

Platform for Prosperous Future

Executive Summary

As many countries around the globe, N. Macedonia is currently experiencing a period of deeply divided society on many different fronts and strong developmental challenges. The Platform for Prosperous Future proposes an approach to bring together all stakeholders and to foster alignment on the key priorities for long-term growth i.e. prosperous future of N. Macedonia. Converge to the EU living standard is the overarching goal of every citizen, business person, policymaker, and this can only be achieved through advances in seven key areas: Education and Human Capital; Competitiveness (and Doing Business); Rule of Law and Corruption; Democratic Society; Environment; Public Governance; Digitalization and Digital Skills. Macedonia2025 outlines the context of each of these areas, and proposes a set of goals and actions for creating a prosperous future for the country. Finally, we offer a tool to track the country's progress towards achieving the basic building blocks and requirements for faster economic growth and prosperity - the Country Dashboard. It is a simple way to track the progress of the country over time and in comparison with our peers in the main areas discussed in this Platform.

Macedonia2025 aims to play a constructive role in the implementation of this Platform, in the capacity of a partner, leader, and participant.

Introduction

This Platform represents a natural extension of the Macedonia2025 activities and programs directed towards building a stronger nation and a stronger society. Its main objective is to support an alignment of the interests of all political parties and other relevant stakeholders, concerning the key areas and key priorities that will put the country on a path of high growth and living standard. The Platform aspires to contribute towards creating a stronger society: developed economy, competitive and striving businesses, dynamic business environment, society characterized by strong democracy and rule of law, and high quality of life. Hence, it identifies the key priorities and areas which can bring us there: provides a snapshot of the current context and presents the aspirational future.

Macedonia2025 offers this Platform to all stakeholders concerned with the realization of these goals. While we act as a conductor, we need broad acceptance and support from many actors to drive towards the common goals. We invite every political leader, every political party, parliamentary member, every intellectual, every civil society organization and each citizen, to join the Platform.

Ultimately, it does not matter whether we move left or right, but UP or DOWN.

The Platform for Prosperous Future

Similar to many countries around the world, N. Macedonia is currently experiencing a period of deeply divided society on many different fronts and strong development challenges. The gravity of the situation is even more serious because of the level of development, size of the country, and the large brain drain. New lines of division seem to continuously evolve. Low living standard and low quality of life are further exacerbating the division, leading to a constant battle for a greater slice of the public “pie” – public sector employment, public tenders, and misuse of public resources, among others. The ideology and ideological divide has lost its prominence, while ethnic divide is still strong and seems to penetrate into every public discussion on important issues. Myopia and short-termism are both a result and a cause of those processes. Short-term views and needs dominate in the choices made by policymakers, politicians and citizens. The long transition (of over 26 years) and absence of success impaired our sight and our ability to think on the long-run.

The abovementioned, as well as the slow progress in convergence towards the EU living standard, calls for an action for the establishment of this Platform which reflects the key priorities of the prosperous future of N. Macedonia (or stronger society). We appeal to and call the political parties and leaders, and all citizens to accept this Platform as an informal agreement that will bring a better future. Macedonia2025 is prepared to play a very constructive role in the implementation of this Platform, in the capacity of a partner, leader, participant, etc.

The priorities and principles that are outlined below are based on the Growth Enablers of Macedonia2025: education, innovation (R&D), investments, business environment, democratic freedom, corruption, and environment. We strongly believe that these are the areas where the country needs to advance in order to swiftly converge to the living standard of the EU. The priorities outlined below are general but far-reaching, allowing and motivating each political actor, business leader, and citizen to join the Platform and work together towards its implementation.

Economic growth does not happen in a vacuum. Some basic building blocks are required to jumpstart the development process, and more are needed to sustain it. In the current volatile geopolitical context, and with continued economic challenges, building economic resilience through improved competitiveness is crucial, especially for low-income countries (WEF, 2019).

