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Final report

**North Macedonia: Report on integration of the EU accession process into the National Development Strategy**

**I. Introduction**

**1.1. Background and setting the stage for the Report**

Preparation of the Report is based on the following four starting points:

* *First;* North Macedonia has decided to prepare a National Development Plan 2021-2041 (NDS 2021-2041) that would guide the economic, social and environmental development of the country over next two decades. The preparation of NDS “*has to be comprehensive, developed through an inclusive and ‘a whole of a society approach’, but also taking into account the current most relevant strategic documents adopted by the Government and the Parliament, the contemporary and innovative models, as well as commitments deriving from the EU accession process and the Agenda 2030 for Sustainable Development*”.
* *Second,* EU has embarked on the *European Green Deal* (EGD) that is a comprehensive and ambitious development strategy aimed at turning the continent into a sustainable, carbon-neutral economy by 2050. Together with the EU’s digital strategy it constitutes the new EU sustainable development strategy that is strongly anchored within the global Agenda 2030.
* *Third,* the new EU strategy for sustainable development has already started to trickle down to the EU candidate countries of the region through at least two channels. One is a new generation of the EU legal acts that have been and will be adopted in order to put the EDG and the digital agenda into motion. The other channel is the integration of the EDG and digitalisation objectives into national documents of the EU candidate countries, such as Economic Reform Programs (ERPs), that the EU candidate countries produce annually as a basis for a policy dialogues on socio-economic issues with the EU institutions.
* And *fourth,* North Macedonia’s strategic objective is to become an EU member state and is expected to start EU accession negotiations under a completely new negotiations framework. This framework has recently changed from the “chapter-by-chapter” approach to the “clusters” approach whereby the overall progress in the negotiations (or lack of it) in meeting the Copenhagen accession criteria will be strongly dependent on the progress the candidate country will make in a following three horizontal areas: (i) democracy and rule of law, (ii) public administration, and (iii) meeting economic criteria.

**1.2. Objective of the Report**

The main objective of the Report as articulated by the ToR is “*to analyse* *how to integrate EU accession criteria into the proposed National Development Strategy and to provide recommendations on this subject*”. The overall methodologic framework for preparation of the Report are the documents prepared by the UNDP project team so far, especially the following two ones: (i) “*Development Plans: A Comparative Review*” (received 7 May), and (ii) “*North Macedonia National Development Strategy 2021-2041: Draft Outline of the Methodological Approach*“ (received 17 May 2021).

**1.3. Key assumption of the Report**

Experiences from countries that joined the EU over the last two decades indicate that the EU accession negotiations influence strongly the overall socio-economic and political development of the candidate country concerned. Implementation of North Macedonia’s NDS 2021-2041, especially within its first decade, will therefore be strongly influenced by the characteristics of the country’s EU accession path in the forthcoming period.

There are two quite different scenarios for North Macedonia with respect to its EU accession over the next decade. One scenario is that the country starts the EU accession negotiations this or at least next year, completes the EU accession process in the next five to six years, and becomes an EU member by around 2030. The other scenario is that this will not happen for whatever reason. The two scenarios may have quite different implications on both, the design and implementation of the NDS 2021-2041

This Report is prepared under the scenario that North Macedonia will enter into the EU accession negotiations within the next year or so. Under this scenario of the EU accession, the 20-years long time horizon of the NDS 2021-2041 will *de-facto* be split into two quite different sub-periods, one before the country becomes an EU member and another one then after. For the sub-period before the EU accession, it can be expected, based on experience of new EU member states, that the country’s development agenda will be strongly guided with the EU accession, and more specifically with the policies aimed at meeting the Copenhagen accession criteria.

**1.4. Inputs for drafting the Report**

The Report has been prepared as a desk report using the following sources of information and documentation: (i) methodological guidance for preparation of North Macedonia’s NDS 2021-2041 provided by the UNDP project team, (ii) the EU sustainable development priorities till 2030 with the focus on the EGD and digitalization, (iii) the 2020 EU Enlargement Methodology for the accession negotiations that provides an institutional framework for the forthcoming EU accession negotiations of North Macedonia, and (iv) North Macedonia’s strategic documents including Economic Reform Program as the country’s main input for the socio-economic dialogue with the EU.

**1.5. Structure of the Report**

In addition to this *Introduction* and *Conclusions and recommendations* at the end of the text, the Report consists of three main chapters. The *second chapter* presents the new development strategy of the EU focused on climate neutrality and digital modernization and discusses how this strategy is and will influence socio-economic development of the EU candidate countries, especially those ones that are in the process of the EU accession negotiations. The *third chapter* focuses on the Copenhagen criteria as formal benchmarks for an EU candidate country to become an EU member, and discusses how meeting of these criteria will be measured and monitored in the forthcoming EU accession negotiations. In contrast to the previous two chapters that present and discuss socio-economic aspects of a candidate country’s accession to the EU, the *fourth chapter* is aimed at identifying how the substance of the Copenhagen economic criteria and the process of meeting it can be integrated into the NDS 2021-2041.

