

# GOVERNMENT MINERAL CONCESSION POLICIES. THE CASE OF NORTH MACEDONIA

R. OSMANI<sup>1</sup>

H. ALILI<sup>2</sup>

**Abstract:** *The main purpose of this study is to analyse the concessionary mineral resource policies of the Ministry of Economy according to the planning regions in the North Macedonia. Concession-winning companies accomplish their development plans, contribute to the economic development of the municipality and of the region where the concession is approved. These government public policies have positive fiscal effects on the budgets of the municipalities and of the ministry of the economy. The findings of the paper argue that mineral concession policies do not contribute to the reduction of developmental disparities between regions in North Macedonia. The authors intend to contribute to the elimination of this shortcoming through the diversification of the criteria in the concession process, the stimulation of small and medium-sized companies, granting government subsidies based on planning regions. The paper has its shortcomings related to the different organization at municipal and regional level compared to the Western Balkan countries, which makes it impossible to make a relevant comparison between the situation in North Macedonia and the Western Balkan countries.*

**Keywords:** *Mineral resources, concession criteria, regions, N. Macedonia*

## 1. Introduction

The main objective of the research is to analyze the concession policies of mineral resources in the period 2008-2017 according to the economic development, the increase in fiscal revenues and the reduction of the regional disparities in North Macedonia.

The concession policy as part of the economic policy for the exploitation of natural resources and mineral resources is particularly important for the economic development in some regions. The public opinion and in particular businesses and professional circles are partially informed about this economic activity.

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<sup>1</sup> South East European University, North Macedonia, [rufi.osmani@seeu.edu.mk](mailto:rufi.osmani@seeu.edu.mk).

<sup>2</sup> South East European University, North Macedonia, [hh21778@seeu.edu.mk](mailto:hh21778@seeu.edu.mk).

This lack of information addresses especially the criteria that companies need to meet to compete and obtain certain concessions. The analysis of mineral concession policies is of particular concern because the exploitation of minerals affects the ecological environment, the promotion and development of geological explorations in order to ensure the productive use in accordance with the principles of sustainable economic development and environmental protection where the concession is accomplished (IMF–FDI, 2015).

The concession represents the division of the right to use goods of general interest in North Macedonia, while the primary purpose of the Law on Mineral Resources (Mineral law RM-189/2016) is to regulate the way of geological exploitation of mineral resources, encouraging and promoting them to ensure optimum use of mineral resources in harmony with the principles of sustainable development, environmental protection and human health. The procedure of granting concessions for future geological research, detailed geological research and mineral resource exploitation is carried out by the Ministry of Economy the mineral resource department, the responsible government institution for carrying out works in the field of mineral resources (SV.RM 168/2016

## **2. Research Methodology**

Through the comparative analysis of the allocation of mineral concessions by planning regions in North Macedonia, we will try to give an answer to the basic research objective: how the mineral concession policies of the ministry of economy influence the reduction of disparities between regions and municipalities.

The comparative analysis of the value of mineral concessions between North Macedonia and Albania and Kosovo as two neighbouring countries of Western Balkan aims to give the comparative component to the research.

The primary data for this paper were taken from the Ministry of Economy of North Macedonia for 2008-2017 period and these data were processed using statistical methods through tables and graphs by analyzing the criteria of concessions based on cities, regions and country level. The secondary data were provided through interviews, analyses and publications from national and local experts in this field. The analysis covers eight planning regions of the RNM: Vardar Region, Eastern Region, Southwest Region, Southeast Region, Pelagonija Region, Polog Region, Northeast Region and the Skopje Region.

## **3. Establishment of eight planning regions in North Macedonia**

In order to advance the process of local development and the reduction of regional disparities in 2007 in North Macedonia, a law on equal regional development was adopted. The adoption of the law took into consideration the main findings and recommendations published in the publication of Friedrich Ebert "Regional Development in FYROM".

According to the law on equal regional development in North Macedonia, 8 planning regions were constituted.

