



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 26-Jan-2018 | Report No: PIDISDSC23940



**BASIC INFORMATION**

**A. Basic Project Data**

Country Macedonia, former Yugoslav Republic of	Project ID P162246	Parent Project ID (if any)	Project Name Macedonia Social Services Improvement (P162246)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date May 14, 2018	Estimated Board Date Sep 28, 2018	Practice Area (Lead) Social Protection & Labor
Financing Instrument Investment Project Financing	Borrower(s) Ministry of Finance	Implementing Agency Ministry of Labor and Social Policy	

**Proposed Development Objective(s)**

To expand access to and improve effectiveness of social cash benefits and services for vulnerable groups.

**Financing (in USD Million)**

Financing Source	Amount
International Bank for Reconstruction and Development	35.00
<b>Total Project Cost</b>	<b>35.00</b>

Environmental Assessment Category B-Partial Assessment	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)

**B. Introduction and Context**

Country Context

FYR Macedonia is a small upper-middle-income country in the Balkan peninsula, with a robust middle class society, that



aspires to achieve the living standards of the European Union (EU). FYR Macedonia's population is about 2 million but the population is aging and shrinking.<sup>1</sup> Nearly 25 percent of the population lives in the capital, Skopje, while close to 40 percent live in rural areas. In 2016, FYR Macedonia's gross domestic product (GDP) per capita was close to US\$13,000, about one-third of the average for European Union (EU) member states.

Economic growth in FYR Macedonia has been moderate, with an average annual GDP per capita growth (2.7 percent) that was above the average for Europe and Central Asia (ECA) region (1.5 percent) during 2000-2016. GDP has grown continuously since 2001. 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.

Since 2009, poverty has decreased continuously and it was calculated at 24.8 percent in 2014.<sup>2</sup> Projections based on GDP per capita growth show that this figure could have decreased further by 2016. Extreme poverty shows also a similar pattern, reaching 4.9 percent in 2014.<sup>3</sup> 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 2014 (6.2 percent vs. 1.9 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 2014.

#### Sectoral and Institutional Context

FYR Macedonia's social protection system consists of both contributory (mandatory social insurance) as well as noncontributory benefits (state financed social assistance) and employment promotion programs that play an important role in protecting poor and vulnerable segments of the population. The main contributory program is the pensions program. The pension scheme is a pay-as-you-go plan with two private contribution pillars. It covers the greatest number of social protection beneficiaries and absorbs the most significant share of spending. Unemployment benefits are also contributory, which together with a range of state financed job search assistance and active labor market programs (ALMPs) comprise the country's labor market policies.

The Social Financial Assistance (SFA) is the main non-contributory program that targets poor and vulnerable population in FYR Macedonia. The means tested Permanent Financial Assistance (PFA) and Child Allowance (CA) also aim to mitigate poverty and social exclusion. Other non-contributory (categorical) programs, include: Personal Care Allowance (PCA) and disability benefits; benefits aimed at stimulating population growth, family allowances such as Parental Allowance (PA), one-off assistance for the first new-born; and, other smaller benefits and programs. The social protection system delivers a range of institutional and non-institutional social services.

The social protection benefits and services, as well as early childhood education and care (ECEC) services, are planned, regulated, and supervised by the Ministry for Labor and Social Policy (MLSP). The services are provided in 11 residential

<sup>1</sup> 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.

<sup>2</sup> Poverty is measured as absolute poverty using the poverty line for upper-middle income countries (UMIC). This is estimated at \$5.5/day in 2011 PPP.

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



institutions of social care, but also as the following types of non-institutional care: first social service, assistance to a person or family, home care, day care and temporary care, placement in foster families, placement in a small group home, and assisted living. Supervision of professional work, setting of the service standards, and monitoring of social service providers are the responsibility of the Institute for Social Activities (ISA). Both non-institutional and residential services are mainly provided by the public institutions, although the system allows involvement of non-governmental organizations (NGOs), private persons, and associations as service providers. Most of the social services are centrally organized, established, and financed (by the MLSP). The process of decentralization is still in the initial stage and municipalities are not assuming the social protection responsibilities.

Assuring quality of services for early education and care is responsibility of the Department of Child Protection within the MLSP, which is also in charge of coordination of Early Childhood Development (ECD) services across different government agencies. Service providers involve the following: institutions – kindergartens, early childhood development centers, and agencies for childcare. The legislation acknowledges both public and private institutions, as well as private persons as service providers. According to the State Statistical Office (2017), in 2016 there were 65 public kindergartens in the country and one ECD center, providing service to 33,280 children. In addition, 30 private kindergartens and ECD centers provided services to 1,106 children.