**II. New development strategy of the EU and its influence on socio-**

**economic development of the EU candidate countries**

**2.1. New development strategy of the EU with the focus on climate neutrality and**

**digital modernisation**

When Ms. Ursula von der Leyen became a president of the European Commission in late 2019, she articulated six key political priorities of the Commission for the 5-years long mandate. The priorities, they were endorsed by the EU member states, are as follows: (i) European Green Deal, (ii) Europe fit for the digital age, (iii) Economy that works for people, (iv) Stronger Europe in the world, (v) European way of life, and (vi) European democracy. All the six priorities are strongly anchored within the global framework for shaping sustainable development policies worldwide as articulated within the UN *2030 Agenda for Sustainable Development* and its 17 strategic development goals (SDG).

The following graph illustrates how the 17 SDGs are integrated into the EU policymaking across sectors on internal and external actions.



Source: European Commission

In spring 2020, the EU and the whole world were profoundly affected by the sudden outbreak of the COVID crisis, with the health crisis soon evolving into a multi-faceted crisis. This crisis has impacted the EU’s six priorities and its practical capacity to pursue them over its 5-year term, but the interesting feature is that the EU has not chosen to abandon or significantly change these priorities. It has rather added a *de-facto* seventh priority to its existing portfolio, namely action to contain the coronavirus crisis and promote economic recovery from it.

In fact, the COVID crisis has reconfirmed the importance of the existing six EU priorities. The EU also sees the crisis as offering an opportunity to move further and faster in certain fields. This attitude is clearly visible in the case of the most ambitious of the six priorities, namely the *European Green Deal* (EGD) and the *Europe fit for the digital age* (EDA). On these two priorities, the EU decided to use the momentum of events surrounding the crisis not only to assert the increased relevance of these priorities – suggesting that radical changes in human behaviour are possible and that these are likely to be driven in large measure by digital innovation – but also to operationalise them further through an entirely new EU funding source, the EUR 750 billion recovery fund called *New Generation EU* (NGEU). Defined percentages of the Recovery and Resilience Facility, the key and the largest component of the NGEU, are to be used for investment in initiatives that will advance Europe's move to climate neutrality as a continent by 2050 (at least 37 per cent of the total) and in digital modernisation of various kinds (at least 20 per cent of the total).

In the continuation of this *sub-chapter*, major features the two top priorities of the EU for the forthcoming period, i.e. the EGD and the EDA, are briefly outlined.

The EGD is a comprehensive roadmap aimed to turn the EU into a sustainable, carbon-neutral economy by 2050[[1]](#footnote-1). The roadmap covers practically all sectors and seeks to transform them with a combination of funding measures and regulatory reforms aiming to deliver ambitious climate targets from 2030 to 2050. The key pillars of the EDG are as follows[[2]](#footnote-2):

* The first important pillar of the EGD is *clean energy*. As 75 per cent of EU's greenhouse gas emissions are currently derived from the production and consumption of energy based on fossil fuels, this pillar relates to decarbonizing the EU’s energy system, largely through transitioning power generation to renewable resources.
* In order to promote *industrial sustainability,* the EGD would be aligned with a new industrial strategy to make the EU a world leader in the circular economy and clean technologies, and to decarbonise energy-intensive industries. The regions mostly affected by the low-carbon transition would be supported through a so-called just transition mechanism.
* The next area of focus within the EGD relates to the *construction of buildings* as they are significant consumers of energy and mineral resources. The goal within this pillar is to initiate renovation of public and private buildings to improve their energy efficiency, which also contributes towards reducing energy poverty. The Commission proposes to achieve this by rigorously enforcing legislation relating to the energy performance of buildings.
* Another important pillar of the EGD Deal relates to the transport sector and more specifically to *sustainable* mobility, targeting substantial improvements in energy efficiency, sustainable alternative fuels and propulsion technologies, multimodal transport (including increasing use of rail transport), digitalization of mobility and traffic management, price reductions and more stringent requirements for internal combustion engine vehicles.
* With respect to *ecosystems and biodiversity*, the EGD seeks to revise environmental objectives for biodiversity-rich land and sea areas, increasing cross-border cooperation and restoring damaged areas.
* The EGD also includes targets for making European agriculture the global standard in sustainability. This so-called *»from farm to fork«* pillar addresses production, food waste, food policy and food consumption.