In accordance with article 3 of the law on equal regional development, the following main objectives were defined (Osmani, 2017): The balanced and sustainable development throughout North Macedonia based on the model of polycentric development: reduction of disparities between and within planning regions and improving the quality of life of all citizens. The establishment of eight planning regions is based on the combination of the territorial division of municipalities under the Constitution of Macedonia of 1974 (34 municipalities) and the territorial division of 2007 (87 municipalities).

Table 1

*Some relevant information by the regions of North Macedonia (2017)*

Regions	Inhabitants	House-holds	Active Population	No. unemployment	No. of employed people
Vardar R.	152,410	61,367	75,971	24,992	60,677
East R.	175,939	72,248	85,411	18,899	74,424
Southwest R.	219,702	84,627	98,107	55,412	68,130
Southeast R.	173,476	59,499	95,504	16,903	84,094
Pelagonija R.	229,491	93,976	120,855	30,400	101,085
Polog R.	321,199	78,544	130,511	76,461	92,544
Northeast R.	176,214	59,488	75,557	50,798	48,522
Skopje R.	626,071	188,394	272,249	111,172	210,980
N. Macedonia	2,074,502	559,194	954,165	385,039	740,456

Source: *own calculations*

The information presented in Table no. 1 reflects the asymmetrical situation of the planning regions, a fact that has a direct impact on the economic and fiscal potential of municipalities and regions. The asymmetrical situation of municipalities and regions in North Macedonia justifies the adoption of the law on balanced regional development, the law which, in the analysed (2007-2016) period, was partially implemented in particular in the allocation of public capital investment as a prerequisite for stimulating economic development and reducing the regional disparities.

Table 2

*Number of active business entities by regions (2017)*

Years	North Macedonia	Vardar R.	East R.	Southwest R.	Southeast R.	Pelagonia R.	Polog R.	Northeast R.	Skopje R.
2015	71,419	5,383	5,615	7,238	5,970	8,064	8,118	4,084	26,947
Total	100%	7.5%	7.8%	10.2%	8.3%	11.3%	11.4%	5.8%	37.7%

(*Author's own calculation*)

From the total number of active companies (71,419) in North Macedonia, 37,7% operate in the Skopje Region (, which means that in terms of economic development, investment, employment, collection of taxes this region collects more than 60% of the

financial and investment funds. Also, the majority of large and medium companies operate in the region of Skopje, as capital of the country.

The Skopje region includes 25% of the population and creates over 60% of GDP from the economic activity, while all other regions create only 35-40% of GDP. Other municipalities and planning regions in the economic development, investment, employment and the collection of taxes have similar participation at country level, as well as for other financial and fiscal indicators (Osmani, 2017).

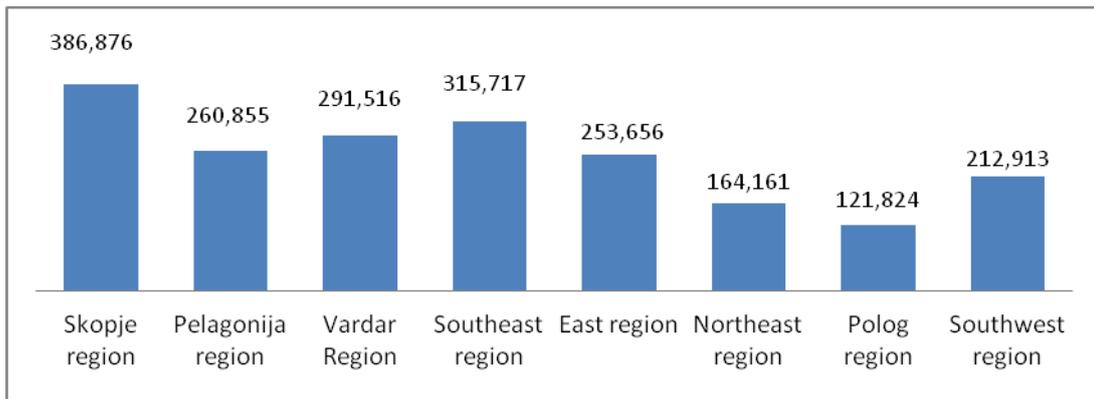


Fig.1. *Gross domestic product per capita based on regions 2017*

(Author's own calculation)

Large differences in economic development between regions in North Macedonia are reflected entirely through the GDP per capita indicator. Graph no.1 argues that the Skopje region exhibits the highest level of GDP per capita in the country despite the lowest level in the Polog region. The other regions are far below the Skopje region and far above the Polog region. This asymmetrical economic development situation between the regions is the result of discriminatory economic policies from the past and of the consequent failure to implement the law on equal regional development successfully.

