



1. Operation Information

Operation ID P180587	Operation Name SR DPO
Country North Macedonia	Practice Area (Lead) Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IBRD-96230	Closing Date (Original) 30-Jun-2024	Total Financing (USD) 103,421,194.98
Bank Approval Date 15-Dec-2023	Closing Date (Actual) 30-Jun-2024	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	103,421,194.98	0.00

Prepared by Jose Roberto Lopez Calix	Reviewed by Vandana Chandra	ICR Review Coordinator Sonia Araujo	Group IEGEC
---	---------------------------------------	---	-----------------------

2. Program Objectives and Pillars/Policy Areas

a. Objectives

The DPO aimed to support the Republic of North Macedonia's reform agenda by strengthening the country's resilience in the aftermath of successive crises (PD para 1, ICR para 9). The program development objective (PDO) of the North Macedonia Sustainability and Resilience Development Policy Operation (DPO) focused on



boosting climate action, strengthening fiscal sustainability and safeguarding financial sector stability (PD para 27).

For the purpose of this Implementation Completion and Results Report Review (ICRR), the PDOs against which achievements are assessed are taken to be:

- **PDO1:** To support energy and financial sector climate transition;
- **PDO2:** To strengthen the sustainability of public finances; and
- **PDO3:** To safeguard financial sector stability.

b. Pillars/Policy Areas

This standalone DPO was structured around 3 pillars which correspond to the three PDOs as follows (PD para 1).

- **Pillar 1:** Supporting energy and financial sector climate transition;
- **Pillar 2:** Strengthening the sustainability of public finances; and
- **Pillar 3:** Safeguarding financial sector stability.

Pillar 1 supported the establishment of the Energy Efficiency Fund (EEF), the mobilization of renewable energy investments and the strengthening of banks' capacities to manage climate-related fiscal risks. Pillar 2 supported fiscal sustainability through the establishment of an independent Fiscal Council, the introduction of fiscal rules, gender budgeting, and measures to improve domestic revenue mobilization and implement disability benefits. Pillar 3 supported the strengthening of macroprudential instruments, improvements in public institutions' payment discipline by shortening payment periods and introducing penalty interests, strengthening financial safety nets through an effective bank resolution framework and mandating the National Bank of the Republic of North Macedonia with resolution authority powers (ICR paras 10,11,12).

c. Comments on Program Cost, Financing and Dates

The original commitment for this stand-alone DPO was an IBRD loan of US\$100,000,000.00. The actual amount disbursed was US\$103,421,194.98. The difference between the original and disbursed amounts is explained by exchange rate fluctuations.

The DPO was approved on December 15, 2023, became effective on December 18, 2023, and closed, as scheduled, on June 30, 2024.

This DPO addressed two partial policy reversals from the 2019 DPO as a precondition for its approval. They were related to the suspension of the introduction of taxes on capital income and the reversal of the DPO-supported pension-indexation reforms (ICR para 7).

3. Relevance of Design

a. Relevance of Objectives



Country Context. North Macedonia achieved steady and inclusive economic growth averaging 2.4 percent in the decade before the COVID-19 pandemic (2009–2019), while macroeconomic stability was sustained, trade integration deepened, and the business environment improved. The poverty rate (US\$6.85/day in 2017 purchasing power parity) decreased from approximately 41 percent in 2009 to about 19 percent in 2019, as a result of strong growth in labor earnings and pensions of the bottom 40 percent of the income distribution. However, the post pandemic European energy crisis triggered by Russia’s invasion of Ukraine slowed growth and led to sharp increases in food and energy prices. In 2022, inflation reached 14.2 percent, a 25-year high, putting one third of the population at risk of falling back into poverty (measured by the WBG upper-middle-income poverty line of US\$6.85/day in 2017 purchasing power parity terms).

Before appraisal, during 2021-23, the general government deficit remained high at around 5.1 percent of the gross domestic product (GDP) and government arrears reached 3.2 percent of GDP, putting upward pressures on public debt (ICR para 3). The large fiscal imbalances affected North Macedonia’s regular access to external capital markets, conditioned its agenda for accession to the European Union (EU), and shifted the authorities’ attention towards international financial institutions (IFIs) to support a comprehensive reform agenda. In addition to strengthening its public finances, the government faced the challenge of lowering the high energy costs resulting from a suboptimal energy policy mix driven by a high dependence on coal and petroleum. The prevailing (high) interest rates also posed a risk to the stability of the financial sector.

Relevance of Objectives. In July 2022, following the opening of the accession negotiations process with the EU, the Government of North Macedonia embarked on an ambitious reform program. Taking advantage of the reform momentum, this DPO was relevant in supporting the key objectives of the government’s reform agenda. PDO1 was relevant for introducing reforms to boost climate resilience and attract private sector investment in the energy sector for decarbonizing the economy and installing large rooftop solar panels. PDO2 was relevant for reforms strengthening the institutional framework for fiscal sustainability, broadening the tax base and enhancing tax collection through increased excise duties on tobacco products and motor vehicle taxes for the most-polluting cars, and enhancing public spending efficiency through the establishment of a Central Disability Certification and Coordination Unit (CDCCU). PDO3 was relevant for introducing financial sector reforms to improve macroprudential instruments, reduce public sector arrears to businesses and strengthen bank resolution regulations.

Correction of policy reversals from previous 2019 DPO. As a precondition for this DPO’s approval, the government undertook compensatory measures for two partial policy reversals on the previous 2019 DPO: (i) suspending the introduction of a progressive tax rate of 18 percent and taxation of capital income (PA4); and (ii) postponing until 2020 the introduction of ad hoc indexation of pensions based on the growth of regular price-wages (PA1). As corrective measures, the amendments to the Law on Personal Income Tax were enacted in December 2022, broadening the personal income tax base and increasing the progressivity of the tax. In September-October 2023, four laws were enacted by the Parliament to increase revenues as a share of GDP by about 0.5 percent. They included: (i) the Law on Mandatory Social Insurance Registry that improved compliance and distribution of contributions across pension pillars, (ii) amendments to the Law on Value Added Tax that reduced products subject to lower preferential rate and aligned the e-service taxation, (iii) amendments to the Law on Corporate Income Tax that reduced exemptions to cover the growing pension deficit, and (iv) the Law on the System for Assessment of persons with Disabilities, included as PA7 in this DPO, which eliminated inclusion errors (PD Annex 8 and ICR para 7).

