RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth and Shared Prosperity

FYR Macedonia is a small, open economy with a sound track record of macroeconomic stability. Landlocked, with a population of only 2.1 million, the country's GDP per capita is a third of the average of the European Union (EU) members that have joined since 2004 and 15 percent of the EU average as a whole. Though it was among the first Western Balkan countries to gain EU candidate country status in 2005, it has yet to start EU accession negotiations. Nevertheless, EU accession is the main anchor of its reform agenda.

FYR Macedonia has been able to preserve macroeconomic stability in the presence of adverse shocks. The exchange rate peg to the euro, introduced in 1995, has successfully supported price stability, with inflation averaging 2.4 percent per year over the past 10 years. Macroeconomic policies have been geared toward keeping the external balance manageable, and monetary policy has responded quickly to any possible threats to the peg. The Government has also implemented key reforms to improve the business climate, elevating FYR Macedonia to one of the top performers in the 2013 Doing Business rankings: 22nd worldwide. The country maintained its high ranking (30th) in the latest 2015 Doing Business report. The authorities have combined structural reforms, support of industrial zones, and fiscal measures—notably tax exemptions for foreign investors—with targeted advertisements to attract foreign investors. Inflows of foreign direct investment (FDI) averaged 2.8 percent of GDP per year between 2009 and 2014 but are still low by regional standards.

FYR Macedonia's growth has been above the South East Europe (SEE)\(^1\) regional average since 2009. Between 2002 and 2008, FYR Macedonia grew an average of 4.3 percent annually in real terms, which was 0.7 percentage points below the regional average. Nevertheless, since 2009, FYR Macedonia's average growth has been 1.5 percent, exceeding the regional average of 1.3 percent. Real GDP growth contracted by 0.4 percent in 2009 but recovered quickly, reaching 3.4 percent in 2010 and 2.3 percent in 2011, respectively, backed by growth in exports and domestic consumption. Real GDP growth contracted again in 2012 by 0.5 percent and climbed to 2.7 percent in 2013, driven by exports and buoyant construction.

**Figure 1. Growth Performance: Cross-Country Comparison of Real GDP growth**

Among the six SEE countries, GDP growth for 2014 is expected to be the highest in FYR Macedonia. Real GDP is estimated to have increased by 3.5 percent in 2014, with growth that was broad-based and driven by manufacturing, construction, and FDI-related exports. Services, including wholesale and retail trade, real estate, and professional services, also contributed to growth. On the demand side, investment contributed 3.3 percentage points to growth, and private consumption 1.4 percentage points. Public investment is expected to remain strong in 2015, supporting the solid growth performance.

Despite strong growth, deflationary pressures continued, and the consumer price index (CPI) declined by 0.3 percent in 2014. Inflation was negative for three consecutive quarters in 2014, as food and oil prices plummeted, especially in the last quarter. Core inflation reached 0.6 percent in 2014 but turned negative in the fourth quarter of the year.

In the medium term, FYR Macedonia's growth is expected to accelerate, driven by manufacturing exports, public investment, and a gradual recovery in domestic demand. Under the baseline projections, real GDP growth is expected to reach 3.5 percent in 2015 and to accelerate to 3.8 percent in 2016. Public investment is projected to remain an important growth driver,

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\(^1\) The region of South East Europe consists of: Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia.
as the Government scales up public investment in the roads sector (including construction on two new highways). Manufacturing exports are also expected to continue to support growth, driven largely by existing and incoming FDI. In addition, private consumption is expected to pick up as unemployment continues to fall. Key risks to this medium-term outlook are a weaker-than-projected economic outlook in the Eurozone and continued deflationary pressures.

Available data suggest that gains from growth have not been widely shared. FYR Macedonia has made impressive progress in reducing unemployment (declining from 34 percent in 2008 to 28 percent in the third quarter of 2014), yet most jobs were created in low-productivity sectors or in the public sector. Between 2005 and 2008, consumption-based absolute poverty, based on data from the Household Budget Survey, increased from 7 to 9 percent using a regional poverty line of US$2.5 per day, and from 30 to 35 percent using a regional poverty line of US$5 per day. During the same period, official relative poverty statistics remained largely unchanged at around 30 percent. FYR Macedonia has recently adopted a new way of measuring poverty through the income-based Survey of Income and Living Conditions (SILC), also used in the EU. According to SILC data, the share of the population at risk of poverty declined modestly from 27 percent in 2010 to 26.2 percent in 2012, with an average real GDP growth of 1.8 percent.

The population at risk of poverty is expected to remain stable at around 30 percent. Under the assumption that the main drivers of growth will remain the same as in the previous three years, poverty trends are not expected to change significantly. The buoyant construction sector is expected to contribute to employment growth, especially for the less skilled and less well-off, and the expected increase in manufacturing and FDI-related exports can translate into net job creation and contribute to urban poverty reduction. The falling oil prices will affect household budgets positively through reduced transportation costs.

External Developments

2 Monitoring the evolution of poverty in FYR Macedonia has become challenging in recent years due to concerns over the data quality of the Household Budget Survey (HBS), particularly from 2009 onward. Therefore, the HBS series is used until 2008 until further diagnostics are carried out.

3 Measured at 70 percent of median consumption.

4 In addition, roughly 40 percent of the exported value of iron and steel, FYR Macedonia’s second most important export good, is imported.

The current account deficit (CAD) has steadily declined since 2009. After peaking at 6.5 percent of GDP in 2009, the CAD has been declining gradually in terms of GDP to 1.8 percent in 2013 and 1.5 percent in 2014. FDI-related exports, especially in the automobile industry and electrical machinery, were a key driver of export growth but have contributed only around 6 percent to growth in net exports, as the import content of FDI-related exports remains high. In addition, the recent decline in oil prices has reduced pressures on the current account. Energy imports have been growing by around 12 percent since 2010, and the decline in oil prices in 2014 reduced the CAD by around 0.4 percentage points. FYR Macedonia tends to run a large trade deficit (17.8 percent in 2014) that is largely financed through private transfers. This reliance on private transfers exposes the country to external risks that could be mitigated by increasing FDI, enhancing backward linkages between foreign firms and domestic suppliers,
Reducing energy imports, and strengthening competitiveness.

Additional reforms will be required to improve the competitiveness of the FYR Macedonian economy and take better advantage of the economic benefits of FDI. In particular, the country is facing the following challenges: (a) exports are still too concentrated in commodities (metals and minerals), where value added is low and prices are volatile; (b) medium and large firms do not invest sufficiently in quality or innovation; and (c) most exporting firms are small (fewer than 10 employees) and have difficulty competing in export markets because of inefficiencies and high costs related to customs, logistics, and trade infrastructure. Further, (d) the agribusiness sector, which employed 20 percent of the workforce in 2012, is constrained by several factors, including the large share of state-owned land, which needs to be better managed to unleash its productive and export potential.

While the country has been successful in attracting high-profile FDIs, backward linkages to spur the development of the local economy are lagging. Between 2006 and 2013, net FDI on average amounted to 4.3 percent of GDP, which is significantly below the regional average of 8.1 percent of GDP over the same period. Backward linkages with local companies are limited, thus restraining employment gains, net export growth, know-how sharing, and other spillovers from the FDI. However, new FDI projects (especially in the automotive industry, mining, and textiles and apparel) offer good opportunities for increasing linkages with local companies.

FYR Macedonia’s reserve coverage has been broadly stable in recent years. Reserves have been comfortably above four months of imports since 2009, but declined significantly at the end of 2013 and the first half of 2014 due to a decline in gold prices. The issuance of a €500 million Eurobond (around 6 percent of GDP) in July 2014 raised the reserve level to 4.5 months of imports at end-2014.

