

**Document of  
The World Bank**

**FOR OFFICIAL USE ONLY**

**Report No. 47759-MK**

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**AND**

**INTERNATIONAL FINANCE CORPORATION**

**COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT**

**FOR**

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA**

**FOR THE PERIOD FY07–FY10**

**March 4, 2009**

**South East Europe Country Unit  
Europe and Central Asia**

**Southern Europe and Central Asia  
International Finance Corporation**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

**Date of Last Country Partnership Strategy: March 2, 2007**

**CURRENCY EQUIVALENTS**  
**(Exchange Rate Effective February 26, 2008)**

Currency Unit = Macedonian Denar (MKD)

US\$ 1.00 = MKD 48.05

**GOVERNMENT'S FISCAL YEAR**

January 1 – December 31

**ABBREVIATIONS AND ACRONYMS**

AAA	Analytical and Advisory Activities	FSAP	Financial Sector Assessment Program
APL	Adaptable Program Loan	FY	Fiscal Year
BEEPS	Business Environment and Enterprise Performance Surveys	fYR	Former Yugoslav Republic
BERIS	Business Environment Reform and Institutional Strengthening Project	GDP	Gross Domestic Product
CAS	Country Assistance Strategy	GEF	Global Environment Facility
CCT	Conditional Cash Transfer	HIF	Health Insurance Fund
CEM	Country Economic Memorandum	IBRD	International Bank for Reconstruction and Development
CFA	Country Fiduciary Assessment	IDA	International Development Association
CPPR	Country Portfolio Performance Review	IFC	International Finance Corporation
CPS	Country Partnership Strategy	IMF	International Monetary Fund
CPSPR	Country Partnership Strategy Progress Report	IPARD	Instrument for Pre-Accession for Rural Development
DPL	Development Policy Lending	LJIS	Legal and Judicial Implementation and Institutional Support Project
EBRD	European Bank for Reconstruction and Development	MEPSO	Electric Power Transmission Company
EC	European Commission	MIGA	Multilateral Investment Guarantee Agency
ECA	Europe and Central Asia	MKD	Macedonian Denar
ECSEE	Energy Community of South East Europe	MOH	Ministry of Health
ELEM	State-owned Electricity Generation Company	NATO	North Atlantic Treaty Organization
ESW	Economic and Sector Work	OECD	Organization for Economic Co-operation and Development
EU	European Union	PDPL	Programmatic Development Policy Loan
FDI	Foreign Direct Investment	PER	Public Expenditure Review
FIAS	Foreign Investment Advisory Service		

**FOR OFFICIAL USE ONLY**

PHRD	Policy and Human Resources Development	TA	Technical Assistance
		TF	Trust Fund
RECRP	Real Estate Cadastre and Registration Project	TTFSE	Trade and Transport Facilitation in South East Europe
REPARIS	Road to Europe –Program of Accounting Reform and Institutional Strengthening Project	UN	United Nations
		USD	United States Dollar
SME	Small and Medium Enterprise	WB	World Bank
SPIL	Social Protection Improvement Loan		

	<b>World Bank</b>	<b>IFC</b>
Vice President	Shigeo Katsu	Jyrki Koskelo
Country Director	Jane Armitage	Shahbaz Mavaddat
Task Team Leaders	Markus Replik and Bruce Courtney	George Konda and Zoran Martinovski

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not be otherwise disclosed without World Bank authorization.

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
COUNTRY PARTNERSHIP STRATEGY FY07–10 PROGRESS REPORT**

**TABLE OF CONTENTS**

<b>I. Country Context.....</b>	<b>1</b>
A. Political Developments .....	1
B. Economic Developments .....	1
C. Country Priorities and CPS Relevance .....	4
<b>II. Implementation progress.....</b>	<b>5</b>
A. Progress towards CPS Outcomes.....	5
B. CPS Program Implementation .....	7
C. Lessons Learned and Guiding Principles Going Forward .....	8
<b>III. CPS Program Going Forward .....</b>	<b>9</b>
A. Lending Program .....	9
B. Analytical and Advisory Services.....	11
C. IFC Activities.....	11
D. Managing risks.....	12

**Tables**

Table 1: Key Economic Indicators .....	4
Table 2: FY2007-2010 Lending Program.....	10

**Figures:**

Figure 1: CPS Implementation Progress.....	6
--	---

**Annexes:**

Annex 1: Updated CPS Results Matrix .....	13
Annex 2: CPS Implementation Progress.....	16
Annex 3: Key Economic Indicators .....	18
Annex 4: Country At-a-Glance .....	20
Annex 5: Social Indicators.....	23
Annex 6: AAA and ESW Program FY07-FY10.....	24
Annex 7: IFC Investment Operations/IFC Portfolio.....	25
Annex 8: Selected Indicators of World Bank Performance.....	27
Annex 9: Operations Portfolio (IBRD/IDA and Grants) .....	28
Annex 10: Key Exposure Indicators .....	29
Annex 11: Map .....	30

## **FORMER YUGOSLAV REPUBLIC OF MACEDONIA COUNTRY PARTNERSHIP STRATEGY FY07–10 PROGRESS REPORT**

1. This Country Partnership Strategy Progress Report (CPSPR) assesses progress in implementing the FY07–10 Country Partnership Strategy (CPS) for the former Yugoslav Republic of Macedonia (fYR Macedonia), which was discussed by the Board of Executive Directors on March 27, 2007.<sup>1</sup> The CPSPR confirms the overall direction of the World Bank Group program while introducing adjustments to the evolving partnership through the remainder of the CPS period, including the introduction of a streamlined CPS results framework.

### **I. COUNTRY CONTEXT**

#### **A. POLITICAL DEVELOPMENTS**

2. **A new Government took office in August 2008 supported by a strong coalition but facing setbacks on integration with the North Atlantic Treaty Organization (NATO) and the European Union (EU).** The new governing coalition holds more than two-thirds of the seats in Parliament and includes the so-called “Badinter” majority, which is required for legislation that has significant implications for ethnic minorities. The snap elections leading to the new Government were organized following the April 2008 decision by NATO to not extend membership to fYR Macedonia. This decision represented a major disappointment, especially as NATO invited Croatia and Albania to join. NATO made clear that an invitation to fYR Macedonia will be extended as soon as a mutually acceptable solution to the dispute over the country’s name is reached with Greece. Resolution of this long-standing UN-mediated dispute would also have important implications on fYR Macedonia’s aims to launch negotiations for EU membership, for which the country achieved candidate status in December 2005. These aims, however, suffered a further setback as observers from the Organization for Security and Co-operation in Europe reported that international standards were not met in the conduct of the June 2008 parliamentary elections. The conduct of the presidential and municipal elections scheduled in March 2009 will be critically important.

3. **In November 2008, the European Commission noted in its annual Progress Report some headway toward EU standards, particularly on economic criteria, but insufficient advances on political criteria.** Given relatively little progress on the political front, which is reflected in the lack of constructive political dialogue and the need for further strengthening of the judiciary, the Report did not recommend a date for the start of EU accession negotiations. EU membership enjoys the overwhelming support of the population, and remains a key government goal and a driving force of the government program.

#### **B. ECONOMIC DEVELOPMENTS**

4. **Economic growth until recently accelerated fueled by continued structural reforms and prudent macroeconomic policies** (see Table 1). Real GDP growth averaged 5.6 percent in 2007 and 2008. The investment to GDP ratio began to rise, and fYR Macedonia attracted increasing Foreign Direct Investment (FDI). Job creation trends turned positive and the employment rate rose from 39 percent in early 2006 to 42 percent in mid-2008, although

---

<sup>1</sup> Report No. 38840-MK.

unemployment remained very high. Credit growth peaked at 40 percent in April 2008,<sup>2</sup> and the ratio of private credit to GDP doubled from 20 percent in 2003 to more than 43 percent in 2008. Unlike several countries in the region, FYR Macedonia's credit growth has been driven by deposit growth, not capital inflows. Despite rapidly declining prospects for growth in 2009 due to the global economic downturn, FYR Macedonia needs to build on its recent success and sustain higher growth rates over the longer run to significantly reduce poverty, which remained stubbornly high at about 19 percent from 2002 to 2006.

5. **The Government's structural reform program focused on improving the investment climate through regulatory reform, liberalization of the banking and telecommunications sectors, and anti-corruption activities.** Testament to the brisk pace of reform was FYR Macedonia's fourth place ranking in the 2008 *Doing Business* Index of Top Reformers.<sup>3</sup> Progress was also made in tackling corruption: FYR Macedonia improved its ranking in the Transparency International Corruption Index from 105 in 2006 to 72 in 2008.

6. **Monetary policies were tightened in 2008.** After relatively loose monetary policies in 2006 and 2007, the Central Bank raised its intervention interest rate from 5 percent in 2007 to 7 percent in 2008. The Central Bank also introduced additional reserve requirements to slow the pace of credit growth and help maintain parity with the Euro while limiting inflation threats from external commodity price shocks. Credit growth eased to 34 percent in December 2008.<sup>4</sup> The banking system remains healthy and, according to the 2008 Update of the Financial Sector Assessment Program (FSAP), is sufficiently capitalized to withstand a range of shocks. About 55 percent of the stock of private sector credit is either denominated in foreign currency or indexed to foreign currency. This ratio has been stable for several years as has the ratio of foreign currency deposits to total deposits, at about 50 percent. However, the recent Article IV consultation of the International Monetary Fund (IMF) concluded that additional steps are needed to control credit expansion.

