

ANNEX 2: FY06-FY09 CAS COMPLETION REPORT

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

This Country Partnership Strategy Completion Report (CPSCR) reviews the experience implementing the FY07–10 World Bank Group Country Partnership Strategy (CPS) for the former Yugoslav Republic of Macedonia (Report No. 38840-MK, dated March 2, 2007). The document assesses the effectiveness of Bank Group’s strategy in (i) aligning its objectives with FYR Macedonia’s long term strategic goals; (ii) setting relevant, measurable and realistic CPS outcomes; and (iii) achieving its expected outcomes in an efficient and sustainable way. In addition to discussions with the country team and government counterparts, this assessment is based on reference documents such as the CPS, Project Appraisal Documents, Implementation Status Reports, supervision reports, and reports related to Economic and Sector Work. The findings of the assessment have informed the preparation of the FY11-FY14 CPS.

INTRODUCTION

Since FYR Macedonia joined the World Bank in 1994, Bank financing has helped the Government maintain macroeconomic stability, reform the enterprise sector and develop a sound financial sector, and provided investment support in key sectors including energy, roads, irrigation, community development, health, education, and others sectors. Some 50 loans have been approved with a total value of around US\$1 billion. Around half of all lending has been on concessional IDA terms. But because of improved economic performance and creditworthiness, FYR Macedonia graduated fully from IDA in 2003.

During the four years of the World Bank Group’s Country Partnership Strategy (CPS) for FYR Macedonia during FY07-FY10 (hereafter referred to as CPS07), the World Bank delivered 9 lending operations for a total of US\$292 million (see Table 1). This was slightly more than the CPS lending envelope of US\$280 million. The lending included 3 DPLs and 6 investment projects, with DPL proportion representing one third of overall new commitments.

The World Bank maintained a high-case lending program, based on the strong reform efforts of the Government. This is particularly noteworthy among the countries of the Western Balkans, where volume has been declining as IDA constraints have begun to apply and where the full transition to IBRD has proven to be difficult for creditworthiness reasons. In fact, FYR Macedonia’s strong

performance has allowed the Bank to continue lending on full IBRD terms at a stable level over the past decade.

The CPS07 presented an IBRD program of support for the period FY07-10, which sought to build on the markedly improved macroeconomic management and structural reform progress since the 2006 elections. The IBRD program focused on fostering job-creating economic growth and increasing living standards for all, and improving governance and transparency in public sector delivery to support a market economy.

Table 1: 2007-2010 Lending program

	Project	(US\$mil.)
FY07	- TTFSE 2	20
	- GEF Energy Efficiency	Grant
	- Agriculture Strengthening and Accession project	20
	- PDPL 2	30
	<i>Subtotal</i>	70
FY08	- Regional and Local Roads	105
	- PDPL 3	25
	<i>Subtotal</i>	130
FY09	- Municipal Services Improvement	25
	- Conditional Cash Transfer project	25
	<i>Subtotal</i>	50
FY10	- DPL 1	30
	- Additional Financing: Real estate Cadastre and Registration project	12
	<i>Subtotal</i>	42
	Total	292

THE GOVERNMENT’S LONG TERM DEVELOPMENT GOALS

The Government work program, articulated in its 2006 election program entitled “Rebirth in 100 steps”, served as basis for the CPS. Returned to power in June 2008 with an increased majority after early parliamentary elections, the ruling coalition has a strong mandate to govern until 2012. Its new program “Rebirth in 100 steps: Upgraded and Expanded” aims at improving the living standards of all citizens, increasing employment, strengthening the fight against corruption, consolidating democracy and improving interethnic relations in accordance with the Ohrid Framework Agreement.

European Union and North Atlantic Treaty Organization (NATO) integration is the first priority of the government program, endorsed by the entire coalition. Following a 1997 cooperation agreement with the EU, the country signed a Stabilization and Association Agreement in April 2001, giving it access to European markets. In December 2005, it obtained candidate country

status for EU accession. Efforts to implement the “*acquis communautaire*” has since then driven governments reforms in accordance with the Accession Partnership Priorities, and include: judicial reform, police reform, public administration reform, anti-corruption policy, protection of human rights and of minorities, free movement of goods, labor policy, monetary policy, financial regulation, public procurement, agricultural and rural development, consumer and health protection, education and science. Based on the progress made, the European Commission’s 2009 Progress Report recommended the opening of accession negotiations.

A second strategic goal of the government is to improve business climate. Structural reforms to improve the investment climate are central to the program, with a focus on: (i) reducing the burden of superfluous business regulations and requiring a regulatory impact assessment (for new regulations); (ii) reducing the business registration process time further from five to three days; (iii) completing the land cadastre and real estate registry; (iv) ensuring a more efficient and competitive financial system; (v) further increasing labor market flexibility; and (vi) protecting ownership rights, contract enforcement and shareholders rights. The government was also keen on advertising heavily in major western business publications and providing a package of incentives to potential investors. Improving the rankings of the country in the annual “Doing Business” report on the adequacy of business regulation has been a constant goal for the authorities.

A third long term strategic goal is to increase competitiveness, actively promote a new industrial policy and improve the performance of the agriculture sector. The government has adopted in 2009 a strategic industrial policy plan¹⁵, the first of its kind since independence in 1991. The aim of the plan is to align industrial policy with EU’s Lisbon growth and jobs strategy, increase the competitiveness of the national economy and build a knowledge-based society. The policy focuses on five areas: promoting foreign direct investment (FDI); increasing resources for research, development and innovation, developing eco-friendly technologies, products and services; encouraging of small and medium-size enterprises (SMEs); and establishing of clusters. The competitiveness strategy includes the development of high-tech industries, along with the modernization of the country’s main traditional export branches (metals, textiles and food processing). The agriculture is also high in the government priorities, with plans to develop land markets, promote FYR Macedonian agricultural products for the export markets, and increase farmer’s access to credit.

A fourth objective is to fight corruption, improve governance and modernize public service delivery. The government’s anti-corruption plan, which has been allocated specific budget, calls for special investigation measures in corruption cases, strengthening of operational coordination among law enforcement agencies and implementing provision on campaign financing. The government’s program also calls for improved governance, including implementation of the judicial reforms, public administration reform with the introduction of salary incentives and the adoption of a continuing training system, and the pursuing of decentralization with a clearer definition of the competencies of local authorities. Improving infrastructures is also a priority after years of underinvestment, in order to reduce the costs of production and transport, increase returns to private investment and facilitate exports. Investments to expand road, electricity generation, irrigation networks, modernize railways and enhance the functioning of energy markets, including through concessions and public-private partnerships (PPPs), are envisaged.

¹⁵ Developed under the World Bank-financed Business Environment Reform and Institutional Strengthening project.

The fifth long term strategic goal of the government is to invest heavily in the education system. Improving access to and quality of education is key to ensure that youth are equipped with knowledge and skills that will help foster economic growth and improve FYR Macedonia's prospects for EU membership. At the primary and secondary education levels, the goal is to increase school enrollment by addressing the direct and indirect constraints on attendance, bridging the outcome gaps between ethnicities, increase the level of teaching and learning, renovate schools to provide better learning environments, and expand access to and use of computer and internet technologies. In higher education, the government program needs to press ahead with reforming the curriculum to make it more relevant to the labor market, to fulfill the requirements of integration into the European higher education area, and to strengthen its research capacity.

