



COMMON COUNTRY ANALYSIS

UPDATE 2021

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EXECUTIVE SUMMARY

In 2019, the UN Country Team (UNCT) embarked on the contextual analysis to set the basis for the formulation of the new North Macedonia and [UN Sustainable Development Cooperation Framework 2021-2021](#). The [Common Country Analysis \(CCA\)](#) was finalized in early 2020, with most of the analysis – based on documentary review, interviews, information triangulation, analysis and synthesis – conducted prior to the COVID-19 pandemic.

The 2021 CCA update attempts to assess and integrate the COVID-19 pandemic's and other key events' and processes' impact on the development trajectory of the country and on specific sectors and population groups. This document presents a regular annual update of the CCA, undertaken by the UNCT to take note of the potential contextual changes that should be considered within the implementation of the UNSDCF 2021-2026. It is consisting of five major sections.

The **first section, serves as introduction and summarizes the key findings of the baseline CCA** in three major subsections: the progress against Sustainable Development Goals (SDGs), the so called Leave no one behind (LNOB) analysis, i.e. the analysis of the vulnerable groups, the factors of discrimination and drivers of inequality, as well as the development priorities identified prior to the crisis.

As per the baseline analysis, the country has made substantial progress towards SDGs under the People and Prosperity category with declining poverty and inequality and increased Human Development Index. However, further efforts will be required to accelerate sustainable growth and to build an inclusive and just society with efficient institutions and rule of law (Peace category). The country faces number of environmental challenges and hence ambition should be stepped up in Planet category. The baseline analysis has identified nine groups left furthest behind and nine key development priorities that provide the basis for UNCT work in the country. The full baseline analysis can be found [here](#).

The **second section identifies the key developments since the baseline CCA**, including in the political and governance context, the socio-economic impact of COVID19 and the developments in the area of climate change, environment and natural resources. This section also identifies the key legal and regulative changes and explains the impact of the COVID19 pandemic on vulnerable groups.

- ❖ In the area of **governance**, the update captures the progress on institutional reforms, fundamental rights and freedoms and the positive role of North Macedonia in the regional cooperation. However, it also notes the persistent corruption resulting with growing citizens' distrust in the institutions and low scores against key governance indicators in terms of political stability, rule of law and accountability.
- ❖ Following a major **socio-economic impact of the COVID19** in the second quarter 2020, that resulted with recession continued beyond 2020, the Government response measures and safety nets helped in alleviating impact on most vulnerable groups and businesses. Overall, the socio-economic impact on women and children was unproportionally higher. The economy went out of recession in the second quarter 2021, however the public debt has risen substantially. IT, finance and agriculture sectors remained stable throughout this period, after resolving the initial challenges in the agriculture at the outset of the crisis. The health and education sector suffered from a major blow amidst scarce human resources and modest digital capacities. Yet, the education sector managed to switch swiftly to online classes and re-establish physical presence in 2021, though impact on learning outcomes and mental health is yet to be measured and fully addressed. Health sector continues to fight with infections and high death toll with different intensity since the start of the pandemic, but the authorities managed to implement some important reforms and rolled out the vaccination process despite initial delays and resistance among some groups of the citizens. The economic recovery highly relies on an ambitious investment programme, though with substantial downside risks due to traditionally low capacity to implement capital expenditures.

- ❖ In the area of **climate change, environment and natural resources**, major highlights include the country's pledge of ambitious National Development Contribution (NDC) of 51 % reduction of GHG emissions by 2030; increased investment in renewables and waste water treatment; important progress in natural resources management through increase of overall area under protection by 4.4.%, including proclamation of a new National Park Shar Mountain; and progress in addressing hazardous waste, especially in the OHIS factory hot-spot. However, challenges remain in anticipating and addressing the global challenges, and most importantly in the systemic approach in dealing and managing disaster risk in the country, as well as significant efforts and investment needed to address solid waste issues, as well as greater attention needed to protect lakes, especially Prespa and Ohrid.

The **third section sets out the updated financing landscape analysis**, i.e. provides information and analysis of the financing envelope available in North Macedonia, that could potentially be attributed to sustainable development. The overall financing flows are estimated at € 5.3 billion, of which 76.7 %, is from domestic public sources, however this remains lowest among the Western Balkans peers. Some regional and country-specific developments e.g. green bond may ensure additional sources of SDG financing over a short and medium term. Overall, there is a scope to increase domestic private sources with greater awareness of the private sector about the Agenda2030.

The **fourth section provides a short review of the UN established 12-factor multidimensional risk analysis** of 2020 and concludes that the same risks remain in place, while adding few specifics related to the recent development.

Finally, the **fifth section summarizes the key lessons** that we learned during the pandemic and provides few recommendations to guide the policy of the country and the programmes of strategic partners including UN Country Team. An overarching conclusion is that the COVID19 pandemic has not imposed any new development issues, but further exposed already known vulnerabilities and problems. A well-designed and coordinated policy approach and joint efforts of the institutions, business, academia and citizens would be needed to recover from the crisis and build back better.

1. INTRODUCTION - BASELINE: 2019/2020 CCA

North Macedonia is an **upper-middle income and a high human development index (HDI)** country that has undergone significant transformation since the adoption of the 2030 Agenda for Sustainable Development in 2015.

The country has undergone significant reforms in recent years. The change of its constitutional name following the Prespa Agreement (2018) gave a new momentum to its Euro-Atlantic integration trajectory. This was preceded by the Macedonia and Bulgaria Friendship Treaty (2017) which set the frame for resolving disagreements on historical and linguistic issues between the two countries. In March 2020, the country became a member of NATO and received green light to start EU accession negotiations.

The **population** is estimated at 2.08 million (2018), based on projections of 2002 census data¹. This is likely an overestimate as large-scale emigration – approximated at around 0.5 million between 2003 - 2017 has not been factored in.

1.1 PROGRESS AGAINST SDGs

The country has made **substantial progress towards SDGs under the People and Prosperity category**, but **ensuring accelerated and sustainable growth** and building an inclusive and just society will **require further concerted efforts (Peace category)** in many areas. Overall, **ambition should be stepped up in Planet category**.

1.1.1. PEOPLE

Poverty levels have declined to 21,6% in 2019 (27,1% in 2011), though in average stagnating since 2015. This has been accompanied by improved living conditions with access to housing, drinking water and sanitation, electricity, education, and health, with less progress in the services quality. **Inequality also declined (GINI 2019-30,7%/2011 – 39,2%), however women, youth NEET, some ethnic communities, persons with disabilities, refugees, stateless, informal workers/ seasonal labour are more likely to be out of labour market, unemployed or in precarious employment** due to pre-existing labour market disadvantages, such as lack of relevant education and skills, as well as deeply rooted prejudice and conservative social norms. Between 2000 and 2019, [North Macedonia's HDI value](#) increased from 0.677 to 0.774, an increase of 14.3 %.

Overall **poverty remains a challenge**, especially in rural areas and in multi-children households. **Unemployment and inactivity are among the main determinants of the high poverty level.** Unemployment tends to be long-term, with more than half of the unemployed looking for a job for over four years.

The **social protection system is heavily tilted in favour of pensions, which have had the strongest positive impact on poverty decline (16%)**, while benefits from social assistance, active labour measures, remittances and subsidies have been somewhat less impactful. **Social assistance** reduces poverty by only 3 %, though with recent improvements in the coverage, design and targeting. The new system of Guaranteed Minimum Assistance (GMA) which increases the total transfers per household and enables access to child allowance and education allowance to GMA beneficiaries is yet to prove results.

The **population has been ageing**, in line with the broader European trend, largely due to extended life expectancy, and expected to drop for 10% by 2035². Between 2013 and 2018, the **fertility rate declined** from 1.48 to 1.42, which is below the EU average (1.6) and far below the replacement level (2.1). In North Macedonia, ageing is also driven by the fact that [emigratory cohorts](#) have been, on average, younger than the remaining population.

Country's performance in **life expectancy, reducing maternal mortality and infant mortality is improving**, however, systemic changes were needed to sustain the declining mortality trend. **Infant mortality rate**

¹ New census was completed in September 2021, pending results.

² <https://population.un.org/wpp/Download/Probabilistic/Population/>

returned to declining trend after significant jump in 2011 and **reached 5.7 in 2018, compared to 17.2 in 1990**. The **modern contraceptive prevalence is low and slowly improving**, resulting with adolescent birth rate of 21 and 114 in Roma settlements.

The **coverage of health insurance is almost universal** at 90.3 % in 2016, however **out of pocket expenditures are high** (31.91% in 2017) particularly affecting poor and vulnerable groups. On top of this, **skilled medical personnel, including doctors, specialists, nurses and midwives have intensively emigrated** which poses a threat to the public health system.

Non-communicable diseases (NCDs) are major health challenge (pre COVID-19) due to high obesity (boys 20.3 % / girls 16 %) or overweight (39.4 % / 32.9 %), unhealthy dietary habits and lifestyles including high consumption of tobacco and alcohol. In 2018 the mortality rate from cardiovascular diseases, cancer, and chronic respiratory diseases (age 30–70), was 20 % compared to 13% in EU, while cancer rates quadrupled since 1991. **Most (84,5%) of the target population was covered by vaccination** though still below the recommended 95 % and low among the Roma children (56.8 %).

Despite the attained **universal literacy**, low quality of education remains a key challenge for all ages and levels. According to the international OECD Programme for International Student Assessment (PISA), Macedonian pupils are **lagging significantly behind their international peers, although the progress between 2015 and 2018 has been notable**. In addition, the **skills produced within the education system are not sufficiently aligned with the market needs**, despite ongoing efforts.

Table 1: PISA scores

		Mathematics	Reading	Science
North Macedonia	2015	371	352	384
	2018	394	393	413
International average		489	487	489

Source: PISA Report (<https://pisadataexplorer.oecd.org/ide/idepisa/report.aspx>)

Inequalities in early childhood education are still high due to social, ethnicity and geographic (rural/urban) factors. **Only 7.4 % of the children from the poorest quintile attend pre-primary school** compared to 67.4 % in the richest quintile, 53.9 % ethnic Macedonian children compared to, 14.1 % ethnic Albanian and 9.8 % children from other ethnicities (including Roma)³. At the **primary school level, 1.7 % of pupils were out-of-school, increasing to 8,4% in secondary education** with 87.4 % completion rate which drops for the poorest quintile⁴ and especially among Roma⁵. While ethnicity and wealth status were significant determinants of educational attainments, there were no significant gender differences and there is no disaggregated data about pupils with disabilities. UNDP's Human Development Report also documents **significant discrepancies for the poorest segments in terms of universities attendance**, with rates for completion of higher education limited to 0 %, as compared to rates of 40 % to 70 % for the richest segments.

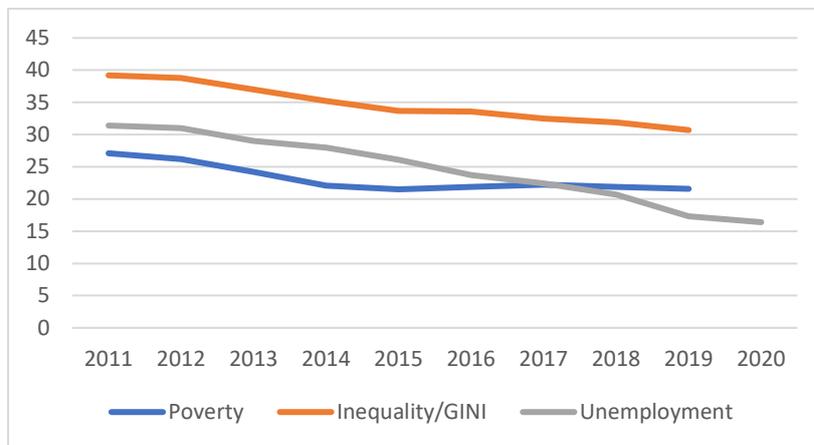
Before 2020, North Macedonia was spending nearly 25% of GDP on basic services: predominantly pensions (around 10%), health (2017 - 6,3%), education (4%) and the remaining funding on social protection. Overall, the spending is not only lower than the EU peers, but also with limited impact on social outcomes.

Figure 1: SSO: Laeken indicators of poverty and unemployment (2011-2019, In %)

³ Multiple Indicator Cluster Survey (MICS) 2018-2019, SSO-UNFPA-UNICEF, May 2020 (page 178) At the national level, 36.8 % children (age 36-59 months) were in early childhood education.

⁴ Ibid, page 189

⁵ Ibid, page 201



1.1.2. PROSPERITY

Overall **growth since independence has been sluggish and below the peers**, averaging at 2.5% between 2011-2019. The most recent **pre-COVID-19 economy outlook was also moderately positive**, with projected average growth rate of 3.2 % through 2021.

The **unemployment rate in the country has fallen significantly**, from 31.4% in 2011 to 17.3% in 2019, as a result of active employment measures, FDI driven job creation, as well as some influence from emigration. However, a **large number of workers continue to work in low-productivity sectors and low-paid jobs**.

The structure and performance of the economy does not sufficiently contribute for more robust and inclusive prosperity. Accounting for 72 % of employment and 63 % of value added, SMEs are among the most important pillars of the economy, while agricultural sector employs 22% of the workforce, of which 35 % women, and contributes around 12% to GDP (including the processing industry)⁶. The agriculture is largely subsidized on the input side, which potentially creates distortions and disincentivizes efficiency and investment. At the same time land fragmentation⁷ seriously hampers modernization of agricultural production, preventing more competitive output and more productive employment for vulnerable groups. Overall, the economy is characterized by a small, low-tech and low-productivity domestic private sector, high degree of informality, improving but still insufficient connectivity and serious gaps in the human capital. The quality of education is not meeting international standards and the market needs. The country is ageing fast, which is increasing the dependency ratio, and is likely to face significant labour force and skills related challenges due to the shrinking youth population, low birth rates, and emigration. Limited attention is paid to promoting resilience in the economy and creating 'green' jobs.

Key economic concerns include high informal economy, low productivity and competitiveness as result of the skills mismatch and obsolete technology. FDI boosted growth did not translate into more resilient domestic industry. Predominantly stable at macro-level, the economy is performing below its full potential, largely due to non-economic reasons such as inconsistent and insufficiently enforced legal framework for businesses, as well as widespread corruption, inefficient administrative service and political uncertainties (e.g. frequent elections). Depleting human capital due to emigration and market inadequate skills is also among the key challenges. Ambitions of the government for capital investment often exceeded the implementing capacities, keeping capital expenditures traditionally underspent and share of investment in fixed assets in GDP down to 19.8 % in 2018 from 23.1 % in 2010⁸. Between 2009 and 2019, the overall quality of infrastructure in North Macedonia has improved from the 66th percentile on the [World Competitiveness Index](#) to the 53rd percentile. However, despite progress, the overall quality of infrastructure remains weak. All of the above slows down the economic reform and prevents a more

⁶ ¹[National Strategy for Agriculture and Rural Development 2021-2027](#)

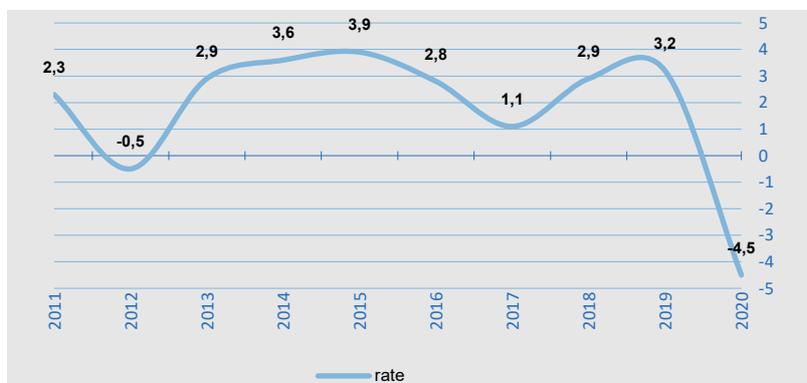
⁷ Most farms average at < 2 ha (EU -16.6 ha), often fragmented into more, irregularly shaped and distant parcels.