Alignment with the government’s development strategy. The DPO program was consistent with the government’s Economic Reform Program (ERP) 2022-24 geared towards EU accession and aligned with the



refinements in ERP 2023-25 and Fiscal Strategy 2024-28. The DPO policy program was specifically aligned with three ERP priorities: (1) improving energy efficiency and preserving the resilience of the financial sector to launch the climate transition, (2) reducing the fiscal deficit and stabilizing debt to support sustainable growth, reassure financial markets and strengthen resilience to future shocks, and (3) safeguarding financial sector stability (PD para 27). The DPO reforms were also consistent with North Macedonia’s Nationally Determined Contribution (NDC) to the Paris Agreement and Long-Term Strategy (LTS) on Climate Action and Action Plan, specifically including the reduction of Greenhouse Gas (GHG) emissions from the energy sector to 63 percent by 2050 (PD para 29).

Alignment with the Country Partnership Strategy (CPF). The DPO was fully consistent with WBG’s CPF for FY19-FY23, and the CPF for FY24-FY28, and aligned with the CPF’s focus on sustainable growth to enhance sustainability and build resilience to shocks. Strengthening fiscal sustainability, safeguarding financial sector stability, and supporting climate transition were also identified as priorities in the 2023 Systematic Country Diagnostic (SCD) Update for shared prosperity. The DPO was reinforced by WBG operations in North Macedonia including the Social Insurance Administration Project on strengthening disability assessment systems, the Public Sector Energy Efficiency Project on energy efficiency fund and investments, the WBG Social Insurance Administration project, as well as by Technical Assistance (TA) on the Organic Budget Act, direct, excise and motor vehicle taxation, and the Financial Sector Assessment Program (FSAP) and ongoing Financial Sector Advisory Center (FinSAC) (PD paras 63, 64).

Alignment with Development Partners. In November 2022, the government signed an IMF Precautionary Line (PLL) program. In 2023, the European Parliament and Council approved EUR100 million in Macro-Financial Assistance (MFA) to cover North Macedonia’s financing needs in 2023 and 2024 and support fiscal sustainability and structural reforms. TA support from the WBG, EU, European Bank for Reconstruction and Development (EBRD), European Investment Bank and other bilateral donors like the United Kingdom and United States Treasury helped with the policy design and implementation of reforms.

b. Relevance of Prior Actions

Rationale

Table 1: Objectives and Prior Actions for North Macedonia: Sustainability and Resilience DPO
PDO 1: To support energy and financial sector climate transition
PA1: The Borrower has enacted amendments to the Law of Development Bank (Official Gazette [OG] 209/23) to establish the Energy Efficiency Fund (EEF) as a revolving fund to finance energy efficiency investments in the public sector.
PA2: The Borrower has enacted amendments to the Energy Law (OG 236/22) to enable residential and small business consumers supplied by the Universal Supplier to become prosumers and install larger rooftop solar installations.
PA3: The Borrower, through NBRNM, has adopted the Decision on Disclosure of Reports and Data by Banks (OG 35/2023) and the Decision on the Methodology on Managing Credit Risk (OG 57/2023) to introduce the obligations for the commercial banks to publish data and information about the exposure to climate risks and the management of such risks.



<p>PDO 2: To strengthen the sustainability of public finances</p>
<p>PA4: The Borrower has appointed members of the Fiscal Council as evidenced through the Decision for Appointing Members of the Fiscal Council (OG 197/23) based on the Organic Budget Law (OG 203/22) that introduces (i) quantitative fiscal rules, and (ii) medium-term and gender budget statement.</p>
<p>PA5: The Borrower has enacted amendments to the Law on Excise Taxes (OG 209/23) to (i) increase excise duties on cigarettes and tobacco products, (ii) introduce an ad-valorem excise rate of 9 percent for cigars and cigarillos, (iii) broaden the list of excise products, and (iv) define the tobacco excise calendar by 2030.</p>
<p>PA6: The Borrower has adopted regulation to the Decree on the Manner of Calculation of the Motor Vehicle Tax and on the Amounts for Calculation of the Motor Vehicle Tax (OG 220/23) to (i) introduce modifications in the method of calculation of the CO2 specific component (WLTP-NEDC) of the motor vehicle tax, and (ii) increase the tax for most-polluting cars.</p>
<p>PA7: The Borrower has enacted the Law on the System for Assessment of Persons with Disabilities (OG 209/23) that harmonizes the disability assessment criteria and processes to eliminate the inclusion errors and improve access of persons with disabilities to the labor market.</p>
<p>PDO 3: To safeguard financial sector stability</p>
<p>PA8: The Borrower, through the NBRNM, has introduced borrower-based macroprudential instruments through the Decision on the Borrower-based Macroprudential Instruments (OG 2/2023) as amended (OG 96/2023) based on the Financial Stability Law (OG 173/2022) establishing the Financial Stability Committee.</p>
<p>PA9: The Borrower has enacted the amendments to the Financial Discipline Law (OG 129/23) to shorten the payment periods for public institutions to 30 days, and 60 days for health institutions and for companies after which penalty interest would apply.</p>
<p>PA10: The Borrower has enacted the Bank Resolution Law (OG 209/23) that mandates the National Bank with resolution authority powers, encompassing (i) the transfer of the failed bank shares, assets, and liabilities to third parties without shareholders' consent, and (ii) converts into shares or writes down the value of certain liabilities (bail-in powers).</p>

Rationale and Results Chain. The government's reforms addressed North Macedonia's key structural challenges in energy and financial sector climate transition, sustainability of public finances, and safeguarding of financial sector stability. Under PDO1 amendments to establish the EEF and the installation of larger rooftop solar panels, as well as reforms on disclosure by commercial banks of their exposure to climate risks would support energy and financial sector transition. Under PDO2 measures, the establishment of a Fiscal Council, selected excise and motor vehicle tax rate increases would help to reduce the fiscal deficit and improve fiscal efficiency and sustainability, while a renewed system for assessing disability conditions would strengthen social protection. Under PDO3, amendments to introduce macroprudential instruments, a banking resolution framework and shorter payment periods for public institutions would help safeguard financial sector stability. The ICR (ICR Table 2) includes a well-articulated results chain grounded in solid analytical foundations in its presentation of the Theory of Change.