Fiscal Performance

FYR Macedonia’s public debt, though low by regional standards, has increased rapidly in recent years. Between 2008 and 2014, FYR Macedonia’s public debt almost doubled, increasing from 23 percent of GDP in 2008 to an estimated 45.8 percent of GDP in gross terms by 2014 (or 40.8 percent in net terms). By comparison, public debt in the SEE region averaged 52.7 percent in 2014. This increase in public debt was driven by sustained fiscal deficits at the central government level and state-owned enterprise (SOE)-led investments. The Government’s €500 million Eurobond in July 2014 served to pre-finance the rollover of €150 million, which comes due in December 2015 (figure 4). The Government put forward an ambitious policy program in 2014 that—if fully implemented—would steeply increase FYR Macedonia’s public debt over the medium term.

The fiscal deficit is estimated to have reached a historically high 4.2 percent in 2014. Preliminary budget execution data for 2014 suggest that the fiscal deficit reached 4.2 percent of GDP. This compares to an original budget deficit target of 3.5 percent and a revised budget deficit target of 3.7 percent. Spending pressures related to the parliamentary and presidential elections in 2014 pushed the budget deficit above the target. At the same time, revenues as a share of GDP declined by 0.1 percentage points compared to 2013, falling to
28 percent, which is among the lowest revenue ratios in the Europe and Central Asia (ECA) region. Expenditures increased from 31.9 percent in 2013 to 32.2 percent in 2014 due to increases in pensions, public wages, subsidies, and capital investments. The Government also missed its fiscal targets in 2012 and 2013.

Monetary and Financial Sector

The banking sector in FYR Macedonia is broadly stable. The sector is dominated by three large banks that control around 60 percent of banking assets. During 2013 and early 2014, medium and small banks gained market share at the expense of the three large banks and now control 39 percent of all assets, compared to 30 percent at end-2012. Two of the three large banks are owned by parent banks in Greece and Slovenia that are facing difficulties that may affect the operations of their local subsidiaries. However, all foreign-owned banks in FYR Macedonia operate as stand-alone subsidiaries under domestic regulation and supervision, and with their own balance sheets. Moreover, the Central Bank maintains a prudent supervisory policy, including semi-annual stress tests.

Credit growth picked up in 2014, but nonperforming loans (NPLs) remained high. Credit growth bottomed out in the third quarter of 2013 and gained strength throughout 2014, averaging 9.7 percent year-on-year (figure 5). Growth was largely driven by a strong pickup in corporate lending of 8.4 percent in 2014 (compared to 3.4 percent in 2013), as the economy grew and banks relaxed their credit requirements (especially for small and medium-sized enterprises [SMEs]). Despite solid credit growth, NPLs remained elevated throughout 2014 (figure 6), especially among the three largest banks. Corporate NPLs remain particularly high, peaking at 17.2 percent in October 2014 (the highest level since April 2006), before declining to 15.1 by end-2014. Total NPLs stood at 11.1 percent at the end of 2014. Deposit growth reached a solid 10.4 percent in 2014, backed by the strong performance of both household and corporate deposits.

Monetary policy has remained accommodative (figure 7). In response to weak credit growth, the National Bank of the Republic of Macedonia (NBRM) lowered the interest rate on Central Bank bills twice by one-quarter percentage point in 2013. It also reduced the reserve requirement ratio for banks’ liabilities in domestic currency from 10 to 8 percent and increased the same ratio in foreign currency from 13 to 15 percent in July 2013. In October 2013, the NBRM reduced provisioning requirements for banks. Credit activity increased in 2013 and early 2014.

Figure 5. Credit Growth (year-on-year) in %

Source: NBRM; World Bank staff calculations.

Figure 6. Nonperforming Loans (as % of total)

Source: NBRM; World Bank staff calculations.

Figure 7. Policy and Credit Interest Rates

Source: NBRM; World Bank staff calculations.

THE WORLD BANK PROGRAM IN FYR MACEDONIA

FYR Macedonia joined the World Bank in 1994 and graduated from International Development Assistance (IDA) in 2003. Since then, the World Bank has provided more than
US$1.7 billion in loans and grants to support the country’s transition to a market economy and its efforts to build effective institutions; enhance the business environment; improve education, social protection, and pensions; build and rehabilitate the basic transport and energy infrastructure; and preserve the natural and cultural heritage.

The new World Bank Country Partnership Strategy (CPS) with FYR Macedonia for FY15–18 is focused on two interrelated themes: (i) Growth and Competitiveness and (ii) Skills and Inclusion. Both of these themes are crucial for the Bank’s twin goals of eradicating extreme poverty and boosting shared prosperity. Since FYR Macedonia’s future is clearly linked to European integration, the CPS actively promotes the EU accession agenda and represents a cross-cutting theme. Planned new lending operations under the CPS include the Energy Efficiency Fund Project, the Road Upgrading Project, the Digital Macedonia Project, the Local and Regional Competitiveness in Tourism Project, and possible other operations. The current World Bank investment portfolio consists of seven loans totaling US$370.4 million.

Analytical and Advisory Activities (AAA). Over the past few years, the Bank’s AAA program shifted to “just-in-time” advisory work while still delivering core analytical products. The program includes several ongoing and planned activities, such as the Public Expenditure Review that will inform efforts to strengthen public financial management and inform future budget support to FYR Macedonia. Municipal Energy Efficiency Promotion technical assistance is providing advice to municipalities on energy efficiency and renewable energy sources. Employment and Job Creation analytic work will inform future policy options to improve labor market outcomes, especially labor force participation and employment.

HIGHLIGHTS OF THE WORLD BANK PROGRAM

Competitiveness

As a small, open economy, FYR Macedonia will have to rely on exports and increased competitiveness to sustain long-term growth. Supported by an active strategy to promote FDI, FYR Macedonia is shifting gradually to a more export-led growth model. As a result, in recent years, the country has diversified its exports both in terms of products and destinations and increased the technological intensity of its export basket. Export growth reached 3.3 percent in 2013 and is expected to reach 15.6 percent in 2014, largely driven by an increase in FDI-related exports. At the same time, local SMEs face challenges in integrating into international markets due to a lack of managerial, financial, and technical capacity, which limits their competitiveness. FYR Macedonia needs to boost and upgrade its exports further to improve its competitiveness by investing in infrastructure, promoting a stronger investment climate, facilitating business growth and linkages, and supporting business sophistication, skills, and innovation. This will help the country to attract additional investments for sustained private sector–led growth.

FyR Macedonia Competitive Industries and Innovation Support Program

The FYR Macedonia Competitive Industries and Innovation Support Program (CIIP) represents the continuation of World Bank engagement in supporting FYR Macedonia’s competitiveness agenda that was recently supported through the Competitiveness Programmatic DPL series. The CIIP is a three-year, US$1.6 million grant from the global Competitive Industries and Innovation Program Multi-Donor Trust Fund.

The main development goals to which the CIIP grant has contributed are:

- Developing high value-added manufacturing by attracting greenfield investment and scaling up export promotion initiatives. To that end, the CIIP is supporting a pilot on supplier development and backward linkages that aims to stimulate linkages between local SMEs and large foreign companies operating in FYR Macedonia in selected light manufacturing and the services sectors. The program will pilot a group of targeted and coordinated technical assistance interventions to support local SMEs to increase their sophistication and compete more
effectively by investing in innovation and new technologies and integrating into the regional and global supply chains of large foreign investors in the country.

- Facilitating the restructuring and growth of the agriculture sector by improving agricultural land administration and better targeting incentives for agriculture producers. Ongoing technical assistance with expertise from Germany is helping the Government improve the regulatory framework and implement a pilot program for the privatization of state-owned agricultural land.

- Improving the efficiency of trade logistics services by facilitating the transport of goods at border crossings and increasing the export readiness of the transport industry.

- Deepening innovation capacity in the enterprise sector by developing early-stage financing instruments and support services for entrepreneurs and SMEs.

