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Report No. 119862-MK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

PERFORMANCE AND LEARNING REVIEW OF THE COUNTRY PARTNERSHIP STRATEGY FOR THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA FOR THE PERIOD FY15–18

November 7, 2017

Western Balkans Country Unit
Europe and Central Asia Region

International Finance Corporation
Europe and Central Asia Department

The Multilateral Investment Guarantee Agency
Economics and Sustainability Group

The last Country Partnership Strategy was discussed by Executive Directors on October 16, 2014.

GOVERNMENT FISCAL YEAR
January 1 to December 31

CURRENCY EQUIVALENTS
Currency Unit = FYR Macedonian Denar (MKD)
US$1 = MKD 52.94
(as of October 31, 2017)

WEIGHTS AND MEASURES
Metric system

ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
ASA	Advisory Services and Analytics
BEEPS	Business Environment and Enterprise Performance Survey
BREP	Balkans Renewable Energy Program
CAD	Current Account Deficit
CCT	Conditional Cash Transfers
CFRR	Center for Financial Reporting Reform
CG	Corporate Governance
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DPA	Democratic Party of Albanians
DPO	Development Policy Operation
DUI	Democratic Union for Integration
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECSEE	Energy Community of Southeast Europe
EPP	ECA Power Program
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
HBS	Household Based Survey
HEAEB	Higher Education Accreditation and Evaluation Board
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFI	International Financial Institution
IPA	Instrument for Pre-Accession Assistance
LFS	Labor Force Survey

CIIP	Competitive Industries and Innovation Support Program
MIGA	Multilateral Investment Guarantee Agency
MKD	Macedonian Denar
MoF	Ministry of Finance
MSIP	Municipal Services Improvement Project
NATO	North Atlantic Treaty Organization
NPL	Non-Performing Loan
PBG	Policy Based Guarantee
PER	Public Expenditure Review
PFM	Public Financial Management
PLR	Performance and Learning Review
PPG	Public and Publicly Guaranteed
PPP	Public-Private Partnership
RAMS	Road Asset Management System
REM	Renewable Energy Macedonia Advisory Project
SAFE	Strengthening Accounting and Fiduciary Environment
SCD	Systematic Country Diagnostic
SDSM	Social Democratic Union of Macedonia
SHPP	Small Hydro Power Plant
SILC	Survey of Income and Living Conditions
SME	Small and Medium Enterprise
SOE	State-owned Enterprise
SSO	State Statistics Office
TF	Trust Fund
TVET	Technical Vocational Education and Training
UMIC	Upper Middle Income Country
UNHCR	United Nations High Commissioner for Refugees
UNDP	United Nations Development Program
USAID	U.S. Agency for International Development
VMRO DPMNE	Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity
WBG	World Bank Group
WGI	World Governance Indicators

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PERFORMANCE AND LEARNING REVIEW
FY15–18 Country Partnership Strategy
FORMER YUGOSLAV REPUBLIC OF MACEDONIA

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I. INTRODUCTION

1. **This Performance and Learning Review (PLR) assesses the implementation of, and presents the changes to, the World Bank Group Country Partnership Strategy FY15-FY18 (CPS) for FYR Macedonia.** The PLR proposes a six-month extension of the CPS period until December 31, 2018. A six-month extension would allow achievement of most CPS objectives and delivery of lending and knowledge services that were delayed due to political crisis in the country. It will also allow sufficient time to formulate, jointly with the new Government, the new Country Partnership Framework (CPF) based on the Systematic Country Diagnostics (SCD) which is currently underway. The six-month extension would also align the CPS with the Government Fiscal Year.

2. **Since the Board presentation of the CPS in October 2014, FYR Macedonia experienced a period of significant political instability**. After a two-year long complex political crisis and delays in establishing the parliamentary majority following the early parliamentary elections held in December 2016, the new coalition Government was finally formed in May 2017, consisting of the Social Democratic Union of Macedonia (SDSM) and ethnic Albanian parties (DUI and Alliance for Albanians).

3. **Because of the extended political crisis, less than a half of the originally planned lending was delivered in the period FY15-FY17.** The CPS envisaged IBRD lending program of about US$400 million, of which about 47.5 percent was delivered to date in support of investments in the transport sector, and local infrastructure and services. IFC's own account financing reached US$19 million for two projects, which is well below the original target of US$80-100 million. In the real sector, IFC invested US$8 million in a green-field automotive FDI, while in the financial sector it provided US$11 million subordinated loan to a systemic bank boosting its capital base. In addition to its own account financing, through the Renewable Energy Macedonia (REM) Advisory Project, IFC facilitated EUR198 million in private sector financing for renewable energy investments, thus exceeding the original target of EUR180 million for renewable energy investments by FY18.

4. **Progress against the CPS outcomes has been mixed to date**. Satisfactory advancements were made in improving fiscal and public financial management, enhancing the social safety nets, improving local infrastructure and services, and facilitating private sector investments. Although the World Bank did not pursue planned investments in small hydro-plant at Lukovo Pole, progress was achieved through IFC's REM advisory project which facilitated private sector investments resulting in additional renewable energy generation of 269 GWh. Limited progress was made against the CPS outcomes in the education and transport sector. While progress has been made on several indicators related to growth and competitiveness, measures continue to be needed to ensure sustainability of this progress. Continuing to improve the environment for private sector-led growth and improving the framework for FDI to further contribute to growth remain key priorities for the country.

5. **Key lessons learned during the CPS implementation** are related to: strong stakeholder engagement in the time of political turmoil, the use of knowledge products to deepen the policy dialogue on key reforms, importance to ensure readiness for implementation during the project preparation, the World Bank Group's added value in EU accession countries, and IFC experience delivering advisory services and promoting Public Private Partnership in the transport sector.

6. **The CPS design was realistic and its focus areas and overarching theme of promoting the EU accession remain relevant**. Consultations with the new authorities confirmed that the CPS' two focus areas of engagement - *Growth and Competitiveness*, and *Skills and Inclusion* - are broadly aligned with the new Government's program for the period 2017-2020. The new Government's program inter alia focuses on: strengthening economic development, creating an enabling environment for SMEs, improving energy security and stability while reducing energy costs and energy poverty, infrastructure development and regional connectivity, strengthening the social safety nets for the most vulnerable, developing an integrated educational system, labor productivity and improved jobs prospects for youth, and effective and transparent public administration.

7. **No significant adjustments to the program are required to enable the World Bank Group to respond to the country's needs.** The World Bank plans to support investments in improving energy efficiency in public buildings. It plans to support the PFM reform agenda through just-in-time analytic work, and a Public Finance Development Policy Operation (DPO). This DPO would also support the new Government's efforts to improve transparency in allocation of support to investors. The Bank also plans to support Government's efforts to promote youth employment and further enhance social safety nets through a social protection and activation operation. Overall, the Bank will pursue a lending program totaling approximately US$135 million until the end of the CPS cycle. If this plan is achieved, the total IBRD lending and trust funded program will reach US$359.9 million. In addition to this, the Bank will continue consultation with the Government about FYR Macedonia's participation in the Western Balkans Regional Trade and Transport Facilitation Project, and if this operation is included the program would nearly match the planned US$400 million during this CPS period. The Bank and IFC will continue to facilitate linkages between domestic and foreign investors, provide support to further enhance competitiveness of the private sector and the implementation of the business climate reforms, and improve export potential. Through the ECA Power Program launched in August 2016, IFC will promote energy efficiency efforts both at company and sector levels to help create new market opportunities and remove specific market barriers to more efficient and greener energy. In addition to financing—directly to the real sector and, if there is market demand, through financial intermediaries—IFC will support this agenda via advisory services (e.g., corporate governance). IFC will expand the Western Balkans Debt Resolution project to include FYR Macedonia, aiming at tackling high NPLs problem. IFC will target a lending volume of US$40-60 million (own account) until the end of the CPS cycle.

II. CHANGES IN COUNTRY CONTEXT

A. Political Developments

8. **FYR Macedonia experienced a serious political crisis during the period 2014-2017.** The presidential and parliamentary elections held in April 2014 confirmed the mandate of the Macedonian-Albanian coalition government (VMRO DPMNE and DUI) that has been in power since 2008. Although international observers reported that elections were overall efficiently administered, the political divisions remained as the main opposition party (SDSM) refused to take the 34 seats in the parliament accusing the ruling coalition of election fraud. The political crisis escalated in early 2015 when the SDSM began releasing the wiretapped content which included conversations between senior government officials suggesting election fraud, irresponsible public spending, misuse of power, and control over judiciary and media. In light of the revealed conversations, the legitimacy of the government was questioned by the opposition, civil society, academia, and international community.

9. **EU and US diplomats facilitated the dialogue between the main political parties, resulting in "Przhino Agreement"**. The agreement set the date for early parliamentary elections and established an interim government with a primary mandate to prepare for fair and transparent elections.

10. **Early parliamentary elections were held in December 2016, and the new Government was formed in June 2017.** After several delays, early parliamentary elections were held on December 11, 2016. Political tensions and street protests continued after elections due to close electoral result between the two main ethnic Macedonian parties, VMRO DPMNE with 51 members in the parliament (MPs), and SDSM with 49 MPs. With 61 MPs needed for a parliamentary majority, negotiations were held with ethnic Albanian parties (DUI – 10 MPs, Besa – 5 MPs, Alliance of Albanians – 3 MPs, and DPA – 2 MPs). Finally, the new coalition government was established with slim parliamentary majority (62 MPs) on June 1, 2017 consisting of SDSM, DUI, and the Alliance for Albanians.

11. **The new Government program envisages an ambitious reform agenda, and acceleration of the EU and NATO accession**. In terms of economic development, the reform agenda outlined in the Government Program 2017-2020 focuses on economic growth, jobs creation, fair taxation, support to SMEs, reform of the social protection for the most vulnerable, and public administration reform. In addition, the Government adopted the Action Plan 3-6-9[1] which includes a set of measures that will be implemented in the next three, six, and nine months to accelerate the process of the EU and NATO accession, with the aim of getting a date for the start of EU accession negotiations by spring 2018.