WORLD BANK GROUP'S OBJECTIVES

Consistent with government priorities and aiming to accelerate the country's perspective of EU membership, the CPS07, proposed two strategic pillars of intervention: (i) fostering job-creating economic growth and increasing living standards for all; and (ii) improving governance and transparency in public sector delivery to support a market economy. The \$280 million program (in the high case scenario) intended to support the government's wide ranging reform effort by combining the implementation of the existing lending program with a proposed new lending program for the following four years, comprising of a maximum of 10 new investment projects, as well as the completion of an ongoing three-year DPL program and the start of a new series of DPLs towards the end of the CPS period. A full program of analytical support and technical assistance was also designed to inform the government on future policy decisions in key economic and sectoral areas. The analysis of the country's development challenges were developed collaboratively by the Bank and the government, based on the framework provided by the EU accession priorities and the first "Rebirth in 100 steps" manifesto.

The CPS Progress Report (Report No. 47759-MK, dated March 4, 2009) introduced a revised and streamlined results matrix aligned with government priorities, with measurable indicators to guide program planning, country performance monitoring and portfolio performance monitoring. The revised matrix featured nine outcomes and thirty three milestones grouped under four outcome clusters to achieve cross-sector CPS synergies. The two pillars of the CPS, as well as the objective of supporting the country's aspiration of joining the EU, were reflected in each of these four outcome clusters. This reformulation did not change the development objectives, nor the substance of most indicators.

The four clusters included:

Growth and competitiveness: increase the flexibility of the labor market and decrease the tax wedge, establish an efficient land administration system, and improve institutional capacity of agriculture sector public institutions in line with EU accession requirements

Business environment: improve the business environment as measured by the Doing Business report, increase the efficiency of the judicial system and improve the courthouse infrastructure

Human development: improve the school infrastructure and the quality of education in basic and secondary education, improve the efficiency and transparency of Health Insurance Fund operations

and the institutional and management capacity of the Ministry of Health, improve the administration and targeting of cash benefits and strengthen the pension system

Infrastructure: improve the road and rail infrastructure and management capacity, improve efficiency and sustainability of the energy sector, improve local services and infrastructure in selected municipalities.

Within the frame of the above mentioned clusters, and given the global financial crisis, the CPSPR maintained the flexibility to respond promptly and adequately to the evolving economic situation in the country and included the possibility for a DPL to support an endorsable policy response to the global economic crisis.

ASSESSMENT OF CPS OUTCOMES BY CLUSTER

Country Development Goal: Improve competitiveness and growth through appropriate policies and effective institutions.

Program rating: Progress on improving competitiveness and growth is rated as **Satisfactory**.

Outcome 1: Increase flexibility of labor market and decrease tax wedge

The World Bank's focus on this Outcome was in large part the result of assistance provided through the series of Programmatic Development Policy Loans (PDPL). The main component of the labor reform was the new Labor Law, which complemented the reforms that led to the transformation of enterprise ownership and increased labor market flexibility by expanding possibilities to use fixed-term employment, including seasonal and part-time employment, removing most restrictions on work-hours as well as introducing voluntary participation to collective bargaining. Substantial amount of technical assistance underpinned the drafting and implementation of the new labor law, whose passage was widely supported by government as a key reform to enhance competitiveness. In addition, a Dutch Trust Fund (TF) provided assistance to improve the enforcement of the Labor Law by strengthening the capacities of the State Labor Inspectorate.

In response to strong government demand, the Bank also produced a series of three policy notes on labor taxation, active labor market programs, and health insurance for the unemployed, as well as a labor market profile based on an analysis of Labor Force Survey data. The World Bank helped the Government select a set of good practices from a number of countries in the region, including Bulgaria, Hungary and Serbia. With Bank support, the Law on Peaceful Resolution of Labor Disputes was prepared to facilitate the establishment of a new approach to labor relations between stakeholders.

Outcome 2: Establish efficient land administration system.

The Government made great strides in making the land administration system more efficient. The real estate cadastre (REC) is completed on 98 percent of the territory of the country, a new Law on Real Estate Cadastre has been promulgated that streamlined the land registration process, and significant changes were introduced in the management process and capacity of the Agency of Real Estate Cadastre (AREC), making it more efficient and client oriented. This resulted in steep increase

in the number of registered transactions (93,240 in 2009 compared to 42,116 in 2005), mortgages (114% increase compared to 2005) and reduction of shortening of the period for transaction registration (70% of all transactions are registered in one day and 30% between 3-8 days). Client surveys showed that the cadastre and AREC are not impediments to the real estate market as they were in 2004, but rather are supporting and helping the market to grow by providing the necessary security and an efficient service.

The World Bank played a major role. The Real Estate Cadastre and Registration project provided financing and technical assistance needed for the establishment of the real estate cadastre. Together with the Swedish International Development Agency, the World Bank helped the transformation of the State Authority for Geodetic Works (SAGW) into a modern and efficient Agency for Real Estate Cadastre and improved service delivery in all local and regional offices. The project helped the Government take an organized approach to land policy, by initiating formation of Land Policy Advisory Committee and by financing land policy studies related to the security of tenure, access to land for investments, state land management, and study on illegally built objects, as well as an initiation of a state indemnity fund. The project has been complemented by the activities of the Sweden, Dutch, and Japanese governments, through a well developed coordination mechanism. Based on the success of the reform, the Government has asked for continuation of the project through Additional Financing, which has approved by the World Bank's Board of Executive Directors in May 2010.

Outcome 3: Improve institutional capacity of agriculture sector public institutions in line with EU accession requirements.

Given the importance of the agriculture sector for the development of the country, as well as for its EU accession efforts, the Government paid significant attention to enabling the Ministry of Agriculture, Forestry and Water Economy (MAFWE) to formulate and implement effective policies and increase effectiveness of public expenditures in agriculture in an EU-compliant manner. The Agriculture Strengthening and Accession project, started in 2007, aims at building the institutions necessary to meet EU accession requirements and access and absorb pre-accession assistance, strengthen veterinary and phytosanitary capacity to meet EU food safety standards and alleviate irrigation-related constraints on productivity, by building on the ongoing reform of the irrigation sector conducted under the previous World Bank Irrigation Restructuring and Rehabilitation Project. World Bank assistance in this sector was informed by the Study on Agriculture and EU Accession, delivered in FY07.

The progress of reforms in agriculture is satisfactory, despite the complexities the sector is facing. Through the World Bank assistance, MAFWE's ability to deliver EU rural development funds has been increased – the European Commission conferred the right to manage the funds from the EU Instrument for Pre-Accession Assistance in the area of the rural development (IPA Fifth Component –IPARD) to the FYR Macedonian operative structure assigned for IPARD. The progress in the development of effective veterinary capacity has resulted in (i) a reduction of the prevalence of brucellosis and tuberculosis, and an increase of vaccination coverage against classical swine fever, (ii) conduct of a preliminary screening and provisional classification of food establishments, and further steps for gradual upgrading to EU standards are being contemplated, and (iii) formal reports attesting that veterinary laboratories (animal health and food hygiene) are successfully pursuing accreditation of an increasing number of tests. Irrigation Water Communities (IWCs) have been formed in accordance with the agreement reached - to date, from a total of 33 IWCs planned, 16

IWCs covering around 12,550 ha of total service area have held founding meetings, and 10 IWCs covering around 1,300 ha total area are in process of registering. The progress is considered to proceed at an appropriate pace when compared with the progress under the previous World Bank-financed irrigation project.

MAFWE capacity building continues through the initiation of an Integrated Administration and Control System, particularly focusing on the Farm Registry and Land Parcel Information System; establishment of an Agriculture Information System including a Farm Accountancy Data Network and Market Information System; strengthening the Agricultural Inspection Services; and improving MAFWE's capacity in areas such as agricultural policy analysis and by improving linkages between the regional offices and headquarters. This goal is planned to be accomplished primarily through upgrading and linking agricultural information and IT systems; provision of technical assistance during design and implementation; renovation of MAFWE facilities; logistical support, and staff training.

Country Development Goal: Improve the business climate, reduce regulatory burden on businesses, ease entry of new businesses.

