needed for *ex ante* evaluations. In addition, the RIA process does not include the financial impact on the budget, nor the financial implications for stakeholders of implementing regulations. Evaluations of the effects of regulations are only very rarely carried out after they have been adopted and implemented.

North Macedonia is party to a number of bilateral and multilateral **free trade agreements**, the first of which was signed between North Macedonia and Turkey in 2000, followed by a bilateral agreement with Ukraine in 2001. Having entered into a free trade agreement with the European Free Trade Association (EFTA) in 2002, North Macedonia opened the door for market access to its European partners.

In 2004, North Macedonia adopted the Stabilization and Association Agreement (SAA), providing for the free movement of goods and service between EU and potential candidate countries. It continues to bring its legislation in line with the EU *acquis*. Shortly after it joined the WTO in 2006, it became a founding member of CEFTA the same year, with the aim of achieving full tariff liberalisation on trade in manufactured products and agricultural goods, and to establish a negotiating framework for eliminating non-tariff barriers (NTBs).

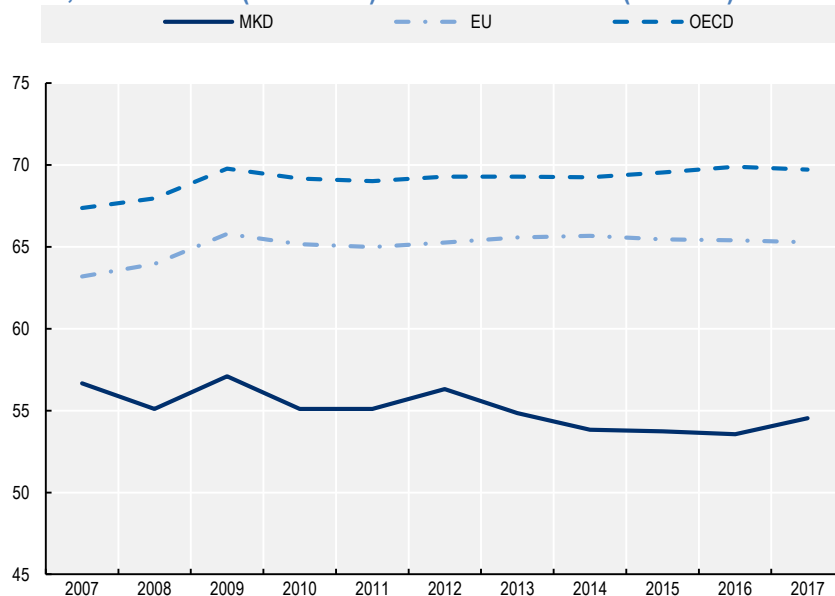
In 2018, North Macedonia brought the CEFTA Additional Protocol 5 on Trade Facilitation into force, simplifying trade-related procedures and cross-border documentation processes. Most recently, it adopted Additional Protocol 6 on Trade in Services in 2019, which allows it to ease licensing and professional qualification procedures, as well as developing the regional e-commerce capacities.



### Sub-dimension 2.2: Services trade restrictiveness

Services contribute close to two-thirds of GDP in the WB6 economies, underlining how strongly economic growth, innovation and job creation depend on effective policies for services that promote open and competitive markets. In 2019, in North Macedonia, services contributed to 55.2% of GDP and accounted for 54.9% of employment, a steady though moderate increase compared to previous years (Figure 24.5), underlining the extent to which economic growth, innovation and job creation depend on effective service sector policies that promote open and competitive markets.

**Figure 24.5. Services, value added (% of GDP) - North Macedonia (2007-17)**



Source: (World Bank, 2020<sup>[16]</sup>), *World Development Indicators* (database), <https://databank.worldbank.org/source/world-development-indicators>.

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More and more business models rely on services rather than sales of manufactured goods. This is the so-called “servitisation” of manufacturing (Miroudot and Cadestin, 2017<sup>[57]</sup>). Enhancing the openness of trade in services can improve domestic firms’ efficiency and productivity. Trade in services allows countries to specialise according to their comparative advantages in services and skills. The potential gains from liberalisation in services trade are significant because increased domestic and foreign competition, complemented by effective regulation, can enhance performance (OECD, 2018<sup>[55]</sup>) and lower costs provoked by regulatory barriers (Box 24.2).

### Box 24.2. The costs of regulatory barriers to trade in services

Recent OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016<sup>[58]</sup>). Trade costs arise both from policies that explicitly target foreign suppliers, and more generally from domestic regulation that falls short of best practice in the area of competition and rule-making. The costs resulting from barriers to trade in services are much higher than those to trade in manufactured goods.

Trading services is costly. The studies show that policy-induced services trade costs are relatively high. Expressed as percentages of total trade value, average multilateral costs for cross-border services trade are around 57% for communication services and 54% for business services, around 60% for transport services, around 103% for insurance services, and around 255% for financial services. Even exporting to the most liberal countries still requires compliance with regulation at a cost that correspond to around 30% of the export value in most sectors and nearly 90% for financial services. Within the European Single Market, however, services trade costs are significantly lower – policy-induced costs of cross-border services trade are around 10% in most sectors and around 32% for financial services.

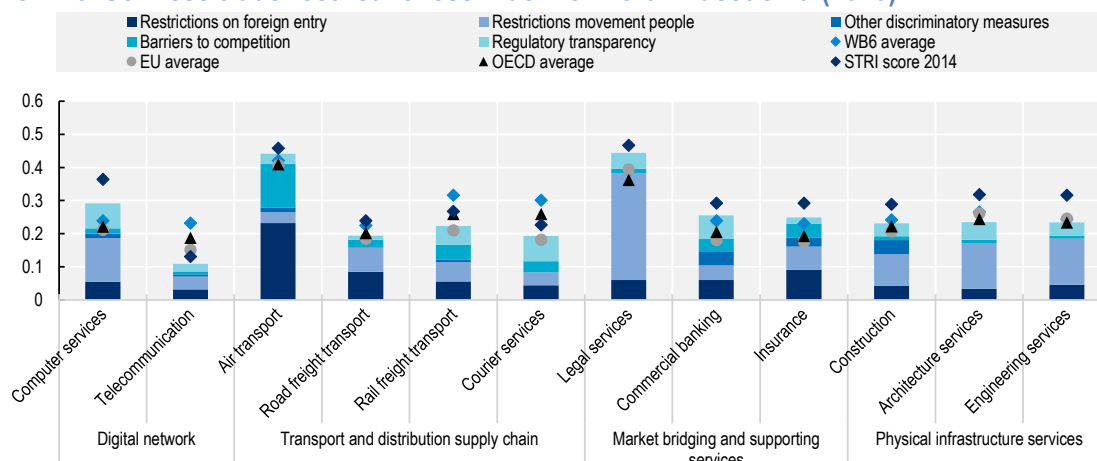
Source: (Benz and Jaax, 2020<sup>[59]</sup>), *The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents*, <https://dx.doi.org/10.1787/bae97f98-en>.

The OECD Services Trade Restrictiveness Index (STRI) was used to **analyse barriers to trade for 12 services sectors** in North Macedonia. The OECD STRI project is a unique, evidence-based diagnostic tool that inventories trade restrictions in 48 economies,<sup>27</sup> allowing economies to benchmark their services regulations against global best practice, identify outlier restrictions, and prioritise reform efforts. For this CO assessment cycle, the 12 services sectors are grouped into four clusters: 1) transport and distribution supply chain (air transport, road transport, rail transport, courier); 2) market bridging and supporting services (commercial banking, insurance, legal services); 3) physical infrastructure services (construction, architecture, engineering); and 4) digital network services (computer services, telecommunications).

Information was collected from the WB6 economies' laws and regulations, and indices were calculated for seven years (2014-20). These composite indices quantify restrictions across five policy areas: foreign entry, movement of people, barriers to competition, regulatory transparency and other discriminatory measures. The indices quantify regulatory restrictions in each of the 5 policy areas for the 12 sectors by giving them a value between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1.<sup>28</sup>

Each policy area is composed of a series of measures. These measures are called "horizontal" if they are present in all sectors, or "sector specific" if they only affect a particular sector.<sup>29</sup> The STRI measures the most-favoured-nation (MFN) restrictions and does not take into account any specific concessions, such as regional trade agreements or mutual recognition agreements (Geloso Grosso et al., 2015<sup>[60]</sup>).

Figure 24.6 shows the STRI indices for each of the sectors as well as the average scores for the WB6, EU and OECD. Like most economies in the WB6 region, North Macedonia's services trade markets are generally more open than some OECD and STRI partner states. Compared to the OECD and key partners' average STRI indices (represented by a "+" in Figure 24.6), North Macedonia is in the low range for the restrictiveness of its service sectors, making it a preferred candidate for foreign service providers; especially in its three least restrictive sectors: telecommunications, road transport and courier services. In contrast, it remains less competitive in computer services, air transport and legal services, the three sectors with the highest STRI score. The analysis which follows displays the scores, explains sector by sector what drives the results and provides a brief description of the most common restrictions and good practices.

**Figure 24.6. Services trade restrictiveness index for North Macedonia (2020)**

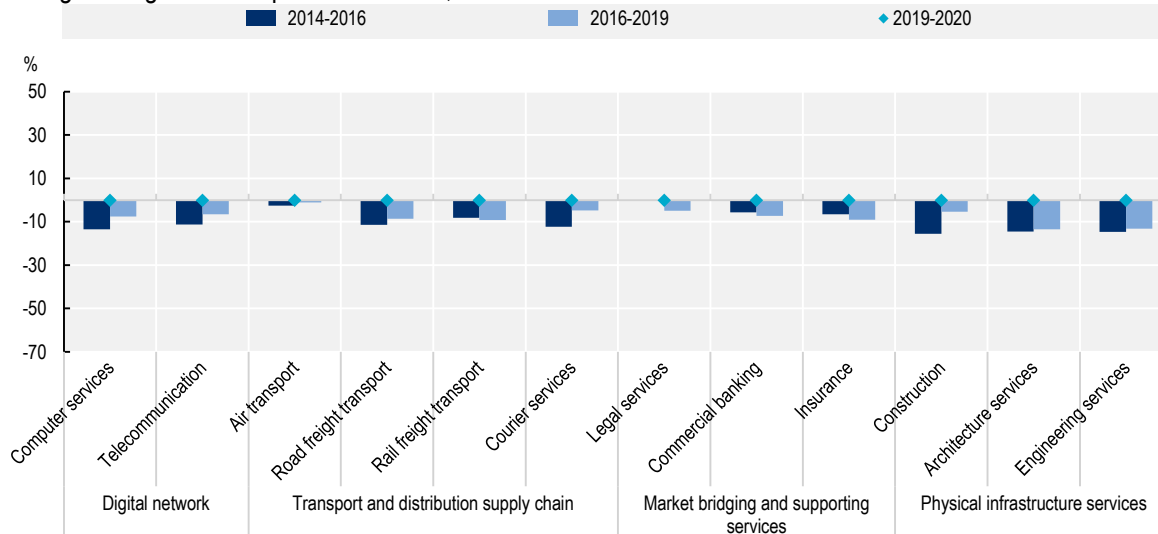
Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand. Source: (OECD, 2020<sup>[61]</sup>), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934256083>

As Figure 24.7 shows, North Macedonia has continued to reduce restrictions on the trade in services. The slowdown in reforms to open up services markets in the years 2019-20 is explained by the reorganisation of regulatory efforts caused by the COVID-19 pandemic.

**Figure 24.7. Evolution of STRI scores by sector in North Macedonia (2014-20)**

Percentage change over the periods 2014-16, 2016-19 and 2019-20



Note: Negative values indicate a reduction in the restrictiveness of the economy's trade regulatory environment.

Source: OECD (2020<sup>[61]</sup>), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

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The following analysis starts with the horizontal measures that are included in all sectors and that typically hamper services trade in the economy as a whole. In particular, in the area of general business regulations (horizontal regulations), restrictions on foreign entry, restrictions on the movement of service providers, standards for the cross-border transfer of personal data, the legal framework for public procurement and the screening of foreign investment. It then reviews each of the 12 sectors analysed, displaying the STRI

scores, explaining what drives the results, and providing a brief description of the most common restrictions and good practices.

### **General business regulations affect firms' ability to operate in North Macedonia**

*General business regulations* can affect firms' ability to operate. North Macedonia could improve its company regulations in a number of areas. Foreigners need to obtain authorisation before they can acquire or use land and real estate, affecting the companies' ability to establish offices in the economy. In order to register a limited-liability company, a minimum amount of capital<sup>30</sup> must be deposited in a bank or notary's office, which also affects foreign companies. Cumbersome procedures for obtaining business visas limit the search for investment opportunities.

*Restrictions on the movement of people* are also an issue in North Macedonia. Although the conclusion of Additional Protocol 6 has made significant progress in easing the conditions for the movement of persons between CEFTA economies, people from outside CEFTA or the EU remain subject to restrictive requirements. North Macedonia applies quotas and labour market tests for work permits issued to third-country nationals, although intra-corporate transferees are exempted. Labour market tests are undertaken to determine whether suitably qualified local workers are available (or could easily be trained to do the work). They typically involve seeking advice from industry representatives and government agencies to determine current skill shortages. The initial length of stay of these categories of foreigners (12 months) also falls short of international best practice (OCDE good practice threshold is set at 36 months) (OECD, 2021<sup>[49]</sup>).

*Standards for the cross-border transfer of personal data* are set at EU level. Data may be transferred to non-European Economic Area (EEA) economies which ensure an adequate level of data protection or, failing that, where appropriate safeguards (e.g. binding corporate rules or standard data protection clauses) are in place.

North Macedonia's laws do not contain any elements restricting trade in services in terms of investment screening. *Screening of foreign investments* refers to the laws or regulations enabling governments or regulators to alter or prohibit foreign investment projects, where consideration of economic motives or economic interests is explicitly included in the criteria for approval. North Macedonia's regulations do not mandate the consideration of economic interests in the review of foreign investments but nor is it explicitly ruled out. There is threshold above which a foreign investment project is subject to screening.

### **How restrictive are individual service sectors?<sup>31</sup>**

On top of the regulatory measures that affect North Macedonia's trade in services across the board, there are a number of sector-specific restrictions in the 12 sectors analysed.

**Air transport services** are defined as passenger and freight air transport (code 51 under the International Standard Industrial Classification – ISIC Rev 4), carried domestically or internationally. The STRI for this sector covers commercial establishments only. In light of the range of air transport sub-sectors, the STRI project focuses on measures affecting carriers' transport of passengers and goods between points. Airport management and other aviation services are only relevant where regulations could have affect foreign carriers' ability to transport passengers and goods. The other aviation services are covered more fully in the STRI for logistics services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.165 and 0.601. With a score of 0.441, North Macedonia's air transport sector is the most restrictive of the WB6 economies and it scores higher than the EU (0.406), OECD (0.409) and WB6 (0.421) averages.

*Restrictions on foreign entry* figure prominently in the results of North Macedonia's STRI for air transport services. Foreign natural or juridical persons can only hold up to 49% of the equity share in an air transport services company in North Macedonia. This restriction is in line with EU legislation, and can be found in

many of the countries that have undergone the STRI exercise. However, it greatly impacts the score (and therefore the level of restrictiveness) in air transport markets. Economies that have reformed in this area have been able to lower their level of restrictiveness substantially. Another measure that limits the openness of this sector is the limitations on leasing. Dry leasing (leasing foreign aircraft without crew) is allowed but subject to prior authorisation, but wet leasing (leasing foreign aircraft with a crew) is prohibited. Both measures negatively affect the economy's score for this sector.

*Barriers to competition.* Unlike several WB6 economies, North Macedonia does not maintain public ownership in the aviation sector through a national company. Macedonian Airlines (MAT; Македонски Авиотранспорт or Makedonski Aviotransport) was the national flag carrier, but it ceased operation in 2009. Slots are allocated in a fair, non-discriminatory and transparent manner, following the principle of equal opportunities to all airlines. The general principle regarding slot allocation is that an air carrier having operated its particular slots for at least 80% of flights during the summer/winter scheduling period is entitled to the same slots in the equivalent scheduling period of the following year (so called grandfather rights). Consequently, slots which are not sufficiently used by air carriers are reallocated (the so called "use it or lose it" rule). North Macedonia prohibits the commercial exchange of slots, which is more restrictive than the EU *acquis*, where slots can be freely transferred (EUR-Lex, 1993<sup>[62]</sup>).

**Road freight transport** (ISIC Rev 4 code 4923) covers commercial road freight establishments only. Cross-border trade is governed by a system of bilateral and plurilateral agreements which provide for permits, quotas and other regulations.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.124 and 0.624. With a score of 0.194, North Macedonia is the third-most restrictive economy among the WB6 economies. It scores higher than the EU average (0.184) but lower than the OECD (0.201) and WB6 (0.225) averages.

The most restrictive sector-specific measure is the practice of imposing licensing and permits subject to quotas for domestic traffic. Sector-specific regulations induce *foreign entry restrictions* in North Macedonia. Licences are established on the basis of technical, legal and financial criteria. Licences and certificates issued by the competent authorities in economies which have signed a bilateral or multilateral agreement with North Macedonia are fully recognised. The Law on Recognition of Professional Qualifications provides adequate solutions for third-country licences.

Public transport of goods by road refers to transport for which the relation, the price of transport and other conditions are determined by agreement between the carrier and the customer. The government only mandates set prices for inter-municipal line passenger transport, bus lines, taxi services, etc, meaning there are no specific *barriers to competition* for road freight. There are no specific visas for road freight transport crews, although there are transit visas. These can be issued for a single or double entry and, in exceptional cases, multiple transits through the territory for a maximum of five days during each individual transit.

**Rail transport** (ISIC code 4912) is provided over a dedicated network in which the market structure may take different forms. The two most common are: 1) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and 2) vertical separation between the infrastructure management and operations. Regardless of the market structure, there are well-established best practice regulations that also take into account competition from other modes of transport, particularly road transport.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.129 and 1. With a score of 0.223, North Macedonia is the second-least restrictive economy of the WB6 in this sector. It scores higher than the EU (0.210) and OECD (0.260) averages, and below the WB6 average (0.317).

In terms of *foreign entry restrictions*, unlike many economies, North Macedonia provides transit rights for international rail transport, as well as access rights for international combined transport and rail transport. A licence is needed to operate in the Macedonian railway sector. A carrier with a licence and a certificate of safety may offer public transport services using the railway infrastructure if it has been given access to it. The infrastructure manager approves access to the railway infrastructure for carriers that meet the conditions in a transparent and non-discriminatory manner. Commercial presence is only required for operators willing to obtain a licence. North Macedonia recognises licences issued to carriers by the competent authorities of other states in accordance with EU legislation and on a reciprocal basis with third countries. Duly licensed freight transporters can provide cross-border services without a commercial presence.

Regarding *barriers to competition*, access fees are regulated. The infrastructure manager charges a fee for the use of the railway infrastructure by the carriers using it. The infrastructure manager prepares rules for determining the amount of compensation for infrastructure use. The applicant may not transfer the assigned infrastructure capacity to another carrier or service provider. Trading with the infrastructure facilities is also prohibited and is the basis for exclusion from further distribution of capacity. Makedonski Železnici (MŽ) (Македонски Железници, Macedonian Railways) is the public enterprise for railways North Macedonia. Railway operations are run by Makedonski Železnici and the infrastructure maintained by Makedonski Železnici - Infrastruktura. The latter has dominance on the infrastructure.

**Courier services** (ISIC Rev 4 code 53) comprises postal and courier activities. While courier services have traditionally been an important means of communication, the rise of modern ICT means letters are less frequently used for communication. The STRI for courier services covers regulations that have an impact on the pick-up, transport and delivery (door-to-door) of letters and parcels, and express delivery services, regardless of who provides the service. These services include both addressed and unaddressed items.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.106 and 0.881. With a score of 0.206, North Macedonia is the least restrictive of the WB6 economies and performs better than Poland, the worst performer among the Central and Eastern European EU countries, scoring 0.251. North Macedonia scores higher than the EU average (0.182), but below the OECD (0.259) and WB6 average (0.301).

Unlike many economies, North Macedonia does not impose a commercial or local presence requirement when providing courier services and firms do not need a licence. North Macedonia does not have a monopoly in any area of courier services, which improves its score for this sector.

Companies wishing to provide postal services must obtain general authorisation from the Postal Agency on the basis of prescribed minimum requirement. Foreign investors are entitled to tax reductions for their initial period of operation. The publicly owned Post of North Macedonia, which is the major firm in the sector, is the designated postal operator for universal postal services. Before any change in the prices for providing universal services, a request must be submitted to the Postal Agency explaining the cost analysis behind the need for a price change. Special accounting is used to calculate the net cost of the universal service.

**Legal services** (ISIC Rev 4 code 691) cover advisory and representation services in both domestic and international law and, where relevant, measures are entered separately for each of them. International law includes advisory services in home country law, third-country law, international law and appearing in international commercial arbitration. Domestic law extends to advising and representing clients before a court or judicial body in the law of the host country.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.141 and 1. With a score of 0.444, North Macedonia is the third-most restrictive of the WB6 economies in this sector, scoring higher than the EU (0.394), OECD (0.362) and WB6 (0.391) averages.

*Restrictions on the movement of people* contribute significantly to the restrictiveness score in North Macedonia. Such restrictions are present in the form of a licence requirement, needed to provide legal services in the economy. The right to practise law in accordance with this law is acquired by registration in the Directory of Lawyers of the Chamber of Lawyers of the Republic of North Macedonia. Upon registration in the Directory of Lawyers of the Chamber of Lawyers of the Republic of North Macedonia the registered lawyer is granted a licence. To obtain a licence, the person in question must be a citizen of North Macedonia or of an EU member state; otherwise a reciprocity clause applies. A foreign professional who wants to practise law in North Macedonia must pass the Macedonian bar exam, but foreign university degrees are recognised by the Bar Association. After the entry in the Directory of Foreign Lawyers of the Bar Association of the Republic of North Macedonia, the foreign lawyer, after three years of continuous and effective practice of law or after passing the North Macedonia bar exam, may request to be registered in the Directory of Lawyers of the Bar Association of the Republic of North Macedonia and practise the full scope of the law. An EU citizen who is not registered in the Directory of Foreign Lawyers may be able to perform individual activities within the practice of law, i.e. provide advice on the law of their home country, the law of the European Union, international law and law of the Republic of North Macedonia.

The registration with establishment of a legal entity in North Macedonia indicating commercial presence is required to provide cross-border services, acting as a *restriction on foreign entry*. Furthermore, local presence is also required. Liability insurance must be purchased to an insurance company in the jurisdiction. Lawyers from the EU can practise in North Macedonia under certain conditions and can be covered for liability in their country of origin.

In the area of *barriers to competition*, North Macedonia restricts advertising of legal services. The Bar Association sets mandatory minimum fees for providing legal services.

**Commercial banking** (ISIC divisions 64-66) is defined as deposit-taking, lending and payment services. Commercial banking services are traded business to business, as well as business to consumer for retail banking. Efficient banking services are one of the backbones of a dynamic economy; they provide financing for investment and trade across productive activities, and thus underly all value chains.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.131 and 0.517. With a score of 0.255, North Macedonia is the third-most restrictive of the WB6 economies in this sector, scoring higher than the EU (0.180), OECD (0.205) and WB6 (0.239) averages.

North Macedonia's laws impose restrictions on cross-border mergers and acquisitions, which has a negative effect on the STRI score. Only banks established and based in North Macedonia may perform statutory changes of mergers, mergers and divisions. North Macedonia also deviates from the international Basel Committee on Banking Supervision (BCBS) risk weighting standards, but it is taking steps to change to the international capital and liquidity standards prescribed by Basel III.<sup>32</sup> Foreign banks may open a branch after obtaining permission from the governor as well as obtaining a licence, which requires the bank to meet a list of requirements. If the application for a licence is denied, there is no legal requirement to inform applicants of the reasons for denial, which negatively affects its score in this sector.

**Insurance services** (ISIC Rev 4 codes 651 and 652) comprise life insurance, property and casualty insurance, reinsurance, and auxiliary services. Private health insurance and private pensions are not covered.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.104 and 0.565. With a score of 0.249, North Macedonia is the second-most restrictive of the WB6 economies in this sector, scoring higher than the EU (0.175), OECD (0.193) and WB6 (0.231) averages.

Regarding *restrictions on foreign entry*, North Macedonia applies cross-border restrictions on mergers and acquisitions in the insurance sector. A cross-border merger with a company from an EU member state is only possible if the law of the relevant country allows cross-border mergers against the form of companies that merge. There is a commercial presence requirement for providers of cross-border services. The



provisions of the Law on Insurance Supervision apply to insurance companies with a head office in the territory of any EU member state provided they establish a branch office in North Macedonia. A licence is needed to operate in the insurance sector, which only citizens of North Macedonia can obtain, and residency is required in order to practise. Licences and certificates issued by the competent authorities of countries with which North Macedonia has signed a bilateral or multilateral agreement are fully recognised. For third-country licences, the Law on Recognition of Professional Qualifications provides adequate solutions, which positively affects the score in this sector.

North Macedonia's rules on accounting (International financial reporting standards or IFRS), transparency and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) deviate from international standards. In its 2019 progress report, the European Commission noted that North Macedonia still has not completed the process of aligning its national standards with international standards in this sector (EC, 2019<sup>[63]</sup>).

In terms of *barriers to competition*, North Macedonia places restrictions on asset holdings for both life and non-life insurance companies. An insurance company's total financial investment in a bank may not amount to more than 25% of its capital. Its total financial investments in other individual entities that are not banks may not amount to more than 10% of its capital. Total financial investments are considered capital investments of the insurance company (investments in stocks), debtor's securities bought, approved loans, approved bank deposits, as well as calculated interest rate on the basis of such investments. Moreover, the insurance company is obliged to obtain a licence by the Insurance Supervision Agency for introduction of a new class of insurance.

**Construction services** (ISIC Rev 4 codes 41 and 42) cover the construction of buildings (residential and non-residential) as well as construction work for civil engineering. Construction has historically played an important role in the functioning of economies, providing the infrastructure for other industries. It accounts for a significant share of GDP and employment in most countries. Public works, such as roads and public buildings, account for about half of the market for construction services so the STRI for construction services covers detailed information on public procurement procedures. There is a good deal of regulatory complementarity between the construction services sector and architectural and engineering services (below). The regulatory landscape of North Macedonia reflects these similarities, with all three sectors having very similar STRI scores.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.464. With a score of 0.231, North Macedonia is the second-most restrictive of the WB6 economies in this sector, scoring higher than the EU (0.207) and OECD (0.223) averages but below the WB6 average (0.242).

The *movement of people is restricted* by licensing requirements needed to provide engineering services in North Macedonia. A foreigner with a licence from another economy may perform design, auditing, construction and surveillance works in North Macedonia if the authorisation is confirmed by the Chamber of Chartered Architects and Engineers. In order to apply for a contractor's licence, the legal entity needs to submit proof that it is registered to perform the relevant activity and that it has at least 20 employees, at least 3 of whom have an A licence for a performance engineer and 1 with a B licence.

Regarding *restrictions of foreign entry*: There are no restrictions on the purchase of buildings and houses by individuals and legal entities from EU and OECD states. Non-EU and non-OECD nationals or legal entities can only purchase real estate under reciprocity conditions which increases the restrictiveness score according to the STRI methodology.

**Architecture services** (ISIC Rev 4 code 711) cover architectural services and related technical consultancy. These services form the backbone of the construction sector, with key roles in building design and urban planning. An important feature is the regulatory complementarity between architecture, engineering and construction services. Architectural and engineering activities are often combined into

projects managed by a single company, and are sometimes subsumed in the building and construction sector. The STRI definition of architecture services includes several related activities, such as advisory and pre-design architectural services, architectural design, contract administration services, and urban planning and landscape architecture services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.113 and 0.684. With a score of 0.235, North Macedonia is the third-least restrictive of the WB6 economies in this sector, scoring lower than the EU (0.261), OECD (0.244) and WB6 averages (0.266).

As regards *restrictions on foreign entry*, a licence or authorisation is required to practise in this sector. In order to develop or revise urban plans, legal entities need a licence issued by the state administration body responsible for spatial planning. Individuals require authorisation issued by the Chamber of Certified Architects and Certified Engineers in order to develop or revise plans. There is no temporary licensing system which would enable foreign architects to carry out a specific project or advise in a particular area. North Macedonia has a procedure for recognising foreign qualifications.

Even though there is no requirement for legal entities to have a commercial or local presence to carry out design, audit, execution and supervision of construction, they are required to have liability insurance for damages from an insurance company based in North Macedonia.

In the area of *regulatory transparency*, laws and other regulations are published before they come into force. Laws come into force on the eighth day after the day of their publication at the earliest, or on the day of publication in exceptional cases determined by the Assembly. Laws and other regulations may not have a retroactive effect, except in cases when this is more favourable for citizens. According to the STRI methodology, this amount of time is scored as restrictive.

**Engineering services** (ISIC Rev 4 code 711) cover several related activities, such as engineering and integrated engineering services, and engineering-related scientific and technical consulting services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.118 and 0.575. With a score of 0.234, North Macedonia is the third-most restrictive of the WB6 economies in this sector, scoring lower than the EU (0.246) and WB6 (0.244) averages and in line with the OECD average (0.234).

Engineering services are the backbone of construction and supply. Engineers are involved in the construction of key infrastructure, such as buildings and roads. They also play an important role in the development of production processes and the adoption of new technologies.

Regarding *foreign entry restrictions*, in order to develop or revise urban plans, legal entities need a licence issued by the state administration body responsible for spatial planning. Individuals require authorisation issued by the Chamber of Certified Architects and Certified Engineers in order to develop or revise plans. There is no temporary licensing system which would enable foreign engineers to enter North Macedonia temporarily to carry out a specific project or provide advice in certain fields. Legal entities are required to have liability insurance for damages from an insurance company in North Macedonia in order to carry out the design, audit, execution and supervision of construction. The STRI score is further affected by the imposition of quotas for contractual and independent service providers, and labour market tests for these and intra-corporate transferees. In this regard North Macedonia is the most restrictive of the WB6 economies.

**Computer services** (ISIC Rev 4 codes 62 and 63) are defined as computer programming, consultancy and related activities, and information service activities.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.448. With a score of 0.291, North Macedonia is the second-most restrictive of the WB6 economies in this sector, scoring higher than the EU (0.211), OECD (0.222) and WB6 (0.239) averages.

This sector is very rarely regulated by sectoral legislation and in North Macedonia computer services are only subject to the general laws that apply to the economy as a whole. This is why restrictions on the movement of people account for one-third of the total STRI score for the sector. The need for skilled labour in computer services, combined with the complementarity between cross-border trade and the movement of natural persons, explains why restrictions on movement of people feature so prominently.

**The telecommunication sector** (ISIC Rev 4 codes 611 and 612) comprises wired and wireless telecommunications activities. These services are at the core of the information society and provide the network over which other services including computer services, audio-visual services, and professional services are traded.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.108 and 0.682. With a score 0.108, North Macedonia is the second-least restrictive of the WB6 economies in this sector, scoring lower than the EU (0.151), OECD (0.188) and WB6 (0.232) averages.

The STRI results in this sector depend on two policy areas: 1) restrictions on foreign entry; and 2) barriers to competition. In all of the states taking part in the STRI, barriers to competition account for 30% of their total scores in the telecommunications sector. This reflects the sector's particular characteristics as well as the policy environment in which it operates. It is a capital-intensive network industry and its strategic importance has led many countries to restrict foreign investment and activity in the sector.

In order to ensure fair competition in the telecommunications market, North Macedonia has an independent telecommunications regulator, the Agency for Electronic Communication (AEK). The regulator may impose obligations regarding cost recovery and price control related to providing interconnection or access on the operator with significant market power (SMP) in the relevant market. It also designates one or more universal service provider, selected through public tender. When determining a universal service provider, AEK must apply the principles of objectivity, transparency, efficiency and non-discrimination. AEK also provides decisions which mandate the access to mobile networks. Makedonski Telecom qualifies as an SMP in the market. ONE.vip is an SMP in the access to passive and active wholesale products, and Makedonski Telecom, ONE.vip, Laikamobil and TDR Robbie are considered SMPs in the termination and interconnection market. The government has a minority share in Makedonski Telecom but does not control any major firms in the sector.

The laws of North Macedonia require number portability and regulate the time and conditions for porting. Numbers should be transferred within two days of receipt of the request. Interconnection is also regulated. North Macedonia applies a "use-it-or-lose-it" policy to frequency bands – an important measure that prevents incumbent operators from hoarding valuable frequency licences and freeing up tradeable spectrum and telecom services.

In absolute terms, the regulatory framework for this sector in North Macedonia is competitive and restricted only by measures that apply to the economy as a whole, notably on the movement of people. Although telecommunications lend themselves easily to cross-border trade from a technical point of view, restrictions on movement account for a modest share of the total STRI score in this sector. Cumbersome procedures to obtain visas and register companies also negatively affect the sector to some extent.

### *Sub-dimension 2.3: E-commerce and digitally enabled services*

E-commerce can bring about significant gains for businesses, driving firms' process innovation (Ferencz, 2019<sup>[64]</sup>). In addition it enlarges businesses' market scope, reduces operational costs at various stages of business activities and lowers barriers to entry, thus intensifying competition (OECD, 2013<sup>[65]</sup>). E-commerce also benefits consumers by providing information on goods and services, helping consumers identify sellers and compare prices, while offering convenient delivery and the ability to purchase easily via a computer or mobile device (OECD, 2013<sup>[65]</sup>).

In the context of the COVID-19 pandemic, e-commerce appears to have been essential for maintaining trade flows despite the restrictions put in place to preserve public health. Buying on line rather than in person also reduces the risk of infection. Being able to keep selling in locked-down economies preserves jobs despite social distancing and movement restrictions. Finally, e-commerce increases the acceptance of prolonged physical distancing among the population and allows them to maintain a certain level of consumption (OECD, 2018<sup>[55]</sup>).

It is clear that 2020 will be a turning point in electronic commerce. This digital transformation underlines the importance of adopting a more holistic approach to policies as well as more international co-operation (Ferencz, 2019<sup>[64]</sup>). This sub-dimension assesses those policies which are implemented in parallel and in addition to those discussed under Digital society (Dimension 10). However, it is mainly focused on the trade in digitally enabled services given the rapid growth of trade in services in the region.

North Macedonia has a solid **e-commerce policy framework**. In 2018 it already had the most developed one in the region. The Law on Electronic Commerce was adopted in November 2007 and lays down the conditions for the provision of information services related to electronic commerce, the responsibilities of providers of information services, commercial communications and the rules regarding the validity of contracts in an electronic form.

Regulations related to e-commerce fall under the competence of several institutions. North Macedonia's institutional framework allows for effective institutional co-ordination across ministries and agencies regarding e-commerce. The Ministry of Information Society and Administration (MISA) is responsible for all activities regarding the enhancement of e-commerce and co-ordinates all existing inter-ministerial working groups with competences related to e-commerce. Meanwhile, the Ministry of Economy is responsible for the implementation of the law on e-commerce and related documents, such as the law on consumer protection (which has some measures regulating contracts concluded at a distance).

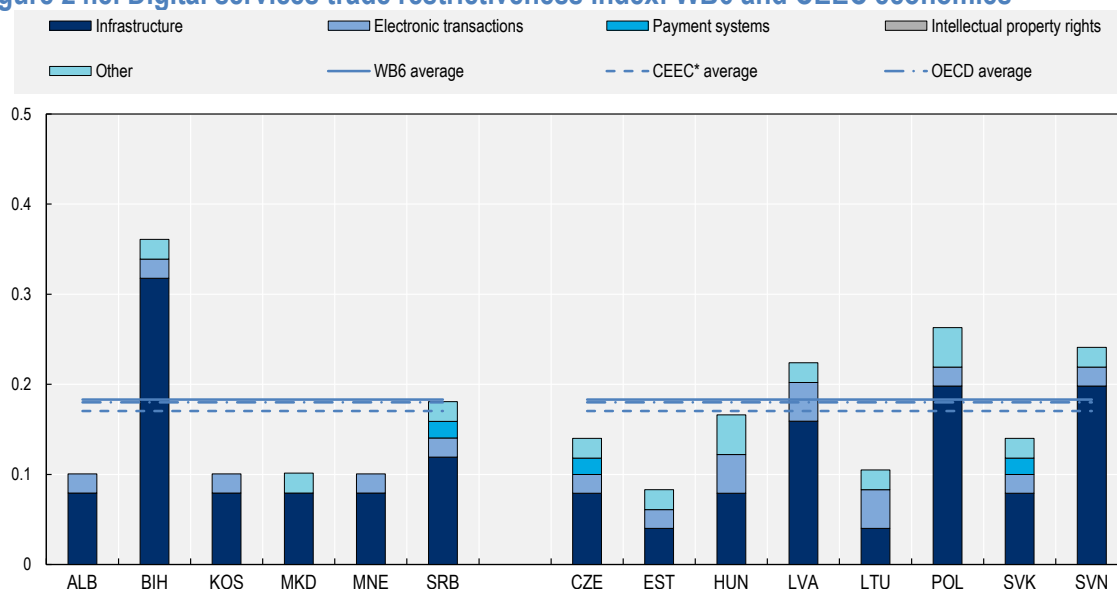
It is recognised that modern e-commerce regulation needs to focus on a number of key elements including electronic documentation and signatures, online consumer protection, data protection and privacy, cyber security, intellectual property rules and intermediary liability. An attractive regulatory environment also refrains from creating disproportionate rules such as licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold on line (other than for generally accepted public policy considerations) and restrictions on cross-border data flows.

The relevant legislation in North Macedonia was effectively amended in 2011, 2015 and 2020 after the government conducted a gap analysis of its e-commerce legislation and proceeded to align the law with European Commission recommendations and the Directive on Electronic Commerce 2000/31/EC. The latest amendments harmonised the relevant articles with the Misdemeanour Act in order to promote interoperability with related documents and policy areas, such as trade or consumer law. In regulatory terms, the legal corpus in North Macedonia contains all the necessary e-commerce elements.

Moreover, new e-commerce programmes have been put in place to boost the usage of e-commerce in the economy. The Economic Reform Programme (ERP) 2019-21 highlights new legislation and initiatives under the remit of MISA regarding the digital economy, such as the Law on Electronic Documents, Electronic Identification and Trust Services (2019), the Law on Electronic Management and Electronic services (2019), the National Cyber Security Strategy and Action Plan (2018-22) and the National Operational Broadband Plan (2019-23). The ERP foresees the development of citizens' e-skills in the education system and among public administration staff (e.g. in the use of the national portal for e-services). The project is in line with previous Macedonian digitalisation programmes. Recent issues related to the pandemic have demonstrated the need for a connected society and efficient e-commerce. COVID-19 introduced the need for online education for all levels of education (basic schools, high school and universities) and working from home for the majority of public servants.

The OECD digital STRI captures **the restrictiveness of digitally enabled services** by identifying cross-cutting barriers that inhibit or completely prevent firms from supplying services using electronic networks, irrespective of the sector in which they operate. The regulatory data underlying the digital STRI were extracted from the OECD STRI database and data collected under public laws and regulations affecting digitally enabled services. Digital STRIs are the result of aggregating the identified barriers to trade into composite indices. Digital STRI scoring uses a binary system: scores are assigned a value of 0 when there are no trade restrictions and a 1 when full restrictions are in place. The rating takes into account the specific regulatory and market characteristics as well as the links and hierarchies between regulatory measures affecting digitally enabled services (Ferencz, 2019<sup>[64]</sup>). Figure 24.8 shows North Macedonia's digital STRI score.

**Figure 24.8. Digital services trade restrictiveness index: WB6 and CEEC economies**



Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; \*CEEC=Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia (Bulgaria, Croatia, and Romania are not OECD member states or OECD STRI Partner economies and therefore do not have calculated STRI indices); the absence of a category in the graph means that it is exempt from restrictions. Source: (OECD, 2020<sup>[61]</sup>), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934256121>

The scores in this sector were moderate to high in 2020, ranging from 0.043 to 0.488, while the WB6 average was 0.183. North Macedonia has a digital STRI score of 0.101, which places it among the four least restrictive WB6 economies. Its score has not changed since 2014. North Macedonia's results in the digital STRI sector are mainly due to infrastructure measures, but electronic transaction measures also play a part.

The Law on Electronic Communications mandates interconnection in both the fixed and mobile networks. The telecommunications regulator, AEK, decides which firms have significant market power in any given market (see Sub-dimension 2.2: Services trade restrictiveness for more information). There is an obligation to publish interconnection reference offers for the fixed network, but no such obligation for the mobile network.

North Macedonia does not impose excessive conditions on cross-border data flows beyond those put in place to ensure the protection and security of personal data. Unlike most of the WB6 economies, North Macedonia does not require that some types of data be stored locally. No specific licences or authorisations for e-commerce activities are required. International standards are used for electronic contracts and key

electronic authentication measures such as the recognition of electronic signatures, and there is a dispute settlement mechanism to resolve litigations arising from the cross-border digital trade.

Policy areas relating to intellectual property rights and payment systems account for a smaller share of states' digital STRI score. North Macedonia is relatively open in this category from a regulatory point of view, following the principles of European regulations in this field.

### ***The way forward for trade policy***

The Government of North Macedonia has taken important steps to improve the trade policy framework, especially in the area of consultations, but it could improve its decision making by paying attention to the following:

- **Strengthen inter-institutional co-ordination and stakeholder participation in consultations.** A comprehensive system for review, based on both qualitative indicators (e.g. broadness of consultation, stakeholder satisfaction with their involvement) and quantitative indicators (e.g. frequency of consultations), and would help to measure the success of reforms and allow for consultation frameworks to be adjusted where necessary. Box 24.3 gives an example of how guidelines can be used to improve consultations. North Macedonia could also should follow the example of the stakeholder involvement in the European Commission policy cycle (Box 24.4) to develop a feedback mechanism to improve its consultations.
- **Improve the evaluation and monitoring of implemented trade measures.** Ideally, this should include a monitoring programme with adequate budget and staff to enable systematic evaluations.
- **Broaden trade in services efforts.** The WB6 economies have made significant improvements to open trade in services through the conclusion of CEFTA Additional Protocol 6 in December 2016. Nonetheless, The STRI analysis has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness.
- **Lift some of the existing stringent restrictions on trade in services:**
  - **Ease conditions on the temporary movement of natural persons** to further encourage innovation and knowledge transfer, and contribute to economic growth. A starting point could be to remove the remaining quotas and labour market tests which apply to foreign services suppliers.
  - **Reduce the remaining barriers to market entry and competition** in the computer, legal and insurance services and make further efforts to increase competitiveness.
  - **Remove restrictions in the insurance sector** on cross-border mergers and acquisitions, as well as on asset holdings.
  - **Amend the localisation requirements for professional liability insurance** in the legal sector.
  - **Ease the cumbersome and lengthy procedures for registering a company** which hamper all services sectors. North Macedonia could make efforts to facilitate the process and shorten the time it takes to register a company in order to increase its attractiveness to foreign investors.

#### **Box 24.3. Consultation guidelines in the United Kingdom**

The United Kingdom's 2008 Code of Practice is a good example of how a government can provide its civil servants with a powerful tool to improve the consultation process and its review, even though it is not legally binding and only applies to formal, written consultations. The 16-page Code of Practice was divided into 7 criteria, which were to be reproduced as shown below in every consultation:

- **Criterion 1: When to consult.** Formal consultation should take place at a stage when there is scope to influence the policy outcome.
- **Criterion 2: Duration of consultation exercises.** Consultations should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.
- **Criterion 3: Clarity of scope and impact.** Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals.
- **Criterion 4: Accessibility of consultation exercises.** Consultation exercises should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.
- **Criterion 5: The burden of consultation.** Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.
- **Criterion 6: Responsiveness of consultation exercises.** Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.
- **Criterion 7: Capacity to consult.** Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

The Code of Practice was replaced with the much shorter Consultation Principles in 2012. The Consultation Principles highlight the need to pay specific attention to proportionality (adjusting the type and scale of consultation to the potential impacts of the proposals or decision being taken) and to achieve real engagement rather than merely following a bureaucratic process.

Source: (UK Government, 2008<sup>[66]</sup>), *Code of Practice on Consultation*, [www.bis.gov.uk/files/file47158.pdf](http://www.bis.gov.uk/files/file47158.pdf); (UK Government, 2016<sup>[67]</sup>), *Consultation Principles 2016*, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/492132/20160111\\_Consultation\\_principles\\_final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/492132/20160111_Consultation_principles_final.pdf).



#### Box 24.4. Stakeholder engagement throughout the policy cycle at the European Commission

Following the adoption of the 2015 Better Regulation Guidelines, the European Commission has extended its range of consultation methods to enable stakeholders to express their view over the entire lifecycle of a policy. It uses a variety of different tools to engage with stakeholders at different points in the policy process. Feedback and consultation input is taken into account by the Commission when further developing the legislative proposal or delegated/implementing act, and when evaluating existing regulation.

At the initial stage of policy development, the public has the possibility to provide feedback on the Commission's policy plans through roadmaps and inception impact assessments (IIA), including data and information they may possess on all aspects of the intended initiative and impact assessment. Feedback is taken into account by the Commission services when further developing the policy proposal. The feedback period for roadmaps and IIAs is four weeks.

As a second step, a consultation strategy is prepared setting out consultation objectives, targeted stakeholders and the consultation activities for each initiative. For most major policy initiatives, a 12-week public consultation is conducted through the website “Your voice in Europe” and may be accompanied by other consultation methods. The consultation activities allow stakeholders to express their views on key aspects of the proposal and main elements of the impact assessment under preparation.

Stakeholders can provide feedback to the Commission on its proposals and their accompanying final impact assessments once they are adopted by the College. Stakeholder feedback is presented to the European Parliament and Council and aims to feed into the further legislative process. The consultation period for adopted proposals is eight weeks. Draft delegated acts and important implementing acts are also published for stakeholder feedback on the European Commission's website for a period of four weeks. At the end of the consultation, an overall synopsis report should be drawn up covering the results of the different consultation activities that took place.

Finally, the Commission also consults stakeholders as part of the *ex post* evaluation of existing EU regulation. This includes feedback on evaluation roadmaps to review existing initiatives, public consultations on evaluations of individual regulations and “fitness checks” (i.e. comprehensive policy evaluations assessing whether the regulatory framework for a policy sector is fit for purpose). In addition, stakeholders can provide their views on existing EU regulation at any time on the website “Lighten the load – Have your say”.

Source: (OECD, 2017<sup>[68]</sup>), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* (draft), [www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm](http://www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm); (OECD, 2016<sup>[69]</sup>), *Pilot database on stakeholder engagement practices in regulatory policy. Second set of practice examples*; (OECD, 2019<sup>[70]</sup>), *Better Regulation Guidelines*, [https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox\\_en](https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en).

## Access to finance (Dimension 3)

### Introduction

North Macedonia has slightly worsened its performance in the access to finance dimension. Its score has decreased from 3.0 in the 2018 Competitiveness Outlook to 2.4 in the 2021 assessment, partially due to its weak performance on access to alternative financing. North Macedonia's score is below the WB6 average in both access to bank finance and access to alternative financing while it scores above the WB6 average for the mobilisation of long-term financing (Table 24.6).

**Table 24.6. North Macedonia's scores for access to finance**

Dimension	Sub-dimension	Score	WB6 average
Access to finance dimension	Sub-dimension 3.1: Access to bank finance	3.0	3.4
	Sub-dimension 3.2: Access to alternative financing sources	1.6	1.9
	Sub-dimension 3.3: Mobilisation of long-term financing	3.5	2.8
North Macedonia's overall score		<b>2.4</b>	<b>2.6</b>

### State of play and key developments

#### *Sub-dimension 3.1: Access to bank finance*

North Macedonia's financial sector is bank dominated and the banks' assets constitute over 80% of total financial sector assets. At the end of 2019, 15 banks were operating in the economy, including 1 state-owned bank (Macedonian Bank for Development Promotion) and 11 private banks with a market share of over 70% of the total assets predominantly owned by foreign shareholders. As of March 2020, the cumulative share of the top three banks was 57.1% of banking system assets, while the share of the state-owned bank was 1.8%.

North Macedonia has a relatively well-developed regulatory framework for the **banking industry**. It has been largely compliant with Basel II core principles since 2009 (OECD et al., 2019<sup>[71]</sup>).<sup>33</sup> The 2016 amendments to the Banking Law on the regulation of capital adequacy introduced capital buffers and requirements for the structure and quality of banks' own funds. The National Bank of the Republic of North Macedonia (NBRNM) has adopted a new methodology for managing credit risks and enhanced its criteria for licensing banks, following the Basel III core principles for effective banking supervision. Consequently, since 2017 banks have been obliged to determine and monitor their leverage ratio on a semi-annual basis. Starting from January 2021, banks will be obliged to maintain the liquidity coverage ratio, while the implementation of the long-term Basel III liquidity standards is in progress. In response to COVID-19, the NBRNM revised its credit risk regulation to encourage banks to temporarily restructure loans and relaxing the loan classification standards for non-performing loans.

The NBRNM is responsible for the design and implementation of secondary legislation on the banking system while the Ministry of Finance is responsible for primary legislation. However, in practice the Ministry of Finance co-ordinates all activities regarding the development of the Banking Law, its amendments and other regulations relevant for banking activities. In addition, the NBRNM consults the Ministry of Finance as part of the public hearing process when developing relevant secondary legislation.

There is no explicit regulation that encourages domestic currency lending, however lending criteria differ. Overall, denar loans represent 57.8% of total loans while foreign currency loans account for 14.7% and indexed loans 27.5%. The regulation on credit risk management requires banks to pay special attention to foreign currency (FX) lending by adequately assessing the credit risk arising from the FX risk the client is exposed to but it lacks any explicit provision to encourage or facilitate denar lending. In addition, the regulation on reserve requirements sets a 0% reserve requirement ratio for denar liabilities to natural

persons with a contractual maturity of more than one year while, for FX-linked liabilities, the 0% ratio only applies if the contractual maturity is longer than two years.

Two **registers** operate in North Macedonia. The Real Estate Cadastre Agency operates cadastres which are publicly accessible on line, while the register of pledges over movable assets is the remit of the Central Registry of the Republic of North Macedonia. Information from this register is accessible upon request. As in the previous assessment, the registry includes ownership information on more than 75% of pledges on registered assets. According to the Real Estate Cadastre Agency's strategic work plan for 2020-22, it will draft an action plan for the registration of the state-owned property rights to enhance the coverage of the cadastre register.

**Credit information services** are supplied by one public credit registry and one private credit bureau. The private bureau is regulated by the Law on Credit Bureau, while the public registry was established under the National Bank Law. The law establishes the inclusion of both positive and negative information, for a maximum of five years after payment of liabilities or settlement of a bill. The data subject can request a copy of a report that has already been prepared for the needs of a particular data user and may submit a written notice disputing the accuracy or completeness of any data contained in the report. Data are available to the financial institutions and public on request. The credit registry covers around 42% of the adult population, while the credit bureau covers the entire adult population (World Bank, 2019<sup>[72]</sup>).

**Collateral requirements** remain relatively strict, making it challenging for businesses to access bank loans in North Macedonia. Around 76% of loans require collateral, more than the OECD average of 58%, amounting on average to 174% of the amount borrowed, compared to an average of 88% in the OECD economies (World Bank, 2019<sup>[73]</sup>). The law allows companies to use non-fixed assets such as movable assets, intangibles and pledge of rights to secure loans. However, there is no threshold of loan size allowing collateral requirements to be more flexible for small businesses.

There are some schemes offering **credit enhancement and risk mitigation**. The Development Bank of North Macedonia offers a credit guarantee scheme to micro, small and medium-sized enterprises (MSMEs) which are at least 51% privately owned and registered in North Macedonia. MSMEs which have increased the number of employees or invested in energy saving or environmental protection infrastructure can benefit from a loan of up to EUR 300 000 with an annual fixed interest rate of 6.5%. The scheme offers flexible monthly/quarterly or semi-annual repayments which are defined in advance, based on the business plan, with a grace period of six months. In addition, the European Investment Bank offers a scheme aimed at increasing working capital, with loans of a maximum of EUR 666 700 repayable in six years with an annual interest rate of 1.6%. Businesses can profit from the programme if they have: increased their exports by at least 5% over the previous year; invested in modernisation, energy saving or environmental protection; or increased the number of employees.

To mitigate the effects of the COVID-19 pandemic on small businesses, the European Bank for Reconstruction and Development (EBRD) has announced two support packages. In July 2020 it granted a EUR 20 million loan to Sparkasse Bank Makedonija for on-lending to local businesses and in November 2020, gave a loan of EUR 15 million to ProCredit Bank Macedonia to help local MSMEs.

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

**Factoring** activities remain very limited in North Macedonia, partly due to the absence of an adequate legal framework. Factoring activities are regulated by the Law on Financial Companies and the Law on Obligations. The legislation provides a general definition of factoring and regulates the transfer of future and bulk receivables. However it does not cover specific definitions such as reverse factoring, the detailed content of factoring agreements and bankruptcy procedures. To improve the legal framework, the government, with the support of the EBRD, has drafted amendments which were planned to be published on the Electronic National Registry of Regulation in February 2020 for public consultation. However, the

government postponed the process due to the COVID-19 pandemic and it is now expected to be adopted in December 2021.

**Leasing** activities are also limited. As of December 2019 the total value of active leasing contracts was EUR 118 million (1% of GDP). The market demand is highly concentrated: 73.8% of contracts are for passenger vehicles, 20.6% for trucks and only 0.5% for equipment and machinery. Leasing activities are regulated by the Law on Leasing under the supervision of the Ministry of Finance. The ministry issues licences and oversees all providers of financial leasing except the banks. The law regulates the rights and obligations of contracting parties, the manner and conditions for the lease of movable and immovable property, and the rules on repossessions of assets.

**Private equity** and **venture capital** are partially regulated by the Law on Investment Funds. However, the law does not cover the instruments in which private equity and venture capital alternative investment funds may invest, nor the restrictions, types and timeframes for subscriptions by members or shareholders. Although the development of the sector is part of the Innovation Strategy 2012-20, no progress has been made since the previous assessment. According to a government statement, it expects to implement a new law on alternative investment funds in 2022 which will be in line with EU directives,<sup>34</sup> with the technical assistance of the World Bank. Overall, equity investments in the economy remain limited with barely any active equity funds present. Since 2014, two seed stage companies and three start-ups received a total of EUR 6 million in investments under the Enterprise Innovation Fund (ENIF), which is a stand-alone venture capital fund covering the Western Balkans region.

North Macedonia has relatively active **business angel networks**, involving smaller investments. It has two active networks, both created under the umbrella of the United States Agency for International Development (USAID), which made 15 separate investments in 2018 totalling EUR 250 000. However, this represents a decrease in investment of 50% compared to 2016 (EBAN, 2019<sup>[74]</sup>). Despite the active market, there is no regulatory framework nor any plans or strategies to encourage the development of business angel networks.

Although **crowdfunding** is taking place, North Macedonia does not yet have a dedicated regulatory framework for it. Since 2014, regular crowdfunding campaigns have taken place through a local platform,<sup>35</sup> with the amount collected each year fluctuating considerably: from a low of MKD 30 000 in 2015 to a high of MKD 263 000 in 2014. Nevertheless, as of 2014, no project has achieved its crowdfunding target. The domestic crowdfunding platform doesn't provide clear information about the financial risks and charges that investors may incur, including insolvency risks and project selection criteria, which may be partially due to the absence of a regulatory framework. The authorities should assess the demand for such tools. The Macedonian Stock Exchange (MSE) has begun co-operating with a foreign crowdfunding platform Funderbeam. This platform provides all the information investors need but so far no investment has occurred since the establishment of the co-operation agreement (Box 24.5).

### Box 24.5. North Macedonia's crowdfunding initiative: Funderbeam

In 2019, the Macedonian Stock Exchange entered into an exclusive co-operation agreement with Funderbeam South East Europe, registered in Croatia. Funderbeam SEE is part of the Funderbeam Market Limited group which offers a global scheme for collective financing, a crowdfunding platform based in Estonia. The MSE plays an educational and promotional role by presenting the platform to small and medium-sized enterprises and start-ups as an alternative financing source to develop their businesses into companies suitable for future listing on the exchange.

Funderbeam offers clients a simple four phase process for listing, marketing and public relations expertise, ready-to-use legal templates and access to private business angel and venture capital networks. With a community of over 60 000 users and more than EUR 29 million raised, Funderbeam offers domestic entrepreneurs a quick, transparent and simple way to finance their innovative ideas, and encouraging Macedonian investors to get involved in new and growing companies.

Source: (Funderbeam, 2021<sup>[75]</sup>), *Funderbeam: The Global Funding & Trading Platform*, [www.funderbeam.com/](http://www.funderbeam.com/); (MSE, 2019<sup>[76]</sup>), *Macedonian Stock Exchange has signed an exclusive cooperation agreement with Funderbeam SEE*, [www.mse.mk/en/news/22/5/2019/macedonian-stock-exchange-has-signed-an-exclusive-cooperation-agreement-with-funderbeam-see](http://www.mse.mk/en/news/22/5/2019/macedonian-stock-exchange-has-signed-an-exclusive-cooperation-agreement-with-funderbeam-see).