I. Education and Human Capital

Context: In today's world, human capital plays a prominent role in determining the country's competitive advantage. Fast technological progress including digitalization and artificial intelligence (AI) put human capital i.e. the knowledge and skills of the population, in the forefront of the country's economic progress. The WEF (2019) argues that talent adaptability is critical i.e. governments should invest in programs that improve the skills of the workforce, enabling it to absorb and contribute to the technology revolution and disruptions. In the last decade, N. Macedonia managed to reduce the gaps in educational indicators with EU countries, as assessed by early school leavers, share of population with completed tertiary education, etc. However, the quality of education remains low, meaning that the quantity improvements did not materialize into higher human capital. The persistent brain drain creates additional deficiencies. Young Macedonians are acquiring very little knowledge in schools, based on international tests such as PISA and TIMSS. Moreover, a quarter of the young people in N. Macedonia in 2017 were not in education, employment or training (NEETs).

Inadequate education, as well as the loss of human capital, have led to a decreased capacity for innovation. As innovation is essential for the growth of companies, especially SMEs, they face a major barrier to their competitiveness on the global market. Moreover, the low rate of investments for R&D on a national level (only about 0.36% of GDP) further depresses innovation.

Future: We need to strongly focus on human capital development, in order to strengthen the country's competitiveness and embark on a path of fast growth. This inevitably requires both qualitative and quantitative improvements. There is room for efficiency gains (i.e. better organization of the system) but it is equally essential that the country increases the financing of education. The teacher training system should be improved, as well as the tools available to teachers. Schools should turn into hubs for gaining and applying knowledge, for boosting students' creativity and opening up their minds and their aspirations for achievements. Funding of universities should be improved to support high achievements. Life-long learning should be supported, including programs for constant professional development of workers. The government co-financing the professional development of workers would lead to productivity gains and the technological development of firms.

Finally, financing innovation is key, as it is the future of economies around the world. N. Macedonia must create an enabling environment by putting in place an ecosystem that breeds innovation. Various fiscal incentives should be offered by the Government in order to achieve economic success through breeding innovation. For instance, using the SMART specialization approach of the EU is especially important in a small economy with limited resources, such as N. Macedonia. SMART specialization is an innovative approach that aims to boost growth and jobs in Europe, by enabling each region to identify and develop its own competitive advantage. Through its partnership and bottom-up approach, SMART specialization brings together local authorities, academia, business spheres and the civil society, working for the implementation of long-term growth strategies supported by EU funds.

II. Competitiveness (and Doing Business)

Context: The global competitiveness of Macedonian businesses and the economy is low in general. The Global Competitiveness Index shows that N. Macedonia is ranked 82nd out of 141 economies in 2019, and is non-competitive even among the peer countries of the Western Balkans and the New Member States of the EU (NMS). This problem will be further exacerbated as the country advances on its path towards EU accession, as companies will have to cope with the competitive forces within the EU market i.e. EU companies. When it comes to economic growth, N. Macedonia is still stuck at the “middle income trap” - its manufacturing companies/products are too expensive to compete globally due to the rising wages, while at the same time it is still unable to compete with developed countries and their high value-added markets.

Future: Higher future growth and prosperity is inevitably related to higher competitiveness of Macedonian companies and higher exports. Government priority should be to establish and nurture an enabling environment conducive to companies’ growth, including quality of institutions, ease of doing business, digital government services, eliminating unnecessary bureaucratic procedures and charges for companies such as parafiscal ones. In addition, Government policies should be focused on supporting companies to grow and export, through productivity enhancing projects and initiatives. While the Government should ensure an equal playing field for all companies, priority sectors need to be re-invented.

III. Rule of Law and Corruption

Context: Rule of law is one of the major building blocks of a modern, democratic society. An effective judicial system is essential for the preservation of democratic norms. Weak rule of law undermines state credibility and creates room for corruption, clientelism and ineffective government and administration. Strong rule of law, on the other hand, ensures that all citizens and businesses are treated equally before the law and can participate in decision making processes. In 2020, N. Macedonia is ranked 58th among 113 countries in the World Justice Project Rule of Law Index. When compared to the 12 peer countries (in the Western Balkan region and NMS) for which ranking is available, N. Macedonia is ranked 8th. While several important judicial reforms and legislative changes were made in the past, the progress is still slow and the clientelist implementation of the rule of law creates uncertainty, and a lack of trust in the state, among citizens and businesses.

