

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: 94964

Project Name	Local and Regional Competitiveness Project
Region	EUROPE AND CENTRAL ASIA
Country	Macedonia, former Yugoslav Republic of
Sector(s)	Public administration- Industry and trade (10%), Vocational training (10%), General industry and trade sector (80%)
Theme(s)	Infrastructure services for private sector development (30%), Micro, Small and Medium Enterprise support (20%), Regional integration (20%), Education for the knowledge economy (10%), Cultural Heritage (20%)
Lending Instrument	Lending Instrument
Project ID	P154263
Borrower Name	Ministry of Finance
Implementing Agency	General Secretariat of the Government
Environment Category	B - Partial Assessment
Date PID Prepared	26-Feb-2015
Estimated Date of Approval	02-Nov-2015
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

1. The Delegation of the European Union (EU), in FYR Macedonia, in partnership with the Government of FYR Macedonia, has selected the World Bank to manage implementation of the EUR 18 million Local and Regional Competitiveness (LRC) Project, with a focus on tourism development. The project will be funded with EU funds under the Instrument for Pre-accession Assistance (IPA) II Program, designated for the competitiveness and innovation sector in FYR Macedonia. The proposed project aims to improve conditions for competitiveness and job creation at the local and regional levels, including tackling regional disparities in tourism. Improving socio-economic development by fostering economic growth and creating employment is a priority objective of the Government, the European Commission (EC) in Macedonia, and the World Bank Group's Country Partnership Strategy for FYR Macedonia.

Country Context

2. FYR Macedonia is a landlocked country with a small and open economy and a sound track record of macro-fiscal stability and business environment performance. Following several years of growth, average GDP growth has declined to 2.1 percent per year since 2009. Real GDP growth would need to be accelerated to around 4.5 percent—significantly above the ten-year average of 3.2 percent—for Macedonia to converge to the living standards of the new EU member states within the next 20 years. The rate of unemployment has declined from 38 percent in 2004 to around 28

percent in 2013. FYR Macedonia is the only South-Eastern European (SEE) country in which employment increased in the post-crisis period, but jobs created in the past years have been either informal, or primarily attributed to low-productivity sectors or the public sector. In addition, gender inequalities remain and female labor force participation (for women aged 15-64) was 51 percent, below the regional average of 62 percent, in 2012.

3. Economic growth and increases in employment in Macedonia have not yet translated into tangible poverty reduction, according to available data. Using the income-based Survey of Income and Living Conditions (SILC), poverty levels were 27.3 in 2010 and 27.1 in 2011. Inequality in FYR Macedonia, as measured by the Gini coefficient, increased from 37 to 40 between 2003 and 2008 in terms of consumption data. The rural population accounts for 36 percent of the total population, yet half of the bottom 40 percent lives in rural areas, suggesting differences in economic opportunities in rural areas. The Roma are a particularly vulnerable group in FYR Macedonia, with 53 percent of Roma adults (ages 15-64) unemployed. The absolute poverty rate for Roma (PPP US\$4.30 income based) is 41 percent, as compared to 14 percent for the non-Roma population.

Sectoral and Institutional Context

4. Tourism has been identified as a sector with significant potential for investment and jobs creation in the local economy. According to the World Travel and Tourism Council, the total contribution of travel and tourism to the country's GDP, employment and total capital investment in 2013 was relatively small (5.0 percent, 4.5 percent and 2.1 percent, respectively) in comparison with other countries in the region. The sector is characterized by job-intensive and SME-driven development with a potential to attract more domestic and foreign investments. The number of tourist arrivals in FYR Macedonia, particularly of foreign visitors, has been steadily increasing, but still remains low. The total number of registered tourist arrivals in 2013 was 701,794 (19 percent higher compared to 2009), of which 399,680 were foreign (39 percent increase since 2009). Most foreign tourist arrivals between years 2009-2013 were from Turkey, Serbia, Greece and Bulgaria. As a result of subsidies (EUR 45-60 per tourist) from the government to tour operators, the number of tourists from the Netherlands, Russia and northern Europe has been on the rise. With a wealth of cultural and natural assets, FYR Macedonia has the potential to become a significant tourist destination. Current markets for FYR Macedonian tourism products are local or regional at best and largely remain under-developed. Quality is not up to international standards and the business linkages with local producers and craftsmen are weak. A critical question for the sector is how to stimulate private investment to support local tourism-related companies to invest, grow and innovate.