In 2016, the NBRNM proclaimed that crypto assets were illegal under the article of the law which prohibits residents from investing in foreign securities. Since 2019, as North Macedonia entered the second phase of the Stabilisation and Association Agreement, domestic residents have been allowed to invest in foreign securities and foreign real estate, but they are still generally not allowed to open foreign bank accounts (except for some specific exceptions in accordance with NBRNM by-laws) making the legality of investment in crypto assets unclear. Consequently, no activity has been reported in **initial coin offerings** based on blockchain technologies.

#### *Sub-dimension 3.3: Mobilisation of long-term financing*

North Macedonia adopted the Law on Concessions and Public-Private Partnership in 2012 and by 2018, central government and municipal authorities had implemented 29 **public-private partnership** (PPP) projects. The law is not fully harmonised with the Concessions Directive of the EU,<sup>36</sup> but it respects the general principles of public procurement (OECD, 2019<sup>[77]</sup>). The general principles of transparency, equal treatment and non-discrimination are well reflected in the legislation. To increase implementation and improve the quality and consistency of PPP project results, the government has drafted a new PPP law which was in the parliamentary validation process at the time of writing.

North Macedonia's domestic **institutional investor and asset management** base remains small and highly concentrated, limiting capital market development. At the end of 2019, five asset management firms were operating in the economy, and the top three firms were managing 94% of the total assets under management. However, data on the breakdown of the total assets under management are not publicly available.

The Securities and Exchange Commission (SEC) is the supervisory authority and is responsible for granting and withdrawing licences. Foreign institutional investors that want to operate in North Macedonia need to have a local branch or operate through a domestic institution. The laws on securities and investment funds that govern institutional investors regulate market manipulation and insider trading. However, they do not clearly govern voting rights. Overall, a provision in the law on trading companies regulates proxies and voting rights, but there are no specific rules for institutional investors, providing room for potential conflicts of interest.

North Macedonia has **capital markets** but their contribution to financing the economy is limited and they have not attracted investments from large institutional investors. There have been no developments

regarding financial market infrastructure. The law on capital markets, which aims to align national legislation on securities markets and investment services to the EU *acquis*, has still not been adopted (EC, 2020<sup>[46]</sup>). Between January and June 2020, the stock exchange registered a total turnover of securities amounting to MKD 3.82 billion (around EUR 62 million; 1.25% of GDP), which was 124% higher than the same period in 2019. Of this, the turnover of shares totalled MKD 3.59 billion (EUR 61 million) and the turnover of bonds totalled MKD 234 million (EUR 3 million).

The **stock market**, the MSE, was established in 1995 and became operational in March 1996. It is regulated by the law on securities and is organised as a joint-stock company. The major shareholders comprise banks and stockbroker companies. The SEC is responsible for stock market supervision. The commission is an autonomous organisation and is responsible for the legal and efficient functioning of the securities market, as well as the protection of investors' rights. The MSE is a member of the Federation of Euro-Asian Stock Exchanges and affiliated member of Federation of European Stock Exchange. In 2014, to facilitate integration with other South East Europe markets, the MSE, together with the Bulgarian Stock Exchange and the Croatian Stock Exchange, established SEE Link.

The law clearly enumerates the requirements for listing companies in North Macedonia, with more flexible requirements for smaller companies. The listing rules of the MSE define four listing categories for the market: 1) super listing; 2) exchange listing; 3) mandatory listing; and 4) listings of small joint-stock companies (Table 24.7). There has only been one initial public offering since 2018, with a value of MKD 575 million (around EUR 9.3 million), but the secondary public offering (SPO) market was slightly more active. Since 2018, there have been two SPOs of shares, totalling MKD 320 million (around EUR 5.2 million), and three SPOs of bonds, with a total value of MKD 492 million (around EUR 8 million). To stimulate IPOs, the SEC decided to exempt issuers from the SEC fee (around EUR 80) during 2019 and 2020.

**Table 24.7. Listing rules in North Macedonia**

	Super listing	Stock exchange	Mandatory	Small joint-stock companies
Financial statements	Audited financial statements for the last three years	Audited financial statements for the last two years	Audited financial statements for the last two years	Audited financial statements for the last year
Financial results	Profit in the last 3 years	n.a	n.a	n.a
Capital	At least EUR 10 million	At least EUR 5 million	At least EUR 1 million	At least EUR 250 000
Free float ratio	At least 20%	At least 10%	At least 1%	n.a
Number of shareholders	At least 200	At least 100	At least 50	n.a

The **bond market** is relatively stable, but volumes are small. During the first half of 2020 the trading volume of bonds was MKD 234 million (around EUR 3.8 million), 4% more than the same period in 2019 (MKD 223 million – around EUR 3.6 million).

The legislative and regulatory framework is in place to regulate the bond market in North Macedonia. According to the law, bonds may be issued by the Ministry of Finance on behalf of the Republic of North Macedonia, municipalities and the City of Skopje; joint-stock companies; limited partnerships by shares; and any other domestic or foreign legal entities. The total nominal value of a single issuance of bonds, which are not guaranteed by a bank, cannot exceed the issuer's basic capital. If an issuance of bonds is guaranteed by a bank, the highest value of the issuance shall not exceed the amount of the basic capital and the amount of the issue guarantee. Investors can access the information on the maturity and coupon rates of the issued securities. However, the law does not provide any obligation to provide information on the liquidation preference, tax status or call provisions. This means no actors, including the SEC, publish bond ratings in North Macedonia, hampering the transparency of the bond markets.

### ***The way forward for access to finance***

To enhance the banking industry and support businesses' access to finance, policy makers should:

- **Continue to align North Macedonia's banking regulations with international standards.** The economic shock caused by COVID-19 means building the resilience of the sector to shocks has become even more important. Regularly monitoring the relevant regulations and bringing them into line with internationally agreed norms would further enhance the capacity of North Macedonia's banking sector.
- **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. Following the example of Lithuania (Box 24.6), such initiatives could increase the number of potential financing sources, especially for smaller companies, widening the sources of private financing and boosting foreign direct investment.
- **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 the liquidity of the private sector could be to establish a special framework for private bond placements by smaller companies, following the successful recent example of the Italian mini-bond market framework (Box 24.7).
- **Promote the use of infrastructure project bonds.** While PPPs are an efficient way to finance infrastructural projects, bonds can bring beneficial dynamics to capital markets and enable a more productive use of institutional funds for long-term investments. The government can promote the use of infrastructure project bonds through streamlining issuance and placement procedures, providing a clear definition of infrastructure project bonds, and providing tax incentives.

#### **Box 24.6. Lithuania's crowdfunding legislation**

While Lithuania's crowdfunding market is smaller than other European fintech hubs, the economy is only one of 11 EU member states with dedicated national legislation for crowdfunding platforms and boasts a mature and comprehensive regulatory framework for crowdfunding. Although its crowdfunding is in its infancy, Lithuania currently has 15 registered crowdfunding platforms. There has been a positive increase in the total value of crowdfunding platform loan portfolios, from EUR 6.6 million in 2019 to EUR 9.13 million in the first half of 2020 (Bank of Lithuania, 2020<sup>[78]</sup>).

Lithuania adopted its Law on Crowdfunding in 2016 with the aim of providing a hospitable, clear and transparent setting for cross-border crowdfunding platforms. The law adopted all aspects of the European Commission's Regulation for European Crowdfunding Service Providers, allowing for a seamless transition once the EU Directive comes into force (EC, 2018<sup>[79]</sup>). It was established through a multiple stakeholder consultation process and provides protection and guarantees for investors through information disclosure obligations, governance rules, risk management and a coherent supervision mechanism. The law covers equity, real-estate, and debt-based crowdfunding models, while donation and rewards models continue to fall under the Civil Code of the Republic of Lithuania.

Transparency regulations for crowdfunding platforms help mitigate misinformation and legal risk to better protect investors. Therefore, platforms must be included on the Public List of Crowdfunding Platform Operators, subject to an efficient reliability assessment conducted by the Bank of Lithuania's supervisory authority within 30 days. Platform operators, board members and significant stakeholders also undergo a criminal record check, while platforms must instate measures to avoid, identify and address any conflicts of interest that would prejudicially benefit the funder or project owner.



In addition to the EUR 40 000 minimum capital requirement, platform owners are required to put up 10% of starting capital themselves. In the case of offerings between EUR 100 000 and EUR 5 million, platform operators are obligated to publish a light prospectus, while offerings over EUR 5 million require a full prospectus detailing the project and project owner characteristics, proportion of own funds used, details of the offering, security measures, and existence of secondary markets.

In all cases, Lithuania's crowdfunding regulations require platforms to publish wide-ranging information on their websites for investors including data on the company, risks associated with investment, project selection criteria, conditions and procedures for repayment of funds, disclaimers on tax and insurance information, as well as monthly and yearly progress reports.

Meanwhile, Lithuania is continuously improving its innovative business environment to give financial institutions and crowdfunding platforms more investment opportunities. In 2016, the economy began allowing the use of remote identity verification via qualified electronic signatures and video streaming/transmission and is harmonising itself with the EU regulation on electronic identification. Lithuania has also recently amended its Law on the Legal Status of Aliens to include an e-residency programme, allowing foreigners to set up companies, open bank accounts and declare taxes through digital identification, furthering financing opportunities for its fintech platforms.

Source: (EC, 2017<sup>[80]</sup>), *Identifying Market and Regulatory Obstacles to Cross-Border Development of Crowdfunding in the EU: Final Report*, [https://ec.europa.eu/info/sites/info/files/171216-crowdfunding-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/171216-crowdfunding-report_en.pdf); (Bank of Lithuania, 2019<sup>[81]</sup>), *Consumer Credit Market Review: 2019*, [www.lb.lt/leidiniai/vartojimo-kredito-rinkos-apzvalga-2019-m](http://www.lb.lt/leidiniai/vartojimo-kredito-rinkos-apzvalga-2019-m); (Bank of Lithuania, 2020<sup>[78]</sup>), *List of Crowdfunding Platform Operators*, [www.lb.lt/finansu-rinku-dalyviai?list=36](http://www.lb.lt/finansu-rinku-dalyviai?list=36).

### Box 24.7. Italy's mini-bond market

In 2012 the Italian Government introduced a series of laws to initiate a mini-bond framework for unlisted companies to enable them to issue corporate bonds. The mini-bond framework provides a simplified process whereby unlisted companies with more than 10 employees and an annual turnover and/or assets in excess of EUR 2 million (except micro-enterprises and banks), can issue bonds that are available only to qualified investors. Firms are not required to publish a public prospectus – an admission document is sufficient.

In response to this new regulatory framework, Borsa Italiana introduced the ExtraMOT PRO segment in 2013, dedicated to the listing of bonds whose trading is only permitted to professional investors. Since its introduction, the mini-bond market has seen steady growth, with the number of issuances increasing from 16 in 2013 to 171 in 2018. The cumulated proceeds during this period amounted to EUR 10.6 billion, 25% of which was raised in 2018. Moreover, mini-bonds have also been securitised through special purpose vehicles which have created a diversified pool of mini-bond issuers available for institutional investors.

In 2019 the government introduced mini-bond placements on equity crowdfunding platforms. In October 2019, the operating rules for equity crowdfunding platforms willing to place mini-bonds were published by the competent authority (Consob). These include that the offers must be published on specific sections of the platforms; the issuers are limited to joint stock companies; and eligible investors are required to hold financial assets of at least EUR 250 000, invest at least EUR 100 000 in the mini-bond, or be client of an asset management company. The first offerings were published on crowdfunding platforms in January 2020.

Source: (OECD, 2020<sup>[82]</sup>), *OECD Capital Market Review of Italy 2020*, [www.oecd.org/corporate/OECD-Capital-Market-Review-Italy.htm](http://www.oecd.org/corporate/OECD-Capital-Market-Review-Italy.htm).

## Tax policy (Dimension 4)

### Introduction

Table 24.8 compares North Macedonia's scores on two tax policy sub-dimensions with the WB6 average. With regard to tax policy framework sub-dimension, North Macedonia scores above the WB6 average as a result of recent efforts to improve tax expenditure reporting and forecasting of tax revenues. For the tax administration sub-dimension, North Macedonia scores slightly above the average as a result of its efficient risk assessment system for tax compliance.

**Table 24.8. North Macedonia's scores for the tax policy**

Dimension	Sub-dimension	Score	WB6 average
Tax policy dimension	Sub-dimension 4.1: Tax policy framework	3.0	2.6
	Sub-dimension 4.2: Tax administration	3.5	3.3
	Sub-dimension 4.3: International co-operation	n.a.	n.a.
North Macedonia's overall score		<b>3.3</b>	<b>3.0</b>

Note: Sub-dimension 4.3 on international co-operation is analysed qualitatively and therefore remains unscored.

### State of play and key developments

#### *Sub-dimension 4.1: Tax policy framework*

North Macedonia's **tax revenues** are relatively low as a share of its economy. In 2019, its tax-to-GDP ratio was 25.9%, below both the WB6 (30.6%) and OECD (33.8%) averages for 2019 (Table 24.9). Tax revenues as share of GDP have remained relatively stable in recent years. North Macedonia relies heavily on social security contributions (SSCs) and goods and services taxes (GSTs), which together accounted for 81.1% of its total tax revenues: in 2019, SSCs accounted for 34.4% of the total, and GSTs for 46.6%. This aligns with regional trends (the WB6 average was 80.7% in 2019), but is significantly above the OECD average of 58.4% in 2018. Consequently, other taxes play a smaller role. In OECD countries, personal income tax (PIT) and corporate income tax (CIT) together account for nearly one-third of annual tax revenues on average (33.5% in 2018). In North Macedonia, these taxes made up 16.8% of the total in 2019, only half of the OECD average. North Macedonia's reliance on SSCs and taxes on goods and services leaves room to diversify the tax mix. SSCs support the direct funding of the welfare system, meaning North Macedonia can avoid funding social welfare funds from general tax revenues, which would create challenges to its budget. The reliance on SSCs may leave the economy relatively exposed to a decline in formal employment or a rise in informal employment.

**Table 24.9. North Macedonia's tax revenues as a percentage of GDP**

	CIT	PIT	SSCs	Goods and services	Tax/GDP ratio
North Macedonia	1.7%	2.7%	8.9%	12.1%	25.9%
WB6	1.8%	2.7%	9.3%	15.9%	30.6%
OECD	3.1%	8.1%	9.0%	11.9%	33.8%

Note: CIT=corporate income tax; PIT=personal income tax; SSC: social security contributions.

Source: (OECD, 2020<sup>[83]</sup>), *OECD.Stat*, <https://stats.oecd.org/> (2019 for overall tax/GDP ratio, 2018 for specific tax/GDP ratio).

Corporate income tax in North Macedonia is mainly levied at a 10% flat rate (Table 24.10), which broadly aligns with regional trends (the WB6 average was 11.5% in 2020) but is below the average of OECD countries (23.3% in 2020). This average rate is reflected to a certain extent in the economy's tax revenues: CIT revenues accounted for 1.7% of North Macedonia's GDP in 2019, which is similar to the WB6 average (1.8% in 2019) but below the OECD average (3.1% in 2018). A 1% CIT rate applies to companies under a

simplified tax regime or for business income of non-governmental organisations (NGOs) (explained further below).

**Dividend income** is excluded from the CIT base (provided the income was taxed at distributor level), while **capital gains** are treated as regular business income and taxed at a rate of 10%. A 10% rate is withheld on payments of dividends and **corporate interest** made to individual shareholders whether residents or non-residents. North Macedonia operates a worldwide taxation system in which resident corporations are liable for taxes on income arising from domestic and foreign sources, while non-resident entities pay taxes on domestically sourced income. In 2019, North Macedonia reformed its CIT and amended its transfer pricing rules. This reform introduced a transfer pricing documentation threshold of MKD 10 million (EUR 162 860); entities whose related-party transactions are above the threshold must submit transfer pricing documentation.

**Table 24.10. Selected tax rates in North Macedonia**

	<b>CIT</b>	<b>PIT</b>	<b>SSCs</b>	<b>VAT</b>
North Macedonia	10.0%	10%	28.0%	18.0%
WB6	11.5%	12.8%	28.6%	19.0%
OECD	23.3%	42.8%	26.9%	19.3%

Note: CIT= corporate income tax; PIT= personal income tax; SSCs= social security contributions; VAT= value added tax.

Source: (OECD, 2020<sup>[83]</sup>), *OECD.Stat*, <https://stats.oecd.org/> (2020 for CIT and VAT, 2019 for PIT and SSCs).

North Macedonia uses a mix of cost-based and profit-based **investment incentives**. Cost-based incentives lower the cost of investment and increase with the size of the investment. In North Macedonia, reinvested profits can be deducted from taxable corporate profits, which makes the tax system similar to that used in Estonia. North Macedonia also has profit-based tax incentives, which generally reduce the tax rate applicable to taxable income. Companies in Special Economic Zones (referred to as Technological Industrial Development Zones) are exempt from CIT for up to 10 years. North Macedonia also implements a simplified tax regime for 'micro-enterprises' based on annual turnover. Companies with annual turnover under MKD 3 million (EUR 48 700) are exempted from CIT and companies with income between MKD 3 million and 6 million (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. North Macedonia also has an employment incentive system whereby companies receive a monthly subsidy per employee depending on the salary of the employee.<sup>37</sup> Research shows that cost-based incentives are preferable to profit-based incentives, which risk leading to high redundancy of expenditure since the investments may have proceeded anyway (UNCTAD, 2015<sup>[84]</sup>).

North Macedonia has undertaken significant **personal income tax (PIT) reforms** in recent years. In January 2019, the rate for personal capital income was increased from 10% to 15% and a progressive PIT rate schedule was implemented to replace the previous 10% flat rate on labour income, with the introduction of an additional 18% rate.<sup>38</sup> This placed its top rate as second only to Albania (at 23%) among its WB6 peers. However, in January 2020, the 18% PIT rate was suspended until the end of 2022 and the personal capital tax reform was postponed until 2023. North Macedonia has the second-highest PIT revenues as a share of GDP (2.7% in 2019) among the WB6 economies (2.7% average in 2019). Similar to most WB economies, North Macedonia has a personal tax allowance for individual income which was MKD 96 000 (EUR 1 560) per year in 2020. Prior to 2019, there were other allowances for other types of income including rental and intellectual property income.<sup>39</sup> With regards to the taxation of personal capital income, a 10% rate currently applies for most income types, except for income from games of chance where the rate is 15%.<sup>40</sup> The capital gains tax rate is 15% for shares held for less than a year, 10% for shares held for 1-10 years, and zero for those held for more than 10 years. Taxation of capital gains from the disposal of shares will begin in 2023.

North Macedonia's reliance on **social security contributions** is similar to other WB6 economies. They amount to 8.9% of North Macedonia's GDP, which is slightly below both the WB6 average (9.3% in 2019) and the OECD average (9.0% in 2018). Only employees pay SSCs on labour income,<sup>41</sup> with a total SSC rate of 28%. This includes 18.8% for pension and disability, 7.5% for health insurance, 0.5% for health insurance in case of an injury at work or occupational illness, and 1.2% for unemployment insurance. The total rate is similar to the WB6 average of 29.4% in 2020. North Macedonia's practice of only levying SSCs on employees differs from most OECD countries where, on average, employers' SSC rates are higher than employees'. The self-employed in North Macedonia pay the same SSC rate as employees; this rate is similar to the average SSC rate in WB (29.7% in 2020). High SSC rates increase the tax burden on labour income, and reduce workers' disposable income and incentives to work in the formal economy, particularly those on low incomes. North Macedonia could shift its tax mix away from employee and self-employed SSCs to PIT through re-introducing a progressive PIT rate schedule (OECD, 2018<sup>[85]</sup>). This would shift the tax burden from those with lower incomes to those with higher ones, increasing equity and, if designed properly, efficiency. Such a reform would have to be accompanied by reforms to prevent tax avoidance. Increasing the top PIT rate might further strengthen the tax-induced incentives for self-employed entrepreneurs to incorporate in order to turn highly taxed labour income into lower taxed capital income. Increasing the top PIT rate therefore requires increasing the tax rate on personal capital income that applies to dividends.

Like most WB6 economies, North Macedonia relies heavily on taxes on goods and services. These amounted to 12.1% of North Macedonia's GDP, which is below the WB6 average (15.9% in 2019) but above the OECD average (10.9% in 2018). **Value-added tax** accounts for more than half of revenues from GSTs, or 7.5% of GDP. North Macedonia levies a standard VAT rate of 18%, which is the second lowest rate of the WB6, alongside Kosovo; the WB6 average VAT rate is 19% and the OECD average was 19.3% in 2020. North Macedonia's VAT base is narrowed further by a series of reduced rates of 0% and 5%; the latter is levied on goods and services including food products, medicines, books and print media, computers, and school supplies. In 2020, the mandatory VAT registration threshold was raised from MKD 1 million (EUR 16 180) to MKD 2 million (EUR 32 360). Changes to other GSTs were introduced in January 2020, including the introduction of a tax on motor vehicles, based on the purchase price and a calculation based on carbon dioxide (CO<sub>2</sub>) emissions. OECD research has found that consumption taxes, particularly value-added tax (VAT), may be less distortive on the decisions of households and firms, and thus on GDP per capita, than income taxes (Johansson et al., 2008<sup>[86]</sup>).

North Macedonia has an aggregated **tax revenue forecasting model** for all major types of taxes. It also operates a microsimulation model, which estimates firm-level CIT revenues, sector-specific CIT revenues and the revenue effects of rate or incentive adjustments. The PIT microsimulation model also analyses different redistributive indicators, such as the Gini and Atkinson index. North Macedonia is currently undertaking a Public Financial Management Reform Programme (2018-21). As part of this programme, it will further strengthen its forecasting capacities and simulation models.

**Tax expenditure reports** in North Macedonia are currently not published as part of the annual budget, but are only used to inform the government. However, as in several WB6 economies, North Macedonia plans to introduce regular tax expenditure reporting as part of the New Organic Budget Law due to come into force at the end of 2020. This is a step in the right direction. Indeed, to support transparency and accountability, the government should follow through on developing regular and systematic tax expenditure reporting in order to monitor the use and effectiveness of tax incentives along with the tax revenue forgone (OECD, 2010<sup>[87]</sup>).

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

The Public Revenue Office (PRO) of North Macedonia is a unified administrative body managing direct and indirect taxes. It is in charge of all **tax administration functions** except tax fraud investigation, which

is conducted by the Financial Police and the Ministry of Interior. It is organised under a mixture of functional and taxpayer approaches: its internal organisation follows the different functions of a tax administration, such as audit or taxpayer services, while it has a Large Taxpayer Office focused on large taxpayers. OECD research shows that having a unified body that covers all taxes and all the core tax administration functions is an important factor in strengthening the efficiency of tax administration (OECD, 2018<sup>[55]</sup>). The PRO is regularly audited by the Department of Internal Audit, which prepares annual and multi-annual audit plans. In 2019, the PRO and its regional offices underwent eight internal audits. A Tax Academy has been established as an internal unit, providing training to the PRO's employees.

With regards to **compliance and risk assessment**, the PRO carries out tax audits following a risk-based approach: it focuses on taxpayers showing certain abnormalities with regard to a predetermined set of risk criteria. OECD research shows that risk-based selection is a key element of effective and efficient compliance programmes as it allows administrations to make effective trade-offs to make the best use of their scarce resources (OECD, 2018<sup>[55]</sup>). This function is the responsibility of the General Tax Inspectorate, its six regional offices and an inspectorate in the Large Taxpayers Office. The PRO prepares a monthly tax audit plan, structured around three methods: electronic risk-assessment, analysis of individual cases and random audit based on a certain sample of risk activity. The PRO uses the DANIS system to monitor implementation of the national audit plan. While the procedure for tax audits is well established, with the Law on Tax Procedure and the Law on Administrative Disputes, it could be further developed by introducing a general framework that guarantees taxpayers' rights throughout the tax audit process.

In terms of **independence and transparency**, the PRO is organised as an administrative body integrated into the Ministry of Finance, to which it submits monthly reports. The PRO's budget is fixed in the annual budget process but it also receives additional funds in proportion to the amount of additional revenue raised from certain items. A Code of Conduct is in place defining the rights and obligations of the PRO's employees, which provides disciplinary actions for violations of these obligations. Existing rules also provide protection for whistleblowers. OECD research suggests that corruption among tax administration employees may deter individual taxpayers from paying taxes, or they may opt to pay a bribe or enter into the informal economy (OECD, 2018<sup>[55]</sup>).

Electronic **tax filing** is widely used in North Macedonia. While e-filing is only mandatory for VAT, its use is close to universal for PIT (99.3% of returns) and CIT (96.3%). Since January 2019, the PRO has prepared an annual tax return for taxpayers, which contains data on annual income and any advance payments made. Access to e-filing is based on a free software, with no payment obligations to complete a declaration. Regular audits of the tax collection process are conducted by an internal audit unit as well as the State Audit Office, an independent body. The PRO is in the process of implementing an assessment of compliance by different categories of taxpayer, but the audit process currently does not assess the efficiency of the tax collection system.

The PRO and its regional services offer various **taxpayer services**. The public may access information on line or communicate with it electronically or make inquiries in person. The tax legislation also provides for an ombudsman, which defends citizens' rights against their tax administration. A quarterly managerial report, not specific to taxpayer services, conducts a regular assessment. The PRO also conducts regular surveys of taxpayer satisfaction.

#### *Sub-dimension 4.3: International co-operation*

North Macedonia has also been proactively involved with the **international taxation framework**. In August 2018, North Macedonia joined the Inclusive Framework on BEPS (base erosion and profit shifting), which led to a series of initiatives. With regards to harmful tax practices (Action 5), a peer review began assessing North Macedonia's system in July 2020. In January 2020, North Macedonia signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI) on tax treaty abuse (Action 6). North Macedonia has prepared a first legislative draft on country-by-country reporting (Action 13),

based on the OECD model legislation, which is currently under internal review. It has not implemented the mutual agreements procedure (Action 14) but requested a deferral of the peer review process.

North Macedonia also signed the Convention on Mutual Administrative Assistance in Tax Matters in June 2018, which entered into force in January 2020. Additional initiatives may be highlighted in the field of exchange of information. North Macedonia has been subject to a second round of peer review on exchange of information on request (EIOR), receiving an overall rating of “largely compliant”. It has not yet engaged in any initiatives on the automatic exchange of information (AEOI). This involvement in the international taxation framework could help North Macedonia to strengthen the protection of its domestic tax base from erosion due to tax avoidance and evasion.

North Macedonia is engaged in several initiatives in the field of **digital taxation**. It has not yet formally implemented the international VAT/GST guidelines. However, it levies VAT on cross-border digital services using a logic close to the destination principle, which is the cornerstone of the international VAT/GST guidelines. In North Macedonia, income earned through digital platforms are included in the PIT base and taxed at the 10% flat rate. North Macedonia has not participated in the discussions on Pillar 1 and 2 of the OECD's Tax Challenges Arising from Digitalisation project. These developments might have an impact on North Macedonia's taxation of corporate income, especially under Pillar 2, which intends to define a minimum taxation of corporate profits. While the final rate will depend on ongoing discussions, North Macedonia has a low CIT rate and is at high risk of being affected. If the minimum rate is set higher than 10%, it would be faced with the choice of either raising its rate or risk forgoing tax revenues. Pillar 2 might also challenge North Macedonia's use of tax incentives. This topic will have a great importance in the near future and it may wish to evaluate its position on this topic and prepare an action plan.

North Macedonia is undertaking several initiatives in the field of **regional co-operation**. Since June 2006, the PRO has had a co-operation agreement with Bosnia and Herzegovina, Bulgaria, Montenegro, and Serbia. This agreement covers preventing and investigating tax fraud, co-operation on research and compliance, information for compliance purposes, and the training of staff. North Macedonia has also concluded 49 agreements on avoidance of double taxation, 24 of which were with member states of the European Union.

### ***The way forward for tax policy***

To enhance the tax policy framework and achieve their objectives, policy makers may wish to:

- **Continue to support the economy and facilitate the economic recovery** in light of COVID-19 with targeted tax and subsidy measures.
- **Assess the balance between employee SSCs and PIT.** In order to encourage low-income workers to participate in the formal labour market, some of the employee SSC burden could be shifted to the PIT by introducing a progressive PIT rate schedule, as planned for 2022. This reform might require accompanying measures to avoid tax avoidance among entrepreneurs who would face a strong incentive to incorporate their business and turn higher taxed labour income into lower taxed capital income.
- **Continue to strengthen its tax expenditure report** and publish it as part of the annual budget, as planned.
- **Avoid the use of profit-based tax incentives.** North Macedonia's CIT is already competitive due to its low rate and the deduction of reinvested profits from the tax base. This excludes the need for overly generous profit-based tax incentives.
- **Follow the discussion of the OECD/G20 Tax Challenges Arising from Digitalisation project** and in particular the work on Pillar 2 which would introduce a global minimum tax. This reform would encourage North Macedonia (and other WB6 countries) to increase its CIT rate and redesign its CIT incentives.

- **Re-evaluate the merits and disadvantages of worldwide taxation for resident companies.** For small open economies such as North Macedonia, worldwide taxation may entail high administrative costs without raising significant revenues.
- **Strengthen the available forecasting and microsimulation models to assess the tax system and reforms, as planned.** This could be through a wider use of microsimulation models and the use of forward-looking effective tax rates.
- **Continue to engage with the international tax community and implement international best practices.** Since the last assessment, North Macedonia has strengthened its involvement in international tax matters and this approach is very much welcomed.
- **Foster regional co-operation and co-ordination on common tax issues.** North Macedonia shares common challenges with other WB6 economies; enhanced collaboration might benefit all the economies involved. Areas such as tax compliance, training of tax staff and the exchange of information would greatly benefit from a co-ordinated regional approach.

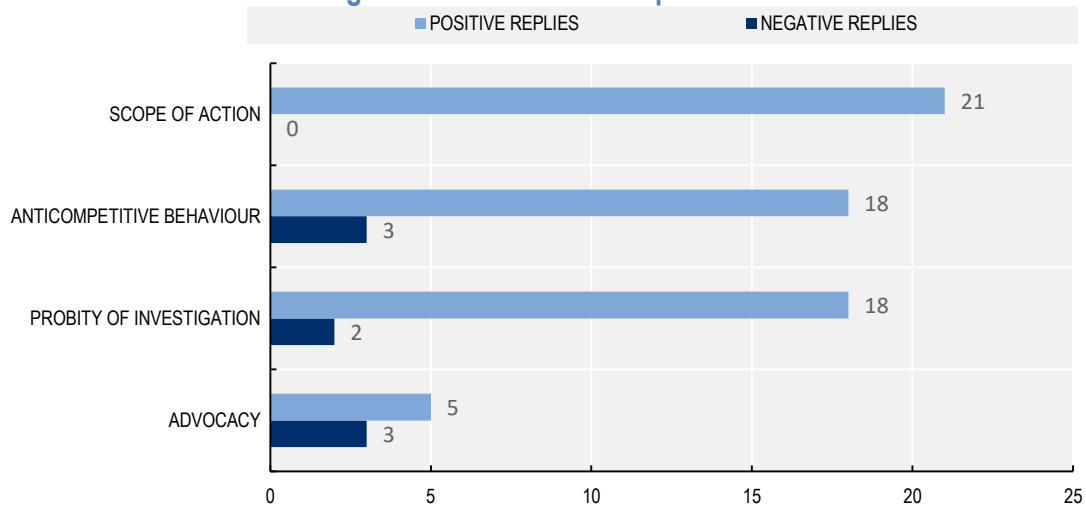


## Competition policy (Dimension 5)

### Introduction

Unlike the other dimensions, where indicators are allocated a score from one to five, the Competition policy dimension assesses four policy areas (i.e. scope of action, anti-competitive behaviour, probity of investigation and advocacy) and is based on yes/no (coded as 1/0) answers to the 71 questions in the questionnaire administrated by the OECD. Where a response to a question is yes (coded as 1), then we refer to this as an adopted criterion. Each of the four policy area has a different number of possible criteria that can be stated as having been adopted. Each policy areas is assessed though data collected from the questionnaire indicators and by measuring the number of criteria adopted. The new fifth policy area (implementation) is not scored, but is a quantitative analysis of how many competition decisions have been adopted by the competition authorities. The anti-competitive behaviour and implementation policy areas are discussed together below.

**Figure 24.9. North Macedonia's legal and institutional competition framework**



Source: Based on the OECD assessment.

### State of play and key developments

#### *Sub-dimension 5.1: Scope of action*

The legislative and institutional frameworks for competition in North Macedonia are in line with international good practice. Its competition rules reflect EU provisions on restrictive agreements and abuse of dominant position (Articles 101 and 102 Treaty on the Functioning of the European Union; TFEU) and include *ex ante* control of mergers, following the principles of the EU Merger Regulation.

The Commission for Protection of Competition (CPC) is responsible for implementing the Law on Protection of Competition. The CPC is an operationally independent authority with the power to adopt enforcement decisions in anti-trust and mergers, as well as to advocate competition principles to national policy makers.

The main challenge for the CPC remains implementation. The number of significant anti-trust and merger cases it has undertaken is still limited and the related fines imposed are not enough to ensure strong deterrence. The leniency system is not proving effective in supporting cartel detection. Advocacy action should be expanded, with a view to both embedding competition principles in the legislation and spreading a competition culture.

All this requires adequate financial and professional resources. The CPC appears to need a significant increase in its budget and specialised staff to support the development of competition enforcement and advocacy.

The Commission for Protection of Competition was established in 2005, following the adoption of the Law on Protection of Competition. Its board consists of the President and four members appointed for a five-year period by the Assembly of North Macedonia, with the right to reappointment. The current board was appointed in October 2018. The CPC's investigative activities are performed by four departments managed by a Secretary General, appointed and dismissed by the board.

The total number of staff has fallen slightly, from 26 employees in 2015 to 23 in 2019, and it only employed 6 actual competition case handlers in 2019. In comparison, according to the OECD CompStats database,<sup>42</sup> the average total staff of the 15 competition authorities in small countries (with a population below 7.5 million) was 114 in 2019, of whom 43 were working on competition. The CPC's staffing levels are also at the low end for the region: on average the competition authorities in the WB6 economies employed 33 staff in 2019, of whom 21 were working on competition.

The CPC's budget has grown slightly, from EUR 289 000 in 2015 to EUR 397 000 in 2020. However, despite also having responsibility for state aid control, its budget is the smallest of the 48 respondents to the CompStats survey.

The Law on Protection of Competition ensures competitive neutrality, insofar as the **competence** of the CPC encompasses both private and public undertakings. This includes entities that have been entrusted with services of general economic interest, except where the application of the law would hinder the performance of the tasks stipulated by law or the purpose for which those entities were established.

The CPC has appropriate **powers to investigate** and **powers to sanction** possible anti-trust infringements, i.e. restrictive horizontal and vertical agreements and exclusionary or exploitative practices by dominant firms.

The CPC may impose cease and desist orders, and remedies and sanctions on firms that have committed anti-trust infringements. It may also adopt interim measures *ex officio* and based on preliminary evidence (*prima facie*), if the alleged competition breach poses a risk of serious and irreparable damage. It may also order behavioural and structural measures needed to eliminate harmful effects on competition and set deadlines for their implementation. The duration of such interim measures has to be clearly indicated by the CPC and be proportionate and consistent with the objectives of the measure.

After the initiation of proceedings, and no later than the notification of the statement of objections, parties may offer commitments to address the competition concerns. The Commission for Misdemeanour Matters, an internal body of the CPC, cannot accept such commitments in cases of a significant distortion of competition.

The CPC may compel investigated firms and third parties to provide relevant information and may perform unannounced inspections on the premises of the parties. The assessment of alleged anti-competitive conduct must follow a thorough scrutiny of the collected evidence, which may include an economic analysis of the competitive effects of vertical agreements or possible exclusionary conduct.

The Commission for Misdemeanour Matters can impose a fine of up to 10% of the value of the total annual turnover of the undertaking in the last business year. The Law on Protection of Competition includes a leniency programme, which offers partial or total immunity from sanctions to firms that report the existence of an anti-competitive agreement and submits valid evidence to the CPC.

The Law on Protection of Competition also provides for *ex ante* control of **mergers**, following the principles of the EU Merger Regulation. The CPC can compel merging firms and third parties to provide relevant information and can perform unannounced inspections on the premises of the parties. The assessment of

notified mergers must follow a thorough scrutiny of the evidence, which includes an economic analysis of the restrictive effects and of possible efficiencies stemming from the notified transaction.

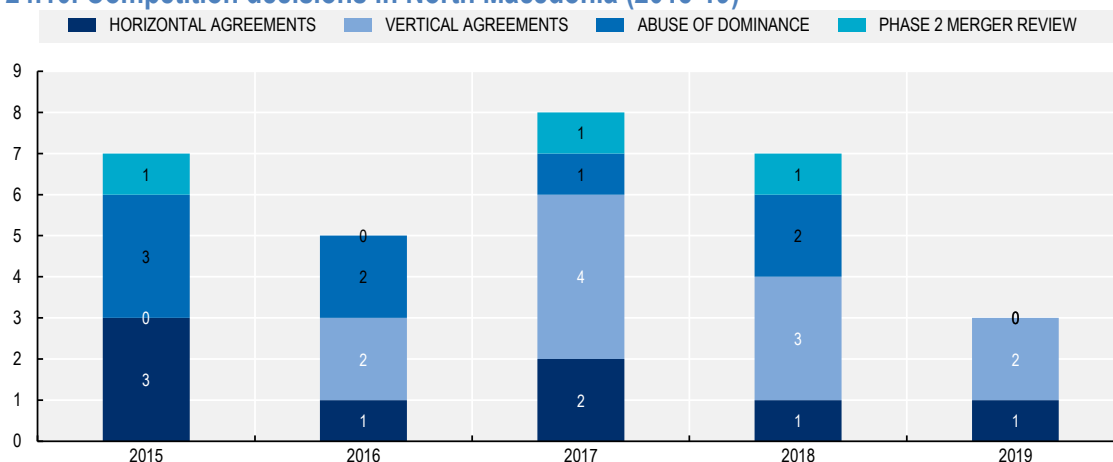
In the case where a merger would create or strengthen a dominant position in the relevant markets, the CPC may prohibit the transaction. If the merging parties propose modifying the transaction and the CPC finds that the modifications address the anti-competitive concerns, the CPC may accept the proposed remedies and clear the merger.

Regarding **private enforcement**, individuals, firms and consumers – either collectively or through consumer associations – can bring a legal action to seek damages from firms that have committed anti-trust infringements.

### *Sub-dimensions 5.2 and 5.5: Anti-competitive behaviour and implementation*

The anti-competitive behaviour and implementation policy areas together gauge the use of powers and resources in terms of decisions adopted and fines imposed for horizontal agreements, vertical agreements and exclusionary conduct. They also explore the actual activity of the competition authority on reviewing mergers. The actual **implementation** of these provisions through competition enforcement is still limited in North Macedonia (Figure 24.10). Very few decisions have tackled hard-core **horizontal agreements** (cartels), which represent the most harmful competition infringements, particularly in the last few years. In comparison, on average the 15 competition authorities in smaller jurisdictions in the OECD CompStats database tackled 4.2 cartel cases a year during 2015-19.

**Figure 24.10. Competition decisions in North Macedonia (2015-19)**



Source: Data provided by the authorities.

The sanctions on cartels were negligible until 2019, when the CPC imposed a total fine of EUR 1.7 million on two pharmaceutical companies (on average the total fines imposed annually on cartel infringers by the competition authorities in smaller jurisdictions in the OECD CompStats database were EUR 2.7 million during 2015-19). The CPC has primarily invested its investigative resources in **vertical agreements**. However, the amount of fines imposed relating to vertical agreements was also modest, totalling EUR 143 185 in 2018 and EUR 206 850 in 2019.

The CPC has not received any leniency applications to date. It has made progress on unannounced inspections (also called “dawn raids”), which are crucial for collecting evidence of competition breaches, particularly with respect to cartels. After conducting only one such inspection each year in 2016-19, it carried out three in 2019.

The number of decisions on **exclusionary conduct** ranged from three in 2015 to zero in 2019.

In 2019 the CPC received 58 **merger** notifications, after receiving 67 in 2018 and around 40 in each of the previous three years. The vast majority of the transactions were cleared without any need for a closer examination and only a small portion had real economic implications for the national economy. Over the last five years only one merger has been blocked, in 2017, while two were approved with remedies (in 2015 and 2018).

The ratio of in-depth (Phase 2) investigations and notifications is lower than in other jurisdictions, if benchmarked against the 15 competition authorities in smaller jurisdictions in the OECD CompStats database. In particular, the average annual number of in-depth merger investigations in the 15 competition authorities in the years 2015-19 was 4, out of 36 notifications.

### *Sub-dimension 5.3: Probity of investigation*

The CPC is an **independent** state body, i.e. it is autonomous in its work and decision-making process within the competencies provided by the law. It is **accountable** before the Assembly of the Republic of Macedonia, to which it must submit an activity report no later than March each year.

In terms of **procedural fairness**, the decisions of the CPC and the Commission for Misdemeanour Matters as well as the judgements by the courts, must be published on the website of the CPC and in the Official Gazette. The text of the decision has to specify the names of the parties to the proceedings and the basic contents of the decision. All data qualified as business or professional secrets may not be published.

The decisions of the CPC issued in administrative proceedings are final. They may be appealed before the Administrative Court within 30 days of the day of the notification of the decision, without deferring the enforcement of the decision. The judgements of the Administrative Court may be further appealed before the High Administrative Court. The decisions of the Commission for Misdemeanour Matters are also final. A legal action before the Administrative Court may be brought within eight days of the day of the notification of the decision.

Before making a final decision, the Commission for Misdemeanour Matters has to provide the parties with a statement of objections, which should also indicate the type and amount of the sanction to be imposed and the circumstances taken into account to determine the sanction. The parties have the right to state their views in writing. Likewise, merging parties have the right to be heard and submit evidence before a decision on a merger is taken.

A large number of by-laws, guidelines and brochures are published on the CPC website (mostly translated from EU documents). They include notices on the notion of concentration, horizontal and vertical agreements, as well as a number of guidelines, including on the calculation of fines, vertical restrictions, and horizontal and vertical mergers.

### *Sub-dimension 5.4: Advocacy*

The CPC can issue opinions on existing and draft laws and regulations. The public body concerned must inform the CPC of the reasons for not accepting the Commission's opinion. The CPC can provide opinions on issues in the area of competition policy, protection of competition on the market and granting state aid which it can do on request by the Assembly, the Government of North Macedonia, other state authorities, undertakings or *ex officio*.

In exercising its functions, the CPC has to co-operate with other state authorities and bodies on issues related to the protection of competition. The CPC and the state authorities and bodies can exchange the data and information needed to carry out their responsibilities, as long as the exchange is appropriate and proportionate to its purposes.

The CPC usually receives draft laws and regulations before they are adopted and has sufficient time to examine and comment on them. There is no specialised unit within the CPC in charge of the assessment of laws and regulations. There is no manual or guidance for conducting such an assessment.

In 2019 the CPC issued seven formal opinions, compared to six in 2018 and four each in 2017 and 2016. Recent relevant opinions concerned the Law on Public Procurement and the Law on Misdemeanour, and the CPC's suggestions were implemented. In December 2014, the CPC issued guidelines for detecting bid rigging in public procurement, in co-operation with the Bureau for Public Procurement.

The CPC has the power to perform market studies but has not issued any over the last few years.

It organised three public events to promote competition culture in 2019. In previous years, the CPC also organised workshops for judges and for members of the national chamber of commerce.

### ***The way forward for competition policy***

The CPC needs to improve its competition enforcement capacity and efforts, with a view to increasing the number of decisions on cartels and abuses of dominant position and the resulting fines.

In addition, it should engage in advocacy initiatives to promote greater awareness of competition principles among the general public and foster a competition culture among policy makers and the business community. The recent challenges arising from the COVID-19 pandemic make it even more urgent for the CPC to expand its advocacy role to contributing to the economy's quick recovery.

In addition, policy makers and the CPC should focus on the following measures:

- **Provide the CPC with adequate financial and professional resources.** Its current budget and the number of specialised staff appear insufficient to allow the CPC to effectively perform its duties. Substantially increasing the budget would align the CPC with other comparable competition authorities. Additional financial resources would enable the CPC to recruit officials with appropriate competition skills and thus develop its potential in terms of competition enforcement and advocacy. See Box 24.8 for information on how Italy's competition authority is funded.
- **Prioritise boosting cartel enforcement and increasing fines.** Cartels are the most clear-cut and undisputedly harmful competition infringements and affect every economy. The efforts of the CPC should be focused on detecting cartels and imposing heavy fines on infringers, in order to deliver a strong message that firms that engage in collusion risk will be severely punished. If the amount of fines sufficiently exceeds illicit gains, offences will be deterred even when the probability of paying a fine is low. Concern over fines is also a key driver of leniency applications, thus increasing the effectiveness of the leniency programme – which has been unproductive so far – and further boosting detection. The CPC could also expand its detection skills, for example by further strengthening the fight against bid rigging (see the next recommendation on public procurement) and continue to perform on-site inspections to collect evidence.

- **Pay particular attention to public procurement, particularly during the COVID-19 crisis.** Public procurement is a key sphere of action both for cartel enforcement and for encouraging competition. Bid rigging results in significant harm for public budget and taxpayers, dampening innovation and encouraging inefficiency. Figure 24.11 shows how co-operation between competition and procurement authorities can help detect and avoid big rigging. The CPC has issued guidelines for detecting bid rigging in public procurement, in co-operation with the Bureau for Public Procurement and successfully advocated to improve the Law on Public Procurement. The CPC should further explore ways to enhance its detection of cartels and prevent bid rigging through better tender design by procurement officials. The Recommendation of the OECD Council on Fighting Bid Rigging in Public Procurement (OECD, 2012<sup>[88]</sup>) calls on governments to assess their public procurement laws and practices at all levels of government in order to promote more effective procurement and reduce the risk of bid rigging in public tenders. The Guidelines on Fighting Bid Rigging in Public Procurement (OECD, 2009<sup>[89]</sup>), which form a part of the recommendation, are designed to reduce the risks of bid rigging through careful design of the procurement process and to detect bid-rigging conspiracies during the procurement process. The OECD can also provide assistance through a project aimed at assessing the main rules governing the procurement of public works and the procurement practices of major public buyers and providing recommendations for competitive procurement and fighting bid rigging in accordance with international good practices, while offering training to both competition and public procurement officials based on the Guidelines on Fighting Bid Rigging in Public Procurement.

#### Box 24.8. Financial independence for the Italian Competition Authority

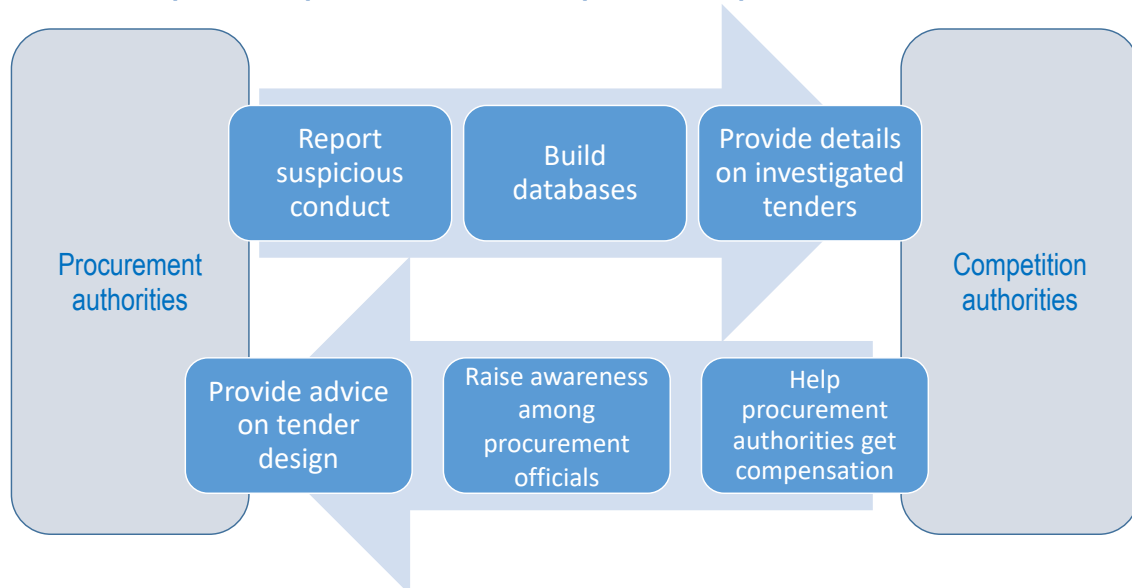
Until 2012, the financing of the Italian Competition Authority (AGCM) was based on two main sources: annual funding from the state and fees paid by companies subject to merger notification requirements.

Legislative Decree no. 1/2012 modified the AGCM's funding system, which is now based on mandatory contributions imposed on companies incorporated in Italy whose turnover exceeds a threshold of EUR 50 million. The revenues from these contributions replace all previous forms of funding. The level of contribution, originally fixed at 0.06 per thousand, has been gradually lowered by the AGCM to 0.055 per thousand. The authority's financial statements have to be approved by 30 April of the following year, and are subject to auditing by the Court of Auditors.

This funding system can be regarded as an indirect recognition of the positive role played by the AGCM in supporting a healthy and level competition field, which justifies the imposition of a small contribution on the largest businesses incorporated in Italy.

Importantly, the previous funding system entailed the risk of possible fluctuations in the size of the annual budget, due to the unpredictability of the number of notified mergers and levels of state funding. The new system shelters the AGCM from that risk, thus allowing for more stable and forward-looking recruitment planning.

Figure 24.11. Example of co-operation between competition and procurement authorities



- **Perform market studies.** Market studies are used to assess how competition in a sector or industry is functioning, detect the source of any competition problems, and identify potential solutions. They can uncover problems such as regulatory barriers to competition and demand-side factors that impair market functioning. Because market studies are a versatile tool, and they allow the examination of a broader set of issues than competition enforcement, their use is growing. International organisations, notably the OECD and the International Competition Network (ICN), have developed a wide range of documents on market studies, including the OECD Market Studies Guide for Competition Authorities. The OECD Competition Division can also assist competition authorities, regulators, ministries or other policy makers with market study projects.
- **Promote a competition culture through dedicated events.** In this phase of the development of the CPC, it needs to strengthen its standing and reputation and persuade policy makers and the business community of the key role competition plays in supporting economic growth and consumer welfare. Tailor-made conferences in co-operation with other public authorities, training events and seminars addressed at the business community or the judiciary, as well as educational materials for the general public, are effective tools to increase competition awareness.
- **Expand international co-operation and training.** In the face of increasingly complex anti-trust issues and the frequent cross-border nature of competition infringements, the management and the staff of the CPC should have frequent opportunities to meet and participate in policy discussions. International organisations like the OECD, the ICN and the United Nations Conference on Trade and Development (UNCTAD) offer valuable opportunities to this end. The OECD-GVH Regional Centre for Competition in Budapest also provides an ideal forum for capacity building and sharing of good practice with colleagues from other jurisdictions, focusing on the specific challenges of Eastern European and Central Asian countries. The CPC is already a regular participant in the centre's events and would benefit from actively continuing.



## State-owned enterprises (Dimension 6)

### Introduction

The ownership arrangements for North Macedonia's approximately 50 centrally held state-owned enterprises (SOEs) are dispersed across the administration. There is no unified state ownership policy to guide corporate decision making around SOE performance. As a result, many SOEs are loss making and North Macedonia scores on the lower end of the scale for the sub-dimension on their efficiency and governance (Table 24.11). Its performance in the transparency and accountability practices sub-dimension is around the regional average, reflecting sound basic disclosure requirements at the company level, but limited disclosure by the state on the performance of its SOE portfolio as a whole. Similarly, North Macedonia achieves an average score for providing a level playing field between state-owned and private companies. This reflects issues that are common across the Western Balkan region – namely that many SOEs are not incorporated according to general company law and that they enjoy some competitive advantages, such as lenient rate-of-return expectations, from the state as owner. North Macedonia's overall performance in this dimension remains essentially unchanged since the last Competitiveness Outlook (2018), as no state ownership reforms have been undertaken since then.

**Table 24.11. North Macedonia's scores for state-owned enterprises**

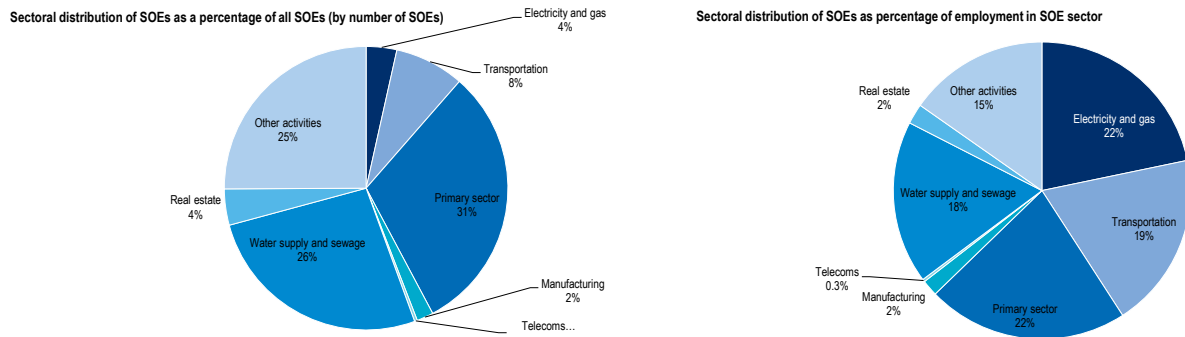
Dimension	Sub-dimensions	Score	WB6 average
<b>State-owned enterprises dimension</b>	Sub-dimension 6.1: Efficiency and performance through improved governance	1.8	2.2
	Sub-dimension 6.2: Transparency and accountability practices	2.8	3.0
	Sub-dimension 6.3: Ensuring a level playing field	2.5	2.8
	Sub-dimension 6.4: Reforming and privatising state-owned enterprises	n.a.	n.a.
<b>North Macedonia's overall score</b>		<b>2.3</b>	<b>2.6</b>

Note: For comparability with the previous assessment, Sub-dimension 6.4 (reforming and privatising state-owned enterprises) has not been scored but is discussed in the text below.

### State of play and key developments

#### *Sub-dimension 6.1: Efficiency and performance through improved governance*

The central and municipal governments of North Macedonia own a reported 318 enterprises, of which 50 are solely held by the central level of government.<sup>43</sup> Similar to most OECD countries, these SOEs are highly concentrated in the network industries: telecoms, electricity and gas, transport, and other utilities (including water supply and sewage companies owned by municipalities). Together they account for 59% of all SOE employees (Figure 24.12).<sup>44</sup> Individual examples include the Public Enterprise Macedonian Railways, the Public Enterprise for State Roads, and the natural gas distributor Public Enterprise Strumica-Gas. The primary sector – which includes, for example, the state forestry enterprise – is also quite important, accounting for 22% of all SOE employment in the economy.<sup>45</sup> Beyond these more “traditional” state ownership sectors, the government also owns 13 real estate companies and 6 manufacturing companies, together accounting for 4% of all SOE employment. Three SOEs are nominally listed on the national stock exchange, operating in residential and government real estate and gambling (the state lottery).<sup>46</sup>

**Figure 24.12. Sectoral distribution of SOEs by number and contribution to employment**

Note: North Macedonia's authorities excluded primary-sector SOEs from their aggregate figures, but they have been included in this profile's figures.

Source: Calculations based on data provided by North Macedonia's authorities, aggregating figures for SOEs owned at both the central and municipal level.

