COUNTRY PARTNERSHIP FRAMEWORK FOR THE REPUBLIC OF NORTH MACEDONIA 2019 – 2023

WORLD BANK GROUP

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2019 – 2023

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ABBREVIATIONS AND ACRONYMS

APL	Adaptable Program Loan
ASA	Advisory Services and Analytics
BEEPS	Business Environment and Enterprise Performance Survey
BREP	Balkans Renewable Energy Program
CBMIS	Cash Benefits Management Information System
CCT	Conditional Cash Transfers
CE	Citizen Engagement
CFRR	Center for Financial Reporting Reform
CLR	Completion and Learning Review
CIIP	Competitive Industries and Innovation Support Program
CMU	Country Management Unit
CPF	Country Partnership Framework
CPRR	Country Portfolio Performance and Results Review
CPS	Country Partnership Strategy
CSO	Civil Society Organization

DFI	Development Finance Institution
DPF	Development Policy Financing
DPL	Development Policy Loan
DRM	Disaster Risk Management
DTIDZ	Directorate for Technological and Industrial Development Zones
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
ECSEE	Energy Community of Southeast Europe
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FinSAC	Financial Sector Advisory Center
FITD	Fund for Innovation and Technological Development
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GEF	Global Environment Facility
GGICRF	Good Governance and Investment Climate Reform Fund
GHG	Greenhouse Gas
GRM	Grievance Redress Mechanism
GVC	Global Value Chain
HBS	Household Budget Survey
ICT	Information and Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IPA	Instrument for Pre-Accession Assistance
IPF	Investment Project Financing
ISR	Implementation Status and Results Report
MFD	Maximizing Finance for Development
MFI	Microfinance Institution
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MSIP	Municipal Services Improvement Project
MSME	Micro, Small, and Medium Enterprises
MDTF	Multi-Donor Trust Fund
NATO	North Atlantic Treaty Organization
NCD	Noncommunicable Disease
NDC	Nationally Determined Contribution
NEET	Not in Employment, Education, or Training
NPL	Nonperforming Loan
NQAA	National Quality Assurance Agency
OECD	Organization for Economic Co-operation and Development

PBG	Policy-based Guarantee
PER	Public Expenditure Review
PESR	Public Enterprise for State Roads
PFR	Public Finance Review
PFM	Public Financial Management
PISA	Programme for International Student Assessment
PIU	Project Implementation Unit
PLR	Performance and Learning Review
PPP	Public-Private Partnership
RAMS	Road Asset Management System
RAS	Reimbursable Advisory Services
RE	Renewable Energy
REM	Renewable Energy Macedonia Advisory Project
REPARIS	Road to Europe Program of Accounting Reform and Institutional Strengthening
RLRPSP	Regional and Local Roads Program Support Project
SAFE	Strengthening Accounting and Fiduciary Environment
SCD	Systematic Country Diagnostic
SDIS	Skills Development and Innovation Support
SDSM	Social Democratic Union of Macedonia
SECO	Swiss State Secretariat for Economic Affairs
SEE	South East Europe
SHPP	Small Hydropower Plant
SIDA	Swedish International Development Agency
SILC	Survey on Income and Living Conditions
SMEs	Small and Medium Enterprises
SOE	State-owned Enterprise
SSIP	Social Services Improvement Project
SSO	State Statistical Office
STEM	Science, Technology, Engineering, and Mathematics
TA	Technical Assistance
TF	Trust Fund
TFPR	Total Factor Productivity of Revenue
TIDZ	Technological and Industrial Development Zone
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical Vocational Education and Training
VAT	Value Added Tax
UMIC	Upper-middle-income Country
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
USAID	U.S. Agency for International Development
WGI	Worldwide Governance Indicator
WTO	World Trade Organization

COUNTRY PARTNERSHIP FRAMEWORK FOR
NORTH MACEDONIA, January 2019 – June 2023

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS iii
I. INTRODUCTION 1

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA 1
Social and Political Context 1
Recent Economic Developments 2
Poverty Profile 5
Main Development Challenges 8

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK 15
A. Government Program and Medium-Term Strategy 15
B. Proposed World Bank Group Partnership Framework 15
Lessons from the FY15–FY18 CPF Completion and Learning Review and Stakeholder Consultations 15
Overview of the World Bank Group Partnership Strategy 17
Corporate Priorities 19
Advancing the Gender Agenda 19
Climate Change 20
Citizen Engagement 20
Focus Areas – Objectives Supported by the Program of Lending and Non-Lending Activities 21
Focus Area I - Export-Led Growth: Improve the Environment for a Competitive Private Sector 21
Focus Area II - Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable 25
Focus Area III - Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks 28
C. Implementing the CPF 31
Financial Envelope 31
Government Systems 33
Monitoring and Evaluation 34
Partnerships and Donor Coordination 34

IV. MANAGING RISKS TO THE CPF PROGRAM 34
Annex Results Matrix 36

EXECUTIVE SUMMARY

1. The resolution of the country's name creates new opportunities for the Republic of North Macedonia (North Macedonia) to accelerate sustainable and inclusive growth and revamp the European Union accession process, though structural challenges remain. The historic resolution of the long - standing name dispute with Greece opens new opportunities to promote the development of a dynamic economy well integrated into the region and Europe more widely. North Macedonia will be able to capitalize on this renewed outlook by building on past reforms that have produced solid macroeconomic fundamentals, job creation, and an open economy that has attracted foreign investment. However, the transition to a well-functioning and inclusive market economy is not yet complete. Low and declining productivity of local firms, weak state institutions, and deficiencies in competition and investment policy and business regulation continue to pose serious structural challenges to economic growth. A competitive business legal framework has yet to translate into a vibrant private sector that can fully exploit the country's location. In addition, the Government has limited fiscal space to continue to stimulate the economy, and there are risks to fiscal sustainability that need to be addressed. Educational achievement is insufficient and unequitable, limiting the availability of skills to meet the evolving demands of a modern economy and creating inequality in access to economic opportunities. Finally, climate and environmental threats, including air pollution, require urgent attention or they may slow economic growth and reverse poverty reduction. North Macedonia must contend with all of these challenges if it wants to fully exploit the historic opportunity presented by the resolution of the decades-long name dispute.

2. The strategic objective of the Country Partnership Framework (CPF) is to support North Macedonia's ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life. The CPF aims to support the Government's program and medium-term strategy, which present a vision of accelerated economic growth with better employment opportunities, social cohesion and inclusion, and a plan to tackle the persistent bottlenecks. The CPF is also consistent with the Systematic Country Diagnostic analysis and recommendations.

3. The CPF is based on three interconnected focus areas that will help North Macedonia improve the environment for a dynamic private sector to enhance export - led growth, strengthen human capital for inclusive development, and build sustainability. Focus Area I aims to remove some of the bottlenecks that prevent the emergence of a dynamic and competitive private sector by improving connectivity and access to markets (the first CPF objective) through activities that support "hard" and "soft" trade connectivity and strengthen local firms' technological uptake, innovation, access to finance, and capacities. Focus Area II will support the development of human capital and skills to boost labor productivity and encourage more inclusive labor market participation. The CPF will also improve the quality and relevance of education (the second CPF objective), as well as the access to and quality of social services (the third CPF objective). Focus Area III will mitigate fiscal and environmental vulnerabilities to enhance fiscal sustainability by strengthening fiscal and public financial management (the fourth CPF objective) and environmental sustainability by helping accelerate the transition to a more sustainable energy mix (the fifth CPF objective).

COUNTRY PARTNERSHIP FRAMEWORK FOR NORTH MACEDONIA, January 2019 – June 2023

I. INTRODUCTION

1. **This Country Partnership Framework (CPF) sets out the World Bank Group's approach to supporting the reform agenda in North Macedonia over January 2019–June 2023.** The CPF builds on the results and lessons of the previous World Bank Group Country Partnership Strategy (CPS) that originally covered the period from July 2014 to June 2018 and was subsequently extended by six months to December 2018. The new CPF seeks to address the priorities identified by the recently completed Systematic Country Diagnostic (SCD) for North Macedonia.[1]

2. **The strategic objective of the CPF is to support North Macedonia's ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life.** The CPF aims to support the Government's program and medium-term strategy, which present a vision of accelerated economic growth with better employment opportunities, social cohesion and inclusion, and a plan to tackle the persistent bottlenecks. The Government strategy is consistent with the SCD's vision of a better-connected, vibrant domestic economy engaged in the region and beyond as it secures its footing in areas of strong comparative advantage.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Social and Political Context

3. **North Macedonia is a landlocked country at the heart of the Balkans, characterized by its mountainous terrain that is intersected by valleys and lowlands.** It is a transit region that sits on two pan-European corridors, Corridor VIII and X. Its proximity to the European Union (EU) provides access to a large export market with 650 million customers. According to the last census of 2002, the population is roughly 2 million, of which 25 percent live in the capital Skopje and 40 percent in rural areas.[2]

4. **An aging population and a long tradition of emigration pose challenges to productivity.** The projected population growth is nearly zero, and estimates based on census data from destination countries (mostly Western European countries and North America) suggest that more than 500,000 citizens from North Macedonia reside abroad, one of the largest diasporas in the world as a percentage of the total population. Considering the small size of the workforce and low birth rates, the loss of even a small number of skilled workers affects the overall pool of skills in the economy.

5. **The country's early transition to a market-oriented economy was successful.** North Macedonia largely avoided the violence that afflicted other former Yugoslav republics in the years following the declaration of independence in 1991.[3] The country swiftly moved to promote trade openness, privatization, and price liberalization, enabling it to transition to a market economy faster than its Western Balkan neighbors. It was the first Western Balkan country to sign a Stabilization and Accession Agreement with the EU in 2001, and it gained candidate status in 2005.

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[1] World Bank, "FYR Macedonia Systematic Country Diagnostic: Seizing a Brighter Future for All" (Washington, DC: World Bank, 2018).

[2] At the time of the last census, ethnic Macedonians made up 64 percent of the total population; ethnic Albanians about 25 percent; other ethnicities, such as Turks, about 4 percent; and Roma about 3 percent. It is not possible to accurately determine the current population or ethnic distribution in the absence of a more recent census.

[3] A conflict between the Government and ethnic Albanian insurgents, mostly in the northern and western parts of the country, took place between February and August 2001. It ended with the intervention of a NATO ceasefire monitoring force and the signing of the Ohrid Framework Agreement (https://www.osce.org/skopje/100622?download=true).

6. Following the resolution of an extended political and electoral crisis of 2015–2017, the Government committed to an ambitious reform agenda and the acceleration of EU and NATO accession. North Macedonia's extended political crisis during 2015–2017 highlighted institutional weaknesses and negatively affected citizen confidence in state institutions.[4] Political uncertainty continued after the December 11, 2016, parliamentary elections because of the difficulties involved in forming a parliamentary majority. A new government coalition, led by the Social Democratic Union of Macedonia (SDSM), was inaugurated in May 2017, with a program articulating an ambitious reform agenda and the active pursuit of EU and NATO membership.

7. The resolution of the decades-long dispute with Greece over the country's name marks a turning point in North Macedonia's history as an independent nation. On June 12, 2018, the Governments of North Macedonia and Greece signed the Prespa Agreement[5] aimed at resolving the prolonged name issue.[6] The parliament in Skopje endorsed the necessary constitutional changes introducing the new name of "Republic of North Macedonia" on January 11, 2019. The use of the new name entered into force in February 2019 after ratification of the Prespa Agreement by the Greek parliament. In parallel, North Macedonia signed the NATO accession protocol, a process that had stalled for years due to the dispute. In April 2018, the European Commission (EC) recommended that the Council approve the opening of negotiations with North Macedonia, and the resolution of the name is expected to accelerate the country's EU accession process and promote its deeper integration into regional and global markets.

Recent Economic Developments

8. North Macedonia has had a good track record of implementing macroeconomic policies and business environment reforms. Prudent macroeconomic policies before the global financial crisis enabled the country to create the fiscal space[7] for a countercyclical fiscal policy - centered around stimuli for public investment, public employment with higher wages, and an increase in pensions - that largely mitigated the impact of the global crises in 2008 - 2009 and 2011–2012 but also opened the Government to criticism because of the cost and scope of public investment.[8] Monetary policy was accommodative, and the National Bank managed interest rates to encourage credit growth and avoid deposit withdrawals. These measures helped the economy grow at an average of 2.2 percent in 2012 - 2017 despite the political turmoil beginning in 2015 that adversely affected investor expectations and put a halt to growth in 2017.

[4]The political crisis escalated in early 2015 when the Social Democratic Union of Macedonia (SDSM) accused the Government of illegal wiretapping and began releasing wiretapped conversations between senior government officials that indicated election fraud, irresponsible public spending, misuse of power, and control of the judiciary and media. In light of the recordings, the legitimacy of the Government was questioned by the opposition, civil society, and segments of the international community. EU and U.S. diplomats facilitated a dialogue between the main political parties, resulting in the Przhino Agreement, which set a date for new parliamentary elections that were held in December 2016.

[5]The text of the agreement can be found at https://vlada.mk/sites/default/files/dokumenti/spogodba-en.pdf.

[6]The country became a member of the United Nations in 1993, but because of a dispute with Greece over the use of the name Macedonia, it was admitted under the provisional description of "the former Yugoslav Republic of Macedonia."

[7]Before 2008, North Macedonia managed to decrease public debt from 45.7 percent of GDP in 2002 to 23 percent in 2008.

[8]To spur investment, the Government spent more on road and civil infrastructure and abolished the profit tax on reinvested earnings for 2009–2014. It also lengthened the list of goods given preferential tax rates; exempted tax on foreign direct investment (FDI) in technological and industrial development zones (TIDZs); and supported consumption by ad hoc pension hikes, a reduction of social contribution rates, and employment subsidy schemes. These measures included the controversial urban revitalization Skopje 2014 project, which was criticized for its cost and unproductive investment.

9. Growth and fiscal measures helped increase employment after 2009. The employment rate increased by 6.7 percentage points to 45.1 percent in 2018, with associated lower poverty and inequality levels as described below. This job creation was supported mainly by public spending for large-scale public projects, new active labor market policies, and government support for employment in Special Economic Zones. New public jobs in public administration, health, education, and water supply constituted more than 20 percent of net employment growth in 2009–2013. Nevertheless, unemployment remains high at 20.7 percent and labor force participation is low, especially for those younger than 25 and older than 55 and for women.

10. Although commercial bank lending has recovered, some vulnerabilities persist. Total financial sector assets amount to about 84 percent of GDP, of which 86 percent is held by banks (currently 15 banks) and 8.3 percent by pension funds. As of September 2018, capital adequacy was at 16.3 percent, liquidity was high (a 27 percent ratio of liquid to total assets), and nonperforming loans (NPLs) declined to 5.1 percent (December 2018) from a peak of 12.1 percent in 2008. However, stability indicators for individual banks vary widely and several small banks struggle with low operational efficiency. At 50 percent, private sector credit relative to GDP has been growing steadily in recent years but continues to trail structural and aspirational peers[9] with a credit-to-GDP ratio of 60 percent. Most new credit has gone to households for mortgages and consumer loans. Credit growth has been low for corporations and small and medium enterprises (SMEs), despite their consistently high and increasing demand for loans. Although more loans are being granted in denars, the share of foreign currency loans in bank loan portfolios is at 40.5 percent.

11. Fiscal stimulus measures in 2009–2016 that helped support growth and jobs also led to a surge in public debt. The public and publicly guaranteed debt-to-GDP ratio has doubled since 2008, reaching 47.7 percent in 2017, while the fiscal deficit averaged 3.2 percent of GDP (or 3.6 percent of GDP once the off-budget road agency finances are included). Further fiscal risks stem from pressures on pensions from an aging population, the re-accumulation of public arrears, and the high level of state-owned enterprise (SOE) indebtedness. In 2018, the Government took measures to clear the arrears, particularly those arising from value added tax (VAT) refunds and local governments, and tightened the monitoring and budget planning rules.[10]

12. The new Government, elected in 2017, adopted a fiscal strategy aimed at containing the fiscal risks. Although the general government deficit is estimated to have declined to 1.8 percent of GDP in 2018 from its peak of 4.2 percent in 2014, the country's development demands, fiscal risks, and high refinancing needs in 2020–2023 require additional consolidation efforts. With the implementation of the envisaged tax, social, health, and pension reforms, the Government is expected to enhance control over public finances, which is timely because past bonds are due for redemption in the 2020–2023 period. The implementation of the fiscal strategy foresees a decline of public debt beginning in 2021 (see selected indicators in table 1).

[9] Albania, Bosnia and Herzegovina, Georgia, Jamaica, Jordan, Mauritius, Paraguay and Serbia. These economies were selected as peer economies for the Systematic Country Diagnostic. See World Bank, "FYR Macedonia Systematic Country Diagnostic." The methodology used to select these economies is presented in the document.

[10] In May 2017, public sector arrears stood at 3.5 percent of GDP; by December 2018, they had been reduced to 2.9 percent.

Table 1: North Macedonia: Economic Developments, 2016–2023

		Actual				Projections		
Percent of GDP	2016	2017	2018	2019	2020	2021	2022	2023
Real GDP growth	2.8	0.2	2.7	2.9	3.2	3.6	3.8	3.8
Consumer prices (period average, %)	-0.2	1.4	1.5	1.8	1.9	2.2	2.2	2.2
Gross national savings	30.0	32.0	31.5	32.7	32.1	32.0	32.1	32.1
Gross investment	32.8	33.0	33.0	34.1	33.9	33.5	33.0	32.4
Unemployment rate, percent	23.7	22.4	20.7	19.4	18.5	18.0	17.5	17.0
Financial sector								
Domestic credit to private sector	48.0	48.8	49.5	50.2	50.9	51.7	52.4	52.9
NPL ratio (percent of total loans)	6.3	6.1	4.9	-	-	-	-	-
Fiscal sector[1/]								
Revenues and grants	30.6	31.0	30.2	32.4	32.5	32.1	32.1	32.1
Expenditures	33.2	33.9	32.0	35.4	34.9	34.2	34.0	33.7
Primary balance	-1.5	-1.5	-0.6	-1.6	-1.0	-0.6	-0.4	-0.1
Overall balance[2/]	-2.7	-2.8	-1.8	-3.0	-2.4	-2.0	-1.8	-1.5
Public Debt[3/]	48.7	47.7	48.4	53.4	54.4	55.0	54.8	53.8
o/w Public guarantees	8.9	8.3	7.6	9.1	9.7	10.7	10.7	11.4
External sector								
External debt	74.7	73.6	76.4	80.4	81.0	80.7	80.2	78.6
o/w Private debt	40.6	41.7	43.4	44.3	45.2	45.3	44.8	44.4
Trade balance	-18.8	-17.9	-16.2	-17.4	-17.4	-16.9	-15.8	-14.7
Current account balance	-2.9	-1.0	-0.3	-1.4	-1.8	-1.5	-0.9	-0.3
Foreign direct investment (net)	3.3	1.8	5.8	5.1	5.1	4.9	4.8	4.6
GDP (EUR millions)	9,656	10,014	10,735	10,982	11,519	12,118	12,769	13,554

Source: State Statistics Office; Ministry of Finance (MoF); and World Bank staff calculations.
Notes: [1/] A narrow general government operation. The alignment with the European System of Accounts (ESA) 2010 and Government Finance Statistics (GFS) 2014 has not yet taken place.
[2/] The overall balance of the Public Enterprise for State Roads (PESR) was 3.8 percent of GDP in 2016, which declined to 2.3 percent in 2018 and is expected to further decline to 1.7 percent of GDP by 2023.
[3/] Includes general government and public sector financial and non-financial enterprises guaranteed by the Government, but excludes the arrears.

13. The macroeconomic outlook is positive, with an annual average growth at 3.5 percent during 2019–2023. A gradual fiscal consolidation is expected to have a very modest negative impact on growth, given the ongoing investment recovery and the rise in foreign direct investment (FDI). Investment (including in two highways[11] and private investment in industry) will be the main contributors to growth, supported by net exports and personal consumption. FDI-related exports and investments have been rebounding since the restoration of political stability.

14. Maintaining prudent fiscal policy is critical to sustaining macroeconomic stability and stimulating private sector - led growth. For countries like North Macedonia with fixed exchange rate regimes, fiscal policy is the primary instrument available to manage the business cycle through a countercyclical policy response. The medium - term fiscal framework built on the Government's fiscal strategy will cut the primary deficit in half by 2020, setting public debt on a downward trajectory. With highway spending set to increase

[11] The highway construction on two sections, Miladinovci-Štip (47 km) and Kičevo-Ohrid (57 km), in the amount of €579 million (or 7.1 percent of GDP in 2013 at the time of project signing) faces delays and a cost overrun of around 1.8 percent of estimated GDP for 2018, according to the annex contract signed on October 3, 2017.

substantially in 2019–2021, however, the overall deficit, including the Public Enterprise for State Roads (PESR), will remain at around 3 percent of GDP per year, but will decelerate once the adopted tax, pensions, social benefits, and public financial management (PFM) reforms bring savings and the highway construction comes to an end in 2021. The new Organic Budget Law and PFM reforms should prevent the reemergence of arrears accumulation and strengthen the monitoring of fiscal risks.

15. The Government continues to be committed to business environment reforms that address rigidities in product, network, and labor markets and will attract greenfield FDI. Thus far, FDI in the motor vehicles and electric machinery industries has boosted exports and kept the current account deficit low. The trade deficit continued to narrow to 16.2 percent of GDP in 2018 on an export-to-GDP ratio that increased to 60 percent of GDP. Ongoing reforms in energy and procurement should strengthen market competition and attract new investments in the energy sector.

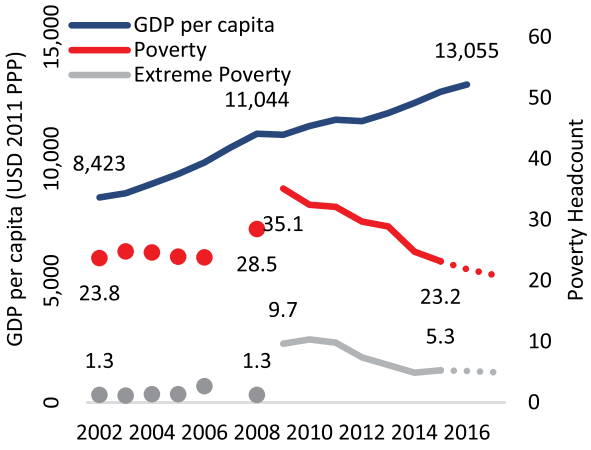
16. The baseline macro and fiscal scenario is associated with downside risks. These risks include (a) further tightening of global financial markets, (b) potential deterioration in the external environment including a weaker EU outlook and regional geopolitical tensions, and (c) potential delays in implementation of the envisioned consolidation measures, or accumulation of new arrears/activation of contingent liabilities. In the absence of fiscal consolidation, both the public debt and gross financing needs would continue to rise sharply in the medium term. This would not only increase financing costs, diverting resources from growth-promoting investments, but also undermine North Macedonia's ability to respond to economic or demographic shocks in the future.

Poverty Profile

17. Since 2009, poverty has fallen and economic growth has mainly benefited those at the bottom of the income distribution. Between 2009 and 2015, the cumulative reduction in poverty was about 12 percentage points (from 35 to 23 percent).[12] Thus, during those six years, roughly 240,000 people were lifted out of poverty. World Bank staff calculate that the decline continued through 2017, as household private consumption continued to grow based on national account calculations. The extremely poor narrowed from about 9.7 percent in 2009 to 5.3 percent in 2015 (figure 1).[13]

18. The reduction in poverty is in part explained by faster income growth than the national average for those at the bottom of the income distribution, though there are concerns about the sustainability of these positive trends. Growth incidence curves graphically capture the income growth of every percentile of the distribution between two points in time. In contrast to the 2003 - 2008 period, growth has largely been pro-poor since 2009.

Figure 1. Poverty in North Macedonia Fell Considerably after the Global Financial Crisis (Poverty headcount and GDP per capita, 2002–2017)

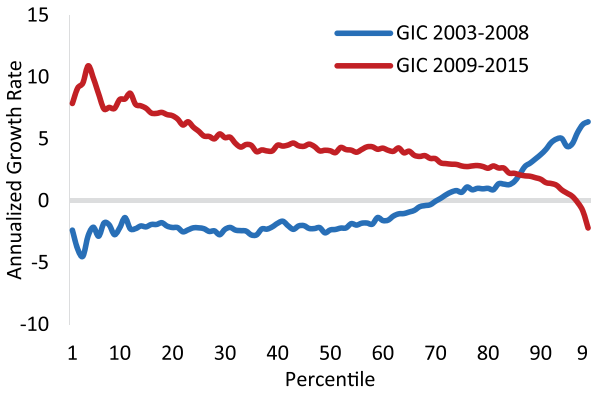


Source: SCD authors' calculations based on Household Budget Survey (HBS) data for 2002–2008 and Survey on Income and Living Conditions (SILC) data for 2009–2015.

[12] Poverty is measured as absolute poverty using the poverty line for upper-middle-income countries (UMICs), estimated at US$5.5 per day in 2011 purchasing power parity—the cost in UMICs of satisfying a minimum caloric requirement and typical non-food consumption.
[13] Extreme poverty is calculated using the poverty line of US$1.90 per day in 2011 purchasing power parity.

19. Indeed, the living standards of those at the bottom of the income distribution in 2010 – 15 have grown at 6.4 percent annually compared to the national average of 2.9 percent in the same period (figure 2). This result positions North Macedonia's post-2009 growth process as one of the most inclusive in the region. Only Georgia reported comparable growth for the bottom 40 percent, and no country reported a larger difference between the bottom 40 and average growth. However, it is not clear, as discussed below, that these positive trends in both poverty reduction and shared prosperity are sustainable, considering the reduced fiscal space available to continue to stimulate economic growth and job creation with the set of public spending measures adopted since 2009.

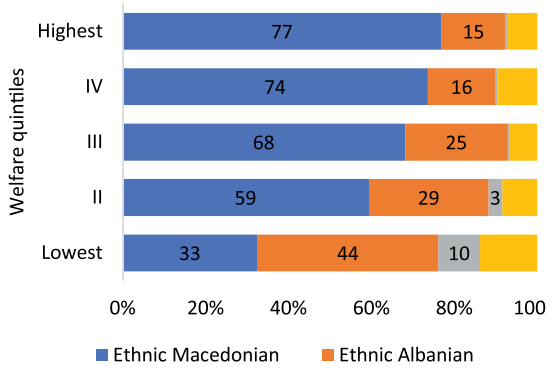
Figure 2. Unlike the Pre-crisis Period, in 2009–2015, Income Growth was Higher in the Poorer Deciles (Growth incidence curves, 2003–2008 and 2009–2015)



Source: SCD authors' calculations based on 2003–2008 HBS and 2010–2016 SILC data.

20. Incomes are still very unequal. Income inequality declined considerably between 2009 and 2015, when the Gini coefficient (a measure of the inequality of household incomes in which 0 equals perfect equality and 100 complete inequality) dropped from 42 to 36, based on Survey on Income and Living Conditions (SILC) household income data. Still, North Macedonia is more unequal than aspirational peers and more advanced European economies. Within the EU, only Lithuania and Bulgaria have more unequal Gini coefficients. Recent Ministry of Finance (MoF) estimates based on tax records show that the richest 1 percent have a higher share of total income in North Macedonia than in the 12 most advanced European economies for which there are comparable data. Although these data may be driven in part by higher informality and tax evasion, they still speak of a higher concentration of income among those at the very top.

Figure 3. Ethnicity Affects Welfare (Population by income quintile and ethnicity, 2017)



Source: SCD authors' calculations based on 2003–2008 HBS and 2010–2016 SILC data.

21. Ethnic minorities are poorer than ethnic Macedonians. Although official welfare statistics by ethnic group are not available, there is evidence of disparities. Findings of the nationally representative 2017 Survey on Quality of Life make it possible to correlate household ethnicity and living conditions (figure 3). Ethnic Albanian households constitute more than 40 percent of the poorest quintile, with disposable incomes only two-thirds of those of ethnic Macedonian peers, and half of the difference persists even after controlling for other sociodemographic characteristics. The Roma population is not only concentrated in the bottom 40 percent but is also far below ethnic Macedonians in labor market outcomes, human capital, and other nonmonetary poverty indicators.

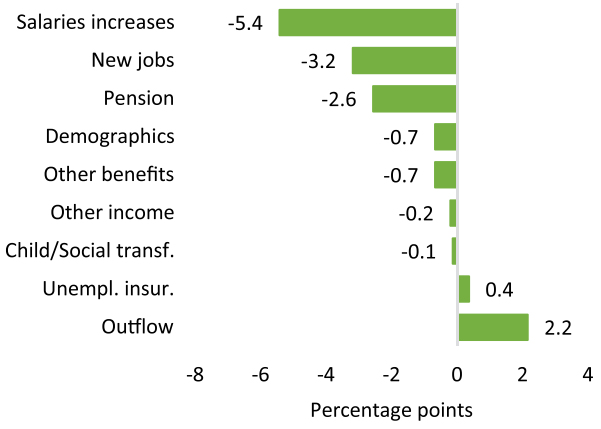
Box 1. Measuring Poverty in North Macedonia

The World Bank has been using SILC household income data to track poverty since 2009, when North Macedonia's State Statistical Office (SSO) decided to report living standards based on this survey in line with EU practices. Before 2008, the World Bank tracked poverty in North Macedonia using consumption data obtained from the Household Budget Survey (HBS). Direct comparisons of poverty rates before and after 2008 may therefore be done with caution because of the change in data sources.