5. A recent assessment of the competitiveness of the tourism sector identified the following sets of issues as most relevant for tourism growth in Macedonia: (a) stakeholder engagement and destination management; (b) infrastructure development and enterprise support; (c) sustainable development and environmental issues; and (d) cross-cutting issues related to skills development and innovation.

6. The Government of Macedonia supports the development of the tourism sector and has strengthened the capacity of the Agency for Promotion and Development of Tourism based in Skopje and Struga, which promotes Macedonia internationally as a tourism destination. The development of tourism is envisioned under the National Tourism Strategy for the period

2009-2015; the Law and Strategy for Regional Development for the period 2009-2019; the Programs for Regional Development for the period 2010-2015 for each of the eight regional planning centers throughout the country; and the program of the Government of Macedonia for the period 2014-2018.

7. Foreign investment in the tourism sector in Macedonia is minimal so far, and the Government plans to attract foreign investment in hotels and resorts with state aid incentives, as well as investment in special tourism development zones under a new Law on Tourism Development Zones adopted in November 2012. Development of tourism zones will require significant investment in infrastructure; enhancement of labor and skills; the cooperation of local authorities; and linkages with complementary industries and service providers such as agribusiness, information and communications technology (ICT), crafts, public transport, logistics, and local tour operators.

8. New areas and strategies for the development of tourism sub-segments that appeal to niche markets and customers have emerged in recent years. These include rural tourism, wine tourism, spa tourism and cultural tourism. Developing these segments will require further investment in local businesses and better integration of product offerings at the tourism destinations. At the local level, the uneven capacity of municipalities related to service efficiency, strategic planning, effective public-private dialogue and destination management needs to be improved.

Relationship to CAS/CPS/CPF

9. The proposed Local and Regional Competitiveness (LRC) Project is aligned with the World Bank's engagement in FYR Macedonia. It builds on the Bank's continuing dialogue with the Government, and with the Bank's lending and technical assistance activities aimed at improving competitiveness, including in the tourism sector. The proposed project supports both of the interrelated themes outlined in the Country Partnership Strategy (CPS) for FYR Macedonia for the period FY2015-2018: (a) Growth and Competitiveness, with sustained private sector-led growth; and (b) Skills Development and Inclusion, through access to better jobs and efficient public services. By focusing on strategic aspects of local economic development and tourism, the project will, in the long run, support both of these priorities.

10. The CPS and the proposed project will also promote the EU accession agenda, which is a cross-cutting theme in the CPS, consistent with the new EU Assistance Country Strategy Paper for 2014-2020. Improving socio-economic development by fostering economic growth and creating employment is a priority objective of the Government and the EU. The Bank will contribute to the accession agenda by supporting investments for FYR Macedonia's income convergence with the EU; promoting better economic governance; providing technical assistance for the development of institutions and changes in the legal framework; and ensuring the effective use of the EU's Instrument of Pre-accession Assistance (IPA).

11. The proposed project will provide integrated solutions in tourism development from the Bank and International Finance Corporation (IFC), through a range of financial, knowledge and advisory services. The project will help to mobilize investment, both public and private; and will work with the Government and municipalities to unlock investment opportunities, improve and commercialize key assets, stimulate tourism business services, and create jobs. At the same time, the project will promote shared prosperity by providing opportunities for poor and disadvantaged groups in local communities to develop skills, have tourism-related jobs, start businesses, and be included in the

value chain in tourism-related businesses at and around destinations.

II. Project Development Objective(s)

Proposed Development Objective(s)

12. The Project Development Objective (PDO) is to (a) strengthen the capacity of public and private authorities to formulate, prepare, implement and manage integrated tourism development at the destination level; (b) construct and rehabilitate critical infrastructure essential for sustained economic activity in the tourism sector; and (c) facilitate development of destination management organizations and sustainable destination services.

