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Report No: PAD00122

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 27.50 MILLION
(US\$30 MILLION EQUIVALENT)

TO THE

REPUBLIC OF NORTH MACEDONIA

FOR A

SECOND SOCIAL SERVICES IMPROVEMENT PROJECT
(P180350)

DECEMBER 14, 2023

Social Protection and Jobs
Europe and Central Asia

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2023)

Currency Unit = Macedonian Denar (MKD)

MKD 56.45 = US\$1

US\$ 1 = EUR 0.9161

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Program
BDE	Bureau for Development of Education
CBMIS	Cash Benefit Management Information System
CCTP	Conditional Cash Transfer Project
CPF	Country Partnership Framework
CSW	Center for Social Work
DA	Designated Account
ECE	Early Childhood Education
ECEC	Early Childhood Education and Care
ESA	Employment Services Agency
ESF	Environmental and Social Framework
ESMP	Environmental and Social Management Plan
ESS	Environment and Social Standards
EU	European Union
FM	Financial Management
GAC	Grant Assessment Committee
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GIZ	German Agency for International Cooperation (<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>)
GMA	Guaranteed Minimum Assistance
GMI	Guaranteed Minimum Income
GOM	Grant Operational Manual
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service

HCI	Human Capital Index
IFR	Interim Financial Report
IPF	Investment Project Financing
ISA	Institute for Social Activities
IT	Information Technology
LFP	Labor Force Participation
LIRIKUS	Social Services Register
LMP	Labor Management Procedures
M&E	Monitoring and Evaluation
MELQO	Measuring Early Learning Quality and Outcomes
MICS	Multiple Indicator Cluster Survey
MLSP	Ministry of Labor and Social Policy
MoES	Ministry of Education and Science
NDC	Nationally Determined Contribution
NEC	National Examination Center
NGO	Nongovernmental Organization
OECD	Organization for Economic Co-operation and Development
PA	Parental Allowance
PDO	Project Development Objective
PLH	Parenting for Lifelong Health
PMU	Project Management Unit
POM	Project Operational Manual
PPSD	Project Procurement Strategy for Development
SAO	State Audit Office
SCD	Systematic Country Diagnostic
SIAP	Social Insurance Administration Project
SPD	Standard Procurement Document
SSIP	Social Services Improvement Project
STEP	Systematic Tracking of Exchanges in Procurement
SWIS	Social Welfare Information System
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund

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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies) North Macedonia	Operation Name Second Social Services Improvement Project		
Operation ID P180350	Financing Instrument Investment Project Financing (IPF)	Environmental and Social Risk Classification Moderate	

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Performance-Based Conditions (PBCs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Alternative Procurement Arrangements (APA)	<input type="checkbox"/> Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date 16-Jan-2024	Expected Closing Date 31-May-2029
Bank/IFC Collaboration No	

Proposed Development Objective(s)

To expand access to and improve the quality of social services and preschool services for vulnerable groups.

Components

Component Name	Cost (US\$)
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Component 1: Expanding access to quality social services	14,115,000.00
Component 2: Improving access to quality ECEC	13,615,000.00
Component 3: Project management, monitoring, and communication	2,195,000.00

Organizations

Borrower: Republic of North Macedonia
 Implementing Agency: Ministry of Labor and Social Policy

PROJECT FINANCING DATA (US\$, Millions)**Maximizing Finance for Development**

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	30.00
Total Financing	30.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	30.00
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Expected Disbursements (US\$, Millions)

WB Fiscal Year	2024	2025	2026	2027	2028	2029	2030
Annual	1.00	3.64	4.83	5.35	6.20	6.72	2.26
Cumulative	1.00	4.64	9.47	14.82	21.02	27.74	30.00



PRACTICE AREA(S)

Practice Area (Lead)

Social Protection & Jobs

Contributing Practice Areas

Education; Health, Nutrition & Population

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Low
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Moderate
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Low
9. Other	
10. Overall	● Moderate

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No



Does the project require any waivers of Bank policies?

Yes No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Not Currently Relevant
ESS 9: Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description

SCHEDULE 2, Section 1, B: Not later than one (1) month from effective Date, the Borrower, through MLSP, shall adopt the Project Operational Manual, in a manner satisfactory to the Bank, and shall ensure that the Project is carried out in accordance with the POM, setting forth rules, methods, guidelines, and procedures for the carrying out of the Project, including, inter alia: (i) detailed description of Project and institutional arrangements for implementing the Project; (ii) monitoring, evaluation, reporting, and governance procedures for the Project; and (iii) overall disbursement, financial management, auditing and procurement procedures for the Project.

SCHEDULE 2, Section 1, B: The Borrower, through MLSP, shall adopt the Grant Operational Manual, in a manner satisfactory to the Bank, and shall ensure that Parts 1.1 (b) and 2.1 (a) of the Project are carried out in accordance with



the Grant Operational Manual, setting forth inter alia: (i) procedures, eligibility and selection criteria for the Social Services Subprojects and School Infrastructure Subprojects respectively; (ii) implementation requirements for the Grants under Part 1.1 (b), including selection criteria and procedure for the Service Providers, and In-kind Grants under Part 2.1 (a) of the Project; and (iii) a template of Grant Agreements.

Conditions

Type	Citation	Description	Financing Source
Disbursement	Schedule 2, Section III, B, 1	under Category (2) unless the Grants Operational Manual has been adopted by the Borrower, through MLSP, in accordance with Section I.B.2 of this Schedule and acceptable to the Bank.	IBRD/IDA



I. STRATEGIC CONTEXT

A. Country Context

1. **North Macedonia enjoyed a period of sustained economic growth and poverty reduction before the COVID-19 pandemic and is now faced with a slow recovery and rising inequality, with additional risks arising from climate change.** Economic growth in the country has been moderately robust for the last decades, with an average real annual gross domestic product (GDP) growth of 2.7 percent from 2000 to 2019, above the average for the Europe and Central Asia region of 1.8 percent but below that of its Western Balkan peers (4.1 percent). The COVID-19 pandemic shocked the global economy in 2020, and as a result, GDP in North Macedonia contracted by 4.7 percent. In 2021, the economy recovered and recorded a growth of 4.5%, but the energy crisis and the rise in prices at the global level contributed to a slowdown in economic activity with GDP growth of 2.2%. Beyond recent shocks to the global economy, North Macedonia is vulnerable to extreme temperatures, wildfires, storms, landslides, droughts, and floods. Climate change is expected to have a specifically negative impact on the agricultural sector,¹ as the temperatures are expected to rise in the next 40 years resulting in droughts in some areas and a decline in production (see paragraph 46 for the climate change context and response).

2. **The country experienced strong employment and labor force participation gains in the two decades before the COVID-19 pandemic,** although there are strong disparities in labor market opportunities across regions, ethnic groups, and gender. Between 2000 and 2019, labor force participation (LFP) in North Macedonia rapidly increased from 52.9 to 57.2 percent of the working-age population, driven by the positive strides made by women entering the labor market. This trend, coupled with a significant reduction in unemployment,² led to rapid increases in employment rates in the country. At the same time, regional disparities have widened.³ While male LFP in North Macedonia is similar to the average in EU-27⁴ countries (77 percent), that of females lags 12 percentage points (pp) behind, with a staggering 22 pp differential across gender.⁵ Ethnic minorities similarly experience higher unemployment rates, while roughly three-quarters of people with disabilities are inactive. While the unemployment rate declined in 2022, reaching 14 percent, it has been driven by many working-age individuals moving out of the labor force. Outmigration, coupled with the aging of the population, has fueled the increase in vacancy rates in the last decade, particularly in certain service sectors and construction.⁶ As a result, increasing LFP is fundamental not only for promoting equity but also for the sustainability of growth.

3. **Reducing poverty rates and supporting shared prosperity in North Macedonia requires promoting economic activity and employment.** Economic growth in North Macedonia translated into continuous gains in poverty reduction, with poverty rates progressively falling from 41 percent in 2009 to 19 percent in 2021.⁷ The growth elasticity of poverty between 2009 and 2019 stood at -0.93 , which is

¹ Knez, S., S. Štrbac, and I. Podbregar. 2022. "Climate Change in the Western Balkans and EU Green Deal: Status, Mitigation and Challenges." *Energy, Sustainability and Society* 12 (1).

² Almost cut in half from 32.2 percent in 2000 to 17.4 percent in 2019.

³ The gap in the unemployment rate between the northeast and the southeast increased from 27.5 pp in 2019 to 32.5 pp in 2021, the largest among a pair of regions in any Western Balkan country.

⁴ Abbreviation for the 27 European Union (EU) countries.

⁵ Employment gaps by gender also show a similar picture.

⁶ World Bank. 2023. *Country Notes. Western Balkans Regular Economic Report, No. 23.*

⁷ World Bank. 2023. *North Macedonia Systematic Country Diagnostic (English).* Washington, DC: World Bank Group.



similar to the average in the Europe and Central Asia region.⁸ The increased demand in the economy rises employment opportunities—the elasticity of employment to GDP in the last decade stood at 0.5—and wages, boosting labor incomes for families across the socioeconomic classes, thus supporting poverty reduction. In 2019, the poverty rate in North Macedonia stood at 19 percent, close to the average among Western Balkan countries but still significantly higher than the levels observed in small EU new member states (3 percent) or the EU as a whole (2 percent).⁹ Recent surges in food and energy prices have eroded the purchasing power of households, hitting more severely those with lower incomes, resulting in higher inequality and raising pressures on poverty.¹⁰ Poverty is concentrated in specific groups of the population, including low-educated households, ethnic minorities, and those living in northern and rural areas.¹¹ Overall, ethnic cleavages explain a higher share of inequality in North Macedonia than in any other country in the Western Balkans. In terms of geographical distribution, the northern area of the country, which has the least economic opportunities, faces higher levels of poverty among its population.

4. The state of human capital in North Macedonia is improving, but progress is too slow and uneven to successfully tackle the triple challenge of low productivity, aging, and inequality. According to the World Bank Human Capital Index (HCI), between 2010 and 2020, the HCI value for North Macedonia improved from 0.54 to 0.56.¹² An HCI of 0.56 implies that children born today will be about 44 percent less productive than they would have been had they enjoyed full health and complete quality education. The index score is the lowest among Western Balkan countries and the second lowest in the entire Europe and Central Asia region. While the health component is above the peers' average, both the low test scores and the expected years of schooling¹³ drag the overall index down in North Macedonia. Low educational outcomes contribute to a skills gap that affects young people and first-time labor market entrants. This is against a backdrop of falling birth rates and outmigration. Birth rates have fallen from more than 14 births per 1,000 inhabitants in 2000 to slightly above 9 in 2020, which led to a decline in the natural population in 2020 and 2021. On top of that, migration outflows have added pressures to the shrinking population—with about 4,000 net outmigration during 2011–2020, equivalent to 0.2 percent of the population. By 2040, more than 20 percent of the population in North Macedonia will be over the age of 65. This draws attention to rising eldercare requirements that, like those for childcare, fall disproportionately on women, with implications for women's participation in economic activities and well-being. This is illustrated by the fact that 42.6 percent of women report care responsibilities to be the main reason for being economically inactive compared to only 3.7 percent of men.¹⁴

⁸ This implies that for every 1 percent increase in GDP, there was a reduction of 0.9 percent in the poverty rate. For full details on the methodology and caveats, see Ravallion, M. 2022. "Growth Elasticities of Poverty Reduction." NBER Working Paper 30401. Poverty and real GDP per capita growth data from 2009 to 2019 come from the World Development Indicators of the World Bank.

⁹ World Bank. 2022. *North Macedonia Social Protection Situational Assessment*.

¹⁰ World Bank. 2023. *Testing Resilience. Western Balkans Regular Economic Report, No. 23*.

¹¹ For example, ethnic Albanians are close to three times as likely to be in the bottom income quintile than in the highest one, and the concentration among the poor is even higher for the Roma population (World Bank. 2022. *North Macedonia Social Protection Situational Assessment*).

¹² World Bank. 2020. *The Human Capital Index 2020 Update: Human Capital in the Time of COVID-19*. Washington, DC: World Bank.

¹³ 11 years, compared to 12.8 years in other Western Balkan countries.

¹⁴ World Bank. 2022. *Country Gender Assessment - North Macedonia*.



B. Sectoral and Institutional Context

5. **North Macedonia has undertaken a comprehensive social protection reform to improve coverage, targeting, and adequacy of its programs, which proved to be key to supporting vulnerable groups during the COVID-19 pandemic.** The 2019 reform of the social protection system¹⁵ focused on consolidating the many fragmented benefits and enhancing coverage and targeting. The guaranteed minimum assistance (GMA) scheme was established to replace all other means-tested social assistance programs. A new means-tested social pension for the elderly 65 years and older was introduced in 2019, and the universal parental allowance (PA) program was transformed into a means-tested PA. The reform also institutionalized the conditional cash transfer program,¹⁶ providing poor households with children both a child and an education allowance. Through these reforms, the adequacy and coverage of social assistance have improved in North Macedonia, with a shift in financing toward means-tested programs.¹⁷ The reform of social assistance also allowed for a faster response to the COVID-19 pandemic, in particular, through the expansion of the GMA to additional poor households. In parallel, the country strengthened its pension system and is currently the only country in the Western Balkans with a fully developed multi-pillar pension system, although further reforms are needed to ensure its financial sustainability.¹⁸ In terms of active labor market programs (ALMPs), changes have been more subdued. While coverage has increased, it remains moderate, with only half of the total number of unemployed being registered with the Employment Services Agency (ESA), hindered by the limited financial and human resources.¹⁹ During this period, the World Bank has supported these reforms both with analytics and operations, as detailed in this document.

6. **These reforms also aimed to develop a well-established system for social and child services.** The Ministry of Labor and Social Policy (MLSP) is responsible for both social services and early childhood education and care (ECEC), including kindergartens, as set out in the Social Protection and Child Protection Laws.²⁰ The 2019 reform incorporated a major change in the way social services²¹ are planned, financed, and delivered, which was introduced alongside a major push toward deinstitutionalization.²² Before 2019, the coverage of social services was extremely limited²³ and largely concentrated in the capital city. Under the 2019 reform, the municipalities became responsible for identifying the needs of their populations for social services (through the preparation of social plans) and offering these services in partnership with

¹⁵ This reform consisted of a new Law on Social Protection and modifications to the Law on Child Protection and the Law on Social Security for the Elderly. World Bank. 2022. *North Macedonia Social Protection Situational Assessment*.

¹⁶ Supported the Conditional Cash Transfers Project (CCTP, P103974).

¹⁷ See, for example, the draft social assistance chapter in the Public Finance Review 2022 and the forthcoming Systematic Country Diagnostic (SCD).

¹⁸ This reform is supported through the World Bank-financed Social Insurance Administration Project (P170343).

¹⁹ To date, the evidence on the quality of services delivered is limited. For example, there is little evidence of the effectiveness of training provided by the ESA on employment outcomes, and there are no impact evaluations of the ALMPs as currently designed. See World Bank (2022).

²⁰ Both social and ECEC services are also decentralized mandates, falling under municipalities, although the process of decentralization has not been fully implemented for social services as it has been the case for ECEC.

²¹ The Social Protection Law defines social services as information and referral services, professional assistance and support services, counselling services, home services, community services, and services for extra-family protection. It provides for preventative social services (mainly counselling in the centers for social work [CSWs]), institutional care and noninstitutional/nonresidential services, immediate social services, assistance to a person or family, home care, day care, temporary care, placement in a foster home, placement in a small group home, and assisted living. In this Project Appraisal Document (PAD), social services refer to nonresidential/noninstitutional.

²² World Bank (2022); National Strategy for Deinstitutionalization in the Republic of Macedonia 2018–2027.

²³ In 2016, less than 0.04 percent of the total population benefited from social services.



local service providers (private providers), while the MLSP is expected to set standards, provide financing for the provision of services, and monitor performance. Since the law was adopted, the ministry, with the support of the World Bank-financed Social Services Improvement Project (SSIP),²⁴ has established a new regulatory framework for a range of nonresidential social services and piloted the outsourcing of social services to private providers in partnership with municipalities (see below for more details and Annex 2). With regard to ECEC, the MLSP oversees the staffing, budgeting, and provision of infrastructure (kindergartens) and collaborates with the Bureau for Development of Education (BDE), within the Ministry of Education and Science (MoES), which is responsible for the curriculum taught in kindergartens. The municipalities' role in ECEC involves managing facilities, overseeing enrollment, providing additional financial support, ensuring quality, and fostering collaboration. With support from SSIP, the MLSP built and modified kindergartens to expand access to preschool education, strengthened the professional development of the present and future early childhood education (ECE) workforce, and established instruments for the assessment and monitoring of the structural and process quality and children development outcomes.

7. The MLSP has continued to invest in its social protection delivery systems, most recently through the efforts to integrate the provision of cash benefits and social services. The social protection system in North Macedonia is well established, with social assistance benefits and social services accessed through a network of CSWs. Over time, the ministry has invested in information systems to support the application, assessment, enrollment, and delivery of all cash benefits (the Cash Benefit Management Information System [CBMIS]) and to register social services (social services register, LIRIKUS). The MLSP is putting in place a new social welfare information system (SWIS) that will integrate CBMIS and LIRIKUS, enabling a more complete human-centric approach and better prioritization of the needs of poor or vulnerable families. The new SWIS will also support the introduction of case management, which aims to respond to the needs of individuals/households in a holistic way and provide tailored recommendations to households based on the assessment of case workers within the CSWs. For this, a professional staff in the CSW is assigned to work with each case by, among other tasks, preparing individual plans together with the users.²⁵ However, the application of this method across CSWs has raised various complexities that are yet to be fully resolved in practice. Changes to the way that the professional staff in the CSWs are organized and carry out their work to support case management are still to be fully implemented. These challenges extend to the coordination between CSWs and the ESA to support the activation of GMA beneficiaries using individual employment plans, such as incomplete information sharing and a lack of follow-up. Reducing administrative work burdens and providing training to professional staff to adjust to the new case management system remains key. Municipalities, which are now responsible for carrying out an assessment of social needs in their populations and preparing annual social protection plans, also lack the necessary staff and expertise.

8. The coverage of social and ECEC services has increased, although significant gaps remain, and new challenges are emerging. With support from the SSIP, the MLSP has established the provision of a range of social services through licensed providers, reaching 2,602 beneficiaries by early 2023. This includes a pilot to test the outsourcing of social services to private providers, with 20 new private providers receiving their licenses and delivering services through this model.²⁶ This experience

²⁴ The SSIP (P162246; €28.7 million) is implemented in the period from October 2018 to June 2024. See Annex 2.

²⁵ See Articles 276–281 of the 2019 Social Protection Law.

²⁶ Of the grants awarded under the SSIP, the MLSP has committed to continuing the financing to these services when the grants end. In this way, the financial sustainability of these services has been secured.



demonstrated the success of this new way of delivering social services through private providers, in partnership with municipalities, while also generating a range of lessons. To date, roughly 85 percent of financing for social services under the SSIP has been for in-home care, which is largely being used to meet the needs of elderly people, with reports of growing demand from municipalities and nongovernmental organizations (NGOs) nationwide. Other types of social services financed by the SSIP include day centers for children with disabilities, personal assistance, and centers to promote active aging. The rising demand for social services, particularly for in-home care for the elderly, has raised questions around the extent to which these services should be fully subsidized by the central government and the possibility of the for-profit private sector to fill some gaps, with due attention to equity and affordability.²⁷ Challenges associated with securing sufficient human resources have been raised, as have questions on how to ensure service quality across providers.²⁸ In parallel, the number of registered kindergartens has increased (from 54 public and 3 private in 2011 to 78 public and 31 private in 2022), leading to a moderate upward trend in pre-primary education enrollment (ages 3–6 years) over the last decade, increasing from 35 percent in 2015 to 42 percent in 2022.²⁹ While this represents a significant increase compared to the previous decade, demonstrating the Government's commitment to promoting early childhood development, North Macedonia still lags many countries in the region³⁰ and falls short of the EU Education and Training 2030 target of 96 percent coverage of children ages 3–6 years.³¹ At the same time, around 85 percent of children under the age of 3 are not in childcare facilities (compared to 64.7 percent in the EU-27).³²

9. Uneven access to these services disproportionately affects families in the lowest income quintile, those who live in rural areas, those belonging to the Roma community, and those who have some kind of disability. In spite of the gains in expanding the supply of publicly funded social services, significant regional disparities remain given the insufficient and unevenly distributed networks of service providers, with the largest per capita availability continuing to be in the capital of Skopje.³³ Additionally, given that grants for social services have been awarded to service providers based on the interest of municipalities, coverage is highly uneven across areas and types of social services, with some areas having no providers of services. These disparities also show up in key indicators of early childhood development. Despite recent investments, ECEC institutions continue to be unevenly distributed and heavily geared toward urban, densely populated areas and working parents. The urban enrollment rate is almost two and a half times higher (47 percent) than that in rural areas (20 percent). Out of 80 municipalities in the country, 13 have no ECEC facilities and offer no ECEC provision. One consequence is that ethnic minorities, many of whom live in remote regions, regions experiencing poverty, or in distinct communities within or bordering larger cities, have significantly less access to ECEC services. The most recent data available, the

²⁷ Questions about the mix of services/benefits and financing across the health and social protection sectors have also been raised.