#### 4. Legal Regulations and Criteria for Selection of Mineral Concessionaires

Concessions of mineral resources are important for the economic development of the country and its regions. The main purpose of the Law on Mineral Resources is to regulate the way of geological exploitation of mineral resources, promoting optimum utilization of mineral resources in harmony with the principles of sustainable development, environmental protection and human health.

The procedure for granting concessions for geological exploration and the exploitation of mineral resources is carried out by the Ministry of Economy (Official Gazette of the RNM, No.189/2016). The concession for geological research is provided on the basis of a public auction. The auction excludes public companies from the competition, while concessionaires are selected based on the criteria defined in the Law on Concessions and Private-Public Equity (Official Gazette RM-No.120 / 2018). Companies during the completion of the tender documentation should argue (OG.RM-No.120/2018):

- The purpose of exploitation of mineral resource concessions,
- The location where the concession is located and the reasons for obtaining such a concession,
- The necessary financial means for the implementation of a concession plan,
- Positive financial reports in the last 5 years of economic activity,
- Company residency, number of employees and business objectives,
- If it has acquired such a concession, as it has managed to fulfil all its obligations,
- The level of taxes and contributions paid to the state, municipality and social funds,
- The level of assets and debts of the company,
- Payment of 0.25% of the estimated value specified in the tender documentation.

The only criterion for the final selection of the most favourable bid of the concessionaire is the highest offered financial compensation, but not less than the initial price determined by the public bidding for the location designated for the bidders on the basis of the tender documentation (Public Offer for Mineral Resources for 2018 (Ministry of Economy, September 2018)).

##### **5. Fiscal Revenues from Mineral Concessions in some of the Western Balkan Countries**

In order to compare the data of the research, the criteria of concession and fiscal revenues from minerals in Albania, Kosovo and Macedonia have been analysed.

The Republic of Albania is a rich country with various mineral resources. The procedure for granting mining concessions is provided by the National Licensing Center, according to the public bidding procedure, for the published areas, according to the action plan and annual mining plan and / or reviewing the fulfilment of permit conditions for the allowed spaces.

The mining sector includes an increasing number of medium and small companies and only a few large industrial companies. The total number of mining licenses is 640, out of which 40 are foreign-owned companies. The total area licensed in the mining sector is 75.40 km<sup>2</sup>. The main foreign companies in the mining industry are mainly from Turkey, Canada, China and Italy (Albanian Mineral Resources Agency in AAR 2017 (<http://www.akbn.gov.al>)).

The mining sector in Kosovo plays an important role in the country's economic development.

Companies that intend to conduct research activities in Kosovo (see Mineral law RK 03-1 / 163, 2010) must submit a complete application to the Mining Commission for granting a research grant to the respective group within the specified area. Such a request shall be made in the form described together, with the payment of the agreed fee.