Key Results

13. The key results for the project include, but will not be limited to:

PDO level result indicators:

- (a) Number of tourists (domestic and foreign) and tourism receipts at the destinations increase (by xx percent).
- (b) Number of new jobs in tourism-related services, of which xx percent are for women, created at target destinations (EU indicator, modified)
- (c) Increase of municipal revenue tax by 2 percent in participating municipalities by the end of the project (EU indicator).
- (d) Level of satisfaction of business owners in public sector capacity for destination management and tourism development increases by end of the project (yes/no, citizen engagement indicator).

Intermediate result indicators:

Component 1: Capacity building for local competitiveness

- (a) A new Tourism Development Strategy and Action Plan is developed on the basis of an inclusive consultations and stakeholder engagement framework.
- (b) An increased number of local economic development councils that include representatives from tourism-related businesses.
- (c) An increased number of individuals who complete competency-based training in tourism (of which xxx percent are unemployed women and xxx percent are youth).
- (d) An increased number of new businesses, of which xxx percent are owned by women, that adopt and implement international service standards in tourism.

Component 2: Investment in infrastructure at destinations

- (a) Number of infrastructure investment sub-projects successfully completed.
- (b) Number of new private sector investments valued at a minimum of EUR 200,000 (EU indicator).
- (c) Percentage of participating municipalities that achieve improvements in delivery of tourism-related services.
- (d) Citizens and communities are involved in planning project-supported activities. (yes/no, citizens engagement indicator)

Component 3: Strengthening destination and project management

- (a) Number of destination management organizations in target municipalities established and functional.
- (b) Increased number of foreign tour operators that include the new destinations in their tours.
- (c) Evaluations for investment projects for tourism development are designed, conducted and reported.
- (d) A pipeline is developed for new investment projects at the participating destinations (number of new projects).

III. Preliminary Description

Concept Description

14. The project will provide assistance and capacity building to enhance the business environment and skills along with targeted investments in infrastructure, support to tourism activities and promote destinations, and will help foster linkages with related industries and SMEs. The project will support a limited number of potential tourism destinations in the country over a

four-year period through a combination of infrastructure investments, technical assistance, and capacity building support to public sector and non-state sector entities. This is expected to result in an improved enabling environment for private sector investments, including the establishment of regional tourism destination management structures.

15. Stakeholders and beneficiaries will be public agencies and private organizations at the central, regional and local levels. At the central level, the stakeholders will be the Office of the Deputy Prime Minister for Economic Affairs in the General Secretariat, the Ministry of Economy, the Ministry of Local Self-Government, Ministry of Culture, and the Agency for Promotion and Support of Tourism. At the regional and local levels, the stakeholders will include the participating municipalities, Centers for Regional Development, educational institutions, and business and non-governmental organizations, including destination management organizations.

16. The project will be financed through a Hybrid Trust Fund and executed as three components, one executed by the Bank and two by the Government of FYR Macedonia. The activities in the Bank-executed component (Component 1) will help to continue, scale up, and expand the capacity building and technical assistance activities in tourism currently underway at the central level under the Macedonia Competitive Industries and Innovation Support Program (grant from Multi-Donor Trust Fund, effective through mid 2016). At the same time, the Bank will provide implementation support for the activities under the recipient-executed components (components 2 and 3).

17. Component 1: Capacity building for local competitiveness (Bank executed). Estimated amount: EUR 2 million. One of the objectives of the Macedonian Government and the EU Delegation is to strengthen the implementation capacity of key government entities and the capacity of the private sector and civil society organizations to play an active role in the development of tourism in Macedonia. The project would be a strong instrument to build and enhance this capacity by creating mechanisms for more effective inter-agency coordination and stakeholder engagement, strategic planning, entrepreneurship, and skills development for local competitiveness. The component includes two sub-components:

18. Sub-component 1.1. Institutional strengthening of public sector agencies: This sub-component will provide technical assistance on strengthening of the business environment (registration, licensing, investment, public private dialogue); inter-agency coordination; public-private consultations and stakeholder engagement; access to information; and strategic planning for tourism development and destination management at the central, regional and local levels. This sub-component will finance the development of a new National Tourism Strategy and Action Plan. The team will discuss with the Borrower the importance of including a Strategic Environmental and Social Assessment in this process, including the possibility of supporting this process under the Project.

