



BUILDING UP GOVERNANCE PATHWAYS FOR JUST ENERGY TRANSITION

THE CASE OF NORTH MACEDONIA

Building effective governance structures, anchored in the local realities, is vital to deliver a just energy transition. Identifying and implementing good practices around local stakeholder engagement is an essential precondition for developing place-based policy measures that address the possible impacts of energy transitions on different social groups and across regional territories in a country.

This policy brief examines energy transition policies and the extent to which governance and stakeholder engagement processes can deliver policies and outcomes which are socially and spatially just. The case of the Republic of North Macedonia (RNM) is used as an example to uncover the governance challenges associated with decarbonisation and

the just energy transition. Although the subject is complex and cannot be directly transposed to other places, the experience of the RNM provides lessons relevant to other countries in the Western Balkan (WB) region and beyond with shared just energy transition challenges.

Recommendations aim to support policymakers in making informed decisions for improving energy transition governance structures and stakeholder engagement processes. They also contribute towards highlighting the roles and responsibilities of different stakeholder groups in delivering energy transitions, including public authorities, industry and sectoral experts, businesses, NGOs and civil society groups, and local communities.

Energy Transition in North Macedonia: context

Coal-based dependency is gradually decreasing in the RNM. In fact, the coal-fuelled TPP Osłomej has marked a low point in electricity production, mainly due to the depletion of nearby coal reserves and low efficiency. However, coal fuelled thermal power plants (TPPs) remain the primary energy source. As of today, coal-based lignite still contributes to almost 70% of the domestic electricity production in the RNM – which corresponds to the WB average (except for Albania), whereas 32% of the total energy mix derives from renewables, including 5% from solar, 26% from hydro and to a small degree from wind and bioenergy¹.

Although there is growing recognition of the need to a shift towards a more sustainable energy market, the economic and social costs are a major challenge. Geopolitical turbulence in recent years and the increasingly tough climate policies have led to souring energy prices and volatility in the energy sector. In 2021, the RNM declared a “state of crisis” over energy², and the operations of the Osłomej TPP resumed. More recently, the independent Regulatory Energy Commission warned about the atypically higher electricity prices in Southeast Europe³. On this basis, authorities in the RNM requested the European Energy Community to evaluate the imbalances of energy prices across countries. Prior to this, some EU members have reacted to the dysfunctional state of the single European energy market due to the lack of interconnections for power transfer from Central to Southeast markets⁴. This brings to light that WB countries, facing additional challenges such as lacking transition mechanisms and more inefficient energy markets, are at a greater risk and will likely experience higher risk premiums and costs than their EU counterparts.

Nevertheless, in the broader context of decarbonisation, closing carbon-based plants is not a question of **if or when**, but rather **how** it will be implemented. The RNM has outlined

legislative and policy frameworks for fostering renewables and energy efficiency. While these commitments are commendable, there are areas that could benefit from further attention challenged by 1) unclear operational governance structures; 2) insufficient investments; 3) limited stakeholder engagement; 4) gaps in regulatory frameworks; 5) limited social acceptance; and 6) energy security. Therefore, identifying and applying good energy transition governance and stakeholder engagement practices is essential for overcoming these challenges.

Impacts of decommissioning coal power plants

Roughly 1,600 people die prematurely every year due to exposure to air pollution in the RNM⁵, and on a global scale coal combustion is the number one threat to the environment and humans. On this basis alone, the transition to renewables is imminent. However, this requires painful trade-offs between economic, social and ethical objectives. The TPP represents an important pillar of the national and local economies and are a significant employer in the Pelagonia and Southwest Regions. The two TPPs provide more than five thousand direct and twice as many indirect and induced jobs. TPPs have also substantial indirect effects to local economies around supply chains and services. Diversifying the local economies through investments in renewable energy projects, may provide new job opportunities and reduce the coal reliance, however the displaced labour can only partially be absorbed into the renewables sector and requires significant efforts in reskilling and upskilling. Additionally, it is likely that investments in renewables occur in different regions than the TPP hosts. As a result, substantial job losses are to be expected and possibly a major displacement of residents out of the most affected regions, unless substantial compensatory measures are put in place.

¹ Annual Report of the Energy and Water Services Regulatory Commission of the Republic of North Macedonia for 2023

² <https://balkaninsight.com/2021/11/10/north-macedonia-declares-state-of-crisis-over-energy/>

³ See more: <https://press24.mk/netipichno-visoki-ceni-na-elektrichnata-energija-rke-so-predupreduvanje-do-evropskata-energetska>

⁴ <https://www.reuters.com/business/energy/greece-work-with-romania-bulgaria-fight-surg-ing-power-prices-minister-says-2024-09-09/>

⁵ <https://energy.economictimes.indiatimes.com/news/coal/north-macedonia-considers-coal-phase-out-between-2025-2040/74296320>

Existing Energy Governance Structures

Governing the just green transition demands a collaborative effort between several government entities and various stakeholders from the civil society and the private sector. The national government sets the overarching regulatory framework and policies, including emissions targets and mechanisms for incentivising renewable energy production and sustainable practices across sectors. This requires coordinated efforts and negotiation across ministries and agencies responsible for practical implementation and monitoring.

