

Project's Financial Statements and Independent Auditor's Report

Ministry of Labour 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 2021

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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 as at and for the period from 1 January 2021 to 31 December 2021 included on pages 4 to 15, 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.

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.

28 June 2022



Elizabeta Kunovska

Project Manager



Olivera Krsteska

Project Financial Manager

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.

Independent Auditor's Report

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To the Management of the Project

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, 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 2021 to 31 December 2021 included on pages 3 to 17.

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. 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, present fairly, in all material respects, the Project's financial position as at 31 December 2021, 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 2021 to 31 December 2021, 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.


Suzana Stavrikj
Director
Grant Thornton DOO



Skopje, 29 June 2022


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.

Ministry of Labour and Social Policy of the Republic of North Macedonia
 "Social Insurance Administration Project"
 IBRD Loan number 9036- MK

Project's Financial Statements
 For the period from 01 January 2021 to 31 December 2021

Statement of Cash Receipts and Payments

(Amounts in EUR)
 For the period from 01 January 2021 to 31 December 2021

	Actual For the period	2021 Budget For the period	Variance For the period	Actual For the period	2020 Budget For the period	Variance For the period	Actual For the period	CUMULATIVE Budget For the period	Variance For the period
Sources of Funds									
Loan funds	0,00	0,00	0,00	1.000.000,00	0,00	1.000.000,00	1.000.000,00	0,00	1.000.000,00
Front-end Fee	0,00	0,00	0,00	34.500,00	34.500,00	0,00	34.500,00	34.500,00	0,00
Interest Earned	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total sources	0,00	0,00	0,00	1.034.500,00	34.500,00	1.000.000,00	1.034.500,00	34.500,00	1.000.000,00
Less: Uses of Funds									
Component 1-Improving the quality of the social insurance administration services	0,00	15.446,00	(15.446,00)	0,00	0,00	0,00	0,00	15.446,00	(15.446,00)
Component 2-Strengthening the regulatory framework for persons with disabilities and for hazardous occupations	0,00	100.000,00	(100.000,00)	0,00	0,00	0,00	0,00	100.000,00	(100.000,00)
Component 3-Project Management	59.489,22	94.689,00	(35.199,78)	33.297,93	48.777,00	(15.479,07)	92.787,15	143.466,00	(50.678,85)
Front-end Fee	0,00	0,00	0,00	34.500,00	34.500,00	0,00	34.500,00	0,00	34.500,00
Total uses of funds	59.489,22	210.135,00	(150.645,78)	67.797,93	83.277,00	(15.479,07)	127.287,15	258.912,00	(131.624,85)
Net increase/(Decrease) in cash flow	(59.489,22)			966.702,07			907.212,85		
Bank Balances beginning of period	966.702,07			0,00			0,00		
Bank Balances end of period	907.212,85			966.702,07			907.212,85		

The Project's Financial Statements have been approved by the Ministry on 28 June 2022 and signed on its behalf by:


 Elizabeta Kunovska
 Project Manager


 Olivera Krsteska
 Project Financial Manager

Balance sheet

In EUR

	2021	2020
ASSETS		
Cash		
Special Account - IBRD Loan	907.212,85	966.702,07
Total Cash	<u>907.212,85</u>	<u>966.702,07</u>
TOTAL ASSETS	<u>907.212,85</u>	<u>966.702,07</u>
LIABILITIES		
Liabilities for unspent funds	<u>907.212,85</u>	<u>966.702,07</u>
TOTAL LIABILITIES	<u>907.212,85</u>	<u>966.702,07</u>

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

Project's Financial Statements
For the period from 01 January 2021 to 31 December 2021

Statement of Uses of Funds by Project Activity

(Amounts in EUR)
For the period from 1 January 2011 to 31 December 2021

	2021			2020			Cumulative to Date		
	Actual Cumulative to Date	Budget Cumulative to Date	Variance Cumulative to Date	Actual Cumulative to Date	Budget Cumulative to Date	Variance Cumulative to Date	Actual Cumulative to Date	Budget Cumulative to Date	Variance Cumulative to Date
SIAP-Component 1-Improving the quality of the social insurance administration services	0,00	15.446,00	(15.446,00)	0,00	0,00	0,00	0,00	15.446,00	(15.446,00)
SIAP-Sub Component 1.1-Establishment of Single Unified Registry System for social insurance	0,00	15.446,00	(15.446,00)	0,00	0,00	0,00	0,00	15.446,00	(15.446,00)
SIAP-1.1.1 Technical assistance for legislative changes	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
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.	0,00	15.446,00	(15.446,00)	0,00	0,00	0,00	0,00	15.446,00	(15.446,00)