⁸ ²Source: North Macedonia [Voluntary National Review 2020](#), however the overall share of investments in GDP is increasing (2018 – 32,3%)

pronounced and sustained growth, despite some recent efforts to define a consistent economic model that prioritizes technological upgrade, innovation and propulsive industries. To meet the aspiration of the fourth industrial revolution, the educational and technological advancements among youth need to be prioritized and they should be supported for start-ups, digitalization, and innovation to integrate with the global market.

At the same time the country remained **macroeconomically stable with robust, but conservative financial sector**, though the government and **public debt doubled between 2008 and 2015 and continued to rise since**.

SSO: Annual GDP growth 2011-2019 in %



1.1.3. PLANET

North Macedonia faces a **number of challenges related to environment, climate change and related SDGs** (SDG 6, 12, 13, 14, 15), such as :

- ❑ pollution of water bodies due to disposal of untreated wastewater; depletion of groundwater and wastage of water due to inefficient irrigation infrastructure;
- ❑ poor air quality especially in the cities due to high sulphur dioxide (SO₂), nitrogen dioxide (NO₂), particulate matter (PM_{10/2.5}), ozone (O₃) and carbon monoxide (CO) emissions mainly contributed by fuel wood for household heating, old vehicle fleet, and industry emissions;
- ❑ high CO₂ emissions mainly contributed by fossil (coal) fuel based energy production and inefficient energy use, industry and agriculture^[1] causing loss of life and damages of water, transport and agricultural infrastructure, private properties, business and agricultural activities;
- ❑ lack of biodiversity protection and forest degradation due to large-scale illegal felling, particularly for fuel wood as well as improper and unsafe waste disposal and lack of remediation of historical contamination sites.

In the **2018 Environmental Performance Index (EPI)**, the country ranked **68th out of 168 countries**. The [Third UNECE Environmental Performance Review \(EPR\) of North Macedonia](#), carried out in 2018-2019, assesses the progress made by the country in managing its environment and in addressing new challenges since the Second Environmental Performance Review in 2011.

The country has **ratified numerous Multilateral Environmental Agreements (MEA)** and is continuing efforts to enhance environmental protection and natural resources management. Alignment with the requirements of the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement, as well as the EU accession process and alignment with EU's environmental policies opens opportunities for a shift towards low carbon development and more sustainable management of natural resources. North Macedonia ratified the UNFCCC in 1997 and the Paris Agreement in November 2017 in its commitment to join the global climate change mitigation efforts. The country set up monitoring and reporting mechanisms, and regularly fulfils reporting obligations under the UNFCCC. It is also working on strengthening its national institutions for monitoring, reporting and verification of emissions, mitigation and adaptation. North Macedonia has been praised as one of the only 16 countries that are on track to

honour their commitments under the Paris Agreement. Starting the EU accession process will pose change in the climate change obligations to the Macedonian institutions and set decarbonization targets that are currently not applicable for the country.

The **GHG emissions in 2016 are reduced by 34.6% compared to 1990**, mainly as result of reduced electricity production from lignite, fuels switch (residual fuel oil for electricity and heat production is replaced with natural gas), and lower industrial production, which is decreasing after 2012. Figure 4 below shows that the greatest share of GHG emissions comes from the Energy sector at 74 % followed by the Agriculture, Forestry and Other Land Use at 12 %, Industrial Processes with 8% and Waste sector at 6 %.

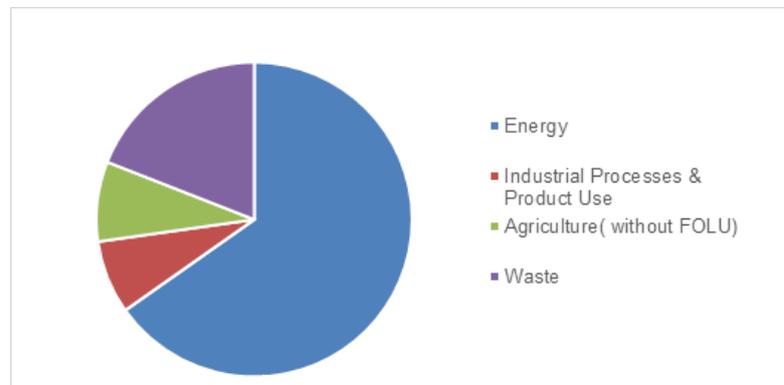


Figure 4: Distribution of GHG emissions by the main sectors (2014)

According to the results of the climate change projections and changes in climate extremes up to the year 2100, the country will face hotter and drier climate in the future. Amplitude of this change will primarily depend on the future concentration of GHG. Associated with hotter climate in future, an increase in hot extremes and a decrease in cold extremes are expected, along with even a drier condition that could potentially increase extreme precipitation and pose a higher risk of flash floods. On the other hand, expected decrease in summer precipitation and the extension in duration of consecutive dry days will increase the risk of drought. Finally, due to warmer climate, season lengths will increase on average. The consequences of climate change are expected to vary significantly throughout North Macedonia with explicit implications in the southern part of the country such as increased average temperatures and reduced access to water. This effect would enhance current vulnerabilities in terms of droughts, forest fires and heat waves. In terms of population groups, small farmers are particularly vulnerable. Women also bear disproportionate burden of climate change as care providers for the family and managers of natural resources.

Extreme weather events, including droughts, would likely result in the loss of topsoil and reduced overall soil quality, decreased biomass production and crop yields, and limited fodder availability for livestock farming. The negative impact of climate change on agriculture is expected to translate into negative impacts on yields by 2050, particularly perennial and summer crops.

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Availability of water in the country will decline, also due to unknown and unregulated use of surface water and groundwater, especially by the industry, enabled by the lack of accurate data for monitoring. Water demand from other areas, such as for drinking water, is increasing. There is no nexus approach which highlights the interdependencies between achieving water, energy and food security for human well-being, e. g. basic services and economic development, while ensuring ecologically sustainable use of globally essential resources. National legislation defines the following prioritisation of water use, to

address competing demands for water: 1. water for drinking, 2. water for irrigation, followed by 3. water for energy generation as well as the requirement to maintain minimal flows. Enforcement of this prioritisation should be strengthened, and water use optimised.

Rivers are largely polluted, and unlikely to meet the EU Water Framework Directive (WFD) criteria for the status “good”. Bigger cities still have no sewage treatment plants. Certain rural areas have developed combined domestic sewage and storm wastewater collection systems, but no treatment is performed prior to wastewater discharge. Landfills close to rivers or lakes are a further source of pollution by infiltration or run-off into surface water and groundwater.

The country is vulnerable to river floods and flash floods. An effective system of flood prediction, warnings, and appropriate measures is missing, barring some Flood Risk Management Plans developed with donor support. Total economic damage caused by floods from 1990 until 2020 is estimated to be US\$ 382 million⁹. The country is yet to establish river basin management councils (RBMCs) and to develop detailed criteria for representation of various groups of stakeholders, methodological guidance and funding issues. The National Water Council is not in operation.

North Macedonia displays progress in the conservation of wild species (of flora, fauna and fungi). These include numerous species categorized by the International Union for Conservation of Nature (IUCN) as globally threatened by extinction, species included in the European Red List and many endemic species, such as the Balkan lynx and Balkan chamois. The integrity of almost all-natural ecosystems in the country is currently threatened due to the climate changes, but also due to anthropogenic pressures, resulting in habitat degradation and the increasing threat of forest fires. The process of revalorization and re-proclamation of existing protected areas has not yet been completed, which impeded the preparation and adoption of all required management plans for protected areas. Protected areas covered 8.93 % of the country’s territory in 2017, which is well below the minimum value of at least 17 % by 2020 indicated in the CBD Aichi Biodiversity Target 11.

The National Platform for Disaster Risk Reduction (DRR) created in 2009 after the Hyogo Framework, was further amended **in 2015, when the country acceded to the Sendai Framework on DRR**, aimed at prevention of disasters and facilitating early warning and response during crises and recovery. The Sendai Framework sets the priorities to prevent new and decrease existing disaster risks in the period 2015-2030, which requires substantial capacity strengthening. Fortunately, the country benefits from the support of multiple UN agencies, the EU, and other development actors at national and local level to build disaster and climate resilience following the “building back better” approach.

1.1.4. PEACE

Measures to advance equality, close the gender pay gap and ensure gender-responsive and inclusive policies and budgeting were undertaken. Gender representation mainly in the Parliament and at central level institutions has increased. Despite general health care coverage, women’s access to quality health care services and sexual and reproductive health, especially among Roma and other marginalized groups, remains an issue.

The civic space and freedom of expression have expanded, while clientelism and attacks on journalist persisted. Civil society has played an important role in creating government policies and monitoring their practices. Inclusion and participation in decision making has gradually improved across the society, including those left behind.

The administration at central and local level has limited capacity to fully deliver on the human rights obligations. Several national implementation and coordination mechanisms were set-up contributing to better inter-institutional coordination and cooperation. While the legal framework for decentralization is

⁹ https://www.emdat.be/emdat_db/

in place, the municipalities had no resources to discharge their functions effectively and forge innovative public private partnerships.

The lack of systematic collection and analysis of disaggregated data hindered monitoring and evaluation whether the country makes sustainable progress and meets its democratic and human rights commitments, both from a quantitative and qualitative aspect. This situation has adversely affected the design of evidence driven and right based policies and actions to reach those left behind.

The independent institutions, such as the judiciary and the Ombudsman have improved functioning, though still not fully complying with international standards due to external pressures and internal weaknesses that undermined their independence, efficiency and public trust. Pervasive corruption, discrimination on different grounds, violence against women and children, hate crime and hate speech against vulnerable groups, including ethnic communities, women, persons with disabilities, LGBTI, refugees, migrants have not been properly addressed. Little protection and support had been provided to the victims, and legal aid has not been available to the marginalized groups. This as well as insufficient social cohesion had been tantamount to breach of trust between the state and its citizens and cohesiveness of the society.¹⁰

1.2 LEAVE NO ONE BEHIND ANALYSIS

Despite some significant results over the time, certain population remain vulnerable, facing discrimination due to various factors. The **Table 1** below, shows the drivers of inequalities and factors of discrimination that lead to certain population segments being **left furthest behind**.

Table 1. LNOB

<i>Drivers of inequalities</i>	<i>Factors of discrimination</i>	<i>Groups left furthest behind</i>
Structure and performance of economy	Sex, age or disability	Youth NEET
Governance institutions	Geographical location or fragile ecology	Women & girls from certain ethnic communities, rural areas, with disabilities, older women
Social infrastructure;	Vulnerability to climate shocks & natural disasters	Roma community
Climate change and natural resource management.	Impact of governance (laws, policies)	Children from ethnic communities & those at risk
	Socio economic status	People with disabilities
	Social norms, prejudice and stereotypes	Refugees, asylum seekers, migrants, IDPs, stateless
		LGBTQI
		People living in rural areas and small farmers
		Older persons

¹⁰ Freedom House Report 2019 North Macedonia Country Report, <https://freedomhouse.org/report/freedom-world/2019/north-macedonia>

1.3 IDENTIFIED DEVELOPMENT PRIORITIES

Based on the above, the **key development priorities** identified in the baseline CCA include:

- ❖ Building a robust, formal, competitive, innovative, inclusive and resilient low-carbon economy for accelerated and job-rich growth at par with European peers.
- ❖ Decisively addressing exclusion and inequalities that affect women and children, youth not in employment, education or training, ethnic communities, LGBTI, and people with disabilities, rural population / small farmers, refugees and asylum seekers, persons at risk of statelessness, minority and other vulnerable groups.
- ❖ Increasing the quantity and quality of jobs and coping with outmigration, especially skilled labour force, by fighting informal economy and creating decent employment opportunities equally for all and promoting rights at work.
- ❖ Investing in human capital through improved quality of education, technical and vocational education and training, lifelong learning and the recognition of prior learning, and health, especially in view of the changing demographic profile.
- ❖ Addressing design and efficiency issues in delivery of social services to make it more efficient, fiscally sustainable and potentially productive by focusing more on activation policies and delivery of quality services.
- ❖ Improving governance by taking decisive action against corruption, making judiciary independent and effective, and improving policy coherence and performance management in the administration, and consulting with civil society partners.
- ❖ Adapting to climate and other environment-related challenges and taking steps at mitigation in line with EU environmental and climate change standards; improving environmental governance and managing natural resources more sustainably, improving human health and building resilience.
- ❖ Promoting social coherence and trust building amongst youth and marginalized groups and strengthening cooperation with countries from the Western Balkans region.
- ❖ Ensuring compliance in practice with international norms and standards in dealing with refugees, asylum seekers, migrants and other people on the move, and stateless persons.

2. 2021 UPDATE

2.1 POLITICAL AND GOVERNANCE CONTEXT DURING THE PANDEMIC

The COVID-19 outbreak hit the country in March 2020 at the time when there was no functional Parliament and the technical Government in place had limited decision-making powers. During the pandemic, the President of the country declared four rounds of state of emergency to allow the Government to introduce lockdowns and emergency response measures, as well as to organize early parliamentary elections. The elections, which took place in July, were well-managed and in line with international standards, except for the legal certainty being jeopardized due to changes of election legislation made close to the election date.¹¹ The local elections are to take place on 17 October 2021, preceded by a revision of the Electoral Code. The long overdue population census is taking place in September.

On its path to the European integration, the country has encountered yet another challenge imposed by the Bulgarian veto, which blocked the start of its accession negotiations, watering down the expectations of both the Government and the people. Retaining the strategic importance of EU accession, the Government has continued to work on approximation of the national legislation with the EU *acquis* publicly accessible on the NPAA online portal¹² as well as on enhancing the public administration capacities.

The country has also **continued to play a positive role in the region** and its integration in Europe, most recent example are the high-level Prespa Forum Dialogue and “Open Balkan” initiative to enhance free movement of goods, services, people and capital between Albania, North Macedonia and Serbia by 2023. The country has actively participated and pledged to join forces against global threats and challenges at international arena, such as transnational organized crime, corruption, human trafficking, illicit drugs and arms trafficking.

North Macedonia has continued to pursue reform priorities expected by the EU, NATO and other international and regional organisations and bodies. Efforts to improve policies and legislation, promoting greater inclusion and cohesion, as well as strengthening cooperation with countries from the Western Balkans region have contributed to the stability of the political and governance system, and expectations for opening of the EU accession negotiations. Performance management in the administration needs to be further advanced.

The pandemic underpinned the importance to maintain a system of checks and balances, upholding the rule of law, equality and human rights for all, especially of those left furthest behind. **The uncertainties, lockdowns and movement restrictions have hindered the functioning of central and local institutions, including the Parliament, exposing uneven capacities to shift to a remote online mode of operations and continuation of essential services.** This was coupled with sudden changes in the legislator and government agenda, budget repurposing, expedited legislative procedures not allowing to maximize the meaningful citizens’ participation.

Against this backdrop, **modest progress has been made in the area of governance, rule of law and access to justice.** More visible progress has been made in decentralization where experience has been transformative for the lives of the people involved. The reforms in the **judiciary**, pursuant to the Judicial Reform Strategy 2017-2022, yielded to indictments of current and convictions of former government officials related to wire-tapping scandal in 2015.

¹¹ <https://www.osce.org/odihr/elections/north-macedonia/465642>

¹² https://www.sep.gov.mk/post/?id=13#.YQ_FDogzaK2

While its efficiency has increased, equal access to judicial recourse, free legal aid and the overall public trust in the independence and impartiality remained weak. The vast majority of complaints received by the newly appointed **Ombudsman** related to the judiciary and delayed justice, and abuse of child rights, labour, health, social protection and other economic rights by public authorities and raised concerns with online education.¹³ The **Commission for Prevention and Protection against Discrimination**, established in January 2021, handles 130 complaints, 50 new ones and requires strengthening of its institutional capacity, including preconditions for its financial independence.

The **civic and media landscape did not shrink due to the measures to curb the pandemic.** Despite being faced with reduced and repurposed funding due to health and socio-economic priorities, civic society remained vocal in its criticism of the government response and recovery measures, defending the precarious conditions and rights of many left behind. The authorities continued to consult and seek opinion from the civil society, opinion leaders and other stakeholders through online platforms and innovative solutions especially at local level.

