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AND

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COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

FOR THE PERIOD FY11-FY14

November 1, 2012

South East Europe Country Unit
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia

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<u>CURRENCY EQUIVALENTS</u> (Exchange Rate Effective October 25, 2012)	<u>GOVERNMENT FISCAL YEAR</u> January 1 to December 31
Currency Unit = MKD (Macedonian Denar) US\$1 = MKD47.5	<u>WEIGHTS AND MEASURES</u> Metric System

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IFC	International Finance Corporation
APL	Adaptable Program Loan	IMF	International Monetary Fund
CCT	Conditional Cash Transfer	IPA	Instrument for Pre-Accession
CEFTA	Central European Free Trade	LFS	Labor Force Survey
CPS	Country Partnership Strategy	LPI	Logistics Performance Index
CPS PR	Country Partnership Strategy Progress Report	NATO	North Atlantic Treaty Organization
DPL	Development Policy Loan	NGO	Non-Governmental Organization
DUI	Democratic Union for Integration	PBG	Policy Based Guarantee
EC	European Commission	PER	Public Expenditure Review
ECA	Europe and Central Asia Region	PIC	Public Information Center
ECSEE	Energy Community of South	PPP	Public Private Partnership
ESIA	Environmental and Social	PSIA	Poverty and Social Impact
EU	European Union	REPARIS	Road to Europe Program for Accounting Reform and
FDI	Foreign Direct Investment	ROSC	Report on the Observance of Standards and Codes
FY	Fiscal Year	SEE	South East Europe
FYR	Former Yugoslav Republic	SEEC CRIF	South East Europe Catastrophe Risk Insurance Risk Insurance Facility
GDP	Gross Domestic Product		
HBS	Household Budget Survey	SPIL	Social Protection Investment Loan
IBRD	International Bank for Reconstruction and Development	TA	Technical Assistance
IDF	Institutional Development Fund	VAT	Value Added Tax
		WBI	World Bank Institute

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COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FYR MACEDONIA

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I. Introduction

1. **This Progress Report assesses the implementation of the FY11-FY14 joint Bank-IFC Country Partnership Strategy (CPS) for FYR Macedonia.** The CPS focuses on three pillars: (i) faster growth by improving competitiveness; (ii) more inclusive growth by strengthening employability and social protection, and continued improvement of social programs; and (iii) more sustainable resource use and an analysis of options for “greener” economic growth. The CPS envisaged commitments of approximately US\$104 million for the first two years, and a similar amount during FY13 and FY14, depending on the IBRD's lending capacity and demand by other borrowers as well as Government demand and performance in the course of the CPS period.

2. **The CPS was prepared in the wake of the global economic crisis and at the onset of deepening Eurozone instability.** The strategy was developed to be flexible, and the subsequent support reflects this agility. The planned US\$35 million Development Policy Loan (DPL) was converted into a Euro100 million Policy Based Guarantee (PBG) in FY12. The PBG, which was envisioned to help the Government access international capital markets on better terms, leveraged a total of Euro 130 million from lenders. This financing was critical in helping cover financing needs during difficult times. Moreover, the Bank in late 2011 increased available financing to FYR Macedonia explicitly to respond to the crisis, including US\$50 million in FY12 to build on a successful municipal development project to support small infrastructure projects and preserve jobs, to provide a Public Expenditure PBG of US\$200 million, and to double the amount of the planned second competitiveness DPL to US\$50 million.

3. **Modifications proposed to the CPS respond to the changed environment.** The pillars of the strategy remain valid for the remainder of the CPS period. The Bank will continue to be selective given its limited resources and will remain flexible to adjust to changing economic and political realities. Policy based lending, topped up with crisis response financing, will aim to improve the efficiency of public sector spending and strengthen the country's competitiveness. A selective program of sector investment lending will focus on sectors with maximum possible impact – energy infrastructure and skills – and it will continue addressing the client's knowledge and capacity building needs.

4. **The Government has achieved significant progress toward realizing CPS milestones and outcomes.** Ongoing investment projects are meeting their development objectives. A strong knowledge program supported by IBRD, IFC and WBI has been an important part of the Bank's partnership strategy, both in addressing the economic crisis, as well as supporting sector level reform programs. IFC's program complemented IBRD's efforts in private sector development. Details of progress to date and updated performance indicators are reflected in the Results Matrix (see Annex 1).

5. **FYR Macedonia now benefits from considerable external support from the European Union (EU).** The EU is the largest donor with an annual envelope of over Euro 100 million in grants. However, as in other accession countries, absorption of EU funds is slow. To date, of some Euro 619 million made available through the 2007-2013 Instrument for Pre-Accession (IPA), FYR Macedonia has contracted only Euro 140 million. Assisting the accession process remains the overarching objective of the CPS, and virtually all World Bank financed operations have been designed to help with the EU membership.

6. **The risks identified in the CPS are still valid.** Continued Eurozone and regional volatility, high unemployment, stagnant poverty, and slow EU accession continue to be the key risk factors. Moreover, slow growth and tepid job creation may further provoke social tensions, and undermine Government support to the reform program. Climate change and natural disasters also pose a risk to the country. The Bank will pay special attention to these risks through continued monitoring and dialogue with the authorities on the overall macroeconomic context, including any impact a delay in EU accession might have, as well as analysis of options for remedial measures and program adaptation, contingent on the need and government request. These risks suggest a continued need for a flexible approach from the Bank to

assist the country in weathering external shocks, and for the Bank to continue to work closely with other development partners, in particular the EU, for joint leverage.

II. Country Context

7. **FYR Macedonia's political situation has been stable.** The ruling coalition, which has been in power since 2006, consists of the two largest political parties from the ethnic Macedonian and ethnic Albanian political blocks (VMRO-DPMNE and DUI) and 13 smaller parties. In the 2011 early parliamentary elections, this coalition maintained a comfortable majority with 72 out of 123 seats in the Parliament. Most of the Mayors of the 83 municipalities belong to the ruling coalition. FYR Macedonia is one of the few countries in the Western Balkans which avoided major inter-ethnic conflicts and continues to manage the interethnic relations well.

8. **The new 2011–2015 Government program maintains the same five priorities:** (i) emphasis on economic growth and private sector development, (ii) integration into the EU and NATO, (iii) fight against corruption and economic crime, (iv) good interethnic relations on the basis of the Ohrid Framework Agreement, and (v) investments in education, science and a knowledge based society.

9. **With more than 80 percent of the population supporting EU membership, EU accession remains the anchor of reform in nearly every area of public policy.** The authorities are harmonizing national legislation with the EU *acquis communautaire*, with specific achievements in procurement, transport policy, customs, taxation and statistics. The European Commission's 2012 Progress Report for FYR Macedonia concludes that the country continues to fulfill the criteria of a candidate state. On the political criteria, the report stressed that more progress was needed on improving the functioning of public administration and judiciary, ensuring the freedom of expression in the media, and implementation of the anti-corruption legislation. With respect to the economic criteria, it highlighted the progress made toward becoming a market economy and also highlighted the deterioration in the quality of fiscal governance and underlined the need to continue reforms to reduce structural weaknesses, particularly regarding high unemployment.

10. **FYR Macedonia is a small, landlocked and trade-dependent economy, making it vulnerable to external shocks, in particular to the ongoing Eurozone crisis.** Income per capita is around US\$5,000 (or around US\$11,600 in purchasing power terms) and is mostly generated by services (59 percent of Gross Domestic Product (GDP)). Industry accounts for around 28 percent of GDP while the share of agriculture is around 12 percent of GDP. Exports account for 56 percent of GDP but remain concentrated in few low value added products, though recent foreign direct investment (FDI) is rapidly changing the export composition. The EU is the largest export market (accounting for around 60 percent of exports in 2011) and an important source of foreign exchange inflow (more than half of FDI in 2011), a significant percentage of remittances as well as loan and credit financing.

11. **Strong macroeconomic management has helped FYR Macedonia weather the ongoing turbulence better than most countries in the region.** It experienced one of the mildest contractions of GDP in 2009 (less than 1 percent), and output expanded by 2.9 percent in 2010 and 2.8 percent in 2011. Economic growth accelerated further in the first half of 2011, but slowed subsequently and turned negative in early 2012 due to the Eurozone turmoil and the harsh winter. Investments were affected by the increased uncertainty, while deteriorating labor markets restrained private consumption. Public spending has also been constrained by the tight overall fiscal framework and underperforming revenues, which has resulted in emergence of public sector arrears. The authorities have publically committed to resolving this issue by early 2012 and are working with the Bank on this agenda as part of the Public Expenditure PBG.

12. **Growth is projected at around 0.75 percent in 2012, but there are significant external downside risks.** Achieving the projected growth rate requires improvements in external and domestic

demand as well as continued FDI inflows. While domestic demand stabilized recently, the external environment remains difficult. As of August 2012, export growth and industrial production remained in negative growth territory and business sentiments remained low. Encouragingly, the country has continued to attract FDI even in this uncertain environment. Government debt (at around 30 percent of GDP) is at comfortable levels and does not pose immediate concerns. The fiscal deficit is projected to be 3.7 percent of GDP in 2012 (see Table 1). Fiscal pressures are expected to increase in 2012 and 2013, due to the Government's commitment to clear arrears, but also the recently announced increase in pensions. Monetary policy was eased in May 2012 in response to the slowdown; and core inflation remains low and reserves are stable and sound.

13. **Growth rates so far have been insufficient to improve living conditions.** Poverty was persistent even during the years of accelerating growth prior to the crisis. Living conditions have deteriorated since, with about a quarter of the population in 2010 living in absolute poverty. Significant improvements in poverty are not likely to have taken place in 2011 and 2012 given the stagnant labor markets and the surges in global food prices. The unemployment rate, which is among the highest in Europe, has fallen in recent years, to 31.6 percent in 2011 from 37.6 percent in 2005, but many of the jobs created were low-paid. Unemployment increased slightly in the first quarter of 2012 and more recent high-frequency indicators (wages, new labor contracts, etc.) suggest that the labor market continues to be weak. Higher social transfers budgeted for 2012 may not be able to fully offset the impact of the slow economic growth given weaknesses in targeting.

14. **Prospects for outer years are generally more favorable but depend on developments in Europe and the realization of projected FDI inflows.** Output growth is expected to accelerate in the medium term assuming Eurozone growth picks up and recent FDI continues to diversify the export basket. Fiscal policy is expected to be disciplined with potential gains anticipated from improved quality of spending. Monetary policy is also expected to continue to be responsive to pressures on the exchange rate while continued structural reforms will improve the responsiveness of the supply side. Table 1 presents the projected macroeconomic indicators for the medium term.