PDO1: To support energy and financial sector climate transition

PA1 contributed to PDO1 by enacting amendments to the Law on the Development Bank of North Macedonia (DBNM) to establish the Energy Efficiency Fund (EEF) as a revolving fund to facilitate public investments in



enhancing energy efficiency in public buildings. North Macedonia was the first country in the West Balkan countries to adopt a National Energy and Climate Plan (NECP) in 2020. To reinforce it, the 4th National Energy Efficiency Action Plan outlined key steps to support energy efficiency in alignment with the EU Energy Directive 2012 (Articles 5 and 20). Both documents identified the EEF as one of the primary mechanisms for channeling funding towards energy efficiency projects in public buildings. The EEF was expected to contribute significantly towards the government's efforts to meet its 2030 climate objectives (PD para 32, ICR para 13). The World Bank's Public Sector Energy Efficiency Project (PSEEP, P149990) pre-allocated EUR 5 million to finance investment projects of the EEF to be disbursed after it became operational. **Relevance of PA1: Highly Satisfactory (HS).**

PA2 complemented PA1 by supporting amendments to the Energy Law to enable residential consumers and small enterprises to scale up investment in larger rooftop solar installations and become prosumers, i.e. purchasers of solar panels for selling or storing their own surplus energy in the grid. In its NECP, the government pledged to increase the share of renewable energy sources (RES) in its gross energy consumption from 20 percent in 2023 to 38 percent by 2030. The NECP strategy for expanding RES capacities prioritized, *inter alia*, expanding rooftop solar photovoltaic (RSPVs) systems. Before the amendments, the Energy Law allowed only consumers that were supplied by the open market to become prosumers. With the amendments, both the installation of rooftop solar photovoltaic (RSPVs) systems and the sale of surplus electricity to the grid was made available to all consumers, including those who purchased from the Universal Supplier EVN-Home that supplied most of the residential sector and small businesses of the country (PD para 36). **Relevance of PA2: Highly Satisfactory (HS).**

PA3 contributed to PDO1 by requiring banks to post regular reports evaluating, overseeing climate-related loans and managing climate-related risks in the financial sector. As North Macedonia made progress towards compliance with the 2020 EU Green Deal and Taxonomy Regulation, commercial banks played a pivotal role in accelerating financing toward the transition to a greener economy. Supported by PA3 and World Bank Group (WBG) TA support through FinSAC, the National Bank of the Republic of North Macedonia (NBRNM) adopted a decision to strengthen the financial sector's capacity to tag green loans and identify climate-related risks. Financial institutions were provided with methodologies for tagging green loans, assessing exposure to climate-related credit risks, conducting stress tests on such exposures, and developing action plans for managing these risks. This also bolstered the banks' capacities to record, monitor, and report on these operations, and collaborate with clients to strengthen their capacities to identify climate-related loans and promote 'greener' operations (PD para 39, ICR para 21). **Relevance of PA3: Highly Satisfactory (HS).**

PDO2: To strengthen the sustainability of public finances

PA4 contributed to PDO2 by appointing the members of the Fiscal Council based on the recently adopted Organic Budget Law (OBL) adopted in 2022 as a major step paving the way for North Macedonia's public financial management (PFM) reform program of 2022-2025, and designed with support from the WBG, EU, United Kingdom and the US Treasury (ICR para 23). PA4 created a Fiscal Council as an independent fiscal institution (IFI) reporting to Parliament with board members appointed on a competitive basis tasked with assessment and monitoring roles of the government's compliance with the newly introduced quantitative fiscal rules also included in the IMF PLL and EU accession process (fiscal deficit and public debt set at 3 percent and 60 percent of GDP, respectively) and the fiscal responsibility statements. The gender budget statement was required to assess the economic and social impact of all new legislative proposals on gender equality as the first stage of introducing a full gender budget (PD para 43, ICR para 22). **Relevance of PA4: Highly Satisfactory (HS).**



PA5 supported PDO2 by increasing tax revenue and helping to reduce adverse health outcomes over the medium term through amendments to the Law on Excise Taxes that aligned taxation on tobacco products with EU minimum standards. Underpinned by TA primarily provided by the WBG and the EU, the PA5 reforms were consistent with the ERP 2023-25 and Fiscal Strategy 2024-28. Projections indicated that if North Macedonia increased tobacco excise taxes to the EU minimum rates, sales would decrease by approximately 16 percent while revenue would increase from 1.5 percent to 1.7 percent of GDP (ICR para 37). PA5 included: (i) establishing a calendar for annual increases in specific rates for cigarettes from January 1, 2024, aiming to reach the EU minimum total excise rate of EUR 90 per 1,000 cigarettes by 2030; (ii) introducing an ad valorem excise rate at 9 percent for cigars and cigarillos together with a specific rate increase calendar to ensure relative equivalence with excises on cigarettes at 77 and 37 percent, respectively; (iii) broadening the list of excise products; and (iv) defining an excise calendar for rates on fine-cut tobacco, other smoking tobaccos, heated tobacco products, and e-cigarette liquid to maintain relative equivalence with cigarettes (PD para 46, ICR para 23). **Relevance of PA5: Highly Satisfactory (HS).**