Program rating: Progress on improving the business climate is rated as **Satisfactory**.

Outcome 1: Improve business environment as measured by Doing Business report.

Through specific measures under the PDPL series, FYR Macedonia was able to improve its ranking in the Doing Business survey, from 83 out of 125 in 2006 to 32 out of 185 in 2009. At the same time, the Business Environment and Enterprise Performance Survey (BEEPS) 2008 results show improvements in a number of areas related to business environment. The percentage of firms that reported licensing and permits as problems of doing business fell from 41 percent in 2005 to 34 percent in 2008; 27 percent of firms identified customs and trade legislation as a problem in 2008 compared to 37 percent in 2005.

The authorities recognized that fast and affordable market entry is critical to successful market competition and launched a major reform, supported by the PDPL and other donors, which led to the adoption of the Law on Business Registration. The new legislation streamlined the registration by taking it out of the courts, combining a number of government agencies and reducing time, steps and costs required to start a business: (i) time to register a company was reduced from 3 days to 24 hours; (ii) cost of registering a business has been reduced to less than Euro 50, (iii) during the first half of 2008, the number of registered companies increased for 6 percent and (iv) the country ranks 12th in the world on the Doing Business Starting a Business indicator. The active assistance of the Doing Business Reform Advisory services provided the necessary guidance in achieving these results.

PDPL activities were complemented by the Business Environment Reform and Institutional Strengthening project (BERIS) that has the strengthening the capacity of the Government to improve selected areas of the business environment, directly responding to the relevant chapters of the EU Accession Negotiation requirements. The project financed the improvement of the Metrology, Standards, Testing and Quality infrastructure, improved the work processes at the Central Register¹⁶

¹⁶ The Central Register of Republic of Macedonia is the single institution for registering companies, foreign representative offices, and other entities in the country.

and services that address the enterprise sector's difficulties in competing in domestic and foreign markets, improvements in the competition policy regime and improve access to information that increases transaction costs and/or impedes sound investment decisions.

The Real Estate Cadastre and Registration project shortened the time for property registration (70% of all transactions are registered in one day and 30% between 3-8 days), which offered more opportunities for the creditors and resulted in increased number of mortgages (8,573 in 2008 compared to 2,920 in 2005).

A key part of creating the right business environment is proper financial reporting. FYR Macedonia joined "***The Road to Europe - Program of Accounting Reform and Institutional Strengthening***" (***REPARIS***) - a regional program aimed at creating a transparent policy environment and effective institutional framework for corporate reporting within South Central and South East Europe. REPARIS, developed by the Bank in close cooperation with the OECD and the European Commission and financed by the Dutch and Austrian Governments, offers training to senior civil servants, financial sector regulators and accounting and auditing bodies in emerging issues and new trends in both EU and global requirements impacting the regulation of accounting and auditing.

On demand of the Government, a "one-stop-shop" approach was introduced that integrates Bank Group interventions designed to strengthen the business environment. A joint World Bank/IFC/FIAS business environment specialist was hired, a business environment core team was established, and the role of the World Bank Group approach on business environment services is being strengthened.

During FY07-10, IFC invested around US\$90 million, through the US\$55.3 million post-privatization loan to the Austrian owned electricity distribution company EVN and the US\$34 million loan to NLB Tutunska Banka, the country's third largest bank, to support SME sector and facilitate export/imports through a trade finance guarantee facility.

Within the frame of its work on the Alternative Dispute Resolution (ADR), IFC provided assistance to the Ministry of Justice to prepare in 2006 the first Law on Mediation and in 2009 its amendments. IFC also has supported the establishment of the Chamber of Mediators and helped with training of over 120 mediators, 60 lawyers, and 40 judges. As a result of mediation, over US\$3.5 million are released and returned to the economy.

Since 2006, IFC has been supporting Securities and Exchange Commission and Stock Exchange to develop the Corporate Governance Code and supervisory tools. As a result, over 200 entities received tailored advisory services, including one-on-one trainings to 80 companies and in-house support to 15 companies to improve their governance policies and practices. IFC also supported inclusion of corporate governance in regular university curricula. As a result, the reporting towards Securities and Exchange Commission is improved and over US\$4 million additional capital was raised for client companies.

IFC has been active in addressing the lack of information and resources regarding international standards and technical regulations in FYR Macedonia. To promote international standards IFC has organized over 50 various events with 1000 individuals including 9 topical trainings approved by International Register for Certified Auditors (IRCA). As a result, 100 individuals passed the relevant exams and being able to enter the consultancy standards market in the country. In addition, IFC supported 11 companies to implement various new standards resulting in increased sales by US\$120 million and increased export by US\$90 million.

Outcome 2: Reduce the burden of regulation on businesses

In order to clean up the legal framework from legislation that was constraining business activity, the Government, through its General Secretariat, established the Committee for Regulatory Reform (CRR), and performed a stocktaking of more than 2,000 laws and bylaws. The model of the “Regulatory Guillotine” worked effectively in reducing unnecessary regulations. Following the review of the legislation the CRR, determined whether it was sensible to retain, modify or eliminate them. The process involved extensive dialog with the ministries, each of which had working groups, and the private sector. In the first round of the guillotine, the Government identified 64 Laws and 481 by-laws which were supposed to be amended or eliminated, which it then translated into 5 packages of measures. By September 2009, the Parliamentary procedure for amending 39 of the 64 laws was completed. At the same time, 382 of 481 by-laws had been abolished or amended through Ministerial decrees. The second phase of the “guillotine” is underway.

The regulatory guillotine included the reduction in fees, number of required forms and other documentation in Government agencies critical to doing business, such as the Cadastre and the Central Registry. One of its biggest accomplishments was the introduction of the “silence is consent” principle in dealing with the administration, basically stipulating that if the administration does not respond to a certain request within certain timeframe, the client should consider it cleared. Implementing this principle required amending the Law on Administrative procedures.

The regulatory reform was intended also to prevent the build-up of new legislation that may be hampering business activity through the Regulatory Impact Assessment (RIA), which is the third phase of regulatory reforms. The RIA was officially launched on January 1, 2009 and its implementation was supported by the Bank’s BERIS and the UK’s GOFRA projects. Among other things, the RIA requires that all new laws undergo a regulatory impact assessment to ensure that the benefits of the law outweigh its costs. This effort is in line with EU accession efforts and represents a deepening of the PDPL supported reforms.

Outcome 3: Increase the efficiency of judicial system and improve courthouse infrastructure

Judicial reform is identified as one of key priorities by the Government, the private sector and one of key reform areas required for the country’s progress toward accession to the European Union. Through the PDPL series and associated Legal and Judicial Improvement and Institutional Support project, the improvement to the judicial legal framework included, inter alia:

(i) reduced backlog and delays in court proceedings through the adoption of a new Law on Civil Procedure that streamlined case processing including delivery of summons and case hearings, and shortened civil proceedings by ending unlimited recusal requests and requests for continuances. The new Law on Courts established a more effective organization of the court system including setting up of an Administrative Court and allowing for specialization within courts. At the same, the Constitutional Amendments and the new Law on Misdemeanors, the Law on General Administrative Procedure and the subsequent changes to a number of sector laws have allowed agencies to issue misdemeanor sanctions without court action, thus freeing the courts from thousands of cases. As a result, the backlog of these cases fell by 576 cases from June 2005 to June 2007 with 22 of the 27 basic courts recording a reduction in backlogs;

ii) improvement of judicial infrastructure through completed refurbishment of 9 court houses in cities throughout the country (and two additional refurbishment underway). The construction of new Criminal Court in Skopje is underway;

iii) improved enforcement of court judgments by supporting the adoption of the Law on Enforcement that took enforcement out of the courts and placed the function in the hands of private bailiffs. Managing of cases has improved and enforcement of court cases increased from 18 percent in 2005 to 39 percent in 2009;

iv) improved regulatory and implementation framework for bankruptcy cases through the adoption of a new Bankruptcy Law which revamped the bankruptcy procedures by changing the role of the trustee, the bankruptcy process and introducing more transparency and oversight, resulting in average fall of duration of bankruptcy procedures from 3 years and seven months to two years and two months, as well as technical assistance provided to the Chamber of Trustees;

v) increased transparency and fairness of administrative agency decisions was supported through the adoption of the new Law on General Administrative Procedures which introduced international standards of transparency, fairness and due process, along with the establishment of the Administrative Court which took over jurisdiction for administrative cases from the Supreme Court;

vi) increased institutional capacity to implement and monitor reforms by strengthening the General Administrative Office in order to create capacity within the judiciary for the implementation and monitoring of the comprehensive reforms agenda;

(vii) installation of a Case Management Information System all courts is underway, through joint financing of USAID and the World Bank.

