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Report No: PAD3544

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 13.8 MILLION
(US\$15.17 MILLION EQUIVALENT)

TO

THE REPUBLIC OF NORTH MACEDONIA

FOR A

SOCIAL INSURANCE ADMINISTRATION PROJECT

January 14, 2020

Social Protection and Jobs Global Practice
Europe And Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2019)

Currency Unit = Macedonian Denar (MKD)

MKD 55.95 = US\$1

MKD 61.52 = EUR 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ADM	Accountability and Decision Making
APR	Annual Progress Report
AVRM	Agencija za Vrabotuvanje (Employment Agency of North Macedonia)
CBMIS	Cash Benefits Management Information System
CCT	Conditional Cash Transfer
CCTP	Conditional Cash Transfer Project
CDCCU	Central Disability Certification Coordination Unit
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CSO	Civil Society Organization
DEF	Disability Employment Fund
ESP	Extended Service Period
EU	European Union
FM	Financial Management
FZO	Fond za Zdravstveno Osiguruvanje (Health Insurance Fund of North Macedonia)
GDP	Gross Domestic Product
GoNM	Government of North Macedonia
GRM	Grievance Redress Mechanism
HBS	Household Budget Survey
ICF	International Classification of Functioning, Disability, and Health
ICT	Information and Communication Technology
IFR	Interim Financial Report
M&E	Monitoring and Evaluation
MAPAS	Agencija za Supervizija na Kapitalno Finansirano Penzisko Osiguruvanje (Agency for Supervision of Fully Funded Pension Insurance of North Macedonia)
MLSP	Ministry of Labor and Social Policy
MoH	Ministry of Health
MoF	Ministry of Finance
NBRNM	National Bank of the Republic of North Macedonia
NPF	New Procurement Framework
PDO	Project Development Objective
PAD	Project Appraisal Document
PIOM	Fond na Penziskoto i Invalidskoto Osiguruvanje (Pension and Disability Insurance Fund of North Macedonia)
PMU	Project Management Unit
POM	Project Operational Manual
PPP	Purchasing Power Parity
PPSD	Project Procurement Strategy for Development
QPR	Quarterly Progress Report
SIAP	Social Insurance Administration Project

SPD	Standard Procurement Document
SSIP	Social Services Improvement Project
STEP	Systematic Tracking of Exchanges in Procurement
SURS	Single Unified Registry System
TSA	Treasury Single Account
UJP	Uprava za Javni Prihodi (Public Revenue Office of North Macedonia)
UMIC	Upper-middle-income Country
UNDP	United Nations Development Programme



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DATASHEET

BASIC INFORMATION

Country	Project Name	
Republic of North Macedonia	Social Insurance Administration Project	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P170343	Investment Project Financing	Low

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"/> Disbursement-linked Indicators (DLIs)	<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"/> Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
6-Feb-2020	30-Apr-2023

Bank/IFC Collaboration

No

Proposed Development Objective(s)

Improve the quality of services in administering social insurance and strengthen the regulatory framework for people with disabilities and hazardous occupations.



Components

Component Name	Cost (US\$, millions)
Improving the quality of the social insurance administration services	9.81
Strengthen the regulatory framework for people with disabilities and for hazardous occupations	4.62
Project Management	0.71

Organizations

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

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	15.17
Total Financing	15.17
of which IBRD/IDA	15.17
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	15.17
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Expected Disbursements (in US\$, Millions)

WB Fiscal Year	2020	2021	2022	2023	2024
Annual	0.26	1.73	3.78	7.25	2.15
Cumulative	0.26	1.99	5.77	13.02	15.17



INSTITUTIONAL DATA

Practice Area (Lead)

Social Protection & Jobs

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	No
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	No

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

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



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 Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
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 Covenants



Conditions



I. STRATEGIC CONTEXT

A. Country Context

1. **The Republic of North Macedonia is a small upper-middle-income country (UMIC) in the Balkan peninsula that aspires to achieve the living standards of the European Union (EU).** North Macedonia's population is about 2 million, but the population is aging and shrinking.¹ Nearly 25 percent of the population live in the capital, Skopje, while close to 40 percent live in rural areas. In 2018, North Macedonia's gross domestic product (GDP) per capita was US\$6,100, about one-sixth of the average for EU member states. Its purchasing power parity (PPP) GDP per capita stood at US\$15,715, still only one-third of the EU average.

2. **Economic growth in North Macedonia has been accelerating, with an average annual GDP per capita growth of 2.6 percent in 2000–2018, exceeding the 1.8 percent average for Europe and Central Asia in the same period.** The country managed to avoid imbalances that could have deepened the negative impact of external shocks, and it maintained adequate fiscal space to adopt countercyclical policies during the global financial crisis. In the post-global financial crisis period (2009–2016), the annual average GDP per capita slowed to 2.1 percent, but it was still above the regional average. After the slowdown in 2017 to 1.1 percent, in 2018 GDP growth increased to 2.7 percent, opening fiscal space for economic and social sector reforms.

3. **Since 2009, poverty has decreased continuously and was calculated at 23.7 percent in 2018.**² Extreme poverty declined proportionally, reaching 4.8 percent in 2018.³ Poverty reduction in the post-crisis period was matched by an overall positive record in shared prosperity. Income growth of the bottom 40 percent was three times faster than the income growth for the total population between 2009 and 2018 (6.3 percent versus 2.1 percent). Inequality indicators also show reductions after the global financial crisis, with the Gini coefficient decreasing from 0.42 to 0.36 from 2009 to 2018. The employment rate increased by 10 percentage points to above 45 percent in 2018. Job creation was supported mainly by public spending for large-scale public projects, new active labor market policies, and Government support for employment in Special Economic Zones. Growth has also been pro-poor. It is estimated that during these nine years, 287,000 people were lifted out of poverty. However, unemployment is still high at 17.5 percent by June 2019, and labor force participation is low, especially for those younger than 25 years and older than 55, and for women. In addition, poverty remains high in rural areas, and the reduction in poverty since 2009 has not been sufficient to close rural-urban gaps in living conditions. While the urban poverty headcount is 17 percent, the rural poverty headcount remains at nearly 30 percent.

4. **North Macedonia's labor market has been improving, but unemployment is still high, and labor force participation low.** The labor market continued to improve in 2018. The employment rate increased by 1 percentage point to 45.1 percent, while the activity rate increased only slightly to 56.9 percent. The employment expansion was broad based with significant gains for young and prime-age women. The unemployment rate declined to 20.7 percent in 2018 (from 22.4 percent a year earlier) but still remains three times higher than in the EU. Most of the new jobs were created in manufacturing and industries closely related to tourism. Low levels of employment, together with the ageing and shrinking population, pose a serious challenge to the sustainability of

¹ By 2040, more than 20 percent will be over the age of 65. The fertility rate has declined to only 1.5, lower than the regional average.

² Poverty is measured as absolute poverty using the poverty line for UMICs. This is estimated at US\$5.5 per day in 2011 PPP.

³ Extreme poverty is calculated using the international poverty line, estimated at US\$1.90 per day in 2011 PPP. This line is used to track the World Bank goal of ending global poverty by 2030.



the current pension and social transfer systems, as well as to the budgets for health, education, and other social services.

5. **An aging population and a long tradition of emigration pose challenges to productivity.** The projected population growth is nearly zero, and estimates based on census data from destination countries (mostly Western European countries and North America) suggest that more than 500,000 citizens reside abroad, one of the largest diasporas in the world as a percentage of the total population. Considering the small size of the workforce and low birth rates, the loss of even a small number of workers affects the overall pool of skills in the economy.

6. **The resolution of the decades-long dispute with Greece over the country's name marks a turning point in North Macedonia's history as an independent nation.** On June 12, 2018, the Governments of North Macedonia and Greece signed the Prespa Agreement⁴ aimed at resolving the prolonged name issue.⁵ The Parliament in Skopje endorsed the necessary constitutional changes introducing the new name 'Republic of North Macedonia' on January 11, 2019. The use of the new name entered into force in February 2019, after ratification of the Prespa Agreement by the Greek Parliament. In parallel, North Macedonia signed the North Atlantic Treaty Organization accession protocol, a process that was stalled for years due to the dispute. In April 2018, the European Commission recommended the opening of negotiations with North Macedonia, but on October 17, 2019, the Council of the EU failed to reach a decision on opening negotiations with North Macedonia. The Council will revert to the issue before the EU-Western Balkans summit in Zagreb in May 2020.⁶ Following the European Council's decision, the Prime Minister announced early elections which all political parties agreed to hold on April 12, 2020.

7. **The World Bank has been a partner of choice of the Republic of North Macedonia for over 25 years.** The current Country Partnership Framework for the Republic of North Macedonia 2019-2023 (CPF, Report No. 135030-MK) was discussed in April 2019. Its preparation was informed by broad consultations with various stakeholders, which included members of parliament, government institutions, opposition representatives, nongovernmental organizations, academia, and private sector. The result of the consultations is a CPF which aims to support North Macedonia's ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life. The CPF is organized around three focus areas that will help North Macedonia (a) improve the environment for a dynamic private sector to enhance export-led growth, (b) strengthen human capital for inclusive development, and (c) build sustainability. Prepared after a prolonged period of political turmoil in the country when the World Bank engagement was compromised, the new CPF envisages an ambitious lending program in FY20 to address public finance challenges, modernize agriculture, improve energy efficiency of public buildings, and improve connectivity by investing in local roads.

B. Sectoral and Institutional Context

8. **Social insurance in North Macedonia is administered by multiple agencies with limited coordination, while the current disability and pension benefit design disincentivizes labor market participation for persons with disabilities and certain categories of hazardous occupations.** In North Macedonia, social insurance includes pension and disability insurance (administered by the Pension and Disability Insurance Fund [PIOM]), health insurance (administered by the Health Insurance Fund [FZO]), and unemployment insurance (administered by the

⁴ The text of the agreement can be found at <https://vlada.mk/sites/default/files/dokumenti/spogodba-en.pdf>.

⁵ The country became a member of the United Nations in 1993, but because of a dispute with Greece over the use of the name Macedonia, it was admitted under the provisional description of 'the former Yugoslav Republic of Macedonia'.

⁶ Council of EU, <https://www.consilium.europa.eu/en/meetings/european-council/2019/10/17-18/>.



Employment Fund [AVRM]). Pension benefits include old-age, disability, and survivors' pensions. Health insurance, in addition to health protection, covers periods of sickness and maternity periods. Unemployment insurance provides benefits in the periods of unemployment and helps with job-seeking activities. Disability benefits and services are scattered throughout social insurance and social assistance systems. Employment of persons with disabilities is the responsibility of the Ministry of Labor and Social Policy (MLSP) and the AVRМ. Infrastructure for assisting persons with disabilities to improve their employability in the open labor market is scarce and inefficient. North Macedonia has eliminated general early retirement, but for some hazardous and arduous occupations the rights to retire much earlier than the others has remained. Instead of retiring early, for the able-bodied, society would benefit from these workers' continued activity in some other non-hazardous type of work.

9. **The current social insurance registration and recordkeeping system is scattered, inconsistent, and inefficient.** The AVRМ is tasked with registering all salaried workers centrally and sharing that information with other social insurance agencies. Self-employed, farmers, clerics, and temporary employees, however, register individually with other agencies as needed. Furthermore, the AVRМ does not maintain a registry of contributions paid, which is needed for determining eligibility and benefits in all social insurance agencies. As a consequence, every agency creates and manages its own registry (database) system. Information from the registries is not consistent across agencies. An insured individual may be identified in one agency's database, yet not known in another. Governance of social insurance data is fragmented, whereby each institution acts in an autonomous manner. The reliance on bilateral and ad hoc agreements, and the absence of systemic integrated controls, means that any weakness in these inter institutional processes inevitably results in the various data registries being out of real-time synchronization. This means that benefits and services across all the institutions are being decided and delivered using imperfect data, or data that have not yet been updated.

10. **Collection of social insurance contributions rests with the Tax Collection Agency (UJP), but UJP does not maintain a registry on socially insured persons.** There are many missed connections with the data flows among various registries. This can lead to gaps in insurance payments and thus coverage for insured persons, and these gaps only become visible when the insured person claims a benefit (perhaps 30 or more years later). Gaps in contribution payment data and/or incorrect data from registration and reporting forms can lead to long delays in the PIOM's determination of an insured person's status as mandatory Pillar 2 (private) pensions participant. The Government has already taken formal decisions that aim to establish a new single unified registry system (SURS), eliminate the weaknesses of the present system, and create an efficient new system in the long run.⁷ Registration to social insurance will be unified, simplified, and centralized, while the social insurance benefits and services will be provided faster and with higher quality. According to the Decisions, the SURS will be hosted, managed, and maintained by an entity to be established under the MLSP, and regulated through *lex specialis* on SURS (Law on SURS).

11. **Disability assessment (certification) is complex, involving various different standards and agencies, with no single registry or procedure to unite the system.** Disability assessment (certification) is the gateway for anyone who claims any publicly or privately provided disability-related benefit, service, or product. Disability certification in North Macedonia is required and initiated by several central and local government institutions; social insurance agencies; and social networks (MLSP, Ministry of Education, local governments, PIOM, social centers, education facilities, AVRМ, and FZO). Certification processes are performed in parallel, uncoordinated, last too long, are not

⁷ The respective Government's decisions are No. 45-5503/1 of August 20, 2019, and No. 45-8738/1 of November 26, 2019, and they are available on <https://vlada.mk/vladini-sednici>, on the Minutes of 150th session of August 20, 2019, item No.75; and item No.74 of the Minutes of the 167th session of November 26, 2019.



user friendly for the clients, lack supervision and control, and are inefficient. The current disability assessment in North Macedonia is provided independently by at least three administrative channels. First, there is the disability assessment procedure administered through the social welfare and health insurance administration system, which covers assessments of hearing, sight, and mobility incapacity. Second, the assessment of the eligibility for third-party care of youth, elderly, and other persons with disabilities has, since 2018, been managed by the MLSP. Third, the assessment of level of impairments and remaining work capacity for disability pensions and bodily injury supplement is performed by the PIOM independently. Fourth, there are other disability assessments, such as assessment of war veteran disability initiated and organized by the Government's Department for War Veterans, organized separately and independently from others.

12. Complex and ring-fenced processes and lack of coordination between the agencies have resulted in parallelism, duplication, and red tape throughout the disability assessment process. For each benefit, individuals need to pass different medical expert commissions for determination and assessment of disability. Separate commissions run the medical exam and confirm eligibility only for specifically required social or employment benefits. The medical definition of disability and a person with disability in North Macedonia is strictly medical and lacks the aspects of functionality and a needs-focused approach. A pilot project of introducing the elements of International Classification of Functioning, Disability, and Health (ICF) in disability and needs assessment of youth and students is expected to result in legal amendments to disability assessments of these categories and lead to similar improvements of overall disability assessment processes.⁸ The inexistence of a disability registry constrains effective coordination between the agencies and excludes many persons with disabilities from being served by the system and benefiting from it. The Government's decisions to simplify, unify, and streamline the parallel processes⁹ envisage the establishment of a Central Disability Certification Coordination Unit (CDCCU) in the MLSP responsible for initiating, organizing, performing, and reporting on all disability assessments in the country. The CDCCU establishment and operations will be regulated through amendments to all laws dealing with disability assessment according to the MLSP's legislative changes plan for this area of the Social Insurance Administration Project (SIAP).¹⁰

13. Employment of work-able persons with disabilities is relatively rare in the open labor market and is mainly organized in designated ('sheltered') companies.¹¹ The current focus on activating persons with disabilities in North Macedonia is still on designated ('sheltered') companies. The Law on Employment of Persons with Disabilities (2016) regulates the special conditions for employment and work of persons with disabilities and is largely focused on employment in privately established sheltered companies. The Government subsidizes salaries of persons with disabilities for 20 or 40 months and equipment procured by the sheltered companies under certain criteria. Sheltered companies are reimbursed from the central budget for social insurance contributions paid to all its employees. The overall effectiveness of the North Macedonian program for employing persons with disabilities through the sheltered companies is limited. Already mentioned inexistence of the registry

⁸ Reform Program of the Government 2017–2020 envisages amendments to the disability assessment rules for youth and introduction of ICF elements.

⁹ Government's decisions No. 45-5503/1 of August 20, 2019, and No. 45-8738/1 of November 26, 2019.

¹⁰ The MLSP listed the planned legal changes in this area in the Stakeholder Engagement Plan, published on www.mtsk.gov.mk under SIAP banner.

¹¹ A sheltered company is defined as a company with at least ten employees, of which minimum 40 percent persons with disabilities, registered (as a sheltered company) with the MLSP and AVRМ. In January 2019, 224 registered sheltered enterprises were established, functioning in accordance with the Law on Employment of Persons with Disabilities. These sheltered enterprises employed 5,677 persons, of which 2,351 (41.4 percent) were persons with disabilities. Grants to sheltered companies for employment of persons with disabilities are financed by the Disability Employment Fund (DEF) of the AVRМ. Besides DEF grants, sheltered companies receive a transfer for social insurance contributions for their employees.



of disabled persons is a constraint in the assessment of the effectiveness of sheltered employment on activation of persons with disabilities. The initial analysis of sheltered companies shows that around 2,500 persons with disabilities are employed in sheltered companies in 2019, with relatively small turnover. Poor infrastructure for open market employment of persons with disabilities may have resulted in a multiple number of persons with disabilities being discouraged from seeking work, rehabilitation, or training. The new strategy of the Government,¹² for activating persons with disabilities, broadens the employment opportunities and moves away from compensations to rehabilitation and active employment policies.¹³ It plans to reconsider the distribution of current ‘sheltering’ subsidies toward professional rehabilitation and activation programs for inclusion of persons with disabilities in the open labor market, and ultimately result in a larger number of persons with disabilities participating in the labor market. The Government’s plan is to discuss all aspects of employment of persons with disabilities in 2020 and develop the new Law on Employment of Persons with Disabilities in 2021.¹⁴

14. **The North Macedonian pension system activities are focusing on special pension system segments and pension administration.** The Law on Pension and Disability Insurance, adopted in December 2018,¹⁵ addressed several aspects of pension system fiscal sustainability and the adequacy of multi pillar pensions.¹⁶ The Law on Social Security for Elderly Citizens,¹⁷ enacted in May 2019, introduced a means-tested social pension for elderly above 65 years. While the pension reform package would prevent deterioration of the pension deficit in the next decade, more will need to be done to make the system sustainable in the long run. North Macedonia has already tightened the possibilities for general early retirement, but the list of insured individuals eligible to retire early with an extended service period (ESP) (also known in Macedonian language as ‘*beneficirani staz*’) for hazardous and arduous occupations in North Macedonia has not been revised nor updated regularly. The last revision of the ESP list was performed in 2011,¹⁸ with modest changes to the ESP period, attributable to each occupation, and a minor reduction of the list of occupations. There are approximately 2,000 work positions registered under the ESP, which count toward early retirement. In North Macedonia, there are approximately 25,000 insured individuals eligible for an ESP. The overall share of insured individuals eligible for an ESP stands at 4.5 percent, of which 2.7 percent is military and police and 1.8 percent all other occupations eligible for an ESP. Following the EU countries’ experience, the share of all workers eligible for early retirement should be limited to less than 2 percent of the total insured and preferably around 1 percent if excluding the military and police. For military and police, the average share in the EU countries stands below 1 percent, which indicates that the ESP issue in North Macedonia is largely concentrated in military and police areas. The Government announced its engagement with further reforms in the second phase of the pension reform, including bringing options and eligibility rules for early retirement of hazardous and arduous occupations more in line with the EU standards, and strengthening pension system administration, primarily through business processes and capacity modernization of the PIOM.¹⁹ Centralization and consolidations of the registry system and the disability assessment functions will facilitate the social insurance agencies, particularly the PIOM, to concentrate on delivering their core benefits and

¹² Reform Program of the Government 2017–2020.