PA6 increased tax revenue overhauling the calculation method for the CO₂-specific component of motor vehicle taxes and increasing CO₂-related taxes for the most-polluting vehicles. In 2020, the government reformed the taxation system for newly registered cars by incorporating a carbon emissions component into the motor vehicle tax formula. This was followed by a 50-percent increase in the CO₂-based coefficient by 2022, which led to a significant decrease in the market share of energy inefficient vehicles and increased purchases of more environmentally friendly vehicles. The tax revenue from the motor vehicle tax more than doubled in 2022 compared to 2019 (ICR para 24). However, underpinned by a World Bank study, as the equivalent tax rate for the same value and emission cars in North Macedonia was still below the EU average, PA6 supported the introduction of the Worldwide Harmonized Light Vehicle Test Procedure (WLTP) which was based on measuring the CO₂ emissions in real traffic conditions. WLTP was binding in the EU for all new-manufactured vehicles starting 2022 and directly linked the motor vehicle tax to the negative externalities caused by vehicles' CO₂ emissions (ICR para 23). This reform was expected to increase tax revenue, as most second-hand vehicles (that accounted for about 80 percent of new registrations were the largest polluters) were produced before 2022 and would see their tax level increase. **Relevance of PA6: Highly Satisfactory (HS).**

PA7 supported fiscal sustainability through the enactment of the Law on the System for the Assessment of Persons with Disabilities, aiming to enhance its efficiency and effectiveness. Despite initial reforms to modernize the social protection system in 2019, North Macedonia's disability assessment and certification system remained fragmented in four agencies, lacked a unified registry, and was poorly supervised, inefficient and not user-friendly (ICR para 25). PA7 contributed to the development of a standardized disability assessment methodology, a single registry for people with disabilities and the creation of a Central Disability Certification Coordination Unit (CDCCU) tasked with initiating, organizing, performing, and reporting on all disability assessments nationwide. As a result, harmonized disability assessment criteria and processes were expected to lower costs from inclusion errors and increase social insurance contributions from improved access of persons with disabilities to the labor market (PD para 52), thus helping to strengthen the public finances. The World Bank Social Insurance Administration Project (SIAP, P170343) supported the implementation of this reform. **Relevance of PA7: Highly Satisfactory (HS).**

PDO3: To safeguard financial sector stability

PA8 bolstered financial sector stability by introducing macroprudential regulations. In alignment with the recommendations of a World Bank/IMF Financial Sector Assessment Program (FSAP) and the European Board of Systemic Risk, the government enacted the Law on Financial Stability in 2022. This was followed by the establishment of Financial Stability Committee to identify and monitor systemic risks and the subsequent



introduction by the National Bank of the Republic of North Macedonia (NBRNM) of first time borrower-based macroprudential systemic ratios designed to assess the quality of credit demand within the banking system including: the debt service-to-income (DSTI) ratio, the loan-to-value (LTV) ratio, and total debt-to-income (TDTI) ratio (PD para 55, ICR para 26). PA8 supported NBRNM regulation mandating commercial banks to report DSTI, TDTI, and LTV indicators when approving new exposures to individual borrowers, and impose limits on DSTI ratios (55 percent for loans approved in local currency and 50 percent for those provided in a foreign currency) and LTV ratios (85 percent for exposures secured by real estate), thus preventing the accumulation of systemic risks in the household sector and the real estate market. **Relevance of PA8: Highly Satisfactory (HS).**

PA9 contributed to PDO3 by supporting amendments to the Law on Financial Discipline, aimed at shortening payment periods of public institutions. Post COVID-19, about 27 percent of small and medium enterprises (SMEs) had overdue obligations to financial institutions and Government arrears played a significant role in those delays (WB Enterprise Survey 2021 and PD para 57). Aligned with the EU Late Payment Directive, the expectation from the PA9 reforms was that the amended law would prompt the government to reduce its arrears and more closely monitor the execution of contracts between public institutions and private contractors. This would help to enhance liquidity in banks and improve the financial position of private enterprises, achieving better reporting on creditors and fostering financial discipline. PA9 deepened the reform initiated under the previous 2019 DPO which supported introduction of a new Arrears Reporting System (ARS). The average number of days required to receive payment under a government contract was 59.3 in 2023, compared to an average of 38.6 days in the Europe and the Central Asia region. The amended law under PA9 stipulated that payment periods for public institutions be reduced gradually from 60 days in 2022 to 30 days in 2025 (from 90 days to 60 days for health institutions) and 60 days for businesses. It also mandated that debtors must pay interest and reasonable recovery costs to creditors if payment terms are violated (PD para 58, ICR para 27). **Relevance of PA9: Highly Satisfactory (HS).**

PA10 promoted financial sector stability, introducing a comprehensive bank resolution framework and bolstering the legal capacity of NBRNM to assume resolution authority powers. Prior to 2023, North Macedonia lacked a comprehensive bank resolution framework and a legally established independent resolution authority (PD para 61). Enacted in October 2023, and aligned with the Bank Recovery and Resolution Directive of the EU, the new Law on Bank Resolution set up a new operationally independent Resolution Authority, and conferred it with broad powers, including the transfer of failed bank shares, assets and liabilities to third parties without shareholders' consent, and to convert into shares or write down the value of certain liabilities (ICR para 28). After the Law was adopted, NBRNM changed its organizational structure to establish a separate Banking Regulations and Bank Resolution Department and increased its staffing based on the recommendations of the 2019 World Bank-IMF FSAP and TA provided by the World Bank FinSAC, the EU and other twinning partners. According to the DPO team, ensuing steps include amendments to the Deposit Insurance and Banking Laws to align them with the Bank Resolution Law. **Relevance of PA10: Highly Satisfactory (HS).**

Rating

Highly Satisfactory

4. Relevance of Results Indicators



Rationale

The DPO used 11 Result Indicators (RIs) to track the impact of 10 PAs in making progress toward the objectives. Table 2 presents the 11 RIs with their relevance rating, baseline, target value and actuals, and achievement rating.