As far as the EDA is concerned, the EU outlined in February 2020 its overarching approach to shaping Europe's digital future, basing it on three key pillars: (i) *technology that works for people*, (ii) *a fair and competitive economy*, and (iii) *an open, democratic and sustainable society*. Simultaneously, the European Commission launched initiatives under the first two pillars[[3]](#footnote-3):

* The first one, a *white paper on artificial intelligence* (AI), presents a framework for the development of AI based on excellence and trust. The European Commission aims to accelerate deployment of AI in partnership with the private and public sectors, starting in research and innovation. This will be achieved by creating the right incentives and mobilising resources along the entire value chain. The aim is also to build trust in AI applications by protecting citizens' safety and rights and securing legal certainty regarding AI innovations.
* The second pillar, a *European data strategy*, aims at creating a single market for data based on the principle of making data available to all. This will be done by: creating a regulatory framework for data governance, access and re-use, supporting the development of technological systems and a cutting-edge infrastructure, improving competences in society and business, and building European data spaces in many crucial areas, such as industrial manufacturing, the EGD, health and energy.

The EGD and the EDA set out a series of policy instruments to reach objectives outlined for each of the two policy priorities. These instruments could be classified into four broad categories.

* *regulatory reforms;* The European Commission will or has already reviewed and proposed new legislative acts aligned with the policy priority objectives. If we take the EDG as an example, in spring 2020, the European Commission adopted an ambitious legislative proposal for a *European climate law* that sets the objective of the EU becoming climate neutral by 2050 and establishes a framework for achieving that objective.
* *policy proposals;* Another category of policy instruments are policy proposals in the form of strategies and action plans aimed at addressing specific challenges. If again the EGD is taken as an example, some of the strategies that will have to be adopted include the following: (i) new industrial strategy, (ii) strategy for green financing, (iii) comprehensive plan to increase the EU emissions reduction target for 2030 towards 55 per cent, (iv) »farm to fork strategy« on sustainable food along the whole value chain, (v) cross-cutting strategy to protect citizens' health from environmental degradation and pollution, (vi) biodiversity Strategy for 2030, and (vii) new circular economy action plan. By now, the Commission has already presented proposals on several of them.
* *member states’ activities;* Taking into account subsidiarity as one of the key EU principles, the European Commission plans to make use of the existing institutional frameworks for coordination of member state actions to ensure that national policies contribute to the EDG’s and EDA’s objectives. One obvious example of this kind are the existing national energy and climate plans that outline how member states plan to address key climate objectives over the 2021-2030 period. Another one is integration of “green” and digital conditioning into the European Semester framework of medium term budget objectives.
* *investment funding;* In order to implement the EGD and EDA objectives massive investments would be required. The *European Green Deal Investment Plan*, an investment component of the EGD, seeks to mobilise at least EUR 1,000 billion of financing for sustainable projects, to create a framework for private and public investors, to facilitate sustainable investments and to support public administrations in structuring and executing sustainable projects over the 2021-2030 decade[[4]](#footnote-4). Around a half of the total amount would come directly from the EU budget, whereas other public and private financial resources would provide the remainder, mainly through a leverage effect based on a EU budget guarantee.

**2.2. Channels through which the new EU development strategy is expected to**

**influence socio-economic development of the EU candidate countries**

As presented in the *sub-chapter 2.1*., the EU has embarked on the EGD that is a comprehensive and ambitious development strategy aimed at turning the continent into a sustainable, carbon-neutral economy by 2050. Together with the digitalization strategy articulated in the EDA, they constitute the new EU sustainable development strategy that is strongly anchored within the global Agenda 2030.

The EGD and the EDA have already started to influence the socio-economic development of the EU candidate countries in the Western Balkans. There are two strategic documents prepared and adopted by the EU that are of particular importance within this context.

The first one, it was developed also as a roadmap of the EU assistance to the region strongly affected by the COVID crisis, is the *Economic and Investment Plan for the Western Balkans* adopted in October 2020. The main objective of the Plan is to support the long-term recovery - backed by a green and digital transition - leading to sustained economic growth, implementation of reforms required to move forward on the EU path, and bringing the Western Balkans closer to the EU single market. The Plan identifies ten investment flagship initiatives in key area of economic reforms, such as sustainable **transport and energy connectivity**, the **green and digital transformation**, strengthening the **competitiveness of the private sector** and support to **health, education** and **social protection**, including a **youth guarantee** to create job opportunities for young people[[5]](#footnote-5).

The *Economic and Investment Plan for the Western Balkans* was accompanied with the G*reen Agenda for the Western Balkans* (GAWB).Based on the approach of the EGD, the document sets outrelevant actions and recommendations, in the following five areas: (i) climate action, including decarbonisation, energy and mobility, (ii) circular economy, addressing in particular waste, recycling, sustainable production and efficient use of resources, (iii) biodiversity, aiming to protect and restore the natural wealth of the region, (iv) fighting pollution of air, water and soil and (v) sustainable food systems and rural areas.

As far as digitalization is concerned, the *Economic and Investment Plan for the Western Balkans* identifies digital transformation as a key enabler for the five GAWB areas that is fully in line with the concept of dual green and digital transition. The Plan argues that the Western Balkans should use the EU’s digital strategy as the guiding principle for a human-centric digital transformation of their economies and societies. This will make them better positioned to integrate into the EU’s higher added-value supply chains and, in the future, join a rapidly evolving EU digital single market. Building on the 2018 *Digital Agenda for the Western Balkans*, this investment plan offers an opportunity to accelerate the digitalisation of governments, public services and businesses, in a manner consistent with the EU’s values and legal framework[[6]](#footnote-6).