15. **For the medium term, while imbalances are moderate, risks stemming from the uncertain external environment remain.** It is expected that public and external debt levels remain sustainable over the medium-term. The fiscal framework targets a deficit that reduces slowly to 2.5 percent of GDP over the medium-term and further gradual fiscal consolidation afterwards. Government debt is expected to remain below 33 percent of GDP over the projection period, a comparatively moderate level. Still, while the gross financing requirements remain moderate, growing reliance on commercial borrowing is increasing market and roll-over risks. The current volatile and risk-averse European financial markets will likely make it more difficult to access finance over the short term. Similarly, the current account deficit is expected to average 5-6 percent of GDP over the medium-term and be largely financed through non-debt creating flows which should result in gross external debt stabilizing gradually at around 65 percent of GDP. The relatively small exposure to short-term capital flows further mitigates the risks. Nevertheless, the uncertain external environment may limit export growth and depress capital flows. The economy is also vulnerable to energy (oil and electricity) price shocks which can hurt the competitiveness of exports. Such shocks could put pressure on the pegged exchange rate, even though a recent analysis by the IMF suggests that the exchange rate is not misaligned. Mitigating factors include the build-up of foreign exchange reserves, moderate indebtedness levels and the proven commitment of the authorities to macroeconomic stability.

16. **Risks in the banking sector continue to be moderate.** With strong capital adequacy (17.4 percent), low loan-deposit ratio (around 0.9) and stable and fully-provisioned non-performing loans (around 10 percent of total loans), the banking sector remains sound. Domestic banks exposed to affected Eurozone countries, most notably Greece (two commercial banks, including the largest one) and Slovenia,

are largely locally financed and the institutional setup appears to be in place to ring-fence these banks from greater turbulence affecting mother banks.

Table 1: FYR Macedonia medium-term macroeconomic framework

	2008	2009	2010	2011	2012	2013	2014	2015
	<i>Actual</i>				<i>Est.</i>	<i>Projected</i>		
<u>National Accounts (% change)</u>								
Real GDP growth	5.0	-0.9	2.9	2.8	0.75	2.0	3.0	3.5
Domestic demand growth	6.7	-2.9	-0.1	6.0	0.6	1.0	2.2	3.3
Gross Investment	4.7	1.0	-3.6	19.3	2.0	3.0	4.0	4.1
<u>Fiscal Accounts (% GDP)</u>								
Revenues	33.1	31.3	30.4	29.6	28.6	28.8	28.8	28.8
Expenditures	34.1	33.9	32.9	32.1	32.3	32.3	31.6	31.3
Balance	-0.9	-2.7	-2.4	-2.5	-3.7	-3.5	-2.8	-2.5
Government debt	20.6	23.8	24.2	27.7	30.4	32.7	33.5	33.6
<u>External Accounts*</u>								
Exports (% change)	-7.0	-15.7	24.2	10.5	5.0	8.0	9.8	12.0
Imports (% change)	0.0	-14.3	9.4	14.2	4.8	7.5	9.1	5.7
Current account balance (% GDP)	-12.6	-6.4	-2.9	-2.7	-3.5	-5.0	-5.5	-5.2
Gross official reserves (EUR mil.)	1,495	1,598	1,715	2,069	2,271	2,178	2,456	2,775
Gross official reserves (months imports, EUR)	4.4	4.2	3.7	4.3	4.3	3.8	4.1	4.3
FDI (% GDP)	6.1	2.0	3.2	4.0	2.0	3.0	4.0	5.0
External debt (% GDP)	47.4	58.2	59.6	61.7	63.0	64.3	65.1	64.5
<u>Prices</u>								
Consumer prices (period average)	8.4	-0.8	1.5	3.9	2.8	2.5	2.0	2.0
Consumer prices (end of period)	4.1	-1.6	3.0	2.8	2.8	2.5	2.0	2.0

* Based on calculations in USD unless otherwise specified

III. Development Challenges and Relevance of the CPS

17. **The biggest economic challenge confronting FYR Macedonia is high unemployment.** At 31.6 percent, joblessness is especially high among the country's youth and even higher for young women.¹ Also, the labor market is characterized by low employment rates – among the lowest in Europe and only two-thirds of the EU-27 average – which reflect persistent and high unemployment rates and moderate-to-low labor force participation rates. There are significant constraints to employment and job creation, both on the demand and the supply sides of the labor market, which require a more thorough analysis to disentangle the various drivers of low employment rates and outline possible policy options. The Bank is currently carrying out analytical work toward this end.

18. **Sustained macroeconomic stability during the continuing Eurozone volatility will be critical to ensuring an environment conducive to faster economic growth.** A continued prudent policy framework would help keep the fiscal and external imbalances under control over the medium-term, ensure debt sustainability, and manage the risks of new shocks and crises. Key priorities going forward include reducing poverty, increasing the efficiency of the public funds, better prioritization of public expenditures, particularly the capital expenditures, strengthening public financial management and

¹ This is a Labor Force Survey (LFS) measure of unemployment. It is widely acknowledged that the reported unemployment rate is probably overestimated. Alternative measures of the unemployment rate either through using stricter filters in the LFS or using the household budget survey (HBS) suggest that the unemployment rate is most likely lower (around 25%).

dealing with the underlying arrears issues, and addressing the structural problems of the country's labor market to ensure that economic growth rates also translate into employment generation.

19. **FYR Macedonia has made significant progress in improving the business environment but it needs to continue with broader competitiveness reforms.** Progress has been made on business environment reform, including overhaul of the business registration system, streamlining legislation governing the regulatory regime, simplifying the licensing procedures, and increasing efficiencies in filing taxes. This is reflected in FYR Macedonia's 23rd place in the 2013 Doing Business ranking, the best in Eastern Europe. Further actions are required to safeguard the rule of law and control corruption. Continuation of reforms of social security contributions will help improving the wage competitiveness, but further reductions in labor taxation should be carefully analyzed not to endanger the sustainability of public finances.

20. **Infrastructure bottlenecks still present a serious barrier for improving competitiveness.** For a landlocked country, good logistics are critical. Yet, FYR Macedonia is ranked 95th out of 155 countries in the 2011 Logistics Performance Index (LPI), lagging behind most countries in the region.² Despite increased investments in the rail and road network since 2008, including with the Bank and other donor assistance, transport infrastructure remains a constraint. The reduced fiscal space for road rehabilitation and maintenance is not helping to reverse the trend in road deterioration, and efforts to secure private sector involvement in roads have been unsuccessful. Significant new investment is required in the energy system to ensure an additional 3.2 GW of new generation capacity by 2051.³ The situation is even more serious in irrigation. Many years of underinvestment led to a sharp deterioration of existing irrigation infrastructure. The unmet irrigation demand could be as high as 60 percent in some river basins.

21. **Better strategic planning of infrastructure investments is particularly important to ensure proper allocation of limited capital.** This should be complemented through provision of appropriate conditions, including legislative improvements and capacity building for state institutions that would enable increased private sector participation through public-private partnerships (PPP). That should, however, also be followed by proper maintenance policy and financing which would ensure the sustainability of the infrastructure interventions.

22. **The country is working to develop a more competitive and export-oriented enterprise sector.** In a small open economy like FYR Macedonia's, where domestic demand remains weak, firms must look to export markets for growth.⁴ Exports grew rapidly in the past decade, and in 2011 goods and services exports accounted for 54.6 percent of GDP. This dynamism may be at risk in 2012 due to the slow-down in the Euro area but FDI in export-orientated sectors gives reason to be optimistic for future export growth. Exports should also become increasingly diversified as FDI concentrates not just in commodities (metals and minerals) but also in light manufacturing, particularly auto components. However, until presently the export basket is still highly concentrated in commodities (metals and minerals) where value added is low and prices are vulnerable to global economic swings. The majority of exporters are still small firms that struggle to compete in export markets. Medium and large exporters in manufacturing sectors would need to use increasingly quality and innovation as a source of competitiveness.

23. **A more competitive economy will require a more skilled and educated labor force.** While access to education has improved, there appears to be a disconnect between the education system and private sector needs, as companies complain about the quality and availability of skills. Although a

² LPI, an edition of the World Bank's Trade department, uses qualitative and quantitative measures to build profiles of logistics friendliness of countries. It measures performance along the logistics supply chain within a country and offers both the international and domestic perspectives.

³ Currently electricity supply is provided by lignite-fired plants (54.6%), hydro power (21.5%) and imports (20.6%).

⁴ Currently only 5 percent of firms export, but this group of firms generates 55 percent of the total sales revenue in the country.

number of reforms have been undertaken to help strengthen the capacity of domestic institutions to foster skills applicable to the EU market and increase the competitiveness of the labor force, significant challenges still remain, especially in higher education. First, the efficiency of the higher education system remains low with high drop-out and time-to-graduation rates. Second, quality assurance mechanisms need to be put in place. Third, further investments in the sector will be needed to ensure that higher education institutions are competitive in the regional and wider European context. Fourth, there are important gender gaps in higher education, with more women enrolled than men in tertiary studies.

24. **The latest assessment notes the positive legislative environment for gender equality in FYR Macedonia; however, gender inequalities persist.** An in-depth gender assessment for the country has been prepared to inform this CPSPR. Available evidence shows that some of the most salient gender disparities in FYR Macedonia are in labor markets, with large gender gaps in labor force participation rates (driven by low female labor force participation) and wages, with women at a disadvantage. Annex 2 presents a fuller picture of the gender situation in FYR Macedonia.

25. **The current social protection system faces important challenges: (i) ensuring the financial sustainability of the pension system and (ii) improving the effectiveness of the social safety net.** The sustainability of the pension system is threatened by the simultaneous reduction of contribution rates as part of the payroll tax reform and pressures to increase pensions. Although government spending on social safety nets is not excessive, the myriad of benefits limits the effectiveness of the system and poses a challenge for the limited capacity of the administration. In addition, coverage of social assistance can be strengthened further, as it reaches only 43 percent of individuals in the poorest quintile. Potential beneficiaries are subject to extensive means testing which limits the coverage since they lack the proper documentation (e.g., Roma). The Cash Benefits Management Information System and associated activities put in place under the Bank-supported program have been designed to address these and other shortcomings, particularly by consolidating programs and unifying information systems.

26. **Climate change is already affecting FYR Macedonia, with profound implications.** Data from the last 20 years reveal a steadily rising trend of natural disaster incidence, flood severity, and flood intensity. Also, climate change has increased the incidence of droughts and water shortages⁵. Of all 28 ECA countries studied as part of the World Bank report, “Adapting to Climate Change in Eastern and Central Europe,” only three have experienced more climate related natural disasters since 1990. At the same time, FYR Macedonia is near the bottom in the region in terms of capacity to adapt to these changes. Climate change and green growth considerations will have to be mainstreamed into the economic growth and competitiveness agenda of FYR Macedonia.

