

Project's Financial Statements and Independent Auditor's Report

Ministry of Labor and Social Policy of the Republic of
North Macedonia

"Social Insurance Administration Project"
International Bank for Reconstruction and Development
Loan number 9036- MK

31 December 2023

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Management Responsibility

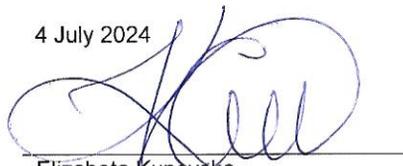
The accompanying financial statements comprising the Statement of Cash Receipts and Payments, Balance sheet, Statement of Uses of Funds by Project Activity, Statement of Withdrawals, Designated Accounts' Statements and related disclosure Notes (further referred as to "Project's Financial Statements"), of the Ministry of Labor and Social Policy of the Republic of North Macedonia ("the Ministry" or "MLSP"), "Social Insurance Administration Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development Loan ("IBRD") numbered 9036-MK dated 12 February 2020 and its Amendment no.1 dated 06 December 2022 as at and for the period from 1 January 2023 to 31 December 2023 included on pages 3 to 20, are the responsibility of, and have been approved by the Project's management.

The accompanying Project's financial statements have been compiled by the Project's management, for the purposes of reporting to the Ministry and the IBRD, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement signed between Republic of North Macedonia and IBRD numbered 9036-MK dated 12 February 2020 and its Amendment no.1 dated 06 December 2022.

Project's management, in furtherance of the integrity and objectivity of the Project's financial statements, has developed and maintained an internal control structure, including the appropriate control environment, accounting systems and control procedures. Project's management believes that internal controls provide assurance that financial records are reliable and form a proper basis for the preparation of financial statements, and that assets are properly accounted for and safeguarded. There are, however, inherent limitations that should be recognized in considering the assurances provided by the internal control structure. The internal control process also includes management's communication to employees of policies, which govern ethical business conduct.

Grant Thornton DOO Skopje, Independent Auditors, have been engaged to audit these Project's financial statements in accordance with the auditing standards accepted in the Republic of North Macedonia¹. Their report is included on page 2.

4 July 2024



Elizabeta Kunovska

Project Manager



Olivera Krsteska

Project Financial Manager

¹International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB"), effective from 15 December 2009, translated and published in the "Official Gazette" of the Republic of Macedonia n0.79 from 2010

Independent Auditor's Report

To the Management of the Project

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We have audited the accompanying financial statements of the Ministry of Labor and Social Policy of the Republic of North Macedonia ("the Ministry" or "MLSP"), "Social Insurance Administration Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development, Loan numbered 9036-MK dated 12 February 2020 and its Amendment no.1 dated 06 December 2022, comprising the Statement of Cash Receipts and Payments, Balance sheet, Statement of Uses of Funds by Project Activity, Statement of Withdrawals, Designated Accounts' Statements and related disclosure Notes (further referred to as "the Project's Financial Statements") as at and for the period from 01 January 2023 to 31 December 2023 included on pages 3 to 20.

Management's responsibility for Project's financial statements

These Project's financial statements are compiled for the purposes of reporting to the Ministry and the International Bank of Reconstruction and Development management, and are the responsibility of the management of the Project. The Project's management is responsible for developing and maintaining such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Project's Management policy is to prepare the accompanying Project's financial statements on the cash receipts and disbursement basis in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement numbered 9036-MK dated 12 February 2020 and Amendment no.1 dated 06 December 2022. On this basis, cash receipts are recognized when received rather than when earned and cash expenditures are recognized when paid rather than when incurred.

Auditor's responsibility

Our responsibility is to express an opinion on these Project's financial statements based on our audit. We conducted our audit in accordance with auditing standards accepted in the Republic of North Macedonia¹. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements of "Social Insurance Administration Project", financed under International Bank for Reconstruction and Development, Loan numbered 9036-MK and Amendment no.1, present fairly, in all material respects, the Project's financial position as at 31 December 2023, and the movement on the Cash Receipts and Payments, Statement of Uses of Funds by Project Activity, Statement of Withdrawals and Designated Accounts' Statements as at and for the period from 01 January 2023 to 31 December 2023, in conformity with the accounting policies described on Note 3, the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement numbered 9036-MK dated 12 February 2020 and Amendment no.1 dated 06 December 2022.