¹³ The Government with assistance from the United Nations Development Programme (UNDP) has been piloting a new model of professional rehabilitation to strengthen the open market employment of persons with disabilities. The ongoing pilot has established two rehabilitation centers, implemented in two different types of organizations, which should provide valuable insight and experience for future setup of the national rehabilitation system.

¹⁴ The MLSP’s report of September 30, 2019, to the Government.

¹⁵ Official Gazette 245 (2018).

¹⁶ The list of pension policy measures included, among others, harmonization and lowering of accrual rates and a modest contribution rate increase.

¹⁷ Official Gazette 104 (2019).

¹⁸ Rulebook for Determining Working Positions with Extended Service Period, Official Gazette 32, March 2011.

¹⁹ Reform Program of the Government 2017–2020 and Decisions of August 20, 2019, and November 26, 2019 (see footnote 7).



services. The functional analysis of the PIOM will identify the PIOM business processes and operational segments targeted to support modernization of administration and service delivery.

C. Relevance to Higher Level Objectives

15. **The overarching objectives outlined in the Government’s Economic Reform Programs 2017–2020 and 2019–2021 and the Employment and Social Reform Program 2020 are stabilization of the pension system and modernizing social insurance administration.** In the area of social insurance, the Government has launched the pension reform and announced follow-up reforms of the disability assessment system, employment of persons with disabilities, and early retirement of hazardous and arduous occupations. In the social insurance and pension administration areas, the Government endorsed the new centralized and unified system of social insurance registration and recordkeeping system and plans for capacity modernization of the PIOM. **The project is aligned with the World Bank Group’s CPF 2019–2023²⁰ in North Macedonia.** The CPF aims to support the country’s ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life. The CPF is organized around three focus areas that will help North Macedonia improve the environment for a dynamic private sector to enhance export-led growth, strengthen human capital for inclusive development, and build sustainability. Specifically, the project will contribute to Focus Area III - Sustainable Growth: Enhance Sustainability and Build Resilience to Shocks and CPF Objective 4 - Strengthen Fiscal and Public Finance Management.

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

16. The Project Development Objective (PDO) is to improve the quality of services in administering social insurance and strengthen the regulatory framework for people with disabilities and hazardous occupations.

PDO Level Indicators

17. The PDOs will be measured by the following indicators

- **Indicators for PDO Part 1: Improve the quality of services in administering social insurance:**
 - Single unified registry of socially insured individuals developed and functional
 - Proportion of insured population whose social insurance information is centrally available to all social insurance agencies
- **Indicators for PDO Part 2: Strengthen the regulatory framework for people with disabilities and hazardous occupations:**
 - Proportion of disability certificate applicants during the past month who had at least one previously issued and currently valid disability certificate
 - Average time to issue a disability certificate

²⁰ See paragraph 8 for full reference.



B. Project Components

18. **The project activities will address specific and relatively narrow technical areas within the administration of social insurance.** The project will support the Government's efforts to continue with the process of improving the quality of the services delivered by the social insurance administration. The proposed operation will make investments in (a) developing the SURS central registry of socially insured individuals, (b) improving the PIOM's capacity and business processes, (c) establishing the CDCCU, (d) revising the list of hazardous occupations eligible for early retirement with an ESP, and (e) supporting the implementation of the legal and institutional framework for employment and professional rehabilitation of persons with disabilities.

19. **The project will be organized in two main components and five subcomponents, with an additional third component related to project management.**

- **Component 1. Improving the quality of the social insurance administration services**
 - *Subcomponent 1.1 Establishment of Single Unified Registry System for social insurance*
 - *Subcomponent 1.2 Improvement and modernization of business processes in PIOM*
- **Component 2. Strengthen the regulatory framework for people with disabilities and for hazardous occupations**
 - *Subcomponent 2.1 Establishing unified disability assessment system and Central Disability Certification Coordination Unit (CDCCU)*
 - *Subcomponent 2.2 Reforming the system of employment of persons with disabilities*
 - *Subcomponent 2.3 Revision of the list of hazardous occupations eligible for early retirement with extended service period (ESP)*
- **Component 3. Project Management**

Component 1. Improving the quality of the social insurance administration services (approximate credit amount: EUR 8.92 million/US\$ 9.81 million equivalent)

20. This component supports the establishment of the central registry of socially insured individuals (SURS) and modernization of pension administration. Based on the Government's decisions (No. 45-5503/1, August 20, 2019, and No. 45-8738/1 of November 26, 2019) the existing systems of insured persons' registration and contributor databases managed in the social insurance agencies would cease operation and be replaced by SURS to be established by an entity under the MLSP.

Subcomponent 1.1 Establishment of Single Unified Registry System for social insurance.

21. **In the SURS, registration to all or any branch of social insurance will be a one-stop-shop process and will involve a unified, simplified, standardized, and centralized function.** All persons registered in the SURS will be visible to all social insurance agencies and to UJP—thereby reducing the opportunity for contribution or tax evasion by selectively registering with one agency and not others. The SURS database will be used by all social insurance agencies and by the tax administration (PIOM, FZO, AVRМ, UJP), and by the Agency for Supervision of Pension Funds in North Macedonia (MAPAS) (on behalf of Pillar 2 pension funds). The SURS will also be used by the MLSP's social assistance cash benefits database system. The SURS will be hosted, managed, and maintained by an entity to be established under the MLSP. This project component will assist the MLSP/SURS to integrate and



centralize the existing social insurance registries), develop the organizational structure and business processes for the SURS, and establish client connections with all system users. Centralized registration and recordkeeping by the SURS will provide a single, unified, standardized, accurate, and timely stream of information on employers, insured individuals, and all social contributions. Centralization of these services will release capacities in the AVR, PIOM, and FZO currently engaged in registration and recordkeeping administration; establish an accurate database and information flow to UJP in the process of contribution collection and control; and significantly reduce the scope for contribution and payroll tax evasion. Moreover, the SURS will provide timely information to Pillar 2 Funds on membership and payment of Pillar 2 contributions and will allow the precise and direct transfers of the Pillar 2 contributions from the employers to the insured persons, thus preventing delays of the assets' capitalization by the Pillar 2 Funds. This would provide a permanent solution to the problems of missing, underpaid, and overpaid contributions to Pillar 2. The key advantage of the SURS is that it helps abolish and practically prevents multiple entry points for registration/deregistration of insured persons. In addition, the participating agencies and Governmental institutions (Government, MLSP, Ministry of Finance [MoF], Ministry of Health [MoH], State Statistical Office, and so on) would benefit from accurate, periodical, and aggregate reporting. In that regard, the insured persons' interests, rights, and responsibilities will be exercised in a legal and proper manner.

Subcomponent 1.2 Improvement and modernization of business processes in PIOM.

22. This subcomponent will support the strengthening of business processes and the administrative capacity of the PIOM to serve the insured individuals in Pillar 1 more efficiently and effectively. Activities supported by this project will have a direct impact on the PIOM's operations. Centralizing the social insurance registry in the SURS and disability assessment in the CDCCU will relieve the PIOM from performing these tasks and enable the PIOM to use resources to strengthen its other functions. Developing the SURS' data centralizing and warehousing functions and integration of the existing social insurance registries will require the consolidation of past earnings records, used mainly by the PIOM. Individual earnings histories in the PIOM experience shortfalls, including incomplete records of service periods, contribution bases or contributions paid, with paper-based archives, which are detected only at the point of benefit request and determination. It is estimated that there are up to 20 percent of missing data in the earnings records history, related to different periods and data categories. For future smooth processing of pension requests and providing the information to all insured individuals through the SURS, these records should be reconciled, digitized, and made available to the social insurance agencies and insured individuals. This subcomponent will engage in the initial analysis of the earnings history problem in the PIOM and the campaign of completing all past records within the SURS development process. It is envisaged that this subcomponent will, in parallel, engage in a functional analysis of the PIOM and its processes to detect the areas, paths, and dynamics for institutional upgrade. Areas of engagement will depend on the results of the functional analysis and are expected to include business process modernization, information and communication technology (ICT) capacity building, and human resource strengthening through training.

23. The list of activities includes the following:

- SURS business function needs analysis in each participating agency;
- Design of the SURS and business operations model;
- Development of the SURS for social insurance—investment in organization structure, equipment, software, business processes, and training staff;
- Development of new legislation and harmonization of the existing legislation;



- Migration of client and insurance data from multiple registries to the new SURS and cleanup of such data;
- Adjustment of FZO, AVRМ, PIOM, UJP, MAPAS, and MLSP to SURS—investment in data links and interfaces with the SURS, adjustment of business processes, ICT, and training for selected staff;
- Consolidation of the PIOM’s database of historical earnings of insured individuals;
- A functional review of the PIOM and investment in PIOM modernization, including business processes, technical capacity, ICT, human resource training, and client services; and
- A public information and education campaign on the SURS functionalities, benefits for users, and operations.

Component 2. Strengthening the regulatory framework for persons with disabilities and for hazardous occupations (approximate credit amount: EUR 4.20 million /US\$4.62 million equivalent)

24. Following the Government’s pension reform implementation program and decision to continue with the disability system reform, this component envisages three subcomponents supporting the implementation of the reformed system.

Subcomponent 2.1. Establishing unified disability assessment system and Central Disability Certification Coordination Unit (CDCCU).

25. The Government’s decision to simplify, unify, and streamline the parallel processes envisages establishment of the CDCCU in the MLSP responsible for initiating, organizing, performing, and reporting on all disability assessments in the country. The CDCCU will organize the certification teams from a network of medical and other experts licensed for disability certification on a case-by-case basis. This subcomponent of the project will support the establishment of the CDCCU, including investment in its business processes, technical equipment and human capacity, and the system of monitoring and evaluation (M&E), licensing, supervision, and control. Investment would also include providing public information and education on the reform and using new user-friendly disability certification processes.

Subcomponent 2.2. Reforming the system of employment of persons with disabilities.

26. The policy objective of the Government to widen employment opportunities for persons with disabilities and raise their inclusiveness in the labor markets will require a broad public debate of policy options for employment of persons with disabilities, legal preparatory work, and a public information and education campaign. Policy options analysis, especially those considering the redistribution of current ‘sheltering’ subsidies toward professional rehabilitation and activation programs for inclusion of persons with disabilities in the open labor market, will have to be prepared before the public debate. The public debate should result in a modern and sustainable Law on Employment of Persons with Disabilities in 2021. The need for setting up a National Registry of Persons with Disabilities has been emphasized for decades. Its development and maintenance by the MLSP will enable designing the appropriate policy measures and their monitoring and evaluation. Activities expected to be supported within this subcomponent thus include providing technical assistance to discuss and develop the new legislative framework; organizing national information and education campaigns, especially targeted toward persons with disabilities; and establishing the National Registry of Persons with Disabilities and a system of monitoring and evaluating in the MLSP. The analytical tasks that inform the new framework would also be



designed to collect additional information on the gender gaps that might exist in the institutional setup and the labor market for employment of persons with disabilities.

Subcomponent 2.3. Revision of the list of hazardous occupations eligible for early retirement with extended service period (ESP).

27. The objective of the reform considered by the Government is to revise the ESP list, reassess the risk hazards for each of the workplaces, limit the early retirement option only to the work conditions with high health hazards and potentially irreversible acute health consequences, and establish an early retirement system that would incentivize longer activity in the labor market. The main activity supported by this subcomponent would be to engage a team of ergonomic, medical, and other experts to revise all workplaces and work conditions in North Macedonia with currently declared health hazards. The subcomponent will also support analysis of the reform options and development of the reform proposal, including the legal changes. The analysis will also look at possible gender disparities between men and women in hazardous jobs, and in their eligibility for early retirement.

Component 3: Project management (EUR 0.65 million/US\$0.71 million equivalent)

28. This component will support the day-to-day management of project implementation and the M&E of its objectives and outcomes. This component will finance the activities that would ensure effective administration and implementation of the project by supporting (a) the strengthening and operation of the Project Management Unit (PMU), including the provision of operating costs; and (b) development and implementation of an M&E system for the project.

C. Project Beneficiaries

29. **Beneficiaries of the project will be all categories of socially insured individuals; contribution declarers and payers (employers); pensioners; persons with disabilities; and staff at the social insurance and tax agencies (UJP, PIOM, FZO, AVRМ, MAPAS, and the MLSP).** The project will finance activities in the entire territory of North Macedonia, with administrative capacity-building activities focusing on Skopje.

30. **The support of activities under Component 1 is targeted to all beneficiaries of the social insurance system.** It should result in a more reliable and simpler system serving the insured individuals (easy access to information about the status, paid contributions, Pillar 2 contributions, and so on); contribution payers and employers (single registration and status reporting point); pensioners (reliable payment of pensions and recordkeeping); as well as the staff in the social insurance and tax agencies. Direct beneficiaries of Component 2 include persons with disabilities and employees in hazardous and arduous occupations. Activities under Component 2 will enable faster and simpler disability assessment, realization of disability services and benefits, and identification of occupations with high and irreversible health risks.

D. Results Chain

31. **The proposed project will support the Government of North Macedonia (GoNM) to address two challenges that affect the functioning of the social insurance system and social protection of persons with disabilities.** These challenges are (a) the insufficient quality of services, and administrative inefficiencies within the social insurance system (including pensions and other types of social insurance) and (b) the outdated systems supporting persons with disabilities and early retirement from hazardous and arduous occupations. The proposed



project will contribute to address these challenges and achieve the PDO through a number of actions in two results areas: a first result chain focusing on strengthening the social insurance system and a second result chain focusing on improving the disability assessment and employment of persons with disability.

32. **In the social insurance system, the establishment of the SURS and implementation of a central and unified registration for social insurance will allow the Government to improve the quality of services and the administrative efficiency of the social insurance administration and make its services user friendly and transparent for its beneficiaries.** The activities supported by the SIAP in this area are expected to result in (a) a simple, standardized, efficient, transparent, monitored, and centralized process of registration of insured individuals, serving the tax administration and all social insurance agencies; (b) a single unified central database of socially insured persons and their contribution history; and (c) a more efficient and service-oriented pension administration. One of the outputs of the project on this part of the PDO will be a more reliable social insurance database system that facilitates stronger contribution collection and more accurate data for processing benefits, and significantly improves services for insured persons and social insurance beneficiaries.

33. **At the same time, the proposed project will support the Government to address the challenges of outdated and inertial systems of employment of persons with disabilities and early retirement of hazardous and arduous occupations.** The project will provide technical assistance to support a reform of the underlying legislation to strengthen the system of employment of persons with disabilities in line with modern labor markets requirements. Activities will be complemented by piloting the professional rehabilitation by the Government and the UNDP. Reforming the system of employment of persons with disabilities and revising the legislation is a first step toward creating a more efficient and inclusive system. In addition, actions will include educating the public about the new objectives of the system and inform on its implementation and user procedures. The project will also provide assistance to review the system of defining and registering early retirees from hazardous and arduous occupations. The activities will include revision review of the occupational risk levels in line with modern technologies and modern workplace developments. These activities are expected to result in higher labor market inclusion for persons with disabilities and lower share of hazardous and arduous occupations in active labor force.

34. **The final outcomes of these two results chains are** (a) faster and more reliable registration as a result of the SURS; (b) reduced time and costs to register, verify, and identify insured individuals; (c) reduced average time to issue a disability certificate; and (d) reduced proportion of disability applicants who have to apply for a certificate even when they already have a valid one.

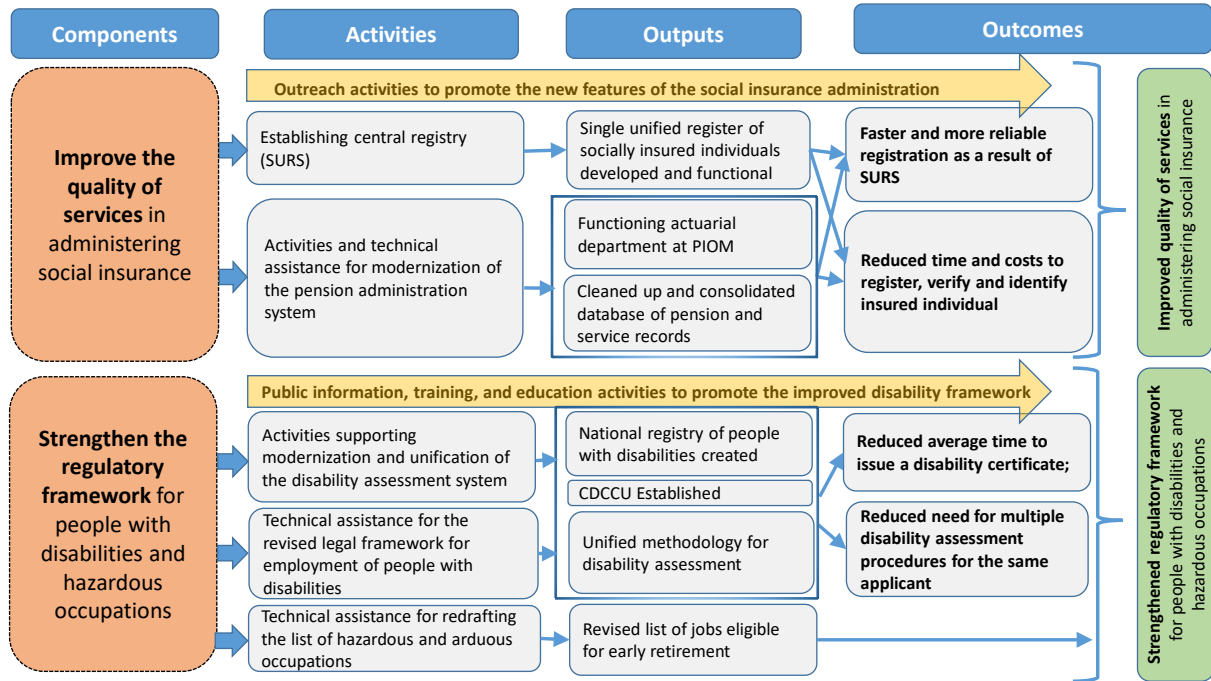
35. **Technical and operational challenges in the short and medium term to be addressed include the following:**

- Scattered and uncoordinated registries of insured individuals across social insurance and tax agencies;
- Mismatched, parallel, and inadequate data often causing cancelled, delayed, or misused services;
- Evidence of inefficient and ineffective social insurance registration processes;
- Gaps in data collection, past service, and earnings history records and inefficient data sharing processes;
- Unreliable and occasionally delayed Pillar 2 contribution transfer to individual accounts; and
- Outdated and inertial systems of employment of persons with disabilities and early retirement of hazardous and arduous occupations, and accompanying legislations.