Despite the SSO's best efforts, the use of an outdated sampling for household surveys may be affecting the quality of the microdata. The current sampling frame still relies heavily on information from the 2002 population census. With no recent census data, despite the best SSO efforts to partially remediate the deficiencies, poverty indicators will not be as precise as they should be.

22. Poverty is higher in rural areas and there are important regional differences. The reduction in poverty since 2009 has not been sufficient to close rural-urban gaps in living conditions. An initial difference of 13 percentage points has declined only to 12.5. The urban poverty headcount is 17 percent, but the rural headcount is nearly 30 percent. According to SILC data, in both the Northeastern and Polog regions, poverty was close to 40 percent compared to a national rate of 23 percent, and poverty in the remaining regions has fallen to 10 -14 percent. Because the northern regions have a higher share of the population, that is where the poor are concentrated. Even though these results are based on household survey data that may contain estimation errors, the described regional differences remain considerable.

Figure 4. Employment Opportunities were Reflected in Better Labor Market Outcomes Across the Distribution and Translated into Poverty Reduction from Both Higher Salaries and New Jobs (Contributors to poverty reduction, 2009–2015, percentage points)



Source: SCD authors' calculations based on SILC.

23. Increases in new jobs earnings and the salaries of those already employed helped to reduce poverty. As seen in the Recent Economic Developments section, despite weaker GDP growth after the 2008 crisis, North Macedonia has continued to create jobs not only in construction, backed by public programs, but also in other unskilled labor-intensive sectors, such as agriculture and manufacturing, which increased employment across the board. Higher employment and salary increase ultimately translated into more earnings throughout the income distribution, especially at the bottom (figure 4).

24. The increase in labor earnings also partially coincides with increases in the minimum wage in 2014 and 2015, though more analysis is necessary to attribute a direct impact (because, for example, households escaping poverty may work in the informal sector or may not receive minimum wages). Manufacturing, construction, and services (besides trade) together were responsible for 50 - 60 percent of the reduction in poverty; in rural areas, agriculture and construction contributed about 33 percent.

25. Pensions also helped reduce poverty, though to a lesser extent, while social assistance did not play a meaningful role. Pensions contributed close to 25 percent of the reduction in poverty between 2009 and 2015, as benefits were increased above the previous indexation. The change contributed to a more than 30 percent of the reduction in urban areas but just 13 percent in rural areas. The pension change was positive even

though for the bottom 40 it was modest in real terms (6 percent, though more for those more comfortably off). Indeed, pension income for the top 60 was close to 33 percent in real terms. Pensions have also given those at the bottom of the distribution significant income support, representing close to 8 percent of income for the poor in 2015; without pensions as part of household income, poverty in that year would have been 15 percentage points higher (38 rather than 23 percent). Social assistance did little to reduce poverty, as the coverage of national safety nets is limited. As discussed in the North Macedonia Public Finance Review (PFR),[14] social assistance spending is relatively low and fragmented, and on several indicators its performance is subpar. Moreover, spending has recently shifted to categorical programs such as the parental allowance, even though poverty is still relatively high.

Main Development Challenges

26. The resolution of the name issue creates new opportunities for North Macedonia to revamp the EU accession process and accelerate sustainable and inclusive growth, but structural challenges still need to be addressed. The historic resolution of the long - standing name dispute with Greece opens new opportunities to promote the development of a dynamic economy well integrated into the region and Europe more widely. North Macedonia will be able to capitalize on this renewed outlook by building on past reforms that have produced solid macroeconomic fundamentals and led to job creation and an open economy that has attracted foreign investment. However, the transition to a well-functioning market economy has not yet been completed. Low and declining productivity of local firms, weak state institutions, and deficiencies in competition and investment policy and business regulation continue to pose serious structural challenges. A competitive business legal framework has yet to translate into a vibrant private sector that can fully exploit the country's location. In addition, the Government has limited fiscal space to continue to stimulate the economy, and there are risks to fiscal sustainability that need to be addressed. Educational achievement is insufficient and unequitable, limiting the availability of skills to meet the evolving demands of a modern economy and creating inequality in access to economic opportunities. Finally, climate and environmental threats, including air pollution, require urgent attention or they may slow economic growth and reverse poverty reduction. North Macedonia must contend with all of these challenges if it wants to fully exploit the historic opportunity presented by the resolution of the decades - long dispute over the country's name.

27. Although North Macedonia has made considerable progress toward creating the conditions necessary for a dynamic private sector, many firms and workers are still unable to translate these conditions into economic opportunities. The Macedonian economy has now been stable for two decades, and the country's business environment rates high in international rankings (North Macedonia is rated 11th in the Doing Business 2018 report). The economy is open to trade, and the authorities have long had a positive attitude to FDI. However, these policies have not yielded a complete structural transformation because of an incomplete reform agenda and notable gaps between laws and practice. Moreover, reform momentum has slowed since 2009, and productivity growth has declined.

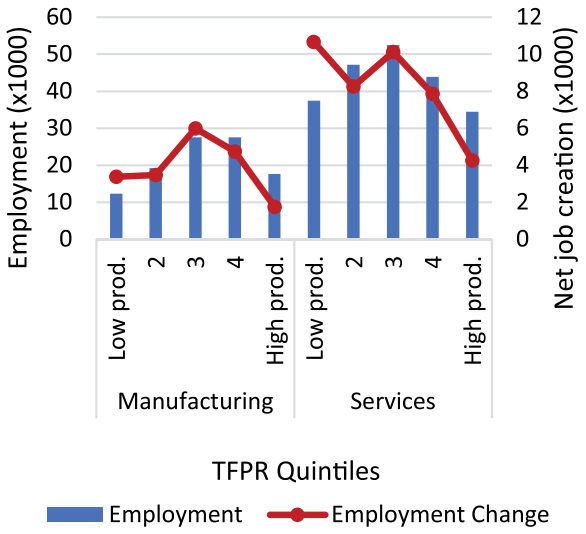
28. There is strong evidence that factor allocation is inefficient in North Macedonia. Relatively high investment and relatively little economic growth suggest that capital is not being directed to areas with the highest returns. Indeed, the rate of return on investment in North Macedonia has been sinking since 2001. Firm-level analysis shows that resources, both across and within sectors, are not moving from less productive to more productive firms, and allocative efficiency within sectors (reflecting technological uptake) is low relative to comparable countries.[15] Moreover, the least productive firms generate a disproportionate share of employment (figure 5).

[14] World Bank, "North Macedonia Public Finance Review" (Washington, DC: World Bank, 2018).
[15] World Bank, "FYR Macedonia Systematic Country Diagnostic."

29. The movement of labor from agriculture to more productive sectors has been slow, and the sectoral allocation of labor has generally changed little over the past decade. The misallocation of labor aggravates the employment and welfare challenges caused by too few labor force participants, high emigration rates, and an aging population.

30. Resource misallocation is exacerbated by the fact that local firms have limited capabilities and are reluctant to adopt new technologies. The domestic economy is composed of a large share of small firms that are slow to innovate. As in other formerly planned economies, the private sector suffers from a high degree of market concentration because the privatization process privileged political insiders. Consequently, resource misallocation has not pressured firms to upgrade their administrative methods or adopt new technologies. The large disparities in productivity between the most and least productive firms illustrate the wide gaps in firm capabilities - firms in the 90th percentile of productivity are 7.6 times more productive than firms in the 10th percentile. These problems are compounded by shortages in the workforce, especially of managerial skills. Self-employment and informality are common, and incentives for formalization are weak.

Figure 5. Employment and Employment Growth are Relatively Low in the Most Productive Firms (Employment and net job creation by within-industry total factor productivity of revenue (TFPR) by quintile, 2013–2016)



Source: SCD authors' calculations; Background paper prepared for this report by A. P. Cusolito and others, "Firm Dynamics, Productivity, and Jobs in North Macedonia" (Washington, DC: World Bank, 2019), unpublished.

31. Reforms are urgently needed to facilitate the movement of resources to the most productive opportunities and to complete North Macedonia's structural transformation. Although the country's success in attracting export-oriented FDI has enabled it to integrate into some global value chains (GVCs), it has not been able to effectively leverage its strategic location. North Macedonia firms are unable to take advantage of an otherwise strong business climate, discouraging the development of sophisticated value chains that add more local content, slowing the emergence of new industries, and keeping jobs heavily concentrated in low-productivity sectors with slow productivity growth. Accelerating structural transformation and promoting technology adoption and innovation will become increasingly crucial as North Macedonia acts to escape the middle-income trap and achieve high-income status. Key issues are weaknesses in trade and transport connectivity and value chain integration, as well as deficiencies in competition and investment policy, business regulation, firm capabilities, access to finance, and digital connectivity, all compounded by shortages of workforce skills.

32. Moreover, the country has limited fiscal space to continue to stimulate growth as in the past. Fiscal stimulus–driven growth may work in the short term but is not a sustainable strategy over the long term. As described above, maintaining a prudent fiscal policy is critical to sustaining macroeconomic stability and thus private sector–led growth. Owing also to expansive fiscal policies in recent years, North Macedonia's economy has grown, generated employment, and reduced poverty. The fiscal policy worked because the previous commitment to a stable macroeconomic environment had created room for a countercyclical policy, but that room has now been largely expended. The public debt-to-GDP ratio (47.8 percent in 2017) will continue to grow

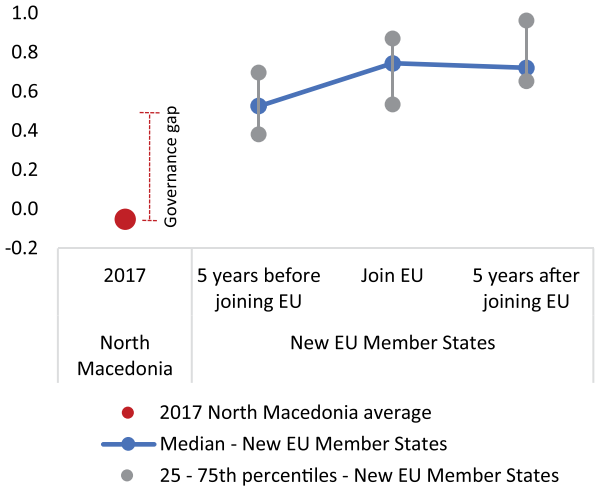
[15] World Bank, "FYR Macedonia Systematic Country Diagnostic."

in the absence of reforms. Moreover, when fiscal measures were expansionary, limited attention was placed on related factors that heighten fiscal risks. For example, the current pension deficit is over 4 percent of GDP, and as the population ages, spending on pensions is expected to rise commensurately. Also, the efficiency of public spending in such areas as education, health, infrastructure, and agriculture received only superficial attention, and the accumulation of public sector arrears, including by SOEs and local governments, remains a recurrent issue in North Macedonia. Reducing risks to fiscal sustainability requires reining in pension spending, applying more discipline to financial management (including among local governments where it undermines service delivery), addressing the efficiency of public spending, and raising tax collection.

33. Institutional reforms have not fully delivered the necessary outcomes. Initiatives oriented to improve institutional quality in the country have not always followed through to generate sustainable gains, as they have often been halted before full implementation or been unable to reach across all institutional dimensions. This explains, for instance, the still considerable implementation gaps in the business environment, where measures based on de jure factors, such as the Doing Business indicators, show considerable progress, while analogous indicators based on the de facto environment, present a more nuanced picture.[16] This explains as well why North Macedonia ranks below some of its peer economies[17] in different indicators of governance and institutional quality, trailing especially in political stability, accountability, and rule of law.[18] There is also evidence that the erosion of state institutions during the 2015 - 2017 political crisis undermined confidence in the economy and led to a slowdown in growth and job creation.

34. Although the country moved early to build up solid market - oriented institutions, some still trail those in peer economies in meeting EU standards. Macro reforms and trade openness took place between the 1990s and the early 2000s. Subsequently, investment climate reforms propelled North Macedonia up in the Doing Business rankings, and the FDI promotion strategy succeeded in increasing exports. However, political stability, accountability, rule of law, and a reduction of corruption did not follow. As illustrated in figure 6, taking the average of the six areas of the Worldwide Governance Indicators (WGI) with scores ranging from –2.5 (weak governance) to 2.5 (strong), in 2017, North Macedonia had an average of –0.05. The median score for aspirational peers five years before each gained EU accession was +0.5, and their median score in 2016 was about +0.75.[19] According to the World Economic Forum 2016 Executive Opinion Survey, policy instability and the inefficiency of the bureaucracy are among the top five obstacles to doing business in North Macedonia. Moreover, for the past decade, the progressive deterioration of the system of checks and balances in the country has eroded the trust between the people and the state. It will therefore be crucial to

Figure 6. North Macedonia's Governance is Far Below that of Aspirational Peers before They Joined the EU (Average Worldwide Governance Indicators [WGIs])



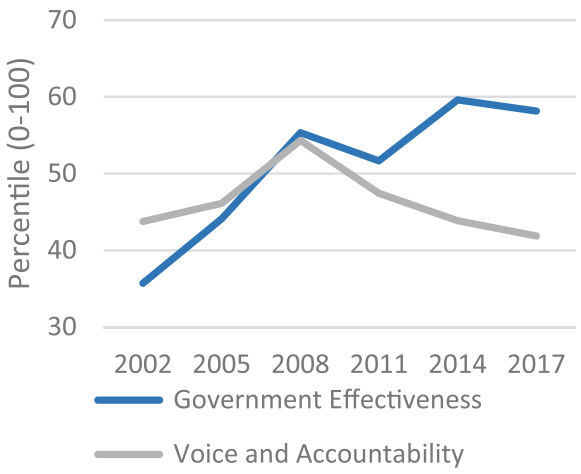
Source: SCD authors' calculations based on WGI data; and World Bank, "Revving Up the Engines of Growth and Prosperity in the Western Balkans" (Washington, DC: World Bank, 2017).
Note: Average WGI is an average of the six WGI components. Estimates range from –2.5 (weak) to 2.5 (strong) governance performance.

[16] World Bank, "FYR Macedonia Systematic Country Diagnostic."
[17] See footnote 9
[18] World Bank, "FYR Macedonia Systematic Country Diagnostic."
[19] In two of the six indicators reported by WGI—regulatory quality and government effectiveness—North Macedonia ranks above the world median and higher than most of its structural peers. However, in the other four areas—political stability, voice and accountability, rule of law, and control of corruption—its rankings are far worse.

rebuild and consolidate social trust to ensure that the Government has the citizen support to undertake the reforms necessary to move the country on a path of faster, more sustained growth and economic integration into the EU and the rest of the world. According to the World Economic Forum 2016 Executive Opinion Survey, policy instability and the inefficiency of the bureaucracy are among the top five obstacles to doing business in North Macedonia. Moreover, for the past decade, the progressive deterioration of the system of checks and balances in the country has eroded the trust between the people and the state. It will therefore be crucial to rebuild and consolidate social trust to ensure that the Government has the citizen support to undertake the reforms necessary to move the country on a path of faster, more sustained growth and economic integration into the EU and the rest of the world.

35. The country's efforts to engage citizens and develop and institutionalize voice and accountability consistent with EU norms have yet to emerge. Performance on the WGI voice and accountability indicator has declined over the past decade. The gap between government effectiveness, also in decline since 2013, and voice and accountability is growing, undermining state effectiveness and social trust (see figure 7).[20] There has been little improvement in the context of citizen engagement (CE) in North Macedonia during the last CPS period (FY15–FY18). The country continued to make some progress on improving government effectiveness through its efforts to establish e-services, but the political environment has led civil society to become increasingly constrained, and corruption, transparency, and citizen participation measures have leveled off or worsened. In 2017, the World Press Freedom Index ranked North Macedonia 111 out of 180 countries.[21] Low trust in the Government has clearly contributed to challenges engaging with citizens; consequently, the interface between state and non-state actors is fragile.

Figure 7. The Gap Between Government Effectiveness and Voice and Accountability is Growing

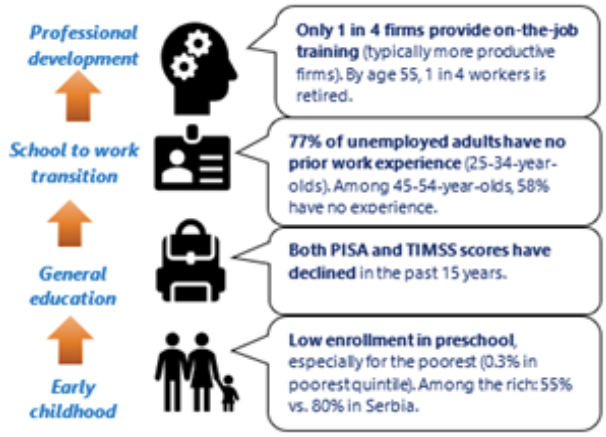


Source: WGI 2017.

[20] The voice and accountability indicator captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

[21] Reporters without Borders, "World Press Freedom Index 2017" (Paris: Reporters Without Borders, 2017), https://rsf.org/en/ranking/2017.

Figure 8. In North Macedonia, Deficiencies in Human Capital Development Begin in Childhood and Compound Over Time



Source: World Bank, "FYR Macedonia Systematic Country Diagnostic."

36. Opportunities for citizens of North Macedonia to build human capital are limited and may even be deteriorating, which reduces the capacity of workers to meet the evolving demands of a modern economy and contribute to greater productivity. In North Macedonia, gaps in human capital start early and expand over time (figure 8). Preschool enrollment is very low and scores on international tests are worsening. Most of the unemployed lack work experience, and firms offer few opportunities for professional development. Neonatal, infant, and under-5 mortality rates suggest poor health and nutrition outcomes, affecting individuals' ability to learn as well as their productivity throughout the life cycle. On the 2015 Programme for International Student Assessment (PISA) standardized tests, North Macedonia ranked among the bottom five countries, far behind such comparator countries as Albania, Montenegro, Moldova, and Georgia. With the workforce shrinking and labor productivity low, the country's future growth will increasingly rely on the formation of human capital. Finally, the high prevalence of and mortality from noncommunicable diseases (NCDs) results in a massive reduction in productive years due to early retirement, disability, and premature death.

37. Barriers and disincentives to employment and labor force participation make it harder for labor to contribute to growth. Beyond the skills shortages, barriers originate in insufficient support services for workers, such as child- and eldercare. Moreover, labor laws are not flexible enough to facilitate access to work for women, the young, and the elderly. The tax burden on low wages discourages work, and for those who benefit from social assistance and pensions, the potential loss of benefits encourages inactivity. Thus, two forces operating in tandem generate lackluster performance despite the efforts of various governments to address the jobs challenge. On the one hand, job creation has been positive but concentrated in low - productivity, low - wage, and non-tradable activities, and it may not be sustainable because it was partly driven by a fiscal stimulus in infrastructure projects, subsidies, and active labor market policies. On the other hand, rigidities in labor market and social protection institutions discourage participation in the labor market, especially for those in the lower half of the income distribution.

38. Structural labor market deficiencies result in a considerable waste of working years. Based on 2016 labor market indicators, it is estimated that North Macedonia's low employment rates result in about eight years of employment lost for workers ages 15–24, about 12 years lost for those ages 25–54, and close to six years lost for those ages 55–64. Over the lifetime of an average male worker, this totals about 25 years lost because of high unemployment and inactivity. For women, the loss is 30 years.

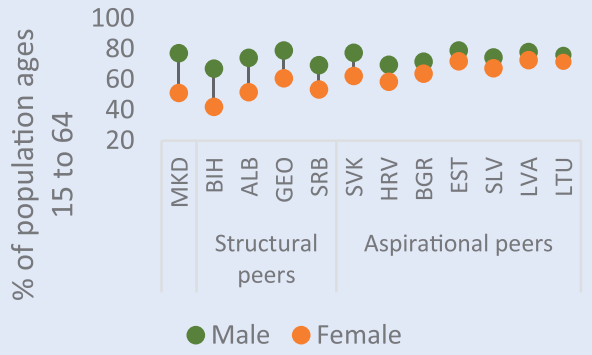
39. Inequality in access to economic opportunities equates to less social inclusion. Building a stable, robust middle - class society requires the enhancement of individual agency by expanding access to opportunity. For example, eliminating gender disparities in the labor market could increase North Macedonia's annual GDP by an estimated 16 percent (see box 2 for details on gender inequality in the country). Because individuals who are economically marginalized and unable to participate fully in growth have difficulty diversifying their assets, they remain vulnerable to shocks. Consequently, efforts to enhance inclusion are critical to both growth and poverty reduction. In addition, many people are still poor and excluded from job opportunities, particularly ethnic minorities. Notably, ethnic Albanians account for close to 45 percent of all households in the bottom

income quintile but just 15 percent of those in the top. Roma people in settlements average considerably lower rates of completion of formal education than their non-Roma neighbors. Vulnerable groups are also at risk of worsening health, measured by basic indicators such as child mortality. The social protection system does not contribute enough to social inclusion, in part because the focus has shifted to supporting families with children rather than reaching the poor and vulnerable directly.

Box 2. The Status of Women in North Macedonia

Gender disparities in the labor market are only one characteristic of gender disadvantages in North Macedonia. The employment gender gap-women's employment rate is 18 percentage points lower than men's for 15-64-year-olds-is driven by the gap in labor force participation, which was 26 percentage points lower for women in 2015. Women's labor participation rate, 51 percent, is also 14 percentage points lower than the EU average. The gap persists throughout the life cycle and is higher than in most other Europe and Central Asia (ECA) countries (figure 9).

Figure 9. The Gender Gap in Labor Force Participation in North Macedonia is One of the Largest Among Peers (Labor force participation rate by gender, population ages 15–64, 2014)



Source: SCD authors' calculations based on World Bank, "Trends in Labor Markets in North Macedonia: A Gender Lens" (Washington, DC: World Bank, 2018).
Note: Countries ranked by gender gap size, within subgroup.

The significant gender gap in labor market participation is at odds with women's representation in the working-age population and their educational attainment, especially among cohorts younger than 40, of whom 25 percent of women and only 17 percent of men have post-secondary education. A slow school-to-work transition, full-time household activities, and the cultural norms of certain ethnic groups drive their inactivity, which undermines North Macedonia's growth and developmental potential. Indeed, labor market gender inequalities cost North Macedonia an estimated 16 percent in GDP per capita every year. Gaps are also evident in entrepreneurship: only 26 percent of firms have a woman manager and just 16 percent are owned by women, although these percentages are slightly higher than the ECA average. According to the 2016 Life in Transition Survey, fewer women (7 percent) decide to start a business than men (14 percent), but of those who do, close to 70 percent succeed.

Labor market outcomes in part reflect the pervasiveness of gender stereotypes. The Female Inactivity Survey[22] reveals that traditional beliefs about the role of women in the family and the workplace explain the low participation in and low attachment to the labor market. For instance, almost half of the women surveyed stated that even if it is good for women to work, many women prefer to devote their time to their family and home. Nearly 40 percent thought that working mothers cannot establish an equally good relationship with their children as non-working mothers, and about one-third thought that mothers should take care of their children until school age. Moreover, gender disparities in voice and agency remain. Women are underrepresented at most levels of decision making and their participation in collective action remains limited. Any progress, such as the increased representation of women in the national parliament and municipal councils, is due to electoral quotas and is often passive. In executive bodies, where quotas do not exist, women's representation is low: women hold only 10 percent of ministerial posts and 4 percent of mayoral posts.

[22] N. Mojsoska-Blazevski, M. Petreski, and O. Ayhan, "National Research on Low Female Labour-Market Participation in Macedonia: Quantitative-Based Estimates from a New Survey" (Skopje: UN Women, 2017), http://eca.unwomen.org/en/digital-library/publications/2017/06/national-research-on-low-female-labour-market-participation.

40. Limited public resources and a policy deficit have prevented forceful action to forestall growing environmental threats such as air pollution. Air pollution in North Macedonia is now among the worst in Europe, and the health risks are severe. Based on 2016 air quality data, ambient particulate matter pollution was responsible for an estimated 1,600 deaths annually (7 percent of the total), at a total economic cost of about US$750 million (6.9 percent of GDP in 2016). The main culprits, responsible for more than 90 percent of emissions, are residential heating, industry and energy production, and road traffic; among other sources are agriculture, waste burning, and construction dust. Air pollution is concentrated in Skopje, the largest city, and several other cities and local production zones. Despite the introduction of such measures as pollution inventories and air quality monitoring systems, there is a need to enforce environmental regulations more vigorously and address air pollution systemically.

41. The extensive use of fossil fuels, particularly the dominance of domestic lignite for producing electricity, limits North Macedonia's capacity to meet its Nationally Determined Contributions (NDCs) under the United Nations Framework Convention on Climate Change (UNFCCC). North Macedonia's greenhouse gas (GHG) emissions as a ratio to GDP are five times higher than the EU average and will require incremental investments if they are to be moderated by 2040. Although energy-intensive industries, heating and poorly insulated buildings, and transport all contribute to emissions, energy generation remains the main culprit. The energy sector depends heavily on domestic lignite, which constitutes 50 percent of the primary energy supply, but lignite is responsible for about 70 percent of all carbon dioxide - equivalent (CO2e) emissions. Exploitable coal reserves are gradually being exhausted around power plants. A priority for North Macedonia is to fully meet its NDC targets, not only to reach its international climate commitments but also to support the sustainability and reliability of the energy supply - and ultimately the modernization of the economy.

42. North Macedonia is also highly exposed to natural hazards that are amplified by climate change, such as floods, forest fires, droughts, landslides, extreme temperatures, and earthquakes. The flood risk is higher than in any other country in the Europe and Central Asia (ECA) region. A major flood disaster could derail economic growth, affect critical infrastructure, cause losses in agricultural incomes, and disrupt rural livelihoods. Agriculture is the most vulnerable sector to climate change. As climate change is expected to cause more frequent floods and droughts, in Southern Europe, a region with conditions comparable to North Macedonia, the number of people affected is projected to increase by an estimated 1400 percent and crop yields to drop by 20 percent.[23] As temperatures rise and precipitation becomes more variable, droughts will particularly affect the country's southern and eastern regions, jeopardizing not only agriculture but also water quality. North Macedonia is also prone to earthquakes; a one-in-250-year earthquake scenario would affect more than 40 percent of the population and cost 50 percent of GDP. Reinforcing emergency preparedness and other aspects of resilience is clearly urgent. However, compared to neighboring countries, North Macedonia has relatively little resilience to possible asset losses in terms of, for example, early warnings or protection from the financial shock associated with disasters.

[23] Joint EU Research Center (2014) Climate Impacts in Europe: The JRC PESETA II Project

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

A. Government Program and Medium-Term Strategy

43. The Government of North Macedonia's program covers the period from 2017 to 2020 and focuses on the strategic priorities of EU accession and NATO membership. The Government's political priorities are based on the Priebe Report[24] and the reform priorities for EU accession. The program is based on a reform agenda that focuses on the greater well-being and equality of all citizens, economic development, the reinstatement of rule of law and improved justice, efficient institutions, high-quality education and health care, and an improvement in the country's international reputation and standing (figure 10). The Government has also pledged to build good interethnic relations, based on the Ohrid Framework Agreement, which also includes CE as a basic principle.

44. The proposed CPF focus areas are aligned with the Government's program. The World Bank Group's program will include interventions based on the SCD findings and recommendations, on which selectivity filters are applied, and the Bank's comparative advantage, with a view to government priorities and other donor engagements. In addition to these selectivity filters, a portfolio capacity index will guide decisions on a number of new operations during the CPF implementation period.

Figure 10: Main Pillars of the Government's Program

B. Proposed World Bank Group Partnership Framework

Lessons from the FY15–FY18 CPF Completion and Learning Review and Stakeholder Consultations

45. The lessons identified by the Completion and Learning Review (CLR) have guided the selection of CPF activities and the approach to implementing the program. The FY15–FY18 CPS (subsequently extended to December 2018) was implemented during a period of significant political instability that affected its execution. The CLR captured several important lessons. Although the new CPF clearly outlines key areas of engagement, the World Bank Group will maintain flexibility throughout the CPF cycle, as recommended by the CLR, and adjust its program to emerging priorities that recognize the country's political economy challenges and institutional capacity constraints. Based on the approach taken during the implementation of the CPS, the World Bank will also continue to implement a proactive approach to portfolio management, in partnership with the

[24] "The Former Yugoslav Republic of Macedonia: Recommendations of the Senior Experts' Group on Systemic Rule of Law Issues Relating to the Communications Interception Revealed in Spring 2015," https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/news_corner/news/news-files/20150619_recommendations_of_the_senior_experts_group.pdf

MoF, with close monitoring of procurement activities and decision-making bottlenecks, and use Advisory Services and Analytics (ASAs) not only to inform lending and fill knowledge gaps, but also as a tool for effective country engagement during periods of political instability that might affect new lending.