These reforms, also assisted by the European Commission and USAID, are beginning to show results. According to the BEEPS 2008, the percentage of firms that find the courts to be a problem of doing business declined from 55 percent in 2005 to 50 percent in 2008.

Meanwhile, the IFC has been working since 2004 to support legislation reform through the ***Alternative Dispute Resolution (ADR) Program*** in FYR Macedonia. With the Ministry of Justice as main partner, the law on Mediation was passed, as well as a by-law on the Training Program for Mediators. In addition, training for 60 mediators, 60 lawyers and 15 judges have been delivered, several round tables and one ADR Conference for promotion of usage of mediation has been organized, and an extensive and far-reaching PR campaign has been undertaken.

Country Development Goal: Improve the effectiveness of education, health and social protection reforms.

Program rating: The overall progress of the program is rated **Moderately Satisfactory**, although the results varied across projects.

Outcome 1: Improve school infrastructure and quality of education in basic and secondary education.

Improvement of school infrastructure has been financed through the Education Modernization Project (financed through a US\$5 mil IBRD loan and US\$12,5 mil Dutch trust fund) with dual

objective: (i) to improve quality of learning and participation at the targeted schools by strengthening school level planning and management and (ii) improved equity and efficiency for a decentralized education system. The project helped the country respond to the challenges of creating a quality, decentralized education system by: (i) establishing a school self-evaluation process; an evaluation performed by the State Education Inspectorate; and a nationally administrated assessment of student achievement, which provides data about the quality of the education system; (ii) introducing medium- and long-term planning at both central administration and school levels and (iii) providing community-based School Improvement Grants to all 427 primary and secondary schools to improve infrastructure, strengthen student security and hygiene, and provide teacher training and teaching aids.

The project financed the establishment of National Education Management System (EMIS) - a tool designed to monitor education service delivery and outputs, and resource flows, and helps to strengthen partnerships between all levels of authorities and operations. It is expected for the EMIS to be fully functional in the second half of 2010.

As a result of the above efforts, the secondary enrollment increased to 95 percent from 85 percent, and dropout rates decreased to 1.9 percent from 2.1 percent between 2004 and 2008. A market for teachers' training has been established, along with criteria for accreditation and monitoring of teacher training services. Also, the State Matura examination, the national assessment of student achievement, was given for the first time in 2008 in all four-year schools. From 2004 to 2007, 48.8 percent of school managers and teachers reported improvements in students' achievements, 60.7 percent saw improvement in planning and assessment processes, and 28.5 percent confirmed that attendance and participation of students improved.

Outcome 2: Improve efficiency and transparency of Health Insurance Fund operations and institutional and management capacity of Ministry of Health

Through the Health Sector Management project and the new DPL series, a strong reform effort has considerably improved the sustainability of the health sector. The Health Insurance Law was amended to streamline the operations, decision-making and transparency of the Board of Directors of the HIF. The competitive procurement of pharmaceuticals (an important achievement of a previous DPL series) resulted in considerable savings. Most recently, the HIF board has decided to institute reference pricing and stronger controls over spending were institutionalized. The preparation for launching bundled pricing for acute inpatient services based on Diagnostic Related Groups (or DRGs) is well advanced and will further rationalize capacity in the hospital sector. However, in order for hospitals to be prepared to function under output-based financing, financial management and service delivery arrangements (level of autonomy over budget, hiring and firing), and capacity must be enhanced (for example, currently, the majority of Health Care Institutions have very high fixed costs (over 80 percent for salaries) which leave little for purchasing other inputs for service delivery. More balanced budget allocations will require capacity rationalization, especially on human resources and use of more contracted staff.

Outcome 3: Improve administration and targeting of cash benefits and strengthen pension system

The effectiveness and efficiency of the social protection system has been increased. The Social Protection Implementation Loan (SPIL) has addressed the major steps towards the finalization of the Pension reform agenda (introduction of the mandatory fully funded pension system, development of

a framework for voluntary funded pension scheme, new system of collection and record keeping of pension contributions implemented on individual basis, etc). The reform of social cash benefits will introduce a redesigned and streamlined system of social cash benefits, based on automation of business processes and unification of registries of beneficiaries with web based software to be developed. The Management Information System for the cash benefits will be the most crucial investment in the improved administration practices, inspections and controls.

The work in the social policy area was underpinned with technical assistance that helped develop the Law on Social Protection that should set the basis for the harmonization of benefits, the Law on fully-funded pension pillar and the Law on privately funded pension pillar, as well as changes in the Pension Law.

At the same time, SPIL was a major pre-requisite for the new Conditional Cash Transfer Project – CCT (FY09). The CCT will build on the activities initiated under the SPIL in order to continue strengthening country's social safety net through improvements in the administration, oversight, monitoring, and evaluation of social assistance transfers. CCT will also support Government's efforts to develop and introduce conditional cash transfer programs. The adoption of suitable policy framework for the improved functioning of the social safety net system has also been supported through the new series of DPL (FY10). Due to the complexity of the design of the system and issues related to the system developer, the establishment of the integrated management and information system covering all cash benefit programs and all beneficiaries has been delayed, which induced a delay in the introduction of the first CCT program.

Country Development Goal: Increase the capacity of road and rail transport and lower trade and transport related transaction costs, improve the efficiency and sustainability of the energy sector, improve local infrastructure.

Program rating: The overall progress of the program is rated **Moderately Satisfactory**, although the results in transport and energy sectors varied across projects.

Outcome 1: Improve road and rail infrastructure and management capacity.

Improvements are being made to the rail and road infrastructure and management systems, leading to reduced cost of access to markets and services. This has been made possible by policy and institutional reforms and infrastructure investments undertaken under the Railway Reform Project - RRP (FY06), the Second Trade and Transport Facilitation Project – TTFSE2 (FY07) and the Regional and Local Roads Program Support Project – RLRPSP (FY08).

The RRP had the challenge of helping transform a rail sector that was heavily in debt with declining operational capacities at the beginning of CPS07 into one that would be operating more efficiently within policy, legal and institutional arrangements that are in conformity with EU Directives. Whilst all the challenges have not been met, much has been achieved directly under RRP or indirectly through advisory support by the Bank team: (i) the former Macedonian Railways has been divided into a Rail Infrastructure Company (MR-I) and a Rail Transport Joint Stock Company (MR-T), some staff reductions undertaken during the process and a plan for further reductions elaborated; (ii) the railway infrastructure is now open to use by private operators with a Track Access Charges system introduced; (iii) the MR-I has published the Network Statement describing the transport services available, the characteristics of the railway network, the level of track access charge, and the

conditions for contracting transport services on the railway infrastructure in compliance with EU Directives; (iv) the basis for the payment by the Government for passenger services provided by MR-T (Public Service Contracts) has been defined and under implementation; (v) a number of new legislation have been adopted (e.g. Railway Law, Transport Safety, contracts for carriage by rail, transport of dangerous goods, Railway Agency, etc.) that should lead to a more commercial approach to the provision of rail services in the country. Further to this, the process has started for establishing an independent Regulatory Agency for rail services and a detailed action plan prepared with the help of the Bank on necessary key steps for deepening the reform. As a result of these reforms, the railway system is in conformity with the EU accession requirements.