Corruption also threatens the fabric of an ethical society and sustainable economic development. It destabilizes our society and endangers the rule of law by undermining the institutions and values of our democracy. Corruption, and the perception of corruption, especially among global and regional trading partners, creates disincentives for local and foreign direct investment, and impairs the global competitiveness and economic growth.

The investigation and prosecution of high level corruption cases, combined with changes made to the legislative framework, have resulted in seeming progress for N. Macedonia, though the Corruption

Perceptions Index reported by Transparency International shows no improvement over the years. N. Macedonia scored 35 points out of 100 on the 2019 Corruption Perceptions Index ranking 106th out of 180 countries. This result is discouraging, as our country has been falling down the rank (for comparison, in 2014, N. Macedonia was ranked 63rd by the same Index). Therefore, corruption is still prevalent in many areas and remains an issue of concern.

Future: Reforms aimed at strengthening the rule of law should be one of the main priorities for the country, as N. Macedonia must make great strides in strengthening the rule of law and ending corruption. The authorities have to further step up their efforts to demonstrate that the fight against corruption is a national priority at all levels of power. As the EU sees these two as most concerning issues in the country, N. Macedonia has no room for mistakes and no time to waste. Beyond legal changes, all judicial institutions need to demonstrate their exemplarity and contribute, through additional efforts, to restoring public trust in the judiciary.

IV. Democratic Society

Context: Polarization and lack of independence of the judiciary, media and election-related issues are some of the main problems for democracy in N. Macedonia. While civil society and media representatives participate vigorously in the public discourse, they still face pressure and intimidation. “The Economist” Democracy Index 2019 puts N. Macedonia on the 77th spot with a score of 5.97, an improvement by one place compared to the previous year. The Economist Intelligence Unit conducted a survey that rates the state of democracy across 167 countries based on five measures—electoral process and pluralism, the functioning of government, political participation, democratic political culture and civil liberties—finds that democracy has been eroded around the world in the past year. The global score of 5.44 out of ten is the lowest recorded since the index began in 2006.

Future: The Republic of N. Macedonia is yet to complete political and economic reforms required for European integration. Though the Government has taken steps to restore checks and balances, and to strengthen democracy and the rule of law, the country must continue to undergo fundamental changes in an inclusive and open political atmosphere. The political discourse needs to be more inclusive and less partisan. The country must continue to deliver tangible results in key areas such as the judiciary, media freedom, fight against corruption and organized crime, intelligence services reform and public administration.

V. Environment

Context: The Republic of N. Macedonia is faced with air, water and soil pollution and disappearing forests as environmental problems typical for the Balkan region. The overall waste management system is undeveloped, with spread littering and illegal dumpsites, and almost non-existing sanitary

landfills, sorting stations and household recycling system. Most cities don't have sewage waste water treatment plants.

Though air pollution is a global phenomenon in recent decades, it is especially concerning in low and middle-income economies such as N. Macedonia. Some of the most frequently cited reasons for the alarming levels of air pollution are the burning of biomass (i.e. wood, coal and oil) for domestic heating mainly by poor households, dust from soil, industry (steel, electricity, and cement production) and traffic (WHO, 2018). Air pollution in N. Macedonia exceeds all safety levels, with the capital city of Skopje being ranked as the third most polluted city in Europe in terms of particulate matter air pollution (PM2.5) by the World Health Organization (WHO) in 2016 (WHO, 2018).

Particulate air pollution has numerous effects on the population's health, and the economy in general. In N. Macedonia, PM air pollution was the eighth largest mortality risk factor in 2018, and was linked to 7.3 percent of deaths (The Institute for Health Metrics and Evaluation, 2016). When its severity is weighted by the level of exposure faced by the whole population, PM air pollution is ranked higher than smoking in terms of risk to the general population. In terms of life expectancy, PM air pollution decreases life expectancy in N. Macedonia by 0.81 years. Air pollution also affects job performance and workplace productivity that inevitably results in missed days at work, inability to adhere to deadlines, impaired job results as well as lost GDP.