46. The CLR recognizes the importance of maintaining continued and effective stakeholder engagement, including with representatives of opposition parties and civil society. During the previous CPS cycle, maintaining the role of a politically independent actor was challenging for the World Bank because of its privileged relationship with a Government that came under mounting public pressure during the political crisis. Regular communication with opposition parties and civil society helped mitigate this risk. Extensive consultations supported the preparation of the new CPF, as described below. The implementation of the CE road map will help maintain this open dialogue during the CPF period.

47. The CLR concludes that complex infrastructure programs require firm agreement with the various counterparts and alternative plans in case such operations cannot be pursued. The preparation of a complex hydro development project (Lukovo Pole) shaped the Bank's engagement in the energy sector for several years, with no discussion of potential alternative activities. When the project could not be delivered due to changed sector priorities, the World Bank was responsive and flexible in considering the Government's demand for an alternative investment in gasification. However, this investment also did not materialize as the Government turned to the private sector for financing. Similarly, two International Finance Corporation (IFC) public-private partnership (PPP) mandates in infrastructure failed to deliver the expected results for multiple reasons. During the new CPF cycle, the World Bank plans to reach firm agreements on a broad sector investment framework with its government counterparts before engaging on complex infrastructure operations and will develop alternative plans in case the planned operations cannot be pursued. There continues to be potential for PPPs, particularly in energy, transport and health sectors, and in support of municipal infrastructure, but following the lessons learned from the previous CPS, before any new engagement, IFC will make every effort to ensure full government commitment at the highest level and to develop a well-established PPP framework aligned with long-term government strategies.

48. The CLR also highlights the need to ensure that land acquisition is addressed early in the project cycle and is supported by citizen acceptance. A road project and an energy transmission project faced serious delays linked to land acquisition that slowed down implementation. The main lessons learned will be reflected in the preparation of any new operations requiring land acquisition: (a) the implementing agency needs to be present in the field during the entire land acquisition procedure to ensure that people in affected areas understand the benefits of the project, the principles used to identify the land for expropriation, and any related compensation practices, and (b) the process should start as early as possible, even before the loan becomes effective. Land acquisition should be viewed as a social rather than only a legal issue.

49. Future support for local development should address the structural deficiencies affecting local governments. During this CPS period, the World Bank extended significant financing to improve local infrastructure and services with a demand-driven approach. This financing was successful in getting the strong ownership of participating municipalities and in enhancing people's lives by improving access to local roads, a water supply, energy efficiency, and other local infrastructure. The CLR concludes that there were, however, limited efforts to support the sustainability of investments, quality of service delivery, and financial performance of municipalities. The new CPF plans for potential additional lending for local development in the second half of the CPF cycle. This will be based on country dialogue about an extensive assessment that will be delivered in FY19 analyzing the sustainability of municipal finances, capital investment, and service delivery. The study will provide a framework for strengthening the institutional and financial performance of local governments under future investments.

50. Linking the World Bank Group program with the EU accession agenda is important for the relevance of the program. The CLR confirms that an enhanced and structured partnership with the EU is essential if the World Bank is to contribute to North Macedonia's EU accession process, which is the country's main goal. To that end, aligning CPF strategies and projects with EU programs and policy reforms is key to ensuring government ownership and the relevance of the Bank's program in the country. This CPF is fully aligned with the EU accession process as discussed below.

51. A new country survey, extensive stakeholder consultations, and an online CPF survey informed the CPF preparation. A new country survey was carried out in FY19 to complement the one completed in FY17 during the political and electoral crisis. Education and skills emerged as critical development priorities with increased emphasis in FY19, while economic growth, public sector governance, and job creation remained top priorities as in FY17. Pollution was cited as a new important development challenge in the latest survey, with less focus on judiciary reform, considered an important issue in FY17. In addition to regular engagements with government ministries and agencies, the World Bank and IFC conducted two rounds of extensive CPF consultations with a broad range of stakeholders both in Skopje and in three regions, complemented by online consultations.

Overview of the World Bank Group Partnership Strategy

52. The strategic objective of the FY19–FY23 CPF is to support North Macedonia in achieving faster, inclusive, and sustainable growth and provide its citizens greater opportunities for a better life and to accelerate income convergence with the EU. The Government's program and medium - term strategy present a vision of accelerated economic growth with better employment opportunities and enhanced social cohesion and inclusion for the citizens of North Macedonia. The SCD outlines priority reforms for a better-connected, vibrant domestic economy engaged in the region and beyond, as it secures its footing in areas of strong comparative advantage. To this end, the SCD identifies three pathways and 10 areas for reform.

53. The proposed CPF is focused on the most pressing constraints identified in the SCD, in areas where the World Bank Group has comparative advantage and where there is strong government demand. The CPF applied five selectivity criteria to define CPF objectives and the proposed Bank program: (a) alignment with SCD development priorities to eliminate poverty and boost shared prosperity in North Macedonia, (b) the Government's development agenda, demand for World Bank Group support, and institutional capacity, (c) partnerships with and the programs of other development partners, (d) the Bank's likely impact and capacity to deliver, including based on the track record of engagement and availability of local champions in specific sectors, and (e) lessons learned from the previous CPS. Lending operations will be additionally filtered for leveraging global public goods, including the potential for climate co-benefits. Based on the selectivity filters mentioned above, the CPF will focus on areas of the World Bank Group's comparative advantage and will de-emphasize areas of low demand or already addressed by other partners. For example, the CPF will not focus on such priority actions identified by the SCD as media freedom and judicial reform because other development partners (the EU in particular) play a leading role and are implementing extensive programs in these areas. The Bank will only complement, with selected analysis and technical assistance (TA), the work of other donors in areas that are not at the core of the CPF.

Figure 11. CPF Focus Areas for Faster, Inclusive, and Sustainable Growth

54. The World Bank Group strategy is based on three interconnected focus areas that are underpinned by five CPF objectives (figure 11). Achieving these objectives will help North Macedonia improve the environment for a dynamic private sector to enhance export - led growth, strengthen human capital for inclusive growth, and build sustainability. Focus Area I aims to remove some of the bottlenecks that prevent the emergence of a dynamic and competitive private sector by improving connectivity and access to markets (the first CPF objective) through activities supporting "hard" and "soft" trade connectivity and strengthening local firms' technological uptake, innovation, access to finance, and capacities. Focus Area II will support the development of human capital and skills to boost labor productivity and encourage more inclusive labor market participation. CPF activities underpinning both human capital creation and protection will improve the quality and relevance of education (the second CPF objective) and the access to and quality of social services (the third CPF objective). Focus Area III will mitigate fiscal and environmental vulnerabilities with the goal of enhancing fiscal sustainability by strengthening fiscal and public financial management (the fourth CPF objective) and environmental sustainability by helping accelerate the transition to a more sustainable energy mix (the fifth CPF objective). The CPF Performance Learning Review (PLR) planned at the end of the second year of CPF implementation will provide an opportunity to consider additional sustainability objectives under Focus area III, based on demand and the evolution of the CPF lending program.

55. This CPF provides a continuity in approach with the previous strategy. Part of the agenda expected under the previous partnership was delayed because of the prolonged political and electoral crisis in North Macedonia (2015 - 2017). Both goals of the previous strategy - growth and competitiveness and skills and inclusion - remain very relevant, according to the SCD findings, and are pursued under the new CPF through the ongoing portfolio and new operations. The ongoing and relatively new operations in transport, municipal services, skills and innovation, local and regional competitiveness, and social services reform, as well as a continuation of IFC business environment advisory support, will continue to contribute to the results expected under the proposed new CPF. The main shifts from the previous strategy relate to a stronger focus on strengthening the productivity and competitiveness of local firms, including through agriculture modernization and soft connectivity; a more determined effort to support the integration of lagging regions, sustainable maintenance, and climate adaptation in road transport; more emphasis on barriers to economic integration within the Western Balkans; and increased attention to the mitigation of economic and environmental vulnerabilities.

56. The CPF - across all three focus areas - aims to advance and sustain many of the priorities for EU accession. In line with CLR recommendations, CPF activities will be aligned with EU accession - related policy reforms and support an enhanced partnership with the EU. The most successful new EU member states have frontloaded the EU's acquis to modernize institutions and hedge against the risk of policy slippage. The proposed CPF will complement and reinforce the efforts of the Government, EU, and other international development partners to advance the EU accession agenda in North Macedonia. It will also pay special attention to advance priorities that the EU acquis may not fully cover. For example, the country needs to be ready to compete with its EU peers on an equal footing in education, workforce skills, and firm capabilities, areas that are likely to require attention beyond the acquis.

Corporate Priorities

Advancing the Gender Agenda

57. Gender sensitivity will be pursued in all facets of the lending and ASA portfolio. Project teams (both World Bank and client) will continue to receive assistance in designing and implementing gender - inclusive project activities and in conducting gender assessments, gender - balanced consultations, and gender - sensitive data collection. Moreover, the ongoing Western Balkans gender work program will continue to generate data and analytics on emerging inequality issues to support selected stakeholders in engaging in informed dialogue on policies and opportunities for gender inclusion. This will advise World Bank Group operations and help strengthen

the design of gender - targeted activities. The last Gender Assessment was conducted in FY13, and the Bank will consider providing an update during the first half of this CPF cycle. In Focus Area I, the Bank will support women entrepreneurship and productivity by fostering skills acquisition in areas relevant to the labor market, for instance in high - skills services and the science, technology, engineering, and mathematics (STEM) disciplines. IFC will explore opportunities to support women's managerial skills development through supplier development and programs to upgrade firm capacity. Promoting positive role models to strengthen the innovation ecosystem is another way to encourage women to venture into new activities supported by the CPF. The proposed Digital Macedonia Project will improve access to online knowledge, services, and the labor market with a focus on digital skills training for youth and women. In the agriculture sector, the World Bank's engagement will, among other activities, focus on increasing the income of underserved groups such as women, young people, and minority groups. In Focus Area II, through the Social Services Improvement Project (SSIP), the CPF will create more opportunities for women to join the job market by supporting the expansion of quality childcare and the creation of an eldercare option. The CPF will also support the Government in designing policies that will facilitate flexible work arrangements. In Focus Area III, the Fiscal Efficiency and Competitiveness Development Policy Financing (DPF)/Policy-Based Guarantee (PBG) will support the consolidation of social benefits and expansion of coverage of the bottom quintile, including female - headed households, through the new Law on Social Protection, the Law on Child Protection, and the Guaranteed Minimum Assistance program.

Climate Change

58. The proposed CPF will contribute to both North Macedonia's intended NDC goals and the World Bank Group's corporate priorities of mitigating the effects of climate change and making more resilient investments to counter the effects of extreme climatic events. North Macedonia's intended NDC aims to reduce CO2 emissions from fossil fuel combustion by 30 percent by 2030 compared to the business-as-usual scenario.[25] The SCD also recognizes the need to promote low-carbon growth, reduce air pollution, and build resilience to natural hazards and climate change. These challenges will be addressed in each CPF focus area. Focus Area I will include investments in climate resilient agriculture, improving the resilience of farmers to climatic shocks through insurance, value chains management, and technological advances. The World Bank will also expand its ongoing support to climate-resilient road infrastructure. Focus Area II in support of social protection services will include efforts to identify the communities most vulnerable to the effects of climate change and natural disasters. For example, new and rehabilitated school buildings will be designed based on energy-efficiency principles. In Focus Area III, planned investments in energy efficiency and renewable energy (RE) will directly contribute to the reduction of CO2 emissions. Municipal investments that tackle flooding risks and increase climate resilience are also planned. The objective of policy changes and investments will be to both reduce localized pollution and mitigate climate change.

Citizen Engagement

59. The CPF includes a CE country road map linked to each of the focus areas described in the following paragraphs. Despite the hurdles to engaging citizens described above in the Main Development Challenges section, CE continues to receive a strengthened focus throughout the World Bank's portfolio. A CE country road map was introduced in the 2017 PLR and has been updated under this CPF. Focus Area I will target CE activities in the Bank's financing operations that support transport and competitiveness. Focus Area II will continue existing efforts in this area and further support and disseminate the development of CE models for education, health, and social protection. And Focus Area III will ensure that citizens are engaged in key reforms involving pension modernization and the importance of CE as the country transitions from "gray to green." Four areas of action are prioritized: continuing CPF consultation, integrating CE into climate change, implementing

[25] United Nations Framework Convention on Climate Change (UNFCCC), "FYR Macedonia Intended Nationally Determined Contributions" (Bonn: UNFCCC, August 2015).

gender priorities, and supporting target preparation and capacity building in the implementing agencies of the Bank-financed projects.

Focus Areas – Objectives Supported by the Program of Lending and Non-Lending Activities

Focus Area I - Export-Led Growth: Improve the Environment for a Competitive Private Sector

CPF Objective 1: Improve Connectivity and Access to Markets

Indicators:

- Improve market accessibility index along Corridor VIII
- Reduce trade costs and increase transport efficiency
- Improve the capacity of authorities to examine natural disaster events impacting road assets
- Increase private investments facilitated by IFC advisory services
- Improve access to modern agriculture services
- Improve innovative capacity of enterprises
- Increase direct private investments in tourism

60. A dynamic and competitive private sector is needed to boost productivity, strengthen North Macedonia's export competitiveness, and create more and better jobs. As discussed in the Recent Economic Developments and Main Development Challenges sections, although the private sector of North Macedonia has been creating jobs, they are not the high - productivity, well - paid jobs the country needs. Low productivity bears some of the blame for the moderate rates of growth and job creation to date, as does the misallocation of labor and capital. Although North Macedonia is the most open economy in the Western Balkans, with a sum of imports and exports representing 124 percent of GDP in 2017, it has considerable room to increase the volume of its exports to the EU and deepen its integration with the region. Efforts in the past decade to attract FDI in higher value-added manufacturing were particularly successful in the automotive sector, but even if FDI has been roughly what would be expected for a country of North Macedonia's size, it is less than that of regional peers. The country must, therefore, consider an ambitious agenda to address these challenges that includes (a) better facilitating trade and transport and maximizing the existing transport and information and communication technology (ICT) infrastructure to enhance access to markets, (b) attracting more efficiency - seeking FDI in higher value - added segments and increasing links between FDI and domestic firms, and (c) helping local firms build their ability to export and join GVCs.

61. Although North Macedonia's success as an exporting country hinges on the quality of its hard and soft export infrastructure, its logistics performance indicators are worrisome. A significant portion of trade costs is related to border compliance and time spent at the borders, including customs clearance and inspections by border agencies such as food and veterinary compliance.[26] More efficient customs clearance can have direct positive effects on firm productivity, which falls by 8.6 percent for each additional day spent in clearing customs. Moreover, market size and country location indicate that North Macedonia has considerable room to increase its volume of exports. However, to expand and sustain these exports, it needs to go beyond trade and create world-class hard and soft local infrastructure. It also needs to expedite the completion of the main transport corridors, to consolidate its position as a regional transport hub. However, past investment has come at the expense of existing networks and related transport services. There is now a substantial backlog of maintenance on secondary and tertiary roads, which also need rehabilitation and expansion to enhance access

[26] The cost of customs clearance red tape is a burden on firms and productivity. The World Bank's 2018 Doing Business report indicates that border compliance costs exporters nine hours - one working day - and documentary compliance takes 103 hours - nearly 13 days - compared with an average of just 1.6 hours among aspirational peers. In fact, it costs a firm in North Macedonia an average of US$148 to complete export procedures compared to US$54 for firms in peer countries. Meanwhile, border and documentary compliance takes importers more than 10 hours at an average cost of about US$200.

to economic opportunities and services for lagging regions. The main corridors will also require significant planned maintenance in the future. Finally, transport SOEs, which in December 2018 accounted for an estimated 25 percent of general government arrears, need to be restructured to EU standards to improve transport services and maintenance.

62. Innovation, enhanced firm capacity to compete, and better links between FDI and local firms are also needed to boost export competitiveness and accelerate economic growth. Innovation, defined as improvement in production processes and the introduction of new products, is critical to sustained productivity growth in North Macedonia but is possible only if local firms build their capabilities and adopt procedures and systems to make them more fit to compete. The enclaves of a few highly productive and integrated FDI firms in the country's industrial zones generate few local links. Attracting additional FDI could provide resources that enable North Macedonia to upgrade to more sophisticated products while diversifying production. However, if the benefits are to materialize, links with the domestic economy must be maximized. Expansion of the private sector also calls for access to finance for micro, small, and medium enterprises (MSMEs) and start - ups (MSMEs currently struggle to access financing despite a stable and profitable banking sector with high capital and liquidity ratios) and for more encouragement of the digital economy, which is critical to connectivity and to the ability to compete in international markets today. Agriculture modernization will also need special attention, as the sector has considerable potential to redistribute growth more widely across the country.

63. The CPF will take a two - pronged approach to tackling the challenge of enhancing export - led growth by (a) boosting North Macedonia's connectivity and integration into the global marketplace and (b) addressing cross - cutting factors that constrain firm productivity and deter investment, such as innovation, access to finance, and firms' capacity to compete. The goal is to help North Macedonia enhance trade connectivity (both hard and soft) and value chain integration to fully exploit the benefits of its location. The CPF aims also to help strengthen firms' capabilities, capacity for technology adoption, and access to finance to enable them to exploit untapped opportunities to expand trade in goods as well as services, such as tourism, logistics, and IT, and prepare them to compete in a global market. Finally, the CPF will foster agricultural modernization to strengthen productivity and increase incomes for the rural population. These areas of focus were driven by country demand, continuity with the previous CPS in areas such as road transport and firm competitiveness, complementarity with donors such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank, which are already supporting large investments in major railroad and road corridors, and the importance of soft trade connectivity and agriculture modernization that emerged from the SCD.

CPF Objective 1: Improve Connectivity and Access to Markets

64. The World Bank will contribute to this objective by facilitating the cross-border movement of goods and enhancing transport efficiency and predictability through a regional investment lending operation to advance Western Balkans economic integration within the region and with the EU. The Bank will also complement the road portfolio under implementation (currently focused on improving transport connectivity for road users along transport Corridors X and VIII and along selected national and regional roads and on improving the asset management and planning functions of the Public Enterprise for State Roads [PESR]) with investments to strengthen the integration of lagging regions and improve maintenance, security, and climate adaptation for local and national roads. It will also pursue available opportunities to accelerate and advance PESR reform. Building on lessons learned from the previous CPS, the World Bank and its counterparts will ensure that any necessary land acquisition is addressed early in the project cycle and that citizens are aware of and accept the process. The Bank also plans to help North Macedonia create the conditions for private sector investment to expand high - speed broadband access to underserved areas, improve international competitiveness, open new job opportunities, promote social inclusion and territorial cohesion, and facilitate integration into the Western Balkan Digital Highway.

65. IFC will explore opportunities to mobilize private finance for infrastructure investments through PPPs and provide advisory services on trade facilitation and logistics to help improve hard and soft connectivity with export markets. Given the limited fiscal room and rapid increase in public debt exposure over the past decade, the Government needs to leverage private resources where it can, possibly through PPPs. Following the lessons learned from the previous CPS, before any new engagement in PPPs, IFC will make every effort to ensure wide stakeholder engagement within government and will develop a well-established PPP model. Contingent upon demand from and effective collaboration with the Government, IFC, in close collaboration with IBRD, will support the implementation of selective, well - structured, and bankable PPP transactions. IFC will help improve the PPP regulatory framework and enhance capacity to implement complex PPP transactions. Through the Macroeconomic Trade and Investment Global Practice, IFC will also support the North Macedonia Customs Administration to establish joint border controls with the customs authorities of Serbia, and possibly of Albania, that could help decrease border processing times by up to 20 percent. These activities incorporate and complement the World Bank's Western Balkans Trade and Transport Facilitation Project.

66. Planned World Bank Group activities in the energy sector will also contribute to improving the environment for a competitive private sector. Although the CPF emphasizes accelerating the transition to a more sustainable energy mix under Focus Area III, planned World Bank Group investments in the energy sector will also make the energy supply more secure and efficient and mobilize private investment to achieve this goal.

67. The CPF will support agricultural modernization and firms' capacity to adopt technology and innovate. To increase agricultural exports, domestic policy needs to ensure that food producers and processors have the right incentives to become more productive and competitive - especially since the productivity of the country's agricultural labor force is lower than in neighboring countries. The World Bank will contribute to a more productive rural economy with the potential to increase the incomes of underserved groups that face greater barriers to achieving sustainable livelihoods, such as women, young people, and minority groups. Subsidy mismatches and an underdeveloped land market will also be addressed by financing and analytical products. Finally, TA will assist North Macedonia in completing a functional review of the Ministry of Agriculture (financed by the EU) and in developing stronger agriculture insurance markets. The CPF will also support efforts to continue attracting FDI and ensuring that new FDI nurtures exports with more local content. The Multilateral Investment Guarantee Agency (MIGA) will also seek to play a role through its political risk insurance guarantees and/or non-honoring credit guarantees. The World Bank will focus on local firms' capacity for innovation and technology adoption to strengthen their competitiveness. The World Bank and IFC will cooperate to foster competition, ensure an effective use of state aid, and reduce implementation gaps and weaknesses in business regulations.

68. The CPF will also help the Government address critical knowledge gaps related to the low employment levels. An analytical program to support the development of a Growth and Jobs Action Plan will focus on understanding key constraints to employment and, building on the findings of the SCD, more granularly identifying policy actions that would help to remove obstacles to higher employment from the labor supply and demand side. With regard to the labor supply, this will be achieved by identifying actions that can remove barriers and disincentives to employment in the areas of skills development and information gaps, with a special focus on youth employment. On the demand side, efforts will be made to strengthen private sector growth and employment creation, including by ensuring spillovers from FDIs and strengthening the competition policy, regulatory framework, and firm capabilities.

69. In the financial sector, the CPF will be guided by the 2018 Financial Sector Assessment Program (FSAP) Update. The CPF will support the Government in implementing financial sector reforms that can help North Macedonia spur inclusive growth and improve the competitiveness of firms while preserving macro-financial stability. North Macedonia has been successful at safeguarding the financial system and the economy in the face of considerable shocks. Although pockets of vulnerability remain, it is an opportune time to focus on the

role the financial sector can and should play in enabling economic growth and job creation. The World Bank Group's support will focus on closing the gaps in the financial stability framework and supporting policies to expand financial sector diversification and reach. This can help MSMEs and individuals to seize better economic opportunities and offer alternatives to bank financing. TA to the National Bank and the Government is envisaged through the Financial Sector Advisory Center (FinSAC) on crisis preparedness, bank resolution, and macro-prudential policies, which will strengthen financial stability. Further support may focus on implementing a robust financial consumer protection framework and addressing the shortcomings identified by the FSAP around financial efficiency and inclusion. Ensuring that banks and non-bank financial institutions are adequately supervised is a priority. IFC will contribute to this agenda through its upstream advisory support to improve the insolvency framework with a view to addressing risk averseness in the banking sector to unblock access to finance for MSMEs.

70. IFC will prioritize engagements that facilitate investments in high value-added manufacturing as well as services, including in tourism. To ensure broader additionalities from its engagements, particularly in boosting exports, raising local content, and creating jobs, IFC will (a) finance FDI investments with a focus on high-productivity, export-oriented segments, (b) explore access to finance options for local MSME suppliers that provide value-added products/services to GVCs, and (c) invest in manufacturing projects that entail technological modernization and resource efficiency. Together with the World Bank, IFC will provide advisory services to promote backward linkages between FDI and domestic firms, particularly SMEs, and enable job creation beyond technological and industrial development zones (TIDZs). Through its regional Light Manufacturing Advisory Platform, IFC will strengthen the linkages between FDI and local suppliers by building local manufacturing companies' competitive advantages in high valued - added segments to European regional value chains, including automotive parts, appliances, and agriculture, as well as construction, infrastructure, and transportation machinery. The project will support the deeper localization of anchor FDI by strengthening local supply chains (for example, by assisting local suppliers to attain standards and be certified to supply to anchor firms), improving the competitiveness of local champions and restoring their regional links, and supporting capacity building and market links for manufacturing firms through collaboration with government agencies. In doing so, IFC's firm - level interventions will be combined with the World Bank's work with government agencies responsible for supplier development programs and investment promotion, an approach aligned with the IFC 3.0 strategy on creating markets and on manufacturing that focuses on increasing complexity and connectivity in manufacturing value chains. In addition, IFC will focus on emerging opportunities in the tourism sector and tap possible synergies across sectors, including agriculture, logistics, and insurance. The Bank will also enhance the contribution of tourism to local economic development and improve the capacity of the Government and public entities to foster tourism growth and destination management through the ongoing Local and Regional Competitiveness in Tourism Project.

71. IFC will facilitate MSMEs' access to the credit needed to expand and create employment by supporting the development of a microfinance market, leveraging fintech solutions, and introducing climate change risk-sharing facilities. IFC will also provide advice to help reduce risk aversion in the banking sector, particularly toward MSMEs, while supporting the faster resolution of financial restructuring and insolvency cases through help in drafting and adopting a new insolvency law, building capacity, and promoting awareness-raising activities. With its Western Balkans Debt Resolution Project, IFC will explore possible investment opportunities if the secondary market is improved through reforms such as a company law, out - of - court settlement regulation, an insolvency law, establishment of an insolvency agency, a law on courts, and bankruptcy litigation.

72. Partnering with the Ministry of Finance and the Central Registry, IFC will support the Secured Transactions and Collateral Registry Reform Project. The project aims to establish such credit infrastructure in the country that enables efficient and effective access to finance, financial stability, and socially responsible economic growth. The Project's activities in supporting the client in establishment of a comprehensive electronic

registry, alongside adoption of relevant legislation, will complement those of the World Bank's Financial Sector Advisory Center (FinSAC) regional initiative that provides TA and capacity building in the financial services sector. These joint initiatives will help develop strong and resilient financial systems, which will help improve access to finance and create new job opportunities.

73. Together with debt financing to microfinance institutions (MFIs), IFC, in close collaboration with the World Bank, will provide microfinance capacity building and advisory support for the development of the microfinance sector. MFIs currently operate financial entities, saving houses, and funds while being supervised either by the National Bank or the MoF. The sector currently represents only 0.4 percent of total financial sector assets. MFIs would better cater to the needs of the micro segment, especially in the regions with the lowest access to finance. Banks operating in this segment have the highest NPL ratios (31 percent) across all asset classes.

74. MIGA remains committed to facilitating foreign investments in the country and will work in close collaboration with the World Bank and IFC to maximize the World Bank Group's development outreach in North Macedonia. MIGA will continue to remain focused on mobilizing foreign private investments in key areas of the economy through its political risk insurance guarantees and non-honoring/credit guarantees. Specifically, in the financial sector, MIGA will continue to seek opportunities to offer its expropriation of funds coverage ("capital optimization") product to international banks to facilitate and accelerate access to credit, including to MSMEs. By reducing risk aversion in the banking sector, the cover supports faster loan growth, economic activity, and employment. As at end-February 2019, MIGA gross exposure in North Macedonia reached US$28 million, focused on one expropriation of funds project.

Focus Area II - Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable

CPF Objective 2: Improve the Quality and Relevance of Education

Indicators:

- Percentage of secondary TVET students benefiting from practical training in SMEs and large sized-firms
- Percentage increase in national preschool enrollment rates for children 3 - 6 years old

CPF Objective 3: Improve the Access to and Quality of Social Services

Indicators:

- Share of cash benefit recipients and social services recipients recertified and recorded in the new information system
- Number of beneficiaries receiving non - institutional social services from licensed providers, of which female
- Improve coverage of social assistance for the bottom quintile female-headed households

75. Accumulating human capital in North Macedonia requires expanding skills to improve the competitiveness of its workers. As discussed in the Main Development Challenges section, in order to realize its aspirations to develop a middle-class society, North Macedonia needs to spur skills accumulation and heighten the quality of human capital. As the global economy becomes increasingly sophisticated, education and workforce skills will become even more essential, and only by investing in human capital can workers in North Macedonia become and stay competitive. According to the World Bank Human Capital Index, a child born in the country today will be 53 percent as productive when she grows up as she could be if she enjoyed complete education and full health. Poor educational outcomes largely explain this loss of lifetime productivity. In the past 15 years, the quality of education at all levels has been slipping, as is illustrated by worsening outcomes in international

standardized measurements.[27] Clearly, the North Macedonia education system is not equipping students with the necessary foundational skills. Even in the very early years, education in North Macedonia is not teaching children - especially the poor - adequate skills.[28]

76. Beyond skills, improving health outcomes is also crucial to building human capital and preventing people from losing productive years. The established, well-distributed public health care infrastructure in North Macedonia delivers preventive care to the entire population and has contributed to good results in the access to and utilization of maternal and child health services. However, health care provision notwithstanding, children in North Macedonia have a higher mortality risk than those in other Western Balkan or European countries,[29] and the unhealthy lifestyle of too many citizens leads to a high incidence of NCDs.

77. Human capital also needs to be protected to enhance inclusion by shielding poor and vulnerable households from shocks. Better targeted social assistance and expanded social services would help protect poor and vulnerable households from shocks and could enhance inclusion while supporting working women. Lack of access to affordable child- and eldercare prevents many women from taking jobs. At about 14 percent of GDP, North Macedonia's total spending on social protection is high compared to other ECA countries. However, most of it goes to pensions (old age, disability, and survivor's pension), and despite earlier reforms, North Macedonia needs to restructure its pension system to contain fiscal pressures and strengthen the system's equity. Direct social assistance is only 1.2 percent of GDP, which explains why social assistance programs reach fewer than 25 percent of poor households.[30] Moreover, in recent years, social assistance has shifted from targeting cash benefits to poor families to categorical programs, such as providing child-related benefits irrespective of family income.