Suzana Stavrikj
Director
Grant Thornton DOO, Skopje
Skopje, 5 July 2024

Biljana Mitrevska
Certified auditor

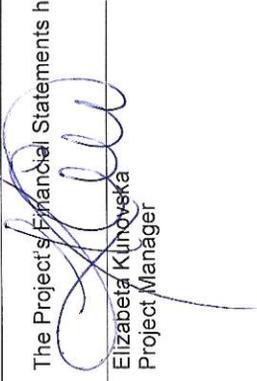


¹ International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB"), effective from 15 December 2009, translated and published in the "Official Gazette" of the Republic of Macedonia no. 79 from 2010.

Statement of Cash Receipts and Payments

	2023				2022				CUMULATIVE	
	Actual For the period	Budget For the period	Variance For the period	Actual For the period	Budget For the period	Variance For the period	Actual For the period	Budget For the period	Variance For the period	
Sources of Funds										
Loan funds	418.040,29	-	418.040,29	821.117,51	-	821.117,51	2.239.157,80	-	2.239.157,80	
Front-end Fee	-	-	-	-	-	-	34.500,00	34.500,00	-	
Foreign exchange gains, net	13,49	-	13,49	-	-	-	13,49	-	13,49	
Total sources	418.053,78	-	418.053,78	821.117,51	-	821.117,51	2.273.671,29	34.500,00	(2.239.171,29)	
Less: Uses of Funds										
Component 1-Improving the quality of the social insurance administration services	187.408,83	197.407,00	(9.998,17)	95.030,01	63.599,00	31.431,01	282.438,84	276.452,00	5.986,84	
Component 2-Strengthening the regulatory framework for persons with disabilities and for hazardous occupations	385.756,46	365.343,00	20.413,46	201.739,75	186.096,00	15.643,75	587.496,21	651.439,00	(63.942,79)	
Component 3-Project Management	70.850,77	66.569,00	4.281,77	63.137,16	63.413,00	(275,84)	226.775,08	271.173,00	(44.397,92)	
Front-end Fee	-	-	-	-	-	-	34.500,00	34.500,00	-	
Bank provision related to the correspondent bank related with withdrawal of funds	-	-	-	180,28	-	180,28	180,28	-	180,28	
Total uses of funds	644.016,06	629.319,00	14.697,06	360.087,20	313.108,00	46.979,20	1.131.390,41	1.233.564,00	(102.173,59)	
Net increase/(Decrease) in cash flow	(225.962,28)			461.030,31			1.142.280,88			
Bank Balances beginning of period	1.368.243,16			907.212,85			-			
Bank Balances end of period	1.142.280,88			1.368.243,16			1.142.280,88			

The Project's Financial Statements have been approved by the Ministry on 4 July 2024, and signed on its behalf by:


 Elizabeta Kijovska
 Project Manager


 Olivera Krsteska
 Project Financial Manager

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Balance sheet

In EUR

	2023	2022
ASSETS		
Cash		
Special Account - IBRD Loan	1.142.280,88	1.368.243,16
Petty Cash	-	-
Total Cash	<u>1.142.280,88</u>	<u>1.368.243,16</u>
TOTAL ASSETS	<u><u>1.142.280,88</u></u>	<u><u>1.368.243,16</u></u>
LIABILITIES		
Liabilities for unspent funds	<u>1.142.280,88</u>	<u>1.368.243,16</u>
TOTAL LIABILITIES	<u><u>1.142.280,88</u></u>	<u><u>1.368.243,16</u></u>

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Uses of Funds by Project Activity

(Amounts in EUR)

For the period from 1 January
2023 to 31 December 2023

	2023			2022			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date								
SIAP-Component 1-Improving the quality of the social insurance administration services	187.408,83	197.407,00	(9.998,17)	95.030,01	63.599,00	31.431,01	282.438,84	276.452,00	5.986,84
SIAP-Sub Component 1.1-Establishment of Single Unified Registry System for social insurance	6.599,99	6.600,00	(0,01)	65.048,01	43.611,00	21.437,01	71.648,00	65.657,00	5.991,00
SIAP-1.1.1 Technical assistance for legislative changes-DELETED	-	-	-	-	-	-	-	-	-
SIAP-1.1.3 Undertake business needs analysis for all social insurance agencies and tax administration, provide input to ToRs for SURS Design and Design of SURS: business operations model; database system; software applications; electronic document management system; business functions and processes; operating rules and procedures; identify interfaces and linkages (including communications infrastructure) needed by SURS system and with other participant agencies; SURS organizational structure; SURS staff levels; SURS job descriptions; define and design SURS linkages (including technical specifications) needed by each participating institution; prescribe SURS document archive requirements. Develop inputs to ToRs for SURS development and implementation.	-	-	-	65.048,01	43.611,00	21.437,01	65.048,01	59.057,00	5.991,01