B. Recent Economic Developments

12. **FYR Macedonia has recorded higher growth rates than its regional peers after the global financial crisis, partially fueled by an expansionary fiscal policy.** Since 2009, growth averaged 2.1 percent, exceeding the Western Balkans regional average of 1.5 percent. FYR Macedonia preserved macroeconomic stability even during adverse external shocks, such as the 2008 international financial crisis and the 2012 Euro-zone crisis. Macroeconomic policies were geared toward keeping the external balance manageable, and monetary policy has responded quickly to any possible threats to the peg.[2] Fiscal policy, which had been prudent in the pre-crisis, deteriorated in recent years as fiscal space was used to stimulate GDP growth. High transfers, wages, and pensions, combined with employment stimulus, encouraged private consumption, while ambitious infrastructure projects boosted investment. Nevertheless, as a bi-product of these policies, fiscal accounts deteriorated, and the public and publicly guaranteed (PPG) debt grew fast, doubling in size with respect to the low base of 23 percent of GDP in 2008. See Annex 4 for details on selected macroeconomic indicators. However, debt level remains significantly lower in comparison with the EU28 average of 83.4 percent of GDP as of Q2 2017.

13. **Political turmoil affected growth in 2016 and 2017.** The country recorded strong growth in 2014 (3.6 percent) and 2015 (3.9 percent). Growth declined to 2.9 percent in 2016 and turned negative in the first half of 2017 as political uncertainty affected private investment. In the past two years, growth was largely driven by household consumption. Investments had negative contribution (despite large public investment projects), partially compensated by a positive contribution from net-exports.

14. **Employment increased, and unemployment declined helped by fiscal interventions to encourage job creation.** FYR Macedonia is the only country in the region where employment outcomes improved consistently since the Euro-crisis. Employment grew by 2.5 percent y-o-y in 2016 and by 2.7 percent in the first half of 2017. A large share of newly created jobs was linked to government supported employment programs in trade, transport services, and manufacturing. The unemployment rate fell to 22.8 percent in the first half of 2017, a historic low. Importantly, the decline in unemployment is partly explained by a low rate of labor force participation, which stood at around

[1] http://vlada.mk/sites/default/files/Plan3-6-9ENG.pdf

[2] Exchange rate of the local currency (Denar) peg to the EURO (previously to German Mark), introduced in 1995, has successfully supported price stability, with inflation averaging 2.4 percent over the last 10 years.

57 percent in early 2017, the lowest rate since 2012. Despite government efforts, youth unemployment and long-term unemployment remain high at 46 and 81 percent, respectively.

15. **The current account deficit (CAD) remains manageable and is projected to reach 3.1 percent of GDP in 2017, same as in 2016.** The solid increase of exports was not enough to compensate for higher dividends and profit repatriation, resulting in a CAD of 2.1 percent in the first half of 2017 (slightly lower than 2.6 percent of GDP in the same period in 2016). In the first half of 2017, net FDI, was lower by 50 percent compared to the same period of 2016. This dynamic was largely driven by profit repatriation outflows in June, but was partially compensated by other financial investments. FDI are expected to reach 2.6 percent of GDP in 2017, covering most of the CAD. Foreign reserves stood at 4.5 months of imports in August 2017.

16. **The fiscal policy stance is expected to lead to a higher PPG debt in 2017.** The fiscal deficit is projected to increase to 3 percent in 2017, slightly above the 2.6 percent deficit recorded in 2016. Fiscal performance in the first part of 2017 has been broadly in line with the originally approved budget. The new Government adopted a supplementary budget in July 2017, which adjusted projections for revenues and expenditures based on more conservative growth projections, but maintained the same deficit level. The supplementary budget rebalances the spending structure, with cuts on branding and promotion, goods and services, and capital spending (to match expected execution), and higher spending on pensions, subsidies, social assistance, and health. The new budget considers lower revenues from most taxes, except for excise and contributions. The new government also carried out a due diligence exercise that uncovered up to 3.5 percent of GDP in unpaid liabilities, still not included in the fiscal accounts. The PPG debt is projected to increase to 49.3 percent in 2017 (without considering arrears), up from 46.7 percent of GDP in 2015 and 47.8 percent of GDP in 2016.

17. **Growth will remain subdued at 1.5 percent in 2017 but is expected to increase to 3.2 percent in 2018 and 3.9 percent in 2019.** The impact of the political crisis was particularly significant during the first half of 2017, which saw a negative growth rate of -0.9 percent. A recovery is expected to start in the second half of 2017 as confidence is restored supporting private consumption and investment. The main growth drivers are expected to be private consumption, fueled by rising employment, and private and public investments. The fiscal deficit is expected to gradually decline to 2.2 percent over medium term, as the government starts implementing a public finance reform program and strengthens efficiency of public spending. The PPG debt is expected to increase fast to 53.6 percent by 2019 under the baseline scenario of gradual consolidation, reflecting the need to frontload structural reforms. The CAD is expected to average 3 percent in the period 2017-2019.

18. **Restoring fiscal stability and improving public financial management will be crucial in maintaining the macroeconomic stability and sustaining social progress.** The prolonged fiscal stimulus since the global financial crisis led to a deterioration in the fiscal accounts. While general government spending remained moderate (at around 35 percent of GDP), shifts in composition have worsened the rigid structure and low efficiency of public spending**.** At the same time, revenues continuously declined as a share of GDP leading to increasing primary deficits. Finally, the implementation of an ambitious investment agenda implemented through SOEs significantly increased the guaranteed debt. Thus, going forward implementing a responsible fiscal policy is critical for stabilizing public debt, rebuilding fiscal buffers, and reducing macroeconomic risks. This can be achieved through restoring revenue collection, making public financial management more efficient and transparent, and re-shifting the allocation of public resources towards more efficient and effective uses.

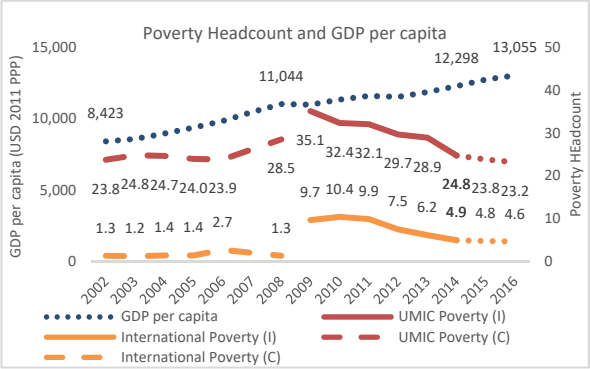
19. **Further improving the business environment and the conditions for private sector-led growth are also critical for sustaining growth and job creation, as well as their inclusion effects.** FYR Macedonia has made substantial progress on targeted areas of the business environment, rising

to 10th place out of 190 economies on the World Bank Group's Doing Business in 2016. Additionally, FDI inflows over the past years have driven increased export sophistication and job creation in manufacturing. However, challenges remain to overall competitiveness, investment, and upgrading by firms. The private sector cites a lack of predictability in the business environment. The implementation of regulatory impact assessment and public-private dialogue is uneven, and policy instability is the top constraint as per the World Economic Forum's Global Competitiveness Report 2017. Areas that require further examination include permits, inspections, the administration of state aid, and the framework for competition. To further promote regional and international integration, improvements are needed in trade facilitation, non-tariff barriers, the framework for investment, and liberalization of the service sector. Additionally, while the government's policies for attracting FDI have had some success, there is room to further increase linkages between FDI and the domestic economy, through FDI-related policies as well as firm-level capabilities and innovation.

C. Trends in Poverty, Shared Prosperity, Gender

20. **Growth in recent years has helped to reduce poverty largely due to fiscal stimulus, which raises concerns about sustainability of these gains.** As shown in Figure 1 below, on the back of solid growth and improved labor market outcomes, FYR Macedonia has experienced a decline in poverty in the post-crisis period (2009–2014). Growth in incomes at the bottom of the distribution was propelled mainly by improvements in employment opportunities (Figure 2), especially in agriculture, manufacturing and construction, which benefited low-skilled workers. However, the government played an important role through subsidies to foreign direct investment, active labor market policies, and infrastructure spending, which raises concerns about the sustainability of these gains. The discretionary increases in pension in the last few years have also contributed to poverty reduction, though to a much lower extent. Despite considerable reduction in poverty over the last few years, close to 100,000 people still live in extreme poverty in FYR Macedonia.

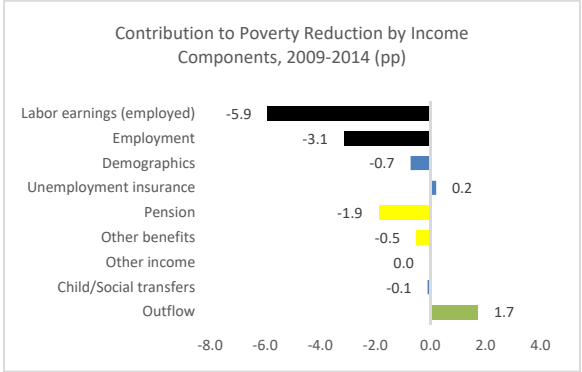
Figure 1: Evolution of absolute poverty



Source: GDP per capita from WDI. Poverty rates own estimation based on HBS for 2003–2008 and SILC for 2009–2014. Projections for 2015 and 2016 based on 2014 SILC.

Note: Welfare aggregate is household consumption per capita for HBS and household per capita disposable income for SILC. Series are not directly comparable.

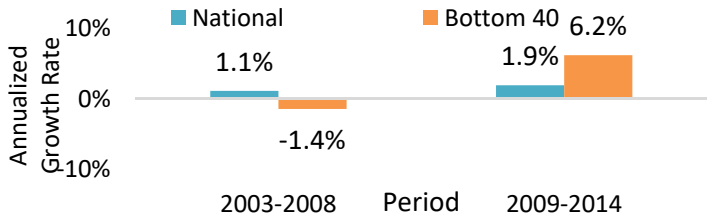
Figure 2: Drivers of poverty reduction (UMIC Poverty Line)



Source: GDP per capita from WDI. Poverty rates own estimation based on HBS for 2003–2008 and SILC for 2009–2014. Projections

21. **Poverty reduction experienced in FYR Macedonia in the post global financial crisis period was matched by an overall positive record in shared prosperity.** Growth in incomes at the bottom of the distribution was stronger than at the top in 2009–14, leading to a positive shared prosperity premium in FYR Macedonia, at 4.3 percentage points. Stagnant wages and lower employment creation in higher skilled sectors in the period contributed to this slower pace at the top of the distribution. In contrast, in the pre-crisis period, though average growth was positive, the bottom 40 percent saw their welfare levels decrease and upper quintiles captured most of the benefits.

Figure 3: Shared prosperity compound annual growth rate



Source: Shared prosperity indicator based on HBS for 2003–2008 and SILC for 2009–2014.

22. **Income distribution is close to the most unequal countries in the EU zone.** Consistent with the observed results in the shared prosperity indicator, the Gini coefficient decreased from 42.8 to 35.6 in the period. The Theil index also fell consistently during this period. In contrast, before 2008 inequality increased. However, these results are based on household survey which usually do not capture well the top of the income distribution. Indeed, inequality estimates based on tax records (Ministry of Finance), show an inequality close to 44 points in the Gini coefficient and a stable trend in recent years.