- Promoting tourism by focusing on the technical assistance and policy dialogue that are addressing the binding constraints to, and opportunities to improve, sector competitiveness and that have resulted in the identification of a potential new operation with resources from the EU to invest in capacity building and critical infrastructure for tourism development at the local and regional levels.

**Energy**

The Government is concerned about the country’s growing reliance on imported fossil fuels and energy inefficiency. Fossil fuels account for more than 80 percent of energy consumption in FYR Macedonia, and an increasing amount of this is imported, including all liquid fuel and natural gas. In the absence of investment in new energy sources, this trend will continue, as demand grows while domestic production erodes. The Government is committed to reversing this trend and strengthening energy security. Greater energy efficiency is the first step in this direction, as FYR Macedonia consumes very little energy per capita but a high amount per unit of GDP. Its energy intensity is 3.5 times higher and its carbon intensity is four times higher than the average of the Organisation for Economic Co-operation and Development (OECD) countries.

The Government is determined to increase energy efficiency and the share of energy from renewable resources. An immediate area of opportunity is to improve the efficiency of residential, commercial, and public buildings, which account for up to 50 percent of energy consumption. The Government also wants to exploit renewable energy sources, starting with hydropower (of some 5,500 gigawatt hours [GWh] of clean hydropower ready to be exploited, only 27 percent has been tapped), but also wind, solar, and biomass. Other goals include increasing the use of natural gas and reducing the use of electricity in heating buildings. Investing in the energy sector is particularly important, as more than half of Macedonian firms indicate in surveys that electricity supply is a problem.

The World Bank supports FYR Macedonia’s energy sector. The Energy Community of South East Europe (ECSEE) APL 3 is upgrading the energy transmission infrastructure and promoting sound energy planning and regulation. The ECSEE APL 3 is also supporting the “green agenda” by reducing power losses and increasing the stability of the power system, mainly by strengthening the transmission network. Additional Financing for ECSEE APL 3 enables the extension of an electricity transmission interconnection from FYR Macedonia to Serbia. The Government has also asked for Bank support in developing the gasification infrastructure of the country.

The World Bank is also helping Macedonian municipalities to use energy more efficiently. The proposed Energy Efficiency Fund for Public Buildings would develop and capitalize a revolving fund to finance energy-efficiency improvements in public buildings, where energy cost savings would be used to cover loan repayments. This would enhance FYR Macedonia’s energy security while helping the country meet its 9 percent energy savings target as committed under the Energy Community Treaty. Technical assistance is also being provided to help municipalities identify and prepare energy-efficiency projects in the water supply and street lighting sectors.
Social Protection

FYR Macedonia is building an innovative and well-targeted social safety net. The country has a social protection system that provides support to a substantial part of the population, more than 6 percent of which receives some sort of social transfer. The largest transfer is the Social Financial Assistance (SFA), an income-tested, last-resort source of income support providing assistance to around 35,000 households. The existing system performs reasonably well by regional standards, but exclusion and leakage exist. In addition, the coverage of social assistance could be strengthened further, as it reaches only 32 percent of individuals in the poorest quintile. Moreover, the system is one of the least generous in the region and helps in moderating poverty but not in moving people out of it. Removing nonpension social transfers would increase poverty by a few percentage points only. Pensions, on the other hand, provide an important buffer against poverty, helping around 11 percent of the population stay above the absolute poverty line.

The Government has launched a broad reform agenda to improve the effectiveness of the system. Information systems have been upgraded to allow for better administration, monitoring, payment, and service delivery. The Government has also improved its definition and calculation of benefits and revised the terms of eligibility. The most recent improvements in the efficiency of overall social safety net administration and service delivery were directed toward improvements in the institutional infrastructure by linking the Ministry of Labor and Social Policy information system with the administrative registries of several government agencies. This exchange of information between agencies simplifies the registration procedures and reduces the administrative costs for benefit claimants as well as for the processing of the cash benefits. At the same time, it has taken advantage of a relatively well-targeted means-tested last-resort program—SFA—to introduce a conditional cash transfer (CCT) program supported by the Bank. The CCT program helps to reduce the intergenerational transmission of poverty by linking benefits to the fulfillment of standards for secondary school enrollment and attendance. The Government has also launched a new CCT program for activating youth in families benefiting from the SFA in order to help them make the transition into the labor market.

Transport

As a landlocked country, FYR Macedonia is particularly dependent on a well-developed transport network for its economic and social development. Key elements of this network are also part of the trans-European transport network (Corridor 10, which goes from Austria to Turkey, and Corridor 8, which connects Albania to the Black Sea ports in Bulgaria). Since its independence, the main challenges facing the country have been to reduce the economic distance to export markets and to lower the costs of transportation arising from the poor condition of Corridor 10 and the major delays at key border crossing points. The road transport network plays a particularly critical role in the development of the economy, as it carries the bulk of the country’s exports and goods (in the first two quarters of 2014, 93 percent of freight was carried on roads). A government priority is thus to upgrade and rehabilitate road infrastructure to improve future growth prospects. These challenges have also been addressed through World Bank programs that have focused on (i) the improvement of road and rail facilities along Corridor 10; and (ii) trade and transport facilitation actions to ease the movement of traffic through key border crossings.

In addition to the financial support to regional and local road network investments, the World
Bank is working together with the Government to improve the sustainability of road financing. These efforts center on the Public Enterprise for State Roads (PESR) and include the introduction of a road asset management system (RAMS), which is aimed at creating a comprehensive road database for the country’s road network. This allows PESR to manage its capital investment budgets in a sustainable manner, ensuring that these capital expenditures target network sections that are in priority investment need and also expand sections that have strong economic justification.

Figure 9. Main Road Network in FYR Macedonia

<table>
<thead>
<tr>
<th>Road Category</th>
<th>Length (km)</th>
<th>Paved (km)</th>
<th>Paved (%)</th>
<th>Good or Fair Condition (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Roads and Motorways</td>
<td>1,112</td>
<td>945</td>
<td>85%</td>
<td>91%</td>
</tr>
<tr>
<td>Regional Roads</td>
<td>3,721</td>
<td>3,021</td>
<td>81%</td>
<td>75%</td>
</tr>
<tr>
<td>R1 Regional Roads</td>
<td>2,041</td>
<td>1,889</td>
<td>93%</td>
<td>82%</td>
</tr>
<tr>
<td>R2 Regional Roads</td>
<td>1,680</td>
<td>1,131</td>
<td>67%</td>
<td>68%</td>
</tr>
<tr>
<td>Total Main Road Network</td>
<td>4,833</td>
<td>3,966</td>
<td>82%</td>
<td>79%</td>
</tr>
</tbody>
</table>

In September 2014, the Board approved a €52 million National and Regional Roads Rehabilitation Project, specifically targeting the rehabilitation of road links to two European thoroughfares, Corridors 10 and 8, and also continuing the improvements in PESR’s road management capacity and road safety. The national roads, which provide a critical link between urban areas and the international corridors, remain in a condition worse than that of neighboring countries and EU averages. In addition, many of the country’s roads are vulnerable to ecological and climate change factors, and interventions are required to protect them from damage. A particular focus of the project is to integrate road safety considerations in design and rehabilitation practices and also to ensure that design standards are considerate of the measures necessary to ensure climate resilience.

The implementation experience of past Bank-financed projects suggests that Bank operations present a unique opportunity for technical capacity enhancement in PESR and contribute toward increased capacity for EU grant-financing absorption. In the case of the current roads project, PESR successfully implemented an ambitious program that resulted in the rehabilitation of 284 kilometers of regional roads and 443 kilometers of local roads in four years. The implementation modalities and capacity within PESR are a strong foundation for the absorption of the EU’s Instrument for Pre-Accession Assistance (IPA2) in the road transport sector. This is, however, dependent on PESR’s capacity to adequately plan road sector investments and prepare mature projects. Consequently, the new project activities are developed to contribute directly to such capacity enhancement, since the technical assistance on road safety and road asset management will equip PESR to prepare investment pipelines and projects that will satisfy the economic, technical, and road safety standards necessary for EU financing and could also support the preparation of a pipeline investment plan for IPA2.