Future: To resolve this major health crisis, bold and prompt action is necessary. Some of the immediate steps that need to be taken are avoiding dirty fuels and technologies in transport and energy production, stopping uncontrolled burning of solid waste and agricultural waste, reducing the use of fertilizers in agriculture, improving the heating options for families, switch from fossil fuels to clean fuels and clean technologies, as well as green, clean cities.

Further actions in the environment should include: anti-littering campaigns, closing of illegal dumpsites and unsanitary landfills, opening regional landfills with integrated sorting plants, eco-tax on landfilling, deposit return system for beverage packaging, waste to energy facilities, sewage waste water treatment plants and public awareness campaigns.

VI. Public Governance

Context: Reforms in public administration have been slow and inadequate. Public administration in N. Macedonia is valued more as a tool for achieving party-political electoral objectives, and rarely as an instrument for (good) governance. As a result, no administration has shown willingness to sacrifice the short-term party-political objectives for the benefit of long-term good governance. As an EU member candidate, each year the country is assessed by the European Commission on a range of criteria, including those related to its administrative and institutional capacity. The 2019 Progress Report, described the country as “moderately prepared with the reform of its public administration”. In addition, it reports a very low level of accountability and user-friendly services for citizens and companies.

Good public governance is closely correlated to socio-economic prosperity and sustainable development. However, as good public governance can be an enabler of development, bad public governance can be its disabler. In the Macedonian context, the utilization of good governance as an instrument for growth and development has been largely neglected. On the contrary, public governance is met with criticism, mistrust and dissatisfaction from the way in which public bodies govern and manage public resources.

Future: The Government has still not fully implemented the public administration reform. The absence of a meritocratic de-politicized administration affects the institutional memory disabling the possibility for incremental progress in various issue areas. Furthermore, the frequent changes of administrations due to electoral cycles mean that long term planning and strategy-making is not practiced and large developmental processes remain untapped. This seems to suggest that large-scale comprehensive public administration reform should be an urgent political objective, necessary in order to enable the bureaucratic authority structures to contribute and drive efforts for facilitating economic growth and sustainable development in the country.

We believe that down-sizing, or right-sizing, of the public administration is a step in the right direction, with a full regard of the merit system. Results have to be made visible soon. Good governance is key, especially for an aspiring EU member such as our country. One of the major challenges of the Macedonian society is the implementation of the good governance practices based on the rule of law and democracy, participation, efficiency and effectiveness, transparency and equality.

VII. Digitization and Digital Skills

Context: The future is in digitization and digital skills. Any country that aims to be a major player in the global economy or aspires to catch up with the leading countries has to focus on digitalization. Based on main indicators, N. Macedonia lags behind the EU, and the world, in digitalization in all three segments: citizens, businesses and government. In particular, Eurostat data show that 32% of the population in 2017 held only a basic level or above basic level of digital skills relative to 57% of the population in the EU-28.

The use of ICT in enterprises is low. In 2016, only 3% of Macedonian enterprises received orders online (at least 1% of all orders) compared to the EU-27 average of 18% (and 24% in Serbia, for 2017). Macedonian businesses feel pressure to be innovative and competitive, but their full understanding of the potential of digital transformation is still low (though rapid digital adoption was driven by the Covid-19 pandemic). The rate of local (in-house) innovations is still low, though businesses are generally willing to apply innovations. The open innovation concepts and the partnership of mature companies with young and innovative entrepreneurs should be promoted and utilized.

Similarly, data on e-government show that only 21% of Macedonian citizens used the Internet for interaction with public authorities, less than half of the EU average (52%). Government needs to

continue with the digitalization of the public services and the use of ICT for democratization, transparency and accountability. Moreover, digitalization has a great potential of reducing clientelism, bribery and corruption. These, together with the expansion of broadband access and implementation of 5G networks, will lead to increased digitalization of the society which “leaves no one behind”.

Future: Hence, there is a need to move fast and create conditions for greater use of ICT across the government and government services, companies (both e-commerce and e-business) and citizens. Conditions for ICT use have to be created and ensured by the Government, in partnership with IT companies and business organizations. Several countries provide good examples, such as the Nordic and Baltic countries, Singapore and Switzerland. Fully functional e-government should not be only an option, but should quickly become a reality for all citizens.

