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Policy on Balanced Regional Development in Macedonia - Goals, Challenges, Trends

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December 2016

Online at <https://mpra.ub.uni-muenchen.de/76506/>

MPRA Paper No. 76506, posted 05 Feb 2017 10:03 UTC

**POLICY ON
BALANCED REGIONAL DEVELOPMENT
IN MACEDONIA**

- GOALS, CHALLENGES, TRENDS

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Skopje, December 2016

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WHY WE NEED POLICY ON BALANCED REGIONAL DEVELOPMENT

- ✓ More than 50% of population growth in the state comes from Skopje region, with **Skopje and Polog region accounting for approximately 90% of national population growth**. Other regions have modest population growth rates, whereas Pelagonija and East region are characterized by population decline.
- ✓ Increased population figures, as parameter, show that in the last 10 years, only portion of regions could be considered advanced, those being: **Skopje – with more than 30,000 new inhabitants, Polog – with more than 10,000 new inhabitants, Northeast and Southeast – with minimum population growth of 1,500 to 2,500 inhabitants**.
- ✓ Comparison of data for the period 2005-2015 shows that **shares of young population are decreasing, with the most dramatic examples recorded in Polog, Southeast and Southwest region, where differences of young population as shares in total population has changed by 5 to 6%**, whereas the biggest **growth in elderly population** was observed in Skopje, Southeast, East and Vardar region, ranging from 2 to 3%.
- ✓ **Highest decrease of socially endangered population is observed in Pelagonija, where the number of social allowance beneficiaries has been reduced by almost three times in the period 2006-2014**. In the period of 8 years, Northeast, Vardar and Southeast region halved their respective numbers of social allowance beneficiaries, while Southwest and East region have almost twice as less social allowance beneficiaries compared to their respective 2006 figures.
- ✓ Although marked by modest decrease, distribution of unemployment per regions leads to the conclusion that major differences remain and should serve as basis for various measures and activities in different regions. **In some regions, for example the Southeast, 2015 unemployment rate is higher by almost 16% and in Southwest region it is higher by 7% from the national average**.
- ✓ **Skopje region (which is the place of residence for 1/3 of population in the state) generates high 43% of GDP**. Therefore, this region is dominant in terms of regional GDP per capita, as this rate is two and half times higher than GDP per capita in Northeast as the least developed region. Two more regions (Southeast and Vardar) have higher GDP per capita compared to the average rate. This is strong signal about the need for comprehensive and in-depth policy on balanced regional development that could yield positive results in the medium term.
- ✓ **Skopje region accounts for unchanged share of around 37-38% in total number of active business entities**, with Pelagonija accounting for around 11-12% and Southwest accounting for around 10%. Slightly more prominent progress is noted in Polog region, whose share is growing

from 9.6% in 2008 to 10.8% in 2015, and has climbed to second place before Southwest region in terms of this indicator on regional development.

- ✓ Comparison of respective figures on employees provides the conclusion that, in 2015, **Southeast, Pelagonija and Polog region had lower number of companies employing more than 250 people, while Southeast and Pelagonija had lower number of companies employing 50 to 249 people.**
- ✓ Analysis of regional shares in total equity investments raises concerns, as it shows that **more than half of investments are made in the most developed region and there are almost no investments made in the least developed region (Northeast).**
- ✓ Value of construction works shows that although in 2007 Polog region was deemed the main “construction site” in the state, in 2015 this region is the second to last in terms of the value of construction works, demonstrating better performance only than Southeast region, which is continuously ranked at the bottom of this list. **In the last 9 years, lowest construction activity was observed in Northeast region which, with the exception of 2015, is ranked last according to the value of construction works performed.**
- ✓ In the last 3 years, local self-government units in **Skopje region, including the City of Skopje, accounted for 37.8% of total revenue generated by LSGUs** in Macedonia. Lowest revenue was generated by municipalities in Vardar (7%) and Northeast (7.1%) region, followed by municipalities in Southeast (8.3%), East (8.6%), Southwest (9.3%), Pelagonija (10.6%) and Polog (11.2%).
- ✓ Most recent data on **regional distribution of GDP, published by the State Statistical Office and calculated for 2013 based on their methodology,** indicate a level of **29.0%** and represents a **decrease by 0.1% compared to 2012 figures.** Decrease in the value of this share implies more balanced distribution of development among the regions.

EFFICIENCY OF THE POLICY ON BALANCED REGIONAL DEVELOPMENT

- ✓ For the purpose of stimulating balanced regional development, **funds in the amount of at least 1% of GDP** should be allocated from the Budget of Republic of Macedonia and disbursed through the Ministry of Local Self-Government. Later, on the basis of the classification of regions according to their development, the Ministry on Local Self-Government and the Bureau for Regional Development distribute these funds to individual regions according to their relevant share. **Nevertheless, with every new budget, budget adjustment and final balance of the state budget, and every new Action Plan for Implementing the Strategy on Regional Development, contrary to the legal framework in place, the Government applies different methodology to calculate the shares of GDP invested in balanced regional development.**

- ✓ Start of implementation of the **law and policy on balanced regional development was faced with series of delays in application of the main components, which significantly impacted efficiency of the overall process and policy.**
- ✓ Major disparity in development among planning regions in Macedonia is observed when comparing the developmental, economic-social and demographic indices, **which showed visible differences between Skopje, on one side, and all other regions, on the other side, especially in the economic-social sphere.** Especially worrying are tendencies observed in **the least developed region, which according to most recent data is marked by high unemployment of 43.2%, highest number of social allowance beneficiaries per capita and share of around 2% in total equity investments in the state.**
- ✓ Numerous independent reports on balanced regional development provide data according to which annual funds allocated by **the Government for this purpose have not reached desirable 1% of GDP, notably because government reports operate with data ranging from around 1% to 3.25% of GDP, but these shares concern only planned funds,** not realized funds, as confirmed by specific data in the final balance sheets of the state budget. Difference between these two approaches concerns the fact **whether funds allocated from the Budget of Republic of Macedonia are actually awarded according to the methodology on distribution of funds for regional development and on the basis of development of individual planning regions (as stipulated in the Law on Balanced Regional Development) or on the basis of total allocations for regional development** (representing continuation of the policy on development of underdeveloped areas, which existed prior to adoption of the Law on Balanced Regional Development).
- ✓ Every new Action Plan for Implementing the Strategy on Regional Development expands the number of government ministries and agencies whose budgets include a component on regional development, **but there are no available data that distribution of these funds is pursued in compliance with the priorities for balanced regional development, i.e. according to development of individual planning regions** (except for the fact that these funds are allocated in the budgets of several ministries and agencies and labelled “regional” and that they are not managed by the Ministry of Local Self-Government, which represents certain effort on the part of the state to support regional development).
- ✓ By applying this approach, policy makers have restored, in one segment, the process on development of underdeveloped regions to the level that existed prior to adoption of the Law and Strategy on Balanced Regional Development. It was **this methodology on development of regions according to their underdeveloped status that implied specific difference compared to the previous policy,** for which the policy maker claimed was “monocentric”.
- ✓ **Information system is still not in place for updated and reliable data in relation to development of individual regions, which depends on the percentile distribution of funds per region from the Budget of Republic of Macedonia intended for balanced regional development.**

- ✓ Action Plans for Implementing the Strategy on Regional Development **do not present the shares according to the methodology stipulated in the Law and Strategy on Balanced Regional Development which, in the period 2008-2015, ranged from 0.002% to 0.3% of GDP.**
- ✓ Analysis of available data provides the conclusion that funds anticipated for implementation of the policy on balanced regional development **are gradually disappearing in the process on public finance management, from “allocation”, “approval” and “disbursement” of funds from the Budget of Republic of Macedonia to their realization through the Ministry of Local Self-Government.** Hence, for example, **the average realization rate of funds planned and allocated from the Budget of RM and intended for realization through MLSG accounted for only 45% in the period 2009-2012,** while the average realization rate of funds planned under the Action Plan 2009-2012 was even **lower (29%).** Nevertheless, comparison of indicators on paid/used funds from the Budget of RM and realized through the Ministry and the Bureau and funds planned under the Action Plan shows that in the period 2013-2015 this share has increased and accounted for 53%, when compared to its level of 29% in the period 2009-2012.
- ✓ On the account of insufficient amount of funds allocated from the Budget of RM and intended for regional development, as well as the trend on reduction of planned funds by means of budget adjustments, **effectiveness in implementation of the policy on balanced regional development is not satisfactory.**
- ✓ Data presented in action plans show small progress towards attainment of targets defined, **however, there is still significant space for improvement in the fields of unemployment, difference in GDP per capita compared to the EU and among regions, population growth per regions and life expectancy.**
- ✓ Certain parameters used in the past to analyse regional development show negative tendencies under the policy on balanced regional development (primarily they concern data on the population’s ageing and total amount of equity investments), **while other data provide small spark of hope for mitigation of consequences arising from long years of investments dominantly focused in the capital (data on active business entities and construction works performed).**

INTRODUCTION

As a concept, regional development implies continuous financial support from the state and high degree of coordination between the ministries, donors and stakeholders at regional and at local level. Regional policy is one of most prominent features in functioning of the European Union, where it is called the Cohesion Policy¹ and whose goal is to improve welfare of the regions across Europe and reduce regional imbalances.

Adoption of the regional development policy in Republic of Macedonia implied an attempt for alignment of national priorities with those defined under EU's policy on economic and social cohesion and those identified in the Lisbon Strategy.² This alignment was made for the purpose of stimulating development of planning regions in line with the EU guidelines, and for capacity building of planning regions and local self-government units for utilization of relevant components under IPA available to Macedonia.

In Republic of Macedonia, the Law on Balanced Regional Development was adopted in 2007 and implied one of the most important steps towards introduction of new approach to address the problem that, for decades had been treated as underdevelopment of certain specific areas, underdeveloped regions, etc.³ This piece of legislation explicitly defined the policy on stimulating balanced regional development as system of goals, instruments and measures aimed at addressing regional disparities and attaining sustainable development in Republic of Macedonia.

The need for adoption of this law and policy was justified with long-standing absence of regional development policy and dominant concentration of most economic activities in Skopje region and partial development of greater urban centres in other planning regions. High concentration of population and economic activities in urban centres has negative effects on social and spatial aspects of development, ultimately resulting in extinction of large portion of rural settlements, while creating problems in operation of urban centres due to the lack of relevant technical and social infrastructure that would sustain higher population density. Therefore, disparities emerged in economic, social and other aspects of development between and within planning regions and provided the starting point for regional development planning.