27. **In light of the above challenges the CPS strategic objectives of improving competitiveness, strengthening the social protection and reducing the environmental risks remain relevant and are in line with the Government-led reform priorities.** Continued attention to addressing economic and social vulnerabilities and building a robust foundation for competitiveness and sustainable growth remain vital to the country’s future prospects.

IV. Progress towards achieving CPS objectives and outcomes

28. **The Bank program continues to deliver strong development results during the current CPS period.** More than 560 km of regional and local roads have been rehabilitated thus far under the ongoing Regional and Local Roads project. The real estate cadastre coverage reached 99 percent of the country with the help of the cadastre project and has contributed to tripling the number of registered mortgages. The backlog of court cases has been reduced in 22 out of 27 courts with the help of the judiciary project.

⁵ Preliminary analysis of available data from the 1960 to 2000 period demonstrates that precipitation has declined by about 20 percent over these forty years, and flow in rivers has declined by approximately 30 percent, with a prognosis of an additional 20 percent over the next 40 years.

The transition rate from primary to secondary school increased to 95 percent from 85 percent and dropout rates decreased to 1.9 percent from 2.1 percent thanks to the Bank-supported interventions in education. The Water Assessment underpinned the development of the Government's water strategy, and the cost recovery of the newly established Water Economies has been improving, with user fees collection reaching 70 percent. The Bank's current portfolio includes eight investment projects with total commitments amounting to US\$305 million. Overall, the portfolio is well performing, with a disbursement ratio above 26 percent in FY12.

29. **The mix of development policy and investment lending and robust Analytical and Advisory Activities (AAA) fully support the three pillars of the CPS.** The FY12 Policy Based Guarantee, which helped leverage Euro 130 million from private lenders, helped reduce future risks to stability by strengthening the sustainability of public finances. The financing crucially helped protect critical social protection programs for the most vulnerable, while at the same time providing space for the authorities to continue with needed reforms to these programs initiated through the Social Protection Implementation Loan (SPIL) and Conditional Cash Transfer (CCT) projects. The Bank also invested in priority areas for the Government such as the energy sector through additional financing for the Energy Community of South East Europe (ECSEE APL3) project, and by making it possible for FYR Macedonia to take part in an international insurance pool against catastrophic risks through the South East Europe and Caucasus Catastrophic Risk Insurance Facility (SEEC CRIF) project. The additional financing to the existing Municipal Services Improvement project, provided as part of the crisis response effort, is helping to preserve jobs at the local level and enable the municipalities to improve their infrastructure. The full list of activities delivered in FY11 and FY12 is presented in Table 2. The Bank program has also paid special attention to the EU *acquis* requirements. In particular, this has been reflected in support for agriculture, energy, transport, and customs operations.

30. **The IBRD portfolio is consolidating and has moved from 14 projects in FY08 to eight by end FY12, and will continue to consolidate over the medium term.** This is freeing up more room for analytical and advisory work, which is in high demand by this middle-income client. Although the portfolio has performed very well, maintaining the same level of performance over the remainder of the CPS period may be difficult as the Government is forced to restrain expenditures across a broad range of public investment, including under World Bank-supported projects. Indeed, the budget spending ceilings imposed by the Government in the first half of 2012 have forced the project teams of the cadastre, agriculture, and conditional cash transfer projects to downgrade, restructure and/or refocus some of the project activities and revise the outcomes.

31. **The Bank is using its analytical expertise to engage with the Government through just-in-time assistance.** Responding to the needs of the fast-changing environment and the requests of the client, the Bank prepared a series of just-in-time analytical and advisory products. Examples include a Competitiveness Assessment that is helping the Government better understand restraints to the competitiveness of its economy; the Comprehensive Water Sector Assessment that provided advice on how to cope with the water scarcity, and the Higher Education TA that provided knowledge and best practice examples on the sector financing and quality assurance. Good progress has been made in bringing accounting practices in line with those of the EU for both public and the private sector through the ROSC Accounting and Auditing work, the Public Sector Accounting capacity development technical assistance, as well as through the regional Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS). Responding to the emerging needs of the agriculture sector, the Agriculture and Climate Change sector note investigated the exposure and perils facing the agriculture sector to due to the effects of the climate change. In FY12/13 the Bank conducted a public expenditure review (PER) in agriculture to advise the Government on agriculture subsidy reform. Finally, the Bank has embarked on a ground-breaking Green Growth and Climate Change Analytical and Advisory Program described in more detail in paragraph 41 below.

32. **FYR Macedonia also benefits from a number of innovative Trust Funds, currently amounting to about US\$12.2 million.** These trust funds are fully aligned with the CPS's three pillars of competitiveness, inclusion and green growth. In particular, a GEF grant is helping develop a sustainable market for Energy Efficiency and Renewable Energy. Moreover, the Financial Sector Reform and Strengthening (FIRST) initiative is supporting an effort to liberalize the Insurance Supervision Agency with the aim of strengthening industry performance, bringing it in line with global best practices and ensuring that the regulatory framework is EU compliant. Work is also ongoing to identify opportunities in cultural heritage and tourism; and FYR Macedonia is part of a regional study to better understand the impact of tax and social benefits on labor market outcomes. A Crisis Preparedness initiative is underway to support the National Bank in establishing contingency planning for financial distress. Trust Fund resources are also financing work in the health sector, and the Swedish and Norwegian governments are supporting a major flagship study on Green Growth mentioned above.

33. **IFC remains an active partner in the private sector, and its support is fully aligned with the CPS pillars.** IFC supported the Government's growth and competitiveness agenda through advisory services and financing of the banking and corporate sectors. As of September 2012, the committed portfolio includes six projects - four in the financial sector, one in the energy sector, and one in the telecom sector. Total IFC commitments amount to US\$92.9 million, and the outstanding portfolio is US\$86.4 million. During FY2011-2012, IFC provided a US\$13.4 million long-term loan to a mid-sized bank to support the SME sector and a US\$4.6 million long-term loan to support the electricity supply and distribution company. Under the Global Trade Finance Program, IFC provided a trade finance line to a bank with growing presence across the retail, corporate banking and SME lending. In addition, IFC has invested in three regional projects, which include FYR Macedonia.

34. **In addition, IFC has allocated US\$7 million in 10 advisory services projects out of which it has used about US\$1.8 million so far.** The Trade Logistics advisory program assisted in reducing trade constraints and aligning the rules linked to the Central European Free Trade Agreement (CEFTA) regional trade agenda to EU practices. The work on corporate governance and international standards and technical regulations contributed to increased corporate sales and exports. To improve energy sector efficiency and environmental sustainability, IFC has been assisting with the design and implementation of a PPP transaction for the Cebren and Galiste Hydropower project. IFC is also helping the Government to attract private sector participation in the health sector (dialysis) and road transportation (Corridor 8). To strengthen the integrated water management capacity in line with the EU Water Framework Directive, IFC helped the Government to improve the regulatory framework for waste management, strengthen the capacity at the local and national levels, and assisted municipalities to develop viable waste management projects.

35. **A scaled-up communication program has helped to strengthen the Bank's position in the country as a provider of cutting edge knowledge.** The program included a new concept for the Bank's Public Information Centers (PIC),⁶ which, in addition to traditional PIC activities, included regular public debates on economic issues, multiple report dissemination events and lectures to students. It also included a revamped website with increased and improved content and active use of social media to disseminate the results of the Bank work through stories and multimedia. The communication program has helped shape the policy reform agenda in many domains such as business environment, competitiveness, social assistance, skills, etc., all reflected in recent reform programs adopted by the Government.

⁶ There are three PICs in FYR Macedonia. These are joint centers with two universities and the Central Bank.

**Table 2: WBG Active Portfolio, Actual and Planned Lending FY11-14
Country Specific and Regional AAA**

Faster Growth: Competitiveness		More Inclusive Growth: Employability and Social Protection		Greener Growth: Environmental Sustainability and Climate Action		
Ongoing investment projects (closing date)						
ECSEE APL3	FY14	Conditional Cash Transfer Project	FY14	Sustainable Energy Project	FY13	
Real Estate Cadastre and Registration Project	FY14			(GEF)	Agriculture Strengthening and Accession Project	FY13
Regional and Local Roads Project	FY14					
Municipal Services Improvement Project	FY18					
Operations approved in FY11-12						
Additional Financing ECSEE APL3(\$19m)	FY11	Policy Based Guarantee	FY12	SEEC CRIF (US\$5m)	FY11	
Additional Financing Municipal Services Impr. (US\$50m)	FY12	(US\$130m)				
Planned Operations FY13-14						
Competitiveness DPL (US\$50m)	FY13	Public expenditure PBG	FY13	Lukovo Pole project	FY13	
Competitiveness DPL2 (US\$50m)	FY14	(US\$50m)		(US\$50m)		
		Skills project (US\$24m)	FY14			
Country Specific non-lending AAA FY11-14						
Higher Education Policy TA	FY12	Labor Market Review	FY12-13	Agriculture and Climate Change	FY11	
IDF Public Accounting	FY11			Comprehensive Water Assessment	FY11	
Financial Sector IFC	FY11-12	Skills Survey	FY13	Green Growth Analytical and Advisory Program		
Real Sector IFC	FY11-12	PSIA Health	FY13	(incl. TF)	FY11-13	
Accounting & Auditing		PSIA Competitiveness	FY13	Reducing Vulnerability to Climate Change in Agric.		
ROSC follow-up	FY12	Reforms		TA	FY12	
Modular Competitiveness Assessment	FY12	Public Sector IT	FY14	IFC PPP Advisory Services: waste management in Drisla municip.	FY13	
IFC PPP Transaction		Poverty Assessment	FY14	IFC PPP Advisory Services: water mngt in Ohrid/Struga municip.	FY14	
Advisory (hydro power)	FY12			Energy Efficiency TA		
IFC PPP Transaction						
Advisory (outpatient hemodialysis)	FY12					
Agricultural PER	FY12 -13					
FIRST (TF)	FY12-13					
Infrastructure Review	FY13					
Open Government. TA (TF)	FY13					
IFC Food safety advisory	FY13					
Statistics TA	FY14					
Regional Western Balkans Non-lending (AAA) FY11-14						
Monit. & Evaluation (EC TF)		FY12-13		Smart Safety Nets	FY13	
TA Scienc., R&D/Innov. (EC TF)		FY12-14		Investment Climate IFC	FY13-15	
Program. Financial Sector Dev		FY12-14		Public Fin Mgt/PEFA (EC TF)	FY13-15	
Trade Logistics IFC		FY12-15		Health Finance	FY14	
Renewable Energy Advisory IFC		FY12-15		Employment and Jobs	FY14	
Programmatic Gender Monit		FY12-15		Energy Strategy	FY14	
Programmatic Poverty Monit.		FY12-15		Climate Change	FY14	
Corporate Governance IFC		FY12-17				

V. Modifications to the CPS and the way forward

36. **Although the pillars defined in the CPS remain valid, there have been important external changes which require an adaptation of the Bank's program.** These changes stem from the effect of the global economic and Eurozone crises on FYR Macedonia's economy. During the remainder of the CPS period the Bank will support the Government by stepping up its support to help it respond to the crisis. This includes US\$50 million which has already been committed for additional financing for a municipal development project; a Public Expenditure PBG (US\$200 million); and topping up the second operation of a Competitiveness DPL series (US\$50 million). The Public Expenditure PBG, which builds on successful reforms carried out under the Bank supported Public Expenditure DPLs and the FY12 PBG, will support the Government program to generate fiscal savings that could be re-directed to priority areas. The Competitiveness DPL series of two loans for US\$50 million each (FY12 and FY13) will support the Government's competitiveness and job creation agenda, building on an in-depth diagnostic provided by the AAA on competitiveness, labor markets and agriculture PER.