7. **Fiscal policy turned sharply expansionary in late 2008 after several years of fiscal prudence.** The Government ran surpluses in most years since 2003, and gross public debt was cut in half from more than 40 percent of GDP in the early 2000s to about 20 percent in mid-2008.<sup>5</sup> However, in the last quarter of 2008, the budget deteriorated from a surplus of 3 percent of GDP to a deficit of about 1 percent of GDP. Some of this surge in expenditure represented transfers to budget entities in the last weeks of the year. The fiscal stimulus of these transfers will be felt in 2009 when these entities spend the funds. In December, Parliament adopted a 2009 budget which envisages a further fiscal expansion and a deficit of 2.8 percent of GDP.

8. **The recent fiscal expansion raises concerns given the rapidly deteriorating current account deficit and the historic global financial crisis and economic downturn.** Rising energy and food prices in the first half of 2008 represented a terms of trade shock, which, together with high imports of investment goods, contributed to widening the current account

---

<sup>2</sup> April 2008 over April 2007.

<sup>3</sup> Rankings under the annual *Doing Business* reports assess progress covering previous years. For example, the 2008 report covers data from April 2006 to June 2007. See <http://www.doingbusiness.org/> for more information.

<sup>4</sup> December 2008 over December 2007.

<sup>5</sup> Private external debt grew from about 25 percent of GDP in the 2004 and 2005 to about 35 percent of GDP in 2007 and 2008 (using IIP methodology, see footnote 9 below). This growth was driven largely by an expansion of trade credits in the expanding textile and metals sectors.

deficit from 4.4 percent of GDP in 2007 to 13.2 percent in 2008.<sup>6</sup> This deficit was financed in part by FDI, which reached 6.8 percent of GDP in 2008. However, FDI dropped sharply in the fourth quarter of 2008 and by end-2008 reserves began to fall. Prospects for exports (heavily concentrated in metals and textiles), FDI, and private transfers are exceptionally poor in 2009. Metal exports have already been hard hit.

9. **Given FYR Macedonia's growing economic vulnerabilities, caution is warranted in fiscal policy in 2009.** FYR Macedonia's fixed exchange rate has served the economy well and the Government has noted its commitment to this regime. The Government's macroeconomic projections prepared in late 2008 and approved by the Parliament as part of the budget in December 2009 are presented in Table 1 (see column labeled "2009 Projected Budget"). More recent projections by the World Bank, presented in the final column of Table 1, take into account the deteriorating global conditions. This challenging external environment calls for a more prudent fiscal policy, which would require a revision of the 2009 budget and reflect the Government's commitment to support the exchange rate regime. A failure to sufficiently tighten fiscal policy would likely stimulate domestic demand and worsen the current account deficit, which could lead to falling reserves and pressure on the exchange rate. To offset the expenditure surge from late 2008, the Government could also slow the execution of budgeted capital expenditures to contain the budget deficit before adopting a supplementary budget. In the current environment, protecting transfers to the poor is also critically important.

---

<sup>6</sup> Current account data exclude reinvested earnings and unallocated profits.

	2006	2007	2008 Estimate	2009 Projected Budget <sup>7</sup>	2009 Projected WB staff <sup>8</sup>
<b>National Accounts</b>					
Real GDP growth (percent)	4.0	5.9	5.3	5.5	3.0
Investment (percent of GDP)	21.9	24.2	26.4	30.0	24.6
Unemployment rate (percent)	36.3	35.2	34.0	31.5	...
<b>Fiscal Accounts (percent of GDP)</b>					
Revenues, including grants	33.3	33.8	33.4	36.8	33.7
Expenditures	33.9	33.2	34.2	39.6	33.7
Balance, including grants	-0.5	0.6	-0.8	-2.8	0.0
<b>External Accounts (percent of GDP)</b>					
Current Account balance, including transfers	-0.5	-4.4	-13.2	-11.0	-11.3
Foreign Direct Investment	6.3	5.7	6.8	7.4	4.0
External Debt (GDF methodology) <sup>9</sup>	37.8	35.2	33.1	...	36.6
External Debt (IIP methodology)	51.6	52.8	50.0	..	..
Gross Reserves (months of next year's imports)	3.9	3.6	3.5	...	3.0
<b>Short term external debt (in percent of Official Reserves, IIP methodology)</b>	50.5	59.4	71.4	...	...
<b>Inflation</b>					
Consumer Prices (period average)	3.2	2.3	8.3	3.5	2.6

Sources: National Statistics Office, Ministry of Finance, Central Bank, World Bank staff estimates

### C. COUNTRY PRIORITIES AND CPS RELEVANCE

1. **The Government is committed to accelerating the structural reform program.** The five strategic priorities of the Government are: (i) increase the standard of living and quality of life through job creation, sustained economic growth, and improved competitiveness; (ii) achieve NATO and EU integration; (iii) continue the effective implementation of the rule of law and the struggle against corruption and organized crime; (iv) maintain good interethnic relations and coexistence based on principles of mutual tolerance and respect; and (v) increase investment in education.

2. **The two pillars of the CPS, and its underlying theme of supporting the country's objective of EU membership, remain consistent with government priorities.** These pillars

<sup>7</sup> 2009 Macroeconomic framework underpinning the 2009 Budget adopted by the Parliament (Official Gazette of Republic of Macedonia no.166 from December 31, 2008) based on assumptions about economic developments from late 2008.

<sup>8</sup> World Bank projections as of February 2009 reflecting further unfolding of the global economic crisis, its possible impact on FYR Macedonia and proposed policy response.

<sup>9</sup> External debt using the Global Development Finance (GDF) methodology excludes trade credits, and currency and deposits, whereas the International Investment Position (IIP) methodology includes estimates of these items. Trade credits are estimated at about 11 percent of GDP in FYR Macedonia. A significant part of FYR Macedonia's foreign trade (textiles and iron and steel trade) involves processing of imported raw materials. In FYR Macedonia trade credits in the IIP methodology are predominantly made up of estimated values of these inputs from the time they are imported into FYR Macedonia until they are exported. These trade credits carry low risks given that processors in FYR Macedonia are paid for their services only after the final product is delivered.



include: (i) fostering job-creating economic growth and increasing living standards for all; and (ii) improving governance and transparency in public sector delivery to support a market economy. The CPS continues to present opportunities to showcase successful implementation of the World Bank's Middle Income Country agenda, particularly by ensuring responsiveness to country demand and strengthening the focus on results, speed, flexibility and selectivity.

3. **This CPSPR introduces a revised and streamlined results matrix** (see Annex 1). The revised matrix features a smaller number of outcomes and milestones grouped under four outcome clusters to achieve cross-sector CPS synergies. These clusters include: (i) *growth and competitiveness*; (ii) *business environment*; (iii) *human development*; and (iv) *infrastructure*. The two pillars of the CPS, as well as the objective of supporting the country's aspiration of joining the EU, are reflected in each of these four outcome clusters.

## II. IMPLEMENTATION PROGRESS

### A. PROGRESS TOWARDS CPS OUTCOMES

4. **CPS implementation progress is assessed against the LEADS methodology.**<sup>10</sup> A graphical illustration of CPS implementation progress is provided in Figure 1. Highlights of progress are described below, with a fuller description of progress in Annex 2.

5. **Good progress was made under the competitiveness and business environment outcome clusters.** Key actions were taken to increase labor market flexibility: legislation was revised and the authorities decided to reduce the labor tax wedge. Significant headway was made in land reform: coverage of the real estate cadastre increased from 44% in 2005 to 82% in December 2008, and the number of real estate transactions rose significantly, from 220,000 in 2007 to 480,000 in September 2008. Despite this significant increase in transactions, 90% of real estate offices reduced the time to register a sale to 5 days or less, compared to an average of 60 days in 2004.

6. In agriculture, authorities continued to strengthen institutions and practices to comply with EU standards. The Ministry of Agriculture was reorganized and a payment agency established to manage rural development assistance, particularly under the EU's Instrument for Pre-Accession for Rural Development (IPARD). Under the business environment outcome cluster, authorities substantially reduced the number of days to register a business, introduced a regulatory impact assessment for new legislation, and applied a regulatory "guillotine" to amend or eliminate 37 laws and 374 bylaws. Judicial services and infrastructure are being upgraded, and a new trustee chamber for helping to manage bankruptcy disputes was established.

---

<sup>10</sup> The LEADS methodology is drawn from a review of Poverty Reduction Strategies in 59 countries. The LEADS methodology forms the basis for the formulation of targets and assessment criteria of Paris Declaration Indicators 1 (operational development strategies) and 11 (results-oriented frameworks). The methodology enables an assessment of the extent of action taken toward achieving development objectives. The assessments are judgment-based and reflect the direction in which concrete actions are moving toward fulfilling these objectives, rather than absolute progress.

**Figure 1: CPS Implementation Progress**

CPS outcome cluster	CPS outcome areas	CPS implementation progress				
		Little progress	Elements exist	Actions taken	Largely developed	Substantially in place
Competitiveness/Growth	Labor market					
	Land reform					
	Agric. capacity					
Business Environment	Doing business					
	Reg. reform					
	Judicial reform					
Human Development	Education					
	Health					
	Social protect.					
Infrastructure	Transport					
	Energy					
	Munic. services					

**L (little or no progress):** Action remained at a virtual standstill, due to a variety of circumstances, such as political developments, capacity constraints, and unforeseen events.

**E (elements exist/being considered):** There is some basis for progress, either through what already exists or through definite plans.

**A (action being taken):** Progress was made, although yet insufficient, and the basis exists for more substantive progress.

**D (largely developed):** Significant action has already been taken, although further action is needed.

**S (substantially in place):** The activity is virtually accomplished, with mechanisms in place to adapt and sustain it over time.