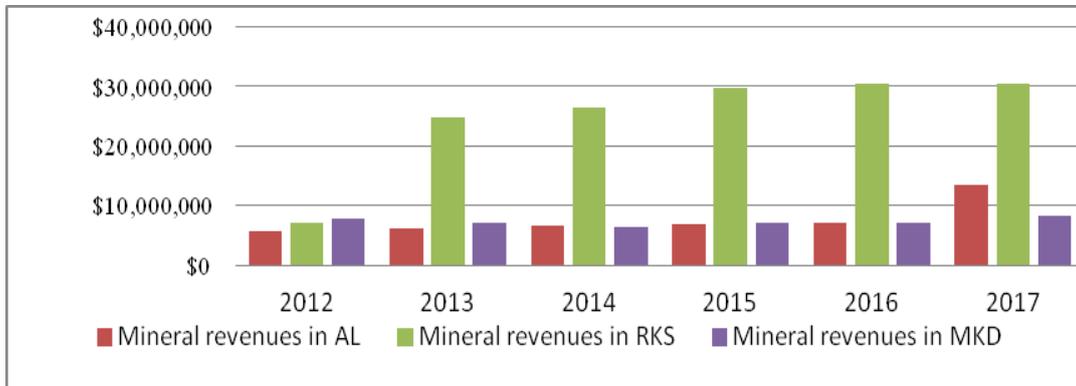


Fig.2. *Mineral revenues in some countries of Western Balkan (2012-2017)*  
(Author's own calculation)

The comparative analysis presented in Figure 2 reflects the asymmetric trends between the analysed countries in the field of mineral exploitation. Fiscal revenues from mineral concessions in Kosovo increased steadily in 2017 to reach the absolute level of EUR 31.5 million or 5% of GDP.

In the Republic of Albania, fiscal revenues from mineral concessions amount to €13.5 million or only 0.1% of GDP, while in North Macedonia, the revenues from mineral resources are 8.3 million Euros or 0.8% of GDP. An asymmetry of this nature among the different countries is the result of many factors that are not the object of this study. High revenues from Kosovo's mineral concessions are a consequence of the high resources of coal and other minerals that are linked to Trepca's minerals, as one of Europe's richest mines.

## 6. Analysis of the Mineral Concession Process in North Macedonia

The mining sector is the basis for the development of mineral processing industries in a certain country. North Macedonia compared to its geographic size has a considerable reserve of mineral resources and it is important to develop this sector to ensure a dynamic economic development. The mining and quarrying sector participated with 8.31% in the country's industrial production in 2017 (Statistical Office - RMV, Bulletin 2018).

The increasing importance of businesses for the mineral resource sector in the analysed period of 2008-2017 is due to the duplication of companies that have been part of the concession process, the increase of the surface for exploitation by 20%, and in particular the increase of the ore minerals exploited for 3.5 times (350%), as represented in Table no.3.

Table 3

*Data on concessions of mineral resources in North Macedonia 2008-2017*

Years	No. of companies	Exploitation of area/m <sup>2</sup>	Exploitation / tone	The value of exploitation of area/m <sup>2</sup>	The value of exploitation/ tone	Total Value (denar)
2008	104	312	54,251,047	33,444,084	169,289,107	202,733,191
2009	144	306	78,329,431	33,868,296	172,283,920	206,152,216
2010	164	476	79,853,620	30,332,258	332,151,316	365,574,200
2011	176	272	88,206,130	34,694,030	456,891,064	487,320,366
2012	182	279	93,439,997	35,900,877	439,759,446	475,660,323
2013	164	311	107,362,435	40,837,592	396,097,435	436,935,027
2014	180	310	97,781,386	41,565,527	354,625,375	396,190,902
2015	173	374	195,303,412	49,116,152	387,730,960	436,847,112
2016	189	392	187,012,711	56,831,359	381,948,864	438,780,223
2017	201	377	241,497,877	52,501,315	461,509,181	514,010,496

*(Author's own calculation)*

Table 4 presents the trend as the absolute value in denars of minerals exploited in the analysed period (2008-2017). While in 2008 the total value of minerals exploited was 202,733,191 denars, in 2017 this value amounted to 514,010,496 denars or a relative increase of 167%.

Table 4

*Revenues of mineral concessions in the state and municipal budget 2008-2017*

Year	Value for exploitation of the area	Total annual exploitation m <sup>3</sup> /ton	Total Value	Revenues on Ministry of Economy 22%	Revenues on municipality budget 78%
<b>2008</b>	33,444,084	169,289,107	202,733,191	44,601,302	158,131,888
<b>2009</b>	33,868,296	172,283,920	206,152,216	45,353,487	160,798,728
<b>2010</b>	30,332,258	332,151,315	365,574,199	80,426,323	285,147,875
<b>2011</b>	34,694,030	456,891,064	487,320,365	107,210,480	380,109,885
<b>2012</b>	35,900,877	439,759,446	475,660,323	104,645,271	371,015,051
<b>2013</b>	40,837,592	396,097,435	436,935,027	96,125,705	340,809,321
<b>2014</b>	41,565,527	354,625,375	396,190,902	87,161,998	309,028,903
<b>2015</b>	49,116,152	387,730,960	436,847,112	96,106,364	340,740,747
<b>2016</b>	56,831,359	381,948,864	438,780,223	96,531,649	342,248,573
<b>2017</b>	52,501,315	461,509,181	514,010,496	113,082,309	400,928,186

