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ECPD PROJECT

**FINAL EVALUATION OF THE
REGIONAL DEVELOPMENT STRATEGY 2009 – 2019
OF THE REPUBLIC OF NORTH MACEDONIA
AND OF THE PROGRAMMES IN THE PLANNING REGIONS**

FINAL REPORT

1. The international ECPD research team had undertaken this complex task related and focussing on the following three issues:
 - (1) Evaluation of the success of the Regional Development Strategy 2009 – 2019 in terms of reducing regional economic disparities among 8 planning regions of the Republic of North Macedonia and carrying out their development programmes;
 - (2) Assessment of the contribution of the Strategy to successful execution of the Development Strategy of the Republic of North Macedonia;
 - (3) Proposal of changes and specific recommendations for measures to be undertaken in order to make the next Regional Development Strategy 2020-2030 as successful as possible.

When reporting about the outcome of the study, the members of the ECPD international expert team wish to emphasize that the **task was more demanding than expected**, primarily since – in spite of great efforts by the Ministry of Local Self-Government – we could not obtain much of the absolutely necessary statistical data and particularly evaluation given by institutions responsible for the publicly funded individual regional projects. No need to emphasize that neither the terms of reference, nor the budget or

time frame, allowed the team to evaluate individual projects on their own. It was made clear on our initial meeting in Skopje, on 13 November 2019, that the evaluation will be done on the basis of the available documentation and by econometric analysis using macroeconomic indicators. Here, it should be emphasized that all evaluations and gradings were made exclusively based on official and government reports, and additionally supported by Survey results.

The team partly compensated lack of relevant project data by conducting an **online Survey**, but due to somewhat biased composition of respondents (high share of respondents from the Skopje region, and many from state entities and public companies), these conclusions had to be taken into account with a certain measure of caution.

Still, the team members believe that **everything possible was done in given conditions, and have produced a useful study**, offering an overview of the efforts to reduce regional economic disparities in the Republic of North Macedonia – as complete as never before. Also, we trust that we have **identified the key problems** to be addressed by the next Regional Development Strategy, as well as **proposed the additional measures and policies** to be introduced to make the next Strategy an even bigger success than the 2009-2019 Strategy.

2. Since our main Conclusions and Recommendations are extensively elaborated in the fifth Chapter of the Study, and briefly presented in the Executive Summary, here we only wish to **shortly point to some of the key analytical observations and specific proposals**, which we believe could contribute to the success of the next Regional Development Strategy of the Republic of North Macedonia.

Perhaps an **introductory comment is needed** in order to prevent any misunderstanding: members of the team have made a number of critical assessments of some deficiencies in the Strategy itself, as well as lack of coordination with national Economic Development Strategy (primarily due to lack of properly articulated priorities), as well as less than perfect implementation policies and measures. At the same time, readers of the Study will notice, that we have given **high marks to the actually achieved results** in reducing regional disparities (GDP pc ratio between the richest and the poorest region have shrunk during 2009-2017 from **3.6** to at least **2.9** – in some calculations even **2.4**). This is better than **2.5**, set in the original Strategy, and rather close to the ambitious new target of **2.2**, from 2014 Strategy Update. The 7 regions average ratio to Skopje region has been reduced during 2009-2017 from 2.4 to 1.9, which is certainly

impressive and **encouraging**. Namely, the differences among NUTS-3 regions in EU have in the same period increased, in spite of generous Cohesion support.

How did individual planning regions perform in terms of GDP pc vis-a-vis Skopje in the period 2009 - 2017? They all performed favourably, while the best were North Eastern region (advancing from coefficients 3.4 to 2.4), Eastern (from 2.3 to 1.4), Polog (from 3.6 to 2.9), and South Eastern (from 1.8 to 1.2). They were followed by: Pelagonia (from 1.7 to 1.3), Vardar (from 1.6 to 1.4) and finally South Western region (from 1.8 to 1.7).

Though GDP growth is important, the **Development Index** tells us much more about the **shrinking regional disparities**. Between the periods 2008-2012 and 2013-2017 the following 3 regions (East, Pelagonia, and Polog) have improved their index versus Skopje by 17, 11, and 9 points – coming to indices of 63, 60 and 54 points (check Table 3, page 44 in the Study). During the same period Skopje has advanced by only 2 points.

However, in this framework the Republic of North Macedonia still has **two important issues to address**: (a) reducing the **unbalanced dominance of Skopje region** (over 30% of population, 43% of BDP, 55% of fixed capital investment, 56% of exports, and 70% of investment); and (b) **preventing or at least reducing emigration and brain drain**, affecting particularly the poorer regions of Vardar, Pelagonia, South East, and South West.