23. **FYR Macedonia has made progress in promoting equity between men and women, but gaps remain particularly in access to economic opportunities.** The gender gap in employment (20 percentage points among 15–64-year-olds in 2016) is driven by gaps in labor force participation due to lower activity rates among women (51 percent). This gap has persisted over the past years and is large compared to other countries. Gaps are also observed in entrepreneurship[3], with fewer women starting a business than men (12 percent of women and 19.7 percent of men). Success rates do not differ from male enterprises when women start businesses, suggesting barriers to entry. Segregation in fields of study, with young girls concentrating more on certain areas compared to young men (such as health, education, and humanities and arts), also influences their labor market prospects.

24. **Among ethnic minorities, gender gaps are even more salient**. For instance, a survey reveals that Roma women have around 5.1 years of education, half of that of non-Roma women. Similarly, unemployment is estimated to be twice as high among the Roma population, and significantly higher among Roma women, than among the non-Roma population.[4]

25. **Youth have a weak labor market engagement in FYR Macedonia.** Unemployment reached 46 percent among those 20-24-year-old in 2016, and was still high at 35 percent for those 25-29 years. Rates are high for both young men and women. In addition, inactivity rates are higher for youth than for prime-age individuals, with a persistent gender gap. These poor labor market outcomes have potential negative impact not only on the lifetime earnings of youth, but also on the growth prospects of the country.[5]

[3] With only 26 percent of firms having a woman as manager; and 16 percent of firms owned by women (BEEPS) 2013.
[4] UNDP/World Bank/EC Roma survey for FYR Macedonia (2011).
[5] Cuberes, D., & Teignier, M. (2015).

III. SUMMARY OF PROGRAM IMPLEMENTATION

A. Overall Progress

26. **Overall progress against the CPS outcomes has been mixed.** The original CPS Result Framework outlined seven outcomes and sixteen performance indicators. Four out of seven outcomes are on track to be achieved, with particularly noteworthy performance in social protection. Outcomes in improving road infrastructure and revised outcomes in promoting more clean energy are also achievable in this CPF cycle, whereas the outcomes related to tertiary education are likely to be achieved in the next CPF cycle. The proposed six-months extension would allow to make further progress in improving the business environment and promoting private investment, verify progress in improving the road infrastructure, make progress against the outcomes in the education sector, and reach targets in improving access to basic municipal services. By the end of the CPS cycle, overall progress against the CPS outcomes is expected to be moderately satisfactory. Detailed progress against CPS performance indicators is provided in Annex 1, whereas Annex 2 contains the revised CPS Result Framework. The sections that follow provide an overview of the progress made in each focus area, while details on individual interventions are provided in Annex 3.

B. Pillar I: Growth and Competitiveness

27. **The CPS program is on track to achieve targets in improving fiscal and public financial management.** The World Bank did not pursue the planned PFM DPO, and it is difficult to fully attribute the progress in this area to the World Bank supported activities. Nevertheless, the engagement through development policy lending during the previous CPS cycle, and continued technical assistance and policy dialogue with the Government on fiscal and public financial management, including during the preparation and presentation of the Public Expenditure Review (PER - FY16 deliverable), contributed to achievement of fiscal deficit targets, and improvements in transparency of the PFM. Engagement in the transport sector has contributed to better investment planning with the Road Asset Management System (RAMS) which is expected to be fully implemented by the end of the CPS cycle.

28. **IFC and IBRD interventions made satisfactory progress to create better conditions for private investment and link to FDIs, and targets are expected to be mostly achieved until the end of the CPS cycle.** IFC's interventions in the real sector and financial intermediaries contributed to satisfactory progress in facilitating private investments and FDIs. The World Bank work on competitiveness during the previous CPS cycle, and ongoing policy dialogue, contributed to improvements in business climate, export sophistication and job creation by greenfield FDIs.

29. **In the transport sector, targets related to improvements of road infrastructure remain achievable, while investments to improve access to transport through PPP will not materialize in this CPS cycle.** The Regional and Local Roads Project, which closed in December 2015, and the ongoing National and Regional Road Rehabilitation Project contributed to improvements of road infrastructure. The Road Upgrading and Development experienced delays due to political crisis and is expected to deliver results mostly during the next CPF cycle. Through its Regional PPP Advisory Program, the IFC supported the Ministry of Transport and Communications to improve road infrastructure, but investment did not materialize due to political crisis.

30. **In the energy sector, the CPS targets were met in promoting investments in renewable energy generation, and the outcomes related to energy savings will be pursued in the next CPF cycle.** Through the REM advisory project, which was financed by the Balkans Renewable Energy Program (BREP), IFC assisted the Government in adopting key renewable energy legislation, and

supported structuring, launching and successful finalization of the 6th tender on SHPPs in the country, resulting in signing of 13 concession contracts for SHPPs. The program enabled IFC to facilitate EUR198 million in private sector financing for SHPPs and other renewable energy technologies, resulting in additional renewable energy generation of 269 GWh per annum, thus surpassing the CPS target of 205 GWH of additional renewable energy. The CPS target was met although the World Bank did not pursue the planned investment in small hydropower station at Lukovo Pole. Instead, the government asked the World Bank to support the gasification project in partnership with the EBRD. Preparation of the gasification project ended after the government decided to pursue loans from private commercial banks instead of IFIs. Finally, the preparation of the Energy Efficiency Fund Project has been delayed due to uncertainty over the implementation arrangements for the project. The project is currently planned as FY19 deliverable. Consequently, the PLR proposes to drop the indicator on energy efficiency as it will be achievable only during the next CPF cycle.

C. Pillar II: Skills and Inclusion

31. **Better alignment of the tertiary and vocational education system to the needs at the labor market is expected to be partially achieved until the end of the CPS.** Political crisis, and institutional capacity constraints delayed planned reforms in the education sector. Consequently, implementation of the Skills and Innovation Project, which provides support to tertiary and vocational education system reforms, was significantly delayed, and the project is likely to be partially successful in contributing to CPS outcomes within this CPS cycle.

32. **Impressive results were achieved and CPS outcomes already met in improving efficiency of the social protection system and its compatibility with employment**. Targeting of social benefits has improved and 71.8 percent of the people in the poorest quintile are covered with social assistance. Furthermore, nearly 89 percent of beneficiaries with children aged 15-18 are registered for conditional cash transfers. Finally, the share of recipients of social assistance who formally work increased from 1.46 percent in 2014 to 3.4 percent in 2017.

33. **The CPS outcome to improve access to basic services is on track to be achieved.** Following the successful experience in implementing the Municipal Services Improvement Project (US$75 million approved in 2009), the follow-on operation (US$28 million) was approved in January 2016. Furthermore, the EC provided significant co-financing for rehabilitation of rural infrastructure (IPA grant US$17.7 million). These operations led to satisfactory progress against the CPS outcomes related to piped water connections, and improved access to regular solid waste services. Through engagement in this area, the Bank will continue to ensure inclusion and equal opportunities to all local governments irrespective of their ethnic and political affiliation.

D. Portfolio Performance

34. **The World Bank's loan portfolio comprises seven operations totaling US$348.9 million.** Six projects are financed by IBRD (US$312 million), while the Local and Regional Competitiveness Project (in tourism sector) is entirely funded from the Second EU Instrument for Pre-accession (IPA 2) with a US$19 million TF[6]. In addition to this, the Municipal Services Improvement Project has received additional financing from EU IPA in the amount of US$17.7 million. The World Bank current portfolio focuses on the road infrastructure (including road safety and climate resilience), municipal services, social protection, education, skills and innovation, and competitiveness in tourism.

[6] The EU IPA TF for the Local and Regional Competitiveness in Tourism includes the Recipient Executed TF in the amount of US$17.2 million, and the Bank Executed TF in the amount of US$1.8 million.

35. **Portfolio performance remained relatively satisfactory, despite the political crisis.** FY16 disbursement ratio was 23.4 percent, comparing favorably to those in the Western Balkans and ECA. FY17 disbursement ratio was 12.2 percent, reflecting the implementation difficulties encountered during the extended political-electoral crisis. It is expected that disbursement will pick up in the coming months, due to the interest shown by the new government to address existing bottlenecks in project implementation. The recently approved supplementary budget for 2017 foresees sufficient allocations for active projects.

36. **IFC's outstanding portfolio amounts to US$30.72 million,** including three active loans in energy, automotive, and banking sector, equity investment in the telecom sector, and a quasi-equity investment in the banking sector (please see Annex 6 for details).

37. **As of October 2017, MIGA's outstanding gross exposure in FYR Macedonia totaled about US$22 million, focused on one political risk insurance guarantee operation with ProCredit Holding AG in the financial sector.** During the CPS period, one guarantee of US$118 million was cancelled by the investor, National Bank of Greece, during FY16 due to business reasons. Similar to ProCredit, the cancelled guarantee was related to political risk insurance guarantee in the financial sector. MIGA's operations in FYR Macedonia have been thus far limited to supporting the banking sector in the country via its capital optimization coverage, i.e. insurance of mandatory reserves. MIGA's capital optimization product de-risks banking groups' balance sheets creating space for the deployment of productive assets, i.e. supporting local lending. The development outcome of MIGA's intervention is as such associated with its support to banking groups that invest in their local subsidiaries in the host countries and allow credit expansion. As reported in its latest IEG evaluation note for the ProCredit Bank, which included an evaluation of the operations of its local subsidiary in FYR Macedonia, ProCredit performed satisfactory in FYR Macedonia, with an expansion of its loan book.

Partnerships and Leveraging

38. **The World Bank Group has continued its active engagement with the development partners in the country.** With the EU accession as a cross-cutting theme in the CPS, the EU has been the key partner for the World Bank Group in FYR Macedonia, and the collaboration has increased during the past few years through leveraging available IPA funds. Currently, two operations are financed with funds from the EU Instrument for Pre-accession (IPA): (i) a TF of US$19 million, aimed at improving competitiveness at local and regional level in tourism, and (ii) a TF of US$17.7 million, aimed at improving municipal services in rural areas. The World Bank will continue to work closely with the EU to support the government in key areas, such as the PFM, public administration reform, education, competitiveness, labor market, and agriculture. The World Bank worked actively with the US and European partners to ensure equal participation of municipalities irrespective of their political or ethnic affiliation under the Municipal Services Improvement Project.