Municipal Services

Improving the living standards of the population requires more effective and efficient public service delivery. Given the new institutional realities brought by the unfolding decentralization process, better performing municipalities are crucial to delivering this ambitious agenda, especially given the trend of increased fiscal capacity at the local government level. The fiscal decentralization process tripled local government revenue as percentage of GDP between 2005 and 2012 from 1.9 percent of GDP to 6.5 percent of GDP, though it fell back to 5.9 percent in 2013. Despite this radical increase in revenues, Macedonian municipalities still face profound financial challenges. In order to strengthen their financial position, the local government finance law has been amended to further increase local government finance capacity. Municipal governments and local authorities influence, shape, and maintain stable interethnic relations at the level closest to citizens.

Against this backdrop, FYR Macedonia faces the dual challenge of increasing investments in municipal services while tackling weaknesses in municipal performance and local capacity. To respond to these challenges, municipalities will have to make considerable investments in strengthening their ability to manage the services and funds at their disposal. To take full advantage of the opportunities at hand, including resources that accompany EU pre-accession, municipal governments will have to fulfill a greater role for which they are currently insufficiently prepared. In doing so, municipalities face the challenge of weak institutional capacity to manage their investment responsibilities and communal enterprises, many of which lack market-based strategies and are not financially sustainable. The need for reform in the communal services sector is widely recognized in the country.
The World Bank–financed Municipal Services Improvement Project focuses on improving the transparency, financial sustainability, and delivery of targeted services under the responsibility of competitively selected municipalities and their communal service enterprises, such as water supply, sanitation, and solid waste management, as well as energy efficiency, urban transport, and other services under municipal provision. It provides subloans to municipalities for investments in revenue-generating public services and other high-priority investment projects, as well as technical assistance grants for subproject preparation, local capacity building for municipalities and Communal Service Enterprises, and national-level institutional strengthening. Through an agreement between the World Bank, the European Commission, and the Government of FYR Macedonia, Additional Financing was secured and has established a new rural investment grant scheme window that will improve infrastructure services in rural settlements.

Real Estate Cadastre

FYR Macedonia has a model cadastre system in the region. With the help of the World Bank, the Government has made great strides in reforming the real estate cadastre and property registration system. The Agency for Real Estate Cadastre has transformed itself from a technical organization focused on surveying to a service organization focused on customers. The Real Estate Cadastre has now been established in the whole country. The number of property transactions registered is increasing from 10 to 15 percent each year, while the number of mortgages using property as collateral has grown 179 percent since 2009, confirming the increased efficiency and confidence in the registration system that has led to an increase in the use of property as a financial asset.

The Government is now focused on further enhancing the registration and cadastre services by upgrading the national data sets in terms of accuracy, completeness, and accessibility. The World Bank–financed project is helping the Agency for Real Estate Cadastre with: a) digitizing the existing cadastre maps and plans (70 percent of the country’s territory has been digitized since 2009); b) providing this graphical information in a web-based geographic information system to facilitate access to information by citizens, the private sector, and the public sector; c) upgrading the geodetic reference infrastructure to improve the accuracy and efficiency of surveying; and d) supporting the Government in preparing a strategy and then implementing the National Spatial Data Infrastructure. World Bank investment also supports the Authority for Legal and Property Affairs in its efforts to complete the privatization of urban land and the legalization of illegally constructed buildings, and works to improve this agency’s capacity to deal with the assets in state property.

The International Finance Corporation

FYR Macedonia became a shareholder and member of the International Finance Corporation (IFC) in 1993. Since then, IFC’s investment in FYR Macedonia has totaled US$394.7 million, including US$181.7 million mobilized from World Bank partners in 27 projects across a variety of sectors. IFC’s committed investment portfolio in FYR Macedonia as of June 30, 2014, was US$58.7 million. In FY14, IFC invested US$147.6 million in FYR Macedonia, including US$144 million mobilized from Bank partners.

IFC’s advisory services aim to improve the investment climate and the performance of private sector companies and to attract private sector participation in the development of infrastructure projects.

Through a combination of investment and advisory services, IFC will continue to partner with clients in strategic sectors crucial to the country’s long-term sustainable development, with a particular focus on:
- the financial sector, with a special emphasis on SMEs and energy-efficiency and renewable lending
- climate change, including investments in the infrastructure and energy sectors
- agribusiness, with an emphasis on food retail
- value-added manufacturing
- business infrastructure, with a focus on logistics and distribution
- health and education

Recent investment projects include:
- US$10 million trade finance line to Ohridska Banka Societe General, signed in August 2013
• US$13.4 million long-term loan to Ohridska Banka Societe General, a mid-sized bank, to support the SME sector
• US$4.6 million long-term loan to support EVN Macedonia, the sole electricity supply and distribution company in the country

Under its **Global Trade Finance Program**, IFC provided a trade finance line to:

• NBG Stopanska Banka, a bank with growing presence across retail, corporate banking, and SME lending
• NLB Tutunska Banka, part of the Slovenian NLB Group
• Unibanka, a tier-two local bank with a special focus on the SME sector
• Ohridska Banka, part of Société Générale

**IFC has also invested in two regional projects** (Titan Cement and Vino-Zupa) that have significant operations in the country.

**In addition to investments, IFC has an active advisory program in FYR Macedonia.** The following regional advisory services projects have been recently implemented in the country:

**The Balkans Renewable Energy Project works to develop the renewable energy market**, with a special emphasis on small hydropower plants (SHPPs), in Western Balkan countries with the highest impact potential: Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro, and Serbia. (Supported by the Federal Ministry of Finance of Austria)

**The Europe and Central Asia Corporate Governance Program** supports the strengthening of corporate governance practices in the companies and banks in the region, leading to improved performance (reduced capital cost, higher valuations, improved loan terms) and/or efficiency (improved operations, clearer structures, better defined roles). The program also has a capacity-building component, supporting local institutions to provide corporate governance services jointly with IFC.

**The Western Balkans Trade Logistics Project** is active in Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia. The project’s goal is the reduction of regulatory and administrative bottlenecks to regional cross-border trade by streamlining export and import procedures, harmonizing interagency cooperation within and between countries, and championing risk-based controls, including the wider use of electronic systems for data exchange and trade logistics–related payments. The project aims to improve the competitiveness of the private sector by improving access to regional and global markets. The activities implemented by the project are expected to generate US$10 million in private sector savings.

**Public-Private Partnerships:** IFC provides advice on designing and implementing public-private partnership (PPP) transactions to national and municipal governments to improve infrastructure and access to basic services such as water, power, health, and education. The program is supported by donor partners Austria, Norway, and Switzerland.

**In FYR Macedonia, IFC currently has two active PPP advisory mandates,** helping the Government to attract private sector participation in (i) the power sector: the Crna River HPP project, which aims to improve energy sector efficiency and environmental sustainability, where IFC has been assisting with the design and implementation of a PPP transaction; and (ii) road transportation: the Corridor 8 toll road concession.
FYR MACEDONIA: SKILLS DEVELOPMENT AND INNOVATION SUPPORT PROJECT

Key Dates:
Approved: January 28, 2014
Effective: March 11, 2014
Closing: May 31, 2019

Financing in million US Dollars:

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<th>Financier</th>
<th>Financing</th>
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<th>Undisbursed</th>
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</thead>
<tbody>
<tr>
<td>IBRD loan</td>
<td>24.00</td>
<td>1.45</td>
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<td>Total Project Cost</td>
<td>24.00</td>
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*World Bank Disbursements as of February 2015.