²⁸ The growth of in-home care has also created demand for care workers in North Macedonia. Experience under the SSIP suggests that beneficiaries of the GMA may be activated into these jobs, with the required technical training and social mentoring support.

²⁹ State Statistical Office. 2023. *Institutions for Childcare and Education: Kindergartens/Centres for Early Childhood Development 2022*.

³⁰ ECEC participation is still far lower than in the neighboring countries: 65 percent in Serbia, 68.8 percent in Greece, 75 percent in Albania, 78 percent in Montenegro, 78.6 percent in Romania, 79.4 percent in Croatia, and 79.9 percent in Bulgaria (in 2020).

³¹ Embedded in this target is a global recognition that preschool attendance plays a critical role in supporting the development and learning of children and their future success in life. Barnett, W. S. 2008. *Preschool Education and Its Lasting Effects: Research and Policy Implications*.

³² Leshoska, V., et al. 2022. *Gender-Based Discrimination and Labour in North Macedonia (II), Reactor - Research in Action*.

³³ Considering residential care for elderly people, the majority of social services are offered in the Skopje region.



2018–2019 Multiple Indicator Cluster Survey (MICS), show large disparities in access among children ages 3–6 years by ethnicity (54 percent of Macedonian children, 14 percent of Albanian children, and 12 percent of Roma children participate in ECEC), gender (41 percent of male children and 32 percent of female children participate in ECEC), and wealth index quintile (only 7 percent of children in the lowest quintile attend kindergarten compared to 67 percent of those in the highest quintile).³⁴ Further, children with special needs encounter social stigma and face challenges accessing inclusive education and social support.³⁵ Less than 1 percent of all enrolled children in ECEC are children with disabilities.³⁶ The MLSP is taking steps to address such inequalities beyond investments in increasing the coverage of kindergartens. For example, CSWs and kindergartens are coordinating to improve understanding of the importance of sending young children to preschool among GMA households in an effort to increase their enrollment. However, for the foreseeable future, many of the poorest children will continue spending their preschool years at home, which draws attention to the important role of parents in nurturing their learning or in privately operated care.

10. A new stream of evidence assesses the quality of ECEC, allowing for more targeted investments; in terms of social services, there is a need to strengthen and expand the quality assurance framework.

In ECEC, the results of the Measuring Early Learning Quality and Outcomes (MELQO) instrument (established under SSIP), which generated nationally comparable evidence for the first time in North Macedonia, indicate that, while a large proportion of children are doing well in key domains, there are areas that would benefit from targeted strengthening, especially those skills that are specifically associated with school readiness such as literacy and numeracy. In addition, Roma children lag behind their peers in all developmental domains. Within the language and communication domains, as well as cognition and general knowledge, all minority groups achieve less than their Macedonian peers. These children would benefit from more care and support for their socio-emotional development by strengthening the capacities of preschool teachers and working with parents. The study makes clear the relationship between children’s regular attendance in preschool and their learning success, highlighting the significant impact of preschool attendance on learning outcomes.³⁷ To date, satisfaction with social and ECEC services has been high,³⁸ although the ministry recognizes the need to strengthen the regulation, licensing, and monitoring systems to ensure that services continue to be delivered to a high quality as coverage expands. In terms of social services, service quality is currently assured through the licensing of organizations and staff, which must be secured before services are provided to beneficiaries and resecured regularly. The licensing of organizations ensures the *structural quality*, that is, their staffing levels, mix, and skills and characteristics of their facilities,³⁹ while the licensing of staff ensures that they

³⁴ UNICEF. 2020. *2018–2019 North Macedonia’s Multiple Indicator Cluster Survey and 2018–2019 North Macedonia Roma Settlements Multiple Indicator Cluster Survey, Survey Findings Report*.

³⁵ Byrne, K. 2020. *An Analysis of the Situation of Women and Children in the Republic of North Macedonia: Executive Summary*. UNICEF.

³⁶ State Statistical Office. 2023. *Institutions for Childcare and Education: Kindergartens/Centers for Early Childhood Development 2022*.

³⁷ MELQO Final Report (2023).

³⁸ The MELQO (2023) study shows that the majority of the parents (55.5 percent very satisfied and 43.7 percent mostly satisfied) who participated in the study are in general satisfied with the quality services provided by the kindergartens. Beneficiary feedback from social services shows equally high rates of satisfaction.

³⁹ Service quality in the Organisation for Economic Co-operation and Development (OECD) countries tends to be considered as *structural*: staffing levels, mix, education, and training of staff and characteristics of the facility (size and ownership); *process*: quality of the care and services actually provided; *outcome*: changes in functioning or quality of health that are attributed to care provided or not provided; and, rarely, *quality of life*: consumer choice and autonomy, dignity, individuality, comfort, and meaningful activity. Quality assurance systems in OECD countries tend to focus on structural and process quality.



possess the knowledge and skills required as per the relevant legislation. Compliance with licensing procedures for organizations is through the Licensing Commission under the MLSP and the Licensing Commission of the Institute for Social Activities (ISA) for professional staff. In parallel, the Inspection Department of the MLSP ensures compliance with social protection legislation. However, these compliance and oversight functions are not carried out regularly and are undermined, in the case of the ISA, by the lack of quality standards for social services.

11. **The Government is committed to addressing gaps in the access to and quality of social services and ECEC to promote more equitable human capital accumulation and increase LFP.** As part of its firm commitment to the human capital agenda, the Government, with technical assistance from the World Bank, is in the process of adopting a Human Capital Strategy (2023–2030), which recognizes the need to expand access to quality ECEC services as a key strategy to promote the human capital of future generations. This reflects the vision of the *Comprehensive Strategy for Education Development 2018–2025*, which is to incrementally universalize quality ECEC services and improve inclusiveness. This is to be achieved by increasing the number of children in the system, modernizing curricula and the learning environment, increasing human resource capacity, and strengthening the legal framework and management of the sector. The Human Capital Strategy also aims to improve the reach of social services to meet the needs of vulnerable groups, an aim that is similarly set out in the National Programme for Development of Social Protection 2022–2023. Increasingly, the Government acknowledges the need to invest in services to meet the current and future needs for care in the country derived from the aging of the population. This recognizes that investing in care services has a positive spillover by reducing the burden of informal home care so working-age caregivers, who are disproportionately women, can seek employment opportunities—a key objective of the Government.

C. Relevance to Higher Level Objectives

12. **The proposed project contributes directly to the country’s goals, as set out in the Country Partnership Framework (CPF) 2019–2023⁴⁰ and those that are emerging for the forthcoming CPF for FY24–FY28.** Based on the 2023 SCD,⁴¹ the CPF promotes “investing in people” as a key factor in sustaining inclusive growth over the long term. The proposed project directly contributes to this goal, which is set out in Focus Area Two — Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable, through its investments in expanding access to ECEC and social services and promoting the inclusion of marginalized groups. The importance of strengthening human capital development for all is reinforced through the analysis of the 2023 SCD. The updated SCD finds that the labor force needed for stronger economic growth is constrained by an aging population, coupled with outmigration, skills mismatch, and other barriers to productive participation in the labor market.

13. **The project is consistent with the country’s Nationally Determined Contribution (NDC).** The Republic of North Macedonia signed (2015) and ratified (2017) the Paris Agreement, under which it became the twenty-third country in the world that submitted its NDC (2015). In the latest enhanced NDC (2021) submitted to the United Nations Framework Convention on Climate Change, the country commits to the following enhanced NDC to the global efforts for greenhouse gas (GHG) emissions reduction: “In

⁴⁰ World Bank. 2019. Country Partnership Framework for the Republic of North Macedonia 2019 – 2023. Report No. 135030-MK. Washington, DC: World Bank Group.

⁴¹ World Bank. 2023. North Macedonia Systematic Country Diagnostic Update: Navigating Challenges, Embracing Opportunities. Report No. 185174. Washington, DC: World Bank Group.



2030, 51 percent reduction in greenhouse gas emissions compared to 1990 levels. Expressed in net emissions, in 2030, 82 percent reduction compared to 1990 levels.”⁴² The enhanced NDC is focused on targets in the mitigation area, with a vision to include an adaptation component in subsequent submissions, once the relevant national strategic and planning documents are prepared and adopted. The project is also consistent with the Long-Term Strategy on Climate Action and the vision of the country to create, by 2050, a prosperous, low-carbon economy, following sustainable and climate-resilient development pathways, enhancing competitiveness, and promoting social cohesion through action to combat climate change and its impacts.⁴³

II. PROJECT DESCRIPTION

A. Project Development Objective

14. **Project Development Objective (PDO) statement:** To expand access to and improve the quality of social services and preschool services for vulnerable groups.

PDO-Level Indicators:

- Number of beneficiaries receiving social services from licensed providers, disaggregated by sex, which measures increased access to social services as well as an improvement in their quality through compliance with the licensing procedures.
- National preschool enrollment rates for children aged 3 to 6, disaggregated by GMA/non-GMA households, which measures increased access to preschool services.
- Improved quality in public preschool institutions, which measures the improved process quality of preschool institutions⁴⁴

B. Project Components

15. **The proposed project would continue to strengthen and expand the reforms initiated by the Government to promote access to and quality of social services and ECEC.** The proposed project aims to build on the achievements of the SSIP to address gaps in coverage, further improve the quality of services, and strengthen the associated delivery systems to promote access of vulnerable groups. It is structured into three components.

16. **Component 1: Expanding access to quality social services (US\$14.1 million).** This component aims to expand the coverage of quality social services while ensuring that services reach the most vulnerable through investments in the social protection delivery system. It will support the MLSP to strengthen the legislation governing all social services while expanding the coverage through in-home care and, to a lesser extent, day centers for older persons and persons with disabilities.

⁴² Enhanced Nationally Determined Contribution. Submission by the Republic of North Macedonia.

⁴³ Long-Term Strategy on Climate Action and Action Plan, Republic of North Macedonia.

⁴⁴ This indicator measures the average improvement in the process quality of preschool institutions, evaluated using the MELQO assessment tool.



17. **Subcomponent 1.1: Expanding the coverage of social services (US\$6.37 million).** The objective of this subcomponent is to expand the coverage of social services, in particular in-home care and day centers,⁴⁵ in a manner that is fiscally affordable and promotes equity and inclusion. First, this subcomponent will finance technical assistance to inform policy development and implementation related to updating the pricing for publicly funded social services and determining eligibility for publicly financed services, the ‘basket’ or breadth of services to be covered, and the extent to which cost sharing will be introduced. It will support the MLSP in identifying options for targeting in-home care through means testing (or other eligibility criteria) in addition to the current needs assessments and then in developing the tools and procedures to roll out this new system. In parallel, this subcomponent will identify ways to support the provision of services by private providers including promoting the expansion of services offered and the entry of new providers. Second, it will award grants to fund the provision of in-home care and day centers for older persons and persons with disabilities. Following the procedures established under the SSIP, municipalities and service providers will apply through an open call, and the Grant Assessment Committee (GAC) will evaluate the proposals based on criteria detailed in the Grant Operational Manual (GOM) to ensure equitable access to these services across the population. The grants will finance the establishment of services and the delivery of services for a specified period. Once the services are established, beneficiaries will be referred to service providers by the CSWs based on the eligibility criteria for that service.

18. **Subcomponent 1.2: Improving the quality of social services (US\$4.11 million).** This subcomponent aims to support the MLSP to strengthen the framework for assuring the structural and process quality of social services. This will be carried out by (a) revising the legislation that governs the licensing of social service providers and their staff to incorporate lessons learned through the SSIP and this project, (b) introducing more standardized data collection and reporting tools and procedures, (c) strengthening the capacity of the Inspection Department for Social Protection and Child Protection of the MLSP to more effectively assure compliance with the 2019 Social Protection Law, and (d) improving the ability of the ISA to oversee the process quality for the selected social services. This subcomponent will also support a review of the existing needs assessment tools to facilitate the timely referral of elderly people to health and/or social services as per their specific needs and will be complemented by training to medical doctors and CSW staff.

19. **Subcomponent 1.3: Enhancing access for the vulnerable through investments in the social protection system (US\$3.64 million).** The aim of this subcomponent is to increase demand for and referrals to social benefits and services among vulnerable populations through improved identification of people in need of support through the social protection system. First, the proposed project will support the MLSP to strengthen case management by (a) preparing additional rulebooks and standards, (b) revising the content and methods used to train CSW staff and finance selected training to improve the implementation of case management, and (c) carrying out a functional review of CSWs to inform decisions on how to organize these centers and staff. Second, it will build the capacity of the MLSP and CSW staff on the new SWIS to ensure that the system is used as intended and finance, as needed, modifications to the databases and information systems of other ministries and agencies to which the SWIS links, as well as updating of the associated rulebooks. Third, the project will support MLSP’s institutional capacity to carry out its policy agenda by strengthening the central policy unit, training MLSP staff for the implementation of this project, and financing minor rehabilitation works and relevant information technology (IT) equipment and furniture. Final, the subcomponent will support a dedicated outreach

⁴⁵ In-home care and day centers are a sub-set of social services.



strategy by CSWs targeted to marginal groups or those facing other barriers, including people with disabilities, to help ensure knowledge of their rights to social protection.

20. Additionally, this subcomponent will support the MLSP in its aim to deliver on a core aspect of the 2019 social protection reform: the activation of GMA beneficiaries, which requires strengthening specific aspects of the social protection delivery system. To this end, the subcomponent will support the MLSP to (a) carry out analyses to inform the modification of the legislative framework to improve the structure of incentives for GMA beneficiaries to find employment; (b) clarify the division of tasks and roles among different agencies and selection of the most ‘employable’ beneficiaries and develop profiling tools; (c) ensure the new SWIS enables all relevant data sharing between ESA and CSW to support the activation of GMA beneficiaries; (d) support the inspection of the implementation of activation plans and reporting of infractions, as well as capacity building of CSW and ESA caseworkers; and (e) pilot a social and professional mentoring intervention contracted to a private provider to support 400 GMA beneficiaries navigating the employment search process, including grassroots informational campaigns to increase demand and monitoring and evaluation (M&E) tools to support adaptations of the pilot along the process, as well as building an evidence base toward informing further investments by the MLSP in this area.

21. **Component 2: Improving access to quality ECEC (US\$13.6 million).** This component aims to improve access to quality ECEC in a way that further supports teacher professional development and promotes the inclusion of poor and marginalized children. It will be achieved through activities under three subcomponents.

22. **Subcomponent 2.1: Expanding the supply of ECEC (US\$ 10.86 million).** This subcomponent aims to expand the supply of preschool education in the country. It will focus on repurposing/upgrading unused primary school spaces or other public buildings into ECEC playrooms. The project expects to build and equip 110 public preschool classrooms, adding 2,200 new preschool spaces by the end of the project through the allocation of in-kind grants to the municipalities, which will be guided by a GOM.⁴⁶ The reconstruction of preschool classrooms will adhere to construction standards, which are energy efficient (see paragraph 47), and to meticulously designed municipality selection criteria (which are pro-poor)⁴⁷ established during the SSIP, including ensuring access to spaces for children with disabilities through the construction of ramps and possibly modified toilets. As a means of expanding access to ECEC, this subcomponent will also pilot new models to expand and improve the supply of ECEC through different types of nonstate childcare and early learning providers such as home-based childcare or center-based ECEC and childcare providers. The project aims to provide a way to address the very low preschool intake, supporting the establishment of mechanisms that include financial incentives for parents. In the process of piloting a range of childcare provision models, the project would support the enactment of a licensing system, involving caregiver training, workable institutional arrangements and a robust monitoring mechanism, and selection criteria for a subsidy that specifically targets low-income families. These models look beyond the public provision of services to the private sector and aim to shift the prevalent existence of the informal economy of home-based childcare services toward a formalized and regulated structure.

23. **Subcomponent 2.2: Improving the quality of ECEC (US\$ 1.5 million).** This subcomponent aims to enhance the quality of ECEC by (a) improving pre- and in-service training of teachers and caregivers

⁴⁶ A detailed assessments will be carried out to ensure that the earthquake-, landslide-, or flood prone areas are not selected, including areas that are projected to be at risk due to climate change.

⁴⁷ The municipality eligibility index will be used to rank municipalities for which the outcome of the optimization plans and confirmed local demand will determine the final number and location of classrooms to be repurposed.



working with children ages 0–6 years and strengthening the capacities of the three Centers for Excellence which will serve as model kindergartens for student practical training and hubs for the development of new teacher training modules; (b) promoting collaboration and knowledge-sharing within and between ECEC institutions, using a diverse array of methods including peer-to-peer learning, horizontal exchanges, or building of communities of practice, and putting in place relevant structures and guidelines; (c) institutionalizing a national system for measuring child outcomes and the quality of the learning environment, supporting the implementation of the nationally representative survey on *MELQO* in years 2 and 4 of the project to help generate information to monitor child development and the quality of preschools education in the country, and integrating the survey into the routine assessments carried out by the National Examination Center (NEC).

24. **Subcomponent 2.3: Promoting more inclusive ECEC (US\$ 1.25 million).** The subcomponent aims to improve the inclusion of poor and marginalized children by further strengthening links with GMA and CSWs and improving parenting practices and community engagement. Parenting programs options will include (a) Read@Home which delivers reading, learning, and play materials to homes of children ages 3–5 years; (b) a positive parenting program to eliminate harsh punishment against children through a communication campaign or direct support to children and their parents through group sessions (for example, the program implemented by Parenting for Lifelong Health [PLH]); and (c) targeted support to Roma communities. Pilots will be evaluated with an eye to scale up in other municipalities. To aid the selection of municipalities to pilot the parenting programs, the criteria used for the ranking of municipalities for the construction of new kindergartens will be used and the presence of Roma population and/or GMA beneficiaries will be considered. Municipalities with the highest ranking will submit a request for the pilot that will include a plan for how the parenting program will help meet the needs of young children in their municipality. This outreach through a national information campaign will focus on making parents aware of the benefits of sending their children to preschool and also on improving the family environment.

25. **Component 3: Project management, monitoring, and communication (US\$2.2 million).** This component will support the day-to-day management of project implementation and the M&E of project objectives and outcomes. It will finance the activities that would ensure effective administration and implementation of the project by supporting (a) operation of the existing Project Management Unit (PMU), including the provision of operating costs and equipment; (b) development and implementation of an M&E system for the project; and (c) development and carrying out of a public awareness campaign to inform vulnerable groups of social services, including eligibility requirements, norms and standards, application process, and opportunities for enrolling their children in preschool and parenting support. It will also fund the citizen engagement activities described in the relevant sections below, as well as the application of the World Bank Environmental and Social Framework (ESF).

C. Project Beneficiaries

26. The project beneficiaries⁴⁸ are (a) the beneficiaries of social services financed by the project and those that are financed by other sources, including the Government, development partners, and private service providers which are regulated, licensed, and subject to inspections and oversight based on the legislation, procedures, and tools put in place as a result of the project; (b) children ages 0–6 years who attend any publicly funded preschool or private child care supported through the project; (c) parents who

⁴⁸ These are also the climate vulnerable groups since they are more exposed to different types of natural hazards.



participate in the parenting program and/or whose children attend preschool; (d) GMA beneficiaries who benefit from the activation pilot; and (e) preschool teachers and caregivers and staff of the municipalities, CSWs, MLSP and its agencies, and BDE who participate in training and/or benefit from the investments in legislation, norms, and procedures that result in simplified administrative procedures or better-quality support to do their jobs.

D. Results Chain

27. The proposed project aims to build upon and advance the reforms initiated by the Government to enhance equitable access to social services and ECEC, as detailed in Figure 1. This comprehensive approach, which invests in both social services and ECEC coverage and quality, aims to enhance the inclusion of vulnerable populations, boost their human capital, help them reach their full potential, and improve their prospects in the labor market.