36. The ultimate outcomes will by their nature be achieved beyond the project period. PDOs capture the results to be achieved in tackling the short- and medium-term challenges toward achieving the final objectives. These include improved social insurance administration, client-friendly procedures in social insurance, and improved administrative and legal framework for assessing disability and activating persons with disabilities. Figure 1 visualizes the results chain and theory of change on which the proposed project is based.

Figure 1. North Macedonia Social Insurance Administration Project: Results Chain



E. Rationale for Bank Involvement and Role of Partners

37. The World Bank is supporting the GoNM in a wide range of areas, focusing on those related to the transition to a fully functional market economy. As such, the World Bank has become a key partner of the Government to support the transition during the implementation of the economic reforms through key interventions in which the World Bank has comparative advantage and can provide substantial value added. The support and cooperation have been deep and long lasting in social protection, including pension reform, social assistance reform, health, and other social protection areas. The role of the World Bank in the process is to not only support North Macedonia to move toward a full market economy and transform the institutions accordingly but also ensure that policies are in place to protect the most-needy groups and promote their access to jobs and maximize the human capital potential.

38. Social protection and labor policies are key policy instruments to mitigate the potential negative impacts of the economic reforms and facilitate access to jobs. The implementation of the economic reforms requires the consolidation of a modern and effective social protection system to protect the poor and vulnerable and those individuals who may be temporarily affected by the implementation of the reforms. The World Bank is in a unique position to support the Government of North Macedonia, given the holistic approach it can provide to



ensure that the consolidation of the social protection system in the country is sustainable and relevant in the long term, along with the expertise in the different areas that social protection comprises and the international experience from participating in similar contexts in Europe and Central Asia and other regions. As has been the case over the last year, the World Bank can provide technical assistance in areas where the Government has limited expertise and international knowledge. The implementation of this project will not only ensure adequate financing to set a solid foundation for modernization of the social insurance system and reforming segments of the social protection system but will also ensure ongoing collaboration during implementation of the project.

39. **The World Bank is and will be collaborating with key development partners to strengthen the social insurance and social protection systems in the country.** Since the preparation of the project, the World Bank has worked with UNDP as key development partner at project preparation and analytical underpinnings to identify the operation and the main parameters of the project. The implementation of the Component 2 of the project will be done in close coordination with the UNDP, UNDP partners participating in the pilot project, and donors active in the area of disability such as European Union. The UNDP is currently financing and supporting the piloting of the professional rehabilitation centers (REHA Centers) in Skopje and Strumica to improve the empowering of persons with disabilities to directly access jobs in the open labor market. The World Bank will complement the UNDP's efforts to ensure adequate implementation and assessment of the pilot through engaging in the initial reform and legislative process of employing persons with disabilities; providing public education information and training; and establishing a system of M&E through the National Registry of Persons with Disabilities, if needed, during and following the pilots.

F. Lessons Learned and Reflected in the Project Design

40. The project draws on the following significant lessons learned from World Bank projects in the areas of implementing social insurance administration reforms, providing persons with disabilities employment support, conducting analytical background work for this project,²¹ and adopting international good practices:

- (a) North Macedonia has a comprehensive and well-functioning network of social insurance and tax agencies throughout the country, but there is scope for improving their coordination and cooperation and improving client services in the segment of registration of insured individuals and maintaining their registrations, employment statuses, and earnings records. Integrating the processes and creating the SURS has proven to improve the efficiency and reduce user costs in previous World Bank projects. The decision by the North Macedonia Government to create the SURS by an entity to be established under the MLSP has been confirmed as an efficient model in several Western Balkans and other European countries.
- (b) A large body of recent theoretical and empirical work documents the importance of reviewing the definition of disability by supplementing the prevailing medical approach with functionality and disability elements. Furthermore, establishing a reliable and efficient administrative system of assessing and certifying the level of disability and determining benefits and services needed by each applicant has been under reform radars in many countries in the world. The decision by the North Macedonia Government to unify the parallel disability assessment channels and methodologies

²¹ The following background reports were produced under the preparation budget for North Macedonia SIAP (P170343) and Western Balkans Pensions Technical Assistance (P168178): (a) Report on SURS, (b) Early Retirement for Hazardous and Arduous Occupations in North Macedonia, and (c) Report on Employment of Persons with Disabilities and Professional Rehabilitation in North Macedonia.



follows best international practice. Opportunities for strengthening the disability assessment methodology by introducing the ICF elements in segments other than disability assessment of youth (ICF methodology already envisaged and reform under way) and reforming the definition of a disabled person in North Macedonia are to be considered throughout project implementation.

- (c) Lessons from other countries indicate that the system of employment of persons with disabilities through ‘sheltered companies’, as implemented in North Macedonia, is outdated and ineffective. It does not serve the objective of identifying individual capacities and functionalities, training the individuals and equipping them with skills and competences, and activating them in the same manner as other individuals—through the open labor market. The intention of the North Macedonia Government to study, discuss, and carefully craft the path to supplement the ‘sheltered disability employment’ with other channels of employing persons with disabilities has been confirmed as best international practice.
- (d) The North Macedonia Government plans to review and reform the remaining channels of early retirement. North Macedonia has already reduced all early retirement options only to hazardous and arduous occupations (miners, military and police officers, and so on). The share of labor force employed in these occupations is twice the EU average and the list of occupations has not been revised since 2011.²² A decision by the North Macedonia Government to review the list of ESP eligibilities and reconsider their early retirement options is founded on similar efforts of the EU countries and will be supported by this project.²³

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

41. **The North Macedonia MLSP is responsible for social protection policies, pension and labor segments of social insurance administration.** Currently, all pension, labor, social assistance, and disability policies and administration are under the responsibility of the MLSP. Health insurance and tax collection are under the responsibility of the MoH and MoF, respectively. Decisions by the Government, issued in August and November 2019, stipulate that the single registry of insured individuals will be organized by an entity institutionally located under the MLSP.

42. **The project will be implemented by the MLSP in coordination with the MoH, MoF, and other key agencies.** Overall, the project would be implemented by the MLSP. The implementation of Component 1 will require strong coordination between the MLSP, MoH, and MoF. Component 2 will be implemented by the MLSP and will require coordination between the MLSP and MoH. Given that the day-to-day SURS development will be managed by an entity under the MLSP and providing services to all social insurance and tax agencies, the operative coordination will be ensured through a Project Steering Committee led by the MLSP, comprising key ministries and agencies participating in the project.²⁴ This committee will facilitate high-level policy agreements, resolve

²² World Bank. 2018. *Report on Early Retirement of Hazardous and Arduous Occupations in Macedonia*.

²³ EU Aging Report 2018; EU Commission. 2016. *Retirement Regimes for Workers in Arduous or Hazardous Jobs in Europe: A Study of National Policies*.

²⁴ Project Steering Committee (Council on Monitoring of Implementation of SIAP) was established by Government’s decision No. 45-8738/1 of November 26, 2019 (published in Official Gazette 246, November 29, 2019).



matters of disagreement, help with approving deliverables, help mobilize resources, and ensure that the project stays on course. The implementation of the proposed project will require the availability of dedicated technical, operational, and fiduciary staff at the MLSP. The MLSP will use an existing PMU under the ongoing SSIP (P162246) to manage SIAP. Additional capacity for the PMU to support the implementation of this project will be provided when identified, and as needed. The ministry will maintain the PMU within its administrative structure reporting to the minister/board. The PMU will at all times comprise, as a minimum, a PMU director, PMU manager, SIAP Coordinator, specialists supporting the MLSP on key activities, a financial management and disbursement specialist, and a procurement specialist. A draft Project Operational Manual (POM) has been prepared to guide all administration, operations, and monitoring of the project.

B. Results Monitoring and Evaluation Arrangements

43. The PDO-level and intermediate results indicators will be monitored using various sources and methodologies: (a) data collected through management information systems supported by the project (SURS and CDCCU), (b) regular administrative data collection processes, (c) beneficiary surveys supported by the project and conducted by outsourced external firm(s), (d) M&E studies conducted by the client, and (e) progress reports to be prepared by the project management team. The data source, frequency, and responsible agents are reported in the M&E Plan (Section VII). The already developed draft POM will further clarify agreed monitoring protocols for each indicator. The baseline values of three PDO indicators are based on data gathered during project preparation, while one is to be determined through future survey data. The targets are based on the assessment of achievable outputs and outcomes during the project implementation period and best international experience with similar administrative reforms in social insurance sectors. The planned beneficiary assessments will also be designed to collect additional information on gender gaps related to the surveyed elements of the social insurance system. The collected information will be used to inform changes to project activities, but also to future programs and regulatory changes.

44. In general, the project management team will be responsible for gathering the relevant reports and information from the MLSP, MoF, MoH, UJP, FZO, PIOM, AVR, MAPAS, and other relevant parties involved in project implementation to monitor the PDO and results and communicating with the World Bank according to the frequency of reports to be described in the project's Results Framework.

C. Sustainability

45. Sustainability of the activities supported by the project can be assessed through three perspectives—the Government's policy agenda and political support, the institutional and operational base, and financial sustainability and fiscal aspect.

46. From the policy agenda and political vision, the GoNM is committed to modernizing its social insurance administration and continuing with social protection reforms. The Government's decisions and reform steps set in the August 2019 Decision and November 2019 Decision (see footnote 7 for details) are comprehensive, clear, and founded on preliminary analytical work and best international practices. The proposed project directly supports the modernization of social insurance administration and the reform of disability assessment, employment of persons with disabilities, and early retirement. The Government, at the highest level, is fully aware of the importance of these reforms in the program of modernizing public administration and reducing the reform



gap to faster access the EU. From this perspective, the programs and activities supported by the project are well aligned with the national priorities, which suggests that the project objectives are sustainable.

47. From the institutional and operational perspectives, the project is focusing on areas that will strengthen social insurance administration. First, the project will implement a set of activities introducing the SURS. These activities would consolidate the building blocks of registration to social insurance, maintaining and updating the records, and providing a central access to data to all social insurance and tax agencies. Second, a substantial proportion of project activities would be focused on capacity building, training, and technical assistance to enhance capacity of the PIOM and the MLSP. This approach is intended to ensure that programs, interventions, and other activities supported by the project are sustainable and, as appropriate, scalable even beyond the implementation period of the project.

48. From the fiscal and financial perspective, the proposed project will also support improving the quality and efficiency of social insurance administration by minimizing administrative and user costs of social insurance registration, reducing costs and streamlining the process of disability assessment, and improving the administration to support the activation of persons with disabilities and employees in hazardous and arduous occupations. Furthermore, by more transparent and efficient social insurance registration and data warehousing the project should ultimately result in stronger contribution collection.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

49. **In overall terms, this project aims to strengthen specific elements in pension and social insurance administrations.** Direct benefits flowing from the project would thus be (a) improved quality of services for the end user and reduced user costs in social insurance administration, (b) improved quality of social insurance data, (c) reduced opportunities to avoid payment of contributions, and (d) improved social insurance services to beneficiaries. Ultimately, the administrative improvements by the project should result in more efficient contribution collection, control, and payment of benefits. The project will provide the social insurance system with the capacity to strengthen administration on both the collections and payments sides, reducing costs for the Government and beneficiaries. Given the short duration of the project (three years), ultimate benefits, including stronger contribution collection, efficiency gains through lower administrative and compliance costs, and broader activity of persons with disabilities and employees in hazardous occupations, will happen after project closing because agencies would only have begun to adopt the new systems.

50. **On the Government's side, the development of the SURS is expected to reduce administrative costs, improve the social insurance administration, and strengthen the overall system sustainability.** At the first stage, having a system that administers all legally required registrations and keeping records of all socially insured individuals reduces the administrative costs of maintaining fragmented databases and allows the use of more efficient technology due to economies of scale. In addition, it removes the personnel time and political cost of having to collect the information from different agencies. The development of a central registry of insured individuals, based on updated insurance status and personified reporting on contributions paid, should result in faster and more accurate flows of funds and data. This would make it easier to identify inconsistencies, reduce the chances of fraud and human error, and potentially increase the level of collections, ultimately improving the sustainability of the system. In general terms, improving the administrative management should increase the



internal efficiency of the PIOM, health and employment agencies (FZO and AVRМ), as well as the contribution collection capacity of UJP.

51. **As a result of the current state of the information on collections and payments, the magnitude of the benefits mentioned earlier cannot be quantified—and the ability to do so will also be one of the benefits of this project.** Staff responsible for the administration of the pension system identify the abovementioned challenges due to anecdotal evidences and overall experience. However, with fragmented data and several times unreliable sources of information, it is nearly impossible to estimate the true gaps in contributions and inconsistencies in payments. One of the indirect benefits of this project will be to fill this informational gap, allowing for the Government to improve the overall management of the system. The development of SURS will therefore be crucial for providing updated, accurate, and timely information to providers of social insurance benefits (PIOM, FZO, AVRМ, and Pillar 2 Funds) and social assistance (MLSP) and strengthening the tax and contribution collection capacity of UJP.

52. **On the side of insured individuals, having a unified registry will not only improve the overall social insurance services, reducing transaction costs when paying and claiming pensions, but will also guarantee that they receive the benefits on time.** The enhanced services will reduce the burden for users by providing a single registration point and administration for all processes (registration and deregistration, recordkeeping, and individual/aggregate reporting) relating to employment and contribution reporting and payment. Insured persons will enjoy better and more transparent information flows, resulting in more timely and accurate payment of pensions, faster and more reliable Pillar 2 contribution transfer to individual pension accounts, and faster access to health and employment benefits and services. The single registration point for the insured and a comprehensive database of employment history and contributions paid should provide the participant agencies with accurate online real-time data on the past and current status of the insured individual and reduce further reporting responsibility from the employer or the employee. There may also be a broader positive revenue effect on tax (especially personal income tax) and contribution bases through reducing the scope for ‘selective insurance participation’ (for example, only enrolling in health insurance while evading on time enrollment and contribution payments for pension insurance) for some categories of insured persons, and through potentially reduced incentives to remain in the informal sector. Furthermore, the introduction of a central unified database is likely to yield cost savings through detection of the participation of ineligible beneficiaries and overlapping statuses and benefits, as well as by encouraging the development of standards for databases within the Government to promote more dynamic and accurate exchange of data.

53. **The first part of Component 2 will also bring savings to the Government and disabled, through greater horizontal equity in disability certification, medium-term administrative costs savings, and stronger gatekeeping of new claims.** The introduction of harmonized disability certification criteria and procedures will introduce horizontal equity across different categories and diagnoses. In addition, the introduction of a single disability certification unit and criteria will consolidate the various certification bodies under one institution generating administrative costs savings in the process and preventing erroneous or fraudulent disability pension claims. Improved services to disabled individuals will be realized primarily through setting the central disability assessment unit that will reduce the duration of the assessment process and the number of visits, lower costs, and reduce the burden of the process for both beneficiaries and benefit providers. Together with the reform of the employment of persons with disabilities and the new capacity for professional rehabilitation, to be further and additionally developed, the unified disability assessment would result in quicker employment of persons with disabilities.



54. **Finally, the revision of the list of the hazardous occupations in line with their risk levels will increase the contribution period and prolong the activity of workers in jobs not classified as hazardous and not requiring early retirement.** Society will continue to benefit from their activity and contributions to social insurance systems.

55. **The project will also seek to contribute information on the gender gaps situation in North Macedonia.** According to the World Bank CPF for the Republic of North Macedonia 2019-2023, inequality in access to economic opportunities equates to less social inclusion. For example, the CPF estimates that eliminating gender disparities in the labor market could increase North Macedonia's annual GDP by an estimated 16 percent. Women's employment rate is 18 percentage points lower than men's for 15-64-year-olds and is driven by the gap in labor force participation, which was 26 percentage points lower for women in 2015. Women's labor participation rate, 51 percent, is also 14 percentage points lower than the EU average. Gaps are also evident in entrepreneurship: only 26 percent of firms have a woman manager and just 16 percent are owned by women, although these percentages are slightly higher than the ECA average. While the project does not include specific activities or indicators to measure gender-related results, it will collect and analyze information to help inform gender gaps. The social insurance work supported by the project cuts across different sectors and development areas, including labor market, business opportunities, health, and education. In this regard, several project activities will seek to add information on the existing gender gaps in the areas of social insurance registration, employment of persons with disabilities, and early retirement from hazardous occupations. The planned project beneficiary satisfaction survey would also specifically look at the gender aspects and inform any future activities in social insurance registration and disability assessment. In addition to the information collection, during implementation, the project will also make effort to conduct gender-balanced consultations, and gender-sensitive data collection for project management purposes.

B. Fiduciary

(i) Financial Management

56. **The FM arrangements for the project are acceptable to the World Bank and will be further strengthened through the finalization of the financial part of the draft POM.** The MLSP will oversee overall implementation of the project, and the existing PMU within the MLSP will assume FM responsibilities for the project and will be the focal point for reporting to the World Bank. A full set of unaudited interim financial reports (IFRs) will be submitted to the World Bank quarterly throughout the life of the project. The reports will incorporate detailed information on amounts transferred to the MLSP from the Designated Account, amounts transferred to the beneficiaries, and any unused funds that are transferred from the Designated Account. Locally developed software used for project accounting and reporting of the ongoing Social Services Improvement Project (SSIP) will also be used for this project. The software demonstrated solid historic performance regarding financial transparency and reliability of the project data. The annual audited project financial statements will be provided to the World Bank within six months of the end of each fiscal year, and at the closing of the project.

57. **Appropriate internal controls and flow of funds arrangements designed and instituted for the SSIP will be used for the project.** These are essential in ensuring appropriate controls and monitoring of the flow of funds and will ensure that the funds will flow only to the entitled beneficiaries and for intended purposes. Appropriate checks and evidence are instituted as requirements to provide reasonable assurance in this respect. The respective controls and procedures are described in annex 1 of this document and are developed in detail in the financial part of the POM for the project.



58. **The National Bank of the Republic of North Macedonia (NBRNM), where the Designated Account will be opened, is maintaining the Treasury Account.** The funds will flow from the Designated Account through the transit Macedonian denar account opened for the project within the Treasury Single Account (TSA) to the MLSP account within the TSA (which will provide sufficient level of transparency and ability to track the project funds as a separate line item).

59. **Overall, FM risk is Substantial, and with adequate mitigation measures the risk is assessed as Moderate, due to the complexity and specifics of the project.**

(ii) Procurement

60. **The World Bank's procurement framework will remain the default procurement mechanism for the operation.** Procurement of contracts for goods, works, non-consulting and consulting services financed from the project will be carried out in accordance with the World Bank Procurement Regulations for Investment Project Financing Borrowers: Procurement in Investment Project Financing Goods, Works, Non-Consulting and Consulting Services, ('Procurement Regulations') issued in July 2016, and revised November 2017 and August 2018. 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 Project Management Unit (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.

