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**FORMER YUGOSLAV REPUBLIC OF MACEDONIA**  
**TRANSITIONAL SUPPORT STRATEGY**

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South East Europe Country Unit  
ECC04  
Europe and Central Asia Region

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## ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
DA	Democratic Alternative
DPA	Democratic Party of Albanians
EC	European Commission
ESAF	Enhanced Structural Adjustment Facility
ESW	Economic and Sector Work
EU	European Union
FESAL	Financial and Enterprise Sector Adjustment Loan
FIAS	Foreign Investment Advisory Service
FRY	Federal Republic of Yugoslavia
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
JPPR	Joint Portfolio Performance Review
LIL	Learning and Innovation Loan
MIGA	Multilateral Investment Guarantee Agency
NATO	North Atlantic Treaty Organization
NLA	National Liberation Army
PRSP	Poverty Reduction Strategy Paper
PSMAC	Public Sector Management Adjustment Credit
SEED	Southeast Europe Enterprise Development
TA	Technical Assistance
TSS	Transitional Support Strategy
VAT	Value Added Tax
VMRO-DPMNE	Internal Macedonian Revolutionary Organization-Democratic Party of Macedonian National Unity
WLSG	Working Level Steering Group

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**Memorandum to the Executive Directors of IBRD and IDA  
Transitional Support Strategy for the Former Yugoslav Republic of Macedonia**

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# **Transitional Support Strategy for the Former Yugoslav Republic of Macedonia**

## **I. Overview**

1. Following a NATO-brokered ceasefire put in place on July 6, 2001, an internationally mediated peace agreement was signed on August 13, 2001 by the main political parties in FYR Macedonia, representing ethnic Macedonians and ethnic Albanians. The agreement sets out terms under which armed ethnic Albanian militants would end the civil conflict that began early in 2001. The next steps, the timing of which is uncertain, will be disarming of the militants by NATO and adoption by the Macedonian Parliament of the constitutional amendments specified in the agreement. Once Parliament adopts the required constitutional amendments, a coordinated effort by the international community to rebuild peace will begin, and the Bank is expected to play an important role in this effort. These vastly changed circumstances necessitate revision of the Bank's assistance strategy for FYR Macedonia, yet ongoing uncertainty as well as approaching elections make the preparation of a full CAS inadvisable. The last CAS was prepared in 1998, covering the period of FY99-01, and a CAS Progress Report was presented to the Board on June 13, 2000. If parliamentary elections take place in January 2002, as currently agreed by the government, then PRSP and CAS discussions with the authorities could take place early next calendar year, with a full CAS to be presented to the Board by June or July.

2. This Transitional Support Strategy (TSS) aims to provide a framework for rapid Bank intervention in the post-conflict period. It will be triggered by the adoption by the Macedonian Parliament of the constitutional amendments specified by the peace agreement. The strategy will bridge the interim until elections are completed and a new government is in place, when a new CAS could be agreed. Therefore, its focus is on FY02. FYR Macedonia formally graduated from blend to IBRD-only status on July 1, 2001. However, as a result of the conflict, the country is not considered creditworthy for new IBRD lending at present, although it is hoped that access to modest amounts of IBRD funds will be re-established before the end of FY02. Therefore, to allow the Bank to respond effectively to the country's post-conflict needs, Management proposes that in FY02 FYR Macedonia have access, on an exceptional basis, to IDA resources on hardened terms. Access to IDA funds would increase the Bank's ability to support peace, including provision of an Emergency Recovery Assistance Credit. Until the TSS is triggered, the Bank will continue supervision of the portfolio from the field and monitoring of developments from the Bank's local office, which will remain open as long as security conditions permit. If circumstances do not allow a CAS to be prepared by July 2002, a revised TSS will be presented to the Board at that time.

## **II. The Political Context**

3. The multi-party coalition government that came to power in November 1998 was based on a power-sharing arrangement between an ethnic Macedonian nationalist party, VMRO-DPMNE (the Internal Macedonian Revolutionary Organization-Democratic Party of Macedonian National Unity) and the ethnic Albanian nationalist party, DPA (the Democratic Party of Albanians). Relations between the country's two main ethnic groups improved and were constructive until February of this year, as the Government accommodated reforms proposed by DPA, particularly bringing ethnic Albanians into leadership posts and establishing an Albanian

language university. The government coalition survived the defection of one of its members, the DA (the Democratic Alternative) in November 2000, but it stood one seat short of a parliamentary majority at the beginning of this year and parliamentary action became increasingly difficult.

4. Military clashes broke out between ethnic Albanian militants and government forces near the border with Kosovo in mid-February 2001, perhaps as spillover from the insurrection in the nearby Presevo Valley in Serbia. The fighting spread to other predominantly ethnic Albanian areas in the north and northwest of the country. In response to growing international pressure to find an solution to the crisis, the main opposition parties were brought into the ruling coalition, forming a government of national unity in May. However, military escalation continued on both sides, and by early June, the militants, calling themselves the NLA (National Liberation Army), held villages on the outskirts of the capital, Skopje. Although casualties have been relatively light (with about one hundred fatalities at the time of writing), about 34,000 ethnic Albanian and Macedonian persons have been displaced internally, and 60,000 ethnic Albanian refugees fled to Kosovo where they remain.<sup>1</sup>

5. With strong support from the European Union and NATO, President Trajkovski proposed an outline of peace plan in June that included a combination of military and political solutions. The plan suggested that the conflict be ended by disarming the rebels, offering them a safe exit from FYR Macedonia or a limited amnesty, and launching a reform process to address grievances of the ethnic Albanian minority. NATO brokered a ceasefire that has held more or less since July 6, and with mediation by special envoys of the European Union and the United States, political talks between the coalition partners intensified in July, leading to the signing of the framework peace agreement by the four main Macedonian and ethnic Albanian political parties on August 13, 2001. The Macedonian Parliament now has 45 days in which to adopt the constitutional amendments specified by the agreement. NATO has agreed to assist with up to 3,500 troops to help in the voluntary disarmament of the ethnic Albanian armed groups, as a first step toward restoration of peace in the country.

6. The framework agreement for peace, although not yet made public, is believed to contain provisions for constitutional changes to reinforce the principle of non-discrimination, greater use of the Albanian language in official business, increased ethnic Albanian representation in public service jobs, especially the police force, decentralization of many government responsibilities to local governments, and increased opportunities for study in the Albanian language. The full implementation of the framework will require constitutional amendments, detailed legislation, executive orders, and budget decisions by the government for each of the components of the agreement.

### **III The Macroeconomic and External Framework**

#### **Macroeconomic developments in 2000-01**

7. *Outcomes in 2000.* After years of sustained stabilization efforts, 2000 was the fifth consecutive year of growth for the economy, the fiscal accounts of general government

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<sup>1</sup> From the Macedonian Red Cross and UNHCR, estimates as of July 25-26.

registered a substantial surplus for the first time; and inflation continued to be modest. Despite a setback related to the Kosovo crisis in 1999, with trade disrupted and a slowdown in economic activity that undercut tax revenues, the outcome for 2000 was strong, with economic growth exceeding 4 percent. Compared with 1998, the country exported 6 percent more goods and held more than twice as much in international reserves in US dollar terms. The government collected 6 percent of GDP more in revenues in 2000 than 2 years before and retained almost 3 percent of GDP as a fiscal surplus.

8. ***Status of structural reforms.*** Policy reforms that had been stalled since before the elections of 1998 were taken up in 2000-01. The country's largest bank, Stopanska Banka, was sold to foreign investors, and a number of loss-making state-owned enterprises were sold or closed, including the oil refinery, Okta (sold in November 1999) and the nickel smelter, Feni (sold in October 2000). A Treasury system was established (although it is not yet fully functional) to begin the transition away from the central payments system inherited from Yugoslavia. A VAT was implemented in April 2000; and the personal income tax rate was cut at the beginning of 2001. Key legislation was passed to reform labor regulations and the pension system in April 2000. A new banking law and a law to reform the deposit insurance system were adopted in July 2000. Amendments to the bankruptcy, collateral, securities, and company laws have improved the regime for private enterprise and foreign investment and creditors' rights. Perhaps of greatest significance for the medium term, FYR Macedonia was the first country in the Balkans to negotiate a Stabilization and Association Agreement with the European Union (signed April 2001), granting trade preferences and establishing a path for future closer relations with European institutions. The agreement assures FYR Macedonia of continued asymmetric free trade rights, with no barriers for Macedonian goods to enter the EU.