When talking about trickling down of the EU’s new development strategy to the EU candidate countries in the region, this process is already under way and will continue primarily through the following two channels:

The first channel is harmonization and implementation of broadened and deepened EU legislation. As presented in the *sub-chapter 2.1.*, implementation of the EDG and EDA objectives will require overwhelming regulatory reforms within the EU. This will be reflected in the introduction of new regulations and directives as the most important forms of the secondary level EU legislation. Consequently, the EU *acquis* covering a wide variety of sectors and topics will be both broadened and deepened as a consequence of green and digital transition. For the EU candidate countries this means that the overall volume of the *acquis* to which the new entrants will have to be harmonized will increase significantly and this will be accompanied with additional *acquis* implementation challenges. It is well known that full implementation of the *acquis* is not only costly but requires implementation of major and often politically sensitive reforms.

The second channel through which the new development strategy of the EU focused on climate neutrality and digital modernization trickles down to the EU candidate countries is a significantly broadened and strengthened framework for a structured policy dialogue on socio-economic policy matters based on the ERPs prepared by the EU candidate countries on an annual basis. The June 2021 European Commission’s guidance provided to the Western Balkans and Turkey for preparation of the ERPs for 2022-2024 clearly confirms this orientation[[7]](#footnote-7). With respect to the green transition, the EU candidate countries are asked to analyse obstacles and challenges that may delay/hamper the green transition, in line with the objectives of the EGD and the *Green Agenda for the Western Balkans*, and to design reforms in these areas[[8]](#footnote-8). As far as the digital transformation is concerned, the Guidance asks the EU candidate countries to analyse the main public policies directly aiming at the digital transformation of one or several areas of the economy in line with the European Commission’s priorities (e.g. digitalisation processes in the public administration, education, healthcare systems, industry and services) and again to design reform measures[[9]](#footnote-9).

When talking about the role of the ERPs within the EU accession process, it should be underlined that they are becoming even more important component of the EU accession than has been the case until now. Under the 2020 Enlargement Methodology meeting the Copenhagen economic criteria has namely become an integral part of the so-called “fundamentals cluster” of the EU accession negotiations and the tempo of the negotiations on this cluster will decisively influence the overall tempo of the EU accession (see details in *chapter III*). As the ERP is by far the most important domestic input for socio-economic dialogue of an EU candidate country with the EU, it will *de-facto* become a key instrument for monitoring the progress an EU candidate country has made on meeting the Copenhagen economic criteria.

**III. Copenhagen accession criteria and their changed interpretation within**

**the EU accession negotiations**

**3.1. Copenhagen criteria as formal criteria for accession to the EU**

Before 1993, there was no formal framework for accession of candidate countries to the EEC and then EU. With the prospective Eastern enlargement of the EU becoming a reality, the EU member states decided to articulate explicit criteria that need to be met for a candidate country to become an EU member. In addition to the large number of prospective candidates, there were two other reasons that justified formalization of the accession criteria. First, the prospective candidates were countries with entirely different political and economic background than the member states. And second, the prospective candidate countries were well below the level of economic development of the member states.

The criteria that must be fulfilled for admission to the EU (known as the Copenhagen criteria as they were established at the Copenhagen European Council in 1933) are as follows: (i) stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities (called political criteria), (ii) a functioning market economy and the ability to cope with competitive pressure and market forces within the EU (called economic criteria), and (iii) ability to take on the obligations of membership, including the capacity to effectively implement the rules, standards and policies that make up the body of EU law, and adherence to the aims of political, economic and monetary union (called acquis criteria). The European Commission has been providing on an annual basis, through so-called Progress Reports, an assessment of a candidate country’s progress with respect to the fulfillment of the criteria.

**3.2. Evolution in interpretation of the EU accession criteria: from softer to more rigorous**

The wording of the Copenhagen criteria has not been changed over time. It has always been the case that the EU candidate countries were required to meet the accession conditions. The difference lies in the substance of this phrase. “Fulfilling necessary conditions” can be interpreted in various ways. During the Eastern enlargement, it was interpreted rather benevolently, due to the strong pro-enlargement political commitment of the member states and the “convoy” type of negotiations. After this enlargement, there was a growing belief that significant challenges that needed to be tackled remained in some new and prospective members in the areas of the rule of law, and activities against organized crime and corruption. The new approach embodied in the 2014 Enlargement Strategy also reiterated the need for more rigorous conditionality and greater emphasis on the EU’s absorption capacity, i.e., its capacity to accept new members, in accession negotiations[[10]](#footnote-10).