Digital education is crucial for the creation of the workforce of the future. Coding, entrepreneurship and soft skills education should be introduced in early childhood. Possession of digital skills is another domain where we need to put additional effort, as the Macedonian population still lags behind.

The country’s excellent positioning on the outsourcing map and the reputation of “untapped talent with surprisingly low cost profile” needs to be replaced/upgraded to an “innovation-driven economy” that produces original products and solutions. Such products and solutions should be based on the so-called “disruptive” technologies like cloud, big data, blockchain, AI, IoT, 3D printing, machine learning, robots, drones and the like, and applied first on the domestic or regional and then scaled on the international markets. The National Industry Strategy needs to put a strong emphasis on digitalization, as innovative processes, products and services are crucial for adapting to the future generation of consumers.

As Macedonia2025 strongly believes in the above-said, we hereby offer a tool to track the country's progress towards achieving the basic building blocks and requirements for faster economic growth and prosperity. The country Dashboard presented below offers a simple way to track the progress of the country over time and in comparison with our peers in the main areas discussed in this platform.

Macedonia2025 Country Dashboard						
Measuring the economic growth						
	2017	2018	2019	Δ on Prev. Year/Period	2019 Peer Rank	Target
Key Indicators of Economic Growth						
GDP growth 5 Yr average (in %)	2.9%	2.8%	2.8%	0.0%	19/19	4%, 1st QTL
Unemployment rate - 15-64 years	22.5%	21.0%	17.4%	-3.6 p.p.	16/16	<12%, 3rd QTL
Employment growth (in % from previous year)	2.7%	2.0%	5.4%	3.4 p.p.	2/16	2.5%
Exports growth (in % - current prices)	13.2%	17.1%	9.4%	-7.7 p.p.	3/17	>10%
Credit rating (S&P)	BB-	BB-	BB-	no change	15/18	BBB, 1st QTL
FDI (as % of GDP)	3.4%	5.1%	3.8%	-1.4 p.p.	10/19	>5%, 1st QTL
Growth Enablers						
Education (Pisa Scores)	:	369	400	31	18/19	Top Half
STEM graduates, per 1000 population	7.6	7.7	:	0.1	15/15	10
Skills of Current Workforce (score from 1-100)	:	38.3	39.6	1.3	17/18	45
Investments (as % of GDP)	22.5%	19.8%	21.2%	1.4 p.p.	10/18	Top Half
R&D (as % of GDP)	0.36	0.36	:	no change	16/17	1st QTL
Democratic freedom (score from 1 to 7-not free)*	3.5	3.5	3	0.5	13/19	Top Half
Rule of law (score from 0 to 1-good rule of law)	0.53	0.53	0.54	0.01	8/12	Top Half
Global competitiveness index (Rank)	n/a	84	82	2	17/18	Top Half
Environmental performance index (Rank)	50	68	43	25	14/18	Top Half

Note: There are in total 19 peer ranking countries which are used as an anchor to assess the country progress. They are divided in two subgroups. The first group, the so-called "Aspirational Peers", are the "New EU Member States": Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and Slovakia. The second group of countries are the so-called "Structural Peers", i.e. the Western Balkan countries comprised of Albania, Bosnia and Herzegovina, Kosovo, Montenegro and Serbia. If data are lacking for some country or a specific indicator, then the rank is shown using the group of countries for which data are available (i.e. less than 19 countries).

Annex: About the process and methodology

The Platform for Prosperous Future has been developed using the knowledge and experience gained through past activities of Macedonia2025 over a period of thirteen years. The Platform gathers the lessons learned from top economists, policymakers who are known for great reforms, major consultancy companies (mainly McKinsey), studies from other countries, and certainly, the knowledge and wisdom of our Board of Directors. We have devoted all our Summits, the annual flagship event of Macedonia2025, to mutual learning and sharing best practices among peers. Furthermore, we have interviewed several Prime Ministers from around the world, with a track record of contributing to the economic growth of their respective countries (Singapore, Georgia, and Lebanon). All of the above-mentioned knowledge and experience has helped us create a proposal on key priorities for a strong, long-term growth.