9. This progress in economic reform along with maintenance of macroeconomic stability allowed the government to secure a 3-year IMF arrangement under the Poverty Reduction and Growth Facility and the Extended Fund Facility in November 2000 (following an ESAF arrangement that went off-track in late 1998 and expired in April 2000) and the Bank's Second Financial and Enterprise Sector Adjustment Loan/Credit (FESAL II) in December 2000 (originally scheduled for FY99). However, despite the revived momentum of policy actions in 2000-01, a significant agenda of structural reforms remain to be implemented over the next few years.

10. ***Expected performance in 2001.*** The strong results of 2000 left FYR Macedonia well-placed for 2001. It was expected that 2001 would see an increase in private sector activity, spurred by rising foreign direct investment and domestic credit extended by the revitalized banking sector. The lifting of the international embargo on the Federal Republic of Yugoslavia (FRY) was seen as a positive development for FYR Macedonia in the medium-term although with less certain short-term impact. Further improving prospects was the receipt in January 2001 of considerable privatization revenues from the government's sale of the country's telecommunications company. The government stated its intention to use this exceptional revenue of about US\$ 325 million, or almost 10 percent of GDP, to pay down external debt, fund pension reform, and pursue new public investment projects. However, even before the crisis hit, fiscal reforms had slowed, and the authorities failed to receive approval from the IMF for a scheduled February drawing because the authorities were not prepared to take corrective actions after they failed to meet the performance targets for December 2000.

11. **Impact of the crisis.** The ethnic Albanian insurgency has undermined the scenario for 2001. The revised outlook is gloomy, even if there is a return to economic normalcy in the second half of the year. It is also highly uncertain, dependent on the outcomes of the security and political situations. The economic impact of the conflict has been growing. The intermittent closing of the main trade routes going north, fighting in some limited areas, and general uncertainty have undermined export performance and business confidence. Industrial production was off by 7.3 percent in the first five months of the year compared with a year earlier. GDP for the first quarter of 2001 is estimated to have contracted by 5 percent compared with the same period in 2000, and growth for the year as a whole is likely to be negative (compared with a pre-crisis projection of 6.0 percent). The Government's program supported by the IMF has remained off-track. Although the impact of the crisis on poverty is not well understood at this time, the overall contraction of GDP will hinder efforts to reduce poverty. It is thought that displacement and damage to local infrastructure thus far is moderate, however such direct effects of the crisis will severely worsen poverty indicators in the areas affected by the conflict in the short term.

- **Fiscal policy.** Military operations and ongoing security measures have required extensive additional spending by the government while revenues have eased due to depressed economic activity. The fiscal deficit for the second quarter is estimated at near 10 percent of GDP for the quarter. The Government has taken some initial action to address the ballooning deficit: a new tax on financial transactions became effective July 1 for the rest of the year; it is expected to raise about 1 percent of GDP in revenues. Even with these additional receipts, the general government deficit for the year as a whole will likely exceed 7 percent of GDP, compared with a target in the IMF-supported program of 1.2 percent.
- **Balance of payments.** Disruptions at the border and general uncertainty have severely undercut trade and foreign investment since February. Trade with FRY, Macedonia's most important trade partner, fell by more than 20 percent year-on-year in the first half, and exports overall were 11 percent lower. Import growth has also been stagnant, with the exception of imports of military equipment. Nevertheless, the trade deficit in the second quarter of 2001 was 30 percent above that of a year earlier.<sup>2</sup> Other components of the balance of payments also show sharp deterioration in the second quarter. Private transfers, including workers' remittances, in the second quarter were only one-third of the level of a year earlier, and foreign investment fell sharply, reflecting collapsing confidence in the domestic economy.
- **Monetary and exchange rate policy.** The loosened fiscal stance was accommodated by monetary policy to a great extent, and speculation against the Macedonian denar further fuelled reserve losses. Inflation has been rising steadily since February, with May's consumer price level 5.6 percent above last year's average, significantly higher than the 2.2 percent inflation rate targeted for the year in the IMF-supported program. At the same time, the central bank has held the exchange rate to its target against the Deutsche Mark but at the cost of growing reserve losses. The country lost US\$ 167 million in

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<sup>2</sup> Imports in the first quarter of 2000 were particularly high as purchases were accelerated in advance of the new VAT imposed beginning April 2000. Thus, the trade balance for the first quarter of 2001 shows an improvement over 2000.

reserves from January through June, with the largest loss of over US\$ 50 million occurring in June (despite some rationing of foreign exchange)<sup>3</sup>. January's privatization revenues continue to provide a substantial cushion for reserves, which remain at close to 5 months of imports as of end-June. At the same time, pressures on the banking system are rising. End-June data indicate that liquidity fell sharply in the second quarter as depositors withdrew funds from the banking system in response to the crisis. If the conflict continues, the quality of the banks' loan portfolios will deteriorate, and solvency as well as liquidity problems are likely to emerge.

12. **Prospects.** Once the constitutional amendments specified in the peace agreement have been adopted, it is expected that international donors will step forward with aid to help close the balance-of-payments gap for this year; and that the government and the IMF will resume negotiations for the first program review. The implementation of the framework agreement will likely entail large fiscal costs over the next few years, since it is expected that key elements will be large-scale hiring of ethnic Albanians into the public administration and provision of additional services and infrastructure to areas with large ethnic Albanian populations. At the same time, economic prospects have been undermined, not only for this year for which GDP growth may be negative, but also for subsequent years because of deferred or cancelled investment and a deterioration in investor perceptions that may take years to recover. If the domestic security situation is resolved, if regional economic and political conditions improve, and if domestic macroeconomic and structural policies are supportive, the Macedonian economy could achieve growth rates of 5-6 percent per year over the medium term (4-5 years from now). Reaching this level of growth will be difficult and possible only if generous external financing by the donor community is made available, particularly in 2001-02, and if recovering investor confidence feeds strong inflows of private foreign investment from 2003 onwards.

#### **External financing requirements and creditworthiness**

13. **Financing requirements.** The conflict has created exceptional external financing requirements for this year. These requirements were provisionally estimated in early June at US\$ 65 to 70 million, but they have continued to increase as the conflict continued. The current account will likely be more than US\$ 200 million further in deficit for the full year than pre-conflict projections. The central bank has already lost about US\$ 167 million in reserves. As noted above, the fiscal deficit exceeded US\$ 100 million dollars for the first half of the year alone (about 7 percent of estimated first half GDP). So far, the authorities have found own resources sufficient to finance both the fiscal and external accounts (from the extraordinary privatization monies received early in the year). Any estimates are highly sensitive to the date of cessation of large scale military activities and the return of normal trade relations across the northern border. Importantly, the provisional estimate of financing needs does not consider the probably large fiscal costs of full implementation of the peace settlement, the details and timing of which are not yet known. Additional international donor financing will be required to assist with these expenses. The key variable in any economic projections will be the date and the degree of a return of confidence to the business sector, so that normal investment, production, and trade can resume.

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<sup>3</sup> The calculation of losses excludes the effects of valuation changes from exchange rate variations and the exceptional inflows from privatization in January and receipt of gold from BIS in June.