Table 2: Results Indicators by objective and PAs, baseline and target values, status and achievement

Indicator (RI)	Associated PAs	RI Relevance	Baseline	Target	Actual Value as of Target Date	Actual Change in RI Relative to Targeted Change	RI Achievement rating
PDO1: To support energy and financial sector climate transition							
<u>RI1:</u> Investments committed through the Energy Efficiency Fund increased.	PA1	MU	EUR 0 million (2022)	At least EUR 10 million (April 2025)	EUR 0 million (April 2025)	0%	Negligible
<u>RI2:</u> Number of megawatts (MW) of solar rooftops installed by prosumers increased.	PA2	HS	11.9 (2022)	35.9 (December 2024)	47.8 (December 2024)	149%	High
<u>RI3:</u> Banks submit to the National Bank self- assessed compliance with Guidelines on Climate-Risk Management.	PA3	HS	No (2022)	Yes (April 2025):	Yes (July-August 2024)	100%	High
PDO2: To strengthen the sustainability of public finances							
<u>RI4:</u> General government deficit with State Roads reduced.	PA4	MS	4.8 percent of GDP (2022)	4.0 percent of GDP (2024)	5 percent of GDP (2024)	-25%	Negligible
<u>RI5:</u> Gender budget statement introduced for all new legislative and strategy proposals.	PA4	U	No (2022)	Yes (December 2024)	No (2024)	0%	Negligible



RI6: Tobacco excise revenues increased.	PA5	S	1.5 percent of GDP (2022)	1.6 percent of GDP (2024)	1.55 percent of GDP (2024)	50%	Modest
RI7: Motor vehicle tax revenue increased.	PA6	S	0.19 percent of GDP (2022)	0.25 percent of GDP (2024)	0.28 percent of GDP (2024)	150%	High
RI8: Central Disability Certification Coordination Unit established.	PA7	MU	No (2022)	Yes (2024)	No	0	Negligible
PDO3: To safeguard financial sector stability							
RI9: Annual Financial Stability Report reflecting on macroprudential measures published.	PA8	HS	No (2022)	Yes (2024)	Yes (September 2024)	100%	High
RI10: Government arrears to private sector reduced.	PA9	HS	EUR 197 million (2022)	EUR 100 million or below (March 2025)	EUR 240.6 million (March 2025)	-45%	Negligible
RI11: Effective resolution planning framework set up.	PA10	HS	No (2022)	Yes (April 2025)	Yes (March 2025)	100%	High

Note: RI achievement ratings in brackets have been adjusted downward due to their low (MU or MS) relevance ratings.

RI1 was an outcome indicator that sought to track PA1’s contribution to the PDO of supporting the climate transition by monitoring investments committed to the EEF. Measurement of this RI relied on several steps prior to the operationalization of the EEF, including the formal establishment of the Energy Efficiency Committee for DBNM; a subsidiary agreement between DBNM and the Ministry of Finance (MoF); an agreement on the EEF’s fiduciary functions, hiring of EEF’s technical staff and approval of the operations manual (ICR para 30). As these steps were known to take time, there was a risk that the EEF would not be established in time to attract the desired investments and enable the collection of the data needed to measure RI1. **Relevance of RI1: Moderately Unsatisfactory (MU).**

RI2, an outcome indicator for PA2, assessed its contribution to the energy transition by increasing the capacity of solar rooftops installed by prosumers measured in number of megawatts (MW). RI2 was relevant, clearly defined and measurable. According to the Ministry of Energy, Mining and Mineral Resources, the increase in installed solar rooftop capacities was mainly driven by small enterprises which accounted for about 80 percent of the total installed capacities by prosumers (ICR para 31). This was because, unlike households, small companies did not receive electricity subsidies and paid a higher tariff



than households that did receive subsidies for the electricity they purchased. The share of households in the total installed solar rooftop capacity was low due to reduced incentives to invest in renewable electricity generation. **Relevance of RI2: Highly Satisfactory (HS).**

RI3 measured progress in the number of commercial banks reporting on their support for and role in managing the risks associated with the transition towards climate finance. PA3 set the regulatory and institutional requirements for banks to comply with the reporting on their evaluation and management of climate risks per the adoption of the Guidelines on Climate Risk Management by the NBRNM in October 2023. RI3 was relevant, clearly defined and measurable. Representatives from the banking association confirmed that the Guidelines were clear and easy to apply. However, smaller banks found the new approach to assessing exposure to climate-related risks challenging and complex. In response, the World Bank FinSAC team assisted the NBRNM by reviewing self-assessments and action plans, and by preparing an assessment report for each bank to enable them to improve the quality of their submissions (ICR para 32). **Relevance of RI3: Highly Satisfactory (HS).**

RI4 was an intermediate outcome indicator that measured the contribution of PA4 to strengthening fiscal sustainability (PDO2) by tracking the reduction in the general government deficit as a share of GDP partly due to OBL implementation. The indicator included the State Roads balance (about 0.4 percent of GDP in 2024) due to large investments in two road corridors with works spanning six years. Aligned with a quantitative target of the IMF PLL, 3.4 percent of GDP for 2024 (IMF PLL First Review January 2024), RI4 was set at an ambitious level given the election cycle with political pressure to increase spending policies. **Relevance of RI4: Moderately Satisfactory (MS).**

RI5, a complementary output indicator, sought to measure the contribution of PA4 to strengthen the sustainability of public finances by focusing on progress in the preparation of the first gender budget statement that was a part of OBL implementation. RI5 was clearly defined and measurable. While a gender-responsive budget could improve gender policies and programs, it was not relevant for achieving PDO2. **Relevance of RI5: Unsatisfactory (U).**