37. **The Bank will continue to be selective in its support to the Government's reform agenda.** Selectivity is driven by the Government's priorities, as well as by the principle of the Bank's comparative advantage. The Government has indicated that future Bank assistance is needed to support reforms in education and energy infrastructure, and requested the Bank to start preparing the Lukovo Pole Water Regulation and Renewable Energy project⁷ (FY13), which would help FYR Macedonia increase the share of renewable energy resources in its power generation and contribute to reducing its vulnerability to climate change (Box 1). The Bank also plans to finance a Skills project with a strong Innovation component in FY14 that will aim to improve the relevance and quality of higher education, thereby contributing to the strengthening of the overall country competitiveness, as well as improve the employability of its youth. Table 2 provides a summary of the planned IBRD lending and IFC

Box 1: Lukovo Pole project

To help meet its growing energy needs and its renewable energy targets, the Government plans to build the Lukovo Pole Water Storage and Renewable Energy project. The main objectives are to reduce the carbon intensity of the economy, improve the energy security through reduction in import dependence, and reduce vulnerability to expected decline in rainfall by improving water storage capacity. Since the project site lies in a national park, the World Bank provided a Project Preparation Advance to FYR Macedonia to support the preparation of an Environmental and Social Impact Assessment (ESIA) aimed at ensuring that the highest standards are met regarding natural resource management, biodiversity, and plant habitats. An independent Panel of Environmental and Social Experts was formed to review the preparation of the ESIA and another independent Panel will review the engineering designs regarding dam safety. The Government and the Bank also embarked on extensive consultations with stakeholders, including NGOs, to hear their views and concerns and keep them informed during all steps along the process.

investment program for the remaining CPS period covering FY13-14. During FY10-14 IFC plans to invest about US\$150 million in the real sector, financial sector, and infrastructure. IFC plans to continue and possibly expand its PPP Transaction Advisory services helping the Government to attract private sector financing in water supply and solid waste management, as well as in the power sector.

38. **Strong partnership with the EU will remain a cornerstone of the World Bank program.** FYR Macedonia's EU accession remains the overarching objective of the CPS, with virtually all World Bank financed operations designed to support EU membership. EU pre-accession assistance is the largest source of financial support available to the country, amounting to some Euro 100 million per year in grants. These grants are available to all levels of government, private sector and civil society for legislation modernization, capacity building and infrastructure investments. However, as is the case in

⁷ The World Bank support to this project is contingent on the outcome of the Environmental Impact Assessment currently underway and negotiations with riparian states.

many accession countries, absorption of the EU funds is slow. To date, of some Euro 619 million available from the 2007-2013 IPA, FYR Macedonia has contracted only Euro 140 million.

39. **The Bank will work closely with the Government to improve strategic planning and help with implementation of IPA assistance.** The revised structure of the second generation IPA assistance (2014-2020) will employ a sector wide approach and requires accession countries to develop sector strategies, which will serve as a basis for IPA financing. The Government has expressed interest in receiving Bank assistance with the development of sector strategies and in working jointly on designing and implementing projects financed with IPA funds under a fee-for-service arrangement. Potential areas of partnership include infrastructure, municipal development, and energy efficiency. The Bank is also partnering with the EC on the labor market work and inclusion issues, such as the Inclusive Employment and Development in the Western Balkans.

Box 2: Gender issues will continue to be integrated into the program

Gender issues will be integrated into the World Bank program through various activities. The FY12-13 Employment and Job Creation AAA will investigate gender disparities in the labor market and organize capacity building workshops on gender analysis. As a complement to this work, qualitative Poverty and Social Impact Analysis (PSIA) analysis is being undertaken to assess the impact of recent public policies on the key constraints to labor force participation and employment for both men and women. Additional PSIA analysis (FY12-13) is focusing on the possible impact of the agriculture subsidies reform and import tariff reform on farmers, accounting for the gender perspective. This ongoing analytical work will underpin the inclusion of the gender dimension into the Competitiveness DPL.

The ongoing Conditional Cash Transfer project includes an important gender aspect, by piloting a payment modality that includes paying half of the cash benefit specifically to mothers. Furthermore, the ongoing Cadastre project measures sex-disaggregated data as part of its M&E system, which will become the basis for the analysis of the gender aspect of property ownership and transactions in FYR Macedonia.

Finally, FYR Macedonia will benefit from a number of regional AAA with strong gender components, such as the Regional Smart Safety Nets, the Programmatic Poverty Analysis and the Western Balkans Gender Monitoring.

40. **The Bank's knowledge work will continue to play a prominent role in the Bank's support to FYR Macedonia.** The Bank's AAA program will continue to be demand driven, providing economic, poverty and social analyses, as well as best practice examples and experience from other countries to aid the authorities in developing policy choices for future reforms. Ongoing AAA work includes the labor market review, an agriculture PER, a knowledge exchange on the Open Government Initiative and the Green Growth program. As for the future work, EC and World Bank will join forces in a partnership on Inclusive Employment and Development in the Western Balkans. A first phase will include in depth analytical work on Macedonia, as well as initial work towards a regional knowledge/learning network. The Bank is also planning to carry out an Infrastructure Review that will aim to help the Government prioritize future infrastructure investments. The WBI energy efficiency project will continue assisting the Government in setting up a National Program for energy efficiency in public buildings and identifying the optimal financing mechanism for these investments. The City-to-City component of the WBI-Austria Urban Partnership program will continue providing capacity building and support to municipal officials in improving municipal revenues and modernizing local expenditure management through a series of knowledge exchange dialogues among municipalities. The Open Government South-South Knowledge Exchange and the Public Sector IT activities will facilitate increased government transparency, improve access to information, and stimulate the development of technological skills, thus strengthening the country's investment climate and competitiveness. FYR Macedonia will also benefit from regional AAA work on Employment and Job Creation, Health Financing and the Regional Energy Strategy, as well as from the multi-year Programmatic Poverty Analysis and Programmatic Gender Monitoring.

41. **The pioneering work under the Green Growth and Climate Change Analytical and Advisory Support Program will continue to generate analyses and non-lending technical assistance to support FYR Macedonia in assessing the economic costs and benefits of a shift to greener growth.** With this knowledge the Government will be able to prioritize implementation actions identified by the National Strategy for Sustainable Development and supplemented by the program's recommendations. The program provides essential building blocks for integrating sustainability and green growth considerations into the mainstream economic growth and competitiveness agenda of FYR Macedonia. The program is co-financed by the Swedish and Norwegian governments. In addition, the Catastrophe Risk Insurance Facility program will develop risk models for different weather-related threats, and will help design appropriate insurance products for the citizens and institutions. IFC launched a project that will improve the renewable energy regulatory framework, provide support to private sector sponsors with renewable energy project designs and business plans, and support other financial institutions in the country to increase their knowledge and interest in renewable energy project finance.

VI. Risks

42. Risks identified at the time of CPS preparation continue to be valid:

- **FYR Macedonia's growth outlook is subject to uncertainties posed by the ongoing Eurozone crisis.** ECA continues to be hard hit by the continued turmoil in the Eurozone. While FYR Macedonia's fundamentals have been generally sound, risks to growth performance stemming from regional turmoil remain elevated and could impact debt sustainability and require further policy adjustment. In addition, failure of the Government to complete its announced commitment to resolve arrears build-up could undermine the solvency of the budget and limit the effectiveness of the fiscal policy. The Bank will help mitigate the impact of macroeconomic instability through increased budget support. In addition, the Bank will continue to analyze the risks through continued monitoring and dialogue on the overall macroeconomic and sector-specific issues, as well as through the analysis of options for remedial measures and program adaptation, contingent on need and government request.
- **Failure to resolve the differences with Greece over the FYR Macedonia's constitutional name issue could slow EU accession and dampen public support for reforms.** Although FYR Macedonia received the EU candidate status long before other countries in the Western Balkans, countries like Montenegro are already starting negotiations while the negotiations door is still kept closed for FYR Macedonia because of the unresolved "name issue." However, the recently started High Level Dialogue between the EC and FYR Macedonia has injected new energy into the EU accession process. The Bank will continue monitoring the developments closely, including any impact a delay in EU accession might have on political and macroeconomic stability as well as on the Bank's program.
- **Continued high unemployment may directly affect the social balance in the country, and undermine Government support to the reform program.** The CPS is focused on employment generation and supports interventions in social protection and skills development with the aim of translating economic growth and the recent increases in labor participation into more and better jobs for all Macedonians. Improvements in these critical areas would likely contribute to the continued reduction of episodes of social tension and help consolidate the foundation for lasting social stability.
- **FYR Macedonia is vulnerable to natural disasters, including increasingly severe climate pressures.** The country has suffered devastating earthquakes in the past and seismic activity remains common. Severe droughts are projected and aridity could affect agriculture. The Bank is engaged in analytical work in both the water and energy sectors and will be supporting the country through the regional Catastrophe Risk Insurance Facility.