14. **Creditworthiness.** FYR Macedonia's creditworthiness for borrowing on IBRD terms improved in the second half of the 1990s but remained limited because of domestic and regional political risks, the fragility of the country's macroeconomic position, and the remaining reform agenda. FYR Macedonia's debt indicators are moderate,<sup>4</sup> but debt outstanding has increased substantially since the early 1990s and the share of preferred creditor debt is high, reducing the country's room for maneuver in the event of balance of payments difficulties. Developments in 2001 have reduced FYR Macedonia's already limited creditworthiness. Indeed, in view of the current very high level of political risk and the worsened macroeconomic situation resulting from the crisis, FYR Macedonia is not currently considered creditworthy for new IBRD commitments. Rebuilding the country's creditworthiness will take time and considerable financial support from the international donor community. Under an optimistic scenario, FYR Macedonia could be in a position to resume borrowing modest amounts from IBRD in late FY02, once the peace agreement has proven durable, political risk has subsided, and progress has been made on macroeconomic stabilization. A resumption of IBRD lending will, however, be predicated on a further review of the country's creditworthiness.

15. At end-2000, total external debt stood at US\$ 1,479 million or about 44 percent of GDP.<sup>5</sup> Short-term debt is small, amounting to 16 percent of reserves. Debt service in 2000 was about US\$ 210 million or 12 percent of exports, and the Government reports about US\$ 190 million falling due in 2001 (about 12 percent of projected exports).<sup>6</sup> Debt indicators have generally been improving over the last few years, and pre-crisis projections (not including the impact of the civil disturbances and the economic downturn of 2001) suggested that, with sustained growth, FYR Macedonia's debt indicators would remain favorable into the future. Debt to GDP was projected to rise towards 48 percent of GDP over the next few years, while debt service as a share of exports was expected to fall to about 6 percent. As noted above, FYR Macedonia has relied heavily on financing from multilateral sources and exposure to preferred creditors is, therefore, high. Preferred creditor debt service was 53 percent of total public debt service in 1999 and, using the same pre-disturbance projections, was expected to rise towards 64 percent in the medium term. Even in the absence of the crisis, therefore, this high level of exposure to preferred creditors would have constrained future IBRD lending levels. As previously discussed, the present crisis has cast a shadow over near term economic prospects and sharply reduced FYR Macedonia's overall creditworthiness.

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<sup>4</sup> FYR Macedonia is currently considered a less indebted country (as reclassified by the Bank in 2001).

<sup>5</sup> Using the definitions described in *Global Development Finance* (2001), the present value of FYR Macedonia's debt stock is 38 percent of 3 year average GNP.

<sup>6</sup> Following independence in 1991, it took until 1996-97 for FYR Macedonia to normalize its external debt relations. It had cleared its arrears with the Bank and the IMF in 1993-94; and in July 1995, it concluded negotiations with Paris Club creditors on rescheduling US\$ 330 million in arrears and debt falling due in 1996. This deal was exceptional by Paris Club standards because it included post cut-off debt. In 1997, FYR Macedonia reached agreement with the London Club of creditors to defer US\$ 80 million in debt and also settled remaining external arrears with the European Investment Bank. During the Kosovo crisis of 1999, the Paris Club provided a one-year deferral of debt service of US\$ 42 million.

#### **IV. Progress under the 2000 CAS Progress Report**

##### **Status of the CAS and plan for the next CAS**

16. The last full CAS was discussed by the Board on August 4, 1998 and covered FY99-01. Although the country had received a blend of IDA and IBRD resources from the Bank since FY94 (because of limited creditworthiness in the years after independence, the country's per capita GDP exceeded the IDA historical ceiling set in the guidelines for FY99, and so the CAS proposed graduation, which occurred at the end of FY01. A CAS Progress Report (discussed by the Board on June 13, 2000) summarized progress in implementing the CAS and updated the Board on the Bank's approach following the 1999 Kosovo crisis. In particular, the Progress Report noted that the Kosovo crisis triggered the emergency scenario set out in the CAS which included an exceptional IDA allocation. US\$ 60 million equivalent of additional IDA resources were provided, used to finance an Emergency Assistance Recovery Credit and a Social Support Credit, bringing total IDA lending in FY99 to US\$ 90 million equivalent. In addition, the CAS Progress Report underlined that implementation of the CAS had been much slower than expected, partly because of political shifts in late 1998, and then the disruptions of the Kosovo crisis. As a result, no lending took place in FY00. Two adjustment operations, the Second Financial and Enterprise Sector Adjustment Loan/Credit (planned for FY99) and the Public Sector Management Reform Program (originally planned for FY00), were delayed.

17. At the time of the CAS Progress Report, the next full CAS was planned for completion late in FY01. In the interim, the Government launched a Poverty Reduction Strategy Paper (PRSP), and an Interim PRSP was presented to the Board in December 2000. The CAS was delayed to December 2001 to coordinate with the planned completion of the PRSP. With the outbreak of civil disturbances and early elections likely, the next full CAS is now scheduled for Board discussion in June/July, 2002.

##### **Lending in FY01**

18. The CAS Progress Report included 5 lending operations for FY01, totaling US\$ 136.3 million equivalent of IDA and IBRD funds. The second Financial and Enterprise Sector Adjustment Program was approved by the Board in December 2000, and three investment operations were approved in June 2001. However, the fifth planned operation, the Public Sector Management Reform Program, was delayed into FY02 because of the disruption of the civil conflict and its impact on the ability of the Government to improve its fiscal planning and keep on track with its program supported by the IMF. This operation and a related technical assistance project were to be the final IDA financed credits for FYR Macedonia, at a level of US\$ 25 million equivalent. Total lending in FY01 was US\$ 96 million equivalent (of which IDA accounted for US\$ 50 million equivalent). (See Table 1 for a comparison of the lending program proposed in the CAS Progress Report and actual lending during FY01.)

**Table 1. FYR Macedonia: FY01 Lending**

FY01 Projects	Planned lending amounts (US\$ millions equivalent)			Actual lending amounts (US\$ millions equivalent)			Board approval
	IBRD	IDA	Total	IBRD	IDA	Total	
Trade and Transport Facilitation in Southeast Europe Credit		9.3	9.3		9.3	9.3	7/25/00
Second Financial and Enterprise Sector Adjustment Loan/Credit	30.0	20.0	50.0	30.3	20.0	50.3	12/14/00
Community Development and Culture LIL Credit		5.0	5.0		5.0	5.0	6/21/01
Water Utility Improvement Credit/Loan	16.0	16.0	32.0	16.2	13.1	29.3	6/26/01
Children and Youth LIL Credit					2.5	2.5	6/26/01
Public Sector Management Adjustment Loan/Credit	13.0	27.0	40.0				
<b>TOTALS</b>	<b>59.0</b>	<b>77.3</b>	<b>136.3</b>	<b>46.5</b>	<b>49.9</b>	<b>96.4</b>	

### Portfolio performance

19. As of July 2001 there were 13 active loans/credits to FYR Macedonia. The first Joint Portfolio Performance Review (JPPR) was held in March 2000 and assessed the range of problems affecting implementation of projects in the country. Some implementation difficulties were found to be systemic, particularly weak project management and over-ambitious project design, while others were project specific. A matrix of corrective actions was agreed. In January 2001, an assessment of progress against the agreed benchmarks was held and found that there had been some improvement in portfolio performance. Of the 6 projects identified during the JPPR as in need of special monitoring, two were deemed as no longer at risk. Another project (Education Rehabilitation) closed, in March 2001, and a stakeholder workshop is currently being carried out as part of an innovative learning Implementation Completion Report, the first to be held for the FYR Macedonia portfolio. Before the conflict, no projects in the portfolio were rated unsatisfactory.

20. Some difficulties have emerged in the implementation of the portfolio as a result of the crisis, but these complications have not yet shown up in project ratings. Many project activities have continued within schedule, but restrictions on travel outside of the capital by headquarters staff and by international consultants since March 2001, which became a ban on most travel to the field in May 2001, have slowed some components, particularly technical assistance. Local staff have taken over all supervision of the portfolio. Some projects have been more directly affected. For example, the Irrigation Rehabilitation Project includes irrigation schemes in the Tetovo/Gostivar area which has experienced severe security problems over the last few months. Scheduled activities, including civil works and Water Users Association programs in that area, have been delayed. Some road works financed under the Transport project have been disrupted by military actions. Another factor affecting the portfolio is the lack of focus on project-specific issues at the ministry level because of other demands on staff time. In particular, the coordination function performed by the Ministry of Finance has become more difficult.