Box 3. Less Access to Economic Opportunities for Vulnerable Roma Communities

Though there has been slight progress in the Roma population's access to economic opportunities in North Macedonia, it has been far from enough to close the substantial gaps between this group and the general population. In 2017, the World Bank, the United Nations Development Programme (UNDP), and the EU conducted a follow-up to a 2011 survey of vulnerable neighboring Roma and non - Roma communities (UNDP-World Bank-EC Regional Roma Survey). The report analyzing the survey found that Roma preprimary enrollment, which is critical to building both cognitive and social abilities, was only 10 percent, compared to 27 percent for neighboring non-Roma communities.[31] As for labor market indicators, only about 20 percent of Roma ages 15 - 64 were employed, compared to 39 percent of non-Roma in neighboring communities, and the great majority of Roma youth could be classified as not in employment, education, or training (NEET). Indicators from UNICEF Multiple Indicator Cluster Survey about access to health services also show troubling disparities; for instance, only 86 percent of pregnant Roma women made the World Health Organization - recommended four antenatal doctor visits compared to 94 percent of the general population, and it is estimated that Roma children under 5 are three times more likely to be stunted (16.5 percent) than their non-Roma counterparts (4.9 percent).

[27] For example, on the Trends in International Mathematics and Science Study (TIMSS), which tests eighth graders, North Macedonia did significantly worse in 2011 than in 1999. Its average mathematics score fell from 447 to 426, the lowest among European countries, and students who achieved the minimum standard (the "low international benchmark") fell in math from 70 to 61 percent and in science from 73 to 53 percent. Scores on the PISA tests similarly declined between 2000 and 2015, when about 70 percent of 15 - year - old students did not attain even basic math and reading proficiency. Perhaps not surprisingly, students in the top income quintile performed as if they had two more school years than students in the bottom quintile.

[28] Few 3 - 5 - year - olds attend school and just 0.3 percent of children from the poorest quintile do so. Even among the richest quintile, only about 55 percent of children are in preschool compared to over 80 percent in Serbia. See World Bank, "FYR Macedonia Systematic Country Diagnostic."

[29] Infant and under-5 mortality rates have been cut by half since 1995 (infant mortality declined from 22.1 to 10.7 per 1,000 live births, under - 5 mortality from 24.7 to 12.2). However, they are still about triple the EU averages and, unlike the rest of the region, since 2010, the positive downward trends have been reversed in North Macedonia. In recent years, there has also been a worrisome drop in vaccination rates in the entire region. Measles immunization of children aged 1–2 years slid from 96 percent in 2005 to 82 percent in 2016. Meanwhile, in the EU and UMICs, vaccination rates were improving.

[30] See World Bank, "FYR Macedonia Systematic Country Diagnostic."

[31] World Bank "Breaking the Cycle of Roma Exclusion in the Western Balkans" (Washington, DC: World Bank, 2019).

The CPF will support narrowing some of these gaps for the Roma population by developing a Roma dimension in all relevant World Bank activities, in particular, activities under Focus Area II. Human development projects will not only work toward improving the effectiveness of the overall system, they will also include components or activities that focus on the needs of the poor and vulnerable population (including Roma) or support improvements in the quality of services in lagging areas (where Roma often live). For example, building on the findings of a 2017 pilot aimed at developing the socioemotional skills (such as perseverance or grit) of lower-secondary students that showed more positive impacts among Roma students than non - Roma students, the CPF will expand the pilot to draw lessons to be incorporated into future education projects.

78. The CPF promotes "investing in people" as a key factor in sustaining inclusive growth over the long term. The CPF will support the development of skills to meet the evolving demands of a modern economy and the promotion of early childhood development to help prepare North Macedonia for the future of work. The World Bank Group will also support the Government's ongoing efforts to respond to the needs of citizens by improving current service delivery and quality in basic education and health care and reforming social assistance and pensions. The CPF will promote the development of more competitive and adaptive human capital and help ensure that social groups that have traditionally been marginalized gain better access to social services. In the longer term, the CPF's Focus Area II aims to contribute to employment creation from the supply side by boosting labor productivity, promoting more inclusive labor market participation, and protecting vulnerable households from shocks.

CPF Objective 2: Improve the Quality and Relevance of Education

79. Both ongoing and new operations will support improvements in the quality and relevance of education. This CPF will continue the efforts initiated under the previous CPS to support skills development by enhancing the relevance of secondary technical vocational education and training (TVET). A very comprehensive TVET reform was launched with World Bank support under the previous CPS, but its full impact has not yet been achieved, in part because of the political context during the CPS period and in part because such transformational reforms need several years to fully deliver an impact. The Skills Development and Innovation Support (SDIS) Project will be extended and contribute to the CPF outcomes that were not attained in the previous cycle. Several donors have already agreed to maintain their support for TVET reform, and the World Bank will cooperate with them after the closure of SDIS to continue with reform goals. The recently approved SSIP will help close the participation gap in preschool education, particularly in lagging regions and among those from disadvantaged ethnic groups and with lower socioeconomic status. The expansion of early childhood development services will not only enhance children's school readiness but also promote the greater participation of women in the labor force. The CPF will also support new investments in basic education to improve the quality of teaching and learning outcomes. Activities to be determined during the second part of the CPF will explore ways to increase instruction quality and/or time in primary schools, given that students from North Macedonia receive significantly fewer (and declining) compulsory hours per year than in most Organisation for Economic Co-operation and Development (OECD) countries. The CPF will also consider ways to pilot new methodologies to monitor student achievements, provide adequate learning support to vulnerable and ethnic minority students, and address shortcomings in the basic education curriculum. The CPF program will additionally support more effective investments in improving teacher performance and career development. Spending efficiencies will also be pursued. For example, there is room to extend the amount of instruction time without having to build new schools, but this will require increasing teaching time without expanding the wage bill. Decisions on the details of these proposed investments and related objectives and indicators will be taken during the latter part of the CPF.

CPF Objective 3: Improve the Access to and Quality of Social Services

80. The CPF will strengthen the overall social protection delivery system for improved services to existing social assistance recipients and vulnerable groups. The SSIP will support the creation and expansion of preventive and nonresidential social services. Increased outreach activities at the local level and the engagement of intended beneficiaries are also aimed at increasing the number of poor and vulnerable citizens who apply for social benefits and services. The Fiscal Efficiency and Competitiveness DPF/PBG will support a new social assistance reform agenda aimed at consolidating benefits and expanding the coverage of the bottom quintile while maintaining good targeting accuracy. This will be achieved through the adoption of the new Law on Social Protection, the Law on Child Protection, and the Guaranteed Minimum Assistance program. The CPF will also support second generation reforms to stabilize pension spending and enhance the system's equity as discussed under Focus Area III. Finally, the CPF will explore ways to help the Government strengthen the delivery and quality of health services to reverse some of the negative trends in the non - monetary indicators of living conditions that disproportionately affect the poor and vulnerable groups. An ongoing North Macedonia Health ASA will be used to inform the formulation of policies that promote effective coverage, improved quality, and better value for money in preventive and curative health care, and a potential operation in the second phase of the CPF.

81. IFC will support the access to finance of underserved segments, such as women entrepreneurs and rural customers, including through fintech solutions and support to microfinance sector development. IFC advisory to banks will help address the low penetration in rural regions through promotion of fintech products, while the Backward Linkages advisory program will enable better access to FDI - linked jobs, particularly in agribusiness and rural areas. MIGA will also seek opportunities to support foreign investments in the agribusiness sector and in rural areas through its political risk insurance and non - honoring/credit guarantees.

Focus Area III - Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks

CPF Objective 4: Strengthen Fiscal and Public Finance Management

Indicators:

- Reduce general government deficit and arrears
- Reduce pension deficit

CPF Objective 5: Accelerate Transition to a More Sustainable Energy Mix

Indicators:

- Increase generation of renewable energy and reduce CO2 emissions
- Achieve lifetime energy savings (20 years) and reduce CO2 emissions through energy efficiency retrofitting of public buildings

82. Reducing risks to fiscal sustainability and boosting fiscal resilience to shocks are priorities. As discussed above in the Recent Economic Developments and Main Development Challenges sections, since 2009 spending has become more rigid and less efficient, and outlays on pensions, subsidies, and interest payments are growing relative to other items. Post - 2008 countercyclical fiscal actions have reduced the fiscal space, and as a result, North Macedonia's debt is rising fast; the pension deficit is high at more than 4 percent of GDP, and pension spending is bound only to keep increasing as the population ages. Moreover, the accumulation of public sector arrears has been a complex and recurrent issue, threatening fiscal sustainability. Inefficiencies in public spending mean that there is ample potential to improve resource allocation. Medium - to long - term fiscal sustainability and the capacity to be resilient to shocks now depends on smaller deficits, which will require action both to contain spending and mobilize additional revenue, and on better quality spending. Because the pension system represents one of the largest fiscal risks for the country, pension spending must be reined in.

83. The lack of fiscal discipline in local governments inevitably undermines service delivery. It also weakens municipal arrears owed by SOEs and generates local government budget arrears. Spending may be modest,[32] but accountability in service delivery is also poor, local engagement with citizens on service priorities is limited, and local businesses and communities are underserved. Local governments are therefore finding it difficult to provide adequate and efficient municipal services, including actions to reduce disaster and climate risks. Municipalities may have only minimal revenue autonomy, but they fail to maximize it. The resultant transfer dependence weakens their accountability and causes some disparities in access to basic services, and though VAT transfers provide a degree of equalization, their role could be enhanced. Other transfers, such as block and capital grants, need to be simplified and made more transparent, and governments need to engage communities in decision making if they are to be effective. Finally, municipal borrowing is a problem, not because of excess, as borrowing is limited, but because of a lack of discipline in paying down budget arrears. The accumulation of arrears - the result of problems with some local governments and SOEs - has been a recurrent obstacle that threatens the country's fiscal sustainability.[33] Building sound municipal finances will be essential to the effective delivery of local public services.

84. Accelerating the transition to more sustainable energy sources and reinforcing environmental resilience are critical to preserving economic and social gains in North Macedonia. As discussed in the Main Development Challenges section, environmental hazards - including the negative effects of relying on coal for energy production and heating - need urgent attention because of the inherent risks to the population and the economy. North Macedonia's aging and highly polluting lignite plants rely on indigenous lignite reserves, which are facing depletion. The country aims to develop a more low - carbon energy sector and reduce its dependence on coal, creating a more secure and efficient energy supply. Public and private buildings retrofit for energy efficiency have significant potential for energy savings and reduced GHGs (which are five times higher than the EU average as a ratio of GDP) because of how much electricity and oil products they currently use. These measures, together with less polluting transport and heating options, would help decrease air pollution in North Macedonia, where it is among the worst in Europe. And measures to prepare the country for potential earthquakes, floods, and other natural hazards must be accelerated.

85. The CPF therefore aims to help North Macedonia reinforce fiscal sustainability and accelerate its transition to more sustainable energy sources. Given the limited fiscal policy space amid rising fiscal risks and large development needs, efforts to boost growth and promote inclusion should not create imbalances that might trigger a crisis and endanger the progress already achieved. Moving the energy sector to a low-carbon path will mitigate the environmental risks, contribute to fewer emissions and cleaner air, and make the energy supply more secure.

CPF Objective 4: Strengthen Fiscal and Public Finance Management

86. The proposed CPF program is grounded in a recently concluded PFR that identified various policy options to improve the technical and allocative efficiency and distributional impact of revenue collection and public spending. The PFR's conclusions helped identify the TA needed to support and advance the Government's 2018 - 2020 ambitious PFM reform program. The World Bank's key pillar of reform (financed by the United Kingdom Good Governance Fund) is the introduction of a new Organic Budget Law to address the critical and systemic weaknesses that led to the past accumulation of arrears in the public sector. In parallel to the PFM reform program, a public debt management program supported by World Bank TA (and financed by the

[32] The overall fiscal footprint of local governments in 2018 was about 4.6 percent of GDP, out of which more than half was financed by transfers from the central government, mostly for education (for comparison, central government spending is estimated at about 28 percent of GDP). Spending on urban infrastructure as a percent of GDP is only about 64 percent of the regional average.

[33] As of September 2018, municipal arrears were estimated at 49 percent of the total arrears stock (1.4 percent of GDP out of the total overall arrears stock equivalent to 2.9 percent of GDP).

State Secretariat for Economic Affairs of Switzerland) will be implemented over the course of the CPF. The program will continue support policy reforms that aim to (i) improve the medium - term debt strategy to reduce the cost and risk of public debt, (ii) strengthen the risk management of contingent liabilities, (iii) develop local financial markets, and (iv) strengthen the capacity of the public debt management department in the Ministry of Finance. An additional TA program will improve the legislative framework and the Government's capacity to use PPPs (thus contributing also to Objective 1) in a transparent, cost-efficient, and sustainable manner that is compliant with EU Directives, while establishing an appropriate fiscal risk management framework for PPP operations. Additionally, both TA and investment lending will support the implementation of the second generation reforms needed to stabilize pension spending and enhance the system's equity to sustain its currently notable contribution to poverty reduction. The use of a DPF is expected to capitalize on these efforts. A planned PBG will support policy reforms that aim to improve (a) public finance efficiency and (b) private sector competitiveness. These reforms substantiate the Government's fiscal strategy for 2019–2021 by helping to design fiscal measures that will achieve debt stabilizing levels and ensure the social protection of the vulnerable. The PBG will also strengthen market competition and reduce the cost of doing business.

87. The CPF will build on the World Bank's long- standing engagement in the municipal sector in North Macedonia to improve the sustainability of municipal services and reduce fiscal risks. The ongoing portfolio (Municipal Services Improvement Project [MSIP] I and II) is contributing to transparency, CE, financial sustainability, and the inclusive delivery of targeted municipal infrastructure services in participating municipalities. To support this agenda in the future, the World Bank has been undertaking a comprehensive assessment of the existing challenges at the local level. A regional urbanization review, which includes North Macedonia, is expected to provide an overview of regional disparities, access to basic services, connectivity, and economic activity at the local level. Similarly, a recently launched Sustainability of Delivery and Financing for Municipal Infrastructure and Services analysis will broaden and deepen the accumulated knowledge and identify ways to further improve the delivery and sustainability of municipal services and local infrastructure financing. This analysis will suggest ways to improve municipal service delivery and financing that focus on sustainability. The work will also examine the current arrangements for financing capital investments, including the allocation of grants from central government ministries and the process of obtaining funding from international financial institutions (IFIs). It will additionally offer reform options, including for addressing municipal arrears and adjusting incentives to improve municipal finances. This detailed assessment will guide country dialogue on developing a comprehensive approach to municipal development that, depending on demand, could be supported during the CPF's second phase, reflecting the lessons from the previous CPS to increase the focus on structural deficiencies within local governments. The CPF work at the local level also aims to strengthen disaster risk management (DRM), including municipal preparedness, and may include water treatment investments to strengthen the quality of residual waters in underserved smaller lake regions with important natural endowments and strong tourism potential.

CPF Objective 5: Accelerate the Transition to a More Sustainable Energy Mix

88. The World Bank and IFC will cooperate closely to promote reform of the energy sector and accelerate the transition to cleaner energy generation and improved energy efficiency. Incorporating lessons learned, they will advance and complement the previous CPS to increase private investment for a cleaner energy supply and develop other ambitious energy-efficiency measures. To reduce GHG emissions and increase the reliability of the domestic electricity supply, IFC will assist North Macedonia in replacing obsolete lignite-based energy production with RE, including solar, wind, and hydropower technologies, by attracting private sector investment through PPP transaction advisory services that involves IFC's "scaling solar" initiative, technical advisory services at the project / firm level, and possible direct investment. Depending on the pace of reforms and Government's commitment, IFC could provide advisory and investment to support the development of larger RE

projects, including possible hydropower plants and solar projects. The World Bank will explore opportunities to provide additional complementary support and facilitate private sector investments through TA to reform government funding mechanisms for RE or boost investments through risk-mitigation instruments. IFC could also advise on the development of a functional power exchange and North Macedonia's integration into the regional power market through the kinds of regional partnerships with market operators and exchanges that are needed to create efficiency in a small domestic market. In addition, the Bank will support investments in energy-efficiency measures in municipal public buildings and provide TA for the creation of a revolving fund to guarantee the sustainability of future investment. In a similar vein, IFC will bolster energy efficiency at the municipal level by supporting waste-to-energy solutions, energy-efficient modes of public transport, and the retrofitting of public and residential buildings under IFC's Cities Initiative. Waste-to-energy solutions in Skopje could be a longer-term opportunity if supported by transaction advisory. The World Bank will also support the Government in assessing the technical and economic potential for rooftop solar and in scaling up investments in rooftop solar installation in public and privately-owned buildings.

C. Implementing the CPF

89. The CPF will maintain flexibility. Given the country's political economy and vulnerability to economic and natural shocks, the risks to CPF implementation, and the lessons learned from the previous CPS, flexibility will be needed to allow the World Bank Group to respond to changing internal and external circumstances. After roughly two years of implementation, a PLR will be held to assess progress, obtain feedback, make necessary course corrections, including adjustments to investment priorities as needed, and update the results framework.

90. The CPF will approach the Maximizing Finance for Development (MFD) agenda systematically by deploying a broad range of World Bank Group instruments across different levels of interventions. At the policy and regulatory levels, reforms will be pursued where barriers to private sector participation exist (such as in PPPs), and risk mitigation instruments (such as guarantees) will be used to facilitate private investment. At the sector level, concrete opportunities to promote private sector participation in investments will be sought particularly in transport, RE, and ICT, leveraging the experience of MFD initiatives in other Western Balkan countries in these sectors. The World Bank program will also seek to apply MFD principles through PPPs in agriculture, for example through the creation of agriculture purchasing and distribution centers to help smallholder farmers engage in commercial - scale agriculture.

Financial Envelope

91. The current portfolio of investment projects of the International Bank for Reconstruction and Development (IBRD) will contribute to CPF results. The ongoing portfolio consists of six investment operations with commitments totaling US$322.4 million (of which about 57 percent, is undisbursed). Grants, including a seventh project financed solely by an EU grant, bring the total commitments to US$357.3 million (of which about 58 percent, is undisbursed).[34] The current portfolio will contribute to CPF outcomes in the areas of transport, social protection, early childhood development, skills and innovation, and local infrastructure. Results from the new activities will complement and scale up the existing portfolio in addition to filling the knowledge gaps in moving from first to second generation reforms.

92. The new CPF will make available approximately US$100 million per year in new IBRD lending during CPF implementation, subject to country demand, IBRD lending capacity, country performance and priorities, and country and global economic developments. IFC estimates investments of US$50 million during the CPF period. IFC investments could be higher depending upon the attraction of private investments through public private partnerships and concessions. MIGA will continue to look for opportunities to support

[34] Five projects are financed solely by IBRD and one (MSIP) received additional financing from the EU Instrument for Pre - Accession Assistance (IPA) (US$17.72 million). The seventh project, Local and Regional Competitiveness in Tourism, is solely financed by an EU IPA Trust Fund (TF) (US$17.2 million).

private investment through its guarantee products, working closely with IBRD and IFC. Leveraging the entire World Bank Group balance sheet would help maximize the total amount of financial resources available to the country. However, North Macedonia has access to a variety of concessional and commercial funding options, and the decision on how much to borrow will also need to be balanced with the Government's fiscal consolidation strategy.

Table 2: IBRD FY19–FY23 Indicative Lending

	Focus Area I Export-Led Growth: Improve the Environment for a Competitive Private Sector	**Focus Area II Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable**	**Focus Area III Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks**	**Total**
Current Portfolio from CPS FY15–FY18	National and Regional Roads Rehabilitation Project (US$71 million) Road Upgrading and Development Project (RUDP) (US$91 million) Local and Regional Competitiveness Project (US$17.2 million)	Social Services Improvement Project (SSIP) (US$33.4 million) Skills Development and Innovation Support Project (SDIS) (US$24 million)	Municipal Services Improvement I (US$92.7 million) Municipal Services Improvement II (US$28 million)	US$357.3, of which about 58 percent is yet to be disbursed
Proposed lending FY19	Western Balkans Trade and Transport Facilitation Project (IPF, US$30 million)		Fiscal Efficiency and Competitiveness (DPF/PBG – US$70 million)	US$100 million
Proposed lending FY20–FY21	Local Roads Connectivity Project and/or National and Regional Roads Rehabilitation Additional Financing (IPF) Agriculture Modernization (IPF) Digital Macedonia – high-speed broadband (IPF)	Pension Modernization Project (IPF)	Energy Efficiency (IPF)	About US$120 million
Proposed lending FY22–FY23	Innovation and/ or Competitiveness Project (IPF)	Primary Education and/or Health Care Project (IPF)	Fiscal and Growth (DPF/PBG) Sustainable Municipal Development (IPF/ PforR) and/or Waste Water Project (IPF)	About US$200 million
Total				**About US$420 million**

Note: IPF = Investment Project Financing; PforR = Program for Results.

93. This CPF will also rely on a strong ASA program to advance key reform areas, fill knowledge gaps, and thereby help inform a selective IBRD program. The ASA program will address key knowledge gaps in the second generation reforms that have been identified by the SCD. Under this approach, the ASA would play an upstream strategic role under Focus Area I, for example, in uncovering the country's potential to integrate into GVCs, how local firms can better connect with export - oriented FDI, and the economic impact of state aid. Under Focus Area II, the ASA could explore what is driving the recent decline in nonmonetary welfare indicators, particularly in health and education, and the country's response. Under Focus Area III, the ASA program could investigate the main challenges to improving public institutions, the sustainability of municipal service delivery, and the ability to address air pollution and better prepare for climate change and DRM. During the CPF period, the use of Reimbursable Advisory Services (RAS) will also be explored.

Government Systems

94. The CPF will address institutional and governance gaps identified by the SCD across the portfolio to support rule-based governance. Institutional strengthening will be pursued at the project level to ensure that the CPF contributes to building capable public sector institutions that are accountable to citizens. In addition, ongoing and future work on PFM, PPPs, an Integrated Financial Management Information System, public procurement, and corporate governance is programmed to improve rule-based governance, applying a systemic approach to public institutional strengthening and anticorruption activities that complements the similar efforts of other leading donors, such as the EU.

95. The public procurement system rests on sound foundations and is defined by the Strategic Priorities of the Public Procurement Bureau for the Further Development of the Public Procurement System in the Republic of North Macedonia 2014–2018.[35] The previous Law on Public Procurement (Official Gazette No. 136/2007) followed the logic of the EU Directives and regulated the procurement process from planning to conclusion of contract, but it did not include the supervision of contract implementation. In 2018, the Public Procurement Bureau, in cooperation with SIGMA - Support for Improvement in Governance and Management, drafted a new Public Procurement Law[36] that is harmonized with the new EU Directives. It was adopted on January 29, 2019 and will become effective as of April 1, 2019. The new law introduces the most economically advantageous tender (MEAT) as the only criterion for a contract award. It also provides for a series of measures that improve conditions for the participation of SMEs in public procurement, introduces procedures for small-value contracts, such as e - catalogue and e-marketplace, and covers a range of anticorruption and conflict-of-interest measures. Within the framework of the Strengthening Accounting and Fiduciary Environment (SAFE) Grant for Enhancing the Implementation of Public Procurement, the World Bank supported the Public Procurement Bureau in enhancing the performance and transparency of the public procurement system by improving existing e-procurement system functionalities and developing performance indicators for monitoring system performance and capacity building. As a follow - up to the SAFE grant, the Bank will consider extending further assistance in two main areas: (i) developing contract management features, tools, and manuals as required in the new Public Procurement Law, and (ii) upgrading the performance indicators implemented under the SAFE grant with features related to contract management and monitoring tools.

[35] http://www.bjn.gov.mk/en/category/strategic-documents/ .

[36] The Law on Public Procurement was published in the Official Gazette No. 24/2019 and can be found at http://www.bjn.gov.mk/wp-content/uploads/2019/02/ZJN_Sluzben-vesnik_24-2018-od-01.02.2019.pdf (in Macedonian).

Monitoring and Evaluation

96. The results framework for the new CPF is focused on five CPF outcomes that the program seeks to influence. Progress toward these outcomes will be monitored through outcome indicators that include both final and intermediate targets (see Annex 1). An annual Country Portfolio Performance and Results Review (CPRR) will be jointly held by the Government and World Bank Group to monitor progress on delivery and results, and a PLR will be used to learn preliminary lessons from program implementation, adapt the pipeline to new circumstances and demand, and adjust the results framework.

Partnerships and Donor Coordination

97. Partnerships will be critical to delivering results under the CPF. Efforts to strengthen collaboration with bilateral and multilateral organizations, as well as the private sector, are a key feature of this CPF. Drawing on established coordination mechanisms, the World Bank Group will continue to work closely with key partners, most notably the EC, and also other IFIs and development partners. In addition to mechanisms for close policy dialogue on key reform areas, cooperation with EU programs currently includes EU financing as additional financing to the MSIP and sole financing of the Local and Regional Competitiveness Project. The EU is also funding a functional review of the Ministry of Agriculture, Forestry, and Water Economy. The EBRD's strategic priorities in North Macedonia under its Country Strategy for 2018–2023 are well aligned with the proposed CPF and offer numerous opportunities for partnership, particularly under Focus Areas I and II: Support Competitiveness by Enhancing Value Chains, Upskilling the Workforce, and Strengthening Governance; Strengthen Regional Integration, Soft Connectivity and Support EU Approximation; and Support Green Economy Transition through a More Sustainable Energy Mix and Greater Resource Efficiency.

IV. MANAGING RISKS TO THE CPF PROGRAM

98. The overall risk to achieving CPF objectives is assessed as Substantial. Despite the Government's strong ownership of and commitment to the proposed program and the positive resolution of the country's name issue, the political and governance environment in North Macedonia may negatively affect the implementation of the CPF program.

Table 3: Systematic Operating Risk-Rating Tool (SORT) Matrix

Risk Categories	Rating
Political and governance	Substantial
Macroeconomic	Substantial
Sector strategies and policies	Substantial
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environment and social	Substantial
Stakeholders	Substantial
Overall risk	Substantial

99. The constitutional change approved in line with the Prespa Agreement was a major milestone, but the risk of political instability cannot be ruled out. Political instability may weaken the Government's resolve to implement and sustain needed structural reforms, including operations proposed under this CPF. The World Bank Group will continue to closely monitor the political and economic situation in the country and maintain close dialogue with all stakeholders. As suggested in the lessons learned, the Bank will maintain flexibility to adjust the program to address political developments and other shocks. Planned DPF operations will be pursued only in response to a continued strong reform performance and commitment to implement structural reforms. Governance risks will be mitigated by the systemic approach to rule - based governance discussed in the Government Systems section in cooperation with leading partners such as the EU.

100. CPF program performance would be undermined in a lower growth scenario. With the EU as its main trading partner, slower than expected growth in the EU could dampen North Macedonia's economic recovery, further straining public finances and negatively affecting the fiscal and debt consolidation agenda. Given the increasing share of U.S. dollar-denominated public debt, appreciation of the U.S. dollar would also worsen the debt metrics and strain public finances. Delays in the implementation of consolidation measures and a renewed accumulation of arrears/contingent liabilities could worsen refinancing options when a large part of public debt comes due in 2020–2023. Yet, fiscal measures and structural reforms supported by the proposed Fiscal Efficiency and Competitiveness DPF can create conditions for accelerated and sustainable growth and help mitigate these risks over the medium term. Macroeconomic risk will be also mitigated through active macroeconomic monitoring and surveillance and traditionally strong policy dialogue on strengthening fiscal buffers to reduce the risk of fiscal shocks. Planned engagements to support pensions and the sustainability of municipal finances address two major fiscal risks for North Macedonia.

101. Inadequate sector strategies and institutional capacity constraints also pose significant risks to the CPF program. In the social sector, the Government plans to implement several reforms simultaneously (for example, in social assistance, social services, and pensions), and the institutional capacity for such an ambitious reform agenda may be stretched. In the transport sector, significant investments in new infrastructure may not be followed by corresponding efforts to maintain the existing systems and strengthen the sector's institutional and financial stability to ensure longer - term sustainability. In the education and health sectors, the institutional capacity to implement planned operations is weak, and several line ministries have not worked with the World Bank to implement projects in recent years. These risks will be mitigated by relying on experienced and proven institutional capacities where possible; strengthening the line ministries' capacity in new areas of engagement (for example, local roads, health and primary education, and ICT); and ensuring that there is effective beneficiary feedback as well as TA and ASA to fill in knowledge gaps and provide the needed analytical underpinning for operations related to local infrastructure and services, agriculture, and health care.

102. North Macedonia is vulnerable to natural disasters. The country's resilience to shocks, particularly preparedness to respond to the risks stemming from natural hazards and climate change to which the country is highly vulnerable, requires further strengthening. This risk will be mitigated by closing the knowledge gap in priority areas (for example, DRM analysis as part of a municipal sustainability assessment) and possible engagement in strengthening flood protection/DRM in the second half of the CPF cycle.