Citizen Engagement

39. **In the context of the Strategic Framework for Mainstreaming Citizen Engagement in the World Bank Operations, efforts were stepped up in FYR Macedonia during the CPS period to meet the citizen engagement corporate requirements.** During the period FY14-17, following the introduction of the Strategic Framework for Citizen Engagement, six projects in FYR Macedonia were approved. With regards to *compliance* with the citizen engagement requirements, 67 percent of projects approved since FY14 include a citizen-oriented design, and 50 percent include a beneficiary feedback indicator in the results framework. This is slightly below the ECA respective averages of 83 percent

and 71 percent. Before FY16, however, no projects in FYR Macedonia were fully compliant with both requirements. Going forward, the WBG will continue to strengthen citizen engagement. Specific actions planned for the remainder of the CPS are outlined in Annex 5.

E. Advisory Services and Analytics

40. **The Advisory Services and Analytics (ASA) provide the foundation to the World Bank's engagement in the country.** The planned ASA program was fully delivered over the past three years. The ASA work provided valuable information in key areas such as competitiveness and innovation, social accountability, transport sector, municipal services and energy efficiency, poverty assessment, gender, and public finance management. The most notable pieces of analytic work included the PER, Municipal Energy Efficiency Promotion, Competitive Industries and Innovation Support Program, Poverty Note, Mainstreaming Social Accountability in portfolio (Social Filter), Gender Diagnostics and Monitoring, and REBIS Upgrade. The World Bank delivered a set of twenty Policy Notes to inform policy debate with the new Government, including the debate about the program to be supported within this CPS cycle and beyond. Finally, in response to the request by the new Government, the Bank team prepared a Note on Arrears in the Public Sector. Currently, the Bank is also advising the Government on debt and risk management to reduce vulnerability to financial shocks through strengthened public debt management capacity and institutions.

IV. EMERGING LESSONS

41. **Operating in a highly politically charged environment requires strong stakeholder engagement while maintaining impartiality**. Twenty three percent of respondents in the Country Opinion Survey Report 2017 stated that the Bank's greatest weakness was not being willing to honestly criticize policies and reform efforts in the country. In response to such expectations, the World Bank emphasized its impartiality and intensified communications with the government, the opposition, key development partners, and civil society to ensure support for all ongoing and planned operations. For example, strong communication efforts were made before and after approval of the Second Municipal Services Improvement Project (approved in January 2016) to explain that the project provides equal opportunities to all local governments irrespective of their ethnic and political affiliation.

42. **Using technical assistance and ASA to deepen the policy dialogue on key reforms, regardless of the political crisis, paved the way for further strong Bank engagement.** Through the technical assistance provided under the CIIP, SAFE TF, the Public Expenditure Review, and Policy Notes, the Bank managed to maintain focus of the government on the PFM and competitiveness reforms, while maintaining communication on the reform agenda with all stakeholders. Such an approach was welcomed by the previous and the current government and paved the way for further strong Bank engagement in these reform areas.

43. **The CPS implementation experience emphasizes the necessity to reach firm agreement with the Government during the CPS preparation about strategic investments in the energy sector.** During the CPS preparation, the Bank and the Government did not reach firm agreement about the specific strategic investments in the energy sector. During the CPS implementation, the Bank tried to be flexible and respond to changing government priorities by engaging in preparation of the gasification project in partnership with the EBRD, although such operation was not envisaged in the CPS. After months of preparation, the Government opted for financing from commercial banks thinking the IFIs' insistence on cost recovery and social safeguards may slow the project preparation. While this decision did not have a significant fiscal and debt impact, it is unclear if the investment

meets sound cost recovery and safeguard requirements. Going forward, the Bank should aim to reach firm agreement over strategic investments including a realistic schedule for project delivery during the CPF preparation.

44. **Political commitment, and adequate technical and financial support are key to success of institutional capacity building and reform activities** (e.g., transforming culture towards a customer oriented agency as in the Real Estate Cadastre and Registration project). Technological solutions alone cannot drive institutional reform. Experience from Real Estate Cadastre and Registration project also suggests that new ICT technologies should be introduced gradually rather than a "big bang" approach of rushing technological innovation under a single initiative/contract.

45. **Lack of readiness for implementation can substantially delay implementation and increase costs.** The readiness of detailed designs prior to tendering works saves time in implementation and helps avoid large contract variations. To avoid substantial implementation delays, any land acquisition process should start as early as possible, ideally prior to loan effectiveness. In any case, any required approvals related to project implementation, land acquisition or other, should be completed prior to project negotiations (e.g., approval of land acquisition managed by the Property and Legal Affairs Office was a main reason of delay in ECSEE APL project, while unresolved property issues also caused implementation delays in the Road Upgrading Project). From operational perspective, identification of key government counterpart(s) should be done as early as possible, and a project implementation unit should be preferably set up during project preparation.

46. **In EU accession countries, the WBG's on-the-ground knowledge and EU resources can be combined to make an impact.** The World Bank is administering the Local and Regional Competitiveness Project under indirect management modality with the EU Delegation. This project is funded by an US$19 million grant from the EU (with Bank-Executed and Recipient-Executed components). Such partnership enables the EU to benefit from the implementation capacity and analytical expertise of the World Bank, while it also enables the World Bank to support the Government in its priorities in an area in which funding was otherwise not available from the Bank.

47. **Raising awareness and penetration of the Corporate Governance (CG) standards is a long-term process, requiring continuous WBG efforts to induce fundamental changes.** IFC's Advisory Services program has achieved good results in promoting CG practices and building local institutional capacity. However, CG is still perceived as a relatively new concept by the companies and the demand for CG activities is nascent.

~~48.~~ **Engagement to promote PPPs depends on ensuring full Government commitment, stronger cooperation, developing well-established PPP model, and clear arrangements for timely payments of project fees.** While successfully completed, IFC's advisory support to the Ministry of Transport and Communications did not yield the expected results due to political decisions and material changes made at the tender stage of the Corridor 8 Motorway project, which impacted investors' confidence and attractiveness of the project. While IFC remains committed, IFC will be selective in assuming any new PPP advisory mandates.

49. **Real outcomes in enhancing institutional capacity will only occur over time.** While IFC achieved good results in its engagements with the government stakeholders, it requires nurturing continuous and strong relationships with the private sector stakeholders, including project sponsors and financial institutions, to create long-lasting impact.

50. **IFC advisory services can be more efficient if tied with credit lines and direct lending in FYR Macedonia vis a vis implementing standalone advisory programs.** For instance, most of the local banks lack institutional capacity to invest in large scale projects, which can be addressed through

credit lines combined with advisory services, providing not only financing but also institutional capacity support to achieve broader development impact.

V. ADJUSTMENTS TO PROGRAM

51. **Until the end of the CPS cycle, the World Bank will support three operations that were envisaged in the original CPS** (see Table 1 below for details). In response to the Government priorities to improve effectiveness and transparency of public finance, including efforts to improve transparency of allocating support to foreign investors, the World Bank plans to provide support through the Public Finance DPO/PBG worth approximately US$80 million. In the energy sector, the World Bank plans to support investments in improving energy efficiency in public buildings through the Energy Efficiency Fund project in the amount of approximately US$20 million. During the preparation of this project, the Bank and the counterparts will consider measures to reduce the air pollution. The World Bank plans to support the reform of the social protection system through the Social Services Improvement Project (approximately US$35 million). In addition to these, the Government expressed initial interest for the Western Balkans Trade and Transport Facilitation Project which aims to promote deeper economic integration within the Western Balkans and with the EU by facilitating cross-border movement of goods, enhancing transport efficiency and predictability, and enhancing market access for trade in services and investments. It was agreed that additional information will be provided and consultations held before the Government decides on the need for this project and the amount of investment. Apart from the Public Finance DPO/PBG, the planned operations will only contribute to results that will be pursued in the next CPF cycle as all are envisaged as FY19 deliverables. As shown in Table 1 below, until the end of the CPS cycle the World Bank plans to provide approximately US$130 million in new lending. If this plan is achieved, the total IBRD lending and trust funded program will reach US$359.9 million and nearly match the planned US$400 million during this CPS period. Actual IBRD lending volumes over the remaining period of the CPS will depend on country demand, overall country performance, as well as global economic and financial developments, IBRD's financial capacity, and demand by other Bank borrowers.

52. **During the CPS period, IFC experienced a challenging lending environment.** Its financing has been constrained by the prolonged political crisis, which have had a profound impact on business environment and private investments, as well as adverse market conditions such as limited viable projects, excess liquidity and often cheap parent funding in the banking system, which is dominated by foreign banks, and concessional funding and grants provided by other IFIs and regional development banks at subsidized terms. Under these circumstances, IFC's own account financing remained low at US$19 million, allocated in two projects. Within the remaining CPS period, IFC's original lending target (US$80-100) is unlikely to be met as these conditions are expected to prevail to a large extent. Therefore, IFC will target a reduced own account lending volume of US$40-60 million which can later be scaled up, should the existing conditions improve.

53. **Advisory Services and Analytics will underpin the World Bank engagement for the remaining part of this CPS cycle and beyond.** In addition to a series of twenty policy notes that were delivered to the new Government at the beginning of their mandate, the World Bank rapidly responded to the Government's request to assess the size of public sector arrears by delivering the policy note on arrears in the public sector. The ASA on Government Debt and Risk Management Program, and the PER update will further support engagement on PFM reforms. The EU and the World Bank will explore possibility for partnership in conducting a functional review of the agriculture sector. Finally, the Systematic Country Diagnostic, which is expected to be completed in Q3FY18, will be the key piece of analytic work in FYR Macedonia in this CPS cycle.