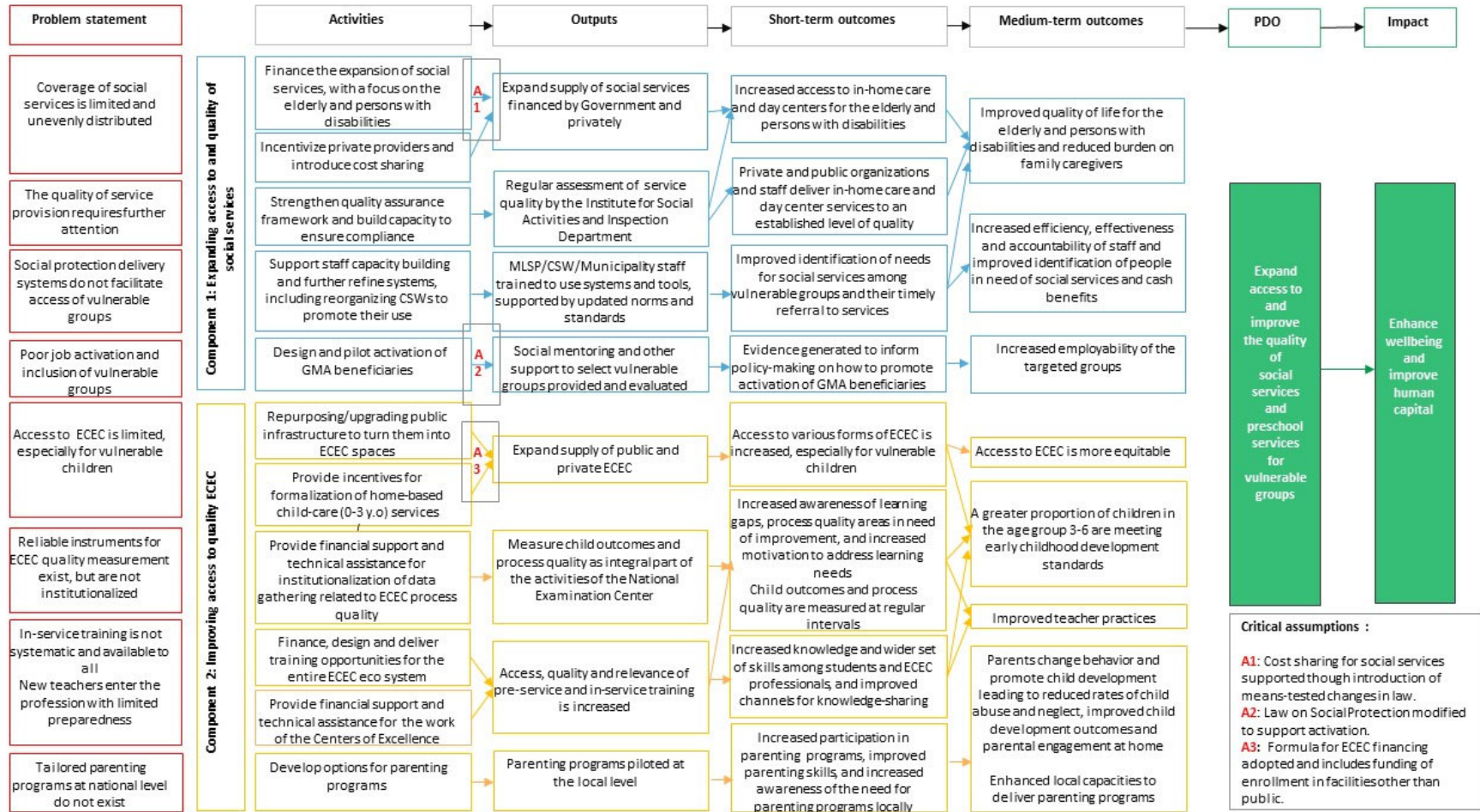
E. Rationale for Bank Involvement and Role of Partners

28. The World Bank has a well-established track record of supporting the Government of North Macedonia on social protection, which culminated in the far-reaching reform of 2019. More recently, this support through operations and technical assistance, as described in the sections above, has extended to strengthening the provision of quality ECEC, setting out the legislative framework for social services, and piloting the private delivery of social services. The proposed project builds on and further strengthens this engagement. The World Bank is well positioned to provide technical support to the Government on this continued reform of social services and ECEC, having accumulated rich international knowledge and experience in social assistance (including program design, benefits administration and registries, oversight and controls, and M&E), case management, social services, and ECEC.

The MLSP enjoys the support from several development partners, which, to date, has been well coordinated. Beyond the technical assistance and financial support from the World Bank, the EU, the United Nations Children’s Fund (UNICEF), and the United Nations Development Programme (UNDP) are the main partners in the area of social protection and ECEC. UNICEF is advancing support for children with disabilities, in addition to a broader concern for child protection, and is currently providing technical assistance for a national parenting strategy; early support from UNICEF to ECEC and case management has contributed to advances in this area, on which the proposed project builds. The UNDP and the German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ*) are providing services to marginal groups to promote their activation, with the GIZ currently piloting, at a very small scale, the use of social mentoring in the country that this project proposes to apply to GMA beneficiaries. The EU has supported deinstitutionalization and the activation of the ‘hard to employ’ persons model for professional development and career advancement of the preschool staff and is currently collaborating with the World Bank on the aging agenda.



Figure 1. Results Chain





F. Lessons Learned and Reflected in the Project Design

29. **Closing inequalities in early educational outcomes requires complementing investments in formal ECEC provision with investments in parents.** Consistent with global evidence, the MELQO results highlight the influence of parental education and engagement on children’s development but those in the lowest income quintile and in Roma settlements lag, drawing attention to the need to support parents directly. Children whose mothers had more than higher education attained an average score of 72 percent across developmental domains, while those whose mothers did not have formal education scored 42 percent. According to MICS data, 69 percent of children from the poorest wealth quintile engaged in early stimulation activities regularly with an adult household member compared with 99 percent in the richest quintile. This engagement drops to 42 percent in the Roma settlements. For example, 17 percent of children in the poorest quintile have at least 3 children’s books in their households, while only 2 percent of children in the poorest quintile in Roma settlements do. The findings of the MELQO indicated that more books at home were related to school readiness. There was a difference in achievement of 22 percent between those children with more books and those with none. Additionally, violence against children is a challenge with 79 percent of parents using harsh discipline and only 21 percent using only nonviolent methods. The proposed project builds on this evidence and introduces efforts to directly support parents to promote better outcomes for their children, including through the provision of books.

30. **The provision of social services can be outsourced to private providers, although significant guidance, support, and follow-up by the Government are required.** Under the first call for grants for social services, the PMU within the MLSP established a team that was constantly available to service providers by telephone to answer questions, explain requirements, and generally troubleshoot issues as they emerged. This support from the PMU to service providers proved to be critical as this new model of service provision was being established. Under the second call, the PMU continued this dedicated support while also expanding this to support service providers to learn from each other through, for example, an in-person workshop. These lessons point to the need to invest in the capacity of the MLSP to continue to support this reform of social services, particularly to achieve the aim of expanding coverage through new service providers. The design of the proposed project incorporates this lesson and also introduces other means of providing knowledge and support to service providers through the establishment of a network of providers.

31. **Repurposing schools and other municipal buildings can be a cost-effective means of expanding the supply of kindergartens, particularly in a context of internal and external migration.** While the supply of public kindergartens in North Macedonia is currently limited, given the rate with which the population is ageing in some areas, there is a risk that investments in new buildings may become redundant in the medium term. As a result, building on lessons learned in Serbia through the Inclusive Early Childhood Education and Care Project (P157117) and from the SSIP, the proposed project will support the MLSP to work with the MoES to repurpose classrooms that are no longer required within the public school network. This will ensure that existing public infrastructure continues to be used, even as the overall demand on schools, including for kindergartens, continues to fall.



III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

32. **The project will be implemented over a period of five years, with the MLSP as the key implementing agency.** The MLSP has a solid track record of implementing World Bank-financed projects, with the SSIP currently on track in terms of implementation progress and progress toward the PDO. Despite this experience, the capacities of the ministry in terms of financial management (FM), procurement, ESF, and M&E remain limited, and thus, the existing PMU will continue to be responsible for day-to-day project implementation, overall project coordination, M&E, ESF, citizen engagement, and fiduciary functions.

33. **The MLSP** will be accountable for Component 1 in close collaboration with the ISA, CSWs, and municipalities. The MLSP will coordinate with the Ministry of Health, as needed, given its mandate to assess the needs of elderly people and people with disabilities (through family doctors and/or medical commissions) for care and to refer beneficiaries to relevant medical services. The municipalities are responsible for carrying-out the social plans, identifying the priority social service, and selecting the providers to deliver the selected services, and monitoring the provision of social services. Private service providers will implement the social services, based on (i) the outcome of a grant award process, which is to be detailed in the GOM and (ii) an agreement between the service providers, municipalities and MLSP.

34. The MLSP will play a crucial role in coordinating activities aimed at repurposing unutilized classrooms in primary education and municipal buildings into ECEC playrooms under Component 2. This initiative will involve close collaboration between the MLSP and the MoES. Additionally, the MLSP will work alongside the BDE to facilitate activities focused on updating child development standards and promoting professional development and career advancement opportunities for teachers and with the State Examination Center for the institutionalization of the MELQO.

35. **The PMU.** It will report to the MLSP and will be responsible for day-to-day project implementation, overall project coordination, monitoring activities, fiduciary functions and ESF compliance, and reporting. The PMU will be housed in the MLSP and headed by a Project Director. Additional key PMU functions include a Project manager, two coordinators (one each for Component 1 and Component 2), a grant coordinator, an active labor market coordinator, a social protection delivery system coordinator, an ESF expert, fiduciary staff (a procurement specialist, a procurement assistant, a FM specialist, and a FM assistant), an IT manager, an IT officer, and an M&E specialist. Most of the existing SSIP PMU staff will assume the listed jobs. A Project Operations Manual (POM) will guide implementation.

B. Results Monitoring and Evaluation Arrangements

36. **The project will include a robust M&E framework to enable decision-makers to track the performance of the PDO-level and intermediate results indicators and adjust implementation as needed.** The M&E function under the project will be integrated into the regular monitoring duties of the MLSP and the PMU, which will be responsible for gathering and analyzing relevant data and preparing annual progress and quarterly financial reports to the World Bank. The Results Framework will guide the tracking of the PDO-level and intermediate results indicators, disaggregating data to allow analysis by gender and disability. These will be monitored using various sources and methodologies: (a) regular data



collection process, using existing and new administrative data systems (including CBMIS and SWIS data); (b) baseline and follow-up surveys (such as the MELQO); and (c) audit and evaluation reports, including two impact evaluations. In addition, the monitoring capacity of implementing partners at the local and central levels will be reinforced through project activities. Special attention will be paid to offering training and developing data analytics capacity at the MLSP, CSWs, and ISA, under Component 1, for the use of the SWIS and supporting regular reporting of service providers to the MLSP. Under Component 2, the project will also support the NEC to strengthen its institutional capacities in generating data on child development outcomes and the quality of preschool education. The project will also continue to strengthen the PMU and MLSP Policy Unit staff that are engaged in analytical and M&E activities to ensure that monitoring activities will be sustained beyond this project. Technical support will be provided by the World Bank to carry out two impact evaluations: an impact evaluation of the activation program implemented under Component 1 and an impact evaluation of the parenting programs under Component 2, which will be carried out during the project. The Grant Scheme under Component 1 and Component 2 will undergo operational and performance audits.

C. Sustainability

37. The Government is committed to strengthening the social protection system in North Macedonia, as testified by the comprehensive legal changes which took place in the last years that have institutionalized many of the reforms promoted through earlier World Bank-financed projects. The political commitment to further advancing the social protection sector is set out in the National Social Protection Development Programs, the most recent of which reflects the aims of this project. From an institutional perspective, the proposed project will advance changes to legislation, supported by the required policies and procedures. These investments will ensure that the supported changes remain in force when the project closes. These are complemented by continuous investments in the interoperability of databases and delivery systems of social protection. These coupled with investments in case management are expected to enhance the overall performance of social services even after the finalization of the program. The financial sustainability of social services has been assured by the MLSP funding the newly established services once the grants close; this is anticipated to continue although set within a broader framework to ensure the fiscal affordability of the system in the future by crowding in the private sector. For preschool, the Government has allocated sufficient funds to staff and to operate any new preschool constructed by the project, with a shift toward repurposing of existing buildings in the Second SSIP with an eye on the long-term sustainability of the sector. A new funding formula will further ensure the financial sustainability of preschools going forward, as will piloting innovative private-public partnerships to incentivize the provision of childcare.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis

38. **The proposed project is expected to support a range of human capital-related benefits for households in North Macedonia, in particular for the more vulnerable ones.** First, the demand for care services is large and will further grow because of the aging of the population in the country and changing social norms.⁴⁹ At the same time, working-age population growth is declining, driven by outmigration and

⁴⁹ For both childcare and elderly care, there has been a longstanding expectation that it should be provided by families.



aging, so there is a need to strengthen employment rates of working-age adults. Disenfranchised groups with structurally low employment such as ethnic minorities, women, and the youth are key targets. In this regard, the expansion of care services (specifically social services and ECEC) would address the increasing demand, supporting more equitable living standards.

39. **In the labor market, the project is expected to have a positive impact on LFP and employment through four different channels.** First, the provision of care services will reduce the burden on caregivers and free up time for them to engage in paid employment. Second, the project will directly create jobs in the care sector, which will be partly targeted at vulnerable groups. Third, the activation pilot of GMA beneficiaries will increase their employability and earnings potential. Finally, investments in improving access to quality ECEC will increase the lifelong earnings potential of children in the North Macedonian labor market and allow for increased labor market participation of women. For a more detailed discussion of these impacts, see Annex 3.

40. **There is robust evidence that unpaid care responsibilities reduce LFP and employment.** Nonpaid caregiving responsibilities at home are a main deterrent to engaging in the labor market and finding job opportunities. This is particularly true for women, given the prevailing social norms.⁵⁰ Previous international evidence shows that there is a negative relationship between unpaid care for elderly or children and LFP.⁵¹ Evidence in North Macedonia shows that having a dependent in the household reduces the likelihood of adults (ages 15–64 years) in the household being in the labor force by 6 percentage points and of being employed by 3.5 percentage points. The negative impact is strongly concentrated among women, lower-educated adults, and those in rural areas and is also more prevalent when the dependent is a younger child or a person with disabilities. Investing in care services—whether it is for children, the elderly, or people with disabilities—thus has a positive spillover by reducing the burden of informal home care so that working-age caregivers can seek employment opportunities.

41. **Additionally, the provision of care services is expected to have direct and indirect positive effects on the labor market that are estimated to be greater than the cost of the program.** By providing care services, the project will support households and reduce the burden of informal caregiving at home, both for elderly people and children. The indirect employment effects of the care service provision of Component 1 are calculated by multiplying the increased probability of being employed for each adult found in the North Macedonia data analysis by the average number of adults in households with dependents and by the average annual earnings in the economy. For every beneficiary of care services, the program would have benefits of US\$967 annually linked to higher employability of informal caregivers, or around US\$0.59 million in total given the target of 612 individuals receiving these services. Furthermore, the component is expected to directly create 421 jobs in the in-home care service industry (395 professional caretakers and 26 coordinators). The combination of both direct and indirect effects on employment adds up to US\$2.15 million. The per capita cost of care service provision is expected to amount to US\$2,914, or US\$1.78 million in total, which would lead to a net gain of close to half a million US dollars only in higher employment rates.

⁵⁰ Other factors behind the low female labor force participation in the country include: (a) fiscal disincentives in the form of higher tax wedge and social benefits; (b) lower statutory and effective retirement age for women; (c) family leave policies; (d) insufficient provision of flexible work arrangements; (e) dampening effects of remittances (IMF. 2017. Western Balkans: Increasing Women's Role in the Economy).

⁵¹ Colombo et al. 2018; Scheil-Adlung 2015. See Annex 3 for a full list of references.



42. **The impact of the provision of ECEC on the labor market most importantly from the higher life earnings of the children who benefit during these formative years.** Investing in education has positive monetary returns in the labor market by increasing lifelong earnings. A large body of evidence has shown sizable positive impacts of ECE interventions on skill development, employment, and earnings.⁵² These returns are substantially higher than for other investments in later stages of life.⁵³ The lower environment for learning at home is also a key channel through which more vulnerable children benefit more from ECEC investments.⁵⁴ However, the quality of ECEC is critical for observing longer-term benefits of these investments.⁵⁵ In the US, the National Forum on Early Childhood Policy and Programs found that high-quality early childhood programs yield a US\$4–9 return for each US\$1 invested, while the evaluation of the 2009 Perry Preschool program estimated a benefit to society of between US\$7 and US\$12 per US\$1 spent.⁵⁶ In the context of North Macedonia, the expected benefit of the provision of ECEC services of the Second SSIP is similarly large. Even if the quality of services is somewhat below best-performing programs in developed countries, the counterfactual of lower cognitive development at home in the absence of the program suggests that returns might not be smaller, at least in the order of magnitude of four times the cost of the program.

43. **Finally, the activation of GMA beneficiaries by linking them to firms and bridging the skill gap can reduce barriers and enhance their employability with positive payoffs in the labor market.** The economic literature has failed to find robust effectiveness of traditional ALMPs on labor market outcomes, in particular, in the longer term.⁵⁷ However, most traditional programs lack or have very limited matching, screening, and counseling components to better link workers and firms. In the city of Lausanne, an intervention providing individual support to social assistance beneficiaries led to a 9 percentage point increase in the likelihood of being employed two years after the program.⁵⁸ In North Macedonia, a recent program matching and mentoring GMA beneficiaries on top of wage subsidy increased the likelihood of being employed 3.5 years after the start of the intervention by 15 percentage points.⁵⁹ The proposed pilot on activation under Subcomponent 1.3 is expected to have similar results as it targets the same population group and includes similar mentoring features. The annual benefits of the program are projected to be equal to the increased probability of employment times the minimum wage in the economy, which leads to US\$637 per year of benefit.

44. **Gender equity.** There are persistently large gender gaps in LFP and employment in North Macedonia. While close to 80 percent of men are active in the labor market, the female LFP remains at around 55 percent, leading to a gender gap double that observed in the EU. Gaps in employment are similar. Barriers to female LFP are diverse and complex. However, a key constraint is the unbalanced division of roles and responsibilities at home that limits the ability of women to engage in the labor market. Nonpaid home care responsibilities—be it for the elderly, people with disabilities, or children—are the main reason behind labor market inactivity for almost half of women, while it is hardly ever a main barrier for men. As seen in Annex 4, having a child or person with a disability in the household reduces

⁵² Baumüller et al. 2011; Heckman et al. 2011; Goodman and Sianesi 2005; Melhuish et al. 2008.

⁵³ Cunha et al. 2006; Heckman 2008.

⁵⁴ Cascio 2015.

⁵⁵ OECD 2010.

⁵⁶ Heckman et al. 2009.

⁵⁷ McKenzie 2017.

⁵⁸ Bonoli 2018.

⁵⁹ Armand et al. 2020.



female LFP between 9 and 16 percentage points, while the negative impact is significantly milder for men (2–3 percentage points).

45. In response to this challenge, the proposed project will support the Government to expand access to affordable and high-quality care and ECE services. In particular, Component 2 will aim at increasing the supply of ECEC by creating 110 preschool classrooms and piloting new models of ECE provision such as nonstate childcare and early learning providers. On the demand side, the project will include financial incentives for parents to enroll children and different activities to increase the quality of ECEC such as improving standards, regularly monitoring, or investing in teachers' professional development, which can also boost demand. The project will also include community engagement and parenting programs to improve access to ECEC by poor families, which tend to show lower ECEC enrollment rates and are the ones with lower female LFP overall. By expanding ECEC, the proposed project aims to tackle part of the nonpaid domestic care burden experienced by women. Overall, the project is expected to accommodate the enrollment of 2,200 new children in ECEC. Progress toward closing this gender gap will be measured through the Results Framework, which targets an increase in the number of female-headed households enrolled in the GMA who enroll their children in preschool and register as a jobseeker.