103. Some affected stakeholders may express discontent with the reform measures. Proposed tax policy, pension, and social benefits reform, including the elimination of the parental allowance for families with three or more children, may be met with popular anger. Potential engagement to help the Government better target agriculture subsidies may also meet with opposition from affected stakeholders. Supporting the Government in developing a clear communication strategy and engaging with all affected stakeholders with a clearly defined CE platform that spans design and implementation will help mitigate these risks.

ANNEX
Results Matrix

FOCUS AREA I EXPORT-LED GROWTH: IMPROVE THE ENVIRONMENT FOR A COMPETITIVE PRIVATE SECTOR		
Intervention logic. A dynamic and competitive private sector is needed to boost productivity and strengthen export competitiveness to create more and better jobs. To accomplish this, the country must consider an ambitious agenda to (a) better facilitate trade and transport and maximize existing transport and information and communications technology (ICT) infrastructure to enhance access to markets, (b) attract more efficiency - seeking foreign direct investment (FDI) in higher value - added segments and increase links between FDI and domestic firms, and (c) help local firms build their ability to export and join global value chains (GVCs). In the transport sector, North Macedonia's success as an exporting country hinges on the quality of its hard and soft export infrastructure and its logistics performance. There is a substantial backlog of maintenance on secondary and tertiary roads, and the main corridors will also require significant planned maintenance. Through the Western Balkans Trade and Transport Facilitation Project, the World Bank will improve connectivity and integration with regional and European Union (EU) markets, reduce trade costs, and increase transport efficiency. The World Bank will also complement the ongoing road portfolio (National and Regional Road Rehabilitation Project [NRRRP] and the Road Upgrading and Development Project [RUDP]) with new investments focused on strengthening maintenance, security, and climate adaptation for local, regional, and national roads. The World Bank will also focus on addressing institutional deficiencies and arrears in the road sector. The International Finance Corporation (IFC) will explore opportunities to mobilize private investment in infrastructure and provide advisory services on trade facilitation and logistics to help improve hard and soft connectivity with export markets. The Country Partnership Framework (CPF) will address cross-cutting factors that constrain firm productivity, such as innovation, access to finance, and competitiveness. In the agriculture sector, the CPF will support productivity enhancements through investment in agricultural modernization. The World Bank will focus on the capabilities of local firms for innovation and the adoption of technology to strengthen their competitiveness. IFC will facilitate micro, small, and medium enterprises' (MSMEs) access to the credit needed to expand and create employment by supporting development of the microfinance market, leveraging fintech solutions, and introducing climate change risk-sharing facilities. The CPF will also support efforts to continue attracting FDI and ensuring that new FDI nurtures exports with more local content. IFC will prioritize engagements that facilitate investments into manufacturing as well as services such as tourism. The World Bank will also enhance the contribution of tourism to local economic development through the ongoing Local and Regional Competitiveness in Tourism Project. The World Bank also plans to help North Macedonia create the conditions for private sector investment to expand high - speed broadband access to underserved areas to improve international competitiveness, open new job opportunities, promote social inclusion and territorial cohesion, and integrate into the Western Balkan Digital Highway. Indicators for this operation will be added at the Performance and Learning Review (PLR) stage.		
CPF OBJECTIVE 1. Improve Connectivity and Access to Markets		
CPF Objective Indicators	**Supplementary Progress Indicators**	**World Bank Group Program**
Indicator 1: Improve market accessibility index along Corridor VIII. **Baseline:** 138.50 (2018) **Target:** 265.60 (2023)	Indicator 1: Kilometers of new section of roads constructed (Kriva Palanka – Rankovce). **Baseline:** 0 kilometers (2018) **Target:** 24.64 (2021)	**Ongoing lending:** • NRRRP • RUDP

Indicator 2: Reduce trade costs and increase transport efficiency. **Baseline:** Cost to export US$148 (2018), cost to import US$200 (2018) **Target:** Cost to export US$130 (2023), cost to import US$180 (2023) *Indicator 3:* Improve the capacity of authorities to examine natural disaster events impacting road assets. **Baseline:** No impact maps or prioritized mitigation investment plans (2018) **Target:** Yes (2023)	*Indicator 2:* Supplementary indicator n.a. *Indicator 3:* Supplementary indicator n.a.	**Proposed lending:** • Western Balkans and Transport Facilitation Project • Local Roads Connectivity Project • Digital Macedonia - high-speed broadband **Ongoing ASA:** • Western Balkans - Intermodal Connectivity (P165641) **Proposed ASA** • IFC Trade Facilitation Support program (ECA Regional Advisory Platform)
Indicator 4: Increase private investments facilitated by IFC advisory services. **Baseline:** 0 (2018). **Target:** US$40 million (2023) *Indicator 5:* Improve access to modern agriculture services. **Baseline:** Number of farmers benefiting from modern agriculture services - 0 (2018) **Target:** 1,000 (2023) *Indicator 6:* Improve innovative capacity of enterprises. **Baseline:** Share of private funding mobilized as a percentage of Fund for Innovation and Technological Development (FITD) investments in innovation activities – 35 percent (2018) **Target:** 40 percent (2023) *Indicator 7:* Increase direct private investments in tourism (as supported by the Local and Regional Competitiveness Project). **Baseline:** 0 (2018) **Target:** €30 million (2023)	*Indicator 4:* Supplementary indicator n.a *Indicator 5:* Farmers engaged in new/formalized commercial transactions. **Baseline:** 0 (2018) **Target:** 800 (2021) *Indicator 6:* Increase in public funding allocation for innovation through FITD (including from government sources, loans, and grants in the budget for that year). **Baseline:** €4.53 million (2018) **Target:** €6 million (2021) *Indicator 7:* New National Tourism Strategy and destination management guidelines enacted. **Baseline:** No (2018) **Target:** Yes (2021)	**Ongoing lending:** • SDIS • Local and Regional Competitiveness Project • MIGA - Expropriation of Fund coverage for ProCredit Holding **Proposed lending:** • Agriculture Modernization • Innovation/Tourism Investment Project • Fiscal and Growth DPF/PBG • IFC investment in export-oriented FDI in manufacturing • IFC microfinance lending • IFC financing through Regional Distressed Asset Recovery Program

		Ongoing ASA: • Modernization of the Agriculture Administration in North Macedonia (P166955) • Unleashing the Potential of Innovative Start-ups and SMEs in the Western Balkans: Investment Readiness Program 2.0 (P163168) • Western Balkans Competitiveness TA Program (P165531) • Balkans Digital Highway (P162776) • IFC - Debt Resolution TA **Proposed ASA:** • North Macedonia Innovation and Competitiveness Improvement Activity TA (P169882) • North Macedonia: PPP Capacity Building and Legal Reform (P169110) • DG NEAR financial sector deepening in Western Balkans (P169885) • IFC South Eastern Europe Light Manufacturing, Regional Advisory Program • IFC Microfinance Advisory • IFC PPP advisory services in infrastructure
FOCUS AREA II **INCLUSIVE GROWTH: EXPAND SKILLS AND OPPORTUNITIES FOR THE MOST VULNERABLE**		
Intervention logic. Accumulating human capital in North Macedonia requires expanding skills to improve the competitiveness of workers. According to the World Bank Human Capital Index, a child born in North Macedonia today will be 53 percent as productive when she grows up as she could be if she enjoyed complete education and full health. Poor educational outcomes largely explain this loss of lifetime productivity as the education system of North Macedonia is not equipping students with the necessary foundational skills. The CPF promotes "investing in people" as a key factor in sustaining inclusive growth over the long term. Ongoing operations will support skills enhancements and the relevance of secondary technical vocational education and training (TVET) (Skills Development and Innovation Support [SDIS] Project) and the quality and coverage of preschool education (Social Services Improvement Project [SSIP]). Human capital also needs to be protected to enhance inclusion by shielding poor and vulnerable households from shocks. Direct social assistance is only 1.2 percent of GDP, and social assistance programs reach fewer than 25 percent of poor households. The CPF will strengthen the overall social protection delivery system for improved services to existing social assistance recipients and vulnerable groups through the SSIP. The Fiscal Efficiency and Competitiveness Development Policy Financing (DPF)/ Policy-Based Guarantee (PBG) will support the new social assistance reform agenda aimed at consolidating benefits and expanding the coverage of the bottom quintile while maintaining good targeting accuracy through the adoption of the new Law on Social Protection, the Law on Child Protection, and the Guaranteed Minimum Assistance program.		

Beyond skills and social protection, improving health outcomes is also crucial to building human capital and preventing people from losing productive years. Children in North Macedonia have a higher mortality risk than those in other Western Balkan or European countries, and unhealthy lifestyles lead to a high incidence of noncommunicable diseases (NCDs). The World Bank will consider supporting the Primary Health Care Project in the second half of the CPF and add an indicator at the PLR stage.		
CPF OBJECTIVE 2. Improve the Quality and Relevance of Education		
CPF Objective Indicators	**Supplementary Progress Indicators**	**World Bank Group Program**
Indicator 8: Percentage of secondary TVET students benefiting from practical training in SMEs and large-sized firms. **Baseline:** 37.5 percent (2018) **Target:** 45 percent (2023) *Indicator 9:* Percentage increase in national preschool enrollment rates for children 3 - 6 years old **Baseline:** 35.7 percent (2018) **Target:** 46.5 percent (2023)	*Indicator 8:* Percentage increase in number of companies providing practical training to secondary TVET students. **Baseline:** 989 companies (2018) **Target:** 10 percent (2021) *Indicator 9:* Additional classrooms rehabilitated or re-purposed at the preschool level. **Baseline:** 0 (2018) **Target:** 240 (2021)	**Ongoing lending:** • SDIS • SSIP **Proposed lending:** • Primary Education Project **Proposed ASA:** • North Macedonia Roma Education Pilot Phase 2 (P169862) • Finding Solutions to Youth Unemployment in North Macedonia (P168966)
CPF OBJECTIVE 3. Improve the Access to and Quality of Social Services		
CPF Objective Indicators	**Supplementary Progress Indicators**	**World Bank Group Program**
Indicator 10: Share of cash benefit recipients and social services recipients recertified and recorded in the new information system. **Baseline:** 0 percent (2018) **Target:** 60 percent (2023) *Indicator 11:* Number of beneficiaries receiving non-institutional social services from licensed providers, of which female. **Baseline:** 0 new beneficiaries, 45 percent female (2018) **Target:** 3,000 new beneficiaries, 50 percent female (2023)	*Indicator 10:* Full integration of Cash Benefits Management Information System (CBMIS) and social services IS within the upgraded social welfare information system as a platform for social and child protection service delivery. **Baseline:** No integration (2018) **Target:** Full integration (2021) *Indicator 11:* Development of social service standards, accreditation, licensing. **Baseline:** Not developed (2018) **Target:** New service standards, accreditation, licensing developed (2021)	**Ongoing lending:** • SSIP **Proposed lending:** • Health Care Project • Pension Modernization Project **Ongoing ASA:** • Western Balkans Pension Technical Assistance FY2019 (P168178) • North Macedonia Health ASA (P168755) **Proposed ASA:** • Programmatic Health ASA • Finding Solutions to Youth Unemployment in North Macedonia (P168966)

Indicator 12: Improve coverage of social assistance for the bottom quintile female headed households. Baseline: 30.7 (2018) Target: 40 percent (2023)	Indicator 12: New social protection law and child protection law adopted, including provisions aimed at improving coverage of the bottom quintile. Baseline: No (2018) Target: Yes (2021)	

FOCUS AREA III
SUSTAINABLE GROWTH: ENHANCE SUSTAINABILITY AND BUILD RESILIENCE TO SHOCKS

Intervention logic. North Macedonia's debt is rising fast because of post-2008 countercyclical fiscal actions that are exhausting the fiscal space, and the pension deficit is particularly high, including because of structural issues related to the country's demographic composition. The current pension deficit is at more than 4 percent of GDP, and pension spending is bound to keep rising as the population ages. Because the pension system is arguably one of the largest fiscal risks in North Macedonia, pension spending must be reined in. The accumulation of public sector arrears has been a complex and recurrent issue in North Macedonia, threatening fiscal sustainability. Medium- to long-term fiscal sustainability now depends on smaller deficits, which will require action both to contain spending and mobilize additional revenue, and on improvements in the quality of spending. Furthermore, the lack of fiscal discipline in local governments inevitably undermines service delivery, weakens arrears owed by state-owned enterprises (SOEs), and generates local governments' budget arrears. The CPF program will strengthen public financial management (PFM) through TA on the new Organic Budget Law, which aims to address critical, systemic weaknesses that led to the accumulation of arrears in the public sector. A parallel TA program will improve the legislative framework and the Government's capacity to use PPPs. A planned DPF/PBG will support policy reforms that aim to improve (a) public finance efficiency and (b) private sector competitiveness. The CPF will also support the Government's renewed efforts to implement second generation reforms to stabilize pension spending and enhance the pensions system's equity to sustain its notable contribution to poverty reduction in North Macedonia. In the second half of the CPF cycle, the World Bank will consider supporting a second generation of municipal finance operations aimed at addressing structural deficiencies affecting local governments. In a complementary manner, IFC will consider facilitating uptake of energy efficiency at the municipal level by supporting waste-to-energy solutions, energy-efficient modes of public transport, and retrofitting of public and residential buildings under IFC's Cities Initiative. The CPF work at the local level also aims to strengthen disaster risk management (DRM), including municipal preparedness. Indicators for this engagement will be added at the PLR stage.

Accelerating the transition to more sustainable energy sources and reinforcing environmental resilience are critical to preserving economic and social gains in North Macedonia. The country's aging and highly polluting lignite plants rely on indigenous lignite reserves and are coming closer to depletion. North Macedonia aims to develop a more low-carbon energy sector and reduce its dependence on coal, creating a more secure and efficient energy supply. Public and private buildings retrofit for energy efficiency have a significant potential for energy savings and reduced greenhouse gases (GHGs). IFC will assist North Macedonia in replacing obsolete lignite-based energy production with renewable energy, including solar, wind, and hydropower technologies, by attracting private sector investment in energy generation through transaction advisory that involves the "scaling solar initiative," technical advisory services at the project/firm level, and direct investment. The World Bank will support investments in energy-efficiency measures in public buildings, primarily at the municipal level, and the creation of a revolving fund for energy efficiency to guarantee the sustainability of future investment.

CPF OBJECTIVE 4. Strengthen Fiscal and Public Financial Management		
Indicator 13: Reduce general government deficit and arrears. **Baseline:** Deficit 2.5 percent of GDP, arrears 2.7 percent of GDP (2018) **Target:** Deficit 2 percent or below, arrears below 2 percent of GDP (2023) *Indicator 14:* Reduce pension deficit. **Baseline:** Pension deficit is 4.364 percent of GDP (2018) **Target:** Pension deficit reduced by 0.25 percent of GDP (2023)	*Indicator 13:* New organic budget law approved. **Baseline:** No (2018) **Target:** Yes (2021) *Indicator 14:* Pension benefits indexation adjusted to ensure fiscal sustainability. **Baseline:** 50% price and 50% nominal wage indexation of pension benefits (2018) **Target:** 100% price indexation of pension benefits (2021)	**Proposed lending:** • Fiscal Efficiency and Competitiveness DPF/PBG • Fiscal and Growth DPF/PBG • Pension Modernization Project **Ongoing ASA:** • North Macedonia Government Debt and Risk Management Program (P162741) • North Macedonia FSAP Update P165920 • EU-REPARIS (Road to Europe - Program of Accounting Reform and Institutional Strengthening [REPARIS]) (P147928) • Strengthening Legislative Scrutiny in the Western Balkans (SAFE TF) (P160487) • Korea TF: Western Balkans - Strengthening Fiscal Institutions to Build Resilience (P165530) **Proposed ASA:** • North Macedonia: Sustainability of Delivery, Financing of Municipal Infrastructure and Services (P168138) • TA on Organic Budget Law (P168027) • North Macedonia – Support to Government's Growth and Jobs Action Plan (P168726) • Agricultural Insurance Market Development TA Project (P168971)

CPF OBJECTIVE 5. Accelerate the Transition to a More Sustainable Energy Mix		
Indicator 15: Increase generation of renewable energy and reduce CO2 emissions. **Baseline:** 0 (2018) **Target:** RE Generation (MWh): 167,540 GHG Avoidance (tCO2): 165, 529 (2023) *Indicator 16:* Achieve lifetime energy savings (20 years) and reduce CO2 emissions through energy efficiency retrofitting of public buildings. **Baseline:** No savings (2018) **Target:** Energy savings - 503,606 MWh, reduction in CO2 emissions - 185,901 tons of CO2 equivalent (2023)	*Indicator 15:* Additional RE capacity facilitated (MW) through investments, PPP, or advisory support. **Baseline:** 0 (2018) **Target:** 86 MW, no. of projects 2 (2021) *Indicator 16:* Number of energy efficiency retrofitting subprojects. **Baseline:** 0 subprojects (2018) **Target:** 30 subprojects (2021)	**Ongoing Lending:** • MSIP I • MSIP II **Proposed Lending:** • Energy Efficiency Project • Municipal Services/Flood Management/Water Management • IFC investment in renewable energy (solar, wind) **Ongoing ASA:** • Regional Air Quality Management - Western Balkans (P166430) • Western Balkans Urban Partnership Program (UPP) (P165780) • Western Balkans DRM Program (P165377) **Proposed ASA:** • Market-based mechanisms for the promotion of renewables in the Western Balkans (P169389) • IFC transaction advisory in waste-to-energy • IFC PPP in hydro power generation • IFC Cities Initiative: municipal energy efficiency in waste-to-power, public transport, and retrofitting of municipal public buildings

Annex 2: Completion and Learning Review of North Macedonia FY15–FY18 CPS

Date of CPS FY15–FY18: August 25, 2014 (Report No: 89556-MK)
Date of PLR: November 7, 2017 (Report No. 119862-MK)

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) assesses the implementation of and lessons learned from the World Bank Group Country Partnership Strategy (CPS) FY15–FY18 for North Macedonia.** The objectives of the CPS were aligned with the National Strategy for the Reduction of Poverty and Social Exclusion in North Macedonia for 2010–2020. The Performance and Learning Review (PLR), completed in November 2017, confirmed the alignment of the CPS with the new Government's program for 2017–2020; it also extended the CPS implementation period until December 2018 and introduced adjustments to the CPS program and its results framework.

2. **In 2015–2017, North Macedonia experienced a period of significant political instability that seriously affected the implementation of the CPS.** After a two-year complex political and electoral crisis and delays in establishing a parliamentary majority, a new coalition Government was finally formed in May 2017. During the political crisis, some government programs (including World Bank - financed projects) and new private investment stalled, as well as foreign direct investment (FDI), which in turn affected the program of the International Finance Corporation (IFC).

3. **The overall CPS program performance is rated Moderately Satisfactory.** This rating reflects the achievement of most of the CPS objectives (five out of seven were either "achieved" or "mostly achieved") based on the self-assessment of the revised CPS results framework.

4. **The CPS was designed around two pillars. One focused on growth and competitiveness which included four objectives and the other focused on skills and innovation with three objectives.** All the objectives were assessed based on the indicators of the revised CPS results framework. Additional information and evidence - provided by the different World Bank Group teams as well as the Government and other relevant stakeholders - were also referenced throughout the CLR. During the CPS cycle, the Independent Evaluation Group (IEG) reviewed four projects, rating one Highly Satisfactory and three Satisfactory on the overall project outcomes.

Table 1. Summary of Ratings for CPS Objectives

Pillar I: Growth and Competitiveness	
Objective 1: Improved fiscal and public financial management	Mostly Achieved
Objective 2: Better conditions for private investment and links to FDI	Partially Achieved
Objective 3: Road infrastructure improved	Achieved
Objective 4: More clean energy available	Achieved
Pillar II: Skills and Inclusion	
Objective 5: Tertiary and vocational education system more focused on skills for the labor market	Not Achieved
Objective 6: Social protection system more efficient and compatible with employment	Achieved
Objective 7: Access to basic and municipal services enhanced	Achieved

5. The World Bank Group's performance in designing and implementing the CPS is rated Good. The CPS was designed jointly by the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA), building on the comparative advantage of each organization. Different instruments and products were used to achieve the CPS objectives, combining financing, knowledge, and convening services. During the CPS period, the World Bank delivered a total lending amount of US$258 million, lower than planned during CPS preparation and lower than expected at the PLR. The lending program was complemented by a strong Advisory Services and Analytics (ASA) program. IFC's own account financing of US$19.8 million in two projects remained below the CPS planned lending volume of US$40-60 million, which was scaled down at the PLR stage from the original target of US$80–100 million. Among other factors, the protracted political crisis of 2015-2017 led many potential IFC clients in the real sector to postpone investment decisions, eliminating the demand for financing. High levels of liquidity in the banking sector also reduced demand. Most of IFC's impact has been delivered through a strong advisory program, including a market - enabling renewable energy (RE) advisory project, which helped facilitate €245 million in private sector financing for RE investments. Similar to IFC, MIGA's operations have been limited, affected by low demand for political risk insurance and strong domestic liquidity. MIGA guarantee exposure totaled US$28 million as of end-February 2019, focused on a project in the financial sector for which MIGA provided expropriation of funds ("capital optimization") coverage.

6. The World Bank Group's main implementation challenge during the CPS was the prolonged political crisis. Although political instability had been identified as a potential key risk at the CPS design stage, the depth and length of the crisis were not anticipated. Mitigation measures, such as proactive portfolio management, a strong and broad stakeholder engagement, and the enhanced use of the ASA program to keep actively engaged in sector dialogues, helped ease the crisis' impact on CPS implementation.

II. PROGRESS TOWARD CPS DEVELOPMENT OBJECTIVES

Pillar I: Growth and Competitiveness

Objective 1: Improved fiscal and public financial management

7. The first objective under Pillar I, which aimed to secure foundations for stable growth and competitiveness, was mostly achieved. This was supported by several policy dialogue engagements throughout the CPS cycle (for example, a Public Expenditure Review [PER], Public Sector Reform Technical Assistance (TA), a Public Finance Review (PFR), TA on Medium - Term Debt Management, TA on Pension Reforms, TA on Social Assistance Reforms, a Strengthening Accountability and Fiduciary Environment [SAFE] Trust Fund [TF]), and the Fiscal Efficiency and Competitiveness Development Policy Financing (DPF), which is scheduled for Board approval later in FY19 and for which extensive work has been under way since early 2017. The initial CPS schedule to deliver two DPFs (on public finance and competitiveness) was delayed due to the political crisis. During the PLR, it was agreed that one combined DPF would be delivered in the second half of FY19. The analytical foundation and some of the TA linked to the DPF were delivered under the current CPS, while the actual delivery of the DPF will be part of the new Country Partnership Framework (CPF). Despite the delays in the delivery of the original DPF schedule, the World Bank continued its engagement through ongoing TA and policy dialogue with the Government on fiscal and public financial management (PFM), which contributed to the achievement of this objective.

8. Outcome indicators for this objective were either already achieved or are expected to be achieved by the time the DPF is submitted for Board approval. Indicators on fiscal deficit targets and improvements in PFM transparency were both achieved. The indicator on the Organic Budget Law was not achieved at the time of the CLR but is a prior action for the DPF and is scheduled to be approved later in FY19. The ongoing TA on the Organic Budget Law has already supported the Government in developing (a) a register of public entities, (b) a draft organizational classification of budget users, and (c) the relevant articles for the proposed Organic Budget

Law in relation to the register and the organizational classification as well as budget planning. The World Bank team mobilized a total of US$1.5 million from the Good Governance and Investment Climate Reform Fund (GGICRF) TF to support the preparation and implementation of the Organic Budget Law, including its secondary legislation and regulation implementation as well as its information technology component. TA in PFM, debt management, pensions, and health is ongoing while the DPF is under preparation. As part of this strong engagement, the legislative process of drafting amendments to the debt management law, pension act, organic budget act, and social benefits act is all under way, supported by the World Bank through the different instruments. The PER and its update in FY18, as well as the ongoing Fiscal Efficiency and Competitiveness DPF, focused on identifying and addressing public finance efficiency and PFM concerns and unlocking private sector competition. The support for public debt management contributed to a strengthened legislative framework that aims to tame further public debt growth.

9. Engagement in the transport sector (lending and policy dialogue) has contributed to better investment planning within the Road Asset Management System (RAMS), which is the fourth outcome indicator. RAMS is fully operational and currently generating all reports, though the complete usage of the system will need to be further assessed during 2019, when the Government will need to make decisions based on data that RAMS produces. Recent staff reinforcements to the Public Enterprise for State Roads (PESR), coupled with the start of a full data collection update planned for 2019 and the addition of bridge management to the system (launched under the World Bank's roads project), provide additional assurance that the agency will achieve the complete institutionalization of RAMS. The Government has asked for further World Bank Group engagement in the transport sector as part of the new CPF, with a special focus on operation and maintenance as well as safety. The use of RAMS is a precondition for this additional support, which will therefore provide additional assurance that the PESR will achieve the complete institutionalization of RAMS.

Objective 2: Better conditions for private investments and links to FDI

10. The Government's efforts to enhance conditions for private investments and to attract FDI resulted in significant improvements in the overall ease of doing business. The World Bank's Doing Business report shows that North Macedonia moved from a ranking of 25th globally on this measure in 2014 to 10th in 2019. This increase is attributed to reforms and improvements in the areas of starting a business, dealing with construction permits, registering property, getting electricity, getting credit, and resolving insolvency.

11. FDI diversified toward the greenfield and export - oriented manufacturing sectors rather than finance and transport, as was common in the early 2000s. By following an ambitious FDI promotion strategy with attractive subsidies and leveraging legacy capabilities in the manufacturing sector, North Macedonia has emerged as a new destination for automotive FDI from OECD countries. Today, North Macedonia is a recognized hub for automotive parts and bus manufacturing within the European periphery automotive regional value chain. FDI inflows to the automotive sector have had a significant impact on the country's export profile and labor market. Total merchandise exports increased by 7 percent from 2011 to 2016 at a time when traditional exports of metals and minerals dropped by 57 percent. The top 10 automotive exports that did not exist before 2009 now account for 50 percent of total exports - a major shift compared to 26 percent in 2013. The share of medium-tech exports (as a percentage of manufactured exports) increased to 53 percent in 2017 compared to 41 percent in 2013 and 10 percent in 2009. Thousands of jobs, both inside and outside the technological and industrial development zones (TIDZs), have been created in new, export-oriented industries, particularly in automotive components.

12. However, despite the improved ranking in the Doing Business report and the country's success in attracting FDI in the automotive sector, overall FDI levels remained among the lowest in the Western Balkans region. This was partly due to the prolonged internal political challenges, which had a significant impact on the economy and investments. Total FDI inflows were unchanged during 2014 - 2017 at 2.5 percent of GDP

compared to 2.6 percent during 2009 - 2013. North Macedonia's share of total FDI flows into the Western Balkans has remained low at 5 percent compared to 6 percent before the 2008 global financial crisis (the figure for Serbia is 38 percent and Albania 17 percent). Moreover, FDI spillovers to the local economy have been limited as the backward links between FDI and local firms have not improved, though these links typically take a long time to develop, particularly in the automotive components industry. Almost 80 percent of intermediary goods for automotive exports are imported, while non-exported goods need 55 percent of imported content. Key structural weaknesses also continued to undermine competitiveness, including weak rule of law, governance, and institutions as well as large implementation gaps relative to reforms and regulations. Despite good progress, the overall agenda to improve conditions for private investment and links to FDI remains unfinished.

13. The CPS objective on private investments and links to FDI was partially achieved. World Bank Group interventions made progress on all six outcome indicators, resulting in three fully achieved and three partially achieved.

14. The indicator on private investments facilitated in the small - scale RE sector through IFC interventions was fully achieved. Through its Renewable Energy Macedonia Advisory Project (REM), IFC facilitated €245 million in private sector financing for small hydropower plants (SHPPs) and other RE technologies, surpassing the initial target of €180 million compared to a baseline of €80 million (2014). IFC provided upstream policy advice to improve the regulatory framework for the RE market, helped build institutional capacity within the relevant public bodies, and supplied financial instructions to address the insufficient knowledge of the RE projects. IFC also helped design and launch a sixth tender on SHPPs, resulting in the signing of 13 concession contracts. Overall, the REM played a catalytic role in unlocking investment in North Macedonia's RE assets.

15. The two other indicators linked to access to finance were partially achieved. The number of people and micro, small, and medium enterprises (MSMEs) with improved access to finance increased from a baseline of 1,751 (2015) to 5,400 (2017) compared to the target of 7,100, while the volume of IFC clients' outstanding MSME loan portfolio increased to US$407 million (2017) from a baseline of US$54.2 million (2015) against a target of US$588.6 million (2019). The results remained below the targets mainly because one of the two SME loans used to set the benchmarks was fully repaid in 2017 (hence, the latest available data are from 2016), and the existing client's outstanding SME portfolio declined due to a lack of demand for new credit during the stagnation in 2017. However, more recent client data indicate that loan growth significantly picked up in 2018, thereby improving the results, and thus IFC is likely to have an ongoing positive impact in this area.