7. **Progress was also achieved under the human development and infrastructure outcome clusters.** Steps were taken to improve the quality of primary and secondary education, including strengthening sector management and establishing quality assurance systems and a national assessment tool. Advances were made in strengthening the finances and operations of the Health Insurance Fund and Ministry of Health. Health system revenue rose by about 18% from 2003 to 2007, and the obligations of the public health sector fell from 1.7% of GDP at end-2005 to 0.5% in September 2008. In social protection, a mandatory funded pension system was introduced, and a single management and information system for social assistance was designed. This latter system will support comprehensive consolidation and improved targeting of cash benefits, including the introduction of Conditional Cash Transfer (CCT) programs. In infrastructure, the Macedonian Railways was split into separate entities for operations and infrastructure, improving the efficiency of railway operations. Transport services and linkages with Southeast Europe are being upgraded, with tenders for 288 kilometers of regional roads underway. Some progress was made on integrating the electricity network into the Southeast European market. The power transmission line to Greece was completed and work on a medium-term energy strategy was started, but implementation arrangements for the new liberalized market model are lagging and relationships among the key institutions in the energy sector have become tense. A national strategy to develop and strengthen communal enterprises was developed, and implementation of a municipal infrastructure and services project is expected in late 2009.

## B. CPS PROGRAM IMPLEMENTATION

8. **The CPS proposed a lending program of US\$220 million to US\$280 million.** The CPS envisaged lending comprising up to three development policy operations, nine investment operations, and one project supported by the Global Environment Facility (GEF). Two investment lending operations were left undetermined for FY10, with the expectation that the lending program would be reviewed during the CPSPR to ensure that World Bank support remains fully responsive to evolving country needs.

9. **In FY07 and FY08, six projects were approved with a combined commitment of approximately US\$205 million.** These operations included two development policy operations, two projects in the transport sector, one project in agriculture, and one GEF grant project in sustainable energy. Responding flexibly to evolving government priorities, the Regional and Local Roads project was brought forward a year and significantly increased to US\$105 million, and the Conditional Cash Transfer project was moved to FY09. The Technological Change and Higher Education project may be considered in the next CPS. These projects complement eight ongoing operations approved between FY04 and FY06 in land administration, transport, energy, education, and health (see Annex 9). Looking forward, in addition to the Conditional Cash Transfer project, a Municipal Services Improvement project is expected to be proposed to the Board in late FY09.

10. **The performance of the active lending portfolio, which totals US\$252 million in commitments, is solid.** Most projects are rated *satisfactory* on implementation progress and progress toward development objectives. Five projects are rated *moderately satisfactory* because of implementation delays, but authorities are taking measures to strengthen their implementation. Despite the inevitable delays tied to the elections and government transition, the near 20 percent disbursement ratio in FY08 exceeded the ECA average. In addition, implementation arrangements for all but one project are fully mainstreamed into national structures to enhance institutional capacity.

11. **The World Bank provided relevant analytical and advisory assistance, including “just-in-time” support.** The World Bank strengthened authorities’ understanding of key fiscal and economic challenges through core economic and sector reports: an assessment of financial management and public procurement systems through the FY07 Country Fiduciary Assessment (CFA); an analysis of public expenditures in key sectors through the FY08 Public Expenditure Review (PER); and an analysis of factors underlying economic growth through the FY09 Country Economic Memorandum (CEM). Targeted sector analyses included the FY07 Municipal Development Sector Note and the FY07 Studies on Access to Land for Investments and Security of Land Tenure. Assistance through the donor-funded Regional Program of Accounting Reform and Institutional Strengthening (REPARIS) project supported implementation of a strategy to improve corporate financial reporting. Annex 6 outlines actual and planned non-lending activities.

12. **IFC provided investments and advisory services to strengthen the business environment and competitiveness.** IFC’s committed portfolio of US\$73 million includes an equity investment to a Fund supporting SMEs; a pre-privatization equity investment in Macedonian Telecommunications; an equity investment in Stopanska Banka; and a loan to the

Macedonian Power Distribution Company. In addition, IFC has invested about US\$200 million in regional projects in the infrastructure, commercial property and SME sectors that are looking for investment opportunities in the region including in FYR Macedonia. In Advisory Services, IFC focused on enhancing the country's competitiveness as a location for investment by providing assistance to the Investment Promotion Agency, working on value chain analyses, supporting regulatory reform policy, and working on a regional sub-national *Doing Business* study. IFC's Foreign Investment Advisory Service (FIAS) partnered with the FY05 Business Environment Reform and Institutional Strengthening project (BERIS) to reduce the time and procedures to register a business, and to develop the regulatory impact assessment tool. To improve bank and corporate governance, IFC provided support to strengthen regulatory bodies and build business capacity through company interventions, trainings and conferences. IFC's Recycling Linkages Program improved the lives of poor families who collect scrap materials while promoting a cleaner environment and energy conservation. Under this program, 19 companies received advisory services, a law on waste packaging was drafted, and about 500 people, including 260 individual scrap collectors, were trained. IFC's Alternative Dispute Resolution Program supported training of mediators, judges and lawyers, and the development of two Pilot Projects that successfully resolved many cases, freeing over US\$3 million in one year. Through the International Technical Standards and Regulations program, IFC supported 7 large export oriented companies and helped two of them increase export sales by US\$12 million.

### C. LESSONS LEARNED AND GUIDING PRINCIPLES GOING FORWARD

13. **Results management. CPS results management needs strengthening.** Though efforts were made to partially revise project-level results frameworks, additional improvements are needed at the program level, particularly to strengthen the role of the CPS results matrix as a joint Government/World Bank Group results management tool. The results matrix has been revised and simplified under this CPSPR to feature: (i) a smaller number of more tightly focused CPS outcomes and critical milestones; (ii) clearer and more realistic milestones; and (iii) better linkages to project results matrices.

14. **Implementation. Pro-active management of CPS implementation is a key driver of improved results.** Portfolio implementation was strengthened by introducing a quarterly CPS implementation review employing an easily understandable review matrix. Developed and regularly updated by the Government and the World Bank, the matrix and the associated reviews highlight key short-term project milestones and bottlenecks, providing a vehicle for problem solving. Recommended actions are discussed by the Government during its regular sessions and summarized in a government decree that is binding for respective institutions.

15. **Integration. World Bank Group activities need to be better integrated to increase impact.** A "One-stop-shop" approach was introduced that integrates Bank Group interventions designed to strengthen the business environment. A joint World Bank/IFC/FIAS business environment specialist was hired, a business environment core team was established, and the role of the World Bank Group approach on business environment services is being strengthened.

16. **Leverage. Reductions in bilateral aid and increases in EU assistance suggest further World Bank support to help leverage external assistance and strengthen national implementation capacity.** FYR Macedonia receives relatively high levels of Official

Development Assistance measured on a per capita basis.<sup>11</sup> However, national project management and implementation structures need significant and rapid upgrading to effectively manage external support, including EU pre-accession assistance. The World Bank has partnered with the EC to help authorities to better coordinate and leverage external resources and to increase the synergies of donor assistance. The Government has adopted a pragmatic approach to donor coordination that aims to introduce program-based approaches in a few key sectors of major importance to EU accession. In addition, the World Bank has been promoting close collaboration with other development partners, including through co-funding of World Bank projects, such as in education, by bilateral partners, particularly the Austrian, Dutch, French and Swedish Governments.

17. **Consolidation. The impact and effectiveness of World Bank support may be enhanced by offering fewer, larger lending operations and accelerating project delivery.** The current portfolio's numerous projects with relatively low financing amounts suggests giving more consideration to consolidating and scaling-up operations. Strategically differentiating lending and non-lending services is also important to ensure responsiveness to country needs and efficient use of resources. The FY08 Local and Regional Roads project is an example of many of these principles. This operation, which was prepared in seven months and scaled up from a planned US\$25 million to US\$105 million, helped to establish a national results framework that is being used by both the project and the European Bank for Reconstruction and Development, which is providing parallel financing.

### III. CPS PROGRAM GOING FORWARD

#### A. LENDING PROGRAM

18. **The CPS will continue to be implemented in a flexible manner to respond to evolving government priorities.** The decision to proceed with the proposed FY10 investment lending will depend on the unfolding impact of the global economic crisis on FYR Macedonia. In this context, the CPS will maintain flexibility to respond promptly and adequately to the evolving economic situation. The CPS might include, as needed, development policy lending to support an endorsable policy response to weather the impact of the unfolding global economic crisis. Table 2 provides an overview of the actual and planned lending program.

19. **The remaining CPS investment lending operations in FY09 include:**

- **Municipal Services Improvement Project (US\$25 million):** A new law on municipal finance was adopted in 2004, but municipalities and communal service enterprises continue to face significant constraints in delivering public services. This project will support actions to improve the accountability, efficiency, and financial sustainability of municipal services by providing loans for high priority municipal investments and by strengthening the capacity of municipalities and communal service enterprises. The operation will also support implementation of a national strategy to strengthen communal service enterprises.

---

<sup>11</sup> According to the database of the OECD Development Assistance Committee, FYR Macedonia received US\$200 million of Official Development Assistance in 2006 (<http://www.oecd.org/dataoecd/18/17/1901318.gif>).