All strategic, programme and planning documents that followed after the law's adoption, as well as projects for implementing the policy on balanced regional development (hereinafter: ERD) in the last 10 years have brought to the surface *numerous shortfalls and problems* in policy performance, marked by many delays and breaches of law-stipulated deadlines.

As part of this analysis and based on available statistics per region, we will attempt first to establish the actual situation in terms of distribution of regional development and identify tendencies in individual regions, which will later serve as solid baseline for establishing possible positive movements in individual regions and for identifying key challenges in the policy on balanced regional

¹ More than one third of the EU Budget is allocated in support of this policy.

² More information on the Lisbon Strategy are available at:

http://www.consilium.europa.eu/en/uedocs/cms_data/docs/pressdata/en/ec/00100-r1.en0.htm

³ More information for the policy on supporting underdeveloped regions is presented in Frame 1: Previous Policies on Regional Development.

development, as well as for testing the policy's effectiveness in the course of years. Moreover, our focus will be on legislative establishment of the policy on balanced regional development in the past decade, assessment of what has been planned and realized, identification of weaknesses and shortfalls in policy implementation, and provision of recommendations aimed at better implementation of these policies in the future.

WHY WE NEED POLICY ON BALANCED REGIONAL DEVELOPMENT – STATISTICAL INDICATORS PER REGION

In its recent editions of the publication called “Macedonia in Figures”, the State Statistical Office publishes data on regional dispersion of GDP. Value of this indicator is zero when GDP per capita in all regions across the country is identical, and increases in proportion with growing differences between regional GDP per capita and average GDP per capita at national level. 2014 edition of this publication presented data that regional dispersion of GDP was 31.0% in 2010, 29.3% in 2011 and 31.5% in 2012.⁴ Next year’s edition of “Macedonia in Figures 2015” corrected these figures on the basis of the new methodology, whereby regional dispersion of GDP accounted for 28.9% in 2010 (correction by 2.1%), 26.5% in 2011 (correction by 2.8%), and 29.1% in 2012 (correction by 2.4%).⁵ The most recent edition published in 2016 shows that, in 2013, regional dispersion of GDP was 29.0%.⁶

Although action plans and other government documents emphasize that measure and activities aimed at stimulating balanced regional development were implemented in the period after the regional development policy was adopted, and resulted in reduced development disparities between the City of Skopje and other planning regions,⁷ many indicators confirm that these differences are not reduced, and in some regions they continue to increase compared to Skopje region.

In continuation of this analysis, we present and elaborate several tables with data that provide general conclusions in terms of regional development, as well as specific conclusions on the needs, challenges and effects of the policy on balanced regional development. Without any intention to relativize the classification of planning regions according to their development, designed in 2008 and 2012 by experts with exceptional knowledge in economic, demographic and developmental sciences, we enlist sets of statistical data showing that certain important segments of regional development are deviating, sometimes by large margins, from dominant tendencies that have been taken as decisive for establishing development in individual regions.

Table 1: Basic characteristics of planning regions

Region	Area (in km ²)	Number of municipalities	Population (2006)	Population (2015)
Macedonia	25,713	80	2,040,228	2,071,278
Vardar	4,042	9	154,230	152,917
East	3,537	11	180,938	176,877
Southwest	3,340	9	222,385	219,718

⁴ Macedonia in Figures 2014, State Statistical Office, June 2014

⁵ Macedonia in Figures 2015, State Statistical Office, June 2015

⁶ Macedonia in Figures 2016, State Statistical Office, June 2016, available at: http://www.stat.gov.mk/Publikacii/MakedonijaVoBrojki2016_mk.pdf

⁷ Action Plan for Implementing the Strategy on Regional Development 2016-2018, “Official Gazette of the Republic of Macedonia” no. 123/2016, p. 3

Southeast	2,739	10	171,972	173,552
Pelagonija	4,717	9	236,088	230,771
Polog	2,416	9	310,178	320,299
Northeast	2,310	6	173,982	176,231
Skopje	1,812	17	590,455	620,913

Source: State Statistical Office

If population growth is used as parameter to assess progress in regional development, only half of regions could be considered as relatively progressed in the last 10 years: Skopje, with more than 30,000 new inhabitants; Polog, with more than 10,000 new inhabitants; Northeast and Southeast region, with minimum increase of 1,500 to 2,500 inhabitants. Of course, these data are based on population growth projections, as the population census has not been organized for 14 years, and additional limiting factor is lack of comprehensive and accurate records on people that have left the state. Nevertheless, based on data available, even under such modest population growth per region (in some regions we observe mild population decrease), there is strong and evident difference among regions and enhanced dominant position of Skopje region, whose population number is three times higher compared to other regions.

Table 2: Population's ageing, per region

	2005			2015		
	Population above 65 years (%)	Population below 15 years (%)	Population growth	Population above 65 years (%)	Population below 15 years (%)	Population growth
Macedonia	11.0	19.2	4,076	13	16.7	2,614
Pelagonija	15.2	16.6	-557	15.7	15.4	-720
Vardar	11.9	17.5	-12	14.1	15.8	-173
Southeast	10.5	21.1	410	13.2	16.4	50
Southwest	10.3	20.8	309	11.3	15.4	184
Skopje	10.6	18.5	2,576	13.7	18.3	2,214
Northeast	11.3	18.3	221	11.9	17.5	137
Polog	8.2	23.3	1,366	9.0	17.0	1,197
East	11.9	16.7	-237	14.5	14.3	-275

Source: National Development Plan 2007-2009 and State Statistical Office

Analysis of the population's ageing per region shows that population is ageing in all regions, i.e. the share of young population is decreasing, with the most dramatic examples observed in Polog,

Southeast and Southwest region, where difference in shares of young population in total population has changed by around 5% to 6%, while the biggest growth of elderly population is noted in Skopje, Southeast, East and Vardar region, by 2% to 3%. These worrying trends are confirmed by data on population growth, i.e. population growth is decreased in all regions compared to the levels recorded 10 years ago, and more than 50% of national population growth comes from Skopje, with Skopje and Polog region accounting for around 90% of national population growth.

Table 3: Social allowance beneficiaries

	2006	2010	2014	Difference 2006-2014 (%)
Macedonia	249,619	176,431	128,679	- 48.4%
Vardar	14,936	9,183	5,977	- 60%
East	19,228	11,322	9,694	- 49.6%
Southwest	22,989	16,233	11,615	- 49.5%
Southeast	14,029	8,058	6,331	- 54.9%
Pelagonija	31,531	14,649	10,811	-65.7%
Polog	44,694	41,391	25,492	-43%
Northeast	41,685	20,053	16,440	-60.6%
Skopje	60,527	55,542	42,319	-30.1%

Source: State Statistical Office

Data presented in Table 3 show major changes in terms of the socially most endangered population, whereby biggest decrease is noted in Pelagonija, where the number of social allowance beneficiaries has been reduced almost threefold in the period 2006-2014. Over the period of 8 years, Northeast, Vardar and Southeast region have reduced their numbers of social allowance beneficiaries by more than two times, while Southwest and East region have almost two times less social allowance beneficiaries compared to their relevant 2006 figures. At the same time, significant decrease of socially endangered population is noted in Polog (-43%) and Skopje (-30.1%) region.

Table 4: Activity rate of the population aged above 15 years, per region and per year

	2009			2012			2015		
	Activity	Employment	Unemployment	Activity	Employment	Unemployment	Activity	Employment	Unemployment

Macedonia	56.7	38.4	32.2	56.5	39	31	57	42.1	26.1
Vardar	58.3	35.2	39.7	59.1	37.9	35.9	60.7	45.8	24.5
East	59.5	49.4	17	61.5	50.1	18.5	62.5	51.6	17.5
Southwest	55.8	37.5	32.7	56.2	32.4	42.3	54.9	36.2	33.9
Southeast	69.6	59.6	14.4	70.7	60.9	13.8	68.4	56.9	16.7
Pelagonija	63.8	42.6	33.2	62.8	46.9	25.3	66.3	52.2	21.1
Polog	46.1	33.5	27.3	44.5	29.3	34.2	47.1	33.2	29.6
Northeast	56.9	20	64.8	52.1	24.6	52.8	54	30.6	43.2
Skopje	54.4	36.2	33.5	55.3	38	31.3	54.4	40.4	25.7

Source: State Statistical Office

Population activity, employment and unemployment rates (see Table 4) show certain positive trends in terms of employment of working age population, especially in Northeast and Vardar region, where employment has increased by more than 10 pp in the period of 6 years, while unemployment has decreased by more than 20 pp and 15 pp, respectively. Pelagonija is marked by positive indicators in this period (almost 10% more employed and around 12% less unemployed people). Unlike them, Southwest, Southeast and Polog region are marked by insignificant decrease in employment and insignificant increase in unemployment in the last 6 years, while East region is marked by increase in both, employment and unemployment. Regional dispersion of unemployment provides the conclusion that it continues to be the major challenge for the policy on balanced regional development, having in mind that unemployment has been modestly decreased in most regions, but great differences remain and should provide the basis for various measures and activities in different regions. In 2015, the unemployment rate in some regions, such as in the Northeast, is higher by almost 16%, and in Southwest is higher by 7% than the national average.

