

EUROPEAN DEVELOPMENT FUNDS IN THE ECONOMY OF NORTH MACEDONIA (2021–2027)

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Abstract: This paper examines the role and impact of European Union funding instruments—IPA III, Horizon Europe, and Erasmus+—on the economic development of North Macedonia. As a small economy with limited domestic investment and structural challenges, North Macedonia relies heavily on external assistance to advance its competitiveness, innovation capacity, infrastructure, and human capital. The study outlines how EU funds support national programs in areas such as education, research and development, transport, energy, and governance reform. Through specific funding mechanisms, the EU facilitates economic modernization, academic-business collaboration, youth mobility, and administrative reform. Despite these benefits, the paper highlights several obstacles, including weak administrative capacity, insufficient co-financing, political instability, and the need for stronger rule of law reforms. The analysis concludes that while EU support is critical to North Macedonia’s development, its effective utilization depends on the country’s ability to improve institutional readiness and long-term strategic planning.

Keywords: *European funding instruments, economic development, business collaboration, investments.*

Field: Social sciences

1. INTRODUCTION

North Macedonia is a small economy with limited domestic investment and high unemployment rates. According to reports, the country ranks below the EU average in competitiveness and innovation [portal.mdt.gov.mk], and GDP per capita (in purchasing power standards) is about 38% of the EU average [portal.mdt.gov.mk]. The EU is the largest donor for development and reforms in North Macedonia through the Instrument for Pre-Accession Assistance (IPA). In the 2021–2027 programming period, IPA III has a budget of €14.162 billion [enlargement.ec.europa.eu], with North Macedonia receiving approximately €265 million for national programs between 2021 and 2023 [enlargement.ec.europa.eu]. This financial package (including an €80 million energy package) is designed to support reforms and investments in key sectors, focusing on competitiveness, innovation, infrastructure, and human capital [cfcd.finance.gov.mk; enlargement.ec.europa.eu]. Additionally, the country has been fully associated with the “Horizon Europe” program since January 2021 [research-and-innovation.ec.europa.eu] and actively participates in “Erasmus+.”

2. INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA III)

IPA III aims to help candidate countries align their policies with EU standards. Official documents highlight one of the specific objectives as strengthening public administration and governance, as well as supporting economic and social development with particular emphasis on youth [cfcd.finance.gov.mk]. For North Macedonia, IPA funds finance several “program measures” in areas such as education quality, digitalization, economic development, transport, and the environment. For example, by early 2024, plans and programs worth over €200 million for 2024–2027 were adopted for infrastructure (road and rail), environment (wastewater, energy), and human capital (education and employment) [neighbourhood-enlargement.ec.europa.eu]. However, the preparation and management of these programs face organizational challenges. According to the EC, the institutional system managing IPA III was aligned with new requirements, but success is undermined by weak administrative capacity and staff instability [neighbourhood-enlargement.ec.europa.eu]. For instance, rapid staff turnover (an average outflow of 10% annually) and the lack of a national policy to retain experts hinder the effectiveness of management structures [neighbourhood-enlargement.ec.europa.eu]. This also affects the efficiency of IPA monitoring and reporting, which, according to audit reports, are often delayed due to weak interinstitutional coordination [neighbourhood-enlargement.ec.europa.eu].

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3. HORIZON EUROPE AND RESEARCH AND INNOVATION

North Macedonia has participated in “Horizon Europe” as an associated partner since 2021 [research-and-innovation.ec.europa.eu]. The program allows local researchers and companies to collaborate on European R&D projects. According to the latest EC report, in 2023, 17 projects from North Macedonia received approximately €3.4 million in funding [neighbourhood-enlargement.ec.europa.eu]. Although participation continues, funding was 30% lower than the previous year, indicating a challenge in maintaining a growth trend. Based on the European Innovation Scoreboard 2024, North Macedonia is ranked as an “emerging innovator” with 45.1% of the EU average score [neighbourhood-enlargement.ec.europa.eu], highlighting room for improvement. A positive initiative is the establishment of an “EIT RIS” center in 2024, promoting innovation projects and connecting academia and the business sector [neighbourhood-enlargement.ec.europa.eu]. The country’s efforts within Horizon Europe are increasing international cooperation in industries such as energy and health [research-and-innovation.ec.europa.eu] and creating conditions for greater competitiveness through technological development.

4. ERASMUS+ AND YOUTH PROGRAMS

Erasmus+ is essential for supporting youth mobility and skill development. According to the 2024 report, organizations from North Macedonia participated (as applicants or partners) in 828 projects under Erasmus+ and the European Solidarity Corps in 2023, with a total approved grant support of €7.05 million [neighbourhood-enlargement.ec.europa.eu]. Historically, from 2014 to 2020, more than 34,500 exchange activities (students, training, youth, sports) were conducted between North Macedonian and European organizations through Erasmus+ [enlargement.ec.europa.eu]. These programs contribute to increased knowledge, access to foreign markets, and higher youth employment. Additionally, the funds support inclusion (e.g., inclusion of the Roma community in educational programs) and cultural projects (Skopje was selected as the European Capital of Culture 2028).