**Table 2: 2007-2010 Lending Program<sup>12</sup>**

Maximum Planned Lending in CPS		Actual and Planned CPSPR Lending	
	Project (US\$mil.)	Project	(US\$mil.)
FY07	- Trade and Transport Facilitation in Southeast Europe (TTFSE) 2	- TTFSE 2	20
	- GEF Energy Efficiency	- GEF Energy Efficiency	Grant
	- Agriculture	- Agriculture	20
	- Programmatic Development Policy Loan (PDPL) 2	- PDPL 2	30
	<i>Subtotal</i>	<i>Subtotal</i>	<i>70</i>
FY08	- Conditional Cash Transfer	- Regional and Local Roads	105
	- PDPL3	- PDPL 3	25
	- Technological Change and Higher Education		
	<i>Subtotal</i>	<i>Subtotal</i>	<i>130</i>
FY09	- Urban Development	- Municipal Services Improvement	25
	- Regional and Local Roads	- Conditional Cash Transfer	25
	- Energy project (gas, electricity)		
	<i>Subtotal</i>	<i>Subtotal</i>	<i>50</i>
FY10	- Investment Loan 1	- Additional Financing: Energy Infrastructure ECSEE APL3	15
	- Investment Loan 2	- Additional Financing: Railways Reform	15
	- PDPL (new series)		
	<i>Subtotal</i>	<i>Subtotal</i>	<i>30</i>
	<b>Total</b>	<b>Total</b>	<b>280</b>

- **Conditional Cash Transfer Project (US\$25 million):** Complementing efforts under the FY04 Social Protection Improvement Loan (SPIL) to reform the pension system and social assistance, this operation will establish and support implementation of a CCT program. Under this project, cash transfers will be provided to the most vulnerable households contingent on commitments to comply with beneficial health and education behaviors, such as ensuring that children attend and complete secondary education. Support will also be provided to strengthen overall program administration, improve inter-agency cooperation, ensure efficient and targeted delivery of CCT benefits, monitor beneficiary compliance, and evaluate program impact.

20. **Envisioned investment lending operations under this CPS in FY10 are:**

- **Additional Financing for Energy Infrastructure under the Energy Community of South East Europe (ECSEE) Adaptable Program Loan (APL) 3 (US\$15 million):** Despite completion of recent electrical interconnection lines to Greece and Bulgaria, FYR Macedonia needs to further improve its connections to regional networks. The

<sup>12</sup> FY10 lending may differ from the one presented in the table depending on the impact of the unfolding global economic crisis and might include, as needed, development policy lending to support an endorsable policy response to weather the impact of this crisis.

Government has requested additional resources under the ECSEE APL 3 to finance an interconnection line to Serbia.

- **Additional Financing under the Railways Reform project to Expand Rolling Stock (US\$15 million):** Macedonian Railways - Transport, a joint stock company, plans to further invest in wagons and locomotives to respond to projected increased long-term demand for freight transport. The Government has requested the World Bank to finance these investments through additional financing under the Railways Reform project.

## **B. ANALYTICAL AND ADVISORY SERVICES**

21. **Analytical and advisory services will support country competitiveness and the energy and water sectors** (see Annex 6). In line with FY09 CEM recommendations and based on the FY08 Labor Market Policy Notes, an FY09 Labor Market Advisory program supports the design and implementation of labor tax reforms, including cuts in social contribution rates and a shift from a net wage to gross wage concept. These reforms aim to reduce the tax burden on firms and catalyze economic activity. Integrated support under the newly established joint World Bank/IFC/FIAS “One-stop shop” for business environment services will strive to deepen business climate reforms in FY09/10 with a view to FYR Macedonia’s remaining a top-20 reformer in *Doing Business* in 2010. Activities under an FY08 grant from the Japan Policy and Human Resources Development (PHRD) Fund are supporting preparation of a possible future Technological Change and Higher Education project. In particular, the PHRD grant will help identify linkages between industry and research as well as policies and programs in innovation, skills development, and technology diffusion and absorption. Following up on a recommendation in the CEM, an FY09 Trade and Logistics Policy Note will analyze ways to improve the export environment and reduce associated business costs. FYR Macedonia will also receive support in FY09/10 under the World Bank’s Country Systems Procurement Pilot, whose goal is to strengthen country procurement capacity. An FY09/10 Energy Sector Dialogue program will support the development of a national energy strategy and the implementation arrangements of a liberalized electricity market model. World Bank technical assistance in FY10 will also assist the Government in defining a National Water Strategy.

## **C. IFC ACTIVITIES**

22. In responding to the current crisis, IFC will be selectively offering support to existing clients in key sectors, including more short-term finance and, if needed, will help systemic banks through the Recapitalization Fund. IFC may provide complementary financial support across diverse sectors, including: *infrastructure*, particularly in energy and transportation; *corporate sector*, mainly agribusiness, light manufacturing, and direct SME financing; *social sector*, including support for private sector players with strong track records in education and health; and the *financial sector*, such as investment and advisory assistance to financial institutions to develop new products in energy efficiency, SME financing, and risk/delinquency management. IFC will also consider offering support to encourage high quality foreign and regional companies to invest in the country.

23. IFC is refocusing the advisory services to provide advice now demanded by its clients, for example training on non-performing loans management for banks. In addition, IFC’s advisory services will continue to help enhance the country’s competitiveness as a location for

investment by focusing on: *industry competitiveness*, including value chain analyses in agribusiness, general manufacturing and the service sector; *regulatory reform*, including policy development and mainstreaming of the “guillotine” review of business licensing and inspection regulations; and *investment promotion*, such as support to the national investment promotion strategy and the national investment promotion agency. IFC business environment support will be delivered through the World Bank Group’s “one-stop-shop” approach.

#### **D. MANAGING RISKS**

24. **Investor confidence could be undermined by unfavorable political and regional developments.** Lingering uncertainties on Kosovo’s status continue to present risks of regional instability, and the ongoing unresolved dispute with Greece over the country’s name could affect confidence in FYR Macedonia’s prospects for NATO and EU accession. The strong prevailing political commitment across the region toward EU integration and the unwavering commitment of the EU to promote regional stability partially mitigate these risks. The World Bank Group will monitor developments closely and will make necessary adjustments to the support strategy as warranted.

25. **The unfolding global financial and economic crisis creates a very uncertain macroeconomic environment with significant downside risks.** Thus far, the effects of the international financial crisis on FYR Macedonia have been moderate. The turmoil in global credit markets has not directly affected banks in FYR Macedonia, as credit growth has been financed mainly by domestic deposits. However, while a large portion of the recent significant increase in the current account deficit was financed by FDI, these flows tapered off in the last quarter of 2008 and official reserves began to decline. The slowdown in FYR Macedonia’s main trading partners and uncertainties about private transfers and FDI will likely increase pressure on the balance of payments. The greater risks in an increasingly volatile external environment call for a prudent policy response. The World Bank will continue to follow economic and fiscal developments and make programmatic adjustments as needed. The World Bank will also maintain active dialogue with authorities on economic issues, including through ongoing analytical work and advisory services.



**Annex 1**  
**fYR Macedonia: Updated CPS Results Matrix FY07-10**

Country Devt. Goals	CPS Outcomes	Milestones	World Bank Group Program
<b>Growth and Competitiveness</b>			
Improve competitiveness and growth through appropriate policies and effective institutions	<b>LABOR MARKET:</b> Increase flexibility of labor market and decrease tax wedge	<ul style="list-style-type: none"> <li>• Revision of labor laws to introduce greater flexibility in labor contracts (i.e., reduce restrictions in working hours, duration of fixed-term contracts, costs of hiring and firing)</li> <li>• Decreased labor tax wedge (i.e., social contributions and personal income tax as percent of wages, inclusive of fringe benefits); baseline 2006: 34.5% of gross wage (inclusive of fringe benefits) for average wage earner; 42% for those earning half of the average wage (by January 2010)</li> </ul>	<b>Financial support</b> <ul style="list-style-type: none"> <li>• BERIS (FY05)</li> <li>• Real Estate Cadastre and Registration project (RECRP) (FY05)</li> <li>• Agriculture project (FY07)</li> <li>• Programmatic Development Policy Loan (PDPL) series (FY06-08)</li> </ul> <b>Analytical and advisory support</b> <ul style="list-style-type: none"> <li>• Labor Market Notes and Follow-up TA (FY08-09)</li> <li>• CEM and Trade Logistics Policy Note (FY09)</li> <li>• IFC Advisory services</li> </ul>
	<b>LAND REFORM:</b> Establish efficient land administration system	<ul style="list-style-type: none"> <li>• 90% of real estate cadastre established (by end-2009)</li> <li>• 90% of cadastre offices have 3-day sale registration times (by end-2009)</li> <li>• Four land policy studies adopted on: (i) access to land for investments; (ii) security of land tenure; (iii) land market; and (iv) state land management (pilot project Strumica) (by end-2009)</li> </ul>	
	<b>AGRICULTURE CAPACITY:</b> Improve institutional capacity of agriculture sector public institutions in line with EU accession requirements	<ul style="list-style-type: none"> <li>• Ministry of Agriculture is able to disburse and track use of all government subsidies and rural development funds through an IPARD-compatible payment agency (by July 2010)</li> <li>• All seven water economy organizations initiate collection of water user fees to cover operating expenses (by December 2009)</li> </ul>	
<b>Business Environment</b>			
	<b>DOING BUSINESS:</b> Improve business environment as measured by WB <i>Doing Business</i> report	<ul style="list-style-type: none"> <li>• Systematic improvement as measured by the <i>Doing Business</i> reports – as indicated by placing among top 20 reformers in three consecutive years (September 2007-September 2009)</li> </ul>	<b>Financial support</b> <ul style="list-style-type: none"> <li>• BERIS (FY05)</li> </ul>