Annex 1: Results Matrix

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
<i>Priority I: Faster Growth: Competitiveness</i>					
Promote fiscal, macroeconomic, and financial sector stability	Though debt levels are sustainable, financial vulnerabilities in the pension and health systems could threaten macroeconomic stability over the medium to long term. The elevated global risks pose further challenges to the macro stability.	Maintain macroeconomic stability through sound management of fiscal conditions, as indicated by: - General government debt maintained below roughly 40% of GDP (baseline: est. 24% in 2009) - Arrears in the public health sector maintained at or below 0.2% of GDP (baseline: 0.3% in 2009) - Spending on pensions maintained at or below 9% of GDP	Pension reforms instituted to realize cost savings, including parametric changes to the First Pillar. Health reforms to rationalize spending and improve efficiency (<i>revised</i>).	Pension and Disability Insurance Law adopted to improve the fiscal sustainability of the pension system. Centralized international procurement for a list of devices and drugs underway. Methodology for setting reference prices for registered drugs developed and revised reference prices adopted.	FY11 Development Policy Loan 2 FY12 Policy Based Guarantee
	Corporate financial reporting has improved but lags behind EU practices.	Strengthen the transparency of corporate financial reporting in line with EU standards.	Satisfactory progress noted in 2014 EC Annual Progress Report. Professional body admitted to International Federation of Accountants.	Professional body is formed and functional.	FY11-14- Programmatic Western Balkan Financial Sector TA FY11 Regional REPARIS
Strengthen the competitiveness and business environment, focusing on investment in enterprise development, FDI and exports, land administration, judicial services, access to finance, land, and skills development.	Institutional support to enterprises and FDI requires strengthening, enterprise and particularly SME development programs are small and fragmented and export promotion is nascent.	The institutional framework for FDI attraction and export promotion has been enhanced and SME development programs are consolidated.	By 2014: (i) A one-stop shop service for issuing of licenses, construction permits, state aid and aftercare has been established for enterprises at the Technology Industrial Development Zones; (ii) A Strategy for Export Promotion and Action Plan has been adopted and the first generation of programs to support exporters are under implementation; (iii) the SME support programs at the Ministry of Economy have been consolidated on the basis of a functional review (<i>new</i>).	(i) Construction permits are now issued directly by the Technology Industrial Development Zones; (ii) Strategy for Export Promotion and Action Plan have been adopted.	FY12 Competitiveness DPL FY10 Additional Financing: Real Estate Cadastre and Registration Project

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
	<p>Modest technological development and innovation results in high reliance on low value added products (commodities) in the export basket.</p> <p>Deficiencies in land administration, including limited public access to geographic information and weak data sharing among agencies, reduce the efficiency and transparency of real estate and property systems.</p> <p>Inadequate infrastructure and weak institutional and enforcement capacity in the judiciary erodes business confidence, particularly in commercial dispute resolution.</p> <p>Limited capital for business development stymies growth of enterprises in sectors with potential for expansion and exports. Though recent reforms have improved public procurement, capacity remains limited, particularly in enforcement and PPPs/concessions.</p>	<p>Increase the capacity to design and implement technology and innovation programs through the development of a more effective institutional framework and regulations.</p> <p>Improve the efficiency and transparency of land administration, as indicated by:</p> <ul style="list-style-type: none"> - Increase in land and real estate transactions (baseline: 93,240 in 2009; target 120,000 in 2014). - Increase in customer satisfaction with the efficiency of land administration (baseline: 3.7 rating on a 5-point scale in 2009; target; rating of 4 by 2013). <p>Improve the efficiency and services of the judiciary as indicated by:</p> <ul style="list-style-type: none"> - Decrease in the share of firms reporting the judiciary as a problem for doing business (baseline: 50% in 2008 BEEPS; target: 43% in 2011) <p>Enhance access of SMEs to financing in key growth sectors.</p>	<p>By 2014, the innovation system is strengthened by: (i) adopting an Innovation Strategy; and (ii) reforms of innovation-related institutions on the basis of a functional review (<i>new</i>).</p> <p>Strategy on national spatial data infrastructure in line with EU requirements developed by 2014.</p> <p>Cadastre maps digitized and posted online (baseline: maps covering 10% of territory digitized in 2010; target: maps covering 50% of territory digitized and posted online by 2014).</p> <p>Reduction in the number of days to enforce a contract (baseline: 370 days in 2010 Doing Business Report; target: 60 days in 2014).</p> <p>Increase in the number of renovated courthouses (baseline: 9 in 2010; target: 11 in 2014), and build a new Criminal Court in the capital city.</p> <p>Financing provided to commercial bank programs supporting SMEs, particularly in agribusiness, health, and construction.</p>	<p>An Innovation Strategy is being prepared with OECD technical support</p> <p>Strategy currently under development.</p> <p>Digitized maps cover around 20% of the territory.</p> <p>This target has been achieved.</p> <p>This target has been achieved. Criminal court is pending. It should be finished by end 2012.</p>	<p>FY12 Western Balkan Programmatic Innovation Study</p> <p>FY06 Legal and Judicial Implementation & Institutional Support Project</p> <p>FY12 Science and Technology TA</p> <p>IFC: Finance and Advisory Services Supporting SMEs</p> <p>FY12 National Procurement Policy Study</p> <p>FY11 Higher Education TA</p> <p>FY12 Competitiveness DPL</p>

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
	<p>Improving higher education is critical to building a skilled workforce, but an unsustainable financing model and weak quality controls undermine efforts to improve instruction and access.</p> <p>Inefficiencies in the system of issuance of visas and work permits to foreign high skilled professionals make it difficult for foreign investors to access and bring needed skills sets for their operations.</p>	<p>Strengthen the sustainability of the higher education system and quality assurance in line with EU standards.</p> <p>Process to obtain visa and work permits is simplified (baseline: 45 days; target: reduction in the time required to process visa and work permits by, at least, 10% by 2014).</p>	<p>Reforms to the quality assurance system implemented and higher education financing model defined.</p> <p>Amendments to the Law of Employing Foreigners and improved cooperation between government agencies (<i>revised</i>).</p>	<p>Amendments to the Law on Foreigners and the Law on Employment and Work of Foreigners have been enacted that make it easier for companies meeting certain criteria to obtain temporary residence permits and work permits.</p>	
<p>Improve infrastructure to catalyze economic growth, particularly in transport</p>	<p>Inadequate and substandard local and regional roads impair growth, particularly in remote areas.</p> <p>Rail and motorway delays and congestion at border crossings along Corridor X, a key EU transport route, restrict domestic and regional commerce.</p> <p>Outmoded electrical infrastructure and inadequate connections to the SEE regional power network threaten the country's energy security and long-term growth.</p>	<p>Improve the quality of the local and regional road network, as indicated by decrease in vehicle operational costs on rehabilitated roads (baseline: TBD; target: 10% decrease by 2013)</p> <p>Facilitate regional trade by removing bottlenecks at border crossings, as indicated by decrease in waiting time for cars and buses at the border crossing point with Kosovo (baseline entrance - 6 vehicles per hour exit - 5 vehicles per hour and target: decrease in waiting time compared to the baseline by end 2012).</p> <p>Strengthen FYR Macedonia's energy security as indicated by reduction of number and amount of energy interruption by 80% (baseline: 1480 minutes), and reduce substation operating and maintenance cost by 25% for the unbundled stations by 2014.</p>	<p>Select local and regional roads rehabilitated (baseline: 48 km of regional roads rehabilitated in 2010; targets: 284 km of regional and 420 km of local roads rehabilitated by 2013).</p> <p>Upgrades to the passenger border crossing facility with Kosovo completed by 2013.</p> <p>Electrical transmission line completed between Stip in eastern FYR Macedonia and Nis in Serbia.</p> <p>Rehabilitation of twenty one 110kV substations completed.</p>	<p>284km of Regional roads completed. 280km of Local Roads completed.</p> <p>Significant decrease in border crossing times achieved (entrance: 24 vehicles per hour; exit – 31 vehicles per hour)</p> <p>Land acquisition process is underway.</p> <p>This target has been achieved.</p>	<p>FY08 Regional & Local Roads Program Support Project</p> <p>IFC PPP Advisory on Corridor 8</p> <p>FY07 Second Trade & Transport Facilitation Project</p> <p>FY06 ECSEE APL3 and FY11 Additional Financing</p> <p>IFC PPP Advisory on hydropower plans</p> <p>IFC EVN Investments</p>

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
Strengthen municipal services and infrastructure	Shortfalls in the delivery, transparency and financial sustainability of municipal services, including weak institutional capacity and inadequate water and solid waste services, undermine growth at the local level.	Improve transparency, financial sustainability and delivery of municipal services as indicated by: <ul style="list-style-type: none"> - Increase in targeted municipalities participating in public benchmarking exercises (baseline: 0% in 2010; target: 100% in 2014) - Increase in targeted municipalities reporting improvements in delivery of urban services (baseline: 0% in 2010; target: 20% by 2014) - Increase in targeted municipalities achieving increased revenue or cost savings (baseline: 0% in 2010; target: 15% by 2014). 	Increase in communal service enterprises participating in trainings on municipal benchmarking (baseline: 50% in 2010; target: 100% in 2014). Performance grants provided to targeted municipalities (baseline: 0 in 2010; target: 5 in 2014).	No progress to date. 15% in July 2012.	FY09 Municipal Services Improvement Project (MSIP) FY12 Additional Financing to MSIP
Priority II: More Inclusive Growth: Employability and Social Protection					
Increase employment, particularly among vulnerable groups (using official employment and unemployment baseline data)	FYR Macedonia's 32.4% unemployment rate is exacerbated by a relatively high labor tax wedge that discourages formal employment for low-wage earners, and unemployment benefits that may inhibit job seekers.	Lower the cost of businesses to employ workers as indicated by: <ul style="list-style-type: none"> - Decrease in Social Insurance Contributions, which represent a key component of the labor tax wedge (baseline: 28.4% of the gross wage in 2009; target: 22.5% by 2014) 	Second stage of the Government's payroll tax reform implemented.		FY11 Development Policy Loan 2 FY09 Conditional Cash Transfer Project
Strengthen the efficiency of the social safety net, including improved targeting of cash benefits	FYR Macedonia's social protection system provides broad coverage. However, the targeting of social assistance is suboptimal, and the government lacks capacity to administer a program providing conditional cash transfers (CCT) supporting education enrollment.	Strengthen the targeting and coverage of FYR Macedonia's social services as indicated by: <ul style="list-style-type: none"> - Increase in the targeting accuracy of the overall safety net (baseline: 50% in 2010; target: 65% by 2014). - Increase in households in the poorest quintile enrolled in the Government's CCT program (baseline: 0% in 2010; target: 40% in 2014) 	Database of social cash benefits developed and in use to monitor the functioning of the social safety net and guide future reforms. Education campaign executed to increase the awareness of the CCT program among the poor.	Database has been finalized. Education campaign is under preparation.	FY04 Social Protection Project FY09 Conditional Cash Transfer Project FY11 Development Policy Loan II