Table 1. CPS lending summary

PILLAR I: GROWTH AND COMPETITIVENESS				
PLANNED (in US$ millions)		**ACTUAL and PROPOSED** (in US$ millions)		
FY15	**IBRD**	**FY15**	**IBRD**	**TF**
Road Rehabilitation	70	Road Rehabilitation	71	
Small hydro/water storage	60	**FY16**		
Public Finance DPL	70	Road Upgrading	91	
FY16		Competitiveness in Tourism (IPA TF)		17.2
Energy Efficiency Fund	20	**FY19 - proposed**		
Competitiveness DPL3	70	Energy Efficiency Fund	20	
FY17		Public Finance DPO/PBG	80	
Road Upgrading	80	Regional Trade and Transport Facilitation	tbd	
Sub-total Pillar I	**370**	**Sub-total Pillar I**	**262**	**17.2**
PILLAR II: SKILLS AND INCLUSION				
PLANNED (in US$ millions)		**ACTUAL and PROPOSED** (in US$ millions)		
FY15	**IBRD**	**FY15**	**IBRD**	**TF**
ICT-based Jobs	10	Municipal Services – IPA Rural Window		17.7
Solid Waste/Wastewater	20	**FY16**		
FY17		Municipal Services 2	28	
Social Protection Reform	tbd	**FY19 - proposed**		
		Social Services Improvement	35	
Sub-total Pillar II	**30**	**Sub-total Pillar II**	**63**	**17.7**
TOTAL planned	**400**	**TOTAL actual**	**190**	**34.9**
		proposed	**135**	
		GRAND Total (actual, proposed, TFs)	**359.9**	

54. **The CPS Result Framework was revised to reflect changes in the program and to correct inaccuracies in the original versions.** New indicators are added to better capture proposed engagement with Public Finance DPO, IFC's engagement in improving access to finance, and the Bank engagement in enhancing competitiveness and export sophistication. The indicator related to PPPs in the transport sector is dropped as results will be achieved in the next CPF cycle even if IFC re-engages in this area. The indicator related to energy efficiency is dropped and will be pursued in the next CPF cycle. Target related to renewable energy is revised in accordance with the latest progress made by IFC. Finally, baseline and target values for outcomes in business environment, education and social protection are better aligned with the latest available data and activities in these sectors.

VI. RISKS TO PROGRAM

55. **Risks outlined in the original CPS materialized during the period 2014-2017.** Political crisis in the country resulted in change of political and investment priorities, and the Bank exercised flexibility and adjusted its program to support reform efforts through policy dialogue, strategic ASA, and targeted investment projects that were not politically sensitive. The Bank also mitigated this risk through concerted communication effort to ensure support for all ongoing and planned operations. Such approach created pre-conditions for strong engagement in the aftermath of the political crisis.

56. **Political instability remains the key risk to the CPS program.** The political instability had profound effect on the overall reform agenda in the country, and consequently on the WBG program. Going forward, the political instability cannot be ignored as a source of substantial risk for the CPS program. The Government is pursuing an ambitious reform agenda but has a slim parliamentary majority, and institutional capacity may be stretched to support such an ambitious reform program. The Bank recognizes the dependency on the political calendar, and interplay of political tensions in the Western Balkans that affect each individual country, and will continue to be flexible and adjust the program in case the political environment or commitment to reforms is questionable.

57. **The new government's ambitious program needs to build on sustainable fiscal management policies.** The new Government is planning an ambitious program that includes new social safety and activation programs, and support for private investors and SMEs. In the current political environment, there is a risk that the Government will be under pressure to provide generous support which may not be fiscally sustainable. This risk will be mitigated through advisory services and related policy dialogue. The PER Update and Policy Note on Arrears the World Bank will contribute to an informed decision making by the new Government. The World Bank will work with the new Government to develop an efficient and sustainable Social Safety Nets and Activation program.

58. **FYR Macedonia's vulnerability to natural disasters was exposed over the past two years.** Natural disasters in FYR Macedonia threaten the population and businesses, and can also significantly disrupt the country's economy and the national budget. A recent World Bank disaster risk estimation states that floods pose one of the biggest threats, yet earthquakes could potentially cause catastrophic losses of extreme magnitude. In 2015, the World Bank advised the Government on Disaster Risk Mitigation measures, and will further policy dialogue on this through the SCD, with potential ASA during the next CPF cycle.

59. **The overall risk to the program is rated as Moderate for the balance of the period,** as reflected in the Systematic Operations Risk-Rating Tool (SORT) below.

Table 2: Systematic Operations Risk-Rating Tool

Risk Category	Rating (H, S, M or L)
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environment and social	Substantial
Stakeholders	Moderate
Overall	**Moderate**

ANNEX 1: FY15–18 Country Partnership Strategy

Results Framework – Progress Update and Proposed Changes

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
PILLAR I: GROWTH AND COMPETITIVENESS			
Outcome 1: Improved fiscal and public financial management	**ACHIEVED**		**Completed** Public Expenditure Review (FY16) Regional and Local Roads Program Support Project (FY16) Growth and Shared Prosperity ESW – Regional SCD Synthesis (FY17) WBG just-in-time advice/policy notes (FY17) **Ongoing** National and Regional Road Rehabilitation Project Road Upgrading and Development Project SAFE TF EU REPARIS Program **Planned** Public Finance DPO (FY19) Public Expenditure Review – update (FY18)
• Fiscal deficit declines in line with medium-term budget framework *Baseline*: 4.1 percent of GDP (2014) *Target*: below 3 percent of GDP (2018)	**Achieved**. In 2016 the deficit declined to 2.6 percent of GDP. The decline relates mainly to a low execution of capital spending in the context of a prolonged election cycle. The 2017 budget foresees a deficit of 2.9% of GDP, while the World Bank projects a deficit level of 3 percent of GDP.	**Revised indicator:** the baseline value is revised to 4.2 percent of GDP in accordance with more accurate data that became available after the CPS approval. Years added for baseline and target values.	
		New indicator: Organic budget law approved. *Baseline*: No (2017) *Target*: Yes (2018)	
• Quarterly reports on consolidated public and publicly guaranteed debt published on the MoF website *Baseline*: No (2014) *Target*: Yes (Q3 2014)	**Achieved**. Consolidated quarterly reports are regularly published on the MoF website since Q3 2014.	**No change**	
• Road Enterprise makes investments using Road Asset Management System *Baseline*: No (2014) *Target*: Yes (2018)	**Partially achieved**. The system is still under development due to procurement delays. Investments under the World Bank project were identified using a Highway Development and Management-4 (HDM-4) tool, which is a step in a good direction, but this approach is still not	**Revised indicator:** years added for baseline and target values.	

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
	applied for identification of all investments. This outcome remains achievable until the end of extended CPS cycle.		
Outcome 2: Better conditions for private investment and links to FDI • Private investment facilitated in the real sector through IFC interventions *Baseline:* EUR80 million (2014) *Target:* EUR180 million (2017)	**PARTIALLY ACHIEVED** **Achieved**. Through the REM Advisory Project, IFC helped launch the 6th tender on SHPPs resulting in signing of 13 concession contracts for SHPPs. In this way, IFC helped mobilize EUR 198 million investments resulting in additional installed capacity of 77.5 MW and 269 GWh electricity supply per annum.	**Revised indicator:** years added for baseline and target values. **New indicator**: • Number of people and MSMEs with improved access to financial services *Baseline:* 1,751 (2015) *Target:* 7,100 (2019) • Volume of outstanding MSME loan portfolio of IFC clients *Baseline:* US$54.2 million (2015) *Target:* US$588.6 million (2019)	**Completed** Competitiveness DPL2 (closed in October 2014); Growth and Shared Prosperity ESW – Regional SCD Synthesis (FY17) WBG just-in-time advice/policy notes (FY17) **Ongoing** IFC – ECA Power Program IFC Advisory on Infrastructure PPP IFC investment and mobilization in the real sector CIIP Skills and Innovation Project EU IPA TF Local and Regional Competitiveness in Tourism CFRR – Internal Audit Training of Trainers Program
• Number of days to obtain construction permit *Baseline:* Average 181.1; Manufacturing 43; Services 243.1(BEEPS) (2013) *Target:* Average 83; Manufacturing 25; Services 100 (2018)	**Partially Achieved**. Average number of days to obtain construction permit was reduced to 89 (DB 2017). Data for manufacturing and services will be verified in 2018 once the new BEEPS data is available.	**Revised indicator:** years added for baseline and target values.	**Planned** IFC investment and advisory

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
• Improved local business sophistication *Baseline:* Sophistication 3.65; Innovation 3.2 (Global Competitiveness Report 2013, pillars 11 &12) *Target:* Sophistication 4.0; Innovation 4.0 (2018)	**Partially achieved**. Sophistication -3.8, Innovation – 3.4	**Revised indicator**: • Improved local business and export sophistication *Baseline:* Sophistication 3.65; Innovation 3.2 (Global Competitiveness Report 2013, pillars 11 &12), share of medium and high tech exports in the total exports – 57 percent (2016). *Target:* Sophistication 4.0; Innovation 4.0, share of medium and high tech exports in the total exports – 60 percent (2018). **New indicator**: • Jobs created by greenfield FDI with state incentives[7] (in and outside TIDZs): *Baseline*: 12,000 (2016) *Target*: 13,000 (2018)	
Outcome 3: Road infrastructure improved • Percentage of national and regional roads network in good and fair condition increased* *Baseline:*79 *percent* (2014) *Target:* 81 percent (2018)	**PARTIALLY ACHIEVED** **Achieved.** The network condition survey will be conducted in late 2017 and is expected to validate achievement of this outcome as per the revised target.	**Revised indicator:** baseline and target values revised: *Baseline:*64 percent[8] (2015) *Target:* 74 percent (2018)	**Completed** Regional and Local Roads Program Support Project; (FY16) Regional Balkans Infrastructure Study in Transport Update (FY15)

[7] The state incentives are a package of state aid granted according to the Law on Technological Development Industrial Zones and the Law on Control of State Aid. The package consists of tax and duties exemptions, cash contributions to construction costs and training, long terms leases on the construction costs and free connection to water and sewerage (see details at: http://www.dtirz.com/setting-up-a-business/why-invest/incentives/).

[8] In 2015 the PESR completed the first road condition survey, which showed a network status significantly different form the data provided by PESR during the CPS preparation. Specifically, the 2015 roughness measurements showed that the share of the network in good and fair condition was 64 percent.