46. **Climate change context and response.** Climate change is expected to increase the frequency and severity of natural disasters in North Macedonia. On top of an increase in the average temperatures of 1.0–3.3°C by 2050, the weather will become more extreme with higher chances of, heat waves, droughts and floods.⁶⁰ Forests, which cover 40 percent of the country's land, are at increased risk of wildfires due to higher temperatures and droughts. These natural hazards can particularly affect the agricultural sector, with the subsequent risks of food scarcity and price spikes. The poor in North Macedonia, as in other countries, are more negatively affected by climate hazards given their worse housing conditions, higher share of spending on food (thus being more sensitive to food prices), and their lower ability to cope with such shocks, for example, by using savings in periods of lower income or by relocating or rebuilding in response to a flood. Such natural disasters can translate into lower access among the poorest population to clean water and nutritional food and consumption cuts, as well as other coping strategies such as pulling children out of school, which can limit educational progress and have long-term consequences for human capital in the country. Elderly people⁶¹ and people with disabilities are particularly vulnerable to heat waves. Additionally, in terms of mitigation, education and health facilities account for a significant share of public buildings and open opportunities for greening⁶².

47. **The operation is aligned with the goals of the Paris Agreement on both mitigation and adaptation. Assessment and reduction of mitigation risks:** Activities under component 1 are universally aligned. Civil works under component 2.1 will focus on modifying or improving existing buildings in a way that contributes to achieving North Macedonia's NDC by (a) implementing energy efficiency measures in the design of infrastructure works and the equipment to be purchased (for example, replacing old windows with energy-efficient glazing); (b) installing thermal insulation in exterior walls and roofs and

⁶⁰ Please see World Bank. 2023. *Climate Change Knowledge Portal: North Macedonia*.

<https://climateknowledgeportal.worldbank.org/country/north-macedonia#:~:text=The%20Republic%20of%20North%20Macedonia%20is%20vulnerable%20to%20the%20impacts,events%2C%20such%20as%20heat%20waves>.

⁶¹ According to recent IPCC reports, temperatures will rise in all European areas at a rate exceeding global mean temperature changes. The association between heat and health outcomes in Europe is robust, with aging being a key determinant for increased vulnerability. See: <https://www.sciencedirect.com/science/article/pii/S0013935122010362>

⁶² See forthcoming Climate Change and Development Report for North Macedonia.



solar panels, and so on; (c) installing automatic controls and efficient lighting systems. **Assessment and reduction of adaptation risks:** Activities under component 1 are unlikely to be affected by climate hazards. Reconstruction activities under component 2 will include interventions such as installing thermal insulation to walls and roof to adapt to extreme weather conditions. Buildings selected under component 2 are not located in areas prone to climatic hazards such as flooding.

48. The project design aims to promote the adaptation and resilience of the poor and contribute to mitigation through the adoption of energy-efficient building standards. Component 1.1 will expand the provision of social services in a manner that enables a particularly vulnerable population (older people and people with disabilities) to adapt to climate change. This will be done by (i) in the selection criteria for municipalities and service providers, integrating a consideration for areas that are vulnerable to climate risks; (ii) helping mitigate the threat of extreme temperatures and heatwaves for this population by ensuring that care providers are aware of the risks and required protection measures, and strengthening required linkages with the health system; and (iii) requiring service providers to have contingency plans in place to ensure the continued delivery of services through extreme events, such as floods, and monitor the national alert system for extreme events, including extreme heat. This will contribute towards the country's Heat-Health Action Plan, which recognizes the need to respond to the health risks arising from climate change in North Macedonia, with a particular focus on vulnerable groups, including the elderly. Component 1.3 aims to strengthen the overall ability of the social protection system to respond to climate-induced shocks, in particular through the use of the SWIS and the adoption of an online application system for cash benefits, to be used when a climate emergency is declared. For example, when households lose income and assets from flooding, the social protection system can provide an emergency cash transfer response.⁶³ These investments will enable the social protection system of cash benefits and services to support poor and vulnerable households to adapt to the impacts of climate change, whether localized weather-related shocks (that is, floods or droughts) or broader shocks to the economy through higher energy prices or food inflation. Component 2.1 will repurpose ECEC spaces in an environmentally friendly manner, considering the EU Green Deal and the recent World Bank Guidance Note on How to Maximize Climate Co-Benefits in Education Operations. Infrastructural interventions will support green refurbishment in a way that improves energy efficiency, reduces emissions, and protects lives using sustainable and non-toxic building materials. The energy efficiency of buildings will be achieved by maximizing natural lighting and insulating to minimize energy losses, counterbalancing potential increases in demand of energy due to higher temperatures, and strengthening the capacity to cope with climate shocks. Additionally, climate resilience will be enhanced by (i) detailed site assessments to avoid selecting buildings that are in earthquake-, landslide-, or flood prone areas and (ii) ensuring that preschools have contingency plans in place to provide adequate protection to children and staff during extreme events, including heatwaves. Through Component 2.2, green concepts will be incorporated into teacher training and the curriculum to help children develop an understanding of environmental issues and the importance of sustainable practices. Interventions in the outdoor learning spaces will allow children to connect with nature and develop an appreciation for the environment. These investments are in addition to strengthening early childhood development outcomes, which will help future workers train and retrain in response to the changing demand for workers arising from the Just Transition and climate change. Furthermore, activities under Subcomponent 2.3 on improving parenting practices and community engagement have a strong focus on expanding access to quality ECE among

⁶³ See Fitzgibbon C, Coll-Black S, Pop L. Towards Adaptive Social Protection in Europe and Central Asia: A Synthesis Report. Washington DC: World Bank, 2023.



marginalized groups, which would partly compensate for their higher disruption risks of educational investments due to climate shocks.

49. **Disability and inclusion.** The MLSP is advancing reforms that aim to promote the access of people with disabilities to cash benefits and social services. This includes a continued commitment to deinstitutionalization and the introduction of a system of assessment according to the International Classification of Functioning for children and youth (supported by UNICEF) and for adults (supported by the World Bank through the Social Insurance Administration Project [SIAP]). This project aims to complement these efforts by (a) financing the expansion of social services (in-home care and day centers) for people with disabilities, (b) promoting efforts by the CSWs to ensure their outreach efforts reach people with disabilities so that they are aware of their rights, and (c) constructing kindergarten classrooms (through repurposing) that are accessible by building ramps and, if possible, modified toilet facilities to promote the access of children with disabilities. These investments will help ensure that the much-needed social services are available to people with disabilities, as well as support efforts to integrate children with disabilities into the education system. In this way, the project directly responds to several issues faced by persons with disabilities: (a) the range of social services available for this population is significantly limited; (b) access to information regarding social protection rights and services is largely absent for people with disabilities; and (c) the educational infrastructure is not designed to accommodate people with disabilities, severely limiting their access, mobility, and independence.⁶⁴ This project design is informed by feedback from the beneficiaries through the SSIP, which includes people with disabilities.

B. Fiduciary

(i) Financial Management

50. The FM arrangements for the project, as detailed in the financial section of the POM of the ongoing SSIP, are acceptable to the World Bank with satisfactory performance.⁶⁵

51. **Staffing.** The PMU of the MLSP is adequately staffed to carry out all core functions, including FM. The staff has relevant experience in implementing World Bank-financed projects. The finance manager in the PMU has relevant experience in accounting and is well familiar with World Bank procedures. The hiring of additional FM staff could be considered for additional workload as part of the implementation of Subcomponent 2.1.

52. **Planning and budgeting.** The PMU has adequate capacity for planning and budgeting in terms of human resources, availability of quality information, and an appropriate IT system. The staff have experience in budget preparation. Variances between actual versus budgeted figures are monitored regularly and appropriately analyzed and followed up. The PMU will prepare a single budget for all project activities for all sources of funding.

53. **Financial reporting and monitoring.** Locally developed software (Edusoft) that is used for project accounting and reporting for the ongoing SSIP will be customized to fit the requirements of the new

⁶⁴ UNICEF. 2022. *Situational Analysis of the Rights of Persons with Disabilities in the Republic of North Macedonia – 2021*.

⁶⁵ The Bank team has assessed the current FM arrangements of the PMU during Appraisal in October 2023, to which the full-scale FM supervision of the original project preceded in April 2023.



project not later than two months from effectiveness. The software has a solid performance history of financial transparency and reliability, and it fulfills all the reporting requirements under the project, including generating unaudited interim financial reports (IFRs) and project financial reports. Throughout project implementation, a full set of IFRs will be submitted to the World Bank each quarter within 45 days after the end of the quarter. The reports will include consolidated financial information on all project funds: detailed information on amounts transferred to the transit Treasury account, amounts paid to beneficiaries through the account, and any unused funds that were transferred from the Designated Account (DA). Accounting for the project will be on a cash basis, with additional information provided for commitments on signed contracts.

54. **Internal control.** The project will use the internal controls and flow of funds arrangements that were designed and instituted for the SSIP. An adequate system of internal controls and procedures was instituted as part of the SSIP. This system is assessed as reliable and will continue to be applied to this new project. The current management control framework is already described in the FM section of the POM for the SSIP. Key internal controls to be applied for the project include (a) appropriate authorizations and approvals; (b) segregation of duties (with no single person having the responsibility for all phases of a transaction); (c) regular reconciliations between records and actual balances, as well as with third parties; and (d) complete original documentation to support project transactions. These measures are essential in ensuring proper control and monitoring of the flow of funds to beneficiaries or intermediaries and final beneficiaries and for the project’s intended purposes. Appropriate verifications and documented evidence will be required to provide reasonable assurance in this respect. The controls and procedures—including ex-ante and ex-post controls, physical inspection, and so on—will be detailed in the POM.

55. **External audit.** The PMU will apply the same audit requirements as for the existing World Bank-financed projects. The MLSP, like any other Government entity, is audited by the State Audit Office (SAO) of North Macedonia. However, as the SAO’s capacity for conducting efficient financial audits is still quite limited, the project’s financial statements will be audited by a private sector audit company and in accordance with terms of reference that are both acceptable to the World Bank. The audit report will be submitted to the World Bank no later than six months after the end of the audited period. The cost of the annual project audits will be covered by the project funds.

56. **Disbursements.** The DA for the project will be opened in the National Bank of the Republic of North Macedonia and will be managed by the PMU with the authorized signatories, which include a ministerial (MLSP) representative. The funds will flow from the DA, through the transit Treasury account opened for the project within the Treasury Single Account, to final beneficiaries and contractors.

57. **Risk analysis.** The inherent FM risk is assessed as Substantial, but with adequate mitigation measures in place, the residual risk is **Moderate**.

(ii) Procurement

58. The World Bank’s procurement framework will be the default procurement mechanism for the project. The project will be implemented by the MLSP through a PMU. Procurement of contracts for goods, works, and non-consulting and consulting services financed from the project will be carried out in accordance with the World Bank Procurement Regulations for IPF⁶⁶ Borrowers: Procurement in

⁶⁶ IPF = Investment Project Financing.



Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, (Procurement Regulations) Fifth Edition of September 2023.⁶⁷ Standard Procurement Documents (SPDs) will be used as required by the Procurement Regulations. The project will use the World Bank’s Systematic Tracking of Exchanges in Procurement (STEP) platform. STEP will be used by the PMU initially to create and later to revise the Procurement Plan for the project, monitor performance, manage procurement procedures, and store related documentation for all steps for procurement under the project.

59. The Project Procurement Strategy for Development (PPSD) was prepared by the PMU and agreed with the Bank during project Appraisal. It is the basis for the procurement arrangements under the project and provides adequate justification for the selection methods in the Procurement Plan. It provides information on the implementing agency’s capacity, the procurement-specific risks, and the proposed mitigation measures. The proposed procurement and review thresholds applicable to the project are aligned with the World Bank’s most recent thresholds for procurement approaches and methods, which are based on identified procurement risks, and the capacity of the implementing agency for procurement. The procurement and review thresholds relevant to the project are indicated in the PPSD. The loan will finance contracts for goods, works, non-consulting and consulting services and it does not foresee financing of large, complex, and high-risk contracts. It will also finance grants to various beneficiaries and given the demand driven nature of the contracts to be financed from those grants they will be identified during project implementation. A Grant Operations Manual (GOM) will define, among others, the procurement arrangements for the grants. The Procurement Plan for the first 18 months of the project has been prepared and agreed during project Appraisal.

60. The capacity for procurement of the PMU at the MLSP is assessed to be at a satisfactory level.⁶⁸ The PMU has a very good track record and has shown exemplary performance in procurement under World Bank-financed projects. Both procurement specialists are very experienced and knowledgeable, with a sound understanding of the principles of the World Bank procurement policies and procedures. A POM will define the overall project implementation arrangements and specific roles and responsibilities of the PMU and the relevant beneficiaries involved in the project. In addition, a GOM will elaborate, among others, on the procurement arrangements for the grants.

61. The procurement risk analysis and the proposed mitigation measures are outlined in the PPSD. Based on the assessment of the capacity of the implementing agency, the risk for procurement is rated as Moderate. Procurement implementation support missions will be carried out once a year or as needed.

C. Legal Operational Policies

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

⁶⁷ <https://thedocs.worldbank.org/en/doc/6c0602876d68949e80820507d90a14ed-0290012023/original/Procurement-Regulations-September-2023.pdf>.

⁶⁸ The World Bank carried out an assessment of the procurement capacity of the MLSP in September 2023.



D. Environmental and Social

62. **The project environmental risk is Low and social risk is Moderate.** The anticipated environmental risks are associated with the implementation of minor physical works on repurposing of spaces of schools and/or existing municipal buildings to kindergarten facilities/ECEC playrooms and minor refurbishment of facilities for social providers. The impacts will be due to the generation of an insignificant amount of construction waste, noise, and dust and might also include temporary nuisances to school students and teachers during the implementation of physical works. These impacts and risks can be easily avoided and/or minimized through the application of good construction practices and adequate mitigation measures to be detailed in site-specific Environmental and Social Management Plan (ESMP) checklists. The POM will incorporate the ESMP checklist template and provisions of the World Bank’s Environment, Health, and Social Guidelines as relevant. Considering that the project will finance civil works related to the repurposing of existing spaces, ESS5⁶⁹ would not be considered relevant. The potential locations will be on the existing premises’ footprints. Civil works activities are expected to have labor risks mostly concerning occupational health and safety issues. The labor issues are expected to be mitigated through the Labor Management Procedures (LMP). Social risks are associated with insufficient inclusion and access of vulnerable groups to social services. The following would be the risks related to Component 1: people living in remote rural areas might lack the means (both informational and financial) to get access to services; inadequate or discriminatory provision of services might potentially lead to negative perceptions about the project and decreased trust in local governments and CSWs; and lack of governmental capacities to organize meaningful citizen engagement and information dissemination and effectively implement grievance mechanisms and respond to received complaints. The inclusion risk for Component 1 is relevant but easily avoidable, that is, by intensive engagement and engaging in grassroots organizations in the areas where vulnerable communities live and empowering the vulnerable by direct reach and providing necessary information. This has proven successful in the preceding SSIP. While the activities in the project are expected to significantly benefit target communities, the major social risk related to Component 2 is the possibility of vulnerable and disadvantaged groups such as ethnic Roma being excluded from the project benefits. This is because of a legacy of neglect of local governments in local infrastructure, including social infrastructure investment in the Roma neighborhoods. This would be an intrinsic social risk for Component 2. The ESS that are considered relevant are ESS1, ESS2, ESS4, and ESS10. The counterparts have prepared the Stakeholder Engagement Plan, LMP, and template of the ESMP checklist, which were uploaded on the MLSP’s website on October 13, 2023. The project organized consultations with the general public as well as specialized NGOs supporting people with disabilities.

63. **The project will maintain the current arrangements for the grievance redress mechanism (GRM).** The GRM allows all ECEC stakeholders to submit questions, comments, suggestions, and/or complaints or provide any form of feedback on all project-funded activities (not just safeguards). The systems and requirements (including staffing) for the grievance redress chain of action—from uptake, sorting and processing, and acknowledgement and follow-up to verification and action, M&E, and finally feedback—will be specified in the POM. To encourage proactive beneficiary engagement, the GRM will be communicated at project kick-off meetings and in all relevant ECEC service facilities.

64. Good practice of citizen engagement activities established with the SSIP will be kept and repeated with this project. Social audit meetings will be organized for all direct beneficiaries (that is, ECEC teachers, parents, social workers, and so on) to achieve transparency, disclosure, and beneficiary oversight for

⁶⁹ ESS = Environmental and Social Standards.



supported subprojects. These meetings will ensure that (a) beneficiaries are aware of the activities strengthening the institutions of the social services system (including the grant scheme or social contracting), (b) information is disseminated, and (c) beneficiary feedback is generated on subprojects that will be supported. The PMU will be responsible for invitations for the social audit meetings, producing information, and responding back the results of the meetings. Under Component 2, the project will engage ECEC teachers and parents in two stages: initial outreach and sensitization efforts on project goals, activities, and the role of ECEC teachers and parents and identification of their needs regarding ECEC services and prioritization of planned investments during interviews and focus group discussions. The collected inputs will inform and prioritize current planning and allocation of ECEC funding to municipalities and kindergartens. An annual beneficiary feedback mechanism (such as a beneficiary scorecard) will measure teachers' and parents' perception of the quality of ECEC services and collect their feedback on the improvement of ECEC services. This information will support the design of future reforms. The project will include a number of results that measure beneficiary feedback and the citizen engagement process in the Results Framework. Budgets are allocated for all citizen engagement activities.

V. GRIEVANCE REDRESS SERVICES

65. **Grievance redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank's Accountability Mechanism, visit <https://accountability.worldbank.org>.

VI. KEY RISKS

66. **The proposed project's overall risk is assessed as Moderate.** This overall rating reflects the moderate residual risks for the political and governance, macroeconomic, technical design, and institutional capacity and the low risk for sector strategies and policies. This is because North Macedonia has well-established institutions, including laws and policies, to support the implementation of the proposed project, which builds on the success of the SSIP. This includes a high functioning PMU within the MLSP. While the residual fiduciary risks are rated Moderate, their inherent risks are Substantial in the current setting. The inherent risks arise from the weak capacity within the public sector organizations, including the MLSP and SAO (see Annex 1). These risks are mitigated through the maintenance of the existing PMU. Maintaining this PMU (see paragraph 34) is also central to mitigating risks related to environment and social issues, as discussed above.