## **Economic and sector work**

21. Economic and sector work in a number of areas is underway. Assistance to the PRSP process has proceeded as planned, and technical work in support of a government strategy for poverty reduction is underway. Discussion of the Public Expenditure Institutional Review began with the government in May, 2000, however, as a result of the conflict, this is now not expected to be finalized until FY02. The planned work on governance and support for anticorruption has also been delayed. An Education Sector Strategy has been prepared by the Ministry of Education. The Bank has called for further discussions to agree on priorities and policies and has drafted an education policy note on the strategy. The Agriculture Sector Strategy scheduled for FY02 is underway, although work has been slowed because of the delay of fieldwork due to the conflict. The next Poverty Assessment will have some preparatory work in FY02, but the report will not be completed until FY03 since it is to be coordinated with improvements in the household budget surveys run by the government, which will be preceded by the next census (delayed from FY01 because of political sensitivity).

## **Activities of IFC and MIGA**

22. As of June 2001, *IFC*'s commitments consisted of nine projects for a total of US\$ 72 million (US\$ 87 million including syndication) making FYR Macedonia one of IFC's largest per capita exposures worldwide. These investments include the successful privatizations of Stopanska Banka and Macedonia Telecom. The recent crisis has, however, significantly impeded IFC's investment program, and persuading foreign investors to return to Macedonia will be difficult unless the situation improves rapidly. Following a peace agreement, IFC's strategy, which focuses on projects enhancing productivity and growth in the financial and enterprise sectors, will be fine-tuned to include post-conflict recovery. IFC is considering investments in micro-finance and the extension of working capital loans to viable companies affected by the conflict. *MIGA* issued one guarantee against the risks of war and civil disturbance in FY 2000 totaling US\$ 19 million in coverage, of which US\$ 17.3 million remains outstanding. *FIAS* launched a study of administrative barriers to investment and agreed to help the Government review the progress of the recommendations of the 1998 FIAS report on the investment environment. Finally, the Southeast Europe Enterprise Development (*SEED*) facility managed by the Bank's global SME department opened an office in Skopje in FY01 and started to provide business advisory services to a range of clients.

## **V. A Transitional Support Strategy for FYR Macedonia**

23. As indicated above in the Overview, this strategy covers primarily FY02 and will be triggered by the adoption by the Macedonian Parliament of the constitutional amendments specified in the peace agreement. The main objectives of the previous CAS, i.e., the promotion of private sector growth and job creation, enhancing the efficiency of the State, and alleviation of poverty and development of human capital, remain fundamental for the future of FYR Macedonia and, thus, will continue to guide the Bank's program for the medium-term. However, with the recent conflict, new short-term challenges have emerged, adding a new post-conflict agenda and changing some of the emphases of the program. These challenges include urgent balance of payments needs, reconstruction of destroyed villages, financing for community-building initiatives that provide employment and foster social cohesion; and the impact on

service delivery and public sector management of accelerated decentralization of many government responsibilities to the local level.

24. The Bank will help FYR Macedonia to meet these challenges through: (i) resource mobilization and donor coordination; and (ii) direct financial assistance and policy advice.

#### **Resource mobilization**

25. The Bank, together with the European Union, co-chairs the High Level Steering Group for Southeast Europe and its working level counterpart, the Working Level Steering Group (WLSG). The WLSG and, particularly, the IMF have been monitoring the situation in FYR Macedonia closely to determine external financing requirements and the best way to meet them. In order to address the most urgent financing needs, the Bank and the European Commission (EC) will organize a donor coordination meeting shortly after the adoption of the constitutional amendments specified in the peace agreement. The primary objective of this meeting will be the mobilization of exceptional balance of payments support to fill the incremental financing gap in the balance of payments for 2001. The meeting will also provide an opportunity for donors to receive an update on the humanitarian situation. Finally, donors will likely use this meeting to show their support for FYR Macedonia by giving an early indication of financial assistance that might become available for reconstruction and "peace-building" projects, once a proper assessment of such needs has been carried out.

#### **Financial assistance and policy advice**

26. *The size and nature of financial assistance.* The negative impact of this civil conflict on economic and social stability was accumulating just as FYR Macedonia was graduating from blend to IBRD only status.<sup>7</sup> The positive momentum that had been building has now been stalled, and many of the gains of recent years have been reversed, at least temporarily. The TSS tentatively programs US\$ 15 million of new IBRD commitments for FY02, but such commitments will be subject to further review of the country's creditworthiness towards the end of FY02. As a result, Management proposes that FYR Macedonia be granted access to IDA lending, on a highly exceptional basis. It is intended that this exceptional access will only be extended in FY02. IDA lending in FY02 would be up to US\$ 35 million equivalent, including support for the Public Sector Management Adjustment and related Technical Assistance operations (originally planned in FY01). To reflect the highly exceptional nature of IDA assistance in FY02, Management recommends that IDA financing for new operations (i.e., those not yet appraised) should be on modified terms, with a final maturity of 20 years, with 10 years of grace, and carrying the standard IDA service charge of 75 basis points. It is further proposed not to include an acceleration clause in these credit agreements. These changed terms would reduce the grant element from the standard 64 percent to 44 percent for the new operations.<sup>8</sup> This effective hardening of the terms of IDA assistance for new operations – programmed to amount to US\$ 20 million – is appropriate in view of FYR Macedonia's high per capita income,

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<sup>7</sup> FYR Macedonia has been a blend country since membership in 1993 and, until 1998, had a per capita income between the operational cut-off and historical ceiling for IDA eligibility. As a result, the 1998 CAS recommended graduation from IDA at the end of FY01. FYR Macedonia's per capita income is estimated at US\$ 1,710, which is higher than the historical ceiling level applicable in FY02 (US\$ 1,445).

<sup>8</sup> These grant element calculations are based on a discount rate of 6.3 percent. Standard terms for blend borrowers are a final maturity of 35 years, with 10 years of grace, and a service charge of 75 basis points.

which is expected to remain above the historical ceiling for IDA eligibility, and its ability to bear new debt on these terms.

27. The exceptional, one-time, access to IDA resources in FY02 would allow the Bank to: (i) contribute to financing of FYR Macedonia's incremental external financing gap, with appropriate burden-sharing with donors, through an Emergency Recovery Assistance operation; (ii) continue support for the structural reform agenda by financing the Public Sector Management Reform Program at a reduced level, and (iii) allow the preparation of a small Community Development Project to strengthen social cohesion after the conflict. In addition, the already planned Education Project will be prepared to be ready for Board presentation when FYR Macedonia is considered to be creditworthy for IBRD. The planned distribution of Bank support among these operations is shown in Table 2. The planned amount for supporting the Public Sector Management Reform Program has been reduced to make room for the proposed new urgent operations, resulting in a program that is more responsive to current conditions.

**Table 2. FYR Macedonia: Change in FY02 Lending Program due to Conflict**  
(US\$ millions)

Project	Original Program			Post-Conflict Program		
	IDA	IBRD	Total	IDA	IBRD	Total
Public Sector Management <sup>1/</sup>	25		25	15		15
Education		20	20		15 <sup>2</sup>	15
Community Development				5		5
Emergency Recovery Assistance				15		15
<b>Total</b>	<b>25</b>	<b>20</b>	<b>45</b>	<b>35</b>	<b>15</b>	<b>50</b>

<sup>1</sup> Includes a small technical assistance operation; both were delayed from FY01. <sup>2</sup> IBRD financing of \$15 million in FY02 assumes that creditworthiness will be re-established before end-FY02.