The fight for higher **regional cohesion in Europe** is still far from being successfully completed. The index of poorest NUTS3 region in EU is 31% and the richest 253% of EU27 average. It is quite surprising that even **27%** of the EU population still lives below 75% of EU average GDP per capita. In the Republic of North Macedonia this is the situation with only **25%** of country's population, in 6 out of 8 planning regions. In this comparison one cannot neglect the difference in GDP pc in EU (average), and in Rep.of North Macedonia (29,230 € vs. 4,763 €). This means that the 27% of average poor in EU live with up to 21,922 € yearly, and in Rep.of North Macedonia 25% of average poor live with up to 3,572 € in PPP – which means 6 times less.

3. When faced with the intention to interpret what were the **key factors contributing to the positive developments** – in terms of regional development policy – members of the team must admit to be reluctant in offering a single clear answer. There is no doubt that project funding has played a role, but our econometric calculations indicate that the investment of **373.8 mil €** over the period of 2009-2019 going into **2,247 projects**

(when measured as impact factor on growth of GDP being 0.05) were primarily of a **facilitating and enabling nature**. If the **1% GDP commitment** were fulfilled – bringing the total figure 5-7 times higher – in most cases, and depending on the choice of projects to be funded, the final impact, though certainly greater, would probably remain of the same nature. Why are we saying this? Simply since we wish to emphasize that the function of development (not just growth creation) would have been stronger, had the public investment been focussed more strongly on priorities capable of changing the structure of regional, and consequently national economy. These priorities, however were unfortunately described in the National Development Strategy, as well as in Regional Development Strategy in a **rather generic fashion**. And it should be emphasized that the quality of any strategy depends largely on the proper **selection of priorities** and **actual focus on these during implementation**.

4. Looking at **where the investment funds have been directed in terms of set priorities**, it is important to remind ourselves that during the period 2009-2018 among the **1,562 projects funded by line ministries**, 80% of them were in the following three priorities categories: **1.7 environment** (37%), **1.5 creating competitive advantage** (26%), and **1.4 raising quality of human capital** (16%). From the second category of priorities the funded projects followed only two priority areas: **2.2 integration of urban and rural areas** (50%), and **2.4 raising level of social development** (50%).

This gives a general picture, and indicates where the actual priorities were positioned. There was not a single project in priority 1.1 (Promoting economic growth), and the smallest number (only 20 projects) in 1.2 (Developing contemporary and modern infrastructure). It is true that most of the **priority areas are labelled rather generically**, so there is an element of arbitrariness, under which area an individual project has been classified.

For comparison, the EU priorities defined in the **EU Territorial Agenda 2020** focus on **4 priorities**: (a) promoting polycentric and balanced territorial development, (b) integration of cities, rural and areas with specific needs, (c) global competitiveness, and (d) improved connectivity for individuals, communities and enterprises.

The **Ministry of Local Self-Government** has funded in the same period **682 projects**, but of a different nature: over 60% of projects were in the priority 1.2 - **Infrastructure**, and 20% in priority 1.1 - **Promoting economic growth**. The second strategic objective, greater demographic, economic, social and spatial cohesion between and within the planning regions was executed almost exclusively into priority domain **2.2 - building**

functional spatial structures for better integration of urban and rural areas in the planning regions were addressed by 90 % of the projects. The other strategic priorities 2.1; 2.3; and 2.4 were addressed by only 10 % of projects. The priorities 2.5; 2.6 and 2.7 were not addressed at all.

It was difficult to make relevant and **valid evaluation of the effectiveness and efficiency of the projects**. The official reports of the Councils of the planning regions record the implementation and delivery of the projects by three different approaches. The **first approach** records the projects by the following elements: (1) medium-term objective, (2) “Measure” (‘merka’), (3) type of activities, and (4) number of activities. The **second approach** records the projects by the following elements: (1) medium-term objective; (2) ‘merka’; (3) indicator; (4) output results and the **third approach** records the projects by the following elements: (1) Priority; (2) ‘merka’; (3) project; (4) the main partner, (5) budget, and (6) result.

These reports unfortunately do not contain unified, complete, and standardised information about key partners, relevant and valid indicators, locations, finance and results.

The highest number of projects were funded in the Southwest region, 14%, followed by the East region, 14% and Pelagonia region with 13%. The smallest number of projects were allocated into Skopje region with 11%. The average total number of projects per region was 162.75, with a standard deviation of 9.78 projects, and a coefficient of variation of 6.01%, which also indicates that the allocation of the projects was executed equally and with a consistently balanced approach.