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Uses of Funds by Project Activity (continued)

	2023			2022			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date								
SIAP-1.1.5 SURS hardware, software (including licenses), and document management system procurement	-	-	-	-	-	-	-	-	-
SIAP-1.1.6 Data cleanup of institution's existing data (including cleanup and digitization of legacy data) - DELETED	-	-	-	-	-	-	-	-	-
SIAP-1.1.7 Adjustment of UJP, FZO, AVRМ, PIOM, MAPAS and MLSP to SURS – investment in data links and interfaces with SURS, adjustment of business processes, training; - DELETED	-	-	-	-	-	-	-	-	-
SIAP-1.1.8 Office renovation - SURS HQ	-	-	-	-	-	-	-	-	-
SIAP- 1.1.9 Procurement of furniture	-	-	-	-	-	-	-	-	-
SIAP-1.1.10 Public information and education campaign on SURS functionalities, benefits for users, and operations; - DELETED	-	-	-	-	-	-	-	-	-
SIAP/1.1.11 Local Technical assistance for legislative changes for SURS	6.599,99	6.600,00	(0,01)	-	-	-	6.599,99	6.600,00	(0,01)
SIAP/1.1.12 Preparation of technical specification for adjustments of software's in related to SURS agencies									
SIAP/1.1.13 Technical assistance for monitoring of the SURS software implementation									
SIAP- Sub Component 1.2-Business process improvement and modernization in PIOM	180.808,84	190.807,00	(9.998,16)	29.982,00	19.988,00	9.994,00	210.790,84	210.795,00	(4,16)-
SIAP-1.2.1 Functional review of the PIOM and proposal for PIOM modernization, including business processes, technical capacity, actuarial capacity, HR training, client services;	88.154,95	88.155,00	(0,05)	-	-	-	88,154,95	88,155,00	(0,05)

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Uses of Funds by Project Activity (continued)

	2023			2022			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date								
SIAP-2.2.2.2 MLSP Software upgrades to support the Registry of PWD - DELETED	-	-	-	-	-	-	-	-	-
SIAP-2.2.2.3 Training of operators of the Registry - DELETED	-	-	-	-	-	-	-	-	-
SIAP-2.2.2.4 IT equipment to support the Registry of PWDs - DELETED	-	-	-	-	-	-	-	-	-
SIAP-2.2.2.5 Information campaign especially targeted towards the persons with disabilities. - DELETED	-	-	-	-	-	-	-	-	-
SIAP-2.2.2.1 Development of the National Registry of PWDs	25.200,00	-	25.200,00	-	25.200,00	(25.200,00)	25.200,00	25.200,00	-
SIAP-2.2.3 Local Technical assistance for legislative changes regarding the employment of workable PWDs (Law on employment of PWDs)	-	-	-	10.032,52	11.000,00	(967,48)	10.032,52	11.000,00	(967,48)
SIAP-2.2.4 Renovation of offices for establishing of 4 REHA centers	-	-	-	-	-	-	-	-	-
SIAP-2.2.5 Procurement of office equipment of offices for establishing of 4 REHA centers	-	-	-	-	-	-	-	-	-
SIAP-2.2.6 Procurement of IT equipment of offices for establishing of 4 REHA centers	-	-	-	-	-	-	-	-	-
SIAP-2.2.7 TA for development of standards and procedures for rehabilitation of PWD and training of EA and REHA centers employees	-	-	-	-	-	-	-	-	-
SIAP-Sub Component 2.3 -Revision of the list of hazardous occupations eligible for early retirement with extended service period (ESP).	142.718,53	142.900,00	-181.47	100.180,19	100.000,00	180,19	242.898,72	242.900,00	(1,28)

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Uses of Funds by Project Activity (continued)