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
• Number of people with better access to transportation through new PPPs *Baseline:* 0 (2014) *Target:* 300,000 (2018)	**Not achieved**.	**Dropped**: IFC remains committed to support PPPs in transport sector, but possible results are achievable only during the next CPF cycle.	WBG just-in-time advice/policy notes (FY17) **Ongoing** National and Regional Road Rehabilitation Project Road Upgrading Project
Outcome 4: More clean energy available • Additional annual renewable clean energy generation *Baseline:* 0 GWh (2014) *Current: None* *Target:* 105 GWh (Bank) + 100 GWh (IFC) (2018)	**PARTIALLY ACHIEVED** **Achieved**. Although the World Bank did not pursue investments in renewable energy due to changed Government priorities, IFC helped mobilize financing for small hydro plants which contributed to additional renewable energy of 77.5 MW installed capacity, and 269 GWh of additional energy generation	**No change**.	**Completed** Energy APL3 (FY17) Energy Efficiency TA Municipal Energy Efficiency Promotion (FY16) WBG just-in-time advice/policy notes (FY17) **Ongoing** IFC infrastructure support through PPPs IFC - small hydro project
• Total projected lifetime energy savings of new EE measures implemented under Bank-supported programs *Baseline:* 0 (2014) *Target:* 600 GWh (2018)	**Not achieved**. Energy Efficiency Fund Project was delayed, and is currently scheduled as FY18 deliverable.	**Dropped**. The outcomes of Energy Efficiency Fund Project will be pursued in the next CPF cycle.	**Planned** Energy Efficiency Fund Project (FY19) Biomass-based Heating Study (FY18) IFC investments and advisory

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
PILLAR II: SKILLS AND INCLUSION			
Outcome 5: Tertiary and vocational education system more focused on skills for labor market. • Share of public universities accredited with new quality assurance measures consistent with EU norms *Baseline:* 0 (2014) *Target:* 60 percent (2018) • Share of secondary TVET students receiving practical training in firms *Baseline:* 28 percent (2014) *Target:* 48 percent (2018)	**PARTIALLY ACHIEVED** **Partially achieved.** External evaluation process (which is basis for reaccreditation) has been initiated and will be completed in April 2018. **Partially achieved.** The exact progress against the revised indicator will be assessed in late 2017.	**Revised indicator:** years added for baseline and target values. **Revised indicator**: Percentage increase in the number of secondary TVET students benefiting from practical training in SMEs and large firms. *Baseline:* 11,543 students (2016) *Target:* 20 percent increase (2018)[9]	**Completed** WBG just-in-time advice/policy notes (FY17) **Ongoing** Skills and Innovation Project
Outcome 6: Social protection system more efficient and compatible with employment • Share of the poorest quintile receiving social assistance *Baseline:* 65.6 percent (2011) *Target:* over 70 percent (2018) • Share of Social Financial Assistance beneficiaries with children ages 15-18 registered for conditional cash transfers *Baseline:* 76 percent (women: 73 percent) (2014)	**ACHIEVED** **Achieved.** 71.8 percent of poorest quintile receive assistance. **Achieved**. Over 80 percent (47.9 percent of whom are women) registered for CCT.	**Revised baseline:** Year added for target value. **Revised baseline:** the old baseline and target values for the share of female beneficiaries were incorrect. In line with the CCT project, the new baseline is 47 percent (2014), and the	**Completed** WBG just-in-time advice/policy notes (FY17) **Ongoing** Conditional Cash Transfers Project **Planned** Social Services Improvement Project (FY19)

[9] Changes to the indicator, baseline and target values are made to reflect the latest data and implementation experience under the Skills and Innovation Project.

Original CPS Outcomes and Targets	Progress to Date	Revised CPS Outcomes and Targets	CPS Instruments and Partners
Target: over 80 percent (women: 75 percent) (2018)		new target is to maintain or increase this share of female beneficiaries (2018).	
• Share of recipients of social assistance who work formally *Baseline:* 1.46 percent (women - 0.99 percent) (2014) *Target:* 5 percent (women - 3 percent) (2018)	**Partially achieved**. 3.4 percent of recipients are formally employed (women - 1.54 percent)	**Revised indicator:** years added for baseline and target values.	
Outcome 7: Access to basic and municipal services enhanced.	**PARTIALLY ACHIEVED**		**Completed** WBG just-in-time advice/policy notes (FY17)
• Additional households with improved piped water connections *Baseline:* 0 (2014) *Target: 30,000* (2018)	**Partially achieved**. 7,366 households with improved water connections.	**Revised indicator:** years added for baseline and target values.	**Ongoing** Municipal Services Improvement Project Second Municipal Services Improvement Project EU Additional Financing to Municipal Services Improvement Project
• Additional households with improved solid waste services *Baseline:* 0 (2014) *Target:* 60,000 (2018)	**Achieved**. 520,000 beneficiaries or about 130,000 households with improved solid waste services.	**Revised indicator:** years added for baseline and target values.	

ANNEX 2: FYR Macedonia - FY15–18 Country Partnership Strategy

Revised Results Framework

CPS Outcomes	CPS Indicators	Main Instruments
Pillar I: Growth and Competitiveness		
Outcome 1: Improved fiscal and public financial management	• Fiscal deficit declines in line with medium-term budget framework. *Baseline*: 4.2 percent of GDP (2014) *Target*: below 3 percent of GDP (2018) • Quarterly reports on consolidated public and publicly guaranteed debt are published on the MoF website. *Baseline:* No (Q2 2014) *Target:* Yes (Q3 2014 onwards) • Organic budget law approved. *Baseline*: No (2017) *Target*: Yes (2018) • Road Enterprise makes investments using Road Asset Management System *Baseline*: No (2014) *Target*: Yes (2018)	**Completed** Public Expenditure Review (FY16) Regional and Local Roads Program Support Project (FY16) Growth and Shared Prosperity ESW – Regional SCD Synthesis (FY17) WBG just-in-time advice/policy notes (FY17) **Ongoing** National and Regional Road Rehabilitation Project Road Upgrading and Development Project SAFE TF EU REPARIS Program **Planned** Public Finance DPO (FY19) Public Expenditure Review – update (FY18)
Outcome 2: Better conditions for private investment and links to FDI	• Private investment facilitated in the real sector through IFC interventions *Baseline:* EUR80 million (2014) *Target:* EUR180 million (2017) • Number of people and MSMEs with improved access to financial services *Baseline:* 1,751 (2015) *Target:* 7,100 (2019) • Volume of outstanding MSME loan portfolio of IFC clients *Baseline:* US$54.2 million (2015) *Target:* US$588.6 million (2019) • Number of days to obtain construction permit	**Completed** Competitiveness DPL2 (closed in October 2014); Growth and Shared Prosperity ESW – Regional SCD Synthesis (FY17) WBG just-in-time advice/policy notes (FY17) **Ongoing** IFC – ECA Power Program IFC Advisory on Infrastructure PPP IFC investment and mobilization in the real sector CIIP CFRR – Internal Audit Training of Trainers Program

CPS Outcomes	CPS Indicators	Main Instruments
	Baseline: Average 181.1; Manufacturing 43; Services 243.1 (BEEPS) (2013) *Target:* Average 83; Manufacturing 25; Services 100 (2018) • Improved local business and export sophistication *Baseline:* Sophistication 3.65; Innovation 3.2 (Global Competitiveness Report 2013, pillars 11 &12), share of medium and high tech exports in the total exports – 57 percent (2016) *Target:* Sophistication 4.0; Innovation 4.0, share of medium and high tech exports in the total exports – 60 percent (2018). • Jobs created by greenfield FDI with state incentives (in and outside TIDZs): *Baseline*: 12,000 (2016) *Target*: 13,000 (2018)	Skills and Innovation Project EU IPA TF Local and Regional Competitiveness in Tourism **Planned** IFC investment and advisory
Outcome 3: Road infrastructure improved	• Percentage of national and regional roads network in good and fair condition increased *Baseline:* 64 percent (2015) *Target:* 74 percent (2018)	**Completed** Regional and Local Roads Program Support Project; (FY16) Regional Balkans Infrastructure Study in Transport Update (FY15) WBG just-in-time advice/policy notes (FY17) **Ongoing** National and Regional Road Rehabilitation Project Road Upgrading Project

CPS Outcomes	CPS Indicators	Main Instruments
Outcome 4: More clean energy available	• Additional annual renewable clean energy generation *Baseline:* 0 GWh (2014) (2014) *Target:* 105 GWh (Bank) + 100 GWh (2018)	**Completed** Energy APL3 (FY17) Energy Efficiency TA Municipal Energy Efficiency Promotion (FY16) WBG just-in-time advice/policy notes (FY17) **Ongoing** IFC infrastructure support through PPPs IFC - small hydro project **Planned** Energy Efficiency Fund Project (FY19) Biomass-based Heating Study (FY18) IFC investments and advisory
Pillar II: Skills and Inclusion		
Outcome 5: Tertiary and vocational education system more focused on skills for labor market	• Share of public universities accredited with new quality assurance measures consistent with EU norms *Baseline:* 0 (2014) *Target:* 60 percent (2018) • Percentage increase in the number of secondary TVET students benefiting from practical training in SMEs and large firms. *Baseline:* 11,543 students (2016) *Target:* 20 percent increase (2018)	**Completed** WBG just-in-time advice/policy notes (FY17) **Ongoing** Skills and Innovation Project
Outcome 6: Social protection system more efficient and compatible with employment	• Share of the poorest quintile receiving social assistance *Baseline:* 65.6 percent (SILC 2011) *Target:* over 70 percent (2018) • Share of Social Financial Assistance beneficiaries with children ages 15-18 registered for conditional cash transfers *Baseline:* 76 percent (women: 47 percent) (2014) *Target:* over 80 percent (women: equal or over 47 percent) (2018)	**Completed** WBG just-in-time advice/policy notes (FY17) **Ongoing** Conditional Cash Transfers Project **Planned** Social Services Improvement Project (FY19)

CPS Outcomes	CPS Indicators	Main Instruments
	• Share of recipients of social assistance who work formally *Baseline:* 1.46 percent (women: 0.99 percent) (2014) *Target:* 5 percent (women: 3 percent) (2018)	
Outcome 7: Access to basic and municipal services enhanced.	• Additional households with improved piped water connections *Baseline:* 0 (2014) *Target: 30,000* (2018) • Additional households with improved solid waste services *Baseline:* 0 (2014) *Target:* 60,000 (2018)	**Completed** WBG just-in-time advice/policy notes (FY17) **Ongoing** Municipal Services Improvement Project Second Municipal Services Improvement Project EU Additional Financing to Municipal Services Improvement Project

ANNEX 3: Contribution of Individual Operations to CPS Outcomes

PILLAR I: Growth and Competitiveness

Outcome 1: Improved fiscal and public financial management

Earlier engagement through development policy lending, and continued technical assistance and policy dialogue with the Government on fiscal and public financial management, including during the preparation and presentation of the Public Expenditure Review, contributed to achievement of fiscal deficit targets, and improvements in transparency of the PFM. The World Bank helped the Government to introduce a commitment control module for recording, reporting and validating multi-year liabilities. In addition, the Government had benefited from a continued IMF technical assistance to the Public Revenue Office, as well as EU twinning project on strengthening statistical reporting, forecasting and multi-year budgeting. The Government has prepared a draft PFM Reform Program, which is expected to be adopted by the end of 2017, and to which the World Bank team has provided extensive comments. Finally, the SAFE TF is helping develop performance indicators for monitoring the performance of the public procurement system and building capacity of the Public Procurement Bureau. Engagement in the transport sector has contributed to better investment planning with the Road Asset Management System (RAMS) which is expected to be fully implemented by the end of the CPS cycle. Despite these improvements, further PFM reforms are needed in the following areas: i) annual budget cycle, budget transparency and comprehensiveness, ii) multi-annual budgeting, iii) medium-term fiscal framework, iv) treasury and cash management, v) quality of published financial information in budget execution reports, vi) public investment management, vii) public procurement, and viii) internal and external accountability.

