



Towards a Competitive and Export-Oriented Private Sector

Sector level policy reforms and investment in the Republic of North Macedonia

The CIIP engagement in the Republic of North Macedonia contributed to increased competitiveness through several channels. The activities supported the development of high value-added manufacturing by maximizing the impact of government interventions to stimulate greenfield investment in advanced manufacturing plants and catalyzed supply linkages between foreign investors and domestic small and medium sized firms. Analytics and technical assistance supported upgrading of the trade logistics sector and facilitated trade at border crossings through more efficient inspections and a risk-based approach to technical inspections. CIIP activities supported the restructuring of the agribusiness sector through improvements in agricultural land administration with a focus on state-owned land that is leased to the private sector and reorientation of public resources available to agriculture producers to promote upgrading and long-term investments. Activities also supported the development of the tourism sector through technical assistance on destination management, market assessment, and value chain analysis and leveraged investment funding of 21 million EUR in the sector by the European Union (EU) and the Government. Finally, CIIP funds contributed to the preparation and implementation of two competitiveness Development Policy Loans (DPL) that focused on sector-specific reforms.

CHALLENGE

Over the past two decades, successive governments and business leaders in the Republic of North Macedonia have been actively working to transform the country's economy and put it on a higher, technology-driven growth trajectory, while leveraging the accession process to the EU as the anchor of the government's reform agenda. Despite the efforts, at the start of the CIIP program in 2014 unemployment remained high at 28 percent, especially among women and youth, and poverty rates were more than four times higher than the EU-28 average. For a small, landlocked country with a limited domestic market and a weak industrial base, this required boosting the country's tourism potential starting from a relatively low base, and building a competitive, export-oriented private sector integrated into global value chains (GVCs).

APPROACH

The CIIP activities in the Republic of North Macedonia blended diagnostic work and technical assistance to improve the institutional capacity to design, deliver, and evaluate new policies and programs with strong public-private dialogue. The CIIP grant helped to complement and enhance traditional World Bank Group (WBG) lending instruments and external partner funding and led to effective coordination with other development partners.

The CIIP-generated knowledge in manufacturing, agriculture and tourism, as well as in the cross-cutting areas of trade logistics, skills and innovation has been used to inform follow up operations and to scale up several initiatives. This includes a series of two Competitiveness DPLs, the Skills Development and Innovation Support Project and the Local and Regional Competitiveness Project in tourism. This represents a combined total of US\$145.1 million in operations. The 2015 pilot Supplier Development Program (SDP) designed by CIIP is now being scaled up and rolled out through the Western Balkans Manufacturing Value Chains Project, a new US\$ 4 million IFC project. The performance of this program demonstrated the importance of remaining engaged with government stakeholders through Technical Assistance (TA) and dialogue as they implement their reform program.

PARTNERS

The highest levels of government had ownership of the business environment reform agenda. In addition to the close collaboration with the Government of the Republic of North Macedonia, the implementation of reforms aimed at private sector and competitiveness development was supported in the area of export promotion by the U.S. Agency for International Development (USAID) and the European Union.

RESULTS

Tourism:

- CIIP supported the design of the EU funded Local and Regional Competitiveness Project. 48 private enterprises benefited from project grants. As a result, tourism offerings have expanded, and local tour operators have started offering new tour packages.
- Between 2015 and 2018, the number of overnights by tourists in the ten tourist destinations supported by the project has increased by 32.7 percent and the total numbers of jobs in the tourism industry increased by 6.37 percent.

Skills development and innovation:

- CIIP activities have supported the establishment of the Fund for Innovation and Technological Development (FITD). The share of private funding mobilized as a percent of FITD investments in innovation activities has reached 66.23 percent in 2019. 7 percent of the beneficiaries across the four different grant programs of FITD have signed collaborative agreements with academia, and 93 of the beneficiary firms have introduced new or improved products and three firms have introduced new processes.
- The Skills Development and Innovation Support project has also contributed to the approval of a new Law on Higher Education, stipulating the establishment of an Agency for Quality Assurance and a National Council on Higher Education, and to the updating of TVET curricula in line with occupational standards.

Agriculture:

- CIIP supported the approval of a law that provides for gradual sale of state-owned land to agricultural producers using market principles and the preparatory work for piloting agricultural land sales.
- CIIP supported the introduction of a risk-based approach for sanitary and health inspections that is facilitating the transportation of manufacturing and agricultural goods at border crossings, reducing transport delays and administrative costs.

Manufacturing (automotive):

- By 2017, the FDI promotion efforts, which specifically targeted higher-value added manufacturing in the automotive components sector, had contributed to the facilitation of EUR 332 million in private investment and the creation of over 11,000 jobs in new export-oriented industries inside and outside the Technological Industrial Development Zones (TIDZs).
- The projects managed to transform North Macedonia's export mix from low-value added products to higher-complexity exports in the automotive industry and associated sectors such as chemicals, machinery and electronics, plastics, and rubber.
- CIIP supported a pilot Supplier Development Program in 2015 aiming to stimulate linkages between local SMEs and large foreign companies with a special focus on the automotive value chain. The pilot is now being scaled up and rolled out through the Western Balkans Manufacturing Value Chains Project, a new US\$4 million IFC project.

Trade logistics:

- The DPLs strengthened the coordination between the Customs Administration and inspection agencies, increased the presence of more inspectors at major border crossings, and introduced comprehensive improvements in the risk-based approach to customs controls and technical inspections, which led to a significant reduction in physical inspections and laboratory testing for low and medium-risk products.

MOVING FORWARD

After completion of the DPL series, the Bank team, through the CIIP grant and subsequent programs, has continued a very active dialogue with government counterparts on the policy areas supported by the DPL series. The implementation of the Local and Regional Competitiveness in Tourism Project. The development plans for the 10 tourism destinations have informed calls for proposals for investments in tourism related infrastructure, services and linkages at destinations; will continue to inform the activities of three pilot Destination Management Organizations; and should inform further investment in the tourism sector. The WB is still supporting the establishment of two important Higher Education institutions, the Agency for Quality Assurance and the Higher Education Committee.



BENEFICIARY STORY

Sector-specific reforms are helping to restructure North Macedonia's agriculture sector through improving agricultural land management, and better targeting of incentives for agriculture producers.

Farmer Slavche Atanasovski used a government grant to purchase a new tractor which he says allows him to produce more. "We have to be equal to other countries, and produce more so that prices will be competitive with other markets. A basic way of achieving this is through better machines and equipment," he says.

Improving the efficiency of trade logistics through facilitating the transport of goods at border crossings and increasing export-readiness of the transport industry are also a focus of the reforms, supported under the Development Policy Loans on Competitiveness.

WBG CONTRIBUTION

The CIIP grant made a strong contribution to competitiveness reforms in North Macedonia through two World Bank Programmatic Competitiveness DPLs (2012-14, US\$100 million) and two investment operations: Skills Development and Innovation Support Project (2014, lending operation, \$24 million), and Local and Regional Competitiveness Project with a focus on tourism (2016, recipient-executed, EUR18 million from the European Union and co-funding from the government EUR3.17 million). The activities of the DPL series were complemented by WBG investment projects under implementation, IFC advisory services and the technical assistance provided through the CIIP grant. CIIP funding also supported implementation of competitiveness measures through a pilot SDP to connect local SMEs from light manufacturing industries with large foreign companies, with a special focus on the automotive value chain.