19. Sub-component 1.2: Business and skills development for private sector: This sub-component will provide technical assistance and training to private sector and non-governmental (civil society) entities at central and local (destination) levels. The objective is to stimulate entrepreneurship, skills development, and the growth of MSMEs necessary for competitiveness and tourism development. Areas of support to business development will include TA and training to facilitate access to business services (consulting, mentoring, innovation); access to finance; stimulation of business networks and supply chains in the tourism sector; and development of

service standards in tourism-related services (accommodation, catering, tour guides) based on good international practices.

20. With regard to skills development, the sub-component will support development of curricula and competence-based skills training necessary for a thriving tourism sector and tailored to market needs. The activities will (a) assess the needs of employers; (b) help to design specialized, competency-based trainings and certification skills programs (e.g. in destination management, marketing), in collaboration with institutions such as TVET and lifelong learning centers, industry, civil society organizations, and local employment agencies.

21. Component 2: Investment in infrastructure at destinations (Recipient executed). Estimated amount: EUR 15.8 million. This component will support large and small-scale investments in critical infrastructure at selected tourism destinations, and facilitate development and upgrading of product offers to potential destination visitors. These investments are critical for unlocking the tourism potential of the destinations, and will include rehabilitation of access roads to sites and attractions, signposting, upgrading and mapping of hiking and biking routes and trails, upgrading of ski resort facilities, rehabilitation of cultural and natural heritage sites, tourist information offices, rehabilitation of spas and ski resorts, local branding and marketing at key sites, rehabilitation of publicly owned vacation facilities, upgrading of tourist services and products along transport routes, and development of tools for destination promotion and marketing. The component will include two sub-components:

22. Sub-component 2.1: Large-scale infrastructure investments: This sub-component will finance a few larger integrated infrastructure projects which are critical for destination and business development. The investments will be a maximum amount of 3 million EUR per project. They will be provided in the form of grants to qualified municipalities and will require co-financing from the municipalities. The share of co-financing will be determined during project preparation. The investments will support infrastructure projects in a limited number of regions (3-4) that demonstrate the potential and institutional capacity for tourism development and destination management. The selection of regions and projects will be conducted through a competitive, transparent and inclusive process. The selection criteria will be defined during project preparation.

23. Sub-component 2.2: Small-scale investments at destinations. This sub-component will finance small-scale public and private investments in municipalities which are or are not part of one of the larger projects, but demonstrate the potential for development of their tourism offerings and for linkages with other business sectors to stimulate local economic development and job creation. The sub-component will finance works, equipment and promotional activities of up to EUR 30,000 per beneficiary municipality or entity. The emphasis will be on sub-projects that demonstrate the potential for services and employment generation among the poor, disadvantaged and marginalized groups (e.g., Roma) in both urban and rural underdeveloped communities.

24. Component 3: Strengthening destination and project management (Recipient executed). Estimated amount: EUR 2 million. This component will finance technical assistance, equipment, and capacity building at the destinations; and project management. The component will be divided in two sub-components, as follows:

25. Sub-component 3.1: Destination management organizations: This sub-component will provide support through technical assistance, equipment and services for establishment of

destination management organizations, through the combined efforts of public and private sector stakeholders and communities. Destination Management Organizations (DMOs), as multi-stakeholder bodies, will ensure that visitor infrastructure, facilities, information and services are effectively managed and promoted to develop tourism products and attract visitors. Up to two pilot DMOs will be initiated during project preparation with technical assistance from the Competitive Industries and Innovation Support Program. The pilot DMOs will be scaled up with support from the project and will ensure that lessons are learned and adapted to other destinations, for informed replicability.

26. Sub-component 3.2: Project management: This sub-component aims to strengthen the management and monitoring and evaluation (M&E) capacities of the Project Implementation Unit (PIU). It will finance technical assistance, training, equipment, and operational costs associated with implementation of the project, including M&E, project audits, and creation of a framework for impact assessment and lessons learned, to inform future investments in tourism development. Staff and consultants of the PIU will be trained in tourism development and destination management, and in the concepts, policies and activities supported under the project.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04			x
Forests OP/BP 4.36		x	
Pest Management OP 4.09	x		
Physical Cultural Resources OP/BP 4.11	x		
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12	x		
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50			x
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	24.43	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source			Amount
Borrower			2.20
EC European Commission			22.03
Free-standing TFs for ECA PF Sector Unit			0.20
Total			24.43

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