*(Author's own calculation)*

The nominal growth of 167% is the result of increasing demand for these minerals in the country and the increase of prices in the internal markets in the country and in the foreign markets for minerals.

### 7. Analysis of the Process of Granting Concessions by Region in North Macedonia

The process of granting concessions has a relevant impact on the economic development at the level of the national economy and it also affects the municipal and regional economic development.

Concessions allowed on the basis of municipalities and regions and winning companies reflect an asymmetrically managed policy from the central government with asymmetric (positive and negative) consequences in the development of municipalities and regions in the country. The structure of concessions of mineral resources by region is:

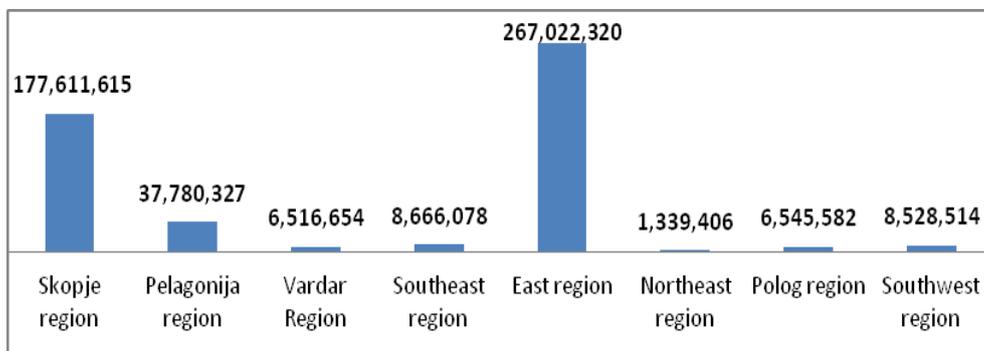


Fig.3. *Approved minerals concessions based on planning regions*  
(Author's own calculation)

Figure 3 reflects two regions where the absolute concession of mineral resources was concentrated: the Eastern Region with 52.3% participation, accompanied by the Skopje Region with 35.2%. The Eastern region is the richest region with mineral resources and, in this region, specialized companies for the exploitation of mineral resources are engaged in economic activity. The Polog Region has the lowest share of only 1.57%. An asymmetric share of this nature has very positive economic and fiscal effects in the Eastern Region and Skopje Regions and negative economic and fiscal consequences in the Polog Region and other planning regions in the country.

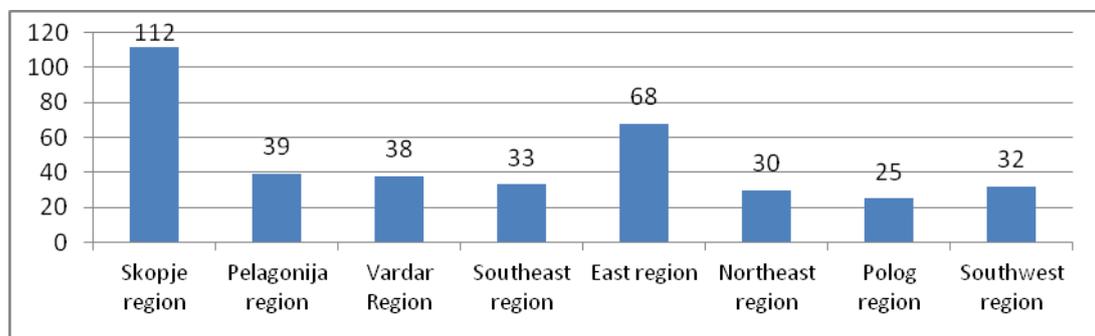


Fig. 4. *The winning concessions entities of mineral resources*  
(Author's own calculation)

Despite the fact that 52% of the concessions as absolute value were given to the Eastern Region, this value of mineral resources was allocated to 68 companies, while, despite the fact that 35% of concessions were allocated to the Region of Skopje as value, this financial value was allocated to 112 companies.