The Second Trade and Transport Facilitation project (FY07) is financing the (i) upgrade to motorway standards of the last stretch of road between the capital of Skopje and the main border crossing between FYR Macedonia and Serbia (corridor X), which is expected to be completed by end 2010, (ii) renovation of the main border crossing with Kosovo (Corridor X) – to be completed by Spring 2011. As part of its activities, the project financed the establishment of the telecommunication system for the exchange of train information between railways and customs. Reduction of non-tariff constraints is expected to result in lower transport and trade transaction costs and consequently the reduction of the economic distance to markets for exporters/traders. Project activities have been delayed due to different resettlement and land acquisition issues, further complicated by low capacity of the Agency for State Roads (ASR).

The improvement of the road network in the country continues with the Regional and Local Roads Program Support Project (FY08), which finances rehabilitation of around 330km of regional roads (about 8.7% of all regional roads) and around 420km of local roads (5% of all local roads), thus contributing to reduced cost of access to markets and services for communities served by regional and local roads. The rehabilitation of three of the regional roads has been completed, while the other regional roads are to be completed before the end of 2010. The project also provides for assistance to the ASR to improve its institutional capacity through trainings on road asset management tools and road safety audit.

Outcome 2: Improve efficiency and sustainability of the energy sector

The energy stability has improved. With World Bank assistance through the regional ECSEE APL3 project, MEPSO (the public electric power transmission company) has increased the capacity of the transmission network through completion of the power transmission line to Greece, and restoration of 38 transformation stations throughout the country, including the main power transformation station for the capital of Skopje. This work led to significant reduction of technical losses and increase of the stability of the power system in general. During the CPS period, the Bank provided technical assistance, through Public Private Infrastructure Advisory Facility (PPIAF) to the Energy Regulatory Commission to improve and clarify the electricity regulation.

While the World Bank assistance was instrumental in improving the energy stability, the work in the area of energy efficiency and renewable energy lagged behind. The lack of attention of the Government in the early years of the CPS07 implementation, and the overly complex design of the associated Sustainable Energy project, financed by the Global Environmental Facility (GEF), led to significant delays in both the reform and project implementation.

The Government and the World Bank restructured the GEF project which focuses on supporting the Government's sustainable energy agenda and in particular the implementation of the National Program for Energy Efficiency in Public Buildings.

Outcome 3: Improve local services and infrastructure in selected municipalities

The World Bank helped the Government achieve some important progress and avert backtracking in decentralization through the PDPL series. The objective to create stable and financially viable local governments required that municipalities get sufficient and predictable financial resources, but also more important financial management practices and incentives are introduced to avoid build-up of contingent liabilities and institutional issues are resolved to ensure smooth devolution of responsibilities.

PDPL helped establish a stable and transparent mechanism for financing local government by promoting and adoption of fair formula that transfers portion of the personal income tax and value added tax revenues to municipalities. These revenues now constitute a significant part of the revenue base of local governments. With the main issue being the arrears faced by municipalities, the Government, with support through the PDPL maintained a no bailout policy. Cumulatively, 60 municipalities (out of 83 municipalities in the country) were able to settle arrears by end-2007 and 70 by end-2008. Thus, 16 municipalities have not yet cleared their arrears, which mean that all capital expenditures are blocked by the Treasury and that they cannot enter the second phase of decentralization. In the second phase of decentralization, Municipalities have increased financial autonomy and they are responsible for using block grants to pay teachers' salaries. Arrears fell from around MKD5 billion to around MKD2 billion in 2007 and MKD800 million by the end of 2008.

Further assistance to the decentralization process has been availed through the Education Modernization Project. The purpose of the School Improvement Grants, received by each school, has been decided by the community itself, thereby serving as capacity building vehicle for the municipalities.

In FY09, the World Bank approved the Municipal Services Improvement Project (MSIP), with an aim to further assist the decentralization process by improving the transparency, financial sustainability and delivery of targeted municipal services in the participating municipalities. It will provide sub-loans to municipalities for investments in revenue-generating public services and other high priority investment projects, as well as technical assistance grants for sub-project preparation, local capacity building for municipalities and Communal Service Enterprises (CSEs), and national level Institutional strengthening.

BANK PERFORMANCE

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

The World Bank remained highly responsive to the needs of the country. Responding flexibly to evolving government priorities, the Regional and Local Roads project was brought forward a year and significantly increased to US\$105 million, and the Conditional Cash Transfer project was moved to FY09. The Technological Change and Higher Education project may be considered in the next CPS. These projects complement eight ongoing operations approved between FY04 and FY06 in land administration, transport, energy, education, and health. The Municipal Services Improvement project was the last investment operation to be approved in late FY09. In order to enable the country to better weather out the consequences of the global financial crisis, a new DPL was prepared and approved in FY10, expanding the lending program to US\$292 million. As a result of the good collaboration and Bank's responsiveness, project preparations was short and there were no effectiveness delays. IEG evaluated the ICRs for the PDPL series, consisting of three loans, and found the outcome, the Bank and the Borrower performances to be satisfactory, while the Risk to Development Outcome was rated moderate.

As of June 2010, FYR Macedonia's active portfolio consists of 14 projects, with total commitments of US\$319.7 million, of which US\$201 remains undisbursed. Commitments at risk, a measure of the likelihood that projects will not meet their stated development objectives on time, increased from zero in FY07 to 12 percent at end-FY10. Four projects are rated Satisfactory on both IP and DO, and one is rated HS. Six projects are rated MS on either IP or DO or both and three have an MU rating. Disbursement ratio is at 17.4 percent and is slightly below ECA average. Key factors for the decline of the portfolio quality and low disbursement performance include: (i) overly complex project design, (ii) weak capacity of Government institutions in charge of underachieving projects, (iii) poor managerial practices - changes of project management teams, and lack of coordination among key players involved in project implementation.

Table 2: Key Portfolio Indicators (as of June 2010)

Proj ID	Project	Latest DO	Latest IP	Net Comm Amt	Comm At Risk (\$)	Actual Problem Projects (#)	% Prob Proj	FY Disb Ratio (%)	Tot Disb	Avg Age
P066157	Education Modernization	MS	S	5				60.2	4	6.5
P086670	Health Sector Mng project	S	S	10				14	5.8	6.1
P074358	Social Protection Impl loan	MS	S	9.8				27.4	7.4	6.1
P103974	Cond. Cash Transfer	S	MU	25	25	1	100	5.8	1.5	1
P089859	Legal and Judicial Impl project	MS	MS	12.4				18.4	5.2	4.1
P079552	BERIS	MU	MU	11.3	11.3	1	100	9.7	2.4	5
P083126	Real Estate Cadastre and Reg. project	HS	HS	26.1				65.3	13.1	5.3
P101216	Agr. Strenght. and Accession project	S	MS	20				31.5	13.1	3.1
P082337	ECSEE APL #3	MS	MS	25				2	15	4.5
P089656	Sust. Energy GEF	MU	U	5.5	5.5	1	100		0.7	3.5
P083499	Railways Reform pr.	S	S	19.4				46.9	16.9	4.8
P091723	TTFSE 2	S	S	20				30	8.9	3.1
P107840	Regioanl and Local roads project	S	S	105.2				18.5	23.7	2.1
P096481	Municipal Services Impr. Project	S	MS	25				2.9	0.8	1.3
Result				319.7	41.8	3	21.4	17.4	118.4	4

In keeping with the World Bank’s MIC strategy, the CPS gave prominence to “just-in-time” analytical and advisory assistance. Analytic work provided opportunities for stocktaking and raising awareness of key issues, as well as pointing the way to approaches that could be adopted by the Government. World Bank core reports strengthened authorities’ understanding of key fiscal and economic challenges: an assessment of financial management and public procurement systems through the FY08 Country Fiduciary Assessment (CFA); an analysis of public expenditures in key sectors through the FY08 Public Expenditure Review (PER); and an analysis of factors underlying economic growth through the FY09 Country Economic Memorandum (CEM). In most cases, core analytical support was provided as originally scheduled in the CPS. It was well appreciated by the Government and relevant stakeholders, which was also proven thorough the Client Survey - the Bank is rated strongly (7.6 out of 10) in terms of building capacity and strengthening institution. Further efforts need to be put into a wider dissemination of the reports and usage of more recent data in the core ESW.