Regarding e-governance, North Macedonia is currently working towards creating an efficient, accountable and transparent administration to provide quality services for citizens and the business sector, alongside protecting their rights. Though North Macedonia is in the **highest HV rating class of the high E-Government Development Index (EGDI) group**, and is on the cusp of transitioning to the very high EGDI group¹⁴, the country is still ranked 72nd out of 193 UN Member States globally on the 2020 e-Government Development Index. **Internet are below the EU average**, with an availability of 43.8% compared to EU average of 58% in 2018. The government has been working towards increasing ultra-fast internet coverage, reaching 63.1% in 2020, but uptake remains relatively low¹⁵. More details can be found in the ITU (draft) [North Macedonia Digital Development Country Profile](#).

Even though North Macedonia is bringing about some positive changes, the Government did not manage to address the increased expectations from the citizens. According to Freedom House, North Macedonia continues to be seen as a partly free country. The table below depicts the slight progress made in 2021 with respect to political and civil rights compared to previous two years.

Partly Free	2021	2020	2019
Overall Score	66 / 100	63 / 100	59 / 100
<u>Political Rights</u>	27 / 40	24 / 40	22 / 40
<u>Civil Liberties</u>	39 / 60	39 / 60	37 / 60

Furthermore, the **country, does not score very well against key governance indicators in terms of political stability, rule of law, accountability.**¹⁶ As per the World Rule of Law Index, the overall score has dropped from 0.55 in 2015 to 0.53 in 2020.¹⁷ Compared to the global average of 0.56 and the regional of 0.51 in 2020 (as indicated in the table below).

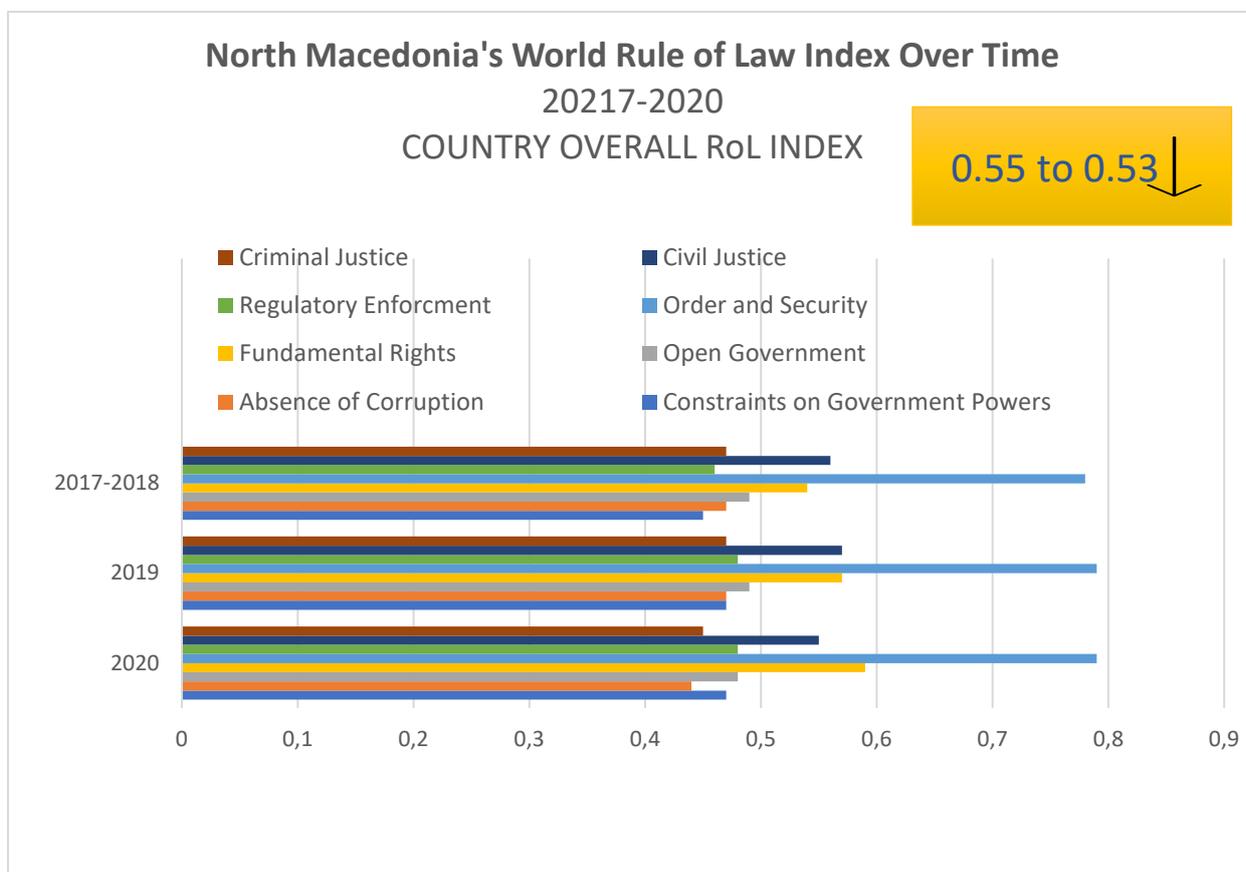
¹³ <http://ombudsman.mk/upload/Godisni%20izvestai/GI-2020/GI-2020.pdf>

¹⁴ [https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2020-Survey/2020%20UN%20E-Government%20Survey%20\(Full%20Report\).pdf](https://publicadministration.un.org/egovkb/Portals/egovkb/Documents/un/2020-Survey/2020%20UN%20E-Government%20Survey%20(Full%20Report).pdf)

¹⁵ Republic of North Macedonia Broadband Competence office third Report for broadband development in the country and implementation of National Operational Broadband Plan (March 2021), p.7,8

¹⁶ Worldwide Governance Indicators: <https://info.worldbank.org/governance/wgi/Home/Reports>

¹⁷ <https://worldjusticeproject.org/rule-of-law-index/country/2020/North%20Macedonia/>



In term of corruption, North Macedonia is ranked 111th out of 180 countries¹⁸, according to the 2020 Transparency International Corruption Perception Index, sliding down for 5 places compared to the previous year¹⁹ and 13 from the years before that, with a score of 35/100 in absolute terms. Despite conducive legal climate, doing business is hindered by corruption. On a positive note, the State Commission for the Prevention of Corruption has opened a number of corruption-related inquiries, including those involving high-level officials, along with criminal charges and convictions of high-level government officials.

The distrust of the citizens in the governance system and institutions has been striking in the polls of the National Democratic Institute (NDI) conducted in 2021, which shows a **growing disconnect between the people and political parties** (and consequently the Parliament and Government), potential election abstention, and greater support for political alternatives.²⁰

In the area of peace and good neighborly relations, **North Macedonia had the fifth largest increase in peacefulness on the 2021 Global Peace Index (GPI), with a 5.2% improvement in its score.** The country rose 11 places in the GPI rankings and is now ranked 40th overall. The country holds the first place amongst the Western Balkan region. The **intensity of internal conflict indicator had the largest improvement and is now at its lowest level since 2016.** The conflict with Greece has receded since the signing of the Prespa Agreement, however despite some divisions in the country over the Prespa Agreement and Bulgarian veto, the issues are not as polarising as it was a year ago.²¹

¹⁸ <https://www.transparency.org/en/cpi/2020/index/mkd>

¹⁹ <https://www.transparency.org/country/MKD>

²⁰ <https://www.ndi.org/sites/default/files/MK%20REAPPS%202021%20public.pdf>.

²¹ <https://www.visionofhumanity.org/five-most-improved-countries-in-the-2021-global-peace-index/>

The inter-ethnic relations were stable.²² The Government continued to apply the principle of equitable representation of members belonging to non-majority ethnic communities in public administration, which gradually contributes to a greater cohesion, integration and sense of belonging of all. Measures to bolster mutual understanding and interaction between students with different language of instructions²³ and empowerment of youth and women as agents of peace and stability²⁴ were promoted within and across borders in line with the UN Western Balkan Trust Building and Reconciliation Strategy.

2.2 SOCIO-ECONOMIC IMPACT OF COVID19

2.2.1 Economic growth and restructuring

COVID-19 crisis drove the economy into the deepest recession since the early independence, with **4.5% annual decline in 2020**, mainly due to the decreased internal and external demand and disrupted supply chains. Almost flat growth in Q1 was followed by the strongest decline in Q2, but impact was subdued in the second half 2020 with Government stimulus and lockdown relaxation. At the outset, the crisis predominantly affected leather, textile, automotive, electricity equipment, retail and hospitality industries. Both export and import fell down for 10% compared to 2019, reducing trade deficit by 9.8%. Total FDI fell to € 201.4 M in 2020 (1.9% projected GDP) compared to almost €400 M in 2019 and over € 600 M in 2018 (source: National Bank of R.N. Macedonia – NBRNM).

ICT, finance and agriculture sector were the only sectors that remained stable throughout. In agriculture, restricted field work and access to seasonal labour (around 170 K in individual farm holdings), inability to export due to border closures, which affected the sheep farmers, as well as inability to sell at the green markets and HORECA clients, which particularly affected the smallholder farmers, raised serious concerns at the outset of the crisis. A short-lived challenge to food security due to shortage of animal feed, seeds, fertilizers, pesticides, veterinary medicines and other core inputs was timely surpassed with the established green lanes among the CEFTA countries and EU. However, mandatory measures on physical distance and special hygiene approach caused additional difficulties in organising production processes. Despite relatively stable position, ongoing Covid19 pandemic, prevents the value chain actors to assess long-term effects, plan accordingly and make more substantial investments in agriculture, as in the overall economy.

The impact of the lockdowns across Europe at the end of 2020, materialized with delay in the first quarter **2021 and a prolonged recession with decline in GDP of (-) 1.9%**. However, in the second quarter of 2021, the industry and external trade, as main drivers of growth, started to pick up, with industry growing between 3,7%-6,6% and external trade around 40% (in €). This resulted with positive GDP growth of 13,1%, though against very low base in the same period in 2020 (decline of 14.9). With this outcome North Macedonia officially went out of recession. The projections for 2021 among the institutions subject to intensity of the autumn COVID19 wave and the vaccination roll-out (Ministry of Finance - 4.1%, NBRNM - 3.9%; IMF - 3.8%, World Bank - 3.6% of GDP²⁵). The increased export is expected to be the main driver of growth in 2021 (NBRNM) with gross investments and household consumption also expected to rise, however recovery will remain limited due to the slow rebound of the services. **Return to pre-crisis levels is not however expected before 2022.**

Monetary and prudential financial policy measures kept the financial system stable, along with the external position and foreign currency reserves. The current account deficit is expected to reach 2.9% in 2021, reducing to 2.1% in 2022-23. The inflation, temporarily boosted by increase in global energy and food prices, will average at 2.2% (source: NBRNM – April projections)²⁶.

²² https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/north_macedonia_report_2020.pdf

²³ <https://www.osce.org/mission-to-skopje/education>

²⁴ <https://www.rycowb.org/?tag=ypeer>

²⁵ Corrected upwards to 4,6% in September 2021

²⁶ This will be likely corrected upwards following global trends, but still regarded as temporary by the NBRNM

Some €1.2 billion – over 10% of GDP²⁷ (4 response packages +2 in 2021) – were secured for **COVID-19 crisis response and recovery by the Government**, providing cash transfers to the population, wage support, tax exemptions and deferrals, favourable loans to companies, as well as implementing measures to enhance business environment in support of digitalization, reduced customs tariffs and parafiscal expenses. As per Government analysis, without the fiscal stimulus the annual 2020 decline would have been almost double at (-8.7% compared to (-)4.5% (source MoF). In addition, the Government announced an ambitious [2021-2027 Intervention Plan on Investments](#) (IPI), worth €8,175 Billion of which €5,791 Billion will be public. The investments are predominantly planned in energy sector (€3,144 B) and road and railway infrastructure (€2,729 B), but also in processing industry, retail, public health, communal infrastructure and tourism).

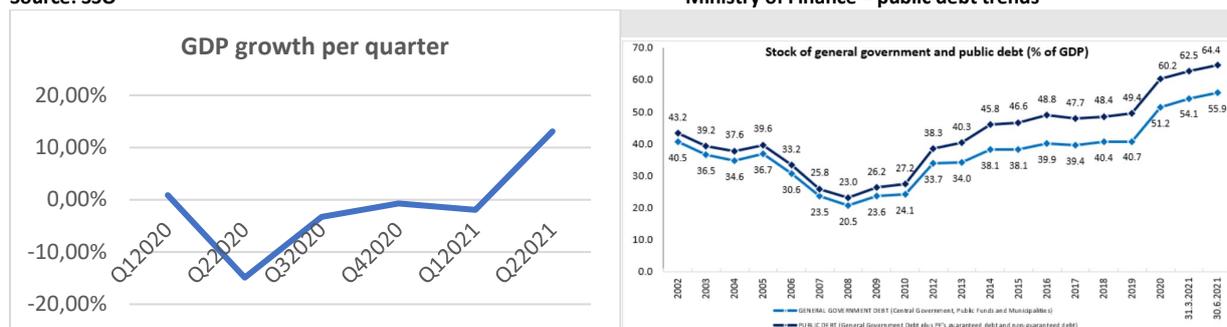
The COVID19 response measures managed to reduce the economic decline in the second half of the year, but also pushed the **budget deficit to 8.1% and public debt to over 60% of GDP in 2020**, which could be critical for Macedonian economy if future recovery staggers. So far, the country has issued eight Eurobonds on the international capital market: in 2005, 2009, 2014, 2015, 2016, 2018, 2020 and 2021, the first four fully repaid, the rest span until 2028. The last two Eurobonds, €700 M each, were raised to repay previous bonds and to cope socio-economic impact of COVID-19. In addition, in 2021, IMF has allocated 134.47 million in Special Drawing Rights to the country, amounting to around €162 million as budget support, already planned in the Budget 2021 for crisis mitigation measures²⁸.

The **2022-2026 Fiscal Policy** adopted in June 2021 reflects **Government commitment to gradual fiscal consolidation** with Budget deficit gradually narrowing from 4.3% in 2022 to 2.2% in 2026, **with significant public investments as precondition for growth**. Two related strategies are also being finalized: Growth Acceleration Financing Plan and Plan for Fiscal Sustainability and Growth Support, expected to be announced in October 2021. However, external environment remains shifting and difficult for budget planning. Despite signs of recovery, reflected also in the improved revenue collection, the economic trends are volatile and strongly exposed to downturn risks. The recent Budget 2021 Supplement already saw an upward correction of budget deficit to 6.5% from 4.9%. At the same time the projections strongly depend on the ability to implement capital projects (e.g. IPI) which is traditionally low. As result, the earlier budget supplements almost always end up decreasing the capital investments in favour of social subsidies, especially in election years.

The **new Organic Budget Law (OBL)**, currently in Parliament procedure, will introduce programme-based budgeting providing an opportunity to tag budgetary sources to development interventions and thus enhance SDG reporting. The OBL is also to introduce fiscal rules and Fiscal Council, though it remains to be seen how this will correspond with the current fiscal consolidation plans.

Despite the increased debt, **in August 2021 S&P affirmed North Macedonia’s BB- credit rating with a stable outlook, and so did Fitch in May at ‘BB+’ with a negative outlook (due to Covid19)**.

Source: SSO



²⁷ This was a projection, but actual assistance was around €850 M or lower between depending if it encompasses non-financial measures, like guarantees.

²⁸ In addition to the Rapid Financial Assistance in the amount of SDR 140,3 provided in April 2020 as an urgent response to the health crisis.

2.2.2 Demographic trends and human capital

World Bank's [Human Capital Index \(HCI\)](#) issued in 2020, provides a crucial pre-pandemic baseline of health and education outcomes in the country. The HCI value for North Macedonia has increased from 0.54 to 0.56 between 2010 and 2020, with probability of survival before age 5 unchanged at 0.99, but increased from 0.894 to 0.909 for age between 15-60.

