We would like to commend staff for this candid assessment of progress in implementing the 1998 joint Bank/IFC Country Assistance Strategy for FYR Macedonia. The update highlights achievements or lack of them thereof, during the CAS period. In our view, the government deserves to be congratulated for having successfully managed its macroeconomic framework during the Kosovo crisis, notwithstanding the inter-ethnic tensions, influx of refugees and the attendant problems. Both inflation and foreign exchange remained stable while the fiscal deficit and external debt/GDP ratio in 1999 were at manageable levels. The Government’s commitment to reform is also clearly demonstrated by the adoption of pension, health and labor reforms supported by the SSAC, progress in the privatization exercise and the reform agenda agreed upon under the FESAL/C II. The Bank’s quick response in providing assistance to the FYR Macedonian Government to mitigate the social and economic costs of the crisis is also commendable.

Macroeconomic stabilization is a necessary precondition for successful structural reform. We therefore welcome the government’s commitment to complete the transition to a market economy and hope for an early conclusion of the Extended Fund Facility arrangement with the IMF. The proposed reform will facilitate efficient resource reallocation and spur public sector management and private sector activity.

The overriding objective of the CAS is poverty reduction. However, for growth to be pro-poor, more attention should be paid to job creation as available data in the country indicate a strong correlation between poverty and unemployment. Efforts should, therefore, be geared towards increasing employment and productivity as well as upgrading social services, particularly primary education, basic health services and drinking water. The intention to address the issue of rural poverty is also welcome given the fact that a greater percentage of the poor live in rural areas.
We support the proposed Bank strategy to strengthen dialogue on public sector reforms focusing on the role and organization of the state, and reforming public expenditure management. While we endorse the projects slated to support such reforms, we believe that redefining the role of the state in a market economy and shifting public policy focus to encourage private sector development cannot be over stressed. Such a move will improve the general regulatory environment, governance and transparency in the budgetary process.

Furthermore, it is heartening to note the progress already made in the privatization exercise, with plans already underway to sell or liquidate loss-making state-owned enterprises. We think that IFC has a potentially significant role to play in catalyzing foreign investment and providing post-privatization support. We agree that the Corporation should work more closely with MIGA to stimulate growth in the private sector as the authorities press ahead with regulatory reforms.

With only one project rated unsatisfactory, we are satisfied with the level of portfolio performance in terms of the development outcome and implementation objectives. Nevertheless, we would like to underscore the importance of continued monitoring of portfolio implementation by both the Bank and the Government. The list of non-lending services recently completed, underway and planned in support of poverty alleviation and human capital development is impressive. We are pleased with the variety of the Bank’s intellectual efforts. We are of the belief that these studies will be very useful in the future as they will form the basis for further Bank engagement with the country.

On the size and composition of the Bank Group program, we agree with the CAS’s proposals. While we have no problem with the lending scenarios and associated triggers, we would like to see some flexibility that takes into account the prevailing regional environment when applying these triggers. We also welcome the level of collaboration among international partners and endorse the Bank strategy in pursuing its comparative advantage by providing assistance where other donors are not active while also providing intellectual leadership.

The risks confronting the Bank in executing its program are well articulated. We believe that these risks are worth taking. While supporting the steps outlined in the document to manage the risks, it is also important to underscore the significance of strong ownership and the support of the international community in helping the government to sustain its reform efforts. In this connection, we would appreciate staff comments on the latest developments on the Stability Pact Framework.

Finally, we wish to express our support for the CAS Progress Report, as well as the main underlying objectives and wish the Government of Macedonia and the Country team success in the implementation of the CAS. We look forward to a more comprehensive CAS towards the end of FY01.