28. *Post-conflict priorities.*

- **Balance of payments needs.** The Bank plans to prepare an Emergency Recovery Assistance Credit (US\$ 15 million equivalent) to help the Government mitigate some of the economic impact of the conflict and, based on provisional estimates, finance 10 to 15 percent of the incremental external financing gap for 2001. This gap, which was estimated at US\$ 65 to 70 million in early June (see para. 13), will be updated before the donors' conference.
- **Reconstruction.** Reconstruction needs will have to be properly assessed once the armed groups have left the destroyed villages. The Bank is planning to finance some small-scale rehabilitation of local infrastructure and try to address social and other needs through the proposed Community Development Project. However, the Bank expects that the European Union will take the lead in identifying reconstruction needs and that most financing for this purpose will come from the EC and bilateral donors.
- **Social cohesion.** Strengthening social cohesion, fostering reconciliation, and preventing further conflict will be a key challenge for the years to come and a major, cross-cutting objective of the Bank's activities, in particular, collaboration with the authorities on the

PRSP and work in education and social protection. Where feasible, the recently approved social development LILs (Children and Youth Development, and Community Development and Culture) will be adjusted to expand and add specific social cohesion components. The proposed Community Development Project will also support social projects that help inter-community integration.

- **Decentralization.** Finally, the Bank would work with the authorities on decentralization, as part of the preparation of ongoing work in public sector management reform and through the proposed Education Project, as well as education sector work. As the shape and pace of decentralization become more clear, the Bank will be able to shape an appropriate multi-sectoral response.

29. *Transition and development priorities.* The Bank will continue its support to FYR Macedonia's structural reform and development agenda in FY02, as described in the CAS Progress Report (May 2000) and the I-PRSP (November 2000).

- **Alleviation of poverty and development of human capital.** Following presentation to the Board in December last year of an I-PRSP, the Government is committed to finalize its poverty reduction strategy. While the conflict has caused some interruption in this effort, working groups have been established and are functioning with an objective to finalize the PRSP by early 2002. This timetable may require revision depending on whether a Poverty Assessment, also to be launched in this fiscal year, can be completed as planned. The Poverty Assessment includes technical assistance to the household budget survey, which should follow completion of the next census. However, the census has been delayed because its assessment of the country's current ethnic composition is politically sensitive. Given the strong correlation between poverty and education, education sector work and the proposed Education Project will pay special attention to improving access of the most vulnerable groups of society to education. The project will also support a set of reforms in education that would lead to more efficient resource allocation while improving educational outcomes. Both the ESW and the project are expected to provide an agreed framework for donor support to the sector.
- **Private sector growth and job creation.** The three-tranche FESAL II, approved in December 2000, will continue to be the main vehicle of Bank support to financial and enterprise sector reforms. Progress has been reasonably good in implementation of banking sector reform, with conditions in the financial sector improving and the central bank taking a more pro-active role in supervision. Now, the pace has slowed, and some banks are more vulnerable because of the economic pressures generated by the crisis. Reform in the enterprise sector has been more uneven, and the conflict has further complicated the difficult process of resolution of loss-making state-owned enterprises. One issue even before the crisis was less than full transparency in government actions on privatization and interference in corporate governance, especially in the financial sector. Because of the crisis, it is expected that second tranche release of FESAL II will likely be delayed into 2002.
- **Enhancing the efficiency of the State.** For more than a year, the authorities and the Bank have been working on a comprehensive program of public sector management

reforms that the Bank could support through a series of credits and loans. The first adjustment operation (Public Sector Management Adjustment Credit, PSMAC, US\$ 14 million equivalent) and the accompanying technical assistance project (US\$ 1 million equivalent) are expected to be presented to the Board before the end of the calendar year if a peace agreement is reached and an adequate macroeconomic framework is in place, since most conditions were substantially met before the end of FY01. The operation and its technical assistance will focus on improvements in: (i) public expenditure management, including central budget management, health expenditure management, and social protection expenditure management; and (ii) human resource management (or civil service reform). The total financing for the 2 operations has been scaled back to US\$ 15 million equivalent to allow for quick post-conflict financial support through the proposed Emergency Recovery Assistance Credit.

30. ***Plans for FY03 and beyond.*** The priorities for Bank support for FY03 and beyond are expected to emerge from the Government's PRSP and discussions on a new CAS. In addition to the continuation of the Public Sector Management Reform Program, at the request of the Government, work has started on the preparation of projects in health and social protection through PHRD grant support. These are areas in which the Bank has already been involved and which are also important for the PRSP agenda and, specifically, the public sector management reform dimension. An Export Development Project that would help Macedonian enterprises increase export production through better access to working capital and export credit is being considered. Finally, the most important ESW will remain the next Poverty Assessment which will be initiated this fiscal year and completed in FY03.

## VI. Risks

31. The transitional strategy described here involves substantial risks, particularly since the goal is to move forward with support for the country as soon as possible, before all political and economic parameters are clear. However, the strategy will not be triggered and lending will not resume until the constitutional amendments specified in the peace agreement are adopted by Parliament.

32. ***Renewed fighting and civil disturbances.*** There is a risk that the peace settlement will not hold and that fighting between ethnic Albanian groups and government security forces will resume. In addition, demonstrations in urban areas, with the potential for violence, could also follow the signing of the peace settlement, especially in the run-up to the next elections during which some political parties could take stands critical of the peace settlement. The intensity and geographical containment of any such military activity and the degree of violence of urban demonstrations will determine their disruptiveness to the Bank's activities. With low level disturbances, most of the intended activities will be able to continue if government commitment is maintained. With rising levels of violence, appropriate steps will be taken to scale back risky activities, halt preparation of new lending, and, if need be, reduce Bank presence in the field.

33. ***Macroeconomic instability.*** Macroeconomic management is likely to continue to be difficult in the near future. Although it is expected that a peace settlement and the cessation of fighting will relieve speculative pressures on the exchange rate and allow trade shipments to move freely across the northern border, fiscal demands are likely to outstrip revenues by

significant margins if security spending remains high or if the political settlement requires large and immediate outlays of funds not covered by donor assistance. Low economic growth (if business confidence does not return) could contribute to a deterioration of macroeconomic fundamentals. In this case, the authorities may not be able to commit to a fiscal path for 2001-02 that could be supported by the IMF, either because of the government's need to boost spending above levels considered prudent by the IMF or because of continued uncertainty about revenues and inflation. Without an adequate macroeconomic framework, preparation of the PSMAC will be delayed, and the Bank will focus instead on the other elements of the strategy until macroeconomic stability returns. In such circumstances, an Emergency Assistance Recovery Credit would provide appropriate support during the interim period until the authorities are able to contain macroeconomic pressures and prepare a program that can be supported by the IMF. If uncontrolled macroeconomic imbalances were to coincide with continued political disturbances, then the possibility of payment delays to all creditors, including the Bank, would rise sharply.

34. *Delayed structural reforms.* The program of structural reforms agreed with the Government, supported by FESAL II and by the planned Public Sector Management Reform Program, may face delays because of the higher political costs of such reforms in the current atmosphere, particularly before the next elections. Further, the political changes emerging from the peace settlement, particularly accelerated decentralization, likely imply a shift in priorities for economic reforms. The government has reaffirmed its commitment to the reforms supported under FESAL II, and the Bank does not foresee any need for modification of this program. The PSMAC and its technical assistance project will support prior actions only, and follow-up operations will be able to adjust to the new priorities for reform.

## VII. Recommendation

35. In light of the discussion above, I recommend that the Executive Directors approve FYR Macedonia's exceptional access to IDA resources during FY02 as well as hardened terms of IDA credits for new operations, as set out in this Transitional Support Strategy. The modified terms are 20 years final maturity, 10 years of grace on principal, IDA's standard service charge, and no repayment acceleration clause.