Table 5: GDP per region

2006	GDP (in million MKD)	Structure of GDP MK = 100%	GDP per capita (in MKD)	GDP per capita MK =100
Macedonia	310,915	100	152,392	100
Vardar	25,498	8.2	165,327	108.5
East	19,913	6.4	110,055	72.2
Southwest	22,855	7.4	102,774	67.4

Southeast	23,670	7.6	137,640	90.3
Pelagonija	35,238	11.3	149,258	97.9
Polog	22,658	7.3	73,047	47.9
Northeast	13,612	4.4	78,240	51.3
Skopje	147,470	47.4	249,756	163.9
2010	GDP	Structure of GDP	GDP per capita	GDP per capita
	(in million MKD)	MK = 100%	(in MKD)	MK = 100
Macedonia	437,296	100	212,795	100
Vardar	31,249	7.1	203,102	95.4
East	37,850	8.7	210,546	98.9
Southwest	35,828	8.2	161,492	75.9
Southeast	39,161	9	226,550	106.5
Pelagonija	52,923	12.1	226,036	106.2
Polog	33,707	7.7	107,074	50.3
Northeast	20,671	4.7	118,092	55.5
Skopje	185,906	42.5	308,467	145
2014	GDP	Structure of GDP	GDP per capita	GDP per capita
	(in million MKD)	MK = 100%	(in MKD)	MK =100
Macedonia	527,632	100.0	255,206	100.0
Vardar	42,079	8.0	274,404	107.5
East	43,407	8.2	244,272	95.7
Southwest	41,629	7.9	189,109	74.1
Southeast	52,775	10.0	304,140	119.2
Pelagonija	58,412	11.1	251,988	98.7
Polog	37,413	7.1	117,284	46.0
Northeast	26,182	5.0	148,745	58.3

Skopje	225,734	42.8	366,482	143.6
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Source: State Statistical Office

GDP per region is one of the most relevant indicators on overall regional development. Data for this category show that compared to 2006 figures the share of Skopje region in total national GDP has been decreased, and that share in GDP of the least developed region (Northeast) is marked by minimal, but continuous increase, while GDP per capita in Southeast is characterized by steady increase in the last consecutive years above the national average of GDP per capita and its share in total national GDP has increased from 7.6% in 2006 to 10% in 2014. Vardar, Southwest, Pelagonija and Polog region are marked by oscillations under this parameter, as shown with comparison of datasets for the years 2006, 2010 and 2014. Comparison of relevant figures for the years 2006 and 2014 provides the conclusion that the share in national GDP of Skopje region has decreased by 4.6 pp and reduction of relevant shares of Pelagonija, Polog and Vardar region accounting for 0.2 pp has been “compensated” with growth in Southeast (by 2.4 pp), East (by 1.8 pp), Northeast (by 0.6 pp) and Southwest (by 0.5 pp) region.

Structure of GDP according to regions provides the best image of imbalanced development among regions in Macedonia – Skopje region (which is the residence of 1/3 of total population) creates as much as 42.8% of GDP and has higher GDP per capita compared to the national average, followed by Southeast and Vardar region whose GDP per capita are also higher than the national average. GDP per capita in Polog is below half (46%) of the national average, whereas GDP per capita in Northeast region is around 58% of the national average, while this parameter in Southwest region is 74%. This should be straightforward signal for policy-makers and implementers of balanced regional development that these three regions need greater attention in the short term, having in mind that they are also affected by the highest unemployment rates (Table 4) and unless they catch up the pace with the more developed regions, these regions could remain black spots on the map of the least developed regions in Europe.

Table 6: Equity investments (in million MKD)

	2010	2011	2012	2013	2014	Total	%
Macedonia	100,851	109,219	109,071	119,003	123,549	561,693	100
Vardar	6,621	5,642	5,016	8,179	7,350	32,808	5.8
East	9,078	5,070	5,964	10,462	10,175	40,749	7.3
Southwest	5,095	4,241	5,352	5,597	9,473	29,758	5.3
Southeast	7,148	5,355	4,728	6,390	6,940	30,560	5.4
Pelagonija	7,690	5,765	10,236	10,745	8,329	42,765	7.6
Polog	7,105	7,708	9,059	7,558	7,058	38,487	6.9
Northeast	2,905	1,353	2,645	2,482	2,543	11,927	2.1

Skopje	55,210	74,086	66,072	67,589	71,681	334,638	59.6
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Source: State Statistical Office

Data on equity investments (see Table 6) show the most defeating results in terms of the policy on balanced regional development. The share of individual regions in total investments shows that more than half (sometimes around 70%) of investments are made in the most developed region and that almost no investments are made in the least developed region (Northeast), whose share in total equity investments is constant and stands below 3%.

Table 7: Active business entities

	2008	2012	2015
Macedonia	63,193	74,424	70,139
Vardar	4,828	5,975	5,470
East	5,299	5,913	5,692
Southwest	6,484	7,564	7,127
Southeast	5,503	6,373	5,889
Pelagonija	7,523	8,468	8,071
Polog	6,050	7,285	7,554
Northeast	3,691	4,283	4,139
Skopje	23,815	28,563	26,197

Source: State Statistical Office

Data on active business entities (as presented in Table 7) show positive tendencies in all regions, especially in terms of the total number of registered entities. As regards the share of individual regions in total number of active entities, the situation is rather stale throughout the years: Skopje region maintains its share of around 37-38%, Pelagonija – around 11-12% and Southwest – around 10%. Slightly more noticeable progress is observed in Polog, whose share increased from 9.6% in 2008 to 10.8% in 2015, climbing before Southwest region on the third place under this indicator for regional development. However, comparison of regions in terms of the number of employees shows that, in 2015, Southeast, Pelagonija and Polog region had fewer companies employing more than 250 employees, while Southeast and Pelagonija regions had fewer companies employing 50 to 249 people.

Table 8: Construction works performed (in thousand MKD)

	2007	%	2010	2013	2015	%
Macedonia	22,258,526	100	25,025,816	37,750,104	41,209,648	100

Vardar	942,246	4.2	1,184,760	4,193,177	4,158,385	10.1
East	811,578	3.6	1,839,722	1,614,495	4,176,346	10.1
Southwest	3,140,527	14.1	2,378,635	2,754,445	5,386,551	13.1
Southeast	1,756,640	7.9	2,195,692	2,127,929	1,421,037	3.4
Pelagonija	1,635,286	7.3	2,475,012	5,107,026	4,788,052	11.6
Polog	7,470,033	33.6	5,068,724	4,352,401	2,555,666	6.2
Northeast	288,531	1.3	633,970	1,073,275	4,549,361	11
Skopje	6,213,685	27.9	9,249,301	16,527,356	14,174,250	34.4

Source: State Statistical Office

Value of construction works performed is another important parameter used to compare development in regions, although this component is also marked by certain major oscillations. If the main “construction site” in 2007 was Polog region, with almost one third of total value of construction works performed (and was ranked second in the next five years, immediately after Skopje), in 2015 this region is second to last under this parameter, demonstrating slightly better performance than Southeast, which has been continuously ranked low on this list. In this period of 9 years, Pelagonija and Southwest are ranked among regions marked by higher value of construction works performed, while Vardar and East region continuously demonstrate lower value of construction works performed. The lowest value of construction works performed in the last 9 years is recorded in Northeast region which, except in the year 2015, is ranked last under this parameter.

Table 9: Total municipal revenue and expenditure (in thousand MKD)

	2013		2014		2015	
	revenue	expenditure	revenue	expenditure	revenue	expenditure
Macedonia	28,136,999	27,892,548	28,253,055	27,732,155	30,132,499	29,251,474
Vardar	1,899,154	1,890,153	2,042,024	2,005,454	2,156,996	2,096,797
East	2,352,714	2,328,043	2,532,933	2,452,526	2,536,120	2,509,826
Southwest	2,648,840	2,603,786	2,624,033	2,594,441	2,793,562	2,759,446
Southeast	2,242,866	2,232,939	2,408,557	2,337,640	2,543,821	2,483,198
Pelagonija	3,024,743	3,007,182	3,006,346	2,958,032	3,111,393	3,058,696
Polog	3,108,638	3,072,581	3,270,648	3,207,566	3,353,193	3,326,890

Northeast	2,031,806	2,023,025	2,113,130	2,084,340	2,028,421	2,009,295
Skopje	10,816,665	10,734,839	10,255,383	10,092,156	11,608,994	11,007,326

Source: sobranie.mk

As regards total municipal revenue, local self-government units in Skopje region, including the City of Skopje, have generated 37.8% of total revenue of all LSGUs in Macedonia in the last three years. Lowest revenue was generated by municipalities in Vardar (7%) and Northeast (7.1%), followed by municipalities in Southeast (8.3%), East (8.6%), Southwest (9.3%), Pelagonija (10.6%) and Polog (11.2%) region.

Previous data were presented and elaborated for the purpose of comparing development in the eight planning regions according to some of the more important development parameters. A more detailed analysis of components under these data and comparison of datasets for longer period of time provide a more accurate image about the strengths and weaknesses of individual regions, especially in relation to their growth potential. Some parameters used to assess development show negative tendencies in respect to the policy on balanced regional development (in particular, data on population's ageing and total equity investments), while other data provide small hope for possible mitigation of consequences from long-standing dominant investments in development of the capital (data on active business entities and construction works performed).

BALANCED REGIONAL DEVELOPMENT – LEGISLATIVE FRAMEWORK

Parliament of the Republic of Macedonia adopted the Law on Balanced Regional Development on its session held on 15th May 2007. This piece of legislation stipulates goals, principles and policy holders in balanced regional development, planning of regional development, financing and allocation of funds to stimulate balanced regional development, monitoring and assessment for implementation of planning documents and projects, and other issues pertaining to regional development.⁸

By means of this law, regional development was defined as process on identification, stimulation, management and utilization of potentials of planning regions and areas with specific developmental needs, and established the policy on balanced regional development as system of goals, instruments and measures aimed at reducing regional disparities and attainment of balanced and sustainable development in Republic of Macedonia. Planning regions are defined as functional territorial units established for the purpose of development planning and policy implementation for stimulating balanced regional development.

Key goals of the policy on stimulating balanced regional development, as defined in this law, include:

- balanced and sustainable development on the entire territory of Republic of Macedonia, based on the model of polycentric development;
- reduced disparities between and within planning regions, and improved quality of life for all citizens;
- increased competitiveness of planning regions, by strengthening their innovative capacity, optimal use and valuation of natural wealth, human capital and economic specificities of different regions;
- maintained and developed unique identity of planning regions, as well their affirmation and development;
- revival of villages and development of areas with specific developmental needs; and
- support for inter-municipal and cross-border cooperation of local self-government units, for the purpose of stimulating balanced regional development.

FRAME 1: PREVIOUS POLICIES ON REGIONAL DEVELOPMENT

According to some documents, the policy on balanced regional development is a result of “non-existing regional development policy in the period until 2007”, although the state had been implementing the policy on “faster development of economically underdeveloped areas”, and had established criteria on underdevelopment, the Fund for Crediting Faster Development of

⁸ Law on Balanced Regional Development, consolidated text, “Official Gazette of the Republic of Macedonia” no. 63/2007, 187/2013, 43/2014 and 215/2015

Economically Underdeveloped Areas, and the Parliament adopted the Law on Stimulating Development in Economically Underdeveloped Areas in 1994,⁹ which anticipated transfer of funds in the amount of 1% of GDP to economically underdeveloped regions (around 6 million USD were planned for this purpose in 1994¹⁰).