The pandemic hit hard, but the **severity of the health impact, including the burden of disease and mortality, varies according to socioeconomic factors**, including pre-existing health conditions, geography, age and gender. As of the end of January 2021 the [health statistics](#) noted 90.753 cases of COVID-19 with cumulative incidence rate of 4482.6 cases per 100 000 people) and 2866 deaths, resulting in a case-fatality ratio of 3.1%, compared to 2.2% across the WHO European Region. Unfortunately, both the infections and deaths have almost doubled by September 2021 when Delta variant was predominant among the infected.

Up to January 2021, about 1 % of children in North Macedonia have been reported infected with COVID-19, representing 5.4 % of all cases. Globally, between 2.1 and 7.8 % of cases have been children, suggesting a typical incidence in North Macedonia. No child death due to COVID-19 has been reported. However, large majority of pediatricians saw a decrease of workload during COVID-19 predominantly due to the fear of parents and children to contract COVID-19 while visiting medical practices. This led to a reduction of health services delivery to children in the areas of diagnostics, treatment of chronic illnesses, primary healthcare and mental health. There is no data on vaccination coverage for 2019 and 2020.

The impact of movement restrictions, quarantines, switching to distance learning and reduced socialization **negatively affected children's mental health, which has been identified as the key health risk for children stemming from the COVID-19 pandemic**. However, although the magnitude of mental health issues in the general population due to COVID-19 is unknown, a quick assessment in the two biggest maternities in the capital Skopje reveals a worrying situation with 18% pregnant women being diagnosed with pre-clinical depression. In addition, the disrupted provision of prevention services by social workers (part-time work and work from home) during the pandemic will likely contribute to the potential secondary impact of the outbreak such as psychosocial distress, neglect and lack of parental care, increased exposure to violence, including sexual violence, physical and emotional abuse.

Health system planning, development, operations and performance have been totally dominated in 2020 by all-consuming consequences of the COVID-19 outbreak, an issue which is likely to influence policy and strategy for the foreseeable future. Expectedly, there has been a shift of priorities due to COVID-19, and some of the interventions that were planned were adapted and repurposed to the emerging context. Establishment of an Epidemic Intelligence and Emergency Operating Centre (Emergency Operational Center-EOC), completely equipped brought together epidemiological expertise from the Institute of Public Health and other Centers for Public health, offering digital solutions for an early-warning system to rapidly report and detect diseases and public health events.

Some of the key system risks in dealing with the pandemic include fragmented health system and insufficient human resources for health, epidemiology and risk communication. Overall, national capacities for disease surveillance, outbreak investigation and control, as the first line of defence against pandemic, despite all the efforts are limited. Lack of coordination between central and local level with one unified data system, insufficient coordination between the health care workers and Ministry of Health staff along with limited analytical capacities contributed for the fatigue and weakening performance in contact tracing, epidemiology and communication functions, as well as in the clinical care.

At the same time, **non-life-threatening medical interventions were postponed** as hospital wards were temporarily adapted into COVID-19 treatment facilities on one hand, and the fear of contracting COVID-19 while receiving treatment for non-COVID related conditions. This could be one of the reasons increased death rate in 2020 for 26%²⁹ compared to 2019 of which only around half of these are directly related to

²⁹ <https://www.stat.gov.mk/PrikaziSooopstenie.aspx?id=7&rbr=13680>

COVID19. The reasons may be also related to avoiding COVID19 testing and post-COVID19 complications. Like previous years, most deaths up to 41.6% were due to circulatory diseases.

Aside of having to deal with the COVID-19 crisis, **primary Health Care reform as one of the essential pillars of the health system have continued albeit with slower pace.** This included capacity building for a renewed care model in which primary care nurses are granted more tasks and greater autonomy from doctors, especially around managing people with chronic conditions, health promotion and patient counselling. This should provide a more holistic care aligning the health and social aspects.

COVID-19 has highlighted the health inequities and disparities in North Macedonia. Older people are particularly affected by COVID-19 – they are more vulnerable to COVID-19 complications and risk of death. At the same time, younger people are the ones bearing the burden of the prolonged lockdowns and curfews in terms of access to health-related goods and services, such as education and work-related opportunities. Compared to an estimated 3.5% in the EU, 4.9% of people in North Macedonia declared some form of unmet need for medical examination. Inequities in unmet need for medical examination according to years in education are much greater between North Macedonia and the EU than between genders. In North Macedonia, 4.5 times as many men and 4.72 times as many women with the fewest years of education declared some form of unmet need for medical examination, compared to 1.46 times as many men and 1.25 times as many women in EU who made the same declaration ([Eurostat; 2019](#))

After the **first vaccines become available in March 2021**, the population has started with vaccination with different pace. By the end of September 2021, a total of around 1.52 M vaccines were administered, 729,794 of the population has received two doses (235 three), and 43.6% of the population over 18 years of age and 53% of over age of 40 was fully vaccinated. The pace of vaccination has increased after the Government imposed more restrictive measures for non-vaccinated people.

As a baseline in the area of education, [World Bank data](#) show that **a child born in North Macedonia in 2020 will be 56% as productive when s/he grows up from what s/he could have been if have enjoyed complete education and full health.** This is lower than the average for Europe & Central Asia region and Upper middle-income countries. The COVID crisis will most likely further diminish these results. The re-opening of preschools enabled a number of parents and children to receive organized support in early learning. However, the percentage of children aged 3-6 who are attending pre-school decreased from 39% (before the pandemic) to worrying 11 % after the reopening of preschools. The majority of children are still at home and, therefore, parents need ongoing support to help ensure high quality early learning for their children.

The Covid-19 pandemic has continued to affect the education of approximately 300,000 children from pre-school to higher secondary education. According to the research findings from UNICEF's second round of assessment of distance learning, all participants in the education process (principals, teachers and students) assess that **distance learning was better organized during the 2020/21 school year, compared to the second semester of 2019/20.** Nearly all teachers (98%) conducted distance learning on a platform that enables interactive teaching by joining a video-conference call. This is a significant improvement compared to the previous year when only half of the teachers conducted this type of teaching (57% of secondary schools and 44% of primary schools). Compared to the previous year, the teachers have reported improved access to equipment and the Internet, however a third of the teachers are still facing issues with their Internet connection or limited Internet.

The **access to education is especially challenging for the vulnerable groups such as children at risk of poverty, Roma children and children with disability.** These problems arose due to lack of adequate equipment to follow distance learning, lack of suitable internet access, poor housing conditions that do not provide adequate environment for learning, but also lack of parental help in learning – especially in instances where parents have low educational attainment. poor housing conditions. Pupils with disability also faced access problems due to lack of assistive technology at home or having a disability that stopped them from spending too much time in front of a screen. The UNICEF study highlights that in the course of the distance learning, 63% of teachers at one point of time could not get in touch with some students or their parents. By the end of the school year in June 2021, schools remained closed for the majority of students, with only children grades 1 to 3 physically attending school, while the rest relied on remote

learning. Despite the favorable epidemiological situation towards the latter part of the school year, there was no attempt from the Ministry of Education and Science to open the schools to other children.

Distance learning **increased the financial burden on schools due to the need for computers, internet connections, software support**, which were not fully covered with the modest financial resources allocated through block grants. It is likely that donations in education were crucial to enabling schools to continue the delivery of teaching and learning services during the pandemic restrictions.

Despite COVID-19, the Minister of Education launched a comprehensive reform of primary education. UNICEF supported the development of a new concept for primary education, which was adopted in January, and based on which new curricula were developed for grades 1 and 4. During the pandemic the focus was also on developing digital materials and building a national platform to enable ongoing teaching and learning process of all children in the country. UNICEF supported building of Eduino platform, which became one of the most valuable collective portals for digital content, collaboration, and professional development for primary and secondary school teachers, students and parents. The platform now offers over 3600 video lessons, over 400 activities for learning and playing at home. It also engages community of 22,700 subscribed users who receive weekly news about webinars and open resources.

At least **40,000 seasonal migrant workers from North Macedonia were particularly affected by border closures in 2020, which led to a drop in remittances and reduced support for families left behind.** In addition, recent years have seen the **rise of larger scale irregular migratory flows** because of continually limited regular migration channels and unaddressed drivers of irregular migration. The country remains along one of the main routes for mixed migratory movements to Europe, which resulted in more than 41,000 arrivals in 2020, mostly from Afghanistan, Pakistan and other countries.

The pandemic limited human and labour mobility. Economic emigration (of both skilled and unskilled labor) and forced displacement and migration are likely to persist as the number of people on the move is higher than ever. With the population of North Macedonia projected to decrease, strengthening of regional cooperation and new venues for people on the move to address skill gaps in the labor force, along with inclusive narratives, should be explored. Digitalization of migration and border management systems have created digital borders that rise the risk of intrusion on the privacy and human rights of people on the move, stateless persons and others, which need adoption of necessary human rights safeguards.

2.2.3 Poverty and inequality

Undoubtedly, though still without empirical evidence for 2020, the **COVID19 crisis impacted the positive gains of the last decade despite the Government stimulus.** However, the poverty has been stagnating in overall terms since 2015, which can be attributed to the low effectiveness of the social assistance system and the low work intensity of poorest households. Whereas social transfers (excluding pensions) reduce the number of individuals at risk of poverty by approximately 32.4 % in EU countries, in North Macedonia social transfers reduce the poverty risk by only 14.9%³⁰. However, relative poverty in the country has also been stagnant as result of the job generation, i.e. more jobs and higher incomes drag the median income up, hence compensating the effect of social assistance. In this context, considering the absolute poverty rate and poverty gaps may be more relevant in the overall poverty assessment.

The pandemic interrupted the positive employment trends experienced by North Macedonia in the last two decades. According to the ILO's nowcasting model³¹, in 2020, the average working-hours losses amounted to 13.8 %, or 90,000 full time job equivalents. The effects of the pandemic are not visible through the unemployment rate, which, after a short-lived increase in Q2-2020, returned to declining trends and projected to decline progressively to 11 % in 2027 (baseline scenario).³² The employment retention measures enacted by the Government may have prevented the loss of about 80,000 jobs during the second quarter of 2020³³; however, some of those who lost their job left the labour market altogether, as the number of inactive persons increased in 2020 by 6.6 % (or 51,000 individuals) compared

³⁰ ILO Analysis based on EUROSTAT (various years)

³¹ <https://ilostat.ilo.org/topics/covid-19/>

³² ILO, based on: M. Petreski: *Forecasting labour market and poverty patterns in North Macedonia*. Mimeo 2020

³³ ILO/ERBD: *Observatory on Covid19 and the world of work. North Macedonia* (2021, forthcoming)

to the previous year.³⁴ By the end of 2020, the number of workers had declined by 2% (approximately 15,000 jobs), with higher drops (around 5 %) among young people (15-29 years of age), confirming the fact that young individuals are the first to lose their job in times of crisis (“last in-first out” effect), and among own account workers.³⁵ At the same time, the number of people in the potential labour force increased by approximately 34% compared to the previous year, to around 80,000 individuals (26,000 youth 15-29)³⁶.

ILO nowcasting model: Working hours and full-time equivalent (FTE) jobs lost in the Western Balkans and selected countries

Reference area	Time	FTE jobs lost (40 hours)	FTE jobs lost (48 hours)	Percentage of hours lost
Western Balkans	2020	560 000	470 000	8
North Macedonia	2020 - Q1	40 000	40 000	5.3
North Macedonia	2020 - Q2	180 000	150 000	22.5
North Macedonia	2020 – Q3	100 000	90 000	12.8
North Macedonia	2020 – Q4	120 000	100 000	14.7
MKD	2020		90 000	13.8

The economic sectors that usually create most of the jobs were agriculture, transport and manufacturing, are now in decline. Employment decrease was more pronounced for adult men compared to women (26 % and 23 % loss from 2019 to the first half of 2020) and for young women compared to young men (30.3 % and 27.4 % employment losses, respectively). Current data show that the pandemic primarily hit low-educated workers, while employment continued to increase among those with tertiary education. As per [UNDP](#) study, single parents, redundant workers older than 50 years, new entrants in the labour market and long-term unemployed were hardest hit.

Women were particularly hard-hit due to high exposure to the most affected sectors such as health care and informal economy, and disproportionately increased home responsibilities. In contrast, there is a significant difference in the number of women and men pursuing degrees in STEM, alongside a **significant gender disparity in those employed in the ICT sector.** In the ICT workforce, only 27% are women, and a mere 12% of women hold management-level positions, together with an underrepresentation as owners of companies and in public sector jobs³⁷.

The Employment Support Agency (ESA) reported around 55 thousand more unemployed in December 2020 compared to December 2019, with women disproportionately affected given their overrepresentation in the most affected sectors and prioritized care responsibilities. As result, in ESA evidence, for the first time, the **total number of unemployed women surpassed the number of unemployed men.** In regional terms, during the crisis the **unemployment mostly increased in Skopje, Tetovo and Kumanovo** (source: [UNDP](#)).

Labour market data picked up again in 2021, with the employment rate in Q2 2021 at 15.9%, though activity rate still remains below 2019 level. As per the Q2 statistics, most of the jobs are lost in the (wider) industry which traditionally employs the most. On the positive note, more jobs are being created in the

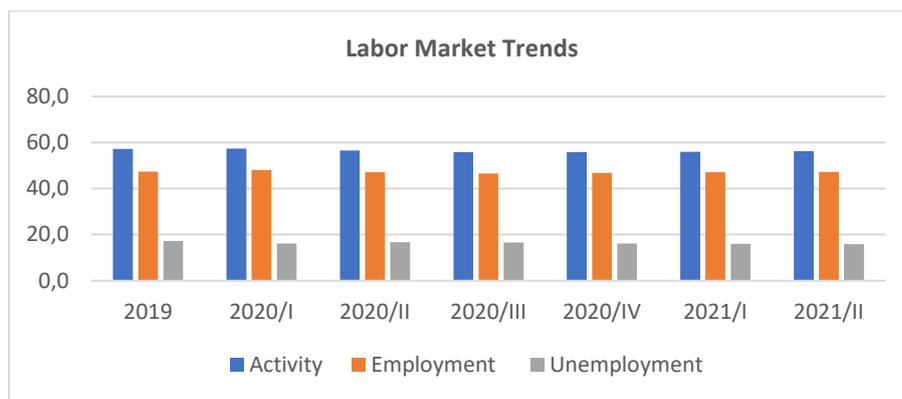
³⁴ State Statistical Office of North Macedonia: Labour Force Survey, quarterly data 2020.

³⁵ ILO/ERBD: *Observatory on Covid19 and the world of work. North Macedonia* (2021, forthcoming)

³⁶ ILO: people not in employment available but not seeking and those seeking but not available

³⁷ ITU: (draft) [North Macedonia Digital Development Country Profile](#)

better paid sectors, for example the jobs created in the ICT sector in the quarter two are twice as much those created in the construction sector.



In 2020, the **annual net wage increased by 7.8% in nominal and 6.5% in real terms** compared to 2019, averaging at €442 net/ € 660 gross. This trend continued in 2021 with 106.3% index net pay for the first half of the year, due to several reasons. First, in 2020 most of the lost jobs were predominantly low-pay while at the same time high-pay sectors such as IT and finance had excellent performance, which increased the average. Second, the Government subsidized wage increase in June 2020, as well as COVID-19 related stimulus which started in December 2020 also impacted the net wage.

In 2020, the labour income and remittances reduced for number of most vulnerable families, particularly those engaged within informal sector. According to [ILO](#), almost 40 % of over 180,000 atypical workers in North Macedonia are in informal employment. At the same time, most workers losing their jobs during this crisis belong to the second-tier (atypical employment contracts) and/or third-tier (informal) segments of the labour market, with little or no access to unemployment benefits. (though this was later addressed by the Government). Projections by IMF for 2021 envisage recovery of remittances with annual growth of 19%.