In 2023, the Ministry of Economy (MoE)⁶ launched the Just Transition Roadmap (JTR) for the RNM, offering pathways for a fair energy transition, focusing on clean energy, private sector development, skills enhancement, and climate action. As illustrated in Figure 1, the JTR

proposes a cross-sectoral institutional structure overseen by the Just Transition Council & Secretariat, represented by various ministries and stakeholders. Below the Just Transition Council & Secretariat are three broader thematic working groups, including 1) reskilling and training, 2) entrepreneurship and R&D, and 3) energy transition. Furthermore, two Regional Fora are to be established in the Pelagonia and Southwest Regions. The Regional Fora includes various local stakeholders to ensure the localisation of national policies and instruments to the specificities and needs of the two most affected regions. TPPs are currently located in the Pelagonia and Southwest Regions, which are planned to stop operations by 2030⁷. However, it is still to be seen how the proposed governance structure will be implemented and how roles and responsibilities will be defined in this decarbonisation process.

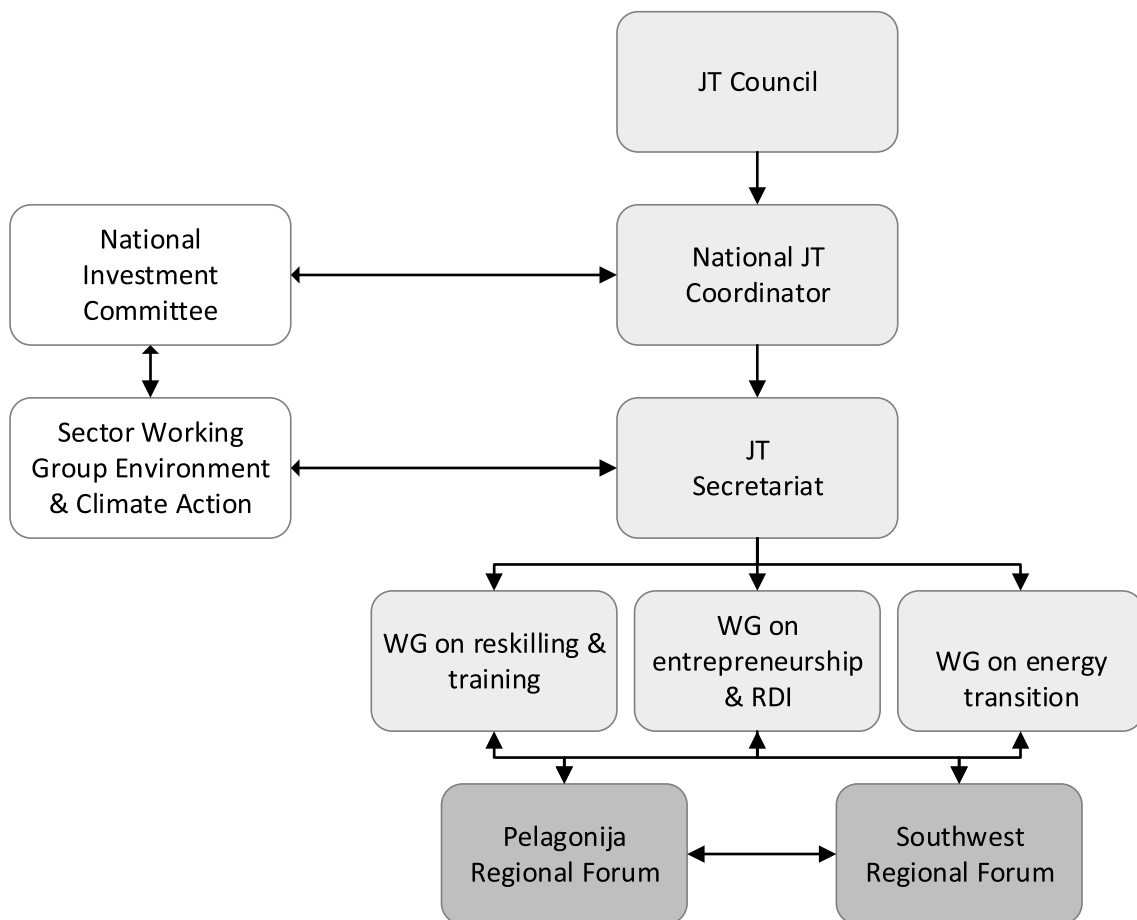


Figure 1: Just green transition governance structure for RNM. Source: Adjusted from Just Transition Roadmap (2023, MoE of RNM)

⁶ Now transformed into a new Ministry of Energy, Mining and Mineral Resources

⁷ National policies planned the closure of TPP Oslomej in 2021 and TPP Bitola after 2027 (NECP), however, the energy crisis postponed these closures to 2027 and 2040, respectively; nevertheless, these tend to be “moving” time goals.