Targeted, on-demand and timely sector analyses proved to have higher ownership of different stakeholders. The World Bank was highly responsive to requests of the Government – hence, the CPS-anticipated general Land Policy Note gave way to more focused studies on Access to Land for Investments and Security of Land Tenure, the Land Market Study, the Illegal Objects Study, the Pilot exercise on inventory of state land in urban Strumica. These studies informed the new Law on Real Estate Cadastre and Registration. The FY09 Policy Note on

Crisis Response helped the Government adjust policies to mitigate the consequences of the global economic crisis and informed the DPL dialogue. World Bank teams also developed the Municipal Development Sector Note, which helped prepare the Municipal Services Improvement project, Labor Market Policy Notes, as well as number of sectoral policy notes related to specific, narrowly focused fields (for ex. Overview of Sectoral Issues and Needs in Higher Education and Research for Future Interventions (FY10) or the Technical Note on the Current Status of the FYR Macedonian railway sector and Recommendations for improving the Operational and Financial Performance). The World Bank financed the development of the Industrial Policy Strategy in 2009 (the first of its kinds since independence in 1991). The aim of the plan is to align industrial policy with the EU's Lisbon growth and jobs strategy, increase the competitiveness of the national economy and build a knowledge-based society. The policy focuses on five areas: promoting foreign direct investment (FDI); increasing resources for research, development and innovation, developing eco-friendly technologies, products and services; encouraging of small and medium-size enterprises (SMEs); and establishing of clusters.

The CPS expressed the desire of the World Bank and the government to move towards greater reliance on country processes in procurement and financial management. Country systems are already being used in some areas of project financial management and the World Bank has included FYR Macedonia as a pilot country where procurement regulation may be used in Bank financed projects.

LESSONS LEARNED

The focus of the FY07–10 CPS on supporting the efforts of the FYR Macedonia to join the EU has been appropriate and has well served the country's development objectives. In assisting the country in meeting the accession criteria and implementing the EU *acquis communautaire*, which has major implications on budget allocation and priorities, the World Bank Group has espoused the government overarching priority and helped accelerate the run-up to accession. The perspective of opening membership talks has been the driving force behind the government efforts, and has led to reforms ranging from agricultural development and food safety to the functioning of public administration and civil service. This commitment EU-inspired reforms has facilitated the Bank's portfolio implementation. The Bank's funding has also served as a critical bridge financing to enable FYR Macedonia to access EU pre-accession funds and has contributed to build the institutional capacity to effectively implement EU-compatible standards and regulations.

Looking ahead, the World Bank Group could be more selective in its assistance strategy, focusing on a limited set of objectives, better exploiting synergies and privileging larger operations. While the range of the World Bank Group strategy and the choice of addressing numerous sectors have allowed putting forth a number of issues and giving them government recognition at the highest level, the relatively small scale of its program would call for greater selectivity for an increased impact. With the limited resources of the Bank, it is difficult to thoroughly address all the issues at hand. The current portfolio's numerous projects with relatively low financing amounts suggest giving more consideration to consolidating and scaling-up operations. The FY11-FY14 CPS could focus on key themes that cut across the board and avoid exclusive sector approaches. It should also and be selective in the themes for full engagement. A selective and prioritized agenda would help focus World Bank Groups' and country resources on achieving substantive results rather than dispersed incremental gains. The next strategy could achieve a mix of

interventions in areas with strong delivery potential with a presence in key strategic areas where progress has lagged.

Ensuring Continuity and Flexibility. The implementation of the CPS07 represented a shift in the nature of the relationship between the World Bank Group and FYR Macedonia from one of assistance to one of partnership. Gradually, this led directly to adoption by the Bank of a more flexible approach on programming of activities and lending. World Bank Group flexibility was shown through adapting the program was shown through adapting the scope of the program in the second half of CPS period (adaptation of the DPL to mitigate the consequences of the global financial crisis, additional financing for cadastre project to respond to Government's request for further reforms). However, even with the flexible and client-responsive approach that drove program adaptation, the three pillars structuring the CPS remained valid throughout the program period and were confirmed in the CPS Progress Report. This flexible approach has allowed the Bank Group to make greater contributions to FYR Macedonia's development and has meant a better client-focused program, and should continue to be a cornerstone of the new CPS.

World Bank Group synergy. The implementation of the later years of CPS07 saw a closer collaboration between IBRD and IFC facilitated through the introduction of the one-stop-shop position for Business Environment issues. The broadened IFC program made important contributions in the areas of advisory services and the energy and business environment sectors. In these areas, the Bank has usually taken the lead in strategic investments and analytical exercises (through the DPL series and investment operations) or policy advice, while the IFC-through its advisory services-has focused on more operational assistance, offering advice and supporting the implementation of reforms. The new CPS should continue to foster and further strengthen this synergy, including early involvement of Bank staff in the initial conceptual phase of IFC's advisory services projects and consulting IFC in the preparation of analytical pieces by the World Bank. This collaboration will strengthen the position of the World Bank Group in the country and should continue to be one of the central elements in the new CPS.

Efforts to jointly review and monitor CPS implementation have paid dividends and should continue over the next CPS. The Bank and the Government established a successful collaborative mechanism for monitoring portfolio implementation. Each quarter the Ministry of Finance and Bank staff prepare a CPS Implementation Stocktaking Tool. This Tool outlines short and medium term portfolio milestones, identifies key bottlenecks, and proposes actions to be taken by the Bank and the Government. The portfolio is then discussed at regular government sessions, and the conclusions of discussions are communicated to the Bank as well as all Ministries in form of a government decree.

Simpler project design and more realistic outcomes could ensure greater efficiency in project implementation. While project preparation has seemed to be thorough and in line with government's expectations, some projects have proved to be too ambitious in their scope, some of them featuring a multiplicity of components loosely linked to each other. The government's implementation capacity has not always been sufficiently taken into account, causing some overly complex project to face implementation delays. An in-depth assessment of available capacity, grounded in the political and institutional realities of the FYR Macedonia and which could have contributed to simpler designs, has been lacking in some cases. This "Christmas tree approach" has left some related PIUs struggling with which component to prioritize and which line ministry to interact with. Projects also need to plan realistic implementation timeframes in order to avoid late extension requests.

DONOR COORDINATION

The World Bank has partnered with the EC to help authorities to better coordinate and leverage external resources and to increase the synergies of donor assistance. The Government has adopted a pragmatic approach to donor coordination that aims to introduce program-based approaches in a few key sectors of major importance to EU accession. In addition, the World Bank has been promoting close collaboration with other development partners, including through co-funding of World Bank projects, such as in education, by bilateral partners, particularly the Austrian, Dutch, French and Swedish Governments.