SOEs at all levels of government employ approximately 51 000 people, accounting for an estimated 6.4% of all employment in North Macedonia. The authorities did not provide distinct data on SOEs held only by central government (except reporting that the central level of government owns 50 of them). This makes it difficult to draw international comparisons, including with OECD economies for which the available data are usually only based on central government SOEs (OECD, 2017<sup>[90]</sup>). As an imperfect point of comparison, centrally held SOEs account for 2-3% of national employment on average across OECD countries, with the 10 largest sectors accounting for between 2.9% (in Sweden) and 9.6% (in Norway) of national employment (OECD, 2017<sup>[90]</sup>; IMF, 2019<sup>[91]</sup>). A 2019 assessment by the International Monetary Fund (IMF) of SOEs held at all levels of government in Central, Eastern and South-eastern Europe found that SOEs in North Macedonia accounted for the smallest share of employment in the region, second only to Kosovo (IMF, 2019<sup>[91]</sup>). The same study found that North Macedonia's SOEs accounted for the least amount of value added as a share of GDP compared to the other WB6 economies (IMF, 2019<sup>[91]</sup>).<sup>47</sup>

External assessments suggest significant inefficiencies and, in many cases, outright losses among SOEs in North Macedonia. A 2019 IMF study found that more than 70% of SOEs in North Macedonia are less profitable than their private sector peers (IMF, 2019<sup>[91]</sup>). A 2015 examination of the financial statements of 101 SOEs found that one in three of them were loss making (BIRN, 2014<sup>[92]</sup>). A more recent analysis of 29 SOEs, undertaken by Portalb, found that 13 of the reviewed SOEs had posted pre-tax losses in 2018 (Dodevska, 2019<sup>[93]</sup>). Among these loss-making SOEs were the national postal services operator and the railway transport and infrastructure companies. It is not uncommon for SOEs across the world to be less profitable than their private sector peers. They are often expected to fulfil costly public policy objectives that are subsidised from commercial activities, rather than being transparently compensated through the state budget. The authorities in North Macedonia have not so far attempted to define, disclose, or estimate the costs of SOEs' non-commercial objectives, which can be quite wide ranging, including delivering public services and supporting local employment. In the absence of information, understanding and addressing the sources of SOEs' weak performance could prove to be challenging.

Concerning the **clarification of ownership policy and rationales**, the authorities have not developed a publicly available policy that defines the overall objectives for state ownership or the roles of different state bodies in executing ownership decisions. Some of the rationales for state ownership can be ascertained from existing legislation, such as the Law on Public Enterprises, which references undertaking activities in the public interest as a reason to establish SOEs but provides little additional details on what constitutes the "public interest". There are 23 SOEs that do not fall under the scope of the Law on Public Enterprises, and for which the rationales for state ownership are therefore even less clear. For some individual enterprises, the founding legislation and/or articles of association implicitly outline the reasons for state ownership, while for other SOEs, the reasons for state ownership are simply not articulated. There is

significant scope to define and disclose the rationales for state ownership – both in general and for specific SOEs – so that public ownership of companies is a transparent and informed policy decision more clearly.

North Macedonia has a dispersed ownership architecture, with no single state institution responsible for executing ownership decisions. It has no co-ordinating body to harmonise and **professionalise state ownership** practices across the state administration. While the ultimate responsibility for state ownership resides, by law, with the Government of Macedonia, the practical division of responsibilities among ministries is unclear. Public bodies with state ownership responsibilities include the Ministry of Economy, the Ministry of Finance and the Ministry of Transport and Telecommunications. A portfolio of SOEs was also previously overseen by the Privatisation Agency, but the agency was disbanded in 2005 and the remaining enterprises under its purview were divided among the Ministry of Finance, the Ministry of Economy, the Pension and Disability Fund, and the Public Company for Real Estate Management.

North Macedonia is reportedly in the process of establishing a **robust board nomination framework** for SOEs, but there is currently no common approach to board appointments and the process does not seem to be very transparent. In practice, board nominations to SOEs are decided by the government based on proposals by individual line ministries. The absence of a transparent nomination process increases the risk of board positions being awarded to people with limited professional qualifications and, in the worst cases, used as tools for political patronage. Because boards of directors are in turn responsible for appointing chief executive officers (CEOs), there is a risk that any politicisation of boards could trickle down to the management level, leading to political influence over corporate decision making. According to stakeholders interviewed in the context of this assessment, the senior management of SOEs frequently changes when there is a change in government, indicating a strong degree of politicisation in SOE management oversight.

Despite these shortcomings, there are at least some basic legislative requirements to **promote independent and professional boards** for companies from North Macedonia, including most SOEs. The Trade Companies Law – which is applicable to SOEs that are incorporated as limited-liability or joint-stock companies – establishes that board members are liable for any damages to the company as a result of their decisions. It also includes requirements that company boards comprise a minimum of one-quarter independent directors. Individuals are considered independent if they and their immediate family members 1) have not had any material interests or business relationships with the company during the preceding five years; and 2) are not holding over 10% of its shares. Nonetheless, in practice, SOE boards are often seen as extensions of the ministries that own them, rather than as strong corporate decision-making bodies that operate independently under clear objectives communicated by the government. Public officials serving on SOE boards receive instructions on how to vote, indicating a boardroom culture in which members are not expected to make decisions independently in the interest of the enterprise and its shareholders.<sup>48</sup> The presence of politicians on SOE boards – which in some other WB6 economies is either barred by law or goes against applicable policy – also raises significant concerns regarding boards' professionalism and independence. North Macedonia's authorities have not taken steps to promote gender diversity on SOE boards, reflecting the wider underpinning issue of underdeveloped board nomination criteria. It is considered good practice to take gender diversity into account in the process of establishing a board of directors with varied backgrounds and experiences.

### *Sub-dimension 6.2: Transparency and accountability practices*

While legislation establishes multiple **financial and non-financial reporting** requirements for SOEs, there is an overarching concern over SOEs' compliance with these requirements. Like all companies, SOEs are required to submit annual reports and financial statements to the Central Registry, which must then make them publicly available. SOEs are also required by the Law on Public Enterprises to publish their financial statements on their own websites – or, if they do not have a website, on the website of the responsible ownership ministry – within 15 days of their submission to the Central Registry. Earlier external studies indicate that many SOEs have in the past complied with the requirement for reporting to the Central

Registry and that at least their financial reports were readily available to the public.<sup>49</sup> However, according to the assessment, the majority of SOEs do not fully implement their reporting requirements. SOEs are also required by law to submit reports on their performance, together with their annual accounts, to the responsible line minister. A more in-depth and up-to-date review of SOEs' compliance with existing disclosure requirements, as well as of the quality of their disclosures, could help determine whether additional policy measures are needed to strengthen disclosure at the enterprise level.

Concerning disclosure by the state, no single report on the aggregate performance of SOEs is compiled or made available to the general public. However, the state has established a basic online directory of SOEs, which includes their names, addresses, and contact information (in Macedonian) (KOMSPI, n.d.<sup>[94]</sup>). The Central Registry is required to publish the corporate disclosure documents that it receives from individual enterprises, including SOEs, but more information would be required to assess whether such information is in practice publicly available for most SOEs.

North Macedonia appears to have established sound basic legislation to ensure high-quality **auditing practices** among SOEs, but a fully informed assessment of this area would require a qualitative review of how this legislation is implemented in practice. The Law on Audit requires all legal entities of public interest – which presumably includes all SOEs under the scope of the Law on Public Enterprises – to have their financial statements reviewed by an external auditor. In practice, however, the government reports that independent external audits are only performed for SOEs with mixed capital and that the State Audit Office audits the financial statements of SOEs that are 100% owned by the state. This suggests a general lack of clarity about SOEs' audit requirements and there is a need to clearly identify which SOEs should undergo external audits of their financial statements.

External stakeholder assessments also point to insufficient state monitoring of SOEs' operations as well as the absence of clearly defined criteria for determining which SOEs should undergo state audits and when. The Centre for Civil Communications, a local NGO, highlighted in a recent report that the majority of SOEs had not undergone a state audit in the past 15 years. The report also highlighted the lack of clarity regarding how SOEs are selected for audits and how frequently they take place: one of North Macedonia's largest SOEs (the electricity company AD Elektrani) was last subject to a financial audit by the state in 2007, while the state road construction company was audited four times between 2005 and 2016 (Centre for Civil Communications, 2019<sup>[95]</sup>). This report also highlighted that several SOEs have received negative opinions on the soundness of their financial statements or their compliance with applicable legislation. This points to the need to improve the quality and credibility of their corporate disclosures and also to strengthen their compliance with legislative requirements.

Very few SOEs have non-state shareholders, making the **protection of minority shareholders** a somewhat low-priority issue. However, if the government ever wishes to broaden the ownership of SOEs – including the three SOEs that are currently nominally listed on the national stock exchange but do not include any private shareholders – minority shareholder rights will be paramount. Currently, there are sound laws in place for the protection of basic minority shareholders' rights, including the right to equitable treatment, to participate in shareholders' meetings and to participate in specific corporate decision making. North Macedonia has had positive external assessments of its minority shareholder protections and notably scores relatively high (5 out of 6) on the World Bank's *Doing Business* indicator on the extent of shareholder rights (World Bank, 2020<sup>[96]</sup>). It is not clear why the authorities have listed three SOEs on the stock exchange but maintained 100% state ownership in them. Although listing rules in North Macedonia normally require a company to have at least 50 shareholders and 20% free float in order to list, SOEs that operate in the public interest are exempt from these requirements.

### *Sub-dimension 6.3: Ensuring a level playing field*

The fact that most SOEs in North Macedonia are incorporated as joint-stock or limited-liability companies establishes a strong foundation for ensuring a level playing field with private companies. Nonetheless,

some differences in SOEs' **legal and regulatory treatment** exist owing to 1) the fact that several SOEs operate under the distinct legal form of “public enterprise” and have not been incorporated as joint-stock or limited-liability companies; and 2) the existence of a separate Law on Public Enterprises, which applies to its 195 SOEs (of all legal forms) that are considered to perform activities in the public interest.<sup>50</sup> While the existence of a dedicated law applicable to SOEs is not necessarily of great concern – in some countries, such laws may help to clarify and improve SOEs' corporate governance and disclosure practices – some of the provisions of the Law on Public Enterprise establish operational differences for SOEs that are not considered good practice. For example, the law explicitly allows for ministries owning SOEs to use the profits of some to subsidise the losses of others, which is not a transparent way to finance public-service activities.<sup>51</sup>

The Law on Public Enterprises establishes that public enterprises can be founded as joint-stock companies or limited-liability companies, which are also regulated by the Trade Companies Law applicable to private companies. A further 23 SOEs which are incorporated as joint-stock companies do not fall under the scope of the Law on Public Enterprises, presumably because they are not considered to undertake a public-interest activity. This suggests a patchwork of legislation applicable to SOEs. An additional concern is that, according to their founding or sectoral legislation, some SOEs cannot undergo bankruptcy proceedings. This means that they are not subject to an important market pressure – the threat of bankruptcy – faced by their private competitors, which distorts the playing field. This is supported by a provision in the Law on Public Enterprises stipulating that enterprises performing a public-interest activity must do so “permanently and without interruption”.

While such provisions are intended to ensure the continued provision of public services, they may also have unintended negative effects on SOEs' commercial viability. While many SOEs in North Macedonia do not actually compete with private companies – for example public utilities with no private competitors – it is still considered good practice to subject them to a similar legal regime as private companies, to promote corporate efficiency and ensure a level playing field if the market is ever opened to competition at a later stage. An additional issue affecting competition with private companies is that, according to stakeholders interviewed for this assessment, SOEs often offer higher wages than private competitors, making them attractive vehicles for political patronage and limiting their corporate productivity at the expense of market efficiency.

North Macedonia's authorities provided little formal information for this assessment on **SOE access to finance**, including the terms and conditions attached to financing from both the state and commercial banks. However, online media sources indicate that the state does issue explicit guarantees for (some) SOEs' commercial debt, which may constitute a competitive advantage for SOEs over their private competitors. Notably, these guarantees have been issued for large infrastructure projects, for example in road construction. The state's most recent fiscal strategy document establishes the intention to limit the total value of the state's guarantees on SOE debt for the period 2020-22 to no more than 13% of GDP (Dodevska, 2019<sup>[93]</sup>). In addition to such explicit guarantees, it is likely that SOEs also benefit from implicit guarantees – in that banks expect the state to step in if SOEs are unable to pay their debts – which would constitute an undue competitive advantage over private companies.

As an EU accession candidate, North Macedonia is expected to comply with EU rules on competition, which include state aid rules intended to ensure that state equity financing is provided on market-consistent terms and does not distort competition. It does not appear that North Macedonia's authorities have made any efforts to ensure that capital injections are made on market-consistent terms. Many SOEs in North Macedonia have benefitted from the economic assistance offered to all economic entities to help them survive the economic downturn related to the COVID-19 pandemic. Information on the terms of this support – and plans to phase it out – would be useful to better understand the current national approach to supporting SOEs. It is worth noting that the European Commission issued new guidance in May 2020 on temporary recapitalisations made by the state to keep otherwise healthy companies from going out of business due to the economic downturn related to COVID-19 (EC, 2020<sup>[97]</sup>).

Other areas affecting SOEs' financial conditions – and where state policy seems underdeveloped – include the apparent absence of rate-of-return and dividend expectations that are benchmarked against the private sector, and the use of direct state subsidies that are not calibrated to the cost of public service obligations and therefore support corporate inefficiencies. On a more general note, establishing separate accounting and performance indicators for SOEs' commercial and non-commercial activities would allow for a more informed assessment of their corporate efficiency, which in many cases might be hindered by costly public-policy obligations.

#### *Sub-dimension 6.4: Reforming and privatising state-owned enterprises*

North Macedonia has not undertaken any significant **state ownership reforms** over the past few years. Reform efforts have mostly been limited to addressing structural issues with individual SOEs. For example, there has been a recent assessment of the state-owned railway operator and ongoing discussions about its potential future privatisation.

North Macedonia does not currently have an active **privatisation** programme in place. As mentioned above, the Macedonian Privatisation Agency, which was responsible for privatising over 1 600 enterprises from 1993 to 2005, was disbanded in 2005 and its remaining assets were divided among other public institutions and ministries. The authorities report that management and employee buy-outs were a common privatisation method during that time. Both the Ministry of Economy and the Ministry of Finance maintain some enterprises that were slated for privatisation and transferred to them when the Privatisation Agency was terminated but plans for their privatisation appear to be either stalled or terminated.

Today, the privatisation process is nominally overseen by the government and a dedicated Governmental Privatisation Commission, but the authorities report that no enterprises have been privatised in the last few years. The legislative foundation for privatisations is enshrined in the Law on Privatisation of State-Owned Capital, the Law on Transformation of Enterprises with Social Capital and dedicated government regulation concerning the sale of company shares by the state.

#### ***The way forward for the state-owned enterprises***

As in most WB6 economies, ensuring that SOEs in North Macedonia operate efficiently, transparently and on a level playing field with private companies requires reforms in multiple policy areas. These cannot be done all at once: choosing the appropriate sequencing of reforms is just as important as their content and depends in large part on the national political climate and current reform priorities.

This being said, the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* provide a guidepost for reforms that North Macedonia's authorities can use to inform their policy efforts in this domain. Based on the state of play of SOE policy development in North Macedonia, the following priority reform areas – which are in line with the OECD guidelines – could offer a basis for discussions with the authorities:

- **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 why the state owns enterprises and what it expects SOEs to achieve. It should clearly outline the main principles guiding state ownership decisions, such as setting objectives and board nominations. It should also 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 other subsequent policies or decisions applicable to SOEs, across the public administration.
- **Clarify and streamline the legal forms of SOEs.** Several SOEs, including some undertaking commercial activities, are not (yet) incorporated as companies and instead 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 further align their legal and regulatory treatment with that of private companies. 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. The authorities should also take steps to clarify and streamline the legislation applicable to all SOEs, which could involve updating the Law on Public Enterprises.

- **Establish a transparent and objective board nomination process.** Steps should be taken to minimise the risk of politicisation of boards of directors and to ensure that boards contain qualified professionals who make decisions independently in the interest of the SOEs and their shareholders. This could include establishing clear selection criteria for SOE board members, publishing vacancies, and involving professional recruitment agencies. Some countries, including Australia and the United Kingdom, have found it useful to involve state ownership co-ordination agencies in the board nomination process, by allowing them to review and advise on board member nominations made by line ministries (OECD, 2018<sup>[98]</sup>). While North Macedonia lacks such a centralised agency, these practices could still serve as useful examples of increasing transparency in board nominations by involving more than just responsible ministries in the process. Improving SOE board independence is a difficult task and requires not only changes to processes and requirements, but also sustained political commitment at the highest level of government. In implementing reforms in this area, the authorities should be aware of the risk that the spirit of new rules can easily be subverted and should take steps to manage this risk.<sup>52</sup>
- **Develop centralised data and publicly available aggregated reporting on SOEs.** The state should establish a central overview of all SOEs, including information on how many companies are under the remit of the central and municipal levels of government. The state already requires SOEs to submit their annual reports and financial statements to both the Central Registry and their responsible ministries. The state could build on this to produce annual aggregate reports on the activities and performance of the SOE sector as a whole. Aggregate reports can be a useful way to drive changes in the corporate governance and performance of SOEs, since they support public accountability and put pressure on ownership ministries and SOE management to improve. Even if not all SOEs provide the required information (an area which requires further assessment), this in itself can be included in the aggregate report, to highlight non-compliance and encourage improvements. The aggregate reports produced by Lithuania, Finland and Sweden could serve as inspiration for such a report (see Box 24.9 for an overview of the Swedish state ownership report).<sup>53</sup>
- **Review and improve the quality of disclosure by individual SOEs.** This assessment has pointed to significant shortcomings in SOEs' implementation of the state's reporting requirements. 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 if necessary. The state should clarify the auditing requirements and ensure that at least all large SOEs undergo an external audit of their financial statements by an independent audit firm.

#### Box 24.9. Reporting on state-owned enterprises in Sweden

The Swedish state ownership report is available online, in both Swedish and English. It provides extensive information on the state's expectations of SOEs as well as details of SOEs' operational performance and governance, including:

- An overview of the state's portfolio of companies, including those with minority state ownership.
- Detailed information on the state's public policy expectations and financial targets for SOEs.

- Aggregate financial results of the SOE portfolio, including dividend pay-outs.
- An overview of policy guidelines on board member remuneration and external reporting by SOEs.
- Detailed company overviews, including financial performance data, public policy assignments and identification of board members.

Source: Government Offices of Sweden (2018<sup>[99]</sup>), *Annual Report for State-Owned Enterprises 2018*, [www.government.se/4ad5ee/contentassets/42e5b5c1afbc4e65a4b08411db01167e/annual-report-for-state-owned-enterprises-2018](http://www.government.se/4ad5ee/contentassets/42e5b5c1afbc4e65a4b08411db01167e/annual-report-for-state-owned-enterprises-2018).



## Education policy (Dimension 7)

### Introduction

Table 24.12 shows North Macedonia's scores for the four education policy sub-dimensions and the cross-cutting dimension on system governance, and compares them to the WB6 average. North Macedonia has the highest score (along with Albania) of the WB6 economies for the tertiary education sub-dimension, driven by its slightly above-average ratings for each indicator. Likewise it scores highest (along with Kosovo) for the system governance cross-cutting dimension. However, it scores below the WB6 average for the early childhood and school education sub-dimension – explained by its comparatively low score for the prevention of early school leaving indicator.

**Table 24.12. North Macedonia's scores for education policy**

Dimension	Sub-dimension	Score	WB6 average
Education policy dimension	Sub-dimension 7.1: Early childhood and school education	2.3	3.0
	Sub-dimension 7.2: Teachers	2.5	2.7
	Sub-dimension 7.3: Vocational education and training	3.5	3.1
	Sub-dimension 7.4: Tertiary education	3.0	2.8
	Cross-cutting sub-dimension: System governance	4.0	3.3
North Macedonia's overall score		2.9	3.0

### State of play and key developments

North Macedonia has made significant improvements to its education system policies. Recent reforms included several policies and practices that align with European and OECD countries. For example, the new school and the vocational education and training (VET) curricula focus on developing competencies to prepare students for success in the labour market. There are also plans to introduce a compulsory year of pre-primary education and a new national assessment to monitor student learning outcomes. Similar to other economies in the region, participation in primary education is now on a par with EU and OECD levels and student learning outcomes, as measured by PISA, have seen significant progress. Notably, North Macedonia's share of low performers in each subject measured by PISA fell by at least 9 percentage points between 2015 and 2018 (OECD, 2020<sup>[100]</sup>). However, educational disparities persist, linked to ethnic group and gender (OECD, 2019<sup>[70]</sup>). Maintaining progress in the aftermath of the COVID-19 pandemic and implementing newly introduced policies will be crucial to achieving education and development goals.

Like many countries around the world, North Macedonia closed its schools on 10 March 2020 to help slow the spread of COVID-19. Working with donor agencies, the education ministry launched a rapid shift to remote learning with a range of online and broadcast instructional programmes and activities to support the continuation of teaching and learning. Following the parliamentary elections in the summer of 2020, the new administration introduced a unified National Distance Learning Platform. While the youngest students (up to Grade 3) were able to attend in-person classes starting in September 2020, older students received instruction through this online platform. The shift to remote learning in North Macedonia was not without challenges. As in many other economies, teachers reported feeling stressed and unprepared for working in a new online environment and the lack of computers and technical infrastructure appears to have been a problem in some areas. The National Distance Learning Platform also experienced a major crash a few days before the start of the new school year. North Macedonia will need to redouble its efforts to address challenges related to educational quality and equity that are being exacerbated by the COVID-19 pandemic if the system is to continue advancing towards its national education goals (Kajosevic and Marusic, 2020<sup>[101]</sup>; Hawke, 2020<sup>[102]</sup>; Apostolov, 2020<sup>[103]</sup>).

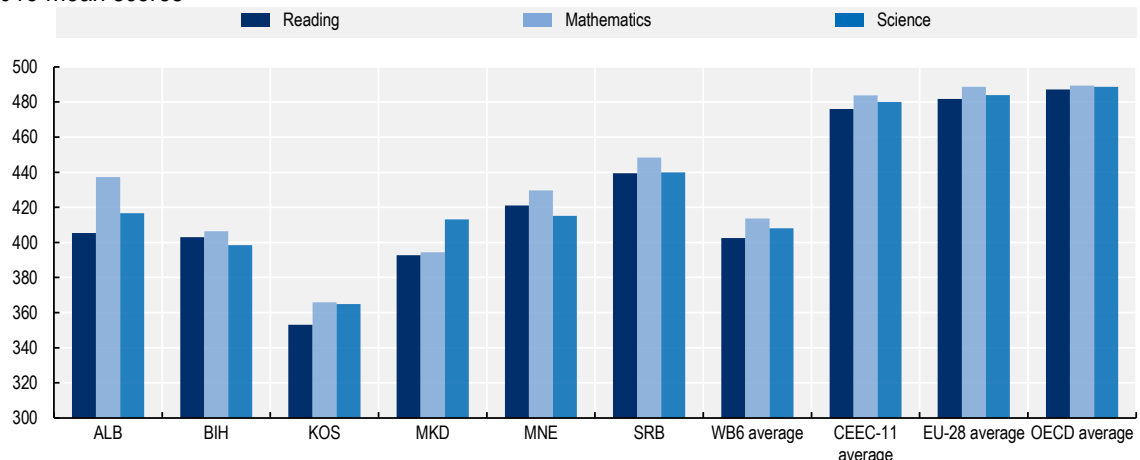
### Sub-dimension 7.1: Early childhood and school education

North Macedonia's score in this sub-dimension is below the WB6 average. Since the last assessment, North Macedonia has taken steps to expand pre-primary coverage, develop a new national assessment of student learning and sustain progress towards reducing the share of early school leavers. As of 2018, net enrolment in North Macedonia was nearly universal (98%) for primary education, and stood at 88.5% for lower secondary education and 71% for upper secondary education (UIS, 2020<sub>[104]</sub>). Gross enrolment at the upper secondary level in North Macedonia is lower than the averages for the WB6 region (84.7%), OECD (121.2%) and EU (121.9%) for the same year (UIS, 2020<sub>[104]</sub>).<sup>54</sup>

North Macedonia's mean PISA scores are slightly below the WB6 average, except in science. Scores for reading, mathematics and science are much lower than the European Union and OECD averages (Figure 24.13).

**Figure 24.13. Performance in reading, mathematics and science in Western Balkan education systems (2018)**

PISA 2018 mean scores



Note: CEEC - Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

Source: (OECD, 2020<sub>[100]</sub>), PISA 2018 Database, Tables I.B1.4, I.B1.5 and I.B1.6, [www.oecd.org/pisa/data/](https://www.oecd.org/pisa/data/).

StatLink  <https://doi.org/10.1787/888934256140>

North Macedonia has a large share of students who do not demonstrate baseline levels of proficiency in reading (55%) and mathematics (61%); significantly higher than the OECD averages of around 23% in reading and 22% in mathematics (OECD, 2020<sub>[100]</sub>). These findings have implications for North Macedonia's long-term economic development, as students without basic skills are less likely to attain better-paying and more rewarding jobs. One positive trend is that the percentage of low performers in each subject shrank by at least 9 percentage points between 2015 and 2018 (OECD, 2020<sub>[100]</sub>). Nevertheless, there is evidence that disparities in educational opportunities and outcomes persist among children from socio-economically disadvantaged backgrounds, those living in rural areas and those from ethnic minorities (OECD, 2019<sub>[70]</sub>).

North Macedonia's performance on **early childhood education** is below the regional average. Pre-primary education is neither compulsory nor free and, as of 2018, gross enrolment in pre-primary education stood at 42%. This is lower than the averages for the WB6 (53%), the OECD (81%) and EU (98%) (UIS, 2020<sub>[104]</sub>). Children in rural areas and marginalised communities, especially Roma communities, are less likely to participate in pre-primary education (World Bank, 2015<sub>[105]</sub>). North Macedonia has set a goal to expand coverage and gradually reach EU levels of participation.

North Macedonia has many of the elements of a strong early childhood education (ECE) sector, including professional requirements for staff and standards for service delivery and infrastructure (World Bank, 2015<sup>[105]</sup>). In the last two years, it amended its Law for Child Protection, increasing the salaries of childcare professionals (Eurydice, 2021<sup>[106]</sup>). There have also been major financial investments (mostly from donor agencies) to help expand and improve ECE facilities. While the Comprehensive Education Strategy 2018-25 sets out activities to improve the quality and equity of ECE, it does not connect the goals and curricula in ECE with those of primary education. Moreover, the accompanying action plan lacks a clear budget – a notable concern since public spending on ECE is low in North Macedonia (Eurydice, 2021<sup>[106]</sup>).

The **instructional system**<sup>55</sup> scores below the regional average for this indicator. The Comprehensive Education Strategy 2018-25 and its action plan set out objectives and activities for improving educational quality and inclusion but they do not define clear budgets or monitoring processes (OECD, 2019<sup>[70]</sup>). Without more sustainable planning, North Macedonia may continue to rely on donor agencies to support education reforms and struggle to improve learning outcomes. Implementing North Macedonia's competency-based curriculum has been a challenge as there are several inconsistencies in learning expectations across grades and subjects (OECD, 2019<sup>[70]</sup>).<sup>56</sup>

A notable strength of the instructional system is the National Examinations Centre, which manages North Macedonia's participation in international assessments such as PISA and the Trends in International Mathematics and Science Study (TIMSS). However, participation in these assessments has been intermittent, limiting the amount of comparable data on student learning. The Examinations Centre is also responsible for national examinations. Unlike other systems in the region, there is only one central exam in North Macedonia, the State Matura. This exam is highly regarded and used to certify the completion of upper secondary school and select students for tertiary education. North Macedonia is also developing a new national assessment, with support from the World Bank,<sup>57</sup> which will provide a better understanding of student learning against national learning standards and allow for more timely comparative data to support system monitoring.

To ensure the quality of its instruction, North Macedonia has a set of School Performance Quality Indicators that cover factors such as teaching and learning practices, the school environment, and school planning and management. These indicators also serve as the main reference for school self-evaluation<sup>58</sup> and external evaluation. Similar to many European systems, North Macedonia has a central State Educational Inspectorate, which is responsible for conducting external evaluations of schools on a three-yearly basis and publishing reports on line. However, the inspectorate's evaluations are mainly based on desk reviews rather than a more comprehensive evaluation of instructional quality and, while their reports provide recommendations for improvement, there are no mechanisms to allocate additional support to help schools act upon these recommendations (OECD, 2019<sup>[70]</sup>). Nevertheless, North Macedonia's 2019 Law on Primary Education introduces some measures that stand to improve the instructional system. In particular, it sets out a broader range of responsibilities for school principals, expanding their traditionally administrative function to include tasks related to instruction.<sup>59</sup>

The **early school leaving** rate in North Macedonia has gradually declined over the last decade, largely because secondary education became compulsory in 2008 (MoES, 2017<sup>[107]</sup>). The share of early school leavers was 5.7% in 2020, well below the EU target of less than 10% of early school leavers by 2020 (Eurostat, 2021<sup>[108]</sup>).<sup>60</sup> While there is no specific strategy to combat early school leaving, several policy documents – for example, related to lifelong learning, Roma inclusion and poverty alleviation – include measures relevant to addressing this issue (Eurydice, 2021<sup>[106]</sup>). The Ministry of Education and Science (MES) also introduced the Inclusion of Out-of-School Children project in 2017 to help identify, enrol and retain students in compulsory education. While such efforts can help reduce early school leaving, they appear to lack sufficient budget and are largely supported by donor agencies. Moreover, North Macedonia has not evaluated its policies to prevent early school leaving in the past three years. This may be related to the fact that there are no proxy indicators for students' socio-economic background and student absenteeism is not tracked. As a result, the data to monitor early school leaving and the factors that

contribute to this situation are limited. Such information will be crucial if the government wishes to improve policies that target groups of learners at risk of early school leaving.

### *Sub-dimension 7.2: Teachers*

North Macedonia's score in this sub-dimension is roughly on a par with the WB6 average. A new Law on Teachers and Professional Associates (2019) has introduced several measures to promote the professional development and management of teachers. There are also regulations on the initial education and selection of teacher candidates; however, implementation of these policies remains a challenge. All primary and secondary school teachers in North Macedonia are required to have a bachelor's degree (level 6 in the International Standard Classification of Education; ISCED), a requirement that has been enforced, according to national data received for this assessment.<sup>61</sup> In the last decade, North Macedonia has taken steps to increase the competitiveness of the teaching profession by improving working conditions, allowing greater professional autonomy and raising salaries. In fact, teachers' salaries increased by more than 20% between 2018 and 2019, according to national data received for this assessment. While average gross salaries are lower than other European countries, they compare favourably relative to GDP (EC/EACEA/Eurydice, 2019<sub>[109]</sub>).

Before teachers can start working in schools, they must graduate from an **initial teacher education (ITE)** programme, complete a practicum and pass a state examination to receive their teaching licence. North Macedonia also offers alternative pathways into teaching for mid-career individuals with experience gained outside of education. However, these candidates must still participate in pedagogical-psychological and methodological preparation.<sup>62</sup> In 2015, North Macedonia adopted a law<sup>63</sup> to regulate higher education institutions that offer ITE programmes. While this set minimum entry thresholds<sup>64</sup> for ITE, its policies have not been implemented because of a lack of human and financial resources. Moreover, placement quotas (a common feature of all tertiary programmes in North Macedonia) are very large for ITE, meaning nearly everyone who applies for a place is accepted (OECD, 2019<sub>[70]</sub>). This lack of competitiveness contributes to a general oversupply of teachers, although some subjects, such as mathematics and physics still experience shortages.<sup>65</sup> Another challenge facing North Macedonia's ITE system is the lack of a programme-specific accreditation process, meaning that providers do not have to demonstrate how they help candidates develop competencies specific to teaching.

North Macedonia introduced a new Law on Teachers<sup>66</sup> in 2019 linking teachers' **professional development and career management**. The law creates three categories of teachers (teacher, mentor, and advisor) aligned with years of work experience and specific professional standards for each level. To advance to higher categories, teachers must undergo an external appraisal and demonstrate they fulfil the corresponding professional standard. Similar practices are found in several OECD countries (OECD, 2013<sub>[110]</sub>). While this law – and the rulebooks that support it – represents a significant policy achievement for North Macedonia (considering previous efforts to implement such policies had stalled), the measures are largely based on technical and financial input from donor agencies (OECD, 2019<sub>[70]</sub>).

Teachers' professional development needs are determined through self-assessment surveys and appraisals conducted by schools and external experts. While there is some variety in the type of activities and programmes offered, there are no online courses or seminars, nor peer- or self-observation and coaching. Teachers are required to complete at least 60 hours of professional development over 3 years.<sup>67</sup> The Bureau for Development of Education accredits and subsidises teachers' professional development; but there is some evidence that programmes not identified as government priority areas are not covered in practice (OECD, 2019<sub>[70]</sub>). The cost of training partially helps explain low levels of participation in teacher professional development in North Macedonia. For example, only 21% of teachers had participated in professional development in the three months leading up to PISA 2018, a much lower share than the WB6 (39%), OECD (53%) and EU (51%) averages (OECD, 2020<sub>[100]</sub>).

### *Sub-dimension 7.3: Vocational education and training*

North Macedonia's score in the sub-dimension on vocational education and training (VET) is on par with the WB6 average. The VET sector has undergone several changes in the past two years, including the introduction of a new modular curriculum and the implementation of policies to promote work-based learning. Professionally oriented education starts at the upper secondary level, when students are allocated into either general (gymnasium) or vocational programmes.<sup>68</sup> Around 60% of upper secondary students in North Macedonia were enrolled in VET programmes as of 2018, which is similar to the Western Balkans average (60.5%) but higher than EU (49%) and OECD averages (42%) (UIS, 2020<sup>[104]</sup>). Unlike many other systems in the region, North Macedonia does not use examination results to select students into education tracks. Instead, teachers guide students into different programmes based on their marks in the classroom.<sup>69</sup> As these assessments may be subject to teachers' bias, there is a risk that students' background, rather than capability, influences which track they go into. Data from PISA found that students enrolled in vocational programmes in North Macedonia scored on average 48 points lower than students in general programmes, after accounting for gender and socio-economic status,<sup>70</sup> a considerably larger difference than the average across the EU (45 score points), the OECD (40 score points) and the WB6 economies (36 score points) (OECD, 2020<sup>[100]</sup>).

A series of laws<sup>71</sup> regulate the **governance of VET** in North Macedonia and government strategies<sup>72</sup> guide policies to help increase the attractiveness, quality and relevance of VET programmes. Responsibilities for VET are shared by several bodies, including the MES and the Ministry of Labour and Social Policy. Other agencies are also involved in the design and implementation of VET programmes. For example, the Center for Adult Education is responsible for adult VET, while the Center for Vocational Education and Training is responsible for developing VET schools' professional curriculum and the Bureau for Development of Education for developing their general subject curriculum. North Macedonia engages social partners in VET governance through policy consultations, where they can propose reforms. Employers can also participate in commissions to evaluate final VET examinations and offer placements for work-based learning, which helps ensure that VET students have developed relevant skills for the labour market.

In 2019, North Macedonia achieved a key objective of its Education Strategy for 2018-25 by legally establishing three regional VET centres in different parts of the country. These centres aim to serve as innovation hubs and optimise the VET school network by actively engaging the business community in **work-based learning** (WBL). They offer a variety of programmes and training to prepare people for the labour market (ETF, 2019<sup>[111]</sup>). The regional centres are being funded by the EU Sector Reform Performance Contract and were expected to become fully operational and accredited by the end of 2020. North Macedonia has partnered with other donor agencies in recent years to further develop the foundations of WBL through a dual education programme that allows students to gain qualifications by attending classes and participating in on-the-job training.

Prospective VET students can learn about study programmes and WBL opportunities through public awareness campaigns, presentations to social partners and an online portal listing opportunities. The MES also published a guide to VET qualifications to help guide students into different VET pathways at the upper secondary level. Despite these positive developments, closer monitoring of VET and WBL is needed to address the mismatch between the supply and demand of school places (EC, 2020<sup>[46]</sup>). While North Macedonia reports that it collects data on the completion, employment and earning rates of VET graduates, there is no information on the number of students who are hired after completing a WBL opportunity. There is also a lack of information on the location, type and skills gained through WBL nor demographic data to better understand which students participate in these programmes and opportunities. This information may be collected by individual institutions and providers but is not centralised. North Macedonia plans to use its new regional VET centres to collect and analyse this type of information to strengthen policy development in the sector.

### *Sub-dimension 7.4: Tertiary education*

North Macedonia's score in the tertiary education sub-dimension is slightly above the WB6 average, largely because of reforms in the last two years that introduced new agencies and policy frameworks to improve the quality, equity and labour market relevance of the sector. In the last decade, the number of years a student in North Macedonia might expect to stay in education has increased. In 2018 it was around 13.5 years; slightly lower than the WB6 average (14.8 years) and well below the EU (16.6 years) and OECD (17 years) averages (UIS, 2020<sup>[104]</sup>). Gross enrolment in tertiary education has also been rising and was around 43% in 2018. However, this remains lower than the regional average (52%), and the EU (70%) and OECD (76%) averages (UIS, 2020<sup>[104]</sup>).<sup>73</sup> While national data received for this assessment show that the share of adults who have attained some form of tertiary education has slightly increased in the last two years, some studies have found that completion of higher education remains low (EC, 2020<sup>[46]</sup>).

The Education Strategy and Action Plan 2018-25 set out key goals for the higher education sector, namely to improve the content of programmes, align the system with European good practice and increase the employability of graduates. Since 2018, the government has been working to develop by-laws and implement its new Act on Higher Education. The new law introduced major changes to the higher education system, including greater institutional autonomy for universities; more democratic, transparent and equitable process and governance arrangements; and stronger quality assurance measures (Eurydice, 2021<sup>[106]</sup>).

The majority of higher education students (87%) in North Macedonia attend public institutions (Eurydice, 2021<sup>[106]</sup>). There are transparent selection processes<sup>74</sup> and several types of scholarships to help support more **equitable access to higher education**. Annual scholarships are available to students who apply and meet the relevant criteria based on merit and/or financial need. Students with disabilities and orphans can also benefit from free tuition to pursue higher education. North Macedonia also introduced a subsidised meal plan in February 2020 to ensure that students participating in higher education programmes have access to healthy meals (Eurydice, 2021<sup>[106]</sup>). While it is unclear how this policy has been affected by the COVID-19 pandemic, such initiatives have the potential to support students in completing their study programmes.

While North Macedonia collects some disaggregated data that can help monitor equity in the tertiary sector, such as enrolment by age, gender and ethnic background, there are no centralised data on socio-economic or immigrant background. Nor are there any regular evaluations or studies to identify associations between students' characteristics and participation to help address barriers they face. North Macedonia draws on a range of sources, such as employer surveys, surveys of workers or graduates, quantitative forecasting models and data on employment rates by field of study to assess the quality of its higher education and its relevance to the labour market. The data are available on the State Statistical Office and State Employment Agency websites. The Ministry of Education and Science has received technical assistance from the World Bank to develop a new education management information system that will collect and store essential information about accredited higher education institutions (Eurydice, 2021<sup>[106]</sup>).

North Macedonia also has a number of policies and programmes to promote the internationalisation of students and staff but it is its reforms to its quality assurance mechanisms that have contributed its improved score for the **labour market relevance of higher education**. In the last two years, agencies with responsibilities for quality assurance were merged to create a new and independent Higher Education Accreditation and Evaluation Board. This aim of this change was to align North Macedonia's accreditation and quality assurance policies with the standards and guidelines of the European Higher Education Area. Higher education institutions are also now required to have a Board of Trustees to engage the public in helping plan, design and deliver relevant and high-quality study programmes. These types of education policies, combined with broader employment policies, like the Youth Guarantee Scheme,<sup>75</sup> have contributed to North Macedonia's steady decrease in unemployment rates and the share of youth who are neither employed nor in education or training (NEET) – see Employment policy (Dimension 8).

### *Cross-cutting sub-dimension: System governance*

North Macedonia's score for this cross-cutting sub-dimension is slightly above the WB6 average, as several system governance features are either being developed or already align with the policies and practices found in European and OECD education systems. For example, it has an established national education strategy that has been monitored and evaluated both by the government and through independent analysis. The new Law on Primary Education (2019) stipulates that every four years, the ministry is to prepare a comprehensive and public report on the state of education with recommendations to improve quality. North Macedonia also has a qualifications framework that regulates the acquisition and use of qualifications and is fully aligned with the European Qualifications Framework. As a result, the Macedonian Qualifications Framework (MQF) serves as a tool to provide visibility on qualifications and their acquisition and quality.

The Education Strategy and Action Plan (2018-25) set out important actions for improving the education system. For example, there are goals to expand coverage for preschool education, make school curricula more relevant to labour market demands and strengthen the competency of teaching staff at all levels of the system. 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, which is notable considering North Macedonia's performance in international assessments (OECD, 2019<sup>[70]</sup>).

While there is information about the education system's inputs, outputs and outcomes, comparative data on student learning outcomes have mainly been collected through intermittent participation in international assessments. For example, North Macedonia participated in the first round of PISA in 2000 but did not participate again until 2015. It did maintain participation in the latest round of PISA (2018), which is a positive development since regular participation provides important trend data on the performance of the education system. Another positive development for system governance is the government's plan to develop a new national assessment, which will provide valuable information to help monitor national education goals. An area for improvement in this indicator involves the management of education data. North Macedonia has had an operational education management information system (EMIS) since 2010; however, education data remain fragmented as various ministries and agencies continue to collect their own information (OECD, 2019<sup>[70]</sup>).

### ***The way forward for education policy***

In today's increasingly global and fast-changing world, achieving inclusive and quality education in North Macedonia can help increase regional competitiveness and create opportunities for more individuals to develop the competences needed for sustainable development and social cohesion. Officials have already made impressive progress in developing education reforms in recent years; however, the challenge for the future will be to operationalise and implement these policies. This task will be especially challenging in the aftermath of the COVID-19 pandemic. The new coalition government will need to reflect on the economy's political, social and fiscal environment to determine how best continue advancing its education goals. While the OECD review on evaluation and assessment in North Macedonia's education system (OECD, 2019<sup>[70]</sup>) provides detailed recommendations on how to strengthen the equity and quality of the education sector, the following considerations in particular can provide insights for discussions on the way forward for enhancing education:

- **Strengthen the collection and management of education data.** North Macedonia should consider ways to modernise the collection and management of education data by establishing the EMIS as a central source of information about the education system. This will entail linking databases that are managed by various institutions and co-ordinating data collection to avoid creating administrative burdens. The government should also consider developing user-friendly

portals to increase the functionality of the EMIS. The Florida Department of Education's online EMIS portal provides an example of this type of platform (Box 24.10).

- **Finalise the development of the national assessment and set national targets for improving student learning outcomes.** North Macedonia should move forward with plans to develop and administer a national standardised assessment, which would provide valuable information to monitor student performance at key stages of their education. Careful attention should be paid to the dissemination and use of the results to enhance their formative value. North Macedonia should also establish national targets based on results from the international or national assessments to help everyone across the system focus on the need to improve learning outcomes.
- **Establish clear budgets to support the implementation of policy reforms.** North Macedonia benefits from the technical and financial support of donor agencies, which has led to significant achievements but risks undermining the sustainability of reforms. The government should establish clear budgets to better understand resourcing needs and ensure there is enough funding for the education agencies to implement their planned activities. This might reveal that the Bureau for Development of Education requires additional resources in order to sufficiently subsidise mandatory teacher professional development programmes.

#### Box 24.10. Florida's Education Information Portal, a data access portal from the United States

In Florida, in the United States, the PK-20 Education Information Portal provides access to public schools from kindergarten through to grade 12, public colleges and universities, a statewide vocational and training programme, and career and adult education. Through an online interface, any individual can view data aggregated by school, district and state. Comparisons can be made across different schools and districts.

The Florida's PK-20 Education Information Portal is powerful in that it allows data to be organised not only by governance level, but also subject matter. Florida's state assessments test students in English, mathematics and science, with further delineation of different mathematics and science domains. Users of the portal can choose to view all data according to a single domain (instead of by a single school) and make further contextualised comparisons according to the domain. This saves users from having to navigate to through different schools or districts in order to find the same indicator for each.

Along with providing access to data, the portal provides simple tools for users to perform their own analysis. For example, they can format the data into tables they define themselves or the standard tables provided. They can also generate custom reports that contain several tables according to their specifications. The portal also has a strong data visualisation component which allows different types of graphs and charts to be created from the data. District-level analysis can be plotted as maps that display indicators geographically.

Source: (Florida Department of Education, n.d.<sup>[112]</sup>), *PK-20 Education Information Portal*, <https://edstats.fldoe.org/SASPortal/main.do>.



## Employment policy (Dimension 8)

### Introduction

Since the last Competitiveness Outlook assessment in 2018, North Macedonia has made progress in aligning its employment regulatory framework with the EU *acquis*, although actual implementation has been limited. No progress has been made in reducing informal employment. A framework for co-operation between social and employment services has been made at the local level to deliver comprehensive and integrated services, but institutional capacity will need to be further strengthened. There has been significant progress in reducing youth unemployment, but it remains very high – above the regional average and well above the average for the EU. Problems with school-to-work transitions persist and no progress has been made in reducing the NEET rate. Some progress has been made to analyse the gender gap, and gender mechanisms in institutional settings have been introduced at the local level. Nevertheless, barriers to women's employment remain, related to difficulties in reconciling work and family lives.

Table 24.13 shows North Macedonia's scores for the four employment policy sub-dimensions, and compares them to the WB6 average. North Macedonia has the highest scores in the region for all sub-dimensions, except for skills, where it is second to Montenegro. As a result, North Macedonia has the highest employment dimension score of the WB6 economies. It also recorded the biggest improvement in its score, with an increase of 1 point compared to 2018.

**Table 24.13. North Macedonia's scores for employment policy**

Dimension	Sub-dimension	Score	WB6 average
Employment policy dimension	Sub-dimension 8.1: Labour market governance	3.3	2.6
	Sub-dimension 8.2: Skills	2.8	2.2
	Sub-dimension 8.3: Job quality	3.5	2.4
	Sub-dimension 8.4: Activation policies	3.5	2.9
North Macedonia's overall score		3.3	2.6

### State of play and key developments

**Table 24.14. Key labour market indicators for North Macedonia (2015 and 2019)**

	North Macedonia		WB6 average	EU average
	2015	2019	2019	2019
Activity rate (15-64)	64.9%	66.3%	61.0%	74.1%
Employment rate (15-64)	47.8%	54.7%	51.5%	69.3%
Unemployment rate (15-64)	26.3%	17.4%	16.3%	6.4%

Note: WB6 average rates are based on author's own calculations using simple averages.

Source: (Eurostat, n.d.<sup>[113]</sup>), *Labour Force Survey data base*, <https://ec.europa.eu/eurostat/web/main/data/database>.

As Table 24.14 shows, the activity rate of the working-age population (15-64 year-olds) increased from 64.9% in 2015 to 66.3% in 2019, above the WB6 average,<sup>76</sup> but still largely below the EU average and the 71.2% average for other EU transition countries in the region (Bulgaria, Croatia, Hungary, Romania and Slovenia).<sup>77</sup> Over the same period the number of working-age people in employment increased steadily, rising by 13%. Between 2015 and 2019 the employment rate among 15-64 year-olds increased by 6.9 percentage points, amounting to 54.7% in 2019, similar to the WB6 average, but 14.6 percentage points below the EU average (Eurostat, 2020<sup>[114]</sup>). The increase was particularly marked for young adults (25-34 year-olds), who saw an increase of nearly 12 percentage points.<sup>78</sup> There was a strong decrease of 8.9 percentage points in the unemployment rate among 15-64 year-olds, falling to 17.4% in 2019, although it is still 1.1 percentage point higher than the average for WB6 economies and 11 percentage points higher than the EU average (Eurostat, n.d.<sup>[115]</sup>). Unemployment has since risen again in 2020 because of the COVID-19

pandemic although financial support to keep workers in employment has helped to contain its impact on the labour market so far.

Labour Force Survey (LFS) data indicate that the COVID-19 pandemic has had a negative impact on employment: the number of people in employment fell by 2.8% between the first and second quarter of 2020 and by 1% between the second and third quarter. Compared to the second quarter of the previous year, employment fell by 0.4%, showing employment growth has stalled (in comparison, between the second quarters of 2018 and 2019, employment grew by 5.6%). The unemployment rate in the third quarter of 2020 was 16.5% (compared to 16.7% in the second quarter of 2019) slightly higher than in the first quarter (16.2%), but still below the level one year earlier (17.5%). As of 30 September 2020, there were 151 359 active job seekers registered with the Employment Service Agency of the Republic of North Macedonia (ESARNM), the public employment service (PES). The increase in unemployment after 11 March 2020 amounted to 14 819 people. LFS data show that the inactivity rate increased by 1.4 percentage points between the third quarters of 2019 and 2020, indicating that some people are leaving the labour market, rather than becoming or remaining unemployed.

A short-term work scheme has been set up with the support of the World Bank to cope with the labour market impact of the pandemic. Initially, the scheme was designed to provide salary subsidies to adversely affected firms for three months (April, May and June). The scheme included the conversion of the subsidy from a reimbursable grant into a non-reimbursable one to allow companies to invest in improvements that could help them recover from the crisis, and the publication of a list of all recipients and follow-up actions to help ensure companies used the subsidies to pay salaries. This support was limited to viable small and medium-sized enterprises, and covered 50% of social contributions from employees for viable firms in tourism and transport – two of the hardest hit sectors during the pandemic.

Approximately 20 000 companies (one-third of all active companies in North Macedonia) benefitted from this wage subsidy scheme, helping over 120 000 employees (one-third of all private sector employees). According to studies conducted by local NGOs, thanks to this measure the private sector only had to release 3% of their employees during this first period. According to a simulation by the World Bank, without the subsidy, more than 130 000 Macedonians would have fallen into poverty if the pandemic lasted two quarters (World Bank, 2020<sup>[116]</sup>). In November 2020, the job preservation scheme was still active. Similar short-term work schemes have been widely used in the EU to contain unemployment.

The ESARNM had mainly been offering face-to-face services, but has speeded up the delivery of digital services. In most EU countries face-to-face services were suspended during the first lockdown and resumed thereafter.

In September 2020 the operational plan for active labour market programmes (ALMPs) was revised to include people who had lost their job due to the COVID-19 crisis as one of the target groups (additional grants for self-employment, employment and growth of legal entities for employment of people who lost their jobs due to COVID-19) (Duell, 2020<sup>[117]</sup>; Duell, 2020<sup>[118]</sup>). Further initiatives have included sick pay and general measures such as reducing taxes and postponing loan repayment obligation by banks.

### *Sub-dimension 8.1: Labour market governance*

Over the past decade, North Macedonia has improved its regulatory framework for occupational health and safety, the protection of vulnerable groups in the context of collective dismissals, and in the area of social dialogue. In 2018, the Law on Private Employment Agencies was adopted, which is in line with the International Labour Organization's (ILO) Private Employment Agencies Convention. In June 2018, amendments to the Law on Labour Relations created additional criteria to be taken into account when terminating employment for business reasons, such as employees' vocational training and qualifications, work experience, performance, the type and importance of their position, length of service, and other criteria determined by a collective agreement. These amendments also included protection for people with

disabilities, single parents and parents of special needs children who have their employment terminated for business reasons. If an employee is terminated for business reasons, the employer cannot employ another similarly qualified person for the same position for a period of two years. If the need to fill that position arises before the two-year period ends, the previously terminated person is given priority. These changes give companies the flexibility to adapt their workforce to the market situation, while protecting against unfair dismissal and increasing the chances of re-employment. In this respect it resembles the temporary lay-off schemes in place in some Northern European countries. This scheme has been extended several times and is donor supported. Take-up of the benefits and re-employment should be closely monitored in order to assess the effectiveness of the measure.

The protection of employees whose employer becomes insolvent is not yet aligned with EU directives, and the government plans to start revising the relevant legislation. It proposes protecting 100% of employees' salaries in the public and private sector, instead of at the level of the minimum wage, as is the current rule. Another proposed measure is for the government and companies to cover salaries in case of illness.

A new Law on Labour Relations is currently being drafted with more focus on flexible working arrangements which are intended to be acceptable to both employers and employees. Implementation of this law will be important for promoting employment among women. Drafting of a new Law on Labour Relations is also ongoing, where more attention will be paid to improving the regulation of non-standard forms of employment. The self-employed, employed with temporary work contracts, platform workers, etc. are fully included in the social protection system, i.e. they contribute to the health, pension and unemployment insurance. Employment protection legislation and regulations for working time and working conditions also apply to non-standard workers, although it is not clear whether this is sufficiently enforced.<sup>79</sup>

Progress has been made in the area of occupational health and safety (OHS), although the implementation of the 2017-20 Occupational Health and Safety Strategy was still incomplete in 2019 (EC, 2019<sup>[63]</sup>). The current Strategy on Safety and Health at Work 2020, building on previous strategies, sets out 10 main national priorities for action. These are:

1. Creating an open and efficient legal framework and strengthening the national policy for health and safety at work.
2. Promoting and developing administrative capacities and human resources in the field of OHS.
3. Developing training and education programmes in the field of OHS.
4. Strengthening the role of the OHS Council<sup>80</sup>.
5. Developing the system and services of occupational medicine within the national health system.
6. Setting priorities for research and development on new and emerging or increased risks.
7. Promoting a culture of prevention and promotion of workers' health.
8. Improving monitoring and detection of occupational diseases and prevention and reduction of the number of occupational injuries.
9. Strengthening information systems in the field of health and safety at work.
10. Strengthening international co-operation.

In the first half of 2020, on the initiative of the National Council for OHS and in co-ordination with the Ministry of Labour and Social Policy, a comprehensive report (Ministry of Labour and Social Policy, 2020<sup>[119]</sup>) was prepared on the implemented activities, in accordance with the priorities of the strategy and 2020 action plan. This 60-page report detailed the activities and measures that have been implemented in the past (primarily during 2017-19) as part of the implementation of the strategy and action plan and the achievement of the goals and priorities set. The report was reviewed and adopted by the OHS Council in August 2020. The report highlighted the successful implementation of a number of activities in the 2020 action plan by various OHS stakeholders in all of the priority areas within the strategy.

There are few indicators on working conditions available. One is work on weekends. In 2019, 43.7% of workers in North Macedonia worked on Saturdays, higher than the EU average of 26.3% (Eurostat, n.d.<sup>[115]</sup>). In 2015, 29% of workers were exposed to vibration from tools and machinery, which is high compared to EU member states; only Romania had a higher rate according the European Survey on Working Conditions (Eurofound, n.d.<sup>[120]</sup>). North Macedonia has relatively poor working conditions in terms of exposure to high or low temperatures, working in tiring or painful positions, and working at high speed and under time pressure, but is in the middle of the range of EU countries with regard to other indicators such as exposure to breathing in smokes, fumes, powder or dust and exposure to breathing in vapours (Eurofound, n.d.<sup>[120]</sup>).

The key pillars of North Macedonia's **employment policy framework** are the National Employment Strategy 2016-20, the Strategy for Formalization of the Informal Economy 2018-22, and the Action Plan for Youth Employment 2016-20. The implementation of the employment strategy is regularly monitored and the large majority of planned activities have been implemented. However, monitoring reports are not publicly available, the monitoring of outputs and outcomes is still weak, and impact evaluations are rarely carried out. The reports are shared with participants from all relevant stakeholders including social partners and NGOs. To overcome current weaknesses in monitoring, the Action Plan for Employment 2018-20, which is the action plan corresponding to the National Employment Strategy, has recently included aims to develop performance monitoring indicators for the employment policies. It remains to be seen whether this will eventually help to improve ongoing assessments of policies.

The National Employment Strategy included the objective of increasing the employment rate to 46.9% and reducing the unemployment rate to 21.5% by 2020 (Government of North Macedonia, 2019<sup>[121]</sup>); these objectives were already exceeded by 2019. Despite these improvements, the high unemployment rate in general, and the high youth unemployment rate in particular (35.6% of 15-24 year-olds in 2019, which is above the WB6 average of 33.1% and the EU average of 14.4%<sup>81</sup>) represent a major challenge. The EU's main recommendations to implement the poverty alleviation policy, the Roma inclusion strategy, and relevant action plans had not been implemented in 2018/19 (EC, 2019<sup>[63]</sup>).

The **labour inspectorate** oversees the application of laws and collective agreements and employment contracts. Activities are carried out according to monthly, quarterly and annual work plans. The annual programme is based on the inspectorate's risk assessment. The number of labour inspectors increased from 102 in 2015 to 118 in 2016, but then fell to 115 in 2019. This represents a ratio of 6 900 employees per inspector (a higher ratio than for example in Montenegro, where the ratio is 5 800 to one). The number of inspectors is low considering the huge challenges faced, such as the level of informal employment, and in view of plans to foster preventive activities in the area of OHS. The structure of the economy, with a large share of smaller enterprises, adds to the difficulty of covering a significant share of companies and targeting actions on those most likely to be in breach.

A lack of transparency and inter-agency co-operation is another factor limiting the effectiveness of inspectorates. The Inspection Council concludes memoranda of co-operation and data exchange with other bodies for the needs of the inspection services.<sup>82</sup> Experience from other economies shows that electronic connection and data sharing between authorities are crucial for effective labour inspections. A new Law on Inspection Supervision, enacted early in 2019, created a new legal basis for risk-based inspections and introduced good practices such as warnings and grace periods for infractions, and the use of checklists and risk criteria to increase transparency (World Bank, 2020<sup>[122]</sup>). The drafting of relevant by-laws is still in progress at the time of writing.<sup>83</sup> Improving the effectiveness of the labour inspectorates would also require strengthening the capacity of the inspection service in terms of training, equipment and working conditions.<sup>84</sup>

A **social dialogue** framework is in place. Collective bargaining mainly takes place at sector level every 2-3 years. According to a recent study by the Helsinki Committee of Human Rights, social partners such as trade unions and employer organisations do not have the capacity to implement health and safety

regulations and social protection of workers, and trade union members should be better trained (Najcevska et al., 2019<sup>[123]</sup>). Workers' representation is weak, even in some of the larger companies. The Ministry of Labour and Social Policy's strategic plan for 2020 contains activities for strengthening tripartite and bipartite social dialogue through training on various themes for the social partners.