16. The indicators on the number of jobs created by greenfield FDI with state incentives (in and outside TIDZs) and dealing with construction permits[37] were fully achieved. As of 2016, the Government had provided EUR 225 million in investment incentives to 25 FDI investors, which helped create 20,000 jobs in the export-oriented manufacturing sector, exceeding the target of 13,000. Through the Competitiveness Development Policy Loan (DPL) series and the Competitive Industries and Innovation Program (CIIP) TF, the World Bank supported the Directorate of the Technological Industrial Development Zones (DTIDZ) in zone planning and management, provided training to the DTIDZ and the Agency for Foreign Investment and Export Promotion (InvestMacedonia) staff, and supported the development of a three-year investment program (2013–2015) based on investor demand in each TIDZ and on regional development priorities (which primarily concerned job creation). Through the Competitiveness DPL series, the World Bank supported legal amendments that gave the DTIDZ the authority to issue construction permits in the TIDZs, which streamlined and accelerated the process for investors. Authorities from the Ministry of Finance (MoF) and Ministry of Transport and Communications held consultations with the Doing Business and Reform Advisory teams on reforms relating to the construction permitting indicator.

[37] "Dealing with construction permits" is used as a proxy indicator to replace the original indicator (number of days to obtain a construction permit) to assess the quality of the investment climate for business in a country. The data supporting the original indicator are published by the Business Environment and Enterprise Performance Survey (BEEPS), which is not yet available for 2018.

The country's "dealing with construction permits" ranking, measured by the Doing Business report, significantly improved from 63rd globally in 2014 to 26th in 2018. Going forward, the Government's strategy for investments and incentives to attract FDI would need to be more focused on and efficient in strengthening links with local firms and increasing the value added, as the fiscal space is becoming tighter.

17. The indicator on improved business and export sophistication was partially achieved. Although some progress was made, both sophistication and innovation indicators remained below the target of 4.0, as measured by the Global Competitiveness Report. Building innovation capability is a comprehensive, long - term process, and the World Bank and the Government have been supporting the innovation agenda since 2014. The establishment of the regulatory environment and the associated institutional infrastructure for innovation was supported through the World Bank's Competitiveness DPL2, the Skills Development and Innovation Support (SDIS) Project, and several TAs. World Bank Group interventions also helped make more diverse funding sources available for innovation and enabled a greater number of firms to invest in innovation and business sophistication, for example, through an innovation cycle that includes proof of concept, innovation commercialization, technology extension, and business acceleration. The Government's funding evolved from zero in 2013 to over US$20 million by 2018 through the Fund for Innovation and Technological Development (FITD), established through the Skills Development and Innovation Project. Between 2014 and 2018, 52 firms have benefited from innovation funding through the project and over 70 firms from the Government's Plan for Economic Growth (2018) through the FITD. The fund has also assessed firm capabilities and facilitated the training of beneficiary companies. Despite these improvements and interventions, however, according to the new Systemic Country Diagnostic (SCD), the need for innovation and early-stage financing, as well as assistance with firm capabilities, must be addressed further to achieve more significant productivity improvements.

18. The share of medium- and high-tech exports in the total exports indicator has also progressed but remained below the ambitious target of 60 percent. Although investments slowed down between 2015 and 2017 due to the political crisis, the overall trend has been positive: from 56.9 percent in 2016 to 57.4 percent in 2017. North Macedonia's exports are showing greater technological sophistication, primarily driven by FDIs in the automotive component parts sector. Medium - and high - tech exports grew by a total of 14.2 percent between 2014 and 2017, and their share (according to the Eurostat definition) in the country's export basket increased from 39 percent in 2011 to 52 percent in 2014 and to 57.4 percent in 2017 (based on data from United Nations Comtrade). The Competitiveness DPL2 targeted diverse improvements in export development and competitiveness, trade facilitation, rural development, and labor markets and supported the Innovation Strategy and operationalization of the FITD. The DPL series was foundational in defining the CPS program for both the International Bank for Reconstruction and Development (IBRD) and IFC. The SDIS Project supported the implementation of innovation instruments at the FITD. To promote backward links to the domestic economy, the World Bank (through the CIIP Multi-Donor Trust Fund [MDTF]), jointly with IFC, implemented the automotive backward links pilot program in 2015 - 2016, leveraging IFC relationships with automotive FDIs and local SMEs as well as specific expertise in the automotive component industry sector. The Government's 2018 Plan for Economic Growth subsequently introduced subsidies for domestic purchases, but a program to help suppliers (and potential suppliers) upgrade is still needed. The World Bank also provided a broad knowledge program, including an assessment entitled, "The Impact of Reforms and Investment Promotion in the Automotive Components Manufacturing Sector," a report on Growth and Shared Prosperity, an Impact Evaluation on Western Balkans Trade Logistics, TA on the Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS), and a report on the Venture Capital Eco-system for Support of High-Growth SMEs.

19. IFC's interventions during the CPS period aimed to improve SMEs' access to finance through credit lines with commercial banks and to facilitate FDI investments in the real sector, particularly in export-oriented manufacturing. In the financial sector, IFC in FY15 invested in Tutunska Banka, the third-largest bank in North Macedonia and one with systemic significance, to enable it to provide long-term funding to SMEs by strengthening its capital base through a €10 million subordinated loan qualifying as Tier II capital. In

the CPS period, IFC's financing has remained limited due to the lack of viable credit demand, excess liquidity in the banking system and parent funding, and the availability of concessional funding and grants provided by other development finance institutions (DFIs).

20. In the real sector, IFC invested €8 million in FY15 in a greenfield automotive FDI with Key Safety Systems to provide long - term funding and support the development of a skilled labor force. The investment was made in an underdeveloped region of the country, the first investment of this size since independence, contributing to the creation of good jobs (1,288, of which 940 for women) with the significant participation of marginal groups. By investing in a leading automotive company, IFC aimed to send a strong signal to investors while also enabling the transfer of state - of - the - art quality management and technologies as well as environmental standards. North Macedonia also benefited from IFC's regional investments in the retail (€26 million) and cement (roughly €28 million) sectors. In addition to direct investments, IFC's main impact in North Macedonia was its advisory work in key reform areas, including energy, trade, and corporate governance.

Objective 3: Road infrastructure improved

21. Objective 3 on improved roads was fully achieved. The percentage of the national and regional road network in good and fair condition increased to 87 percent against a target of 74 percent. Moreover, the approach to road management was modernized through a wider consideration of road safety measures. The World Bank Group's continuous engagement in this sector allowed for the gradual capacity building and strengthening of the country's road management systems to ensure that investments in and the maintenance of infrastructure are evidence based and focused on quality measures, making the results more sustainable and public spending in transport more efficient.

22. The World Bank Group supported this objective through three Investment Policy Financings (IPFs), policy notes on road safety and asset management, and an IFC regional public - private partnership (PPP) advisory program. A separate chapter on transport, delivered under the 2015 PER, was foundational in framing the World Bank's engagement in the sector. The Regional and Local Roads Program Support Project (RLRPSP), which closed in December 2015, and the ongoing National and Regional Road Rehabilitation Project (NRRRP) and Road Upgrading and Development Project (RUDP) contributed to improvements in road infrastructure, having a twofold effect: enhanced internal connectivity and mobility for the population and improved connectivity to the country's key trade corridors. The ongoing upgrade of the east road section of European Corridor VIII leading to Bulgaria creates a link to deep-sea ports on the Black Sea, opening potential new trade routes and stimulating local economic development in one of the poorest regions in the country. IFC also provided transaction advisory support to the Ministry of Transport and Communications to help improve road infrastructure through PPPs; however progress slowed on account of political developments.

23. Although significant progress has been made on improving road infrastructure, reforms are still needed to increase the accountability and sustainability of the sector. The current CPS has supported the establishment of RAMS to prioritize maintenance interventions. The system's results now must be fully mainstreamed into strategic decision making on managing local roads and supporting accessibility improvements throughout the country. The application of good asset management techniques should also help tackle the impacts of climate change, an area in which the Government has recently requested assistance. RAMS could be useful here in assessing the country network for climate vulnerability and prioritizing interventions for climate resilience.

Objective 4: More clean energy available

24. Objective 4 on the availability of cleaner energy was fully achieved. The CPS targets in promoting investments in RE generation, linked mainly to IFC engagements, were met through the REM, which was part

of the Balkans Renewable Energy Program (BREP). IFC assisted the Government in adopting key RE legislation and supported the development, launch, and successful finalization of the sixth tender on 13 SHPPs. The program enabled €245 million in private sector financing for SHPPs and other RE technologies, resulting in additional RE generation of more than 381 GWh per year, thus surpassing the CPS target of 205 GWh per year. The program thus helped avoid more than 376,000 metric tons of greenhouse gases (GHG) per year. REM activities were also focused on delivering advice to the private sector and RE sponsors and developers, especially in biomass and wind technologies. After the closure of the BREP, IFC continues to catalyze private investments in the power sector through its expanded Europe and Central Asia (ECA) Power Advisory Program, which focuses on company- and sector-level engagements.

25. The World Bank's work in the energy sector, through the previous CPS and ongoing policy dialogue, focused on enhancing energy capacity (mainly through renewable sources) and energy efficiency. The World Bank's planned investment in a small hydropower station at Lukovo Pole did not materialize due to changed sector priorities. The World Bank was responsive and flexible in considering the Government's demand for an alternative investment in gasification. However, this investment also did not materialize as the Government turned to the private sector for financing. Some work in energy efficiency was carried forward through TAs and the Municipal Services Improvement Project (MSIP, see Objective 7). The energy savings agenda will be pursued on a larger scale in the next CPS cycle.

Pillar II: Skills and Inclusion

Objective 5: Tertiary and vocational education system more focused on skills for the labor market

26. Objective 5 has not been achieved despite progress on the underlying reforms and systems. There has been considerable progress in setting up the relevant mechanisms and structures in the education system, as discussed in the next paragraph, which will help ensure that the tertiary and vocational education systems are better aligned to the needs of the labor market. However, institutional capacity constraints and the political crisis delayed the planned speed of the reforms and consequently the implementation of the Skills and Innovation Project, which provides support to the education reforms. The objective and the indicators were overly ambitious given the political context, while the reform was comprehensive and foundational, though the full impact of such transformative reforms can only be visible several years after their implementation. The Skills and Innovation Project has recently been extended to allow for further achievement of the expected reforms and results during the new CPF period.

27. Under Objective 5, one indicator was partially achieved and the other was not achieved. The project implemented several activities to achieve the indicator related to universities (the share of public universities accredited with new quality assurance measures consistent with EU norms). A new Higher Education Law, which was supported by the project, was approved in June 2018, focusing on quality and accreditation and introducing a new funding model for universities. Among other provisions, the new law stipulates the establishment of a National Quality Assurance Agency (NQAA), responsible for the accreditation and institutional evaluation of higher education institutions, as well as the establishment of a national council as a new independent body of experts, responsible for higher education, science, and research. The law also stipulates that the NQAA will be established within a year of the law's approval, which was recently confirmed by a government decision that also instructed the relevant institutions to nominate members to the NQAA's bodies. The external institutional assessment of all public universities, which was also supported by the project, was completed for the first time in the country by an impartial international evaluation body (the European University Association). In countries with an established quality assurance culture, this is the most important milestone for the institutional reaccreditation of universities. Unfortunately, the final step of reaccreditation of all public universities was not completed due to the above-mentioned delays, and the indicator was thus rated partially achieved. For the other indicator on technical and vocational education and training (TVET) (the percentage increase in the number of secondary

TVET students benefiting from practical training in SMEs and large firms), there were also several underlying achievements. Overall, the project supported a very comprehensive and inclusive reform of the TVET system that was driven mainly by the private sector with support from the Ministry of Education and its agency for vocational education and training. The World Bank supported the entire reform process and ensured the strong ownership of all stakeholders. The World Bank also built institutional capacity and established joint public and private sector participation mechanisms and instruments such as tracer studies to inform policy decisions. In addition, the project supported the development of TVET qualification and occupational standards as well as curricula for 14 sectors. However, the full rollout of all the new curricula was not achieved due to delays, and the indicator was rated as not achieved.

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

28. This objective was fully achieved with some remarkable results, including a more efficient social protection system that is more compatible with employment. The targeting and coverage of social benefits improved markedly: 71.8 percent of people in the poorest quintile are now covered with social assistance and nearly 89 percent of beneficiaries with children ages 15–18 are registered for conditional cash transfers (CCTs). Secondary school enrollment among beneficiaries with children ages 15–18 has increased, and the share of social assistance recipients who formally work has also grown. These results are attributable mainly to the CCT Project, which, since its inception, has enabled roughly 20,000 children from poor families to regularly attend secondary schools. With regard to gender equality, girls benefited from the program as much as their male peers. Moreover, the CCT for secondary education is the only such cash transfer paid to mothers in all beneficiary households, due to a finding indicating that this modality of payments had a greater impact on critical outcome indicators. The positive results contributed to the decision of the Ministry of Labor and Social Policy to replicate the program's design features in a newly created education allowance. In addition, the Government's institutional capacity has been strengthened and the administration of cash benefits improved, reducing the leakage to ineligible beneficiaries through the introduction of the Cash Benefits Management Information System (CBMIS). The improved targeting created savings that were used for additional activities. The administration of cash benefits through the CBMIS has decreased the time spent for processing the payments (the processing time per application has decreased from 69 to 11 days), reduced the burden on employees, and created an appropriate database for a benefits analysis to improve policy making. An impact evaluation of the CCT project and an operational and performance audit have also contributed to a more evidence-based approach and management within the sector.

29. World Bank engagement in the sector has also laid the grounds for further positive reforms in the social protection area, for example, through the draft Social Protection Law and the establishment of the Policy Unit within the Ministry of Labor and Social Policy. The newly approved World Bank–financed Social Services Improvement Project (SSIP) will continue to support the Government in the next phase of sector reforms as part of the new CPF. Other social assistance schemes can benefit from the knowledge and lessons gained from the efficiency and targeting improvements that have taken place in the CCT Project supported under the CPS.

Objective 7: Access to basic and municipal services enhanced

30. Objective 7 was fully achieved. Approximately 146,500 households gained access to improved solid waste services against a target of 60,000, though progress on access to improved piped water connections remained below initial targets (only 12,900 additional households against a target of 30,000). The municipal demand for water access infrastructure relative to other types of infrastructure was overestimated at the time of the design. Municipalities requested other services and infrastructure, mostly access to local roads. As many as 414,773 people benefited from 146 kilometers of (re)constructed local roads (with a zero baseline), and 28 municipalities benefited from the reconstruction/energy efficiency of public buildings: 13 buildings were

retrofitted and 15 were supported through construction and extensions in line with energy efficiency. Additionally, eight municipalities benefited from the introduction of energy efficient street lightning. The objective is thus assessed as achieved.

31. The World Bank supported this objective through the MSIP. The flexible design of the project, which was not restrictive in the types of municipal infrastructure that could be supported, allowed the program to respond to demands and priorities directly from the municipal level. Based on World Bank Group experience on similar types of projects in ECA and globally, access to an improved water supply was expected to be in high demand. However, most Macedonian municipalities requested support for local road infrastructure, and only 12.5 percent made requests for water supply support. Hence, the target for the improved piped water connections indicator was only partially achieved. Nevertheless, most municipalities benefited from the project (68 out of 81). The project also contributed to improved transparency and financial sustainability among municipal services: 86 percent reported revenue increases or cost savings, and all participating municipalities/utilities are now publishing their budget information on their websites (which has become a mandatory requirement). The project was delivered in close collaboration with the EU, which contributed €15.5 million through the World Bank - administered EU Instrument for Pre-Accession Assistance (IPA) Rural Investment TF and helped North Macedonia absorb the IPA funds.

32. The MSIP, followed by the second phase (MSIP2, €25 million), not only responds to the country's demand for affordable funding for municipal investments but also includes incentives for participating municipalities to invest in infrastructure improvements in poorer and marginalized communities within their jurisdictions. At the same time, in anticipation of EU accession, North Macedonia will need to further improve the efficiency and effectiveness of municipal financing and address the remaining capacity gaps to ensure the sustainability of investments in infrastructure and city services. The World Bank has initiated analytical work to support the Government in this effort, including by providing recommendations to address the growing stock of municipal arrears and adjusting incentives to improve municipal finances.

III. WORLD BANK GROUP PERFORMANCE

33. The World Bank Group's overall performance is rated Good. This assessment is based on (a) the relevance of the initial CPS objectives to North Macedonia's development goals; (b) the complementarity of IFC, MIGA, and IBRD, as well as the combination of instruments proposed in achieving the CPS objectives; (c) the proactive management of the dialogue and the portfolio during the political crisis, including close project implementation support and midterm course corrections during the PLR; and (d) the strong engagement with the new Government to implement the remaining CPS program while also developing the new SCD and CPF. World Bank performance in the four projects reviewed by IEG during the CPS period was also positive (three Satisfactory ratings and one Moderately Satisfactory).

Design and Relevance

34. The CPS objectives remained relevant to North Macedonia's development agenda and the country's aspiration to and progress toward EU accession. The initial CPS objectives were well aligned with the National Poverty Reduction Strategy for 2010–2020 (which had a focus on improving living, working, and social conditions for all citizens) and with the Government's economic program 2014–2018 (which had a focus on growth, competitiveness, and human capital development as the basis for improving citizen welfare). The objectives remained equally relevant to the 2017–2020 program developed by the new coalition Government that was formed in May 2017. This continued relevance was also confirmed as part of the SCD exercise. The new Government's program envisages an ambitious reform agenda and the acceleration of EU and NATO accession. In terms of economic development, the reform agenda focuses on economic growth, job creation, fair taxation, support to SMEs, improved social protection for the most vulnerable, and public administration reform.

35. EU accession was a cross-cutting theme in the CPS. North Macedonia's future is linked to European integration, and all the varying government strategies always highlight this major goal. The CPS integrated EU accession across the program by (a) actively promoting the EU accession agenda, (b) aligning World Bank Group strategies and projects with ongoing EU programs (EU Assistance Country Strategy Paper for 2014–2020), and (c) supporting the country in accession-related policy reforms. The World Bank further contributed to the accession agenda by supporting investments in North Macedonia's income convergence with the EU, fostering better economic governance, promoting institutional development, and boosting a more efficient use of EU IPA assistance. At the project level, the World Bank coordinated project design and implementation with the EU to maximize synergies and use the capacity - building opportunities of World Bank - financed operations to support North Macedonia's ability to absorb IPA funds.

36. Overall government ownership of the World Bank Group program was strong throughout the CPS period. The robust analytical underpinning of World Bank Group interventions, the combination of instruments available, and the close alignment of CPS objectives with the Government's strategies were the main factors. Examples of the strong ownership can be found in social protection and transport. World Bank interventions in the social protection sector, mainly through the Secondary Education CCT Project, were catalytic in steering reforms and investments at the same time. The Government showed a great commitment to the implementation of the project and to wider reforms stemming from the project's analytical work. Program administration and design have been continuously improving, informed by the rigorous monitoring mechanisms, such as performance and operation audits and impact evaluation. The positive results contributed to the Government's decision to replicate the program's design features in a newly created cash entitlement called the "education allowance." The Government has shown an equally strong ownership of the World Bank's transport sector interventions, which have always been a cornerstone of the Government's overall transport strategy (except for proactive management of the land acquisition issue in the RUDP). The Government's demand for multiple investment projects, combined with key aspects such as regional integration and institution building as well as links to the broader competitiveness agenda, shows how relevant World Bank Group support has been to North Macedonia. Ownership was weaker in the tertiary education sector, however. The political crisis and a turnover of ministers had a negative impact on ownership and implementation of the reforms foreseen under the Skills and Innovation Project, which led to significant delays under Objective 5 of the CPS.

37. The strong government ownership of the World Bank Group program was reinforced by the World Bank's flexibility in adjusting to new demands and circumstances. The World Bank Group was able to adapt to changing and urgent government demands, including through (a) just - in - time and critical TA on pensions, which is now leading to a pipeline project in the new CPF; (b) the development of comprehensive policy notes for the new Government, which influenced the early implementation of its various strategies, for example, in the PFM and social sectors; and (c) the provision of key analytics on arrears management, which were used by the MoF in its strategic approach to dealing with arrears. The World Bank Group also showed flexibility within single projects, for example, the MSIP, whose design allowed for additional financing of €15.5 million, secured by the EU IPA, which added a new component (Rural Investment Window) to the existing project. This project helped the country support relatively weak rural municipalities and absorb the available EU IPA funds for rural development that had remained undisbursed during the previous seven years and were about to be canceled. The project's flexible design, which was not restrictive as to the types of municipal infrastructure to be supported, led to a high demand—fully 75 percent of EU IPA TF funds had been disbursed as of end-December 2018. Preparation work on the MSIP EU IPA window resulted in the first Administrative Agreement signed between the World Bank and EU after the new Framework Agreement was in place, the first instance of direct World Bank project cofinancing by the EU in North Macedonia. This opened the door to similar initiatives across the portfolio, including the Local and Regional Competitiveness Project. Based on the experience of the MSIP operation, the current CPS is specifically focused on leveraging IPA funds and increasing IPA absorption throughout the World Bank program in the country.

38. The CPS design also promoted complementarity and synergies across instruments and teams. IBRD and IFC interventions were mutually reinforcing, particularly in energy, transport, competitiveness, and FDI. Through the Competitiveness DPL series and the CIIP TF, IBRD and IFC were jointly advancing reforms in trade logistics, including by piloting risk - based inspections in trade that led to the introduction of risk - based inspections in several inspectorates, to be scaled up across the country with a draft new Law on Inspection Supervision (in the policy matrix for FY19 DPF). Joint work on tourism, supported by the CIIP TF, resulted in the design and implementation of the Local and Regional Competitiveness Project, supporting market assessments, value chain analysis, and tourism development plans in 10 destinations in two circuits and one corridor in the country. The earlier IBRD project (Global Environment Facility [GEF] Sustainable Energy FY07–FY13) supported the development of a comprehensive RE policy and regulatory framework, including rulebooks, procedures, and feed-in tariffs, which at a later stage helped unlock the RE market and enabled IFC to finance a number of RE projects through the BREP within the CPS period. In the manufacturing sector, the World Bank (through the CIIP MDTF) and IFC jointly implemented the automotive backward links pilot program in 2015–2016, leveraging IFC relationships with automotive FDIs and local SMEs and specific expertise in the automotive component industry sector.

39. The CPS program was selectively based on an alignment with client priorities, coordination with other development partners, extensive analytic work, and a careful evaluation of areas where the World Bank could bring the most value added. These selectivity criteria led to a focus on the two CPS pillars and informed the choice of instruments under each pillar. For example, the World Bank Group did not engage in areas where the Government was already working closely with other development partners, such as health, primary education, or the environment. Further, the World Bank Group was selective within the sectors in which it engaged; for example, in agriculture, the World Bank specifically focused on state-owned agricultural land management, following up on earlier Food and Agricultural Organization (FAO) engagement, and on targeting financial support incentives for productivity enhancement through the Competitiveness DPL series and the CIIP TF. The World Bank Group actively engaged with development partners, including the EU as the key partner to advance the EU accession cross-cutting theme.

40. The PLR was used as an opportunity to respond to evolving country circumstances. The PLR confirmed the overall relevance of CPS objectives and projects in line with the new Government's strategy. The PLR was also used to make necessary adjustments to CPS targets and time lines and to the program pipeline in response to the delays experienced during the political crisis. The PLR proposed a six - month extension of the CPS, which allowed most of the CPS objectives to be achieved and the lending and ASAs delayed by the crisis to be delivered.

41. Although the CPS results framework had weaknesses, it was adequate, clear, and concise overall. The results chains were well thought out, for example, in the way that they combined results related to institutional development and investments such as in the social protection objective. Moreover, the objectives were pitched at levels appropriate to the World Bank Group's contributions in the country and attributable to its interventions (for example, the objectives on access to municipal services, more clean energy, and improved roads infrastructure), with the exception perhaps of Objective 5, which, given the level of reforms involved, was too ambitious for the lifetime of the CPS. This objective will be pursued in the next CPF cycle. Most of the objectives were supported by measurable quantitative indicators and linked to project - level results. A number of indicators also had a clear link to national-level indicators, for example, road conditions, access to municipal services, or coverage of social assistance. The results framework was updated during the PLR to adjust targets, review some baselines that had to be changed, and drop several indicators that had proved unmeasurable or not well aligned with the interventions. A few areas in formulating the results framework could be improved in the next CPF cycle. As a rule, indicators in the results framework should be very careful when relying on a third-party data provider (indicator 4 under Objective 2) and should avoid being too narrowly defined (both indicators under Objective 7). Indicators should also be directly linked to project-level results (indicator 5 under Objective 2) as well as, to the extent possible, aligned with national or sector-wide indicator definitions and data collection mechanisms.

Program Implementation

42. The results achieved as documented by the CLR and the disbursement ratios were remarkable for a CPS that was implemented during a period of almost complete political paralysis, which was the country's worst crisis since the internal conflict. This is largely a testament to the soundness of the design of the CPS, its overall strong ownership that transcended politics, and the proactive engagement in supervision and portfolio management. Although most operations in the portfolio managed to maintain a sound pace of implementation, two operations, the MSIP and RUDP, were affected more significantly in their implementation during the political crisis. The development of new operations, as explained under the respective objectives section, was also delayed. In addition, the basis for government engagement was set for the remaining CPS and through the SCD for the new CPF period.

43. The originally expected IBRD investment envelope of the CPS FY15–FY18 was US$400 million, which was adjusted to US$359 million during the PLR. During the CPS period, five investment operations were delivered for US$257.8 million, including US$34.9 million in EU IPA TFs for municipal services improvement (rural component) and local and regional competitiveness in tourism. Several lending operations were not delivered or were delayed: (a) two DPFs, one in PFM and the other in competitiveness, had been planned in the CPS but were delayed because of the political crisis (instead, a PFM and Competitiveness DPF is currently scheduled for delivery in FY19); (b) the planned hydropower project (Lukovo Pole) was dropped, due to changed sector priorities, and the Government's priorities shifted toward investment in the gasification sector (the World Bank considered engagement in gasification but the Government preferred to mobilize commercial lending for this purpose); and (c) the planned Energy Efficiency Fund Project was delayed several times due to unresolved implementation arrangement issues but will be considered in the next CPF cycle.

44. During the CPS period, IFC's own account financing remained low at US$19 million compared to the revised CPS target of US$40–60 million, which was reduced at the PLR stage from US$80–100 million. Among other factors, over - liquidity in the banking sector and the protracted political crisis of 2015 - 2017 took their toll on overall investments and IFC's business in the country. No new IFC investment has taken place since the PLR, partly because investments, both public and private, remained subdued in 2017 - 2018 due to continued uncertainties stemming from the name change referendum in September 2018, despite the resolution of the two-year political stalemate. In response to the low own account financing, IFC expanded and deepened the ASA, which helped compensate and achieve some of the expected results, as shown under Objectives 2 and 4.

45. IFC's investment in an export-oriented greenfield automotive FDI has had a significant demonstration effect. It helped create good jobs in an underdeveloped region of North Macedonia and transform the country's export profile from low - to medium-tech merchandise. However, spillovers from FDI to the local economy remained limited. More impact would have been achieved if IFC investment had been complemented with advisory support to strengthen upstream links to local suppliers. Despite its efforts to leverage the regional South East Europe (SEE) Light Manufacturing Advisory Services Program in North Macedonia, IFC could not raise donor funding due to the political crisis, which caused delays in launching the project.

46. As of end-February, 2019, MIGA's outstanding gross exposure in North Macedonia totaled approximately US$28 million, focused on a political risk insurance operation with ProCredit Holding AG in the financial sector. Through this operation, MIGA offered expropriation of mandatory reserves coverage to ProCredit Holding AG, with the objective of de-risking the group's balance sheet and thereby enabling the group and, more specifically, its operating subsidiary in North Macedonia to support local lending. Opportunities for additional MIGA engagement were constrained by the limited scope for PPPs in the infrastructure space and low demand from foreign investors for MIGA guarantee coverage. Going forward, MIGA will coordinate closely with IBRD and IFC to leverage World Bank Group expertise to facilitate private sector investments in the country through MIGA's political risk insurance and credit enhancement products.

47. As of October 2018, the IBRD portfolio consisted of six projects, of which five are financed solely by IBRD. One project (MSIP) received additional financing from the EU IPA. The Local and Regional Competitiveness Project, implemented as an IPF, is financed entirely by the EU IPA. The total commitment of the IBRD portfolio is US$322.37 million, while the commitments financed by the EU IPA are US$34.94 million. The average age of the projects is four years. During the CPS period, five projects were approved, one received additional financing, and five were closed. Of the five closed, four were IPFs and one a DPL.

48. The portfolio performance remained satisfactory during the CPS period. The pace of implementation slowed midway, mostly during 2017, when disbursement reached a low of 12.5 percent. The extended political-electoral crisis affected the implementation of the active portfolio and the preparation of other projects, planned for approval during the second half of the CPS period. The crisis also affected the effectiveness of the operations, which subsequently postponed project disbursement. The resolution of the political stalemate and consequent establishment of the new Government in May 2017 resulted in accelerated disbursement in 2018. The Government also approved a supplementary budget in late 2017 that provided sufficient allocations to the World Bank portfolio. During the CPS cycle, IEG reviewed four projects, one rated Highly Satisfactory and three Satisfactory on the overall project outcomes.