61. **The Project Procurement Strategy for Development (PPSD) is the basis for the procurement arrangements under the project and provides adequate justification for the selection methods in the Procurement Plan.** The PPSD also provides information on the implementing agency's capacity, procurement-specific risks, and 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 for the project are indicated in the PPSD, and the Procurement Plan for the first 18 months of the project has been agreed upon.

62. **The capacity for procurement of the PMU at the MLSP was assessed during project preparation and it showed that the PMU has substantial experience in World Bank procurement procedures.** This experience was gained during the implementation of the already closed Conditional Cash Transfer Project (CCTP) and the ongoing SSIP and has shown satisfactory performance in procurement under World Bank-financed projects. It has a solid management structure and is staffed with one experienced procurement specialist, managing procurement under the current operation, assisted by a newly recruited procurement assistant. Diligence is also observed in record keeping and quality of evaluation. The procurement processing and contract management in both implemented projects was rated Satisfactory. The implementing agency is familiar with the World Bank's procurement documents and procedures; however, continuous training on the New Procurement Framework (NPF) is needed. The procurement risk analysis and the proposed mitigation measures are indicated in the PPSD and in the procurement section in annex 1 of the Project Appraisal Document (PAD).



63. **Based on the assessment of capacity of the implementing agency, the risk for procurement is rated Moderate.** Procurement implementation support missions will be carried out once a year or on an as-needed basis.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

64. **The project will not cause any significant environmental and social risks.** Aspects to be addressed are mainly related to the need to ensure personal protection and safety in case of visits to hazardous workplaces and satisfying the labor and working conditions for direct project workers and contracted ones. The Stakeholder Engagement Plan was disclosed on November 7, 2019,²⁵ and discussed with stakeholders on November 14, 2019. Given the nature of the project no environmental and social assessment instrument was needed during the preparation. Project designs and the policies to be supported by this project were discussed with associations of affected and interested parties (such as associations of disabled, sheltered companies, and trade unions) participating in the consultations. The MLSP as project implementing agency and the participating CSOs agreed to regular formatted workshops to discuss various project outputs and outcomes during the implementation.

65. **This project was screened for climate and disaster risks and no potential impacts were found.** North Macedonia's geography makes the country prone to river flooding at a high-risk level. Other geographical hazards (earthquakes, landslides, droughts, and wildfires) are at the low-risk level. These hazards mostly affect the country's agriculture that covers almost 50 percent of its surface area, contributes to approximately 16 percent of the country's GDP, and provides employment to 36 percent of the workforce. This project, however, supports the Government in improving the efficiency of the pension and social insurance administrations and further reforming the pension and disability insurance system. The project activities would take place mostly in urban areas. Thus, the risk of the project's exposure to climate and geographical hazards is considered Low.

66. **The project will have minimal to no environmental risks and impacts.** No specific environmental instrument is likely to be required as no physical investments are foreseen. The review and assessment of hazardous occupations might be associated with a risk to the health of experts in case they visit hazardous workplaces without proper personal protection. Technical specifications of any procured equipment should meet advanced environmental safety requirements. Staff of the beneficiary agencies will be trained on proper treatment of wastes, which might be generated during and after the period of use of the equipment. As part of the regular E&S framework requirements, during project Appraisal, the PMU already carried out consultations with stakeholders, in addition to the consultations conducted during earlier stages of project preparation. The

²⁵ The Stakeholder Engagement Plan and other environmental and social risk mitigation documents are available at www.mtsp.gov.mk (banner SIAP).



implementing agency has also developed a labor management plan for direct staff and contract workers hired to implement the project.

67. Stakeholder engagement and accountability measures for the proposed activities will be developed under the project. A Stakeholder Engagement Plan and its implementation is key to the success of the project. The project will be expected to affect a broad group of stakeholders, including both employer and employee interest groups, such as: insured individuals, contribution payers, persons with disabilities, and employees in hazardous and arduous occupations eligible for early retirement. For some groups, especially the hazardous occupations, the reform will not only open opportunities to work longer but will also tighten their early retirement options. The project will ensure that planning, implementation, and monitoring are adequately coordinated across wider audience and various non-state key stakeholders. Any potential objections to elements of the project, as well as other stakeholder risks, will be managed through a comprehensive engagement process. The Stakeholder Engagement Plan identifies stakeholders, project-affected parties, and other interested parties and, accordingly, plans continuous engagement by providing information and consulting, as well as incorporating the received feedback into the project. Following the presentation of the project design and continuation of the engagement during the preparation, the project will organize permanent solicitation of feedback for the project outputs, especially for Component 2, in formats such as workshops in Skopje and other regions for the wider audience and focus groups, for the CSOs representing affected groups, and for beneficiaries. This will be in addition to the feedback received through the planned project public awareness activities for Component 1 and Component 2.

68. Engagement with citizens and beneficiaries will be carried out continuously throughout project implementation. Under Component 1, the project will engage with project beneficiaries (insured individuals, contribution payers and employers, and pensioners) through: (i) open public consultations conducted at the national and regional levels, at least annually; and (ii) focus group discussions/workshops targeting beneficiaries of PIOM modernization, also held at least annually. Relevant feedback received through these activities will be included in the technical Terms of Reference for the design to help improve the simplicity and reliability of the system. Under Component 2, the project will obtain feedback from a range of target groups (associations of disabled persons, trade unions of hazardous occupations, and other related associations) also through: (i) consultations at the national and regional levels; and (ii) focus group discussions with selected vulnerable groups of beneficiaries. These will be organized on a needs basis, to obtain feedback on specific project issues, at least annually. The results of these activities will be used to inform both preliminary decision-making on the focus of improvement, and its subsequent technical design. Public awareness campaigns will be organized three times by the PMU on selected national and local/social media, to ensure the public is furnished with information (with more detailed information being disseminated under Component 2). At least two beneficiary surveys will be conducted, with survey results published on the project website. The details of these citizen engagement activities are budgeted and will be defined further in the final version of the draft POM. The project will also adapt the existing grievance redress mechanism (GRM) of the SSIP to cover all aspects of the SIAP and beneficiaries will be able to register complaints, and their satisfaction with the responsiveness in the online project portal. The project results framework includes indicators to monitor the share of beneficiaries satisfied with the responsiveness of the grievance redress mechanism; and the continuous commitment of the PMU to the implementation of planned citizen engagement activities throughout the project.



V. GRIEVANCE REDRESS SERVICES

69. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB'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 WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

VI. KEY RISKS

70. **Political and governance risks are Substantial.** Despite remarkable progress in strengthening the international position of the country, its path toward the EU membership has been prolonged. Aiming to maintain strong support within the country for its economic and social reform program, the Government has called for extraordinary parliamentary elections in April 2020. From January 2020 until the new Government is appointed, a technical Government would be in charge only of operative tasks. Because the project approval and effectiveness process would span the political cycle and project implementation period, the political risk is Substantial. Project cannot be insulated from these risks but the modular and staged design and implementation of its most complex components (SURS and CDCCU) will reduce them.

71. **Macroeconomic risk is Moderate.** Strengthening the international position of North Macedonia and economic growth over the last two years have reduced the macroeconomic risks to minimum. However, the recently emerged constraining political factors regarding the EU accession, and higher political risks due to elections ahead, have also raised the risk that these processes could affect the Government's commitment to reforms and this project's objectives and performance, and consequently the future growth prospects. In addition, external risk factors appear moderate, as growth in the EU and neighboring countries has remained stable.

72. **Sector strategy and policy risks are Moderate.** The supported reforms have already been incorporated in the Government's strategic documents and responsibilities for its implementation assigned. Some risk may emerge from an ambitious reform agenda stretched over limited institutional capacity, which could be mitigated by prioritizing and capacity strengthening. Potential delays in preparing the legislative framework for the reforms addressed in this project could be mitigated by emphasizing and reconfirming the reform intentions in the Government's annual reform programs or other government documents in the interim periods.

73. **The overall risk is Substantial for technical design and implementation.** The project design envisions a large number and a complex scope of activities supporting the reforms in pension and social insurance administrations to be successfully implemented and coordinated. The implementation risks are substantial because the project will require strong coordination between three ministries (MLSP, MoH, and MOF) and social insurance agencies. This risk is reduced by establishing a Project Steering Committee led by the MLSP, comprising



key ministries and agencies participating in the project. Furthermore, the envisaged project implementation period of three years is relatively short for engaging in consolidation of social insurance registries and related processes, especially if it would be performed by a new agency. That risk will be mitigated by designing and implementing the SURS in stages, where project's financing of the initial stages could be succeeded by a new project or other financing vehicle.

74. **Institutional capacity for implementation and sustainability-related risks are Substantial.** The capacity acquired in the MLSP under the ongoing SSIP (P162246) and its PMU to support implementation of most activities is sufficient only for the initial implementation steps. Additional capacity for the PMU to support the implementation of this project will be provided when identified and as needed. However, the implementing capacity in other stakeholder agencies and the MLSP's capacity to coordinate all efforts may seem as constraints. The risk will be lowered by delegating project design and operative decisions and action onto the project Steering Committee and the PMU. The project also plans to support the hiring of additional PMU staff, while the World Bank would supply ongoing implementation support with strong and frequent presence in the country.

75. **Stakeholder-related risks are Substantial.** The project will affect a broad group of stakeholders, including the insured individuals, contribution payers, persons with disabilities, and employees in hazardous and arduous occupations eligible for early retirement. For some groups, especially the hazardous occupations, the reform will not only open opportunities to work longer but will also tighten their early retirement options. The project will ensure that planning, implementation, and monitoring is adequately coordinated across key stakeholders. Any potential opposition to the project and other stakeholder risks will be managed through a comprehensive stakeholder engagement process (see paragraph 68 for detailed description of measures).

76. **Fiduciary risks are Moderate.** The World Bank's NPF will govern procurement under the project. As required by the NPF, a PPSD has to be prepared. The PPSD will also provide information on the procurement-specific risks and the proposed mitigation measures. The FM assessment will do the same. The PMU established within the MLSP to manage the SSIP will be responsible for fiduciary management under this project. Fiduciary under the SSIP is currently rated Satisfactory with a Moderate risk. The initial risk assessment for this project is based on the performance of the PMU under the SSIP. While the current capacity in the PMU is based on the needs of the SSIP, additional capacity for procurement and FM might be needed for the proposed SIAP to maintain current performance and not escalate risk.

77. **Environmental and social risks are rated as Low.** The environmental and social risk of the project is assessed as Low. The major project activities are not expected to have any adverse impacts on human population and the environment. There is a risk to human health that might occur if experts who will be assessing and revising hazardous occupations and workplaces visit hazardous workplaces without proper personal protection. For this task, the project will support hiring a licensed reputable international company who will have strong experience in the implementation of such activities and will ensure that staff personal protection is in place. The activities will neither have any impact on land acquisition nor hire large number of workers through contractors. There is also minimal risk of negative impacts as the project is designed to improve social assistance to the marginalized and vulnerable groups such as the poor and disabled. The PMU has experience in carrying out social due diligence and citizens engagement activities.

78. **The overall project risk is Moderate.** While the risks associated with technical design, institutional capacity, and stakeholders are substantial, other major risk categories like fiduciary, sectoral risks, and



macroeconomic risks are rated Moderate, and environmental risk is Low. Therefore, the rating for the overall risk to the achievement of the development objective and of any unintended consequences is seen as overall moderate and not seriously endangering the achievement of the key results and objectives.



VII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: Republic of North Macedonia

Social Insurance Administration Project

Project Development Objectives(s)

Improve the quality of services in administering social insurance and strengthen the regulatory framework for people with disabilities and hazardous occupations.

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
Improve the quality of services in administering social insurance					
Single unified registry of socially insured individuals developed and functional (Text)		Inexistent	Specialized legislation on SURS adopted.	Other national legislation harmonized with the special legislation on SURS as required.	SURS established and operational.
Proportion of insured population whose social insurance information is centrally available to all social insurance agencies. (Percentage)		40.00			100.00
Strengthen the regulatory framework for people with disabilities and hazardous occupations					
Proportion of disability certificate applicants during the past months who had at least one previously issued and currently valid valid disability certificate. (Percentage)		50.00			10.00
Average time to issue a disability		More than 120 days			60 days



Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
certificate (Text)					

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
Component 1. Strengthening the efficiency of pension and social insurance administration					
Percentage of centrally maintained records of socially insured individuals shared by all social insurance and tax agencies (Percentage)		0.00	40.00		100.00
Average time to transfer second pillar funds to individual accounts (Text)		5 days			Below 3 days
Selected functionalities of PIOM improved (Text)		Actuarial department not operational.			Actuarial department fully staffed and operational.
Proportion of individual pension service and earnings records in PIOM that are consolidated (Percentage)		50.00	60.00	80.00	95.00
Component 2. Supporting the Implementation of Pension and Disability System Reforms					
Public awareness on employment of persons with disabilities raised (Text)		0 inquiries	2,500 inquiries	5,000 inquiries	10,000 inquiries
Law on Employment of Persons with Disabilities enacted (Text)		Current law mainly treats employment through sheltered companies.	Reform options discussed and a new law drafted.		New law passed/enacted.
List of jobs declared as hazardous and arduous (Extended Service Period /ESP/ list) revised and enacted (Text)		ESP list not revised	ESP list under revision	ESP list revised	ESP list revised and enacted (through pension legislation)



Indicator Name	DLI	Baseline	Intermediate Targets		End Target
			1	2	
Enacted unified methodology for disability assessment and determination (Text)		Unified methodology inexistent	Unified methodology designed		Unified methodology enacted
Central coordination unit for unified disability (CDCCU) functional (Text)		Inexistent	CDCCU legally institutionally established in MLSP (having the legal statute and competencies established).		CDCCU fully functional and operational.
Single registry of persons with disabilities developed and functional (Text)		Inexistent			Registry fully functional and operational.
Percentage of persons who had check-ups as part of their disability assessments, out of those who were issued disability certificates during the previous month (Percentage)		Less than 60.00			90.00
Percentage of persons assessed outside Skopje (out of those residing outside Skopje), who were issued disability certificates or formal rejection decisions in the previous month (Percentage)		Less than 10.00			40.00
Component 3: Project Management					
Share of beneficiaries satisfied with responsiveness of the grievance redress mechanism (Percentage)		0.00	20.00		50.00
Communication campaigns developed and implemented (SURS, CDCCU, disability employment) (Number)		0.00			3.00
Share of citizen engagement activities, which result in inputs incorporated in the project design. (Percentage)		0.00			33.00



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Single unified registry of socially insured individuals developed and functional	SURS means a unified, simplified, and centralized registration and database system to social insurance hosted and organized by an entity under MLSP, which includes a standardized, transparent, and centralized process of registration of insured individuals, serves all social insurance agencies and the tax administration, and the insured population; and maintains a single unified central database of socially-insured persons and their contribution history. "Operational" means that it takes over all registries of insured persons of all categories of social insurance into a single and central registration function, and is able to deliver that information to other agencies as needed.	Annually	Project progress reports, Government legislation and regulations	Regular monitoring	MLSP



<p>Proportion of insured population whose social insurance information is centrally available to all social insurance agencies.</p>	<p>The percentage of insured population whose data is entered into the new single unified register and is available for reference and processing to relevant agencies.</p>	<p>Annual</p>	<p>Project progress reports, SURS/MLSP Annual Reports</p>	<p>Regular monitoring</p>	<p>MLSP</p>
<p>Proportion of disability certificate applicants during the past months who had at least one previously issued and currently valid valid disability certificate.</p>	<p>Over time, it is expected that because of the methodology unification and institutional coordination, the persons who already have a valid disability certificate will no longer need other certificates to apply for other benefits</p>	<p>Annual</p>	<p>Admin data (lists of persons with disability certificates and of persons who applied for disability certificates.</p>	<p>Matching between (1) the list of people who applied for any disability certificate in the previous month (for (i) disability pension and reduced working ability, (ii) disability benefits, (iii) children and the youth, (iv) third-party care, (v) benefits for veterans) and (2) the list of people who had at least one valid disability certificate during that month.</p>	<p>MLSP</p>
<p>Average time to issue a disability certificate</p>	<p>Average number of days spent from the application for a disability certificate is submitted until the disability certificate is issued or until a formal decision for those who were rejected is</p>	<p>Annual</p>	<p>Admin data</p>	<p>Lists of people who were issued disability certificates or formal rejection decisions for all types of disability certification in the previous month. For</p>	<p>MLSP</p>



	submitted to the applicant for the persons who were issued certificates or rejection formal decisions in the previous month. The indicator is calculated for all 5 types of disability certificates.			each person the following information will be needed: (i) the day when the person submitted the application and (ii) the day when the certificate or the formal rejection decision was issued	
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Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Percentage of centrally maintained records of socially insured individuals shared by all social insurance and tax agencies	Share of social insurance records containing information on employment status, service record, past earnings, and other data relevant for all social insurance agencies. Currently, records are maintained individually by agencies, while in the future they will be maintained centrally by SURS.	Quarterly	SURS/MLSP, PIOM, UJP, AVRМ, FZO	Regular monitoring	SURS/MLSP
Average time to transfer second pillar funds to individual accounts	Time between collection of second pillar contribution and its receipt on the	Quarterly	SURS and MAPAS reports	Regular monitoring	MAPAS, SURS/MLSP



	individual account.				
Selected functionalities of PIOM improved	A functional review conducted under the project is expected to result in recommended actions during the project life. The indicator seeks to register the following actions: staffing of the Actuarial Department, the preparation of its workplan, its plan of research and publications, and its training program.	Annual	PIOM Annual Report	Regular monitoring	PIOM
Proportion of individual pension service and earnings records in PIOM that are consolidated	The percentage of individuals with fully registered and accounted-for service years (i.e. with clean and complete data on paid contributions, wages earned, length of work.)	Annual	Project progress reports, PIOM Annual Reports	Regular monitoring	PIOM
Public awareness on employment of persons with disabilities raised	Measures the extent to which outreach results in inquiries to the Central National Registry of Persons with Disabilities through various means of communication (including e-inquiries, phone calls, emails, etc.)	Annual	Disability Registry annual Report	Regular monitoring	MLSP