Sector-level collective agreements are estimated to cover 24-29% of the all North Macedonian employees.<sup>85</sup> In comparison, estimated coverage is around 30% of employees in Serbia, and 25% in Albania (Eurofound, 2019<sup>[124]</sup>), and the EU average is 60% (Ladjevac, 2017<sup>[125]</sup>). While sector-level collective agreements mainly fix wages (and more rarely other working conditions), nationwide general agreements fix working conditions such as working hours, annual leave and social protection.<sup>86</sup> The new Labour Relations Act may task the Economic and Social Councils with the function of extending collective agreements (Guardiancich and Molina, 2019<sup>[126]</sup>), a practice that has been used by a range of EU countries, such as Germany and France.

The national Economic and Social Council (ESC) has a clear mandate and is comprised of 12 members: 4 members of different government bodies (headed by the labour ministry), 4 from employer organisations and 4 from trade unions. The ESC has no rotating presidency and there have been issues with selecting members linked to conflicts of interest (Guardiancich and Molina, 2019<sup>[126]</sup>). No progress has been made since the last assessment to solve these issues. The ESC has six permanent working bodies and various ad hoc working groups covering matters in the economic and social sphere mainly related to labour relations, employment, pension and health insurance, wages (minimum wage, wage growth), the legal framework for defining non-standard employment, self-employment, skills mismatch, occupational health and safety (consultation on these issues is mandatory) and other issues regarding fiscal policy. Working groups meet occasionally, depending on the documents to be reviewed and commented on. Economic and Social Councils are also operating at local levels, with local representatives of social partners and relevant stakeholders, however, not all work properly (Guardiancich and Molina, 2019<sup>[126]</sup>).

In 2019, only one of the six permanent working bodies was functioning (Guardiancich and Molina, 2019<sup>[126]</sup>) and the working groups only held occasional meetings. There are no action plans, strategies or reports on ESC activities. Consultations are mainly made by the Ministry of Labour and Social Policy, and here improvements have been recorded in the recent past. However, other ministries are consulting the ESC much less. Overall, the ESC is relatively effective for those issues that are regularly reviewed, and opinions are being adopted for them (Guardiancich and Molina, 2019<sup>[126]</sup>). The employers have voiced the need to put also the Law on Education under the ESC umbrella (Guardiancich and Molina, 2019<sup>[126]</sup>). A tripartite action plan for the Economic and Social Council for 2020-21 aims to further strengthen social dialogue. Another issue is the lack of financial resources to conduct research on specific topics that would help the ESC make informed statements. The ILO is implementing an EU-financed project over the period 2019-21 to help social dialogue institutions participate in policy making at national and local levels and foster the regular consultations through the national and local ESCs (ILO, 2021<sup>[127]</sup>).

### *Sub-dimension 8.2: Skills*

A **skills mismatch** analysis framework is in place. Supply and demand mismatches in the labour market are assessed based on the Labour Force Survey data<sup>87</sup> and analysis of the vacancy database and the employers skills needs survey of the Employment Service Agency. The results of the skills needs survey are publicly available, which is good practice. The chambers of commerce and social partners also carry out labour market analyses. The Ministry of Labour and Social Policy uses the HERMAK forecasting model to forecast the demand for skills and occupations in the labour market.

Between 2015 and 2019, the unemployment rate fell for workers of all education levels, and in particular among the medium-educated (Eurostat, 2021<sup>[128]</sup>).<sup>88</sup> In 2019, as in previous years, the unemployment rate was higher for low-educated workers (23.4%) than for both the medium-educated (16.6%) and the highly educated (14.3%). Employment growth between 2018 and 2019 was driven by growth of employment for

medium and high education levels (WIIW/World Bank, 2020<sup>[129]</sup>). Those with low education levels are not only more likely to be unemployed, but also at higher risk of being in informal employment.

A skills mismatch analysis found that 22.2% of tertiary-educated workers (15-64 year-olds) were overqualified for their jobs in 2017, as they were working in semi-skilled occupations. This is a reduction since 2015. Men were more likely to be affected than women. The share of workers with an upper secondary education in elementary occupations<sup>89</sup> was 14.3% in 2017, similar to 2015, and affecting more women than men (ETF, 2019<sup>[130]</sup>). Overqualification was more widespread than in Montenegro; comparison with other WB6 economies should be possible in the future (ETF, 2019<sup>[131]</sup>).

The first tracer study<sup>90</sup> of VET and higher education graduates in North Macedonia was conducted in 2014/15 with the support of the European Training Foundation (ETF). It pointed to poor matching of skill levels and jobs early in the careers of young graduates, particularly among those graduating from VET (Mojsoska-Blazevski, 2017<sup>[132]</sup>). In general, a gap in managerial skills has been reported (World Bank, 2020<sup>[122]</sup>). Results also found that about 45% of employed VET graduates had a discrepancy between their skills and field of study and the requirements for their job. Less than half of all employed VET graduates (45%) reported that they were using the knowledge and skills they had acquired during their education in their current job. The government does not run regular tracer studies.

The school-to-work transition has been a major challenge in North Macedonia. As in many EU countries, the youth unemployment rate is in general higher than the total unemployment rate, and the levels reached in North Macedonia have been extremely worrying. Young people very often enter the labour market through temporary contracts (World Bank, 2020<sup>[122]</sup>) and unstable employment conditions are a key feature for low-educated young people.<sup>91</sup> Discussions are underway to shorten the period before a temporary contract is automatically converted into a permanent one from five years to six months (World Bank, 2020<sup>[122]</sup>). This change may have a detrimental effect on young people, as it is not longer than the usual probationary period in many countries and may thus represent an obstacle to employment. Its effect also depends on employment protection levels and how rigid permanent work contracts are. On the other hand, it is certainly crucial to offer young people a long-term perspective for their careers and to avoid underinvesting in increasing their employability. Therefore, it may be advisable to consider a longer period than six months, though shorter than five years. Alternatively, employers could be offered financial incentives to convert fixed-term contracts into permanent ones, as has been done in Portugal, for example (Düll et al., 2018<sup>[133]</sup>).

Several improvements have been made to the education system in recent years to improve skills matching – see Education policy (Dimension 7). The web-based Occupational Outlook has been designed to inform young people about the career prospects of selected occupations and sectors in the medium term (ILO, 2018<sup>[134]</sup>). The number of careers included in the outlook has been increasing by 15 each year (Zanimanja, n.d.<sup>[135]</sup>). Progress on active labour market policy is being made through implementing the Youth Guarantee (Box 24.12).

The dual vocational education project was launched on 27 September 2017 to improve the quality of VET and increase employability among young people, based on the German dual VET system. It opened for first-year students in the 2019/20 school year in all vocational education schools, for all 52 qualifications. It is based on the new reformed modular curricula and the European Credit system for VET (ECVET) credits, based on learning outcomes for both vocational and general education subjects). In the 2018/19 school year, pilot activities began for the introduction of dual vocational education into high schools (Eurydice, 2020<sup>[136]</sup>). This pilot phase will need to be monitored carefully and any implementation problems discussed. These reforms have the potential for improving skills and employability of future graduates if they are carefully implemented.

North Macedonia has a legal framework for **adult learning** (the Law for Adult Education of 2008 and the Law for Open Civic University for Lifelong Learning). Employers have a legal obligation to provide workers with training and education related to their job requirements. There are no current data on the participation

of adults in continuing education. However, the Eurofound Working and Living Conditions Survey in 2016 found that 81% of employees in North Macedonia had not participated in training during the past year, significantly higher than the EU average of 66% (Eurofound, 2019<sup>[137]</sup>). The World Bank found that only about 25% of firms offered on-the-job training, and these are typically the most productive firms (Koettl et al., 2017<sup>[138]</sup>). There is no evidence that the situation has improved since then. Several awareness-raising campaigns on training and education aimed at workers and employers have been conducted as part of donor-funded projects but it would be better to have a sustainable awareness-raising strategy. There are no schemes offering incentives to either employers or workers to invest in continuing training.

A concept paper on non-formal adult education and informal learning was adopted in 2015, but there is no information on any progress towards implementing it in a sustainable way. In 2016, the roadmap for implementing a system for validation of non-formal and informal learning was adopted, representing an important step towards developing an adult learning strategy. In 2017, a guidance note for the validation of non-formal and informal learning processes was adopted and a proposed law is in process, while specifications for the information and methodology package were adopted in 2017. The bulk of this reform project is still in the process of being implemented and is supported by ETF and EU funds.

The Adult Education Centre is tasked with the verification of adult education programmes, monitoring the adult education process and establishing the system of validation of non-formal and informal learning. Since 2010, the centre has been implementing a government programme to provide secondary vocational education for adults who have completed only primary education (European Basic Skills Network, 2021<sup>[139]</sup>). However, the effectiveness of these activities cannot be assessed since there are no data available on how many people have participated in remedial education or in improving their skills. In October 2017, the Adult Education Centre officially launched a newly developed web platform listing certified adult education providers and training programmes (Eurydice, 2020<sup>[136]</sup>). This is likely to increase transparency for potential trainees. The centre also implements training programmes for the registered unemployed according to the annual operational plans for active employment programmes. Fourteen percent of the participants in these programmes have only completed primary education. The number of participants increases every year, but the investment in increasing the skills of low-educated adults is not sufficient to address the huge challenges of unemployment and informal employment.

There is a need for better training offers to match the skills needed by employers, both for initial education, university studies and for continuing education. Outside the ICT and automotive sectors, fewer than 10% of firms communicate regularly with any educational institution (World Bank, 2020<sup>[122]</sup>).

### *Sub-dimension 8.3: Job quality*

When it comes to **quality earnings**, the minimum wage is set by the government in agreement with the Economic and Social Council. The minimum wage was reformed in 2017 and is currently set based on changes in the cost of living, average salaries and GDP. The latest reform included a 19% increase of the minimum wage, which is the same in all sectors (ILO, 2019<sup>[140]</sup>). The minimum wage is moderate and in line with North Macedonia's economic development. In 2018, the minimum wage amounted to 48% of the average gross wage, based on the Jobs Gateway database (WIIW/World Bank, 2020<sup>[129]</sup>). There has been no analysis of the impact of the recent increase in the minimum wage (EC, 2020<sup>[141]</sup>) on informal employment or its effect on gross wages, employment in low productivity sectors or productivity.

There is no policy framework in place to reduce taxes or non-wage labour costs for low-wage earners. The contributions and taxes paid on employees' salaries are the same for all workers. The allowance paid in the case of unemployment and pension levels depend on the salary the worker received. Every formal employee, self-employed worker and platform worker has to contribute to health, pension and unemployment insurance. The unemployed who have previously worked are covered by health insurance, while those who are inactive would be covered by the health insurance of other family members.

In-work poverty fell by 2.1 percentage points between 2012 and 2016, affecting 8.9% of workers aged 18-64 in 2016. It was highest among those with lower secondary education or below (25.5%), part-time workers (24.7%), the self-employed (18.6%) and single employed adults with dependent children (30.8%). Data from the structure of earnings survey (SES) also suggest a significant incidence of low wages, with 25.1% of all employees earning low wages in 2014 (Gerovska-Mitev, 2019<sup>[142]</sup>). Implementation of the minimum wage should be monitored by labour inspectorates and monitoring reports made publicly available. Overall, despite a continuous downward trend in poverty and inequality, 21.8% of the population was still at the risk of poverty rate in 2018 (Government of North Macedonia, 2019<sup>[121]</sup>). According to Eurostat, the “at risk of poverty or social exclusion rate” amounted to 41.1% in North Macedonia in 2017, above the rate of 36.7% in Serbia, 38.9% in Bulgaria and 35.7% in Romania (the two highest rates in EU), and the EU average of 22.4% (Eurostat, 2017<sup>[143]</sup>). An improvement in the in-work-poverty rate is expected to follow the adoption of the proposed new Law on Social Protection and amended Child Protection Law, which was anticipated in early 2019. According to estimates accompanying the reform, it is expected to increase social assistance coverage by 44.2%, while an additional 40 000 families are expected to receive child allowance. Most of those affected are estimated to receive the minimum wage or are on low incomes (Gerovska-Mitev, 2019<sup>[142]</sup>). It will be crucial to analyse the impact of this reform.

When it comes to **policies to promote female employment**, significant progress has been made in analysing gender inequalities. The Ministry of Labour and Social Policy has developed and published a national gender equality index in co-operation with the State Statistical Office (Bashevskaa, 2019<sup>[144]</sup>). North Macedonia is only the second economy in the region, after Serbia, to calculate this index, which follows the methodology developed by the European Institute of Gender Equality (EIGE). The index shows that overall, North Macedonia is below the EU average (in 2015 it ranked 15<sup>th</sup> as compared to EU countries<sup>92</sup>). North Macedonia was well below the EU average for the money dimension (including earnings and access to finance) and time dimension, but the gaps with the EU average were smaller for the work and knowledge dimensions (Bashevskaa, 2019<sup>[144]</sup>).

Since 2015, when the data for the index were gathered, some improvements have been made in employment: between 2015 and 2019 the employment rate among women in North Macedonia increased by 5.9 percentage points to 44.7% (Eurostat, n.d.<sup>[115]</sup>). However, men’s employment rose even faster.<sup>93</sup> In 2019, the employment rate among men was 19.7 percentage points above that of women, having widened since 2015, when the difference was 17.7 percentage points. In 2019, the women’s employment rate was 2.6 percentage points above the WB6 average, but 19.4 percentage points below the EU average of 64.1% (Eurostat, n.d.<sup>[115]</sup>).

The gender activity rate gap among 15-64 year-olds was 22.5% in 2019 (Eurostat, 2020<sup>[145]</sup>), more than double the EU average, and also double the average for Bulgaria, Croatia, Hungary, Romania and Slovenia.<sup>94</sup> A study published in 2017, supported by UN Women, showed that the main employment barriers for women were related to culture and gender stereotypes, caring and household duties, and women’s lack of confidence in their skills and labour market prospects. This led to women becoming discouraged workers, meaning they would accept work if it were offered to them (Mojsoska-Blazevski, Petreski and Ayhan, 2017<sup>[146]</sup>). Analysis by the Ministry of Labour and Social Policy showed that the main stereotype women faced was traditional roles linked to patriarchal lifestyles, particularly for women in rural areas. Measures to balance family and working life have not been sufficient; only 4.6% of workers were employed part time in the second quarter of 2019 (WIIW/World Bank, 2020<sup>[129]</sup>). Flexible work schedules that would enable workers to combine family duties and employment are not widespread, and parental leave does not follow good practice in OECD countries.<sup>95</sup>

North Macedonia has made significant progress in developing policies to reduce gender inequality. Following the Law on Equal Opportunities for Women and Men, the Strategy for Gender Equality 2013-20 contains basic measures for the systematic inclusion of equal opportunities for women and men in the processes of creating and implementing policies and budgets. It also includes basic and special action measures to promote equality between women and men in certain priority areas of action. Gender



mechanisms are also included at the local level within institutions. Commissions for equal opportunities for women and men have been established within the local self-government councils and there are co-ordinators for equal opportunities for women and men within the public sector. An evaluation of the strategy was expected to become available in December 2020, which will shed light on its effectiveness and potential implementation barriers.

Activities to reduce gender stereotypes have included gender sensitive revisions of school books. Awareness-raising campaigns have been implemented in co-operation with the Agency for Audio and Audiovisual Media Services. The MES awards scholarships to female university students in the bio-technical, technical-technological, natural-mathematical, IT, chemistry, physics, mathematics and medical science fields.

The new Law on Prevention and Protection against Discrimination was adopted in March 2019. The Organization for Security and Co-operation in Europe (OSCE) and its Office for Democratic Institutions and Human Rights (ODIHR) commented that the draft did not include adequate awareness-raising and other measures to implement the proclaimed principles of equality and non-discrimination, aside from the public dissemination and educational activities of the Commission. The draft law also does not use the notion of “equal treatment”, unlike relevant EU directives (Eurostat, n.d.<sup>[115]</sup>).

The share of women participating in ALMPs varies by type of intervention: In 2019, women made up 33.5% of participants in measures supporting self-employment, 45.8% in job creation measures, 43.2% in training measures, 64.2% in internships, and 59.0% in work engagement schedule measures. According to the ESARNM, in December 2019, 48% of all unemployed people were women, and many of them were low-educated: 55% of them have never been enrolled in formal education or have only primary education.

A framework for childcare is in place and annual actions plans adopted. Primary schools are obliged to organise all-day stay/classes and provide care between the end of school activities and the end of the working day. It would be useful to follow up whether the availability and quality of childcare is improving over time. The participation of children in early childcare education is below the EU average, but has improved recently – see Education policy (Dimension 7) (EC, 2019<sup>[147]</sup>).

The latest survey of wages in North Macedonia found that the gender pay gap was 12.5% in 2017. When characteristics such as education, years of service, age and occupation profile are taken into account, the gap increases to 17.3%. Considering primary education, the gap reaches 28% (Eurofound, 2019<sup>[137]</sup>). An increase in the minimum wage in the last two years, and particularly the equalisation of the minimum wage in the textile and leather industry sector with the national minimum wage, has recently reduced the gender wage gap. But still more measures are needed in order to achieve equal pay, even though the labour law regulates equal pay for equal work.<sup>96</sup>

#### *Sub-dimension 8.4: Activation policies*

Since the last Competitiveness Outlook assessment in 2018, progress has been made in improving the institutional capacities of the **public employment service**, ESARNM. It has introduced a profiling tool which divides the unemployed into three groups, according to their level of employability. Counsellors use a standardised questionnaire to categorise jobseekers into these groups and set up individual plans with them. They may then refer those jobseekers who need them most to ALMPs. The law requires every registered unemployed person to be given an individual employment plan (IEP). For those who will be easy to employ and who face few barriers to employment, a simplified and short IEP is developed, while a more detailed IEP is used for those who might be hard to employ. While the use of individual action plans for people with (severe) employment barriers is good practice (Desiere, Langenbucher and Struyven, 2019<sup>[148]</sup>), the effectiveness of its implementation may be questioned given the capacity of the PES in terms of staff. According to the PES, follow-up interviews should be conducted once a month. The average duration of the initial interview is 30 minutes. According to good practice, hard-to-place jobseekers, in particular the long-term unemployed, benefit from intensive counselling (OECD, 2019<sup>[149]</sup>).

At end of 2019, ESARNM had 414 employees, 61% of whom were working on active measures.<sup>97</sup> There is one counsellor working on active measures for every 400 registered jobseekers, which is high,<sup>98</sup> particularly given the high share of vulnerable groups among unemployed. For instance, according to LFS data for 2018, 74.7% of all unemployed people were long-term unemployed.<sup>99</sup> The PES's capacity was recently improved through staff training: 188 employees from 30 employment centres were trained in integrated case management, in implementing the Labour Market Skills Survey for the period 2018-19 and implementing the Youth Guarantee Project (Government of North Macedonia, 2019<sup>[121]</sup>). However, North Macedonia should develop a training strategy for the PES that includes initial training for new staff, and regular thematic training for those already employed.

The PES has limited capacity to provide employer services and gather vacancies. According to the law, all vacancies must be advertised through the PES, even though international experience shows that this is difficult to implement. In 2019, the PES had recorded only 8 344 vacancies for 101 700 registered unemployed, an extremely low ratio. In 2019, nearly 60% of unemployed people looked for work through the PES.<sup>100</sup> The number of unemployed people fell by 12% between 2015 and 2019 according to registration figures, while according to the LFS unemployment fell by 32% over the same period. This may either indicate improvements in registering the unemployed, or a greater difficulty in reducing unemployment among those registered, given the greater share of long-term unemployed and vulnerable groups registering, and the small number of vacancies registered.

North Macedonia has an unemployment benefit system. Workers with a 25-year contribution history can receive unemployment benefit for a maximum of 12 months, with a shorter duration for the rest. Older unemployed adults with a long employment history and who are no more than 18 months from qualifying for an old-age pension can also receive benefits for longer. In this case unemployment benefits are being used as an early retirement scheme. This is understandable in the light of the difficulty older unemployed people can experience in finding employment but efforts should still be made to place them in work instead of effective early retirement.<sup>101</sup> The level of unemployment benefits is linked to previous earnings, but is comparatively low, which may limit its effectiveness in reducing informal employment. It amounts to 50% of previous net earnings, with a ceiling of 80% of the national average monthly net salary in the past month.<sup>102</sup> Its effectiveness is also limited by its low coverage compared to the large majority of EU countries. In 2019 only 2.8% of all unemployed adults, as measured by LFS data, received unemployment benefits, as did 4.6% of the registered unemployed, down from 8.5% in 2015 (EC, 2017<sup>[150]</sup>). As of 30 September 2020, there were 6 800 beneficiaries of unemployment benefits, and 8 191 beneficiaries under the Law on Material Security of the Unemployed due to the Privatisation of Enterprises with Dominant State Ownership (information provided by the Government of North Macedonia). The number of people receiving guaranteed minimum assistance (26 000) in May 2020 was higher by 8.7 percentage points compared to April 2019, when the former social assistance scheme was in place (data provided by the government).

Significant progress has been made in designing a social assistance system and linking it to the activation strategy. The policy design was based on lessons from international experience. The Law on Social Protection, adopted in 2019, regulates cash benefits in the area of social protection for persons at social risk, who are financially insecure or need financial assistance due to other reasons.<sup>103</sup> The amount of the guaranteed minimum assistance is calculated on the basis of a one-member household, increased by a coefficient of the equivalent scale for other members of the household, up to a maximum of five. It starts at MKD 4 000 (around EUR 65) per month for a single adult. To reach the goal of reducing the poverty rate to 16% by 2021, from 22.7% in 2017, the aim is to integrate 20% of existing social welfare beneficiaries into the labour market.<sup>104</sup> Significant progress has been made in setting up a structure for inter-institutional co-operation with the aim of integrating vulnerable groups into the labour market (Box 24.11). Lessons from other countries indicate that these types of reforms are of great importance, but implementation is challenging and requires political commitment and resources (Duell et al., 2018<sup>[151]</sup>).<sup>105</sup>

North Macedonia does have a **mutual obligation framework**. The entitlement to guaranteed minimum assistance ceases if: 1) the beneficiary fails to register with the relevant employment centre within 30 days of becoming unemployed (which is longer than in EU countries) and to regularly comply with their obligations under the Law on Employment and Insurance in Case of Unemployment; and 2) the beneficiary refuses twice to meet the obligations in their individual employment plan for inclusion in programmes for active employment measures or to take part in employment mediation in compliance with the law. The mutual obligation principle should also be implemented for informal workers who register with the PES, as long as this gives them access to health care. In this case, the PES's task would be to ease the transition from informal to formal employment.

#### Box 24.11. Co-operation between social services and employment services to integrate vulnerable groups into the labour market

Since 2019, the Centre for Social Work and the Employment Centre have co-operated to put together individual employment plans to map out beneficiaries' participation in active employment measures and job seeking. The Centre for Social Work implements plans for each working age member of a household that benefits from the minimum guaranteed assistance, using the information from the individual employment plan, obtained from the Employment Centre. The staff in the two centres communicate regularly and meet as needed, at least once a month. Employment Centre staff electronically notify the relevant Centre for Social Work staff promptly (i.e. within three days) if a beneficiary 1) fails to register as part of the regular registration; or 2) refuses to participate in preparing their individual employment plan or participate in the employment services, refuses to take part in employment mediation or refuses the offer of employment. Therefore the reform has involved upgrading the existing software for administering cash benefits.

The professional workers in the two centres perform joint assessments of the needs and employability level of all registered unemployed persons or beneficiaries from one household, with the aim of identifying the most employable person and including that person in the active employment measures and services, taking into account their age, educational attainment, previous work experience, professional qualifications, acquired skills, the job demand in the labour market and whether there are any obstacles to participation, and other circumstances.

The capacities for implementing the Law on Social Protection have been strengthened; 177 professional workers were employed in the Centre for Social Work in 2018 and 2019 and staff in both centres have been trained in individualised work with beneficiaries (case management).

During the reform process, research was carried out to determine the areas in which the Centre for Social Work's capacity to implement the planned reforms needed reinforcing. Although the previous Law on Social Protection had allowed the provision of social services to be pluralised, in practice, it was mainly carried out by the state. Municipalities did not take the initiative to establish institutions for institutional or extra-institutional social protection, or encourage greater activity and involvement of local communities in the implementation of policies in these areas. Co-ordination was lacking at the local level between relevant stakeholders or their greater co-operation with institutions at the national level. There is an evident lack of provision of social services by the civil sector, which usually depends on funds provided by external donors.

Source: (EC, 2019<sup>[63]</sup>), *North Macedonia 2019 Report*, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-north-macedonia-report.pdf>; (Government of North Macedonia, 2019<sup>[121]</sup>), *Economic Reform Programme: 2019-2021*, [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north\\_macedonia\\_erp\\_2019-2021.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_erp_2019-2021.pdf); Information received from the government.

The National Strategy for Employment 2016-20, National Action Plan for Employment 2018-20 and National Action Plan for Youth Employment 2016-20 form the strategic basis for **active labour market**

**programmes** (ALMPs) and their target groups. The focus of employment policy has remained on youth and the long-term unemployment. Significant improvements have been made to the youth unemployment rate,<sup>106</sup> which fell from 44% in the fourth quarter of 2018 to 35.1% in the fourth quarter of 2019 (Eurostat, n.d.<sub>[115]</sub>),<sup>107</sup> although this is still more than double the EU average and above the WB6 average. The improvement was linked to the implementation of the Youth Guarantee (Box 24.12). The emigration of young people has also contributed to the reduction of unemployment (EC, 2020<sub>[46]</sub>). The share of 20-24 year-olds neither in employment nor in education and training, the so-called NEET rate, has remained at a high level and stood at 25.8% in 2019, well above the EU average of 14.5% (Eurostat, 2020<sub>[152]</sub>) and also above the WB6 average of 22.1% (WIIW/World Bank, 2020<sub>[129]</sub>).

#### Box 24.12. Implementing the Youth Guarantee scheme

Reducing youth unemployment has rightly become a national priority for North Macedonia; prompting ESANRM, the PES of North Macedonia, to start the Youth Guarantee scheme in 2018 as a pilot in three employment centres (Skopje, Strumica and Gostivar). The goal of the Youth Guarantee is that each young person under the age of 29 is given the right job offer, the opportunity to continue education or be included in some of the active employment measures. Once unemployed people are on the unemployment register, they are immediately referred to their first interview with an employment counsellor who will do the profiling and set up an individual employment plan for the next four months. Young unemployed adults are offered group and individual counselling and information, job search assistance services, motivational training, and inclusion in one of the labour market integration measures (employment incentives, education and training measures). In total, 47 599 young people have been included in the scheme so far (as of 31 October 2020), of which 35% successfully exited within a period of four months.

The next step will be to reach out to young NEETs, which will mainly be the role of non-government youth organisations. If effective, this has the potential to reduce the NEET rate. Some 10 000 young people (aged 15-29) are expected to benefit from the Youth Guarantee in the underdeveloped regions, which represents one-quarter of all potential beneficiaries. As pointed out by the EC (EC, 2019<sub>[147]</sub>), its efficient implementation will require a significant effort by the Ministry of Labour and Social Policy, the ESANRM as well the National Youth Council, responsible for the fieldwork activities.

Source: (Government of North Macedonia, 2019<sub>[121]</sub>), *Economic Reform Programme: 2019-21*, [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north\\_macedonia\\_erp\\_2019-2021.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_erp_2019-2021.pdf).

The unemployment rate among working-age adults (15-64 year-olds) has fallen significantly: from 26.3% in 2015, to 24% in 2017 and to 17.4% in 2019.<sup>108</sup> While the unemployment rate of men fell considerably, the fall for women was less marked (WIIW/World Bank, 2020<sub>[129]</sub>). The unemployment rate of Roma (around 50%) and people with disabilities has not improved in the recent past and continued to be high (EC, 2019<sub>[63]</sub>). The incidence of long-term unemployment has been very high; it was 80.7% in the first quarter of 2019 and the situation has not improved since 2015 (WIIW/World Bank, 2020<sub>[129]</sub>). While ALMPs exist for specific vulnerable target groups, take up seems to be low. In 2019, around 22% of the participants in ALMPs were long-term unemployed, 3% were Roma and 3% were people with disabilities.<sup>109</sup> The ALMPs have not been evaluated since 2015. Expenditure on ALMPs increased from 0.11% of GDP in 2015 to 0.13% in 2017 and 0.19% in 2019,<sup>110</sup> but the share still remains significantly below many European countries.

#### *Cross-cutting sub-dimension: Informality*

In 2018, the share of workers in informal employment was similar to the situation in Serbia and below the corresponding level in Albania.<sup>111</sup> It has fallen from 22.6% of workers in 2014 to 18.6% in 2018. Worryingly, the composition of informal employment shows a slight shift from low-educated to medium-educated

workers. Informal workers were mainly self-employed and unpaid family members (WIIW/World Bank, 2020<sup>[129]</sup>). The incidence of informality is higher among men (20% in 2016) than among women (15%). Slightly less than half of informal workers are aged 25-44 years, and about one-fifth (20-22%) are aged 45-54 years. Most informal workers have completed only primary education or a four-year secondary education (about 40% each). Informal workers carry out mainly elementary occupations (about 62%).<sup>112</sup>

In 2018, the government adopted the Strategy for the Formalisation of the Informal Economy 2018-22. The corresponding action plan for 2018-20 was adopted in 2018, defining measures and allocating a budget. The strategy's objectives include: 1) improving the measuring, monitoring and detection of the informal economy; 2) improving the business environment for companies; 3) stimulating and supporting the formalisation of informal economic activities; and 4) strengthening the tax morale and reducing the tolerance of the informal economy. The action plan defines the budgets for these activities. While the objectives are all relevant, there is no explicit link between the quality of jobs and informal employment. At first sight, it is also not clear how the mechanisms for implementing laws and regulations are going to be strengthened.

### *Cross-cutting sub-dimension: Brain drain*

In 2018, 2.1% of North Macedonia's population emigrated (24 300 people), the second highest rate in the WB6 economies after Albania. In a recent survey, 35% of young people indicated that they had a strong desire to move to another country for more than six months (Lavric, 2020<sup>[153]</sup>). Given the high youth unemployment these results are not surprising, but they are alarming. Previous research has indicated a high level of emigration among highly skilled adults (Government of North Macedonia, 2019<sup>[154]</sup>). The prospects for development are reduced if young people, and in particular well-educated young people, emigrate.

The government adopted a national strategy for co-operation with the diaspora in 2019 (Government of North Macedonia, 2019<sup>[154]</sup>). The overall objective is to create the legal, institutional and other preconditions to develop a sustainable and comprehensive framework for co-operation between the state institutions and the diaspora. The strategy aims to turn brain drain into "brain circulation" (Daugeliene and Marcinkeviciene, 2009<sup>[155]</sup>) and "brain linkage" by co-operating for the transfer of know-how and technology in different areas; learning about the demand for exports of Macedonian products to countries or areas with a large diaspora; increasing activities in the area of education and co-operation with the youth, as a precondition for preserving their cultural identity; and identifying possibilities for co-operation between the scientific diaspora and Macedonian scientific institutions, in order to accelerate the development of the economy.

### ***The way forward for employment policy***

- **Continue improvements to working conditions, to align with the EU *acquis*.** The capacity of the labour inspectorates to implement the regulatory framework needs to be strengthened. This will not only involve staff training, but also improving the methodology for risk assessment, co-operation with other relevant institutions, and a potential increase in the number of staff. The Occupational Health and Safety Strategy and the Strategy for the Formalisation of the Informal Economy are highly relevant and should be implemented. Awareness raising among employers as well as training measures and support for SMEs in the area of human resource management should be implemented.
- **Define and implement activities to combat informal employment.** The first steps would be to update the analysis of informal employment, investigating the incidence of the main forms of informal employment (unregistered self-employed, envelope wages, unpaid family members) and the main motivations behind it. Horizontal co-ordination could be improved to reduce taxes or lower non-wage labour costs for low-wage earners in order to reduce the incentives for informal employment.

- **Assess the impact of the minimum wage on both poverty reduction and informal employment.** The ESC should be given the resources to make the relevant labour market assessments. An analysis of the earnings structure, the development of productivity and development of low-wage sectors should be regularly conducted. Raising the productivity of companies will be key to improving the quality of earnings. One example to follow could be Germany's Minimum Wage Commission, which includes members from the scientific community in a consultative role. It has a mandate to constantly evaluate the impact of the minimum wage on the protection of workers, conditions of competition, employment in certain industries and regions, and productivity. The commission presents the results of its evaluation to the Federal Government in a report together with its resolution every other year (Mindestlohn Kommission, 2021<sup>[156]</sup>).
- **Increase employment rates among women** by improving access to and coverage of high-quality childcare<sup>113</sup> (OECD, 2016<sup>[157]</sup>), promoting flexible working schemes by revising labour laws, and launching awareness-raising activities targeted at employers. The government should continue its efforts to overcome gender stereotypes at all levels of education and in the workplace and develop gender-sensitive professional guidance. Women who have become discouraged should be encouraged to rejoin the workforce through measures aimed at increasing their self confidence and skills.
- **Monitor the employability of graduates from the VET system**, differentiating between various VET streams and dual VET streams, and universities, through regular tracer studies. It is also recommended to monitor the participation of employed and self-employed workers in continuing learning.
- **Introduce incentives to invest in adult learning.** Experiences from other countries show that tax credits, learning accounts and learning leave are all valuable incentives (OECD, 2019<sup>[158]</sup>). The strategy for adult learning should also envisage counselling activities for employees as well as employers, particularly for SMEs, such as is offered in Portugal through the Qualifica Centres (OECD, 2019<sup>[159]</sup>). In France, every individual has the right to information, advice and career guidance support; the Advice for Professional Evolution (*Conseil en Évolution Professionnelle*) scheme was launched in 2014 to achieve this, offering free and personalised services (OECD, 2019<sup>[159]</sup>).
- **Implement programmes to substantially improve the skills of vulnerable groups of employees and the self-employed** (Box 24.13).

#### Box 24.13. Continuing training for vulnerable groups: Examples from Ireland and Germany

Springboard+ is an Irish programme originally conceived to offer free courses for the unemployed leading to qualifications. In 2017, Ireland extended it to the self-employed who want to improve their skills in certain sectors.

Germany provides study leave incentives that focus on the low-skilled and SMEs. The WeGebAU programme, established in 2006, supports low-skilled unemployed people and workers in SMEs – as well as employees aged 45 and over – wishing to acquire a vocational training degree or to participate in certified continuous training. The participant receives an education voucher which means the PES will cover some of the costs of the training. In addition, unemployment benefits can be paid during the course of the subsidised further training. The PES also pays wage subsidies and social security contributions for low-qualified employees during their training.

Source: (OECD, 2017<sup>[160]</sup>), *Financial Incentives for Steering Education and Training*, <https://dx.doi.org/10.1787/9789264272415-en>; (OECD, 2019<sup>[161]</sup>), *OECD Employment Outlook 2019*, <https://doi.org/10.1787/9ee00155-en>.

- **Continue to increase the capacity of the public employment service.** This would involve increasing the number of employment counsellors to reduce their individual caseloads, as well as providing training in counselling. At the local level, the capacities of the social work centres and private and non-government social service providers also need to be strengthened, as these providers could also be involved in reaching out to unemployed and discouraged workers who are not currently registered at the PES. The capacity of the PES to promote the transition from informal to formal employment should be strengthened. This would include the recognition and validation of informally acquired skills linked to upskilling activities and providing financial incentives for the conversion of informal to formal jobs. Delivering effective employment services would also mean taking an active approach towards employers and delivering services to them. Developing the planned performance indicator system to measure the outcomes of employment policies on different groups of jobseekers and conducting evaluations would also improve capacity. Finally, increasing the budget for ALMPs could level up activities to integrate the long-term unemployed, young people and the most vulnerable groups into the labour market.
- **Assess the impact of the new Law on Social Protection and amended Child Protection Law** on in-work poverty and on activity rates.



## Science, technology and innovation (Dimension 9)

### Introduction

Table 24.15 shows North Macedonia's scores for science, technology and innovation, and compares them to the Western Balkan average. The economy scores above the WB6 average in each sub-dimension, rating second in the region in public research system and business-academia collaboration, and third in STI system.

**Table 24.15. North Macedonia's scores for science, technology and innovation**

Dimension	Sub-dimension	Score	WB6 average
Science, technology and innovation dimension	Sub-dimension 9.1: STI system	2.6	2.4
	Sub-dimension 9.2: Public research system	2.5	2.0
	Sub-dimension 9.3: Business-academia collaboration	2.1	1.6
North Macedonia's overall score		<b>2.4</b>	<b>2.1</b>

### State of play and key developments

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

An economy-wide **STI strategy** has been in place since 2012, expiring in 2020. Developed within the framework of the OECD's Regional Competitiveness Initiative, the strategy aims to leverage knowledge and innovation to increase competitiveness, stimulate economic development and produce high-value employment opportunities. It includes measures to address major societal challenges such as climate change, mobility and brain drain through emigration. In line with its Action Plan 2019-20, the strategy is being implemented by the Fund for Innovation and Technology and Development (FITD), which was established in 2013 and closely co-operates with relevant ministries. Specifically, the plan is designed to enhance private sector innovation, strengthen human resources for innovation, cultivate a regulatory environment conducive to innovation and increase the flow of knowledge and expertise between sectors and firms. Some elements of the innovation policy are also included in the national Economic Reform Programme 2019-21.

While the STI framework does not address emerging areas of STI such as artificial intelligence, digitalisation or Industry 4.0, this is largely intentional and reflects the economy's current state of development. However, with the support of the European Commission's Joint Research Centre, efforts are currently underway to develop a new smart specialisation strategy that is expected to be adopted in 2021. The smart specialisation strategy is being developed by a working group comprising government institutions, public universities and chambers of commerce. It represents a continuation of the previous innovation strategy, with a focus on enabling economic growth through innovation, collaboration and knowledge sharing.

The **institutional framework** for STI remains relatively complex, with three government institutions overseeing the development and implementation of STI policy and no unified co-ordination mechanism in place:

- The National Committee for Innovation and Entrepreneurship is based in the Prime Minister's office and comprises members of key government ministries as well as experts from academia and the business sector. It primarily supports the implementation of STI policy in a co-ordinated fashion. In addition, the Working Group for Innovation is an advisory body established in 2012 to co-ordinate the implementation of innovation policies, namely the innovation strategy and action plan. The body consists of representatives from relevant ministries, state institutions, national agencies and the private sector.



- The Ministry of Education and Science is another important institution overseeing STI policy and is responsible for implementing and monitoring the innovation strategy. Within the ministry, the Department for Science and Innovation organises, finances, and promotes scientific research, technical development and innovation.
- The FITD acts as North Macedonia's dedicated innovation agency mandated to stimulate innovation activities, particularly within the private sector. Its budget has grown substantially since the previous assessment cycle and, despite the significant slowdown in 2020 amid the COVID-19 pandemic, it is projected to reach around EUR 16 million in 2021. Its operational capacity remains somewhat below potential, but financial and human resource capacity development is being supported by the World Bank and is expected to grow further in the medium term.

The **regulatory framework** for research, development and innovation practices has made moderate progress since the previous assessment cycle. North Macedonia co-ordinates its oversight of industrial property rights with the EU Intellectual Property Office, the European Patent Office, and the World Intellectual Property Office, although its actions are largely limited to awareness raising. Proposed activities to disseminate data among law enforcement agencies have not been implemented, which has limited North Macedonia's enforcement capacity.

North Macedonia engages in extensive **international collaboration** on research, development and innovation through its participation in Horizon 2020,<sup>114</sup> Western Balkans Enterprise Development and Innovation Facility (WBEDIF), Eureka,<sup>115</sup> European Cooperation in Science and Technology (COST)<sup>116</sup> and the International Atomic Energy Agency (IAEA) Agreement on Technical Co-operation. There is evidence of successful participation in these initiatives as well as the implementation of its associated objectives and commitments. In the period up to 2019, 95 Macedonian entities engaged under the Horizon 2020 framework, receiving EUR 10.6 million. More recently, however, activities to promote Horizon 2020 have been limited. Five Macedonian early stage companies have received financing under the WBEDIF Enterprise Innovation Fund (ENIF). However, institutional weakness and limited national scientific capacity pose obstacles to achieving strategic objectives for international STI collaboration. Budgetary and managerial limitations also inhibit the relevant government institutions from fully executing their responsibilities for international collaboration.

North Macedonia has made progress in increasing its **alignment with EU STI policies**, which it considers to be a national STI priority. Its national STI statistics are fully aligned with Eurostat methodology and best practice. The economy has adopted the European Research Area (ERA) Roadmap and participated in a 2018 ERA progress report and has committed to furthering ERA policy objectives, namely gender equality in the STI sector (EC, 2019<sup>[162]</sup>). It also participates in the European Strategy Forum on Research Infrastructures (ESFRI). Since 2020, North Macedonia has participated in two ESFRI Landmarks and in two developing research infrastructure projects. In early 2020 North Macedonia became a member of the European Open Science Cloud (EOSC) Governance Board and nominated two delegates, one from the MES and the other from the Faculty of Computer Science and Engineering. With the recent restructuring of EOSC governance under Horizon Europe, the Faculty of Computer Science and Engineering became a member of the EOSC Association. North Macedonia is currently drafting a national Research Infrastructure Roadmap that is expected to be formally adopted in early 2021. One higher education institution (HEI) – Ohrid University for Information Science and Technology – has endorsed the Charter and Code, while the South East European University is a participant in EURAXESS's Human Resources Strategy for Researchers.<sup>117</sup>

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

The **institutional structure of the public research system** has remained largely unchanged since the previous assessment cycle. While new policy initiatives have been made to support structural changes in the public research system, there have been no significant measures to increase the overall quality of

public research. The Law on Scientific and Research Activities outlines regulations to ensure the quality of research while the Law on Higher Education requires public HEIs and research and development institutions (RDIs) to regularly undergo mandatory self-evaluations. HEIs and RDIs also face external evaluation by the Board for Accreditation to verify the quality of their teaching and research practices.

North Macedonia has recognised the need to harmonise the Law on Scientific and Research Activities with the Law on Higher Education, redefining certain provisions, and aligning them with the recommendations of the European Commission and international good practice. A working group of experts from the MES and relevant representatives of faculties and scientific institutes was established to draft the new law, which was expected to enter into force in 2021. The National Agency for Quality in Higher Education was also established in 2019, and may further enhance research quality going forward.

The public research system remains underfunded, with gross domestic expenditure on research and development (GERD) at 0.37% of GDP in 2018, down from 0.52% of GDP in 2014 (UIS, 2021<sup>[163]</sup>). North Macedonia's **public research funding** comprises a mix of institutional funding and competitive grants, but the authorities have not provided a breakdown of how the funds were distributed between the two. The Action Plan for Innovation 2019-20 allocated roughly EUR 169 million to support the implementation of the national STI strategy, with funding sourced from the national budget, World Bank loans and international donors.

While public financing for STI programmes has increased since the previous assessment, in particular for the FITD, further efforts are needed to decrease dependency on international donors to implement North Macedonia's STI policy framework in a sustainable way. While the FITD provides financing on a competitive basis to firms and researchers through multiple funding instruments, there is no formal framework for performance-based funding for public HEIs and RDIs and it is unclear whether fair and transparent criteria are being used to allocate performance-based funds. There have been few significant improvements to public research funding since the previous assessment cycle, with no actions taken to promote third-party funding of research, interdisciplinary research or high-risk research. Likewise, funding is not used to promote research integrity or promote national scientific objectives.

North Macedonia offers few non-financial incentives for research excellence. The capacity of its **human resources for research and innovation** remains limited. The number of full-time researchers (per million inhabitants) has increased by around 18% since 2013, but remains below the 2015 level (UIS, 2021<sup>[164]</sup>) and the number of patent applications is low compared to regional peers. The Innovation Strategy 2012-20 has a chapter dedicated to strengthening human resources in innovation. There are clear support mechanisms in place for researchers, such as the Challenge for Young Researchers competition that has provided grants to young researchers since 2017. School-age children are also given support to participate in international STEM competitions. There are successful policy initiatives in place to promote the participation of women and other under-represented groups in research and innovation activities. The MES also financially supports the publication of scientific papers in international peer-reviewed journals as part of its implementation of the EU Recommendation on Open Science and Open Data, and provides postgraduate and doctoral scholarships to support the public scientific base. These measures are expected to improve human resource capacity in scientific research in the medium term. However, there are few policy initiatives to support doctoral research and education, make research careers more attractive, or address challenges associated with brain drain. Still, agencies such as the FITD have made notable progress communicating with the general public using promotional events and investments in STI initiatives in primary and secondary schools.

### *Sub-dimension 9.3: Business-academia collaboration*

Collaboration between business and academia remains underdeveloped in North Macedonia, although important progress has been made in promoting collaboration since the previous assessment cycle. Business-academia collaboration is included in the national STI strategy and has been promoted by a

number of financial and non-financial initiatives, which collectively form the foundation of a solid **collaboration promotion framework**. Government promotion of such collaboration is primarily focused on communication and awareness raising alongside financial support in the form of innovation vouchers and competitive co-financing grants. In addition, the FITD has used consultation meetings to involve relevant stakeholders in the design and implementation of relevant policy initiatives.

**Financial incentives for collaboration** are predominately channelled through the FITD, which has developed a specialised system of public tenders and grants, targeting both innovative companies and researchers. Competitive co-financing grants have been used to support private sector technology development and innovation, increase business-academia collaboration, and improve access to finance for start-ups and innovative firms. As of December 2020, the FITD had allocated EUR 42 million to over 500 individual firms, with the total investment generated through co-financing grants amounting to EUR 75 million. In 2018, the FITD developed a new support instrument promoting technology extension services that has supported 11 companies so far and provides acceleration services, of which 44% was sourced via private sector co-financing. Annual allocations for competitive co-financing grants have increased considerably from nearly EUR 300 000 in 2017 to around EUR 10.5 million in 2019. The preparation of a co-operative grant instrument is ongoing and is expected to be piloted by the end of 2021. The FITD piloted innovation vouchers in October 2020, aimed at enhancing co-operation between firms and research organisations, to encourage firms to undertake innovative practices that would increase overall economic competitiveness. It received 71 applications, of which 34 were awarded an innovation voucher. The FITD also redirected some of its activities to counterbalance the impact of the COVID-19 pandemic. However, North Macedonia does not currently use public procurement or tax incentives for firms as incentives for business-academia collaboration.

There are few **non-financial incentives for collaboration** available to researchers and businesses. As part of the World Bank's regional EU4TECH project, which is designed to build capacity for technology transfer from public research organisations and invigorate regional innovation ecosystems, HEIs and RDIs are eligible to apply for technical assistance for proof-of-concept and prototyping services for potential commercial spin-offs. As part of Horizon 2020, North Macedonia participates in Marie Skłodowska-Curie Actions,<sup>118</sup> which facilitate international researcher mobility. Since 2014, 30 Macedonian researchers have participated in the programme and Macedonian organisations have received EUR 280 000 in funding (EC, 2020<sup>[165]</sup>). However, with no domestic programmes providing non-financial incentives for collaboration, overall incentives remain very few.

There has been good progress on **institutional support for business-academia collaboration** since the previous assessment cycle. Efforts to develop North Macedonia's first science and technology park continue, and a feasibility study has been completed. The park is intended to support the development of start-ups and innovative enterprises by facilitating technology transfers. INNOFEIT, the technology transfer and innovation centre of the Ss. Cyril and Methodius University, opened in 2018 with a mission to give academics the practical expertise and skills needed to overcome private sector challenges. It is a good example of a measure to stimulate collaboration between firms and academia and offers a number of services to firms interested in pursuing research, development and innovation-related activities including pairing academics and entrepreneurs, collaborative research, access to laboratories and technology, and co-working spaces. In 2019, a new business-technology accelerator, UKIM, was incorporated into the INNOFEIT structure (Box 24.14). Despite these important advances, this policy area is not approached systemically and remains under-represented in the national STI policy framework. As a result, value-added measures such as training, coaching, awareness raising and other means of promoting collaboration do not appear to be provided systematically at the institutional level.

### Box 24.14. The Business Technology Accelerator UKIM

The Business Technology Accelerator UKIM was established under the umbrella of INNOFEIT with the aim of identifying and supporting high-potential technology-focused firms and early-stage businesses in North Macedonia. It was founded in 2017, by Ss. Cyril and Methodius University in Skopje (UKIM), the Crimson Development Foundation, CEED Hub Skopje, RSM Macedonia, and Professor Dr Dimitar Stamboliev, and is co-financed by the Fund for Innovations and Technology Development.

It offers tailored pre-acceleration and acceleration programmes and support through international markets, networks and communities. The accelerator also provides early-stage seed financing valued from EUR 5 000 to EUR 33 000, and up to EUR 100 000 in follow-on financing for market development as well as sales and revenue growth.

This accelerator is the first of its kind in North Macedonia, combining the expertise of the economy's biggest and most technologically advanced university, an investment/lending firm, financial advisory organisations, and business support institutions.

Source: (UKIM, n.d.<sup>[166]</sup>), *Business Accelerator UKIM*, <https://accelerator.ukim.mk/>.

### *The way forward for science, technology and innovation*

North Macedonia has made progress towards achieving its national STI objectives and has improved its overall STI policy framework. However, insufficient institutional co-ordination, funding limitations, and inadequate support systems for researchers and innovators continue to limit its progress in this policy area. The ongoing development of a national smart specialisation strategy represents a unique opportunity to build on the successes of the current innovation strategy while addressing key shortcomings. The following recommendations can help keep up the momentum:

- **Complete the development of the smart specialisation strategy** in order to build on the important gains made under the innovation strategy. The FITD could play an important role in supporting the implementation of the strategy framework if its capacities are expanded and funding sustained. Strengthening inter-ministerial co-ordination would further increase effectiveness of policy making and smooth implementation.
- **Increase investments in the public research system.** The public research system remains underfunded and detached from national STI objectives, despite significant increases in funding in recent years. Investments in public sector research, coupled with targeted measures to support researchers, would make scientific research a more attractive profession. This could be an important tool to counter ongoing brain drain within the sector, and is likely to increase overall research quality in the medium term.
- **Increase participation in Horizon 2020** and associated international research and development programmes. Efforts to promote involvement in European scientific research programmes should be revamped to include measures such as targeted awareness raising, increasing networking opportunities and international mobility for Macedonian researchers, including through the Marie Skłodowska-Curie Actions.
- **Promote business-academia collaboration through a systematic and targeted approach.** Targeted incentives, both financial and non-financial, could help raise awareness and stimulate interest in increased collaboration. North Macedonia's emerging institutional infrastructure will help to support integration between academia and the private sector, if it is designed with encouraging collaboration as a key objective.
- **Strengthen enforcement of industrial property rights.** Implementing the actions proposed in the 2016-18 strategy on industrial property rights will be essential to improving the enforcement

capacity in the economy. Likewise, increasing the number of investigations of infringements by improving institutional enforcement capacity would ensure stronger, more coherent enforcement.

## Digital society (Dimension 10)

### Introduction

North Macedonia is making steady progress with its broadband infrastructure development and has improved its legal and regulatory framework since 2018 to enable private sector investments in network infrastructure. The economy's above-average score in access indicators is reflected in Table 24.16, which shows North Macedonia's scores for the five digital society sub-dimensions and provides a comparison with the Western Balkan average. However, it is lagging behind regional champions in its digital government development. In April 2020, only 136 e-services were available on the central e-government portal and some of the most frequently used e-services for citizens and businesses are still at the second level of sophistication or lower, according to EU standards, meaning that they only support one-way interaction (Belcheva-Ristovska and Todevski, 2020<sup>[167]</sup>). For the e-services which are available, usage and satisfaction levels remain low, but North Macedonia lacks a database of digital government indicators to support data-driven evaluations and policy making.

North Macedonia scores below the WB6 average in digital society indicators on use and slightly below average in jobs. The adoption of ICT among SMEs has not been effectively promoted and continued delays in preparing and adopting a long-term vision for the ICT sector has led the industry to stagnate, demonstrating no improvement since the last assessment cycle in 2018. The indicators on society remain significantly below the WB6 average. More positively, North Macedonia has updated its policy framework for privacy protection and digital security risk management, reaching an average score on trust indicators, but the lack of human and financial resources to implement the new framework, harmonise legacy legislation, and promote capacity building to change mindsets is holding it back from reaching its full potential.

**Table 24.16. North Macedonia's scores for digital society**

Dimension	Sub-dimension	Score	WB6 average
<b>Digital society dimension</b>	Sub-dimension 10.1: Access	3.3	2.9
	Sub-dimension 10.2: Use	2.0	2.4
	Sub-dimension 10.3: Jobs	2.2	2.3
	Sub-dimension 10.4: Society	1.5	2.1
	Sub-dimension 10.5: Trust	2.2	2.2
<b>North Macedonia's overall score</b>		<b>2.4</b>	<b>2.4</b>

### State of play and key developments

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

Broadband access remains uneven in North Macedonia, while infrastructure investments are mainly concentrated around urban areas. The National Operational Broadband Plan (NOBP), an ambitious plan to develop **broadband infrastructure** throughout North Macedonia, was adopted in 2019. It promised to connect every household and public institution to high or ultra-high-speed communications networks<sup>119</sup> by 2029. The NOBP targets the creation of a nationwide optical backhaul network, 5G infrastructure covering all cities and Next Generation Access (NGA) coverage of white zones.<sup>120</sup> The NOBP is aligned with the EU's 2016 Strategy Towards a European Gigabit Society for 2025 and also includes activities to co-ordinate with neighbouring Albania to avoid common obstacles to providing network coverage.

During the first year of its implementation, the plan has already shown positive results, especially in planning and accomplishing the prerequisites for developing connectivity in under-served areas. The key legal and regulatory improvements needed to ensure an enabling environment for private sector infrastructure investments, even in white and grey areas where interest and profit margin are low, have

been identified. These improvements include regulations on infrastructure sharing and re-use, co-ordination of civil works, and minimising restrictions on foreign investment in broadband infrastructure. State aid for white zones and other business models are being considered and consultations with network operators are ongoing over the selection of the most appropriate model in each area. The Law on State Aid Control (adopted in 2010) is in line with Articles 107, 108 and 109 of the Treaty on the Functioning of the European Union. However, to avoid market distortion, careful harmonisation of state aid rules with EU Guidelines for the application of State aid rules in relation to the rapid deployment of broadband networks (EU 2013/C 25/01) will be critical.

The construction, development, maintenance and management of the optical backhaul network in the white zones will fall under the responsibility of the Public Enterprise Macedonian Broadcasting (PE MKD). It will ensure that all operators have access to it and are motivated to develop NGA infrastructure in these areas. The government has secured EUR 600 000 funding from the Western Balkans Investment Framework to prepare a feasibility study for covering target areas with NGA access infrastructure. In an effort to improve co-ordination of broadband development activities, a national advisory board for broadband development was created in 2019, the Broadband Competence Office, to support and report on the progress of the implementation of the NOBP.

The second semi-annual report on NOBP implementation indicates that fixed broadband coverage was at nearly 98% in September 2020, higher than the EU average of 97% in 2019, while fixed broadband take-up was at almost 73%, approaching the EU average of 78%. However, the report also indicated that mobile broadband penetration in the first quarter of 2020 was almost 65%, against the EU average of 100% in 2019 and fast broadband take-up in September 2020 was slightly above 27%, lagging behind the EU average of 41% in 2018 (Broadband Competence Office, 2020<sup>[168]</sup>).

The ICT **regulatory policy framework** is generally aligned with the EU *acquis*. It is actively implemented and continuously improved to enhance the quality of services and to enable investments. EU Directive 2014/61/EU on measures to reduce the cost of deploying high-speed electronic communications networks has been transposed into the national framework. The electronic communications framework is aligned with the EU 2009 regulatory framework and in line with the WB6 economies' agendas. North Macedonia signed the West Balkans Regional Roaming Agreement in April 2019. Its national regulator, the Agency for Electronic Communications (AEK), is operationally and financially independent. It collects data regularly and publishes reports on the electronic communications market. The AEK is fully staffed and has the resources to perform its responsibilities, including carrying out regulatory impact assessments on every new regulatory proposal. However, the implementation of reviews of the stock of significant regulations against clearly defined policy goals is not yet a systematic practice.