RI6 assessed the impact of the amendments to the Law on Excise Duties (PA5) on the fiscal deficit by measuring the increase in the share of tobacco tax revenues in GDP. RI6 was relevant as it tracked progress in a reform that was important for North Macedonia's accession to the EU. An even better indicator would have been the share of tobacco taxes in total tax revenue. **Relevance of RI6: Satisfactory (S).**

RI7, an outcome indicator, would measure the impact of the motor vehicle tax reform (PA6) on fiscal sustainability (PDO2). Indirectly, RI7 would also contribute to the energy transition (PDO1) by informing the government about changes in citizens' behavior in response to the new taxes. RI7 was relevant as the PA6 reforms sought to increase the tax revenues to strengthen fiscal sustainability as well as control vehicle emissions by encouraging consumers to opt for more fuel-efficient vehicles as a part of the EU accession agenda. RI7 had a realistic target. An even better indicator would have been the share of motor vehicle taxes in total tax revenue. **Relevance of RI7: Satisfactory (S).**

RI8, an output indicator, would report on the establishment of the CDCCU that would implement the disability assessment system reform to harmonize the disability assessment criteria nationwide (PA7). The CDCCU was expected to take charge of initiating, organizing, conducting, and reporting on all disability assessments nationwide. Although the CDCCU structure was designed and technical specifications for business processes were prepared in 2024, other critical steps were necessary before it



could be functional, such as the identification of premises and the design of the physical structure, operationalization of legal and technical specifications, a Systematization Act for hiring and training CDCCU staff to develop a proper methodology for disability assessments, and establishing the National Register. As these steps were known to take time, RI8 was at risk of not being achieved. **Relevance of RI8: Moderately Unsatisfactory (MU).**

RI9, an output indicator, tracked the publication of the Annual Financial Stability Report that published the macroprudential measures observed by the commercial banks to reflect the institutional impact of the new macroprudential instruments (PA8) in safeguarding financial sector stability. RI9 was considered an informative instrument, well defined and measurable, enabling a proper evaluation of the banking system's performance. **Relevance of RI9: Highly Satisfactory (HS).**

RI10 was an outcome indicator that evaluated progress in the Financial Discipline Law (PA9) by reducing government arrears to the private sector to safeguard financial sector stability. It was a highly relevant indicator with an ambitious target. **Relevance of RI10: Highly Satisfactory (HS).**

RI11, an outcome indicator, measured the impact of PA10 on establishing an effective bank resolution framework to safeguard financial sector stability. RI11 was highly relevant as a critical milestone and clearly defined although its target was ambitious. Following the adoption of the PA10 Law in October 2023, the NBRNM was given 18 months to develop all necessary by-laws in consultation with commercial banks. Their adoption was set for April 2025, about ten months past the DPO's closing date. RI11 would measure whether the resolution planning framework was established in April 2025 following the closing of the operation on June 30, 2024. **Relevance of RI11: Highly Satisfactory (HS).**

Rating

Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO1: To support energy and financial sector climate transition

Rationale

RI1: The objective of increasing investments committed through the EEF was not achieved. The EEF was legislatively established under the current structure of DBNM. However, as the EEF was not operationalized, no pre-commitments materialized. **Rating of RI1: Negligible.**

RI2: The target of achieving an increase in the number of megawatts (MW) of solar rooftops installed by prosumers was exceeded. In 2023-2024, the number of MW solar rooftops installed by prosumers increased by 35.9 MW to reach 47.8 MW at the end of 2024 exceeding the targeted progress by 149 percent. **Rating of RI2: High.**



RI3: The objective of requiring banks to submit to NBRNM self-assessed compliance with Guidelines on Climate-Risk Management was achieved well ahead of the April 2025 deadline. By July-August 2024, all commercial banks had submitted self-assessments to the National Bank on compliance with the Guidelines and exposure to climate-related credit risks, and action plans on managing such risks (ICR Table 1). **Rating of RI3: High.**

Efficacy rating of PDO1: The achievement rating of PDO1 is **Moderately Satisfactory (MS)**. Achievement of reforms was strong in the areas of solar rooftops installed by prosumers and the establishment of good practices in Climate-Risk Management. However, progress in RI1 that sought to operationalize the EEF was Negligible and pulled down the overall rating for the PDO.

Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

PDO2: To strengthen the sustainability of public finances

Rationale

RI4: The target of reducing the General Government deficit (including the balance of the Public Enterprise for State Roads) to 4 percent of GDP was not met as the deficit increased to 5 percent. In the second half of 2024, the new government increased spending on salaries in the education sector and undertook large infrastructure projects at municipal levels. Instead of regular price indexation, there was a flat pension increase to all pensioners. **Rating of RI4: Negligible.**

RI5: The objective of introducing a gender budget statement for all new legislative and strategy proposals was not achieved by the target deadline of December 2024, although it was achieved in February 2025. However, since the results chain from a gender budget to fiscal sustainability is not clear, it is also not clear how the achievement of RI5 was evidence of PA4's contribution to fiscal sustainability (PDO2). **Rating of RI5: Negligible.**

RI6: The RI measuring the share of tobacco excise revenues in GDP modestly achieved the target of 1.6 percent of GDP from the baseline of 1.5 percent of GDP. Tobacco excise revenues rose to 1.55 percent of GDP in 2024 or 50 percent of its target. **Rating of RI6: Modest.**

RI7: The target of increasing motor vehicle tax revenue from 0.19 percent of GDP to 0.25 percent of GDP was exceeded. The motor vehicle tax revenue increased to 0.28 percent of GDP in 2024. **Rating of RI7: High.**

RI8: The objective of establishing a CDCCU was unmet. In 2024, the CDCCU structure was designed, technical specifications for business processes were prepared, and the premises for the CDCCU were identified. However, other preparatory steps such as the Systematization Act necessary for hiring CDCCU staff are still being reviewed by the government (DPO team). **Rating of RI8: Negligible.**



Efficacy rating of PDO2: The achievement rating of PDO2 is **Moderately Unsatisfactory (MU)**. The achievement of reforms to increase motor vehicle taxes was substantial but progress in increasing revenues from raising the tobacco excise rate was modest. Progress in reforms that sought to reduce the general government deficit, introducing gender budgeting and establishing the CDCCU was disappointing and pulled down the overall rating for the PDO.