Law on Employment of Persons with Disabilities enacted	New Law on Employment of Persons with Disabilities passed, which includes broader options for employment of persons with disabilities.	Ongoing	MLSP	Monitoring of the national legislative program.	MLSP
List of jobs declared as hazardous and arduous (Extended Service Period /ESP/ list) revised and enacted	This indicator looks at a necessary revision/optimization of the ESP-listed jobs defined as hazardous and arduous by the pension legislation.	Annual	MLSP	Regular monitoring	MLSP
Enacted unified methodology for disability assessment and determination	The project promotes the development and introduction of a single methodology for disability assessment and determination that will be applicable for all types of disability-related benefits/services that are legislated and provided by public sources.	Annual	Government legislation and regulation	Regular monitoring of the legislation	MLSP
Central coordination unit for unified disability (CDCCU) functional	The regulations for putting in place the central coordination unit are enacted, and unit is in place	Annual	Government legislation+ MLSP organizationa l chart	Regular monitoring of the legislation and regulations	MLSP
Single registry of persons with disabilities developed and functional	This indicator requires the creation and putting into operation of a registry of all	Annual	Disability national database and	Extract from the single registry of all the persons with disability	MLSP



	persons with disability certificates in North Macedonia.		monitoring report	certificates (information regarding their application dates, valid period, type of disability and disability level).	
Percentage of persons who had check-ups as part of their disability assessments, out of those who were issued disability certificates during the previous month	At baseline, because of the lack of resources, none of the persons assessed for third-party care go through any check-ups. The reforms are expected to free resources that would be used to increase the number of check-ups in the assessment process.	Annual (consolidated monthly)	Administrative data	Total number of persons who received disability certificates for whom no check-up is required, out of the total number of persons who were issued disability certificates in the previous month.	MLSP
Percentage of persons assessed outside Skopje (out of those residing outside Skopje), who were issued disability certificates or formal rejection decisions in the previous month	The indicator will measure the percentage of people who are positively affected by the increase in the number of assessment centers/locations outside Skopje.	Annual (consolidated monthly data)	Administrative data	Two pieces of information will be required: (i) total number of people residing outside Skopje, who were assessed in the regional centers/other locations outside Skopje for any type of disability certificate; and (ii) total number of people residing outside Skopje who were issued	MLSP



				disability certificates or formal rejection decisions in the previous month.	
Share of beneficiaries satisfied with responsiveness of the grievance redress mechanism	This indicator monitors the beneficiary satisfaction with responsiveness of the grievance redress mechanism	Continuously throughout the life of the project.	MLSP/PMU built-in survey, reported in QPR/APRs.	Regular	MLSP/PMU
Communication campaigns developed and implemented (SURS, CDCCU, disability employment)	This indicator tracks the communication campaigns developed and implemented for the purposes of the project activities (in the areas of SURS, CDCCU, and disability employment). The three planned campaigns can be part of a single public relations package.	Annual	MLSP/PMU	Regular	MLSP/PMU
Share of citizen engagement activities, which result in inputs incorporated in the project design.	The indicator monitors how many events out of all events for the CE engagement (formatted workshops, focus groups) resulted in feedback that is incorporated in project outputs and activities.	Annual	MLSP/PMU	Regular monitoring	MLSP/PMU



ANNEX 1: IMPLEMENTATION ARRANGEMENTS AND SUPPORT PLAN

COUNTRY: Republic of North Macedonia Social Insurance Administration Project

1. The project's key implementing agency will be the MLSP, but it would closely collaborate with MOF, MOH, PIOM, FZO, AVRМ, and UJP. As the key implementing institution, the MLSP has demonstrated strong commitment, and has acquired extensive experience in implementing World Bank-financed projects over the last 15 years, including those related to pension and social insurance reforms. It has been agreed that the project management structure would encompass a Project Steering Committee led by the MLSP and comprised of key ministries and agencies participating in the project. The capacity of the MLSP to carry out the fiduciary and M&E functions for the Project is weak. It will thus be vital that the MLSP initially relies on the existing and very well-functioning PMU which is currently implementing the SSIP. The PMU would be responsible for procurement, disbursement, monitoring, and reporting on the use of loan proceeds. The PMU would include a Director, Manager and Coordinator for this operation, which would have overall responsibility for the implementation of the proposed project on the Ministry's side. Given the complexity and multi-sectoral feature of the project design, the PMU would also include a social insurance administration specialist, a disability assessment specialist, an M&E specialist, as well as information technology engineers. The current PMU within the MLSP already engages environmental and social safeguards specialists who would be responsible for implementation of provisions of the Environmental and Social Management Framework. However, given that the procurement and FM specialists would be responsible for fiduciary aspect of two operations in parallel, a procurement and FM assistant would be hired once the Project becomes effective. Implementation arrangements would assure continuous strengthening of the MLSP's capacity, to promote long-term sustainability of the reforms.

Implementation Support Plan (ISP)

2. The Implementation Support Plan (ISP) considers the nature of the program in terms of expanded and nationwide coverage, multiple intervention components, and the focus on building efficient social insurance administration and disability system. The ISP will be aligned with government systems and procedures and will benefit from continued harmonized support for the project from various institutions.

3. The existing support model, which involves close communication and ongoing technical and management support from the World Bank task team to the government technical team, will continue. The existing government coordination arrangements at the sector level, as well as project-specific coordination architecture, will continue to be the key forums for follow-up on strategic and operational project issues and for regular review of progress. While the Government and its implementing agencies remain responsible for program implementation, the responsibility for effective supervision and monitoring support will be shared by the Government and the World Bank, to jointly review progress toward achievement of the PDO.

4. The World Bank task team leader, based in Europe and Central Asia, with team members based in North Macedonia, Washington DC, and Europe and Central Asia, will handle the day-to-day matters of the project, which will include project implementation support, adherence to World Bank policies and procedures for funds administered through the World Bank, and representation in sector wide policy dialogue and development partners' coordination forums. The task team will include sector experts and fiduciary and safeguard staff.



5. The support from the World Bank team will also include specific additional technical assistance in conducting various analytical works and facilitating of cross-country learning and experience sharing.

6. In addition to the joint implementation support missions, a midterm review will be carried out to assess if the project design assumptions are still valid and to determine the future direction and sustainability issues of the project beyond this phase. Missions and reviews will be complemented by internal and external reviews that will cover the following areas: FM, procurement, M&E, and technical aspects.

Table 1.1. Main Areas of Focus in Terms of Support to Implementation

Time	Focus	Skills Needed	Partner Role
First twelve months	<ul style="list-style-type: none"> Rollout of the plan for different components of the program Follow-up on the start of implementation FM and procurement <p>Monitoring of social and environmental safeguards</p>	<p>Senior social protection specialists</p> <p>FM and procurement specialists</p> <p>Safeguard and social development specialists</p>	Establishment and operationalization of professional rehabilitation centers (REHA centers)
12–48 months	Same as above	Same as above	Same as above

Table 1.2. Skills Mix Required

Skills Needed	Specialization	Unit
Task team leader (ADM responsible)	Program manager	HECSP
Procurement specialist (ADM responsible)	Procurement specialist	EECRU
Procurement specialist	Procurement specialist	EECRU
FM specialist (ADM responsible)	FM specialist	EECG1
Environmental specialist (ADM responsible)	Senior environmental specialist	SCAEN
Social development specialist (ADM responsible)	Senior social development specialist	SCASO
Team member	Senior social protection specialist	HECSP
Team member	Economist	EECM2
Team member	Consultant	-
Team member	Operations analyst	HECSP
Team member	Program assistant	ECCMK

Table 1.3. Partners

Institution/Country	Role
UNDP/North Macedonia	Establishment and operationalization of professional rehabilitation centers (REHA centers) in cooperation with the MLSP



Procurement Implementation Arrangements

7. Procurement Policy and Procedures. The World Bank's Procurement Framework (PF) effective as of July 1, 2016, will be governing procurement under the proposed project. Procurement of contracts for goods, works non-consulting and consulting services financed from the project, will be carried out in accordance with the World Bank Procurement Regulations for Investment Project Financing (IPF) Borrowers – Procurement in IPF of Goods, Works, Non-Consulting and Consulting Services, (Regulations) issued in July 2016, revised November 2017, and August 2018.²⁶

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

9. STEP. The project will be subject to using the World Bank's electronic platform STEP. It will be used by the PMU initially to create and later to revise Procurement Plan for the project, and to monitor performance, manage procurement procedures and store related documentation for all steps in a procurement activity.

10. Publication of procurement notices. The General Procurement Notice (GPN) and all procurement notices for contracts following international market approach will be published in United Nations Development Business (UNDB) and on the World Bank's external website through STEP. Procurement notices for contracts following 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 and/or in national newspapers with wide daily circulation.

11. PPSD. As required by the PF, a PPSD was prepared. 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 shall be aligned with the World Bank's most recent thresholds for procurement approaches and methods. The procurement and review thresholds relevant for the project are indicated in the PPSD. Accordingly, an initial Procurement Plan is prepared and agreed with the World Bank for the first 18 months of the project.

12. Capacity assessment. The project will be implemented by a PMU within the MLSP, which has successfully implanted the World Bank-financed CCTP, which closed in 2018, as well as currently manages the SSIP. 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 one experienced

²⁶ <http://pubdocs.worldbank.org/en/178331533065871195/Procurement-Regulations.pdf>



procurement specialist managing procurement under the current operations, assisted by a newly recruited procurement assistant. Diligence is also observed in record keeping and quality of evaluation. The procurement processing and contract management in both implemented projects was rated Satisfactory. The implementing agency is familiar with the World Bank’s procurement documents and procedures; however, continuous training on the NPF is needed.

13. With regard to the development of the SURS, the Government, through the coordination of the MLSP, has an ultimate responsibility for ensuring the project is implemented by the MLSP, social insurance agencies, and tax administration. Similarly, other project sub-components and activities, particularly the establishment of the CDCCU, require close cooperation between the MLSP and MoH. These complex project arrangements would require daily coordination at the policy and operational levels. The risk of sub-optimal coordination is effectively mitigated by establishing a Project Steering Committee comprising of the MLSP, MoF, and MoH, with participation of other agencies as needed. In addition, the scope and size of the SURS project, to be established by the Law on SURS, requires that adequate management and technical resources, appropriate technical skills, and authority to make major decisions, are dedicated for the work on SURS development.

14. 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 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.

15. Procurement risk analysis. Based on the capacity of the implementing agency and Overall risk analysis, overall risk for procurement is set to Moderate.

16. The procurement specific risks, the proposed mitigating measures, and the risk owner are indicated in table 1.4.

Table 1.4. Procurement-specific Risks

Risk Description	Description of Mitigation	Risk Owner
1. Identifying the needs and planning the procurement		
Persons involved in procurement integrity, having as possible consequences: increased procurement costs, delays in procurement procedures, misuse of resources, unsuitable products or services, unethical conduct, procurement procedure cancellation.	Provide specific training on/inform accurately the Evaluation Committees members about fraud and corruption as defined in the World Bank’s Anti-Corruption Guidelines. Implement best practice policies, guidelines and practices Maintain ethical environment Using a probity assurance advisor, if case	PMU, MLSP, members of the Evaluation Committees, project beneficiaries
2. Developing the technical specifications, technical requirements and terms of reference		
Predisposed specifications, having as possible consequences: low competition, claims, cancellation of procurement procedure.	Use functional and performance specifications PMU to support the beneficiaries in drafting business processes, in drafting terms of	PMU and project beneficiaries



Risk Description	Description of Mitigation	Risk Owner
	references and in preparation of technical specification for different types of procurements To engage experts whenever there is a need for development of specific technical specifications and terms of references.	
3. Procurement Documents		
Providing inadequate information, having as possible consequences: variations in bids prices, increased number of clarification requests from the Bidders causing delays in tender closing; cancellation of procedure	Ensure trained and experienced staff under PMU Use of the World Bank’s SPDs Carefully review of the procurement documents Ensure accurate and transparent evaluation and qualification criteria	PMU and project beneficiaries
4. Launching, clarifying, evaluating of Bids and awarding the contracts		
Favoritism in providing information, having as possible consequences: complaints from Bidders; withdrawal of Bids, cancellation of selection procedure	Answer to all clarification requests in writing to all Bidders Ensure that all potential bidders are provided on time with the procurement documents and any addenda	PMU
Breach of confidentiality, having as possible consequences: complaints from Bidders; withdrawal of Bids, cancellation of selection procedure, mistrust of Bidders, lack of competition	Train staff and evaluation committee member in their obligations Evaluation Committee members to sign declaration of impartiality/lack of conflict of interest.	PMU and project beneficiaries
5. Selecting the successful bidder		
Award the contract to an inappropriate bidder, having as possible consequences: failure to fulfill the contract, termination of the contract.	Ensure that the Evaluation Committee members have appropriate experience in carrying out evaluation and suitable financial and technical skills The evaluation criteria to be clearly identified and described	PMU and project beneficiaries
6. Negotiations		
Impossibility to successfully finalize negotiations, having as possible consequences: disputes, delays, reduction in value for money, purchase of less suitable goods/services, inefficient use of resources, need to restart procurement	Include accurate Conditions of Contract in the procurement documents Negotiations to be carry out by trained and experienced staff Clarify all ambiguities before signing the contract	PMU and project beneficiaries
7. Contract management		
Lack of institutional coordination and resources in the establishment and use of the SURS having as	Multi-institution participation in the establishment and use of the SURS and	PMU and project beneficiaries



Risk Description	Description of Mitigation	Risk Owner
possible consequences: failure to establish and implement the SURS.	<p>dedicating management and technical resources for the work on SURS development.</p> <p>Nominating senior managers from the relevant institutions with appropriate technical skills, that would have authority to make major decisions and to drive the project forward as responsible for SURS development and implementation</p> <p>Establishing SURS by an entity under the MLSP – headed by agency management reporting to the MLSP and the Government, according to institutional setting stipulated in the Law on SURS</p> <p>Adopting a phased approach to implementation, whereby institutions participate in SURS in stages - thereby reducing the likelihood of over-burdening SURS at the beginning, and giving more time for participants to ready themselves for migration</p> <p>Establishing of Project Steering Committee or a Project Consultative Group comprising of the MLSP, MoF, and MoH, with participation of other agencies as needed</p> <p>Daily coordination of all involved at the policy and operational level</p>	
Lack of institutional coordination and resources in the establishment of the CDCCU, having as possible consequences: failure to establish and implement the CDCCU	<p>Multi-institution participation in the establishment and effectiveness of the CDCCU between the MTSP and MoH</p> <p>Nominating senior ménages, from the relevant institutions that would have authority to make major decisions and to drive the project forward as responsible for CDCCU establishment</p> <p>Establishing of Project Steering Committee or a Project Consultative Group comprising of the MTSP and MoH, with participation of other agencies as needed</p> <p>Daily coordination of all involved at the policy and operational level</p>	PMU and project beneficiaries
Failure of either party to fulfill the conditions of the contract, having as possible consequences: contract disputes, failure to fulfill the contract objective, delays in delivery, legal action	<p>Each relevant party should dedicate appropriate and adequate resources to ensure that the contract is implemented as per agreed terms and conditions</p> <p>Hold regular inspections/meetings and ensure progress reports</p> <p>Ensure all staff know responsibilities and conditions</p> <p>Ensure good record keeping and documentation</p>	PMU and project beneficiaries



Risk Description	Description of Mitigation	Risk Owner
Inadequately administering the contract, having as possible consequences: cost increases, failure of contract, failure to fulfill the contract objective, contract/supply disputes	Ensure all staff are suitably trained and experienced in contract planning and management	PMU and Project Beneficiaries
Fraud, having as possible consequences: misuse of funds, legal action, disruption to procurement activities	Maintain an ethical environment Follow and maintain fraud control procedures	PMU and project beneficiaries

Financial Management Implementation Arrangements

17. Risk analysis. The overall FM risk for the project is substantial before mitigation measures, and with adequate mitigation measures agreed, the FM residual risk is rated moderate.

18. FM performance of the active project. As mentioned in the Appraisal Summary section of the PAD, the FM arrangements of the ongoing project implemented by the MLSP is Satisfactory. There are no outstanding IFRs or audit reports under the current project.

19. Staffing. The PMU has all core functions appropriately staffed and the capacity of the unit can be assessed as sufficient. The financial manager within the unit, who will be assigned with FM responsibilities for the project, is a qualified specialist with prior experience in implementation of World Bank projects. The financial and administrative officers will also support the financial manager. In addition, if the workload requires, additional staff to the FM part of the PMU would be hired to take over some of the responsibilities. Terms of Reference for the FM staff with detailed descriptions of duties are included in the financial part of the POM. The implementing entity is responsible for the project’s FM arrangements and its accountant will provide supplementary expertise and time as will be required for the specificity of World Bank procedures for accounting, reporting, and disbursement procedures. The PMU staff within the MLSP needs to have sufficient qualifications and experience to perform tasks in its scope. The MLSP is assessed to have sufficient capacity to ensure the appropriate staffing.

20. Planning and budgeting. The PMU has adequate capacity for planning and budgeting in terms of human resources, availability of quality information and information technology system. Staff has experience in budget preparation. However, it should be observed whether variances of actual versus budgeted figures are monitored on regular basis and appropriately analyzed and followed up. The PMU will prepare single budget for all project activities. The PMU will collect information on the budgeted figures from the beneficiaries. The MLSP is assessed to have sufficient capacity to perform the above tasks and prior experience in coordinating similar tasks.

21. Information systems. The MLSP uses the treasury system for its accounting and reporting. The treasury system was assessed by the World Bank’s diagnostic work and found to be sound with reliable reporting and ex-ante controls. However, locally developed software used for project accounting and reporting of the ongoing project will be used also for the new project as it is assessed to be beneficial for financial transparency and reliability of the project data given the complexity of the project and a need to consolidate all project information in one place.



22. Accounting policies and procedures. The accounting books and records will be maintained on cash basis with additional information on signed contracts. Project financial statements will be presented in Euro. The entity implementing the project should apply in practice a set of acceptable accounting procedures and internal controls including authorization and segregation of duties for the project. To improve safeguard of assets, additional internal control procedures are instituted (for example, reconciliation between accounts and records, reconciliation of cash and bank balances) and described in the financial manual. Financial part of the POM sets out the FM and internal control policies and procedures and is intended to guide staff and minimize the risk of errors and omissions, as well as delays in recording and reporting. These written standards also clarify responsibilities, including level of authority, clear control over cash, and bank accounts, and it ensures timely and accurate financial reporting.

23. Financial reporting and monitoring. Project management-oriented interim unaudited IFRs will be used for project monitoring and supervision. The format of the IFRs has been agreed during negotiation. The reports will include consolidated financial information on all project funds. The reports will also incorporate detailed information on amounts transferred to the MLSP, amounts paid to beneficiaries and any unused funds which were transferred from the Designated Account. The PMU will produce a full set of IFRs for each calendar quarter throughout the life of the project. They will be due 45 days after each quarter ends. The IFRs will comprise the following reports presented in the agreed format: (a) Statement of Sources and Uses of Funds; (b) Uses of Funds by Activity; (c) Designated Account statement; (d) Unit of Output by Activity; and (e) Narratives to the reports. The accounting for the project is cash basis with additional information provided for commitments on signed contracts.

24. Internal controls. An adequate system of internal controls and procedures was instituted as part of the ongoing project. Such system is assessed as reliable and will continue to be applied to the new project as well. The current management control framework, described in the FM section of the existing POM for SSIP, is replicated in the respective chapter of the POM of the SIAP project. 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 transaction), (c) regular reconciliations between records and actual balances, as well as with third parties, and (d) complete original documentation to support project transactions.

25. Additional controls. Additional controls are required to ensure that the funds flow to selected beneficiaries and that the funds are used for intended purposes and are detailed in operations manual and in the financial manual as part of the operations manual. The controls include:

- appropriate procedures for selection of beneficiaries (staff that performs evaluation, the procedure and criteria, summary reports);
- procedures on determining funds needed - methods of calculating quarterly need for funds;
- transparency of flow of funds - need for information about the transferred funds, together with supporting documentation, including statements of accounts (MLSP account within TSA, Designated account) to be submitted to the PMU from the Treasury. The PMU will include detailed information in the quarterly IFRs;
- reporting back to the PMU - on the executed transfers from the MLSP account (supporting documentation, such as evidence of bank transfer confirming bank account), as well as on the unused funds.