VII. RESULTS FRAMEWORK AND MONITORING

PDO Indicators by PDO Outcomes

Baseline	Period 1	Period 2	Period 3	Period 4	Period 5	Closing Period
Expanding access to and quality of social services.						
Number of beneficiaries receiving social services from licensed provider (Number)						
Sep/2023	Sep/2024	Sep/2025	Sep/2026	Sep/2027	Sep/2028	May/2029
2600	3000	3000	4000	4500	5000	6000
➤ Number of female beneficiaries out of all beneficiaries receiving social service from licensed providers (Number)						
Sep/2023						May/2029
1490						3000
Improving access to quality ECEC						
National preschool enrollment rates for 3- to 6-year-old children (Percentage)						
Sep/2023						May/2029
44						50
➤ Preschool enrollment rates for children 3 to 6 year old who belong to the families recipients of the GMA (Percentage)						
Sep/2023						May/2029
8						20
Improved quality in the public preschool institutions (Percentage)						
Sep/2023						May/2029
2,71						3

Intermediate Indicators by Components

Baseline	Closing Period
Component 1: Expanding access to quality social services	
Centers for Social Work using case management (Percentage)	
May/2023	May/2029
0	75
Activation program for GMA beneficiaries piloted (Yes/No)	



May/2023	May/2029
no	yes
Functional Review carried out (Yes/No)	
May/2023	May/2029
no	yes
System for targeting publicly-financed social services established (Yes/No)	
May/2023	May/2029
no	yes
Number of municipalities offering LTC services (Number)	
May/2023	May/2029
35	68
System for measuring quality of social services established (Text)	
May/2023	May/2029
Not established	Operational
Female-headed GMA beneficiaries with their children in preschool and register as a jobseeker (Number)	
May/2023	May/2029
127	300
Component 2: Improving access to quality ECEC	
Additional classrooms rehabilitated or re-purposed at the preschool level resulting from project interventions (Number)	
May/2023	May/2029
0	110
➤Disability-accessible pre-school classrooms (Number)	
May/2023	May/2029
0	110
Teachers recruited or trained (Number) ^{CRI}	
May/2023	May/2029
0	1500
➤Teachers recruited or trained - Female (RMS requirement) (Number) ^{CRI}	
0	1400
➤Number of teachers trained (Number) ^{CRI}	
May/2023	May/2029
0	1450
Parenting program piloted (Yes/No)	
May/2023	May/2029



no	yes
Centers for excellence operational (Yes/No)	
May/2023	May/2029
no	yes
Number of caregivers trained (Number)	
May/2023	May/2029
0	1000
Number of Home-Based Child Care Providers licensed and registered (Number)	
May/2023	May/2029
0	50
Component 3: Project management, monitoring, and communication	
Impact evaluation of the activation program implemented (Yes/No)	
May/2023	May/2029
no	yes
Share of direct beneficiaries satisfied with design of the parenting program (Percentage)	
May/2023	May/2029
0	50
Share of beneficiaries satisfied with responsiveness of the grievance redress mechanism (Percentage)	
May/2023	May/2029
0	85
Outreach strategy to vulnerable populations implemented (Text)	
May/2023	May/2029
None	Fully implemented



Monitoring and Evaluation Plan: PDO Indicators by PDO Outcomes

Improving access to quality ECEC	
National preschool enrollment rates for 3- to 6-year-old children (Percentage)	
Description	This indicator will be measured by the percentage of children ages 3–6 years who attend preschool institutions, both public and private.
Frequency	Annually
Data source	MLSP administrative data
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Preschool enrollment rates for children 3 to 6 year old who belong to the families recipients of the GMA (Percentage)	
Description	
Frequency	Annually
Data source	MLSP administrative data
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Improved quality in the public preschool institutions (Percentage)	
Description	This indicator measures the average improvement in the process quality of preschool institutions, evaluated using the MELQO assessment tool.
Frequency	Twice during project
Data source	MELQO reports
Methodology for Data Collection	Survey
Responsibility for Data Collection	PMU
Expanding access to and quality of social services.	
Number of beneficiaries receiving social services from licensed provider (Number)	
Description	This indicator will measure the number of beneficiaries receiving noninstitutional/nonresidential social services from licensed providers, financed by government and private sources. It measures an increase in access through the number of beneficiaries and an improvement in quality by counting only services provided by licensed providers, as the licensing process assures structural quality.
Frequency	Six monthly
Data source	MLSP administrative data
Methodology for Data Collection	
Responsibility for Data Collection	MLSP administrative data
Number of female beneficiaries out of all beneficiaries receiving social service from licensed providers from licensed providers (Number)	
Description	
Frequency	Six monthly
Data source	MLSP administrative data
Methodology for Data Collection	
Responsibility for Data Collection	PMU



Monitoring and Evaluation Plan: Intermediate Results Indicators by Components

Component 1: Expanding access to quality social services	
Centers for Social Work using case management (Percentage)	
Description	This indicator measures the progressive roll-out of integrated case management across Centers for Social Work, by reporting on the percentage of CSW that use case management from among all CSWs.
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Activation program for GMA beneficiaries piloted (Yes/No)	
Description	
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Functional Review carried out (Yes/No)	
Description	
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
System for targeting publicly-financed social services established (Yes/No)	
Description	This indicator measures progress towards the introduction and use of a system for allocating publicly-financed social services to individuals based on need and poverty status (i.e. means test).
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Number of municipalities offering LTC services (Number)	
Description	This indicator assesses the geographic coverage of in-home care services.
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
System for measuring quality of social services established (Text)	
Description	This indicator measures the introduction of a system to measure the quality of in-home care services that are financed by the project.
Frequency	Six monthly
Data source	Project progress reports
Methodology for	



Data Collection	
Responsibility for Data Collection	PMU
Female-headed GMA beneficiaries with their children in preschool and are register as a jobseeker (Number)	
Description	This indicator seeks to assess the contribution of the project to promoting female labor force participation. It measures this as follows: among GMA, beneficiaries who are female-headed and (i) who enroll their children of 3-6 years in kindergartens and (ii) register as a jobseeker.
Frequency	Six monthly
Data source	MLSP administrative data
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Component 2: Improving access to quality ECEC	
Additional classrooms rehabilitated or re-purposed at the preschool level resulting from project interventions (Number)	
Description	This indicator will be measured by the number of new preschool classrooms resulting from repurposing/ renovation of the primary school classrooms and/or municipality building available spaces, financed by the project.
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Disability-accessible pre-school classrooms (Number)	
Description	
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Teachers recruited or trained (Number) ^{CR1}	
Description	
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Teachers recruited or trained - Female (RMS requirement) (Number) ^{CR1}	
Description	
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Number of teachers trained (Number) ^{CR1}	
Description	
Frequency	Six monthly



Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Parenting program piloted (Yes/No)	
Description	This indicator measures the development and piloting of at least one parenting program that aims to improve the parenting practices of vulnerable families.
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Centers for excellence operational (Yes/No)	
Description	This indicator measures the establishment of at least 4 kindergartens as centers of excellence in cities where there are teaching faculties
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Number of caregivers trained (Number)	
Description	This indicator measures the number of the child caregivers who participated in at least 2 training modules
Frequency	Six monthly
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Number of Home-Based Child Care Providers licensed and registered (Number)	
Description	The indicator measures the number of caregivers offering childcare services for children aged 0-3 years in a home-based setting who have gone through a formal registration and licensing process as required by the MLSP regulations
Frequency	Six monthly
Data source	MLSP
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Component 3: Project management, monitoring, and communication	
Impact evaluation of the activation program implemented (Yes/No)	
Description	Impact evaluation of the activation program designed, conducted, and findings reported.
Frequency	Annually
Data source	Progress reports
Methodology for Data Collection	Impact evaluation
Responsibility for Data Collection	PMU



Share of direct beneficiaries satisfied with design of the parenting program (Percentage)	
Description	This indicator measures the extent to which individuals or families who are consulted during the design of the parenting program report that their feedback is reflected in the final design of the program.
Frequency	Every six months
Data source	Project progress reports
Methodology for Data Collection	Survey
Responsibility for Data Collection	PMU
Share of beneficiaries satisfied with responsiveness of the grievance redress mechanism (Percentage)	
Description	The indicator will measure the effectiveness of the grievance redress system put in place by MLSP to address and resolve grievances or complaints raised by beneficiaries.
Frequency	Every six months
Data source	GRM data
Methodology for Data Collection	
Responsibility for Data Collection	PMU
Outreach strategy to vulnerable populations implemented (Text)	
Description	This indicator measures the implementation of outreach to vulnerable populations and potential beneficiaries of the services and benefits to which they are entitled, including those funded by the Project.
Frequency	Every six months
Data source	Project progress reports
Methodology for Data Collection	
Responsibility for Data Collection	PMU



ANNEX 1: Implementation Arrangements and Support Plan

Detailed Project Description

1. **The proposed project would continue to strengthen and expand the reforms initiated by the Government to promote access to quality social services and ECEC.** The proposed project aims to build directly on the achievements of the SSIP to continue to address gaps in coverage, further improve the quality of services, and strengthen the associated delivery systems to promote the access of vulnerable groups to these services. The project has three components.

2. **Component 1: Expanding access to quality social services.** Drawing on the experience from the SSIP, this component aims to continue to expand the coverage of quality social services while ensuring that services reach the most vulnerable through investments in the social protection delivery system. While the component will support the MLSP to strengthen the legislation governing all social services, investments in expanding the coverage and quality of services would focus on in-home care and, to a lesser extent, day centers for older persons and persons with disability. The activities to be supported through this component are structured under three subcomponents.

3. **Subcomponent 1.1: Expanding the coverage of social services.** The objective of this subcomponent is to expand the coverage of social services funded by the MLSP and, in part, through cost-sharing mechanisms. This subcomponent will strengthen the policy development and implementation of social services and provide grants for social service subprojects (the grants) that will fund the provision of in-home care and day centers for older persons and persons with disability.

4. **Strengthening the policy framework for social services financing.**⁷⁰ Subcomponent 1.1 will finance technical assistance that will inform policy development and implementation related to updating the pricing for publicly funded social services and determining who will be eligible to receive publicly financed services (that is, by care need and/or income/poverty status), the 'basket' or breadth of services covered (that is, in-kind or cash benefit, hours of services, and so on), and the extent to which cost sharing will be introduced for a specific service. The aim is to enable the expansion of social services, particularly in-home care for the elderly, in a manner that is fiscally affordable and promotes equity and inclusion. To date, eligibility for publicly financed in-home care is based on an assessment of need, which is carried out by family doctors and CSWs for elderly people and through specialized doctors and dedicated medical commissions for people with disabilities.⁷¹ For in-home care for the elderly, while this assessment provides the basis for determining the extent and types of needs of an elderly person, and thus the number of hours of service to be provided, it does not provide a basis for targeting services when demand outstrips supply nor determining whether beneficiaries could share cost, such as through paying for additional hours of care. Given the growing demand for these services, the MLSP aims to identify options for targeting in-home care to people who need these services the most to promote both equity in access and fiscal sustainability. This subcomponent will support the MLSP to identify options for targeting in-home care through means testing (in addition to the current assessment of needs) and/or other eligibility criteria and then to formulate the tools and procedures to roll out this new system, including preparation of legislations and forms, training of staff, and mechanisms to enable adjustments over time to reflect trends

⁷⁰ The design and implementation of this subcomponent will benefit from analysis being carried-out by the World Bank under Promoting Jobs and the Care Economy in the Western Balkans (P180684).

⁷¹ The process to assess disability in adults is currently being reformed with the support of the SIAP.



in care costs. In parallel, this subcomponent will identify ways to support the provision of services provided by private providers on a for-profit basis, in coordination with the public sector. These would include promoting the expansion of services offered by established providers and the entry of new providers through, for example, (a) modifications to the legislation for in-home care to address barriers to entry or expansion; (b) legislation related to the registration, establishment, and licensing of private enterprises; and (c) possibly other incentives, such as through the use of the tax code.

5. **Grants for social services.** Building on the experience of the SSIP, under Subcomponent 1.1, the MLSP will award grants to fund the provision of in-home care and day centers for the elderly and persons with disability. Following the model established under the SSIP, municipalities along with service providers, based on their local and regional social plans, will apply (if eligible) to a public call announced by the MLSP. The public call will detail the eligibility criteria for municipalities and providers to apply, as determined by the MLSP, to ensure the equitable access of these services across the populations. These eligibility criteria may include the current coverage of these services, whether the municipality or service provider has previously received a grant from the SSIP to establish social services, and the poverty rate (as a proxy for ability to pay within its population), among others. In response to the public call, a grant application will be submitted by one or more municipalities, together with the service provider (for-profit or not-for-profit provider) that will deliver the service to beneficiaries. The GAC will evaluate the proposals and select those that will be financed by the project. It will be guided by criteria detailed in the GOM. Technical assistance will be provided, as needed and particularly directed to poor municipalities, to support the preparation (or updating) of social plans and the preparation of grant proposals by municipalities. Efforts will be made to further diversify service providers to include local NGOs and for-profit providers. A network of service providers will be established and strengthened to enable them to share lessons and experience. Once awarded, the grants will be allocated to the service provider to finance the establishment of services, including securing any required licenses, and the delivery of services for a specified period. The grant will be governed by an agreement signed between the service provider, municipality and MLSP. Once the services are established, beneficiaries will be referred to the service provider by the CSWs based on the eligibility criteria of that service, including the new targeting criteria to be introduced by the MLSP for in-home care for the elderly (see paragraph 4). The quality of services will be monitored by the MLSP, ISA, CSWs, and municipalities, as required (see paragraph 7).

6. **Subcomponent 1.2: Improving the quality of social services.** The objective of this subcomponent is to improve the quality of social services provided by for-profit and not-for-profit providers. Since the adoption of the 2019 Social Protection Law, the MLSP, with the support of the SSIP, has put in place the bylaws that govern the provision of social services. These include the rulebook for in-home care for the elderly, day centers, counseling, and innovative services,⁷² among others. In parallel, the SSIP also supported the MLSP to establish the licensing procedures for organizations and staff to provide social services.⁷³ Together, these bylaws and licensing procedures establish the minimum standards for all social services, irrespective of the source of funding; however, as discussed under the Sectoral and Institutional Context section, these efforts are undermined by a lack of enforcement and the current focus on structural quality only.

⁷² Recognizing that not all needs for social services can be anticipated, the 2019 law provides for *innovative* social services, which is a category of services that allows municipalities and service providers to propose services that were not listed in the law.

⁷³ Licenses are provided by the Licensing Commission under the MLSP for the organization for professional workers under ISA.



7. The subcomponent will therefore support the MLSP to strengthen the framework for assuring the quality of social services. This will be carried out by (a) revising the legislation that governs the licensing of social service providers and their staff to incorporate lessons learned through the SSIP and this project, including incentives for for-profit providers to secure licenses; (b) introducing more standardized data collection and reporting tools and procedures to promote the regular submission of standardized data by all social service providers to the MLSP; (c) strengthening the capacity of the Inspection Department for Social Protection and Child Protection of the MLSP to more effectively assure compliance with the 2019 Social Protection Law, including through the adoption of a risk-based approach; and (d) improving the ability of the ISA to oversee the process quality for selected social services by updating the standards and procedures of professional staff in CSWs and other service providers, as per the 2019 Social Protection Law, and overseeing quality of the application of standards for social services, specifically in-home care and day centers.

8. To help ensure that people receive the services that they need, this subcomponent will also support a review of the existing needs assessment tools to support the timely referral of elderly people to health and/or social services as per their specific needs, to ensure that, for example, in-home care is not being used to substitute for nursing care (or nursing care for in-home care). This will be supported by training to medical doctors and CSW staff, as needed, as well as enabling the sharing of data between the SWIS and the management information system in the Ministry of Health.

9. **Subcomponent 1.3: Enhancing access for the vulnerable through investments in the social protection system.** The aim of this subcomponent is to increase demand for and referrals to social services among vulnerable populations through improved identification of people in need of support through the social protection system. Within the social protection system in North Macedonia, all benefits and services are accessed through the CSWs (and family doctors in the case of select care benefits) where social workers provide information on benefits and services; assess eligibility; issue decisions, including when people exit programs; and accept and process complaints. These steps in the delivery chain are supported by an information system through which eligibility criteria are assessed and information on receipt of benefits and services is stored. This component will further strengthen key aspects of the delivery chain as follows:

10. **Case management.** The 2019 Social Protection Law introduced ‘case management’ as a method for how professional staff within the social protection system work with beneficiaries and created the position of case manager, who is assigned to work with each case by, among other tasks, preparing individual plans together with the users and referring users to social services.⁷⁴ Following a pilot supported by UNICEF, there is now broad agreement that case management involves six stages: (a) intake (initial assessment/triage and registration), (b) assessment of needs and strengths, (c) development of a case plan based on the assessments of needs and strengths, (d) implementation of the case plan including direct support and referral services, (e) follow-up and monitoring, and (f) case closure.⁷⁵ However, the application of this method across CSWs has raised various complexities that are yet to be fully resolved in practice. Many of these issues hinge on the definition of a ‘case’, how many cases each professional worker should be assigned, the range of expertise required by each professional staff to assess and manage a case successfully, and the extent to which case management requires the reorganization of

⁷⁴ See Articles 276–281 of the 2019 Social Protection Law.

⁷⁵ See current official guidelines ‘Integrated case management - standard operating procedures, guide and documentation (forms)’ available at https://casemanagement.mk/wp-content/uploads/2020/09/Priracnik_mk_2019.pdf (in Macedonian).



CSWs into multidisciplinary teams that support case managers in their work with beneficiaries. These issues have also drawn attention to the fact that the numbers of staff, their functions, and job descriptions, as well as the overall organization of the CSWs, remain based on norms and standards that predate the 2019 reform. The full rollout of the new SWIS will resolve some of these issues, as it is designed to support the assessment of the full needs of a household and record and manage the total range of benefits and services they receive. However, further investments are needed in the knowledge and skills of the professional staff in CSWs to support this method of working, as well as more systematic changes within the CSWs.

11. The proposed project will therefore support the MLSP to do the following:

- (a) Prepare additional rulebooks, norms, and standards to support the application of case management, such as a proposal to introduce a staff to case ratio for all case managers and professional workers. These will be drafted based on analysis of the experience in North Macedonia with case management to date and international experience, including through a study tour. These will be reflected in the updated Guidelines for Case Management.⁷⁶
- (b) In close coordination with the ISA (responsible for the licensing of professional workers), revise the content and methods used to train CSW staff and finance selected training to improve implementation of case management, including other areas of work. This revision will consider
 - (i) An assessment of the training requirements of current staff including the necessary basic knowledge of different benefits and services available to eligible populations and
 - (ii) The potential different needs and preferences in centers such as those that serve rural populations and the Roma community.
- (c) Carry out a functional review of CSWs to inform decisions on how to organize these centers and staff to deliver the functions as well as the roles and responsibilities as set out in the Official Guidelines for Case Management and more generally the 2019 Social Protection Law and the supporting bylaws and support the implementation of selected reforms.

12. Additionally, as discussed in the sections above, the MLSP is putting in place a new integrated SWIS that will support all the work flows for cash benefits, social services, and case management. Building on lessons that were learned with the rollout of the CBMIS, the proposed project will provide continued capacity building of the MLSP and CSW staff, as well as those of other relevant ministries, on the new integrated SWIS to help ensure that the system is used as intended and that MLSP is able to troubleshoot problems as they emerge. The proposed project will also finance, as needed, modifications to the databases and information systems of other ministries and agencies to which the SWIS links, respond to evolutions in the e-governance system of the country, and update the associated rulebooks on information and documentation.

13. **Institutional strengthening.** Beyond the dedicated support to the SWIS and case management, the proposed project will support the MLSP to further strengthen its institutional capacity and that of the CSWs. First, this subcomponent will continue to strengthen the capacity of the MLSP to carry out its policy

⁷⁶ The current guidelines are 'Integrated case management - standard operating procedures, guide and documentation (forms)', from 2019, which are available at https://casemanagement.mk/wp-content/uploads/2020/09/Priracnik_mk_2019.pdf.



agenda, by continuing to strengthen the central policy unit that is engaged in analytical and M&E activities. The research and analysis carried out by this unit directly inform policy development. Additionally, this subcomponent will finance training to the MLSP staff and its agencies to support the implementation of this project, as well as minor rehabilitation works and the provision of relevant IT equipment and furniture.

14. This subcomponent will also seek to improve the functioning of the CSWs with a particular focus on strengthening their outreach to vulnerable communities to ensure that there is broad awareness of the benefits and services offered and how these can be accessed. The project will support the MLSP and CSWs to put in place an outreach strategy that is targeted to marginal groups, those with low literacy and who may face other barriers, such as people with disability. It will include, among other topics, how to access benefits and services, the rights and obligations of beneficiaries, and service standards of the CSWs, including how these are changed through the introduction of case management. This will complement the communication strategy for the project, which is described under Component 3, as it will provide the CSWs with resources (printed materials, posters, and social media support) to communicate broadly within their communities and will support their coordination with municipalities and local NGOs to help ensure that accurate information is shared with their constituents. Further support will be considered based on the findings of the functional review (see paragraph 11(c)).

15. **Supporting the activation of GMA beneficiaries.** Additionally, this subcomponent will support the MLSP to strengthen the provision of support to activate hard-to-place GMA beneficiaries and address the main barriers they face in a holistic way to find employment opportunities and graduate from social assistance. In particular, the subcomponent will strengthen the legal framework, policy development, and capacity building and coordination between CSW and ESA to provide better incentives for and help the activation of GMA beneficiaries and pilot a social mentoring program to GMA beneficiaries to support their navigation of the employment search process.

- (a) *Strengthening the policy framework for the activation of GMA beneficiaries.* The current legal and institutional framework does not provide the right incentives for GMA beneficiaries to actively seek employment, perpetuating reliance on social assistance. The proposed project will support the MLSP in carrying out analysis to inform the necessary legal changes to improve the structure of incentives for GMA beneficiaries to find employment, including income disregards that enable social assistance recipients to earn some income that is not deducted for a given period from their social assistance payments. The activity will also support the strengthening of current regulations and rulebooks to clarify the division of tasks and roles among different agencies in the process of implementation of individual activation plans. The activity will also explore options to improve guidelines and develop tools to support case workers in the profiling and selection of the most 'employable' GMA beneficiaries. The activity will also ensure that the new SWIS enables all relevant data sharing between ESA and CSW to support the activation of GMA beneficiaries. Other activities may include support for the inspection of the implementation of activation plans and reporting of infractions, as well as capacity building of CSW and ESA caseworkers for the activation process. All these activities aim to improve the institutional setting to offer better incentives and services to GMA beneficiaries to facilitate the eventual graduation from the program.