Rating

Moderately Unsatisfactory

OBJECTIVE 3

Objective

PDO3: To safeguard financial sector stability

Rationale

RI9: The target of achieving the publication of the Annual Financial Stability Report including adopted macroprudential measures was met ahead of time. Scheduled to be published by December, the 2024 Financial Stability Report was published on the NBRNM website in September 2024 reflecting the new macroprudential measures and evaluating the banking system's performance based on these measures: Banks remained below the threshold ratios for debt service-to-income (DSTI) at 50 and 55 percent, indicating stable creditworthiness of banks' clients, and they stayed below the loan-to-value (LTV) ratio of 85 percent suggesting that loans secured by real estate have a relatively low LTV ratio (ICR Table 1). **Rating of RI8: High.**

RI10: The target of reducing Government arrears to the private sector from EUR197 million in 2022 to EUR100 million in March 2025 was unmet. In contrast, ICR data as of March 2025 indicates that the public sector arrears to the private sector (excluding VAT refund arrears) increased to EUR 240.6 million. The ICR found that the lack of progress on the issue of arrears is related with structural weaknesses in many SOEs and their inability to meet financial obligations due to ongoing losses; the absence of the Integrated Financial Management Information System (IFMIS); weak enforcement mechanisms in the government before the general elections; and weaker-than-expected institutional capacity within ministries to implement the reform (ICR para 42). **Rating of RI9: Negligible.**

RI11: The objective of setting up an effective resolution planning framework by April 2025 was achieved. The Resolution Authority was established in 2024 as a separate Banking Regulations and Bank Resolution Department. The by-laws aligned with provisions of the Bank Resolution Law were finalized in March 2025. The Resolution Authority also prepared guidelines for banks for information collection for resolution plans. **Rating of RI10: High.**

Efficacy rating of PDO3: The achievement rating of PDO3 is **Moderately Satisfactory (MS)**. Achievement of reforms in the publication of the Annual Financial Stability Report and the establishment of an effective resolution planning framework was strong. However, progress in reducing government arrears to the private sector was negligible and pulled down the overall rating for the PDO.



Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The overall efficacy rating is **Moderately Satisfactory (MS)**. The operation did reasonably well in supporting the energy and financial sector climate transition (PDO1) and safeguarding financial sector stability (PDO3), but not so well in strengthening the sustainability of public finances (PDO2).

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

With the Relevance of PAs rated **Highly Satisfactory (HS)** and Overall Efficacy rated **Moderately Satisfactory (MS)**, the Overall Outcome of the operation is rated **Moderately Satisfactory (MS)**.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The political and governance risks remain substantial. The reform agenda has slowed down since the 2024 elections. Despite the strong progress made by the operation, several reform processes rely on strong continued commitment from the new government to advance in implementation. For example, operationalizing the EEF (PA1) requires several significant policy reforms with substantial backing from WBG's PSEEP project which also received EUR 5 million for energy efficiency investments from the EU. The achievement of results supported under PA9 on reducing arrears to private sector are expected to take longer. The implementation of the Financial Discipline Law is expected to curb or slow the accumulation of new arrears. That the government prepared a budget restructuring plan for SOEs which was adopted by Parliament in February 2025 shows promise.

According to the task team, the risks to development outcome are mitigated to some extent by a renewed commitment of the new government to continuity in preserving the reform momentum within the framework of the EU accession negotiations process and the implementation of reforms in areas under the EU Growth



Plan for the Western Balkans. The new government is considering complementing the application of the bank resolution framework (PA10) that is governed by the Bank Resolution Law with the amendment of the Deposit Insurance Law, which would set a clear transition path to the EU standards (ICR para 43).

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Bank performance in design was Satisfactory in ensuring that the DPO was well informed by analytical underpinnings, complementary financing, and TA facilitating an extensive country dialogue and consensus closely coordinated with international partners. These efforts were aimed at harmonizing national legislation with the EU legal framework and incorporating provisions from EU Directives into the national legal system. The program was developed to assist the Government of North Macedonia in executing specific reforms outlined in the ERP 2023-2025, thereby enhancing the alignment of North Macedonia's legal framework with the EU's framework.

The design of PAs was supported by extensive analytical work under a multi-year engagement with authorities through policy dialogue. The operation leveraged in-depth core diagnostics from the North Macedonia Public Finance Review (2018), the World Bank-IMF FSAP (2019), and the SCD Update (2023), complemented by the World Bank Group's TA, sectoral analysis, and concurrent projects. The support to the design of the OBL was provided by the World Bank, EU, United Kingdom and the United States of America Treasury.

Complementary and timely financial support was provided to facilitate key policy and institutional reforms aligned with the reforms supported under EU MFA, IMF PLL and overall government's agenda for EU accession. The DPO complemented the IMF's two-year arrangement under the PLL approved in November 2022 and EU MFA approved in July 2023. Parallel financing of an additional EUR50 million was provided by OPEC.

Comprehensive TA support was provided through: (i) the North Macedonia Public Sector Energy Efficiency Project (P149990) and the Social Insurance Administration Project (P170343); (ii) World Bank TA through FinSAC on reporting climate-related risks, strengthening the bank resolution framework, and in drafting the Organic Budget Law with financing from the EU Trust Fund on strengthening fiscal governance in the Western Balkan countries; and (iii) Policy Papers on health taxes in North Macedonia, on environmental taxation reform options, and on the environmental performance of road vehicles in the Western Balkans.

The DPO was also opportunistic in correcting two previous policy reversals from the 2019 DPO through compensatory measures adopted previously to enhance its effectiveness.