#### Social protection expenditure and coverage

FYR Macedonia's total spending on social protection, including social insurance, social assistance, and labor market programs is high compared to other countries in the ECA region and reaches about 14 percent of GDP. Pensions (old age, disability, and survivor's pension) consume most of the total spending on social protection. At almost 12 percent of GDP (2014), pension spending was above the average of the ECA countries. Conversely, spending on social assistance is among the lowest in ECA (1.2 percent of GDP in 2016). Labor market policies participate with a very small share in GDP (less than 0.1 percent) and that is the case across the region. FYR Macedonia spends 0.07 percent of GDP on institutional and 0.02 percent of GDP on non-institutional social services.

The overall expenditure on social assistance (cash transfers provided based on the social welfare and child protection laws) has been increasing since 2008. However, the number of households receiving SFA more than halved (from 67,000 to 26,000) in the last 10 years. Correspondingly, the spending on SFA has dropped from 0.6 percent of GDP in 2005 to 0.2 percent of GDP in 2016. Similarly, child allowance program decreased in its coverage (from 21,000 beneficiaries to less than 8,000 beneficiaries) and expenditure (from 0.09 percent of GDP to less than 0.02 percent of GDP). At the same time, the overall family and child protection budget has increased. This was primarily due to the introduction of parental allowances in 2009. This particular program has significantly expanded since then. Disability-related social benefits have also been on the increase, though less prominently.

FYR Macedonia has established many essential education, health and child protection programs, but the coverage and spending on pre-schools is very low. The country has introduced many elements of a strong pre-primary education system, including professional requirements for educators, and service delivery and infrastructure standards. Participation of children in preschool programs is very low, and much lower than in any EU country, which is reflected in the low level of spending on ECD (0.2 percent of GDP).<sup>4</sup> In the education sector, poorer children attend pre-primary school at far lower rates than wealthier children. A mere 0.3 percent of children from the poorest quintile are enrolled in

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<sup>4</sup> An updated strategic framework for European cooperation in education and training 2020 sets a benchmark that at least 95 percent of children between the age of four and the age for starting primary education should participate in early childhood education. In Macedonia this percentage is only 34,4 %.



a pre-primary program. Few children in rural areas and among ethnic minorities attend preschool. Enrollment rates are 4 percent for Roma and 3 percent for Albanian children, per UNICEF (2013). Moreover, even before reaching pre-primary school age, many children in FYR Macedonia show signs of skills deficit. For example, a UNICEF study reports that although nearly all children aged 36–59 months were on track in the physical, learning, and socio-emotional domains, only 43 percent were on track in the literacy and numeracy domain.<sup>5</sup> While funding alone cannot guarantee a strong ECD system, a minimum level of investment is required to ensure quality, coverage, and access. OECD governments spend an average of 2.36 percent of GDP on ECD services for young children and their families. Evidence from OECD studies suggest that a public investment of 1 percent of GDP is the minimum required to ensure provision of quality early childhood care and education services.

FYR Macedonia will have to invest much more in early childhood development in order to achieve the EU standards and benchmarks. In total, only 34,197 children (or 12,6%) out of 271,043 born between 2012 and March 2017 are attending public kindergartens. The coverage by municipalities varies noticeably. While in every fifth municipality public kindergartens do not exist, only in 6 municipalities, the rate is over 60 percent. Kindergartens are less present in the western part of the country and in rural municipalities.

The apparent geographical disparities in the access to ECEC programs exist because of the current financing mechanism of the preschool institutions. Although the public kindergartens are financed by the central budget through per-capita block grants<sup>6</sup>, only municipalities that have pre-schools institutions are eligible for the grants. In addition, cost per child is determined as a quotient of the approved MLSP budget for kindergartens divided by the actual number of children in the public kindergartens for the entire country. Furthermore, up to 20 percent of the costs of ECEC services are recovered by user fees, with the poorest households unable to afford them. As a result, households from the top quintile that can afford preschool services are the primary beneficiary of government subsidies within a highly regressive funding-model. Consequently, children with less means to access pre-school, remain out of the programs. In summary, the system keeps producing better educational outcomes for urban and more affluent populations.