In the first years after Republic of Macedonia declared its independence, the Ministry of Development was competent to administer support for underdeveloped areas and then current Minister of Development, Sofija Todorova, at the parliament session organized for adoption of this law, claimed that legal provisions anticipate state interventionism for the purpose of stimulating development in underdeveloped areas.¹¹

Hence, according to data from the Bureau for Economically Underdeveloped Areas, funds transferred for this purpose in 2000 accounted for 0.30% of GDP, in 2001 - 0.2%, in 2002 - 0.4%, in 2003 - 0.1%, in 2004 – 0.08%, and in 2005 they accounted for 0.06%.¹²

Sources of funds for regional development included the Budget of Republic of Macedonia, budgets of local self-government units and funds of the European Union, other international sources, donations and sponsorships from natural and legal entities, and other funds, as stipulated by law. For the purpose of stimulating balanced regional development, annual funds allocated from the Budget of Republic of Macedonia should amount to at least 1% of the Gross Domestic Product.

Funds intended for balanced regional development are allocated by the Government of Republic of Macedonia, as follows:

- 70% to finance development projects of planning regions;
- 20% to finance development projects of areas with specific developmental needs; and
- 10% to finance development projects of villages.

Funds intended to finance development projects of planning regions are allocated according to the classification of development in planning regions. Establishment of development level in planning regions is pursued on the basis of economic development index and the demographic index. Criteria and indicators on development of planning regions are established by means of an act adopted by the Government of Republic of Macedonia. Classification of planning regions according to their development is determined by means of an act adopted by the Government of Republic of Macedonia and is valid for a period of five years.¹³ Funds are transferred to the account of the

⁹ Economically underdeveloped areas covered 64% of the entire territory of the Republic of Macedonia and accounted for 22% of total population when this law was adopted in 1994.

¹⁰ Shorthand notes from the parliament discussion, available at:

<http://www.sobranie.mk/WBStorage/Files/71sednica7prod12jan94god.pdf>

¹¹ Shorthand notes from the parliament discussion, available at

<http://www.sobranie.mk/WBStorage/Files/71sednica7prod12jan94god.pdf>, p. 51

¹² National Development Plan 2007-2009, Government of the Republic of Macedonia, Skopje, February 2007, p. 57

¹³ First classification on development of planning regions was made on the basis of the Decision on detailed criteria and indicators on development of planning regions ("Official Gazette of the Republic of Macedonia" no. 162/08). According to this decision, the development index was established as weighted average of the economic-social and demographic indices, whereby these two indices have equal weighted shares in creation of the development index. Establishment of economic-social indicators relies on parameters such as: GDP per capita, budget revenue per capita, growth of added value

Bureau of Regional Development (hereinafter: the Bureau) which only implements the decision on their distribution.¹⁴

At the time when the Law on Balanced Regional Development was adopted, the average GDP per capita in Republic of Macedonia accounted for 30% of the EU-27 average in 2007, and the country was categorized in the group of country with low economic development. GDP in the most developed planning region (Skopje) accounted for 44.5% of the EU-27 average and GDP of the least developed region (Northeast) was only 13.1%. In that period, Skopje region had 3.4 times higher GDP per capita compared to Northeast, representing a significant disparity and challenge for efficiency of measures, goals and activities on balanced regional development that provided the framework for adoption of this law. Major disparity in development of planning regions across Macedonia is seen also from the comparison of developmental, economic-social and demographic indices (see Chart 1 and Table 10 below), with prominent difference between Skopje and other regions, especially in terms of economic-social development.

Chart 1: Comparison of development per region for the period 2008-2012

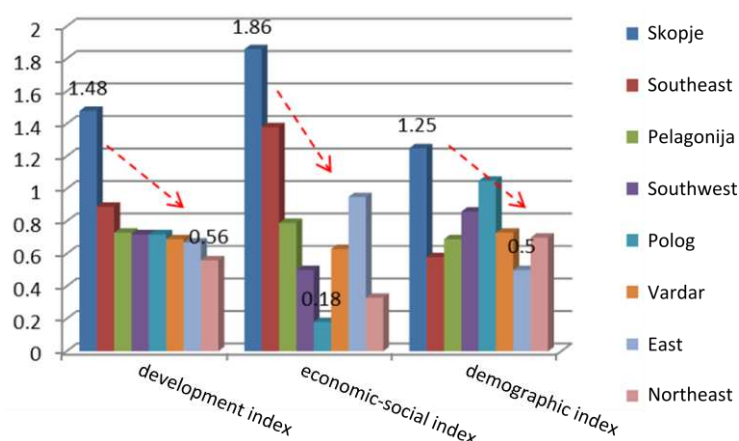


Table 10: Classification of planning regions according to their development for the period 2008-2012

Planning region	According to development index	According to economic-social index	According to demographic index
Skopje	1.48	1.86	1.25
Southeast	0.89	1.38	0.58
Pelagonija	0.73	0.79	0.69

in non-financial sector and unemployment rate, while the demographic index is established on the basis of population growth, population's ageing coefficient, migration rate per 1000 inhabitants and graduated students per 1000 inhabitants.

¹⁴ Law on Balanced Regional Development, consolidated text ("Official Gazette of the Republic of Macedonia" no. 63/2007, 187/2013, 43/2014 and 215/2015), Article 33

Southwest	0.72	0.50	0.86
Polog	0.72	0.18	1.05
Vardar	0.69	0.63	0.73
East	0.67	0.95	0.50
Northeast	0.56	0.33	0.70

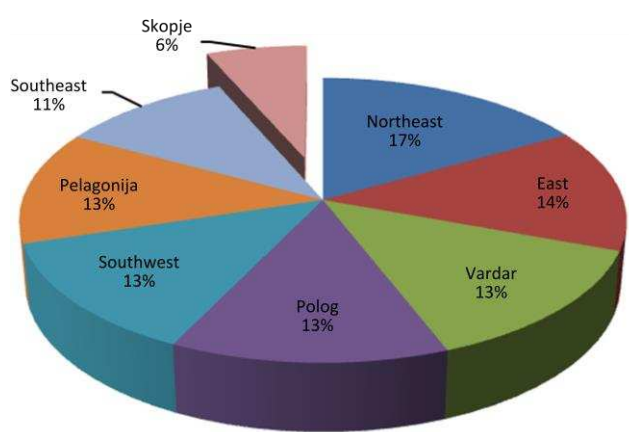
Source: Decision on classification of planning regions according to their development for the period 2008-2012, "Official Gazette of the Republic of Macedonia" no. 162/2008

These indices (developmental, economic-social and demographic) show how much planning regions differ in terms of development compared to the national average, whereby:

- **index value of 1** means that planning region's development is equal to the average development at the level of Republic of Macedonia;
- **index value higher than 1** means that planning region's development is higher than the average development at the level of Republic of Macedonia; and
- **index value lower than 1** means that planning region's development is lower than the average development at the level of Republic of Macedonia.

Classification of planning regions' development served as basis for calculation of their shares in distribution of funds intended to finance development projects of planning regions in the period 2008-2012. According to this calculation, almost all regions are anticipated to receive at least twice as many funds than Skopje region that will benefit from 6.4% of total funds allocated on annual basis from the Budget of Republic of Macedonia.

Share of planning regions in distribution of funds for regional development, for the period 2008-2012 (%)



Source: Decision on classification of planning regions according to their development for the period 2008-2012, "Official Gazette of the Republic of Macedonia" no. 162/2008

Funds intended for stimulating regional development should reduce disparities among and within regions. According to primary and secondary legislation, utilization of funds is directly conditioned with submission and implementation of quality projects for stimulating regional development which, on the other hand, depends on development project planning and implementation capacity of individual regions. Therefore, establishment of the system on regional development must pay special attention to the component on developing capacities of relevant institutions, which is an important determinant for planning regions to obtain/utilize funds.¹⁵

In 2013, the Government of RM adopted new classification of planning regions according to their development for the period 2013-2017.¹⁶

Table 11: Classification of planning regions according to their development, for the period 2013-2017

Planning region	According to development index	According to economic-social index	According to demographic index
Skopje	1.51	1.48	1.53
Southeast	0.97	1.29	0.72
East	0.96	1.36	0.65
Pelagonija	0.91	1.09	0.80
Polog	0.82	0.50	1.07
Southwest	0.81	0.98	0.69
Vardar	0.73	0.70	0.76
Northeast	0.63	0.27	0.90

According to this classification, the share of planning regions in distribution of funds intended for regional development for these four years has been moderately changed and should follow the ratio presented on the chart.

Chart 2: Share of planning regions in distribution of funds intended for regional development (%), for the period 2013-2017

¹⁵ Strategy on Regional Development 2009-2019, "Official Gazette of the Republic of Macedonia" no. 119 from 30.9.2009, pp. 13-14

¹⁶ Decision on classification of planning regions according to their development, for the period 2013-2017, "Official Gazette of the Republic of Macedonia" no. 88/2013

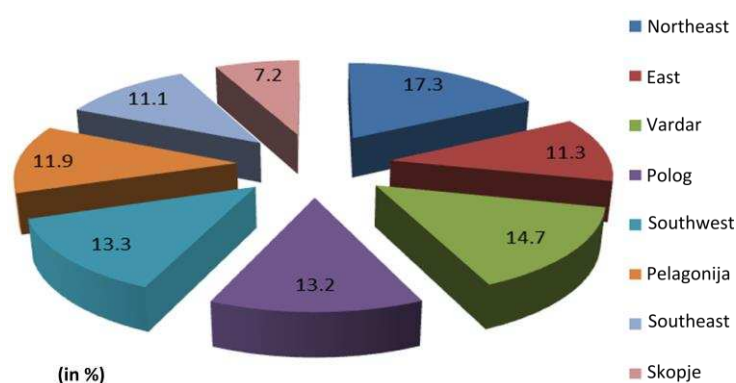


Table 12: Share of planning regions in distribution of funds for regional development

Region (share in distribution of funds)	2008-2012 (%)	2013-2017 (%)	Difference
Northeast	16.7	17.3	+ 0.6
East	14	11.3	-2.7
Vardar	13.5	14.7	+1.2
Polog	13	13.2	+0.2
Southwest	13	13.3	+0.3
Pelagonija	12.9	11.9	- 1
Southeast	10.6	11.1	+0.5
Skopje	6.4	7.2	+0.8

Development indices of planning regions in the Republic of Macedonia show that only Skopje region is characterized by above average development, while development in all other regions is below the national average. In that, difference between Skopje and the second most developed region (Southeast) is significant (index value of 1.48 and index value of 0.89, respectively), but difference between Skopje and the least developed region (Northeast) is exceptionally great (index value of 1.48 and index value of 0.56, respectively).