This approach was based on an evaluation in 2007 of aid coordination in FYR Macedonia that identified burdens and obstacles to aid effectiveness. Significant differences in policies, reporting requirements and methodologies among donors and the Government were found, illustrated by a misalignment of donor priorities and the country needs, the inconsistency of the country's procedures in procurement and financial reporting with donors practices, a weak institutionalization of donor coordination, and information gaps leading to duplication of efforts in some instances.

Moreover, the country has not been able, with the flowing of ODA during the last decade, to avoid the build-up of multiple sets of donor procedures, accounting requirements and uncoordinated activities. This can be primarily attributed to the fact that the coordination agenda is driven by the set of requirements imposed by the IPA accession process required by a single donor (the EU). This implies a better alignment of the other donors policies and a greater understanding of how they can adapt to the EU agenda, which the Bank has tried to do in the period covered by this CPS. The coordination body (the Secretariat for European Affairs) has also just started to assume a greater role, serving as a gate-keeper for all technical cooperation. Its capacity to fulfill this function and its links with the Ministry of Finance are being consolidated.

In light of these findings, and in order to improve ownership, harmonization, alignment and accountability of aid, a working group of international donors (European Commission, European Agency for Reconstruction, United Nations, World Bank, Austria, Netherlands, Norway, Sweden, Switzerland, United Kingdom, USA) was established on December 2007 to prepare a proposal for donor coordination. What originated was an action plan to introduce a program-based (PBA) approach in FYR Macedonia to improve aid effectiveness via a strengthened Government-led coordination mechanism. This action plan, adopted in 2009, is driven by (i) by the EU accession process, (ii) an explicit commitment of external partners to align support and results frameworks, (iii) a targeted effort to strengthen institutional capacity for results-based sector strategy implementation and coordination of external assistance, and (iv) the need for an effective and formalized structure for dialogue and coordination.

As a result of this approach, PBA implementation plans are now being developed for 5 priority program areas picked by the government : Business environment, competitiveness, innovation, Human capital (education, social policy, health), Agriculture, Environment, and Governance (public administration, decentralization, regional development, justice and home affairs). An institutional framework for PBA was set up in parallel, with joint senior level working groups conducting an assessment of each priority sector and reporter to the line minister, a joint government/donors working group chair by the Secretary for European Affairs, and periodic high-level coordination meetings chaired by the Deputy Prime Minister.

Annex A: Annex A: FYR Macedonia CPS Completion Report: Results Framework Update

Longer-term Strategic Goals		
Strategic Goal	Status at CAS Design	Status at Completion
Make Progress on EU Integration	FYR Macedonia obtained candidate status for EU accession in December 2005. The country since undertook reforms to satisfy the EU “acquis communautaire” in diverse fields.	Based on good progress on satisfying the <i>acquis</i> , the European Commission recommended the opening of accession negotiations in its 2009 Progress Report.
Improve the Business Climate and competitiveness	Business regulatory burden high and land administration inadequate due to poor coverage. Low competitiveness of the FYR Macedonia’s economy and enterprises.	The increased speed and simplicity of company registration, deregulation of business processes and security of property ownership and registration have greatly contributed to the ease of doing business, ranking the country at 32 nd place in Doing Business 2009.
CPS Outcomes		
CPS Outcomes	Status at CPS Design	Status at Completion
Cluster I. Growth and Competitiveness		
LABOR MARKET: Increase flexibility of labor market and decrease tax wedge	FYR Macedonia labor market was characterized by high unemployment and low participation due to low growth, overly complex and rigid labor market regulations and high labor tax wedge.	The revised labor law promulgated in 2008 introduced greater flexibility in labor contracts (i.e., reduce restrictions in working hours, duration of fixed-term contracts, costs of hiring and firing). Government adopted a decision to gradually reduce labor tax wedge (i.e., social contributions and personal income tax as percent of wages, inclusive of fringe benefits). The labor tax will continue to reduce gradually over the medium term.
LAND REFORM: Establish efficient land administration system	In 2006, only 43% of the country’s territory was covered by Real Estate Cadastre. Registering of transactions is slow and takes between 60-180 days. The State Authority for Geodetic Works lacks human and institutional capacity.	As of May 2010, 99% of the territory is covered by Real Estate Cadastre. Private geodetic practice has been developed. Around 70% of all transactions are registered in one day, and 30% between 3-8 days. The number of registered transactions doubled.
	Low level of agricultural	Agriculture capacity has been strengthened to allow for a

<p>AGRICULTURE CAPACITY: Improve institutional capacity of agriculture sector public institutions in line with EU accession requirements</p>	<p>competitiveness of the sector that accounts for 16% of the GDP and some 20 percent of employment. Constraints to competitiveness include low levels of investment in farm technology and supply chains as well as underdeveloped land and rural credit markets. EU candidacy presents opportunities in the form of significant additional assistance for the sector, but the Ministry of Agriculture, Forestry and Water Economy's (MAFWE) has weak institutional and human capacity.</p>	<p>full EU accreditation for management of EU rural development funds. Veterinary capacity building resulted in a reduction of the prevalence of brucellosis and tuberculosis, preliminary screening and provisional classification of food establishments and gradual upgrading to EU standards, and formal reports attesting of veterinary laboratories. To date, from a total of 33 Irrigation Water Communities (IWCs) planned, 16 IWCs covering around 12,550 ha of total service area were founded, and 10 IWCs covering around 1,300 ha total area are in process of registering. An Integrated Administration and Control System, particularly focusing on the Farm Registry and Land Parcel Information System has been established, as well as the Agriculture Information System including a Farm Accountancy Data Network and Market Information System.</p>
<p>Cluster II. Business Environment</p>		
<p>DOING BUSINESS: Improve business environment as measured by WB <i>Doing Business</i> report</p>	<p>In the World Bank's <i>2008 Doing Business</i> report FYR Macedonia was a top four reformer, and its global ranking in ease of doing business was 79 out of 181 countries.</p>	<p>FYR Macedonia's ranking in the <i>2010 Doing Business Report</i> dramatically improved to 32 out of 185 countries</p>
<p>REGULATORY REFORM: Reduce the burden of regulation on businesses</p>	<p>An overly burdensome business regulatory environment hampered new business startups and job creation. Institutional weaknesses, such as cumbersome admin. procedures and low degree of legal certainty and predictability of economic and regulatory policies encumber the business climate and a proper functioning of the market economy.</p>	<p>The newly established Committee for Regulatory Reform performed a stocktaking of more than 2,000 laws and bylaws and started implementing "Regulatory Guillotine" In the first round of the guillotine, the Government identified 64 Laws and 481 by-laws to be amended or eliminated (the process is underway). Newly introduced Regulatory Impact Assessment, which requires that all new laws undergo a thorough check to ensure that the benefits of the law outweigh its costs, will prevent the build-up of new legislation that may be hampering business activity.</p>