5. With our econometric research it has been calculated that **coefficient of correlation between GDP growth and volume of public investment** in the Rep. of North Macedonia during the past decade remained modest at **0.05**, meaning that the direct impact was only at the order of **5%**. This may be rather low, but should not be interpreted as if it did not matter, primarily through these investments' secondary and tertiary impacts. Undoubtedly, these investments did contribute to better living and working conditions in the respective regions, enhancing the quality of living conditions, which certainly increases the motivation of people to contribute to the progress of their community, thereby of their region, and finally the country.
6. Having mentioned the online Survey (156 respondents), as well as its limitations, we still wish to refer to some results, which gave us support in formulating conclusions and

preparing recommendations. On the question of the main **reasons for lack of regional balance** (among 8 options) most respondents ranked highest: “The ineffective development strategies and plans”, followed by “Quality of infrastructure”, and “Conflicts and differences between political parties and absence of national interest.” Among the **priority expectations** from cohesion policy the respondents selected: “Stable growth and socio-economic development”, “Better standard of living”, and “Better education, health and other services”. Particularly as there were rather small differences in most frequent answers among regions, age groups and ethnic background, **messages from the survey should not be ignored.**

7. In order to present an overall picture, based on our research, **the following points should be singled out** – making no mistake, that these type of critical observations could also be addressed to most European countries:

7.1. We have identified a **gap** between the **generally declared intention** of the government to reduce regional disparities, and the **introduced implementation policies and instruments**. This gap is reflected particularly in:

- (a) *the volume of funding, having failed the adopted 1% GDP;*
- (b) *modest harmonisation between Regional Development, and National Development strategies;*
- (c) *Ministry of Local Self-Government was left in a secondary position, except partly in project funding;*
- (d) *no special economic instruments were developed in favour of poorer regions;*
- (e) *reporting on projects implementation has been reduced to a mere and incomplete formality.*

7.2 This gap (or at least some of its elements) could be interpreted in the context of **modest public awareness** and **insufficient political will** to make reduction of regional disparities a **top national priority**, and limited interaction of government/administrative bodies (including National and Regional Councils) with various segments of interested public, including business community, and insufficient communication activities – presenting the broader benefits of regional development policies for the country's future.

7.3 The government of the Republic of North Macedonia has not designed national development strategies sufficiently in line with the **modern, innovation-led development paradigm**, neither decided for heavier emphasis on development priorities linked to the natural advantages of the country, with undisputable

potential for **agriculture and tourism**. By applying proper analytical tools, like SWOT and PESTLE, it should become evident that going into this direction is absolutely necessary.

- 7.4 **System of priorities** for providing public funding for regional development projects has been formulated rather generically, **not reflecting sufficiently the target of reducing regional development disparities**. Therefore it allowed regions to receive public funding for projects not necessarily of this nature, but obviously represented priority needs of the respective region/municipality.
- 7.5 **Human capital development deserves more attention** and it is not just about encouraging half of young population to obtain university diplomas, but intensely closing the skills gap, by preparing people for the jobs of tomorrow (not yesterday). This should be more closely **coordinated with regional development policies**, otherwise educated young people move to Skopje, or even worse, emigrate – creating a double loss for their own region and the country.
- 7.6 **Spatial and urban planning** has not been fully and properly integrated into the Regional Development Strategy and its implementation – from national to local level. Advanced countries are making great advantage of optimal space and urban planning and management, as illustrated with a model EC21 – EcoCommunity, as presented in the Annex IV of the Study.
- 7.7 An important instrument to support reduction of regional disparities is a **transparent concept of polycentrism**. Although this may create some concerns in multi-ethnic countries, if done properly, it does not have to create the impression of territorial divisions, but should serve in **building trust between ethnic communities** - living within a country, and sharing in processes of governance. Opening some ministries outside Skopje in such constructive spirit could serve confidence-building purposes.
- 7.8 As the planning regions are becoming increasingly an organic entity for addressing all aspects of socio-economic development: from education to infrastructure, it might be advisable to **give them more conventional names**, using the names of relevant mountains, lakes, etc. The geographic denominations appear somewhat artificial, and it might be advisable to reduce the number of regions – making them more sustainable and easier to balance.
8. Members of the team are fully aware that more research will be needed to help all those responsible for preparing the next Regional Development Strategy 2020-2030 of the

Republic of North Macedonia. We wish to express our **readiness to offer our services through ECPD also in the next steps**. We are confident that this study is providing a good evaluation of the design, implementation mechanisms and overall impact of the 2009-2019 Strategy, and that the efforts undertaken so far has **qualified us for further productive support**, starting with **the conference scheduled** for Autumn (due to coronavirus), and we look forward to discussing on this occasion the results of the study. This conference will provide us all with an opportunity to search for and formulate answers to numerous pertinent issues of more general, as well as rather practical nature, and also clarify any remaining questions.

9. Finally, the ECPD is glad to report that its international project team has successfully built a **consensus on the evaluation** of the regional development policy of the Republic of North Macedonia implemented through the Regional Development Strategy 2009-2019, its results, achievements and weaknesses. There are no separate, distinct positions and opinions of individual team members, on top of those particular points of emphasis contained in individual chapters - commonly agreed in finalising the text of the study.

**All members of the Core Research Team
have confirmed this Report in writing by mails sent to the
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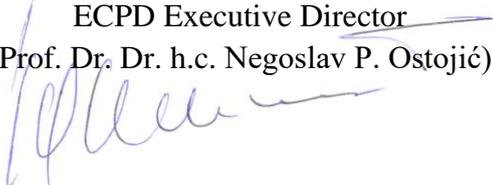
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