James D. Wolfensohn  
President

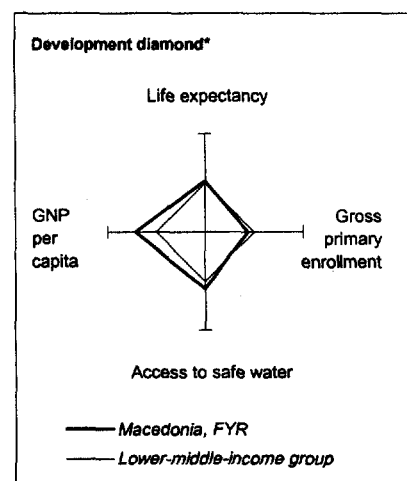
By Sven Sandström

August 20, 2001  
Washington DC

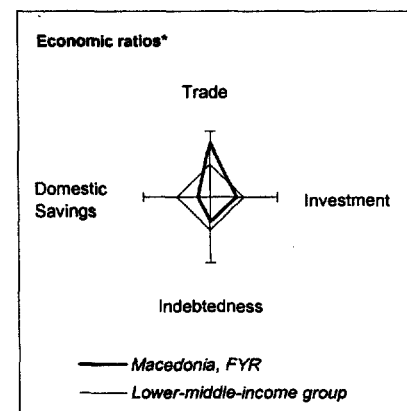
## Macedonia, FYR at a glance

8/16/2001

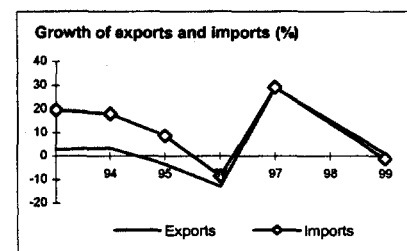
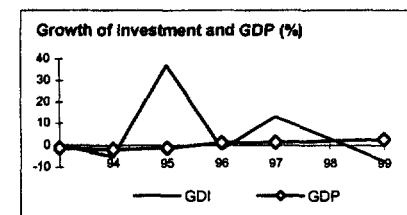
	Macedonia, FYR	Europe & Central Asia	Lower- middle- income
<b>POVERTY and SOCIAL</b>			
<b>2000</b>			
Population, mid-year (millions)	2.0	475	2,094
GNP per capita (Atlas method, US\$)	1,710	2,150	1,200
GNP (Atlas method, US\$ billions)	3.3	1,022	2,513
<b>Average annual growth, 1994-00</b>			
Population (%)	0.6	0.1	1.1
Labor force (%)	0.7	0.6	1.2
<b>Most recent estimate (latest year available, 1994-00)</b>			
Poverty (% of population below national poverty line)	22	..	..
Urban population (% of total population)	62	67	43
Life expectancy at birth (years)	72	69	69
Infant mortality (per 1,000 live births)	15	22	33
Child malnutrition (% of children under 5)	6	8	15
Access to improved water source (% of population)	99	..	86
Illiteracy (% of population age 15+)	5	3	16
Gross primary enrollment (% of school-age population)	99	100	114
Male	100	101	114
Female	98	99	116

**KEY ECONOMIC RATIOS and LONG-TERM TRENDS**

	1979	1989	1999	2000	
GDP (US\$ billions)	..	..	3.4	3.4	
Gross domestic investment/GDP	..	..	21.0	27.9	
Exports of goods and services/GDP	..	..	44.0	49.5	
Gross domestic savings/GDP	..	..	11.0	9.2	
Gross national savings/GDP	..	..	17.3	9.2	
Current account balance/GDP	..	..	-4.0	-3.4	
Interest payments/GDP	..	..	..	1.6	
Total debt/GDP	..	..	43.4	43.8	
Total debt service/exports	..	..	12.6	12.4	
Present value of debt/GDP	..	..	36.9	..	
Present value of debt/exports	..	..	87.8	..	
	1979-89	1989-99	1999	2000	2000-04
(average annual growth)					
GDP	..	-0.8	2.7	4.3	..
GDP per capita	..	0.3	2.3	3.8	..
Exports of goods and services	..	3.1	1.2	12.3	..

**STRUCTURE of the ECONOMY**

	1979	1989	1999	2000
<b>(% of GDP)</b>				
Agriculture	..	..	11.8	10.0
Industry	..	..	32.6	32.0
Manufacturing	..	..	..	0.0
Services	..	..	55.8	58.0
Private consumption	..	..	53.5	56.5
General government consumption	..	..	35.7	34.3
Imports of goods and services	..	..	55.6	68.2
	1979-89	1989-99	1999	2000
(average annual growth)				
Agriculture	..	-0.4	-2.5	-5.0
Industry	..	-4.7	1.1	8.2
Manufacturing	..	..	..	..
Services	..	0.1	4.2	14.6
Private consumption	..	0.7	-3.2	16.7
General government consumption	..	-0.3	4.3	6.0
Gross domestic investment	..	2.2	-7.0	46.7
Imports of goods and services	..	7.2	-1.2	35.2
Gross national product	..	1.1	2.7	4.3



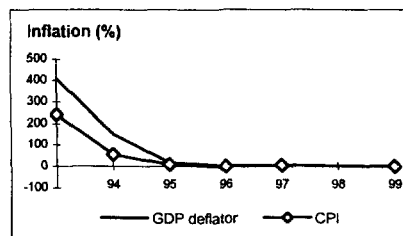
Note: 2000 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

## Macedonia, FYR

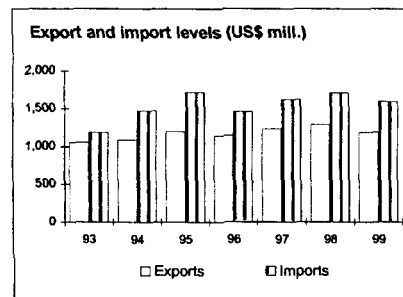
## PRICES and GOVERNMENT FINANCE

	1979	1989	1999	2000
<b>Domestic prices</b> (% change)				
Consumer prices	..	..	-0.7	5.8
Implicit GDP deflator	..	..	0.0	5.7
<b>Government finance</b> (% of GDP, includes current grants)				
Current revenue	..	..	36.2	38.5
Current budget balance	..	..	0.5	4.2
Overall surplus/deficit	..	..	0.0	2.7



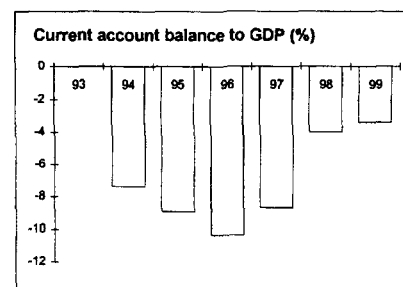
## TRADE

	1979	1989	1999	2000
<b>TRADE</b> (US\$ millions)				
Total exports (fob)	..	..	1,192	1,319
Raw materials	..	..	50	..
Food	..	..	68	..
Manufactures	..	..	867	..
Total imports (cif)	..	..	1,796	1,875
Food	..	..	208	..
Fuel and energy	..	..	158	..
Capital goods	..	..	366	..
Export price index (1995=100)	..	..	..	..
Import price index (1995=100)	..	..	..	..
Terms of trade (1995=100)	..	..	..	..



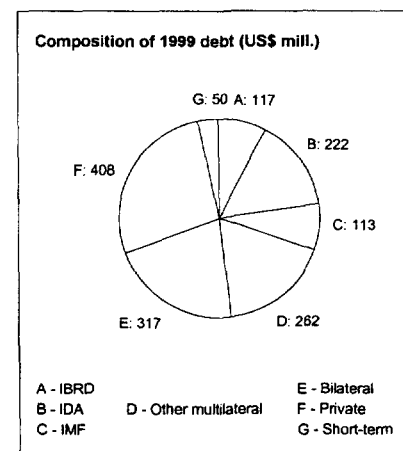
## BALANCE of PAYMENTS

	1979	1989	1999	2000
<b>BALANCE of PAYMENTS</b> (US\$ millions)				
Exports of goods and services	..	..	1,440	1,617
Imports of goods and services	..	..	1,925	2,233
Resource balance	..	..	-485	-616
Net income	..	..	-44	..
Net current transfers	..	..	494	552
Current account balance	..	..	-137	-113
Financing items (net)	..	..	280	328
Changes in net reserves	..	..	-143	-215
<b>Memo:</b>				
Reserves including gold (US\$ millions)	..	..	478	714
Conversion rate (DEC, local/US\$)	..	..	56.6	..



## EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1999	2000
<b>EXTERNAL DEBT and RESOURCE FLOWS</b> (US\$ millions)				
Total debt outstanding and disbursed	..	..	1,489	1,479
IBRD	..	..	110	117
IDA	..	..	222	249
Total debt service	..	..	190	210
IBRD	..	..	9	9
IDA	..	..	1	1
Composition of net resource flows				
Official grants	..	..	65	80
Official creditors	..	..	114	156
Private creditors	..	..	..	-37
Foreign direct investment	..	..	27	167
Portfolio equity	..	..	3	2
World Bank program				
Commitments	..	..	92	..
Disbursements	..	..	57	..
Principal repayments	..	..	3	..
Net flows	..	..	54	..
Interest payments	..	..	8	..
Net transfers	..	..	46	..



**CAS Annex B2 - Macedonia, form**  
**Selected Indicators\* of Bank Portfolio Performance and Management**  
 As Of Date 07/13/2001

Indicator	1999	2000	2001	2002
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	12	10	13	13
Average Implementation Period (years) <sup>b</sup>	1.6	2.4	2.3	2.3
Percent of Problem Projects by Number <sup>a, c</sup>	8.3	20	0	0
Percent of Problem Projects by Amount <sup>a, c</sup>	7.1	21.5	0	0
Percent of Projects at Risk by Number <sup>a, d</sup>	8.3	20	0	0
Percent of Projects at Risk by Amount <sup>a, d</sup>	7.1	21.5	0	0
Disbursement Ratio (%) <sup>e</sup>	15.7	42.9	22.2	0.2
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	No	Yes	No	No
Supervision Resources (total US\$)	924	999	916	1202
Average Supervision (US\$/project)	77	100	70	92

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	9	6
Proj Eval by OED by Amt (US\$ millions)	353	188
% of OED Projects Rated U or HU by Number	22.2	16.7
% of OED Projects Rated U or HU by Amt	3.4	6.3

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## CAS Annex B3 - Bank Group Program Summary Macedonia, form

As Of Date 07/13/2001

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2002	Education	15.0	H	M
	PSMAC	14.0	H	L
	PSMAC TA	1.0	H	L
	Community Development	5.0	H	M
	Emergency Recovery Credit	15.0	H	L
	Result	50.0		

a. This table presents the proposed program for the next three fiscal years.

b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H) moderate (M) or low (L)

<b>CAS Annex B3 (IFC &amp; MIGA) for Macedonia, form</b>				
<b>Macedonia, form - IFC and MIGA Program, FY 1999-2002</b>				
	1999	2000	2001	2002
IFC approvals (US\$m)	2.50	4.61	4.66	5.85
<b>Sector (%)</b>				
CHEMICALS & PETROCHEMS	0	0	0	0
FINANCIAL SERVICES	100	100	100	1
OTHER	0	0	0	0
TEXTILES	0	0	0	99
<b>Total</b>	100	100	100	100
<b>Investment instrument(%)</b>				
Loans			100	99
Equity	100	100	0	1
Quasi-Equity		0	0	0
Other	0	0	0	0
<b>Total</b>	100	100	0	100
MIGA guarantees (US\$m)	0.00	19.00	0.00	0.00

### CAS Annex B4 - Summary of Nonlending Services - Macedonia, form

As Of Date 07/13/2001

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience<sup>a</sup></i>	<i>Objective<sup>b</sup></i>
<b>Recent completions</b>				
CEM	1999	271	G, B	KG, PS
Poverty Assessment	1999	216	PD	PD
Kosovo Crisis Impact	2000	10	D	KG
<b>Underway</b>				
PER	2002	402	G, B	PS
CPAR	2002	91	B	PS
Education Sector	2002	60	G, B, D	PS
<b>Planned</b>				
Agricultural Sector Update	2003	130	G, B, D	KG
Poverty Assessment	2003	441	PD	PD

a. Government (G), Donor (D), Bank (B), public dissemination (PD).

b. Knowledge generation (KG), public debate (PD), problem-solving (PS).

## Macedonia, FYR Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1994-2000	Europe & Central Asia	Lower-middle-income
<b>POPULATION</b>					
Total population, mid-year (millions)	1.8	2.0	2.0	474.4	2,093.0
Growth rate (% annual average for period)	1.5	0.8	0.7	0.1	1.1
Urban population (% of population)	50.6	55.7	61.6	66.5	42.9
Total fertility rate (births per woman)	2.7	2.3	1.8	1.6	2.1
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	22.0	..	..
Urban headcount index	..	..	18.8	..	..
Rural headcount index	..	..	27.2	..	..
<b>INCOME</b>					
GNI per capita (US\$)	..	..	1,710	2,160	1,200
Consumer price index (1995=100)	..	..	106	182	137
Food price index (1995=100)	..	..	106	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	..	5.6	4.0	2.3
Education (% of GNI)	..	..	12.3	5.1	4.8
Social security and welfare (% of GDP)	..	..	12.5	8.8	..
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	..	95	92	99
Male	..	..	96	93	100
Female	..	..	95	92	99
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	..	99	90	80
Urban	..	100	..	95	94
Rural	..	98	..	82	69
<b>Immunization rate</b>					
<i>(% under 12 months)</i>					
Measles	..	..	98	97	87
DPT	..	..	95	97	87
Child malnutrition (% under 5 years)	..	..	6	..	9
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	..	73	69	69
Male	..	..	71	64	67
Female	..	..	75	73	72
<b>Mortality</b>					
Infant (per 1,000 live births)	..	43	15	21	32
Under 5 (per 1,000 live births)	..	69	18	26	40
<b>Adult (15-59)</b>					
Male (per 1,000 population)	..	..	160	289	191
Female (per 1,000 population)	..	..	102	127	133
Maternal (per 100,000 live births)	..	..	3	..	..
Births attended by skilled health staff (%)	..	..	93	..	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data. Latest year for access to improved water source data is 2000.

2001 World Development Indicators CD-ROM, World Bank

## Macedonia, FYR - Key Economic Indicators

Indicator	Estimate Projected						
	1995	1996	1997	1998	1999	2000	2001
<b>National accounts (as % of GDP)</b>							
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100
Agriculture	13	13	13	12	12	10	11
Industry	32	32	34	33	33	32	29
Services	54	55	53	55	56	58	60
Total Consumption	89	90	91	91	89	91	95
Gross domestic investment	21	20	22	23	21	28	24
Government investment	3	2	1	2	2	3	7
Private investment (includes increase in stocks)	18	18	21	21	19	25	17
Exports (GNFS) <sup>b</sup>	33	28	38	43	44	50	41
Imports (GNFS)	43	39	51	58	56	68	60
Gross domestic savings	11	10	9	9	11	9	5
<i>Memorandum items</i>							
Gross domestic product (US\$ million at current prices)	4449	4422	3714	3495	3432	3373	3665
GNP per capita (US\$, Atlas method) <sup>c</sup>	840	920	1090	1290	1690	1710	..
Real annual growth rates (% , calculated from 1996 prices)							
Gross domestic product at market prices	-1.1	1.2	1.4	2.9	2.7	4.3	0.0
Real annual per capita growth rates (% , calculated from 1996 prices)							
Gross domestic product at market prices	-2.1	0.5	0.6	2.0	2.3	3.8	-0.5
Total consumption	-3.3	1.7	1.1	2.4	4.5	5.8	4.4
Private consumption	-5.2	2.2	2.2	2.2	6.1	9.9	2.9
<b>Balance of Payments (US\$ millions)</b>							
Exports (GNFS) <sup>b</sup>	1359	1301	1365	1423	1440	1617	1521
Merchandise FOB	1204	1147	1237	1292	1192	1319	1279
Imports (GNFS) <sup>b</sup>	1780	1773	1896	2015	1925	2233	2213
Merchandise FOB	1439	1464	1623	1711	1601	1875	1877
Resource balance	-421	-472	-531	-592	-485	-616	-692
Net current transfers	228	213	291	327	494	494	243
Current account balance	-222	-288	-277	-309	-137	-113	-508
Net private foreign direct investment	10	11	16	175	24	167	436
Long-term loans (net)	30	36	109	162	59	-3	67
Official	105	80	102	71	59		
Private	-75	-44	7	91	0		
Other capital (net, incl. errors & omissions)	255	220	142	16	177	186	91
Change in reserves <sup>d</sup>	-72	21	10	-44	-123	-237	-86