- (b) *Piloting a social and professional mentoring intervention for GMA beneficiaries.* Once the necessary changes in the 2019 Social Protection Law regarding income disregards are passed, and incorporating lessons learned as these emerge from the project, a pilot providing social and professional mentoring services to GMA beneficiaries will be implemented. Typical ALMPs fail to engage this population group that requires more intensive support and is usually disconnected from the formal labor market for long periods. Given the case overload that both CSW and ESA suffer from and the need to provide intensive support for GMA beneficiaries, a non-profit or for-profit private firm will be contracted to provide social and professional mentoring services to 400 GMA beneficiaries. The firm will (i) select and train social and professional mentors with background on social work, psychology, or related fields; (ii) develop manuals and tools to support and ensure the quality of mentoring services provided; and (iii) provide the social and professional mentoring. Social mentors will be responsible for assessing the profile, skills, and motivations for their mentees (GMA beneficiaries) as well as the main barriers for employment based on initial meetings with the mentees and data from the CSW based on data-sharing agreements protecting the privacy of mentees information. The social mentor will regularly meet with their mentees and provide career guidance, supporting them in searching for training opportunities and/or job offers in their field of interest, either through ESA or private employment agencies. Once the GMA beneficiary finds employment, the professional mentors will support them to navigate the professional environment and will work with the firm’s middle management to increase the integration of the mentee in the workplace.⁷⁷ To increase the demand to participate in the program, social and professional mentors will be selected based on their links with mentees and their communities to build trust. Grassroot informational campaigns will also be developed. Beneficiaries (the mentees) will be selected among all the pool of unemployed GMA beneficiaries registered in urban centers, regardless of whether they have been considered the most ‘employable’ member of the household or not. The pilot will serve to gain more insights on whether more intensive support (and what type) by developing a rigorous impact evaluation with the random selection of beneficiaries among applicants and collecting timely M&E data to support adaptations of the mentoring support along the process.

16. **Component 2: Improving access to quality ECEC.** This component aims to improve access to quality ECEC in a way that further supports teacher professional development and promotes the inclusion of poor and marginalized children. Activities are grouped into three subcomponents: (a) expanding the supply of preschool education, (b) improving the quality of ECEC, and (c) promoting more inclusive ECEC.

17. **Subcomponent 2.1: Expanding the supply of ECEC.** This subcomponent aims to continue expanding the supply of preschool education in urban and rural areas. Based on the lessons learned through SSIP that point to opportunities to move beyond increasing access through building new kindergartens only, the Second SSIP focuses on repurposing/upgrading unused primary school spaces (which are currently underutilized in some areas due to demographic patterns and migration) or other public buildings available in the municipality into ECEC playrooms. Repurposing/upgrading will be prioritized to allow faster increases in access. The project expects to repurpose and equip 110 public preschool classrooms, adding 2,200 new preschool spaces by the end of the project through the allocation of in-kind grants to the selected municipalities, which will be guided by a GOM. The reconstruction of

⁷⁷ The design of the pilot will be such to allow for an evaluation of the impact of social and professional support separately.



preschool classrooms will adhere to construction standards and meticulously designed municipality selection criteria (which are pro-poor)⁷⁸ established during the SSIP, including ensuring access to the spaces for children with disabilities through the construction of ramps and possibly modified toilets. This subcomponent will be also delivered in line with the ongoing optimization of the primary school education network. The MoES, in cooperation with the MLSP, has already started identifying potential pilot municipalities where the repurposing take place under the SSIP, based on the local demand for preschool places.

18. As a means of expanding access to ECEC, this subcomponent of the project would also pilot new models to expand and improve the capacity of the country to meet the needs of young children and their families through different types of nonstate childcare and early learning providers such as home-based childcare (offered in a provider’s home or the child’s home) or center-based ECEC and childcare providers. Based on the existing provisions in the Law on Child Protection which permit individual providers to offer home-based childcare (for up to five children), the project aims to provide a way to address the very low preschool intake, particularly of children in the 0–3 age group (national data show that only 15 percent of children in this age group are enrolled in formal care). The new financing model that is under way will include a financial incentive for parents to increase demand for childcare services as well as to boost supply. This could be achieved through either vouchers or grants to help set up provision or direct transfers to the service providers. In the process of piloting a range of childcare provision models, the project would support the enactment of a clear and comprehensive licensing system, involving caregiver training, workable institutional arrangements and a robust monitoring mechanism, and selection criteria for subsidy that specifically target low-income families and cater to the needs of marginalized children (through subsidies, means testing, or other strategies). These models, looking beyond the public provision of services to the private sector, are intended to increase access to childcare that is easy to reach and meets the needs of both working and unemployed parents, especially when the Government cannot directly meet the need for additional places, through publicly funded ECEC institutions. The objective is also to shift the prevalent existence of the informal and unregulated economy of home-based childcare toward a formalized and regulated structure for home-based childcare services, which ensures the safety, well-being, and development of children in these settings. This transition can also significantly contribute to the broader economy by creating job opportunities and stable income generation for caregivers and more broadly relates to a web of diverse positive externalities that include increased women’s employment, reduced financial burden of childcare for families, improved business productivity, better utilization of human capital, and overall economic growth development.⁷⁹

19. **Subcomponent 2.2: Improving the quality of ECEC.** This subcomponent aims to continue improving the quality of ECEC by advancing the gains made through SSIP, including through further support to centers for excellence, better structured peer-to-peer learning, update of the standards for child development, further strengthening the system of professional development and career advancement of preschool teachers and caregivers, and institutionalization of the mechanism for regular monitoring of the quality of learning environment and child development outcomes (such as the MELQO).

⁷⁸ The municipality eligibility index will be used to rank municipalities for which the outcome of the optimization plans and confirmed local demand will determine the final number and location of classrooms to be repurposed.

⁷⁹ Devercelli, A. E., and F. Beaton-Day. 2020. *Better Jobs and Brighter Future: Investing in Childcare to Build Human Capital*. Washington, DC: World Bank Group.



20. **Improving pre- and in-service training of teachers and caregivers.** Recognizing the challenge of new teachers entering the profession with limited preparedness, measures will be taken to improve the transition from pre-service education into a teaching role. To enhance the pre-service training of aspiring ECEC teachers, and more specifically to improve students' experiential learning, the project will focus its efforts on strengthening the capacities of the three Centers for Excellence, which will serve as model kindergartens intended for student practical training as well as hubs for the development of new teacher training modules. This will be done by supplying equipment (such as observation rooms, laboratories for teacher training, and didactical materials), providing training for those involved in the design and delivery of student practical training and teacher training modules, and developing the protocols and standards for ensuring the quality of training. In terms of in-service training support, building on the foundations of the SSIP, the project will broaden its scope to encompass the entire ECEC ecosystem. While the SSIP was focused primarily on strengthening the capacities of preschool teachers, the Second SSIP moves more purposively toward expanding training opportunities and support to the caregivers working with children ages 0–3 years (who currently do not receive any training), recognizing the essential nature of their daily interactions with young children. The topics selected for training will be closely aligned with the objectives of the national learning standards. Moreover, the project will develop training modules designed for the entire school team, composed of teachers, caregivers, specialist professional support staff (such as pedagogues and psychologists), and school principals and will, as possible, purchase and deliver didactical materials to all kindergartens.

21. **Promoting collaboration and knowledge sharing within and between ECEC institutions.** In addition to supporting the strengthening of practitioners' professional competencies as individuals, the project would aim to serve as a platform for improved organizational collaboration that is meaningful, relevant, and stimulating and contributes to the development of ECEC institutions as professional learning communities that constantly review and improve their practice. To achieve this, the project will employ a diverse array of methods for sharing and disseminating knowledge within and between ECEC institutions, including peer-to-peer learning, horizontal exchanges, and building communities of practice. The purpose of using such methods is to encourage reflective dialogue between practitioners, look at practice and theory from different perspectives and understand them in a new way, build common knowledge and foster exchange of innovative practices based on the experiences of others, and enable the building of a support network of practitioners as a basis for improving the quality of ECEC. The sharing of knowledge will take place in a planned and organized manner, with relevant structures and guidelines put in place, leveraging digital platforms as well as more traditional face-to-face approaches.

22. **Institutionalizing a national system for measuring child outcomes and the quality of the learning environment.** Building on the initiative started under the SSIP, the new project will continue to support the implementation of the nationally representative survey on the MELQO to help generate information on child development and the quality of preschool education in the country. During the SSIP, the MELQO was established for the first time, which provided valuable information on child outcomes, the learning environment, and the practices and perceptions of teachers and parents. Under the Second SSIP, the survey will be used to monitor quality improvements over time and during the full cycles of the project, as it is expected to be conducted at two intervals (in year 2 and year 4). The project would support integration of the MELQO into the routine assessments carried out by the NEC, guaranteeing its continuity beyond the lifetime of the project. The SSIP has ensured that appropriate local capacities have been built for this transition, adhering to the high-quality standards of the MELQO process implementation. The MELQO findings are expected to feed into the development of updated Early Learning and Development



Standards which have remained unchanged since their inception in 2009, as well as the topics selected for the professional development of practitioners.

23. **Subcomponent 2.3: Promoting more inclusive ECEC.** The subcomponent aims to improve the inclusion of poor and marginalized children by further strengthening links with GMA and CSWs and improving parenting practices and community engagement. Building on technical assistance provided by the World Bank in 2020 that identified options and pathways for parenting programs in North Macedonia, interested municipalities with settlements with Roma and GMA populations, as well as those without kindergartens, will be offered support to pilot one of three parenting programs. The options for the parenting programs will be as follows:

- (a) Read@Home which delivers reading, learning, and play materials to homes of children aged 3–5.⁸⁰
- (b) A positive parenting program to eliminate harsh punishment against children. This could include a communication campaign like the UNICEF-supported campaign, ‘Parenting is also learned’, and/or support provided directly to children and their parents through group sessions such as the program implemented by PLH.⁸¹
- (c) Targeted support to Roma communities. This could combine options (a) and (b) and respond to the specific needs of the Roma population.

24. Each option will be presented to municipalities as comprehensive proposals but with space to be further developed in collaboration with parents, providers, and other stakeholders. Pilots will be evaluated with an eye to scale in other municipalities. The programs will be detailed in the grant manual. To aid the selection of municipalities to pilot the parenting programs, the criteria used for the ranking of municipalities for the construction of new kindergartens will be used but the presence of Roma population and/or guaranteed minimum income (GMI) beneficiaries will be added. Municipalities with the highest ranking will be asked to submit a request for the pilot if they are interested, which will include a plan for how the parenting program will help meet the needs of young children in their municipality.

25. The lessons learned from the SSIP show that expanding ECEC availability alone may not be enough to reach the poorest children and get them enrolled into ECEC. Therefore, there is a need for more targeted outreach to marginalized groups under the Second SSIP. This outreach through a national information campaign will focus on making parents aware of the benefits of sending their children to preschool and also on improving the family environment.

26. **Component 3: Project management, monitoring, and communication.** This component will support the day-to-day management of project implementation and the M&E of its objectives and outcomes. It will finance the activities that would ensure effective administration and implementation of the project by supporting (a) operation of the existing PMU, including the provision of operating costs and

⁸⁰ Read@Home was implemented rapidly in North Macedonia in October 2020 and provided 40,000 children experiencing poverty with a package of three or four high-quality books and accompanying activities in their home language.

⁸¹ PLH is global program that was piloted in North Macedonia by the NGO ‘Alternativa’ in collaboration with Oxford University that promotes positive parenting through group sessions and texting. PLH has gone through a particularly rigorous piloting and adaptation process in North Macedonia. Three studies identified five sessions as effective to reduce child externalizing behavior, increase parent mental health, and reduce harsh punishment.



equipment; (b) development and implementation of an M&E system for the project; and (c) development and carrying out of a public awareness campaign to inform vulnerable groups of social services, including eligibility requirements, norms and standards, and application process, and opportunities for enrolling their children in preschool and parenting support. This component will also fund the citizen engagement activities described in the relevant sections below, as well as the application of the ESF.

Table 1.1: Project Costs by Component

Project Components	Project Costs (EUR, millions)	IBRD Financing (%)
Component 1	12.9	100%
Component 2	12.5	100%
Component 3	2.0	100%
Front-end fee	.07	100%
Total Costs	27.5	

Financial Management

27. **FM performance.** As mentioned in the Project Appraisal Summary section of the PAD, the FM arrangements of the ongoing SSIP implemented by the MLSP are satisfactory. There are no outstanding IFRs or audit reports under the current project.

28. **Risk analysis.** The overall FM risk for the project is Substantial, but with adequate mitigation measures, the residual risk is assessed as Moderate. The table below summarizes the FM assessment and risk ratings for this project.

Table 1.2: Financial management risks and mitigation measures

Risk	Risk Rating	Risk Mitigation Measures	Risk Rating after Mitigation
Inherent risk			
Country level. Perceived corruption in the country is high. The capacity of the SAO is low. Nevertheless, the Government has well-functioning Treasury operations and exercises good control over the spending of budget entities. The Treasury Single Account is administrated by the Ministry of Finance, where the Treasury Mirror Account for the project will be opened. A DA in foreign currency for the project will be opened in the National Bank of the Republic of North Macedonia.	S	The risk, as described, allows the utilization of the Treasury system and the opening of the DA in the National Bank of the Republic of North Macedonia. Corruption risk will be mitigated by instituting additional procedures and strengthening the system of internal controls. The internal controls to be applied in practice will be described in the financial manual (integral part of the POM). Quarterly IFRs will be submitted to the World Bank, and the World Bank’s FM specialist will perform regular supervision. Risk imposed by the limited capacity of the SAO will be mitigated by using a private auditor acceptable to the World Bank for the project audit.	M



Risk	Risk Rating	Risk Mitigation Measures	Risk Rating after Mitigation
Entity level. The system of internal controls in the public sector is assessed as relatively weak. Because of the involvement of the MLSP in the fiduciary aspect of the project and the complexity of the project in general, appropriate internal controls are crucial for successful implementation.	S	The risk will be mitigated by instituting additional key controls to be applied during project implementation. Those controls are described in the financial manual (integral part of the POM) and are intended to safeguard financial resources and ensure proper use of project funds for the intended purposes.	M
Project level. The flow of cash to service providers is considered as high risk for adequate tracking and transparency of the use of these funds.	H	Appropriate mechanisms will be instituted to provide sufficient safeguards to ensure the adequate flow of funds and the use of funds for the intended purposes. Controls and procedures will be instituted and described in the financial part of the POM.	S
Overall Inherent Risk	S		M
Control Risk			
Budgeting and planning. Capacity for budgeting and planning is adequate, and there is substantial experience in this respect. However, care should be taken that variances of actual versus budgeted figures are monitored regularly and appropriately analyzed and followed up.	S	The PMU will document the follow-up and corrective actions taken for any variances between budgeted and actual figures. This will be verified by the World Bank's FM specialist during supervision.	M
Accounting. Accounting information will present transfers not only from the DA but all the way to the final beneficiaries. Obtaining proper and timely information to account for transactions in various stages of the process involves risk of coordination between the different entities involved.	S	Communication channels are clearly defined to ensure that up-to-date and accurate accounting information is readily available.	M
Internal controls. An appropriate system of internal controls needs to be clearly defined to ensure that the project funds are used for the intended purposes.	H	Internal controls and procedures to be applied during project implementation will be described in the financial manual (integral part of the POM). The application of controls in practice will be verified as part of the World Bank's supervision.	S
Funds flow. The flow of funds imposes a high risk for adequate tracking and transparency of the use of funds.	S	The flow of funds, including related procedures and controls, such as authorizations and approvals of payments, will be clearly described in the financial part of the POM. Application of the procedures will be verified during the World Bank's supervision.	M



Risk	Risk Rating	Risk Mitigation Measures	Risk Rating after Mitigation
Financial reporting. Financial reports will include details on the funds transferred to the MLSP, amounts paid to beneficiaries, and any unused funds that were transferred from the DA. There is a high risk to the reliability of such reports.	S	Locally developed software used for project accounting and reporting on the ongoing project will also be used for this project. Quarterly IFRs will be supplemented by additional sheets, which will provide a breakdown of all information described in the left column. Documentation flow and communication channels are clearly defined to ensure that up-to-date and correct accounting information is included in the financial reports. The IFRs format will be agreed upon by the World Bank and the PMU.	M
Auditing. Low capacity of the SAO.	S	The project audit will be performed by a private audit firm using terms of reference acceptable to the World Bank.	M
Staffing. Timely and adequate documentation and information flow will depend on the staff capacity of the PMU/MLSP.	S	All core functions of the PMU are adequately staffed as part of the ongoing SSIP. For this project, the existing PMU will be retained and additional FM staff will be hired, as needed. The MLSP is assessed to have sufficient capacity to ensure appropriate staffing.	S
Overall Control Risk	S		M
Overall FM Risk	S		M

29. **Staffing.** The PMU has all core functions appropriately staffed, and the capacity of the unit is assessed as sufficient. The MLSP is assessed to have sufficient capacity in appropriate staffing. The authorized signatory for contracts and payments is a representative of the MLSP. All core functions within the PMU, including FM, are adequately performed. The Finance Manager of the PMU has relevant experience in accounting and in World Bank procedures. Additional expansion of the FM function within the PMU might be considered for additional workload on the implementation of Subcomponent 2.1.

30. **Planning and budgeting.** The PMU has adequate capacity for planning and budgeting in terms of human resources, availability of quality information, and IT system. Staff have experience in budget preparation. The PMU will prepare a single budget for all project activities, including grants. The MLSP is assessed as having sufficient capacity and experience to carry out these tasks.

31. **Information systems.** The MLSP uses the Treasury system for its accounting and reporting. The World Bank team assessed the Treasury system as sound, with reliable reporting and ex ante controls. Locally developed software (Edusoft), including reporting, used for the ongoing SSIP will be upgraded, tailored, and used for the proposed project. The PMU will be requested to finalize the upgrade within two months of project effectiveness to ensure a smooth implementation. The envisaged software provides financial transparency and reliability of the project data, which is particularly important given the need to consolidate all project information in one place.

32. **Accounting policies and procedures.** Accounting records are kept and IFRs prepared using acceptable locally developed accounting software, which is supplemented by treasury reports. The



software provides reliable accounting information. The functionality and user-friendliness of the software are adequate. The software allows cross-checks and reconciliation of accounting information, reducing the risk of errors. The accounts books and records will be maintained on a cash basis with additional information on signed contracts. The project financial statements will be presented in Euro. The PMU will apply a set of acceptable accounting procedures and internal controls, including authorization and segregation of duties for the project. To improve the safeguard of assets, additional internal control procedures will be instituted (for example, reconciliation between accounts and records and reconciliation of cash and bank balances) and described in the financial section of the POM of the ongoing SSIP, which will be updated to reflect the proposed project. The financial section of the POM will also set out FM and internal control policies and procedures to guide staff and minimize the risk of errors and omissions and of delays in recording and reporting. A clear description of the roles and responsibilities, including level of authority and control over cash payments and bank accounts, will be included to ensure timely and accurate financial reporting.

33. **Financial reporting and monitoring.** Project management-oriented IFRs will be used for project monitoring and supervision. The reports will include consolidated financial information on all project funds, detailed information on amounts and grants transferred to the transit treasury account, amounts paid to beneficiaries through the account, and any unused funds transferred from the DA. The PMU will produce a full set of IFRs within 45 days after the end of each calendar quarter throughout the life of the project. The IFRs will comprise the following reports, presented in the agreed format: (a) project receipts and payments, (b) uses of funds by activity, (c) DA statement, (d) detailed breakdown of transfers, and (e) narratives to the reports. Accounting for the project is on a cash basis with additional information on commitments related to signed contract.

34. **Internal controls.** An adequate system of internal controls and procedures, instituted as part of the SSIP, is assessed as reliable and will also apply to the new project. The current management control framework is described in the FM section of the existing POM for the SSIP. Key internal controls will include (a) appropriate authorizations and approvals; (b) segregation of duties (with no single person having the responsibility for all phases of transactions); (c) regular reconciliations between records and actual balances, as well as with third parties; and (d) complete original documentation to support project transactions.

35. Additional controls are required to ensure that funds flow directly to the beneficiaries and that the funds are used for the intended purposes as detailed in the financial section of the POM. These controls include the following:

- Proper eligibility criteria: (a) ex ante - clear description of eligibility criteria for beneficiaries, projects, and activities to be financed by the project and documentation needed to support eligibility and (b) ex-post - control checks performed to verify the eligibility of the beneficiaries.
- Proper procedures for the selection of beneficiaries (staff who will evaluate, procedures and criteria for selection, and summary reports)
- Procedures on determining the funds needed and methodology for calculating the need for funds.