During the Eastern enlargement of 2004/2007, the EU accession process was focused on implementation of the acquis criteria and much less on meeting the political and economic criteria. The 2014 Enlargement Strategy articulated a new approach for the EU candidate countries to meet the Copenhagen political and economic criteria. One important novelty of this Strategy was introduction of benchmarks aimed at strengthening the monitoring of the negotiation. Benchmarks were required to be met in order to either open negotiations on a particular chapter (“opening benchmarks”) or to provisionally close the negotiating process on that very chapter (“closing benchmarks”).

The 2014 Enlargement Strategy introduced another fundamental novelty in the EU accession negotiations process. In previous enlargement negotiation chapters addressing the political criteria were opened quite late within the process. As a consequence, they had often been closed prematurely within the context of the political pressure to finalize the negotiation process. Based on the conclusion that meeting the political criteria usually takes a very long time to achieve, the EU decided that reforms of the candidate countries in these areas need to be “front-loaded”. This in practice led to the situation that negotiating chapters addressing the political criteria were *de-facto* given the role of “controller” of the negotiations[[11]](#footnote-11).

Even though the incorporation of the economic governance among the “fundamental first” pillars under the 2014 EU Enlargement Strategy made this area more visible and formally more important within the EU accession process, the subject of economic criteria remained in practical terms a rather stagnant segment of the overall process including the accession negotiations[[12]](#footnote-12). In contrast to the expectations, the Strategy was only partially successful in intensifying the candidate countries’ reforms that were needed to support economic growth and international competiveness.

**3.3. The EU negotiations under the 2020 Enlargement Methodology of the EU: towards**

**even more rigorous interpretation of the Copenhagen economic criteria**

New EU Enlargement Methodology adopted in February 2020[[13]](#footnote-13) *de-facto* represents a guidance for a new generation of the EU accession negotiations. It provides a conceptual framework for the forthcoming EU accession negotiations of North Macedonia and Albania.

The 2020 Enlargement Methodology is based on four principles:

* *more credibility;* For the accession process to restore credibility on both sides, it needs to be based on solid trust, mutual confidence and clear communication.
* *stronger political steer;* While EU accession negotiation have been considered pretty much a technical process in which on the EU side the European Commission plays an important if not even dominant role, in future these negotiations should get s stronger political connotation.
* *a more dynamic process;* The methodology is aimed to make the accession process more dynamic. This means a possibility for faster negotiations of those candidate countries who can and wish to move forward quicker. On the other hand, for those who opt to go slower also the enlargement process will be slowed down.
* *predictability, positive and negative conditionality;* There has been a strong call on the side of the member states as well as the candidate countries for the process to be more predictable and with more clarity on what the EU expects from the candidate countries and consequently what are the positive consequences of the progress achieved or the negative consequences associated with the lack of progress.

The new generation of the EU enlargement negotiations based on the 2020 Enlargement Methodology will be in a number of ways quite different from the EU enlargement negotiations in the past, including the ongoing accession negotiations with Montenegro and Serbia. On the one hand, it is designed in a way that requires much stronger political steer of an acceding country to run the negotiations effectively. On the other hand, the new Enlargement Methodology has further strengthened the negative conditionality upon the acceding countries, and has further intensified the member states’ “hand on” approach to the accession negotiations. As a consequence of all these changes, the EU candidate countries starting the EU accession negotiations under this methodology will have to adjust their institutional structures and procedures for the negotiations accordingly. Let me provide some illustrations[[14]](#footnote-14):

* In contrast to the past, especially during the large Eastern enlargement, the process will be strongly or even decisively political what by itself means that a high commitment at the top political level of an acceding country will be needed to run the negotiations effectively. This commitment should not be just formal with a reflection in the institutional structure for the accession negotiations but should be reflected in actual commitment of top level policy makers for the process. Another aspects supporting the conclusion about increasingly political character of the negotiations is a very broad definition of the fundamentals. The concept does not involve only areas of rule of law, but also public administration reform and economic criteria. For all these areas integrated under the fundamentals cluster, the negotiations will start first and will be closed last, and their overall progress will depend decisively on meeting various benchmarks.
* In contrast to the past when negotiations were based on the “chapter-by-chapter” logic, this generation of the negotiations will be run through the “clusters” logic. Negotiations for a cluster may be opened only when all opening conditions for all the negotiating chapters under this cluster are met. This by itself will put a pressure on the EU candidate country to speed up reforms that will need to be adopted before opening of the cluster. “Fundamentals cluster” includes all those areas that are of crucial importance for meeting the Copenhagen political and economic criteria. The cluster namely includes 5 negotiating chapters ((i) judiciary and fundamental rights, (ii) justice, freedom and security, (iii) public procurement, (iv) statistics, (v) financial control) and 3 horizontal or cross-cutting subjects ((i) economic governance, (ii) public administration reforms, (iii) functioning of democratic institutions). This in practice means that the tempo of overall EU accession negotiations will de-facto depend on the progress (or lack of it) of the negotiations on the “fundamentals cluster”.
* In contrast to the past, especially during the large Eastern enlargement, the process of the EU accession negotiations will have a much stronger and elaborated negative conditionality which may more easy than ever before result in temporary suspension of the negotiations. Further on, in contrast to the past, when in substance terms a majority of the negotiations of the acceding was *de-facto* done with the European Commission (and the member states have in large majority of cases provided their consent), now the member states have a much more “hand on” attitude in the negotiations. This, of course, makes the negotiations much more exposed to political pressures from one or several member states and consequently significantly less predictable.