There were small shortcomings related to the design of the RIs tracking progress in the contribution of the EEF (R11) and CDCCU (R18) with both requiring some time to establish. It was unclear how the inclusion of gender budgeting contributed to fiscal stabilization.



Rating

Highly Satisfactory

b. Bank Performance – Implementation

Rationale

In the short span of six months from effectiveness to closing, the WBG team implementing the DPO ensured adequate coordination in the monitoring of results and the provision of timely and adequate response to implementation challenges. The implementation of the DPO demonstrated the combination of parallel financing operations, relevant TA and close consultation with government and stakeholders for solving practical problems. In addition to the DPO team's supervision, parallel Bank investment project teams strongly complemented the implementation of most PAs (PA1, PA3, PA4, PA5, PA6, PA8 and PA10) with an increased number of missions to the country, and scaling up of their communication and collaboration with government authorities. The Bank team responsible for implementing the SIAP project delivered just-in-time TA for PA7.

The implementation of the DPO overlapped with the elections and change in government. After the new government was appointed, the Country Management Unit and the DPO team engaged with its key members to update them on progress in implementation and identify areas needing support. For instance, the WBG team discussed fiscal and social impacts of the proposed pension policy changes announced by the new government in June 2024, and their impact on fiscal rules, and also prepared a workshop to bring together all stakeholders involved in establishing the CDCCU (ICR para 54). According to the DPO team, such TA support remains available for the completion of all pending RIs.

Rating

Highly Satisfactory

c. Overall Bank Performance

Rationale

With design and implementation assessed as Highly Satisfactory, overall Bank performance is evaluated as **Highly Satisfactory (HS)**.

Overall Bank Performance Rating

Highly Satisfactory

9. Other Impacts



a. Social and Poverty

Five out of the 10 prior actions were expected to yield positive outcomes for poverty and social conditions. For example, the increase in the excise taxes on tobacco was projected to reduce the affordability of tobacco products, thereby improving health outcomes. The increase in the tobacco excise tax is expected to lead to a decline in adult smoking prevalence from an estimated 43 percent in 2020 to 41.9 percent in 2026. The establishment of the CDCCU is anticipated to enhance access to the labor market for disabled individuals, streamline and expedite the disability assessment process and facilitate quicker access to disability allowances. Strengthening the banking resolution system was expected to protect households from abrupt shocks in the financial sector that disproportionately hurts the lower-income groups. Lastly, the introduction of gender budgeting was expected to have positive gender impacts by planning and distributing resources based on gender-specific needs (PD para 46).

The proposed reform to increase motor vehicle taxes was anticipated to have a potentially negative impact on poverty and social conditions, although the impact is estimated to be contained for lower income households. The increase in motor vehicle taxes is expected to raise the cost of imported cars which are typically older and have higher pollution levels. Notwithstanding, the tax increase will primarily impact wealthier households, as these households generally have higher rates of vehicle ownership (ICR para 47).

b. Environmental

This operation was expected to have a significantly positive environmental impact through four prior actions related to increasing energy efficiency investments (PA1), renewable energy generation (PA2), disclosure of exposure to climate risks and climate risk management in the financial sector (PA3), and the motor vehicle taxation (PA6). PA1 and PA2 will reduce fossil fuel consumption in public buildings and increase the use of renewable energy by households and small businesses installing solar panels. PA3 will tag green loans and monitor climate risks. PA6 will contribute to decarbonizing the economy.

c. Gender

The introduction of the gender-budget statement under PA4 was expected to shape policies to help enhance women's access to essential services and help promote women's empowerment considering significant disparities in labor market participation between men and women in North Macedonia. For instance, labor force participation among women at 54.3 percent in Q2 2023 is over 20 percent lower than among men. The ratio of female entrepreneurs to male entrepreneurs in 2017 was approximately 3.7 to 9.3, significantly lower than what is observed in more advanced economies. Gender-responsive budgeting would facilitate policies to enhance women's access to essential services such as employment support, skills training, social protection, childcare, and healthcare. Gender-responsive budgeting also makes sure that financial commitments are made in accordance with gender commitments. In particular, the provisions of Article 4 of the Gender Budget Statement ensure that the allocation of is amenable to quantitative measurement to facilitate the tracking of gender equality over a 5-year span (PD para 69).



d. Other

Institutional Change Strengthening. Most policy reforms contributed to the overarching objective of institutional strengthening. For instance, the technical capacity of the NBRNM has been enhanced, enabling it to review banks' self-assessments on climate risk exposure and their action plans for managing climate-related risks. Furthermore, commercial banks have been provided with methodologies for incorporating climate-related risks into credit risk management (PA3). The establishment of a bank resolution authority (PA10) as an independent department within the NBRNM, supported by World Bank and EU TA, has strengthened its capacity to operationalize the bank resolution framework and execute bank resolution activities when necessary. Under PA4, a Fiscal Council has been established to act as an independent fiscal watchdog, offering impartial and professional analyses and opinions on macroeconomic and fiscal assumptions, fiscal strategy, budget execution, fiscal risks, and ensuring adherence to national fiscal rules. Lastly, PA7 reforms are supporting the establishment of the CDCCU which will roll out the methodology for disability assessment and a National Register of Persons with Disabilities and will serve as the sole authority for disability assessment (ICR para 49).

10. Quality of ICR

Rationale

The ICR provided a coherent and extensive analysis of the operation's analytical underpinnings, achievements and most shortcomings. It presented a clear Theory of Change and its evidence for most results is robust. The ICR documented the challenges faced during implementation, risk to development outcomes and lessons for future operations. It also described the political and institutional bottlenecks that affected the achievement of some RI targets, such as the establishment of the EEF (PA1) and the Fiscal Council (PA4), the reduction of the fiscal deficit (RI4) and arrears (RI10).

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Highly Satisfactory	
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	Substantial	



12. Lessons

IEG concurs with the three lessons in the ICR.

13. Project Performance Assessment Report (PPAR) Recommended?

No