In addition, **prices pushed the inflation to 1.2%** as result of the 2.6% increase in food prices and core inflation of 0.9%. The index of domestic industrial prices shows further increase in the first semester of 2021 of 104.7% compared to the same period in 2020. In the first half of 2021 the cost of living reached 2.4% (twice as much compared to 2020/2019), while the retail prices grew 2.9%. According to the NBRNM, the inflation is expected to raise to 2.2% in 2021, due to expected energy and food price increase and then stabilize around 2% in 2022 and 2023, however this is likely to increase as result of more pronounced external risks.

Government stimulus ensured some positive impact on income. According to a recent ILO analysis, the labour income in North Macedonia increased by 9.3 % during Q2 and Q3 of 2020 compared to the same period in 2019. The rise in total wage income is explained by the minimum wage increase from 12,500 MKD to 14,500 MKD in October 2019; and the introduction of a subsidy program for social contributions of the wage increases in the rank from 600 to 6,000 MKD, which started in November 2019. The minimum wage increased even further, to 14,932 MKD in June 2020 (in the midst of the crisis), by automatic adjustment with the growth of GDP, wages and prices in 2019 (an increase which should have happened in March 2020, but was postponed by a decree due to the outbreak of Covid-19). The subsidy of social contributions was a government attempt to suppress the proliferation of the so-called envelope wage: paying part of the wage in cash to avoid taxes and social contributions.

During the Covid-19 crisis, the **eligibility criteria of the Guaranteed Minimum Assistance (GMA) were relaxed to protect individuals from falling into poverty.** The estimates show that this measure had positive effects on the income of the poorest segment of the population, with additional government spending of € 4.7 million. The Government also provided one-off financial support in July 2020 (targeting GMA beneficiaries, registered unemployed, low-paid workers and young people registered in public education institutions) and in December 2020 (registered unemployed and jobseekers, pensioners with low income, single parents and youth left out from the July support), amounting to €50 million. It is also

noteworthy that the December 2020 amendments to the Social Protection Law have introduced certain elements of embedded shock responsiveness into the system, including the automatic relaxation of eligibility criteria for GMA in emergency situations.

The updated analysis of socio-economic effects of COVID-19 on children poverty³⁸, launched in June 2021, shows that while government COVID-19 socio-economic measures – and particularly social transfers – have **mitigated the impact on extreme child poverty**, more children are living below the average standard of living. The relative poverty rate is forecasted to increase from 27.8 % before the pandemic to 32.4 % after the pandemic, putting additional 19,000 children below the relative poverty threshold. The number may increase to 22,000 depending on the length and severity of the crisis. However, the adjusted and expanded cash transfers contributed strongly to the reduction of the number of children living in extreme poverty, i.e. living with less than \$1.9 daily, in PPP terms, from 1.5 % to 0.6 %. Nonetheless, it is worrying that an estimated 27 % of families eligible to take advantage of the relaxed criteria for accessing the key anti-poverty social transfer (the guaranteed minimum allowance) are not utilizing the assistance. The underutilization indicates that some of the potential beneficiaries may have been unaware of the relaxation of the eligibility criteria during the pandemic.

However, overall, the outbreak of COVID-19 pandemic has exposed major vulnerabilities in the economy and aggravated existing inequalities, impacting women and men differently. On average, women used 47% of the total wage subsidies for employees over the period April-June (2020), which is positive. The share of women receiving unemployment benefits increased from 52% in February to 56% in October 2020 due to higher job losses by women, while the share of women participants in active labour market programmes declined to 43.8% compared to 52.5% in 2019. Moreover, the share of women that received support for self-employment (support for start-up businesses) in 2020 decreased comparing to the year before (from 33.3% to 30.9%)³⁹ as consequence of the COVID-19 crisis and insufficiently gender responsive measures implemented by the Employment Support Agency.

Women from rural areas were the most vulnerable category and experience significant impact on financial resources and sources of income. The share of women employed in the agricultural sector is constant around 38% and according to the Single Agricultural Holdings Register, out of the 175,088 registered agricultural holdings in 2020, 22% were held by women, which is a 4.5 % increase from 2019 (Ministry of Agriculture, Forestry and Water-Economy-MAFWE, August 2020). However, 42% of rural women compared to 37% of rural men stated that it would be difficult to keep up with basic expenses for food and hygiene products if the COVID-19 pandemic continues. In addition, rural women (7%) experienced larger decline in income from agricultural activity compared to men (4%).⁴⁰

The pandemic has especially affected **subsistence and small-scale farmers**, particularly their access to markets for products, inputs for production, as well as seasonal workers for harvest and processing. This situation has been compounded by limited resources and low income, as well as other structural constraints, such as high fragmentation of agricultural land, lack of adequate agricultural infrastructure, rural facilities and services, including finance, exacerbating the effects of already existing vulnerabilities, including climate change.

In addition, the movement restrictions and closures of non-essential services – affected employment and income particularly for stateless persons, refugees and asylum seekers. Working in hardest hit sectors or informal economy and facing challenges of getting a decent employment due to language gaps, lack of skill assessment and carrier counselling, many found difficult to cope with meeting basic needs needing financial support for food and utilities⁴¹.

³⁸ UNICEF in partnership with USAID and Finance Think

³⁹ UN Women's Publication on Budget choices: <https://bit.ly/2V1FHIG>

⁴⁰ Rapid gender assessment: The impact of COVID-19 on women and men in North Macedonia

⁴¹ Survey conducted by UNHCR with stateless persons and Kosovo refugees in April

2.3 CLIMATE CHANGE, ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES

2.3.1 Climate change

New ambitious NDC was defined i.e. the country committed to ambitious greenhouse gas emission reduction targets. In April 2021, the Government of North Macedonia adopted the Enhanced Nationally Determined Contribution (NDC) to the Paris Climate Agreement, setting ambitiously its national goal to **achieve 51 % reduction of GHG emissions by 2030** (or 82 % net emissions reduction) compared to 1990 levels - the most ambitious commitment among countries in the Western Balkans. The estimated reduction is to be achieved through implementation of the Green Mitigation Scenario from the National Strategy for Energy Development till 2040, which is enriched with policies and measures in the industry, agriculture, forestry, other land uses, and waste sectors. The NDC are to be accompanied by a **NDC Financing Strategy** and **Monitoring, Reporting and Verification (MRV) system**, which are under preparation, expected to be completed in 2021. The MRV system will ensure transparency as per the requirements of the Paris Agreement and will be integrated into the National Environmental Information System (NEIS), hence contributing to the creation of a harmonized digital collection of essential data that will facilitate the work of all stakeholders involved in the transparency process.

Also, the synergies and trade-offs on various SDGs from implementing the enhanced NDC was quantified using the SCAN tool⁴² and the newly developed Q-SCAN tool⁴³. The aggregate effects of implementing the enhanced NDC measures in Electricity & Heat, Transport, Buildings and Waste will have the **strongest positive impact on SDG 8 (Decent work and economic growth)** due to the new job opportunities in renewable energy deployment and in the construction and retrofit market; sustained economic growth, improved economic efficiency per unit of product and sustained support of entrepreneurship. The **most significant trade-off is with the SDG 15 (Life on land)** due to the land requirements from renewable energy projects, potential forest degradation and potential river routes changes. However, **the highest synergies are almost three times stronger than the highest trade-offs.**

Efforts are made to establish an effective framework of local self-government units for implementation of environmental legislation and Environmental Performance Review (EPR) recommendations, as well as improving coordination between central and local governments in the implementation of environmental legislation.

Financing and investment in renewables and climate action is on the rise. In 2020, energy generation from renewable resources increased by 827 MW, a 10.1% increase from 2019. In 2021, several sizable new investments in renewable energy production were announced i.e. five new wind parks i.e. extension of Bogdanci (30MW), Bogoslovec (36 MW), Demir Kapija (30 MW), Stip (300-350MW) and Kumanovo area (400 MW), the new solar power plant in Oslomej (100 MW) as well as the new major station in Ohrid, which is a key component of the electricity interconnection between North Macedonia and Albania. To further accelerate renewable energy finance, a **Report on De-risking the Macedonian enhanced NDC Renewable Energy Finance and Policy Landscape** focusing on power, heating and cooling is expected to be completed in 2021. The report analyses the current renewable energy finance and policy landscape in the country, identifying specific barriers and associated risks which can hold back private-sector investment in renewable energy and provides recommendations on policy frameworks and financial de-risking instruments to scale up renewable energy investment. Also, the country is working on developing a pipeline of country projects addressing climate change adaptation and mitigation priority actions in each of the key sectors, for application to the global Green Climate Fund (GCF) including: energy, transport, water resources, agriculture, waste, biodiversity, health, forestry, and cultural heritage, expected to be ready in December 2021.

⁴² The SDG Climate Action Nexus tool ([SCAN-tool](#)) is designed to provide high-level guidance on how climate actions can impact the achievement of SDGs

⁴³ [NDC & SDG synergies and trade-offs in Macedonian conditions](#), UNDP Climate promise project

Energy Efficiency is on the rise as most effective decarbonization action. The Law on Energy Efficiency was passed in February 2020 with the relevant by-laws (more details in the section below).

Initial steps to include environment and climate change in education have been made. Based on detailed analyses of the education curricula, identified barriers/gaps and recommendations for improvement, the Ministry of Education and Science, Ministry of Environment and Physical planning, Ministry of Labor and Social Affairs and Agency for Youth and Sport have started working on integrating climate change and environmental protection into curricula in kindergartens, primary and secondary schools, as well as empower youth to take climate action. This should result in greater awareness and behavioral change of youth in their relationship in preserving the climate and eco-systems.

Limited achievements have been made related to the improvement of the disaster risk management⁴⁴. Extreme weather events which will become more common with climate change, such as the prolonged heat wave in summer 2021, that resulted in massive fires, require timely, swift, coordinated and well-equipped response. The Government announced systemic reforms of the protection and rescue and crisis management system, but it has not started yet. Development of a new Strategy for Protection and Rescue, and new methodology for assessment of risk have been initiated. Draft Strategy for Flood Risk Financing and Flood Risk Transfer has been developed. First ever municipal strategic plans for disaster risk reduction were adopted in 5 municipalities: Konche, Karbinci, Kavadarci, Veles and Mavrovo and Rostushe contributing to the fulfilment of the Sendai Framework for Disaster Risk Reduction objectives and especially the Target E “Substantially increase the number of countries with national and local disaster risk reduction strategies by 2020.” The network of hydrological and meteorological stations was extended with 46 new or renovated stations, 32 in Polog and 14 in the Drin River Basin, as a basis for establishment of early warning systems. The monitoring networks in Strumica and Crn Drim River basins have been improved and development of the early warning system is underway in the Polog region. Further, a NATO EADRCC⁴⁵ - Crisis Management Center disaster response exercise “North Macedonia 2021” was organised in the regions of Ohrid and Struga in September 2021 testing the Alliances’ capacities for civil military emergency coordination and response to disasters (urban search and rescue operations; mountain search and rescue; flood response; response to chemical, biological and radiological incidents; and fake-news campaigns).

The Ministry of Agriculture, Forestry and Water Economy started integrating the different national environmental spatial data, platforms and databases into single Earth Map platform providing high-quality data for policy formulation purposes and post-disaster needs assessment and reporting. The INFORM Index for Risk Management was implemented by the Protection and Rescue Directorate to help draw a picture on the sub-national disaster risk, disaster exposure, vulnerability and coping capacity in the country.

2.3.2 Environment protection and pollution (Wastewater, Solid and Hazardous Waste, Air Pollution)

Some positive developments in improving wastewater treatment; however, major cities, including Skopje, still remain uncovered. Currently, approximately 26-27% of country’s population is covered with wastewater treatment services. **Activities for finalisation of Bitola, Kichevo and Tetovo wastewater treatment plants are ongoing, with EU IPA 2 support.** Three major investments in new Wastewater Treatment Plants in Skopje, Stip and Veles as well as connection for Vinica from existing Kochani wastewater treatment plant have been announced under IPA 3.

Important progress in hazardous waste removal from one of the hot spot sites, former chemical factory “OHIS” in Skopje was made. Multi-Partner Environmental Fund (MPEF) for the clean-up of the OHIS factory site was established, made operational and ready to absorb funds and implement activities. MPEF

⁴⁴ <https://idscs.org.mk/wp-content/uploads/2021/04/1-ENG.pdf>

⁴⁵ NATO’s Euro-Atlantic Disaster Response Coordination Centre (EADRCC).

represents a mechanism to clean up a heavily polluted former chemical plant site from industrial waste, in line with the European standards. Clean-up activities on the Delta-HCH (lindane) site (small waste dump site) have started and the site will be remediated by mid next year. Further work on the other hazardous materials cleanup in the former OHIS factory is planned for the next period, including the cleanup of the big waste dumpsite.

Solid waste management remains a significant issue. No major progress was made in 2020-2021 period, except for the development of the **National Waste Management Plan 2020 – 2026**, which is pending approval and the announcement of **waste sorting and processing plants in East and Northeast region**. The current level of the implementation of the existing regional waste management plans and the capacity of the public communal enterprises in the municipalities for collection and transport of the waste to the transfer stations or regional centre were assessed and professional guidance for the municipalities and the regional waste management centres was developed.

Some steps in creating an enabling environment for promotion of circular economy were also initiated in accordance with EU directives, assessing potential introduction of **Circular Economy in the waste sector** (construction & demolition Waste, biowaste, secondary residual fuels, E Waste, end of life vehicles and plastics). Employing circular systems should minimize the use of resources input, foster sustainable consumption, and decrease waste, pollution and carbon emissions.

2.3.3 Natural resources management

Significant progress has been made in terms of natural resources management in 2020 and 2021, both in terms of increase of area under protection and revalorisation and re-proclamation of existing protected areas. After decades of having only three national parks, a **new fourth National Park – Shar Mountain – has been proclaimed** and its Management Plan is under preparation. Together with the proclamation of Osogovo Mountain Protected Landscape (cat. V, IUCN), coverage of the protected area in the country increased in 2020 and 2021, strengthening long-term conservation of nature and biodiversity. The **area under protection increased by 4.4 %** in 2020 and 2021, compared to 2019, and now totals 13.47% of country's territory or a total of 81 protected areas. Of these, 6.91% are national parks, 3% monuments of nature and the remaining 3.56% belong to other protected area categories. The process of revalorization and re-proclamation of existing protected areas has been accelerated through preparation of several (re)valorisation studies, initiated processes for (re)proclamation of several areas and development of management plans.

The country submitted the **6th national report to the Convention on Biological Diversity**. The results show that overall North Macedonia is **making some progress**, with 8 National targets on track to be achieved, and progress, at an insufficient rate, being made for 10 more, and only one National target with no significant change. In terms of legislation and strategic policy, the **Law on Nature Protection** that was drafted in 2016, is still in the process of interinstitutional harmonization and the **Draft Law on Pastures** needs a lot of further improvement and harmonization with the nature legislation as well as other sectoral laws on hunting, forests, waters, etc.

Ancient and primeval beech forests in the vicinity of Mavrovo were **newly inscribed as a UNESCO World Heritage Site** as natural heritage. The **Draft First National Red Lists of Reptiles, Amphibians and Fungi**⁴⁶ are expected to be adopted. Also, the **National Map of Erosion** has been finalised.

Restoration of important habitats in the country is at initial phase. Some pioneering steps are undertaken for restoration of riparian habitats in Dolna Bregalnica region and Ezerani Nature Park. However much more efforts are needed.

⁴⁶ [\[1\]](#) Red list assessment also performed for 14 vascular plants and 5 mammals.

Based on the assessment of the status of ecosystems on a national level as well as assessment of the ecosystem services they provide. Initial steps for introducing a scheme for payment of ecosystem services are undertaken in the Monument of nature Vevchani Springs.