The Pollog region with 1.57% of mineral resources has selected 25 companies for mineral exploitation. This asymmetry of the financial value of concessions and the number of companies by region is the result of many factors and is mainly related to the headquarters of the companies, where the public or private capital investments are realized and where the exploited materials and the companies conduct their business activities.

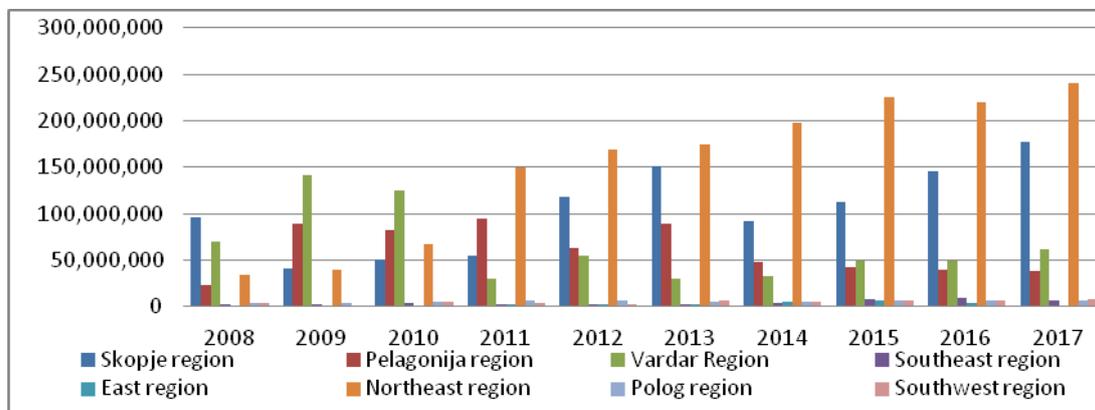


Fig. 5. *Exploitation of mineral resources based on regions 2008-2017*

(Author's own calculation)

Figure 5 reflects the logical flow of the economic and financial flows associated with the previous graph. Thus, according to the regions that have the highest percentage of mineral resource utilization, companies realize higher financial income in their economic activity in the analysed period.

#### **8. Fiscal Revenues from Minerals in Favour of the Budget of the Ministry of Economy and the Budget of Municipalities in North Macedonia**

The financial compensation from the companies obtaining minerals concessions is allocated 78% from the self-government budget where the concessionaire realises economic activity and 22% from the budget of the ministry of the economy.

It is worth mentioning that in 2008 the total value of fiscal revenues increased by 3.3 million Euros, whereas in 2017 the total amount is 8.4 million Euros or a relative increase of 155%. In line with the legal provisions in the budget of the ministry of the economy in 2008, 0.72 million Euros of fiscal revenues were allocated. By the end of 2017, this amount reached the absolute value of 1.85 million Euros fiscal revenue.

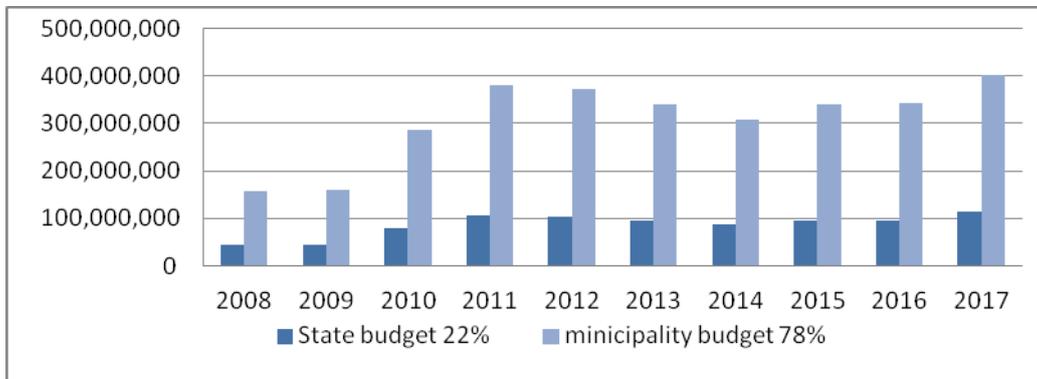


Fig. 6. Revenues of mineral concessions in the state budget and municipality budget (2008-2017)