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
Priority III: Greener Growth: Environmental Sustainability and Climate Action					
Strengthen knowledge base for policymaking in green growth and climate action	<p>Inadequate government knowledge on ways to adapt policies and sectors to promote “green growth” undermine efforts to manage environmental threats and climate change.</p> <p>Underdeveloped insurance market for natural and climate change related disasters.</p>	<p>Satisfactory results in enhancing government knowledge of approaches to manage the green growth agenda, particularly by adapting sectors to evolving constraints and opportunities.</p> <p>Increase in catastrophe insurance penetration to 5% by 2014 (baseline: 2% in 2011)</p>	<p>Policy Notes assessing green growth and climate change challenges in diverse sectors developed and presented to the Government.</p>	<p>Policy Notes are under preparation, in consultation with the Government counterparts.</p> <p>Shareholders Agreement with <i>Europa Re</i> reinsurance company has been signed, and the project has become effective.</p>	<p>Policy Notes in Energy, Water, Agriculture, Industry, Transport (multiple FYs)</p> <p>FY12 Green Growth and Climate Change Analytical Study FY12 SEEC CRIF</p>
Improve the efficiency of the energy sector and environmental sustainability, particularly by exploiting renewable energy and energy efficiency sources	<p>Outmoded electrical infrastructure and inadequate connections to the SEE regional power network threaten the country’s energy security and long-term growth.</p> <p>FYR Macedonia has prioritized renewable energy and has much potential for wind, biomass, and small hydropower, but legal constraints and insufficient incentives, capacity, and financing limit their exploitation.</p> <p>Energy use in FYR Macedonia is inefficient, but new investments to boost efficiency are stymied by lack of country capacity, limited financing vehicles, and poor awareness.</p>	<p>Strengthen FYR Macedonia’s energy security by upgrading select domestic and regional transmission infrastructure.</p> <p>Increase the share of the national energy supplies derived from “new” renewable energy sources (baseline: 0 in 2010; target: 6 MW by 2011, and 40 MW by 2013).</p> <p>Improve the efficiency of FYR Macedonia’s energy use as indicated by: - Increase in energy saved (lifetime basis) attributable to new energy efficiency projects, primarily in public sector (baseline: 0 in 2013;</p>	<p>Electrical transmission line completed between (i) Skopje and Tetovo, (ii) Stip and Serbian border.</p> <p>Rehabilitation of twenty one 110kV substations completed.</p> <p>Regulatory framework updated to facilitate renewable energy projects, including feed-in tariffs and rules on interconnection.</p> <p>National Program for Energy Efficiency in buildings implemented.</p>	<p>Land acquisition process is underway.</p> <p>Completed.</p> <p>Energy efficiency retrofits completed in 18 municipal buildings; additional 13 buildings to be retrofit before end 2013.</p>	<p>FY06 ECSEE APL3 and FY11 Additional Financing</p> <p>FY07 Sustainable Energy Project (GEF)</p> <p>FY12 Lukovo Pole</p> <p>IFC: Regional Advisory Services for Small Hydropower Plants</p>

Country Development Goals	Issues and Obstacles	Outcomes the WBG Program is Expected to Influence	Milestones	Progress to Date	WBG Program
<p>Strengthen management of water resources in line with EU directives</p>	<p>Managing water resources is critical to addressing potential threats from climate change and resource and financial constraints, particularly in agriculture. Irrigation providers are inefficient and financially weak, and water policies remain inadequately aligned with the EU <i>acquis</i>.</p>	<p>Strengthen management of water resources, particularly in agriculture, as indicated by improved cost-recovery in new “Water Economies”(baseline: varied rates (11-90%) of collecting user fees in 2010; 60% user collection rate in 2012)</p>	<p>Increase in number of established and operating “Water Economies” (baseline: 5 in 2010; target: 9 in 2014).</p> <p>Comprehensive assessment undertaken of water management challenges in diverse sectors, and recommendations developed taking into account threats from climate change.</p>	<p>12 “Water Economies” established and operational.</p> <p>Working Note on Methods and Preliminary Results of the Water Sector Analysis prepared under Macedonia Green Growth and Climate Change presented to Government in July 2012</p>	<p>FY07 Agriculture Strengthening and Accession Project</p> <p>FY10 Water Sector Capacity Assessment (TF)</p> <p>FY09 Municipal Services Improvement Project</p>
<p>Strengthen the competitiveness of the agriculture sector, including improvements in the agricultural subsidies and land market and adapting practices to climate change and EU requirements.</p>	<p>Updating agricultural practices is critical to boosting growth and accessing assistance under the EU Instrument for Pre-accession, but capacity to satisfy EU standards is limited.</p> <p>Deficiencies in the functioning of the land market due to fragmented private land holdings and weak management of state-owned land represent a major constraint to investment and constrain lending.</p> <p>The system of agriculture subsidies does not support productivity enhancement and application of good agricultural practices.</p>	<p>Strengthen agriculture systems to comply with EU requirements, as indicated by EU IPARD assistance paid to farmers in compliance with EU standards (baseline: initial IPARD funding proposals being reviewed in 2010; target: IPARD payments processed in compliance with standards by 2011).</p> <p>Improved management of state-owned land (baseline: to be provided by MAFWE; target: 20% higher collection of lease payments on state-owned land by 2013).</p> <p>Stimulate productive agriculture investments by increasing the share of total subsidies allocated to structural measures from 10 percent (baseline in 2011) to 25 percent by 2013.</p>	<p>Farm registry and land parcel identification system fully established, and quarterly reports published on key agricultural data.</p> <p>The Government has adopted and implemented a Land Consolidation Strategy with actions to enhance the valuation of rural land that is market based and improved management of state-owned land (<i>new</i>).</p> <p>A Program on Agricultural Subsidies for 2013-2017 adopted (<i>new</i>)</p>	<p>IPARD accredited Paying Agency fully functional.</p>	<p>FY07 Agriculture Strengthening & Accession Project</p> <p>FY12 Agriculture and Climate Change TA Program</p> <p>FY12 Competitiveness DPL</p>

Annex 2: Gender Diagnostic in FYR Macedonia

FYR Macedonia has narrowed gender gaps over time in many areas: average gender inequalities in education and health are relatively small in the country compared to regional averages. The sharpest gender disparities in FYR Macedonia, however, arise in access to economic opportunities, with women having poorer labor market outcomes than men and, in some cases, some of the poorest outcomes in the ECA region. Analysis undertaken under a Gender Diagnostic⁸ prepared to inform this CPS Progress Report provides additional insights into gender gaps in FYR Macedonia.

GENDER GAPS IN ENDOWMENTS

Education. FYR Macedonia has achieved, on average, gender equality in education; however, gender disparities remain for some population subgroups and for specific issues. Gaps in enrollment rates, in particular, still persist among ethnic Albanian, and secondary enrollment rates are particularly low for ethnic Roma boys and girls. Gaps in other areas relate, for example, to gender segregation in field of study at the tertiary level. In addition, women face specific constraints to undertake additional training, with family obligations being a key factor in this decision (19 percent of women compared to 1.5 percent of men). Related to this, a limited number of children are enrolled in pre-school education level, with women devoting a much larger fraction of their time to family and domestic activities (compared to men who devote a larger fraction to work).

Health. Selected key health indicators suggest that there are no significant gender issues in these areas in FYR Macedonia. Maternal mortality is very low in the country and one of the lowest in ECA. Abortion rates halved between 2000 and 2010 but remain relatively high. Moreover, life expectancy in FYR Macedonia is higher than the regional average for both men and women (72 and 76 years, respectively), and particularly high for men in the context of a region with high adult male mortality (life expectancy for men in ECA is 66 years).

GENDER GAPS IN ECONOMIC OPPORTUNITIES

Labor markets and entrepreneurship. Gender disparities in labor markets are pronounced in FYR Macedonia. Female labor force participation is low and gender wage gaps persist. About 51 percent of women are active in labor markets compared to 78 percent of men and to the ECA regional average (62 percent). Women with low education level or who live in rural areas are less likely to participate in labor markets. Furthermore, there is a 26 percent wage gap (adjusted) between male and female earners. Female participation in self-employment and entrepreneurship is very low and fewer women decide to start-up a firm compared to men; the success rates and productivity, however, do not differ according to the gender of the entrepreneur.

GENDER GAPS IN AGENCY

Agency. Women's participation in collective actions is limited, gender stereotypes are still pervasive and domestic violence is also an issue. Regarding social norms, women appear less likely to participate in collective actions but female political representation has improved over time. Furthermore, gender stereotypes on the role of women in the household prevail: for example, twice as many men than women (about 50 vs. 25 percent, respectively) agree with the statement that men should give priority to women if jobs are scarce. While data limitations on domestic violence prevent an in depth analysis, about a quarter of women aged 15-49 believed in 2005 that a husband is justified in beating his wife/partner in various circumstances. This belief is most commonly found among women in rural areas, without education, or among the Roma ethnic group. Several laws in FYR Macedonia grant gender equality, although enforcement is suggested as an issue in some cases. A new Strategy for gender equality in FYR Macedonia is underway, which will cover the period 2013 – 2017.

⁸ World Bank (2012) "FYR Macedonia Gender Diagnostic: Gaps in Endowments, Access To Economic Opportunities and Agency".

Annex 3: Macedonia At-a-glance

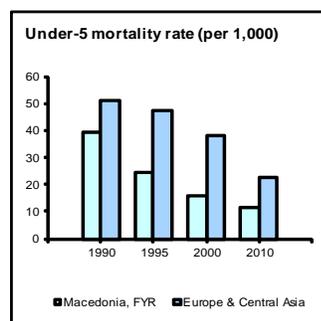
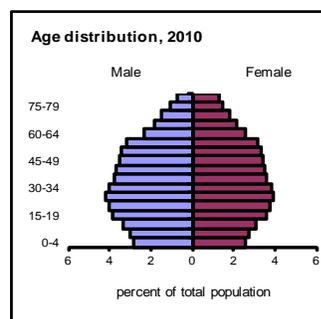
Macedonia, FYR at a glance

10/5/12

Key Development Indicators	Macedonia, FYR	Europe & Central Asia	Upper middle income
(2010)			
Population, mid-year (millions)	2.1	405	2,452
Surface area (thousand sq. km)	26	23,614	59,328
Population growth (%)	0.2	0.4	0.7
Urban population (% of total population)	68	64	57
GNI (Atlas method, US\$ billions)	9.4	2,947	14,429
GNI per capita (Atlas method, US\$)	4,570	7,272	5,884
GNI per capita (PPP, international \$)	10,920	13,396	9,970
GDP growth (%)	18	5.7	7.8
GDP per capita growth (%)	16	5.3	7.1

(most recent estimate, 2004–2010)

Poverty headcount ratio at \$125 a day (PPP, %)	<2	0	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	6	2	..
Life expectancy at birth (years)	75	71	73
Infant mortality (per 1,000 live births)	10	19	17
Child malnutrition (% of children under 5)	2	2	3
Adult literacy, male (% of ages 15 and older)	99	99	96
Adult literacy, female (% of ages 15 and older)	96	97	91
Gross primary enrollment, male (% of age group)	89	99	111
Gross primary enrollment, female (% of age group)	90	98	111
Access to an improved water source (% of population)	100	96	93
Access to improved sanitation facilities (% of population)	88	84	73