	2023			2022			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date								
SIAP-2.3.1 Hiring a licensed reputable international company for Revision of the list of hazardous occupations eligible for early retirement with extended service period (ESP).	142.718,53	142.900,00	(181,47)	100.180,19	100.000,00	180,19	242.898,72	242.900,00	(1,28)
SIAP-2.3.2 Reform proposal of the early retirement system for hazardous occupations	-	-	-	-	-	-	-	-	-
SIAP-2.3.3 Development of the Registry of hazardous and arduous jobs and employers									
SIAP-Component 3-Project Management	70.850,77	66.569,00	4.281,77	63.137,16	63.413,00	(275,84)	226.775,08	271.173,00	(44.397,92)
SIAP-3.1 Pension administration specialist	17.694,02	15.572,00	2.122,02	17.681,30	19.512,00	(1.830,70)	62.595,01	62.596,00	(0,99)
SIAP-3.2. Disability assessment specialist	-	-	-	-	-	-	-	-	-
SIAP-3.3 Procurement Officer	-	-	-	-	-	-	-	10.812,00	(10.812,00)
SIAP-3.4 Financial Officer	18.881,12	18.848,00	33,12	17.873,00	16.260,00	1.613,00	62.181,51	62.181,00	0,51
SIAP-3.5 Monitoring and Evaluation Specialist	17.810,79	12.364,00	5.446,79	17.767,02	19.512,00	(1.744,98)	62.770,60	62.769,00	1,60
SIAP-3.6 IT engineer	-	-	-	-	-	-	-	2.732,00	(2.732,00)
SIAP-3.7 Project Audit	3.553,60	3,991,00	(437,40)	3.553,61	-	3.553,61	8.990,33	8.991,00	(0,67)
SIAP-3.8 Satisfaction Beneficiary Survey	-	-	-	-	-	-	-	-	-
SIAP-3.9 Accounting software adjustment - DELETED	-	-	-	-	-	-	-	-	-
SIAP-3.10 Operating costs	2.633,55	3.905,00	(1.271,45)	823,96	3.252,00	(2.428,04)	3.724,35	10.409,00	(6.684,65))
SIAP-3.11 Project Manager	2.177,22	2.832,00	(654,78)	2.175,27	1.951,00	224,27	8.358,23	8.360,00	(1,77)
SIAP-3.12 SIAP Coordinator	3.265,86	4.179,00	(913,14)	3.263,00	2.926,00	337,00	12.469,52	12.470,00	(0,48)

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Uses of Funds by Project Activity (continued)

	2023			2022			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date	Cumulative to Date	Cumulative to Date						
SIAP-3.13 IT consultant- TERMINATED	-	-	-	-	-	-	850,92	24.975,00	(24.124,08)
SIAP-3.14 Training	4.834,61	4.878,00	(43,39)				4.834,61	4.878,00	(43,39)
SIAP-3.14&3.15 Legal Advisor in the Unit for Analysis, Evaluation and Monitoring									
Bank provision related to the correspondent bank related with withdrawal of funds	-	-	-	180,28	-	180,28	180,28	-	180,28
Front-end Fee	-	-	-	-	-	-	34.500,00	34.500,00	-
Total Project Expenditures	644.016,06	629.319,00	14.697,06	360.087,20	313.108,00	46.979,20	1.131.390,41	1.233.564,00	(102.173,59)

"Social Insurance Administration Project"

IBRD Loan number 9036- MK

Project's Financial Statements

For the period from 01 January 2023 to 31 December 2023

Statement of Withdrawals – Designated Account

(Amounts in EUR)

For the period from 01 January 2023 to 31 December 2023

Withdrawal application No.	Disbursement categories				(2) Grants	Total claimed	Total received	Difference	Date of application
	FRONT AND FEE	Authorized Allocation	Goods, works, non-consulting services, Training, consulting services, Operating costs under the Project (except Grants)						
2020									
0	34.500,00	-	-	-	34.500,00	-	-	-	03.03.2020
1	-	1.000.000,00	-	-	1.000.000,00	1.000.000,00	-	-	21.05.2020
Total	34.500,00	1.000.000,00	-	-	1.000.000,00	1.000.000,00	-	-	
2021									
Total	-	-	-	-	-	-	-	-	
2022									
2	-	-	321.117,51	0,00	321.117,51	321.037,23	80,28		05.10.2022
3	-	500.000,00	0,00	0,00	500.000,00	499.900,00	100,00		05.10.2022
Total	-	500.000,00	321.117,51	0,00	821.117,51	820.937,23	180,28		
2023									
4	-	-	418.040,29	0,00	418.040,29	418.040,29	0,00		14.11.2023
Total	-	-	418.040,29	0,00	418.040,29	418.040,29	0,00		
Total disbursed	34.500,00	1.500.000,00	739.157,80		2.239.157,80	2.238.977,52	180,28¹		

¹ The differences between "Total claimed" and "Total received" funds are result of the bank provision of the intermediary Bank for Withdrawal application No.2 and Withdrawal application No.3.