In addition to the JTR, the MoE also launched the Just Energy Transition Investment Platform at COP28 in 2023 to coordinate the far-reaching plans for decarbonisation of the energy sector. The Accelerated Coal Transition investment plan, aims at setting up the direction and be a 'catalyst' for support to the executive in accelerating the retirement of the coal power plants and transition towards renewable energy sources by co-financing the intended plan and investments (for example by CIF, EBRD, etc.)

Furthermore, CSOs have played a crucial role in pushing for the decarbonisation process and stakeholder engagement, particularly through research and activism, exerting pressure

Governance challenges in the energy sector

The status of the RNM as a country in transition has led to a strong reliance on international institutions and funds to achieve a just green transition. The country's efforts to implement EU standards require significant capacity building, knowledge transfer, and funding, which are not always readily available domestically. However, the pressure for a swift harmonisation to EU legislation and standards leads to processes of policy transfer that are ad-hoc, top-down, lacking transparency and participation, and are insensitive to the local context. The lack of spatial anchoring also stems from the conditionalities defined by external donors which influence government's agendas instead of defining priorities based on the domestic capacities and most urgent needs. In addition, the absence of clear and stable governance frameworks leads to fuzzy interactions among different actors and a general confusion about the roles and responsibilities. Moreover, public institutions are overwhelmed by the complexity of the governance structure set in place requiring coordination across a wide range of government agencies and ministries which is leading to a paralysis in implementation.

Insufficient resources represent another key challenge for implementation of the highly ambitious policy goals. The latest Country Climate and Development Report for the RNM estimates that the costs for climate adaptation investments over the next decade are to amount

on national and local governments. These organisations engage in dialogue with local authorities, exchange knowledge, and facilitate the work of the Regional Fora within the overall just transition structure. CSOs substantial contribution is largely possible via the funding they receive from financial institutions, such as the EU, EBRD, and CIF. Although CSOs have a significant role in the process, the focus of CSOs' activities are generally client or funding-based, meaning that they are incentivised to push forward agendas which do not necessarily reflect local concerns and voices. This can reduce CSOs potential to influence the development of place-based and bottom-up policies that meet citizen needs.

to \$6.4 billion⁸. However, the ineffective allocation of existing resources and limited absorption capacity of resources are even greater challenges. Inadequate resource utilisation stems mostly from the technical capacity gaps within the public institutions, especially at a subnational level. This hampers not only the possibility to address sustainability challenges, but also the ability of local actors – public and private - to capture the opportunities that emerge for social and economic development.

Although the governance framework developed within the JTR is well structured, it is currently perceived as lacking the necessary technical back-up and financial support for its operationalisation. So far, the engagement of local authorities the design phase of the governance structure has been limited. Municipalities recognise that they lack the tools and power to influence policy design, as well as for strategic planning and implementation. Yet, municipalities should play a central role in mobilising efforts to generate the necessary diversification of the local economic structure and coordinate infrastructure developments. Therefore, local actors fear the worst-case scenario: a major aggravation to the local economies and employment and acceleration of emigration. Moreover, weak stakeholder engagement generates mistrust in policy and uncertainty around the proposed societal transformations, which can potentially

⁸ World Bank 2024 Country Climate Development Report, North Macedonia

lead to opposition or rejection to government's programmes.

In all this, the future of the TPP Oslomej operating in the Kichevo region and its potential transformation remain uncertain, with limited clarity surrounding the implementation of partial

energy substitution through renewable energy sources, such as photovoltaic investments. The lack of transparency in this regard is a significant concern, particularly for the long-term resilience of the local economies and labour markets what opportunities would be created to replace obsolete industries.