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Improving the country’s labor market performance and economic competitiveness will require a more skilled and better educated labor force, as well as increased technology absorption, the diffusion of knowledge, and innovation. Although access to education has improved, there is a challenging disconnect between the products of the education system and private sector needs, as companies complain about the quality and availability of skills despite high unemployment. At the same time, the regulatory, institutional, and financial environment needs to be strengthened to further promote innovation at the firm level and improve the commercial significance of the country’s academic science and technology assets. The Government of FYR Macedonia is committed to investing in quality education, innovation, and information technology, identified as top strategic priority areas in its Work Program for the period 2011–15 as well as in the South Eastern Europe 2020 Strategy. To accomplish these objectives, the Government has sought support from the World Bank to advance its reforms to achieve better quality higher and vocational education and innovation systems.

The Project Development Objective is to improve the transparency of resource allocation and promote accountability in higher education, enhance the relevance of secondary technical vocational education, and support innovation capacity in FYR Macedonia.

The Project is designed to support interventions that foster education and skills relevant to the job market and enhance the innovation capacity and activity of firms in FYR Macedonia. It will also address key missing elements of the Macedonian innovation system and ailing aspects of the research sector that are likely to be vital for improving the competitiveness of the enterprise sector and FYR Macedonia’s longer-term economic growth prospects.

Results achieved:

- Fund for Innovation and Technological Development (FITD) established and operational
- The “Proof of Concept Mini Grants” instrument launched

Key Partners: The Bank team works closely with the Ministry of Education and Science and the Fund for Innovation and Technological Development.

Key Development Partners include European Commission, the U.S. Agency for International Development (USAID), and that British Council, which have provided support during the project identification process.
The impact of the global financial crisis and economic downturn in 2009 reduced prospects for growth, exports, foreign direct investment (FDI), and private transfers. In addition, poverty has remained high and is likely to increase due to the impact of the crisis. In this context, the need for effective and efficient social safety nets takes on increasing importance. Safety nets are part of a broader poverty reduction strategy interacting with social insurance, health, education, financial services, and other policies aimed at reducing poverty and managing risk. Safety nets have both short-run roles in alleviating immediate poverty and inequality and long-term impacts by enabling households to make better investments for their future. The Government has recognized that the impacts on human capital and a reduction in the intergenerational transmission of poverty can be particularly powerful when safety net programs are directly linked to incentives for investing in education and health through conditional cash transfers (CCTs).

The Project Development Objective is to strengthen the effectiveness and efficiency of FYR Macedonia’s social safety net through (a) the introduction of CCTs; and (b) improvements in the administration, oversight, monitoring, and evaluation of social assistance transfers.

The Project is addressing the objective by supporting the implementation of a CCT program for poor families conditioned on secondary school enrollment and the attendance of their children, and helping identify and develop possible extensions of the CCT model in health, labor, and/or other levels of education. In addition, the project is supporting improvements in safety net administration, service delivery, oversight, and monitoring and evaluation.

Results achieved:

- In the school year 2013–14, approximately 7,500 children from poor families regularly attended secondary schools due to the CCT benefit.
- The coverage of the CCT secondary education program increased from about 67 percent of eligible children in the first year of implementation to about 86 percent this year. The impact evaluation of the CCT secondary education program shows impressive results on enrollment, especially among older youth who are disproportionately likely to drop out of school. The CCT program could thus explain the increase of 10 percentage points in secondary school enrollment in Macedonia and also the lower dropout rates among older youth.
- Management and information systems for cash benefits have been upgraded to allow for better administration, monitoring, payment, and service delivery.

Key Partners: The Bank team works closely with (i) the Ministry of Labor and Social Policy, which is responsible for overall policy setting as well as for project management; and (ii) the Ministry of Education and Science.

Key Development Partners include the Government of Japan (which supports the development of this project through Policy and Human Resources Development [PHRD] grants) and the United Nations Children’s Fund (UNICEF), which provides support in the CCT program identification process.
Improving the performance of the energy sector is crucial to sustaining economic development and improving competitiveness in South East Europe (SEE). Power supply in the region is projected to tighten significantly during the next few years, which will constrain economic activity and affect the quality of life of the citizens if not addressed in a timely fashion.

The Development Objective of the Energy Community of South East Europe Project is to support the integration of FYR Macedonia into the regional power market by financing investments in power transmission and institutional development that would support market participation.

Specifically, the project has provided investment support and technical assistance to MEPSO (the public electric power transmission company) to strengthen transmission and dispatch and improve the company’s efficiency and to bolster its functioning in the regional power market through (a) financing the investments necessary to rehabilitate and upgrade the power transmission network, (b) financing investments to increase the level of interconnection with neighboring power systems, and (c) strengthening the institutional capacity of MEPSO.

Results achieved:

- With the completion of a 19-kilometer transmission line to Greece, regional power trade has been facilitated.
- In FYR Macedonia, power transit has increased by almost 200 percent since the finalization of the line.
- 38 transformation substations throughout the country have been rehabilitated, including the main substation for the capital of Skopje, the capacity of which has been increased by 78 megavolt amperes (MVA). This has improved system stability and has resulted in a reduction of technical losses of 2.2 megawatts (MW) during peak hours.

Key Partners: The Bank team works closely with (i) the Ministry of Economy, which is responsible for overall policy setting; (ii) MEPSO (the public electric power transmission company), the ultimate recipient of loan resources and implementer of the project; and (iii) the Energy Regulatory Commission.

Key Development Partners include the European Commission, the European Energy community, and the U.S. Agency for International Development (USAID).
FYR MACEDONIA: REGIONAL AND LOCAL ROADS PROGRAM SUPPORT PROJECT

Key Dates:
Approved: May 13, 2008
Effective: October 17, 2008
Closing: July 31, 2015

Financing in million US Dollars:

<table>
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<tr>
<th>Financier</th>
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<th>Disbursed*</th>
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<tr>
<td>IBRD loan</td>
<td>105.20</td>
<td>93.97</td>
<td>11.23</td>
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</table>

Total Project Cost 105.20


Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Although the road network of FYR Macedonia, consisting of 3,781 kilometers of regional roads and 8,496 kilometers of local roads, is considered mostly adequate in coverage, its condition falls far below the standards of similar networks in other European and most neighboring countries. A technical assessment undertaken in 2007 classified the condition of the regional and local roads as having “significant defects and weakened structural resistance requiring resurfacing or re-gravelling” but not needing the pavement demolished or the road base rebuilt. This unsatisfactory condition of the roads is principally the result of inadequate attention to the management and financing of the network over the past 15 years.

The Project Development Objective is to reduce the cost of safe access to markets and services for communities served by regional and local roads in the Guarantor's territory and improve the institutional capacity for investment planning and road safety.

The project’s implementation period is 2008–15. It is financing the rehabilitation of roughly 284 kilometers of paved regional roads (about 9 percent of the country’s regional roads) and roughly 420 kilometers of paved and unpaved local roads (about 5 percent of the country’s local roads). Following the Board-approved restructuring in 2013, the project also provides heightened assistance to the Public Enterprise for State Roads (PESR) to improve its institutional capacity, modernize its approach to the management of the road network, and help it adequately consider road safety.

Results achieved:

• Regional roads: completed rehabilitation of 284 kilometers; local roads: completed rehabilitation of 408 kilometers in 73 municipalities;
• Created a “Model Road Safety Road” on a section of a regional road;
• Ensured undisturbed road access and improved safety on two high-frequented roads through completing landslide remediation works;
• Technical audits of completed road works carried out and their recommendations being followed up;
• Increased the sustainability of rehabilitated roads and improved road safety through additional works on drainage, replacement, and installation of road signs and lane markings and road side equipment, such as guardrails;
• Currently replacing all road signs and road markings on regional roads in line with the newly enacted laws and regulations, which are consistent with European best practice;
• Strengthened the capacity of municipalities to plan, maintain, and invest in local roads (through the recommendations of technical audits and the production of “Guidelines for the Identification and Design of Improvements to Local Roads”);
• PESR introducing a Road Asset Management system for the road network and completed condition survey on full state road network;
• PESR demonstrating stronger commitment to road safety improvement.