- Transparency of the flow of funds: information on the funds transferred, together with supporting documentation, including statements of accounts (MLSP/project transit account within the Treasury Single Account and DA) to be submitted to the PMU from the treasury—the PMU will include in the quarterly IFRs detailed information related to the flow of funds.
- Reporting back to the PMU: on the executed transfers from the MLSP/project transit account, from the DA, and to beneficiaries (supporting documentation and accounts statements), as well as on unused funds.

36. **External audit.** The implementing entity follows the audit requirements of the World Bank-financed projects. Like any other Government entity, MLSP is audited by the SAO of North Macedonia. However, as the capacity of the SAO for conducting efficient financial audit is still limited, the project's financial statements will be audited by a private firm in accordance with terms of reference acceptable to the World Bank. The audit report (financial, performance, and operational audit) will be submitted to the World Bank within six months after the end of the audit period. The annual cost of the audits of the project will be covered by the project funds. The scope of the audit will include the review, at least on a sample basis, of the regularity of payments to the beneficiaries and their eligibility. In addition to the financial audit, operational/performance audit will be carried out as a separate task, subject to separate terms of reference and procurement process.

Disbursements

37. **A transaction-based disbursement method will be used under the project.** Upon project effectiveness, a DA will be opened in the National Bank of the Republic of North Macedonia, to which the funds will be transferred. A transit Treasury account in Macedonian denar will be opened within the Treasury Single Account to serve as an operating account for withdrawals from the foreign currency account. The DA will be managed and operated by the PMU with the authorized signatories, which include a ministerial (MLSP) representative. All transfers will take place through the account, with a corresponding transfer of the Macedonian denar-equivalent amount from the foreign exchange account.

38. **The procedures relating to the flow of funds, including paths for authorization and approval of payments, will be described in detail in the updated FM section of the POM.** The procedures should clearly describe all steps of the process and identify authorized signatories for administering the account funds. Bank statements showing turnover and balance on the transit Treasury Macedonian denar subaccount and the bank statements indicating the balance on the DA will be submitted daily. The PMU will include balances on all project-related accounts in the quarterly IFRs.

39. **The ceiling for the DA is reflected in the Disbursement and Financial Investment Letter agreed during negotiations.** Applications for replenishment of the DA will be submitted at least quarterly or when one-third of the amount has been withdrawn, whichever comes first. Documentation requirements for replenishment will follow standard World Bank procedures as described in the Disbursement Handbook. Reconciled bank statements of the DA will accompany all replenishment requests.

40. **Supervision plan.** During project implementation, the World Bank will supervise the project's FM arrangements in two main ways: reviewing the project's IFRs for each calendar quarter, as well as the project's annual audited financial statements and the auditor's management letter, and performing on-site supervisions, reviewing the project's FM and disbursement arrangements to ensure compliance with the World Bank's minimum requirements. The supervision mission may include relevant staff of the PMU.



Procurement

41. **Procurement policy and procedures.** The World Bank's procurement framework, effective as of September 1, 2023, will govern procurement under the project. Procurement of contracts for goods, works, and consulting and non-consulting services financed from the project will be carried out according to the World Bank Procurement Regulations.⁸² The World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants' (revised as of July 1, 2016) (Anticorruption Guidelines) will apply to the project.

42. **Procurement documents.** The World Bank's SPDs will be used as required by the applicable Procurement Regulations. They are all accessible at www.worldbank.org/procurement.

43. **STEP.** The project will use the World Bank's platform STEP to plan, record, and track all procurement transactions subject to post and prior review under the project. The tool will be used by the PMU to create and revise the project's Procurement Plan, monitor performance, manage procurement procedures, and store related documentation for all steps in a procurement activity. The system will manage the exchange of information (such as bidding documents, bid evaluation reports, and no objections) between the implementing agencies and the World Bank.

44. **Procurement Plan.** A Procurement Plan covering the first 18 months of the project duration was developed during project preparation and finalized during Appraisal. It provides information on procurement packages, the procurement approach, and procurement procedures for each contract financed under the project. The Procurement Plan and all its updates will be published through STEP on the World Bank's external website and on the websites of the MLSP website.

45. **Publication of procurement notices.** The General Procurement Notice and all procurement notices for contracts following the international market approach will be published in United Nations Development Business and on the World Bank's external website through STEP. Procurement notices for contracts following the national market approach will be published on the electronic system for public procurement, hosted by the Public Procurement Bureau at <https://e-nabavki.gov.mk/PublicAccess/Home.aspx#/home>, on the website of the MLSP.

46. **PPSD.** As required by the procurement framework, a PPSD was prepared during project Appraisal. The PPSD is the basis for the procurement arrangements under the project. The short form of PPSD is used, and it includes details on project overview, strategic assessment of the operating context and borrower's capability to manage procurement, procurement risk analysis, procurement objectives, procurement approach options and recommendations, preferred arrangements for low-value low-risk contracts, and a summary Procurement Plan. The PPSD addresses how procurement activities will support the development objectives of the project and deliver the best value for money under a risk-based approach. It also provides an adequate justification for the selection methods in the Procurement Plan. The level of details and analysis in the PPSD are proportionate to the risk, value, and complexity of the project procurement. The PPSD also provides information on the procurement-specific risks and the proposed mitigation measures. The proposed procurement and review thresholds applicable to the project are aligned with the World Bank's most recent Thresholds for Procurement Approaches and

⁸² <https://thedocs.worldbank.org/en/doc/6c0602876d68949e80820507d90a14ed-0290012023/original/Procurement-Regulations-September-2023.pdf>.



Methods of July 1, 2023. The procurement and review thresholds relevant for the project are indicated in the PPSD. The loan will finance contracts for goods, works, non-consulting and consulting services and it does not foresee financing of large, complex, and high-risk contracts. It will also finance grants to various beneficiaries and given the demand driven nature of the contracts to be financed from those grants they will be identified during project implementation. A Grant Operations Manual (GOM) will define, among others, the procurement arrangements for the grants.

47. **Capacity assessment.** The project will be implemented by a PMU within the MLSP, which has a solid track record of successful implementation of several World Bank-financed projects, such as the Conditional Cash Transfer Project (CCTP), which closed in 2018; the ongoing SSIP; the ongoing SIAP; and North Macedonia Emergency COVID-19 Response project, which closed in 2022. The World Bank's procurement specialist assigned to the project conducted an initial review of the capacity of the implementing agency to establish the overall risk for managing procurement and based on it to propose mitigating measures for enhancing the capacity of the agency. This review showed that the PMU has substantial experience in World Bank procurement procedures and has shown satisfactory performance in procurement for World Bank-financed projects. It has a solid management structure and is staffed with two experienced procurement specialists managing procurement under the current operations. Diligence is observed in record keeping, quality of procurement documents, and evaluation reports. The procurement management in the implemented projects was rated Satisfactory. The PMU team will be maintained to ensure continuity of overall project management capacity and accumulated knowledge during implementation of previous projects. The contracts for PMU members will be included in the procurement plan and will be subject to prior review given the importance and duration of their contracts. A POM will define the overall project implementation arrangements and specific roles and responsibilities of the PMU and the relevant beneficiaries involved in the project. In addition, a GOM will elaborate, among others, on the procurement arrangements for the grants.

48. **Frequency of procurement supervision and oversight.** Based on the capacity of the implementing agency and the Moderate risk rate for procurement, procurement implementation support missions will be carried out once a year and on an as-needed-basis. The Procurement Plan indicates the review arrangements for each contract to be financed from the loan proceeds. Contracts not subject to prior review by the World Bank will be post reviewed by the World Bank's procurement specialist, assigned to the project. Post review of contracts shall be carried out once a year. At a minimum, 1 out of 10 contracts will be randomly selected for post review.

49. **Procurement risk analysis.** Based on the capacity of the implementing agency and overall risk analysis, the overall risk for procurement is set to Moderate. The procurement-specific risks, the proposed mitigating measures, and the risk owner are elaborated in the PPSD.



ANNEX 2: Social Services Improvement Project: Rationale, Achievements, Challenges, and Lessons Learned

I. Introduction

1. **Before the beginning of the SSIP in 2018, North Macedonia had developed several key elements of a well-functioning system of social and child protection to tackle the challenges of poverty.** The World Bank, through the CCTP,⁸³ which started in 2009, contributed to the strengthening of the country’s social safety net by improving the administration of the cash transfer system and reducing the inclusion errors (under the CCTP), which accordingly improved the overall targeting of the social safety net system. With the help of the CCTP, the country had moved from managing numerous cash benefits all through ‘paper-based’ systems at the local level (within CSWs) to an interoperable CBMIS. The CCTP also contributed to the increased secondary school enrollment and attendance rates among the children from social assistance beneficiary households. As a result, the social and child protection delivery became more institutionally mature and central to poverty reduction approaches.

2. **Despite these improvements, several important challenges remained which justified continued investments in the systems upgrade and development.** Before the SSIP, social assistance programs covered 10 percent of the population and only one-third of the poorest quintile. The coverage of social services was extremely limited, below 1 percent. In the ECEC sector (that is part of the social and child protection system in North Macedonia), poorer children attended ECEC at far lower rates than wealthier children—a mere 0.3 percent of children from the poorest quintile were enrolled in ECEC (compared to 36 percent in the total population). Enrollment rates were just 2.6 percent for Roma and 7.5 percent for Albanian children. There were also fewer kindergartens in the western part of the country and in rural municipalities, and the urban enrollment rates in preschools were over six times higher than those in rural areas.

3. **Against this backdrop, second-generation reforms were needed to improve the coverage, effectiveness, efficiency, and overall delivery of social benefits and services in a more inclusive manner.** The SSIP laid the grounds for further advancements in these areas by helping the MLSP enact and implement several reforms stipulated in the new laws on social and child protection. The PDO of the SSIP is to expand access to and improve the quality of social services, including preschool services, for vulnerable groups. Direct beneficiaries of the project include social welfare beneficiaries (cash transfer recipients) and other vulnerable adults and children entitled to social services. The project also supports access to quality early learning for preschool children and their families.

SSIP INFORMATION

Size of Loan: US\$33.4 million (IBRD)

Approval Date/Closing Date: September 13, 2018/June 30, 2024

Implementing Agency: MLSP

PDO: To expand access to and improve the quality of social services, including preschool services, for vulnerable groups.

⁸³ Project ID: P103974. The project was for US\$25 million, with a closing date of August 31, 2018.



II. Rationale, Achievements, Challenges, and Lessons Learned to Be Applied under the Second SSIP

4. In what follows, this annex describes the rationale for the World Bank’s financing of the SSIP and the issues it aimed to address, elaborating both the focus of this project and its achievements and the gaps and challenges that it faced. The annex also considers the lessons learned during the SSIP and how the proposed Second SSIP plans to build on, expand, or act differently from the SSIP to bring the social and child protection system to the next level.

Component 1: Promoting social inclusion through improved access to social benefits and services (US\$12.7 million)

5. This component of the SSIP was focused on strengthening the overall social protection delivery system and supporting the development and expansion of new social services, to lead to an increase in the poor and vulnerable having access to social benefits and services. It set out to address the limited supply of social services at the local level along with establishing standards in delivering and monitoring the quality of services. Analytical work conducted before the start of the SSIP showed that noninstitutional social service provision targeting the poor and vulnerable benefited only 0.04 percent of the total population and mostly in urban areas. Both noninstitutional and residential services were mainly provided by public institutions, although the system allows the involvement of NGOs, private persons, and associations as service providers. Most of the social services were centrally organized, established, and financed (by the MLSP).

6. In this respect, social services were clearly underdeveloped, and the limited supply did not meet the demand for services (such as home-based care and assistance for the elderly or day care services for persons with disabilities). The SSIP activities contributed to the complete overhaul of the system of social service provision and implementation of new service models, using the mechanisms laid out in the following paragraphs.

7. The SSIP piloted a new model and pushed forward an ambitious vision for social services in the country following the course set out in the 2019 Law on Social Protection. The 2019 reform incorporated a major change in the way social services are planned, financed, and delivered, which were introduced alongside a major push toward deinstitutionalization. The new law placed more responsibility on local service providers in the delivery of the services while transforming the role of the MLSP and CSW to standard setting, quality assurance, and financing. In parallel, the reform envisaged the introduction of a case management system to establish an integrated system for providing benefits and services geared to meeting the needs of all family members as well as to support data exchange and referrals with other services.

8. The initial phase of Component 1 focused on developing the legislative and policy framework, including establishing the rulebooks and licensing procedures that govern the provision of social services under the 2019 Law on Social Protection. It provided financial and technical assistance for social services policy development and implementation, including through the (a) implementation of a needs assessment; (b) development of standards and accreditation and licensing processes for social service providers; and (c) development of social and child protection laws, regulations, and guidelines. In particular, the project supported the MLSP to draft the rulebook on the provision of home care for the elderly and the rulebook for innovative services, among others. The rulebooks supported by the project



guide the provision of all types of social services in North Macedonia, irrespective of the source of funding. The initial phase of this component also supported the process of establishing the licensing for organizations to provide social services. To date, 95 organizations have been awarded licenses to provide social services under the 2019 Law on Social Protection. Lessons have been learned in the process of licensing project-financed organizations, including a recommendation that the bylaws be modified so that providers can get licensed without difficulty within the six-month deadline. Given that these procedures are now well established and appropriate amendments to bylaws have been made, it is anticipated that the establishing of services and licensing of service providers under the Second SSIP will be much faster.

9. Once the rulebooks and licensing procedures were developed, the project piloted a grant mechanism for the development of noninstitutional social services at the local level. Namely, this component financed grants for social services subprojects designed to develop noninstitutional social services, primarily in-home care but also other types of social services including day centers for children with disabilities, personal assistance, and centers to promote active aging and advice for the preparation of social services subproject proposals and the carrying out of an assessment on municipal social services needs and demand. The municipalities, based on their local and regional plans, determined their needs for particular services and applied to a public call announced by the MLSP. Technical assistance on local need and demand assessments, as well as grant proposal/application preparation, were also provided under the project. Particularly, the project supported initial assessments of the municipal capacities and provided technical assistance tailored to the needs of each municipality. A grant application was submitted by one or more municipalities, together with potential providers for a type of service for which the need was identified.

10. The SSIP successfully increased the coverage of social services, demonstrating that this approach can work in North Macedonia. The piloting of the social services was done using the new model of outsourcing these services to private providers, by providing financial support for 34 projects in 43 municipalities, reaching more than 2,600 beneficiaries by early 2023, with approximately 35,000 hours of service time. Through a needs-based assessment, municipalities in partnership with NGOs proposed which services will be prioritized, depending on the specific needs of the local context. To deliver these services, agreements were signed with 31 private providers, which were selected on a competitive basis through an open call. These providers were then licensed and established their services, including hiring qualified staff. To date, roughly 85 percent of the social services financed by the SSIP have been for in-home care, which is largely being used to meet the needs of elderly people, with reports of growing demand from municipalities and NGOs nationwide.

11. In spite of the gains in expanding the supply of social service, coverage remains limited across municipalities and new challenges are emerging based on the lessons learned under the SSIP to be addressed under the Second SSIP. Significant regional disparities in access to services also remain given the insufficient and unevenly distributed networks of service providers. The lessons learned through the delivery of social services under the SSIP show several challenges connected to the financing and monitoring of social services and the available workforce.

- In terms of financing, to sustain the model of service provision tested under the SSIP, the MLSP committed to financing through the national budget all the social services that were established through the project to ensure their continuation. To date, as a commitment to the service provision model, 77.3 percent of the services established under the first call continue to be funded from the national budget after the project contract ended. The rapidly



rising demand for in-home care has raised broader questions around the extent to which these services should be fully subsidized by the central government and the possibility of the for-profit private sector to fill some gaps in service provision (with the introduction of user fees as one option), with due attention to equity and affordability. Against this background and with the aim of establishing selected types of services nationwide (in-home care and day centers), the Second SSIP will explore the possibility to expand the coverage of social services provided through private providers, financed by the MLSP and on a commercial basis.

- Monitoring of social services is divided between the CSW, the Licensing Commission of the MLSP, the Licensing Commission of the ISA, and the Inspection Department in the MLSP. The two licensing commissions monitor through the licensing process focusing on service/professional work requirements only during the license renewal process. While the mandate for the provision of licensing is set out in the law, the oversight of process quality—and how this relates to licensing—is less clearly articulated. To address this challenge, the Second SSIP will focus on strengthening the regulation, inspection, and monitoring capacities of the MLSP and the ISA.
- The selection, hiring, and management of caregivers, in some cases proved to be complex, with high rates of turnovers, especially among younger and Roma female caregivers, many of whom dropped out during the training or did not start working as caregivers after receiving their caregiver certificate. Evidence gathered in 2022 through a tracer study funded by a World Bank Trust Fund⁸⁴ has helped understand the experiences of Roma women with the care certification programs to inform the design of future interventions for targeting Roma women and their activation in the care economy under the Second SSIP. In this regard, lessons are being learned in terms of the options for contracting staff (full time, temporary), the training requirements, and the level and type of relevant mentoring, with the suggestion that social mentoring is required when GMI beneficiaries or the ‘hardcore’ unemployed are hired. These lessons are being taken up in the design of the Second SSIP.
- Finally, the piloting of grants under the SSIP has made it clear that there is an extensive need for in-home care for the elderly that needs to be expanded across the entire country, a process that would be initiated under the Second SSIP.

12. The SSIP also included adaptation efforts by investments in system building (that is, the introduction of a new SWIS and the use of the case management system). With support of the SSIP, the MLSP is putting in place a new SWIS that will integrate the CBMIS and LIRIKUS, enabling to integrate the provision of cash benefits and social services and also bringing the information system in line with the 2019 law. The SSIP supported the MLSP to carry out a thorough review of business processes, which informed the procurement of a firm to design the new information system, which is currently ongoing, as well as the drafting of required rulebooks to support its use. The new information system will be in use by the closing of the SSIP, with the need for continued training and trouble shooting in the Second SSIP. The new information system will support the ongoing introduction of case management⁸⁵ across the CSWs. A key challenge, however, for the implementation of this reform is the lack of adequate staff to serve as case managers; the organization of the CSWs, which has not been reviewed in light of the 2019 law; and

⁸⁴ This is funded under the World Bank Advisory Services and Analytics ‘Second Phase of the Europe 2020 TF Supporting the Effective Reintegration of Returnees in the Western Balkans’ (P172194, TF0B4975).

⁸⁵ This work has been supported by UNICEF, with the SSIP PMU playing a key role.



limited motivation in some cases. Building on this lesson, the Second SSIP would support the MLSP to address these challenges.

Component 2: Expanding the access to and improving of the quality of preschool services (US\$18.6 million)

13. This component of the SSIP was focused on improving access to quality ECEC services for young children ages 0–6 years,⁸⁶ from socially disadvantaged backgrounds (that is, poor children, children with disabilities, and Roma children).

14. In the preliminary stages of project planning for the SSIP, the challenge of addressing the low attendance rate in preschool education was identified, given that enrollment rates in all neighboring countries were substantially higher (except for Kosovo). In 2015, less than one-fourth of children attended ECEC.⁸⁷ Moreover, poorer children and children from ethnic minorities attended ECEC at far lower rates.⁸⁸ Against this backdrop and given the importance of ECEC for the country’s economic growth and social well-being, the Government committed to prioritize increasing enrollment and improving the quality of ECEC programs, which was also identified as a major priority in the *Comprehensive Strategy for Education Development 2018–2025*.

15. The SSIP served as a key vehicle of the Government’s efforts to increase enrollment. With support from the project, the MLSP expanded access to ECEC primarily by building new or upgrading existing ECEC infrastructure. Construction works were done in accordance with the upgraded infrastructure standards developed under the SSIP. These standards align with international best practices and employ solutions that increase efficiency and flexibility in the use of space. Infrastructure projects were also designed to provide more stimulating learning environments and space for learning through play, making these ECEC facilities unique in North Macedonia. The use of upgraded infrastructure standards ensures that the facilities are safe, efficient, and sustainable. As of June 2023, 12 kindergartens out of the initiated 16 infrastructure projects were fully completed, of which 9 started working with children. By the closing date of the project, it is projected that a total of 1,961 new kindergarten spaces will be created. Notably, the project has been responsible for creating 46 percent of all new ECEC spaces in the country between 2018 and 2022.