26. External audit. The implementing entity follows audit requirements of the existing World Bank-financed projects. The MLSP is audited by the North Macedonia State Audit Office (SAO) as any other government entity. However, as the capacity of the SAO for conducting efficient financial audit is still quite limited, the project's financial statements will be audited in accordance with terms of reference acceptable to the Bank by a private sector audit company acceptable to the Bank, and the audit report will be submitted to the Bank at the latest six months after the end of the period audited. The annual cost of the audits of the project will be covered by the project funds.

27. Flow of funds and disbursement arrangements. The transaction-based disbursement method will be used for the Project. Once the Project becomes effective a Designated Account will be opened in the NBRNM, to which the funds will be transferred. A mirror denar account will be opened within the TSA to serve as an operating account for withdrawals from the foreign currency account. The Designated Account will be managed and operated by the PMU with the authorized signatories, which include a ministerial (MLSP) representative. All transfers will take place through it, with a corresponding transfer of the denar-equivalent amount from the foreign exchange account.

28. The procedures relating to the flow of funds, including paths for authorization and approval of payments are described in detail in the FM section of the POM. The procedures should clearly describe all steps of the process, as well as authorized signatories for administering the account funds. Bank Statements indicating turnover and balance on the denar sub-account will be submitted on daily basis. The PMU will include balances on all project related accounts in the quarterly IFRs.

29. The ceiling for the Designated Account will be indicated in the Disbursement Letter to be agreed on at negotiations. Applications for replenishment of the Designated Account will be submitted at least quarterly or when one-third of the amount has been withdrawn, whichever occurs earlier. Documentation requirements for replenishment would follow standard World Bank procedures as described in Disbursement Handbook. Bank statements of the Designated Account, which have been reconciled, would accompany all replenishment requests.

30. Supervision plan. During project implementation, the World Bank will supervise the project's FM arrangements in two main ways: (a) review the project's unaudited IFRs for each calendar quarter, as well as the project's annual audited financial statements and auditor's management letter and (b) perform on-site supervisions, review the project's FM and disbursement arrangements to ensure compliance with the World Bank's minimum requirements. The supervision may include the project implementation unit within the MLSP, and a random sample of final beneficiaries as deemed necessary. Supervisions will be performed by the World Bank accredited FM specialist.



ANNEX 2: DETAILED PROJECT DESCRIPTION

COUNTRY: Republic of North Macedonia Social Insurance Administration Project

1. **The proposed project addresses specific and relatively narrow social insurance administration technical areas.** The list includes (a) registration of individuals to mandatory social insurance (pension, health, and unemployment) and recordkeeping of social insurance data; (b) processing the disability assessment for persons seeking disability benefit, service, or assistance; (c) the system of employment of persons with disabilities; and (d) early retirement of hazardous and arduous occupations.

Social Insurance Registration and Registries

2. **The present system of registering socially insured persons, collecting and recording (employment and personal) data, collecting contributions, and sharing data between institutions, dates from 2009.** At that time the responsibility for collecting social insurance contributions was transferred from the various social insurance funds to the national UJP through the integrated salaries calculation and payment system (gross wage concept and MPIN system). This action was preceded in 2006 by the official start of the multipillar system of social insurance, whereby some persons would be mandatorily insured in new (Pillar 2) private pension funds, in parallel with the (Pillar 1) state-sponsored PIOM. The unification of tax and contribution collection, and the introduction of the multipillar pension system, required a new system of data collection and sharing. This new system could only be successful if taxpayer/contributor/insured person data are collected and shared in a reliable, accurate, and timely manner. However, due to the multiplicity of institutions within the system, the additional layer of Pillar2 funds, different membership categories permissible, and frequent and often inconsistent legal changes, the core processes involved have become very complex, cumbersome and inefficient.

3. **Current social insurance registration and recordkeeping system is scattered, inconsistent, and inefficient.** The dominant entry door for registration of socially insured persons in the various social insurance institutions is the AVRМ. However, the AVRМ has a responsibility to keep only a unified registry of contributors (employers), to undertake registration/deregistration processes for employees, and transfer those data to the rest of the agencies and to maintain employees' historical records, as they may ultimately become AVRМ's beneficiaries in case of unemployment. Other categories of insured persons (for example, farmers, clerics, and market traders—none of whom are eligible for unemployment insurance) register directly with the PIOM and/or FZO for their pension and health insurance. Consequently, every agency creates, and manages its own registry (database) system. Agency registries hold different numbers of insured persons (table 2.1) even for employees, where those numbers should be equal.



Table 2.1. Data on Insured Employees and Other Forms of Employment (contributors)

Agency	Employees (with insured status) 2017 (2018)	Other forms of employment (farmers, clerics, traders, others)	Total employees
PIOM	575,574 (578,023)	Not stated	
FZO	572,291 (569,618)	34,796 (32,125)	
AVRM	No formal Registry on employees ²⁷ (205,358 M1* registries, out of which 161,406 due to M1's are for full or part time employees)	No registry	
UJP	As at 11/2017 (579,681 declared employees' MPINs*, with 529,518 employees' MPINs paid). The last available 2018 Report notes particular data of 655,632 beneficiaries of gross salary/transfers (employees, self-employed etc.)	193,158 registered as tax contributors	
State Statistical Office			759,445

Source: Annual Reports of Statistical Office, PIOM, UJP, and FZO for 2017/18.

Note: *M1 is a registration form for new employees submitted by the employer; MPIN is a personified monthly form on contributions and taxes paid, calculated, and submitted by the employer

4. **Governance of social insurance data are fragmented, whereby each institution acts in an autonomous manner.** The reliance on bilateral and ad hoc agreements, and the absence of systemic integrated controls means that any weakness in these interinstitutional processes inevitably results in the various data registries being out of real-time synchronization. This means that benefits and services across all the institutions are being decided on and delivered using imperfect data, or with data that has not yet been updated. This has occurred, with the result that some critical data are reported as being out-of-date, out-of-synchronization, or missing.

5. **Collection of social contributions rests with UJP, but UJP does not maintain a registry on socially insured persons since they rely on the AVRM entries on registration M1 forms.** For the employed person, the insurance and employment-related data (on M forms) are transmitted from the AVRM to the other institutions (including UJP). Collection of contributions rests with UJP but UJP does not maintain its own accumulated permanent registry of socially insured persons - as they rely on the AVRM's annual list of notifications (from M1 forms) of persons who are in employment for that year. However, there are many missed connections with these data flows as well as cases of parallel change of data. This can lead to gaps in insurance coverage for insured persons, and these gaps only become visible when the insured person claims a benefit (perhaps 30 or more years later).

6. **Gaps in contribution payment data, and/or incorrect data from registration and reporting forms can lead to lengthy delays in the PIOM's determination of an insured person's status with regard to Pillar 2 pensions.** This is exemplified by the recent crisis regarding missing contributions for Pillar 2 members that has resulted in compensating 12,000 members in the Pillar 2 pension schemes with a total amount of more than EUR 19 million in 2019. Furthermore, there is a temporarily hold of the pension contributions in the PIOM's bridge account for

²⁷ The legal regulations defining the AVRM responsibilities does not require establishing and maintaining formal Registry of employees, thus the AVRM's main focus is employees M registrations. However, the AVRM has a registry of employers for internal core processes, yet without obligation to report on it. In conclusion, the State Statistical Office reports the employees' data, based on the input of the AVRM and additional internal methodology.



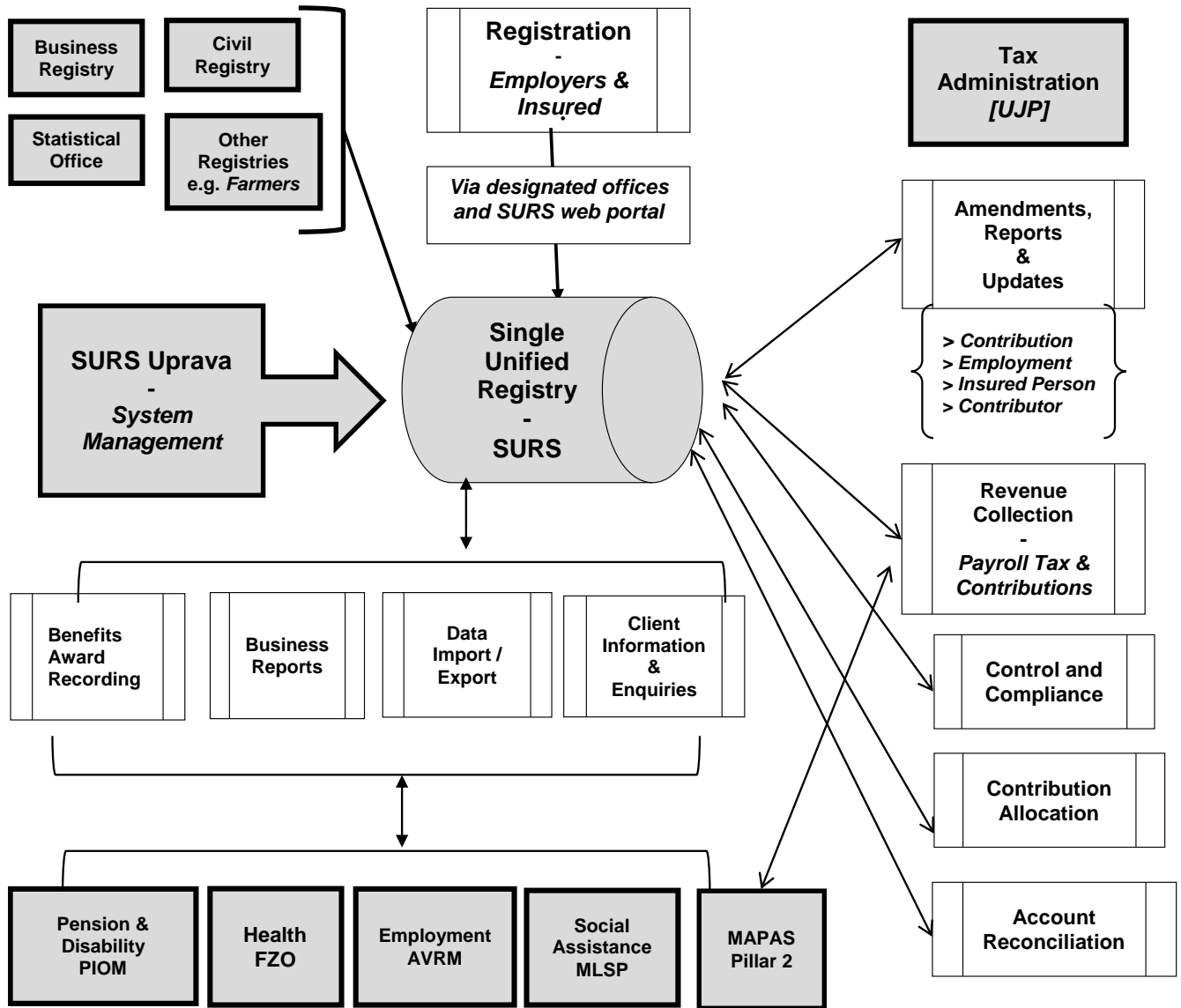
members that have mismatches of data and who were wrongly assigned (or not assigned at all) to the correct pension scheme.

7. **A new SURS would eliminate the weaknesses of the present system and create an efficient system in the long run.** The new SURS will have the capacity to serve all social insurance agencies and UJP, and be flexible enough to manage further policy, parametric, and operational changes to the social insurance system in North Macedonia. The new central unified system will have a single database of all insured persons and contributors as its centerpiece. This will be supported by a standardized and integrated set of functions, processes, and business rules, and these would apply to all data entering and exiting the SURS and would govern all institutional interfaces with the system. The SURS will be grounded in consistent and unified legislation (both new and amended laws) and operate strictly in accordance with business rules agreed by all participant agencies and enforced through the electronic data-sharing interfaces. The SURS will also ensure a more direct, timely, and accurate flow of contributions and data to the Pillar 2 arm of the pensions system – by revising and streamlining the business processes involved and thereby eliminating the bottlenecks and data quality issues that have contributed to the crisis with delayed allocation of large amounts of contributions to insured persons' (for more than 12,000 persons) Pillar 2 Funds accounts. Furthermore, cost and reputational issues associated with required redress actions have created an additional burden on the pensions system. Taking into account the above factors, and World Bank analysis and recommended options, the Government of North Macedonia has taken a decision to establish the new SURS through an entity under the MLSP.²⁸

²⁸ Single Unified (Social Insurance) Registry System for North Macedonia, Report by the World Bank, March 2019; Government Decision No. 45-5503/1, August 20, 2019; and Government Decision No. 45-8738/1 of November 26, 2019.



Figure 2.1. SURS - Business Operations Model (main components)



8. The main advantages of a SURS will be:

- Single entry point for registration of all insured persons and contributors regardless of their employment status, professions, pension pillar membership, current legal exemptions;
- Rationalizing, standardizing, and automating key business functions and workflows – registration, data collection, data reporting, data update, and data storage;
- Reducing delays in allocating contribution payments to the accounts of persons insured in Pillar 2 Funds;
- One stop service for the employers and other categories of contributors;
- Merging the participant agencies’ existing separate registries into a single registry with common data model, common data sets, and common data definitions;



- Introducing strict procedures and protocols for updating registry data – eliminating multiple, manual, and ad-hoc procedures;
- Potentially increasing the coverage and volume of social insurance – by eliminating the possibility of ‘selective registration’ whereby some categories of insured persons can register with one branch of insurance (for example, health) while evading registration or delaying contribution payments with another for example, pensions);
- Interactions between the participant agencies through the single central registry, and not directly between themselves;
- Entry into the system only using existing national identity number as key ID parameter from the beginning (this will be kept as the SURS’ primary identification code) – improving client identification and data retrieval;
- Redefining the business forms (for example, ‘M’ forms, MPIN)—including new data on contributor status, and so on—leading to improved quality of data collection;
- Data flows and data access would be in real time – without delays caused by inter-agency data transfers, as at present;
- Data accuracy and integrity guaranteed – through strict data access/update protocols;
- Enabling internal re-deployment of participant agencies’ human and technical resources away from redundant inter-agency processes and towards their core missions - thereby improving service delivery capacity;
- Providing insured persons and contributors with unified and integrated personal information about their employment and insurance history in real time and in a user-friendly process;
- Facilitating quicker resolution of errors – by having integrated insurance history for each insured person;
- Strengthening the quality of taxpayer and contributor data available to the UJP;
- Strengthening the control over contribution (and payroll tax) collection – for example, by highlighting cases where tax and contribution revenues have not matched payroll data submissions; and
- Enhanced reporting system applicable for the macro and micro employment, health, pension, social assistance, and statistical policies development.

9. The main challenges of implementing a SURS in North Macedonia would expectedly be:

- SURS involving multiple participant agencies and highly integrated business processes (the development of such a system will be a complex and technical project requiring full co-operation from all parties);
- Participating agencies having limited in-house ICT resources, and assigning these to support the SURS project could negatively impact on their ongoing service levels;
- Implementation of the integrated social insurance registry system requiring significant effort, time, and dedicated actions and resources from all participant agencies;
- Entity hosting SURS needing administrative and technical resources;
- The transition period from the existing system to SURS involving a period of parallelism with an attendant risk of duplication of effort, or confusion over role responsibility;
- Temporary disruption of services possibly occurring during SURS implementation period;
- Migration of multi-registry data to a new single registry requiring significant examination and cleanup of existing data, and could be lengthy;



- The implementation of SURS possibly resulting in unforeseen errors in collected data, revenue collection, benefit awards, or insurance coverage coming to light (resolving this could require additional time and resources);
- Each participant agency needing to upgrade or amend their existing ICT and business process systems (to facilitate usage of the new SURS);
- Data ownership and data access within the new SURS needing to be defined and agreed (this could cause conflicts between agencies);
- The new SURS requiring a full disaster recovery program and probably involving construction of a new disaster recovery facility;
- New and strengthened data security and data privacy safeguards required; and
- A public communication strategy concerning the new system required (involving the support of all agencies), and to be implemented in a comprehensive manner for a certain period of time before and after the start of SURS.

10. **Development of SURS will be a complex task, comprising of multiple and different requirements from the various agencies that will participate in the new system.** In effect, the final version of SURS will hold insurance records for all individuals in North Macedonia and will record their insurance records and status at any moment in time. The scope of the project – SURS model design; business needs analysis; legacy data cleanup; developing new ICT system; re-configuring interinstitutional linkages via SURS; defining business rules; defining new procedures for Pillar 2 pensions; writing new/amending existing legislation; and establishing the SURS institutional structure - means that an absolutely accurate estimation of total actual costs is not possible at this time. The true overall costs will only emerge after undertaking the business needs analysis, defining the new business operations model, and finishing the SURS detailed design and scope.

11. **In addition, it is considered prudent to ensure that SURS is deployed in stages to minimize the significant risks that would accompany transitioning to such a complex new system.** It would be less risky to stage the migration to SURS using a priority system that takes into account the different attributes of the various insurable cohorts. Less complex and less time-sensitive categories of insured persons would be prioritized for earlier migration. These would be followed by the (fewer) other categories for whom the current system is working relatively better and whose later transition would benefit from adjustments and lessons learned from the earlier migration stage. Therefore, it is planned that SURS would involve 2 main Phases, with intermediate stages along the way. Phase 1 would involve all preparatory work, including legislation, needs analysis, business operations model definition, SURS design and scope, and building the new system. Data clean up and consolidation (at least for Phase 1 participants) would also be included. Whilst, precise number and categories of persons to be included in both Phases would be finalized during SURS implementation planning it is expected that Phase (1) would include rollout of SURS to insured persons who are insured for long-term cash benefits and some short-term cash benefits (for example, retirement pensions, unemployment benefit). This would cover employers and employees, self-employed, farmers, traders, religious, and voluntarily insured. Phase 2 would extend SURS to persons predominantly covered for health services and would include all persons not already included in the above insured person cohorts, and integration of current and improved Social Assistance system as an integral part of SURS. In this way, potential for disruption to sensitive key branches of insurance (for example, health insurance – where insurability data are required at very short notice) would be reduced, and lessons learnt from a progressive transition methodology would be applied to ensure smooth transition for later categories.

12. **Implementation of SURS, supported by the SIAP, would require the following investment:**



- **Technical support for legislation amendment.** A new Law on SURS would be required and would be accompanied by amendments to multiple linked laws and regulations. This support would be required pre-SURS development (to give legal authority for SURS) and post-development (regulations and by-laws to enable SURS implementation).
- **Detailed business function needs analysis for the entity under MLSP and participating agencies.** The multiplicity of agencies, variety of services delivered, and their different data requirements means that a complex set of business requirements must be identified, defined, and agreed in advance of SURS Design task. This exercise is a pre-requisite for the SURS design task. It will also help confirm the precise functional scope of the SURS, and feed into the definition of the SURS Data Model and Master Data set.
- **Design of SURS, including:** governance, database system, business functionality and processes, organizational structure, and inter-operable linkages with participating agencies. This would result in a detailed design brief for SURS development.
- **Development and implementation of SURS and business operations model, including ICT investment in SURS and in participating agencies.** Development of the new SURS hosting entity to serve all participant agencies would require investment through:
 - Development of SURS organizational structure - including units, staff levels, job descriptions etc.
 - Development of business functions and processes, operating rules and procedures, business forms;
 - Development of ICT system, including hardware, database, software applications, office equipment, communications, and licenses;
 - Fitting out office accommodation, and support logistics; and
 - Developing a training program for SURS staff.