**IV. The Copenhagen economic criteria under the EU’s 2020 Enlargement**

**Methodology as an input for the NDS 2021-2041[[15]](#footnote-15)**

Similar as national development strategies designed by numerous countries over the last two decades[[16]](#footnote-16) and also similar as both development strategies of the EU in this century – the Lisbon Strategy and the Europe 2020 Strategy – the substance of the Copenhagen economic criteria is anchored in the economic, social and environmental pillars of a sustainable development. In fact, a progress of an EU candidate country on its path towards meeting the Copenhagen economic criteria reflects the country’s efforts to implement its socio-economic development in a sustainable manner and in accordance the new EU sustainable development strategy based on climate neutrality and digital modernization and in line with the global *Agenda 2030.*

The substance and the process of meeting the Copenhagen economic criteria are therefore in conceptual terms consistent with the sustainable development goals orientation of the NDS 2021-2041. This means that a bit more elaborated presentation of what is the substance of the Copenhagen economic criteria that an EU candidate county is asked to meet, and how the criteria is to be achieved within the environment of the new Enlargement Methodology may provide a useful input in the conceptualization of the NDS 2021-2041 currently underway.

**4.1. What is the substance of the Copenhagen economic criteria for accession to the EU?**

The Copenhagen economic criteria stipulate that for admission to the EU, a candidate country must be *a functioning market economy that is able ability to cope with competitive pressure and market forces within the EU*[[17]](#footnote-17)*.* Meeting economic criteria is also a precondition for the EU candidate country to be effectively included into the economic governance of the EU ones it becomes its member.

There is no generally accepted definition of neither economic governance nor economic criteria. For the purpose of the EU accession process, however, economic governance is defined as the system by which government institutions, including independent actors like the central bank, fiscal councils and other independent bodies, regulate and steer the economy[[18]](#footnote-18).

Key areas of economic governance and consequently of meeting economic criteria for accession to the EU include, among others, the following ones[[19]](#footnote-19):

* *Macroeconomic stability* (stylized challenges: (i) strengthening fiscal consolidation by reducing budget deficits and implementing credible public sector reforms, (ii) strengthening public financial management, including revenue administration and collection, budget formulation and execution, accounting and reporting, and external oversight),
* *Welcoming business environment* (stylized challenges: (i) improving the business environment, including the digital economy, (ii) supporting private-sector development, (iii) reducing para-fiscal charges, (iv) simplifying regulation and boosting research investment, and (v) restructuring and improving governance of state-owned enterprises),
* *Functioning labour market* (stylized challenges: (i) establishing functioning labour markets, including sufficient flexibility, (ii) addressing the informal sector, (iii) improving the employability of workers, and i(v) improving the alignment of education and skills with labour market needs),
* *Functioning financial markets* (stylized challenge: addressing the high burden of non-performing loans),
* *Good levels and quality of education* (stylized challenges: (i) improving the employability of workers, and better aligning education and skills with labour market needs),
* *Good level of infrastructure* (stylized challenges: improving energy and transport networks and increasing connectivity, (ii) supporting the supply of clean, affordable and secure energy, and (iii) unlocking the renewable energy potential and reducing the environmental and health impact of the energy and transport sectors),
* *Research, development and innovation*(stylized challenges; (i) improving the capacity of the economy / business to absorb technology and to innovate, (ii) stimulating SMART specialization and business – research interlinkages, (iii) supporting innovation specific support to SMEs, and (iv) strengthening digitalization in line with EU priorities in this area),
* *Economic integration with the EU and the world* (stylized challenges; (i) strengthening policies aiming at integration into global value chains, (ii) improving safety standards, (iii) removing technical barriers to trade, and (iv) addressing reforms deriving from the regional economic integration agenda.
* *Social inclusion including the health sector* (stylized challenges; (i) suppoting the provision of effective, efficient, transparent and adequate social protection throughout all stages of a person’s life, (ii) fostering social inclusion, promoting equal opportunities and addressing inequalities and poverty, particularly in view of the impact of the Covid-19 crisis, and (iii) improving access to quality early childhood education and care, housing, healthcare and long-term care).

Being aware of the new development strategy of the EU focused on the green and digital transformation, it is safe to conclude that they will have a strong fingerprint most of the above mentioned areas of structural reforms to be implemented in the EU candidate countries in the forthcoming period. Indications for this orientation are clearly visible in the European Commission’s *Guidance for the Economic Reform Programmes 2022-2024 for the Western Balkans and Turkey* (see, elaboration on this subject in the *sub-chapter 2.2.*). On the other hand, within the context of the ongoing COVID crisis and its increasingly negative economic consequences, it is realistically to expect that mitigation of the crisis will remain an important economic priority of all the EU candidate countries in the forthcoming period but with new challenges for the countries’ macro-economic stability.