#### Relationship to CPF

The overarching objectives outlined in the Macedonian Program of Government 2017-2020 are economic development and increasing the living standard of citizens, which would reduce poverty and provide more and better jobs to the people. Furthermore, in the area of social protection the government intends to reform a set of targeted and categorical social assistance/family protection/disability benefits aimed at increasing the effectiveness and efficiency of the system. These reforms would be coupled with a comprehensive reform of social services aimed at improving service delivery to the citizens. In addition, the Government set very ambitious targets related to human capital development, among which 50 percent increase in coverage of children age 3-6 in ECEC by 2021. The FYR Macedonia Country Partnership Strategy (CPS) for the period FY 15-Fy18 supports the government's objectives by focusing on two interrelated themes: i) Growth and Competitiveness; and ii) Skills and Inclusion, which are both crucial for eliminating extreme poverty and boosting shared prosperity in the country.

The proposed project will support the government's efforts to create a social protection system that is more efficient and compatible with employment (Skills and Inclusion pillar, Outcome 6 of the CPS). The proposed operation is aimed at

<sup>5</sup> UNICEF (2013).

<sup>6</sup> The allocation of the block grants is carried out according to the following formula: Block grant for kindergarten = Basic amount x Coefficient. Basic amount = costs per child annually in the kindergarten x actual number of children. Coefficient is obtained by comparing the number of employees to the utilized capacity



streamlining social welfare provision, increasing more equitable coverage, and using resources more efficiently to address the needs of poor and vulnerable families. Key outcomes to which the Skills and Inclusion CPS pillar will contribute are skills better adapted to the labor market, more opportunities for disadvantaged groups, and better access to basic services. The improved social protection service delivery would also promote employment intermediation and employer-employee match-making, thereby increasing labor market efficiency and promoting job opportunities for poor and vulnerable beneficiaries of various social assistance programs. Moreover, the planned investments in young children, especially those from disadvantaged and poor families, would contribute to breaking the cycle of poverty and address inequality at its root, as well as boost productivity of the workforce in the country in the long run. Because skills formation starts early in life, and education is 'path-dependent' (poor performance early in life excludes many future options), providing high education quality right from the start and a more equitable access is necessary to ensure better employment outcomes of the young people.

### C. Proposed Development Objective(s)

To expand access to and improve effectiveness of social cash benefits and services for vulnerable groups.

Key Results (From PCN)

Indicator 1: Enrollment rate for 3 – 6-year-old - disaggregated by gender, beneficiaries of social assistance and municipalities)

Indicator 2: Improved school readiness of children entering first grade or Improved cognitive and socio-emotional skills of children age 3-6, disaggregated by gender, beneficiaries of social assistance and municipalities

Indicator 3: Number of vulnerable population receiving non-institutional social services (alternative forms of care) – disaggregated by gender

Indicator 4: Increased social assistance (means-tested) coverage of the bottom quintile of the population

### D. Concept Description

The proposed project would be organized around two main areas of engagement, which relate to expanding the access to and improving the quality of preschool services, and supporting the provision of reformed social assistance benefits and services. Some of the proposed interventions are related to activities undertaken in the previous Conditional Cash Transfer Project and are presented as such in the project description.

#### Component 1. Expanding the access to and improving the quality of preschool services

Preschool education is one of the most cost-effective investments that improves the lives of individuals and the conditions in the country. High-quality preschool programs lead to reduced school dropout, better educational performance and an array of socioeconomic returns, like reduced crime and unemployment rates. Given the benefits that quality pre-primary education yields for both individuals and society as a whole, the government wants to extend the access to and quality of Early Childhood Education and Care (ECEC) services. The Project would support quality early learning in connection with other ECD measures for pre-school children (3 – 6 years) and their families but also strengthen the transition into primary education, with a focus on inclusive education and learning. Other aspects of the project include expansion of access to ECEC institutions, especially for children from lower socio-economic and vulnerable backgrounds; revision of ECEC financing; and more efficient use of the ECEC and primary school network.



This component would support the Government 's ECEC services reform agenda by:

- A. Improving Access to and Demand for Early Childhood Development. This sub-component aims at increasing access to Early Childhood Education and Care for 3-6-year-old children across the country, with a particular focus on children from vulnerable groups and children with disability by increasing the availability of ECEC services and stimulating demand for ECEC services. The project would support the government efforts for improvement of the existing ECEC infrastructure and construction of the new ECEC infrastructure, as well as improving approaches to design and physical outlay of child-centered ECEC facilities. The government also plans to repurpose the primary education facilities which are not (or are less) needed due to demographic decline into ECEC facilities. The MLSP and municipalities have already started exploring possibilities for repurposing of the unutilized space at the municipal level and discussing the implementation arrangements and division of responsibilities regarding the infrastructure work. It is suggested that the implementation mechanisms from the well-functioning "grant program" developed under the Bank funded "Municipal Improvement Services Project" would be useful model for this operation too. This sub-component would also finance outreach activities to encourage parents and caregivers to improve child stimulation and caregiving practices, and to stimulate demand for relevant services for families with young children (from pregnancy to the time they transition to primary school), with a focus on the most vulnerable.
- B. Ensuring the quality of ECEC services. A growing body of research recognizes that early childhood education and care (ECEC) brings a wide range of benefits, but all these benefits are conditioned by "quality". Expanding access to services without attention to quality will not deliver good outcomes for children or long-term productivity benefits for the society. This sub-component would finance : (i) strengthening pre-service teacher training for the formal pre-primary school program as well as in-service teacher training, (ii) identification and training of preschool teachers to support the expansion of ECEC, (iii) training for ECEC administrators and other decision-makers to improve their capacity to monitor programs, (iv) development of age-appropriate teaching-learning materials, and (vi) support towards enhancement of ECEC quality assurance mechanisms. This sub-component would also provide technical assistance in developing a new funding formula as an important condition for the fiscally sustainable expansion of ECEC coverage. The new model should be per child and considers different providers, best interest of the child (in terms of duration and frequency of ECEC activities for different age groups required to ensure adequate stimulation and learning of the child) and prioritization of the learning components as opposed to care. It would finance the analysis of the current ECEC funding formula; the analysis of the current planning and allocation of ECEC funding to municipalities and kindergartens and suggest revised funding formula) based on the analysis of the above.

## **Component 2. Supporting the implementation of reformed social assistance cash transfers and social services**

This component would support the implementation of the government's social protection reform agenda by changing the way in which social services are provided to the citizens and improving the effectiveness of the main social assistance programs. The latter entails consolidation and expansion of the means-tested social assistance program/s to address the poverty/equity issue through more effective redistribution of public resources to the poorest and by administering benefits and services more efficiently. The main activities under this component would include:

- A. Supporting development of social services through strengthening alternative forms of care. The proposed project would support strengthening the institutions of the system (such as Centers for Social Work, day care centers etc.), but also outsourcing of social service provision. Possible introduction of a grant scheme/social contracting would be considered in order to provide incentives to develop services at local level and diversify service provision. The activities would build on the government's deinstitutionalization efforts and would be



carried out in close coordination with other international partners working in this area (EU, UNDP, GIZ). Types of activities that would be supported are the following: technical assistance, grants, civil works, and goods.

- B. Piloting/financing of a new social transfer. The government has renewed the work on social benefits reform proposals. The proposals will include consolidation of the existing programs and decision on the future of the CCT secondary education program (financed under the CCT project). The decision on the type of social transfer that could be considered for project financing is pending adoption of satisfactory reform proposals. The reformed cash transfers are to be tied to the development of social services - be it any service prescribed by the social protection law (including activation), employment services, or care services delivered in pre-schools. Work activation of social assistance benefit recipients will be supported as a related project activity under Component 3.
- C. Upgrading CBMIS to cover reformed cash benefits and include social services. The proposed project would support the design and implementation of the new information system, further software development, and IT support. LIRIKUS is an isolated registry of social services and beneficiaries used by the Institute of Social Affairs, Centers for Social Work, social welfare professionals, and MLSP. The intention would be to include the features of LIRIKUS in the future integrated social welfare information system. A possibility of having an even larger information system component that would integrate the registry of social insurance contributors/contributions would also be considered during the project preparation. Finally, attention will be paid to the development of a strong analytical module within the new information system.
- D. Supporting capacity building activities. The activities would be intended to support the MLSP and its agencies and would include strengthening of analytical, M&E capacities by financing goods, consultant services, training activities, and similar.

## **SAFEGUARDS**

### **A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project will be implemented country-wide, supporting, inter alia, the improvement of infrastructure and facilities related to the provision of training/educational, employment and other social services. The activities which are likely to cause environmental considerations are mainly civil works on improvement of social services infrastructure, with limited environmental footprint localized by specific areas of implementation. The project will either rehabilitate/rearrange existing school facilities to kindergartens or in the local governments where the schools network is optimal new kindergarten facilities will be built. The impacts will be on a maximum one up to two parcels (size depending of number of preschool children ) in urban or rural areas depending of the local governments. One type of consultation with the stakeholders will be through ESMPs , but this will be mostly for the environmental and social impacts (if any) of the physical investments. Program wise the project will establish mechanism for feedback from the beneficiaries point of view, beneficiaries feedback assessments, that will utilize Citizens Engagement. In addition, the project will establish a system for grievance related physical investments as well as other project components.