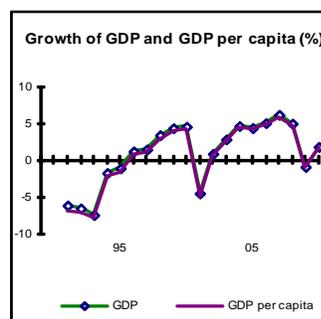


Net Aid Flows	1980	1990	2000	2010
<i>(US\$ millions)</i>				
Net ODA and official aid	..	3	250	178
<i>Top 3 donors (in 2010):</i>				
European Union Institutions	..	3	86	55
Japan	..	0	8	23
United States	..	0	37	20
Aid (% of GNI)	..	0.1	7.1	2.0
Aid per capita (US\$)	..	2	125	86

Long-Term Economic Trends

Consumer prices (annual % change)	..	114.9	5.8	13
GDP implicit deflator (annual % change)	..	93.7	8.2	2.2
Exchange rate (annual average, local per US\$)	..	0.1	65.9	46.5
Terms of trade index (2000 = 100)	..	98	100	106

Population, mid-year (millions)	18	19	2.0	2.1
GDP (US\$ millions)	..	4,472	3,587	9,189
<i>(% of GDP)</i>				
Agriculture	..	8.5	12.0	11.3
Industry	..	44.5	33.7	27.8
Manufacturing	..	35.7	20.7	15.6
Services	..	47.0	54.2	60.9
Household final consumption expenditure	..	72.3	74.4	74.9
General gov't final consumption expenditure	..	19.0	18.2	18.3
Gross capital formation	..	18.7	22.3	25.4
Exports of goods and services	..	25.8	48.6	47.3
Imports of goods and services	..	35.9	63.5	66.0
Gross savings	..	9.3	22.4	19.9



1980–90 1990–2000 2000–10 (average annual growth %)

Population, mid-year (millions)	0.6	0.5	0.3
GDP (US\$ millions)	..	-0.8	3.3
<i>(% of GDP)</i>			
Agriculture	..	0.2	1.9
Industry	..	-2.3	3.3
Manufacturing	..	-5.3	1.9
Services	..	0.5	3.6
Household final consumption expenditure	..	0.1	4.3
General gov't final consumption expenditure	..	-0.4	0.5
Gross capital formation	..	3.6	4.8
Exports of goods and services	..	4.2	2.6
Imports of goods and services	..	7.5	3.8
Gross savings	..	..	..

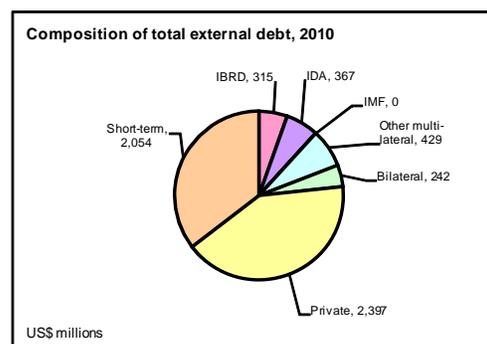
Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Development Economics, Development Data Group (DECDG).

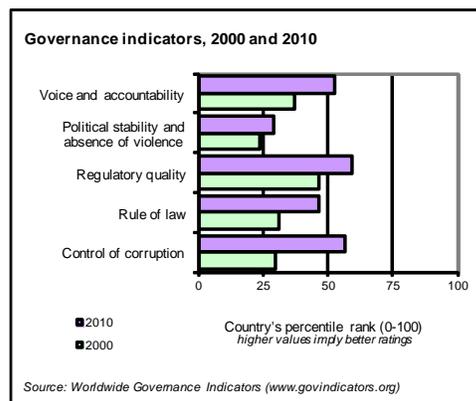
Balance of Payments and Trade	2000	2010
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	1,323	3,302
Total merchandise imports (cif)	2,094	5,451
Net trade in goods and services	-642	-1,867
Current account balance	-103	-262
as a % of GDP	-2.9	-2.8
Workers' remittances and compensation of employees (receipts)	81	388
Reserves, including gold	700	3,008

Central Government Finance		
<i>(% of GDP)</i>		
Current revenue (including grants)	36.0	30.0
Tax revenue	32.6	26.3
Current expenditure	31.0	29.8
Overall surplus/deficit	2.5	-2.5
Highest marginal tax rate (%)		
Individual	..	..
Corporate	15	10

External Debt and Resource Flows		
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	1,469	5,804
Total debt service	138	669
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	41.0	63.2
Total debt service (% of exports)	7.9	9.6
Foreign direct investment (net inflows)	215	296
Portfolio equity (net inflows)	0	-4



Private Sector Development	2000	2011
Time required to start a business (days)	-	3
Cost to start a business (% of GNI per capita)	-	2.4
Time required to register property (days)	-	40
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2010
Access to/cost of financing	..	41.0
Anticompetitive or informal practices	..	34.0
Stock market capitalization (% of GDP)	0.2	28.8
Bank capital to asset ratio (%)	..	10.6



Technology and Infrastructure	2000	2010
Paved roads (% of total)	63.8	57.6
Fixed line and mobile phone subscribers (per 100 people)	31	125
High technology exports (% of manufactured exports)	12	2.9

Environment		
Agricultural land (% of land area)	49	40
Forest area (% of land area)	37.7	39.6
Terrestrial protected areas (% of land area)	4.8	4.9
Freshwater resources per capita (cu. meters)	2,670	2,625
Freshwater withdrawal (% of internal resources)	10.8	16.1
CO2 emissions per capita (mt)	6.0	5.8
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	5.4	6.5
Energy use per capita (kg of oil equivalent)	1,331	1,352

World Bank Group portfolio	2000	2010
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	116	315
Disbursements	13	72
Principal repayments	3	11
Interest payments	7	3
IDA		
Total debt outstanding and disbursed	249	367
Disbursements	38	0
Total debt service	2	11
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	65	91
Disbursements for IFC own account	40	91
Disbursements for IFC own account	8	32
Portfolio sales, prepayments and repayments for IFC own account	0	0
MIGA		
Gross exposure	19	13
New guarantees	19	12

Note: Figures in italics are for years other than those specified.
 .. indicates data are not available. - indicates observation is not applicable.

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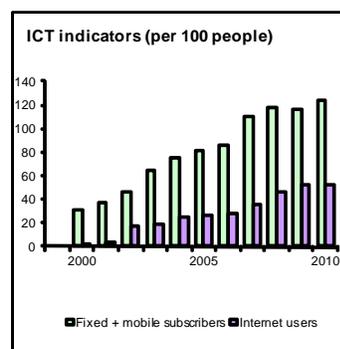
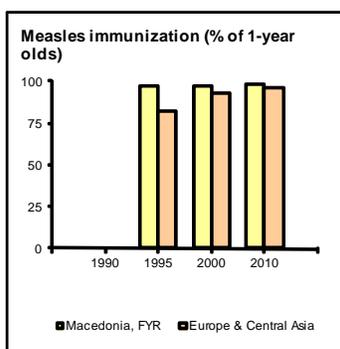
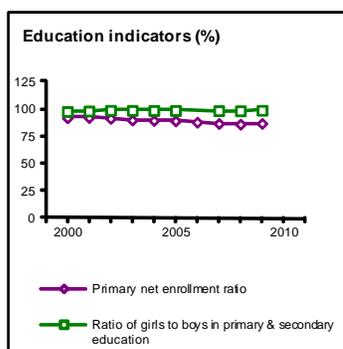
Development Economics, Development Data Group (DECDG).

Millennium Development Goals

Macedonia, FYR

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Macedonia, FYR			
	1990	1995	2000	2010
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 125 a day (PPP, % of population)	..	..	4.3	<2
Poverty headcount ratio at national poverty line (% of population)	..	..	19.1	19.0
Share of income or consumption to the poorest quintile (%)	..	..	6.5	5.1
Prevalence of malnutrition (% of children under 5)	..	..	19	18
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	92	87
Primary completion rate (% of relevant age group)	..	97	100	92
Secondary school enrollment (gross, %)	..	77	84	83
Youth literacy rate (% of people ages 15-24)	..	99	99	99
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	99	98	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	38	39	42	42
Proportion of seats held by women in national parliament (%)	..	3	8	33
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	39	24	16	12
Infant mortality rate (per 1,000 live births)	34	22	14	10
Measles immunization (proportion of one-year olds immunized, %)	..	97	97	98
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	16	14	15	9
Births attended by skilled health staff (% of total)	89	94	98	100
Contraceptive prevalence (% of women ages 15-49)	..	..	..	14
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	81	58	41	21
Tuberculosis case detection rate (% all forms)	20	69	77	89
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	100	100	100	100
Access to improved sanitation facilities (% of population)	..	..	88	88
Forest area (% of total land area)	35.9	..	37.7	39.6
Terrestrial protected areas (% of land area)	4.2	4.7	4.8	4.9
CO2 emissions (metric tons per capita)	5.6	5.5	6.0	5.8
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	6.4	5.0	5.4	6.5
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	15.0	17.9	25.3	20.1
Mobile phone subscribers (per 100 people)	0.0	0.0	5.8	104.5
Internet users (per 100 people)	0.0	0.0	2.5	51.9
Computer users (per 100 people)	..	..	..	57.5



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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Development Economics, Development Data Group (DECDG).