**4.2. How the process of meeting the Copenhagen economic criteria will be organized in**

**the EU accession negotiations governed by the 2020 Enlargement Methodology?**

From a perspective of an EU candidate country, meeting of the Copenhagen economic criteria consists of two components, one is the *acquis* focused and another one is a policy oriented component. The latter one, and this is the one relevant for this Report, goes well beyond the narrowly defined legal approximation with the EU and typically requires strong involvement of the higher levels of economic policy hierarchy.

There is another reason why the Copenhagen economic criteria deserves special attention of an EU candidate country in the forthcoming EU accession negotiations under the new 2020 Enlargement Methodology. In contrast to the 5 negotiating chapters that are included into this “fundamentals’ cluster” (judiciary and fundamental rights; justice; freedom and security; public procurement; statistics and financial control), the economic criteria is together with public administration reforms and functioning of democratic institutions a subject that is of a horizontal or cross-cutting character. This very fact means that the economic criteria is not a subject where the progress could be measured with the *acquis* harmonization and implementation measurement system, but rather with the economic policy performance, with institutional changes implemented and with the design and implementation of structural reforms. By becoming an integral part of the “fundamentals’ cluster”, the Copenhagen economic criteria issues have been systemically put into position where they will need to have a regular attention at the highest political level of policy making in the country.

To adjust to this new EU accession negotiations framework for the Copenhagen economic criteria subject and more broadly for socio-economic development of the country in the forthcoming period, an EU candidate country will need to consider designing a strategic document providing an overall strategic framework on how the country plans to meet its objectives on the economic criteria issues in the forthcoming medium-term period. In addition to this strategic document as a basic pillar for effective EU accession negotiations on the Copenhagen economic criteria subject, there are various supporting ingredients, especially well prepared ERPs, that would strengthen an EU candidate country’s performance on meeting Copenhagen economic criteria and on its approximation towards EU / euro-area economic governance organized with the European semester.

**V. Conclusions and recommendations[[20]](#footnote-20)**

**5.1. Conclusions**

* Experiences from previous rounds of the EU enlargements clearly indicate that the EU accession agenda, both in terms of substance and processes, strongly influences if not determines the socio-economic agenda of the acceding country during the period of its EU accession negotiations. The 2020 Enlargement Methodology of the EU introducing the “clusters” logic with the “fundamentals’ cluster” as its backbone is designed in a way to sharpen this focus even further. North Macedonia’s performance on the Copenhagen economic criteria will therefore be of significantly higher importance for the overall EU accession process than this was the case so far.
* As the overall logic of the Copenhagen economic criteria is anchored in the economic, social and environmental pillars of a sustainable development, the progress of an EU candidate country on its path towards meeting the criteria reflects the country’s efforts to implement its socio-economic development in a sustainable manner and in accordance with the new EU sustainable development strategy based on climate neutrality and digital modernization being in line with the global *Agenda 2030.* The substance and the process of meeting the Copenhagen economic criteria are therefore in conceptual terms consistent with the sustainable development goals orientation of the NDS 2021-2041.

**5.2. Recommendations**

* In circumstances where North Macedonia’s performance on the Copenhagen economic criteria as an integral part of the “fundamentals’ cluster” will be instrumental for setting the overall tempo of the forthcoming EU accession negotiations, the authorities are advised to conceptualize the NDS 2021-2041 objectives and policy instruments for its implementation in full accordance with the country’s path towards meeting this criteria. In case North Macedonia will decide to design a strategic document providing an overall strategic framework on how the country plans to meet its objectives on the Copenhagen economic criteria issues in the forthcoming medium-term period, this document should be fully consistent with the NDS 2021-2041.
* While macro-financial stability, it consists of stable macro-economic framework and well performing financial sector, is of crucial importance for meeting the first part of the Copenhagen economic criteria (a functioning market economy), structural reforms in various segments horizontally based on dual green an digital transformation are instrumental for achieving the second one (the capacity to withstand competitive pressure inside the EU single market). The substance of the Copenhagen economic criteria based on these two pillars may be considered by the authorities as an input for the NDS 2021-2041 conceptualization.
* As the first decade of the NDS 2021-2041 implementation will coincide with North Macedonia’s intensified EU accession path and taking into account that the substance and the process of meeting the Copenhagen economic criteria is conceptual terms consistent with the sustainable development goals orientation of the NDS 2021-204, the authorities are advised to set up an appropriate institutional structure at a high political level that will steer coordination of the NDS 2021-2041 implementation and the EU accession negotiations, especially on the horizontal subjects with the “fundamentals’ cluster”.