"Social Insurance Administration Project"
IBRD Loan number 9036- MK

Project's Financial Statements
For the period from 01 January 2023 to 31 December 2023

Statement of Designated Account – EUR

Account number	70100000-978-1792.8
Depository Bank	National Bank of the Republic of North Macedonia Complex of Banks, 1000 Skopje, Republic of North Macedonia
Address	
Loan Number	9036 - MK
Currency	EUR

(Amounts in EUR)
For the period from 01 January 2023 to 31
December 2023

At 01 January 2023	1.368.211,60
Add: Inflows Replenishment during the period	
Replenishment during the period	418.040,29
Refund unused funds from the Petty cash	702,18
Foreign exchange gain	0,01
	418.742,48
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) – MKD	(644.688,40)
Project expenditures/Bank commission NBRSM	(9,81)
	(644.698,21)
At 31 December 2023	1.142.255,87

(Amounts in EUR)
For the period from 01 January 2022
to 31 December 2022

At 01 January 2022	907.185,35
Add: Inflows Replenishment during the period	
Replenishment during the period	820.937,23
Foreign exchange gain	0,11
	820.937,34
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) MKD	(359.891,47)
Project expenditures/Bank commission NBRSM	(19,62)
	(359.911,09)
At 31 December 2022	1.368.211,60

Statement of Treasury Account (Mirror Designated Account) – MKD

Account number 150010029978665
 Depository Institution Ministry of Finance of the Republic of North Macedonia
 Loan Number 9036- MK
 Currency Macedonian Denars ("MKD")

(Amounts in EUR)

For the period from 01 January 2023 to 31 December 2023

At 01 January 2023	31,56
Add: Inflows	
Transfer from designated account – EUR	644.688,40
Foreign exchange gain	13,60
	644.702,00,56
Deduct: Outflows	
Amount of eligible expenses paid during the period	(640.332,08)
Transfer to Patty cash in foreign currency	(4.376,35)
Foreign exchange loss	(0,12)
	(644.708,55)
At 31 December 2023	25,01

For the period from 01 January 2022 to 31 December 2022

At 01 January 2022	27,50
Add: Inflows	
Transfer from designated account – EUR	359.891,47
	359.891,47
Deduct: Outflows	
Amount of eligible expenses paid during the period	(359.887,30)
Foreign exchange loss	(0,11)
	359.887,42
At 31 December 2022	31,56

Project's Financial Statements
For the period from 01 January 2023 to 31 December 2023

Statement of Petty Cash in MKD

Loan Number: 9036 – MK
Currency: Macedonian denars ("MKD")

(Amounts in EUR)
For the period from 1 January 2023 to
31 December 2023

At 1 January 2023	-
<hr/>	
Add: Inflows	
Transfer from Mirror Designated Account – MKD	0,00
Total Inflows:	0,00
Deduct: Outflows	
Amount of eligible expenses paid during the period	(0,00)
Total Outflows:	(0,00)
At 31 December 2023	-

Statement of Petty Cash in EUR

(Amounts in EUR)
For the period from 1 January 2023 to
31 December 2023

At 1 January 2023	-
<hr/>	
Add: Inflows	
Transfer from Mirror Designated Account – MKD	4.376,35
Total Inflows:	4.376,35
Deduct: Outflows	
<hr/>	
Amount of eligible expenses paid during the period	(3.674,17)
Refund unused funds to Designated account	(702,18)
Total Outflows:	(4.376,35)
At 31 December 2023	-

Notes to the Project's financial statements

1 General

On 12 February 2020, Loan Agreement for implementation of the Social Insurance Administration Project ("SIAP" or "the Project") was signed by International Bank for Reconstruction and Development ("IBRD") and Republic of North Macedonia ("the Borrower"), which became effective on 2 March 2020. IBRD agreed to lend the Ministry of Labor and Social Policy of the Republic of Macedonian the amount of 13,800,000 EUR to assist in financing the Project. The Borrower, through Ministry of Labor and Social Policy (the "Ministry" or "MLSP") has committed to carry out the Project in accordance with the provisions of the Loan Agreement.