Annex B2: Selected Indicators* of Bank Portfolio Performance and Management

(as of October 12, 2012)

Indicator	2010	2011	2012	2013
Portfolio Assessment				
Number of Projects Under Implementation ^a	14	9	7	7
Average Implementation Period (years) ^b	4.0	4.1	5.0	5.1
Percent of Problem Projects by Number ^{a, c}	21.4	0.0	42.9	42.9
Percent of Problem Projects by Amount ^{a, c}	13.1	0.0	29.8	29.8
Percent of Projects at Risk by Number ^{a, d}	21.4	0.0	42.9	42.9
Percent of Projects at Risk by Amount ^{a, d}	13.1	0.0	29.8	29.8
Disbursement Ratio (%) ^e	17.3	30.5	26.1	0.2
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	36	6
Proj Eval by OED by Amt (US\$ millions)	766.5	71.3
% of OED Projects Rated U or HU by Number	17.1	0.0
% of OED Projects Rated U or HU by Amt	5.8	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3: IBRD/IDA Program Summary

(as of October 12, 2012)

Proposed IBRD/IDA Base-Case Lending Program

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2013	MK Competitiveness DPL	50.0	<i>H</i>	<i>L</i>
	Public Expenditure PBG	200.0	<i>H</i>	<i>M</i>
	Result	250.0		
2014	LUKOVO POLE WATER REG & RENEWABLE ENERGY	70.0	<i>H</i>	<i>H</i>
	MK Competitiveness DPL 2	50.0	<i>H</i>	<i>M</i>
	Skills project	24.0	<i>H</i>	<i>L</i>
	Result	144.0		
	Overall Result	394.0		

Annex B3: IFC Investment Operations Program

(as of October 12, 2012)

	2010	2011	2012
<u>Original Commitments (US\$m)</u>			
IFC and Participants	33.97		18.29
IFC's Own Accounts only	33.97		18.29
<u>Original Commitments by Sector (%)- IFC Accounts only</u>			
ELECTRIC POWER			25.22
FINANCE & INSURANCE	100		74.78
Total	100	0	100
<u>Original Commitments by Investment Instrument (%) - IFC Accounts only</u>			
Guarantee			1.28
Loan	100		98.72
Total	100	0	100

* Data as of August 01,2012

Annex B6: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
National accounts (as % of GDP)									
Gross domestic product*	100	100	100	100	100	100	100	100	100
Agriculture	11	12	11	11	11	11	11	11	11
Industry	31	30	27	28	27	27	27	27	27
Services	58	59	61	61	..	..	..	..	..
Total Consumption	94	98	96	93	95	94	93	92	91
Gross domestic fixed investment	20	21	20	20	22	23	23	23	23
Government investment	4	5	3	3	4	4	4	4	4
Private investment	16	16	17	16	18	19	19	19	19
Exports (GNFS) [†]	52	51	39	48	49	51	53	56	58
Imports (GNFS)	71	76	61	66	72	73	75	76	78
Gross domestic savings	6	2	4	7	5	6	7	8	9
Gross national savings*	18	15	21	25	23	22	23	23	23
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	8160	9834	9314	9138	10165	10242	10446	10760	11136
GNI per capita (US\$, Atlas method)	3470	4230	4540	4600	4730	..	..	..	..
Real annual growth rates (% calculated from 95 prices)									
Gross domestic product at market prices	6.1	5.0	-0.9	2.9	2.8	0.8	2.0	3.0	3.5
Gross Domestic Income	9.0	3.4	-2.0	2.1	0.4	..	..	..	..
Real annual per capita growth rates (% calculated from 95 prices)									
Gross domestic product at market prices	5.9	4.7	-1.1	1.6	2.9	..	..	..	..
Total consumption	5.9	6.9	-3.7	0.6	1.5	..	..	..	..
Private consumption	7.2	6.2	-4.4	0.9	2.0	..	..	..	..
Balance of Payments (US\$)									
Exports (GNFS) [†]	4208981062	4994316506	3548215491	4211538540	4980521239	5395096994	6029639424	6699510070	7391058134
Merchandise FOB	3391492599	3983278354	2685471491	3295596213	3959431872	4337732567	4890061653	5490987843	6113227158
Imports (GNFS) [†]	5813086572	7573406558	5665167021	6078674336	7249614967	7803249916	8455518543	9172549323	9916479225
Merchandise FOB	5029998109	6573180340	4842540679	5241038330	6291573433	6802063378	7389912113	8033075056	8676170600
Resource balance	-1604105510	-2579090052	-2116951530	-1867135795	-2269093728	-2408152922	-2425879118	-2473039253	-2525421091
Net current transfers	1383407439	1458000546	1600546945	1803332763	1932000000	1972660766	2070979031	2149437788	2188626559
Current account balance	-605698071	-1235795873	-598803455	-261768375	-558346399	-717971627	-654753444	-660852788	-705443232
Net private foreign direct investment	700150748	600501725	185527828	293800825	496990428	533259573	567325261	663298541	703627092
Long-term loans (net)	-178402145	409356172	58715983	117733458	172728632	369603770	473386275	345280609	329667522
Official	-147452000	63908000	22338000	100513000	52000000	-44781000	30248000	-42967000	-79085000
Private	-30950145	345448172	36377983	17220458	120728632	414384770	443138275	388247609	408752522
Other capital (net, incl. errors & omissions)	226963588	178717492	491009811	-99065908	-60000000	20000000	35000000	55000000	55000000
Change in reserves [†]	-143014119	47220484	-136450168	-50700000	-51372661	-204891716	-420958092	-402726361	-382851381
<i>Memorandum items</i>									
Resource balance (% of GDP)	-19.7	-26.2	-22.7	-20.4	-22.3	-23.5	-23.2	-23.0	-22.7
Real annual growth rates (YR95 prices)									
Merchandise exports (FOB)	9.2	-9.2	-19.3	23.4	14.3	13.2	11.9	11.2	10.6
Primary	-6.5	-8.7	-20.5	5.0	7.0	7.0	6.0	5.0	5.0
Manufactures	24.1	-7.0	-38.1	19.6	20.0	17.5	15.7	14.8	13.5
Merchandise imports (CIF)	15.3	-2.1	-15.9	10.9	11.3	10.3	8.3	8.2	7.4

Annex B6: Key Economic Indicators (continued)

Indicator	Actual				Estimate		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public finance (as % of GDP at market prices)*									
Current revenues	31.5	31.8	30.4	30.1	30.2	28.8	28.8	28.8	28.8
Current expenditures	28.4	29.2	30.7	30.0	29.3	32.7	32.3	31.6	31.3
Current account surplus (+) or deficit (-)	3.1	2.6	-0.3	0.1	0.9	-3.5	-5.0	-5.5	-5.2
Capital expenditure	3.7	4.8	3.2	3.5	4.4	3.5	..	..	..
Foreign financing	..	..	..	..	4.6	8.9	11.2	10.2	10.7
Monetary indicators									
M2/GDP	48.2	47.5	50.5	54.8	55.9	62.5	70.4	78.7	87.7
Growth of M2 (%)	29.3	11.2	6.0	12.2	8.0	18.3	19.9	18.8	18.2
Private sector credit growth / total credit growth (%)	74.7	92.3	62.9	48.5	129.4	95.8	100.0	100.0	100.0
Price indices(YR95 = 100)									
Merchandise export price index	191.4	249.8	209.4	208.2	218.4	211.4	212.9	215.0	216.5
Merchandise import price index	165.5	221.6	193.9	189.0	196.1	192.1	192.8	193.7	194.9
Merchandise terms of trade index	115.6	112.7	108.0	110.2	111.4	110.0	110.4	111.0	111.1
Real exchange rate (US\$/LCU) ^f	85.4	85.4	85.4	85.4	85.4	85.4	85.4	..	..
Real interest rates									
Consumer price index (% change)	2.3	8.3	-0.5	1.3	3.9	2.8	2.5	2.0	2.0
GDP deflator (% change)	7.4	7.5	0.7	1.6	2.7	2.2	2.9	3.1	3.8
a. GDP at factor cost									
b. "GNFS" denotes "goods and nonfactor services."									
c. Includes net unrequited transfers excluding official capital grants.									
d. Includes use of IMF resources.									
e. Consolidated central government.									
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.									

Annex B7: Key Exposure Indicators

Indicator	Actual				Estimated		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total debt outstanding and disbursed (TDO) (US\$m) ^a	4174	4694	5696	5986	6286	6350	6732	7160	7418
Net disbursements (US\$m) ^a	..	..	..	..	..	..	..	..	..
Total debt service (TDS) (US\$m) ^a	..	..	..	..	..	..	..	..	..
Debt and debt service indicators (%)									
TDO/XGS ^b	89.5	84.8	142.7	129.0	116.1	117.7	111.6	106.9	100.4
TDO/GDP	51.2	47.7	61.2	65.5	61.8	62.0	64.4	66.5	66.6
TDS/XGS	..	..	..	..	..	..	..	..	..
Concessional/TDO	16.1	14.2	12.0	11.4	10.6	10.0	9.6	8.9	8.2
IBRD exposure indicators (%)									
IBRD DS/public DS	35.9	..	..	..	13.5	..	..	12.9	7.7
Preferred creditor DS/public DS (%) ^c	64.2	..	..	..	56.6	..	..	85.3	55.9
IBRD DS/XGS	3.1	0.3	0.4	0.3	0.5	0.5	0.6	0.6	0.5
IBRD TDO (US\$m) ^d	193	237	271	315	334	351	354	343	320
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	394	386	382	367	357	346	334	323	310
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8 (IFC): Committed and Disbursed Outstanding Investment Portfolio

(As of October 12, 2012)

USD

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
2008/12	Evn macedonia	43.54	0	0	0	0	43.54	0	0	0	0
1998	Macedonia telcom	0	9.94	0	0	0	0	9.94	0	0	0
2010	Nlb tutunska bk	26.21	0	0	0	0	26.21	0	0	0	0
2012	Ohridska banka	12.58	0	0	0	0	0	0	0	0	0
Total Portfolio:		82.33	9.94	0	0	0	69.75	9.94	0	0	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

Annex B8: Operations Portfolio (IBRD/IDA and Grants)

CAS Annex B8 - Macedonia, form
Operations Portfolio (IBRD/IDA and Grants)
As Of Date 10/31/2012

Closed Projects 38

IBRD/IDA *

Total Disbursed (Active)	142.71
of which has been repaid	5.83
Total Disbursed (Closed)	364.77
of which has been repaid	283.61
Total Disbursed (Active + Closed)	507.48
of which has been repaid	289.45
Total Undisbursed (Active)	150.39
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Close)	150.39

Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>		
		Supervision Rating			IBRD	IDA	GRANT
		<u>Development Objectives</u>	<u>Implementation Progress</u>				
P101216	AGR STRENGTHENING AND ACCE!	MS	MU	2007	20		
P103974	CCT	S	MS	2009	25		
P082337	ECSEE APL #3 (FYR MACEDONIA)	MU	MU	2006	44.1		
P096481	MUNICIPAL DEVELOPMENT	S	S	2009	75		
P083126	REG & REAL ESTATE (CRL)	MU	U	2005	26.1		
P107840	REGIONAL AND LOCAL RDS PROG	S	S	2008	105.2		
P089656	SUSTAINABLE ENERGY (GEF)	MS	MS	2007			5.5
P110910	CRIF	MS	MS	2011	5		
Overall Result					300.4		5.5

THE CITY OF SKOPJE



Skopje serves as the Municipality Capital for each of these Municipalities.



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FORMER YUGOSLAV REPUBLIC OF MACEDONIA

- SELECTED CITIES AND TOWNS
- ⊙ MUNICIPALITY CAPITALS*
- ⊕ NATIONAL CAPITAL
- THE CITY OF SKOPJE
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- MUNICIPAL BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

*In most cases, the names of the municipalities are identical to their capitals. Where they differ, the municipality is shown in green *italic*.