Lessons and recommendations

The RNM has made a significant progress in developing its policy and strategic framework for JGT, including a well-defined governance structure. The thematic working groups and Regional Fora set the foundations for better connecting national level policy with regional needs to achieve a place-based just transition. This will, however, require the allocation of financial and technical resources, as well as the design of transparent and smooth processes for co-developing policy measures. A place-based approach can help deliver more effective just transitions by tapping on the potential of local communities to shape their own transformation via the existing knowledge, networks and practices established overtime (Barca, 2009). Anchoring global goals to the local contexts can better reduce social exclusion otherwise generated by external interventions and one-size-fits-all policies. To achieve an effective place-based approach to energy transitions, we propose the following recommendations:

- **Develop a place-based approach to transitions based on spatial justice principles:** Spatial justice requires a fair and equitable distribution of socially valued resources and opportunities across all regions and geographies. Yet, place-based approaches are not merely about fiscal decentralisation but about sharing responsibility for policy design and implementation across different levels of governance (national, regional and local levels). This requires, first to establish dialogue between national and local authorities to generate understanding on both parties of the overarching goals, on the one hand, and of the place specific contexts and needs, on the other. Secondly, this needs to be followed up with developing the capacities and providing the mechanisms necessary for local authorities and actors to drive processes of policy design and coordinate actions for regional development. Ultimately grounding transition strategies in place-based contexts builds trust and ownership over the measures collectively designed.
- **Strengthen multi-level policy collaboration by ensuring local level representation in the Just Transition Council:** This would help ensure that national transition plans adequately address regional challenges and opportunities.
- **Include regional level experts in just transition Working Groups:** including 1) sectoral representatives who understand the technical elements of transitions and building new renewable energy infrastructures; 2) entrepreneurs, businesses and universities that possess ideas on how to diversify regional economies, and 3) trade unions and civil society groups who can elaborate on the potential socio-economic impacts of transitions for workers and citizens.
- **Strengthen coordination and collaboration among local level stakeholders through the Regional Fora:** Successful transition policy implementation requires collaboration and communication among different regional stakeholders. The Regional Fora can act as a platform for bringing key regional

stakeholders together in an open dialogue to address different interests and reach consensus. Building a critical mass of regional stakeholder support around a shared plan can help put pressure on national level actors.

- **Proactively engage local stakeholders and citizens in the work of the Regional Fora:** This is critical to ensure that transition policies reflect the needs and aspirations of local people. Without it, policies may fail to achieve their intended outcomes and may be perceived as unjust. Proactively involving citizens in genuine dialogue around the work of the Regional Fora can help enhance public support and acceptance for policies.
- **Work with statistics experts and CSOs to improve energy transition monitoring and evaluation:** Monitoring and evaluation are essential tools for determining whether policies are achieving their desired results and inform about necessary adjustments. Effective monitoring and evaluation schemes need close interaction between national and local experts to develop measurable evaluation indicators. CSOs are also instrumental in providing oversight, ensuring that environmental and social considerations are considered.
- **Make effective use of regional level CSOs for disseminating and communicating the work of the Just Transition Council to citizens:** Regional CSOs play a vital role in bridging the gap between governments and communities by raising public awareness and understanding of energy transition, in addition to providing

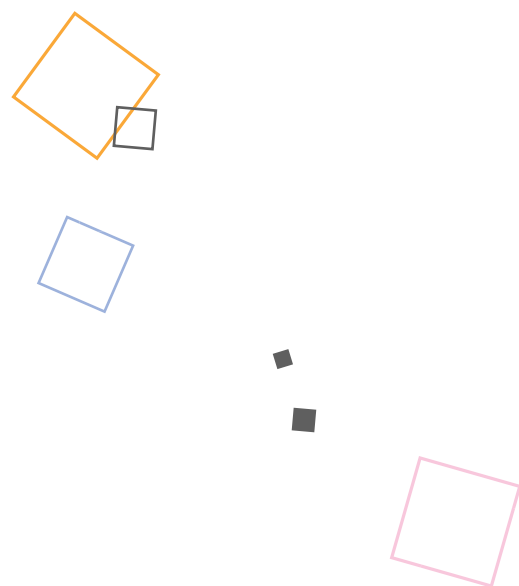
technical expertise and support to local authorities, workers, and citizens.

- **Work with regional research institutions to ensure that transition policies are grounded in the latest local data and evidence:** Policymakers should collaborate with research institutions who possess important knowledge on the socio-economic and environmental impacts of energy transitions. This ensures that policies are built on local knowledge and evidence rather than narrow economic or sectoral interests. Universities can also play a role in facilitating stakeholder and citizen involvement through their knowledge of citizen engagement techniques.
- **Support the emerging opportunities:** create the conditions to support economic diversification tapping on the opportunities stemming from the green transition. Regulations are creating the market for new industries. Building positive narratives can help attract investments and generate the conditions to encourage entrepreneurship.
- **Accelerate the deployment of renewable energy:** by eliminating regulatory obstacles to encourage public-private partnerships (PPPs) and household investments in renewables, such as 'energy cooperatives'. However, it is crucial that these initiatives maintain the environmental integrity and protect the agricultural land, ensuring a sustainable balance between renewable energy incentives and environmental sustainability.

ABOUT THIS POLICY BRIEF

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