FRAME 2: IMPORTANT DATES FOR THE POLICY ON BALANCED REGIONAL DEVELOPMENT

- ✓ **1994** –Adoption of the Law on Stimulating Development of Economically Underdeveloped Areas, which anticipated generation of funds for development of economically underdeveloped areas from the central budget, in the amount of 1% of GDP on annual level;
- ✓ **2001** –Adoption of the nomenclature of units for territorial statistics (NUTS) for Republic of Macedonia, according to which the entire territory of Macedonia is NUTS level 1 and 2, while NUTS level of 3 is assigned to eight statistical regions.
- ✓ **15 May 2007** – Parliament of the Republic of Macedonia adopted the Law on Balanced Regional Development.
- ✓ **2007-2009** – Establishment of eight Centres on Development of Planning Region. First centre was established in Polog region within the law-stipulated deadline of 9 months from entry in effect of the Law on Balanced Regional Development, and the last centre was established in Skopje region, in May 2009.
- ✓ **August 2008** – Council on Balanced Regional Development adopted the decision on classification of planning regions according to their development for the period 2008 – 2012 and the decision on detailed criteria and indicators on establishing development of planning

regions.

- ✓ **December 2008** – Planning regions were classified according to their development.
- ✓ **January 2009** – The Government adopted 2009 Programmes on Financial Support for Regional Development in 2009 (“Attractive Planning Regions for 2009”, implemented by the Ministry of Local Self-Government with total budget of 150,000,000 MKD and Programme on Balanced and Sustainable Regional Development implemented by the Bureau for Regional Development in the amount of 166,500,000 MKD).
- ✓ **May 2009** – Council on Balanced Regional Development adopted the decision on detailed criteria and indicators for establishment of areas with specific developmental needs and the decision on establishing areas with specific developmental needs in the Republic of Macedonia, for the period 2009 - 2013.
- ✓ **August 2009** – Bureau for Regional Development announced the first open call for proposals on development of areas with specific development needs and development of villages that will be financed by MLSG programmes, and issued circulatory letter to presidents of planning regions about their preparedness to receive project proposals on development of planning regions. Although the Government adopted decisions on project financing, sufficient funds were not paid from the budget to the centres on development of planning regions, so funds anticipated for the year 2010 were redirected to finance projects approved in 2009. Projects submitted for the year 2010 were transferred for implementation in 2011 and the Bureau did not announce the 2011 open call for proposals.
- ✓ **29 September 2009** – Parliament of the Republic of Macedonia adopted the Strategy on Regional Development.
- ✓ **November-December 2009** – Centres on Development of Planning Regions adopted the programmes on development of planning regions. Programmes adopted by Skopje and Northeast region covered the period 2009-2014, those adopted by East and Southeast region covered the period 2009-2013, programme for Vardar region covered the period 2008-2013, and those adopted by Pelagonija and Southwest region concerned the period 2010-2015.
- ✓ **December 2009** – Government of the Republic of Macedonia adopted the decision on financing development projects of planning regions and allocated 131,810,000 MKD from the Budget of RM.
- ✓ **March 2010** – Government of the Republic of Macedonia adopted the Action Plan for Implementing the Strategy on Regional Development for the period 2010–2012.
- ✓ **2012** – Government of the Republic of Macedonia integrated balanced regional development in its priorities.
- ✓ **April 2013** – Government of the Republic of Macedonia adopted the decision on classification of planning regions according to their development for the period 2013-2017, according to which Skopje region has development index value of 1.51 in regard to the national average, Southeast – 0.97, East – 0.96, Pelagonija – 0.91, Polog – 0.82, Southwest – 0.81, Vardar – 0.74 and Northeast – 0.63. Based on this classification, calculation was made of relevant shares of planning regions in distribution of funds intended to finance development projects of planning regions for the period 2013-2017.
- ✓ **June 2013** – Government of the Republic of Macedonia adopted the Action Plan on Implementing the Strategy on Regional Development for the period 2013-2015.
- ✓ **February 2014** – Government of the Republic of Macedonia adopted the decision on establishing areas with specific developmental needs for the period 2014-2018
- ✓ **2014** – Adoption of the Strategy on Amending the Strategy on Regional Development by means of which parameters on targets for the year 2019 were reduced (initially planned average GDP per capita of 50% from the EU average was reduced to 42%; planned development of the least developed region expressed as GDP per capita to be at least 35% of the EU average was reduced to 26%; planned difference in GDP per capita between the most and the least developed region not to exceed 2.5 times was reduced to 2.2 times).

- ✓ **November-December 2014** – *Centres on Development of Planning Regions adopted the programmes on development of planning regions for the period 2014 - 2019.*
- ✓ **June 2016** – *Government of the Republic of Macedonia adopted the Action Plan on implementing the Strategy on Regional Development for the period 2016-2018.*

STRATEGY AND ACTION PLANS ON BALANCED REGIONAL DEVELOPMENT

Strategy on Balanced Regional Development, which in many aspects was based on the National Development Plan, was planned according to macroeconomic policies in the state geared towards ensuring annual growth rate of around 6.5% in the indicated period, and should growth continued under the same dynamics, following outcomes would be attained:

- average GDP per capita (according to purchase power parity - PPP) in Republic of Macedonia should reach 50% of the EU average in 2019;
- the least developed planning region in Republic of Macedonia should reach GDP per capita (according to PPP) of at least 35% of the EU average in 2019; and
- difference between GDP per capita of the most and the least developed region should not exceed 2.5 times in 2019.

Unfortunately, these overly-ambitious projections were not attained, although majority of them were developed at the time when the world was affected by the major financial crisis that had inevitable effects on the Macedonian economy and therefore they should have been more realistic. In the next years, GDP growth in the state never even approach the level projected at 6.5% (according to data from the Ministry of Finance, the highest growth rate was attained in 2008 with GDP growth of 5.5% and in 2015 with GDP growth of 3.8%),¹⁷ while according to the EC's last progress report for Macedonia GDP per capita in 2014 reached 37% of the EU-28 average.¹⁸

In 2014, the Government, i.e. the Ministry of Local Self-Government revised the Strategy on Regional Development and the Parliament adopted the Strategy on Amending the Strategy on Regional Development. Some of more important changes were made in regard to strategic goals, whereby instead of average GDP per capita of 50% of the EU average, as planned in 2009, the new document revised this projection to 42% of the EU average. Instead of the least developed planning region to reach GDP per capita of at least 35% of the EU average, in the new document this parameter was reduced to 26%. Moreover, instead of difference in GDP per capita between the most and the least developed region not to exceed 2.5 times (as anticipated under 2009 Strategy), in 2014 this difference was corrected downward to 2.2 times.¹⁹

In addition to failed projections, this policy was also faced with many delays in implementation of its main components. One of the most important segments in implementation of this policy are the Centres on Development of Planning Regions, which should have been established within 9 months from the law's adoption, but with the exception of Polog, all other regions have breached this deadline. The last centre was established in Skopje region, in May 2009, i.e. 14 months beyond the law-stipulated deadline. Their function, inter alia, is to coordinate assistance from the Government

¹⁷ Data are taken from the website of the Ministry of Finance, Category: Macroeconomy, Subcategory: Indicators and Projections, available at: <http://finance.gov.mk/mk/node/401>, last accessed on 5th November 2016

¹⁸ The former Yugoslav Republic of Macedonia 2016 Report, Brussels, 9.11.2016, available at: http://ec.europa.eu/enlargement/pdf/key_documents/2016/20161109_report_the_former_yugoslav_republic_of_macedonia.pdf

¹⁹ Strategy on Amending the Strategy on Regional Development 2009-2019, Ministry of Local Self-Government, September 2014

and donors intended for regional development, as well as adoption of five-year Programmes on Development of Planning Regions. Deadlines stipulated for adoption of these programmes were also breached (they should have been completed within 9 months from the law's entry in effect, i.e. in March 2008, but all programmes were adopted in late 2009).

From their start of operation, the Centres on Development of Planning Regions faced problems in terms of their financing. According to the law, 50% of their revenue should come from the Budget of RM and remaining 50% should be transferred from the budgets of local self-government units (hereinafter: LSGUs) covered within the region for which each of these centres were established. Significant portion on LSGUs did not comply with this obligation in timely manner (and some of them have not paid these funds for years back), thus hindering the centres' operation. In the case of several centres, this problem is still slowing down their operation and results in lower efficiency in terms of fundraising from foreign donors intended for development of particular regions.

On the other hand, despite the fact that in August 2009 the Bureau announced an open call for proposals related to development of areas with specific developmental needs and development of villages that should be financed by the Budget of RM (and at the same time issued circulation letter to presidents of planning regions about their preparedness to receive project-proposals for development of planning regions) and despite the fact that the Government adopted decision on project financing, sufficient budget funds were not disbursed to the Centres on Development of Planning Regions, as a result of which funds anticipated for 2010 were reassigned to finance projects approved in 2009. Project applications for 2010 were transferred for financing in 2011, on the account of which open call for proposals was not announced in 2011.²⁰ Afterwards, open calls for proposals were announced under relatively regular dynamics.

Official website of the Bureau for Regional Development hosts data about the amount of funds awarded by the Government through the Bureau in the last years (see Table below).²¹

Table 13: Funds from the Budget of RM intended for balanced regional development through the Bureau for Regional Development

Year	For development projects of planning regions	For development of areas with specific developmental needs	For projects on development of villages
2016	179,315,540	51,233,010	25,118,635
2015	91,276,253	26,385,800	13,192,900
2014	42,095,533	12,027,295	6,013,648
2013**		14,845,732	7,422,866
2012	13,322,925	3,806,550	1,903,000

²⁰ Development and classification of planning regions (expert study) Vlabor, Skopje, May 2013, p. 17

²¹ www.brr.gov.mk (last accessed on 24.10.16)

2011	92,065,766	26,304,505	13,152,252
2010*			
2009	131,810,000	37,660,000	18,481,250

Source: Bureau for Regional Development

*In 2010 no funds were allocated for development projects of planning regions

**Official website of the Bureau for Regional Development does not host data concerning funds allocated for development projects of planning regions in 2013.

