



## FYR Macedonia: Supporting Successful Transition from Conflict to EU Accession



### SYNOPSIS

The World Bank Group has worked closely with a number of development partners to help the Former Yugoslav Republic of Macedonia (FYR Macedonia) travel the road from conflict in 2001 to reaching the threshold of joining the European Union today. The government and the World Bank have seen a wide range of results during the years of collaboration from boosting school enrollment to slashing the red tape for businesses, and from creating a model cadastre system in the region to rehabilitating 200 kilometers of roads.

### Challenge

FYR Macedonia is a lower middle-income country, whose landlocked position, small size, multiethnic population, and relatively high degree of economic openness make it especially vulnerable to internal and external shocks, such as: embargos, economic fluctuations in the neighboring countries (for example, the recent crisis in Greece), and to regional and local armed conflicts since its independence from Yugoslavia in the early 1990s.

Despite its success in weathering the shocks and transitioning from a conflict-affected country to a candidate for the European Union (EU) membership, FYR Macedonia is still facing formidable political, economic, and social challenges. On the political side, the resolution of the long-standing dispute with Greece over its name is blocking the EU negotiations.

The biggest economic challenge is to create more jobs to reduce the very high unemployment rate (32 percent), especially among the country's youth. Linked to this challenge is the need to maintain macroeconomic stability, and increase the country's competitiveness, which is dependent on further

improving the business environment, and the quality of education. By seeking to transform itself into a "green economy," FYR Macedonia is pursuing an opportunistic and pragmatic path, given that it is expected to be severely affected by climate change, and also because the current energy intensity of its economy is very high. Finally, the country faces the challenges to ensure the financial sustainability of the pension system, to improve the effectiveness of the social safety net, and to improve the health services delivery.

### Approach

Since 1995, the World Bank has played a critical financial and advisory role in five key areas: (i) strengthening country competitiveness for sustained economic growth; (ii) improving the business environment; (iii) investing in human capital; (iv) improving road, rail, and energy infrastructure; and (v) supporting decentralization.

The World Bank's approach included a combination of investment and development policy lending, underpinned by substantive analytical and advisory work. Through more than 20 country-tailored reports delivered over the past five years, the World



Bank Group's strong analytical and knowledge services have helped the country choose the appropriate mix of policies and interventions to promote economic growth and improve service delivery.

Because of fast moving developments (FYR Macedonia transitioned from post-conflict to an EU candidate country in three years), the World Bank needed to adapt quickly to the changing environment and the evolving needs of the client. Given the EU candidacy and middle-income country status, the demand for the World Bank support focuses on complex policy reforms, institutional capacity building, multifaceted implementation issues, and critical analytical work.

The World Bank Group in FYR Macedonia is considered a trusted, unbiased partner and reform proponent that, over the years, has been contributing substantially and transparently to the policy dialogue and economic development of the country.

## Results

**The World Bank provided crucial policy and investment support to the agriculture sector.** The Bank support has enabled the Ministry of Agriculture to receive the EU accreditation for utilization of the EU Instrument for Pre-Accession Assistance in the area of rural development.

**The World Bank has provided significant support to FYR Macedonia to improve the country's business climate.**

- FYR Macedonia has improved its ranking in the *Doing Business* survey to 32 out of 185 in 2009 (from 83 out of 125 in 2006), becoming a global top four reformer in the 2008 survey, and the third overall reformer in 2010.
- The World Bank program has helped cut the time to register a company to four days in 2009 from 48 days in 2006; it helped reduce the cost of registering a business to less than 50 euros; it also helped increase the number of registered companies by six percent during the first half of 2008.
- The burden of regulation on businesses was also reduced through the introduction of the "Regulatory Guillotine," which reviewed and streamlined more than 2,000 laws and by-laws.
- The World Bank-financed reforms in the real estate cadastre resulted in the coverage of 99 percent of the territory; doubled the number of registered transactions (85,786 in 2008, as compared to 42,116 in 2005); nearly tripled the number of mortgages (8,573 in 2008, as compared to 2,920 in 2005); and shortened the period for transaction registration (70 percent of all transactions are registered in one day, and 30 percent are registered between 3-8 days, as compared to 90 days in 2005).

**The World Bank has supported significant improvements in the judicial and legal framework.** These include more effective organization of the court system, which resulted in:

- reduction of the backlog of cases in 22 of the 27 basic courts;
- improvement of judicial infrastructure through the refurbishment of 11 court houses throughout the country, and the construction of a new Criminal Court;
- improved enforcement of court judgments by supporting legislation that took enforcement

"As any other citizen, I have had dealings with the cadastre agency both privately and as a private entrepreneur for a long time. The difference is obvious, and it can be seen from the shorter time and processes for property registration to the attitude and professionalism of the employees. I am now able to quickly turn my real estate into a capital asset to finance my business, which greatly helps in a dynamic market that we work in." —**Maja Dimitrievska, Businesswoman, Skopje**



out of the courts and placed the function in the hands of private bailiffs, which, in turn, resulted in improved enforcement of court cases of 39 percent in 2009 from 18 percent in 2005;

- improved regulatory and implementation framework for bankruptcy cases through the adoption of a new Bankruptcy Law, which resulted in an average decrease in duration of bankruptcy procedures from 43 to 26 months.

**The World Bank has invested in FYR Macedonia’s human capital.** Investments in education helped:

- Increase secondary school enrollment to 95 percent from 85 percent between 2004 and 2008, and decrease dropout rates to 1.9 percent from 2.1 percent in the same period.
- The World Bank support also contributed to the introduction of the State Matura (final examination at the end of secondary school) as part of the overall Quality Assurance System, and the introduction of strategic medium- and long-term planning at both the Ministry of Education and school levels.