North Macedonia is currently in the initial phase of developing data openness and transparency. Its **data accessibility** policy framework is based on the Transparency Strategy (2019-21) and the Open Data Strategy (2018-20). The framework supports the development of freely accessible online portals and open data access points to disseminate and allow the re-use of government data and public sector information. It facilitates public-private data exchanges for research and commercial purposes and data sharing within and across the public sector. These policies are also in line with North Macedonia's commitments under the Open Government Partnership (OGP) action plan for 2018-20. Data accessibility legislation is in place and aligned with the EU *acquis*, including the Law on Free Access to Public Information and the Law on the Use of Public Sector Data, which transposes the EU Directive (2013/37/EU). The framework regulates the format of data and their publication methods.

The government open data portal<sup>121</sup> has been improved and datasets are gradually being published by public institutions. However, although the portal had published 236 datasets from 52 public institutions by mid-2020, demand for open datasets is still low. An open data culture has yet to be instilled in the minds of both the public and the private sector in North Macedonia. Positively, a significant step forward was made to promote fiscal data transparency with a new open data portal<sup>122</sup> launched by the Ministry of

Finance in November 2019, publishing all state budget transactions. A number of online tools have been launched to foster fiscal transparency and public officials' accountability, publishing data on public spending and asset declaration tools. Regular monitoring of indicators for data accessibility and openness is weak, despite relevant provisions in the two strategies. A working group, comprising seven representatives from public institutions, academia and civil society, was planned to undertake this monitoring task but, as of 2020, no action had been taken to establish it.

### *Sub-dimension 10.2: Use*

North Macedonia has made some positive advances in developing **digital government**, directly related to the reforms outlined in the Public Administration Reform Strategy (PARS) 2018-22 and its action plan. These are aligned with open government principles and North Macedonia's international digital government commitments. Some of the activities outlined in the PARS action plan are in the planning phase, some in the initiation phase and some of them are operational or even implemented (for example the alignment of the Law on e-Management and the Law on e-Identification with the Law on General Administrative Procedure). The PARS is being implemented either through non-budgeted activities undertaken by public sector employees or through donor-funded programmes.

The Law on Electronic Management and Electronic Services was adopted in 2019. It allows public institutions and private sector entities to communicate seamlessly through an interoperability platform to provide e-services. North Macedonia and Serbia signed an agreement in August 2019 on mutual acceptance of electronic documents. However, additional harmonisation of legacy legislation and regulatory improvements will be needed to remove the remaining obstacles to the delivery of efficient e-services for citizens and businesses in the field of e-identification and e-payments. The PARS action plan has already identified and planned some of these, for example regulating archiving and storing e-documents, and the transformation of an e-signed paper document for proving payment of administrative or other fees.

Horizontal governance is provided by the National ICT Council (established in 2018), which comprises representatives of relevant ministries and state agencies. The council provides guidance on procurement plans and technical specifications, serves as a focal point for digital government policy initiatives, and is expected to co-ordinate implementation with the National ICT Strategy, once it is adopted. The Ministry of Information Society and Administration publishes annual online reports on the implementation of the PARS that include some digital government indicators. However, there is no open and accessible database of indicators on digital government, which hampers effective data-driven evaluations of digital government policies.

The national e-government portal was providing a central point of access to approximately 136 digital government services is available by mid-2020.<sup>123</sup> However, a large number of these services are not directly available through the portal; instead, it only publishes information and links to the relevant portals. Several government portals have been developed, like the successful MojTermin portal for e-health services. Successful e-services include the eTax System that has simplified tax reporting, and mobile applications like eVAT that enables VAT returns for individual taxpayers. During the COVID-19 pandemic, the government received a private company donation for the StopKorona! contact-tracing app to prevent the spread of the virus. Progress has also been made in digitalising public registries. However, while the number of e-services for citizens and businesses is increasing, their use is much lower<sup>124</sup> than the EU average; EU penetration of e-government services in 2019 was 53% (EC, 2019<sup>[169]</sup>).

North Macedonia does not have a policy framework to directly support **private sector ICT adoption**. It has done little to promote the digital transformation of companies, while neither the Innovation Strategy and corresponding fund nor the other SME or industry policies and programmes have been designed to finance the adoption of ICT. Some tax incentives for purchasing software and hardware products exist, and small-scale voucher schemes have been implemented, but not sufficient to support widespread private



sector adoption of ICT. For example, only 13 companies were recorded as benefitting from a project implemented by MASIT, the Chamber of Commerce for ICT, which offered vouchers to SMEs to assess their ICT needs and plan their digitalisation. The Ministry of Economy funded the Support for Digital Transformation of SMEs project under the Programme for SMEs Competitiveness.

A national ICT strategy for 2021-25 is currently being drafted, which aims to deliver an overarching policy that embraces and aligns all other ICT-related policies, including government digitalisation. However, as the strategy is still in an early preparatory phase, it is not yet certain that it will address the digitalisation of SMEs effectively. The Digital Forum for ICT was created in February 2019 by MISA as a partnership and coalition forum for the exchange of ideas between institutions and other stakeholders, such as chambers of commerce and civil society organisations supporting digital partnership.

### *Sub-dimension 10.3: Jobs*

The development of **digital skills for students** is part of the current education policy framework, namely the Education Strategy and Action Plan for 2018-25. Relevant basic and more advanced subjects are integrated into the curriculum from the third grade and beyond in primary schools and throughout secondary education, either as compulsory or optional subjects. Digital skills curricula are co-ordinated across primary and secondary levels of education, providing a comprehensive continuum of skills development. The education policy framework is aligned with the principles of the European Digital Framework and promotes curriculum design tuned to the needs of the labour market through co-ordination with relevant market stakeholders. It recognises the importance of ICT tools for education and the urgency of equipping classrooms with computers. Legislation and regulations have also been adopted to delineate the use of ICT in teaching. All primary and secondary schools are required to incorporate computers with Internet access into their lessons.

However, outdated ICT equipment in schools and IT-shy teachers are an obstacle to delivering the promise of digital skills' development for students. During 2020, the Ministry of Education and Science reported that 80.7% of primary and lower secondary schools and 93.6% of secondary schools had a broadband connection (>10 Mbps), while 67.1% of primary and lower secondary schools and 69.7% of secondary schools were equipped with computers for students. The ratio of computers to students is around 1:20 in primary and lower secondary schools, and around 1:19 in secondary schools.

The recent COVID-19 experience has exposed disparities between private and public schools and urban and rural areas in the availability of functional computers and portable electronic devices (such as laptops and tablets) and teachers' digital competency and readiness to employ e-learning technology. It has also propelled developments in this field, such as the creation of a Learning Management System by the education ministry, which integrates existing school platforms and provides distance learning capabilities. It also delivered training to over 25 000 teachers on the platform. Over 90% of students attended online classes in autumn 2020. During the COVID-19 pandemic, the Ministry of Labour and Social Policy (MLSP), the Ministry of Information Society and Administration (MISA), the MES and Telecom MK provided free Internet access to 30 000 students from socially vulnerable categories. MRTV started broadcasting an educational programme called "TV Classroom".

In March 2020, a national platform to support distance learning for teachers and educators ([www.eduino.gov.mk](http://www.eduino.gov.mk)) was set up by the MES, the Bureau for Development of Education (BDE) and MLSP with the support of UNICEF. The platform offers webinars for training teachers and professional associates, video tutorials for professional development, activities and games for parents to use from home, and e-tests and class schedules. A working group was also established to develop a concept for a distance learning system for primary and secondary schools. The working group comprised representatives of the MES, MISA, BDE, the Vocational Education and Training Centre, the National Examination Centre, primary and secondary school teachers, university professors, international organisations (UNICEF and USAID),

and civil society. The concept focused on three aspects: pedagogy, technology and the design of e-learning systems. The minister adopted the concept on 21 July 2020 with Decision no. 08-4895/2.

During September 2020, the MES implemented a distance learning system that provides e-content and e-activities for all primary and secondary schools. The distance-learning platform is part of the Learning Management System, which is an integrated system that incorporates several existing systems and platforms developed by the MES, along with Office365 and Microsoft Teams tools for online collaboration and e-learning. User training for the platform was initially given to 30 teachers. They became national trainers who then conducted training for an additional 1 200 teacher trainers. Finally, the third level of training was rolled out to all 25 000 school teachers. The share of students attending online classes is currently over 90%. The government acquired Microsoft licences for these tools and provided them to all primary/secondary school students and teachers.

The development of **digital skills for adults** is weak, although related policies are being implemented by different actors, including the Adult Education Centre of the MES, and the National Employment Agency of the Ministry of Labour and Social Policy. There is no overarching framework that provides vision and co-ordination on implemented activities, however. On the positive side, programmes for the development of digital skills for adults have created a positive impact, including lifelong learning programmes, formal and non-formal (re)training programmes provided by private sector education providers (accredited, or not, by the Adult Education Centre). The Employment Agency provides public service programmes for unemployed young people, which include introductory and advanced IT skills in collaboration with private sector education centres. However, even though the ICT industry is generally consulted during curriculum design for these programmes, the amount of people trained and the quality of the training do not always meet the industry's demand for highly skilled ICT professionals. The digital skills gap is exacerbated by weak indicators for monitoring and reporting. Recently, under the pressure created by the COVID-19 pandemic, the use of distance learning platforms has been incorporated in some adult training programmes to increase their accessibility. It remains to be seen if these platforms will be permanently embedded in adult (re)training programmes to empower workers and people in rural or remote areas.

The outlook on **ICT sector promotion** has not improved since the last assessment cycle. Although the ICT sector is recognised in policy documents as a driver for economic growth in North Macedonia, there is no sector strategy that addresses the needs of the industry and co-ordinates the economy's digitalisation. ICT is one of the fastest growing sectors of the economy, employing over 200 000 highly paid people and bringing export revenue of EUR 160 million in 2018. The envisioned overarching National ICT Strategy, has been under preparation for years; it was ongoing during the Competitiveness Outlook assessment in 2018, if not before. The COVID-19 crisis has further postponed its drafting and the associated internal consultation processes, which are now scheduled for early 2021. In the absence of an overarching policy framework, the sector receives arbitrary support through horizontal policy documents and programmes for the development of broadband communications infrastructure, the creation of e-government services or to finance innovation in emerging ICT such as the Fund for Innovation. In the meantime, the ICT industry (mainly the IT sub-sector) suffers from poor retention of skilled staff, limited support for advanced ICT (re)training of employees and stagnation due to the industry's branding as an outsourcing destination.

#### *Sub-dimension 10.4: Society*

**Digital inclusion** principles like social inclusion, non-discrimination, and accessibility of electronic systems and services, are included in strategic documents such as the Public Administration Reform Strategy and the National Operational Broadband Plan. However, the relevant activities in the PARS are not prioritised or budgeted in the action plan. Aspects of digital inclusion are covered by the ongoing activities for rural broadband infrastructure development that aim to close the digital gap and to provide affordable broadband connectivity to every household and citizen in North Macedonia, regardless of geography and financial capacity. A number of programmes by different actors, some donor-funded, promote equal opportunities

and narrowing gaps in ICT usage among disadvantaged or even marginalised groups of the population. Examples include ICT skills development programmes by the Employment Agency, Fund for Innovation grants for companies that minimise social exclusion through technological solutions or UNCTAD's eTrade for Women masterclass series programme. However, due to the low number of participants or beneficiaries, their impact is still limited.

The current framework guarantees the accessibility of public websites in accordance with international guidelines and standards such as the World Wide Web Consortium Web Accessibility Initiative Web Content Accessibility Guidelines. A comprehensive webpage has been set up to provide obligatory guidelines for the web presentation of public sector institutions.<sup>125</sup> However, the framework does not impose specific ICT accessibility standards and requirements for the procurement and certification of ICT products and services, which is particularly critical in sectors such as government and education. Monitoring of digital inclusion indicators is weak, basically extending no further than some basic ICT usage indicators gathered by the Agency for Electronic Communications or the National Statistics Agency.

#### *Sub-dimension 10.5: Trust*

The digital **privacy protections** framework includes the Strategy for Personal Data Protection (PDP) 2017-22 and the new Law on PDP, adopted in February 2020, transposing the EU General Data Protection Regulation (GDPR) 2016/679. Under the new law, the former Directorate for Personal Data Protection will continue its work as the Personal Data Protection Agency. The law provides a transition period of 18 months for the PDP Agency, data controllers and data processors to align with its obligations. Encouragingly, all of the points on personal data protection and privacy which were raised by the European Commission in their 2019 country report had been addressed before this assessment took place, including amendments to legislation and alignment with the GDPR (EC, 2019<sup>[63]</sup>). The PDP Agency has significantly enhanced its international co-operation, although it is still understaffed. In its annual report for 2019, it reported that it remained without a director or deputy director for about six months after the resignation of the former director, which affected its ability to sign acts and perform inspections. In October 2020 the agency employed 23 staff members, which represents 36% of its proposed human resources plan. Its plan for 2021 prioritises hiring new staff and specific allocation within the state budget to ensure its financial independence, as prerequisites for addressing the challenges with the implementation of the new PDP Law.

North Macedonia leads the way in the Balkans when it comes to the development of a contact-tracing app. During the COVID-19 pandemic, the government received a private company donation for the StopKorona! app, which helps the Ministry of Health to track people who have been in close contact with an app user who tested positive for COVID-19, to warn them and prevent the spread of the virus.

Free Software Macedonia, a civil society organisation dealing with IT-related issues, raised concerns publicly about the StopKorona! contact-tracing app in relation to data protection. They demanded that the government make the app open source and publish the code for public scrutiny. Upon signing non-disclosure agreements, the Ministry of Health formed a working group in April 2020 consisting of volunteers to review the source code. After ensuring that the app collects and processes only the minimum data necessary, the working group acknowledged that there are no major data protection issues with the app, and made recommendations for further improvement. The Personal Data Protection Agency also conducted an emergency inspection to ensure compliance with personal data protection law. The Metamorphosis Foundation also analysed the privacy policy of the StopKorona! app, regarding data protection and concluded that it contains only the information needed to inform citizens, and thus respects the principles of privacy and transparency in personal data processing.

The Consumer Protection Programme 2019-20 is being implemented and includes some activities to raise consumer awareness and improve legislation to address **consumer protection in e-commerce**. For

example, it foresees the provision of student training in consumer protection that include topics on protection in e-commerce transactions. However, the implementation of public awareness campaigns on consumer protection in e-commerce has been weak. A draft consumer protection strategy is currently being prepared. A new draft of the Law on Consumer Protection was prepared in 2019, but its adoption is still pending at the time of writing. The Law on e-Commerce, based on the EU Electronic Commerce Directive (2000/31/EC), was updated in 2017. Market surveillance and inspection of e-traders is performed by the State Market Inspectorate of the Ministry of Economy, which offers an online form<sup>126</sup> for collecting consumer complaints alongside standard submission methods (in person or by phone). The statistical analysis of these complaints is announced publicly every year.

Although e-commerce is growing in North Macedonia, it is still relatively low, both in the numbers of local merchants selling and consumers shopping on line. A 2019 UNCTAD report measuring the business-to-consumer (B2C) e-commerce index of countries, ranked North Macedonia 48<sup>th</sup> out of 151 countries (UNCTAD, 2019<sup>[170]</sup>). Persistent barriers to e-commerce development include underdeveloped financial systems and a legal and regulatory framework that is not fully up to date. Moreover, many local consumers have poor digital literacy and insufficient understanding of their rights in e-commerce and how to exercise them. The Consumer Protection Programme has identified the legal and regulatory improvements needed and relevant activities are planned, especially regarding e-payment technologies and the development of reliable and secure online transactions. However, monitoring of indicators for consumer protection in e-commerce is weak.

The National Cyber Security Strategy and Action Plan 2018-22 provides a basic policy framework for **digital security risk management**, based on the EU Cybersecurity Strategy and the NATO Cyber Defence Pledge. The strategy promotes a complete digital risk management framework for the government, research and development, and the adoption of international standards in procurement and the recruitment of professionals. However, the government has not yet secured the budget needed to implement the action plan, except for the operation of the National Centre for Computer Incident Response (MKD-CIRT). The MKD-CIRT is still operationally challenged, since it has employed only two staff members since its establishment in 2016. Its limited financial and technical resources are provided by the Agency for Electronic Communications, its hosting organisation.

More positively, the new law on Networks and Information Systems Security is aligned with EU Directive 2016/1148, concerning measures for a high common level of security of network and information systems across the Union, but is still pending adoption.<sup>127</sup> The National Cyber Security Council was established in 2019 to provide horizontal co-ordination of digital security risk management and an inter-ministerial working group was set up to provide expert, operational and logistical support to the council. However, North Macedonia's critical information infrastructure has not yet been defined, and further legal and regulatory improvements are required to complete alignment of the legal framework on digital security risk management, ensuring clear roles, responsibilities and accountability for relevant government bodies and institutions. For example, competent public sector bodies have no obligation to regularly report on digital security risk incidents. Efforts to create other computer emergency response teams (CERTs) in the public or private domain are still at the initiation phase.

### ***The way forward for digital society***

Despite having taken some important steps to improve its digital society policy framework, the government of North Macedonia should pay more attention to the following aspects:

- **Strengthen the demand for open data innovation by enabling private sector re-use of public sector data** through inclusive co-creation processes to deliver e-services to citizens. Although the legal and regulatory framework is advanced, the number of published datasets is only rising slowly, the general public are not widely engaged and the level of informed public debate on data-driven

issues remains low. The government will need to raise public awareness about open data, build the capacities of public officials and develop public-private partnerships for open data innovation.

- **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.** North Macedonia should prioritise the creation of e-services that are most relevant and useful for the entire population, and increase the sophistication level of services according to EU standards. It will need to create a publicly available dataset of e-government indicators and implement regular evaluations of the quality of available e-government services to facilitate their continuous improvement.
- **Prioritise policies supporting the digital transformation of private sector companies,** possibly under the umbrella of the forthcoming National ICT Strategy 2021-25. The Digital Forum for ICT and non-ICT sector chambers of commerce could help assess the type of support needed by businesses (particularly SMEs) and select appropriate financial schemes (like subsidies or tax reliefs) for purchasing software/hardware and staff IT training, while promoting business process transformation through e-commerce and e-business development. The strategy would also need to prioritise support measures for the ICT industry, to help retain highly skilled ICT professionals through favourable social security or taxation regimes, provide advanced ICT staff training, and strengthen exports and internationalisation, including re-branding the economy from an outsourcing destination to an innovation hub.
- **Adopt legal provisions to promote accessibility requirements in the public procurement of products and services** in the ICT domain and create corresponding certification schemes. Digital inclusion policies need to ensure that ICT products and services can be used by all their intended users, taking into account various physical, sensory, emotional or cognitive disabilities. Related policies need to ensure accessible ICT as a powerful enabler of peoples' ability to participate in every aspect of modern life.
- **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, and for building trust in e-commerce. The strategy will need to address legal and regulatory shortcomings, especially related to e-payments, in order to increase e-commerce take-up. It will also need to ensure that consumer protection legislation addresses fraudulent or misleading practices, privacy issues, dispute resolution, and redress in e-commerce transactions. It should prescribe regular monitoring of indicators on consumer protection in e-commerce to verify or adjust programme implementation targets, as needed, to maximise their impact.
- **Ensure the National Centre for Computer Incident Response has sufficient human, technical and financial resources** and adopt the legal and regulatory provisions for defining North Macedonia's critical information infrastructure and the relevant digital security risk management. National CERTs play a key role in co-ordinating incident management with the relevant stakeholders at national level and are responsible for co-operating with their international counterparts. Definition and protection of the critical information infrastructure is essential for maintaining the vital social functions which ensure the health, safety, security, economic and social well-being of the population, the disruption or destruction of which would have serious national implications.

## Transport policy (Dimension 11)

### Introduction

Since the last Competitiveness Outlook assessment in 2018, the main transport improvements North Macedonia has made have been in implementation and procurement, and reforms in the aviation sector. The slowest progress has been in the fields of data collection, asset management and combined transport. North Macedonia's performance in this dimension is close to the WB6 regional average. Table 24.17 shows North Macedonia's scores for the three sub-dimensions, and compares them to the WB6 average. In the planning sub-dimension, North Macedonia scores in line with the WB6 average, in the governance and regulation sub-dimension it scores slightly above the WB6 average and in the sustainability sub-dimension it scores below the WB6 average, explained by its low score for the environmental sustainability strategy and combined transport strategy indicators (both among the lowest scoring in the WB6 economies).

**Table 24.17. North Macedonia's scores for transport policy**

Dimension	Sub-dimension	Score	WB6 average
Transport policy dimension	Sub-dimension 11.1: Planning	2.3	2.3
	Sub-dimension 11.2: Governance and regulation	2.5	2.6
	Sub-dimension 11.3: Sustainability	0.8	1.3
North Macedonia's overall score		1.8	2.0

### State of play and key developments

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

North Macedonia has developed its **transport vision** since the last assessment. It adopted the National Strategy for the Transport Sector (NSTS) for the period 2018-30 in December 2018, while the new National Aviation Development Strategy for 2021-30 is under preparation. The long-term NSTS presents a continuation of the transport vision in the previous strategy, which covered 2007-17. It covers all transport modes with very clear overall and specific objectives. During its development, the NSTS passed through the consultation processes with all relevant stakeholders as set out in the legislation. Strategic actions are presented with measures and indicators, so they can be monitored by the government body responsible, as prescribed within the strategy. The implementation timeline is set out for the short term (2021), medium term (2025), and long term (2030), while the budgets to meet the objectives were assessed for each measure.

The first monitoring report (which should be updated on an annual basis as set in the strategy) on the NSTS for the period 2018-20 is currently under the approval process in the government, but not yet publicly available. The monitoring report for the 2007-17 strategy is not available either, so the degree of progress could not be assessed. Therefore, it is not known if the new strategy includes measures to cover lagging activities left over from the old strategy. The new monitoring reports have to be used to report on lessons learned, and help define countermeasures against undesirable trends, as prescribed within the strategy. It remains to be seen to what extent they will be used to inform the update of the strategy in the future. Twelve years (2018 to 2030) is a long time to go without any update to the NSTS, and the strategy does not include plans for any updates before it expires.

While the planning framework and the transport vision are set out in the NSTS, some important areas need to be upgraded. For instance, the new/upgraded transport model has not been used in the prioritisation process at all. The measures and actions proposed in the national transport strategy should be assessed and evaluated through the outputs of the transport model as part of the strategy, otherwise the model will lose its purpose. Nor does the defined prioritisation methodology framework cover financial and economic

analysis or safety factors. The NSTS has not been aligned with the tourism policy and has not been designed in alignment with other strategies, showing a lack of holistic policy making. If the development and upgrade of transport policy and infrastructure was fully integrated and jointly implemented with tourism and other relevant strategies, it would improve the attractiveness of North Macedonia and the region, making it more competitive.

Public procurement rules applicable to road transport have been fully harmonised with the Transport Community Treaty (TCT). However no other fields relevant to transport have achieved a harmonisation level above 25%, showing the need to accelerate the process of bringing the framework for all transport modes closer to the EU *acquis*.

The last Competitiveness Outlook recommended co-operating and exchanging experiences with other WB6 economies. This has taken place, especially through the Transport Community Permanent Secretariat (TCPS) (Transport Community, n.d.<sup>[171]</sup>), cross-border co-operation programmes (EC, 2020<sup>[172]</sup>), and projects related to transport facilitation at border crossing points (BCPs) with Albania, Kosovo and Serbia. This co-operation and exchange of good practice needs to be regularly enhanced and intensified, as the proper development of a transport vision and planning can only take place through regular regional discussion, leading to a single and competitive regional transport market.

The funding for investment in road transport infrastructure has fallen since the last assessment, while it increased for rail infrastructure during the same period. The same trend applies for spending on road and rail maintenance.

The methodology applied for **transport project selection** is not clearly presented in the strategy. The government has provided a multi-criteria analysis tool for project prioritisation; however, it does not cover cost-benefit analysis (CBA) or safety criteria. There are no national CBA guidelines, so international practices and guidelines are used instead. National guidelines for transport projects, including all accompanying survey, analysis and technical instructions, need to be developed and updated every few years. The single project pipeline (SPP)<sup>128</sup> was developed to cover 2014-18, but it has only been updated once since the last assessment, in 2018 (Government of North Macedonia, n.d.<sup>[173]</sup>). The SPP should be monitored regularly, but the only report shared by the government is from 2015 (Government of North Macedonia, n.d.<sup>[174]</sup>). There was a proposal by the transport ministry for an update of the SPP in 2019 but it was not adopted by the National Investment Committee. The government does not have enough human capacity to select and prioritise transport projects in an effective and co-ordinated way. *Ex post* monitoring of the methodology and prioritisation processes needs to be developed and regularly applied (on an annual basis), and the prioritisation framework regularly adjusted accordingly.

In the area of **implementation and procurement**, the procurement rules applicable to the transport sector have been completely harmonised with the TCT, as mentioned above. Alternative procurement methods are allowed, but the national bodies in the transport sector do not have the capacity to execute their responsibilities for public procurement even though roles and responsibilities are clearly defined. The implementation strategy for transport projects is not complete: the processes of implementation from procurement to *ex post* monitoring are not defined, while only an overall action plan has been developed within the NSTS. Projects funded from the national budget are procured according to the Law for Public Procurement. Projects and grants funded by international financial institutions are also subject to the national public procurement law (Government of North Macedonia, 2019<sup>[175]</sup>).

Even though it was recommended in the previous Competitiveness Outlook in 2018, there is still no regional exchange of good practice and lessons learned from the implementation and procurement of public-private partnership (PPP) projects. National bodies have not been given oversight of procurement and monitoring of PPPs. There is no clear evidence of procurement procedures having been consistently monitored, or procurement procedures or project outputs being evaluated. However, there are regular internal audits of operations and audits related to the Instrument for Pre-Accession Assistance (IPA). The Central Financing and Contracting Department<sup>129</sup> develops annual reports on the lessons learned from

project procurement and implementation, for application in upcoming projects, but it remains to be seen how far they will inform future project procurement 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. A soundly developed system is an integral component of the transport planning, identification, prioritisation, implementation and monitoring processes. The Government of North Macedonia is in the early stage of developing an asset management system for the transport sector. So far, only development of the road<sup>130</sup> and railway sectors have been started (Government of North Macedonia, 2019<sup>[176]</sup>). An asset management<sup>131</sup> system is still not mandatory for every transport mode, and has only been applied to a certain level in road transport. Public Enterprise State Roads and Public Enterprise Macedonian Railways Infrastructure are responsible for installing an asset management system for road and railways.

The Road Asset Management System (RAMS) is currently used as the road databank and road reference system. There is a portal offering a single point of entry into all RAMS components. Data collection has been conducted using ground penetration radar (for almost 4 400 km of state roads) and weight-in-motion measurements (for 20 locations). The results of the data analysis are presented in the global information system (GIS) application through visualisation. The rail sector has asset management software, but it is not being used due to lack of supporting facilities<sup>132</sup> and also because the Railway Infrastructure Management System (RIMS) needs to be updated. The newly developed bridge management system, subject of a recent tender in 2019 (Government of North Macedonia, 2019<sup>[176]</sup>), will be a component of the RAMS. It will need to be able to provide asset valuations, works programme monitoring, organisation and human resources, and budgets and use the outputs for reporting (annual report, key performance indicator, multi-annual programmes). The government needs to make greater efforts to follow and implement regional asset management plans.<sup>133</sup>

Investment in road infrastructure is considerably higher than other transport modes due to the current construction of new motorways and highways (Table 24.18). Investment in rail infrastructure needs to be multiplied to achieve a similar level as the EU rail infrastructure market. The current plan by the government is to invest 100-400% more annually in the period 2020-22 than in 2019. Maintenance of road infrastructure is slightly below the EU and OECD average, but maintenance spending saw a 30% increase from 2019 to 2020.

**Table 24.18. Trends in transport infrastructure investments and maintenance in North Macedonia (2017-19)**

	Investment costs					Maintenance costs				
	Change over 2017-19 (%)	2018 (road) 2019 (rail) (EUR mn)	Share of GDP (2019) (%)	OECD average (2018) (% GDP)	EU average (2018) (% GDP)	Change over 2017-19 (%)	2018 (road) 2019 (rail) (EUR mn)	Share of GDP (2019) (%)	OECD average (2018) (% GDP)	EU average (2018) (% GDP)
<b>Road infrastructure</b>	-19.5	157	1.24	0.46	0.38	-9.9	11.8	0.09	0.18	0.15
<b>Rail infrastructure</b>	+125	12.65	0.1	0.17	0.31	+6	14.96	0.001	0.16	0.16

Note: For road infrastructure, the comparison period is 2017-18 due to lack of data. OECD and EU average represents the average value for the countries with available data.

Source: (IMF, 2021<sup>[177]</sup>), Republic of North Macedonia, [www.imf.org/en/Countries/MKD](http://www.imf.org/en/Countries/MKD); (OECD/ITF, 2021<sup>[178]</sup>), *Transport infrastructure investment and maintenance spending*, [https://stats.oecd.org/Index.aspx?DataSetCode=ITF\\_INV-MTN\\_DATA](https://stats.oecd.org/Index.aspx?DataSetCode=ITF_INV-MTN_DATA); (World Bank, n.d.<sup>[179]</sup>), GDP (current US\$), <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2018&start=2018>.



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

Reforms have continued<sup>134</sup> in the field of **aviation regulation**. The Single European Sky (SES) I package has been fully transposed into national law, bringing North Macedonia significantly closer to the EU *acquis*, but the SES II package provisions have only partially been transposed.<sup>135</sup> Safety Culture,<sup>136</sup> a programme covering safety risk assessment and safety assurance, has not yet been adopted. The State Safety Programme is currently being drafted by the Civil Aviation Authority (CAA).

The Airport Charges Directive is an important piece of EU legislation guiding the way charges should be set and monitored. They should be based on non-discrimination and transparency principles set by the EU, and quality standards related to the service-level agreements for services provided at the airport. The government has set a deadline for transposing it into national law (October 2021), but the process has not yet started. The market is not yet monitored in line with the Air Service Regulation, which provides the EU economic framework for the granting and oversight of operating licences of community air carriers, market access, airport registration and leasing, public service obligations, traffic distribution between airports, and pricing.

Bilateral co-operation in civil aviation has advanced since 2018, as the CAA has signed memorandums of understanding (MoUs) with Greece, Poland, Russia and Singapore. Many of these MoUs have been used for the exchange of experts and carrying out oversight and other activities as part of the aviation authorities' responsibilities.

Air traffic in North Macedonia is growing: the total number of passengers carried from all airports increased by approximately 30% in the period 2017-19, and amounts to 2.67 million passengers in 2019. In comparison, the global average increased by 11.7% over the same period (IATA, 2020<sup>[180]</sup>; Statista, n.d.<sup>[181]</sup>). Given the significant growth in aviation and its projected importance for the economy, it is important that North Macedonia continues regulatory reforms and brings the governance of the aviation sector closer to European standards and international best practice.

There has been a slight stagnation in progress in **rail regulation** since the last assessment. The dominant state-owned railway enterprise, Macedonian Railways, was separated into two state-owned companies in 2007: one managing infrastructure (Macedonian Railways and Railway Undertaking) and the other managing operations (Macedonian Railway Transport). Although the network monopoly was unbundled, the railway market is open only to national companies until North Macedonia joins the EU (For more information see: Sub-dimension 2.2: Services trade restrictiveness). Only 18% of the currently applicable railway legislation to North Macedonia prescribed in the TCT has been fully transposed and implemented, 5% is partially transposed and implemented, 75% is not transposed, and the rest remains unclear (only 10% of the total was not considered to be applicable). Progress has been made in the harmonisation of train driver licensing, passenger rights and transport of dangerous goods, while partial achievements have been made in the fields of rail safety and interoperability. Other fields such as market access, interoperability, railway safety, transportable pressure equipment and working time require further efforts to transpose and implement the TCT.

Several other key reforms in the railway sector remain outstanding. For instance, no more than 25% of the regional Rail Action Plan created by the TCPS has yet been implemented. The Rail Freight Corridor Regulation and Technical Specifications for Interoperability have not yet been transposed. The Network Statement (NS) for services facilities is incorporated in the NS for railway infrastructure. The National Investigation Body (NIB), charged with investigating accidents as a key input for the improvement of rail safety performance, has not been established yet. The Passenger's Rights and Obligations Directive has been transposed but will only come into force when the Republic of North Macedonia enters the EU.

On a positive note, North Macedonia has advanced bilateral co-operation in the railway sector, by signing agreements to facilitate border crossings with Serbia and Kosovo, and initiating an agreement with Greece for two additional BCPs. The utilisation of the railway network was almost unchanged between 2017 and

2019, amounting to 2 454-2 474 trains per km of track, which is only approximately 15% of the EU average in 2017 (EC, 2019<sup>[182]</sup>). Rail network utilisation measured using passengers and goods present a slightly positive trend for passengers and a positive trend for freight (Table 24.19).<sup>137</sup>

**Table 24.19. Trends in rail transport of passengers and goods in North Macedonia (2017 and 2019)**

Rail network utilisation	Change over 2017-19 (%)	2019 (million)	Share of the EU average (2017) (%)
Passengers (passenger*km/km of track)	+4.2	0.07	3.2
Freight (tonnes*km/km of track)	+26.5%	0.38	19.6

Source: (EC, 2019<sup>[182]</sup>), *Statistical Pocketbook 2019: EU Transport in Figures*, [https://ec.europa.eu/transport/facts-fundings/statistics/pocketbook-2019\\_en](https://ec.europa.eu/transport/facts-fundings/statistics/pocketbook-2019_en); (MAKStat, 2021<sup>[183]</sup>), *Passenger and freight transport, by years*, [http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat\\_Transport\\_PatenTransport/560\\_Trans\\_MK\\_T39\\_en.px/](http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_Transport_PatenTransport/560_Trans_MK_T39_en.px/).

The current investment levels (Table 24.18) show the dominance of investment in road transport. More investment in the railway sector will be needed to improve the quality of network and in turn increase demand by passengers and shippers. If North Macedonia succeeds in keeping its high mode share for rail freight (Table 24.19), and increases the rail passenger mode share, it will indicate sustainable growing demand. Such a growing and open market would lead to more efficient operation while also achieving lower prices. Even though there has been some increase in rail transport, there is still much to be done. In order to reach EU average levels of network utilisation, there will need to be a full opening of the market, incentives for shifting freight from road to rail, the development of rail freight corridors and the development of multimodal facilities. These will enable rail transport to dominate in North Macedonia, which will directly lead to much greater cost-effectiveness of its transport infrastructure assets.

In 2019, **road market regulation** was significantly improved with the establishment of the Integrated Border Crossing (one-stop-shop<sup>138</sup>) with Serbia. This was the outcome of the Agreement on the Establishment of Joint Controls at the Preševo-Tabanovce International Border Crossing, through which Serbian and North Macedonia customs and police officers work together in the same "office". The total number of bilateral international road transport agreements has increased since the last assessment to include one more country, Lithuania.<sup>139</sup> Based on information provided by the Ministry of Transport and Communications, 16% of the legislation prescribed by the TCT is fully transposed and implemented, 30% is partially transposed and implemented, 30% is not transposed, and the rest remains unclear. North Macedonia has continued to participate in the European Conference of Ministers of Transport multilateral quota system, which enables hauliers to undertake an unlimited number of multilateral freight operations in the 43 European countries participating in the system. The national legislation complies with the road haulage qualifications standards for companies, managers and drivers under the Quality Charter for Road Haulage.

The average age of passenger cars increased by 3% in the period 2017-19 to 19.3 years, which is almost double the EU 2018 average of 10.6 years (European Automobile Manufacturers Association, 2019<sup>[184]</sup>). Bearing in mind the environmental impact of old vehicles, incentives are needed to rejuvenate the vehicle fleet, similar to the recently implemented programme in Serbia for purchasing both new and electric vehicles.

Road transport has a significantly higher mode share than rail: 96.7% compared to 3.3%, while on average across the EU, road transport accounted for 75.3% and rail 18.3% in 2018. (Eurostat, 2020<sup>[185]</sup>). North Macedonia has a high road freight share, with a 86% heavier utilisation of roads than the EU average (Table 24.20). The negative effects of this on air pollution and climate change are obvious, so incentives to shift freight from road to rail could have a positive environmental impact.

**Table 24.20. Trends in road transport of passengers and goods in North Macedonia (2017 and 2019)**

Road network utilisation	Change over 2017-19 (%)	2019 (million)	Share of the EU average (2017) (%)
Passengers (passengers*km/km of road)	-16.1	0.072	7.21
Freight (tonnes*km/km of road)	+5.8%	0.71	186

Source: (EC, 2019<sup>[182]</sup>), *Statistical Pocketbook 2019: EU Transport in Figures*, [https://ec.europa.eu/transport/facts-fundings/statistics/pocketbook-2019\\_en](https://ec.europa.eu/transport/facts-fundings/statistics/pocketbook-2019_en); (MAKStat, 2021<sup>[183]</sup>), *Passenger and freight transport, by years*, [http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat\\_Transport\\_PatenTransport/560\\_Trans\\_MK\\_T39\\_en.px/](http://makstat.stat.gov.mk/PXWeb/pxweb/en/MakStat/MakStat_Transport_PatenTransport/560_Trans_MK_T39_en.px/).

The COVID-19 outbreak is affecting the global transport market, and European transport and mobility (including the WB6 economies) are no exceptions. In the second quarter of 2020, North Macedonia introduced measures at its borders and customs controls to enable the provision of essential goods and medical equipment, contributing to a low number of infected individuals at the border crossing area. “Green lane” measures were introduced on the major corridors for the transport of emergency goods. It should take no longer than 15 minutes to pass through these “green lane” crossings, including any checks and screenings, so procedures have to be minimised and streamlined. This initiative has been endorsed and implemented by all regional economies and represents a good example on how good cooperation of the regional economies could generate benefits on the region (Transport Community/CEFTA, 2020<sup>[186]</sup>).

During the first quarter of 2020, North Macedonia had started developing technical documentation to pilot an electronic border queuing management system (e-QMS), as part of a joint project with four economies along the Corridor X (Croatia, Greece, Hungary and North Macedonia), inspired by the one installed in Baltic countries, but also endorsed by the Ministerial Council of the TCPS through the regional Transport Facilitation Action Plan (Transport Community, 2020<sup>[187]</sup>). Technical documentation is expected to be finalised during 2021 and the pilot system should start operation in 2022. This system will support the Connectivity Reforms Measure, aiming at the creation of more competitive, safe and reliable transport systems and network, to reduce waiting times at the border areas and replace physical queues with virtual ones. These measures could have a direct impact on how border crossing in the region could be treated in the future, by installing measures which minimise crossing time.

The only **inland waterways** (IWW) market in North Macedonia is for passenger transport on Ohrid Lake during the summer period. The national transport strategy does not include a budget for IWW transport. Currently, according to the government, 43% of the IWW legislation in the TCT is not currently applicable to North Macedonia, while of remaining legislation, 4% is fully transposed and implemented, 23% is partially transposed, and 54% is not transposed at all, with the remainder being unclear. The areas which are fully aligned are related to access to the profession, while the partially aligned areas are related to access to the market, the harmonisation of conditions for obtaining boatmasters' certificates, and recognition of national boatmasters' certificates for the carriage of goods and passengers. All other fields related to safety, transport of dangerous goods, environments, etc. have not yet been transposed and implemented.

Monitoring indicators to assess performance for all transport modes are either non-existent or not properly established. Some of the missing indicators include average user costs, travel time satisfaction levels, reliability, value of assets, market research and customer feedback, the quality of user information, and audit programmes. The government has not yet planned regular data surveys (for instance their purpose, and the level of data needed have still to be planned, and budgets allocated). Surveys have only been conducted for the purposes of specific projects and not for regular transport infrastructure assessment and planning. The government has confirmed that it intends to conduct the data surveys as one of its next projects, which will provide a base for future quality assessments of the transport network.

### Sub-dimension 11.3: Sustainability

North Macedonia has taken some moderate steps to improve **road safety**, but overall its progress has stagnated since the last assessment. The National Strategy for Improving Road Safety (NSIRS) 2015-20 has expired and plans for an updated strategy have still not been presented. The government appointed a co-ordination body to follow up implementation of the strategy, and to develop annual implementation reports which should be approved by the Assembly, but in practice this body has not prepared any reports. There have been no monitoring reports on the implementation of the strategy; the only annual report in this field is on the work of the Road Traffic Safety Council. The NSIRS is not aligned with the TCT and also lacks any budget to carry out the measures and actions defined in the strategy.

The Regional Road Safety Action Plan (Transport Community, 2020<sup>[188]</sup>) was endorsed by the Ministerial Council of the TCPS in October 2020; North Macedonia needs to adapt its national plans to achieve the goals set out within this plan. The goal of the European Commission's Policy Orientation on Road Safety 2011-20 (EC, 2010<sup>[189]</sup>) was to reduce road fatalities by 50% between 2010 and 2020 as part of the Decade of Action for Road Safety, officially proclaimed by the United Nations (UN) General Assembly in March 2010. This goal would have been difficult to achieve given that North Macedonia has seen decreases of approximately 1.5% per year over the period 2010-19. Therefore, it will need to make significant additional efforts to reach the new zero deaths goal in the European "Vision Zero" strategy for 2050, with an intermediate goal of a 50% reduction in road fatalities during 2020-30 (EC, 2019<sup>[190]</sup>). As it has started the new decade without a strategy, expectations should not be high. In addition, the national goal of reducing the number of road fatalities by 30% during 2015-20 (Government of North Macedonia, 2021<sup>[191]</sup>) is also not expected to be achieved for the same reasons given above. The number of road fatalities per million inhabitants in North Macedonia was 63.6 in 2019, 24.7% higher than the EU average of 51 (Table 24.21).

**Table 24.21. Road safety trends in North Macedonia (2010-19)**

Road safety trends	North Macedonia	EU
Change in the number of fatalities 2010-19 (%)	-18.5	-23
Number of fatalities per million inhabitants (2019)	63.6	51

Source: (EC, 2020<sup>[192]</sup>), 2019 road safety statistics: What is behind the figures?, [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_20\\_1004](https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1004); (Eurostat, 2021<sup>[193]</sup>), Data browser: Victims in road accidents by NUTS 2 regions, [https://ec.europa.eu/eurostat/databrowser/view/tran\\_r\\_acci/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/tran_r_acci/default/table?lang=en).

The figures in Table 24.21 indicate some moderate progress, but it is not enough to reach the goals in the strategy or to match the achievements of the EU and regional economies. Much greater efforts are needed not only to harmonise the legislation with the TCT, but also in the fields of education, awareness campaigns, enforcement, etc. (Box 24.15).

#### Box 24.15. Innovative ideas in road safety: Road safety social impact bonds in Montenegro

In 2018, the UNDP in Montenegro, in co-operation with the key national players in road safety, developed the new idea related to road safety social impact bonds. These are an innovative alternative performance-based public financial instrument, which shifts the policy framework from inputs and outputs to outcomes and value for money. The idea is to involve the private sector in investing in road safety improvements with the main aim of strengthening sustainability jointly with the public sector. The public partner commits to paying outcome payments to the investor if and only if the predefined and measurable social goals are met. This idea has great potential for other economies in the region (and beyond) to replicate and scale up the model.

Source: (UNDP, n.d.<sup>[194]</sup>), *Rethinking road safety in Montenegro*, [www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html](http://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html).

The **environmental sustainability** goals<sup>140</sup> for the transport sector are addressed through many different strategies, making them difficult to monitor. Therefore, it will be necessary to integrate a clear chapter dealing with sustainability in all transport modes into the national transport strategy or the transport sector strategies for each specific mode. There is no evidence that the government is preparing an overarching environmental sustainability strategy.

The only overview of the current situation is in the Study on the Transport Sector Analysis of Policies and Measures, developed by the United Nations Development Programme (RCESD, 2017<sup>[195]</sup>), which found that road transport was the dominant energy consumer out of road, rail and air transport, accounting for 97% of transport energy consumption, with 87% due to passenger cars. This is slightly higher than the EU road transport average of 94%. Transport contributed 13% of North Macedonia's total greenhouse gas (GHG) emissions in 2014, and 20.5% of the total emissions from the energy sector. North Macedonia levies environment-related taxes on buying and using passenger motor vehicles (e.g. importing and registering vehicles, and buying fuel). The study also assessed the impact of the new scenario of the environmental tax on vehicle registrations, imports and fuel, and found that if all the funds collected from these taxes were used directly to subsidise electric vehicles (e.g. at EUR 5 000/vehicle), they could cover subsidies for 870-4 340 vehicles per year.

**Combined transport**<sup>141</sup> of goods is the most cost efficient, reduces environmental pollution, and increases co-operation between the freight forwarding network companies. However, the legal and regulatory framework to support it still needs to be developed in North Macedonia. North Macedonia lacks a combined transport strategy and does not plan to develop one. The core activity in this area has been the preparation of the design documentation for the intermodal terminal Trubarevo near Skopje. The total tonnes of goods transported through combined transport increased by 30% in the period 2017-19, reaching 138.8 million tonnes-km. This represented 1.3% of the freight transport in North Macedonia, significantly below the EU average, where container transport was estimated in 2017 to make up 6.2% of total road freight transport (Eurostat, 2019<sup>[196]</sup>).

The World Bank's Logistics Performance Index (LPI) (World Bank, 2018<sup>[27]</sup>), is a multi-dimensional assessment and international benchmarking tool focused on trade facilitation. In the last assessment in 2018, it ranked North Macedonia 81<sup>st</sup> out of 160 ranked countries, with an LPI score of 2.7. This is slightly below the world average (2.85) and far below the EU average (3.52). The best score achieved by North Macedonia was for the international shipments indicator,<sup>142</sup> where it was ranked 67<sup>th</sup>, and the worst for was for the tracking and tracing indicator,<sup>143</sup> where it ranked 100<sup>th</sup>.

Data collection, which is currently very weak, needs to be one of the key actions for assessing the performance of all sustainability areas. A strategy for data collection needs to be established to assess the transport sector, which will directly influence the prioritisation within transport policy in general.

### ***The way forward for transport policy***

North Macedonia has taken some important steps towards developing a competitive transport sector, as presented above, but special attention should be paid to the following:

- **Develop a national centralised monitoring system** for the project development and project implementation process, covering each defined indicator and/or transport mode separately through independent monitoring departments. Such a system will help support follow up and updates in the following areas: implementation of strategies and legislation, project identification and selection, procurement processes, project implementation, and *ex post* monitoring, among others.
- **Update the national transport strategy every four years.** The existing strategy does not propose any periodic updates, which would need to be based on regular monitoring. Unfortunately, the monitoring report of the implementation of the past strategy (for 2007-17) was not used for the

latest strategy. The current monitoring report, which is in the process of being approved by the government, needs to be used to extract the lessons learned and use them to update the strategy.

- **Develop and tailor cost-benefit analysis guidelines specifically for North Macedonia.** It is very important for each economy to develop its own guidelines with accompanying national technical instructions needed for a proper CBA. The guidance needs to be updated often, as a maximum every two years. A good example is the United Kingdom's Transport Analysis Guidance,<sup>144</sup> which provides all the information on the role of transport modelling and transport project appraisal tailored to the UK market. To ensure consistency in the discount rates used for similar projects, economies need to develop their own benchmarks for all technical and economic parameters, including the financial and economic discount rate in the national guidance documents, and then apply them consistently in project appraisal at the national level. The empirical research needs to be conducted at a national level to generate input data for calculating externalities.
- **Develop a tool for project identification, selection, prioritisation and implementation.** This tool needs to be applied to all transport projects in North Macedonia. Albania and Serbia have both recently introduced well-developed systems, currently in the initial stage of implementation (Box 24.16). These could be used as a model.
- **Ensure that transport facilitation remains a key priority.** North Macedonia needs to implement more OSSs to simplify border crossing procedures and shorten crossing time, alongside other measures in the Regional Action Plan for Transport Facilitation (Transport Community, 2020<sup>[187]</sup>), which was endorsed in October 2020. These include: electronic queuing management systems, improving and upgrading of existing ICT infrastructure, constructing or modernising infrastructure to remove physical and technical barriers and increase existing capacities, and capacity building to improve performance efficiency. Implementing these measures will be a key part of integrating North Macedonia into the regional transport market, increasing the competitiveness and connectivity of the region, and driving deeper integration into the broader European transport market. It will directly improve the transit times of some key goods that depend on quick, cost-effective and timely delivery, but will also influence more investment in the transport infrastructure.
- **Implement asset management principles in the transport sector in line with the national inventory system.** Developing sound asset management practices<sup>145</sup> to enable economies to collect data (through annual data collection planning and budget allocation) and to manage and analyse conditions across all the transport modes. This information can then be used to optimise transport sector maintenance strategies and justify maintenance budgets, directing limited funds into those areas where the return on investment will be greatest. Performance-based maintenance contracts (PBMC), are already implemented, though not extensively, in some WB6 economies such as Albania, Bosnia and Herzegovina, and Serbia (Transport Community, n.d.<sup>[197]</sup>). They can be an essential component of the road asset management system and if well-developed, lead to good road conditions at relatively low cost. The quality of the transport infrastructure affects an economy's attractiveness for foreign direct investment.
- **Develop an integrated environment and transport action plan and a framework for environmental sustainability for the sector.** This plan needs to integrate the existing indicators and to include any missing ones in a framework for environmental sustainability in the transport sector. A good example was developed by the European Environmental Agency in the form of the Transport and Environment Reporting Mechanism (EEA, 2000<sup>[198]</sup>), which prescribes indicators for tracking of transport and environmental performance in the EU. Measures and indicators would then be applied in the strategies to which they belong, including the updated NSTS.



### Box 24.16. Tools for identifying, selecting, prioritising and implementing transport projects in Albania and Serbia

The only two economies in the region with a sound tool for transport project identification, selection, prioritisation and implementation are Albania and Serbia.

In 2018, **Albania** adopted the Decision on the Public Investment Management Procedures. For the purpose of budget planning on investment expenditure, projects are divided into two groups: 1) capital administrative expenditures related to equipment, furniture, computers, IT, etc.; and 2) expenditure on investment projects, including capital expenditure on infrastructure, such as new construction, reconstruction and rehabilitation with design costs, expropriation costs, purchase of larger technological equipment, implementation of works, supervision, etc.; and capital expenditure for capacity development, including research projects, technical assistance and capacity building.

Albania applies the following project management cycle: 1) project identification based on the analysis of public needs; 2) project evaluation and preparation with the evaluation of the economic and financial justification; 3) project approval and financing; 4) project implementation; 5) monitoring of the project implementation, which should ensure that the project activities are proceeding as planned; and 6) evaluation and audit, including reporting on the physical and financial implementation audit against the financial rules and the project performance indicators. Based on this project cycle, the following steps are used: 1) identification of the project idea; 2) review of the draft idea by the Project Management Team Leader; 3) review of the draft idea by the Secretary General; 4) detailed project preparation and evaluation, shortlist of alternatives; 5) submission of the investment project proposal to the ministry responsible for investment projects; 6) review of the proposal by the Council of Ministers; and 7) final approval after the approval of the investment projects within the annual budget.

As per Decision No 290 from 11 April 2020, a financial management information system has been installed in every spending unit, including all ministries, and it is integrated into various departments to be used for all steps in the project management cycle.

In **Serbia**, the procedure for project identification, analysis of relevance, pre-selection, funding, implementation and monitoring is clear and publicly available, and co-ordinated by the Ministry of Finance. This procedure was adopted in 2019 through the Rulebook on the Management of Capital Projects.

The prioritisation process, which is applied to all projects, applies, among other criteria, a CBA, environmental and social impact assessment, and a safety assessment.

Once the project is approved for financing through a very similar procedure to the one described above for Albania, there is a special procedure for the preparation of a plan for the project implementation.

During the project implementation, a specific procedure exists for the reporting. One type of report is the interim report for the presentation of the current project status, covering the activities carried out and the plan for the execution of the remaining project activities. At the end of the project a final report needs to be developed.

Projects are divided into three categories: 1) less than EUR 5 million; 2) EUR 5-25 million; and 3) over EUR 25 million. Those in the third category undergo *ex post* monitoring three years after the completion of works, which is a significant advance in the local legislation.

Source: (Government of Albania, 2018<sup>[199]</sup>), *Decision of the Council of Ministers No 185/2018: Public Investment Management Procedures*, <http://80.78.70.231/pls/kuv/f?p=201:Vendim%20i%20KM:185:29.03.2018>; (Government of Albania, 2020<sup>[200]</sup>), *Decision of the Council of Ministers No 209/2020*, <https://qbz.gov.al/eli/vendim/2020/04/11/290>; (Republic of Serbia, n.d.<sup>[201]</sup>), *Rulebook on the management of capital projects*, [www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/Uredba%20o%20upravljanju%20kapitalnim%20projektima.pdf](http://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/Uredba%20o%20upravljanju%20kapitalnim%20projektima.pdf); (Republic of Serbia, 2021<sup>[202]</sup>), *Project cycle process: Forms*, [www.mfin.gov.rs/dokumenti/saobracaj/](http://www.mfin.gov.rs/dokumenti/saobracaj/).

## Energy policy (Dimension 12)

### Introduction

North Macedonia has shown tremendous progress since the last Competitiveness Outlook assessment in the area of energy policy. This progress is reflected in North Macedonia's score of 3.7, well above the previous score of 2.0, with improvements in every sub-dimension. While North Macedonia was lagging in the last CO, together with Albania it is leading the WB6 in almost every aspect this time around (Table 24.22). However, this progress does not mean that North Macedonia does not need to continue to improve. As the scores suggest, there is further room for improvement. This message is echoed by the Energy Community Secretariat, which concludes that up to 42% of the Third Energy Package (Box 24.17) still needs to be transposed, and 41% of additional implementation is required (Energy Community Secretariat, 2020<sub>[203]</sub>).

**Table 24.22. North Macedonia's scores for energy policy**

Dimension	Sub-dimension	Score	WB6 average
Energy policy dimension	Sub-dimension 12.1: Governance and regulation	3.7	3.1
	Sub-dimension 12.2: Security of energy supply	3.6	2.9
	Sub-dimension 12.3: Energy markets	3.7	3.0
North Macedonia's overall score		3.7	3.0



### Box 24.17. The EU's Third Energy Package

In 2007, the European Commission proposed a new legislative package, the Third Energy Package, in an effort to further enhance and harmonise the EU's Energy Union and internal energy market. This package entered into force in September 2009 and consisted of several important directives and regulations.<sup>1</sup>

The Third Energy Package largely rests on four pillars: 1) transparency; 2) non-discrimination; 3) a strong, independent national regulator; and 4) sustainability. Together, these pillars represent EU best practice and aim to establish a fair and level-playing field for competitive energy markets that seek to optimise scarce resources. For example, the first two pillars drive the need for unbundling the transmission and distribution system, combined with guaranteed, non-discriminatory and open access to those networks to all users backed by transparent rules and prices. Without such unbundling requirements and third-party access, it is very possible that the system operators, which are natural monopolies, could prohibit market entry and lead to sub-economic market outcomes.

In addition to these pillars, the Third Energy Package also seeks to enhance international co-operation within the EU by establishing an international regulatory agency (the Agency for the Cooperation of Energy Regulators – ACER) and promoting regional integration. Regulation (EC) No 714/2009 contains clauses that open and allow for further regulation to be drafted to enhance harmonisation in the form of network codes.

In 2019, the EU introduced the Clean Energy Package which supplements and in part replaces the Third Energy Package. That is, while the Clean Energy Package retains the key legislative aspects of the Third Energy Package, it expands measures for sustainability and green energy growth, as well as consumer rights and protections. Despite this, the Third Energy Package remains a good starting point for all WB economies as many of its key pillars have so far not been introduced or implemented in their entirety in the region. Aligning with it is also a requirement for the WB economies as members of the Energy Community, whose *acquis* reflects most of the Third Energy Package. Moreover, with many WB6 economies aspiring to become EU members, the transposition and implementation of the Third Energy Package and subsequent Clean Energy Package are accession requirements. To conclude, the Third Energy Package provides for the implementation of international best practice on competitive markets, and is also a firm requirement for the Western Balkan economies.

1: Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC; Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003; Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005; Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

### State of play and key developments

Overall, North Macedonia consumed around 30 TWh of energy in 2018 (Table 24.23), down from nearly 32 TWh in 2017. Driving this decline in gross inland consumption<sup>146</sup> was a decline in consumption from the commercial and household sectors. Most of the energy was consumed in the form of coal and oil and petroleum products.

Meanwhile gross electricity production rose slightly by 0.1% in 2018 to just above 5.6 terawatt hours (TWh). This slight increase hides an interesting development, which is that coal-fired generation declined by nearly 16%, and was replaced by renewable generation which expanded by nearly 52% to generate nearly 2 TWh. This growth was driven by hydrogeneration, which expanded 61% to 1.8 TWh in 2018, though wind fell by 4% to just under 0.1 TWh (Figure 24.14).