13. While the SURS would require starting from scratch, participant agencies would require some re-configuration of their existing ICT systems, with some functions becoming redundant and some new functions being added. Increased emphasis would have to put on inter-operability capability, and on synchronizing data models and data definitions between participant agencies.

Modernization and Improvement of Business Processes in the PIOM

14. **Functional review for modernizing the PIOM's administration.** The PIOM is the agency with the broadest range of benefits, the largest amount of contributions, and the most complex business processes involved in insured persons' database management. The PIOM will be the agency most affected by the new SURS. In addition, the PIOM client data are the most comprehensive of all agencies. PIOM has faced a range of challenges in the recent past and needs particular support to optimize its business operations model in the light of SURS implementation. The starting point will be a functional review of PIOM's functions that will, inter alia, identify areas where administration reforms would have most impact and where further the SIAP support would be targeted for modernization activities. In this PAD it is estimated that investment in software and capacity building would be needed at least in the first phase of business process modernization.

15. **Data cleanup and migration.** The PIOM, as well as other participant agencies, would need to undertake a major data clean-up exercise, and prepare detailed plans (with deep controls) to migrate data to the new SURS. In the PIOM data clean-up would include not only data on insured individuals but also consolidation of past earnings records. Individual earnings histories in the PIOM experience shortfalls including incomplete records of



service periods, contribution bases or contributions paid, with paper-based archives, which are detected only at the point of benefit request and determination. It is estimated that there are up to 20 percent of missing data in the earnings records history. For future smooth processing of pension requests and providing the information to all insured individuals via SURS these records should be reconciled, digitized and made available to the social insurance agencies and insured individuals. This subcomponent will engage in the initial analysis of the earnings history problem in the PIOM and the campaign of completing all past records within the SURS development process. It is envisaged that both data consolidation processes might commence in parallel.

16. **Training of participant agencies' staff.** Training would focus on new business processes, operating procedures and rules, ICT, analytical and actuarial tasks, client relations, and related tasks. The scope and content of training would be identified in the course of SURS development, and documented in a Training Needs Analysis deliverable.

17. **Public information program.** Broad public, particularly the users of the system – insured individuals, employers and other beneficiaries - would have to be informed about the new system, its features, functionalities, processes, and new benefits it would bring to its users.

Reforming disability assessment (certification)

18. **Disability assessment (certification) is a gate through which anyone who claims any publicly or privately provided disability related benefit, service or product has to pass.** Every country has some form of disability assessment, some government authorized agency or agent charged with assessing whether a person is disabled or not, and to which degree. Most commonly and most visibly, disability assessment is linked to social security benefits, but it also applies to eligibility to other services and benefits —from rehabilitation services, care services, or assistive devices, to social assistance in cash and in kind— for which people have to be officially declared to have a disability.

19. **Unification of disability assessment processes, methodologies, and administrations has been a process underway in many EU countries.** The first steps in the reform process are commonly to introduce a comprehensive classification of diseases.²⁹ Reforms are carried in the segment of business processes; standardization of forms to gather all relevant information in a systematic way; introduction of integrated information systems that assist day-to-day operations, collection, storage, and retrieval of documents and information across all involved bodies; and introduction of proper M&E systems. Some countries have been moving toward the introduction of the ICF of the World Health Organization (WHO), which is the international standard for describing and measuring disability. Moving to a more holistic assessment of disability requires setting up integrated disability assessment committees to perform a comprehensive assessment of the claimant based on medical, functional, and socioeconomic factors after which it issues a report describing the claimant's main impairments in bodily function and structure, limitations in activities, and restrictions in participation. Activities have been done to simplify the relevant legislation and documents, improve efficiency, and reduce the burden on both claimants and staff in agencies providing disability benefits or services. For claimants, it reduces the need to have to provide duplicate (and sometimes unneeded) documents at various stages of the process and undertake multiple assessments. For agencies, centralized and specialized assessment centers release the

²⁹ North Macedonia has been using a standardized classification of diseases (MKB10) based on impairment (Barema) scale. Many countries have been broadening it to WHO-DAS II, a generic assessment instrument for health and disability developed by the WHO to produce standardized disability levels and profiles directly linked at the level of concepts to the ICF.



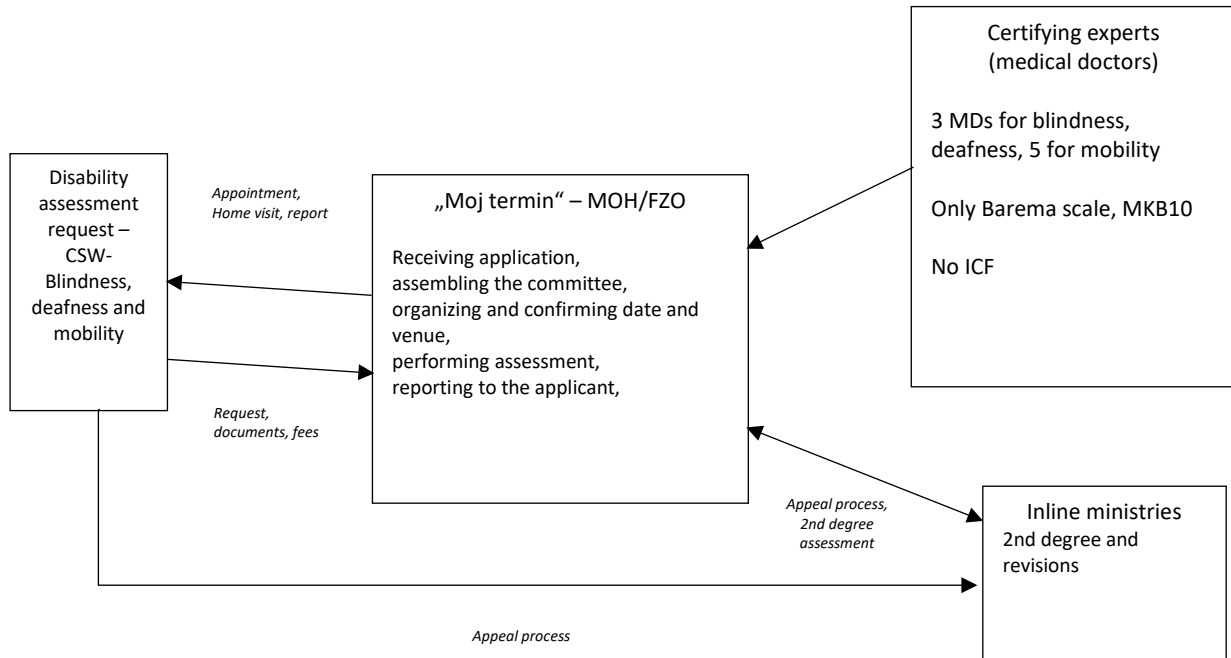
capacity to strengthen other processes such as benefit determination and client relations, and in the medium term reduce administrative burden.

20. **In North Macedonia, the determination of eligibility for benefits and services requires not only specific entitlement rules, but requests also their own disability assessment and disability determination. This generates high inefficiencies in the disability system.** In theory, the assessment of disability, the determination of disability and the determination of eligibility (the process through which the services or benefits a person is eligible for are decided) should constitute three separate steps in the disability system where the first two be completely delinked from the third one. In North Macedonia, the determination of eligibility is the one driving a particular type of disability assessment and disability determination, which means that for different types of benefits or services different assessments and certifications are required. Because of this situation, multiple disability assessment systems co-exist, resulting in high administrative and private costs. The eligibility processes for the main categories of benefits and services, together with their assessment and determination procedures, are summarized in the following paragraphs.

21. **In the case of the disability benefits for impaired hearing, impaired vision, and limited mobility, for adults over 26 years old, the disability assessment procedure is administered through both the social welfare and the health administrative systems.** The assessment for these benefits is regulated by the Ministry of Labor and Social Welfare and is based on a medical diagnosis using a scale of impairment. To receive the benefit, the process is (a) the person goes to a general practitioner (GP) who fills in an application on behalf of the applicant through an online platform (Moj Termin) operated by the MoH (the fee for the assessment charged to the applicant is approximately EUR 40), (b) on the same platform, the GP sets up an appointment for the applicant with the assessment commission, (c) the person receives a certificate indicating the level of impairment, (d) the person then makes a paper-based request to a center for social work (there are 30 such centers across the country) to receive the benefits he/she is entitled to (see figure 2.2).



Figure 2.2. Disability Assessment for Blindness, Deafness, and Mobility



22. **The disability assessment process for deafness, blindness, and mobility is based on medical diagnoses and (MKB10) scale of impairment.** The degree of impairment is defined by the Rulebook on assessment of the specific needs of persons with disabilities in physical and psychological development, issued by MLSP. The commissions for assessment consist of medical specialists and can call for, if necessary, participation of specific specialists. Decisions are made on the basis of medical records and face-to-face meetings. Since 2018 there have been only 4 assessment teams in Skopje, engaged through “Moj Termin” as needed, which during 2018 operated by engagement of 45 various medical experts.

23. **Assessment of eligibility to deafness, blindness, and mobility benefits do not appear to be inefficient.** Table 2.2 presents the evolution of disability assessment cases from 2015-2018. Despite growing number of assessments in 2018, the estimated “cost-coverage” cost of assessments³⁰ stands at EUR 127,000 and still below 1 percent of total outlays for these benefits. Furthermore, the assessment processes for deafness, blindness, and mobility benefits appear not to have required multiple visits and assessments of beneficiary/patient per program. In 2018, there were 102 assessments registered for each 100 deafness, blindness, and third-party care patients, while for mobility it required 105 assessments. There is no information how many patients required multiple benefits and required repetitive and parallel assessments. Also, there are no surveys or analyzes of client satisfaction.

³⁰ Assumes that currently regulated fee of MKD 1,250 is charged for every assessment and covers the actual cost of assessments.



Table 2.2. Disability Assessments for Deafness, Blindness, and Mobility Benefits in North Macedonia 2015–2018

Year	Number of Assessments	New requests	Est. Costs of assessment (€)*	Number of beneficiaries	Total benefits (€)	Admin costs/benefits (%)
2015	4,941	1,935	100,427	10,294	10,236,587	0.98
2016	4,998	2,002	101,585	11,362	11,659,533	0.87
2017	4,212	1,508	85,610	11,922	12,254,764	0.70
2018	6,241	1,885	126,850	12,460	12,915,277	0.98

Source: Moj Termin.

Note: *Estimated assessment cost assumes full cost coverage with charging MKD 1,250 per assessment.

24. **The assessment commissions for disability benefits are highly dysfunctional and are the main source of delays in the process of issuing certificates.** At the moment, three commissions operate for each type of disability assessment, with a registry of experts that could be assigned to each of commissions. All these commissions function in Skopje for the whole country, which generates additional expenses to persons with disabilities applying, because they had to attend in person. Apparently, there are inadequate financial incentives for medical doctors to take part in these commissions, and there is no mechanism for requesting them to commit some of their time to participating. Because of this situation, the assessment process has slowed down, even suffering major delays at times. At the end of September, appointment slots were available only for the blindness committee, while for the hearing and orthopedic committees (which have more than 50 doctors in their registry) the system did not allow any appointments at all to be set up. Moreover, for the intellectual disability, for which benefits have been proposed, no committee has yet been set up.

25. **The assessment of eligibility for third-party care for the youth, the elderly and other persons with disabilities is mainly paper-based and inefficient.** The assessment process is the following: (a) the applicant files an application and submits the medical and other documents on paper (as originals) at the Center of Social Work and pays a fee of approximately EUR 20, (b) the documents are sent by the center to the assessment committee that operates under the Ministry of Labor and Social Welfare, (c) the committee analyses the application and then sends their decision back to the center on paper, and (d) the staff of the center issue the benefit and enter the information into the database of benefits (the Social Protection Implementation Loan management information system). At this stage, neither the centers nor the committee from the Ministry of Labor have access to the health management information system to check the medical information that exists there.

26. **The assessment process for third-party care has been extremely overloaded and prone to error and fraud.** Since 2018, when the Ministry of Labor and Social Welfare started to manage the assessment, the number of applications has rocketed. According to the Ministry of Labor, the number of new applications per month is approximately 3,000 (150 per day). The applications are assessed by an internal team of 7 medical doctors, who are divided into 3 committee (although according to the rulebook, there should be 3 members per team). The committees assess only the documents and do not do check-ups of applicants or make home visits (except for situations when people file appeals); in any case, they lack proper means and incentives to carry out them.

27. **A new process to improve the assessment of third-party care and to reduce fraud and error has been legislated, but not yet implemented, and it is supposed to operate, as before, parallel to the other types of assessment.** According to this new legislation, third-party care will be managed through the Moj Termin, with regional committees (in 6–8 locations) doing check-ups in public health institutions. The new process was supposed to start on the 1st of October 2019, but did not, because at that time the forms in the e-health system



had not been programmed. There was no clarity on a number of questions, including how many committees there should be, where they should be located, how they should be composed and selected, and how their members should be remunerated. Unfortunately, the committees are supposed to function in parallel with the committees for disability benefits and will issue separate certificates. It is not known whether current committee members will have a role in the future.

Table 2.3. Disability Assessments for Third-party Care Benefit Program in North Macedonia 2015–2018

Year	Number of Assessments	New requests	Est. Costs of assessment (€)*	Number of beneficiaries	Total benefits (€)	Admin costs/benefits (%)
2015	39,067	9,606	794,045	41,350	26,247,945	3.03
2016	38,242	10,238	777,276	42,429	27,869,698	2.79
2017	44,910	11,912	912,805	46,685	29,950,429	3.05
2018**	96,617	16,921	1,963,760	50,442	33,873,770	5.80
2018***			480,000		33,873,770	1.42

Source: Moj Termin; MLSP.

Note:*Estimated assessment cost assumes full cost coverage with charging MKD 1,250 per assessment.

**Assumes cost recovery at the level of MKD 1,250 per each case.

***Assumes 15 full time employees with 100 percent overhead rate.

28. For disability pensions and proof of reduced work capacity, there is another type of assessment, performed independently by the PIOM. The PIOM is responsible for an independent stream of assessments of the impairments and remaining work capacity, which are needed to qualify for a disability pension or a part-time job. Persons with disabilities file an application together with the medical documents and any other information prepared by the GP on paper at the local branch of the PIOM. The documents are sent to an assessment committee at central level, which analyses the file, seeks any clarification needed and then sets up an appointment for a check-up in Skopje. The committee has seven medical doctors, split between two sub-committees for the check-ups and assessments.

Table 2.4. Disability Assessments by the PIOM 2012–2017

Year	Assessment of the Working Ability	Other Requests	Total
2012	5.131	1.360	6.491
2013	4.678	1.248	5.926
2014	3.776	1.284	5.060
2015	3.605	1.218	4.823
2016	3.601	984	4.585
2017	3.368	763	4.131

Source: PIOM.

29. **The administrative system and registry of disability pensioners and reduced remaining work capacity is completely parallel to the other administration and assessment systems.** The PIOM has its own database of persons who have received a disability certificate issued by them. However, there is no communication between their database and Moj Termin, and they do not have any access to documentation in the Moj Termin database. As a result, they are even more reliant on the information filled in by the GPs. However, there are complaints that



the GPs have not been filling in the medical information properly, and that the assessments are being delayed for this specific reason. The results of this assessment cannot be used to qualify for any other type of benefit.

30. **For children and youth under 26, the process is carried out by the MoH in coordination with the Ministry of Labor and Ministry of Education.** There are 11 committees under the MoH, situated in Skopje and the regions, where children and the youth can be assessed. The process is not the same for all members of this age group. For children with physical impairments, some mental impairments such as autism, combined conditions, and speech, voice, hearing and chronic conditions, the applicant has to go first to a Center for Social Work, which refers the person to the committees, receives the results of the assessment, and then stipulates the level of disability and the benefits and services the person qualifies for. People with other mental conditions and sight impairments have to go to a GP, who initiates the process through Moj Termin (as in the case of adults over 26). After a decision is made, the person takes it to the Center to apply for benefits or services. As in the case of the adults with disabilities, the whole process is done on paper, and there is no management information system for children and youths with disabilities.

31. **Although the current assessment for children and the youth is medically based only, there is a concrete plan to reform the system to be fully in line with the ICF.** A new institution (the National Body for the assessment of functionality of children and youth under 26 years old) has been set up to implement the reform in the next several months and to coordinate the whole process in the future. The reform started in 2012, with a pilot supported by United Nations Children's Fund, which developed the instruments based on the ICF and included both an assessment of the functionality of the person and the need for services. All the instruments, finalized in 2016 and adapted to the country's context, should be fully implemented by 2020. The reform plan proposes nine bodies of assessment throughout the country (2 in Skopje and the other 7 in the other regions), with professional assessors contacted specifically. Each body will consist of four professionals (a psychologist, a special education officer, a social worker and a part-time physician) and one person serving the technical secretariat. The professionals will each have more than ten years of experience in the disability area and training on ICF. At the moment, it is not clear whether the National Body should act as an independent body directly under the Government, or under the Ministry of Labor and Social Work or the MoH.

32. **The management information system that will be needed to assess the children and youth is not in place yet.** Although the assessment system may need to be scaled up quickly, there is no management information system for planning, performing and recording the results of the assessments. The management information system will have to be accessible to the GPs as they will be the entry point for the assessment, and it should be connected to the database of services and the database of benefits.