Ohrid's status as natural and cultural world heritage site is at risk of being inscribed as 'in danger'. At its July 2021 meeting, the World Heritage Committee (WHC) has requested North Macedonia and Albania to develop a detailed Strategic Recovery Plan with an associated Action Plan that sets out clearly defined aims, outcomes, corrective measures and timeline to mitigate threats identified in the UNESCO Mission Report 2020, to be presented to the WHC by 1. February 2022 as well as an updated joint report on the state of conservation of the property, including progress made in the implementation of the Strategic Recovery Plan by 1 February 2023. This essentially allows two more years to implement measures, before the WHC makes a decision whether the site will be proclaimed 'in danger'. Some activities in the direction of addressing the UNESCO Recommendations have been carried out in 2020-2021 i.e. Ohrid Lake re-proclamation process as a Monument of nature (by development of valorisation study for Ohrid Lake MoN and a draft management plan) and preliminary decision to declare the Studencisko March a nature park, adoption of Management and Action Plan for Management with the Natural and Cultural Heritage of the Ohrid Region 2020-2029.

Assessment of the capacity for implementation and enforcement of River-basin Management Plans (RBMPs) was carried out in order to prepare a plan for strengthening the capacity for implementation and a plan for public consultation procedure for development and approval of the river basin management documents. This includes preparation of RBMPs for all river sub-basins and the implementation plan for the programmes of measures.

All three natural lakes suffer from lack of transboundary water management and varying water levels with Lake Prespa facing most severe issues. In terms of transboundary water management, Lakes Prespa and Dojran face issues with their water levels, due to uncoordinated use of their water for irrigation as well as climate change impacts, while Lake Ohrid faces issues in terms of lack of common fishing rules, putting the endemic Ohrid trout at risk of extinction. Additionally, Lake Ohrid also faces water level issues, due to unlevelled use of water downstream for electricity generation. Additionally, agriculture continues to pose environmental threats for the Lake Prespa and Lake Ohrid watersheds, through diffuse use of fertilizers and pesticides and significant water abstraction of ground and underground waters. Nevertheless, it remains a significant source of income for the rural population in the lake surrounding regions.

2.4 KEY POLICY AND LEGISLATION CHANGES

Human rights and gender commitments

The legal framework on the protection of fundamental rights is largely aligned with international and European human rights standards. Implementation and institutional capacities, however, remain a challenge. In January 2020, the country acceded to the 1961 UN Convention on the Reduction of Statelessness. Additional efforts are needed to address recommendations of international and European human rights bodies and there are recommending ratification of the remaining key international human rights instruments.⁴⁷

In the challenging pandemic context, the authorities continued devising **policies and legislation to advance human rights, gender equality, the rule of law and access to justice**. The Law on Prevention and Protection against Discrimination (Anti-Discrimination Law) entered into force in October 2020 and provides protection from all discriminatory grounds recognizes by international law, including sexual orientation and gender identity through a new professional and independent complaints mechanism.

⁴⁷ International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families and the International Convention for the Protection of all Persons from Enforced Disappearance, which the country signed in 2007 but has yet to ratify.

The country has made progress and continues its effort in meeting gender equality commitments. An important milestone is the adoption of the **Law on Prevention and Protection from Violence against Women and Domestic Violence (GBV)**, aligned with Istanbul Convention and CEDEW recommendations. It provides for a holistic and comprehensive approach of all relevant stakeholders including front line workers social and health workers, law enforcement and judiciary, and the civil sector. The law has extended protection and support to most marginalized women and girls including migrants, refugees and asylum seekers. In response to the growing trend of GBV during the pandemic, protocols for safe operations of survivors' shelters were produced, and referral centers became functional providing immediate assistance and support to victims. Gender responsive policy development and budgeting has increased, reaching a total of 14 line ministries and 24 municipalities.

Many sectoral strategies and long-term action plans addressing fundamental rights and gender equality have expired in 2020, prompting efforts to replenish and design forward-looking strategic documents to steer the reform processes, supplemented with new or revised primary and secondary legislation. In that vein, new strategies on gender equality and non-discrimination are under development, while the one addressing human trafficking and illegal migrants has been adopted. The Gender Equality Law and Organic Budget Law that set gender-responsive budgeting also at local level, are at the final stage of consultations and review. The Criminal Code is being revised with incriminations for a stronger protection of women and children, amendments are being introduced to the justice for children law as well as a novel state-compensation scheme for victims of violent crimes.

A **gender-sensitive Programme on Sustainable Local Development and Decentralization 2021-2026** has been prepared to strengthen local communities' cohesion and resilience in line with the Paris Climate Agreement and the Sendai Framework for Disaster Risk Reduction.

While there are commitments taken by the Government and improvement of women participation in political, social and economic sphere, they remain unrepresented in certain sectors like security, diplomacy, etc. In the total number of 143 mayor candidates of the largest political parties for the upcoming local elections there were only three women.

National and local development policies

To navigate the complexities and uncertainties, the Government has embarked on setting the country's sustainable development paths for the next twenty years, leveraging on broad consultations and building cross-party, cross-generational and whole-of-society consensus. In the first half of 2021, with technical support from UN, the country designed a new and innovative methodology to formulate a **National Development Strategy 2021-2041**. The NDS will reflect and build upon the priorities within the EU accession process and the Agenda2030 and embed long term and systemic approach and adaptability in the process to make sure that the NDS remains relevant in 20 years.

Local government has encountered financial deficiencies that adversely affected their ability to provide services to the communities and people in need. This is evident from the growth of 11.8% of the total local governments' revenues in the first quarter of 2020 compared to 2019, which decreased to only 1.8% in the second quarter of 2020. In the second quarter of 2020, the urban municipalities saw a decline of 2.2% in revenues, whereas the municipalities' own revenues were particularly vulnerable and substantially decreased leading to their greater financial dependence on the central government (the share in the revenue structure 2020/2019 has increased by as much as 8 percentage points).⁴⁸

In response to the crisis, the legal framework was adjusted to enable more predictable source of financing and use of online tools for uninterrupted services provision during the movement restrictions.⁴⁹ Selected municipalities ensured continuity of operations through innovative and digital tools for transparency,

⁴⁸ The database for local governments' revenues analysis is extracted from the Ministry of Finance website – (<https://finance.gov.mk/%d0%b8%d0%b7%d0%b2%d0%b5%d1%88%d1%82%d0%b0%d0%b8-2/>).

⁴⁹ Amendments to the Law on Financing of the Local Self-Governments (LSGs) and a new Decree on implementation of the Law on LSGs during state of emergency.

public participation and oversight. The local financing has continued improving in view of the ongoing government efforts to establish the Equalization and Performance based Grants in municipalities. The recently adopted amendments to the Law on Local Financing provide for increased and more stable municipal incomes from personal income tax and VAT, including the establishment of the two corresponding funds for equalisation and performance-based grants. This will have a positive impact on the fiscal discipline of local government.⁵⁰

In all, the central and local governance system demonstrated certain level of resilience during the COVID-19 pandemic. The constraint of their human and financial capacities to prevent and mitigate such serious health and socio-economic crisis with multi-facet implications, has also highlighted the weaknesses of the disaster risk/crisis management system and the need for systemic reforms, largely depending on innovation and digitalization.⁵¹ The Government **new digitalization strategy and action plan**, as well as the Smart Specialization Strategy set an ambitious agenda on ICT solutions that will help the institutions at all levels to be fit to the digital era.⁵²

Institutional capacities for policy development

The institutional capacities for policy development and implementation, oversight and accountability have gradually improved, though lack consistency and vigour. **Evidence driven policy making remains to be a challenge** due to lack of reliable and disaggregated data. A positive example is the data collection mechanisms used in the **new Migration Policy 2021-2025, along with country specific Migration Profile**, Migration Module questionnaire and Guidelines for its implementation in line with EUROSTAT standards.

Transparency, representation and participation in a meaningful and inclusive manner across a wide spectrum of the society have been maintained mainly through online platforms and innovative digital tools. The 'new normal' necessitates stronger, just and accountable institutions, improved cross-sectoral coordination and data collaboration and information exchange, innovation and digitalization to effectively cater for the needs of people, especially those left furthest behind.

Human capital

COVID-19 response packages introduced some regulative adjustments aimed to make the business environment more conducive to growth, by facilitating the digitalization and reducing some of the customs tariffs and parafiscal expenses. During the first half of 2021, with the technical assistance of the ILO, **the Government formulated the new national employment strategy (2021-2027)**.

In the area of human capital, the Government adopted the new **National Health Strategy 2030** and updated the **Action Plan for Preparedness of the Health System to respond to the SRH needs in times of crises**, to incorporate specific COVID-19 related aspects (November 2020). With few key policy interventions, the Government also made a practical shift in national health policy towards modern PHC as basis of the health system reform in the country and implemented several capacity building programmes. These include the first nursing competency programme in place, a new National Multiyear Master Plan for Perinatal Care in pilot implementation; improving surveillance, coverage and management of vaccines, as well as strengthening national health information system capacities, through a telehealth integration to the National system for Electronic Health Record – Moj Termin.

In addition, a new **educational reform in the primary and secondary education** was rolled-out along with a new Law on life-long learning and update laws on primary education and on vocational education

Climate change

The strategic and legal framework on climate change mitigation and adaptation is enhanced. In addition to the enhanced NDC, several key strategies on climate change were adopted in 2020 or expected to be

⁵⁰ <https://vlada.mk/node/26615>

⁵¹ UNDP (SEIA) and Integral Assessment Report on the local level - <https://www.impact-covid19.mk>

⁵² ICT strategy <https://ener.gov.mk/Default.aspx?item=newdocumentdetails&detalisId=23&fb>. ICT Action Plan <https://ener.gov.mk/Default.aspx?item=newdocumentdetails&detalisId=27&fb>.

adopted in 2021: a long-term **Strategy on Energy Development until 2040**, long-term **Strategy on Climate Action** adopted in 2021, three more are pending approval – **Law on Climate Action, National Energy and Climate Plan and Irrigation and Drainage Strategy 2021-2031**. The **Strategy on Energy Development until 2040** represents a platform for overall energy sector modernization and transformation in line with EU energy trends, with the aims to facilitate enhanced access, integration and affordability of energy services; reduce local and global pollution, increase private sector participation in the energy sector and enable affordable, reliable and sustainable energy for the future. The implementation of the strategy is elaborated in the 5-year implementation programme (should be adopted in 2021) and the secondary legislation (related to energy efficiency goals, eco design for the products, energy efficiency in public procurement procedures, energy audit of big companies, building energy characteristics, etc.) which is yet to be prepared and adopted.

The Law on Energy Efficiency passed in February 2020 with the relevant by-laws, drives adoption of RES in buildings and hence provides a legal basis to fulfil future efforts to electrify the heating and cooling sectors. It encourages implementation of energy efficiency measures in buildings, transport and industry. The law covers end-to-end energy supply, transmission and distribution of energy. The scope of the law entails regulations for buildings to increase their energy codes. Finally, the law targets large energy users, including the public sector, traders and providers of energy services. 4th National Energy Efficiency Action plan (2020-2022) has been adopted in 2021. The Energy Strategy in its Green scenario sets following targets for energy efficiency by 2040: energy savings up to 51.8% of primary and 27.5% of final energy. The establishment of an Energy Efficiency Fund, to support municipal investments, is still pending.

The **National Strategy for Agriculture and Rural Development (2021-2027) (NSARD 2021-2027)** highlights the negative effects of climate change on agriculture (due to temperature rise, decrease in rainfalls and evapotranspiration increase) through significantly reduced yields of most crops, decreased food sustainability, increased food prices and lower food quality. Key proposed measures include sustainable water resource management and investment in water economy, greater use of sustainable energy, sustainable management of land and soil, as well as biodiversity protection, improvement of ecosystem services, bio-economy and sustainable forestry, as well as improving the capacity of the agriculture sector to respond to society's demand for safe, nutritional and sustainable food, food loss and waste reduction and animal welfare. Irrigation, i.e. realization of large capital investments for rehabilitation of the existing and construction of new hydro and drainage systems, is considered the best adaptation option in the agriculture sector, with estimated potential to increase maize and winter wheat yield by 44 and 43 % respectively by 2050, in comparison to the present average yield. In this context, the NSARD sets a strategic target for increasing the total irrigated land from 84 434 ha to 95 000 ha in year 2027. All these Strategies are consistent and complement each other. One of the key strategic goals of the NSARD is also aimed at improving the competitiveness of the agri-food sector, economic sustainability and income of agricultural holdings and ensuring sustainable development of rural areas.

The Strategy foresees interventions in strengthening the market orientation and competitiveness of farmers and agri-food producers, with a special focus on research, technology and digitalization in order to increase the share of rural development in the economy to 36% by 2027. To achieve gradual shift from direct subsidies to carefully targeted support for farm competitiveness and broader rural development, the Government has emphasized the importance of allocating increase of the rural development support, as a national strategic priority in the NSARD 2021-2027. In addition to the regular programs for subsidizing the agricultural production, the Government has provided financial support to agricultural producers and livestock breeders, in order to stabilize the local market and to reduce their income loss due to hampered exports due to the Covid-19 pandemic and support for women agricultural producers as a strategic goal for the development in this area.

2.5 IMPACT OF COVID19 PANDEMIC ON VULNARABLE GROUPS

The **pandemic pushed back some of the advances** made and continues to **exacerbate inequalities, discrimination, social and digital divides**. The Government prioritized health and socioeconomic response

and recovery to the rapidly changing pandemic context. It has continued efforts to address critical human rights issues in multiple sectors of governance in a structured and inclusive manner.

The vulnerabilities of most marginalized groups exposed to interesting discrimination have increased, especially of women, children, older people, Roma and other minorities, person with disabilities, LGBTI people, people on the move, stateless and unregistered people, people deprived of liberty, and others at-risk of social exclusion. These communities often are unaware of their rights, have no access to justice, free legal aid or representation, or equal treatment by service providers. The pandemic resulted in an increase in discrimination, xenophobic and divisive narratives, mis and disinformation, hate speech, domestic and gender based violence, online violence that often has been underreported and went unpunished. The unproportioned impact on several most vulnerable groups and the government response (or lack thereof) is highlighted below.

Older people have been particularly exposed to the public health emergency as evidenced by the amplified COVID-19 impact on their health and a huge toll on their lives. Older persons have also been exposed to domestic violence, albeit there are no precise data on the incidence, with serious consequences on the mental and physical health, dignity, quality of life, and general well-being.⁵³

Children - Government spending on children has increased during the pandemic, but at a rate lower than the increase of the total government expenditure. This is, among other things, a reflection of the lack of specifically child-focused COVID-19 measures with fiscal implications. Funds allocated to programs for children in 2021 have remained almost identical to 2020 expenditure. Nonetheless, the 2020 expenditures already included significantly increased – compared to previous years – cash transfers benefitting children, including quadrupled child benefits programme and fivefold increase in the number of children benefiting from poverty reduction cash transfers. The 2021 budget however envisages a 1% decrease in the spending on children's health and 2% cut on child protection and social protection of children. This raises concern that the Government has not adequately factored in a) the higher needs for additional resources (human resources, materials, soft skills, digitalization) for coping with any lingering effects of COVID-19 in healthcare for children, schooling and early childhood education; b) the consequences of the anticipated new pandemic wave this autumn, its impact on both monetary and multidimensional child poverty – including child deprivation in healthcare.

Family violence increased during COVID-19, with children being nearly 10 % of the reported victims.⁵⁴ The number of quarterly reported cases of violence against children at the centers for social work (CSWs) increased by 14.7 % in Q2-2020 compared to the previous quarter.⁵⁵ During lockdowns, there was an increasing trend of online violence. The National Strategy to prevent and protect children from violence 2020-2025 guides the country's efforts to strengthen the institutional response to violence against children.⁵⁶ Admission of children in educational correctional facilities (ECF) and correctional facilities has been temporarily paused during the pandemic. In October 2020, children referred to an educational correctional facility have been transferred from the juvenile prison in Ohrid, to the new facility in Volkovija, which does not meet the ECF criteria. The legal and other related measures for online protection of children, are insufficient. Currently, there is no data available on a national safer Internet centre, and various Internet stakeholders have not demonstrated full engagement, including the government and other Internet-related organisations.

Women have been at the forefront, from the onset of the pandemic, working in the health sector and care economy, as nurses, doctors, teachers, social workers, and have taken a large portion of the burden

⁵³ Domestic violence over the elderly with special emphasis on the Republic of Macedonia, by Marjan Gaberov, International Journal of Research in Social Sciences, Vol 7, Issue 8, August 2017.