Key Partners: The Bank team works closely with (i) the Public Enterprise for State Roads (PESR), the Borrower and implementer of the project; (ii) the Ministry of Transport, which is responsible for overall policy setting; and (iii) the National Road Safety Council.

Key Development Partners include the European Bank for Reconstruction and Development (EBRD), which is in parallel financing a comparable program. European Union (EU) IPA funds may be accessed for subsequent phases of the program.
FYR Macedonia embarked on a decentralization reform process a decade ago. The need for the more efficient provision of local services is widely recognized in the country. Public services such as water, sewerage and solid waste, public lighting, street cleaning and parks, marketplaces, and cemeteries are provided through municipal-owned communal service enterprises. Most of these services have suffered pervasively from rigid tariff controls, neglected maintenance, overemployment, and poor financial management, leading to a vicious cycle of further deterioration and lack of funding for new investments. The prevailing institutional and policy framework does not support the sustainability of services, let alone generate funding for improvements.

The Project Development Objective is to improve the transparency, financial sustainability, and delivery of targeted municipal services in the participating municipalities. The project aims to focus on infrastructure and services under the responsibility of participating municipalities and their communal service enterprises, such as water supply, sanitation, and solid waste management, but may also include support for other functions such as energy efficiency, urban transport, and other services under municipal provision. It provides subloans to municipalities for investments in revenue-generating public services and other high-priority investment projects, as well as technical assistance grants for subproject preparation, local capacity building for municipalities and communal service enterprises, and national-level institutional strengthening. The project has been restructured to accommodate additional finance that established a grant window for rural infrastructure.

Results achieved:
- Subloans have been signed with 42 municipalities, of which 25 have been successfully completed and 13 are under implementation. A further 29 municipalities are preparing investment projects with support from the project management unit (PMU).
- People in participating municipalities have been provided with access to regular solid waste collection, better and cheaper public lighting, rehabilitated local streets, better storm drainage, improved heating in public schools through energy saving, and improved water supply through the rehabilitation of water supply networks.
- In Bogdanci, and Novaci, the population benefits from better and more energy-efficient street lighting, cutting energy consumption by more than 50 percent; the project entailed the replacement of old mercury bulbs with new compact fluorescent light bulbs. The project encompassed all inhabited areas. A total of 12,200 inhabitants benefited from the project. The same project is due to be finalized in Gostivar and Veles, substantially increasing the number of beneficiaries. Other energy-efficiency projects, such as school insulations, are ongoing.
- The city of Skopje procured equipment for street cleaning and new waste containers; 17 solid waste trucks and 60,000 waste bins have been purchased, serving about 250,000 inhabitants.
- The municipality of Ilinden purchased and installed a heating pump for an elementary school, resulting in more efficient heating.
- The municipalities of Pehecevo, Vevchani, Krushevo, Kichevo, Vinica, Gradsko, Gostivar, and Kriva Palanka bought new solid waste trucks, construction machines, and multifunctioning machines with snow clearing equipment to serve their inhabitants.
- The municipalities of Kochani, Kisela Voda, Vaseilovo, and Veles reconstructed part of their water supply network, which is now providing a more reliable water supply to many of their citizens, while Prilep, Dolneni, Gjorce Petrov, and Vevchani reconstructed crucial road networks in their municipalities, facilitating transport and trade for local communities, thus contributing to the local economy.

Key Partners: The Bank team is working closely with the (i) Ministry of Finance, which is responsible for overall policy setting as well as for project management; (ii) Association of Municipalities (ZELS); and (iii) participating municipalities, as the ultimate recipients of loan resources through on-lending arrangements. A Key Development Partner is USAID, which provided technical assistance to municipalities, and the EU, which provides IPA funds to establish a new rural investment window for the project.
In 2005, the real estate cadastre covered less than 43 percent of the country, and uncertain property rights and weak land registration services created significant constraints to foreign investment. Confidence in the registration and cadastre records was low, as the records were significantly out-of-date and 60–70 percent of apartments were not registered at all. The lack of confidence and the difficulty caused by incomplete records had negative effects on private sector investment and the development of the economy overall; many land transactions were not registered, and cadastre and other records (courts, notaries) were incomplete and outdated, leading to uncertainty and a lack of trust in the property markets. Property ownership was not registered consistently in any central place and the lack of secure title made mortgage financing difficult or impossible for most citizens.

The Project Development Objective is to build an efficient and effective real estate cadastre and registration system, contributing to the development of efficient land and real estate markets.

The Project has helped the Agency for Real Estate Cadastre (AREC) to transform itself from a technical organization focused on surveying to a service organization focused on customers. One of the main objectives of the project was improving the agency’s management and monitoring, which consequently led to a more efficient and client-oriented way of working. At the same time, the policy work under the project has contributed to the new Law on Land Survey, Cadastre, and Registration of Real Estate Rights, which allowed for the development of private sector surveyors. The Government and the Bank agreed on an Additional Financing loan of €9.0 million in 2010, and the project was extended for three years to complete the additional activities, including the digital cadastre map and a national spatial data infrastructure that will contribute to more and better services to citizens and other government partners.

Results achieved:

Since the project’s start in 2005:
- A Real Estate Cadastre has been established in the whole country.
- The annual number of registered transactions nationwide tripled from 42,000 in 2005 to 147,600 in 2014.
- The number of mortgages registered in the land administration system each year increased from 3,000 in 2005 to 17,500 in 2014, demonstrating a substantial increase in using ownership rights as collateral. Since the project began, over 91,000 mortgages have been registered. The growing trend has been exceeding all estimates.
- The average time to register a purchase and sale transaction has been reduced to 2.4 days in urban and 1.5 days in rural areas, down from 60 days in 2004.
- At the end of 2014, there were 249 accredited private surveyors and 196 registered companies providing services directly to citizens—up from 14 private surveyors and zero registered companies at project commencement.
- The Authority for Legal and Property Affairs (ALPA) operates with a new management information system that enables greater efficiency in its work, and 25 out of 35 local offices operate in improved premises. A vision and strategy for ALPA’s future role were developed and are under implementation. ALPA has resolved 170,000 urban land privatization cases.

Key Partners: The Bank team has worked closely with the Agency for Real Estate Cadastre (AREC), the main implementing agency. Other key government partners include the Ministry of Finance and the Ministry of Transport, both of which are members of the Land Policy Advisory Committee and have been involved in land policy activities.

Key Development Partners include the Swedish International Development Cooperation Agency (SIDA), the Japanese International Cooperation Agency (JICA), and the Governments of the Netherlands and Norway. All have provided grant funds in parallel with the World Bank–financed project to support AREC for capacity building and training, strategy, mapping, national spatial data infrastructure, and IT.
FYR MACEDONIA: SOUTH EAST EUROPE AND CAUCASUS CATASTROPHE RISK INSURANCE FACILITY (SEEC CRIF)

Key Dates:
Approved: March 3, 2011
Effective: n/a
Closing: December 31, 2015

Financing in million US Dollars*:

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FYR Macedonia is particularly vulnerable to natural disasters. Between 1989 and 2006, floods constituted 44 percent of natural and technological disasters. Data from the past 20 years reveal a steadily rising trend of natural disaster incidence, flood severity, and flood intensity. The country is doubly impacted as not only has flooding shown a rising trend, but the effects of climate change have also increased the incidence of droughts. In addition, FYR Macedonia is located in the Mediterranean seismic belt. An earthquake in 1963 killed more than 1,000 people and damaged 80 percent of the building stock in Skopje.