One of the most important components in the legislative framework for financing this policy is the transfer of funds in the amount of 1% of GDP to the Ministry of Local Self-Government and the Bureau which are later, on the basis of development classification of the regions, transferred in relevant percentages to individual planning regions (highest share of funds is allocated for the least developed and lowest share of funds to the most developed region). With every new budget, budget adjustment and final balance sheet for the Budget of RM, as well as new Action Plans on Implementing the Strategy on Regional Development we were able to learn that, contrary to the legislative framework in place, the Government is applying different methodology to calculate shares of GDP that will be invested in balanced regional development.

Action Plans on Implementing the Strategy on Regional Development

To date, a total of three Action Plans on Implementing the Strategy on Regional Development were adopted, all with delays in terms of law-stipulated deadline defined as at least six months prior to expiration of the current planning period.²²

First Action Plan on Implementing the Strategy on Regional Development 2010–2012 was adopted by the Government of Republic of Macedonia on its session held on 20th April 2010.

This document confirmed what could have been only sensed in the previous two years with postponement of procedures on implementing law-stipulated obligations on balanced regional development and allocation of funds for this purpose from state budgets and budget adjustments in 2008 and 2009. Instead of complying with the law obligation on allocating 1% of GDP for regional development through MLSG (or the Bureau for Regional Development), this document endorsed the position of the Government that these funds should be disbursed to the budgets of several ministries and agencies whose competences include regional components, without any obligation on disbursing said funds according to the methodology on shares of planning regions in distribution of funds intended to finance development projects of planning regions. With this approach, the policy maker has actually reinstated one segment of the process on development of underdeveloped regions to the level that existed prior to adoption of the law and strategy on balanced regional development. Exactly the methodology on stimulating development of the regions in proportion to their level of (under)development was the new specific difference compared to the previous policy, for which holders of the new policy claimed it had been “monocentric”. On that account, most independent reports on the policy on balanced regional development present data according to

²² Law on Balanced Regional Development, consolidated text (“Official Gazette of the Republic of Macedonia” no. 63/2007, 187/2013, 43/2014 and 215/2015), Article 10

which financial funds from the Government intended to support this policy have not reached the famous 1% of GDP in any of the years, while government reports operated with data that this share ranges from around 1% to 3.25% of GDP, although it is interesting to note that these shares concern only funds planned, but not funds realized, as confirmed with specific data from the budget's final balance sheets.

These data allow the conclusion that not a single action plan presents data on share of funds awarded according to the methodology stipulated by the law and the strategy on balanced regional development which, in the period 2008 – 2015, ranged from 0.002 to 0.3% of GDP.

Here, it should be noted that the Action Plan 2010-2012 featured a paragraph that reads: "2009 Budget of the Republic of Macedonia planned funds in the amount of 4,568 million MKD intended to support regional development, which accounted for 1.15% of GDP. Although these funds were allocated (labelled as "regional") and were not managed by the Ministry of Local Self-Government, they still represent certain improvement, i.e. different practice and serious effort of the country to support regional development. It will take time for mechanisms to be developed and regional policy to strengthen in order to enable distribution of these funds directly for support of balanced regional development".²³

Below are several quotations from this document that confirm the government is applying different methodology for calculation of investments in balanced regional development from the methodology stipulated by the law.

"2010 Budget of the Republic of Macedonia secured funds in total amount of 6,307.85 MKD, representing 1.53% of estimated GDP for the year 2010 in the amount of 413,066 million MKD. These are total funds planned for support of projects with regional developmental component and distributed under individual programmes and sub-programmes of different ministries, which means that they will be implemented according to their policies on development support."²⁴

Table 14: Funds from the Budget of RM planned for regional development, for the period 2009-2012 (in million MKD)

Source of funding	2009	2009 (budget adjustment)	2010	2011	2012	Total 2010-2012
IPA*						
Ministry of Local Self-Government	425.23	372.13	333.52	442.24	464.35	1240.11
Other line ministries	4,143.34	3,397.51	5,974.33	6,213.30	6,523.97	18,711.60

²³ Action Plan on Implementing the Strategy on Regional Development 2010– 2012, Ministry of Local Self-Government, March 2010, pp. 1-2

²⁴ Action Plan on Implementing the Strategy on Regional Development 2010– 2012, Ministry of Local Self-Government, March 2010, p. 42

Total	4,568.57	3,769.64	6,307.85	6,655.54	6,988.32	19,951.71

Source: Action Plan on Implementing the Strategy on Regional Development 2010-2012

*Action Plan does not include data on funding awarded under IPA fund.

Table 15: Funds planned under budgets of line ministries including regional development component and intended for support of regional development (in million MKD)

Institution	2009	2009 (budget adjustment)	2010	2011	2012	Total 2010 - 2012
Ministry of Finance	26.74	19.99	442.29	459.98	482.98	1,385.25
Ministry of Economy	233.13	199.83	590.00	613.60	644.28	1,847.88
Ministry of Environment and Spatial Planning	248.40	243.35	215.50	224.12	235.33	674.95
Ministry of Transport and Communications	823.78	607.70	1,616.60	1,681.26	1,765.33	5,063.19
Ministry of Agriculture, Forestry and Water Economy	654.47	276.43	770.62	801.44	841.52	2,413.58
Ministry of Agriculture, Forestry and Water Economy	500.00	500.00	632.00	657.28	690.14	1,979.42
Agency for Agriculture Development	74.00	66.29	75.48	78.50	82.42	236.40
Ministry of Education and Science	642.90	804.00	628.89	654.05	686.75	1,969.68

Agency for Youth and Sports	390.00	300.00	471.00	489.84	514.33	1,475.17
Ministry of Health	49.92	49.92	201.95	210.03	220.53	632.51
Agency for State Roads	500.00	330.00	330.00	343.20	360.36	1,033.56
Total:	4,143.34	3,397.51	5,974.33	6,213.30	6,523.97	18,711.60

Source: Action Plan on Implementing the Strategy on Regional Development 2010-2012

Explanation provided in this action plan why these funds are shown in this table implied the fact that they will be used to finance projects focused on regional development, i.e. contributing to stimulation of balanced regional development on the entire territory of Republic of Macedonia, which means that these projects have developmental character and could contribute to increased GDP and employment in individual regions.²⁵

In August 2013, the Government of RM adopted the second Action Plan on Implementing the Strategy on Regional Development 2013-2015. This document continued the same methodology on calculation of law-stipulated 1% of GDP for balanced regional development. "2012 Budget (after the budget adjustment) secured 4,259.98 million MKD, representing 0.88% of estimated GDP in 2012 (481,808 million MKD). Although these funds are allocated to the budgets of several ministries and agencies (labelled as "regional") and are not managed by the Ministry of Local Self-Government, they still represent serious effort of the country to support regional development."²⁶

Table 16: Funds intended for support of regional development 2012-2015 (in thousand MKD)

Source of funding	2012	2012 (budget adjustment)	2013	2014	2015	Total (2013-2015)
MLSG and BRD	175,600	77,360	99,035	103,780	118,880	321,695
Other line ministries	4,774,500	4,181,520	4,492,836	4,331,619	4,835,600	13,661,055
Total	4,950,100	4,258,880	4,591,871	4,430,654	4,954,480	13,982,750

²⁵ It should be noted that this document did not include explanation whether funds from budgets of "other line ministries" are distributed according to the decision on classification of planning regions according to their development. If that was the case, one could accept arguments offered by authors of the Action Plan that these funds contribute to stimulating balanced regional development on the entire territory of Republic of Macedonia.

²⁶ Action Plan on Implementing the Strategy on Regional Development 2013-2015, "Official Gazette of the Republic of Macedonia" no. 122/2013, p. 2

Source: Action Plan on Implementing the Strategy on Regional Development 2013-2015

Table 17: Funds for support to regional development through MLSG and the Bureau, for the period 2012-2015 (in thousand MKD)

Account	Institution	Purpose	2012	2012 (budget adjustment)	2013	2014	2015	Total
19101	MLSG	balanced regional development	109,000	27,860	49,992	53,780	63,880	167,652
28001	BRD	sustainable balanced regional development	65,500	49,500	49,043	50,000	55,000	154,043
	Total		174,500	77,360	99,035	103,780	118,880	321,695

In addition to above-enlisted funds for regional development, 2013 Budget of RM, under items related to budgets of other line ministries, indicated funds that include regional development component and are intended to support regional development.²⁷

The last action plan published in June 2016 assessed that 2016 Budget of RM anticipates funds in the amount of 19,000,512,000 MKD (or around 3.25% of estimated GDP in 2016).²⁸ It should be noted that authors of that strategic document integrated in these figures funds from projects of ministries that are not members of the Council on Balanced Regional Development of Republic of Macedonia (such as the Ministry of Education and Science and the Ministry of Health), so it should not come as surprise that in its next document the Government claims that larger share of the Budget of RM is in function of implementing the policy on balanced regional development.

This action plan stressed that, in the period after adoption of the regional development policy, measures and activities were taken to stimulate balanced regional development, on the basis of

²⁷ Action Plan on Implementing the Strategy on Regional Development 2013-2015, "Official Gazette of the Republic of Macedonia" no. 122/2013, pp. 45-46. This document enlisted projects planned to be financed with funds from the Budget of RM and are focused on regional development, i.e. contribute to stimulation of balanced and sustainable regional development on the entire territory of Macedonia. Explanation for their inclusion implies the fact these are projects with developmental character and could contribute to increased GDP and employment in certain regions. They also include budget items which, according to account, programme, sub-programme, category and item, have regional component in their description, but are not accompanied with clear justification in terms of their regional effect and impact. For example, they include funds planned for Technology and Industrial Development Zone falling within competences of the Ministry of Economy, funds for environmental investments falling within competences of the Ministry of Environment and Spatial Planning, investments in railway infrastructure falling within competences of the Ministry of Transport and Communications, funds intended to stimulate employment falling within competences of the Ministry of Labour and Social Policy, funds for human resource development under budget programme MG falling within competences of the Ministry of Finance, etc.

²⁸ This budget increase was noted in EC's last progress report for Macedonia published in 2016, where it is said that balanced regional development is an integral part of the Ohrid Framework Agreement, that Action Plan 2016-2019 anticipated more transparent and balanced distribution of state funds, that budget on regional development is doubled in 2016 and that 2017 budget anticipates another increase, but that would again be insufficient.

which disparity in development of the City of Skopje and other planning regions was reduced. It also presents data that 230 projects are approved for the purpose of stimulating balanced regional development, in total value of 264,820,014 MKD, and that 390 developmental projects were financed, in total value of 602 million MKD (almost 10 million EUR), by MLSG on the basis of identified development priorities of planning regions and under development strategies.²⁹

These data provide the conclusion that none of the actions plans for implementation of the Strategy on Regional Development do not present shares according to the methodology anticipated in the Law and Strategy on Balanced Regional Development, while funds indicated for the period 2008-2015 range from 0.002% to 0.3% of GDP.