(Author's own calculation)

The 6.55 million Euros amount of fiscal revenue allocated to municipal budgets in 2017 has in particular positively impacted the fiscal and financial stabilization of municipalities in the Eastern Region and in the Skopje region. In 2017, the Eastern Region collected 52% of the fiscal revenues, while the Skopje Region collected 34% of fiscal revenues; all the other regions in Macedonia collected only 14% of the fiscal revenues.

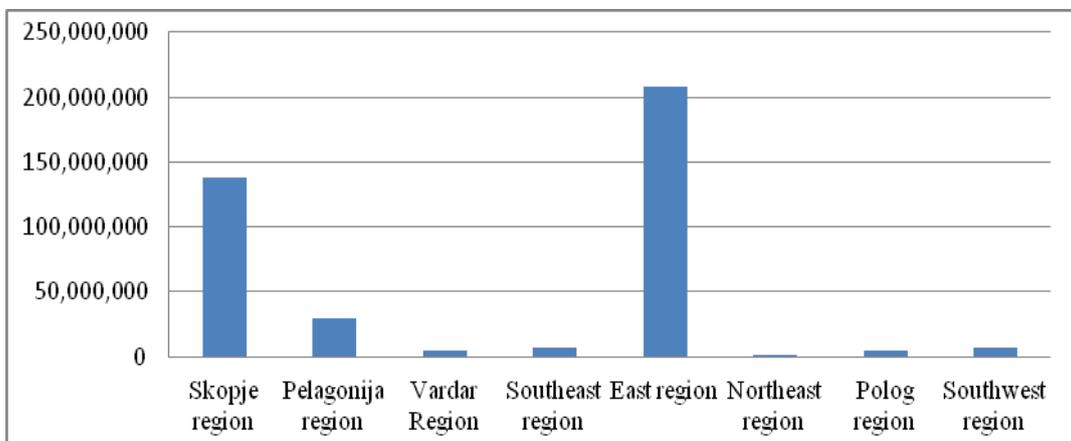


Fig.7. Mineral revenues in the municipal budget based on regions 2017

(Author's own calculation)

The Polog Region is particularly discriminated with 1, 3% of the fiscal revenues from mineral concessions. These additional fiscal revenues from mineral resources are mainly used to improve the local economic development, the local infrastructure where minerals are exploited and in the protection of the environment and ecologically endangered areas.

## 9. Conclusions

- The complex tendering conditions to be met by companies competing for mineral concessions eliminate companies with low and medium economic performance and allow the allocation of concessions to companies with high economic, financial and technological performance;
- As a consequence of the high bid criteria in the period analysed, permanently the same companies are winning because they offer the highest financial price for mineral concession and they have the highest economic and financial performance in all planning regions;
- Analysed from the regional aspect, the majority of mineral concessions are allocated in the Skopje region and the Eastern region, while in other planning regions, the concession licenses are minimal with particular emphasis in the Polog region;
- The creation of a legal framework that would encourage the entry of small and medium-sized companies into the competition process will enable contracting authorities to diversify the competitive base and positively influence the growth of competition, and to reduce economic disparities on regional base;
- In regions that have natural mineral resources and are economically undeveloped, the government and the municipalities should offer grants and subsidies to companies in these regions to create competitive performance with companies that are the permanent winners of mineral resource concessions;
- In accordance with European rules and practices, the new legislation on mineral concessions should enable the quality of supply, the impact on local economic development, the elimination of regional disparities, the reduction of unemployment, the protection of the ecological environment and the highest security measures for employees.

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