Country Devt. Goals	CPS Outcomes	Milestones	World Bank Group Program
<p>Improve the business climate, reduce regulatory burden on businesses, ease entry of new businesses</p>	<p><b>REGULATORY REFORM:</b> Reduce the burden of regulation on businesses</p>	<ul style="list-style-type: none"> <li>Regulatory Impact Assessment is systematically used for all new legislation considered by the Government (except legislation proposed under urgent procedure) after January 1, 2009</li> <li>Regulations are eliminated or amended by the regulatory guillotine; first round of the guillotine is fully implemented (64 laws and 481 bylaws eliminated or amended), and at least one more round initiated by December 2009</li> <li>Unique national electronic registry containing all legal acts in force is fully functional by December 2009</li> </ul>	<p><b>World Bank Group Program</b></p> <ul style="list-style-type: none"> <li>Legal and Judicial Implementation and Institutional Support project (LJIIS) (FY06)</li> <li>PDPL series (FY06-08)</li> </ul> <p><b>Analytical and advisory support</b></p> <ul style="list-style-type: none"> <li>Business Environment One-stop-shop Support (launched FY08)</li> <li>Country Systems Procurement Pilot (FY09/10)</li> </ul>
	<p><b>JUDICIAL REFORM:</b> Increase the efficiency of judicial system and improve courthouse infrastructure</p>	<ul style="list-style-type: none"> <li>25% increase in client satisfaction with court operations from 2007 to end-2009 as assessed through court users survey</li> <li>Eight out of ten court facilities renovated (by end 2009)</li> <li>New Court Information System is introduced (by end 2009)</li> </ul>	
<b>Human Development</b>			
<p>Improve the effectiveness of the education, health and social protection systems</p>	<p><b>EDUCATION:</b> Improve school infrastructure and quality of education in basic and secondary education</p>	<ul style="list-style-type: none"> <li>All 427 primary and secondary schools have improved their basic infrastructure, including teachings aids, through the school grants program. 150 rural primary schools will receive additional infrastructure support, as well as teacher training reaching an average of 70 % of the teachers in each school (by June 2010)</li> <li>National education management and information system established and baseline data available (by June 2010)</li> </ul>	<p><b>Financial support</b></p> <ul style="list-style-type: none"> <li>Education Modernization (FY04)</li> <li>Health Sector Management (FY05)</li> <li>SPIL (FY04)</li> <li>Conditional Cash Transfer (FY09)</li> <li>PDPL series (FY06-08)</li> </ul>
	<p><b>HEALTH:</b> Improve efficiency and transparency of Health Insurance Fund operations and institutional and management capacity of Ministry of Health</p>	<ul style="list-style-type: none"> <li>Transparent financial management, expenditure control and performance indicators for all hospitals established</li> <li>Implementation of DRG (diagnosis-related groups) payment system for hospitals with 20% share of the hospital budgets (by December 2009)</li> <li>Reference pricing for drugs reimbursable by the Health Insurance Fund are in place (by December 2009)</li> </ul>	

Country Dev't. Goals	CPS Outcomes	Milestones	World Bank Group Program
	<p><b>SOCIAL PROTECTION:</b> Improve administration and targeting of cash benefits and strengthen pension system</p>	<ul style="list-style-type: none"> <li>• Integrated management and information system covering all cash benefit programs including database of all beneficiaries established and operational (by June 2009)</li> <li>• Strategy for further consolidation of all social cash benefits developed based on integrated data registry of all cash benefits recipients, and reflected in the new social protection law and the revised child protection law (by June 2009)</li> <li>• First CCT program in education designed and introduced (by September 2009)</li> <li>• Voluntary pension system introduced (by mid-2009)</li> </ul>	
<b>Infrastructure and Energy</b>			
<p>Increase the capacity of road and rail transport and lower trade and transport related transaction costs, improve the efficiency and sustainability of the energy sector, improve local infrastructure</p>	<p><b>TRANSPORT:</b> Improve road and rail infrastructure and management capacity</p>	<ul style="list-style-type: none"> <li>• 80 km of regional and 40 km of local roads improved (by December 2009)</li> <li>• 50% of the construction of the Tabanovce-Kumanovo highway completed (by December 2009)</li> <li>• Agency for State Roads is adequately managing and implementing road investments as confirmed by regular technical audits</li> <li>• The successors of Macedonian Railways (MR-I and MR-T) improve their financial performance as indicated by improved working ratios (without state support) from 103% in 2005 to less than 100% at end-2009</li> <li>• Significant decrease in freight train processing time at border stations on Corridor X (baseline: 450 minutes in 2007)</li> </ul>	<p><b>Financial support</b></p> <ul style="list-style-type: none"> <li>• Railways Reform (FY06)</li> <li>• TTFSE 2 (FY07)</li> <li>• Regional and Local Roads (FY08)</li> <li>• ECSEE APL3 (FY06)</li> <li>• GEF Sustainable Energy (FY07)</li> <li>• Municipal Services Improv. (FY09)</li> <li>• Additional Financing: ECSEE APL3 (planned FY10)</li> <li>• Additional Financing: Railways Reform (planned FY10)</li> </ul> <p><b>Analytical and advisory support</b></p> <ul style="list-style-type: none"> <li>• Energy Sector Policy Dialogue, including support for the National Energy Strategy (FY09/10)</li> <li>• TA in support of National Water Strategy (FY10)</li> </ul>
	<p><b>ENERGY:</b> Improve efficiency and sustainability of the energy sector</p>	<ul style="list-style-type: none"> <li>• Government adopts sound medium term energy strategy (by September 2009)</li> <li>• Regulatory and incentive framework for renewable energy introduced (by September 2009)</li> <li>• At least 5 GEF-financed energy efficiency projects under implementation (by September 2009)</li> <li>• The 2009 ECSEE report assesses Macedonia's performance as satisfactory</li> </ul>	
	<p><b>MUNICIPAL SERVICES:</b> Improve local services and infrastructure in selected municipalities</p>	<ul style="list-style-type: none"> <li>• Implementation launched of first municipal infrastructure and services improvement projects financed through government on-lending (by December 2009)</li> <li>• National strategy to strengthen communal services enterprises in place (by December 2009)</li> </ul>	

**Annex 2**  
**fYR Macedonia: CPS Implementation Progress**

Country development goals	CPS Outcomes	CPS Progress	Milestones to Assess Progress
<b>Competitiveness/Growth</b>  Improve competitiveness and growth through appropriate policies and effective institutions	<b>LABOR MARKET:</b> Increase flexibility of labor market and decrease tax wedge	A	<ul style="list-style-type: none"> <li>▪ Further revised labor law with amendments promulgated in August 2008 increased labor market flexibility</li> <li>▪ Government decision adopted to reduce labor tax wedge</li> </ul>
	<b>LAND REFORM:</b> Establish an efficient land administration system	D	<ul style="list-style-type: none"> <li>▪ Coverage of real state cadastre increased from 44% in 2005 to 82% in December 2008</li> <li>▪ Real estate transactions rose from 220,000 in 2007 to 480,000 in September 2008. 90% of offices in the country have reduced the time to register a sale transaction to 5 days or less, compared to an average of 60 days in 2004.</li> <li>▪ Government steering committee adopted two of four land policies (security of tenure; access to land for investors)</li> </ul>
	<b>AGRICULTURE CAPACITY:</b> Improve institutional capacity of agriculture sector public institutions in line with EU accession requirements	A	<ul style="list-style-type: none"> <li>▪ Reorganization of Ministry of Agriculture to comply with EU requirements initiated but not yet completed; payment agency established and 80% staffed, but not yet EU accredited</li> <li>▪ In 2008, all Government agriculture subsidies delivered through payment agency, but only about 15% of subsidies delivered in line with EU common agriculture policy</li> <li>▪ All nine public water management organizations fully liquidated and three out of seven new semi-public water economy organizations established in line with irrigation reform policy</li> </ul>
<b>Business Environment</b>  Improve the business climate, reduce regulatory burden on businesses, ease entry of new businesses	<b>DOING BUSINESS:</b> Improve business environment as measured by WBG <i>Doing Business</i> report	D	<ul style="list-style-type: none"> <li>▪ <i>Doing Business 2008</i> (September 2007): top four reformer, global ranking in <i>ease of doing business</i> was 79 out of 181 countries</li> <li>▪ <i>Doing Business 2009</i> (September 2008): ease of doing business ranking climbed eight places to 71 out of 181 countries; labeled a systematic reformer</li> </ul>
	<b>REGULATORY REFORM:</b> Reduce the burden of regulation on businesses	D	<ul style="list-style-type: none"> <li>▪ Regulatory Impact Assessment introduced for all new legislation in the country's legislative process but not yet applied to all new regulations</li> <li>▪ 37 out of 64 laws amended or eliminated through the regulatory guillotine; 374 out of 481 bylaws eliminated or amended</li> </ul>
	<b>JUDICIAL REFORM:</b> Increase efficiency of judicial system and improve courthouse infrastructure	A	<ul style="list-style-type: none"> <li>▪ Administrative Court established and functional</li> <li>▪ Reconstruction of court buildings at early stage; first nine courthouse renovation tenders launched</li> </ul>