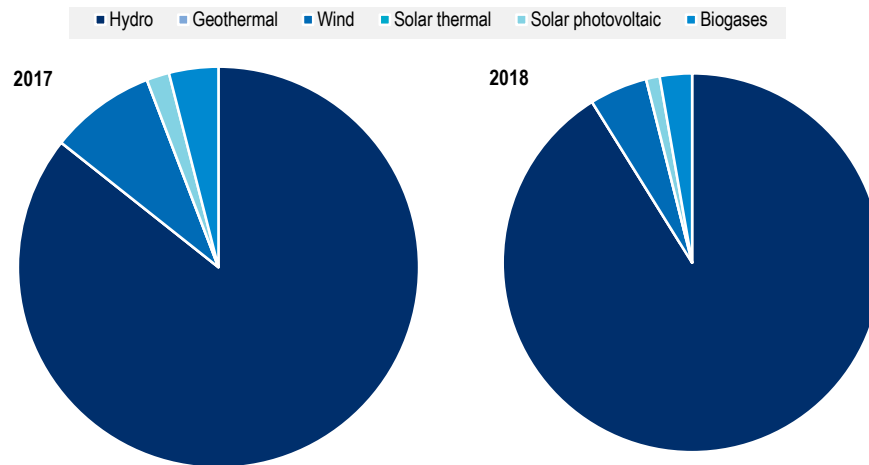
**Table 24.23. North Macedonia's energy balance (2018)**  
(GWh)

	Total	Solid fossil fuels	Natural gas	Oil and petroleum products (excluding biofuel portion)	Renewables and biofuels	Electricity	Heat
Primary production	13 180	9 305	0	0	3 875	..	0
Imports	19 292	1 368	2 430	12 813	384	2 297	0
Exports	1 741	7	0	1 352	5	377	0
Gross available energy	29 910	9 743	2 429	11 556	4 263	1 920	0
Total energy supply	29 636	9 743	2 429	11 282	4 263	1 920	0
Gross inland consumption	29 910	..	..	..	..	..	..
Primary energy consumption	29 324	..	..	..	..	..	..
Final energy consumption	21 556	..	..	..	..	..	..
Transformation input - electricity and heat generation - energy use	12 776	8 739	1 918	151	1 967	0	0
Available for final consumption	21 547	1 004	504	11 108	2 285	6 105	541
Final consumption - non-energy use	586	0	0	586	0	..	..
Final consumption - energy use	21 282	1 324	504	10 522	2 285	6 105	541
Final consumption - industry sector - energy use	4 782	1 298	425	1 436	72	1 546	6
Final consumption - transport sector - energy use	8 182	0	8	8 161	1	12	..
Final consumption - other sectors - energy use	8 317	26	71	924	2 212	4 548	535
Gross electricity production	5 607	2 848	746	47	1 966	..	..
Gross heat production	624	0	624	0	0	0	..

Note: For general gross inland consumption please see Table 24.24 below.

Source: (Eurostat, 2021<sup>[204]</sup>), *Complete energy balance*, <https://ec.europa.eu/eurostat/web/energy/data/database>.

**Figure 24.14. Gross renewable electricity generated by sources in North Macedonia (2017 and 2018)**  
(in %)



Source: (Eurostat, 2021<sup>[204]</sup>), *Complete energy balance*, <https://ec.europa.eu/eurostat/web/energy/data/database>.

StatLink  <https://doi.org/10.1787/888934256159>

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

North Macedonia has made significant progress on its **energy policy and legislative framework** since the last Competitiveness Outlook assessment. With the adoption of the new Energy Law No. 08-3424/1 in May 2018, the economy has transposed a significant part of the Third Energy Package, and hence the Energy Community *acquis*. Some work remains to fully transpose and implement the package, including secondary legislation.<sup>147</sup> According to the Energy Community Secretariat, North Macedonia has transposed 58% of the Third Energy Package into national legislation, with a further 36% having been partially transposed. Implementation is only at 59% on average, although implementation in the power sector is well above 80% (Energy Community Secretariat, 2020<sup>[203]</sup>).

Most notably, North Macedonia adopted an energy strategy in December 2019 – the Energy Development Strategy 2040 (Ministry of Economy, 2019<sup>[205]</sup>). This provides clear guidance on the direction of the energy sector up to 2040, although an action plan for its implementation is still pending. North Macedonia was also the first contracting party of the Energy Community to finalise a draft National Energy and Climate Plan (NECP) and submit it to the secretariat for official review. The secretariat concluded that the draft provides a solid basis for the development of an ambitious final NECP. The adoption of the NECP is planned for the second half of 2021, which would pave the way for tackling the transposition of the Clean Energy Package, which reflects the EU's latest energy market improvements.

Furthermore, the relevant Network Codes are being or have been transposed.<sup>148</sup> Regardless of their national transposition status, Article 84(2) of the Energy Law does stipulate that the European Network of Transmission System Operators for Electricity (ENTSO-E) Network Code applies directly to North Macedonia.

North Macedonia's Energy Law and Electricity Supply Rules provide a clear approach to market opening and deregulation and all customers are free to select their suppliers at unregulated prices. More precisely, households and small consumers can freely choose their supplier with unregulated prices or opt to be supplied by the universal supplier at regulated prices.

In line with advanced energy policy, the **energy regulator**, the Energy Regulatory Commission (ERC), conforms with best practice in many areas. The regulator is designated by the 2018 Energy Law, in line with EU's Third Energy Package, as the sole national independent regulator. The independence of the regulator is enshrined in law. Moreover, the ERC has significant autonomy over its inner working and the

work packages it chooses to undertake. It has the power to start infringement procedures according to the provisions of the law, or other procedures in front of other competent state body, as well as to start a procedure for suspending or removing licences. ERC has extensive and clearly defined roles and responsibilities that are its exclusive purview. ERC also has extensive autonomy over the use of its financial resources, and the hiring and management of staff. The Energy Community Secretariat perceives ERC to be the best performing regulator among the WB6 regulators (Energy Community Secretariat, 2019<sup>[206]</sup>). In 2020, ERC maintained its place as the best-performing national regulatory authority in the Energy Community, together with the regulatory authority of Georgia.

Despite these positive findings, three issues affect the independence and the quality of work of the energy regulator:

1. **The selection of commissioners**<sup>149</sup> pursuant to Article 18 of the Energy Law. Although an independent board of experts preselects possible commissioner candidates, they are then filtered by the government before being presented to the parliament. This could lead to the selection of commissioners being politicised.
2. **The autonomy of the regulator over salaries.** Its staff salaries are tied to public salary conditions, which are subject to the influence of other agencies such as the State Audit Office. This could make it harder for the agency to offer a competitive salary for the sector, and hence retain employees.
3. **The human (and hence financial) resources at the disposal of the regulator.** Although ERC has sufficient resources to undertake its role today with great diligence and quality, it did highlight that it will need additional resources to maintain this quality as it takes on more roles and responsibilities.

North Macedonia has a clear vision and strategy for the **management of its energy infrastructure**, particularly with regard to its investment needs. This clear strategy arises from the existence of ten-year network development plans and the long-term strategy extending to 2040. In particular, the strategy considers the need for expansion in infrastructure subject to increasing integration of ever bigger volumes of renewable energy generation. There also appears to be extensive international donor community involvement in investment projects which could be seen as ensuring that investment projects are undertaken on the basis of international best practice. Moreover, there is a comprehensive collection of annual indicators.

The planned investment projects and studies seem to be on track, including the main transformer in substation Bitola 2, which connects MEC Bitola thermal power plant to the grid, the installation of optical ground wire on the transmission network, the strategy for the reconstruction/revitalisation of the transmission network, and the study into the effects of plug-in electric vehicles on the transmission grid. Some projects are experiencing delays, however, the delayed projects are clearly identified and information on delayed projects is publicly available in the Ten-Year Network Development Plan<sup>150</sup> of the Electricity Transmission System Operator of the Republic of North Macedonia (MEPSO). Indeed, the transparency extends to providing a detailed explanation for the delays and highlighting the adjustments to the 10-year plan. MEPSO states that “the rate of progress of the projects is on a satisfying level with certain delays, firstly because of the complex administrative procedures and adjustments to the local spatial and sociological conditions” (MEPSO, 2019<sup>[207]</sup>).

However, there are a few issues to consider. The first is that North Macedonia apparently does not fully comply with some of the Energy Community *acquis* (lack of transposition and implementation of regulations on guidelines for trans-European energy infrastructure<sup>151</sup>), although the adoption of the Law on Strategic Investments in 2020, and its amendment planned for 2021, aim to solve this issue. Second, there is no proper assets management system in place for infrastructure projects, as specified by the government. This lack of an appropriate system is particularly important given the age of the existing infrastructure, and thus the need for maintenance and modernisation.

### Sub-dimension 12.2: Security of energy supply

When considering security of supply on the basis of a diversified energy mix and sources of supply, North Macedonia's **natural gas supply framework** has some way to go. Natural gas accounts for less than 10% of gross inland consumption – in line with the WB6 average but below the EU average – while coal accounts for around one-third of consumption – lower than the WB6 but well above the EU average (Table 24.24). This suggests there is still significant potential for gasification. Natural gas imports are still heavily reliant on just one source and are associated with oil index contract pricing, which implies that prices do not necessarily reflect the economic realities of the natural gas market (for a wider exposition, see the endnote<sup>152</sup>). However, efforts are underway to interconnect with Greece and thus to tap into the Trans-Adriatic Pipeline for natural gas supplied via the Shah Deniz project from Azerbaijan.

**Table 24.24. Energy consumption (2018)**

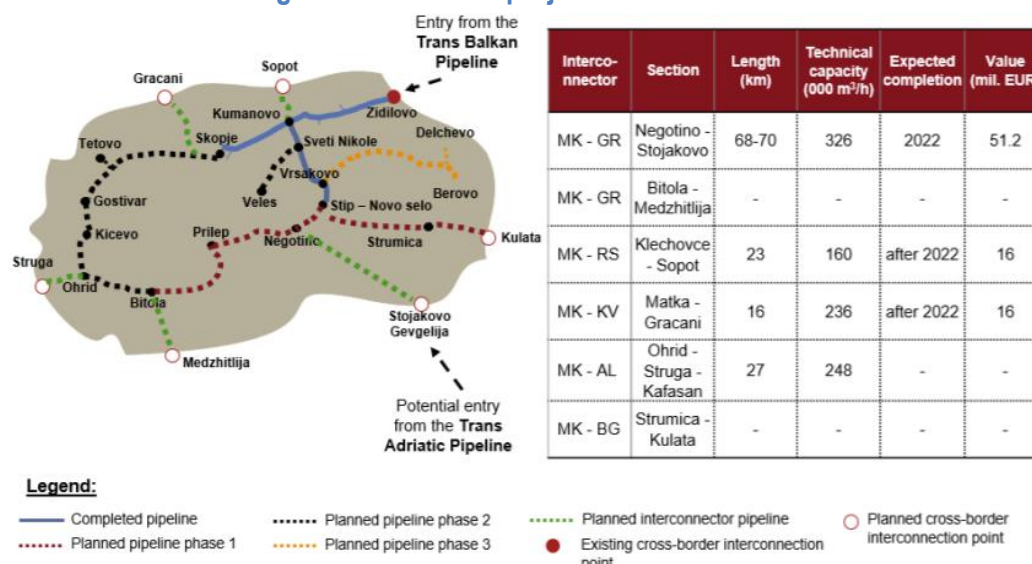
Gross inland consumption	North Macedonia		Western Balkans		European Union	
	TWh	%	TWh	%	TWh	%
Total	29.9		367.4		17207.6	
Solid fossil fuels	9.7	33%	170.2	46%	2446.7	14%
Natural gas	2.4	8%	29.9	8%	3777.3	22%
Oil and petroleum products (excluding biofuel portion)	11.6	39%	102.1	28%	5859.8	34%
Renewables and biofuels	4.3	14%	68.7	19%	2587.4	15%

Note: TWh: terawatt hour.

Source: (Eurostat, 2021<sup>[204]</sup>), *Complete energy balance*, <https://ec.europa.eu/eurostat/web/energy/data/database>.

Nonetheless, the natural gas supply framework is driven by the strategy to expand the natural gas infrastructure, gasification and ultimately the diversification of supply, as well as promoting regional interconnection. Figure 24.15 shows the planned natural gas infrastructure projects.

**Figure 24.15. Planned natural gas infrastructure projects in North Macedonia**



Source: (Ministry of Economy, 2019<sup>[205]</sup>), *Strategy for Energy Development of the Republic of North Macedonia up to 2040*, [www.economy.gov.mk/Upload/Documents/Adopted%20Energy%20Development%20Strategy\\_EN.pdf](http://www.economy.gov.mk/Upload/Documents/Adopted%20Energy%20Development%20Strategy_EN.pdf).

The **electricity supply framework** is rapidly becoming advanced. North Macedonia intends to phase coal out of its electricity generation mix, supported by the intended introduction of a carbon market. Although North Macedonia does not have a current greenhouse gas pricing mechanism, its Energy Development Strategy 2040 foresees the “introduction of carbon price and its convergence to the ETS level” (Ministry of Economy, 2019<sup>[205]</sup>). North Macedonia plans to introduce this progressively: starting with direct taxation of

CO<sub>2</sub>, then introducing requirements equivalent to the European Union Emission Trade Scheme (EU ETS), and finally joining the scheme on accession to the EU. So although North Macedonia cannot participate in the EU ETS at this stage, it does plan to undertake certain preparatory steps. These will include: mapping the installations that fall under the European Union Emission Trade Scheme and defining the scope of the scheme; arranging the allocation of allowances through designating authority and defining procedures; and designing auction platforms with built-in safeguard arrangements. It will also need to address the monitoring, reporting and verification of emissions both within the scope of deploying the tax and prior to joining the European Union Emission Trade Scheme.

However, there are some issues with regard to the electricity supply framework. Most importantly, there is some uncertainty about how far the supply framework is guided by action plans and strategies. The second key concern is that the EU regulation on risk-preparedness in the electricity sector<sup>153</sup> has not been transposed. Though it is not part of the Energy Community *acquis*, it offers benefits for planning and executing a safe and stable electricity framework. Finally, there is a need to raise public awareness of the purpose and need for greenhouse gas emission reductions and possibly pricing.

In the area of **renewable energy**, North Macedonia is in the process of deploying a system that reflects international best practice. One of the key pillars and strategic goals of the newly adopted Energy Development Strategy 2040 is to strongly increase the share of renewable energy sources to 35-45% of gross final energy consumption by 2040 from the current level in a sustainable manner. It is worth noting that this strategy was expected to be supplemented by the adoption of the National Energy and Climate (Action) Plan towards the end of 2020. According to the responses to the OECD questionnaire in 2020, this will provide a national renewable energy action plan, with targets and plans for its development. Moreover, the strategy is being supplemented by technical studies into renewable energy potential and the integration of renewable energy into the system. North Macedonia has also begun to use competitive renewable energy auctions for allocating commercial wind and solar projects, combined with a switch from feed-in tariffs (FiTs) to feed-in premiums (FiPs) (Box 24.18). Finally, it should be stressed that, in line with the latest developments in the European Union, North Macedonia promotes “prosumers”<sup>154</sup> through the guaranteed right to sell excess energy.<sup>155</sup>

#### Box 24.18. A new approach to subsidising renewable energy

Feed-in tariffs were the dominant form of financial support for renewables within the EU at the beginning of the 21<sup>st</sup> century. In this system, power plant operators receive a fixed payment for each unit of electricity generated independent of the electricity market price (Banja et al., 2017, p. 15<sup>[208]</sup>).

Feed-in tariff schemes offer several advantages, but mainly they insulate new market entrants from market price risks, which lowers their capital costs and enables private investment. The simplicity of feed-in tariffs makes them suitable for markets with a large number of non-commercial participants such as households or local community-based initiatives (CEER, 2018, p. 12<sup>[209]</sup>).

However, feed-in tariff schemes exclude producers from actively participating in the market, which hinders efforts to develop large, flexible and liquid electricity markets as the share of renewable energy grows. This limits growth to certain technologies and sizes of installations, and creates difficulties in setting and adjusting appropriate tariff levels (EC, 2013, pp. 12-13<sup>[210]</sup>). The latter has been a problem especially as costs of renewable generators have fallen rapidly in recent years.

The European Commission suggests switching from feed-in tariff to feed-in premium schemes (EC, 2013<sup>[210]</sup>). In these, plant operators sell the electricity generated directly on the electricity market and earn an additional payment on top of the electricity market price. This is received as a fixed payment or one adapted to changing market prices, thereby limiting price risks for plant operators, as well as the risks of providing windfall profits (Banja et al. 2018). Feed-in premium schemes are beneficial because they force renewable energy producers to find a seller on the market. They also ensure that renewable



energy operators are exposed to market signals. A well-designed premium scheme can limit costs and drive innovation by using a competitive process to allocate support. Such schemes also include automatic and predictable adjustments to cost calculations, which give investors the information and confidence necessary to invest (EC, 2013, p. 8<sub>[210]</sub>).

The European Commission suggests using a feed-in premium scheme in combination with the following good practice recommendations (EC, 2013<sub>[210]</sub>):

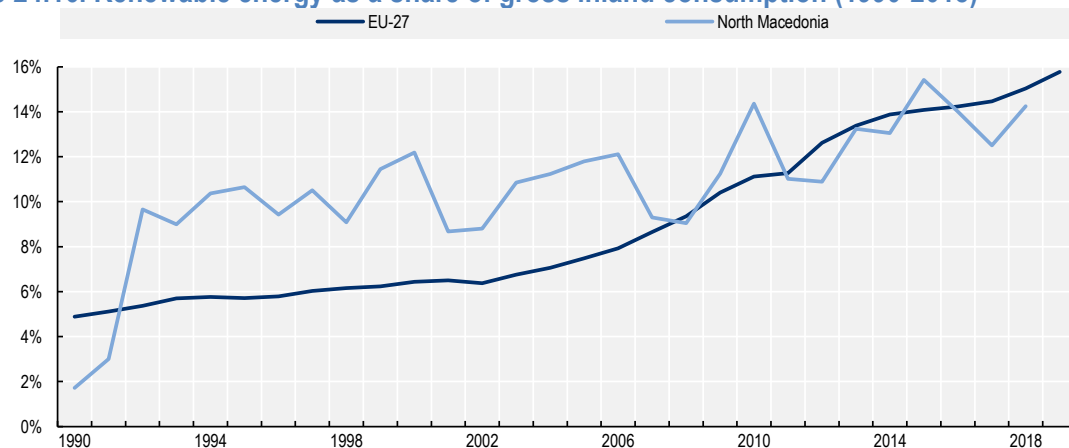
- Do not pay premiums for production in hours where the system price is negative or above the level of remuneration deemed necessary.
- Assign renewable project and associated premiums using competitive allocation mechanisms such as auctions.
- Make planned volume-based premium reductions for new installations dependent on when they are approved, connected or commissioned.
- Conduct regular, planned and inclusive reviews of premiums for new installations.

However, the Council of European Energy Regulators reports that in 2016/17, 17 of the 27 European Union member countries still used some form of feed-in tariff, although mainly for small projects, while around 16 used feed-in premiums, including to complement feed-in tariffs (EUR-LEX, 2014<sub>[211]</sub>).

For further and more detailed exploration of renewable energy subsidies and best practice please see the sources below. Meanwhile, for more information on the different renewable support schemes employed across Europe please see <http://www.res-legal.eu/home/> and for an overview of auctions and outcomes (including databases on auctions) see <http://aures2project.eu/>.

Source: (Banja et al., 2017<sub>[212]</sub>), *Renewables in the EU: An Overview of Support Schemes and Measures*; CEER (2018<sub>[209]</sub>), *Status Review of Renewable Support Schemes in Europe for 2016 and 2017: Public Report*, [www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed](http://www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed); (EC, 2013<sub>[210]</sub>), "European Commission guidance for the design of renewable support schemes", [https://ec.europa.eu/energy/sites/ener/files/com\\_2013\\_public\\_intervention\\_swd04\\_en.pdf](https://ec.europa.eu/energy/sites/ener/files/com_2013_public_intervention_swd04_en.pdf); (EUR-LEX, 2014<sub>[211]</sub>), Communication from the Commission: Guidelines on State Aid for Environmental Protection and Energy 2014-2020, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>.

**Figure 24.16. Renewable energy as a share of gross inland consumption (1990-2018)**



Source: (Eurostat, 2021<sub>[204]</sub>), *Complete energy balance*, <https://ec.europa.eu/eurostat/web/energy/data/database>.

StatLink  <https://doi.org/10.1787/888934256178>

Despite this, renewable energy still only accounts for a small share of power generation; coal dominates, with a share of nearly 70% of the fuel mix. Overall, renewable energy accounts for about 15% of gross inland consumption, just marginally above the EU average of 14%. However, while the EU's share has been growing steadily by around 3.1% per annum since 2002, North Macedonia has shown only limited

growth (Figure 24.16). Most of its renewable energy is derived from hydropower, which is subject to hydrological variations. Overall, renewable energy accounted for around 40% of North Macedonia's installed power generation capacity in 2018, with hydro accounting for 91%, at 674 MW. This is despite wind and solar offering substantial potential. Together they account for around 71% of the combined utility-scale wind, solar and hydro potential in North Macedonia. This is well above the WB6 average, where wind and solar account for around 66% of the potential (IRENA, 2019<sup>[213]</sup>).

Therefore, the most pressing issue for renewable energy in North Macedonia is promoting its attractiveness for renewable energy investment. First, although it has a FiP approach, to make it fully operational North Macedonia requires a functioning day-ahead market (DAM) to provide the appropriate baseline price. Second, while significant progress has been made in simplifying the administrative process for implementing renewable energy projects, a further reduction and simplification is possible,<sup>156</sup> which would support further investment in renewable energy by easing the administrative burden.

One consideration would be to transform its Guarantees of Origin (GOs).<sup>157</sup> While the current approach in North Macedonia to issuing GOs is compliant with the Third Energy Package, it does not conform with the Clean Energy Package.<sup>158</sup> Its restrictions on the issuing of GOs to renewable projects not receiving state aid limits the market value of renewable energy project that do and hence increases the burden on the government budget from subsidies.

The Law on Energy establishes the promotion of **energy efficiency** as one of the energy policy objectives for North Macedonia. However, the key legal act is the new Law on Energy Efficiency (adopted in February 2020), which transposes the relevant EU directives.<sup>159</sup> According to the Energy Community Secretariat, this law sets new best practice standards in the Energy Community (Energy Community Secretariat, 2019<sup>[206]</sup>). Meanwhile, the Energy Development Strategy 2040 is currently the main strategic document that outlines a vision for energy efficiency in North Macedonia.

Despite these positive steps, North Macedonia still needs to implement the secondary legislation arising from the newly adopted laws. This includes the government decree setting the energy efficiency targets, and the Fourth National Action Plan on Energy Efficiency, as well as secondary legislation on minimum energy performance requirements of buildings, the national calculation methodology, the energy performance certification of buildings, and the inspection of heating and air-conditioning systems. Finally, regarding energy labelling, the current by-law is aligned with EU Directive 2010/30/EU and so it will need to ensure compliance with EU Regulation 2017/1369 Setting a Framework for Energy Labelling and Repealing Directive 2010/30/EU.

The various state and local public entities with responsibility for energy efficiency have quite limited capacity; this urgently needs to be increased. The key authorities are the Ministry of Economy and the Energy Agency. These institutions are heavily under capacity in the number of employees and their expertise. According to the Energy Community Secretariat the significant deficiency in human resources has led to issues with the adoption and implementation of the relevant secondary legislation, despite the technical assistance available (Energy Community Secretariat, 2020<sup>[214]</sup>).

### *Sub-dimension 12.3: Energy markets*

Since the last Competitiveness Outlook, North Macedonia has made significant progress in creating an EU-style **energy market**. The positive steps include the liberalisation and price deregulation of the wholesale and retail markets, including the right to choose supplier and switching; and the integration of transparency and non-discrimination principles into the market. The universal supplier was chosen based on a competitive process, and the universal supplier is required to acquire the electricity it needs openly from the wholesale market. The balancing market is active with MEPSO procuring balancing services based on competitive principles.



However, there remain some key issues to tackle in order to complete the liberalisation of North Macedonia's energy market. The Law on Energy does stipulate a range of secondary legislation and regulatory acts. While most have been adopted, some of the acts remain outstanding. For example, the Energy Community Secretariat reported that the Rules for the Operation of Organized Markets, which are required under Article 90 Paragraph 2 of the Energy Law, have not yet been adopted<sup>160</sup> (Energy Community Secretariat, 2020<sup>[214]</sup>).

The other issue is the operational deployment of an organised electricity market. More precisely, Macedonian Electricity Market Operator (MEMO), a spin off from MEPSO, was licensed in 2019, pursuant to Article 68 and 88 of the Energy Law, to be the market operator, and, pursuant to Article 90 of the Energy Law, designated as the Organised Electricity Market Operator in 2020. However, the operational deployment of a day-ahead market is still pending subject to MEMO acquiring the associated DAM services, including a trading platform, internal clearing and settlement processes, organised electricity market rules (drafted by MEMO and approved by ERC), and relevant agreements with participants.

Similarly, there is no trading point for natural gas. Although the natural gas market is liberalised and prices are deregulated, the wholesale market lacks liquidity. This largely reflects North Macedonia's limited interconnectivity, and that its natural gas is exclusively sourced from Russia and imported via Ukraine, Moldova, Romania and Bulgaria.<sup>161</sup> Natural gas consumption is mainly driven by a few large customers, with negligible household consumption.<sup>162</sup> This largely reflects a lack of distribution network, although as discussed above, this is something North Macedonia is currently working on.

Finally, while North Macedonia does recognise licences issued by other Energy Community members, it does have a seat requirement for foreign traders and suppliers.<sup>163</sup> While not a major issue, the removal of such a seat requirement would lower the bar for new market entries from abroad and increase competition.

Meanwhile, when considering **unbundling** as per the Third Energy Package, North Macedonia is once again well advanced. The electricity transmission system operator (TSO) and distribution system operator (DSO) have been unbundled and compliance officers are active. However, the situation is less advanced in the natural gas sector, where the TSO is not unbundled.<sup>164</sup>

**Third party** access is enshrined in the legislation and regulation of both the electricity and the natural gas sectors, although some regulations need to be updated.

North Macedonia's **regional market integration** requires significant improvement. Interconnection capacity for electricity is allocated in conformity with Energy Community rules, whether bilaterally or using SEECAO, but North Macedonia has not implemented any market coupling with any of its neighbours, largely reflecting the lack of a day-ahead market. On the natural gas side, the sole interconnection point for natural gas is not being operated in conformity with the European Union Regulation 703/2015 Establishing a Network Code on Interoperability and Data Exchange Rules.<sup>165</sup> However, the greater issue is the lack of other interconnectors, although work to increase the number is ongoing, with North Macedonia working on building an interconnector with Greece.

Overall, these issues suggest that the potential for energy imports – and thus regional integration – is not being fully used, thus failing to reap the benefit it could offer in terms of liquidity and competitive pressures. More precisely, while the electricity interconnection capacity is efficiently allocated using competitive assignment, the lack of market coupling means that flows are not optimised based on efficient, transparent, and automatic matching algorithms between supply and demand in North Macedonia and its neighbours and thus the full benefit of trade flows is not being harnessed. In the case of natural gas, it is not just the lack of market coupling, but also the fact that interconnector capacity is not efficiently and transparently used based on best practice for the single interconnector in place.<sup>166</sup>

*Cross-cutting sub-dimension: Energy incentives – direct and indirect subsidies in the energy sector<sup>167</sup>*

Direct and indirect subsidies do not appear to be significant in North Macedonia's energy sector.

### ***The way forward for energy policy***

While North Macedonia has made significant strides in energy policy, it should consider the following recommendations for improvements:

- **Finalise the transposition and implementation of the Third Energy Package.** This should help deploy international good practice and standards and provide clear and competitive policy guidance to the sector. Additionally, North Macedonia should consider starting to transpose the EU's Clean Energy Package, the latest attempt to improve the competitiveness and sustainability of the EU energy market.
- **Expand the human resources for key institutions.** Although the regulator is currently well staffed, as the market becomes increasingly competitive it will need the capacity to take on additional roles and tasks. These should also be accompanied by staffing increases in key institutions involved in governing and deploying energy efficiency, as this sector also needs to be strengthened. Significant aspects of the governance and implementation of energy efficiency measures remain outstanding, largely due to lack of staff (Energy Community Secretariat, 2020<sup>[203]</sup>). Energy efficiency has the potential to significantly reduce the impact of energy costs on the competitiveness of the economy by reducing the need for energy overall. For a more comprehensive analysis of the benefits of energy efficiency please see (IEA, 2019<sup>[215]</sup>).
- **Transform the Guarantee of Origin certification to allow more renewable energy generators to apply for it.** This should allow renewable generators to market their electricity to higher-paying customers and in turn make renewable energy investments more attractive. This could also provide financial support for the state budget by reducing subsidy costs and thus allow the state to support wider range of renewable projects. Good examples include France and Luxembourg, where auctions of GOs are performed on behalf of the state for renewable energy generated with state support. In the case of Luxembourg, the income flow is used to reduce the public cost of its renewable support scheme.
- **Deploy power exchanges for natural gas and electricity.** This should support the market coupling and integration of the natural gas and electricity sector. Both of these would allow the market prices to be used as benchmarks for renewable generation support schemes or to reduce the reliance on oil-index natural gas imports. For example, Albania, together with Kosovo, has deployed a power exchange which is expected to be operational soon.
- Moreover, North Macedonia, given the size of its market, should urgently **seek further market integration and market coupling** to ensure market liquidity and in turn robustness against market manipulation by key stakeholders. This will also improve the value-add optimisation of the energy market through increased international competition.

## Environment policy (Dimension 13)

### Introduction

North Macedonia has improved its performance in the environmental policy dimension, increasing its overall score from 1.8 in 2018 to 2.3 in the current assessment. This progress places North Macedonia in second place among the WB6 economies, with its scores for the resource productivity and environmental quality of life sub-dimensions matching the regional average, while it scores above average for the natural asset base sub-dimension, in particular thanks to important advances in its biodiversity and land-use frameworks (Table 24.25).

**Table 24.25. North Macedonia's scores for environment policy**

Dimension	Sub-dimension	Score	WB6 average
Environment policy dimension	Sub-dimension 12.1: Resource productivity	2.0	2.0
	Sub-dimension 12.2: Natural asset base	2.5	2.1
	Sub-dimension 12.3: Environmental quality of life	2.3	2.3
North Macedonia's overall score		2.3	2.1

### State of play and key developments

#### *Sub-dimension 13.1: Resource productivity*

North Macedonia is a Non-Annex-I signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement and is party to the Kyoto Protocol. As such it has been undertaking regular activities to reduce greenhouse gas emissions and limit global warming. It has set emission reduction targets (82% of 1990 emission levels by 2030) and has also determined emission objectives for the energy, industry, agriculture, forestry and waste sectors. It has a publicly available GHG inventory. Nevertheless, around 60% of total carbon dioxide (CO<sub>2</sub>) emissions in North Macedonia in 2016 were as a result of electricity generation and heat production, while 21.5% came from transport (MEPP, 2020<sup>[216]</sup>).

North Macedonia has made some improvements since the last assessment to its **climate change mitigation and adaptation** legislative and policy frameworks. The new Law on Energy, adopted in May 2018; its by-laws on renewable energy sources; and a Law on Energy Efficiency, adopted in February 2020, all contain climate change mitigation measures – see Energy policy (Dimension 12) for more information. These measures mainly relate to the energy sector (the introduction of energy efficiency obligation schemes, an increase in solar rooftop power plants and biomass power plants installations, etc.) given its major contribution to the economy's CO<sub>2</sub> emissions. As a result of a slow transition to renewables, however, in 2017 the government had to revise down its renewable energy target, from 28% of gross final energy consumption in 2020 to 23.9% (UNECE, 2019<sup>[217]</sup>). Progress has been made in aligning legislation with the EU *acquis*, in particular establishing GHG monitoring and reporting mechanisms. The new Law on Climate Action was being prepared at the time of drafting, and is intended to harmonise the economy's legal framework with the EU Emissions Trading System (ETS).

North Macedonia was preparing a long-term strategy on climate action – up to 2050 – at the time of writing. This will consider introducing a carbon tax as a measure to reduce GHG emissions. The Energy Development Strategy (adopted in December 2019) and the draft National Integrated Energy and Climate Plan until 2030 (expected to be adopted in March 2021) represent the other main strategic documents in this area. North Macedonia is the first contracting party in the Energy Community to integrate the pillars of energy and climate in its national energy strategy (EC, 2020<sup>[46]</sup>). Its energy, transport and industrial strategies also all contain specific climate change mitigation actions. As a UNFCCC signatory, North

Macedonia prepares regular biennial update reports,<sup>168</sup> which are the only monitoring mechanisms in this area.

Some progress has been made in climate change mitigation since 2017. The major climate-related risks were identified in a study prepared in 2020. The revision of the methodology for the National Spatial Plan (2020-40), which started in 2020, aims to integrate climate aspects into spatial planning preparation. Measures such as flood and drought risk management are being implemented, mostly through international projects.<sup>169</sup> However, no flood hazard and flood risk maps (which represent the basis for flood risk management) have been created (UNECE, 2019<sup>[217]</sup>).

Limited progress has been made towards achieving a **circular economy** in North Macedonia. Recycling rates remain extremely low: less than 1% of solid waste is recycled and almost 99% goes to landfill (Eurostat, 2020<sup>[218]</sup>). On a positive note, recycling of packaging waste has been constantly increasing, from 27.08% in 2014 to 47.21% in 2018, despite limited economic incentives to promote recycling and waste prevention (MAKStat, 2020<sup>[219]</sup>). A number of bodies are responsible for waste management<sup>170</sup> and thus the circular economy but, according to the government, there are issues with communication, and efficient co-ordination mechanisms are largely lacking. Lack of staff and financial resources among these bodies impede the implementation of measures. These are recognised issues which the government intends to tackle in its revision of the National Waste Management Strategy (2016-20) in 2021.

On the legislative side, the new Law on Waste, which was being prepared at the time of writing, addresses the circular economy and secondary raw materials and is fully harmonised with the EU *acquis* in this area.<sup>171</sup> The new Law on Food Waste was also being prepared by the agriculture ministry, which represents a good step forward in acknowledging this particular issue. Since the last assessment, the government has drafted the National Waste Management Plan 2020-30 and the National Waste Prevention Plan 2020-26 (which was planned to be adopted at the time of drafting), which also contain measures related to the circular economy.

North Macedonia currently generates 456 kg of municipal waste per capita. While this is less than the EU average (492 kg per capita in 2018), the amount has been increasing constantly since 2014 (Eurostat, 2020<sup>[220]</sup>). According to the government, the overall **municipal solid waste management legislative framework** has gaps and contradictions compared to EU directives, although the majority of directive obligations have been transposed to some extent. The laws and regulations do not provide the required clear and concise regulatory framework, which results in poor and ineffective implementation. There have been no reports on the implementation of the previous National Waste Management Strategy, nor on the progress made towards its targets. The process of establishing an integrated regional system for waste management continues to face delays due to insufficient administrative and financial resources, and it suffers from lack of ownership (EC, 2020<sup>[46]</sup>).

Waste collection and treatment infrastructure remains heavily dependent on donor funds, which impedes regular maintenance. Waste collection and treatment services are funded from the waste collection fees. Only some municipalities sort waste, and then not in an effective manner. According to the government, measures to combat unregulated burning and illegal dumping of waste are the responsibility of local inspectorates. The law includes sanctions for unregulated burning and illegal dumping of waste and there is a mechanism for the citizens to report such actions. According to local stakeholders, enforcement can be rather sporadic and is limited due to few citizens knowing about the reporting mechanism.

### *Sub-dimension 13.2: Natural asset base*

North Macedonia has 3 040m<sup>3</sup> of available water per head per year, which makes it relatively rich in water.<sup>172</sup> Water demand from agriculture and industry tends to fluctuate over the years, while household demand has shown a constant increase (UNECE, 2019<sup>[217]</sup>; World Bank, 2020<sup>[221]</sup>). One significant pressure on the water supply relates to losses in the system, which range from 40% to 65% of the system input (UNECE, 2019<sup>[217]</sup>). Another key concern in this area is water pollution, as a result of an insufficiently

treated industrial and municipal wastewater – see Sub-dimension 13.3: Environmental quality of life for more information.

As in the previous assessment, the basic legal act in the field of **freshwater management** is the Law on Waters (2016). The main change that has taken place since 2017 relates to the adoption of the Law on Setting the Prices for Water Services, which takes into consideration not only the cost of water usage but also pollutants released into water, thus indirectly contributing to improving the quality standards and reducing water pollution. There is a system for prior regulation and/or specific authorisation for water extraction from ground water and/or from surface waters. A river basin management system has been developed and co-operation with neighbouring countries in this area has been established, although this co-operation needs to be renewed. There have not been any changes to strategies since the last assessment, except for the management plans of the Ohrid Basin watershed, Strumica river basin and the Vardar river basin, which have been prepared. In general, the implementation of the National Water Strategy (2012-42) remains quite limited: no implementation reports were ever prepared, although some reports (on the state of environment or parts of the sustainable development-related strategies) contain an overview of the situation relating to water. Data and projections on water demand from agriculture, industry (including energy) and households are not available and so cannot be used to guide decisions about handling competing uses now or in the future.

A number of bodies are responsible for water management in North Macedonia, but they lack financial and human resources to fulfil their roles and there have only been sporadic capacity-building activities to tackle this. The main vertical co-ordination tool is the National Water Council, a counselling body, whose three-year mandate is expected to start at the time of writing.

North Macedonia's **biodiversity and forest management framework** has advanced since the last assessment, with major change being the adoption of the National Strategy for Nature Protection and Action Plan (2017-27) and the National Biodiversity Strategy and Action Plan (2018-23). The new Law on Nature was also being prepared at the time of drafting, which aims to fully transpose the EU Habitats and Birds directives.

In terms of measures implemented, the first complete national red list of threatened species was adopted in 2019, identifying which native species are threatened by extinction. Management plans for three protected areas have been prepared and five natural rarities have been proclaimed since the last assessment. However, no implementation reports have been produced so far (except those stemming from the reporting on the Aichi biodiversity targets<sup>173</sup>), the methodology for monitoring the state of the natural environment has not been developed and no monitoring system has been established across the economy. According to the National Biodiversity Strategy, a monitoring system for biological diversity is planned for the period 2020-23. The Aichi Biodiversity Target 11, which stipulates 17% of total land area to be protected, is unlikely to be attained. Even if the measures to extend the national protected area network contained in the spatial plan were fully implemented in 2020, protected areas would only account for 11.61% of North Macedonia's territory (UNECE, 2019<sup>[217]</sup>).

A number of government bodies regulate this field, but their human and financial resources remain inadequate to execute their main responsibilities. As a result of this deficiency, a National Biodiversity Information System, established in 2011 at the Ministry of Environment and Physical Planning, which includes a national biodiversity database, stopped operating in December 2018.

Forests make up around 40% of North Macedonia's total land area, which is the WB6 average (World Bank, 2020<sup>[221]</sup>). No national forest inventory has been carried out recently (the last one dates back to 1979) and there is no system in place for systematic monitoring of the forests. The Strategy for Sustainable Development of Forestry (2006-26) is incorporated in the new Law on Forests. This law regulates and foresees measures to prevent forest fires, as well as illegal logging, for which strict sanctions are envisaged (fines, imprisonment and confiscation of means and items). Although it is difficult to measure anthropogenic impact and pressures in the absence of forest inventories and biodiversity monitoring programmes, the

pressures on species and ecosystems from forestry operations and illegal logging do not seem to be significant in North Macedonia (UNECE, 2019<sup>[217]</sup>). In particular, no deforestation is occurring, as the total area of forest actually increased slightly from 2011 to 2019. What illegal logging there is usually takes place close to human settlements so the scope for the disturbance of forest habitats is possibly limited (UNECE, 2019<sup>[217]</sup>).

The **land-use management framework** in North Macedonia has further advanced since 2017. Major changes in the legislative framework relate to the adoption of the Law on Urban Planning at the start of 2020, and the draft Law on Spatial Planning (initially planned to be adopted until 2020, but postponed to 2021 due to the COVID-19 pandemic). The old National Spatial Plan (2004-20) was being updated and upgraded to the new National Spatial Plan (2020-40) at the time of drafting. Comprehensive annual implementation reports have been regularly prepared, based on the questionnaires submitted by local governments, public enterprises, organisations, institutions and other legal entities. An efficient inter-institutional co-ordination in this area has been noted, although all the responsible bodies lack staff and funds, impeding the implementation of plans. The key indicators related to land-use management are not collected regularly and they are neither georeferenced nor harmonised across government bodies such as property tax and forest management.

### *Sub-dimension 13.3: Environmental quality of life*

**Air quality** in North Macedonia seems to have improved over the last 10 years,<sup>174</sup> but the economy still has one of the highest concentrations of air pollution in Europe. In particular, there are high concentrations of particulate matter (PM<sub>2.5</sub>) in winter months (widely exceeding national limits as well as those set by the WHO and the EU). Annual mean exposure to PM<sub>2.5</sub> is 33 micrograms per cubic metre (µg/m<sup>3</sup>), which is more than three times the WHO recommended highest levels (10 µg/m<sup>3</sup>). These are also much higher than the EU (13.1 µg/m<sup>3</sup>) and OECD averages (12.5 µg/m<sup>3</sup>) and the highest in the WB6 region (average of 25.77 µg/m<sup>3</sup>) (World Bank, 2020<sup>[221]</sup>; OECD, 2020<sup>[222]</sup>). High concentrations of carbon monoxide (CO) indicate that burning of fuelwood presents a significant threat to air quality. Elevated concentrations of nitrogen oxides (NO<sub>x</sub>) in the capital city Skopje, show that the city's traffic is another important issue for air quality (Government of North Macedonia, 2018<sup>[223]</sup>).

North Macedonia has continued its efforts to harmonise its national legislation with the EU *acquis*. In terms of strategies, the Plan for Clean Air (2019-20) and the 2019 and 2020 Programmes for Air Quality Improvements have been developed since the last assessment and have been regularly implemented. The main objectives of these programmes are to raise public awareness about the need for air quality improvement and to reduce PM emissions, primarily through the introduction of energy efficiency measures in households and public buildings. These are the most critical pollutants in North Macedonia according to the National Emission Inventory.<sup>175</sup>

The 2019 air quality programme was developed by the Ministry of Environment and Physical Planning (MoEPP) as part of the Plan for Clean Air. It had a budget of MKD 121 million (about EUR 1.95 million) to finance measures to reduce air pollution both locally and nationally. These included the replacement of existing heating systems in households, kindergartens, and primary and secondary schools; increases in energy efficiency; the procurement of air purifiers; and the expansion of kindergarten green areas. It also included the development of a web platform to monitor these measures. The programme for 2020, with a budget of MKD 100 million (around EUR 1.6 million), involved public calls for very similar activities to the 2019 programme. Although both programmes have been successful so far, further efforts are needed as insufficient co-ordination between central and local authorities and weak inter-sectoral co-operation are limiting the implementation of air quality measures (EC, 2020<sup>[46]</sup>). Few cities have prepared an air quality plan and the pace of their implementation should be increased (EC, 2020<sup>[46]</sup>).

Air quality is monitored regularly in North Macedonia with real-time data available on the national air quality web page. Air pollution emission monitoring is provided both continuously (through automatic all-day

monitoring systems set up for real-time data production) and periodically, and the type of monitoring is prescribed in the integrated environmental permits for each monitoring station. There are 17 permanent air quality monitoring stations across the territory. According to the government, active efforts are being undertaken to replace obsolete measuring instruments and assure the quality of monitoring. In the period 2018-20, North Macedonia replaced five measuring instruments and installed 24 new ones, the majority of which were still being tested at the time of drafting. The government plans to introduce a new monitoring station (Gevgelija), and replace more obsolete instruments in the next period. However, local stakeholders report a lack of regular maintenance of stations and note that they could be better positioned to measure the real impact of emissions and detect pollutants.

At the time of drafting, North Macedonia was working on establishing a national environmental information system to gather environmental data, including on air pollution, housed in one central database. The government reports that it ensures immediate action if the air pollution limit values (PM<sub>10</sub>) are exceeded by setting alarm thresholds which trigger short-term measures, such as free public transport or more frequent inspections. However, this mechanism is rather ad hoc and there is an increased demand from the public for immediate and stricter measures against air pollution (EC, 2020<sup>[46]</sup>).

Management of the **water supply and sanitation system** remains undeveloped. Water pollution is one of the key challenges in this area, as a result of an insufficiently treated industrial and municipal wastewater. This has become of even greater concern during the COVID-19 pandemic as the deterioration of environmental health through poor water management and sanitation is expected to increase the vulnerability of communities to the virus (OECD, 2020<sup>[222]</sup>). Other than the regional sewerage systems to protect Lake Ohrid, Lake Prespa and Lake Dorjan, only 12 cities have constructed separate sewerage systems. There were only 24 wastewater treatment plants (WWTPs) operating in 2019, representing 24.5% of the required capacity (UNECE, 2019<sup>[217]</sup>). Appropriate wastewater treatment is lacking even in the sewerage systems in place for Lake Ohrid and Lake Prespa, both key tourism destinations (UNECE, 2019<sup>[217]</sup>). Skopje still lacks a WWTP and all wastewater is discharged untreated into the River Vardar. The government is planning to build a WWTP in the capital city – a donor-financed project was started in 2020, but has been delayed by the COVID-19 pandemic. Additional investments in WWTPs are planned, but the timeline is not yet established. The growing challenges related to water treatment, such as the need to treat contaminants of emerging concern, are still not taken into consideration when upgrading facilities.

According to the government, funds for water management and development are provided from the state and local budgets, fees<sup>176</sup> for water use, and international and European funds. Funds for the construction and maintenance of water supply and sewerage systems are provided from the water tariffs (for water supply and drainage service) as well as fees for connections to water supply and sewerage systems. There have not been any changes in the level of water tariffs since the last assessment.

As mentioned above, the legislative framework was amended in 2017 with the adoption of the Law on Setting the Prices for Water Services. This represents the main legal act in this area and is almost fully aligned (95%) with the EU *acquis* for wastewater management. In 2017, the government conducted a National Water Study on the investment framework for implementing projects for water supply and wastewater treatment, in accordance with the requirements of the relevant EU directives. The results of the study were taken into account in the projections of IPA III projects related to water infrastructure.

Some measures have been taken to decrease water losses from the system (mostly through the changes in legislative framework) but it still represents one of the main concerns in this area, as the losses in general range from 40% to 65% of the system input (UNECE, 2019<sup>[217]</sup>).

No major changes have been recorded in the **industrial waste management** legislative and policy frameworks since the last assessment. At the time of drafting, the National Waste Management Plan 2009-15 was being replaced with the new National Waste Management Plan 2020-30 and the National Waste Management Strategy 2008-20 with the draft National Waste Management Strategy 2020-30. There is very limited information about the implementation of these past plans: according to information received through

the government's self assessment, only one contaminated "hot spot" site – the old industrial landfill around the smelter in the city of Veles – has been rehabilitated and the slag from the industrial landfill has been exported. No monitoring or evaluation has been conducted in this area.

There is an official register of chemicals that are on the market, as well as classification, packaging and labelling rules for chemicals. The Pollutant Release and Transfer Register protocol has been ratified. As regards managing and controlling industrial risks and accidents, the Seveso-III directive (Directive 2012/18/EU) has been fully transposed in the Law on Environment. No hazardous waste disposal facilities exist and toxic waste is being exported.

There is no policy or legislative basis for soil protection, but provisions for soil protection (identification and management of contaminated sites) will be set in the amendments to the Law of Environment, which was in the process of being adopted at the time of drafting.

### ***The way forward for environment policy***

Since the last assessment, North Macedonia has made progress in several policy areas, such as climate change, biodiversity and forestry. It should now concentrate attention on the following points:

- **Involve all stakeholders in making the implementation of a circular economy a reality.** North Macedonia has made some progress in developing the legislative and policy framework for a circular economy. Effective implementation will require a whole-of-government approach with collaboration by the relevant ministries to steer the transition to a circular economy. The government should also establish a platform for wider co-operation among businesses, financial institutions and other stakeholders. North Macedonia should also consider encouraging best practice exchanges between municipalities by helping local government associations or environmental NGOs to develop guidelines, training and initiatives to recognise best practice (see Box 24.19).
- **Improve the wastewater system:**
  - **Increase the number of wastewater treatment plants.** Despite some newly constructed WWTPs, most wastewater in North Macedonia ends up untreated in rivers, resulting in high pollution levels. Only 25% of necessary WWTPs have been built and the existing ones are not maintained regularly. New investment in WWTPs is needed, financed mainly from the domestic budget and water tariffs.
  - **Apply the water-user and polluter-pays principles for all water users and dischargers,** paying attention to the vulnerable social groups in North Macedonia, and ensure regular maintenance of the existing water supply and sanitation network.



### Box 24.19. Building a circular economy in Hungary

Several non-government initiatives have addressed the circular economy in Hungary. The Hungarian Cleaner Production Centre of the Corvinus University of Budapest is involved in international and European projects to promote best practice on resource efficiency and cleaner production. The National Industrial Symbiosis project co-funded by the EU LIFE+ Environment programme helped Hungarian industries develop industrial symbiosis approaches where the waste or by-products from one industry become the raw materials for another. Over the period 2009-12, the Industrial Development Co-ordination Agency collaborated with a UK-based platform to encourage industrial symbiosis in the central region of Hungary. The three-year National Industrial Symbiosis project built capacity among Hungarian businesses and set up an industry network through a series of workshops and site visits. Thanks to the project, around 1 200 tonnes of industrial waste were diverted from landfill and used in various industrial processes. The following three-year project, Transition Regions towards Industrial Symbiosis (2016-19) aimed to integrate industrial symbiosis practices into regional policy instruments by disseminating good industry practice. As part of the project, the Hungarian company Clean Way developed an application for construction and demolition firms to gather information about emerging waste in construction and demolition sites, to facilitate their re-use and recycling.

The Circular Economy Foundation, founded in 2013, gathers business partners to promote the circular economy and provides a forum to share experiences and best practice. The Ablakon Bedeott Pénz programme encourages the dissemination of good practice in companies through an award for environmental performance, including waste management and resource efficiency. This initiative is led by KöVET, an association of environment-focused consulting companies.

Source: (OECD, 2018<sup>[224]</sup>), *OECD Environmental Performance Reviews: Hungary*, <https://doi.org/10.1787/9789264298613-en>.

## Agriculture policy (Dimension 14)

### Introduction

North Macedonia has slightly worsened its performance in the agriculture policy dimension. Its score has decreased from 2.9 to 2.8 in the 2021 Competitiveness Outlook assessment. However, North Macedonia's score is slightly above the WB6 regional average (Table 24.26).

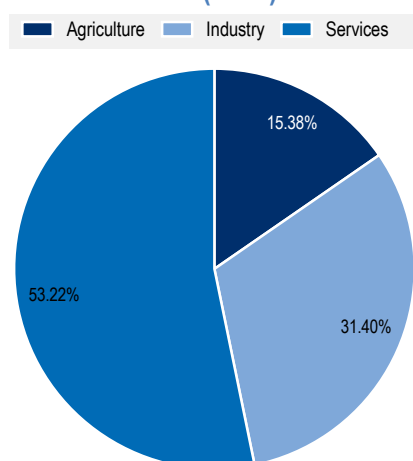
**Table 24.26. North Macedonia's scores for agriculture policy**

Dimension	Sub-dimension	Score	WB6 average
Agriculture policy dimension	Sub-dimension 14.1: Agro-food system capacity	3.1	2.8
	Sub-dimension 14.2: Agro-food system regulation	3.3	2.9
	Sub-dimension 14.3: Agricultural support system	2.2	2.7
	Sub-dimension 14.4: Agricultural innovation system	3.2	2.6
North Macedonia's overall score		2.8	2.7

### State of play and key developments

Agriculture is the third largest sector by employment in North Macedonia, employing approximately 122 000 people, or around 15% of the total workforce (Figure 24.17) (MAKStat, 2019<sup>[225]</sup>). According to data from the Ministry of Agriculture, Forestry and Water Economy, almost one-quarter of the population receives some or all of their income from agricultural activity.<sup>177</sup> North Macedonia had 519 848 hectares of cultivated land in 2019 (MAKStat, 2019<sup>[226]</sup>), containing 178 125 registered agricultural households according to statistical data from 2016.

**Figure 24.17. Employment by economic sector (2019)**



Source: (MAKStat, 2019<sup>[225]</sup>), *Active Population in the Republic of North Macedonia, Labour Market - News Release*, [www.stat.gov.mk/pdf/2020/2.1.20.06\\_mk.pdf](http://www.stat.gov.mk/pdf/2020/2.1.20.06_mk.pdf).

The nominal gross value added in agriculture has increased by 18.9% in the period 2017-2019 (MAKStat, 2019<sup>[225]</sup>). Crop production, which represents 69.8% of total agriculture production, has increased by 22.9% in the period 2017-2019. Livestock production is 20.9% of total production, and has fallen by 1.1% in the period 2017-2019. In 2019, the nominal income in agriculture grew by 8.4%, while real income in agriculture grew by 9.5%.

Although there has been no change in the net value of the agricultural sector, its contribution to GDP has fallen about 1.2% in total for the last three years. The economic fallout of the COVID-19 pandemic reduced North Macedonia's GDP by 12.7% during the second quarter. However, agriculture and fisheries increased

by 4.5% during that period, pointing to the sector's relative resilience in the face of the pandemic. According to the State Statistical Office (MAKStat, 2020<sup>[227]</sup>) average net salaries overall increased by 8.1% over the period January 2019- October 2020, while agricultural salaries increased by 8.5%.

Agriculture was severely affected by the COVID-19 pandemic in 2020 by market constraints, lack of seasonal workers, movement restrictions and difficulties in organising transport and logistics. The uncertainty caused by the crisis, fear and the focus on health have greatly changed customer behaviour and demand towards increased level of food safety and standards. The crisis has been devastating, especially for those in the category of "underpaid workers", most of whom are farmers and women from rural areas, where the share of informal workers, who have limited access to adequate health and social care, is the biggest.

By April 2020, the Government of North Macedonia had provided a package of measures to support agriculture costing around EUR 76.1 million:

- **Support for the agricultural sector** of no-interest rate loans to a value of EUR 5 million through the Development Bank. The measure is aimed at supporting micro, small and medium-sized enterprises that produce primary products as well as processors and exporters of primary and processed agricultural products.
- **Payment cards to subsidise 50% of the cost of fuel for farm machinery**, an increase from 30% in the previous year. This measure will cover 50 000 farmers, and will cost EUR 4.6 million
- **Support for grape producers**. This measure provides financial support for grape growers and wineries to produce alcoholic distillate which will be used by domestic chemical companies, including for the production of disinfectants. In the next three years, this financial support will amount to EUR 3.5 million.

Since then, further measures have been developed:

- **In October 2020, further measures were developed to support the grape market**, with state subsidies of MKD 2/kg for purchased grapes. Additional incentives include supporting grape products and wine distillates with under 18% sugar subsidised with MKD 4/kg. Another new measure that is more directly related to the current situation is support for the transport costs of wine – 30% of the transport costs for bottled wine and 20% for bulk wine. The export of grapes is also supported with subsidy of MKD 2/kg for exports of up to 12 tonnes of grapes, MKD 3/kg for exports of 12-24 tonnes and MKD 4/kg for exports over 24 tonnes.
- **Public-private partnerships in the grape and tobacco sector** to support modernisation and make greater use of tobacco and grape product production capacities, two export-oriented agricultural sectors. This strategic commitment is expected to bring export benefits, primarily for grape and tobacco producers in North Macedonia, but also to the economy and gross domestic product. In the short term, investments are expected to reach EUR 10 million.
- **Long-term lease of pastures**, giving farmers access to about 500 000 ha of pastures for livestock grazing.
- **Support for cabbage producers**: growers were given a subsidy of MKD 3/kg for produce sold in the period from 5 April to 5 May 2020. The measure was aimed at stabilising the market for domestically produced cabbage and regulating the reduced demand and purchase price as a consequence of the state of emergency.
- **Postponing of various payments**: MAFWE postponed the deadline for rent payments of state-owned agricultural land paid by farmers and businessmen in the agro-sector to mitigate the effects of the crisis and maintain the profitability of agricultural production.
- **Support for lamb production**: through MAFWE, the government introduced support of MKD 2 500 per sheep to reduce the losses of sheep breeders due to reduced exports of lamb.

The crisis has made clear how important it was to have a stable food system that works in all circumstances and that can provide consumers with a sufficient and continuous supply of quality food at affordable prices. The pandemic also highlighted the role of farmers in the food supply chain. Small farmers are the most vulnerable, as they have to deal with both the economic and the health shock caused by the COVID-19 crisis at the same time. The global crisis has in fact deepened the problems farmers were facing anyway, especially those on the edge of sustainability.