²⁹ Action plan for Implementing the Strategy on Regional Development 2016-2018, "Official Gazette of the Republic of Macedonia" no. 123/2016, p. 2

EFFICIENCY OF THE POLICY ON BALANCED REGIONAL DEVELOPMENT

Having in mind that data on efficiency of the policy on balanced regional development are relatively limited, in continuation we make an attempt to present and analyse available data related to impact indicators from implementation of the Strategy on Balanced Regional Development 2009–2019 presented in three action plans.

The first action plan included the following table:³⁰

Table 18: Impact indicators from implementation of the Strategy 2009 – 2019

	Indicator	2009 value	2019 value
1	Average regional GDP per capita in Republic of Macedonia (according to PPP)		at least 50% of the EU average
2	GDP per capita (according to PPP) in the least developed planning region in Republic of Macedonia		at least 35% of the EU average
3	Difference in GDP per capita between the most and the least developed planning region	3.6 times *	maximum 3 times
4	Life expectancy at birth	73.4 years*	75 years
5	Regional share of population growth total population growth in Republic of Macedonia		
	Region with biggest growth in total growth in Republic of Macedonia	3.96%***	2%****
	Region with lowest growth in total growth in Republic of Macedonia	MK – 5.68%***	-2%****
6	Education level of the population		
		primary 53.1%	35% (reduction by 40% at regional level)
		secondary 36.9%	45% (increase by 20% at regional level)
		higher 10%	20% (increase by 100% at regional level)
7	Number of unemployed	341,893**	250,000 (reduction by 30% at regional level)

³⁰ Action Plan for Implementing the Strategy on Regional Development 2010– 2012, Ministry of Local Self-Government, March 2010 (p. 20)

* 2007; **September 2009 ; *** 1994 – 2002 ; ****2002 – 2012

source: Action Plan for Implementing the Strategy on Regional Development 2010–2012

The second action plan featured similar table with same title, but changed structure.³¹ Data in the second table are updated and compared to those presented in the first table and demonstrate more specific effects in terms of projected values for 2019, especially in regard to two from seven targets: difference in GDP per capita between the most and the least developed planning region and number of unemployed. Data presented in actions plans provide the conclusion on modest progress in attainment of defined targets, but there is significant space for improvement in the field of reducing unemployment, difference in GDP per capita compared to the EU and among regions, population growth in regions and life expectancy.

Table 19: Impact indicators from implementation of the Strategy 2009 – 2019

	Indicator	2009	2010	2011	2019 value
1	Average GDP per capita in Republic of Macedonia	3,269 EUR	3,434 EUR	3,630 EUR	at least 50% of the EU average
2	GDP per capita in the least developed planning region in Republic of Macedonia	1,527 EUR	1,606 EUR	1,718 EUR	at least 35% of the EU average
3	Difference in GDP per capita between the most and the least developed planning region	3.32 times	3.18 times	3.04 times	maximum 3 times
7	Number of unemployed	341,295***	321,341*** *	281,341** ***	250,000 (reduction by 30% at regional level)

December 2009; * December 2010; ***** December 2011

Source: Action Plan for Implementing the Strategy on Regional Development 2012– 2015

Data presented in the next table provide the impression that funds anticipated for implementation of the policy on balanced regional development are gradually disappearing in the public finance management process, under “allocation”, “approval” and “disbursement” from the Budget of RM to their realization through the Ministry of Local Self-Government. Hence, for example, the share of funds realized by MLSG in those planned and allocated under the Budget of RM in the period 2009-2012 accounted for only 45%, while the share of funds realized from those planned under the Action Plan 2009-2012 is even lower and accounted for less than 1/3 (29%). In this context, there is another

³¹ Action Plan for Implementing the Strategy on Regional Development, “Official Gazette of the Republic of Macedonia” no. 122/2013, p. 23

important information missing in relation to the share of these funds in total GDP at national level for the period 2009–2012 and the possible deviation of this share against the obligation stipulated under Article 27, paragraph 2 of the Law on Balanced Regional Development that reads: “In order to stimulate balanced regional development, funds in the amount of at least 1% of GDP shall be allocated from the Budget of Republic of Macedonia”.

Table 20: Impact indicators and outcomes from implementation of measures under the Action Plan 2010-2012³²

Indicator	2010	2011	2012
	in million MKD		
Funds allocated from the Budget of RM and planned for realization through the Ministry of Local Self-Government	333.52	451.08	473.64
Approved (planned for 2012) funds from the Budget of RM and planned for realization through the Ministry of Local Self-Government	246	202.29	77.4
Ratio of planned and allocated funds from the Budget of RM and intended for realization through MLSG	73.8%	44.8%	16.3%
Disbursed funds from the Budget of RM and intended for realization through MLSG	138.8	140.6	67.3
Utilization of funds allocated from the Budget of RM and intended for realization through MLSG	56.4%	69.4%	87%
Ratio of utilized and planned funds under the Action Plan 2009-2012	41.6%	31.1%	14.2%

Source: Action Plan for Implementing the Strategy on Regional Development 2012– 2015

As regards attainment of targets defined under the development index used to establish development of planning regions, the second action plan presented data indicating that planned targets for development of regions in 2008 were approximately attained by majority of regions in 2012.³³

Table 21: Planned and attained targets under the development index of regions in 2012

Planning region	2008	2012 (planned)	2012 (attained)
Skopje	1.48	1.62	1.51

³² Action Plan for Implementing the Strategy on Regional Development 2013-2015, “Official Gazette of the Republic of Macedonia” no. 122/2013, p. 25

³³ Action Plan for Implementing the Strategy on Regional Development 2013-2015, “Official Gazette of the Republic of Macedonia” no. 122/2013, p. 26

Southeast	0.89	1.03	0.97
Pelagonija	0.73	0.80	0.91
Southwest	0.72	0.74	0.81
Polog	0.72	0.75	0.82
Vardar	0.69	0.75	0.73
East	0.67	0.72	0.96
Northeast	0.56	0.60	0.63

Source: Action Plan for Implementing the Strategy on Regional Development 2012-2015

As regards the last action plan, we underline several datasets related to impact indicators and their attainment.

Table 22 includes much more detailed information about attainment of seven main indicators from implementation of the Strategy on Balanced Regional Development by 2019 compared to previous tables with same indicators presented in two action plans.

According to the first indicator defined as average GDP per capita in Republic of Macedonia (according to PPP), there is evident progress, but most probably it is insufficient for attainment of the target defined as at least 50% of the EU average under the 2009 Strategy. Considering that this strategy was revised in 2014 and the target was corrected downward to 42% of the EU average, the revised target could be attained if the state attains solid GDP growth in following years.

The second target, GDP per capita (according to PPP) of the least developed planning region in Macedonia to be at least 35% of the EU average, seems impossible because the two least developed regions (Polog – according to lowest GDP per capita, and Northeast – according to the development index) have GDP per capita that is 17.7%, i.e. 22.4% of the EU average. However, given that the revised strategy anticipates the least developed planning region to have GDP per capita that is 26% of the EU average in 2019, there is a possibility for this revised target to be attained.

Third target concerning difference in GDP per capita between the most and the least developed region to be maximum three times is already attained in 2013, although the strategy revised in 2014 reduced this difference to 2.2 times, which seems overly-ambitious, having in mind data presented in tables above, according to which the least developed region (Northeast) continues to lag behind in comparison to majority of regions in terms of almost all parameters.

As regards the fourth target, data are not segregated by region, i.e. life expectancy is presented only in terms of the national average.

In terms of the fifth target (ratio of regional population growth and national population growth), data presented concern years 2009 and 2013 and provide the impression that demographic situation is starting to stabilize, without major oscillations in population growth in individual regions as was the case in 2009. In 2013, biggest population growth against the national average was noted in Skopje region, with population growth higher by 1.63% compared to the national rate. Biggest

reduction in population in the same year was noted in East region, marked by population growth lower by 1.85 % compared to the national rate. If this growing trend in regions continues, it is possible for the desired situation of maximum 2% difference in population growth among regions against the national rate to be attained in 2019.

Data related to the sixth and seventh target (education level of work-able population and number of unemployed) and presented in the most recent Action Plan for Implementing the Strategy on Regional Development 2009-2019 show positive developments, although similarly to the situation under the fourth target, data presented concern only the national average.

Table 22: Impact indicators from implementation of the Strategy 2009-2019³⁴

	Indicator	2007	2009	2013	2019 value
1	Average GDP per capita in Republic of Macedonia (according to PPP)	7,512 EUR (30% of the EU-27 average)	8,424 EUR (35% of the EU-27 average)	9,500 EUR (36% of the EU-28 average)	at least 50% of the EU average
2	GDP per capita (according to PPP) of the least developed region in Republic of Macedonia	3,571 EUR	3,952 EUR	4,636 EU (Polog has the lowest GDP per capita that is 17.7% of the EU-28 average) 5,918 EUR (Northeast as the least developed region overall has GDP per capita that is 22.4% of the EU-28 average)	at least 35% of the EU average
3	Difference in GDP per capita of the most and the least developed region	3.47 times	3.32 times	2.94 times	maximum 3 times
4	Life expectancy at birth	73.4 years	74.7 years	74.98 total 77.05 for women* 72.97 for men	80 years for women 75 years for men
5	Ratio of regional and national population				

³⁴ Action Plan for Implementing the Strategy on Regional Development 2016-2018, "Official Gazette of the Republic of Macedonia" no. 123/2016, p. 21

	growth				
	Region with highest population growth (difference against the national population growth)	/	3.96%	1.63%** (Skopje planning region)	2%
	Region with lowest population growth (difference against the national population growth)	/	-5.68%	-1.85%** (East planning region)	-2%
6	Education level of work-able population				
	Primary	/	53.1%	38.92%***	35% (decrease by 40%)
	Secondary	/	36.9%	46.11%***	45% (increase by 20%)
	Higher	/	10%	14.97%***	20% (increase by 100%)
7	Number of unemployed (and other people seeking job)	341,893****	272,392*****	223,808*****	250,000 (decrease by 30%)

Source: State Statistical Office:

*2010 **2010 in relation to 2014 ***2014

Source: Employment Agency of the Republic of Macedonia

****September 2009 ***** April 2012 *****December 2014

Tables 23 and 24 present data on funds anticipated for implementation of the policy on balanced regional development from the moment they were planned, by means of three-year action plans or programmes on balanced regional development, until the moment they are realized from the Budget of RM through the Ministry of Local Self-Government and the Bureau for Regional Development. They confirm the thesis on inefficient financial management and “loss/reduction” of funds in the process of planning and realization. However, analysis of the indicator on funds disbursed from the Budget of RM and realized by MLSG against funds planned under action plans provides the conclusion that their share in the period 2013-2015 has increased and reached 53% compared to the period 2009-2012 when this share amounted to only 29%. Solid impression is made

by major increase of funds planned for this purpose in 2016, 2017 and 2018, which is welcomed in the EC's most recent progress report for Macedonia, but having in mind previous trends there is a possibility for these funds to also "disappear" under budget adjustments in "allocation", "approval" or "disbursement".