<b>Human Development</b>  Improve the effectiveness of the education, health and social protection systems	<b>EDUCATION:</b> Improve school infrastructure and quality of education in basic and secondary education	A	<ul style="list-style-type: none"> <li>▪ Quality assurance system for primary and secondary education established and fully functional, including introduction of a national assessment for primary education and a State Matura as a standardized secondary school exit exam</li> <li>▪ 427 primary and secondary schools rehabilitated</li> </ul>
	<b>HEALTH:</b> Improve efficiency and transparency of Health Insurance Fund operations and institutional and management capacity of Ministry of Health	A	<ul style="list-style-type: none"> <li>▪ Roles of the Ministry of Health and Ministry of Finance in management of the HIF strengthened</li> <li>▪ Financial transparency and sustainability of HIF and most hospitals improved</li> <li>▪ New health provider law ensuring greater financial and management autonomy of hospitals not yet in place</li> </ul>
	<b>SOCIAL PROTECTION:</b> Improve administration and targeting of cash benefits and strengthened and sustainable pension system	A	<ul style="list-style-type: none"> <li>▪ Single management and information system for social assistance designed but not yet implemented</li> <li>▪ Draft design for initial conditional cash transfer program in education under preparation</li> <li>▪ Mandatory funded pension system introduced</li> <li>▪ Legal, regulatory and administrative framework for the voluntary funded pension system completed</li> </ul>
<b>Infrastructure</b>  Increase the capacity of road and rail transport and lower trade and transport related transaction costs, improve the efficiency and sustainability of the energy sector, improve local infrastructure	<b>TRANSPORT:</b> Improve road and rail infrastructure and management capacity	D	<ul style="list-style-type: none"> <li>▪ Separation of Macedonian Railways into two separate entities completed</li> <li>▪ Tendering process for rehabilitation of 288 km of regional roads launched</li> <li>▪ Procurement of construction works for E-75 Tabanovce-Kumanovo road section completed</li> <li>▪ New Road and Railway laws enacted</li> <li>▪ New equipment for railway infrastructure maintenance procured</li> </ul>
	<b>ENERGY:</b> Improve efficiency and sustainability of the energy sector	A	<ul style="list-style-type: none"> <li>▪ Work on medium-term energy strategy launched</li> <li>▪ Regulatory and incentive framework for Renewable Energy under preparation</li> <li>▪ Interconnection line to Greece completed and operating</li> </ul>
	<b>MUNICIPAL SERVICES:</b> Improve local services and infrastructure in selected municipalities	E	<ul style="list-style-type: none"> <li>▪ First municipal infrastructure projects to be financed through government on-lending identified</li> <li>▪ Draft strategy for communal services enterprises developed</li> </ul>

**L (little or no action):** Action has remained at a virtual standstill, due to a wide variety of circumstances, including political developments, capacity constraints, and unforeseen events.

**E (elements exist/being considered):** There is some basis for progress, either through what already exists or through definite plans.

**A (action being taken):** Progress is being made, although not yet enough, and the basis exists for more substantive progress.

**D (largely developed):** Significant action has already been taken, although further action is needed.

**S (substantially in place):** The activity is virtually accomplished, with mechanisms in place to adapt and sustain it over time.

**Annex 3**  
**fYR Macedonia: Key Economic Indicators<sup>13</sup>**

Indicator	Actual			Estimate			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>National accounts (as % of GDP)</b>									
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100
Agriculture	13	13	13	11	10	10	10	10	10
Industry	29	30	30	32	30	31	32	32	32
Services	58	58	57	57	60	59	59	58	58
Total Consumption	99	97	97	95	101	101	99	97	94
Gross domestic fixed investment	18	17	18	20	23	22	22	22	22
Government investment	3	4	3	4	2	4	4	5	5
Private investment	15	13	15	16	21	18	18	17	17
Exports (GNFS) <sup>b</sup>	41	45	48	54	50	47	48	49	50
Imports (GNFS)	62	63	67	72	77	72	72	71	69
Gross domestic savings	1	3	3	5	-1	-1	1	3	6
Gross national savings <sup>c</sup>	15	21	22	21	13	13	15	17	19
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	5368	5815	6373	7915	9789	9990	10711	11574	12560
GNI per capita (US\$, Atlas method)	2440	2840	3110	3480	4110	4670	5160	5480	5930
Real annual growth rates (% , calculated from 95 prices)									
Gross domestic product at market price	4.1	4.1	4.0	5.9	5.3	3.0	4.0	4.5	5.0
Gross Domestic Income	3.8	5.6	4.8	9.0	4.3	3.0	4.1	5.4	5.9
Real annual per capita growth rates (% , calculated from 95 prices)									
Gross domestic product at market price	3.9	3.9	3.8	5.9	5.3	3.0	4.0	4.5	5.0
Total consumption	5.5	4.6	4.8	8.0	13.0	3.5	1.8	2.5	3.5
Private consumption	6.7	5.6	5.4	8.6	14.5	4.1	1.5	1.9	3.0
<b>Balance of Payments (US\$ millions)</b>									
Exports (GNFS) <sup>b</sup>	2127	2556	2997	4168	4849	4649	5135	5702	6284
Merchandise FOB	1675	2041	2396	3349	3901	3738	4164	4652	5160
Imports (GNFS) <sup>b</sup>	3321	3653	4254	5762	7554	7233	7733	8180	8677
Merchandise FOB	2814	3104	3681	4979	6642	6347	6814	7237	7708
Resource balance	-1193	-1097	-1257	-1595	-2705	-2584	-2598	-2477	-2393
Net current transfers	780	1052	1237	1383	1523	1620	1735	1825	1903
Current account balance	-451	-103	-34	-346	-1295	-1125	-1060	-893	-760
Net private foreign direct investment	320	40	402	449	670	400	450	498	540
Long-term loans (net)	47	117	-46	-140	450	414	608	443	311
Official	50	60	37	-128	-68	-76	-58	-44	-26
Private	-3	57	-83	-12	518	490	666	487	338
Other capital (net, incl. errors & ommis)	104	362	54	180	50	140	120	120	100
Change in reserves <sup>d</sup>	-19	-415	-376	-143	125	171	-118	-167	-191
<i>Memorandum items</i>									
Resource balance (% of GDP)	-22.2	-18.9	-19.7	-20.1	-27.6	-25.9	-24.3	-21.4	-19.1
Real annual growth rates ( YR95 prices)									
Merchandise exports (FOB)	11.5	12.2	2.2	26.5	6.6	0.9	8.7	9.0	8.7
Primary	-2.7	18.4	10.0	20.0	11.0	4.0	11.0	12.0	11.0
Manufactures	19.1	17.6	3.0	20.0	4.9	-0.4	7.7	7.7	7.7
Merchandise imports (CIF)	11.2	-4.0	2.0	17.8	21.9	0.6	4.7	5.2	6.0

*(Continued)*

<sup>13</sup> Projections presented in this table assume a firm Government response to the challenging external environment. The scenario envisages balanced budgets in 2009 and 2010 and modest budget deficits thereafter.

**Annex 3**  
**fyR Macedonia: Key Economic Indicators (cont.)**

Indicator	Actual			Estimate			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Public finance (as % of GDP at market prices)<sup>a</sup></b>									
Current revenues	35.7	33.7	32.8	32.4	33.1	33.5	33.6	33.3	33.2
Current expenditures	33.0	31.4	31.0	29.3	29.3	28.7	28.5	28.8	28.7
Current account surplus (+) or deficit (-)	2.7	2.3	1.7	3.1	3.8	4.8	5.1	4.5	4.5
Capital expenditure	3.1	3.6	2.8	3.8	4.9	5.0	5.3	5.7	5.7
Foreign financing	0.5	3.7	-3.9	-3.0	-0.6	0.2	0.0	0.1	0.1
<b>Monetary indicators</b>									
M2/GDP	35.8	38.3	44.0	49.9	54.6	58.0	65.8	74.1	83.3
Growth of M2 (%)	15.3	15.4	24.8	29.0	26.7	12.9	21.5	21.7	22.1
Private sector credit growth / total credit growth (%)	111.2	485.4	134.8	76.0	94.7	98.0	100.0	100.0	100.0
<b>Price indices( YR95 =100)</b>									
Merchandise export price index	83.0	90.1	103.7	114.6	124.9	118.7	121.6	124.7	127.2
Merchandise import price index	114.3	131.1	149.8	176.7	184.1	174.9	179.2	181.0	181.8
Merchandise terms of trade index	72.6	68.8	69.2	64.9	67.8	67.9	67.9	68.9	69.9
Real exchange rate (US\$/LCU) <sup>f</sup>	86.8	87.9	85.4	85.4	85.4	85.4	85.4	85.4	85.4
<b>Real interest rates</b>									
Consumer price index (% change)	-0.4	0.5	3.2	2.3	8.3	2.6	3.1	2.5	2.4
GDP deflator (% change)	1.3	3.8	4.4	7.4	10.1	3.1	3.1	3.4	3.3