33. **In addition to the four types of assessment mentioned before, there are others.** Among them, one is the assessment of the war veteran disability, which is initiated and organized independently by the Government's Department for War Veterans. Based on the overall evaluation of these disability assessment and benefit entitlement systems, the following elements should be developed:

- **Disentanglement of the assessment of disability from the determination of eligibility for benefits.** At the moment, each type of benefit requires different types of certification and disability assessments. A unification of the methodology for assessing the conditions of persons with disabilities is critical in this sense. To benefit from assessment methodology reform (based on ICF) and advancements in assessment of children and the youth, the methodology could initially differ according to age group (children and the youth *versus* persons older than 26). The methodology

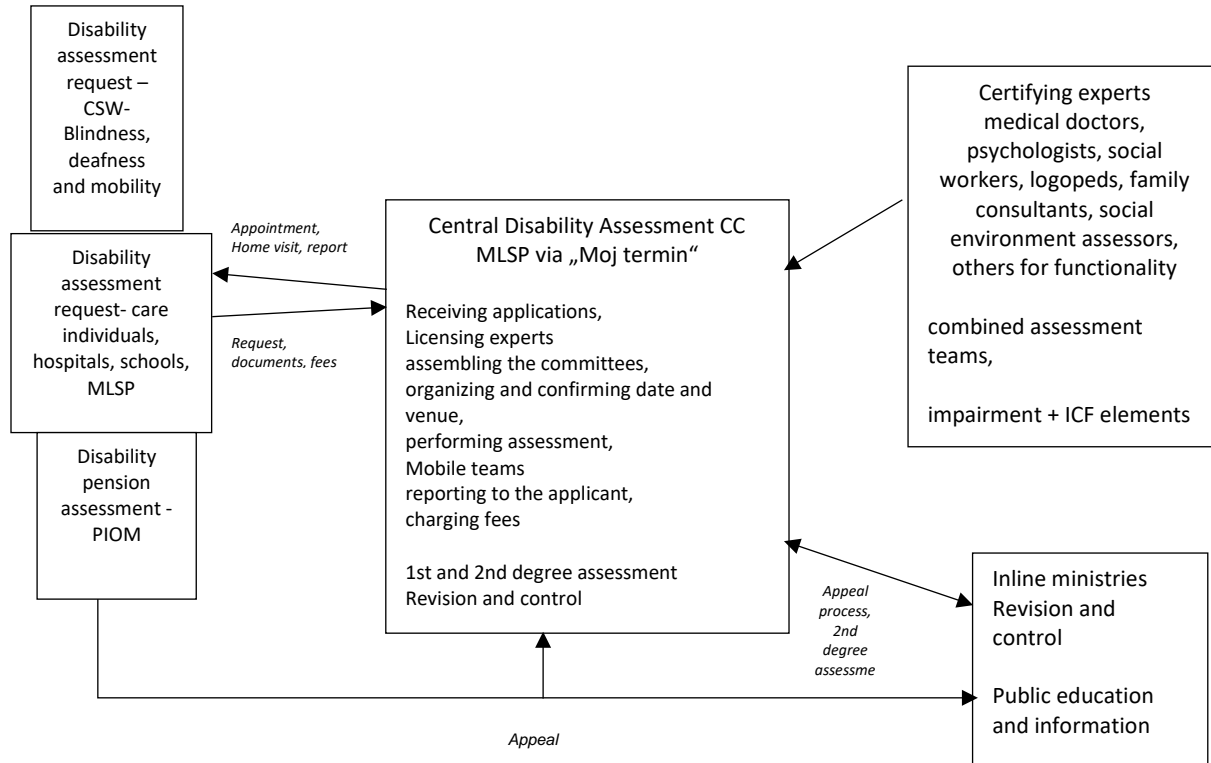


should be comprehensive enough to include all types of information required by different systems: level of disability, level of work ability and the needs for services (including the need for third-party care).

- **A single assessment process that would be the gateway for any type of benefit.** At the moment, there are several commissions (some of them operating in-house within the ministries, others external) with costs that add up. At the same time, each of the committees has limited resources, which generates queues and sometimes forces the decision not to do check-ups and to rely only on the documentation for the assessment (as in the case of third-party care). On the other hand, people may have to apply for several certificates, paying multiple fees and facing high private costs. Sometimes, the assessments generate contradictory results, which reduces trust in the system. A single assessment process would reduce all the administrative costs and improve the efficiency of using the limited human resources required for performing the assessments, while alleviating the burden on beneficiaries.
- **Assessment committees closer to beneficiaries.** At the moment, all the assessments take place at central level, with high costs for persons with disabilities. Committees operating at regional level or even at local level (if the committees were to be organized as mobile teams) would reduce the costs for applicants and improve their satisfaction with the services overall.
- **A single registry for persons with disabilities, which would be connected to other relevant datasets.** At the moment, none of the disability assessment systems is linked to any others, so the levels of overlap cannot be assessed. Moreover, some systems rely on registries that are still paper-based or require significant improvements because they include incomplete information. Moreover, no existent registry is connected to other datasets they ought to be: for example, to the e-health system to check the information on the medical conditions (with the exception of the assessments for the disability benefits) or to the database of social services and social benefits. Some of the steps within the assessment procedure are still manual and based on paper (like receiving the files at the Centers for Social work, sending them to the assessment committee, having the results returned on paper). Creating a single registry of persons with disabilities would solve the dearth of information, would improve the processes and coordination across different systems and would significantly reduce the paper-work.



Figure 2.3. Central Disability Assessment Coordination Unit in North Macedonia – Potential Organization



34. **The proposed reform could generate some administrative savings and improved services to clients with disabilities in North Macedonia.** The reform would ultimately result in faster, more transparent, and more efficient disability certification process, and service to the clients/applicants. All disability certification applicants would undergo only one certification, ensuring horizontal equity by all persons with disabilities certified using a single and unified methodology. Unified methodology would initially contain ICF elements already envisaged for the disability assessment of youth, and open room for gradual extension of ICF onto other disability assessment areas. Individual costs of disability certification would decline, and client satisfaction rise accordingly. In the medium run, the centralized assessment system would generate lower costs than the three currently decentralized disability assessment administrations in North Macedonia.

Employment of Persons with Disabilities

35. **Activation of persons with disabilities is one of the most important aspects of any sickness/disability management program.** The longer the individual is out of the labor force, the lower the chance of return. Rehabilitation is commonly complex because of the number of different agencies that are involved in the process and the uncertainty over the outcome of the rehabilitation process. It is important for the design of the sickness and disability programs to provide incentives and reward those who return to work, and robust systems are needed to regularly review sickness and disability claims to prevent error, fraud and corruption, identify those who no longer meet eligibility conditions, or because the health condition and the environment change over time.

36. **Employment of persons with disabilities is moving away from compensations to active employment policies.** While the previously dominated ‘sheltered work’ (employment in specialized companies established



predominantly for employment of persons with disabilities) had been switched for quotas and compensations as more appropriate policies for activation of persons with disabilities, EU and OECD countries are now moving away from a compensation approach toward an integration approach when it comes to disability employment policy. Middle-income countries, however, generally have systems which are less integrative. To increase the self-reliance of disabled people, promote economic growth, and lessen the role of transfer programs, countries have increasingly started moving towards a more integrative disability employment policies such as vocational rehabilitation, supported work, and reimbursement mechanisms for employer accommodations to the workplace.

37. **Current focus on activating persons with disabilities in North Macedonia is still on protective ('sheltered') companies.** The Law on Employment of Persons with Disabilities (2016) regulates the special conditions for employment and work of the disabled persons. In recent years four measures supported employment of persons with disability: i) Services for activation of people socially excluded; ii) Self-employment for persons with disability, focusing on training, business plan preparation, registration of enterprise and grants; iii) Jobs for persons with disability; and iv) Training for demanded occupations. Employment of the disabled persons is relatively rare in the open labor market and is mainly organized in the sheltered companies.³¹ In January 2019 there were 224 registered protective ('sheltered') enterprises established functioning in accordance with the Law on Employment of Persons with Disabilities. These sheltered enterprises employed 5,677 persons, of which 2,351 (41.4 percent) were persons with disabilities.

38. **Grants to sheltered companies for employment of persons with disabilities are financed by the DEF of the AVRМ.** The resources for the DEF are established with one tenth of the 1.2 percent contribution for unemployment insurance, that is, by effective contribution rate of 0.12 percent. The collected financial resources are spent on (a) the subsidies for wages of persons with disabilities employees with disabilities in the protective companies, (b) workplace adaptation, (c) non-refundable grants for acquiring the equipment, and iv) rehabilitation and training of persons with disabilities. Table 2.5 shows the results of the DEF in 2017. About two thirds of the applications have been accepted with employers mainly claiming subsidies for employment and for procurement of special equipment, none for trainings and professional rehabilitation of their employees with disabilities. Similar structure and dynamics were observed in 2018.

Table 2.5. Results of the DEF in 2017

DEF	The Total Number of Applicants		Approved Grants		
	Number of Employers	Number of Disabled Persons	Number of Employers	Number of Disabled Persons	Amount (MKD, millions)
Grants for employment of a disabled person for an indefinite period	193	324	125	237	94.4
Workplace adaptation	9	9	6	6	0.6
Procurement of equipment	53		36		59.2
Rehabilitation and training of persons with disabilities					
Total	255	333	167	243	154.2

Source: Employment Service of the Republic of North Macedonia, 2017

³¹ A sheltered company is defined as a company with at least ten employees, of which minimum 40 percent are persons with disabilities, registered (as a sheltered company) with the MLSP and AVRМ.



39. **Besides DEF grants, sheltered companies receive a transfer for social insurance contributions for their employees.** Sheltered companies are reimbursed from the central budget for social insurance contributions paid for all its employees. Transfer, channeled through MLSP, in 2017 stood at 452 mil MKD, and at 410 mil MKD in 2018. In addition to being three times higher than the subsidy from DEF, it is questionable to which extent the reimbursement of all sheltered company employees' contributions helps achieving the objective of activating persons with disabilities. New Strategy of the Government envisages a restructuring of the subsidies and reimbursements to divert more funds to professional rehabilitation of persons with disabilities and active measures for their stronger participation in the open labor market.

40. **Overall effectiveness of the North Macedonia program for employing persons with disabilities is difficult to assess.** In addition to 2351 persons with disabilities employed in sheltered companies, AVRМ is estimating about 1,000 additional persons with disabilities are employed in other companies or self-employed.³² On the other hand, AVRМ has 1,431 persons with disabilities registered as unemployed (seeking employment).³³ Overall number of persons with disabilities in North Macedonia is not known. Estimates based on regional benchmarks, with around 10 percent of population being persons with disabilities, may suggest the number is around 150,000, of which around 100,000 in the working age. Having in mind all objective constraints of persons with disabilities, it is more likely that a small number of persons with disabilities seeking employment in the AVRМ is a result of closed, and non-transparent system with low expectations from persons with disabilities on their perspectives for activation. Surveys conducted among persons with disabilities show low expectations from the system, reluctance to engage in professional rehabilitation and doubt in the benefits from employment in a sheltered company.³⁴ New strategy of the Government,³⁵ for activating persons with disabilities broadens the employment opportunities and moves away from compensations to rehabilitation and active employment policies.³⁶ It plans to reconsider the distribution of current "sheltering" subsidies toward professional rehabilitation and activation programs for inclusion of persons with disabilities in the open labor market, and ultimately result in a larger number of persons with disabilities participating in the labor market. The Government's plan is to discuss all aspects of employment of persons with disabilities in 2020 and develop the new Law on Employment of Persons with Disabilities in 2021.³⁷

41. **This area of the SIAP would support the reform of the system of employment of persons with disabilities.** The policy objective of the Government to widen employment opportunities for persons with disabilities and raise their inclusiveness into the labor markets will require a broad public debate of policy options for employment of persons with disabilities, legal preparatory work, and a public information and education campaign. Policy options analysis, especially those considering the redistribution of current "sheltering" subsidies toward professional rehabilitation and activation programs for inclusion of persons with disabilities in the open labor market will have to be prepared before the public debate. The public debate should result in a modern and

³² The AVRМ estimates that 60 percent of employed persons with disabilities in 2017 were employed in the open market and 40 percent were employed in sheltered companies.

³³ AVRМ Annual Report 2017.

³⁴ "Analysis of the Situation with People with Physical Disabilities in Republic of Macedonia", Helsinki Committee for Human Rights of the Republic of Macedonia, 2017.

³⁵ Reform Program of the Government 2017-2020.

³⁶ The Government with assistance from UNDP have been piloting new model of professional rehabilitation to strengthen the open market employment of persons with disabilities. The ongoing pilot has established two rehabilitation centers, implemented in two different types of organizations, which should provide valuable insight and experience for future setup of the national rehabilitation system.

³⁷ The MLSP's report of September 30, 2019, to the Government.



sustainable Law on Employment of Persons with Disabilities in 2021. The need for setting a National Registry of Persons with Disabilities has been emphasized for decades. Its development and maintenance by the MLSP would enable designing the appropriate policy measures and their M&E. Activities expected to be supported within this subcomponent thus include technical assistance to discuss and develop the new legislative framework, organizing national information and education campaign, especially targeted toward persons with disabilities, and the establishment of the National Registry of Persons with Disabilities and system of monitoring and evaluating in the MLSP.

42. **This Project will rely on the pilot projects undertaken by various implementation stakeholders in the development of professional and vocational rehabilitation.**³⁸ Efficient professional rehabilitation and adequate provision of information boost participants' theoretical, empirical, and administrative skills, making them competitive in the open labor market, but also contribute to their self-reliance, confidence, and knowledge to develop their own self-employment possibilities. The professional rehabilitation and training enhance the employability and working skills of the participating persons with disabilities, while also giving them a first-hand experience of operating in a different environment. In its pilot project, the UNDP established two rehabilitation centers. These centers were implemented in two different types of organizations, which should provide valuable insight and experience for future setup of the national rehabilitation system. The first type is a state institution, "the Institute for rehabilitation of children and youth Topansko Pole" based in Skopje and the second type is a civil society organization "Izbor" located in Strumica. Both Centers provide same set of services, while the evaluation of the pilot project should provide information on the effectiveness and efficiency of service provision within each type of organization. Both rehabilitation centers would implement a standard set of services, which includes initial functional assessment of work abilities, development of individual plan of vocational and professional rehabilitation, support for inclusion in education activities and in work environment in the open labor market. The activities will also contain assessment of work efficiency at workplace and re-assessment of client after the implementation of the individual rehabilitation plan. The results of the UNDP's pilot, combined with the results of the SIAP, would inform the Government about potential next steps and future areas of support.

Reforming the early retirement system for hazardous and arduous occupations

43. **The recently enacted pension reform will stabilize the North Macedonia system over the near term.** The Law on Pension and Disability Insurance, adopted in December 2018, addresses pension system fiscal sustainability and the adequacy of multipillar pensions. The list of pension policy measures aimed to secure fiscal sustainability and strengthen equity includes (a) more sustainable (Consumer Price Index) indexation of pensions, (b) harmonization and lowering of accrual rates, (c) a modest contribution rate increase, and (d) switchback of Pillar 2 members older than 50 to the "pay-as-you-go" pillar. The Law on Social Security for Elderly Citizens also introduces a means-tested social pension for elderly above 65. While this is a good reform start for the near future, there is still the need to generate fiscal savings in the long run.

44. **North Macedonia has already tightened the opportunities for general early retirement.** General early retirement, common in other countries in the region and in the EU, was abolished in North Macedonia in 2005. A potential channel of early retirement through disability was in parallel tightened through the introduction of stricter disability eligibility criteria. The only remaining early retirement option is the ESP for hazardous and arduous occupations (ESP; also known in local language as '*beneficirani staz*'), which awards 14–18 months of

³⁸ "Development of a model for establishing a Center for professional and vocational rehabilitation in Macedonia Recommendation Report", Institute for Labour Market Development (2018).



service for each 12 months of period worked, depending on hazard levels, and reduces their retirement age accordingly. Reform of the mandatory early retirement in hazardous occupations, its current financing arrangement, as well as the list of occupations eligible for ESP was announced in the Economic and Social Reform Program 2020 of the Government for the second phase of the pension reform.

45. **The list of insured individuals eligible to retire early with ESP in North Macedonia has not been revised and updated regularly.** Last revision of the ESP list was performed in 2011,³⁹ with modest changes to the ESP period attributable to each occupation, and minor reduction of the list of occupations. There are approximately 2,000 registered work positions with ESP counting toward retirement. Most of the ESP work positions with 12/14 degree (each 12 months of work counts as 14 months) are in the construction industry, building materials, emergency medical assistance and long-term care institutions, communal activities, organic chemical industry, traffic (railway traffic and city traffic), textile industry, thermal power plants, smelters, mines, ferroalloys and some employees in the customs. Contributors in 12/15 group are employed in mines, iron works, communal activities, smelters, customs, textile industry, emergency medical institutions, and small number in air traffic. Other three groups 12/16, 12/17 and 12/18 include air traffic controllers, thermo-electrical plants, ferroalloys and customs. The 12/17 group consists only from the ESP contributors that works in mines. Group 12/18 includes singers, dancers, pilots, divers, and again miners. Occupations in the ministries of interior and defense (military, police, firefighters, and security agencies' personnel) are eligible largely for 12/15 and 12/16 ESP level.

46. **The list of occupations qualifying for ESP is planned to be reviewed and narrowed.** In North Macedonia there are approximately 25,000 insured individuals eligible for ESP. The overall share of insured individuals eligible for ESP stands at 4.5 percent, of which 2.7 percent is the share of the military and police, and 1.8 percent all other occupations eligible to ESP. Following the EU countries' experiences, the share of workers eligible for early retirement should be limited below 2 percent of insured, preferably around 1 percent(excluding the army and the police). North Macedonia ESP eligibility for non-military and non-police occupations broadly fits the range but should be refreshed to curb it closer to 1 percent. With regards to the insured in military and police, the share of insured covered by ESP is high compared to international standards. It already exceeds the average EU share of all police and military personnel in total employment. As much as 70 percent of employees in police and military are eligible to ESP, which is excessive given the rapidly improving political and safety circumstances. ESP should be narrowed to people performing duties which require high physical exposure and health risk, while coverage by ESP for the people working, for example, in administrative positions in police and military should be eliminated. The SIAP will finance the revision of the ESP list as the first step in reforming the system of early retirement of hazardous and arduous occupations. The objective of this activity will be to increase their participation in the labor market.

47. **The Government intends to engage in further reforms of the early retirement system for hazardous occupations.** There are two main trends in the end-of-career measures that are identified in the case of workers in hazardous and arduous conditions: (a) measures that facilitate early exit measures; and (b) measures prolonging working life. The measures that are linked to prolonging working lives usually base on the linking of the social, labor market and health policies to support working lives. They aim at enhancing functional capacities of workers, through empowerment and rehabilitation. Best practices in this area rest on three-pronged strategy: occupational health and safety focusing on prevention; rehabilitation and active labor market policy measures focusing on reinsertion into the labor market; and social protection focusing on prolonging working lives and reducing early labor market exit. Active labor market policies usually cover measures such as vocational training, counseling, job

³⁹ Rulebook for Determining Working Positions with Extended Service Period, Official Gazette 32, March 2011.



handovers, or different work ability provisions.⁴⁰ Early exit measures in most of the cases are guaranteed through separate pension rules within the general system – approach similar to the current one in North Macedonia. In the course of the last decade almost all EU countries introduced measures that tighten early exit (with exception of the Czech Republic). Some of the countries also introduced measures that support work ability, such as tightening eligibility conditions and prolonging work capacity through prevention and rehabilitation (Sweden); “Flex Job Reform” program with re-insertion measures (Denmark); combining vocational training and part-time work on the same pay instead of early retirement (France); or reduction in access to early retirement combined with rehabilitation and training programs (Austria). The measures related to tightening access include for example phasing out early retirement and no possibility to accumulate new eligibility (Hungary); revision of jobs that were considered arduous (Croatia). A similar effort will be undertaken in North Macedonia as well.

⁴⁰ Measures that are applied include for example extra leave for older workers (assuming they need extra time off to remain healthy and fit for work); possibility of reduced hours; flexible timing of breaks at work; exempting older workers from overtime, irregular working hours, weekend work and team work; and providing further training measures.