On 06 December 2022, Amendment No.1 to the Loan Agreement was signed in order to include the support for development of regional professional rehabilitation centers for persons with disabilities ("REHA Centers").

In accordance with the Amendment No.1 to the Loan Agreement and the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Training and Operating costs under Parts 1, 2.1, 2.2, 2.3 and 3 of the Project	12.365.500	100 %
(2) Goods, works, non-consulting services, consulting services, Training and Operating Costs under Part 2.4 of the Project	1.400.000	100%
(3) Front-end Fee	34,500	Amount payable pursuant to Section 2.03 of Loan Agreement in Accordance with Section 2.07 (b) of the General Conditions
(4) Interest Rate Cap or interest Rate Collar premium	0.00	Amount due pursuant to Section 4.05 (c) the General Conditions
TOTAL AMOUNT	13,800,000	

Closing date of the project according to the Amendment No.1 of the Loan Agreement is 31 December 2024. Additionally, closing date of the project according to "Notice to the Borrower of Closing date extension" dated 19 April 2024, is 31 December 2025.

Notes to the Project's financial statements (continued)

2 Project Objectives, Activities and Institutional Arrangements

Project Objectives

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

Project Beneficiaries

Beneficiaries of the project are all categories of socially insured individuals, contribution declarers and payers (employers), pensioners, persons with disabilities, as well as staff at the social insurance and tax agencies (PRO, PDF, HIF, EA, and the MLSP). The project will finance activities in the entire territory of North Macedonia, with administrative capacity building activities focusing in Skopje.

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, second pillar contributions, etc.), 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 identify the occupations with high and irreversible health risk.

Project Components

The project is organized in two main components and six 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).
- Subcomponent 2.4 Provision of support for development of regional professional rehabilitation centers for persons with disabilities ("REHA centers")

Component 3. Project Management

➤ Component 1. Improving the quality of the social insurance administration services

This component supports the establishment of the central registry of socially insured individuals (Single Unified Registry System - 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 in an independent entity under MLSP. In the SURS system the registration to all or any branch of social insurance will be a one-stop-shop process and involve a unified, simplified, standardized, and centralized function. All persons registered in SURS will be visible to all social insurance agencies and to PRO – 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 (PDF, HIF, EA, PRO), and by MAPAS (on behalf of second pillar pension funds). SURS will also be used by the MLSP's Social Assistance cash benefits database system. SURS will be hosted, managed, and maintained by the independent entity under MLSP. This project component will assist MLSP/SURS to integrate and centralize existing social insurance registries, develop the organizational structure and business processes for SURS, and establish client connections with all system users. Centralized registration and recordkeeping by 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 would release capacities in EA, PDF and HIF currently engaged in registration and recordkeeping administration; establish an accurate database and information flow to PRO in the process of contribution collection and control; and significantly reduce the scope for contribution and payroll tax evasion. Moreover, the SURS would provide timely information to Pillar 2 Funds on membership and payment of second pillar contributions, and would allow the precise and direct transfers of the Pillar 2 contributions from the employers to the insured persons, thus preventing delays of the asset's capitalization by the Pillar 2 Funds. This would provide a permanent solution to the problems of missing, underpaid, and overpaid contributions to the Pillar 2. The key advantage of the SURS system is in abolishing and practically preventing multiple entry points for registration/deregistration of insured persons. In addition, the participating agencies and Governmental institutions (Government, MLSP, MoF, MoH, State Statistical Office etc.) would benefit from accurate, periodical and aggregate reporting. In that regard, the insured persons' interest, rights and responsibilities would be exercised in a legal and proper manner.

Project's Financial Statements
For the period from 01 January 2023 to 31 December 2023

Notes to the Project's financial statements (continued)
Project Objectives, Activities and Institutional Arrangements (continued)

This component will also have a subcomponent supporting the strengthening of business processes and administrative capacity of PDF to serve the insured individuals in the first pillar more efficiently and effectively. Activities supported by this project will have a direct impact on PDF's operations. Centralizing the social insurance registry in SURS and disability assessment in CDCCU will relieve PDF from performing these tasks and enable PDF to utilize resources to strengthen its other functions. Developing SURS' data centralizing and warehousing functions and integration of existing social insurance registries will require the consolidation of past earnings records, utilized mainly by PDF. Individual earnings histories in PDF 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% of missing data in the earnings record's history, related to different periods and data categories.