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## Annex 4

### Macedonia, FYR at a glance

1/16/09

Key Development Indicators	Macedonia, FYR	Europe & Central Asia	Lower middle income	
<b>(2007)</b>				
Population, mid-year (millions)	2.0	445	3,437	
Surface area (thousand sq. km)	26	23,972	35,510	
Population growth (%)	0.0	0.0	1.0	
Urban population (% of total population)	66	64	42	
GNI (Atlas method, US\$ billions)	7.1	2,694	6,485	
GNI per capita (Atlas method, US\$)	3,480	6,051	1,887	
GNI per capita (PPP, international \$)	8,510	11,116	4,544	
GDP growth (%)	5.9	6.8	9.7	
GDP per capita growth (%)	5.9	6.7	8.6	
<b>(most recent estimate, 2000–2007)</b>				
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	5	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	11	..	
Life expectancy at birth (years)	74	69	69	
Infant mortality (per 1,000 live births)	15	23	41	
Child malnutrition (% of children under 5)	1	..	25	
Adult literacy, male (% of ages 15 and older)	98	99	93	
Adult literacy, female (% of ages 15 and older)	94	96	85	
Gross primary enrollment, male (% of age group)	98	98	112	
Gross primary enrollment, female (% of age group)	98	96	109	
Access to an improved water source (% of population)	100	95	88	
Access to improved sanitation facilities (% of population)	89	89	54	
<b>Age distribution, 2007</b>				
<b>Under-5 mortality rate (per 1,000)</b>				
<b>Net Aid Flows</b>				
	1980	1990	2000	2007 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	..	3	251	200
<i>Top 3 donors (in 2006):</i>				
European Commission	..	3	86	59
United States	..	0	37	39
Germany	..	0	7	17
Aid (% of GNI)	..	0.1	7.1	3.1
Aid per capita (US\$)	..	2	125	98
<b>Long-Term Economic Trends</b>				
Consumer prices (annual % change)	..	114.9	5.8	2.3
GDP implicit deflator (annual % change)	..	93.7	8.2	7.4
Exchange rate (annual average, local per US\$)	..	0.1	65.9	44.7
Terms of trade index (2000 = 100)	..	134	100	86
Population, mid-year (millions)	1.8	1.9	2.0	2.0
GDP (US\$ millions)	..	4,472	3,587	7,915
<i>(% of GDP)</i>				
Agriculture	..	8.5	12.0	10.8
Industry	..	44.5	33.7	32.2
Manufacturing	..	35.7	20.7	21.3
Services	..	47.0	54.2	56.9
Household final consumption expenditure	..	72.3	74.4	77.1
General gov't final consumption expenditure	..	19.0	18.2	17.5
Gross capital formation	..	18.7	22.3	24.2
Exports of goods and services	..	25.8	48.6	53.5
Imports of goods and services	..	35.9	63.5	72.4
Gross savings	..	9.3	23.1	21.2
<b>1980–90 1990–2000 2000–07</b>				
<i>(average annual growth %)</i>				
Population, mid-year (millions)	0.6	0.5	0.2	
GDP (US\$ millions)	..	-0.8	2.8	
Agriculture	..	0.2	1.0	
Industry	..	-2.3	2.5	
Manufacturing	..	-5.3	1.6	
Services	..	0.5	3.1	
Household final consumption expenditure	..	0.1	4.1	
General gov't final consumption expenditure	..	-0.4	-0.6	
Gross capital formation	..	3.6	3.5	
Exports of goods and services	..	4.2	3.2	
Imports of goods and services	..	7.5	4.0	

Note: Figures in italics are for years other than those specified. 2007 data are preliminary. .. indicates data are not available.  
a. Aid data are for 2006.

Development Economics, Development Data Group (DECDG).



## Annex 4 (cont.)

Macedonia, FYR

Balance of Payments and Trade	2000	2007
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	1,323	3,356
Total merchandise imports (cif)	2,094	5,228
Net trade in goods and services	-642	-1,595

Current account balance as a % of GDP	-79	-346
	-2.2	-4.4

Workers' remittances and compensation of employees (receipts)	81	267
Reserves, including gold	700	2,240

### Central Government Finance

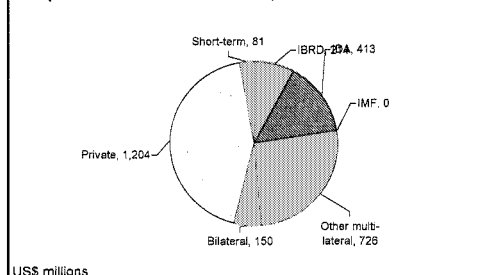
<i>(% of GDP)</i>		
Current revenue (including grants)	36.0	32.4
Tax revenue	32.6	29.2
Current expenditure	31.0	29.3
Overall surplus/deficit	2.5	0.6

Highest marginal tax rate (%)		
Individual	..	15
Corporate	..	15

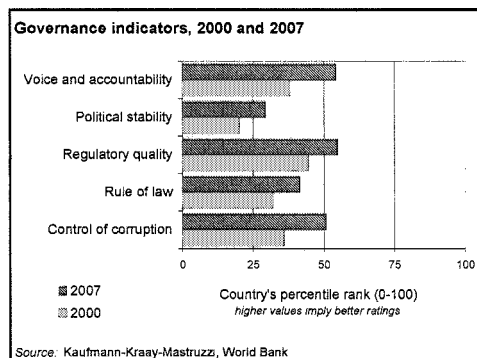
### External Debt and Resource Flows

<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	1,548	2,788
Total debt service	245	677
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	43.2	35.2
Total debt service (% of exports)	13.9	14.6
Foreign direct investment (net inflows)	197	449
Portfolio equity (net inflows)	0	156

#### Composition of total external debt, 2007



Private Sector Development	2000	2008
Time required to start a business (days)	-	9
Cost to start a business (% of GNI per capita)	-	3.8
Time required to register property (days)	-	66
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2007
Access to/cost of financing	..	41.0
Anticompetitive or informal practices	..	34.0
Stock market capitalization (% of GDP)	0.2	34.3
Bank capital to asset ratio (%)	..	..



Technology and Infrastructure	2000	2007
Paved roads (% of total)	63.8	..
Fixed line and mobile phone subscribers (per 100 people)	31	97
High technology exports (% of manufactured exports)	1.2	1.1

### Environment

Agricultural land (% of land area)	49	49
Forest area (% of land area)	35.6	35.6
Nationally protected areas (% of land area)	..	7.9
Freshwater resources per capita (cu. meters)	..	2,655
Freshwater withdrawal (% of internal resources)	..	..
CO2 emissions per capita (mt)	5.7	5.1
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	5.2	5.5
Energy use per capita (kg of oil equivalent)	1,349	1,346

### World Bank Group portfolio

	2000	2007
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	123	214
Disbursements	13	53
Principal repayments	3	140
Interest payments	7	12
<b>IDA</b>		
Total debt outstanding and disbursed	250	413
Disbursements	38	1
Total debt service	2	7
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	65	25
Disbursements for IFC own account	8	0
Portfolio sales, prepayments and repayments for IFC own account	0	2
<b>MIGA</b>		
Gross exposure	19	0
New guarantees	19	0

Note: Figures in italics are for years other than those specified. 2007 data are preliminary.  
.. indicates data are not available. - indicates observation is not applicable.

1/16/09

Development Economics, Development Data Group (DECDG).

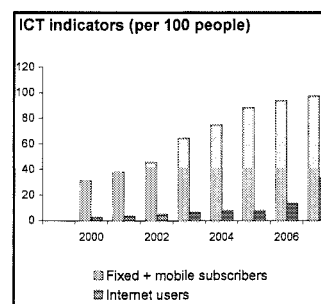
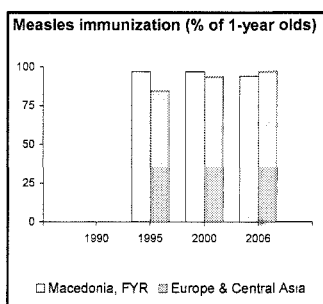
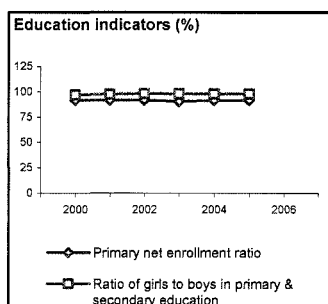
## Annex 4 (cont.)

### Millennium Development Goals

Macedonia, FYR

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

	Macedonia, FYR			
	1990	1995	2000	2007
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	19.1	19.0
Share of income or consumption to the poorest quintile (%)	..	..	6.7	5.5
Prevalence of malnutrition (% of children under 5)	..	..	1.9	1.2
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	94	..	92	92
Primary completion rate (% of relevant age group)	..	97	99	97
Secondary school enrollment (gross, %)	56	..	84	84
Youth literacy rate (% of people ages 15-24)	..	99	99	..
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	99	..	98	99
Women employed in the nonagricultural sector (% of nonagricultural employment)	38	39	42	40
Proportion of seats held by women in national parliament (%)	..	3	8	28
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	38	26	16	17
Infant mortality rate (per 1,000 live births)	33	23	14	15
Measles immunization (proportion of one-year olds immunized, %)	..	97	97	94
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	10
Births attended by skilled health staff (% of total)	..	..	..	98
Contraceptive prevalence (% of women ages 15-49)	..	..	..	14
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.1
Incidence of tuberculosis (per 100,000 people)	54	48	36	29
Tuberculosis cases detected under DOTS (%)	..	..	54	66
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	..	..	100	100
Access to improved sanitation facilities (% of population)	..	..	88	89
Forest area (% of total land area)	35.6	..	35.6	35.6
Nationally protected areas (% of total land area)	..	..	..	7.9
CO2 emissions (metric tons per capita)	8.1	5.4	5.7	5.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	5.7	4.4	5.2	5.5
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	15.0	17.9	25.2	22.8
Mobile phone subscribers (per 100 people)	0.0	0.0	5.8	74.5
Internet users (per 100 people)	0.0	0.0	2.5	33.6
Personal computers (per 100 people)	..	..	3.6	26.5



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

1/16/09

Development Economics, Development Data Group (DECDG).