### **B. Borrower's Institutional Capacity for Safeguard Policies**





The principal implementing agency for the project is the Ministry of Labor and Social Protection (MLSP). This agency is currently managing the implementation of an ongoing World Bank supported operation and is familiar with World Bank main policies and operational principles. However, the current operation does not have any environmental implications, and does not trigger any safeguard policies. Hence, the implementing agency (MLSP) has no experience in project environmental management in accordance with the environmental safeguards requirements and with the provisions of environmental safeguards instruments. Therefore, a full-time environmental specialist/consultant will be hired under the project to ensure the implementation of environmental safeguard requirements and overall environmental compliance of the project. Additionally, the project will support delivery of customized training sessions aimed at building sustainable in-house capacity within MLSP in a long-term perspective.

**C. Environmental and Social Safeguards Specialists on the Team**

Gulana Enar Hajiyeva, Environmental Safeguards Specialist  
Bekim Imeri, Social Safeguards Specialist

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	<p>For the purposes of the environmental assessment, the project is assigned an environmental category "B", because the anticipated environmental impacts are time-bound, limited in scope, and manageable if appropriate mitigation measures are applied. Those impacts are mainly associated with the implementation of civil works, such as repair and reconstruction of social service infrastructure, building new facilities, and implementation of grant funding to alternative social service providers, envisioned under projects Component 1(A), 2 (A) and 2 (B). The anticipated impacts may include but not be limited to, generation of construction and domestic wastes (both solid and liquid), damages to air, soil and water, generation of noise and vibration during the implementation of civil works.</p> <p>Since the activities which may trigger environmental concerns are now only generally indicated, without detailed identification of locations, specific types of activities and stakeholders, the Environmental and Social Management Framework (ESMF) has been found the most appropriate environmental due-diligence instrument for the proposed project. The ESMF will consider country context, legislative framework and procedures for screening specific project activities (sub-projects) and assigning an EA category, defining suitable instrument for activity-specific environmental and social assessment,</p>



identification of environmental impacts and determination of adequate mitigation measures. Those activities (sub-projects) assigned category A as a result of the screening, will not be eligible for the project support. The ESMF will also identify institutional responsibilities and implementation arrangements for carrying out the assessment, implementation of mitigation measures and conducting due environmental monitoring of the project activities. The capacity of the implementing agency to ensure proper environmental management and compliance will be assessed, and respective capacity building measures suggested. The project will establish a Grievance Redress Mechanism which will be overarching the project and providing customized outreach and access to the GRM, tailored to accommodate specifics of each project component. The MLSP, as the implementing agency, is responsible for the preparation of ESMF and, subject to Bank clearance, conducting public consultation meetings in selected project locations country-wide. The ESMF preparation, review, clearance, and disclosure (including in-country disclosure at the public consultation meetings and subsequent posting on the Bank Operational Portal) should be completed prior to the project appraisal.

Natural Habitats OP/BP 4.04	No	ESMF will provide for the screening mechanism to exclude any activities which may have adverse impacts on natural habitats
Forests OP/BP 4.36	No	ESMF will provide for the screening mechanism to exclude any activities which may have adverse impacts on forests and forested areas
Pest Management OP 4.09	No	The project will not support any activities related to the use of pesticides, or which may trigger increased use of pesticides
Physical Cultural Resources OP/BP 4.11	No	The project will not support any activities which may have adverse impacts on physical cultural resources
Indigenous Peoples OP/BP 4.10	No	N/A
Involuntary Resettlement OP/BP 4.12	Yes	Improvement of the access to services will be financed either by the adaptation of the primary school facilities in the local governments whereby primary school network has available space to be transferred from the primary school to kindergarten facilities or through investment into new kindergarten facilities. In this situation, there will be no need for extra land to acquire and no social safeguards will be triggered for



adaptation of school facilities to kindergarten facilities. However, in the local governments where new facilities need to be built there might be a need to acquire private land if public land is not available. Impacts in these cases will be limited and therefore the social risks related to the safeguards are limited. Thus the social safeguards will be triggered and precautionary RPF will be prepared.

Safety of Dams OP/BP 4.37	No	N/A
Projects on International Waterways OP/BP 7.50	No	N/A
Projects in Disputed Areas OP/BP 7.60	No	N/A

### E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

May 01, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The ESMF will be prepared to address project's environmental and social implications. The draft ESMF is expected to be available in early April, 2018, and shall be finalized after Bank's review and clearance and disclosure both in-country and in the project operational portal. In addition RPF will be prepared to follow the same time span as the ESMF.

### CONTACT POINT

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**APPROVAL**

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**Approved By**

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