Table 2. Selected IBRD Portfolio Indicators

Fiscal Year	2015	2016	2017	2018
No. of projects	6	6	6	6
Net commitments (US$, millions)	344.3	314.0	314.0	311.9
Disbursement ratio (IPF)	23.8	20.9	12.5	17
Proactivity index (%)	100	100	100	100
Projects at risk (%)	0	0	16.70	0
Commitments at risk (%)	0	0	29	0

49. There were no major fiduciary issues affecting portfolio implementation during the CPS period. The Government has a good track record in implementing World Bank projects and in handling fiduciary aspects and compliance. A couple of delays in some procurement processes were linked to the time involved in establishing a new government and not to specific procurement issues.

50. Overall compliance with social and environmental safeguards was satisfactory during the CPS. Projects in the portfolio did comply with the applicable safeguards policies. Issues around land acquisition affected two operations in the portfolio (Energy Community of South East Europe Adaptable Program Loan [ECSEE APL3] and the ongoing RUDP), which did not affect the safeguard compliance but did delay project implementation. Early engagement with beneficiaries and the affected population and stronger communication were identified as key to avoiding delays in the future. The findings from the land acquisition issue have been distilled into a lesson learned in the relevant CLR section.

51. The ASA work provided the foundation for the World Bank's engagement in the country. The planned ASA program was fully delivered over the past several years, providing valuable information in key areas, such as competitiveness and innovation, social accountability, transport, municipal services and energy efficiency, poverty assessment, gender, and PFM. The most notable pieces of analytic work included the PFR, Municipal Energy Efficiency Promotion, Competitive Industries and Innovation Support Program, Poverty Note, Mainstreaming Social Accountability (Social Filter), Gender Diagnostics and Monitoring, and Regional Balkans

Infrastructure Study Upgrade. The World Bank delivered a set of 20 policy notes to inform policy debate with the new Government, including a discussion on the program to be supported within this CPS cycle and beyond. Finally, in response to a government request, the World Bank team prepared a Note on Arrears in the Public Sector. Currently, the World Bank is also advising the Government on debt and risk management to reduce vulnerability to financial shocks through strengthened public debt management capacity and institutions.

52. The CPS had anticipated the risk of political instability, which ended up materializing during CPS implementation. The World Bank Group took a proactive approach to managing the situation by (a) increasing portfolio monitoring with a special focus on key procurement packages, ensuring that identified issues would be tackled early on; (b) anticipating decision - making bottlenecks related to the Government's projects and supporting technical staff in the Project Implementation Unit (PIU) and in ministries to address those bottlenecks; (c) enhancing the engagement and regular portfolio briefings with the technical staff at the MoF to keep the overall World Bank Group program visible and to get better political economy insights from issues that could affect it in the different sectors; and (d) reinforcing outreach and collaboration with stakeholders beyond the Government. Policy dialogue and consultative processes were intensified and expanded to include the political opposition, civil society organizations (CSOs), the private sector, and donors. For example, since there was a perceived lack of active participation by ethnic minority and opposition municipalities in the municipal development programs supported by the World Bank and other donors, including the grants program, the World Bank (through the MSIP) initiated a review of various international financial institution (IFI) and donor - funded municipal development programs to assess and identify key factors involved in a municipality's participation. As a next step, the joint MSIP and PIU teams ensured enhanced outreach efforts to encourage broader project participation, including from opposition and ethnic minority municipalities. Another example of expanded outreach and broader participation came from the education sector. The prolonged political crisis affected the ability of the Government to interact with stakeholders in higher education, which significantly stalled the reform program. As part of the SDIS Project, the World Bank established a comprehensive and inclusive engagement process targeting a broad range of stakeholders, allowing TVET reform to move forward and helping keep the reform process ongoing.

53. The proactive portfolio management approach avoided a standstill in active projects and ensured broad support for World Bank Group work. It also helped to quickly gear up implementation after the new Government was in place. Although direct work on new operations was challenging during the crisis, the World Bank Group used the strong ASA/TA portfolio to prepare the grounds for new operations (for example, several ASAs on competitiveness helped prepare the upcoming DPF). Other risks identified in the CPS, namely, capacity constraints and the lack of data, were addressed through (a) complementary ASA to operations, (b) hands-on implementation support, and (c) data-driven analysis, such as an impact evaluation of the CCT project or the major efforts of all the underlying analysis done to inform the SCD.

54. Donor coordination was strong, and the World Bank Group has continued its active engagement with its development partners in the country. With EU accession as a cross-cutting theme in the CPS, the EU has been the key partner. Effective coordination with the EU helped North Macedonia absorb available IPA funds through two World Bank projects amounting to US$34.94 million. The World Bank worked closely with the EU to support the Government in key areas, such as municipal services, public administration reform, education, competitiveness, and labor markets. Although reinforcing common agendas, the World Bank was also selective by focusing on some of the Government's high - priority areas not supported by EU programs, such as networks in the transport sector. The World Bank also actively cooperated with other donors, including the EBRD, the U.S. Agency for International Development (USAID), and the Swiss State Secretariat for Economic Affairs (SECO). An example of good donor coordination was the joint work with USAID and European partners to ensure the equal participation of municipalities irrespective of their political or ethnic affiliation under the MSIP.

IV. ALIGNMENT WITH CORPORATE GOALS

55. Since 2009, poverty in North Macedonia has fallen and economic growth has benefited mainly those at the bottom of the income distribution. Between 2009 and 2015, the cumulative reduction in poverty was about 12 percentage points (from 35 to 23 percent). Growth has largely been pro-poor since 2009. Indeed, the living standards of those at the bottom of the income distribution grew by 6.4 percent annually during 2010–2015 compared to a national average of 2.9 percent in the same period. This result positions North Macedonia's post-2009 growth process as one of the most inclusive in the region.

56. The CPS was well aligned with poverty reduction and shared prosperity goals throughout the CPS cycle. Under the first CPS pillar, the World Bank Group contributed to create the foundations for stable growth and competitiveness, both key to securing sustainable poverty reduction and increasing shared prosperity. An example of the link between the twin goals and the CPS is the jobs created under Objective 2. There were also links under the second pillar (Skills and Inclusion): The World Bank directly contributed to the improved targeting of social benefits and a reduction in child poverty through the CCT Project, and the Skills and Innovation Project focused on strengthening links between the tertiary and vocational education system and the labor market to reduce youth unemployment. In addition, the support through the RLRPSP and the MSIP aimed to reduce regional inequalities and increase household access to, for example, piped water connections, solid waste services, and markets through the existing regional and local road network.

57. The CE effort was stepped up during the CPS period and is on now par with ECA averages. Despite North Macedonia's lack of progress on voice and accountability (its World Governance Indicators (WGI) score and ranking are lower than a decade ago), compliance for CE in IPFs has reached 100 percent of the requirements for a CE-oriented project design and beneficiary feedback measurement, and reporting on credible implementation progress is on track. However, a portfolio CE review carried out for this CLR indicates that the quality of CE at design is still lacking, particularly around the depth of CE activity, as most pre - FY17 projects rely on passive instruments (grievance redress mechanisms [GRMs], consultations, surveys) that do not actively promote interaction and dialogue between state and non-state actors. The recently approved SSIP, however, has set a new standard and is a model for CE design in the North Macedonia portfolio, with a strong and linked series of activities that reach out to all members of the target communities and promote both voice and accountability. The RUDP has also established multiple channels for feedback at regular intervals and removed restrictions to enable citizens to provide reactions to any project issue. To create a coherent approach to CE, a CE country road map was introduced in the 2017 PLR, setting out several objectives to enhance quality and implementation through monitoring and standards. The World Bank has supported capacity building with government project implementation agencies to improve skills, address challenges, and encourage more active implementation of the planned CE. Some actions are still under way and/or delayed and are being incorporated in the new CE country road map developed for the CPF (see Annex 8 in the CPF).

58. There are co-benefits for climate-related issues. North Macedonia has a high exposure to extreme weather events and needs to improve disaster preparedness and resilience. Future World Bank projects will undertake vulnerability assessments to mitigate the impacts of flooding, droughts, earthquakes, and wildfires. It will also work to strengthen institutional preparedness for disasters. North Macedonia also has very high GHG intensity stemming from coal-fired energy production and the inefficient use of energy. The World Bank Group will support projects that reduce the country's reliance on fossil fuels through the rollout of RE sources and energy efficiency programs in public buildings. During the current CPS, the World Bank Group, through its engagement on clean energy, has helped avoid more than 376,000 metric tons of GHG per year (see Objective 4 for details).

59. Operations in North Macedonia are fully gender informed. A number of operations in the CPS had a special focus on women, for example, the CCT Project in which the cash transfer deliberately targeted mothers in all beneficiary households and girls benefited on par with boys. This targeting was very successful, as shown in

the impact evaluation that was undertaken. Going forward, the Country Management Unit (CMU) will enhance the gender focus in all key CPF areas to ensure that opportunities are taken not only to diagnose and measure gender impact, but also to narrow the gender gap through World Bank–financed operations. The new CPF has already identified concrete entry points to reduce the gender gap in each of the three focus areas.

New and Emerging Country Issues

60. **After two years of political turmoil, a new Government came to power on May 31, 2017, with an ambitious economic reform program, an EU and NATO accession agenda, and a determination to resolve pending issues with neighboring countries, including the name issue with Greece.** On June 12, 2018, the Governments of Greece and North Macedonia signed the "Prespa Agreement" aimed at finally resolving the decades-long name dispute. The new proposed name is the Republic of North Macedonia. Its adoption was contingent on constitutional changes in North Macedonia and parliamentary ratification in Greece. A consultative referendum on the new name was held on September 30. Voters overwhelmingly supported the name change (91.5 percent), but low turnout (36.9 percent) did not meet the legal quorum for the referendum. On September 19, 2018, the parliament, with 80 votes in favor and 39 against, backed the government motion to start the procedure to change the constitution and allow the country's name to become the Republic of North Macedonia, as required under the Prespa Agreement. The parliament of North Macedonia endorsed the necessary constitutional changes on January 11, 2019, and the use of the new name entered in force in February 2019 after ratification of the Prespa Agreement by the Greek parliament. In parallel with the name change process, in April 2018, the European Commission (EC) recommended that the Council approve the opening of negotiations with North Macedonia.

V. LESSONS LEARNED

61. **Key lessons are organized along three main topics:** political crisis and instability, stakeholder engagement, and government sectoral strategy and capacity.

Political Crisis and Instability

62. **Working in a politically complex environment requires flexibility and proactive portfolio monitoring.** Although the CPF program should clearly outline key areas of engagement, the World Bank Group should maintain flexibility throughout the CPF cycle and adjust its program to emerging priorities, recognizing the political economy changes and institutional capacity constraints. The World Bank Group should also focus on a proactive portfolio management, with close monitoring of procurement activities and decision-making bottlenecks. An intensive collaboration between the CMU and the MoF technical staff responsible for the World Bank Group portfolio was useful in quickly addressing emerging implementation challenges.

63. **The strategic use of the ASA instrument to inform lending operations, stay engaged with the Government during the political crisis, and open up a dialogue with the new Government is critical for effective country engagement.** One good example was the 2016 PFR, which was foundational to most of Pillar 1 activities. Using ASAs during the political crisis was an effective way to maintain dialogue and engagement in the core areas. It was also useful in opening discussions with the new Government and in quickly responding to and informing some of its priorities and interests.

Stakeholder Engagement

64. **It is important to maintain continued and effective stakeholder engagement, including with representatives of opposition parties and civil society.** Although the World Bank was both reactive and proactive during the political crisis in North Macedonia, maintaining the role of a politically independent actor

was challenging during those politically heated years due to its ongoing relations with a Government that was under mounting public pressure because of allegations of a lack of transparency and a secret wiretapping program against its own citizens.[38] Regular communication with opposition parties and civil society representatives helped mitigate this risk.

65. Ensure that land acquisition is addressed early in the project cycle and ensure citizen acceptance. Two projects (ECSEE APL3 and the ongoing RUDP) had to deal with issues and delays linked to land acquisition that slowed down implementation. The main lessons learned are twofold: (a) the implementing agency needs to be present in the field during the entire land acquisition process and make sure that people in affected areas understand the benefits of the project, the principles used to identify the land for expropriation, and any related compensation practices, and (b) the land acquisition process needs to start as early as possible, even before the loan becomes effective. Land acquisition should be viewed as a social rather than only a legal issue. This can also be seen more broadly as part of the citizen engagement (CE) agenda rather than safeguards alone to address social risks and ensure more efficient project implementation.

Government Strategy and Capacity

66. Building institutional capacity and systems always takes time but planning for it in advance is worth the effort. It also is the best way to ensure sustainable results at the project level. In North Macedonia, some success in building government capacity and systems could be attributed to (a) increasing government ownership by leveraging existing government structures as PIUs (for example, e-procurement and SAFE TF support, MSIP, transport); (b) including government capacity and system building systematically in the project design; and (c) combining World Bank Group products to complement each other and enhance government capacity and systems.

67. Linking the World Bank Group program with the EU accession agenda is important to accelerating EU membership - the key goal of North Macedonia. Clearly aligning World Bank Group strategies and projects with ongoing EU programs, policy reforms, and, more importantly, EU accession criteria is key to ensuring government ownership and the relevance of the World Bank's program. This has proven successful in North Macedonia. In EU accession countries, the World Bank Group's on - the - ground knowledge and EU resources can be combined to make an impact, as with the MSIP. At the project level, joint IBRD-EU implementation arrangements need to be carefully designed and may need additional preparation time. Although it is important to closely coordinate with the EU when planning programs, both IBRD and the EU need to operate under the terms of the Framework Agreement and the respective Administration Agreements during implementation. These specify the clear roles and responsibilities of the financier (the EU) and the implementing entity (IBRD) to prevent any misunderstandings throughout the process. An example of delays due to such misunderstandings could be seen in the implementation of the Local and Regional Competitiveness Project.

68. Successful engagement to promote PPPs in key areas of high developmental impact depends on ensuring full government commitment and World Bank Group collaboration. Two IFC PPP advisory mandates in infrastructure failed to deliver the expected results. There continues to be a potential for PPPs, but future IFC engagements should have up-front and top-level government buy - in and be better aligned with approved, long-term government strategies.

[38] That the World Bank Group was thought to be too close to the Government was one of the issues that came out during the 2016 World Bank Group client survey.

69. World Bank engagement in supporting local infrastructure and services should further strengthen its focus on addressing the structural deficiencies affecting local governments. During this CPS period, the World Bank extended significant financing to improve local infrastructure and services with a demand-driven approach (for example, the MSIP). This financing was successful in getting the strong ownership of participating municipalities and in enhancing people's lives by improving access to local roads, a water supply, energy efficiency, and other local infrastructure. There were limited efforts to support the sustainability of investments and financial performance of municipalities that continue to accumulate arrears. The next generation of World Bank engagement with municipalities will focus on the sustainability and institutional and financial performance of local governments.

70. During CPF preparation, the World Bank should reach firm agreement with its counterparts on complex infrastructure operations and develop an alternative plan in case such operations cannot be pursued. The preparation of a complex hydro development project (Lukovo Pole) shaped the engagement of the World Bank in the energy sector for several years, with no discussion of potential alternative engagements. When, in the end, the project was not delivered due to changed sector priorities, the World Bank was responsive and flexible in considering the Government's demand for an alternative investment in gasification. However, this investment also did not materialize as the Government turned to the private sector for financing. If a broader sectoral engagement had been anticipated in the CPS, it would have allowed the World Bank to explore alternative investment options at an earlier stage and perhaps would have also enabled it to better anticipate the risks of engagement in the gasification project.

CLR Annex 1: Status of NORTH MACEDONIA FY15–FY19 CPS Results Matrix (Summary Table)

Description	Status at CLR	Overall Rating
Pillar I: Growth and Competitiveness		
Objective 1: Improved fiscal and public financial management		Mostly Achieved
Indicator 1: Fiscal deficit declines in line with medium term	Achieved	
Indicator 2: Quarterly reports on consolidated public and publicly guaranteed debt are published on the MoF website	Achieved	
Indicator 3: Organic Budget Law approved	Partially achieved	
Indicator 4: Road Enterprise makes investments using Road Asset Management System	Mostly achieved	
Objective 2: Better conditions for private investment and links to FDI		Partially Achieved
Indicator 1: Private investment facilitated in the real sector through IFC interventions	Achieved	
Indicator 2: Number of people and MSMEs with improved access to financial services	Partially achieved	
Indicator 3: Volume of outstanding MSME loan portfolio of IFC clients	Partially achieved	
Indicator 4: Dealing with construction permits[39]	Achieved	
Indicator 5: Improved local business and export sophistication	Partially achieved	
Indicator 6: Jobs created by greenfield FDI with state incentives (in and outside TIDZs)	Achieved	
Objective 3: Road infrastructure improved		Achieved
Indicator 1: Percentage of national and regional road network in good and fair condition increased	Achieved	
Objective 4: More clean energy available		Achieved
Indicator 1: Additional annual renewable clean energy generation	Achieved	
Pillar II: Skills and Inclusion		
Objective 5: Tertiary and vocational education system more focused on skills for the labor market		Not Achieved
Indicator 1: Share of public universities accredited with new quality assurance measures consistent with EU norms	Partially achieved	
Indicator 2: Percentage increase in the number of secondary TVET students benefiting from practical training in SMEs and large firms	Not achieved	
Objective 6: Social protection system more efficient and compatible with employment		Achieved
Indicator 1: Share of the poorest quintile receiving social assistance	Achieved	
Indicator 2: Share of social financial assistance beneficiaries with children ages 15–18 registered for conditional cash transfers	Achieved	
Indicator 3: Share of recipients of social assistance who work formally	Achieved	
Objective 7: Access to basic and municipal services enhanced		Achieved
Indicator 1: Additional households with improved piped water connections	Partially achieved	
Indicator 2: Additional households with improved solid waste services	Achieved	

[39] "Dealing with construction permits" is used as a proxy indicator to assess the quality of the investment climate for business in a country. The data supporting the original indicator ("number of days to obtain construction permit," disaggregated by manufacturing and services) are published by the BEEPs report, which is not yet available for 2018.

CLR Annex 2: NORTH MACEDONIA FY15–FY19 CPF Results Matrix Evaluation

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
Pillar I: Growth and Competitiveness						
Objective 1: Improved fiscal and public financial management	**Mostly Achieved**	Indicator 1: Fiscal deficit declines in line with medium term	Baseline: 4.2% of GDP (2014) Target: Below 3% of GDP (2018) Progress: 1.8%	**Achieved:** The estimated fiscal deficit of the general government for 2018 is 1.8%[40]	**Completed** • Public Expenditure Review (FY16) - P147200 • PFR - P165084 • RLRPSP (FY16) • Growth and Shared Prosperity Economic and Sector Work (ESW) - Regional SCD Synthesis (FY17) • World Bank Group just-in-time advice/policy notes (FY17): Public Financial Management; Efficiency of Public Spending; Debt Sustainability • North Macedonia Public Sector Reform Support • Western Balkans Regular Economic Report • Public Sector Accounting and Reporting (PULSAR) (TF071422, TF072737, TF083455) **Ongoing** • NRRRP • RUDP • EU REPARIS Program (TF072160, TF082726) • Macedonia Government Debt and Risk Management Program (TF0A4048) • Just-in-Time TA on Organic Budget Law (TF0A7985) **Planned** Public Finance DPO (FY19)	PER FY15 - Doerte Doemeland PFR – Edith Kikoni, Bojan Shimbov Data source: North Macedonia Fiscal Strategy https://finance.gov.mk/files/u6/Fiskalna%20Strategija%20na%20RM%202019_2021_Revidirana.pdf
		Indicator 2: Quarterly reports on consolidated public and publicly guaranteed debt are published on the MoF website	Baseline: No Target: Yes Progress: Achieved	**Achieved:** Consolidated quarterly reports are regularly published on the MoF website since Q3 2014		PER FY15 - Doerte Doemeland PFR – Edith Kikoni, Bojan Shimbov
		Indicator 3: Organic Budget Law approved	Baseline: No (2017) Target: Yes (2018) Progress: Law not yet approved	**Partially Achieved**		
		Indicator 4: Road Enterprise makes investments using Road Asset	Baseline: No (2014) Target: Yes (2018) Progress: Mostly achieved	**Mostly Achieved**		RUDP Aide Memoire of June 2018/related Implementation

[40] This figure excludes the PESR debt in line with the agreed definition.

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
		Management System				Status and Results Report (ISR)
Objective 2: Better conditions for private investment and links to FDI	**Partially Achieved**	Indicator 1: Private investment facilitated in the real sector through IFC interventions	Baseline €80 million (2014) Target: €180 million (2017) Progress: US$244 million	**Achieved:** US$244 million	**Completed** • Competitiveness DPL2 (closed in October 2014) • Growth and Shared Prosperity ESW - Regional SCD Synthesis (FY17) • World Bank Group just-in-time advice/policy notes (FY17): Competitiveness of Private Sector; Transition to Innovation-Driven Economy • Competitive Industries and Innovation Support Program (TF014914) (CIIP) • CIIP: Positioning North Macedonia for the Global Economy: The Impact of Reforms and Investment Promotion in the Automotive Components Manufacturing Sector • CIIP: North Macedonia Supplier Development Pilot Program Toolkit: Materials and Lessons Learned • Internal Audit Training of Trainers Program (TF0A3567) Western Balkans Regular Economic Report • Investment Readiness Impact Evaluation • EU REPARIS • Western Balkans Trade Logistics Impact Evaluation • Global Cybersecurity Capacity Program (TF018714) • Digital Balkans	IFC RE North Macedonia Advisory Program RE North Macedonia SHP (575587)
		Indicator 2: Number of people and MSMEs with improved access to financial services	Baseline: 1,751 (2015) Target: 7,100 (2019) Progress: 5,400	**Partially Achieved:** 3,500 in one active client bank as of CY2017; 1,900 in one inactive client as of CY2016		NLB Tutunska Banka (54259)
		Indicator 3: Volume of outstanding MSME loan portfolio of IFC clients	Baseline: US$54.2 million (2015) Target: US$588.6 million (2019 Progress: US$408 million	**Partially Achieved:** US$230 million in one active client bank as of CY2017, and US$178 million in one inactive client as of CY2016		NLB Tutunska Banka (54259) The latest available reach data is from 2017
		Indicator 4: Number of days to obtain construction permit[41]	Baseline: Average 181.1; Manufacturing 43; Services 243.1 (BEEPS) (2013) Target: Average 83; Manufacturing 25; Services 100 (2018) Progress: Average 96 days	**Achieved:** Average 96 days and 11 procedures; Competitive ranking in dealing with construction permits has improved		Doing Business 2018 http://www.enterprisesurveys.org/data/exploreeconomies/2013/macedonia-fyr#regulations-and-taxes--sector

[41] Dealing with construction permits' is used as a proxy indicator to replace the original indicator (number of days to obtain construction permit) to assess the quality of the investment climate for business in a country. The data supporting the original indicator are published by the BEEPs, which is not yet available for 2018.

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
					• IFC: Key Safety Systems **Ongoing** • IFC - ECA Power Program • IFC Advisory on Infrastructure PPP • IFC investment and mobilization in the real sector • TA on Value Chain Activity/ Investment Readiness (TF018736) • CFRR (Center for Financial Reporting Reform)- Internal Audit Training of Trainers Program (TF0A3567; Window TF072559) • Skills Development and Innovation Project • EU IPA TF Local and Regional Competitiveness in Tourism (TF0A1779 and TF0A1780) **Planned** IFC investment and advisory	BEEPS 2017–2018 is not available for North Macedonia
		Indicator 5: Improved local business and export sophistication	Baseline: Sophistication 3.65; Innovation 3.2 (Global Competitiveness Report 2013, pillars 11 and 12), share of medium- and high-tech exports in total exports: 57% (2016) Target: Sophistication 4.0; Innovation 4.0, share of medium- and high-tech exports in the total exports: 60% (2018) Progress: Sophistication: 3.83 Innovation: 3.44 Share of medium- and high-tech exports vs. total exports: 57.4% (as of 2017)	Partially Achieved: Sophistication: 3.83 Innovation: 3.44 Share of medium- and high-tech exports vs. total exports: 57.4% (as of 2017)		Global Competitiveness Report 2016/2017 and Reforms in Manufacturing Report United Nations Comtrade using Eurostat definition of medium- and high-tech exports
		Indicator 6: Jobs created by greenfield FDI with state incentives (in and outside TIDZs)	Baseline: 12,000 (2016) Target: 13,000 (2018) Progress: 20,000	Achieved: 20,000		SCD 2018 Government Agency (DTIDZ) reports and company interviews
Objective 3: Road infrastruct ure improved	Achieved	Indicator 1: Percentage of national and	Baseline: 64% (2015) Target: 74% (2018) Progress: 87%	Achieved	Completed • RLRPSP (FY16)	NRRRP ISR of June 29, 2018

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
		regional road network in good and fair condition increased			• Regional Balkans Infrastructure Study Update (FY15) • World Bank Group just-in-time advice/ policy notes (FY17): Transport **Ongoing** • NRRRP • Road Upgrading Project	RUDP ISR of December 27, 2018 RLRPSP ICR
Objective 4: More clean energy available	**Achieved**	Indicator 1: Additional annual renewable clean energy generation	Baseline: 0 GWh (2014) Target: 105 GWh (Bank) + 100 GWh (2018) Progress: 381 GWh (IFC)	**Achieved**	**Completed** • ECSEE APL3 (FY17) • Municipal Energy Efficiency Promotion (FY16) (TF017385) • World Bank Group just-in-time advice/ policy notes (FY17): Energy • Sector Study on Biomass-based Heating in the Western Balkans (TF017297) **Ongoing** • IFC infrastructure support through PPPs • IFC small hydropower project • Financing of public buildings in the Western Balkans • Directions for the energy sector in the Western Balkans • Balkans Digital Highway (TF0A4055 Regional Support to foster Infrastructure sharing in the Western Balkans) **Planned** • Energy Efficiency Fund Project (FY19) • IFC investments and advisory	IFC REM Advisory Project
Pillar II: Skills and Inclusion						
Objective 5: Tertiary and vocational	**Not Achieved**	Indicator 1: Share of public universities accredited with	Baseline: 0 (2014) Target: 60% (2018) Progress: New higher education law passed,	**Partially achieved**	**Completed** • World Bank Group just-in-time advice/ policy notes (FY17): Education	SDIS ISR of May 2018

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
education system more focused on skills for the labor marke		new quality assurance measures consistent with EU norms	and all universities were subject to external evaluations by the European University Association. Findings to be used in the final reaccreditation process		• Western Balkans Education Engagement • Western Balkans Regular Economic Report **Ongoing** Skills and Innovation Project	
		Indicator 2: Percentage increase in the number of secondary TVET students benefiting from practical training in SMEs and large firms	Baseline: 11,543 students (2016) Target: 20% increase (2018) Progress: n.a.	**Not Achieved**		SDIS ISR of May 2018
Objective 6: Social protection system more efficient and compatible with employment	**Achieved**	Indicator 1: Share of the poorest quintile receiving social assistance	Baseline: 65.6% (SILC 2011) Target: Over 70% (2018) Progress: 77.7%	**Achieved**	**Completed** • World Bank Group just-in-time advice/ policy notes (FY17): Jobs and Labor Market; Poverty, Inequality and Shared Prosperity; Social Assistance; Gender Policy • Land and Gender - Improving data availability and use in the Western Balkans • Western Balkans Poverty Assessment • Integrating distributional analysis • Regional work • Western Balkans Poverty FY16–FY17 • Western Balkans Poverty • Western Balkans Gender Monitoring • Mainstreaming Gender in CPSs/CPSPR • Gender Diagnostics	CCT ISR of July 18,2018
		Indicator 2: Share of social financial assistance beneficiaries with children ages 15–18 registered for conditional cash transfers	Baseline: 76% (women: 47%) (2014) Target: Over 80% (women: equal or over 47%) (2018) Progress: 85.91% (women: 48.10% of direct project beneficiaries)	**Achieved**		CCT ISR of July 18, 2018, results of corporate indicators
		Indicator 3: Share of recipients of	Baseline: 1.46% (women: 0.99%)	**Achieved**		CCT ISR of July 18, 2018,

Objective	Overall Rating	Indicator	Baseline Target Progress	Status at CLR	World Bank Program Instruments	Data Source
		social assistance who work formally	(2014) Target: 5% (women: 3%) (2018) Progress: 6.89% (of which 2.54% women)		• Gender in the Portfolio • Addressing Gender Knowledge Gaps • Western Balkans Gender Program FY17 **Ongoing** • Western Balkans Poverty Program FY18–19 • Western Balkans Gender FY18 • CCT Project • SSIP (FY19)	Database of National Employment Agency
Objective 7: Access to basic and municipal services enhanced	**Achieved**	Indicator 1: Additional households with improved piped water connections	Baseline: 0 (2014) Target: 30,000 (2018) Progress: 12,900	**Partially Achieved**	**Completed** • World Bank Group just-in-time advice/policy notes (FY17): Municipal Development • Water and Waste Water **Ongoing** • MSIP • Second MSIP • EU Additional Financing to MSIP (TF018812)	MSIP ISR June 2018
		Indicator 2: Additional households with improved solid waste services	Baseline: 0 (2014) Target: 60,000 (2018) Progress: 146,512	**Achieved**		MSIP ISR June 2018 State Statistics Office link on population: http://www.stat.gov.mk/Publikacii/PDFGodisnik2013/03-Naselenie-Population.pdf

CLR Annex 3: IBRD Lending Program FY15–FY19, Planned[42] vs. Actual

PILLAR I: GROWTH AND COMPETITIVENESS					
PLANNED (US$, millions)			**ACTUAL AND PROPOSED** US$, millions)		
FY15	**IBRD**	**TF**	**FY15**	**IBRD**	**TF**
Road Rehabilitation	71		Road Rehabilitation	70.98	
FY16			**FY16**		
Road Upgrading	91		Road Upgrading	90.95	
Competitiveness in Tourism (IPA TF)			Local and Regional Competitiveness (IPA TF)		17.2
FY19 - proposed		17.2	**FY19 - proposed**		
Energy Efficiency Fund	20		Energy Efficiency Fund	20	
Public Finance DPO/PBG	80		Fiscal and PFM PBG	70	
Regional Trade and Transport Facilitation	tbd		Regional Trade and Transport Facilitation	20	
Subtotal Pillar I	**262**	**17.2**			
			Subtotal Pillar I (actual)	**161.93**	**17.2**
			Subtotal Pillar I (actual and proposed)	**271.93**	
PILLAR II: SKILLS AND INCLUSION					
PLANNED (US$, millions)			**ACTUAL AND PROPOSED** US$, millions)		
FY15	**IBRD**	**TF**	**FY15**	**IBRD**	**TF**
Municipal Services – IPA Rural Window		17.7	Municipal Services – IPA Rural Window		17.7
FY16			**FY16**		
Municipal Services 2	28		Second Municipal Services Improvement	28.04	
FY19 - proposed			**FY19**		
Social Services Improvement	35		Social Services Improvement	33.4	
Subtotal Pillar II	**63**	**17.7**	**Subtotal Pillar II (actual)**	**61.44**	**17.7**
total planned	**359.9**		**Total actual***	**223.37**	**34.9**
			proposed	**110**	
			Grand Total (actual, proposed, TFs)	**368.27**	

Note: *Actual total, including IPA TFs, is US$258.27 million.