**The World Bank is helping boost FYR Macedonia’s competitiveness through infrastructure development.**

- Since 1995, more than 200 kilometers of roads have been rehabilitated and the average border entry and exit time has decreased threefold (from 60 to 20 minutes, and from 20 to 7 minutes respectively).

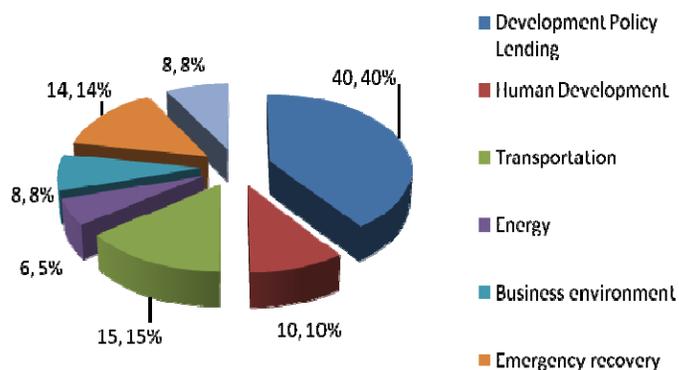
- The World Bank assisted the authorities in developing a new Railway Law, adopted by the Parliament, to conform to the EU legislation.
- Through the World Bank assistance, MEPSO (the public electric power transmission company) has increased the capacity of the transmission network through the completion of the power transmission line to Greece, and restored 38 transformer stations throughout the country.

**The World Bank supported the country’s decentralization process.**

- The World Bank helped establish a stable and transparent mechanism for financing local government by promoting and adopting a transparent formula that transfers a portion of the personal income tax and value added tax revenues to municipalities. As a result, 60 out of 83 municipalities in the country were able to settle arrears by end-2007, and 70 by end-2008. Arrears fell from around US\$100 million to around US\$40 million in 2007, and US\$16 million by the end of 2008.

### Bank Contribution

Since the start of FYR Macedonia’s membership in 1995, the World Bank invested US\$1,061 billion through 23 IDA credits and 29 IBRD loans. The World Bank also leveraged around US\$180 million in grant funding.



## Partners

All World Bank interventions have been designed and implemented in close collaboration with other development partners, such as the European Commission (EC) and the U.S. Agency for International Development (USAID). The World Bank leveraged more than US\$180 million in grant funds from different donors through 43 separate trust funds. The main co-financing partners include the governments of the Netherlands (education sector, public policy reforms, accounting and auditing, agriculture) and Japan (preparation funds for projects in the human development, energy and business environment sectors), as well as the Global Environmental Facility. The World Bank also maintained a close partnership with the International Monetary Fund in the area of economic advice and policy-based lending.

Partnership with the United States and Sweden took the form of parallel financing in the education, agriculture, energy and business environment sectors, with different teams working together on the design, implementation, and monitoring of various interventions.

In close partnership with the EC, the World Bank supports the country in introducing and implementing Program-Based Approaches (PBA) in key development areas: environment, governance, agriculture, human development, and business environment. This approach will help the government strengthen its implementation capacity to manage donor and EU pre-accession funds, as well as to improve the effectiveness of external assistance.

## Moving Forward

**The World Bank's Country Partnership Strategy (CPS 2010-2013) will continue its support to FYR Macedonia by providing selective and targeted financing and knowledge advisory services in support of faster, more inclusive and greener economic growth.** Because FYR Macedonia's future growth and development will depend fundamentally on the pace of the EU

accession, virtually every intervention in the CPS has been identified and will be designed to help prepare for the EU membership.

***Faster growth by improving competitiveness.*** FYR Macedonia can build on improvements in business climate through a continued sound macro-economic management, further efforts to reduce bottlenecks in business environment and infrastructure, and stepped-up investments in education, including higher education.

***More inclusive growth by strengthening employability and social protection.*** The future World Bank program will also emphasize continued improvement of social programs amid growing fiscal constraints.

***Greener growth through more sustainable resource use.*** Key World Bank Group interventions will include “win-win” investments in clean and efficient energy. Since this is an emerging area of knowledge and a new subject of dialogue with the government, the World Bank will also collaborate with selected partners on the analysis on “green growth” and climate change to support adaptation and other climate sensitive policymaking.

Interventions will seek to leverage financing and expertise from within the World Bank Group and to increase the impact of external assistance, in particular, through successful application of Program-Based approaches.



**LEARN MORE***Links to key related web sites:*

- The web site of the World Bank Office in FYR Macedonia: [www.worldbank.org.mk](http://www.worldbank.org.mk) offers in-depth information on all projects and programs in the country.

*Links to partner websites:*

- Government of FYR Macedonia: [www.vlada.mk](http://www.vlada.mk)
- Ministry of Finance: [www.finance.gov.mk](http://www.finance.gov.mk)
- European Commission: [www.delmkd.ec.europa.eu](http://www.delmkd.ec.europa.eu)
- USAID: <http://macedonia.usaid.gov/>
- United Nations: [www.un.org.mk](http://www.un.org.mk)
- Swedish International Development Agency: <http://www.swedenabroad.com/>
- Swiss Embassy: [www.eda.admin.ch/skopje](http://www.eda.admin.ch/skopje)

*Results stories:*

- Improving people's lives: FYR Macedonia Real Estate Cadastre and Registration project –
- Macedonian Railways: Deepening the Reform Agenda
- Improving the education system in FYR Macedonia