5. IMPACT ON ECONOMIC DEVELOPMENT

European funds have a critical impact on several economic parameters in North Macedonia:

- **Competitiveness:** Financial support helps companies increase capacity and product quality. Support for implementing EU standardization and innovations (via IPA and Horizon) improves the competitiveness of the export sector. According to the EC, funds encourage micro-enterprises to adopt quality standards and circular economy practices [portal.mdt.gov.mk]. Furthermore, IPA finances agricultural programs that enhance integration into the EU common market and create product marketing systems, boosting competitiveness in the agricultural sector.

- **Innovation:** Horizon and IPA funds promote research and link academia with the business sector. For example, the Innovation Fund’s new program receives technical assistance for restructuring, and grants have been introduced to connect universities with industry [neighbourhood-enlargement.ec.europa.eu]. Young researchers participate in European projects, increasing scientific output and technology transfer. However, R&D investments remain low (0.38% of GDP in 2022) [neighbourhood-enlargement.ec.europa.eu], making European funds essential for knowledge and technology transfer.

- **Infrastructure:** EU funds support major infrastructure projects. North Macedonia is building or rehabilitating critical road and rail corridors. For example, over 10 projects are underway on Corridor X (road corridor to Greece) [neighbourhood-enlargement.ec.europa.eu]. The EU’s Western Balkans Investment Plan also finances projects like the express road Kriva Palanka–Stracin (Corridor VIII) and a railway line to Bulgaria [enlargement.ec.europa.eu]. In energy, the country is increasing wind farm capacity in Bogdanci [enlargement.ec.europa.eu], while a central wastewater treatment plant is being built in Skopje. These investments improve connectivity, energy stability, and business conditions nationwide.

- **Youth and Education:** Support for modernizing education improves human capital. Funds enhance pedagogy (e.g., new curricula and digital tools), 820 new educators supported by the EU were involved, and a National Youth Strategy 2023–2027 was adopted. A future driver of economic growth is the European Week of Sport project and the organization of European youth events. Overall, direct support for education (including scholarships) is increasing, and although the national budget still allocates about 3% of GDP to education [neighbourhood-enlargement.ec.europa.eu], joint projects with the EU expand opportunities for youth knowledge and mobility.

- **Administration and Governance:** IPA III significantly funds public administration reforms for better service delivery and transparency. Through “twinning” and technical assistance, state institutions

adopt modern EU practices: from digitalizing data management (national Population Register) to introducing electronic services. Projects to strengthen the judiciary and fight corruption (Chapter 23 of accession negotiations) improve the capacities of courts and anti-corruption bodies with IPA funding. This approach directly influences governance and legal frameworks, which in turn boosts investor and business community confidence.

6. CHALLENGES

North Macedonia still faces several challenges in accessing these funds:

- **Administrative Capacity:** As the EC notes, weak organizational readiness and frequent outflow of trained personnel hinder timely program implementation [neighbourhood-enlargement.ec.europa.eu]. The lack of a long-term strategy for human resource development in public administration (e.g., a plan to retain qualified staff) is a serious handicap. Although training centers were established to align with EU requirements, further improvement in coordination and local-level capacity is needed.

- **Co-financing and Planning:** Unlike EU member states with their own budgetary support, North Macedonia must secure national co-financing when implementing projects (usually 10–15%). Insufficient local funds and budget constraints can delay construction projects. Additionally, the absence of long-term national strategies (e.g., for smart specialization and innovation) sometimes results in missed opportunities for systematic use of European funds.

- **Political Instability:** Frequent changes in government and administrative structures can slow the continuity of reforms and fund utilization. As noted, strong political leadership is needed to increase access to programs [neighbourhood-enlargement.ec.europa.eu].

- **Demand for Reforms:** Programs like IPA require conditions related to the rule of law and anti-corruption efforts. North Macedonia must meet these requirements to secure funding. According to the EC, constant improvements in transparency and fair market conditions are necessary to justify European investments.

7. CONCLUSION

European funds from IPA III, Horizon Europe, and Erasmus+ provide significant impetus to North Macedonia's economic development. They enhance competitiveness through financing modernization and standardization of production, foster innovation through R&D projects and academic-business partnerships, and modernize infrastructure (transport, energy, environment). They also increase opportunities for youth through mobility and education, and strengthen administration through technical and expert support. However, realizing these benefits depends on how successfully North Macedonia overcomes challenges, primarily the lack of adequate administrative capacity and the complexity of procedures. With continued efforts in building administrative skills and strategic planning, the country can maximize the benefits of European funds.

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