16. While the SSIP has substantially contributed to the Government’s effort to expand ECEC coverage, significant gaps remain to be addressed. While the coverage of ECEC among children ages 3–6 years has increased from 32 to 42 percent in 2022, North Macedonia still lags many countries in the Western Balkan region and continues to fall far short of the EU Education and Training 2030 target, which has become more ambitious, with the aim now of reaching 96 percent coverage of children ages 3–6 years. In this respect, the country needs to continue investing in ECEC infrastructure to expand access to address the still evident geographical disparities and disparities in access by income levels to achieve the EU standards and benchmarks. In parallel, emerging evidence and lessons learned through SSIP point to opportunities to move beyond increasing access through building new kindergartens only. As a result, the new operation for the Second SSIP aims to continue expanding the supply of ECEC in suburban/peri-urban and rural areas,

⁸⁶ The focus on quality has been on the education of children ages 3–6 years.

⁸⁷ SABER Country Report (2015). Former Yugoslav Republic of Macedonia. Early Childhood Development.

⁸⁸ As noted earlier in this annex, before the SSIP, a mere 0.3 percent of children from the poorest quintile were enrolled in ECEC (compared to 36 percent in the total population). Enrollment rates were just 2.6 percent for Roma and 7.5 percent for Albanian children.



adhering to construction standards and meticulously designed municipality selection criteria (which are pro-poor) established during the SSIP. Different from the SSIP where the focus was on building new ECEC facilities, the Second SSIP will pivot its focus toward repurposing and/or upgrading public building such as primary schools, which are underutilized in some areas due to demographic patterns and migration, or other buildings available in the municipality. Repurposing/upgrading will be prioritized to allow faster increases in access. This approach is also in line with the ongoing optimization of the primary school education network. The MoES has already started identifying potential municipalities where the repurposing could take place, based on the local demand for preschool places. The Second SSIP will also aim to pilot a new model of ECEC provision for children ages 0–3 years, by providing government subsidy for the delivery of home-based childcare to private providers, as a way to address the very low preschool intake of children in this age group (national data show that 11 percent of children in this age group are enrolled in formal care). This model, looking beyond the public provision of services to the private sector, is intended to increase access to childcare, especially when the Government cannot directly meet the need for additional places through publicly funded ECEC institutions.

17. The quality of ECEC provision has also been the focus of SSIP. When the SSIP was initiated, the country already had many essential elements of a strong ECEC framework, including national learning standards and a well-developed national curriculum that is child centered and play based oriented for children ages 3–6 years. Yet, the country had no system for monitoring the quality of ECEC; thus, very different understandings on the quality of ECEC existed. This caused challenges in establishing an evidence base to provide information on what is the quality of early learning and how it can be improved. Moreover, a particularly urgent matter related to the quality of pre-service and in-service teacher training. In the *Comprehensive Strategy for Education Development 2018–2025*, this issue is recognized as one of the biggest weaknesses of preschool education. As an OECD assessment made clear, “new teachers enter the profession without any assurance that they have met minimum teaching competencies,”⁸⁹ further exacerbated by the fact that in-service professional development of teachers was infrequent. Building on the elements of the enabling environment and against the quality-related challenges that the ECEC system faced, the SSIP carried out activities intended to strengthen the pre-service and in-service teacher training, enhancing ECEC quality assurance mechanisms and developing a new funding formula for ECEC as a basis upon which financing will be allocated to municipalities—expected to lead to a more efficient and effective use of ECEC expenditure. In the scope of the project, 1,500 teachers (90 percent of all teachers) completed two teacher training modules aligned with the required competencies, as defined by the national standards. To strengthen pre-service training, a new core curriculum was agreed by all teaching faculties within universities in the country. Through a joint committee, university faculties continue to work together on establishing the selection criteria for three model kindergartens intended for student practical training, to be equipped with didactic and learning materials through SSIP funds. The project has further strengthened the quality framework by establishing a national system to monitor the quality of ECEC by introducing the MELQO instrument.⁹⁰ The MELQO represented the first opportunity for North Macedonia to systematically examine patterns in child development and learning and in the quality of children’s learning environments.

⁸⁹ OECD. 2019. *Reviews of Evaluation and Assessment in Education: North Macedonia*. Paris: OECD Publishing.

⁹⁰ The MELQO measured the learning outcomes of 1000 children across 100 preschools through direct children assessment. Other data instruments gathered insights from 1019 teacher reports, 971 parent/caregiver reports, 103 teacher interviews, 103 director interviews, and 103 classroom observations.



18. The Second SSIP aims to continue improving the quality of ECEC by addressing the shortcomings identified by the MELQO and by institutionalizing the gains made through SSIP. While according to the MELQO a large portion of children are doing well in key domains, there are several areas that would benefit from targeted strengthening, especially those skills that are specifically associated with school readiness such as literacy and numeracy. In addition, there are groups of children that demonstrate learning vulnerability and are falling behind their peers. In light of this situation, the Second SSIP will include further support to the three centers for excellence established under the SSIP, further strengthening the system of professional development for preschool teachers in light of the MELQO findings, including better structured peer-to-peer learning and greater opportunities for teachers to use effective practices to improve child literacy and numeracy outcomes through the curriculum while supporting children's transition to the early grades of primary education. While the SSIP was focused primarily on strengthening the capacities of preschool teachers, the Second SSIP moves more purposively toward expanding training opportunities and support to the caregivers working with children ages 0–6 years. Within the framework of the Second SSIP the integration of the MELQO into the routine assessments carried out by the NEC will be established, guaranteeing its continuity even after the conclusion of the Second SSIP. The SSIP has ensured that appropriate local capacities have been built for this transition, adhering to the high-quality standards of the MELQO process implementation. Similar to the SSIP, the results of the MELQO will allow to set a baseline for process quality under the Second SSIP and to generate nationally comparable evidence in ECEC during the full cycle of the project.

19. While outreach to families via educational campaigns, including those belonging to vulnerable groups, was an important element of the SSIP, the project did not provide a systemic framework to supporting parents/caregivers. Although activities under Component 2 were established to benefit all relevant beneficiaries, under the Second SSIP, more needs to be done to target parents, with a focus on demand-side interventions to promote early stimulation at home and to encourage parents to take advantage of existing ECEC services for young children. The lessons learned from the SSIP show that expanding ECEC availability alone may not be enough to reach the poorest children and get them enrolled into ECEC. Therefore, there is a need for more targeted outreach to marginalized groups under the Second SSIP. This outreach should focus on making parents aware of the benefits of sending their children to preschool and also on improving the family environment. While several parental programs have been introduced in the past, the coverage of these program has been low, thus having limited impact on improving parenting practices and community engagement. In light of this, the Second SSIP puts forward much-needed attention to developing and piloting several parenting programs for parents with young children. The proposal to focus on parenting in the Second SSIP emerges from a World Bank-funded report from 2022 that summarizes arguments to invest in parenting and describes features of successful programs inspired by the context in North Macedonia and global evidence. The report consolidates information from the consultation process with experts and suggests five relevant options for parenting approaches in North Macedonia. This analysis would serve as a starting point for the design of pilot parental programs under the Second SSIP.



ANNEX 3: Economic Appraisal

1. The proposed project is expected to support a range of human capital-related benefits for households in North Macedonia, in particular for the more vulnerable ones. First, the demand for care services is large and will further grow as a consequence of the aging of the population in the country and changing social norms.⁹¹ At the same time, working-age population growth is declining driven by outmigration and aging, so there is a need to strengthen the employment rates of working-age adults. Disenfranchised groups with structural low employment such as ethnic minorities, women, and the youth are key targets. In this regard, the expansion of care services (specifically social services and ECEC) would address the increasing demand, supporting more equitable living standards.

2. In the labor market, the project is expected to have a positive impact on LFP and employment through four different channels. First, the provision of care services will reduce the burden of caregivers and free up time for them to engage in paid employment. Second, the project will be directly creating jobs in the care sector, which will be partly targeted to vulnerable groups. Third, the activation pilot of social assistance beneficiaries will increase their employability and earnings potential. Finally, investments in improving access to quality ECE services will increase the lifelong earnings potential of children in the North Macedonian labor market and allow for increased labor market participation of women.

3. There is robust international evidence that unpaid care responsibilities reduce LFP and employment. Nonpaid caregiving responsibilities at home are a main deterrent to engaging in the labor market, finding job opportunities, or reducing the number of hours that caretakers can allocate to paid employment, increasing their opportunity cost. This is particularly true for women, given the prevailing social norms. Previous evidence shows that there is a negative relationship between unpaid care for the elderly or children and LFP. A study of different OECD countries found that a 1 percent increase in hours of care work is associated with a reduction in the employment rate of carers of 10 percent.⁹² The negative impact of unpaid caretaking responsibilities on labor market engagement is also observed in countries with less-developed formal care services.⁹³ Investing in care services—whether it is for children, the elderly, or people with disabilities—thus has positive spillover by reducing the burden of informal home care so working-age caregivers can seek employment opportunities.⁹⁴

4. In North Macedonia, analysis of the 2020 Labor Force Survey shows a similar negative association between caretaking responsibilities and labor market status. Having a dependent in the household—defined as children up to 12 years old and adult(s) with disability or an elder 80 years old or more⁹⁵—reduces the likelihood of adults (ages 15–64 years) in the household of being in the labor force by 6 percentage points and of being employed by 3.5 percentage points.⁹⁶ Given the gender norms where

⁹¹ For both childcare and elderly care, there has been a long-standing expectation that it should be provided by families.

⁹² Colombo, F., A. Llena-Nozal, J. Mercier and F. Tjadens. 2018. “Help Wanted? Providing and Paying for Long-term Care”, OECD Health Policy Studies.

⁹³ Scheil-Adlung, X. 2015. “Long-term Care Protection for Older Persons: a Review of Coverage Deficits in 46 countries”, Extension of Social Security Working Paper no. 50, International Labor Organization.

⁹⁴ And engage in leisure activities, which are not considered in this economic analysis.

⁹⁵ This definition is restricted by the data availability in the Labor Force Survey. Only adults 15+ years that mention disability as a reason for not being employed are captured in the survey as people with disability. Given that there is no information on dependents due to old age, we approximate it with all adults 80 years old or more.

⁹⁶ The analysis uses probit and logit models at the individual level that control for other individual characteristics such as age, gender, education level, marital status, or region of residence.



women tend to be the main caregivers in the household, the labor market impact is significantly stronger for women (drop of 9 percentage points in LFP and 6 percentage points in employment) than for men (2 percentage points fall in LFP and no impact on employment). There are also sizable asymmetries in other dimensions in the connection between informal caregiving and labor market engagement. First, the negative impact of having a dependent on adults' labor market status is twice as large in rural areas compared to urban areas. That might be partly because there is less availability of formal care services in rural areas in North Macedonia. The penalty of having a dependent is also larger for adults with less than tertiary education compared to those with a college degree, given that, while the cost of formal caregiving is similar, the earnings capacity if employed is significantly higher for more educated individuals. Finally, not all dependents have a similar impact on their caretakers' engagement in the labor market. The younger the child is, the more negative impact they have on LFP and employment on the adults of the household. For example, while having a child age 0–2 years reduces LFP by 9 percent, the fall is cut in half when having children ages 3–5 years (less than 5 percent) and in one-third for children ages 6–12 years (3 percent). This result reflects not only the higher care needs of children the younger they are but also the larger availability of formal education that reduces their time spent at home. Having an adult with disability in the household is also strongly correlated with lower LFP and employment of other adults in the household (–8.5 percentage points and –8.3 percentage points, respectively). As in the case of children, the impact is stronger for women—given their primary role as caregivers—and among adults with less than tertiary education. On the other hand, the negative impact on caretakers of people with disabilities is concentrated in urban centers. The effects of having an elder in the household 80 years old and more appear to be more limited (0.7 percentage point reduction in LFP and no impact on employment). This is because not all elderly ages 80+ years require a caregiver, and some of them also play a role taking care of children, which can have countervailing effects on the labor supply of working-age adults. Overall, the main finding of the analysis shows that having a dependent in the absence of formal care services has a sizable toll in the labor market which reduces labor supply. Women, less-educated individuals, and those in rural areas are particularly affected.



Table 3.1. Impact of Having a Dependent at Home on Household Adults' LFP and Employment

Impact on Labor Force Participation							
	Total	Females	Males	Urban	Rural	Tertiary education	Non-tertiary education
Dependent	-6.0%	-9.0%	-2.4%	-4.1%	-8.3%	0.0%	-7.9%
Child 0-2	-8.9%	-16.2%	-2.5%	-7.8%	-10.1%	-2.2%	-10.5%
Child 3-5	-4.6%	-9.6%	-2.0%	-2.2%	-7.4%	0.0%	-6.1%
Child 6-12	-3.0%	-5.8%	1.9%	-3.3%	-2.8%	0.0%	-4.0%
Child 13-17	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adult with disability	-8.5%	-12.2%	-3.1%	-12.7%	-5.9%	-7.9%	-9.5%
Elder (80+)	-0.7%	-0.9%	0.0%	0.0%	-3.8%	0.0%	-1.3%

Impact on Employment							
	Total	Females	Males	Urban	Rural	Tertiary education	Non-tertiary education
Dependent	-3.5%	-6.1%	0.0%	0.0%	-5.9%	-2.9%	-5.4%
Child 0-2	-5.9%	-14.0%	0.0%	-4.9%	-7.1%	-3.6%	-8.3%
Child 3-5	-2.4%	-8.4%	0.0%	0.0%	-5.8%	-4.2%	-4.1%
Child 6-12	-1.9%	-5.3%	0.0%	0.0%	-1.9%	0.0%	-3.2%
Child 13-17	0.0%	0.0%	0.0%	0.0%	-2.5%	0.0%	0.0%
Adult with disability	-8.3%	-9.7%	-2.9%	-20.4%	0.0%	-7.2%	-9.3%
Elder (80+)	0.0%	0.0%	0.0%	1.3%	-1.6%	0.0%	0.0%

Source: Own elaboration based on 2020 Labor Force Survey.

5. The provision of care services of Components 1 and 2 of this project is thus expected to ease the cost of caretaking responsibilities and enhance LFP and employment. By providing care services, the project will support households and reduce the burden of informal caregiving at home, both for the elderly and children. To calculate the benefits of the care service provision of Component 1, the increase in probability of being employed of each adult in the household (3.5 percent) is multiplied by the average number of adults in the households with dependents (2.6) and by the average annual earnings in the economy—(US\$10,632) assuming that is the potential wage that a caretaker could be earning if they were employed. That is, for every beneficiary of care services, the program would have benefits of US\$967 annually linked to higher employability of informal caregivers. Furthermore, the component is expected to directly create 421 jobs in the in-home care service industry (395 professional caretakers and 26 coordinators), with expected average annual income of US\$5,400 and US\$8,350, respectively. The combination of both direct and indirect effects on employment adds up to US\$2.15 million). The per capita cost of care service provision is expected to amount to US\$2,914, or US\$1.78 million in total, which would lead to a net gain of close to half a million dollars only in higher employment rates.

6. The impact of the provision of ECEC services of Component 2 in the labor market includes the positive impact not only on caretakers' LFP but also on the higher life earnings of children that access education during those formative years. Investing in education has positive monetary returns in the labor market by increasing lifelong earnings. A large body of evidence has shown sizable positive impacts of ECE interventions on skill development, employment, and earnings.⁹⁷ These returns are substantially higher

⁹⁷ Baumüller, R., Gørtz, M., & Rasmussen, A. W. 2011. "Long-run benefits from universal high-quality pre-schooling." Maastricht, the Netherlands: Maastricht University, Graduate School of Governance; Goodman, A., and B. Sianesi. 2005. "Early education and children's outcomes: How long do the impacts last?" *Fiscal Studies*, 26(4), 513-548; Melhuish, E. C., Sylva, K., Sammons, P., Siraj-Blatchford, I., Taggart, B., Phan, M., & Malin, A. 2008. "Preschool influences on mathematics achievement." *Science*, 321(5893), 1161-1162.



than other investments in later stages of life given the particularly sensitive learning period and because early investments compound to future investments in what is called a dynamic complementarity.⁹⁸ While the evidence is mostly concentrated in developed countries, initial findings show even higher returns in developing countries given that children tend to have lower skills and alternatives for learning.⁹⁹ The lower environment for learning at home is also a key channel through which more vulnerable children benefit more from ECEC investments.¹⁰⁰ However, the quality of ECEC is critical for observing longer-term benefits of these investments (OECD 2010). In the US, the National Forum on Early Childhood Policy and Programs found that high-quality early childhood programs yield a US\$4–9 return for each US\$1 invested, while the evaluation of the 2009 Perry Preschool program estimated a benefit to society of between US\$7 and US\$12 per dollar spent.¹⁰¹ In the context of North Macedonia, the expected benefit of the provision of ECEC services of the Second SSIP is similarly large. Even if the quality of service is somewhat below best-performing programs in developed countries, the counterfactual of lower cognitive development at home in the absence of the program suggests that returns might not be smaller, at least in the order of magnitude of four times the cost of the program.

7. Finally, the activation of GMA beneficiaries by linking them to firms and bridging the skill gap can reduce barriers and enhance their employability with positive payoffs in the labor market. The economic literature has failed to find robust effectiveness of ALMPs on labor market outcomes, particularly in the longer term. In a review of different interventions in developing countries, McKenzie (2017) highlights that traditional programs that focus on skill training, wage subsidies, and job search assistance have at most modest impacts on beneficiaries' labor market outcomes.¹⁰² While noting that urban labor markets function relatively well, the author highlights that interventions that address sectoral and spatial mismatches are more promising. Another important factor behind the lack of robust evidence is that most traditional programs lack or have very limited matching, screening, and counseling components to better link workers and firms. In the city of Lausanne, Switzerland, an intervention creating a unit staffed by social workers and employment agents from the public employment services providing support to social assistance beneficiaries led to a 9 percentage point increase in the likelihood of being employed even two years after the program.¹⁰³ Helping firms screening workers has also proved to be effective in increasing labor demand.¹⁰⁴ In North Macedonia, a recent program matching and mentoring GMA beneficiaries on top of wage subsidy for firms during six months had long-term positive effects on noncognitive and work-related skills and increased by 15 percentage points the likelihood of being employed 3.5 years after the start of the intervention.¹⁰⁵ The benefits of the project activation measure are expected to have similar

⁹⁸ Cunha, F., J. Heckman, L. Lochner and D. Masterov .2006. "Interpreting the evidence on life cycle skill formation. In E. A. Hanushek, & F. Welch (Eds.), *Handbook of the Economics of Education*, chap. 12. Amsterdam: North-Holland, pp. 697–812;

Heckman, J. 2008. "Schools, skills and synapses. *Economic Inquiry*", 46 (3), 289–324.

⁹⁹ Gertler P., J. Heckman, R. Pinto, A. Zanolini, C. Vermeersch, S. Walker, S. Chang, S. Grantham-McGregor. 2014. "Labor market returns to an early childhood stimulation intervention in Jamaica". *Science*, 344(6187):998-1001.

¹⁰⁰ Cascio, E. 2015. "The Promises and Pitfalls of Universal Early Education." *IZA World of Labor* 116.

¹⁰¹ Heckman, J., S. Moon, R. Pinto, P. Saveljev, and A. Yavitz. 2010. "The rate of return to the HighScope Perry Preschool Program." *Journal of Public Economics*, 94 (1–2): 114-128

¹⁰² McKenzie, D. 2017. "How Effective Are Active Labor Market Policies in Developing Countries? A Critical Review of Recent Evidence" Policy Research Working Paper No. 8011. © World Bank, Washington, DC.

¹⁰³ Bonoli, G. 2018. "Helping social assistance beneficiaries to find jobs: evidence from a controlled trial in the City of Lausanne (Switzerland)" *ESPN Flash Report* 2018/22.

¹⁰⁴ Algan, Y., B. Crepon and D. Glover. 2023. "Are Active Labor Market Policies Directed at Firms Effective? Evidence from a Randomized Evaluation with Local Employment Agencies." *The Review of Economic Studies*.

¹⁰⁵ Armand, A., P. Carneiro, F. Tagliati and Y. Xia. 2020. "Can Subsidized Employment Tackle Long-Term Unemployment? Experimental Evidence from North Macedonia," *IZA DP No. 13478*.



results as it targets the same population group and includes similar mentoring and matching features. The annual benefits of the program are projected to be equal to the increased probability of employment times the minimum wage in the economy (US\$354 monthly)—given that GMA beneficiaries tend to have low education levels and work experience—which leads to US\$637 per year of benefit.