Outcome 2: Better conditions for private investment and links to FDI

The WBG achievements against the outcome of creating better conditions for private investments are summarized below:

- In FY15, IFC invested US$8 million in a green-field automotive FDI to provide much needed long-term funding and support skilled employment in an undeveloped region of FYR Macedonia. Through its investment in the automotive industry, IFC aimed to send a strong signal to other potential investors and enable the transfer of state-of-the-art management, technology and environmental standards. Through the REM advisory project, IFC facilitated EUR198 million in private sector financing for small hydro power plants (SHPP), thus surpassing the CPS target of EUR 180 million. In the financial sector, IFC invested US$11 million in FY15 in Tutunska Banka, the third largest commercial bank in FYR Macedonia, to strengthen its capital base through a subordinated loan qualifying as a Tier II capital. The financing has also helped the bank to expand its SME loan portfolio. Going forward, capitalizing on recent improvements in the business climate, IFC will seek to further support FDIs as one of the main pillars of IFC's strategy in FYR Macedonia. In addition, IFC will continue to utilize its advisory to facilitate better inclusion of local SMEs into the supply chains aiming at job creation and increased local content in exports. With a view to strengthen the banking sector's lending capacity, IFC will expand the Western Balkans Debt Resolution project to include FYR Macedonia, aiming at tackling high NPLs problem through developing an efficient debt resolution framework and putting in place an efficient insolvency and restructuring mechanism.
- IFC's corporate governance (CG) program focused on building sustainable local institutional capacity to promote and implement good CG standards as well as assisting the development of CG regulatory framework. In FY15-16, several rounds of trainings and high level forums were organized with broad participation by the private sector representatives. Also, CG reviews were performed for nine companies (mostly from the insurance sector) to help improve their CG code, ethics code, and strategic planning. IFC also assisted the Macedonian Insurance Supervision Agency in developing CG code for insurance companies. IFC's CG program in FYR Macedonia

in the upcoming period will be focused on the banking and insurance sector, which plays a catalytic role in promoting CG in the corporate sector.

- The country's business climate benefitted from reforms undertaken under the Competitiveness Development Policy Loan series (FY13 and FY14), which addressed: agriculture and land policies, trade logistics, labor market and skills, and FDI attraction and export promotion mechanisms. In the 2017 Doing Business (DB) report, FYR Macedonia scored exceptionally well, ranking 10th among 190 countries, up from 16th place in 2016. On average, it takes 89 days to obtain construction permit which suggests good progress towards the CPS target of 83 days. New BEEPs data is not available yet to verify progress in terms of reducing the time to obtain construction permits in manufacturing and services sector.
- The World Bank work on competitiveness contributed to improvements in export sophistication and job creation by greenfield FDIs. For example, the share of medium and high tech exports in total exports increased from 39 percent in 2011, to 53 percent in 2014, and to 57 percent in 2016. Jobs created by greenfield FDI with state incentives increased from 5,119 in 2013, to 9,265 in 2014, and to 12,000 in 2016. Institutional capacity for supplier linkages has been strengthened through the Bank Executed Trust Fund - Competitive Industries and Innovation Support Program (CIIP). Overall, export sophistication index improved from 3.65 to 3.8, whereas innovation index improved from 3.2 to 3.4. This progress suggests that CPS outcomes will be mostly achieved by the end of the CPS cycle.

Outcome 3: Road infrastructure improved

In the transport sector, targets related to improvements of road infrastructure remain achievable. The Regional and Local Roads Project, which closed in December 2015, and the ongoing National and Regional Road Rehabilitation Project contributed to improvements of road infrastructure. The network condition survey will be completed in 2017 and is expected to confirm improvements in conditions of national and regional road infrastructure. The Road Upgrading and Development experienced delays due to political crisis and is expected to deliver results mostly during the next CPF cycle. Through its Regional PPP Advisory Program, the IFC supported the Ministry of Transport to improve road infrastructure, but investment did not materialize due to political crisis. The program's objective was to structure and implement a tender for the Corridor 8 Motorway Concession project. IFC successfully completed Phase 1 of the program, conducting detailed technical, legal, environmental and financial due diligence, and recommending a bankable transaction structure, which was accepted by the Government. However, the tender failed due to the political fallout impacting investors' confidence and attractiveness of the project as well as the Government's unilateral actions to make material changes in the project structure and bidding processes. Consequently, the outcome indicator related to improved access to transport services through new PPPs was not achieved and will be dropped. While IFC remains committed, it will be unable to undertake any new PPP advisory project unless fees owed by the government are paid, and any future engagement in this area would very much depend on ensuring full commitment from the government.

Outcome 4: More clean energy available

The CPS targets were met in promoting investments in renewable energy generation, and the outcomes related to energy savings will be pursued in the next CPF cycle. IBRD supported policy reforms starting in early 2000s, particularly in the areas of the electricity sector reform, renewable energy, capacity building, and regulatory framework. This was followed by IFC's post-privatization financing in the distribution sector in 2007. This close IBRD/IFC collaboration has paved the way for private sector investments. Through the REM advisory project, which was financed by the Balkans Renewable Energy Program, IFC assisted the Government in adopting key renewable energy legislation, and supported structuring, launching and successful finalization of the 6th tender on SHPPs in the country, resulting in signing of 13 concession contracts for SHPPs. The REM activities were also focused on delivering advisory to private sector sponsors and developers, especially in

biomass and wind technologies. The program enabled IFC to facilitate EUR198 million in private sector financing for SHPPs and other renewable energy technologies, resulting in additional renewable energy generation of 269 GWh per annum, thus surpassing the CPS target of 205 GWH of additional renewable energy. The World Bank did not pursue the planned investment in small hydropower station at Lukovo Pole. Instead, the government asked the World Bank to support the gasification project in partnership with the EBRD. Preparation of the gasification project ended after the government decided to pursue loans from private commercial banks instead of IFIs. Finally, the preparation of the Energy Efficiency Fund Project has been delayed due to uncertainty over the implementation arrangements for the project.

PILLAR II: Skills and Inclusion

Outcome 5: Tertiary and vocational education system more focused on skills and labor market

Implementation of the Skills and Innovation Project which provides support to tertiary and vocational education system reforms was significantly delayed, and the project is likely to be partially successful in contributing to CPS outcomes within this CPS cycle. External evaluation process, which is a basis for reaccreditation of public universities with new quality assurance measures consistent with EU norms, will be completed in April 2018. This activity is a part of the Skills and Innovation Project which provides comprehensive support to the Higher Education Accreditation and Evaluation Board (HEAEB) to enhance the processes, criteria and procedures for external quality assurance, and establish links between external evaluation and accreditation. The Skills and Innovation Project also supports provision of practical training for TVET students in SMEs and large-sized firms. Modest progress was achieved in this respect over the last three years. The ongoing impact evaluation will assess the adequacy of arrangements introduced in the pilot grants program, and provide recommendations for the next round of the grant program which is to be launched in December 2017. Irrespective of this progress, CPS outcomes are likely to be partially achieved within this CPS cycle, and fully achieved early during the next CPF cycle.

Outcome 6: Social protection system more efficient and compatible with employment

Impressive results were achieved and CPS outcomes already met in improving efficiency of the social protection system and its compatibility with employment. Targeting of social benefits has improved and 71.8 percent of the people in the poorest quintile are covered with social assistance. Furthermore, nearly 89 percent of beneficiaries with children aged 15-18 are registered for conditional cash transfers. Finally, the share of recipients of social assistance who formally work increased from 1.46 percent in 2014 to 3.4 percent in 2017.

Outcome 7: Access to basic and municipal services enhanced

The CPS outcome to improve access to basic services is on track to be achieved. Following the successful experience in implementing the Municipal Services Improvement Project (US$75 million approved in 2009), the follow-on operation (US$28 million) was approved in January 2016. Furthermore, the EC provided significant co-financing for rehabilitation of rural infrastructure (IPA grant US$17.7 million). These operations led to satisfactory progress against the CPS outcomes. Already completed and signed sub-projects will contribute to improved piped water connections for 26,000 households, thus mostly achieving the target of 30,000 by the end of 2018. The goal of improving access to regular solid waste services to 60,000 households has been already exceeded with services improved to 520,000 beneficiaries or about 130,000 households.

ANNEX 4: Selected Macroeconomic Indicators

	2014 Actual	2015 Actual	2016 Actual	2017 Projection	2018 Projection
GDP growth (percentage)	3.6	3.9	2.9	1.5	3.2
CPI inflation, annual average	-0.3	-0.3	-0.2	0.9	1.6
Public revenues (percent of GDP)	29.8	31.0	30.3	30.4	30.4
Public expenditures (percent of GDP)	34.0	34.4	33.0	33.4	33.1
Fiscal balance (percent of GDP)	-4.2	-3.6	-2.6	-3.2	-2.7
PPG debt (percent of GDP)	45.8	46.7	47.8	48.7	51.1
Trade balance (percent of GDP)	-17.3	-16.2	-15.1	-14.2	-13.0
Remittance inflows (percent of GDP)	2.2	2.1	1.9	2.0	2.1
Current account balance (percent of GDP)	-0.6	-1.9	-2.8	-3.1	-2.9
Foreign direct investment inflows (percent of GDP)	2.3	2.3	3.2	2.6	3.0
External debt (percent of GDP)	70.3	69.3	74.1	76.3	77.5
Real private credit growth (percent)	10.3	9.9	4.5	n.a	n.a
Non-performing loans (percent of gross loans)	11.3	10.8	6.6	n.a	n.a
Unemployment rate (percent)	28.0	26.1	23.7	n.a	n.a
Youth unemployment rate (percent)	53.1	47.3	50.0	n.a	n.a
Poverty rate at US$5/day, PPP (percent of population)	33.6	32.3	31.7	n.a	n.a

Sources: Ministry of Finance, Statistics Office. World Bank staff projections.

Note: Data on remittances reflect only worker remittances and not overall private transfers which are significantly higher. As per data from the National Bank of the Republic of Macedonia on the Balance of Payments private transfers from abroad averaged 18.3 percent of GDP in the period 2011-2016.