The Project Development Objective is to help increase the access of homeowners, farmers, the enterprise sector, and government agencies to financial protection from losses caused by climate change and geological hazards. The program will support the South East Europe and Caucasus (SEEC) countries’ efforts to join Europa Re by financing their membership contributions to the facility. Europa Re, in turn, will facilitate the growth of catastrophe risk insurance markets in the member countries. For the program’s first phase, this component will be financed by International Bank for Reconstruction and Development (IBRD) loans (for Serbia and FYR Macedonia) and International Development Association (IDA) credits (for Bosnia and Herzegovina and Georgia). The SEEC CRIF will also work on building technical capacities through a grant, financed by donor funds and a Global Environment Facility (GEF) grant and implemented by Europa Re, that includes: (i) risk mapping and modeling for participating countries; (ii) design and pricing of appropriate catastrophe risk insurance products; (iii) small weather monitoring stations to support parametric weather insurance; and (iv) technical assistance for regulatory and policy reforms to create an enabling market environment.

Results achieved:

- The most important expected result of the program is the increased access to affordable weather risk coverage and catastrophe insurance for millions of people and thousands of small and medium-sized enterprises (SMEs) in the region. The aim is to raise catastrophe insurance penetration among beneficiaries from the current 1–5 percent to 15 percent of homeowners, farmers, enterprises, and government entities over the next five years.

- The key beneficiaries of SEEC CRIF are homeowners, farmers, the enterprise sector, and government organizations/agencies that will be able to buy dependable catastrophe insurance coverage and/or index-based parametric weather risk insurance contracts at competitive prices. Direct beneficiaries also include local insurance companies in the participating countries that will be able to expand and deepen their insurance business.

Key Partners: The Bank team works closely with (i) the Ministry of Finance, which is responsible for overall policy setting as well as for project implementation; (ii) the Insurance Supervision Agency; and (iii) private insurance companies.

Key Development Partners include the Swiss State Secretariat for Economic Affairs, which is providing a US$4.5 million grant to finance the establishment of the Europa Re company. The Bank team is also closely coordinating with the EU Delegation in FYR Macedonia.
FYR MACEDONIA: NATIONAL AND REGIONAL ROAD REHABILITATION

Key Dates:
Approved: September 23, 2014
Effective: December 22, 2014
Closing: September 30, 2019

Financing in million US Dollars:

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Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

As a landlocked country, FYR Macedonia is particularly dependent on a well-developed road and rail network for its economic and social development. Key elements of this network are also part of the Trans-European transport network (Corridor X, which goes from Austria to Turkey, and Corridor VIII, which connects Albania with the Black Sea ports in Bulgaria). The main challenges facing the country have been to reduce the economic distance to markets and lower the costs of transportation arising from the poor road condition of Corridor X and major delays at key border crossing points. The road network’s overall condition fares poorer than EU averages. Roads in the country are categorized as follows: (1) national roads; (2) regional roads; and (3) local roads. The current road network in Macedonia includes a total mileage of 14,159 kilometers. As such, the road network is considered to be close to appropriate in density but in need of improvement, mostly as a result of the age of existing infrastructure and irregular and insufficient maintenance. The national roads, relative to other road categories, are in a better condition, but due to the higher traffic they carry, they are in need of rehabilitation to ensure their longevity and decrease transport costs for freight and passengers. Regional roads are in greater need of investment, due to past backlogs in investment in these lower-trafficked roads.

The Project Development Objectives are to enhance the connectivity of selected national and regional roads, primarily to Corridors X and VIII, and to improve the Public Enterprise for State Roads’ (PESR) capacity for road safety and climate resilience.

The project’s implementation period is 2014–19. The project will rehabilitate national and regional roads that connect to the main road corridors X and VIII and to the 15 road border crossings of the landlocked country. The project will work with PESR and the National Council for Road Safety to improve the safety elements of road infrastructure, in line with the National Transport Strategy and recognized best practice. Priority is put on: introducing infrastructure safety management measures that are binding for contractors and road authorities in all stages of planning and execution; improving security standards on road-railways crossings; eliminating black spots; supporting proper and efficient road maintenance; and ensuring visibility on the roads by eliminating physical and illegal obstacles. The project complements the ongoing Regional and Local Roads Support Program that included the rehabilitation of the regional and local road network.

Results achieved:
• Project launch workshop was organized on November 5, 2014, where PESR, the World Bank, and all relevant national institutions, as well as the EU delegation, discussed the details of the project’s expected results and also identified possibilities for cooperation. Procurement is starting, with a procurement package for Component 1 under Bank review.

Key Partners: The Bank team works closely with (i) the Public Enterprise for State Roads (PESR), the Borrower and implementer of the project; (ii) the Ministry of Transport and Communications, which is responsible for overall policy setting; and (iii) the National Road Safety Council.

Key Development Partners include the European Union and European Bank for Reconstruction and Development.
The proposed project is partnering with Stopanska Banka, a leading bank in the Former Yugoslav Republic of Macedonia, to support its trade finance activities. The International Finance Corporation (IFC) was a holder of 10.8 percent of equity stakes until its exit in July 2010.

The project is part of IFC’s regional business partnerships with subsidiaries of the National Bank of Greece (NBG). It is also in line with the “Joint IFI Action Plan,” which is supporting the banking sectors of Central and Eastern Europe through the coordinated intervention of international financial institutions (IFIs). The project established a US$4 million Global Trade Finance Program (GTFP) trade nominal limit to Stopanska Banka with a risk weighted limit of US$2 million for up to one year.

The Project Development Objective. The objective of the project is to support the bank’s trade finance operations as well as to expand IFC’s GTFP partner bank network in FYR Macedonia, which consisted of only one partner bank (NLB Tutunska) at the time of investment. In this regard, the project contributes to the expansion of the trade finance business of the bank, making it less reliant on parent support.

The development impact of the project is expected to include:

- Contributing to economic growth through the increase of financing available for international trade;
- Enhancing the bank’s ability to provide export finance and contribute to export growth;
- Helping a major Greek bank sustain its franchise and maintain its operations in South East Europe (SEE) countries.
FYR MACEDONIA: UNIBANK

Key Dates:

Approved: July 2013
Signed: July 2013

IFC financing (million US Dollars):

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Universal Investment Bank, established as Balkanska Banka with mixed capital from Macedonian and Bulgarian legal entities and individuals, was bought in 2003 by the owners of FIBank, Sofia, Republic of Bulgaria, which is a current IFC client. Following the acquisition, the name of the bank was changed to its current name, Universal Investment Bank, in 2004. The bank services the small and medium-sized enterprise (SME) segment in the country with a stronghold in the retail market and has a limited exposure to the corporations of FYR Macedonia.

The bank’s main shareholders are Ivaylo Mutafchiev and Tzeko Minev, who are also the main shareholders of FIBank in Bulgaria, which is a current client of IFC through the GTFP, currently under discussion for an Energy-Efficiency line of up to US$30 million. A trade line with UniBank was considered at the time that a trade line was proposed for FIBank in Bulgaria at the end of 2009; however, due to a breach of certain important covenants, mainly the open loan exposure ratio, the Team felt it would be better to hold the investment until the bank had increased its provisioning levels.

The Project Development Objective. The objectives are to support the trade finance operations of UniBank, one of the second-tier banks in FYR Macedonia, servicing SME clients in the market. UniBank, which is the sister bank of an existing IFC client in Bulgaria, has been adversely affected, as the crisis has increased the costs of trade substantially. The project is expected to establish a relationship with UniBank, the seventh-largest bank in FYR Macedonia servicing SME clients in the country, which has been constrained by the global financial crisis. The project fits well with IFC’s strategy for FYR Macedonia, as it contributes directly to one of the main strategic objectives of expanding access to short-term finance to SMEs in the country, which is key to economic growth and job generation.