**Macedonia, FYR - Key Economic Indicators**  
(continued)

Indicator	Estimate / Projected						
	1995	1996	1997	1998	1999	2000	2001
<i>Memorandum items</i>							
Resource balance (% of GDP)	-9.5	-10.7	-14.3	-16.9	-14.1	-18.3	-18.9
Annual growth rates (in terms of US\$)							
Merchandise exports (FOB)	10.9	-4.7	7.8	4.4	-7.7	10.7	-3.0
Primary	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..
Merchandise imports (FOB)	13.1	1.7	10.9	5.4	-6.4	17.1	0.1
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>							
Current revenues	37.4	35.7	34.9	33.9	36.2	38.5	36.9
Current expenditures	36.1	34.1	34.2	33.9	35.7	34.3	36.8
Current account surplus (+) or deficit (-)	1.3	1.6	0.7	0.0	0.5	4.2	0.1
Capital expenditure	2.8	2.3	1.4	1.9	2.4	2.9	6.6
Foreign financing	1.0	0.3	0.3	2.1	2.3	2.8	13.2
<b>Monetary indicators</b>							
M3/GDP	13.8	13.3	15.2	16.8	20.7	23.6	
Growth of M3 (%)	-63.1	0.5	19.6	14.0	26.4	25.6	
Private sector credit growth / total credit growth (%)	..	..	..	141.6	99.9	100.0	
<b>Price index( YR96 =100)</b>							
Merchandise export price index	105.0	100.0	110.7	103.6	..	..	
Merchandise import price index	99.8	100.0	100.0	100.0	..	..	
Merchandise terms of trade index	..	..	101.2	112.6	..	..	
Real exchange rate (US\$/LCU) <sup>f</sup>	100.0	96.3	82.2	72.3	73.2	74.5	
Real interest rates <sup>g</sup>	..	21.6	15.2	21.4	21.6	12.4	11.9
Consumer price index (% change)	15.8	2.3	2.6	-0.1	-0.7	5.8	6.3
GDP deflator (% change)	17.1	2.9	3.4	0.2	0.0	5.7	6.3

a. GDP at factor cost

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

c. Includes net unrequited transfers excluding official capital grants.

c. Due to recalculation of the Synthetic Atlas Conversion Factors, GNP per capita in 1999 was estimated to be US\$ 1690. FYR Macedonia converted to use of the official exchange rate for Atlas purposes for 2000 GNP per capita.

d. Includes use of IMF resources.

e. Consolidated general government.

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

g. Short-term lending rate.

## Macedonia, FYR - Key Exposure Indicators

Indicator	Estimate Projected						
	1995	1996	1997	1998	1999	2000	2001
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	1206	1389	1265	1467	1492	1479	1556
Net disbursements (US\$m) <sup>a</sup>	304	-75	144	267	25	-13	77
Total debt service (TDS) (US\$m) <sup>a</sup>	141	144	120	124	190	210	191
Debt and debt service indicators (%)							
TDO/XGS <sup>b</sup>	84.9	99.9	86.7	98.7	98.8	87.4	97.5
TDO/GDP	27.1	31.4	34.1	42.0	43.5	43.8	42.4
TDS/XGS	10.1	10.7	8.4	8.3	12.6	12.4	12.0
Concessional/TDO	..	..	..	..	40.7	60.1	65.7
IBRD exposure indicators (%)							
IBRD DS/public DS	20.2	18.8	14.7	11.1	8.4	8.3	8.5
Preferred creditor DS/public DS (%) <sup>c</sup>	43.5	35.6	39.7	44.9	53.2	62.5	61.1
IBRD DS/XGS	1.9	1.5	0.9	0.8	0.5	0.4	0.5
IBRD TDO (US\$m) <sup>d</sup>	94	81	92	115	110	123	155
Of which present value of guarantees (US\$m)							
Share of IBRD portfolio (%)	0.1	0.1	0.2	0.2	0.1	0.1	..
IDA TDO (US\$m)	84	125	145	179	222	249	287
IFC (US\$m)							
Loans			7.3	25.0	0.0		1.2
Equity and quasi-equity					4.4	8.0	
MIGA							
MIGA guarantees (US\$m)						19.0	

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

**CAS Annex B8 (IFC) for Macedonia, form**

Macedonia, form  
Statement of IFC's  
Held and Disbursed Portfolio  
As of June 30, 2001  
(In US Dollars Millions)

FY Approval Company	Held				Disbursed			
	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1999 Alkaloid	0	0	9.1	0	0	0	3.62	0
1998 Macedonia Telcom	25	0	0	15	25	0	0	15
1997 Makedonija	4.42	0	0	0	2.65	0	0	0
1997 Nikol-Fert	3.8	0	0	0	3.3	0	0	0
1997 SEF Masinomont	0.79	0	0	0	0.62	0	0	0
1999 SEF SEAF Macedon	0	2.5	0	0	0	0.78	0	0
1997 SEF Teteks	1.52	0	0	0	0.7	0	0	0
1998/00 Stopanska Banka	11.12	9.86	0	0	0	8.02	0	0
2001 Komercijalna	4.28	0	0	0	1.2	0	0	0
<b>Total Portfolio:</b>	<b>50.93</b>	<b>12.36</b>	<b>9.1</b>	<b>15</b>	<b>33.47</b>	<b>8.8</b>	<b>3.62</b>	<b>15</b>

**Approvals Pending Commitment**

	Loan	Equity	Quasi	Partic
2001 Stopanska RI	0	0.55	0	0
<b>Total Pending Commitment:</b>	<b>0</b>	<b>0.55</b>	<b>0</b>	<b>0</b>

## CAS Annex B8 - Macedonia, form

## Status of Bank Group Operations (Operations Portfolio)

As Of Date 07/13/2001

Closed Projects 9

IBRD/IDA \*

Total Disbursed (Active)	61.60
of which has been repaid	0.00
Total Disbursed (Closed)	345.60
of which has been repaid	3.60
Total Disbursed (Active + Closed)	407.43
of which has been repaid	3.63
Total Undisbursed (Active)	150.55
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	150.55

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions			Cancel.	Undisb.	Difference Between Expected and Actual Disbursements <sup>W</sup>	
		Supervision Rating			IBRD	IDA	GRANT			Orig.	Frm Rev'd
		Development Objectives	Implementation Progress								
P036089	HEALTH SECT TRANSTN	S	S	1996	0	16.9	0	0	6.5	3.1	0
P010001	PRIV FARMER SUPPORT	S	S	1996	0	7.9	0	0	1.7	0	-1.6
P038399	IRRIG REHAB	S	S	1998	7.5	5	0	0	7.6	3.1	2.4
P042399	POWER	S	S	1998	35	0	0	0.3	23.2	6.9	0
P034609	PSD II	S	S	1998	25	0	0	0	9.1	6.6	0
P058056	PENSION REF TA	S	S	1999	0	1	0	0	0.2	0	0
P066221	SOCIAL SUPPORT	S	S	1999	0	10	0	0	4.3	0.2	0
P050589	TRANSPORT	S	S	1999	32	0	0	0	13.9	16.1	0
P073483	CHILD/YOUTH DEVT LIL	#	#	2001	0	2.5	0	0	2.5	0	0
P063577	COMM DEVT & CULT LIL	#	#	2001	0	5	0	0	5	0	0
P042400	FESAL 2	S	S	2001	30.3	20	0	0	39.3	-0.2	0
P070089	TRADE & TRANS FACIL IN	S	S	2001	0	9.3	0	0	8.2	-0.5	0
P038395	WATER UTIL IMPV	#	#	2001	16.2	13.1	0	0	29.1	0	0
Overall result				Result	146	90.7	0	0.3	150.6	35.3	0.8

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.