Table 23: Impact indicators from implementation of measures under the Action Plan 2013-2015

Realized funds (in million MKD)

Indicator	2013	2014	2015
Funds planned by MLSG and BRD under Action Plan 2013-2015	99.4	206.5	227.2
Funds planned by MLSG and BRD under Annual Programmes on Balanced Regional Development	99.41	117.11	147.71
Funds disbursed from the Budget of RM and realized through MLSG and the Bureau	50.91	112.33	123.56

Table 24: Impact indicators and outcomes from implementation of the Action Plan 2016-2018

Planned funds

	Indicator ³⁵	2016	2017	2018
		in million MKD		
1	Funds allocated from the Budget of RM and intended for realization through MLSG and the Bureau for Regional Development	570.17	870.17	980.98
	Utilization rate of funds allocated from the Budget of RM and intended for realization through MLSG	90%	90%	95%
2	Funds allocated from the Budget of RM and intended for realization through other line ministries **	17,157.88	19,509.71**	19,962.42***
	Utilization rate of funds allocated from the Budget of RM and intended for realization through other	70%	75%	80%

³⁵ "Funds enlisted in the table and allocated from budgets of institutions different than MLSG will be used in compliance with the procedures of relevant institutions. However, having in mind the size of these funds, their importance for regional development in Macedonia, as well as the need for their utilization as driver of balanced development, they need to be presented in summary, i.e. their utilization to be monitored as input parameters in the overall system on financial support for regional development in Macedonia (irrespective of the fact whether they are funds allocated at MLSG or another institution)". Action Plan for Implementing the Strategy on Regional Development 2016-2018, "Official Gazette of the Republic of Macedonia" no. 123/2016, p. 22

line ministries			
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***Funds presented in the table are from the following budget accounts: OA- balanced regional development, MB - cross-border cooperation, except for item 420 on goods and services from the general budget, and 4A - square.

**Funds allocated under IPA and IPA2 and related to regional development are adequately presented in the budget of institutions responsible to manage these funds, and are allocated from 2016 Budget of RM.

***Sum of funds allocated from the Budget of RM for implementation of developmental activities relevant for balanced regional development and intended for realization by line ministries are not included in funds planned under programmes with development component for the year 2017 and 2018, because such data do not exist.

The last action plan presents new targets for developmental, economic-social and demographic indices of the regions in 2018, according to which four from eight planning regions are expected to exceed the national average development index, and Skopje region is expected to maintain its value under this index. Single backslide in these projections is observed under the demographic index in terms of target values for Skopje and Pelagonija region. Regions are expected to achieve progress under all other parameters (see Table 25).

Table 25: Indicators from indices used to establish development of planning regions

Development Index				
Planning region	2008	2012 (planned)	2012 (realized)	2018
Skopje	1.48	1.62	1.51	1.51
Southeast	0.89	1.03	0.97	1.10
Pelagonija	0.73	0.80	0.91	1.05
Southwest	0.72	0.74	0.81	0.92
Polog	0.72	0.75	0.82	0.93
Vardar	0.69	0.75	0.73	0.85
East	0.67	0.72	0.96	1.08
Northeast	0.56	0.60	0.63	0.80
Economic-Social Index				
Planning region	2008	2012 (planned)	2012 (realized)	2018
Skopje	1.86	1.95	1.48	1.50
Southeast	1.38	1.45	1.29	1.35
Pelagonija	0.79	0.87	1.09	1.15
Southwest	0.5	0.58	0.98	1.05
Polog	0.18	0.20	0.50	0.70
Vardar	0.63	0.72	0.70	0.84
East	0.95	1.05	1.36	1.40
Northeast	0.33	0.38	0.27	0.40

Demographic Index				
Planning region	2008	2012 (planned)	2012 (realized)	2018
Skopje	1.25	1.29	1.53	1.50
Southeast	0.58	0.62	0.72	0.80
Pelagonija	0.69	0.74	0.80	0.65
Southwest	0.86	0.90	0.70	0.70
Polog	1.05	1.08	1.07	1.10
Vardar	0.73	0.78	0.76	0.85
East	0.5	0.54	0.65	0.70
Northeast	0.7	0.75	0.90	1.05

FRAME 3: PERFORMANCE AUDIT OF THE PROGRAMME ON BALANCED REGIONAL DEVELOPMENT BY THE STATE AUDIT OFFICE

In the course of 2012 (September to December), the State Audit Office conducted a performance audit aimed at assessing risks and possibilities for improved performance of the Programme on Balanced Regional Development. The period covered by this audit was 2009-2012. Moreover, the audit targeted several risk areas as follows:

- *legal regulations on balanced regional development;*
- *financing of balanced regional development (planned and realized funds from the Budget of RM in the period 2009-2012);*
- *selection of project-proposals and their financing; and*
- *monitoring of utilization of funds awarded for balanced regional development.*

Below, we enlist the more important audit findings.³⁶

- *This field is closely regulated by means of by-laws whose adoption was marked by delays ranging from one to four years.*
- *Inconsistencies in law enforcement, resulting in differences in the manner and competent bodies transferring funds from the Budget of RM to planning regions.*
- *There is no information system in place, containing updated and reliable data in terms of development of individual regions that would provide basis for distribution of funds from the Budget of RM intended for balanced regional development to the planning regions.³⁷*
- *There is trend on reduction of funds allocated for balanced regional development from the Budget of RM;*
- *Retroactive financing of projects on regional development (the Government takes decisions on awarding funds to projects by the end of year, as was the case in 2009 and 2012, to finance projects approved for the previous year).*
- *Extremely low level of funds allocated for balanced regional development, i.e. funds allocated from the Budget of RM as share of GDP for the period 2009-2011 range from 0.03% to 0.2%, instead of at least 1% of GDP.*
- *Risk was established in operation of the commission tasked to assess project-proposals for balanced regional development. Absence of precise legal provisions governing the work of this commission and discretionary right given to the Minister of Local Self-Government by law in terms of selecting members in the commission could affect the selection of projects and their contribution to regional development.*
- *Due to insufficient amount of funds allocated for regional development from the Budget of*

³⁶ Performance Audit – Effectiveness of the Programme on Balanced Regional Development, Final Report of the Authorized State Auditor, Summary Findings, State Audit Office, 2013

³⁷ “Non-updated data affect the share of funds distributed per region in the following period.” (Performance Audit – Effectiveness of the Programme on Balanced Regional Development, Final Report of the Authorized State Auditor, Summary Findings, State Audit Office, 2013)

RM, as well as the trend on reducing planned funds by means of budget adjustments, there is no satisfactory level of effectiveness in terms of implementation of the Programme on Balanced Regional Development.

GENERAL RECOMMENDATIONS

According to data from official state institutions presented above, the policy on balanced regional development is facing serious challenges and is yet to engage in serious efforts in the future. Small progress has been achieved, as some regions are marked by positive trends in terms of economic parameters, but performance audit findings of the State Audit Office indicate that “there is insufficient efficiency in performance of the Programme on Balanced Regional Development”. Evidence on the unfavourable situation is found in data whereby more than half of investments continue to be generated in the most developed region, population growth in most regions is negative, while the three least developed regions (Northeast, Polog and Southwest) are facing high unemployment and have not improved their respective contribution shares in GDP in the last years compared with other regions in the state.

The Government interprets the legal solution on annual allocation of 1% of GDP from the Budget of Republic of Macedonia to stimulate balanced regional development as accumulation of budget allocations from different ministries and agencies that have certain links to regional development, but not specifically with balanced regional development. In order to make regional development truly balanced, funding practices must adhere to the existing methodology or new methodology should be proposed for distribution of budget funds, according to which funds in the amount of 1% of GDP (or 3.25% as enlisted by the Government in one of its documents) will be awarded according to the relevant shares calculated on the basis of development in individual planning regions.

Within the shortest deadline possible, the Council on Balanced Regional Development or the Ministry of Local Self-Government should establish a transparent reporting system on all parameters related to regional development, thus increasing interest and awareness of citizens for this important policy for the state’s future. Even the Strategy on Regional Development 2009-2019 refers to information system that would allow adherent compliance with the principles of transparency and accountability in strategy implementation, and would ensure access to public information related to strategy implementation.

Having in mind that policy on balanced regional development is in compliance with strategic goal of the Republic of Macedonia in terms of its aspiration to join the EU, as well as in line with guides on decentralization development anticipated in the Constitution of Republic of Macedonia, authors of this analysis believe that consensus is needed among main political actors for further and more committed implementation of the Law on Balanced Regional Development. Having in mind that this law and strategy had been adopted almost one decade ago and there is no visible progress in terms of awareness in society and in terms of political will, it seems as if the law does not exist. In spite of greater will and commitment demonstrated by management structures at relevant institutions and bodies toward capacity building for regional development, the possibility for establishment of special ministry of regional development should be reconsidered, following the example in Bulgaria (Ministry of Regional Development and Public Works), Croatia (Ministry of Regional Development and EU Funds), Czech Republic (Ministry of Regional Development), Romania (Ministry of Regional Development and Public Administration), Poland (Ministry of Regional Development, which was renamed in 2013 as the Ministry of Infrastructure and Development), Latvia (Ministry of Environmental Protection and Regional Development), Ukraine (Ministry of Regional Development

and Construction), Moldavia (ministry of Regional Development and Construction), Georgia (Ministry of Regional Development and Infrastructure) or Norway (Ministry of Local Government and Regional Development).

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