## Annex 5

### Macedonia, FYR Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2001-07	Europe & Central Asia	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year ( <i>millions</i> )	1.8	2.0	2.0	445.1	3,437.1
Growth rate ( <i>% annual average for period</i> )	0.4	0.6	0.2	0.0	1.1
Urban population ( <i>% of population</i> )	55.7	60.3	66.4	63.6	41.7
Total fertility rate ( <i>births per woman</i> )	2.1	1.8	1.5	1.6	2.3
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	19.0	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	25.3	..	..
<b>INCOME</b>					
GNI per capita ( <i>US\$</i> )	..	1,710	3,480	6,052	1,887
Consumer price index ( <i>2000=100</i> )	..	88	115	159	144
Food price index ( <i>2000=100</i> )	..	..	..	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	40.0	..	..
Lowest quintile ( <i>% of income or consumption</i> )	..	..	5.5	..	..
Highest quintile ( <i>% of income or consumption</i> )	..	..	45.5	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health ( <i>% of GDP</i> )	..	..	4.7	4.1	2.0
Education ( <i>% of GNI</i> )	..	..	..	4.6	4.7
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	94	92	91	90
Male	..	95	92	92	91
Female	..	94	92	90	90
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	100	95	88
Urban	..	..	100	99	96
Rural	..	..	99	88	83
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	..	97	94	97	77
DPT	..	95	93	95	75
Child malnutrition ( <i>% under 5 years</i> )	..	..	1	..	25
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	70	72	74	69	69
Male	68	70	72	64	67
Female	72	74	76	74	71
<b>Mortality</b>					
Infant ( <i>per 1,000 live births</i> )	42	23	15	23	41
Under 5 ( <i>per 1,000</i> )	52	26	17	26	54
Adult ( <i>15-59</i> )	..	..	..	..	..
Male ( <i>per 1,000 population</i> )	..	147	137	299	202
Female ( <i>per 1,000 population</i> )	..	100	81	123	128
Maternal ( <i>per 100,000 live births</i> )	..	..	10	44	300
Births attended by skilled health staff (%)	..	..	98	95	69

CAS Annex B5. This table was produced from the CMU LDB system.

01/16/09

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

**Annex 6**  
**fYR Macedonia: AAA and ESW Program FY07-FY10**

<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
<ul style="list-style-type: none"> <li>• PER</li> <li>• Programmatic Poverty Assessment</li> <li>• CFA</li> <li>• Macro Monitoring</li> <li>• Agriculture and EU Accession</li> <li>• Municipal Development Sector Note</li> <li>• REPARIS Supervision</li> <li>• IFC Advisory Services</li> </ul>	<ul style="list-style-type: none"> <li>• FSAP Update</li> <li>• Macro Monitoring</li> <li>• REPARIS Supervision</li> <li>• IFC advisory services</li> <li>• Labor Market Policy Notes</li> </ul>	<ul style="list-style-type: none"> <li>• CEM</li> <li>• Macro Monitoring</li> <li>• REPARIS Supervision</li> <li>• National Energy Strategy Support</li> <li>• IFC Advisory Services</li> <li>• Business Environment One-stop-shop Support</li> <li>• Labor Market Implementation Support</li> <li>• Country Systems Procurement Pilot</li> <li>• Trade Logistics Policy Note</li> </ul>	<ul style="list-style-type: none"> <li>• Macro Monitoring</li> <li>• REPARIS Supervision</li> <li>• IFC Advisory Services</li> <li>• Energy Sector Policy Dialogue</li> <li>• Business Environment One-stop-shop Support</li> <li>• Country Systems Procurement Pilot</li> <li>• National Water Strategy Support</li> </ul>

**Annex 7**  
**fYR Macedonia: IFC Investment Operations Program**

	2006	2007	2008	2009*
<b><u>Commitments</u></b>				
<b><u>(US\$m)</u></b>				
Gross			55.33	
Net**			55.33	
<b><u>Net Commitments by Sector (%)</u></b>				
LOAN			100	
Total	0	0	100	0
<b><u>Net Commitments by Investment Instrument (%)</u></b>				
Loan			100	
Total	0	0	100	0

\* As of December 31, 2008

\*\* IFC's Own Account only

**Annex 7 (continued)**  
**FYR Macedonia: IFC Committed and Disbursed Outstanding Investment Portfolio**  
**As of 12/31/2008**  
**(in US\$ millions)**

FY Approval	Company	Committed				Disbursed Outstanding			
		Loan	Equity	**Quasi Equity *GT/RM	Partici pant	Loan	Equity	**Quasi Equity *GT/RM	Partici pant
2008	Esm macedonia	50.17	0	0	0	44.72	0	0	0
1998	Macedonia telcom	0	11.31	0	0	0	11.31	0	0
1999	Seaf macedonia	0	0.51	0	0	0	0.08	0	0
1998/00/01/03	Stopanska banka	0	10.55	0	0	0	10.26	0	0
2002	Teteks	0.5	0	0	0	0.5	0	0	0
<b>Total Portfolio:</b>		<b>50.67</b>	<b>22.37</b>	<b>0</b>	<b>0</b>	<b>45.22</b>	<b>21.65</b>	<b>0</b>	<b>0</b>

\* Denotes Guarantee and Risk Management Products.

\*\* Quasi Equity includes both loan and equity types.

**Annex 8**  
**fYR Macedonia: Selected Indicators of World Bank Performance\***  
**As of 1/28/2009**

<b>Indicator</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	10	12	13	12
Average Implementation Period (years) <sup>b</sup>	2.4	1.6	2.3	3.1
Percent of Problem Projects by Number <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Problem Projects by Amount <sup>a, c</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Number <sup>a, d</sup>	0.0	0.0	0.0	0.0
Percent of Projects at Risk by Amount <sup>a, d</sup>	0.0	0.0	0.0	0.0
Disbursement Ratio (%) <sup>e</sup>	24.0	13.4	19.7	6.9
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	Yes	No	No	No
Supervision Resources (total US\$)	1277	858	902	1106
Average Supervision (US\$/project)	84	70	67	80**

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Proj Eval by OED by Number	28	8
Proj Eval by OED by Amt (US\$ millions)	631.7	128.1
% of OED Projects Rated U or HU by Number	18.5	12.5
% of OED Projects Rated U or HU by Amt	4.3	4.7

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).  
b. Average age of projects in the Bank's country portfolio.  
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).  
d. As defined under the Portfolio Improvement Program.  
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

\*\* Coefficient for 2009

**Annex 9**  
**fYR Macedonia: Operations Portfolio (IBRD/IDA and Grants)**  
**As of 1/15/2009**

**Closed Projects**      **0**

**IBRD/IDA \***

Total Disbursed (Active)	62.15
of which has been repaid	0.00
Total Disbursed (Closed)	694.56
of which has been repaid	209.36
Total Disbursed (Active + Closed)	756.72
of which has been repaid	209.36
Total Undisbursed (Active)	199.47
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	199.47

**Active Projects**

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions		
		Supervision Rating			IBRD	IDA	GRANT
		Development Objectives	Implementation Progress				
P101216	AGR STRENGTHENING AND ACCESSION PROJECT	MS	MS	2007	20		
P079552	BUSINESS ENV REFORM & INST STRENGTH	MS	MS	2005	11.3		
P082337	ECSEE APL #3 (FYR MACEDONIA)	S	S	2006	25		
P066157	EDUC MOD	MS	MS	2004	5		
P086670	HLT SEC MGT	S	S	2004	10		
P089859	LEGJUD IMPLMNT & INST SPPRT	MS	MS	2006	12.4		
P083499	RAILWAYS REFORM	S	S	2006	19.38		
P083126	REG & REAL ESTATE (CRL)	S	S	2005	14		
P107840	REGIONAL AND LOCAL RDS PROG SUPPORT PROJ	S	S	2008	105.2		
P074358	SOC PROT	S	S	2004	9.8		
P089656	SUSTAINABLE ENERGY (GEF)	S	MS	2007			5.5
P091723	TTFSE 2	S	S	2007	20		
Overall Result					252.08		5.5



**Annex 10**  
**fYR Macedonia: Key Exposure Indicators<sup>14</sup>**

Indicator	Actual			Estimated			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	2079	2275	2411	2788	3238	3652	4260	4702	5014
Net disbursements (US\$m) <sup>a</sup>	113	339	-84	-154	450	414	608	443	311
Total debt service (TDS) (US\$m) <sup>a</sup>	280	260	486	677	466	530	510	666	803
Debt and debt service indicators (%)									
TDO/XGS <sup>b</sup>	87.6	80.6	72.4	60.3	60.6	71.0	75.4	75.3	73.1
TDO/GDP	38.7	39.1	37.8	35.2	33.1	36.6	39.8	40.6	39.9
TDS/XGS	11.8	9.2	14.6	14.6	8.7	10.3	9.0	10.7	11.7
Concessional/TDO	27.0	..	..	..	..	..	..	..	..
IBRD exposure indicators (%)									
IBRD DS/public DS	7.5	8.3	6.4	31.0	11.9	13.8	16.0	19.1	20.0
Preferred creditor DS/public DS (%) <sup>c</sup>	50.8	53.0	20.6	63.2	84.1	80.6	73.1	69.6	63.9
IBRD DS/XGS	0.5	0.4	0.7	3.3	0.5	0.6	0.7	0.7	0.6
IBRD TDO (US\$m) <sup>d</sup>	223	248	264	214	227	244	257	265	271
Of which present value of guarantees (US\$m)	..	..	..	..	..	..	..	..	..
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) <sup>d</sup>	388	362	384	413	377	371	364	356	346
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.
- b. "XGS" denotes exports of goods and services, including workers' remittances.
- c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.
- d. Includes present value of guarantees.
- e. Includes equity and quasi-equity types of both loan and equity instruments.

<sup>14</sup> See footnote 10

**Annex 11**  
**Map—to add**

**THE CITY OF SKOPJE**



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



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

**FORMER YUGOSLAV REPUBLIC OF MACEDONIA**

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

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