[42] Planned according to the PLR.

Annex 3: North Macedonia Selected Indicators* of Bank Portfolio Performance and Management

Indicator	FY16	FY17	FY18	FY19
Portfolio Assessment				
Number of projects under implementation [a]	6.0	6.0	6.0	6.0
Average implementation period (years) [b]	3.3	4.3	5.3	4.3
Percent of problem projects by number [a,c]	0.0	16.7	0.0	0.0
Percent of problem projects by amount [a,c]	0.0	29.0	0.0	0.0
Percent of projects at risk by number [a,d]	0.0	16.7	0.0	0.0
Percent of projects at risk by amount [a,d]	0.0	29.0	0.0	0.0
Disbursement Ratio (%) [e]	20.9	12.5	17.0	6.9
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				
Memorandum Item		**Since FY80**	**Last Five Fiscal Years**	
Project Evaluation by IEG by Number		49	3	
Project Evaluation by IEG by amount (US$, millions)		1,111.5	159.9	
% of IEG Projects rated U or HU by number		14.6	0.0	
% of IEG Projects rated U or HU by amount		5.2	0.0	

Note: a. As shown in the Annual Report on Portfolio Performance (except for the current fiscal year).
b. Average age of projects in the World Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives and/or implementation progress.
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the World 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 the Disbursement Ratio, which includes all active projects as well as projects that were completed during the fiscal year.

Annex 4: North Macedonia: Operations Portfolio (IBRD/IDA and Grants)
As of December 31, 2018

Closed Projects	**49**
IBRD/IDA*	
Total disbursed (Active)	121.91
of which has been repaid (1)	14.99
Total disbursed (Closed)	1,442.03
of which has been repaid	994.65
Total disbursed (Active + Closed)	1,563.94
of which has been repaid	1,009.64
Total undisbursed (Active)	
Total undisbursed (Closed)	
Total undisbursed (Active + Closed)	

Active Projects										**Difference Between Expected and Actual**	
		Last PSR									
		Supervision Rating			Original Amount in US$, millions					Disbursements [a]	
Project ID	**Project Name**	**Develop-ment Objectives**	**Implemen-tation Progress**	**FY**	**IBRD**	**IDA**	**Grants**	**Can-celled**	**Undis-bursed**	**Origi-nal**	**Frm Rev'd**
P096481	MSIP	Satisfactory	Satisfactory	2009	75.0	0.0		0.0	11.6	–33.2	1.8
P154464	MSIP2	Moderately Satisfactory	Moderately Satisfactory	2016	28.0	0.0		0.0	27.4	–0.7	2.5
P148023	NRRRP	Satisfactory	Moderately Satisfactory	2015	71.0	0.0		0.0	20.3	15.3	0.0
P149955	RUDP	Moderately Satisfactory	Moderately Satisfactory	2016	90.9	0.0		0.0	75.5	20.3	0.0
P128378	SDIS	Moderately Satisfactory	Moderately Satisfactory	2014	24.0	0.0		0.0	15.4	16.3	12.8
P162246	SSIP	Satisfactory	Satisfactory	2019	33.4	0.0		0.0	33.1	0.1	0.0
Overall Result					**322.4**	**0.0**		**0.0**	**183.4**	**18.1**	**17.1**

Notes: *Disbursement data are updated at the end of the first week of the month.
a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

North Macedonia: Grants and Trust Funds

Grant No.	Grant Name	Grant Type	Grant Amount (US$, millions)	Grant Closing
TF0A8817	Functional Review of the Ministry for Agriculture, Forestry and Water Economy	Bank Executed	0.33	August 31, 2019
TF0A8771	North Macedonia: PPP Capacity Building and Legal Reform	Bank Executed	0.03	November 30, 2020
TF0A1779	North Macedonia Local and Regional Competitiveness Project Trust Fund	Recipient Executed	17.22	December 31, 2019
TF0A1780	North Macedonia Local and Regional Competitiveness Project Trust Fund	Bank Executed	1.37	December 31, 2019
TF0A9218	North Macedonia Innovation and Competitiveness Improvement Activity	Bank Executed	0.03	November 30, 2020
TF018812	MSIP	Recipient Executed	17.72	March 31, 2019
TF0A6158	North Macedonia Government Debt and Risk Management Program II	Bank Executed	0.12	August 31, 2021
TF0A7985	North Macedonia Organic Budget Law Seed Funding	Bank Executed	0.53	December 31, 2019
TF0A8742	Advancing PFM Reform Implementation in North Macedonia	Bank Executed	0.03	November 30, 2019

Annex 5: Statement of IFC's Held and Disbursed Portfolio
As of December 31, 2018
(in US$, millions)

Commitment Fiscal Year	Institution Short Name	Committed					Disbursed Outstanding				
		Loan	Equity	Quasi Equity	IFC Total	Mobilization Total	Loan	Equity	Quasi Equity	IFC Total	Mobilization Total
1999/1998	Macedonia Telecom	0	8.76	0	8.76	0	0	8.76	0	8.76	0
2013/2010/2014/2015/2012	NLB Tutunska Bk	0	0	11.45	11.45	0	0	0	11.45	11.45	0
Total Portfolio:		**0**	**8.76**	**11.45**	**20.21**	**0**	**0**	**8.76**	**11.45**	**20.21**	**0**

Annex 6: North Macedonia MIGA's Guarantee Portfolio (end-February 2019)

	FY15	FY16	FY17	FY18	FY19 YTD
Number of Projects	2	1	1	1	1
Number of Guarantees	2	1	1	1	1
Gross Exposure	27	11	22	22	28
Adjusted Net Exposure ($M)	108	11	22	22	28

Annex 7: CPF Consultations

FY19 North Macedonia Country Survey

1. The FY19 North Macedonia Country Survey was conducted during December 2018. A total of 336 stakeholders were invited to provide their opinions on the World Bank Group's work in the country. Participants were drawn from the Office of the President, the Office of the Prime Minister, government ministries and agencies, parliament, project implementation agencies, consultants/contractors working on World Bank - supported projects, local governments, development partners, private sector organizations (including the financial sector), private foundations, civil society organizations (CSOs)/community - based organizations, media, independent public institutions, trade unions, religious organizations, youth groups, academia/research institutes/think tanks, and the judicial branch. A total of 183 stakeholders participated in the survey (a 54 percent response rate). Respondents were asked about general issues facing North Macedonia. They were also asked about their overall attitudes about the World Bank Group and about working with it, as well as its effectiveness and results, knowledge work and activities, future role in the country, and communication and information sharing practices.

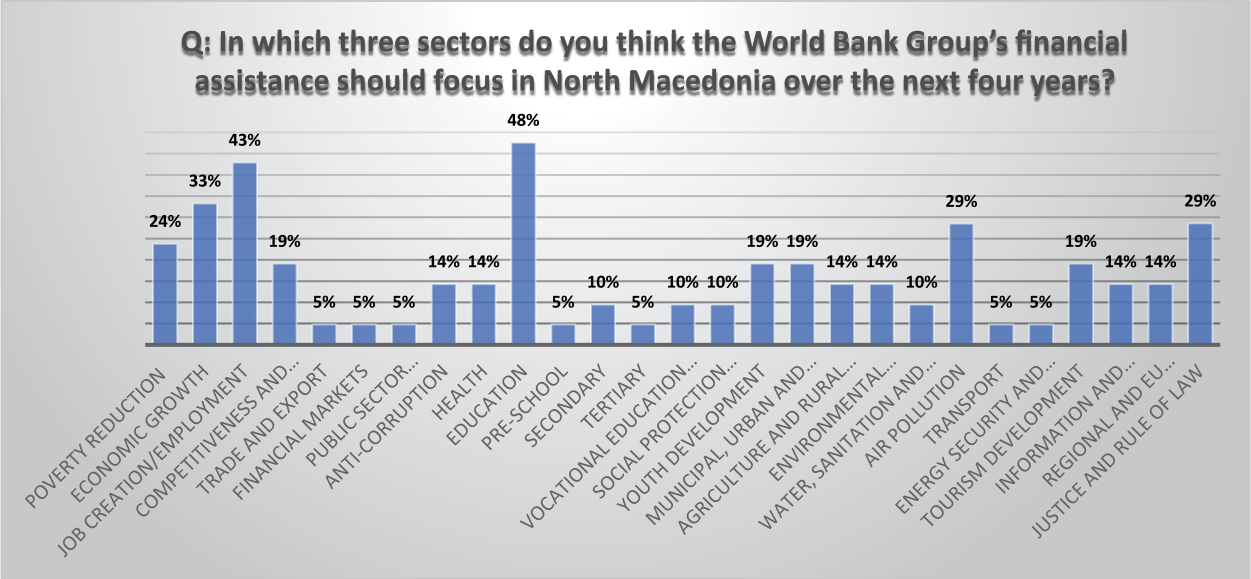
2. Although growth continues to be the top development priority, the stakeholders considered education and skills development to be equally important. In addition, the survey identified judicial reform, air pollution, public sector governance reform, and employment as the highest development priorities.

3. The World Bank Group, Central Bank, and regional development banks are the most trusted institutions, while the private sector, local and national governments, and media are trusted to a lesser degree. The stakeholders who collaborate with the World Bank Group in North Macedonia have extremely positive views about it and recognize its alignment with the country's development priorities. The World Bank is seen as a long-term partner, straightforward, honest, and respectful. Among the development priorities, stakeholders identified growth, education, and skills as key areas for the World Bank Group's focus. Preference for a World Bank Group emphasis on poverty has significantly increased, whereas stakeholder emphasis on jobs and private sector development has diminished. Finally, capacity development emerged as an important area for World Bank Group engagement.

CPF online survey

4. The World Bank Group conducted an online consultation and a brief survey on priorities to be addressed in the next Country Partnership Framework (CPF) cycle. The survey was conducted from October to December 2018.

5. The findings of the online survey were similar to the Country Survey. Respondents identified the following priorities for World Bank Group engagement: education (addressing the skills mismatch, particularly for youth, women, and vulnerable groups); the formulation of a sustainable economic growth strategy; the need to reduce air pollution; job creation; justice; and rule of law. The respondents also emphasized the lack of data and the need for technical assistance in conducting a population census in the country as a starting point for all future activities.



CPF consultations in Tetovo, Stip, and Kavadarci: Overview

6. The World Bank and International Finance Corporation (IFC) conducted consultations with local government officials, civil society, academia, and the private sector in three regions - Tetovo, Stip, and Kavadarci - during November 26–28, 2018. The key recommendations from these consultations are as follows:

- Local government officials stressed the need to promote more balanced regional development that focuses on poorer regions. They noted water, sewage, local roads, flood and disaster risk management (DRM), and air pollution as key priorities.
- All stakeholders emphasized the need for interventions in the education sector as a priority. Education outcomes are poor, and the system is disconnected from the needs of the labor market. The inadequate skills of job seekers were repeatedly recognized as problematic by the private sector participants.
- Significant outward migration is a constraint for development. The lack of skilled labor and the shortage of labor in general are becoming serious issues. It is becoming more difficult to find simple service and industrial workers such as drivers, waiters, and construction workers.
- The CSOs reiterated the need to have a more inclusive approach to the delivery of social services, job brokerage, and vocational training. More such services could be outsourced to the CSOs, which have a proven track record in delivering informal education services. The CSOs also want to play a more prominent role in corruption monitoring.
- Trade connectivity is a major issue affecting the competitiveness of local firms. Current border controls and cumbersome customs and veterinary procedures are slowing down the movement of goods and have a major impact on export competitiveness. Private sector representatives reiterated that investments are needed in transport corridors to improve connectivity between the western and eastern parts of North Macedonia.

CPF Consultations with the Private Sector

7. The World Bank and IFC conducted consultations with over 30 representatives of the private sector from different parts of the country on November 29, 2018 in Skopje. The key recommendations from these consultations are as follows:

- The World Bank Group's analytic work and proposed program remain relevant. Private sector representatives agreed with the findings of the Systematic Country Diagnostic (SCD) regarding the country's main

development challenges and opportunities. Participants assessed the proposed areas of the World Bank Group's engagement as relevant and needed. Participants also recognized the institutional capacity constraints in North Macedonia that may affect the implementation of proposed interventions.

- Human capital is one of the main weaknesses and immediate reforms are needed. The private sector is eager to assist, but the problem cannot be resolved without substantial government involvement and radical reforms in the country's education system. The lack of skilled labor and the shortage of labor in general are becoming serious issues. There is a general lack of unskilled, semi - skilled, and skilled labor across the country. It is becoming more difficult to find simple service and industrial workers such as drivers, waiters, and construction workers.
- Physical and digital infrastructure needs major improvements. It is important to improve digital infrastructure as a prerequisite to developing a competitive economy in the 21st century. There is low demand for the superfast Internet because of the low purchasing power in the country.
- Trade connectivity is a major issue affecting the competitiveness of local firms. Current border controls and cumbersome customs and veterinary procedures are slowing down the movement of goods and have a major impact on export competitiveness. Regional cooperation in the Western Balkans, despite recent initiatives by the European Union (EU) (Berlin process), is lacking and deteriorating further because of the apparent lack of political will and the intransigence of vested interests (for example, import tariffs imposed by certain countries and the long time needed to obtain import permits and licenses). Investments are needed in transport corridors to improve the connectivity between the western and eastern parts of the country.
- Slow and ineffective public administration affects business performance. For example, the issuance of work permits for foreign workers is a major bottleneck for foreign direct investment (FDI).
- The Government should focus on reducing the gray economy. The private sector expressed concerns that the proposed tax reforms may worsen the situation. Instead, they suggested that the Government focus on reducing the gray economy.
- There is a lack of public-private dialogue. The prevailing perception is that new laws and regulations are being adopted too quickly and in the absence of an adequate consultative process involving the private sector.

CPF Consultations with Members of Parliament

8. CPF consultations in the Macedonian parliament were held on November 30, 2018 with the president of the parliament and members of parliament from the following parliamentary commissions: Finance and Budget, Education, Social Policy, Transport, Communications and Environment, Agriculture, Forestry and Water Management, EU Affairs, Health, Equal Opportunities for Women and Men, and Local Self-Government. The following were the takeaways from these consultations:

- Opposition parties and the private sector should be involved in discussions with the Government whenever there are major reforms planned, such as tax reform.
- Agriculture was singled out as one of the most important areas that required the World Bank's attention. Among other measures, land policy reforms are needed as well as the consolidation of state-owned land and assistance for the modernization of the sector.
- Education reforms across all areas are needed, with an accent on curricula and vocational education, training modernization, and teacher training.
- The World Bank's assistance was requested for reforms of primary health care.
- Access to finance for micro firms as well as small and medium enterprises (SMEs) was identified as an issue.
- Additional investments are needed along the route of Corridor VIII.

Annex 8: Citizen Engagement Country Road Map

CPF Citizen Engagement Objective:

Improving the quality of citizen engagement (CE) and creating models for citizens to engage with government actors in development initiatives and key country reforms.

Focus Area I:
Export-Led Growth: Improve the Environment for a Competitive Private Sector

Focus on developing models for CE in roads, connectivity, and competitiveness (FCI) projects:

- National and Regional Roads Rehabilitation Project/ Road Upgrading and Development Project / Local Roads Connectivity Project
- Western Balkans Trade and Transport Facilitation Project
- Agriculture Modernization
- Digital Macedonia – High-Speed Broadband
- Innovation/Tourism Investment

Focus Area II:
Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable

Expand and disseminate CE models in social services project for adaptation in Focus Areas I and III:

- Social Services Improvement Project
- Skills Development and Innovation Support
- Primary Education Project
- Primary Health Care Project
- Pension Modernization Project

Incorporate CE in key ASA

- Macedonia Roma Education
- Solutions to Youth Unemployment

Focus Area III:
Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks

Ensure community engagement in key reforms, including pensions, "gray to green," and institutional sustainability:

- Pension Modernization Project
- Energy Efficiency Project
- Municipal Services Projects
- Fiscal Efficiency and Competitiveness DPF and Fiscal and Growth DPF

Incorporate CE in key ASA

- Municipal Infrastructure and Services

Development of more inclusive and intensive platforms of CE in projects under preparation
Ensure and monitor inclusion of all groups in CE activities, deepen engagement through well-targeted CE tools.

Capacity building of PIUs in projects under implementation
Provide regular capacity building to all PIUs to unblock implementation challenges, enhance reporting and transparency on CE progress. Support processes to ensure inclusive CE for women, youth, unemployed, and Roma.

Integrating citizen engagement with gender and climate changes objectives

Continuing Bank consultation with civil society actors through CPF and PLR efforts

1. Follow up on CPF consultations in PLR reporting with groups consulted during CPF preparation, reaching the community, local levels, and a broad range of local actors, CSOs, think tanks, academics, etc.
2. Ensure representation and inclusion of all groups (women, long-term unemployed, youth, and Roma) in feedback platforms for country engagement instruments.

Annex 9: OECD Development Assistance Committee (DAC) Donor Mapping in North Macedonia

DAC CODE	IFI/Bilateral Donor	World Bank Group	Ongoing Partnerships	Future Partnerships
Agriculture	EBRD, USAID, EU, FAO, SDC, SIDA, KfW, UNDP	World Bank	*	*
Banking and financial services	EBRD, USAID, SECO, EU	IFC		
Business and other services	EBRD, USAID, SECO, EU, European Investment Bank	IFC		
Communications	EU, United Kingdom, USAID			
Conflict prevention and resolution, peace, and security	EU, United Kingdom, USAID, SDC, SIDA			
Construction	EU, United Kingdom, UNICEF, UNDP			
Education basic	USAID, UNICEF			*
Emergency response and DRM	EU, United Kingdom, SDC, SECO, UNICEF, UNDP, FAO			
Energy generation, distribution, and efficiency, general	EU, United Kingdom, EBRD, USAID, SDC, KfW, UNDP			*
Energy generation, renewables	EU, United Kingdom, EBRD, KfW			*
Forestry	EU, SDC, FAO, JICA			
General environment protection	EU, United Kingdom, USAID, SECO, SDC, SIDA, KfW, UNDP,			*
Government and civil society, general	United Kingdom, USAID, SDC, EU, Netherlands, SIDA, UNDP	World Bank	*	*
Health, general	EU, WHO			*
Heating, cooling, and energy distribution	EU, KfW			
Industry	EU, EBRD, SECO	IFC		
Other social infra-structure and services (including social protection)	EU, United Kingdom, SDC, UNDP	World Bank	*	*
Population policies/ programs and repro-ductive health	EU			
Post-secondary edu-cation	EU, United Kingdom	World Bank	*	

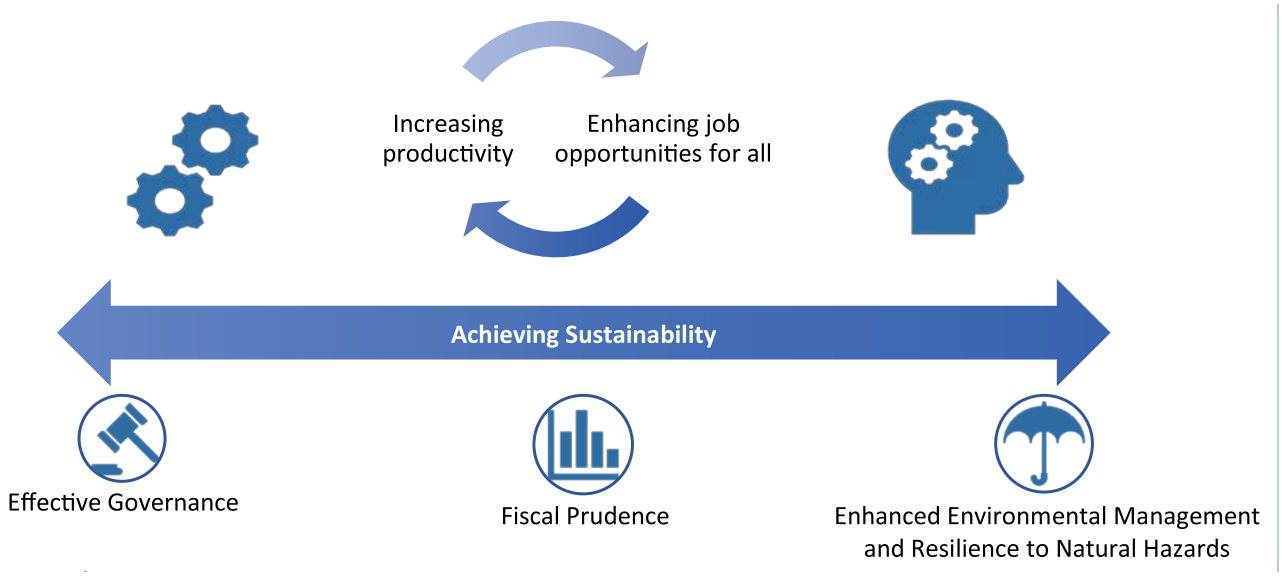
DAC CODE	IFI/Bilateral Donor	World Bank Group	Ongoing Partnerships	Future Partnerships
Reconstruction relief and rehabilitation	EU, UNDP			
Secondary education	EU, SDC, KfW, UNICEF	World Bank	*	*
Tourism	EU, EBRD, SDC	World Bank	*	*
Trade policy and regulations and trade-regulated adjustment	EU, United Kingdom, USAID, SECO	World Bank	*	*
Transport and storage	EU, EBRD, KfW	World Bank		
Urban and municipal development	EU, EBRD, USAID, SDC, SIDA, KfW, UNDP	World Bank	*	*
Water and sanitation	EU, EBRD, SECO, KfW, UNDP	World Bank		

Note: EU = European Union; EBRD = European Bank for Reconstruction and Development; FAO = Food and Agriculture Organization; JICA = Japan International Cooperation Agency; SIDA = Swedish International Development Agency; SDC = Swiss Agency for Development and Cooperation; SECO = Swiss State Secretariat for Economic Affairs; UNICEF = United Nations Children's Fund; KfW = Kreditanstalt für Wiederaufbau (German Development Bank); UNDP = United Nations Development Programme; USAID = United States Agency for International Development; WHO = World Health Organization.

Annex 10: Systematic Country Diagnostic – Main Conclusions

The Systematic Country Diagnostic (SCD) analyses (https://www.worldbank.org/en/news/press-release/2018/11/29/seizing-brighter-future-for-all-world-bank-systematic-country-diagnostic-for-fyr-macedonia) conclude that to converge with EU income levels and build a strong middle-class society, the Republic of North Macedonia needs to shift gears and find a path that generates faster, more inclusive, and sustainable growth.

The key elements for faster, more inclusive, and sustainable growth in North Macedonia



Source: SCD authors.

The SCD identifies three mutually reinforcing pathways for North Macedonia to sustainably accelerate growth, reduce poverty, and consolidate the middle class. The first is to foster a more dynamic and competitive private sector. The second is to develop more competitive and adaptive human capital and close opportunity gaps. And the third is to achieve sustainability through effective governance, fiscal prudence, and enhanced environmental management for resilience to natural hazards. Progress along these strategic pathways would help sustain the robust and inclusive growth necessary to eliminate extreme poverty and promote shared prosperity while mitigating threats to hard-won gains.

SCD's pathways to faster, more inclusive, and sustainable growth in North Macedonia

Pathway I: Fostering a more dynamic and competitive private sector	Pathway II: Developing competitive and adaptive human capital and closing opportunity gaps	Pathway III: Achieving sustainability through effective governance, fiscal prudence, and enhanced environmental management and resilience to natural hazards
• Enhance trade connectivity and value chain integration • Promote market competition and establish a world - class business climate • Strengthen firm capabilities and the ecosystem for technology adoption and easier access to finance • Foster agricultural modernization	• Endow people with quality and relevant skills throughout the life cycle • Reduce disincentives and remove barriers to labor market participation, especially for women • Protect human capital by shielding poor and vulnerable households from shocks and investing in preventive medicine and primary care	• Secure rule of law and build capable public institutions that are accountable to citizens • Ensure fiscal sustainability by reducing fiscal risks, improving the efficiency of spending, and enhancing revenue mobilization • Invest in an integrated strategy to reduce air pollution, promote low- carbon growth, and build resilience to natural hazards and climate change

The ten key policy areas identified by the SCD were prioritized based on their expected impact on Increasing productivity, enhancing job opportunities for all, and achieving sustainability.

The Prioritization Criteria for Policy Areas

Priority Policy Areas		Increasing Productivity	Enhancing Job Opportunities For All	Achieving Sustainability
Highest Expected Impact	1. Secure rule of law and build capable public institutions that are accountable toward citizens			
	2. Endow people with quality and relevant skills throughout the life cycle			
	3. Strengthen firm capabilities and the ecosystem for technology adoption and easier access to finance			
	4. Enhance trade connectivity and value chain integration			
	5. Promote market competition and establish a world- class business climate			
High Expected Impact	6. Reduce disincentives and remove barriers to labor market participation, especially for women			
	7. Ensure fiscal sustainability by reducing fiscal risks, improving the efficiency of spending, and enhancing revenue mobilization			
	8. Invest in an integrated strategy to reduce air pollution, promote low-carbon growth, and build resilience to natural hazards and climate change			
	9. Protect human capital by shielding poor and vulnerable households from shocks and investing in preventive medicine and primary care			
	10. Foster agricultural modernization			


NORTH 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.
NORTH MACEDONIA
KOSOVO
SERBIA
BULGARIA
GREECE
ALBANIA
THE CITY OF SKOPJE
Skopje serves as the Municipality Capital for each of these Municipalities
SUTO ORIZARI
GJORCE PETROV
BUTEL
GAZI BABA
CHAIR
SARAJ
KARPOSH
SKOPJE
AERODROM
CENTAR
KISELA VODA
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21°E
22°E
23°E
42°N
41°N
Pelinci
Staro Nagorichane
Rankovce
Kriva Palanka
Lipkovo
Chucher-Sandevo
Kumanovo
Vratnica
Tearce
Jegunovce
Kratovo
Osogovske Mts.
Makedonska Kamenica
Arachinovo
Tetovo
Zheino
Ilinden
Probištip
Delčevo
Bogovinje
Brvenica
Sopiste
Petrovec
Kočani
Studenichani
Sveti Nikole
Oblesheva (Chashka)
Vinica
Zelenikovo
Žrnovci
Mt. Korab (2,753 m)
Vrapchishte
Karbinci
Gostivar
Lozovo
Pehcevo
Štip
Maleševske Mts.
Veles
Berovo
Chaska
Radoviš
Rostusha (Mavrovo & Rostusha)
Zajas
Oslomej
Gradsko
Makedonski Brod
Debar
Kičevo
Rosoman
Konche
Centar Župa
Drugovo
Negotino
Vasilevo
Vraneshtica
Plasnica
Dolneni
Kavadarci
Demir Kapija
Strumica
Basilovo
Novo Selo
Crni Drim
Kruševo
Prilep
Valandovo
Belchishta (Debarca)
Sopotnica
Krivogashtani
Star Dojran (Dojran)
Vevčani
Demir Hisar
Bogdanci
Lake Dojran
Struga
Gevgelija
Ohrid
Mogila
Resen
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Bitola
Nidže Mtn.
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