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 PDF and the campaign of completing all past records within the SURS development process. It is envisaged that this subcomponent would in parallel engage in a functional analysis of PDF 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, ICT capacity buildup, and HR strengthening through training.

➤ **Component 2. Strengthening the regulatory framework for persons with disabilities and for hazardous occupations**

This component envisages three subcomponents supporting the implementation of the reformed system:

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

The Government's decision to simplify, unify and streamline the parallel processes envisages establishment of a Central Disability Certification Coordination Unit (CDCCU) in MLSP responsible for initiating, organizing, performing and reporting on all disability assessments in the country. 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, licensing, supervision, and control. Investment would also include public information and education on the reform and using new user-friendly disability certification processes.

2.2 Reforming 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 towards professional rehabilitation and activation programs for inclusion of persons with disabilities in the open labor market will have to be prepared prior to 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 a National Register 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 monitoring and evaluation. 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 towards the persons with disabilities, and the establishment of the National Registry of persons with disabilities and system of monitoring and evaluating in the MLSP.

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

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 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.

2.4 Provision of support for development of regional professional rehabilitation centers for persons with disabilities ("REHA centers")

This activity will be supported by the Project through (a) carrying out works to renovate facilities for selected REHA Centers, (b) purchasing of the required information and communication technology and office equipment to be installed within the selected REHA Centers, and (c) technical assistance to develop new business standards and procedures as well as training programs relevant staff of selected REHA Centers.

Project's Financial Statements
For the period from 01 January 2023 to 31 December 2023

Notes to the Project's financial statements (continued)
Project Objectives, Activities and Institutional Arrangements (continued)

➤ **Component 3: Project management**

This component will support the day-to-day management of project implementation and the monitoring and evaluation (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 establishment 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.

Institutional and Implementation Arrangements

The MLSP is responsible for social protection policies, pension and labor segments of social insurance administration.

The implementation of Component 1 requires strong coordination between MLSP, Ministry of Health ('MOH'), and Ministry of Finance ('MOF'), while Component 2 is implemented by the MLSP and require coordination between MLSP and MOH.

Given that day-to-day SURS development would be managed by an independent entity under MLSP and providing services to all social insurance and tax agencies, the operative coordination would be assured through a Project Steering Committee led by MLSP, comprised of key ministries and agencies participating in the project. Project Steering Committee would facilitate high-level policy agreements, resolve matters of disagreement, help with approving deliverables, help mobilize resources, and ensure that the project stays on course. The implementation of the project requires the availability of dedicated technical, operational, and fiduciary staff at the MLSP. The Ministry has established and maintains a PMU within its administrative structure reporting to the Minister/Board.

The Project is carried out in accordance with the Project Operational Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior approval of the IBRD.

3 Accounting policies

Following is the principal accounting policies adopted in preparation of these financial statements. These accounting policies are consistently applied to all financial periods presented.

Basis of preparation

The Project's financial statements have been prepared for the purposes of reporting to IBRD, on the activities of the Project related to the funds received for the completion of the Project's objectives, in accordance with the respective provisions set out in the Loan Agreement, Loan number 9036-MK dated 12 February 2020 and Amendment No.1 dated 06 December 2022 signed between the IBRD and the Republic of North Macedonia. These financial statements are prepared on the cash receipts and disbursement basis and include all Project - related expenditures incurred, which are financed under the provisions set out in Loan Agreement Loan number 9036-MK dated 12 February 2020 and Amendment No.1 to the Loan Agreement number 9036-MK dated 06 December 2022.

These instructions closely follow the World Bank's Disbursement Guidelines for Projects.

The financial statements have been prepared for the period from 1 January 2023 to 31 December 2023.

The accounting policies have been applied consistently throughout the period.

Reporting Currency

The Project's Financial Statements are prepared in EURO ("EUR") as this is the reporting currency of the Project.

Transactions denominated in currencies other than EURO are translated using the buying foreign exchange rate the National Bank of Republic of North Macedonia at the date of transaction. Cash balances at the year-end are translated into EURO ("EUR") using the foreign exchange rates ruling at the balance sheet date.



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