⁵⁴ <https://www.unicef.org/northmacedonia/media/8696/file/The%20social%20and%20economic%20effects%20of%20COVID-19%20on%20children%20in%20North%20Macedonia:%20an%20update.pdf>

⁵⁵ <https://www.unicef.org/northmacedonia/media/8696/file/The%20social%20and%20economic%20effects%20of%20COVID-19%20on%20children%20in%20North%20Macedonia:%20an%20update.pdf>

⁵⁶ More information available here: http://mtsp.gov.mk/januari-2020-ns_article-sekoe-dete-ima-pravo-na-bezbedno-i-srekjino-detstvo-vladata-usvoi-nacionalna-strategija-i-akciski-pla.nsp

by doing domestic unpaid work. The movement restrictions and lockdown created a 'shadow' pandemic exposing women and children to more harsh domestic violence and abuse, hardly being able to report the crime and receive help and support. Targeted actions were prompted to address the disproportionate gender effects of the pandemic: "[Be Safe](#)" mobile application in 3 languages (Albanian, Macedonian, and Romani) for reporting and confidential services and immediate support was made available to GBV victims, and [Online platform for students to share their work on GBV and DV](#) was promoted. Women organizations and civil society have continued their active engagement on gender mainstreaming and women empowerment. The Rapid Gender Assessment of COVID-19,⁵⁷ mapping study on the COVID-19 at local level⁵⁸ and its impact on budget re-allocations have helped the central and local government to identify priorities and tailor adequate policies and response measures.

Persons with disabilities have continued to face multiple barriers and exclusion, remaining largely invisible in the mainstream of society. The pandemic aggravated further their experiences of adverse socioeconomic and health outcomes, including non-accessible places for COVID-19 testing. Changes to make schools fully inclusive, introduction of a new assessment model, closure of large-scale institutions for children without parental care, deinstitutionalization that left no single child in institution, improved accessibility of support services, and shift of attitudes are some of the results achieved. A national monitoring framework, as a partnership between the Ombudsman and people with disabilities, their representative organizations and civil society, aims to amplify opportunities for their meaningful participation. Systemic interventions are needed to advance preconditions for disability inclusion so that these people can live independent life of their choosing.

People on the move and stateless people

Migrants transiting the Western Balkan route to the European Union have been particularly vulnerable to COVID-19 due to the conditions during migration but also accommodation – traveling and being accommodated in groups, not being able to practice "physical distancing" or adequate hygiene measures, encountering travellers from possible high-risk areas. The pandemic has impacted men, women and children, especially unaccompanied children who are often at risk of falling in the hands of traffickers. Additionally, the assisted voluntary return and reintegration activities were limited due to the imposed movement restrictions and border closures. Two Temporary Transit Centres (TTCs) at the southern (Vinojug/Gevgelija) and northern (Tabanovce) border continued to function. In 2020, the authorities designated and renovated Vnojug TTC as a quarantine place for irregular migrants, asylum seekers or those identified as witnesses in criminal proceedings against the smugglers.

Victims of human trafficking - The pandemic has exacerbated economic and societal inequalities that are among the root causes of human trafficking. The organized criminal networks have adjusted their *modus operandi* to the 'new normal', primarily through the abuse of modern communications technologies targeting women and children. Additionally, the arrival of families of foreign terrorist fighters (FTF) introduced new fault lines and negative narratives in the society.

Refugees, asylum seekers, undocumented and stateless people - Challenges related to protection priorities did not change, increasing the vulnerabilities of persons in need of international protection and undocumented stateless persons. Interest to seek asylum in the country remains low, with 211 asylum applications submitted in 2020 and 43 until end of August 2021 and with the percentage of absconding asylum-seekers remaining high. The recognition rate in 2021 is 0%, while **refugee status was not granted in the country since 2016**. The Government has continued to maintain the state of crisis at the South and North border, irrespective of the fact that the number of arrivals does not require for special measures to be still in place, while negative narrative in the public is influenced.

Many persons were not able to register for vaccination, especially stateless persons who do not possess personal documents, many of whom live in poverty and informal settlements with inappropriate sanitary

⁵⁷ [Rapid Gender Assessment of COVID-19](#)

⁵⁸ [Mapping study on the impact of COVID-19 on the socio-economic situation of women at local level](#)

conditions and no access to appropriate COVID- 19 prevention information. In December 2019, North Macedonia at **the Global Refugee Forum** pledged to strengthen asylum case management, through upgrading asylum module of the foreigners' database is expected to become operational. This process is in a standstill since 2020. The pledge also included resolving the protracted situation of refugees from Kosovo by granting long-term legal status in the country to all those who may qualify, under the Law on Foreigners, thus contributing to their self-reliance and social integration.

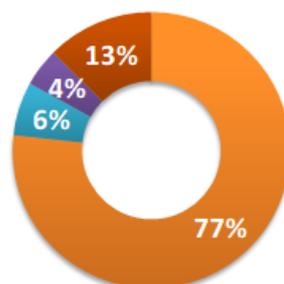
3. SDG FINANCING LANDSCAPE

The 2030 Agenda for Sustainable Development aims at a fundamental transformation of society, and its patterns of production and consumption. This transformation requires changes in mindsets and behaviors; realigned incentive systems; a conducive and enabling public policy environment; and the deployment of innovative technologies that are more energy- and resource-efficient. Investments on a massive scale are needed to create sustainable infrastructure and low-carbon, high-efficiency production methods that will accomplish the transformation. Hence, financing is key to realizing the 2030 Agenda and the **Addis Ababa Action Agenda** is the core framework for actualizing the means of implementation. The Addis Ababa Action Agenda calls for all financiers - governments, international financial institutions, and private financial markets alike - to align and direct adequate flows of resources into sustainable investment, in order to enable the achievement of SDGs.

In the direction of putting greater focus on the topic of SDG Financing, a snapshot of all public, private, international and domestic financing flows in North Macedonia is provided below, based on latest available data. The analysis is based on the UN methodology for *Development Finance Assessment (DFA)* and the *INFF BB1.2 Financing landscape assessment*. Sources of data include the state budget, monetary and external statistics of the central bank, and the publicly available information from other government institutions.

The total annual financing envelope in North Macedonia is assessed at EUR 5.3 billion. Dominant part of it, 76.7 %, come from domestic public sources, which are and remain to be the key potential financial source for achieving SDGs. International private financing is second in volume, representing 12.5 % of the financial envelope. Domestic private financing represents 6.3 %, while international public financing represents the smallest volume, with only 4.5 % share.

Sources of Financing



■ Domestic public ■ Domestic private ■ International public ■ International private

Public Domestic € 4.03 billion

tax revenues	1.87
social contributions	1.01
non-tax revenues	0.30
other government revenues	0.13
public domestic borrowing	0.11
SOE revenues	0.59
PPPs	0.03

Public International € 0.23 billion

public foreign borrowing	0.11
ODA	0.12
other official flows	-

Private Domestic € 0.33 billion

private borrowing	0.33
CSR	-
domestic philanthropies and NGOs	-

Private International € 0.66 billion

FDI	0.29
remittances	0.21
foreign commercial loans	0.16
international NGOs	-

- ❖ **Domestic public sources, including public revenues, revenues of the state-owned enterprises and domestic public borrowing, secure about EUR 4 billion annually.** Tax revenues, the most

important component, have been steadily increasing until just before the pandemic hit in 2020, yet, at about 17 % of GDP remain comparatively lower to EU countries. In particular, the effective rates of income tax remain low, undermined with the large share of informal economy, inefficiencies in tax collection, existing regressivity in the tax system, multitude of tax exemptions and low nominal tax rates.

- ❖ **International private financing, being composed of FDIs, commercial borrowing abroad and international remittances amounts to about EUR 650 million annually.** FDIs averaged about EUR 300 million annually in the last decade, a dominant part being equity financing, yet lagging behind the achievements in the regional peers and with significant year-to-year variations. On average, additional EUR 100 million is secured through debt financing from abroad by non-FDI-related private actors, while additional EUR 200 million through private remittances.
- ❖ **Domestic private financing, composed of bank corporate credits, non-bank financing and public-private partnerships, secures about EUR 330 million annually.** Bank financing is dominant in the Macedonian financial system, securing about EUR 300 million annually and steadily increasing. Crediting conditions have been favorable for more than a decade, yet risk-averse crediting policies hindered greater credit extension by the banks. However, investment picked up from 17.8 % of GDP in the 1990s to nearly 30 % in the 2010s, attaining the level considered necessary for high and sustained GDP growth rates. On the other hand, the role of bank financing for MSMEs remained limited, despite non-bank financing envelope expanded through designated schemes of the Innovation and Tech Development Fund, the Development Bank of North Macedonia and venture funds support from the European Investment Bank. Public-private partnerships remain significantly underdeveloped source of funding in North Macedonia, with changes expected in this area in the next period in view of the draft PPP law⁵⁹.
- ❖ **International public financing, comprising international government borrowing and official development assistance contributed with about EUR 170 million annually.** In particular, the role of ODA has been on a constant decline, from 2.9 % of GDP in 2006 to 1.1 % in 2019. While international public borrowing remains important vehicle for reducing the crowding-out effect in the domestic financial system: about two thirds is secured through private creditors (bulk of which through the issuance of a Eurobond), while the rest is dominated by the multilateral creditors of which the World Bank is the largest one.
- ❖ **North Macedonia ranks lowest among the Western Balkans peers when the key source of domestic public financing is considered – government revenues.** However, the level of indebtedness is moderate in the same comparative perspective. North Macedonia ranks above the regional average in terms of the domestic credit to the private sector, as the key source of domestic private financing. North Macedonia is among the lowest regional performers in terms of FDI inflow, as well receives the lowest relative amount of remittances among the Western Balkan countries.
- ❖ **Emerging regional initiatives and country-specific developments in the Western Balkans may secure additional sources of SDG financing over the short and medium term.** Blended finance is operational under the Western Balkans Investment Framework (WBIF), while WB EDIF Guarantee Facility provides guarantees and counter-guarantees to financial intermediaries. Green for Growth Fund (GGF), structured as a public-private partnership and the Regional Energy Efficiency Program (REEP), an environmental trust fund, are two regional initiatives focused on green economy. Lately, there are emerging steps towards enacting green tax and issuing green bonds, as well as increasingly using subsidies to support SDG-related goals.

⁵⁹ A new Law on PPP is under development

4. RISK ANALYSIS

UN established [12-factor multidimensional risk analysis of 2020](#) continues to bear relevance with few additional specifics that exposed since under each of the dimensions:

Political Stability – identified risks remain significant, though the forthcoming formulation of the NDS 2021-41 presents an opportunity to build consensus on development priorities following the new and innovative methodology which is based on strong national ownership and wide consultation.

Democratic Space/ Civil Society Voice and Participation – public trust in institutions remains low and some of the recent polls, mentioned above demonstrate growing disconnect between the citizens and political parties. This may translate with reduced number of voters and hence a lower level of citizen representation.

Social cohesion, gender equality and nondiscrimination – the situation has somewhat improved with new regulations in force, but effective track records remain to be built.

Regional and global influences – Bulgarian veto to opening EU negotiations with North Macedonia puts yet another challenge in reform implementation. At the same time, Open Balkan Initiative opens new prospects for regional cooperation, though not yet accepted by all Western Balkans countries.

Internal Security, Justice and Rule of Law – as identified, risks remain unchanged, with some ongoing efforts for further enhancement and track building.

Economic Stability – despite the strong socio-economic impact of COVID19, the economy demonstrated some resilience, and the Government is taking decisive efforts for more robust recovery. However, the plans mostly rely on strong investment activity which is traditionally low due to limited capacities. Hence risk of implementation remains, against strongly increased public debt.

Infrastructure and access to social services – identified risks remain the same, with some ambitious plans for enhanced infrastructure investments which are yet to materialize (as above).

Displacement and migration - outmigration somewhat slowed during the COVID19 pandemic, though likely temporary. At the same time there were more than 41,000 arrivals in 2020, with migrants being heavily vulnerable during the C19 crisis. Protection of refugees, asylum seekers remains a challenge.

Public Health – the identified risks related to high level of non-communicable diseases (NCD) in the country materialized with high level of deaths from COVID19. Limited medical resources further exposed as substantial problem during the crisis.

Food security, food safety, agriculture and land – identified risks remain unchanged, though after the first shock at the outset, the agriculture demonstrated resilience during the crisis.

Environment and climate change – substantial risks remain, but the effective implementation of the new ambitious NDC presents an opportunity to advance substantially the national sustainable development agenda.

5. CONCLUSIONS/GAPS AGENDA 2030

The COVID-19 crisis and its socio-economic impact has – in most cases – not imposed new, but rather exposed the existing systemic weaknesses and hit the most vulnerable groups the strongest. The development priorities identified in the 2020 CCA thus continue to bear relevance and lessons learned from the crisis provide an opportunity for structural transformation and more resilient and sustainable recovery.

Good governance

The COVID-19 outbreak and its prolonged impact have underscored the pivotal role of strong, inclusive, transparent institutions at all level and branches of government. With the health and socioeconomic response and recovery, the Government made efforts to meet primarily the needs of the most vulnerable and marginalized groups of the society. In parallel, it continued to pursue other reform processes, however inequalities and divides persist, and people's trust in the governance system has not improved. Further efforts are needed in specific areas:

Enhance coherent, anticipatory, evidence driven, gender-responsive and inclusive policy development at all levels, which will be backed up with sustainable budgetary and financial resources and functional institutional structures for their effective implementation. The whole of society approach, meaningful participation of all stakeholders, and consensus building across political, ethnic and other lines in the society about national strategic priorities, centred on people's needs, are central to these efforts. In order to a bring transformative change all government and non-government actors and the society at large should be meaningfully engaged in building a common long-term vision for the future of the country. The initiated process of developing a National Development Strategy could provide an excellent grounds for anticipatory and integrated policies, legislation and programmes and ensure continuity in accelerating the country's progress on the 2030 Agenda and the EU accession process.

Ensure effective monitoring of the public policies. Public policies need to be tested against collected evidence and to be continuously adjusted against the changing reality. For example, the impact of the increased financial support for activation which was quadrupled in 2020 as response to the crisis should be now tested trough data-based cost-benefit analysis and improved by applying the findings for potential further crisis.

Maximize the use of innovations and digitalization to improve effectiveness, inclusiveness, transparency, resilience and accountability of the government, judiciary and human rights institutions. The awareness of the public about oversight and check and balances mechanisms should be increased, enabling to demand and push for accountability. Innovative approaches should be applied in reaching out people and groups left furthest behind by bringing in more trusted actors in the public discourse and decision making, such as scientists, influencers, local leaders and communities, youth, civic activists, and private sector. In the changing context, institutional capacities need to be constantly strengthened to ensure uninterrupted functioning, equal and equitable responses to the prolonged COVID-19 crisis, but also preparedness for other global challenges such as human mobility, new displacement patters, international threats, and disasters/risks that go beyond borders and jurisdictions.

Increase affordability of internet and availability digital tools and solutions to equip relevant authorities to access structured data, ensure data exchange, facilitate knowledge management, and empower cross-border cooperation. While the availability of digital infrastructure has been improving, the digital divide between low and high-income settings in the country is exacerbating. To overcome this inter-governmental coordination needs to be strengthened along with ensuring sustainable funding for programs, to enable effective implementation of the policy and legal framework in place.

Economic growth and restructuring

The sharp decline of the economic output in Q2 2020, exposed the dominance of the FDI economic operations in the country, many of them closed in that period as result of the disrupted supply chains and

movement restrictions. Within the domestic industry, those companies that were able to implement innovative and digital solutions in their operations resumed work and incomes faster and easier, keeping the same number of employees.

Hence, to build back better, North Macedonia needs to **prioritize structural reforms that boost productivity through modern and innovative processes in the business sector**, adjusting to the new economic realities. A coordinated policy response that ensures inclusiveness and contributes to ‘just transition’ also builds system resilience and paves the way for more effective recovery. The Government needs to facilitate this through favorable and smart business regulation, effective and business supportive institutions, state aid policy that prioritize innovation and technological upgrade, as well as with accelerated push for public investments that enhance connectivity of the economy and its integration into the global value chains. The latter strongly depends on the institutional coordination and capacity to plan, design, implement and supervise capital investments which should be strengthened as a matter of priority.