1. *The European Green Deal*. European Commission, December 2019. [↑](#footnote-ref-1)
2. Mrak, Mojmir and Rant, Vasja. *European Council's budget and recovery deal in view of ambitious European Green Deal objectives*? Bančni Vestnik, November 2020. [↑](#footnote-ref-2)
3. *Six policy priorities of the von der Leyen Commission: State of play in spring 2021*. European Parliament, April 2021. [↑](#footnote-ref-3)
4. *European Green Deal Investment Plan: Main elements and possible impact of the coronavirus pandemic*. European Parliament, April 2020. [↑](#footnote-ref-4)
5. <https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1819>. [↑](#footnote-ref-5)
6. *An Economic and Investment Plan for the Western Balkans*. European Commission, October 2020. [↑](#footnote-ref-6)
7. *Guidance for the Economic Reform Programmes 2022-2024 for the Western Balkans and Turkey*. European Commission, June 2021. [↑](#footnote-ref-7)
8. The Guidance says that »*reform measures could focus on: (i) decarbonisation and climate change adaptation, (ii) improving circularity of the economy, (iii) reducing environmental pollution and preserving biodiversity and (iv) establishing sustainable financing systems to support investments in these areas. Specific reforms may be developed to gradually:*

   1. *reduce the overall carbon footprint of the economy, in particular by fostering the production and use of renewable energy sources, increasing energy efficiency, developing sustainable energy infrastructure, establishing carbon pricing mechanisms as well as more sustainable transport networks and measures aimed at reducing the environmental and health impact of the transport sector. Reforms promoting the decarbonisation of energy-intensive industries or of other sectors of the economy as well as reforms aiming at climate change adaptation may also be included here.*
   2. *promote circular economy by ensuring a sustainable supply of raw materials and increasing resource productivity; establish innovative and more efficient ways of producing and consuming, introduce circularity in the business models, and improve waste management.*
   3. *monitor and improvement of air and water quality as well as sanitation; combat land degradation, improve sustainable food production and forest management; and preserve natural resources and biodiversity.*

   *establish sustainable financing systems for investments in the above areas, based on the “polluter pays principle*”. [↑](#footnote-ref-8)
9. The Guidance says that “*reform measures in this area can, inter alia, focus on improving the effectiveness of digital services, bridging existing gaps in digital infrastructure, ensuring easy access to digital public services for citizens and businesses or expanding broadband access. Measures should ultimately be aimed at the development of a connected, competitive, knowledge-based, inclusive, sustainable and thriving economy with an increasingly dynamic private sector and a digitally resourceful society*.” [↑](#footnote-ref-9)
10. Miščević, Tanja and Mrak, Mojmir. *The EU accession process: Western Balkans vs EU 10*. Politička misao, No.4, 2017. [↑](#footnote-ref-10)
11. Ibid. [↑](#footnote-ref-11)
12. The other two ”fundamentals first” pillars were (i) early resolution of bilateral disputes, and (ii) public administration reform. [↑](#footnote-ref-12)
13. *Enhancing the accession process - A credible EU perspective for the Western Balkans*. European Commission, February 2020. [↑](#footnote-ref-13)
14. Mrak, Mojmir. *North Macedonia: Support to conceptualization of economic aspects of EU accession negotiations.* UNOPS, December 2020 (internal document). [↑](#footnote-ref-14)
15. The text relies on Mrak, Mojmir. *Economic criteria as an integral part of the »fundamentals’ cluster« in the forthcoming EU accession negotiations: general issues and specifics for North Macedonia.* UNOPS, February 2021 (internal document). [↑](#footnote-ref-15)
16. Admos, O. Chimhowu and Hulme, David and Munro, T. Lauchlan. *The ‘New’ national development planning and global development goals: Processes and partnerships.* World Development (120), 2019. [↑](#footnote-ref-16)
17. While macro-financial stability, it consists of stable macro-economic framework and well performing financial sector, is of crucial importance for meeting the first part of Copenhagen economic criteria *(a functioning market economy),* all other areas of economic governance that can be put under a common denominator of structural reforms are instrumental for achieving the second one *(the capacity to withstand competitive pressure inside the EU single market).* [↑](#footnote-ref-17)
18. [Economic governance | European Neighbourhood Policy And Enlargement Negotiations (europa.eu)](https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/economic-governance_en) [↑](#footnote-ref-18)
19. Prepared based on various documents of the European Commission, especially

    [Economic governance | European Neighbourhood Policy And Enlargement Negotiations (europa.eu)](https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/economic-governance_en)

    * Guidance for the Economic Reform Programmes 2021-2023 of the Western Balkans and Turkey.

    [↑](#footnote-ref-19)
20. As outlined in the I*ntroduction*, the Report including its *Conclusions and recommendations* is written under the assumption that North Macedonia will start the EU accession negotiations in by the end of this year or at latest by the end of 2022 and that the country will become an EU member somewhere around 2030. [↑](#footnote-ref-20)