**PROGRAM INFORMATION DOCUMENT (PID)**

**CONCEPT STAGE**

May 25, 2012

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| **Operation Name** | Macedonia Competitiveness DPL 1 |
| **Region** | EUROPE AND CENTRAL ASIA |
| **Country** | Macedonia, former Yugoslav Republic of |
| **Sector** | General industry and trade sector (20%); Agro-industry, marketing and trade (20%); Other domestic and international trade (20%); Public administration-industry and trade (40%) |
| **Operation ID** | P126038 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | FORMER YUGOSLAV REPUBLIC OF MACEDONIA |
| **Implementing Agency** | Ministry of Finance  Mito Hadzivasilev Jasmin bb  1000 Skopje  Macedonia, former Yugoslav Republic of  Tel: (389-2) 311-7288 Fax: (389-2) 311-7280  suzana.stoimceva@finance.gov.mk |
| **Date PID Prepared** | May 14, 2012 |
| **Estimated Date of Appraisal** | September 10, 2012 |
| **Estimated Date of Board Approval** | November 29, 2012 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |

1. **Key development issues and rationale for Bank involvement**

FYR Macedonia’s track record on the policy front is among the best in Southeastern Europe, especially with regard to the adoption of prudent macroeconomic policies and extensive structural reforms. The country embarked on a major reform program from 2002 onwards that achieved fiscal consolidation, public sector reform, and labor market reforms. Government debt fell to 29% in 2011 percent of GDP, from 50 percent at the start of the decade. The structural reforms led to an impressive improvement in the business climate, as measured by international rankings—FYR Macedonia jumped to the 22nd position in the *Doing Business 2012 report*.

Despite these significant policy achievements, economic growth has been below expectations. GDP accelerated in the period 2004–08 but overall, it has grown more slowly than in many countries of the Western Balkans or among the new European Union (EU) member states. Economic growth rates are insufficient to deal with the high levels of structural unemployment and poverty, and at 31.4 percent in 2011, unemployment levels remain among the highest in Europe, with long-term unemployment of particular concern.

To improve the competitiveness of major export-oriented sectors and jumpstart economic growth and job creation, the Government of FYR Macedonia is embarking on a reform program that will make it easier for greenfield investors to locate in FYR Macedonia, strengthen the technological and exporting capabilities of Macedonian manufacturing companies, stimulate upgrading of agriculture producers, address inefficiencies in key factor markets (land, labor, skills), and facilitate trade. The actions are enshrined in the Government Program for 2011-2015, the Competitiveness Action Plan, and the Industrial Policy for 2009-2020. The DPL is supporting the implementation of critical actions within sectors where the country has or could build a comparative advantage that contributes to future growth and job creation.

1. **Proposed Objective(s)**

The PDO is to strengthen FYR Macedonia’s competitiveness and thereby create better job opportunities in the manufacturing, agribusiness and trade logistics sectors, which are major contributors to the economy, through faster technology absorption and export diversification towards high value-added products.

The actions supported by the DPL will contribute to achieving the development goals under the strategic pillar “Faster growth: Competitiveness” of the CPS FY11-14.

1. **Preliminary Description**

The reforms supported by the DPL series aim to strengthen FYR Macedonia’s competitiveness in the manufacturing, agribusiness and trade logistics sectors, by focusing on those actions that can remove binding sectoral bottlenecks that hinder firm entry and firm growth. More specifically, the sectoral reforms and measures aim to improve: development of skilled personnel in manufacturing; the functioning of the agricultural land market; access to finance for agriculture producers; inspection services at the border; and tariff-related costs for inputs imported by manufacturing, food processing and transport industries. By addressing binding constraints at the sector level, the DPL will accelerate upgrading of firm-level capabilities, export diversification and productivity growth. The actions will also improve the effectiveness of the public investment programs supporting these important sectors, increasing the efficiency of public expenditures.

The actions to be supported in the proposed DPL would include:

* Developing high value-added manufacturing— The actions will: increase the effectiveness of the Technological Industrial Development Zones with the goal of attracting greenfield investment; strengthen the institutional and implementation capacity of InvestMacedonia, with the goal of enhancing export promotion; streamline the visa and work permit regime to facilitate hiring of high-skilled foreign professionals and strengthen the capacity to develop education and innovation policies, to improve the development of skills and technological capacity; and reduce the import tariffs for the manufacturing sector.
* Unlocking the potential of the agribusiness sector— The actions will: activate the functioning of the agricultural land market, to facilitate better utilization of agricultural land; promote reforms in the system of agricultural subsidies for 2013-2015 and facilitate the use of agricultural land as collateral for bank loans, which will increase the resources available to agriculture producers for upgrading and investment; and reduce the import tariffs for the food processing industry, which is critical to increase efficiency and cost competitiveness.
* Upgrading trade logistics services— The actions will: reduce the waiting time for inspections to facilitate trade at border crossings; increase the number of transport companies that meet the emission standards for international transport of goods; and reduce the import tariffs on transport vehicles to foster upgrading and increase the export-readiness of the transport industry.

1. **Poverty and Social Impacts and Environment Aspects**

*Poverty and Social Impacts*

The DPL is designed to improve FYR Macedonia’s competitiveness by supporting policies aimed at increasing investment, exports and employment, but certain actions may have a negative impact on producer groups and vulnerable groups. In particular, the reforms in the agribusiness sector include: (i) actions to bring the cost of ownership of unused agricultural land in line with the market realities, which can encourage productive use of land, but could have an impact on rural households and communities; (ii) refocusing the agricultural subsidy program so it supports investments to increase land and labor productivity, which could have a distributional impact; (iii) reductions of import tariffs on raw materials for the food processing industry, which could have a negative impact on producers. The PSIA will be a highly consultative process involving key government counterparts, industry groups, stakeholders and international donors. It will use a mix of qualitative and quantitative methods, drawing from new focus group work and existing survey and administrative data, to understand distributional impacts of the policy measures and adjust the operation as needed to address potentially adverse poverty and social impacts. The gender dimension will be mainstreamed into the PSIA so that policymakers and the team can better articulate gender-specific responses or monitoring. The analytic work will draw on ongoing World Bank studies on public expenditures in agriculture and the labor market.

*Environment Aspects*

The measures proposed to be supported by the operation are primarily geared towards supporting government reforms that can enhance trade, investment, competitiveness and innovation. In general, the proposed operation is unlikely to cause significant effects on the country’s environment and natural resources. The DPL actions will be designed in ways that minimize environmental impacts, for example, by promoting better adherence to good agricultural practices (GAP) in agricultural production. The legal framework for environmental management in FYR Macedonia has undergone significant reforms along the lines of the EU *acquis communautaire*. New Laws on Environment, Nature, Air Quality and Waste Management have been passed by the parliament, in compliance with EU requirements.

1. **Tentative financing**

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| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 50 |
| Borrower/Recipient |  |
| IBRD  Others (specify) |  |
| Total | 50 |

1. **Contact point**

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