IFC’s expected additionality includes:

- Support for the trade finance operations of UniBank, since with no support from a strong multinational parent, UniBank is faced with limited access to lines by international banks;
- Support for real sector clients in FYR Macedonia, which rely on trade finance for their operations and have been negatively impacted by increased costs and the non-availability of lines.
FYR MACEDONIA: EVN II

Key Dates:

Approved: January 2012
Signed: February 2012

IFC financing (million US Dollars):

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<tr>
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EVN Macedonia AD (the “Company”) is FYR Macedonia’s sole electricity distribution company serving more than 812,000 customers and a population of 2 million people. After the unbundling of the state-owned utility into separate generation, transmission, and distribution companies, the Company was subsequently privatized in March 2006, with 90 percent of its shares sold to EVN AG for €225 million. Ten percent of the Company’s shares remain with the Government. Unfavorable macroeconomic conditions in the country continue to have a negative impact on the Company’s financial performance through increases in the impairment of receivables and high grid losses. Consequently, the Company continues to record losses. EVN AG (the “Sponsor”) is Austria’s second-largest integrated utility company, providing electricity, gas, heating, water, and waste incineration services in Austria and 20 other Central Eastern European countries. EVN AG was partially privatized in 1990 and is currently owned 51 percent by the Province of Lower Austria and 49 percent by other utilities and shareholders. EVN AG is listed on the stock exchanges in Vienna, Munich, and Frankfurt with a market capitalization of approximately €2 billion as of February 26, 2013.

The Project Development Objective. The project’s expected development impacts are: (a) supporting the Company during power sector deregulation by providing long-term financing, (b) continuing to support EVN with its turnaround strategy that essentially focuses on increasing bill collection rates and reducing energy losses, which will lead to significant electricity savings for FYR Macedonia, and (c) promoting proper sector reform and the development of a competitive power market in the country.

IFC’s expected additionality includes:

- Providing debt financing with adequate maturity as long-term financing is unavailable in the Macedonian market;
- Helping the Sponsor with its turnaround of the Company;
- Bringing IFC’s global experience in financing electricity distribution projects in markets where deregulation is taking place;
- Mitigating regulatory risk, given the limited track record of the Regulator (ERC) and the new regulatory framework that is being introduced;
- Continuing to offer a “stamp of approval” regarding the Company’s environmental and social action plan, in line with World Bank Group requirements.
FYR MACEDONIA: OHRIDSKA BANK

Key Dates:

Approved: March 2012
Signed: July 2012

IFC financing (million US Dollars):

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</table>

The Project is integral to the Societe Generale IFI Action Plan for Central and East Europe (CEE) (IFC/R2010-0137), which would help expand the lending programs of Societe Generale’s (“SocGen”) subsidiaries in CEE countries, primarily to penetrate various economic sectors such as agribusiness, climate change, and small and medium-sized enterprises (SMEs). Moreover, this plan is consistent with the strategy of the World Bank Group to reinforce the financial sector in this region. Strong, transparent, and coordinated action by parent banks and international financial institutions (IFIs) is much needed to minimize economic vulnerabilities in the CEE banking sector. This action would counter the negative outcomes provoked by economic contraction, reduced investment and foreign direct investment (FDI) flows, and scaled-back credit to the private sector, all of which are now hindering SME growth and leading to job losses. Moreover, IFC’s strategy is to balance the allocation of financing requested from Western European banks for their subsidiaries in the region between the different countries, given the significant increase in demand for such financing.

The Project Development Objective. The project would further expand SME lending in FYR Macedonia through a funding package of up to €20 million in the form of senior and subordinated loans to Ohridska Banka A.D. Ohrid (“Ohridska Banka”), a SocGen subsidiary and one of the country’s most stable banks, whose market share is 7.6 percent in terms of total assets. The first portion of the project was committed and disbursed as a senior loan at €10 million. The bank has requested IFC to convert the uncommitted portion of the facility, which was approved as either a subordinated loan or senior loan to be used for SMEs (€10 million), into a senior loan to be on-lent for renewable energy/energy-efficiency (RE/EE) products; the negotiations are still ongoing. The project would allow Ohridska Banka to tap into new funding sources, as international financing is scarce amid the European economic downturn. Strongly linked to IFC’s regional objectives, this investment would directly boost access to finance for SMEs, a key to economic growth and job creation.

IFC’s expected additionality includes:

- IFC would provide long-term funding to Ohridska Banka, as longer-term financial resources are now in short supply especially in frontier markets like FYR Macedonia. IFC’s engagement is critical to augment SocGen, the parent company, now facing challenging market conditions that could impede continual support to its subsidiaries. IFC’s additionality, therefore, would assist Ohridska Banka in diversifying funding sources and in supporting real sector clients in FYR Macedonia that rely on trade finance for their operations and have been negatively impacted by increased costs and the non-availability of lines.
- IFC would boost Ohridska Banka’s lending to SMEs, which play a crucial role in both economic growth and job creation.
- Increased access to finance: The project would contribute to economic growth in FYR Macedonia by increasing access to finance for SMEs—a vital economic segment—through a well-managed local bank supported by an international strategic investor.
- Long-term maturities and improved capitalization: The project would assist Ohridska Banka to more effectively manage the bank’s asset and liability positions with longer-term maturities otherwise in short supply; the subordinated debt, qualifying for Tier II capital, would subsequently strengthen the bank’s capital to underscore anticipated future growth.
- Demonstration effect: As a SocGen subsidiary, Ohridska Banka is expected to demonstrate market best practices in pivotal areas, i.e., credit policies, risk management, and environmental and social systems.
**FYR MACEDONIA: TUTUNSKA BANK NLB**

**Key Dates:**

*Approved:* December 2009  
*Signed:* January 2010

**IFC financing (million US Dollars):**

<table>
<thead>
<tr>
<th>Loan</th>
<th>33.00</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Project Cost</td>
<td>33.00</td>
<td></td>
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The Project is one element of an umbrella credit facility to NLB Group, a regional financial services group owned and controlled by its parent company, Nova Ljubljanska Banka dd. (“NLB”), based in Ljubljana, Slovenia. The facility is designed to provide longer-term funding to NLB Group subsidiaries to support small and medium-sized enterprises (SMEs). The project consists of a SME financing credit line of up to €25 million to NLB Tutunska Banka A.D. Skopje (“Tutunska”), the third-largest bank, with a growing presence across retail, corporate banking, and SME lending. The project would allow Tutunska to tap a new source of financing at a time when international funding sources for Macedonian banks are drying up due to the impact of the global financial crisis, and it also assists the Macedonian SME sector, which contributes around 90 percent of the country’s economic output, in a time of economic hardship.

**The Project Development Objective.** By supporting SME lending activities of the bank and the leasing company in a market where private sector credit/GDP is at significantly lower levels compared to the EU, IFC will contribute to expanding access to term finance and support SMEs’ capital investment plans. The successful implementation of the project will help an experienced, strong local sponsor to grow further as a regional player, and facilitate the transfer of capital and modern banking practices from Slovenia into the lesser-developed markets in the region. It will also support a system bank in lending to the SME sector, which is crucial for the creation of new job opportunities.

**IFC's expected additionality includes:**

- **Support during the Crisis:** By providing funding to the bank, IFC helps to maintain Tutunska’s lending activities and acts as a counterbalancing force in the absence of private sector funding. Without the project, the bank might need to curtail its lending activities and reduce its balance sheet as existing funding becomes due.

- **Longer Term Funding:** IFC provides longer-term funding that Tutunska would find difficult to source from the private sector market, particularly for frontier markets such as FYR Macedonia. This is relevant in the context of the global crisis that has affected the ability of European banks and their subsidiaries to raise long-term funding.

- **Long-term Partnership:** Through the project, IFC is building a long-term strategic partnership with NLB and the bank, which would provide a platform for IFC to undertake other initiatives across the region. NLB is one of the key regional players, and such a partnership would give IFC further reach into many of the smaller markets in the region, as in the case of the project.

- **Access to Finance:** The investment supports the SME lending activities of the NLB Group and the bank in a rather underdeveloped market such as FYR Macedonia. IFC contributes to expanding access to term finance and support for SMEs’ capital investment plans. The SME sector is an important driver of the Macedonian economy that is still offering attractive growth opportunities.