	2014	2015	2016	2017 e	2018 f	2019 f
Real GDP growth, at constant market prices	3.6	3.8	2.4	1.5	3.2	3.9
Private Consumption	2.2	3.7	4.2	2.4	2.8	3.0
Government Consumption	3.0	2.1	1.6	1.5	1.7	1.7
Gross Fixed Capital Investment	5.7	2.1	-3.9	-2.6	2.8	4.7
Exports, Goods and Services	16.5	6.7	11.5	8.4	6.9	6.3
Imports, Goods and Services	14.1	5.2	7.6	6.3	5.1	4.6
Real GDP growth, at constant factor prices	6.5	4.5	3.2	1.2	3.2	3.9
Agriculture	2.2	-0.7	2.8	0.5	1.2	1.0
Industry	11.8	7.8	7.6	2.0	5.6	5.1
Services	5.0	3.9	1.3	0.9	2.3	3.6
Inflation (Private Consumption Deflator)	-0.3	-0.3	-0.2	0.9	1.6	2.0
Current Account Balance (% of GDP)	-0.6	-2.0	-3.1	-3.1	-2.9	-2.9
Financial and Capital Account (% of GDP)	-0.6	1.9	3.1	2.8	2.7	2.7
Net Foreign Direct Investment (% of GDP)	2.3	2.3	3.6	2.6	3.0	3.2
Fiscal Balance (% of GDP)	-4.2	-3.6	-2.6	-3.0	-2.7	-2.2
Debt (% of GDP)	45.8	46.7	47.8	49.3	52.2	54.5
Primary Balance (% of GDP)	-3.2	-2.4	-1.5	-1.7	-1.3	-0.7

Sources: World Bank, Macroeconomics and Fiscal Management Global Practice, and Poverty Global Practice.
Notes: e = estimate, f = forecast.

ANNEX 5: Citizen Engagement

There has been little improvement in the context of citizen engagement in FYR Macedonia during the CPS period. In 2014, the CPS noted that FYR Macedonia was an average performer in the Western Balkans, and significantly lower than the new EU member states in the World Governance Indicators (WGI). This situation largely remains but with a decline in the Voice and Accountability WGI indicator, now at its lowest level for over a decade. While progress has been made in government effectiveness indicators (which include governments efforts to provide e-services), curbing corruption, improving transparency and enhancing the participation of citizens have all leveled or declined in the context of the current political environment and constrained civil society. Like in other parts of the Western Balkans, media freedom, and thus access to impartial information, has declined. The World Press Freedom Index ranked FYR Macedonia 111th in 2017 out of 180 countries assessed.[10] International human rights organization Freedom House shared similar observations, characterizing the media landscape as "not free". These changes are linked to low levels of trust in local government, increasing social unrest and confrontational activism among youth.[11] Consequently, the state–non-state interface has been weak, there is a lack of trust in local government, and citizens have not been effectively engaged in processes to hold the government to account for key functions and services.[12]

In the context of the Strategic Framework for Mainstreaming Citizen Engagement in the World Bank Operations, efforts were stepped up in FYR Macedonia during the CPS period to meet the citizen engagement corporate requirements. A citizen engagement review of the FYR Macedonia portfolio was undertaken and updated in early 2017 to inform this PLR. The following paragraphs summarize the progress toward mainstreaming citizen engagement in the FYR Macedonia portfolio, the challenges and the way forward.

During FY14-17, following the introduction of the Strategic Framework for Citizen Engagement, six projects in FYR Macedonia were approved. With regards to *compliance* with the citizen engagement requirements, 67 percent of projects approved since FY14 include a citizen-oriented design and 50 percent include a beneficiary feedback indicator in the results framework. This is slightly below the ECA respective averages of 83 percent and 71 percent. Before FY16, however, no projects in FYR Macedonia were fully compliant with both requirements.

In a review of the *quality* of citizen engagement in the FYR Macedonia portfolio, which uses a four point index to measure the attributes of citizen engagement, FYR Macedonia scored 2.0, which is similar to the average for all projects assessed in ECA in terms of the overall depth of engagement, frequency, openness and number of available channels.[13] Of those projects most recently approved, for instance, the **Road Upgrading and Development Project**, approved in FY16, includes a promising platform for citizen engagement which includes ex-post and ex-ante beneficiary assessments of ongoing rehabilitation projects. These feedback mechanisms help the project implementers hear from local population, and utilize their ideas as to how they can directly engage in projects (e.g., with labor, services, participatory supervision, supplying materials and transport). Beneficiary assessments also help local governments address local needs along express roads. Public consultations, facilitation committees and a citizen feedback mechanism for road maintenance all form part of a broader framework for citizen engagement.

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[10] Reporters without Borders. World Press Freedom Index. 2017.

[11] BTI, FYR Macedonia Country Report 2016.

[12] BTI, FYR Macedonia Country Report 2016.

[13] The ECA Citizen Engagement Quality Index measures quality of the citizen engagement during implementation against 4 objective criteria on a 1-3 scale. These criteria are for the requirement (1) quality of citizen-oriented design: unrestricted feedback; depth of engagement; multiple channels for feedback; frequency of feedback; and (2) quality of Beneficiary Feedback Indicator: corresponds with activities; measures process; provides actionable info; and frequency of measurement.

Citizen engagement of projects under *implementation* was assessed in FY17 to ensure that the commitments made at the Board approval were demonstrating progress in implementation. For those projects six months into implementation, 75 percent of PIUs had developed the systems and guidance to put in place most of the citizen engagement tools proposed; 50 percent of projects had earmarked budgets for the majority of activities. Operationalization is not yet complete and efforts are needed to finalize the processes and ensure reporting by PIUs and monitoring. Actions have been developed to improve the follow through in implementation in the lagging projects (and included in the Citizen Engagement roadmap below).

Of the projects under implementation, the **Second Municipal Services Improvement Project** (approved in FY16) finances demand-driven, multi-sector local government investments. To promote transparency and accountability the project includes a citizen feedback mechanism, which is centrally placed as one of the eligibility requirement for local governments to access sub-loans. Because the project finances demand-driven, multi-sector local government investments, feedback mechanisms that focus on municipal decision making and performance can be highly targeted to the sector and the scope of local investment. Channels for feedback have been established on the municipal website, through a citizen relations center, and a municipal drop boxes. **Conditional Cash Transfers Project** includes a detailed process for redressing grievances. The system is open – accepting any type of complaints (payments, eligibility, service providers etc.), supportive (help is available to assist beneficiaries fill out complaint forms), systematic (complaints are recorded in a database), and responsive (complaints officers are accountable for follow up). Results are tracked regularly and the Bank monitors through a beneficiary feedback indicator. The system is being developed to apply to all social assistance benefits. In addition, key stakeholders were consulted during the preparation period to take into consideration any social impacts and civil society groups, the public sector, and potential beneficiaries who were all informed through the project information campaign and dissemination workshops.

Looking ahead, despite the context, the WBG will continue its project and sectoral efforts to strengthen citizen engagement. Specific actions are planned for the remainder of the CPS, including: (i) deepening our knowledge of how the voice and accountability context in FYR Macedonia is impacting on project efforts to engage with project beneficiaries and other members of civil society, (ii) supporting existing mechanisms in implementation – providing capacity building to PIUs to tackle gaps in implementation, and (iii) strengthening the instruments we use to ensure inclusive citizen engagement. These actions are embodied in a strategic approach reflected in a Citizen Engagement Country Roadmap, which has been developed to cover the remainder of the CPS.

FYR Macedonia Citizen Engagement Road Map (for the current CPS)

Area of Action	Proposed Action/Target
Enhancing quality of design and implementation of citizen engagement in IPFs	Preparation • Clarify the citizen engagement dimension of the Social Filter, specifically linking vulnerable groups (women, long-term unemployed, youth, Roma) (by end FY18). • Ensure quality (and compliance) of CE in the Energy Efficiency Fund Project (by end FY18). Implementation • Deepen understanding of blockages to effective implementation of CE activities incorporated in projects under implementation (by end FY18). • Conduct CE capacity building for PIUs and task teams for projects to address hurdles, ensure inclusion and enhance quality of implementation (by end FY18). • Share good practice in FYR Macedonia between PIUs. • Ensure all projects are reporting on CE in ISRs (by Q2 FY18)
Establish a set of standards for Bank operations	• Establish a set of agreed country standards to ensure beneficiary feedback is genuine and reflects best practice (frequency, disclosure, responsiveness, accessibility), the context of inclusion, and indicators provide meaningful action-oriented information (by end FY18). • Work with PIUs to improve the functionality and use of GRMs where they represent a key channel for feedback (ensure feedback can be provided on any issue, (not just resettlement-related issues), proactivity, strengthen ministry systems (by end FY19).
Establish a portfolio monitoring system	• Update CE review of implementation (prior to CPF). • Take steps to include CE in the annual portfolio review with government (by end FY18). • Report on CE results annually (by mid-FY19).
Integrating Citizen Engagement into the forthcoming CPF	• A FYR Macedonia Voice and Accountability study to inform and support the focus areas of the forthcoming CPF (prior to CPF). • Develop and implement a plan for enhanced consultation with civil society for the next CPF. • Develop and include a citizen engagement roadmap and indicator in the next CPF. • In order to enhance the Bank dialogue with civil society, carry out: i) beneficiary assessments, and ii) for infrastructure projects – incorporate public consultations to be conducted after the preliminary design phase, as a part of the consultant's Terms of Reference.

ANNEX 6: Statement of IFC's Held and Disbursed Portfolio

As of October 1, 2017

(in US$ millions)

Commitment Fiscal Year	Company	Committed						Disbursed Outstanding					
		Loan	Equity	Quasi-Equity	GT/RM	IFC Total	Participant	Loan	Equity	Quasi-Equity	GT/RM	IFC Total	Participant
2008 / 2012	EVN Macedonia	7.47	0.00	0.00	0.00	7.47	0.00	7.47	0.00	0.00	0.00	7.47	0.00
2015	KSS Macedonia	7.68	0.00	0.00	0.00	7.68	0.00	7.68	0.00	0.00	0.00	7.68	0.00
1999 / 1998	Macedonia Telcom	0.00	2.89	0.00	0.00	2.89	0.00	0.00	2.89	0.00	0.00	2.89	0.00
2013 / 2010 / 2014/ 2015 / 2012	NLB Tutunska Bk	0.00	0.00	11.40	0.00	11.40	0.00	0.00	0.00	11.40	0.00	11.40	0.00
2014 / 2015 / 2012	Ohridska Banka	1.27	0.00	0.00	0.00	1.27	0.00	1.27	0.00	0.00	0.00	1.27	0.00
Total Portfolio		**16.42**	**2.89**	**11.40**	**0.00**	**30.72**	**0.00**	**16.42**	**2.89**	**11.40**	**0.00**	**30.72**	**0.00**