#### *Sub-dimension 14.1: Agro-food system capacity*

**The rural infrastructure policy framework** in North Macedonia is well developed and comprehensive. The current National Programme for Rural Development is compliant with the Instrument for Pre-Accession Assistance in Rural Development (IPARD) Programme 2014-20, clearly defining the policies and measures for further agricultural support. The implementation of policies on rural infrastructure has improved since 2018 and the number of budgeted activities continues to increase every year (60% annual utilisation of the budget on average between 2018 and 2020). However, deadlines still need to be extended and policies are still implemented late, illustrating an overall lack of administrative capacity in the government institutions responsible for implementation procedures. These include local governments and the Agency for Financial Support in Agriculture and Rural Development (AFSARD). AFSARD is still awaiting accreditation to implement the IPARD 2014-20 measure on investment in rural public infrastructure, limiting access to EU funds.

The current Agriculture Market Information System (AMIS) only provides limited data (weekly, monthly and annual reports) for interested users such as producers and suppliers. The system doesn't provide enough analyses or projections to guide producers. The government's attempt to digitalise agricultural markets through an Internet sales platform has not provided the expected results. Not only does the platform lack unified criteria on what information producers are required to provide to consumers about their products, but producers were not consulted during the establishment process, and nor have they been informed on how to successfully use the platform, minimising its effectiveness. According to the new National Strategy for Agriculture Production and Rural Development 2021-27, AMIS will be strengthened to provide more reliable data for more agriculture products on a regular basis. Meanwhile, according to MAFWE, there is an ongoing process to improve the sales platform through education of producers and traders.

The monitoring system used to check and review public procurement procedures before reimbursing investments is limited. While MAFWE has no monitoring unit to follow up on policy implementations, the ministry has made some progress in improving monitoring and evaluation since 2018. MAFWE has recently started a project with the EU on establishing a monitoring unit that will work on evidence-based policy measures. However, there is no system to publish regular evaluation and impact assessments and there are no concrete plans or a timeline to establish one. Impact assessments of regulations affecting agriculture occur irregularly and only in situations where there are pressing requests for one to be done. According to MAFWE, the current limitations in monitoring are due to limited human capacities, which is not being addressed.

The expansion and modernisation of **irrigation infrastructure** is considered a government priority, but lack of funds hinder implementation. The multi-annual Programme for Investments in Water Management Infrastructure for the period 2015-25 outlines North Macedonia's irrigation infrastructure plans and provides information on the objectives, priorities, project activities/investments, and the types and sizes of beneficiaries. As such, the programme offers a relevant and realistic basis for implementation, containing projections for the investment size and sources of funding. Most of the investments are co-funded by the state budget and long-term credits provided by international development banks or investment funds.

Management of the investments is under the public enterprise joint-stock company Water Economy of the Republic of North Macedonia. This public company is fully responsible for managing the primary irrigation network, as well as 95% of the secondary irrigation network. Only 5% of the secondary irrigation network

is operated by agriculture (water economy) co-operatives. Maintenance of irrigation systems is a critical part of water management, but not enough funding is dedicated to maintenance, leading to frequent system failures during the production season which significantly influences the quality and yield of agricultural produce. AFSARD manages the support for irrigation at a tertiary level, where the funding is provided both by the state budget and IPARD as part of the initiative to modernise agricultural households.

The **agricultural education system** remains unbalanced with a long-term strategy that does not reflect the needs of producers or the sector overall. The National Strategy for Agriculture and Rural Development 2014-20 envisages continuing training and informal education on agriculture aimed at improving the qualifications of agricultural producers, especially in the fields of farm management, introduction to new technologies, and the application of market standards for food safety and quality. However, its implementation is still pending due the lack of rules being set for the establishment and implementation of this measure.

The secondary school (14-18 year-olds) agriculture system is efficient and well-represented throughout the economy and its education curriculum is continuously improved and diversified. The vocational training system is well formalised in legislation, although in practice implementation does not always follow the regulatory framework.

Authority over agricultural education is split between MAFWE and the Ministry of Education and Science, but there is no co-ordination on training or lifelong learning. Collaboration with the private sector is usually based on personal links, which should be replaced by official programmes or measures.

For many agricultural sub-sectors, the education and training requirements to perform production activities remain unregulated, and general interest in education has declined. This has led to the Rural Development Programme's measures on education and training being ineffective. The number of students enrolling in the first year of university agricultural programmes has fallen by 35% in the last three years, with students instead choosing more market-oriented university programmes.

Monitoring and evaluation of the education process and performance are patchy and the results are not integrated to give an overall picture. The results of stakeholder consultations are rarely considered in developing measures in this area (especially when it comes to young farmers). Although mandated by the NARDS, no system for flexible movement of human capital between educational, research, advisory and occupational positions has been implemented. There is a pressing need to reorganise the current system using the resources available, and create sustainable links between the educational institutions and the labour market.

#### *Sub-dimension 14.2: Agro-food system regulation*

North Macedonia's **regulations on natural resources** are harmonised with those of the EU and nearly all directives regarding the use of natural resources have been approved by the national parliament. However, realising the full potential of EU-driven regulations will take an implementation mechanism as well as additional resources. North Macedonia lacks a framework for natural resource management, which will be needed to lay the groundwork for any future plans to sustainably exploit its natural wealth.

Overall responsibility for legislation on natural resources lies with the Ministry of Environment and Physical Planning, while MAFWE has authority over the management of agricultural land, irrigation water, forestry and hunting. MAFWE uses a cross-conditionality system for the distribution of subsidies for the use of natural resources.

A number of institutions are involved in regulating natural resources but there are no permanent networking mechanisms. In 2015, the NARDS 2014-20 programme mandated an adequate legal regulatory system for the inter-institutional monitoring of the implementation of the cross-compliance system. However, this system remains in embryonic form and immediate efforts are needed to put it in place.

The existing **regulations on products** are fully harmonised with the EU, and the EU registries for seeds and propagation material are completely replicated within the national registries. The organisation and structure of this policy regulation is functional and fully operational, with a clear division of responsibilities and almost all protocols in practice are accredited according to EU standards. The existing regulations cover the registration, production, preparation for trade, certification, labelling, trade, import and export of seeds and propagation material for agricultural plants.

Monitoring and quality control of this policy area takes place regularly based on the Annual Programme for Monitoring. Consultations with stakeholders are also regularly undertaken within the Sectorial Working Group that acts as a consultative mechanism for defining policies, plans and programmes to support the process of communication among various stakeholders. Product regulations are monitored on a quarterly basis and revised regularly through updates to the Law on Seed and Propagation Material for Agricultural Plants and its by-laws, taking into account stakeholders' demands and the process of harmonisation with EU legislation.

#### *Sub-dimension 14.3: Agricultural support system*

The planning period, support measures and the criteria for the **agricultural policy framework** in North Macedonia are in line with the procedures and support system envisaged in the EU Common Agriculture Policy. The agriculture support framework is rather broad in its coverage, targeting more than 90 000 agricultural households, and its scope covers the agriculture sub-sectors equally. While its main objectives focus on increased productivity and improved competitiveness, they are only moderately reflected in the support measures. All agricultural activity in the economy above a minimum size of 0.2 ha is subsidised, with almost no additional requirements for the producers. The scale of support is rather high in comparison to the value of the agriculture sector as measured by the value of total sales of agricultural products (Table 24.27). Over the period 2016-18, total support to agriculture averaged around 50% of total agriculture sales, which illustrates how heavily subsidised it is by the state.

**Table 24.27. National budget support for agriculture (2016-18) in million EUR**

	2016 mln (EUR)	2017 mln (EUR)	2018 mln (EUR)
Value of total purchases of agricultural products	243 217	254 022	284 917
Value of total budget support to agriculture	140 318	140 975	140 416

Source: (MAKStat, 2019<sup>[225]</sup>), *Active Population in the Republic of North Macedonia, Labour Market - News Release*, [www.stat.gov.mk/pdf/2020/2.1.20.06\\_mk.pdf](http://www.stat.gov.mk/pdf/2020/2.1.20.06_mk.pdf).

Agricultural support comprises three programmes (direct subsidies, the Rural Development Programme and IPARD) in order of increasing competitiveness. Direct subsidies are available to most farmers who complete a simple form to request financial support; the main requirement is cadastral evidence of land holding, cross checked with data on land use from the Land Parcel Identification System and the registration number of the farm. In contrast, the Rural Development Programme is perceived to be more complicated to access as producers are required to provide project and/or business plans for their proposals. IPARD is unattainable for the majority of farmers due to its strict criteria and the long application and implementation processes. However, the use of IPARD and rural development programme funds has been steadily increasing, with an increase of approximately 40% between 2018 and 2019.

As formalised in law, the planning of support measures involves long consultation processes and discussions through participatory mechanisms that involve all type of stakeholders, contributing to the definition of the measures.

The Rural Development Programme is quite wide and covers more than 50 measures, but annually only 17 or 18 are set. In practice, investments in rural infrastructure, including Water Economy investments, take more than 50% of the budget.

Monitoring and evaluation mechanisms are improving. For example, AFSARD has been preparing and sharing reports with the public on monitoring of this area since 2017. However, there is no fully enhanced co-ordination between AFSARD's and other institutions registries on a level of with the agency and unification of databases to provide a clear picture of sector support and indicators.

North Macedonia's **domestic producer support instruments** are well planned in legislation, with easy application procedures for subsidies and strong harmonisation with EU legislation, although the monitoring mechanisms to evaluate cross-compliance have not been implemented.

Direct payments are distributed by area under cultivation, head of breeding animal and agricultural produce sold. They are the main income support instruments for agricultural producers. Farmers, traders of agricultural products and food processors also receive credit support through the state-funded Macedonian Bank for Promotion of Development, facilitating their access to finance through a number of credit products with favourable interest rates. The only agricultural price support instrument used is tariff protection.

The direct payments largely determine the profitability of agriculture in most sub-sectors and represent an element of the decision-making process to increase agriculture as a professional occupation. The policy objective defined in the NARDS is to increase the share of investment-support instruments rather than direct payments, by increasing funding for rural development policies and modulating previous direct payment measures towards supporting rural development.

As mentioned above, only farms listed in the Farm Register can apply for direct payments. All land parcels in use have been graphically digitalised and are held within the Land Parcel Identification System. Direct payment beneficiaries are obliged by the Law on Agriculture and Rural Development and respective by-laws to adhere with cross-compliance measures, including good agricultural practice, animal welfare and sustainable land management. As part of the subsidy claim process they sign statements confirming their adherence to the cross-compliance requirements. In practice, while there is strict control of adherence to these principles for animal husbandry, for crops the monitoring of whether applicants meet these requirements is limited to the on-the-spot controls conducted by AFSARD on 1% of applicants.

Input subsidies are provided for fuel, *in vitro* insemination of cattle, and the production and use of certified seeds material and seedlings. Since 2020, MAFWE has also supported a system for climate control through airborne cloud seeding to achieve better protection of crops from hail. The budget for the measure is EUR 1 million per year and the operator is chosen through public procurement procedures.

Institutional co-ordination has not reached its full potential and the standards and criteria for the various support programmes are not fully harmonised. Some measures are not simplified enough or are still listed within a programme, even though they have been inactive for long periods. Monitoring and evaluation mechanisms are not as strong as they could be as MAFWE, AFSARD and the National Extension Agency (NEA) hold different registries and databases which are not yet integrated. In some cases, a lack of determination and capacity lies behind the failure to implement new policies (such as agriculture knowledge and innovation system and others).

When it comes to **agricultural trade policy**, North Macedonia has a few free trade agreements, which are predominantly multilateral (World Trade Organization, CEFTA, EFTA and the EU).<sup>178</sup> Some of the economy's agricultural products are characterised as sensitive or highly sensitive; tariff rates only apply to the latter. Tariff quotas on imports are only applied for wheat and there have been no export subsidies on any agricultural products since 2003. North Macedonia does not apply any export credit support or export prohibitions for agricultural production. Monitoring is improving while there is regular evaluation on performance on a multi-annual basis as part of the national agriculture strategy evaluation. Impact

assessments for import tariffs are carried out depending on the feedback received from businesses and on the market conditions analysis.

North Macedonia's **agricultural tax regime framework** does not include any specific tax legislation for farms or agricultural businesses. However, a taxpayer in the agriculture sector whose total annual income does not exceed EUR 21 140 (MKD 1.3 million) will be taxed on their lump-sum fixed income, which is still quite favourable for most small-scale farmers. The Law on Property Taxes also provides tax relief for agricultural land used for agricultural production, in an effort to stimulate agricultural production. The law also provides tax exemptions for activities that promote agricultural production such as facilities for protecting natural resources, investment in vocational training, employing disabled people and facilities for the primary processing of agriculture products.

The **sanitary and phytosanitary system (SPS) and measures** have a well-structured legal framework which enables a fully functional and operational system, and provides for a clear division of institutional responsibilities. SPS legislation in North Macedonia has been harmonised with EU legislation since 2005 and its compliance with international standards continues to improve. The Food Safety Law defines an integrated approach of policy implementation, official control and inter-institutional co-ordination in this area. A clear financing structure has been established, and the work of the phytosanitary sector is financed from the state budget and through paid services for private entities. National SPS legislation has been harmonised with the International Standards for Phytosanitary Measures which clearly defines the division of responsibilities between institutions and ensures the proper implementation of the phytosanitary policy of the International Plant Protection Convention and EU legislation.

The import of plants is regulated by the Plant Health Law, which aims to prevent the introduction and spread of harmful organisms as well as their eradication. Additional physical infrastructure needs to be established to provide facilities for phytosanitary controls at border crossings in accordance with EU practices. Standard operating procedures for border phytosanitary inspections and training for inspectors have been drafted and put forward for final endorsement by the government. These measures are regularly updated and consistently harmonised with EU directives.

Since 2013, the Phytosanitary Directorate has prepared an annual monitoring programme which includes visual inspection and sampling for testing all strategic agricultural crops (seed potatoes, grapes and other fruit, vegetables, and tobacco). The main objective of this programme is the interception and early detection and of quarantine of pests in places of production, storage, and import. The programme is implemented by phytosanitary inspectors and the State Phytosanitary Laboratory (SPL), who perform laboratory analyses. The pest risk assessment procedure includes relevant national expertise in the preparation of phytosanitary measures and preventative actions to be taken against certain pests.

The pest risk assessments are based on the available scientific evidence and monitoring plans and are undertaken in an independent, objective and transparent manner. Risk management takes into account the results of risk assessments, in particular the opinions of the European Food Safety Authority, and the opinions of the national food safety institutions. SPS risk assessments in the phytosanitary sector are in the early phases of implementation. However, there is currently no procedure or requirement in the national legislation for risk reassessment when updating regulations in this area. In 2018, the Phytosanitary Directorate prepared a first report on the phytosanitary situation in the economy which determined the presence/absence and prevalence of harmful organisms.

The Phytosanitary Information System (PIS) is in the early phases of development. MAFWE has provided funds to upgrade the data system on import, export, re-export and transit activities by including additional data to enable further risk analysis and the preparation of reports. The upgraded PIS for plant health and plant protection products will help to improve communication, co-ordination, transparency and the efficient functioning of all stakeholders involved in the phytosanitary sector. This upgrade was scheduled to take place in the second half of 2020.



Regional co-operation in the phytosanitary sector has improved since the last assessment. North Macedonia and the Republic of Serbia signed the Agreement for Phytosanitary Co-operation in September 2019. The two countries agreed to mutually recognise the results of laboratory analyses of samples taken from imports done by accredited or authorised laboratories. In 2020, North Macedonia concluded the same agreement with Albania.

#### *Sub-dimension 14.4: Agricultural innovation system*

**Agricultural research and development** has been seriously neglected over the last two decades, in terms of permanent funding for maintenance of existing research infrastructure and facilities, as well as the development of new methodologies. The MES is responsible for the development of science and innovation and organises the national system of science, research and innovation. The NARDS 2014-20 prioritised support for scientific projects in applied agricultural research, specifying a sustainable system of selection, implementation and monitoring and evaluation of the effects of subsidised research projects. Nevertheless, progress on implementing this policy area has been weak thus far. As North Macedonia lacks a well-organised agricultural research and development framework, producers are not involved in priority setting, implementation or the funding of research and advisory services.

Some research and development activities are independently implemented by institutes and universities, with funding assistance from donors. Farmers are, to certain extent, involved in limited transfer of knowledge activities carried out by the public National Extension Agency. The Law on Agriculture and Rural Development set out a process for the selection for research projects and general transfer of knowledge, but it has not been implemented. While the working groups are consulted on many other agriculture policy issues, they have little impact on research projects despite having the right to do so by law.

Currently, the only financial support to research in the field of agriculture, forestry and water management is through the Fund for Innovation and Technological Development for pilot projects of up to 6 months, short-term studies lasting 12 months, and long-term research for up to 36 months. Financial support is defined in the technical measure for implementation of the programme but this measure has not yet been launched – see Science, technology and innovation (Dimension 9) for more details.

The current **agricultural extension services framework** offers farmers only limited services. The legislation on transfer of knowledge in this area is very well planned on paper, but lacks implementation due to budget constraints and limited human resources. The aims of NEA, the body responsible for extension services, are: the transfer of know-how and information between producers, ensuring the implementation of these services in agricultural holdings in order to improve the quality and quantity of economically viable and competitive agricultural production, sustaining the development of agriculture in rural areas, and supporting the development and implementation of agricultural policies.

Even though the general assessment by MAFWE is that the services provided by the NEA are inconsistent and limited in scope and quality, they are the only services currently offered to farmers by the state free of charge.

The financing and subsidy procedures in this area also need improvement. There is a draft law on the Farm Advisory System that has been prepared since 2018, and that underwent wide consultation processes at several levels during 2019 (dissemination and public hearing, intergovernmental services, comments from the World Bank and EU, etc.), but has not yet been adopted by the government.

Private advisors are excluded from delivering publicly supported advisory services. The state does not subsidise programme support that specifically targets certain groups of farmers or specific areas according to the policy goals.

### ***The way forward for agriculture policy***

The Government of North Macedonia has made continued progress with reforms and improvements within the agriculture sector, but there are still important challenges to be considered and further efforts to be made:

- **Establish a monitoring and evaluation system.** Taking into account the sizeable investments in rural infrastructure, the agriculture support programme budget and the number of users involved, increasing monitoring and evaluation capacity, and improving the relevance of planned policy measures, are warranted. Creating a special unit within the MAFWE Department for Analysis of Agriculture Policies to handle monitoring and evaluation, while increasing inter-sectorial co-ordination by integrating the relevant databases and registries of different institutions, will allow all relevant information to be collected. In turn this will help plan realistic policy measures that reflect the needs of producers.
- **Review the agriculture support programmes.** Some of the existing policy measures suffer from low budgets and differing criteria between national and EU support programmes, and have had a limited impact on the main programme goals of improved competitiveness and productivity. Reviewing the content of support programmes would enable them to better reflect the needs of farmers and integrate measures that benefit producers and agriculture output. Support to agriculture should be continuously compared against number of social and economic indicators. Support should also be conditional and context compliant.
- **Strengthen institutional co-ordination and harmonise the standards and criteria for support measures.** Programme measures should be simplified or removed if inactive for long periods of time.
- **Improve farmers' access to information and channels of communication,** especially market information. The current Agriculture Market Information System should be upgraded into a functional and dynamic platform for the collection and dissemination of information. The legislation in place is broad enough to enable options such as outsourcing, public-private partnerships, or contracted public services implemented by private entities as part of this process.
- **Develop the education and training system, and increase the co-ordination between education entities in agriculture.** The continuous decline in interest in agriculture education and the pressing labour market demand create a large skills gap that risks damaging the performance of the agriculture sector. The NARDS programme already has a solid framework to cover this issue so North Macedonia should implement the planned activities and provide systems for flexible mobility and the transfer of human capital. In addition, greater clarification of the responsibilities between MAFWE and the MES, as well as better co-ordination, will be crucial to improving institutional performance and integrating all stakeholders in the system.
- **Enhance the policy framework supporting research and development.** Increasing investment in research and development and practical application projects is essential, as R&D is slowly declining and no value is being added to the agriculture sector. The current draft of the Law for a New Advisory System should be finalised and approved soon, and an integrated system between the NEA and private agriculture should be established.

## Tourism policy (Dimension 15)

### Introduction

Table 24.28 shows North Macedonia's scores for the five tourism sub-dimensions and compares them to the WB6 average. Since the 2018 assessment, North Macedonia has made slight progress in tourism by improving its scores in the availability of qualified workforce sub-dimension, driven by improvements in the VET framework indicator, as well as in the tourism branding and marketing sub-dimension. Progress is however limited and North Macedonia scores below the WB6 average in all sub-dimensions. Moreover, North Macedonia ranks last in the sustainable and competitive tourism sub-dimension. Overall, North Macedonia lags behind in tourism development, mainly due to inefficiencies related to the overall governance structure and the institutional set up at the national, regional and local levels. A more coherent and co-ordinated governance structure and institutional framework at both the national level and the destination level will be key to improving the competitiveness and successful future development of tourism. This is even more important in the context of the COVID-19 pandemic which significantly affected tourism in North Macedonia.

**Table 24.28. North Macedonia's scores for tourism policy**

Dimension	Sub-dimension	Score	WB6 average
Tourism policy dimension	Sub-dimension 15.1: Governance and co-operation	1.8	2.3
	Sub-dimension 15.2: Destination accessibility and tourism infrastructure	1.7	2.2
	Sub-dimension 15.3: Availability of a qualified workforce	1.7	1.8
	Sub-dimension 15.4: Sustainable and competitive tourism	0.8	1.6
	Sub-dimension 15.5: Tourism branding and marketing	1.3	1.6
North Macedonia's overall score		1.5	2.0

### State of play and key developments

North Macedonia considers tourism to be one of its six priority sectors for development. However, this prioritisation has not yet resulted in notable improvements in the sector's competitiveness. Although the number of international arrivals has been steadily growing over the last three years, the economy's standing on the 2019 Travel & Tourism Competitiveness Index has worsened from 82<sup>nd</sup> place in 2017 to 101<sup>st</sup> in 2019, with its position worsening in all sub-dimensions. The largest falls were in 1) the effectiveness of tourism marketing and branding (from 41<sup>st</sup> place in 2017 to 124<sup>th</sup> in 2019); 2) government prioritisation of travel and tourism (from 58<sup>th</sup> to 118<sup>th</sup>); and 3) the ease of finding skilled employees (from 76<sup>th</sup> to 129<sup>th</sup>). The unfavourable business environment and underdeveloped transport infrastructure also affect tourism competitiveness more widely (WEF, 2019<sup>[228]</sup>). In 2019, tourism's direct contribution to GDP was a mere 2%, and the direct contribution to employment was 1.8%, corresponding to 13 500 jobs in the tourism sector.

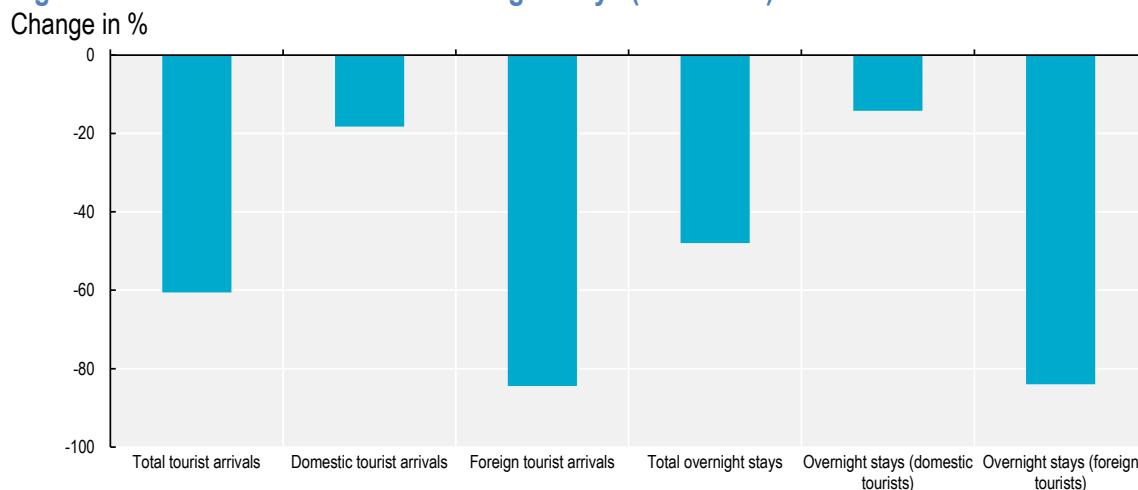
The new National Strategy for Sustainable Tourism Development (2016-21) sets new strategic and policy goals for the further growth of tourism in the economy. However, most of the policy measures have not yet been implemented. In addition, the strategy does not consider possible synergies between tourism, agriculture, food processing and the ICT sector, which are also considered strategic and high potential sectors for North Macedonia.

The main "accelerator" of tourism development in recent years has been the Local and Regional Competitiveness Project (LRCP), a four-year investment operation financed with a grant from the European Union (IPA II). It is based on a holistic approach to tourism development and destination management and provides investment funding and capacity building to support sector growth, investment in destinations and specific destination prosperity. According to the semi-annual report of the project, which

was reviewed together with representatives from the EU and the World Bank, 25 projects to improve tourism have been fully completed and 36 are under implementation (OECD, 2020<sup>[51]</sup>).

COVID-19 has left North Macedonia coping with its deepest recession since 2001. Robust GDP growth of 3.2% in 2019 was reversed by mid-2020 as the COVID-19 pandemic unfolded (World Bank, 2020<sup>[229]</sup>). Following the introduction of measures to contain the pandemic, hospitality, tourism and transport were the first sectors to experience lockdowns and major cuts in their revenues. In 2020, the number of tourists fell by 60.5% compared to the previous year: domestic tourists fell by 18.3% and foreign tourists fell by 84.4%. In the same period, the number of nights spent decreased overall by 48%: by 14.2% for domestic tourists and by 84% for foreign tourists (Figure 24.18) (MAKStat, 2021<sup>[230]</sup>).

**Figure 24.18. Tourist arrivals and overnight stays (2019-2020)**



Source: (MAKStat, 2021<sup>[230]</sup>), *Tourism statistics*, [https://www.stat.gov.mk/OblastOpsto\\_en.aspx?id=25](https://www.stat.gov.mk/OblastOpsto_en.aspx?id=25).

StatLink  <https://doi.org/10.1787/888934256197>

In February 2020, the government set up a crisis committee to manage the crisis and the spillover effects on the tourism industry. The committee took 19 measures to prohibit large gatherings and outdoor events and to close catering facilities. The next stage aimed to provide the private sector and SMEs with financial support. The government established a Tourism Fund of MKD 74 million, of which MKD 30 million was dedicated to the Agency for Promotion and Support of Tourism. The government also asked the Musical Copyrights Society of Macedonia (ZAMP) to put a stop to claims for paying artists' copyright fees on restaurants and hotels and exempted them from monthly income tax advance payments. Companies in the tourism industry received subsidies to cover wages and social insurance contributions for eligible workers. The wage subsidy covered the net minimum wage (EUR 236 per month) and the social insurance contribution covered 50% of actually paid social security contributions up to a maximum amount of EUR 94 per month (World Bank, 2020<sup>[229]</sup>). The government also issued vouchers to be spent at local hotels which were given to citizens with incomes below EUR 150 per month to promote domestic tourism (OECD, 2020<sup>[231]</sup>).

The COVID-19 pandemic has put the brakes on the tourism industry. Accordingly, North Macedonia should carry on its efforts to develop new, high-quality and personalised tourist experiences around its natural and cultural sites. Moreover, it should prepare a marketing strategy and action plan to attract more domestic tourists and tourists from the neighbouring countries.

### *Sub-dimension 15.1: Governance and co-operation*

In North Macedonia, **governance of the tourism sector** at the national level is relatively weak. This is reflected in how few of the policy measures defined in the tourism development strategy have been

implemented. The Ministry of Economy has the overall mandate for tourism development and is responsible for strategic planning. It also manages the Agency for Promotion and Support of Tourism, which is responsible implementing the policies developed by the ministry. However, there is no intra-governmental body (such as a tourism council or working group) to co-ordinate the work of the ministries responsible for the implementation of particular policy measures. Weak inter-ministerial co-operation also hinders the development of policy measures to promote synergies between tourism and other sectors, and the inclusion of tourism development needs in other national strategies (for instance for transport, environment or infrastructure development). Insufficient government commitment to tourism development translates into limited resources and capacity devoted to the implementation of tourism policy measures.

A working group to develop the tourism strategy has been established and is chaired by the senior tourism advisor. It provides a forum for **partnership with stakeholders** and co-ordinating tourism development at a national level and for **vertical co-operation** with regional authorities and local communities. The members of the working group are representatives of the Chamber of Commerce, the eight regions, the municipalities, the educational institutions, NGOs and other associations (such as the Mountaineering Association). The Chamber of Commerce also works in co-operation with the Ministry of Economy. However, the working group lacks substantial commitment from the government, which would contribute to a more efficient implementation of the tourism strategy. The working group does not meet regularly and proposals from private tourism stakeholders are rarely taken into account. The same applies to vertical co-operation, which is further hindered by limited financial resources and qualified staff at the local level. Although the tourism strategies for individual destinations are in line with the national tourism strategy, and developed in co-operation with the private sector, their implementation is lagging behind due to the overall inadequate co-ordination of strategic planning at the national, regional and local levels.

**Tourism data collection and dissemination** in North Macedonia is the responsibility of the State Statistical Office (SSO). The MakStat database is the core channel for data dissemination. Its user-friendly portal systems provide access to a wide range of statistical data in different formats and alert data users to new information. According to the SSO, the first Tourism Satellite Accounts (TSA) are in the process of being implemented and will be ready in 2021. This, combined with the harmonisation with EU regulations on statistics on domestic travel, are positive developments since 2017. Nevertheless, all the other recommendations made in the previous assessment are still valid (OECD, 2020<sup>[51]</sup>). These include the establishment of co-operation among relevant institutions, ensuring greater consistency of the definitions they use, updating and expanding survey evidence (such as visitor perceptions, spending, room occupancy, revenue per room and details by statistical region), and shifting to more frequent data collection, concerning foreign visitors and foreign tourists, rather than the current three-year collection system.

### *Sub-dimension 15.2: Destination accessibility and tourism infrastructure*

Since 2017, North Macedonia has made modest progress in improving its accessibility for tourists. In 2019, the number of countries on the visa requirement list was 115, which is the same as four years ago. Bilateral agreements with neighbouring Serbia and Albania enable border crossings with only an identity card. However, there has been no improvement in the intermodal **connectivity framework** over this period. Moreover, gaps in transport connectivity are impeding trade, including tourism. The quality of transport infrastructure and trade logistics remains low, and there are delays at borders (EC, 2020<sup>[46]</sup>).

When it comes to **accommodation capacity and the quality of the tourism offer**, an accommodation quality standard framework is in place and a register of accommodation has been established. The categorisation of accommodation facilities is in line with Eurostar standards and is mandatory for all types, and the rulebook for implementing the categorisation has been prepared. However, it is not clear how efficient the framework is, as no monitoring or evaluation of the categorisation system has yet been done. Inspections are still weak due to a lack of human resources and competencies at the Market Inspectorate,

which is responsible for the inspection of accommodation. According to the information available, no progress has been made in this area since 2017.

The tourism strategy includes measures to facilitate investment in new high-quality private accommodation as well as the renovation and upgrading of old facilities. The LRCP has co-financed 16 projects to renovate and build private tourist infrastructure (LRCP, 2020<sup>[232]</sup>). However, the number of tourist beds has grown only slowly in the last two years. According to private investors, one of the significant constraints on investments in accommodation is the lack of co-operation between municipalities and private investors over strategic planning at the destination level. Better co-operation would allow their investment proposals to be included in strategic papers at an early stage of preparation. This would not only contribute to better tourism strategies, which would be in line with the needs and ambitions of the private tourism stakeholders, but it would also contribute to integrating tourism investments into the urban planning for municipalities, which is currently one of the major bottlenecks for investments in tourist infrastructure.

**Tourist information is available** on tourist destinations and the accommodation, attractiveness and tourist services of those destinations. Information is provided via websites, road signs and in tourist information centres, etc. Information is available in multiple foreign languages. The Agency for Promotion and Support of Tourism, local communities, and the departments dealing with tourism regularly update the information. However, improvement in this area has been limited and there is no tourism information system framework that would connect current individual tourist information systems into a comprehensive national tourist information framework.

### *Sub-dimension 15.3: Availability of a qualified workforce*

A well-qualified workforce is one of the main success factors for the development of tourism. However, limited progress has been made in this field since 2017. The tourism strategy only recommends improving the attractiveness of tourism studies to students, with no concrete policy measures. There is no evidence of any progress in the **skills supply framework** since 2017 – in fact, North Macedonia worsened its ranking on the 2019 WEF Travel and Tourism Competitiveness Index for the ease of finding skilled employees from 76<sup>th</sup> place in 2017 to 129<sup>th</sup> in 2019 (WEF, 2019<sup>[228]</sup>). Co-operation between the public and private sector has not yet been established. The number of students in tourism and hospitality VET and higher education programmes has declined in the last two years, and no new educational programmes have been developed recently.

The **VET framework for tourism** is part of the National Qualifications Framework (NQF), defined in 2013. A VET quality assurance and accreditation body has been established in the form of a sectoral commission within the NQF that determines the quality of permanent and new qualifications. The VET teaching institutions (schools) are well equipped. The budget for the VET framework is increasing from year to year but, according to the VET representatives, it has not yet reached the level that would cover the investment needed in new technologies, modern equipment and teacher training to follow new technological advances in tourism. The development of the overall VET framework in North Macedonia appears to depend substantially on several donor projects in the economy and in the region. The latest regional project, Towards Regionally-Based Occupational Standards (TO REGOS), led by the Education Reform Initiative of South-Eastern Europe started in 2019. It looks promising as a way to improve the VET framework in tourism because of its focus on strengthening partnerships between VET institutions and businesses to define skills relevant to the labour market.

The **higher education framework** is also a part of the NQF. Tourism studies are available in some higher education institutions. The most prominent seems to be the private University of Tourism and Management in Skopje (UTMS), which offers tourism-related courses and programmes. Its curricula are in compliance with the European standards for 3+2 module of studies. UTMS is an affiliate member of the UN World Tourism Organization (UNWTO), giving students the opportunity to go on internships abroad. The courses include mandatory practical training, which is not the case in public educational institutions. Upgrading

higher education in tourism to include mandatory practical training could be the next step towards increasing the quality of higher education for the sector.

#### *Sub-dimension 15.4: Sustainable and competitive tourism*

The **natural and cultural heritage enhancement framework** for tourism is in the early stages of development. The tourism strategy includes natural and cultural heritage and represents a source for nature-related and cultural tourism products development. The cultural heritage strategy is still under development. In 2018, progress was made on raising awareness of the importance of natural and cultural heritage among young people through a range of events held all over North Macedonia. The Ministry of Culture, the Directorate for the Protection of Cultural Heritage, municipalities, and other institutions and organisations co-operated to bring this about, which was implemented within the framework of the European Year of Cultural Heritage 2018. However, North Macedonia still has improvements to make in this area, such as involving private tourism stakeholders and NGOs in the development of the cultural heritage strategy, preparing an action plan with clear policy measures, and putting in place actions to integrate the most valuable cultural and natural heritage into the tourism offer. This action plan should contain measurable indicators that would allow regular monitoring and evaluation of implemented policy measures, and especially their efficiency and impact on tourism development.

There is no policy framework for **promoting sustainable development within the tourism sector**, including clear measures to support stakeholders to develop sustainable tourism. According to private stakeholders, some lending is available on favourable terms for investment in energy efficiency and the increased use of renewable energy. However, there is no systematic approach covering all aspects of sustainable development such as environmental protection, respecting socio-cultural authenticity and ensuring socio-economic benefits reach the local population. The national tourism strategy or annual tourism action plan should be strengthened to include concrete policy measures to promote sustainable tourism development. Best practice from other countries, such as Slovenia's Green Scheme (Box 24.20), could be considered and adjusted to the context in North Macedonia.

When it comes to **tourism investment and innovation**, as mentioned above, the government has selected tourism as a strategic focus for investment, job creation and increased competitiveness for the period 2016-20. Accordingly, it created a legal and regulatory framework favourable to foreign investors that provides incentives to attract new investments.<sup>179</sup> The four-year LRCP also includes actions to facilitate investment in tourism, not only through grants to MSMEs, NGOs and municipalities, but also actions to improve the capacity of public authorities to manage the grant provision processes in the future. This could be a good basis for improving the implementation of the policy measures regarding tourism investments, defined in the National Strategy for Sustainable Tourism Development. Unlike the tourism investment framework, the tourism innovation framework is not established yet.

#### *Sub-dimension 15.5: Tourism branding and marketing*

The Agency for Promotion and Support of Tourism is responsible for **tourism branding and marketing**. The agency manages the "Macedonia Timeless" brand for promoting visits to North Macedonia. However, it has not adopted a marketing strategy of its own. It works on the basis of the annual tourism promotion programme adopted by the government. The agency has an advisory body with representatives from the private sector and universities. Since 2016, there has been a noticeable reduction in the budget for promotion and marketing (35% less in 2019 than in 2016), which is reflected in a reduction in the promotional and marketing activities carried out. To provide more stable conditions for its promotion and marketing work it would need to prepare a five-year marketing strategy with a clear budget allocation. These would empower the agency to implement a more comprehensive marketing strategy that extends beyond one fiscal year.



When it comes to **digital tourism marketing**, the Agency for Promotion and Support of Tourism has implemented digital marketing activities in 2019, which includes the promotion of all tourist destinations in the economy. In 2019, 70% of the total budget for marketing activities was allocated to digital marketing activities. However, as mentioned, to ensure more stable conditions for tourism marketing, a five-year digital marketing strategy should be prepared. This strategy should also include capacity building for private stakeholders on using digital marketing tools.

### ***The way forward for tourism policy***

To ensure the successful development of tourism, policy makers should:

- **Improve the efficiency governance structure and institutional set up at the national level** to enhance policy decision making at the government level. Moreover, North Macedonia should establish an intra-governmental body which will help improve co-ordination among ministries and other public institutions, while actively involving private and public stakeholders in the process of developing and implementing tourism strategies.
- **Develop regional and local destination management organisations**, as defined in the National Strategy for Sustainable Tourism Development. These can take over managing tourism development within individual destinations and design and implement destination tourism master plans. If such organisations are to be successful they will need sufficient budget for the start-up phase and sound capacity building programmes for their destination management teams.
- **Develop a programme promoting investment in high-quality tourism infrastructure**, building on the destination tourism master plans. This should start by preparing a comprehensive analysis of existing investment (public and private) in close co-operation with private sector stakeholders. This will help focus the programme on the financial resources available and the different forms of incentives in line with Tourism Master Plan, and in accordance with the interests of private investors. It is also necessary to ensure that investment will be appropriately included in other municipal development documents, which form the basis for the preparation of spatial plans. Currently, inconsistency between strategic documents is hindering investments in tourism infrastructure in most municipalities. While North Macedonia should make use of LRCP project support, it should also prepare a long-term tourism investment framework to ensure continuity.
- **Develop a sector-specific human resource policy for tourism** to address the specific skills needs of the industry and ensure that tourism education will be more attractive to lecturers and students.
- **Develop a comprehensive framework for the promotion of sustainable development and operation** of the tourism sector that will include at a minimum the mandatory consideration of sustainability criteria in all investments in tourist infrastructure. The framework should be supported by public incentives, and provide awareness raising and training for tourism sector stakeholders in how to develop their businesses sustainably. Using best practice from other countries is recommended, including Slovenia's green tourism scheme (Box 24.20).



### Box 24.20. Slovenia's green tourism scheme: A comprehensive model for promoting sustainable tourism

Slovenia's green tourism scheme is a good example of how tourism companies can be encouraged to develop sustainable business models. Launched in 2015 by the Slovenian Tourist Board (STO) and supported by the Ministry of Economic Development and Technology, it provides a comprehensive framework for sustainable development in tourism. The core of the scheme is a certification programme that provides guidelines for tourist destinations and companies (accommodation providers, travel agencies and tourist attractions) and tools for monitoring progress on sustainability. Destinations and companies meeting the criteria are given a green label ("green destination", "green accommodation", "green travel agency", "green park", "green tourist attraction") and marketing support from the STO under the umbrella brand Slovenia Green, which raises their profile and makes them more competitive on the global market. The certification scheme is based on the European tourism indicators system for sustainable destination management and the green destination standards (GDS), thus ensuring international comparability. It provides an awareness-raising and capacity building tool for tourism sector stakeholders.

The green tourism scheme is recognised worldwide as a unique comprehensive national scheme that promotes the development of quality and innovative tourism products with high added value. It contributes to the conservation of the environment and cultural heritage and tradition, and also benefits the economic development on the local population.

Source: (Slovenian Tourist Board, n.d.<sup>[233]</sup>), *Green Scheme of Slovenian Tourism*. [www.slovenia.info/en/business/green-scheme-of-slovenian-tourism](http://www.slovenia.info/en/business/green-scheme-of-slovenian-tourism).

## Anti-corruption policy (Dimension 16)

### Introduction

Table 24.29 shows North Macedonia's scores for the anti-corruption policy dimension and compares them to the Western Balkans (WB) average. North Macedonia has the highest score (along with Montenegro and Serbia) of the WB6 economies for corruption proofing of legislation. The score for corruption risk assessment also exceeds the WB average. However, North Macedonia scores slightly below the WB6 average for awareness raising and education. The Law on Prevention of Corruption and Conflict of Interest of 2019 provides a new framework for several key anti-corruption areas, particularly the management of conflicts of interest and disclosure of assets and interests. Since the previous assessment, North Macedonia has strengthened the independence and performance of its specialised anti-corruption bodies.

**Table 24.29. North Macedonia's scores for anti-corruption policy**

Dimension	Sub-dimension	Score	WB6 average
<b>Anti-corruption policy dimension</b>	Sub-dimension 16.1: Anti-corruption policy framework	2.8	2.1
	Sub-dimension 16.2: Prevention of corruption	3.0	3.3
	Sub-dimension 16.3: Independence of the judiciary	n.a.	n.a.
	Sub-dimension 16.4: Business integrity and corporate liability	n.a.	n.a.
	Sub-dimension 16.5: Investigation and prosecution	3.0	2.8
<b>North Macedonia's overall score</b>		<b>2.9</b>	<b>2.5</b>

Note: For comparability with the previous assessment, two sub-dimensions (16.3 and 16.4) have not been scored but are discussed in the text below.

### State of play and key developments

#### *Sub-dimension 16.1: Anti-corruption policy framework*

The development of **anti-corruption policy documents, co-ordination and implementation** is in progress. The State Commission for Prevention of Corruption (SCPC) submitted the draft National Strategy for Combatting Corruption and Conflict of Interest 2020-24 to the Assembly of North Macedonia in January 2020. The assembly did not adopt the strategy, reportedly due to the early elections of July 2020, and the SCPC resubmitted a revised version of the document in December 2020. The strategy identifies key problems in 2 horizontal areas (public procurement and employment in the public sector) and 12 sectors (including the political system, judiciary, law enforcement bodies, healthcare, and education). The accompanying action plan defines measures aimed at tackling the problems identified, the responsible institutions, deadlines and simple indicators focused almost exclusively on outputs rather than outcomes and impact. The strategy and action plan do not envisage the amount of funding needed to implement the measures, or the sources. Within the individual sectors, the Ministry of Interior and the Customs Administration have their own anti-corruption planning documents. At a local level, 47 municipalities have adopted anti-corruption statements or commitments to undertake certain actions such as forming working groups on integrity.

The Law on Prevention of Corruption and Conflict of Interest prescribes the key actions and stages for developing the national strategy. The preparation of the strategy is to be based on corruption risk analysis and carried out with the participation of representatives of state bodies, institutions, associations, foundations, the private sector and the media. The SCPC carried out and published the risk analysis, formed a broad working group including governmental and non-governmental stakeholders, and held several workshops. In December 2019, the SCPC published the draft strategy with an open call for comments and proposals. The consultation period was rather short (27 December to 8 January) with two

public holidays within the period. The SCPC did not publish an overview of the proposals it had received, accepted and rejected (DKSK, 2021<sup>[234]</sup>). This makes it hard to assess the impact of the consultation.

The SCPC monitors the implementation of the anti-corruption policy and has been publishing the state anti-corruption programmes (for 2011-15 and 2016-19) and annual implementation reports on its website. By July 2019, 56 of 74 activities in the 2016-19 programme had been or were being implemented (DKSK, 2019<sup>[235]</sup>). The SCPC will continue to monitor the implementation of the national strategy. Monitoring will rely on respondents (focal points) from each implementing institution who will be responsible for submitting information about the level of implementation twice a year through a web application, which is to be developed.

Legislation governing risk assessments has been adopted, but **corruption risk assessments** and management generally take place within the framework of internal financial control. Risk assessments are carried out in public institutions on a systematic basis. According to the government, by the end of 2019, 68% of central-level institutions and entities had adopted risk management strategies and 56% had adopted risk registers. At the local level, the shares were 43% for risk management strategies and 37% for risk registers. The accepted by the Ministry of Finance typology of risks includes risks related to employees and the organisation, and areas to be considered include ethics and conduct (the tone from the top, fraud, conflict of interest, etc.). In 2017, Guidelines for the Management of Fraud and Corruption Risk and Guidelines for Determining Critical Job Positions were published. In 2019, the SCPC conducted a corruption risk analysis for the strategic plan of combatting corruption and conflict of interest (DKSK, 2019<sup>[236]</sup>). The Law on Prevention of Corruption and Conflict of Interest includes the preparation of corruption risks analyses for the different sectors in the remit of the SCPC, but it has not yet developed a systematic practice in this area.

The SCPC is responsible for **corruption proofing of legislation**. In 2015, it adopted the Methodology on Anti-Corruption Proofing of Legislation (DKSK, 2015<sup>[237]</sup>), later revised in November 2020. To implement the methodology, a unit for corruption proofing legislation was formed within the Secretariat of the SCPC in 2016. The SCPC has published 15 reports of corruption proofing of laws and draft laws on its website. In 2019 it analysed five laws, acting on its own initiative. It has also been included in working groups for the elaboration of four draft acts (DKSK, 2020<sup>[238]</sup>). At the request of the SCPC, and with support from the Embassy of the Netherlands and Transparency International, North Macedonia carried out an assessment of vulnerability to corruption in employment policies and procedures in 2020, with special focus on nepotism, cronyism and clientelism. No concrete evidence is available on the implementation of recommendations made during corruption proofing processes.

### *Sub-dimension 16.2: Prevention of corruption*

The SCPC is the main **corruption prevention body**. It is legally autonomous and independent, and accountable to the Assembly. Originally established in 2002, the current SCPC operates based on the Law on Prevention of Corruption and Conflict of Interest adopted in 2019. It has multiple responsibilities such as developing anti-corruption policy, monitoring the implementation of the policy and compliance with legal requirements in several areas, exercising oversight regarding conflicts of interest and declarations of public officials, probing corruption-related acts, instigating initiatives for determining the liability of officials as well as for criminal prosecution, etc. With the new law, the SCPC has gained the competency to conduct misdemeanour procedures.

Several elements of the legal framework aim to safeguard the independence of the SCPC. These include a transparent procedure for the selection and appointment of its president and six members. The Assembly's Committee on Election and Appointment Matters (CEAM) conducts the appointments, which start with the publication of a public announcement. The committee establishes a separate selection committee, comprising seven members, including two representatives of civil society organisations (CSOs). Additional stakeholders from the public are invited to participate in interviews held by the selection

committee with candidates who fulfil formal conditions and broadcast on television. The selection committee determines a ranked list of the candidates, and the CEAM proposes the best-ranked candidates to the Assembly to be appointed for a period of five years, without a right to reappointment. When specific grounds exist, the law authorises the Assembly to dismiss the president and members of the SCPC before their terms have elapsed.

The law does not guarantee any particular level of funding for the SCPC but does determine the salaries of the president and members. The SCPC prepares its own budget proposal, and its president (or his/her deputy) participates in discussions about the budget in working bodies of the Assembly. The annual budget of the SCPC has been increased recently, from MKD 27 million in 2018 to MKD 55 million in 2020 (around EUR 0.9 million). Nevertheless, it remains significantly understaffed with only 24 out of 51 administrative positions filled as of mid-2020. It has had to handle a large amount of cases. In February 2020 alone, the SCPC had to make more than 100 decisions (Blaževski and Rizaov, 2020<sup>[239]</sup>).

Although there are no special mechanisms for civil society oversight, several CSOs have monitored the work of the SCPC. These assessments and their conclusions have focused on a range of aspects. For example, it has been argued that in 2019 the SCPC was more effective at handling cases of conflict of interest than cases of corruption, that its key focus has been on abuse of employment in the public sector, and that the share of cases it has initiated on its own initiative only amounted to 8-15% (Fakik, 2020<sup>[240]</sup>). Despite identifying specific weaknesses, these independent assessments have not doubted the generally positive role played by the commission. The SCPC has been found to be proactive in preventing corruption and launching cases against, among others, high-level officials (EC, 2020<sup>[46]</sup>). The legal requirement to publish its decisions facilitates such public oversight.

When it comes to **conflicts of interest**, the Law on Prevention of Corruption and Conflict of Interest 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, etc. 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. The notion of private interest is described in an indirect and general manner as “personal, family, religious, political party and ethnic interests, pressures and promises from superiors or another person”. The SCPC should provide explanations regarding such general provisions and revise the published guidelines before the adoption of the current law (SCPC, 2016<sup>[241]</sup>).

International experts have identified ambiguity over the ad hoc disclosure and management of conflicts of interest (GRECO, 2019<sup>[242]</sup>). There do not seem to be consistent procedures using an unequivocal algorithm for reporting ad hoc conflicts of interest or requesting opinions from the SCPC, or for the officials concerned or the head of their institution to take steps to resolve the conflict. A new version of the code of ethics was adopted by the government on 22 September 2020, while the SCPC adopted a guide in November 2020 which aims to clarify the rules and the general management of conflicts of interest for members of the government and other executive officials (SCPC, 2020<sup>[243]</sup>). It would be necessary to analyse what happens in practice to determine whether the guide – and the officials responsible for advising on integrity matters – manage to ensure smooth compliance with the rules in practice.

When the SCPC determines the existence of a conflict of interest, it should request that the official in question resolves the conflict. If the request is not complied with and the SCPC notified then, 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 law envisages misdemeanour sanctions (fines) for several categories of officials for violations of rules on incompatibilities, post-employment restrictions, management of conflicts of interest, etc. In practice, the number of imposed sanctions has been low: seven public reprimands in 2017, one in 2018 and two in 2019. Only one fine was imposed in 2019 – for violating post-employment restrictions.

Numerous training courses have been held on the topic of conflict of interest. For example, representatives of the SCPC participated as lecturers in training courses for administrative staff organised by the Ministry of Information Society and Administration (MISA) in 2017-19.

The obligation to **disclose assets and interests** applies to high-level functionaries, higher (category A) civil servants, and to notaries, enforcement agents and people employed in the cabinets of the President of the Republic, the President and the Vice-Presidents of the Assembly, the President of the Government (Prime Minister), deputy prime ministers, ministers and the Secretary General. The SCPC may also request an official person not covered by this obligation to submit a declaration of assets and interests when acting on a case in which the person is involved. The Group of States against Corruption (GRECO) has raised the concern that only one official in the Public Security Bureau is subject to the disclosure obligation (GRECO, 2019<sup>[242]</sup>). Officials have to provide data about themselves and their family members on taking up an official position and after the termination of their function or employment. Officials also have to report increases in property that exceed 20 times the average net salary as well as any changes of interests. According to the SCPC, it would be preferable if they made annual declarations, regardless of changes.

The scope of the disclosure of assets appears rather comprehensive although it is defined in general terms. Salaries for performing official functions do not need to be declared. According to the government, cash savings outside financial institutions and virtual assets such as cryptocurrencies are covered under the miscellaneous category, but this opens up the possibility some declarants may not clearly understand the obligation to disclose these types of assets. As of November 2020, it was not possible to precisely assess the scope of declarable information because the new declaration form and relevant by-laws had not yet been adopted. Due to a delay in developing a software solution, the implementation of the system in line with the new law has been delayed, and printed declarations using the previous format remained in use. The public procurement procedure for acquiring the software solution for electronic submission was underway at the time of the assessment.

The SCPC checks officials' property status and interests according to its established annual plan, as well as upon reports or cases formed *ex officio*. However, its capacity to carry out this task is very limited; according to its own data it has only three dedicated employees for this work. The law guarantees the SCPC has access to data from banks and other financial institutions on request as well as direct electronic access to the databases of 17 institutions (although the systems were not yet fully linked as of November 2020; full access is expected with the implementation of the new software solution).

The SCPC imposes misdemeanour sanctions for failures to submit or late submission of declarations (it applied 35 sanctions for non-submission of declarations of interest within the legal deadline, and 74 sanctions for non-submission of declarations of assets in 2019). In 2020, 67 misdemeanour payment orders were issued for non-submission of declarations of assets/interests and 13 for not reporting changes in the property status. According to the government, the amounts of fines have fallen since the 2019 law was adopted because of the general mitigation of misdemeanour sanctions policy. The current law stipulates fines of EUR 300-500 for failing to disclose assets or interests, while previously the range was EUR 500-1 000. In cases of suspected unjustified increase of property, the SCPC submits an initiative to the Public Revenue Office for the verification of undeclared and untaxed assets. It submitted 18 cases in 2017, 8 in 2018 and none in 2019. Since 2016, however, no personal income tax debt settlement decisions have followed such verifications. According to information provided by the SCPC in consultations in November 2020, one practical challenge it faces is individuals paying misdemeanour fines but failing to rectify the underlying violations.

**Whistle-blowers are protected** by the Law on Protection of Whistle-blowers, which was adopted in 2015 and extends to both the private and public sectors. Whistleblowing can be internal, external (to a competent authority) or public. However, protection of external and public whistleblowing is subject to conditions. External whistleblowing is possible, for example if whistle-blowers suspect that no remedying measures will be undertaken if they are reported internally or if internal reporting will cause them or people close to

them harmful consequences. The conditions for public disclosure do not encompass all circumstances envisaged in the EU Directive 2019/1937 on the protection of persons who report breaches of EU law, for example, when the breach reported may constitute an imminent or manifest danger to the public interest.

The law contains multiple provisions to protect whistle-blowers. These include: an obligation for the officer authorised to receive disclosures to protect data about whistle-blowers; protection against any type of violation of the rights of whistle-blowers and any detrimental activity or threat thereof; court protection, which includes possibilities to request finding that a harmful activity has been undertaken or a right has been violated due to the protected disclosure; imposing a ban on the harmful activity or the violation of the right; annulling the harmful act or violation; and awarding compensation for damage. Any provisions of contracts or acts that prohibit whistle-blower disclosure shall be considered null and void.

In any dispute regarding a violation of the right of whistle-blowers and people close to them the burden of proof lies with the institution. However, the definition of persons close to a whistle-blower does not explicitly comprise legal entities connected with the reporting person as envisaged in the EU directive. Legally guaranteed support for whistle-blowers 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.

It has been argued that citizens generally do not understand what it means to be a whistle-blower and competent institutions are not fully prepared to receive whistle-blower reports. Internal whistleblowing is, at best, rare, and as late as in 2019, several major institutions with several thousands of employees and regional units across the economy allegedly had only one or no person designated to receive reports from whistle-blowers (Pisarev, 2019<sup>[244]</sup>).

The SCPC received 19 whistle-blower reports in 2019 and 6 in 2020. No reports were received in 2016-18. According to the SCPC, as of November 2020, only one of the reports had resulted in a misdemeanour procedure, and 15 remained under review, which is an indication of the relatively low effectiveness of whistleblowing and/or subsequent follow-ups. The SCPC received two requests for whistle-blower protection in 2019, and in both cases court proceedings were ongoing as of November 2020. According to the government, the increase in the number of whistle-blower reports is a sign of increased trust in the SCPC. It appears to be a favourable trend, which requires further strengthening.

The government has carried out some **anti-corruption public awareness-raising campaigns and education** activities. For example, the Customs Administration launched the Report Corruption campaign in 2018, which included dissemination of promotional materials. In co-operation with the Institute for Democracy *Societas Civilis*, the SCPC developed the Anticorruption Education for High School Students project. In 2019, the project resulted in completed research on students' knowledge, a manual for teachers, a manual for students and training for teachers in pilot schools. Further training activities within the project took place in 2020. Nevertheless, the efforts to raise awareness and strengthen the anti-corruption attitudes of the general public appear fragmented.

Various training activities have taken place. For example, in co-operation with MISA, representatives of the SCPC participated in state-funded training for civil servants on anti-corruption, conflict of interest, integrity and whistle-blower protection in 2017-19. Anti-corruption training for representatives of the judicial system has been done as part of the annual training plan of the Academy for Judges and Public Prosecutors. Development of e-learning is envisaged within an IPA project started in January 2020.

In 2019, employees of the SCPC themselves received training funded by USAID on ethics, codes of conduct, etc. North Macedonia provided information on numerous other professional development activities for members of the SCPC and administrative staff employed in its secretariat.