North Macedonia is ranked above average on key international rankings in relation to entrepreneurship, innovation and technology, at 57th out of 131 countries⁶⁰ on the 2020 Global Innovation Index and 66th out of 137 countries⁶¹ on the 2018 Global Entrepreneurship Index. However, **the good performance in the innovation and entrepreneurial rankings does not translate into corresponding competitiveness for the country, which remains one of the key economic challenges** (82 of 141 in the 2019 Global Competitiveness Index). This requires **coordinated interinstitutional dialogue, coherent policy and legal framework, as well as adequate funding** for research, education and SME support to create an enabling environment that supports digital innovation, and in turn, accelerates the digital transformation in the country.

Few approaches can strongly accelerate the growth in sustainable manner. For example, integrating **green sources to post-pandemic growth** is not only a must imposed by the climate change, but an efficient accelerator of economic activity and jobs. The crisis demonstrated that **enhanced partnership with the private sector**, especially in green economy, e-commerce and other digital undertakings, can create many more ‘green’ jobs and serve as accelerator of sustainable development. Overall, there is a wide scope to increase the role in private sector in enhancing and financing sustainable development. In addition, to overcome the disproportionately stronger crisis impact on women and to **transform gender disparities into an accelerator of growth**, the Government needs to enhance gender-responsive budgeting and policies, invest in care economy and work to overcome deeply rooted prejudice against women and other vulnerable groups.

Land fragmentation is one of the key obstacles to scaling up agricultural production and shifting towards commercial farming in North Macedonia. These challenges need to be resolved as soon as possible in a systemic and inclusive manner to assist all farmers in making the farming more competitive with modern mechanization and increased productivity. Furthermore, enhancing the access to irrigation water would make the agricultural households less vulnerable to climate change and able to broaden crop choices and increase products’ value. On the other hand, depending on import for seed materials worsens the efficiency and sustainability of agricultural production. While some scientific institutions have already started experiments to produce new, climate adapted varieties of peppers, beans and wheat, the next step would be to educate farmers, which requires efficient planning given the large number of agricultural holdings in the country.

The regional cooperation has helped to overcome some of the most alarming aspects at the outset of the crisis, such as the food and medical supply which was soon resolved by establishment of the green lanes among the Western Balkans countries and the EU. The lanes were also essential to restore the trade

⁶⁰ https://www.wipo.int/global_innovation_index/en/2020/

⁶¹ <https://thegedi.org/global-entrepreneurship-and-development-index/>

and supply chains and proved that the connectivity is the cornerstone of the world economy. In a longer-term perspective, a small and land-locked country as North Macedonia, can benefit from a facilitated access to larger regional markets also to address some of the other pressing economic challenges such as lack of human capital, technology and know-how. The Regional Economic Area pursued within the Berlin process and the Open Balkan initiative are current initiatives that aim to liberalize the movement of goods, services, people and capital and address some of the common challenges in the region.

All this requires effective public finance management in the context of scarce resources. Obviously, **North Macedonia needs to rebuild fiscal buffers as a matter of priority, but in these times, the stabilization of public finance should not risk the economic recovery.** At this point, public finances can be primarily strengthened by enhanced tax administration and reduced informalities, restored stability of the social system, and rationalized public services and pay. An improved and innovative regulations at revenue side, as well as diversified and innovative sources of financing (e.g. green and diaspora bonds, carbon taxes) could contribute towards enhanced development financing. On the expenditures side, the focus should be put on properly planned and effectively implemented projects that prioritize green, resilient and inclusive growth, creating quality jobs and protecting the most vulnerable. One area to follow closely is the global trend of rising energy price as result of the green transition, geo-political developments around gas networks, unfavourable weather conditions (mild winds and rainfalls) and post Covid-19 surge in electricity demand. The energy deficit and price increase will probably continue for a prolonged period of time, and while the Government may be able to intervene on short-term basis, this may put an additional burden on the budget and boost inflation in the period to come.

Demographic trends and human capital

Building human capital is a key precondition for economic growth and sustainable development in North Macedonia. The crisis demonstrated that the access to health services is a prerequisite for sustainable development and a strong economic multiplier that deserve adequate attention and resources. But in terms of economy, building human capital predominantly also requires a coordinated, sustained and long-term effort to improve the quality of education at all levels, from infrastructure to curriculum and to align this with needs of the market and the jobs of the “future”. With the global pandemic accelerating the shift towards remote working, investments in adult education, including digital skills, in line with the EU Pillar of Social Rights, should become a priority for public policy. Specific policy recommendations concerning how to improve the quality of education and training outcomes for all are included in the forthcoming National Employment Strategy (2021-2027).

The COVID-19 Pandemic highlighted the health inequities and disparities in the society, but also, paradoxically, accelerated the health system value and the central place of health in overall socioeconomic development. The momentum should be maintained by i) introducing health equity as one of the priorities in the strategic documents; ii) strengthening data collection and timely reporting on essential health services to reinvigorate demand for routine healthcare and treatment of chronic diseases, especially among children; iii) more efficient hospital and pharmaceutical spending iv) strengthening coordination, trust and dialogue between the Ministry of Health and the overall health system building on the effective interaction during the pandemic and v) pursuing strong, effective and evidence-based public communication and awareness raising with the goal of promoting safe behaviours and lifestyles. An accelerated use of technology and digitalization like telehealth, digital vaccination records, use of modern communication methods and social media for health should be supported with policy provisions and boosted to facilitate continuity of health-care services in time of crisis for all, with special attention to women and girls and their sexual and reproductive health.

The secondary impact of the outbreak includes psychosocial distress, neglect and lack of parental care, increased exposure to violence, including sexual violence, physical and emotional abuse. To address this, support to services for all, but particularly for the most vulnerable are needed to promote positive parenting and wellbeing, and to mitigate toxic stress, gender-based violence and potential for violence against children. The professional support staff within schools (especially psychologists) need to be trained and motivated to provide guidance and counselling to pupils and parents faced with emotional and mental health difficulties arising from the pandemic and distance learning. Counselling can become

part of their regular work after the pandemic is over. Devising protocols for remedial learning and psychosocial support is especially important to ensure that all pupils will be offered tailored help if and when necessary to enhance learning and protect their mental health. The CSWs should be supported in mapping, targeting, providing legal support to vulnerable children and families, as well as in identifying, preventing and acting in cases of violence and abuse, including by developing a platform offering a one-stop-shop for information and guidance on topics related to protecting children from violence.

In time of crisis, schools should be the last to close and the first to reopen. However, to **maintain a continuity of the learning process** it is necessary to continue developing, updating and integrating online learning resources, including resources for professional development of teachers, and to increasingly engage parents in educational activities to enable learning at home for preschool and primary school age children. Purchasing special assistive technology to equip the schools or special resource centres at the municipal level and offering individualized help to the children and parents during distance learning would assist children with disabilities to continue to thrive and learn during the pandemic. Teachers showed fast improvement in shifting to distance learning, however they still need to master improved pedagogical approaches, methods and skills for distance learning in order to ensure good quality teaching.

During the crisis, the labour market demonstrated some resilience, being also strongly supported by the Government stimulus packages in North Macedonia as across the globe. **To create job-affluent recovery the policy response needs to be comprehensive**, focusing both on the supply side and on the demand side (through VET and market aligned curricula), and understand how innovation can support job creation in specific sectors. Given the increased number of inactive persons during the COVID19 pandemic, effective activation services would be essential to bring working-able people back to the labour market and further from poverty threshold. In addition, **the country needs more social dialogue on the quality of jobs**, including those jobs that were considered ‘essential’ during the crisis, such as in the agriculture and retail sectors.

Finally, with the economic emigration (of both skilled and unskilled labour) in the Western Balkans likely to persist, along with projected decrease of the population in North Macedonia of 10% by 2035, **lack of labour force will continue to present a grave concern**. This presents an opportunity to improve the labour market and strengthen regional integration, but also to **create a new narrative about refugees as development actors** by engaging at all levels (UN, Government, civil society etc.).

Poverty and inequality

The informal economy remains one of the most serious challenges in the country that requires decisive measures. Informalities are undermining the tax system, while burdening the social system, distorting competition and discouraging formal entrepreneurship. The increase of the minimum wage may reduce “envelope wage” practices, since the phenomenon is more pervasive among minimum wage workers and disappears at higher wage levels. In addition, any regulative improvement that eliminates exemptions, deductions and other preferential treatments can create disincentives for any other form of tax evasion. If accompanied with improved compliance mechanisms (with easy-to-verify parameters) and strengthened tax administration this may have a measurable effect on informalities.

Basic services for provision of social protection must remain available, affordable and accessible at all times and especially during a crisis. Even though the December 2020 amendments to the Social Protection law have introduced certain elements of shock responsiveness into the system, there is still a space to fully embed systematic responsiveness of social protection instruments to future crises. This could be accomplished by facilitating rapid mobilization of human and other resources and by enabling social workers to provide innovative social services to beneficiaries. Also, having in mind that more than a quarter of the citizens who meet the relaxed GMA eligibility criteria have not utilized this cash benefit, it is vital to design outreach programs that would be put in place in emergency situations to inform all potential beneficiaries, including the households left furthest behind, about the changes in the delivery of social services and cash-benefits in times of crises. As the country’s population is ageing, social services have to especially address the needs of the older persons including health services, socio-psychological support, and lifelong education.

Additionally, **setting spending targets in the three child-related sectors—education, healthcare and social protection**— for the next years may help in the medium-term planning and in the mitigation of the effect of COVID-19 crisis on multidimensional child poverty. There will be higher needs for additional resources (human resources, materials, soft skills, digitalization) for coping with any lingering effects of COVID-19 in early childhood education, schooling and healthcare for children.

To address inequality, North Macedonia should also **strengthen the national asylum system**, finding solutions for its people of concern in the country and bringing the national legislation and practice closer in line with the international and regional standards. Working within global decline of trust in government, it would be important to ensure a broader engagement with trusted actors such as scientists, academia and local communities to explore new approaches in communication to effectively foster a positive narrative around people of concern.

Even though the COVID-19 pandemic has not substantially impacted the agriculture sector, it demonstrated that a **more resilient and sustainable domestic agricultural production** and rural development can compensate for the negative effects of the health pandemic in the country. To build this, the country should diversify food supplies and food sources, reinforce local food production where possible, and extend market access to ensure sales of locally produced food.

Climate change, environment, and natural resources

The Covid-19 pandemic did not significantly affect long-term trends in environment. Nevertheless, for a brief period at the beginning of the pandemic, when most human activities stalled, it showed to citizens, especially in cities, that by changing human behaviour, air pollution can be significantly reduced. Nevertheless, this did not significantly affect long-term behaviour, except in terms of a slightly higher interest in bicycle use. Also, Covid 19 had an impact in terms of increase in medical waste.

Energy transition remains one of the key opportunities to reduce green-house gas emissions and reduce air pollution. While some progress has been made with the increased number of major investments in medium-and large-scale solar and wind power plants, still significant investment is needed to reduce the heavy reliance on coal-based energy production. Also, further efforts in accelerating adoption of renewable energy technology and especially energy efficiency measures among businesses and households is needed. The delay in the completion of the gas network, also meant a missed opportunity for replacement with a cleaner energy source (albeit not climate neutral one).

In terms of climate change, there is good progress in terms of integrating climate change issues into national policies, strategies and planning and implementation of these commitments will be key in the next period. The introduction of the new more ambitious NDC and related documents sets a path for climate-friendly development. Implementation of the NDC remains key in the next period, both in terms of mitigation and adaptation. To reduce CO₂ emissions, for example, beyond energy transition, focus needs to be put on greater energy efficiency of manufacturing industries, decreasing number of livestock (which may require changing population's nutrition preferences), appropriate solid waste disposal and reducing the risk of forest fires and habitats restoration. Tax incentives may also be beneficial in this area.

Waste management, including solid, wastewater and hazardous waste, remain key challenges, in view of the significant investment needed and the limited capacity at municipal level to bring capital infrastructure projects forward. Significant needs still remain in terms of bringing the waste processing and collection up to EU standards, including introduction of standard recycling systems. Also, awareness raising of consumers in terms of sustainable waste management, focused on reduction, recycling and reuse is needed. A relatively high level of food waste is created at the retail and consumer levels and non-sustainable practices for waste management contribute to significant waste generation.

Preserving clean water and water resources in general is another important challenge. Pollution of water bodies due to release of untreated communal wastewaters and hazardous chemicals and materials; depletion of groundwater; low water-use efficiency across all sectors, particularly use of water for irrigation; low level of integrated water resources management at all levels, as well as insufficient

protection and restoration as well as lack of effective management of water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes are critical. **Transboundary cooperation on water bodies** needs a significant boost, to ensure the maintenance of the ecosystems and natural riches in the three major natural lakes. **Lake Prespa** is facing significant issues in terms of water loss and pollution, that call for urgent attention. In the same direction, **Ohrid region**, needs accelerated efforts over the next two years to address both environmental and urban planning issues highlighted under the World Heritage Committee's recommendations, in order to maintain its world cultural and natural heritage site status.

Air pollution and lack of urban planning put significant negative pressure on the sustainable development of cities. Poor air quality especially in the cities due to high PM_{10/2.5}, CO and NO₂ emissions contributed by energy production and energy use inefficiencies; industry, transport, and construction, as well as agricultural activities is causing increased number of air pollution related deaths. Sporadic activities to introduce smart technologies in cities, led both by local government and private sector, e.g., introduction of smart lighting, real-time info on bus arrivals, etc. are bringing new ways to address urban challenges and reduce the environmental footprint. However, a lot more needs to be done, especially in terms of accelerating expansion of the natural gas supply system, expanding central heating network, greener and higher capacity public transportation, urban planning that allows adequate airflow, energy efficiency of buildings, smart urban solutions, etc. to reduce air pollution in cities and improve quality of urban life. Low capacity for inclusive and sustainable urbanization and participatory, integrated, and sustainable human settlement planning and management also continues to present an important challenge alongside low level of adoption and implementation of integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change and resilience to disaster at local level. Insufficient economic, social, and environmental links between urban, peri-urban, and rural areas due to still weak national and regional development planning continues to create undue pressure on cities and depopulation of rural areas.

Digitalisation and adoption of new smart, resource-efficient and environmentally sound technologies and industrial processes can be significant accelerators in addressing issues in the environment domain. For example, energy efficient measures can significantly reduce unnecessary energy losses. Also, application of new drip-irrigation technologies can help reduce excessive use of water. Further, digital technologies can also help with reducing the generation of waste. Finally, as discussed above, smart solutions can significantly improve quality of life and reduce environmental footprint of cities.

More investment and efforts in sustainable management of natural resources is needed. Despite the positive development in terms of increase in area under protection, significant efforts are still needed to ensure effective management of natural resources. This requires significant increase in budget allocation for protected areas management, to augment the current international support to the same. Furthermore, human resources capacities of national parks and management bodies of all six categories of protected areas⁶² need to continue to be increased, especially to counteract forest degradation due to large-scale illegal logging for fuel wood. Public awareness of the general population on the value of ecosystem services and nature conservation needs to be further increased.

Finally, **disaster risk management needs further concentrated and systemic efforts and anticipatory planning.** The fires in summer 2021, exposed the vulnerabilities of the disaster risk management system, highlighting the dire need to invest more resources in the territorial and spatial forces for protection and rescue and the territorial fire brigades, as well as in improved coordination of the same. Also, in view of expected increase of occurrence of hazardous weather events in the future, early warning, preparedness, and adaptation systems should be further developed to reduce risks and high direct losses from disasters caused by floods, drought, and forest fires. Such measures, if put in place, will enable a timely reaction as well as mechanisms for reduction of the effects of the adverse weather events including in particular in agriculture. Strengthening capacities for addressing complex disasters should also be considered.

⁶² Some protected areas are proclaimed, without a designated management body being formed.