<p>JUDICIAL REFORM: Increase the efficiency of judicial system and improve courthouse infrastructure</p>	<p>Business climate surveys indicated that the most serious obstacles to private sector development include: an inefficient and opaque judicial system, legal uncertainty and lack of confidence in the judicial system.</p>	<p>The effectiveness of the judicial system has been improved. According to the BEEPS 2008, the percentage of firms that find the courts to be a problem of doing business declined from 55 percent in 2005 to 50 percent in 2008, due to improvements in, inter alia, enforcement of court judgments and in regulatory and implementation framework for bankruptcy cases, improved court infrastructure, increase in transparency and fairness of administrative agency decisions, strengthening the General Administrative Office in order to create capacity within the judiciary for the implementation and monitoring of the comprehensive reforms agenda, and installation of a new Case Management Information System.</p>
<p>Cluster III. Human Development</p>		
<p>EDUCATION: Improve school infrastructure and quality of education in basic and secondary education</p>	<p>The challenge consisted of decentralizing education administration to municipalities, improving teachers' professional development, expanding access to education, and improving assessment and evaluation. International assessments had found that FYR Macedonia was hampered by a highly-centralized education system that lacked responsiveness to issues confronting schools at the local level.</p>	<p>Between 2004 and 2008, secondary enrollment increased to 95 percent from 85 percent, and dropout rates decreased to 1.9 percent from 2.1 percent. A market for teachers' training has been established, along with criteria for accreditation and monitoring of teacher training services. The State Matura examination, the national assessment of student achievement, was given for the first time in 2008 in all four-year general and vocational schools.</p>
<p>HEALTH: Improve efficiency and transparency of Health Insurance Fund operations and institutional and management capacity of Ministry of Health</p>	<p>The Health Insurance Fund faced enormous challenges with regard to the efficiency of its operations. The Ministry of Health had low institutional and management capacity.</p>	<p>A strong reform effort has considerably improved the sustainability of the health sector. The Health Insurance Law was amended to streamline the operations, decision-making and transparency of the HIF. The HIF instituted reference pricing and stronger controls over spending. The preparation for launching bundled pricing for acute inpatient services based on Diagnostic Related Groups is well advanced and will further rationalize capacity in the hospital sector.</p>
<p>SOCIAL PROTECTION: Improve administration and targeting of cash benefits and strengthen pension system</p>	<p>Country's pension and social protection systems suffered from the poor efficiency of the system institutions, which led poor targeting for social welfare and low effectiveness of the pension system.</p>	<p>Mandatory fully funded pension system is introduced, a framework for voluntary funded pension scheme is developed, and new system of collection and record keeping of pension contributions is implemented. The reform of social cash benefits is introducing a redesigned and streamlined system of social cash benefits, based on automation of business processes and unification of registries of beneficiaries with web based software to be developed. The work in the social policy area was underpinned with technical assistance that helped develop</p>

		the Law on Social Protection that should set the basis for the harmonization of benefits, the Law on fully-funded pension pillar and the Law on privately funded pension pillar, as well as changes in the Pension Law.
Cluster IV. Infrastructure and Energy		
TRANSPORT: Improve road and rail infrastructure and management capacity	The transport sector has been identified as one of the key factors of country competitiveness. The sector was facing numerous challenges: FYR Macedonia rail sector was heavily in debt with declining operational capacities; deteriorated regional and local road network hampers the access to markets, as are the relatively high transport and trade transaction costs.	Macedonian Railways has been restructured, with the railway infrastructure now open to use by private operators. New legislation have been adopted (e.g. Railway Law, Transport Safety, contracts for carriage by rail, transport of dangerous goods, Railway Agency, etc.) that should lead to a more commercial approach to the provision of rail services. The process for establishing an independent Regulatory Agency for rail services has started. As a result, the railway system is in conformity with the EU accession requirements. In roads sector, the last stretch of road between the capital of Skopje and the main border crossing to Serbia (corridor X) is being upgraded to motorway standards, and the main border crossing with Kosovo is being renovated. Around 330km of regional and around 420km of local roads are being rehabilitated, thus contributing to reduced cost of access to markets and services for communities served by regional and local roads.
ENERGY: Improve efficiency and sustainability of the energy sector	FYR Macedonia's energy sector went through significant changes over the CPS period, including privatization of the distribution network, relatively low capacity of the Energy Regulator, as well as a transmission network in need of significant improvements.	The capacity of the transmission network has been increased through completion of the power transmission line to Greece, restoration of 38 transformation stations throughout the country, including the main power transformation station for the capital of Skopje. This work led to significant reduction of technical losses and increase of the stability of the power system in general. During the CPS period, the Bank provided technical assistance, through Public Private Infrastructure Advisory Facility to the Energy Regulatory Commission to improve and clarify the electricity regulation.
MUNICIPAL SERVICES: Improve local services and infrastructure in selected municipalities	The post-conflict Ohrid Agreement specifically called for a decentralization of power, which posed significant challenges to the capacity of the municipalities, in form of having transparent and stable financing mechanisms, and improvement of local services and infrastructure.	A stable and transparent mechanism for financing local government has been established through a formula that transfers portion of the personal income tax and value added tax revenues to municipalities. The Government maintained a no bailout policy with regard to the arrears of the municipalities. As a result of the above actions, 70 municipalities (out of 83 in the country) were able to settle arrears by end-2008. Arrears fell from around MKD5 billion to around MKD800 million by the end of 2008.

Annex B: Planned Lending Program and Actual Deliveries

Planned at CPS (March 2, 2007)				Actual at CPS Completion Report (2010)		
FY	Project	US\$ Millions		Project	US\$ Millions	
		IBRD	TF		IBRD	TF
FY07	TTFSE2	20	5.5	TTFSE2	20	5.5
	GEF Energy Efficiency			GEF Energy Efficiency		
	Agriculture	20		Agriculture Strengthening and Accession	20	
	PDPL2	30		PDPL2	30	
	Total	70		Total	70	
FY08	Conditional Cash Transfer Implementation	25		PDPL3	25	
	PDPL3	25		Regional and Local Roads	105	
	<i>Competitiveness/Technological Change/Higher Education</i>			Total	130	
	Total	50/75				
FY09	Urban development	25		Municipal Services	25	
	Transport (feeder roads)	25		Conditional Cash Transfer	25	
	<i>Energy project (gas, electricity)</i>	30		Total	50	
	Total	50/80				
FY10	Investment Loan 1	15/20		Real Estate Cadastre & Registration AF	12	
	Investment Loan 2	15		PDPL (new series)	30	
	PDPL (new series)	20		Total	42	
	Total	50/55				
	TOTALS	220/280			292	

Note: Italicized projects and totals represent high case operations

Annex C: Planned Non-lending Services and Actual Deliveries

CPS Plans (May 2, 2007)		CPS Progress Report (March 4, 2009)
	Product	Status
FY07	Public Expenditure Review (Update) Programmatic Poverty Assessment Country Fiduciary Assessment Macro monitoring Agriculture and EU Accession Competitiveness Study Urban Policy Note Land Policy Note REPARIS supervision IDF public accounting MIGA TA (EIOP)	moved to FY08 Dropped moved to FY08 Actual Actual Dropped Actual Dropped Dropped Actual Continuing Dropped <i>Additional Actual Products:</i> Security of Land Tenure
FY08	Country Economic Memorandum FSAP Update Macro monitoring REPARIS supervision Programmatic Poverty Assessment Joint Portfolio Review National Energy Strategy Transport Sector Study	Moved to FY09 Actual Actual Actual Dropped Substituted with CPS Implementation Tool Moved to FY09 Dropped <i>Additional Actual Products:</i> Labor Market Policy Notes Access to Land for Investments
FY09	Macro monitoring REPARIS supervision Programmatic Poverty Assessment PER update Social Inclusion Assessment Joint IBRD/IFC Policy Note on concessions and PPPs MIGA TA (EIOP)	Actual Actual Actual Dropped Dropped Dropped Dropped <i>Additional Actual Products:</i> Land Market Study Illegal Objects Study Technical Note on the Status of the railway sector and Recommendations for improving the Operational and Financial Performance
CPS Progress Report (March 4, 2009)		CPS Completion Report (2010)
FY10	Macro monitoring REPARIS supervision Energy Sector TA Business Env. One-stop Shop Support Country Systems Procurement Pilot National Water Strategy Support	Actual Actual Actual Actual Actual Ongoing (Planned to be delivered in FY11) <i>Additional Actual Products:</i> FYR Macedonia Higher Education and Research – Overview of Sectoral Issues and Needs for Future Interventions