Education activities have been funded from both international sources and the national budget. However, information on the total amount of national funding for anti-corruption awareness raising and education is

not available since it is not centrally defined. There is no evidence that the effectiveness of the awareness-raising activities is being monitored, nor any corrective action based on such monitoring.

### *Sub-dimension 16.3: Independence of the judiciary*

According to the constitution, the courts are autonomous and independent. The Judicial Council (JC) appoints judges with no restriction on the duration of their term of office. The rules for the selection of judges comprise competitive elements, define criteria and ensure transparency. The JC selects a judge of a basic court from a list of applicants submitted by the Academy for Judges and Public Prosecutors, taking into account the year they completed their training and the achieved success, as well as the results of the interview conducted by the JC. Judges for higher courts are selected from among the candidates who responded to a public announcement and who meet the set requirements and criteria. Applicants are ranked according to the specialisation needed the positions to be filled. The JC also elects the presidents of courts from among candidates who have responded to a public announcement. It announces vacancies and decisions on the selection and promotion of judges on its website (Judicial Council of North Macedonia, n.d.<sup>[245]</sup>).

The JC is an independent and autonomous institution, and its institutional set up is generally adequate for its mandate. It has 15 members, with judges forming a majority (8 of the members are elected by judges from among their ranks, and the President of the Supreme Court as an *ex officio* member). The Minister of Justice is also an *ex officio* member, although without voting rights, which has been the subject of criticism (GRECO, 2020<sup>[246]</sup>). The JC has broad powers. In addition to appointing and dismissing judges, lay judges and presidents of courts, the JC monitors and assesses the work of judges, decides on the disciplinary accountability and revoking the immunity of judges, proposes two judges for the Constitutional Court, etc. By default, its sessions are held in public. It has been recognised as being increasingly proactive in its role as the guardian of the independence and impartiality of judges (EC, 2020<sup>[46]</sup>).

The Law on Courts and the Law on the Judicial Council set the grounds and procedures for the disciplinary liability of judges. The judges against whom the proceedings are conducted have the right to a fair trial, including the right to be heard and the right of appeal. Disciplinary decisions have to be published on the JC website. The number of sanctioned judges has fluctuated: one judge was dismissed in 2017, no disciplinary sanctions were made in 2018, and four decisions to dismiss judges were made in 2019 (including final decisions and decisions subject to appeal). More decisions to dismiss judges were made in 2020. Altogether, according to the JC, from 2017 to mid-2020 eight judges were dismissed in cases involving allegations of corruption. This suggests an intensifying trend. In 2019, North Macedonia adopted a new code of ethics for judges and lay judges.

Court cases are distributed among judges through an automated electronic system. This court case management information system has been subject to interference, and in August 2020 the former president of the Skopje Criminal Court was convicted of manipulating it (EC, 2020<sup>[46]</sup>). It will therefore be essential to monitor the reliability of safeguards to the system in line with the Law on Management of the Movement of Cases in Courts (adopted in February 2020). Courts have to publish decisions within seven days of the day of their coming into force, and the judicial portal provides access to a searchable database of court decisions (Judicial Council of North Macedonia, n.d.<sup>[247]</sup>).

### *Sub-dimension 16.4: Business integrity and corporate liability*

The formal framework for promoting **business integrity** is limited. For example, according to the Company Law 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, but there are no specific requirements concerning corruption risks.

There have been several public initiatives to support business integrity. One of them is a web platform for business integrity (Bezkorupcija, 2021<sup>[248]</sup>), which contains resource materials on principles and good practices, including a handbook for companies on systems for preventing corruption (Kusinikova and Cvetkovik, 2019<sup>[249]</sup>). The Business Confederation of Macedonia has developed principles of business ethics. In October 2020, the newly appointed Deputy Prime Minister in charge of the fight against corruption and crime, sustainable development, and human resources became the chairman of the Anti-Corruption Business Coalition, which aims to promote an attractive business climate through good governance, advocacy of best practices for integrity, co-operation and capacity building in public institutions and private entities.

According to the Law on Prevention of Money Laundering and Financing of Terrorism, the Central Registry shall establish, maintain and manage a register of beneficial owners. 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 are to be publicly available. This meets the requirement to provide public access established by the 5th Anti-Money Laundering Directive (2018/843). In January 2021, the register became operational. Both financial institutions and designated non-financial businesses and professions have to identify beneficial owners as part of their customer due diligence.

No designated institution such as a business ombudsman is responsible for receiving complaints from companies about corruption-related matters apart from the SCPC and law enforcement bodies.

The Criminal Code 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 conditions link the commission of crime to actions or failure to act by a governing, managing or supervising body of the entity. 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 485 000) 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 amount of fines to ranges of prison sanctions. For offences which would lead to imprisonment of less than five years, fines would be many times lower. Even given the possibility of applying greater sanctions when damage has been caused or benefit acquired, as well as imposing confiscation, fines are low relative to the possible scale of large corruption transactions. The law also envisages several types of secondary sanctions ranging from prohibitions of certain types of activities to the termination of the legal entity. 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 a room to consider introducing new incentives for compliance in the criminal law.

There are few convictions of legal persons for corruption offences. According to the government, no sanctions were applied in 2017-18, and four sanctions in 2019. The legal framework for corporate liability would benefit from guidance on anti-corruption compliance that legal entities have to ensure.

### *Sub-dimension 16.5: Investigation and prosecution*

The statistical data available are somewhat equivocal, but they confirm that North Macedonia has established a track record of prosecutions and convictions in cases of **high-level corruption**. According



to the government, there were two such convictions in 2017, four in 2018 and seven in 2019. Three convictions were final. During 2017-19, more than 50% of the sentences were real imprisonment. The Criminal Law prescribes mandatory imposition of a prohibition to carry out a profession, activity or duty for bribery and passive trading of influence. The European Commission has noted final convictions in three cases, including a sentence of six years of imprisonment for a former interior minister and the conviction of a businessman and his associate for forging documentation to win a tender. In June 2020, the former Chief Special Prosecutor was convicted for alleged extortion and abuse of office in the first instance. The number of new investigations and involved individuals show a sustainable trend in 2019-20 (EC, 2020<sup>[46]</sup>). Between 2017 and mid-2020, there have been no high-level corruption cases recorded where proceeds located abroad have been recovered.

The Prosecutor's Office for Organized Crime and Corruption (POOCC, originally established in 2004) serves as a **specialised anti-corruption prosecutorial body**. Its activities are currently based on the Law on Public Prosecution (adopted in February 2020). 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. The selection process starts with publication of a public announcement. 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 or 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 budget of the POOCC is based on a proposal of the Chief Public Prosecutor of the POOCC submitted to the Public Prosecutor of the Republic. Its annual budget increased in 2018 and 2019 and was around MKD 24 million in 2020 (approximately EUR 390 000). The POOCC has 10 public prosecutors with prosecutorial work experience ranging from 7 to 23 years as well as 10 assistant advisors. In terms of the number of prosecutors and budget, the POOCC is a small institution, but its capacity is backed up with the ability to engage judicial police officers. Several experts have been temporarily engaged by the POOCC such as inspectors working on financial analysis, financial investigations and analysts in the field of cybercrime.

Several units operate as **specialised anti-corruption investigative bodies**. There are three entities within the Ministry of Interior: the Economic Crime and Corruption Department, the Unit for Corruption in the Organised Crime Division, and the Unit for Corruption and Counterfeits in the Skopje Regional Department of Interior Affairs. There are two further anti-corruption units within the Financial Police (the Unit for Detection of Abuse of Official Position and the Unit for Detection of Corruption in Public Procurement).

The specialised units in the interior ministry have no special safeguards of their autonomy. The selection of heads of the units takes place following an internal announcement. An internal commission interviews candidates and may conduct written examinations. The heads of the anti-corruption units of the Financial Police are selected based on a procedure that starts with a public announcement or through internal promotion.

According to the government, there are a total of 30 officers in the Ministry of Interior's specialised anti-corruption units. In the Financial Police, there are 12 officers in the specialised units. The units' budgets are not available as separate budget lines, complicating the assessment of their capacities. Employees of the specialised units have attended numerous training and education events, the majority of which have been organised by international actors. North Macedonia has taken steps to strengthen police support for anti-corruption investigations led by public prosecutors, but further investment into the capacity of these small police units appears necessary.

### ***The way forward for anti-corruption policy***

North Macedonia should bring its anti-corruption policy further by strengthening several institutions, practices and laws. While positive reforms have been made regarding several aspects of preventing and repressing corruption, especially the relevant capacities and implementation measures require further development. Policy makers should:

- **Ensure full staffing of the SCPC with qualified personnel**, and make sure that the financial capacity of the institution is sufficient to maintain adequate staff capacity under the labour market conditions of North Macedonia. At the time of this assessment, the staffing level of the administrative apparatus of the SCPC was less than half of the envisaged strength and starkly inadequate for the various crucial functions of the SCPC in preventing corruption. The United Nations Convention against Corruption requires that states provide the necessary material resources and specialised staff for preventive anti-corruption bodies (Article 6, Paragraph 2) (United Nations, 2004<sup>[250]</sup>). More in-depth analysis would be needed to determine specific solutions in the case of North Macedonia, but generally the government should strive to ensure competitive remuneration and other service conditions in order to attract sufficient numbers of qualified personnel to the SCPC.
- **Develop and launch the electronic system of asset and interest disclosure** as soon as possible to ensure full implementation of the relevant provisions of the Law on Prevention of Corruption and Conflict of Interest. An electronic system is crucial for the effective implementation of many aspects of a system of asset and interest disclosure. Such a system should ensure a user-friendly submission of declarations, provide a comprehensive overview for the oversight body regarding compliance with the obligation to submit declarations fully and in time, include analytical tools for statistical analysis and detection of risk signs revealed by declarations, and ensure connection and data exchange with other public databases as well as swift and complete public disclosure as stipulated by law, etc.
- **Continue to disseminate information for potential whistle-blowers** in order to promote whistleblowing over acts of corruption and increase the usefulness of whistle-blowers' reports for detecting corruption. Explore the possibility of speeding up reviews of whistle-blowers' reports to ensure that they see the outcomes of their actions as soon as possible. North Macedonia should strive to implement, among other things, the support measures for whistle-blowers envisaged as mandatory or optional by the EU directive: comprehensive and independent information and advice, which is easily accessible to the public and free of charge, on procedures and remedies available, on protection against retaliation, and on the rights of the person concerned; effective assistance from competent authorities before any relevant authority involved in their protection against retaliation; legal aid, counselling or other legal assistance; and financial assistance and support measures, including psychological support, for reporting persons in the framework of legal proceedings, etc.
- **Implement the registration of beneficial owners of legal entities** and ensure oversight of compliance with the disclosure requirements. The EU Anti Money Laundering Directive requires that the information held in the central register of beneficial ownership information is adequate, accurate and current, and that states 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. However, note that a full assessment of North Macedonia's level of compliance with requirements of the EU directives in this area is beyond the scope of this analysis.
- **Strengthen corporate liability** by ensuring that the applicable fines for all corruption offences conform with the standard of effective, proportionate and dissuasive sanctions. International standards do not define the sufficiency of the sanctions in specific terms, but the OECD Working

Group on Bribery in International Business Transactions has adhered to the standard that monetary sanctions should be sufficiently severe to impact large multinational corporations. In certain economies, statutory ceilings of sanctions even up to a few million euros have been found to be insufficient (OECD, 2015<sup>[251]</sup>). Even though such levels of fines may appear beyond relevance relative to the limited size of most companies in North Macedonia, the law should provide the possibility to apply adequate sanctions also in a possibly rare case 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 echoes the findings of the European Commission that law enforcement and prosecution bodies should boost operational capacity to carry out financial investigations; confiscation of illicit assets should become a strategic priority in fighting organised crime, terrorism and high-level corruption; and the authorities should use confiscation or extended confiscation systematically for certain offences. 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 maximum effort to ensure that these benefits are identified, seized and confiscated when law enforcement bodies detect large-scale corruption and the judiciary convicts the involved persons.
- **Consider how to strengthen the independence of specialised anti-corruption law-enforcement units.** 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>[250]</sup>). This assessment did not evaluate in-depth the practice of the specialised anti-corruption investigative bodies of the Ministry of Interior and the Financial Police, and hence cannot argue whether or not there has been any undue influence on their activities. However, North Macedonia should consider potentially introducing additional means to safeguard the independence of these bodies such as more public and competitive selection of management and strengthened guarantees and transparency of dedicated budget funding. Box 24.21 gives an example of how the independence and accountability of Austria's body is safeguarded.

### Box 24.21. Independence and accountability of the Austrian Federal Office for Prevention and Fight against Corruption

The Federal Office for Prevention and Fight against Corruption (Bundesamt zur Korruptionsprävention und Korruptionsbekämpfung, BAK) was established in 2010 as an organisational entity of the Federal Ministry of Interior. The BAK is competent for security and criminal police matters related to corruption offences and several other kinds of crime.

Even though the BAK belongs to the system of the Ministry of Interior, the law provides it with certain special safeguards of independence and public accountability:

- The Federal Minister of Interior appoints the director of the BAK and his/her deputy for a term of five years after hearing the presidents of the Constitutional Court, the Administrative Court and the Supreme Court (re-appointments are permitted).
- Only those who have special knowledge and national and international experience in the field of corruption prevention and the fight against corruption can be appointed.
- The Legal Protection Commission consisting of the Legal Protection Officer envisaged by the Security Police Law and two other members is set up with the Federal Minister of Interior. The two other members are appointed by the Federal President upon proposal by the Federal Government after hearing the presidents of the Constitutional Court, the Administrative Court and the Supreme Court.
- The Commission reviews allegations against the activities of the BAK that are not manifestly unfounded, insofar as no legal remedy is available to those affected.
- The Commission may at any time report on its examinations to the Federal Minister of Interior and, as far as it appears necessary, to the public. The Commission submits a report on the performance of its duties to the Federal Minister of Interior annually. The Minister must make this report available to the Standing Subcommittee of the Committee on Internal Affairs of the Parliament upon request.

Source: (RIS, 2021<sup>[252]</sup>), *The Law on the Federal Office for Prevention and Fight Against Corruption*, <https://www.ris.bka.gv.at/GeltendeFassung.wxe?Abfrage=Bundesnormen&Gesetzesnummer=20006390>.

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## Notes

<sup>1</sup> For more information, please see: OECD COVID-19 Notes - <https://www.oecd.org/south-east-europe/>

<sup>2</sup> A person from the Cabinet of the Deputy President of the Government of the Republic of North Macedonia who co-ordinates the whole assessment in the economy.

<sup>3</sup> [https://nbstat.nbrm.mk/pxweb/en/Eksterni%20statistiki/Eksterni%20statistiki\\_Direktni%20investicii\\_Direktni%20investicii%20-%20Dvizenja/4\\_DIRMPoZemjiGodisniEN.px/](https://nbstat.nbrm.mk/pxweb/en/Eksterni%20statistiki/Eksterni%20statistiki_Direktni%20investicii_Direktni%20investicii%20-%20Dvizenja/4_DIRMPoZemjiGodisniEN.px/)

<sup>4</sup> Other key laws include: the Securities Law; the Profit Tax Law; the Customs Law; the Value-Added Tax (VAT) Law; the Law on Acquiring Shareholding Companies; the Foreign Exchange Operations Law; the Payment Operations Law; the Law on Foreign Loan Relations; the Law on Privatization of State-owned Capital; the Law on Investment Funds; the Banking Law; the Labour Law; and the law on Financial Discipline.

<sup>5</sup> [www.ener.gov.mk](http://www.ener.gov.mk)

<sup>6</sup> The RIA process was started in 2010 and is managed by the Ministry for Information Society and Administration (MISA).

<sup>7</sup> Article 30 of the Constitution provides that no person may be deprived of his/her property or of the rights deriving from it, except in cases concerning the public interest determined by law. If property is expropriated or restricted, rightful compensation not lower than its market value is guaranteed.

<sup>8</sup> The Law on Expropriation predicts condition of expropriation of land in private property for public interest predicted by law.

<sup>9</sup> <https://jpacademy.gov.mk>

<sup>10</sup> North Macedonia has signed 19 international agreements and conventions including the Patent Cooperation Treaty, European Patent Convention, Paris Convention, Nice Agreement and Locarno Agreement.

<sup>11</sup> North Macedonia has been a member of the World Trade Organization since 2003 and accepted the Protocol Amending the Agreement on Trade-Related Aspects of Intellectual Property Rights in March 2010.

<sup>12</sup> IPR legislation is available on the SOIP website (SOIP, n.d.[327]).

<sup>13</sup> SOIP participated in awareness-raising activities as part of World Intellectual Property Day (April 26 2020 - Innovate for a Green Future).

<sup>14</sup> Both names are used for the agency.

<sup>15</sup> Articles 17, 18 and 19 of the Law on Financial Support for Investments.

<sup>16</sup> This initiative was initiated in 2015 and has run about 700 visits per year since.

<sup>17</sup> Machine and automotive components, ICT, healthcare sector, medical devices and pharmaceuticals, agribusiness, and food processing are the sectors with the biggest potential for investments according to the Programme for Stimulating Investment in the Republic of Macedonia (2007-10) as well as the Industrial Policy (2009-20). The energy sector, textiles and tourism are regarded as the next tier of promising sectors for investments.

<sup>18</sup> The FIC consists of more than 130 companies with foreign capital in the economy. It was established with the goal to make the economy more attractive for investment through simplified rules and increased predictability. Promoting solid business ethics and strong corporate governance principles is also high on the FIC's agenda. It gives foreign investors the opportunity to engage in direct dialogue with the highest political/executive level of government.

<sup>19</sup> DTIDZ aftercare services include: 1) support with relevant tax and customs issues; 2) assistance in acquiring visas/work permits for foreign investors; 3) dealing with other state and local authorities; 4) design and infrastructure approvals; 5) issuing building and operational permits; 6) customs outpost services in the zone; 7) zone infrastructure maintenance and upgrade; 8) services for creating linkages with universities; 9) company and recruitment agencies linkages; and 10) identification of suppliers.

<sup>20</sup> In 2018 and 2019, its main export partners were Germany, which alone accounted for almost half of total exports (47%); Serbia (7.9%); and Bulgaria (5.2%); the main sources of imports were Germany (11.6%), the United Kingdom (9.5%) and Greece (8.5%) (World Bank).

<sup>21</sup> There are several bodies established by the government:

- The Co-ordinative Body for WTO Accession, responsible for the accession process and processes after accession to the WTO. The three Economic Chambers are also included in this body. It is co-ordinated by the Ministry of Economy.
- The working group responsible for trade issues within Stabilisation and Association Agreement (SAA). It is co-ordinated by the Ministry of Economy and the Secretariat for European Affairs.
- The Advisory Council responsible for custom matters, withing the Custom Administration.
- The Economic Council within the government, chaired by the Prime Minister.

Inter-institutional co-ordination is implemented through a "sectoral approach" and sectoral working groups responsible for the development and managing of sectoral strategies and implementation. There are five sectoral working groups, including one for competitiveness and innovation.

<sup>22</sup> All proposals to Cabinet Sessions must pass internal government consultations (ministries and involved agencies) and external consultations (civil and business community entities). The General Secretariat of the Government co-ordinates pre-Cabinet Sessions with all ministries' state secretaries to assess the compliance of proposals with individual ministries' interests and regulations.

<sup>23</sup> These include the Ministry of Finance, Customs Administration, the Ministry of Foreign Affairs, the Secretariat for European Affairs, the Ministry of Agriculture, Forestry and Water Management, the Food and Veterinary Agency, the Ministry of Justice, the Ministry of Health and other institutions depending on the subject matter.

<sup>24</sup> The regulatory development process is covered by the regulatory impact assessment methodology. However, due to the overload of new or updated regulations, RIA is often carried out in a more formal way than with full understanding and compliance. RIA requires both internal government institutions and external stakeholders (citizens, companies). It should be noted, however, that the effectiveness and efficiency of RIA, and respect for the need to consult stakeholders, seems to be improving. Finally, a form of legal compliance assessment exists through the obligation to obtain the approval of the Secretariat for Legal Affairs for any new regulation.

<sup>25</sup> ENER (<https://ener.gov.mk/Default.aspx>) was created in 2009 to act as the official repository of all regulations under development and consultation.

<sup>26</sup> Evidence shows that the chambers are active in this area and proactively engage in a process of "pre-drafting" legislation for general government strategies. Training programmes were delivered to the chambers on how to participate in RIA processes, ENER training and complaint management. Chambers are able to submit comments, complaints and unsolicited proposals directly to the secretariats of the Prime Minister and the Vice Prime Minister for Economic Affairs. In recent years chambers have begun submitting "white papers" to the government on emerging economic issues.

<sup>27</sup> OECD member states and partner economies: Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

<sup>28</sup> The full set of OECD STRI indices and comparison tools as well as policy simulators for OECD member states and partners states that have undertaken the OECD STRI are available on the dedicated OECD website <https://www.oecd.org/trade/topics/services-trade>.

<sup>29</sup> The complete list of measures sector by sector is available on the OECD STRI website <http://www.oecd.org/trade/topics/services-trade>.

<sup>30</sup> Law on Trade Companies, Закон за трговските друштва.

<sup>31</sup> In order to facilitate comparison with OECD members that have undergone the STRI exercise, the paragraphs below have been drafted in accordance with the methodology of the STRI project publications. The OECD Country Notes, as well as the Sector Notes, are available on the STRI web page <https://www.oecd.org/trade/topics/services-trade/>.

<sup>32</sup> Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has been agreed internationally and aims for a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

<sup>33</sup> Basel II is an international business standard developed prior to the 2008/09 crisis by the BCBS. It requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.

<sup>34</sup> Directive 2011/61/ EU on alternative investment fund managers and the Regulation on venture capital funds 345/2013.



<sup>35</sup> “Letsfundit - This platform support three forms of crowdfunding: donation based, reward based and equity based <http://www.letsfundit.mk/>.”

<sup>36</sup> Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts.

<sup>37</sup> The amount is MKD 2 000 for employees with an average monthly salary of up to MKD 10 000; MKD 1 500 for employees with a salary between MKD 10 001 and MKD 10 500; MKD 1 000 for employees with a salary between MKD 10 501 and MKD 11 000; and MKD 500 for employees with a salary between MKD 11 001 and MKD 11 500.

<sup>38</sup> The threshold for this rate is MKD 1.08 million annually (EUR 17 500).

<sup>39</sup> For income from intellectual property, the allowance varied between 25% and 60%. For rental income, allowances in the range of 25-30% were granted. An allowance of 35% was granted for income qualifying as “other income”.

<sup>40</sup> This does not include the return on “games of chance” which are taxed at 15%.

<sup>41</sup> Employee contributions are remitted by the employer.

<sup>42</sup> The OECD Database on General Competition Statistics (OECD CompStats) is a database with general statistics about competition agencies, including data on enforcement and information on advocacy initiatives. In 2020, it included data from competition agencies in 56 jurisdictions, including 37 OECD countries (36 OECD countries and the European Union), i.e. Argentina, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Peru, United States (Americas): Australia, Brazil, Chinese Taipei, India, Indonesia, Japan, Korea, New Zealand (Asia-Pacific); Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Romania, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom (Europe); Egypt, Israel, Kazakhstan, Russian Federation, South Africa, Turkey, Ukraine (Other) (OECD, 2020<sup>[295]</sup>).

<sup>43</sup> The reported total number of SOEs in North Macedonia held by central and sub-national governments, and their total number of employees, is based on OECD calculations aggregating the sectoral figures provided by North Macedonia’s authorities. The figures provided by the authorities excluded primary-sector SOEs.

<sup>44</sup> No corporate valuation figures for SOEs were provided.

<sup>45</sup> The primary sector is understood to include all activities related to the extraction of raw materials, including agriculture, forestry, fishing and mining activities.

<sup>46</sup> The three SOEs nominally listed on the stock exchange undertake the following activities: 1) invest, build, sell and maintain private apartments; 2) invest, build and maintain government properties (government buildings, sport arenas, schools and other government properties); and 3) operate the state lottery.

<sup>47</sup> All of the WB6 economies except Montenegro were included in the IMF analysis of SOEs’ share of national economic activity. It is difficult to arrive at conclusive regional (or international) comparisons regarding SOEs’ employment share, owing to limitations in data availability or differences in methodology. The IMF study found that SOE employees accounted for approximately 4% of national employment in



North Macedonia, which is lower than the 6.4% estimate of the current OECD assessment. The employment data used in the IMF study applied to a significantly smaller portfolio of SOEs than the current assessment, which likely explains the lower estimated employment share.

<sup>48</sup> While the Government of Macedonia is legally the shareholder of SOEs, it is commonly agreed – and asserted in the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* – that the state exercises ownership on behalf of the general public, who are considered the ultimate shareholders of SOEs.

<sup>49</sup> This conclusion is based on the fact that an independent study of SOEs' financial performance was undertaken by the Balkan Investigative Reporting Network in 2014, using information from financial statements available for 101 enterprises through the Central Registry (BIRN, 2014<sup>[92]</sup>).

<sup>50</sup> According to stakeholders interviewed for this assessment, 14 SOEs operate under the separate legal form of “public enterprise”.

<sup>51</sup> This is based on an unofficial translation of the 1996 version of the Law on Public Enterprises.

<sup>52</sup> For example, a government might establish heightened requirements for independent directors on boards (bringing rules in line with good practice), but then use the awarding of independent directorship positions as tools for political patronage.

<sup>53</sup> Although the latest state ownership report for Finland dates from 2016, its contents can still serve as a useful reference point. The report is available online (Ownership Steering Department, 2017<sup>[297]</sup>).

<sup>54</sup> Data for Kosovo and Japan not available.

<sup>55</sup> For the purpose of this profile, the instructional system refers to teaching and learning processes that takes place in school education. It generally consists of the curriculum, standards for schools and student learning, assessment and evaluation frameworks, and other elements that support instruction.

<sup>56</sup> Learning standards in North Macedonia vary by subject and grade level. For example, standards from the Cambridge curriculum are used for Grade 9 mathematics but these differ from the national mathematics standards used in Grades 10+, see Table 2.2 in (OECD, 2019<sup>[70]</sup>).

<sup>57</sup> The National Examinations Centre expects to start implementing the new national assessment in 2021 to monitor student achievement of the curriculum in Grades 3 and 5.

<sup>58</sup> North Macedonia requires schools to conduct self-evaluations biannually.

<sup>59</sup> Article 113 of the 2019 Law on Primary Education lists the tasks under the responsibility of school principals, including monitoring and promoting educational work – and deciding on educational measures.

<sup>60</sup> The share of early school leavers is defined as the percentage of 18-24 year-olds with at most lower secondary education (ISCED 2) who were not in further education or training.

<sup>61</sup> According to national data received for this assessment, nearly 99% of teachers in North Macedonia had attained at least a bachelor's degree as of 2018.

<sup>62</sup> Pedagogical-psychological and methodological preparation consists of attending classes and taking exams, as well as performing at least 45 days of practical teaching in primary or secondary schools.

<sup>63</sup> The Law on Higher Educational Institutions for Teaching Education Staff in Preschool Education,

Primary and Secondary Education, has undergone several amendments.

<sup>64</sup> Selection into initial teacher education programmes is based on candidate results in the State Matura.

<sup>65</sup> North Macedonia does not offer additional compensation to attract candidates or address teacher shortages in rural areas or academic subjects.

<sup>66</sup> Law on Teachers and Professional Associates in Primary and Secondary Education (Official Gazette of the Republic of North Macedonia no.161/19).

<sup>67</sup> Of the 60 professional development hours in a 3-year cycle, 40 must be from accredited programmes and 20 must cover priority areas identified by the ministry.

<sup>68</sup> Vocational education programmes in North Macedonia are either two, three or four years long.

<sup>69</sup> Teachers may be pressured by parents to give students high marks so they can attend the best upper secondary schools, raising concerns about the integrity of teachers' classroom assessments (OECD et al., 2019<sup>[71]</sup>).

<sup>70</sup> This is the second largest difference in the region, after Serbia (64 score points).

<sup>71</sup> Laws relevant to the institutional framework of VET governance in North Macedonia include the Law on Vocational Education and Training, the Law on the Bureau for Development of Education, the Law on Adult Education, the Law on Secondary Education, and the Law on the Chamber of Commerce.

<sup>72</sup> Education Strategy for 2018-25 and Strategy for Vocational Education and Training in the Context of Lifelong Learning.

<sup>73</sup> Averages taken through the World Bank Open Data portal, based on UNESCO Institute for Statistics (UIS) data. Data for Kosovo not available.

<sup>74</sup> Selection into higher education requires successful completion of a four-year upper secondary education programme and passing the State Matura examination. Specific requirements are also set by individual higher education institutions, which publish selection criteria on their websites.

<sup>75</sup> North Macedonia was one of the first non-EU member countries to introduce a Youth Guarantee Scheme that commits to ensuring all young people receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education (OECD, 2019<sup>[70]</sup>).

<sup>76</sup> In 2019, own calculations based on Labour Force Survey (LFS) data.

<sup>77</sup> Note, that among the EU-11 (all EU transition countries) the average activity rate was 73.7% in 2019, (own calculation based on LFS data).

<sup>78</sup> From 2015 to the second quarter of 2019Q2 (WIIW/World Bank, 2020<sup>[129]</sup>).

<sup>79</sup> They are stipulated in the Law on Labour Relations, the Law on Occupational Safety and Health, and the Law on Private Employment Agencies.

<sup>80</sup> The OHS Council is an expert advisory body that reviews and gives opinions and recommendations concerning occupational health and safety issues in North Macedonia (ILO, 2013<sup>[334]</sup>).

<sup>81</sup> Note that youth unemployment rate is on average slightly lower in in countries that joined the EU after

2004 than in the “old” member states (EU-15).

<sup>82</sup> Information provided by the government.

<sup>83</sup> According to a press release of the Minister of Information Society and Administracija, drafting by-laws is in progress.

<sup>84</sup> According to the government.

<sup>85</sup> Government's response to questionnaire.

<sup>86</sup> According to the government.

<sup>87</sup> Indicators include: 1) unemployment rates by various dimensions; 2) proportions of unemployed people versus employed people; 3) young people not in employment, education, or training (NEET); 4) coefficient of variation of education; 5) variance of relative unemployment rates; 6) mismatch by occupation; 7) over- and under-education; and 8) relative wages (ETF, 2019<sup>[130]</sup>) see also the ETF report Skills Mismatch Measurement in ETF Partner Countries (ETF, 2019<sup>[328]</sup>).

<sup>88</sup> Based on the International Standard Classification of Education (ISCED 2011), the term low-educated refers to people with less than primary, primary and lower secondary education (levels 0-2), medium educated refers to people with upper secondary and post-secondary non-tertiary education (levels 3-4) and highly educated refers to people with tertiary education (levels 5-8). Between 2015 and the second quarter of 2019, the unemployment rate among low-educated adults decreased by 5.9 percentage points, among the medium-educated by 9.6 percentage points, and among the high-skilled by 7.6 percentage points (WIIW/World Bank, 2020<sup>[129]</sup>).

<sup>89</sup> Elementary occupations consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort (ILO, 2004<sup>[332]</sup>).

<sup>90</sup> Tracer studies can be defined as retrospective analyses of graduates through a standardised survey, which takes place some time after graduation (normally between 6 months and 3 years) (ETF, 2017<sup>[333]</sup>).

<sup>91</sup> In 2016, according World Bank (2020) data analysis, nearly two-thirds of young people with primary education had a temporary contract.

<sup>92</sup> With the lowest range showing the greatest inequality.

<sup>93</sup> The male employment rate increased by 7.8 percentage points between 2015 and 2019.

<sup>94</sup> For comparison in the EU-11 countries, the activity rate of men was 15.9% percentage points above the activity rate of women in 2019.

<sup>95</sup> Information provided by the government

<sup>96</sup> Information provided by the government.

<sup>97</sup> Of the remaining staff, 23% are working on passive measures, 10% are working as managers and 6% as support staff.

<sup>98</sup> In France and Germany for example, caseloads of hard-to-place jobseekers are around 70 jobseekers per employment counsellor, while caseloads may vary in these countries between 100 and 350, depending

on how much individual guidance job seekers need and how autonomous they are in using self-help guidance tools. (OECD, 2015<sup>[300]</sup>; Manoudi et al., 2014<sup>[282]</sup>); (Pôle emploi, n.d.<sup>[314]</sup>)

<sup>99</sup> The long-term unemployment incidence in the EU was 35% in that year.

<sup>100</sup> Information provided by the government and Eurostat, LFS database.

<sup>101</sup> As recommended by the OECD, countries should ensure access to welfare benefits, such as unemployment and disability benefits whilst reducing incentives for early retirement for those still able to work. This calls for supporting companies to retain older workers (OECD, 2019<sup>[293]</sup>).

<sup>102</sup> 50% of reference earnings for workers who have the right to benefits for up to 12 months, while for workers who are entitled to benefits for longer than 12 months it is 50% of reference earnings in the first year and 40% in the remaining time period.

<sup>103</sup> Information provided by the government.

<sup>104</sup> The poverty rate was reduced from 27% in 2010 to 22.2% in 2017 (Government of North Macedonia, 2019<sup>[121]</sup>).

<sup>105</sup> Study led by co-operation Eftheia, Icon Institut and Budapest Institute on behalf of the European Commission, DG Employment, Social Affairs and Inclusion.

<sup>106</sup> Unemployment rate among 15-24 year-olds.

<sup>107</sup> In the second quarter of 2019, the youth unemployment rate was 4.9 percentage points above the WB6 average.

<sup>108</sup> LFS data.

<sup>109</sup> Information provided by the government.

<sup>110</sup> Data provided through answers to the questionnaire.

<sup>111</sup> There are no comparable data for Bosnia and Herzegovina, Kosovo, and Montenegro available. Data from other sources suggest that informal employment is about 30.4% in Bosnia and Herzegovina; 20% in Montenegro (where in addition 10% of salaries are under-reported according to a 2014 survey (ILO, 2019<sup>[278]</sup>), based on Labour Force Survey data; (EC, 2019<sup>[305]</sup>); (Katnic, 2018<sup>[281]</sup>). According to a Eurobarometer survey, 10% of respondents in the EU report they have purchased goods or services in the past year that might have derived from undeclared work. A third of Europeans know somebody who works undeclared (EC, 2020<sup>[306]</sup>).

<sup>112</sup> According to data provided by the government.

<sup>113</sup> There is a clear link between female employment and access to high-quality and accessible childcare.

<sup>114</sup> Horizon 2020 is the biggest EU framework programme for research and innovation. It provides funding for multi-national collaboration projects as well as for individual researchers, and supports SMEs with a special funding instrument (<https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020>; <https://www.euneighbours.eu/en/east/stay-informed/projects/horizon-2020>).

<sup>115</sup> Eureka is the largest intergovernmental network for co-operation in R&D and innovation in the world. It is present in over 45 economies, where it provides access to public funding, promotes collaboration and

innovation or offers advice through various programmes (such as EUREKA Clusters, Globalstars, InvestHorizon) (<https://www.eurekanetwork.org/>).

<sup>116</sup> European Cooperation in Science and Technology (COST) is an EU-funded, intergovernmental framework that currently gathers 38 Members and 1 Cooperating Member. It is a funding organisation for the creation of research networks (COST Actions), which offer an open space for collaboration among scientists across economies. COST funding is intended for collaboration activities and complements national research funds (<https://www.cost.eu/who-we-are/about-cost/>).

<sup>117</sup> EURAXESS – Researchers in Motion is a pan-European initiative delivering information and support services to professional researchers, backed by the EU, member states and associated economies. It supports researcher mobility and career development and enhances scientific collaboration (<https://euraxess.ec.europa.eu/>).

<sup>118</sup> Marie Skłodowska-Curie Actions (MSCA) is an EU programme that provides grants to support research careers and encourages transnational, intersectoral and interdisciplinary mobility. (<https://ec.europa.eu/programmes/horizon2020/en/h2020-section/marie-skłodowska-curie-actions>; [https://ec.europa.eu/research/mariecurieactions/msca-actions\\_en](https://ec.europa.eu/research/mariecurieactions/msca-actions_en)).

<sup>119</sup> The National Operational Broadband Plan includes a specific timeline for each action and tangible targets. For example, all towns in the country will have uninterrupted 5G coverage by the end of 2027, or at least 50% of the total number of household subscriber contracts across the country will provide internet access of at least 100 Mbps by the end of 2029, and all public bodies will have internet access speeds above 1Gbps by the end of 2029. (Ministry of Information Society and Administration, 2019<sup>[284]</sup>).

<sup>120</sup> White zones are those in which there is no broadband infrastructure and it is unlikely to be developed in the near future. A basic broadband infrastructure mapping web application was created in 2018 by the Agency for Electronic Communications, the national electronic communications regulator, indicating white, grey and black zones, based on the availability of internet access speeds higher than 30Mbps (AEK, 2021<sup>[255]</sup>).

<sup>121</sup> The Open Data Portal of the Government of North Macedonia (<http://data.gov.mk/>).

<sup>122</sup> The Open Finance Portal was developed with support from USAID and IRI and participation of the civil society (<https://open.finance.gov.mk/>).

<sup>123</sup> National e-government portal (<https://uslugi.gov.mk/>).

<sup>124</sup> Country report and roadmap for Digital Agenda advancement in North Macedonia, project “Increasing Citizen Participation in the Digital Agenda – ICEDA”, co-funded by the European Union and implemented by the Metamorphosis Foundation (North Macedonia), Academy for e- Government (Estonia), Levizja Mjaft! (Albania), CRTA - Center for Research, Transparency and Accountability (Serbia), NGO 35mm (Montenegro) and ODK - Open Data Kosovo (Kosovo). (Jashari and Josifovska Danilovska, 2020<sup>[280]</sup>).

<sup>125</sup> Guidelines for Accessibility to Web Content describing the application of WCAG v2.0 standards for the web presentation of public sector bodies and institutions (<http://wcag.mioa.gov.mk/>).

<sup>126</sup> State Market Inspectorate, online form for collecting consumer complaints (<https://www.dpi.gov.mk/index.php/mk/contact>).

<sup>127</sup> The draft Law on Networks and Information Systems Security was under a consultation process at the time of writing this text.

<sup>128</sup> A single project pipeline (SPP) is a list of projects developed based on a strategic tool for project planning to avoid an ad hoc approach to planning preparation and implementation of investment projects. The SPP helps to ensure strong project prioritisation, to enable systematic and timely planning of resources, to provide a reliable basis for defining the proper sequencing of the priority axis and actions per sector, and to help link investment planning and programme budgeting.

<sup>129</sup> Department within the Ministry of Finance of the Republic of North Macedonia.

<sup>130</sup> For more information, please see: World Bank, Regional and Local Roads Program Support Project, [https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar\\_macedoniaroads.pdf](https://ieg.worldbankgroup.org/sites/default/files/Data/reports/ppar_macedoniaroads.pdf).

<sup>131</sup> An appropriate definition of “asset management” for the roads sector is the one proposed by the OECD in 2001: “A systematic process of maintaining, upgrading and operating assets, combining engineering principles with sound business practice and economic rationale, and providing tools to facilitate a more organised and flexible approach to making the decisions necessary to achieve the public’s expectations.” (OECD, 2001<sup>[330]</sup>).

<sup>132</sup> Public Enterprise Macedonian Railways Infrastructure (PEMRI, owned by the Republic of North Macedonia) possesses the Railway Infrastructure Management System (RIMS) software, but unfortunately PEMRI does not have the measurement car needed to use the software as planned.

<sup>133</sup> Draft Regional Road Asset Management Plan developed by the Transport Community Permanent Secretariat, (currently under the endorsement process but the implementation level is already monitored by the TCPS); Draft Action Plan for developing a regional rail strategy in the Western Balkans developed by the Transport Community Permanent Secretariat, (currently under the endorsement process but the implementation level is already monitored by the TCPS); Preparation of Maintenance Plans 2018-2022 for Road/Rail TEN-T indicative extensions to WB6. For more information, please see: <https://www.transport-community.org/library/reports/>.

<sup>134</sup> Important regulations include: Regulation on procedure, rules and special requirements for inspection and special requirements to be met by a person to carry out inspection of provision of air navigation services; Regulation on method of provision of Air Navigation Services and special requirements in respect of required staff, equipment and other special requirements necessary for safe and regular work; Decision on Level Charge for Air Navigation Services; Regulation on the organization and use of the airspace; Regulation on rules and requirements in respect of systems interoperability, their components and related procedures for provision of air navigation services with the European ATM network.

<sup>135</sup> According to the last Local Single Sky Implementation document, issued on 30 March 2020, the legal system of the Republic of North Macedonia is in compliance only with the ATM legislation of SES Package 1 but the transposition of SES II was initialised on the basis of the amendments of the Aviation Act enacted in 2016 and is ongoing (Eurocontrol, 2020<sup>[329]</sup>).

<sup>136</sup> Safety culture is civil aviation safety programme. The State Safety Programme is an integrated set of regulations and activities aiming to improve safety (e.g. Safety Risk Management, Safety Assurance).

<sup>137</sup> Information provided through the quantitative questionnaire by the government.

<sup>138</sup> A one-stop shop is a business or office where multiple services are offered; i.e., customers can get all they need in just “one stop.” The term originated in the United States in the late 1920s or early 1930s to describe a business model offering customers the convenience of having multiple needs met in one



location, instead of having to "drive all over town" to attain related services at different stores. One-stop shop is a way of facilitating trade.

<sup>139</sup> On 28 January 2019, the Agreement on international transport of passengers and goods between the Republic of Macedonia and the Republic of Lithuania was signed by the Ministers of Foreign Affairs of both countries. It was ratified on 12.12.2019, and published in the Official Gazette of the Republic of North Macedonia no. 259/19 on 18 December 2019.

<sup>140</sup> Modal shift from road, standards for energy efficiency, standards for noise emission, reduction of GHG emissions, vehicle labelling for emissions and fuel efficiency, introduction of carbon footprint calculators, eco-driving and speed limits, ITS applications, co-modality in transport, urban mobility solutions, etc.

<sup>141</sup> As per the Combined Transport Directive 92/106EC, amended by the Directive 2013/22/EU, "combined transport" means the transport of goods between Member States where the lorry, trailer, semi-trailer, with or without tractor unit, swap body or container of 20 feet or more uses the road on the initial or final leg of the journey and, on the other leg, rail or inland waterway or maritime services where this section exceeds 100 km as the crow flies and make the initial or final road transport leg of the journey.

<sup>142</sup> Ease of arranging competitively price shipments.

<sup>143</sup> Ability to track and trace consignments.

<sup>144</sup> For more information please see the UK Transport Analysis Guidance (UK Government, 2019<sup>[323]</sup>), Special attention should be paid to the TAG unit A1-1 transport analysis guidance on the principles of cost-benefit analysis and how they should be applied in the context of transport appraisals.

<sup>145</sup> Periodical and regular measurements to monitor infrastructure assets' conditions, assessment of the value of assets and costs for non-maintained assets, adoption of the asset management strategies, consistent approach in the identification of the mix and timing of asset operation and construction strategies, etc.

<sup>146</sup> Gross inland consumption is, in this case, the total energy demand of North Macedonia excluding international marine bunker. For further explanation of statistical energy terms please see [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Category:Energy\\_glossary](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Category:Energy_glossary).

<sup>147</sup> For a list of outstanding secondary legislation and regulations please see (Energy Community Secretariat, 2020<sup>[265]</sup>)

<sup>148</sup> Network codes are a set of rules drafted by ENTSO-E, with guidance from the Agency for the Cooperation of Energy Regulators (ACER), to facilitate the harmonisation, integration and efficiency of the European electricity market. See more details at: [https://www.entsoe.eu/network\\_codes/](https://www.entsoe.eu/network_codes/)

<sup>149</sup> Commissioner in this context means, pursuant to and in compliance with Chapter III of the Energy Law No. 08-3424/1 from the 21st of May 2018, member of the governing council of ERC—including but not exhaustively the President and Deputy President.

<sup>150</sup> See Ten Year Network Development Plan (TYNDP) (MEPSO, 2019<sup>[207]</sup>).

<sup>151</sup> EU Regulation (EU) 347/2013.

<sup>152</sup> Oil indexation had been once the dominant pricing format for natural gas in Europe. This largely reflected that at the times, natural gas spot markets were not liquid enough to provide good price signals.

Moreover, at the times natural gas was competing with oil consumption in power generation and heating and oil indexation was a good approach to assure that natural gas was competitive versus main alternative fuel. Furthermore, with often oil indexation is also justified due to natural gas being partially produced as a by-product from oil exploration or as natural gas investment cost being associated with alternative investment into oil. However, oil indexation implies that in the current market situation that the natural gas price is not reflective of the supply and demand realities which are largely now disconnected from oil both in terms of alternative demand and on the production side. Furthermore, Europe has a variety of liquid natural gas spot markets that offer good pricing and indexation points, especially considering the interconnected nature of the European natural gas pipeline network. However it should be stressed that there is an extensive literature discussing benefit and drawbacks of natural gas being priced on oil indexation and this endnote only scratches the surface of the debate. Some examples of the literature are: (Dubreuil, Gergely Molnar and Jeon, 2020<sup>[262]</sup>), (EC, 2015<sup>[302]</sup>)—with regard to legality of oil indexation, (Melling, A.J. (2010), Natural gas pricing and its future- Europe as the battleground, 2010<sup>[301]</sup>), (IEA, 2020<sup>[277]</sup>)—for current split in pricing approach in Europe, (Stern, 2007<sup>[331]</sup>).

<sup>153</sup> European Union Regulation 2019/941 On risk-preparedness in the electricity sector and repealing Directive 2005/89/EC.

<sup>154</sup> “The term ‘prosumers’ broadly refers to energy consumers who also produce their own energy from a range of different onsite generators,” (EC, 2017<sup>[303]</sup>) but “mainly through solar photovoltaic panels on their rooftops, citizen-led energy cooperatives or housing associations, commercial prosumers whose main business activity is not electricity production, and public institutions like schools or hospitals” (European Parliamentary Research Service, 2016<sup>[270]</sup>).

<sup>155</sup> The Energy Law establishes the possibilities of own consumption and stipulates in Article 38 Paragraph 2, Article 96 Paragraph 4, Article 185 Paragraph 2 and Article 186 Paragraph 1.7 that this activity does not require a licence and that rules for their accommodation should be included in support measures and the distribution network code. This is right is reaffirmed by the Rulebook For Renewable Energy Source.

<sup>156</sup> There are possible improvements with respect to establishing a single entity for a streamlined permit process which renewable energy projects need to approach, as well as establishing a electronic/online platform for aspects relating to permits and Guarantees of Origins.

<sup>157</sup> A Guarantee of Origin (GO) is a tracking instrument defined in Article 15 of the European Directive 2009/28/EC On the Promotion of the Use of Energy from Renewable Sources and Amending and Subsequently Repealing Directives 2001/77/EC and 2003/30/EC. GOs are certificates used to identify and certify that a certain consumed electricity was sourced from renewable energy. A certificate is issued per MWh generated from renewable energy and cancelled by consumers or suppliers who would like to certify that energy was generated renewably. For more information on GOs and their use and implementation please see (AIB, 2020<sup>[256]</sup>) or (Umwelt Bundesamt, 2020<sup>[324]</sup>).

<sup>158</sup> European Directive 2009/28/EC On the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, which is part of the Third Energy Package. Article 15 Paragraph 2 states that “Member States may provide that no support be granted to a producer when that producer receives a guarantee of origin for the same production of energy from renewable sources.” In other words, countries have the option to limit the issuance of GOs to renewable projects not receiving state aid, an option that is currently used by North Macedonia. However, as part of the Clean Energy Package, this Article has been recast to state in Article 19 Paragraph 2 of the European Union Directive 2018/2001 On the promotion of the use of energy from renewable sources that “Member States shall ensure that when a producer receives financial support from a support scheme, the market value of the guarantee of origin for the same production is taken into account appropriately in the

relevant support scheme.” In other words, countries can no longer exclude state funded project from receiving guarantees of origin. This change large reflects the realisation that guarantees of origin allows the owner to obtain additional financial flows for renewable generation as it separate the generated electricity and allows to capture consumer group willing to pay for the privilege of sating their consumption is derived from renewable generation. To this end, the Directive does prescribe that the additional income be used to ease the government associated support scheme cost.

<sup>159</sup> Energy Efficiency Directive 2012/27, the Energy Performance of Building Directive 2010/31, and the Directive of Eco-Design of Energy Related Products 2009/125.

<sup>160</sup> Please see the Energy Community Secretariat report (Energy Community Secretariat, 2020) for a list of all the secondary legislation which has yet to be adopted. Both the regulator and Ministry of Economy have an extensive list of energy sector legislation and regulations that have been adopted. (Energy Regulatory Commission, 2020<sup>[267]</sup>) (Ministry of Economy, 2020<sup>[283]</sup>) (Ministry of Economy, 2020<sup>[283]</sup>) However, the list in English is not as extensive as the list in the national language and so it is possible that some of the outstanding acts have been adopted .

<sup>161</sup> North Macedonia has no natural gas resources and is reliant on natural gas imports (Energy Regulatory Commission, 2019<sup>[266]</sup>).

<sup>162</sup> According to Energy Community Secretariat, there were roughly 437 consumers in North Macedonia in 2019, of which 389 were household consumers. Household consumption of 6 million cubic meters accounted for 2% of total consumption in 2019 (Energy Community Secretariat, 2020<sup>[203]</sup>).

<sup>163</sup> A seat requirement is “a provision of national law under which an undertaking established in another Member State must create a permanent establishment in the Member State in which it seeks” to be active (Energy Community Secretariat, 2018<sup>[264]</sup>). While this is not prohibited, it does add a barrier to entry and decreases the competitiveness of international market entries by imposing the additional cost of maintaining more than one establishment.

<sup>164</sup> Meanwhile, the DSO has fewer than 100 000 customers and thus, under EU Directive 2009/73/EC Article 26 Paragraph 4, does not need to be unbundled.

<sup>165</sup> For more on the natural gas network codes please see European Network of Transmission System Operators for Gas.

<sup>166</sup> For a comprehensive presentation of the benefit of trade and their mechanisms please see (Baker, Hogan and Kolokathis, 2018<sup>[257]</sup>); (Newbery et al., 2013<sup>[259]</sup>); and (Böckers, Haucap and Heimeshoff, 2013<sup>[258]</sup>).

<sup>167</sup> It should be clarified that this section is in relation to subsidies outside of support for renewable energy, energy efficiency, and social needs. All three are commonly applied policy areas that receive some form of financial support. It is common international practice to provide subsidies for renewable energy in order to support the investment and thus growth of renewable energy in the national energy mix. While at the beginning of the global deployment of renewable energy, source subsidies were needed as the cost of renewable energy was not competitive, as deployment has increased the cost has come down to a point where renewable energy sources are increasingly competitive with existing fossil fuel generation. However, renewable energy subsidisation continues to be the international norm in order to expedite the deployment and thus further the cost reduction of renewable energy. Meanwhile, international best practice also recognises social support as an acceptable form of protecting the most vulnerable consumers in society. It should be stressed that social support is sometime used as the basis to provide large section of

consumers with below market cost energy – including consumers who can afford to pay for their consumption. This use represents a cross-subsidy that is not considered international best practice. Lastly, energy efficiency is a common policy area and, much like renewable energy, it is international best practice to provide financial support to consumers to increase and accelerate the deployment of energy efficiency measures. This section concerns itself with direct or indirect subsidies that are not in any of these areas, but rather subsidisation that leads to a market distortion away from the competitive equilibrium.

<sup>168</sup> The third one was published in 2020 and the fourth one was being prepared at the time of writing,

<sup>169</sup> The project “Adaptation to Climate Change through Transboundary Flood Risk Management in the Western Balkans (2016-2020)” funded by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), focuses on the development of integrated water resource management and implementation of adaptation strategies in the Drin River Basin, covering Albania, Kosovo, Republic of North Macedonia and Montenegro. The main objective is to mitigate the impacts of climate change by focusing on flooding and drought risk management as well as strengthening regional co-operation as it pertains to the management of water resources. Moreover, the project “Improving Flood Resistance in the Polog Region” funded by the Swiss Agency for Development and Cooperation (SDC) and scheduled to run until 2023.

<sup>170</sup> Overall responsibility for waste management lies with the MoEPP. The Waste Management Department, established in 2010, is responsible for planning, adopting and implementing legislation, setting standards in waste management, monitoring, issuing permits for waste managers, as well as initiation and coordination of waste management projects. The Ministry of Economy (MoE), Ministry of Finance (MoF) and MoEPP are responsible for preparing regulations on Extended Producer Responsibility (packaging, WEEE, batteries). The Ministry of Finance (MoF) develops economic instruments and provides funds to encourage sustainable waste management. The Ministry of Health (MoH) and MoEPP prepare regulations on medical waste management. Responsibility for inspecting medical waste management is divided between State Sanitary Inspectorate (MoH) for the selection and storage of medical waste and State Environmental Inspectorate (SEI) for the transport and treatment of the medical waste. The competent authorities for inspection and enforcement tasks are the State Environmental Inspectorate (SEI) and the Local Inspection Authority (municipalities). Inter-Municipal Waste Management Boards (IMWMB) are established in all eight regions and have the responsibility of organising the implementation of waste management plans.

<sup>171</sup> EU Waste Framework Directive, Landfilling Directive, Packaging Waste Directive and Directives on end-of-life vehicles, on batteries and accumulators and waste batteries and accumulators, and on waste electrical and electronic equipment.

<sup>172</sup> Among the EU countries, Finland records the highest freshwater resources (with a long-term average of 19 950m<sup>3</sup> per inhabitant) followed by Sweden (19 410m<sup>3</sup>). Freshwater abstraction by public water supply ranged across the EU from a high of 179m<sup>3</sup> of water per inhabitant in Greece (2016 data) down to a low of 31m<sup>3</sup> per inhabitant in Malta (OECD, 2020<sup>[51]</sup>).

<sup>173</sup> At the tenth meeting of the Conference of the Parties to Convention on Biological Diversity, held in October 2010, in Nagoya, Aichi Prefecture, Japan, a revised and updated Strategic Plan for Biodiversity was adopted, including the Aichi Biodiversity Targets, for the 2011-20 period. This plan provided an overarching framework on biodiversity, not only for the biodiversity-related conventions, but for the entire United Nations system and all other partners engaged in biodiversity management and policy development. Parties agreed to translate this overarching international framework into revised and updated national biodiversity strategies and action plans within two years, which are intended to define the current status of biodiversity, the threats leading to its degradation and the strategies and priority actions to ensure its conservation and sustainable use within the framework of the socio-economic development of the

country. There are 20 Aichi biodiversity targets grouped around 5 strategic goals: A) Address the underlying causes of biodiversity loss by mainstreaming biodiversity across government and society; B) Reduce the direct pressures on biodiversity and promote sustainable use; C) Improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity; D) Enhance the benefits to all from biodiversity and ecosystem services; and E) Enhance implementation through participatory planning, knowledge management and capacity building (Convention on Biological Diversity, 2020<sup>[261]</sup>).

Draft VI National Report to the Convention on Biological Diversity in 2020 has been prepared. The report was submitted to the Secretariat of the Convention on Biological Diversity.

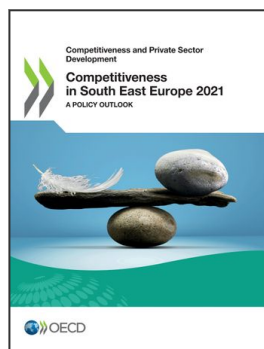
<sup>174</sup> Although six pollutants (SO<sub>2</sub>, NO<sub>x</sub>, PM<sub>10</sub>, PM<sub>2.5</sub>, CO and O<sub>3</sub>) are continuously monitored, in many cases, the time coverage of the data is below 70%.

<sup>175</sup> In 2017, combustion in households and administrative capacities contributed 37% of PM<sub>10</sub>, out of the national total of 16.2kt, and 62% of PM<sub>2.5</sub>, out of the national total of 9.2kt.

<sup>176</sup> The following fees are set out in Article 213 of the Law on Water: fee for water use intended for human consumption; fee for use of irrigation water; fee for use of water for land drainage; fee for the use of water in the production of electric energy; fee for the use of water for thermal energy from geothermal waters; fee for the use of water for fish farming, in fishponds and in cages and waterfowl; fee for the use of water for washing and separation of sand, gravel and stone; fee for use of water for production and processing of food and beverages, industrial and technological needs; a fee for discharging water; and a fee for extracting sand, gravel and stone.

<sup>177</sup> According to the last agriculture census, more than 485 900 families declared at least 20% of the family income came from agriculture activity, State Statistical Office, 2019.

<sup>178</sup> After Brexit, North Macedonia and the United Kingdom concluded a new free trade agreement – Partnership, Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland and the Republic of North Macedonia. This agreement complies with the Stabilisation and Association Agreement between the European Union and the Republic of North Macedonia, in order to not disrupt the current trade relations between the two countries.



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