Ministry of Labour and Social Policy of the Republic of North Macedonia
 "Social Insurance Administration Project"
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Project's Financial Statements
 For the period from 01 January 2021 to 31 December 2021

	2021			2020			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date
SSIP-1.1.5 SURS hardware, software (including licenses), and document management system procurement	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.1.6 Data cleanup of institution's existing data (including cleanup and digitization of legacy data)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
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;	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.1.8 Office renovation - SURS HQ	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP- 1.1.9 Procurement of furniture	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.1.10 Public information and education campaign on SURS functionalities, benefits for users, and operations;	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP- Sub Component 1.2-Business process improvement and modernization in PIOM	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
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;	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2 PIOM modernization implementation	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.1 TA for business processes redesign	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.2 TA for analyzing individual service records database in PIOM, technical and legal options for consolidation, drafting legal documents and consolidation procedure	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.3 TA for implementing the consolidation of PIOM database based on 1.2.2.2	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.4 Software development	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.5 Procurement of hardware	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-1.2.2.6 Training (actuarial department is included)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-Component 2-Strengthening the regulatory framework for persons with disabilities and for hazardous occupations	0,00	100.000,00	(100.000,00)	0,00	0,00	0,00	0,00	100.000,00	(100.000,00)

Ministry of Labour and Social Policy of the Republic of North Macedonia
 "Social Insurance Administration Project"
 IBRD Loan number 9036- MK

Project's Financial Statements
 For the period from 01 January 2021 to 31 December 2021

	2021			2020			Cumulative to Date		
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date	Cumulative to Date
SIAP-2.2.2.2MLSP Software upgrades to support the Registry of PWD	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-2.2.2.3 Training of operators of the Registry	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-2.2.2.4 IT equipment to support the Registry of PWDs	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-2.2.2.5 Information campaign especially targeted towards the persons with disabilities.	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-2.2.3 Local Technical assistance for legislative changes regarding the employment of workable PWDs (Law on employment of PWDs)	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-Sub Component 2.3-Revision of the list of hazardous occupations eligible for early retirement with extended service period (ESP).	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
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).	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-2.3.2 Reform proposal of the early retirement system for hazardous occupations	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-Component 3-Project Management	59.489,22	94.689,00	(35.199,78)	33.297,93	48.777,00	(15.479,07)	92.787,15	143.466,00	(50.678,85)
SIAP-3.1 Pension administration specialist	17.610,31	19.512,00	(1.901,69)	9.609,38	8.000,00	1.609,38	27.219,69	27.512,00	(292,31)
SIAP-3.2.Disability assessment specialist	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-3.3 Procurement Officer	0,00	0,00	0,00	0,00	10.812,00	(10.812,00)	0,00	10.812,00	(10.812,00)
SIAP-3.4 Financial Officer	16.648,76	18.536,00	(1.887,24)	8.778,63	10.812,00	(2.033,37)	25.427,39	29.348,00	(3.920,61)
SIAP-3.5 Monitoring and Evaluation Specialist	17.654,04	19.512,00	(1.857,96)	9.538,75	11.381,00	(1.842,25)	27.192,79	30.893,00	(3.700,21)
SIAP-3.6 IT engineer	0,00		0,00	0,00	2.732,00	(2.732,00)	0,00	2.732,00	(2.732,00)
SIAP-3.7 Project Audit	1.883,12	5.000,00	(3.116,88)	0,00	0,00	0,00	1.883,12	5.000,00	(3.116,88)
SIAP-3.8 Satisfaction Beneficiary Survey	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-3.1.9 Accounting software adjucement	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
SIAP-3.10 Operating costs	257,07	3.252,00	(92.994,93)	9,77	0,00	9,77	266,84	3.252,00	(2.985,16)
SIAP-3.11 Project Manager	2.201,57	1.951,00	250,57	1.804,17	1.626,00	178,17	4.005,74	3.577,00	428,74
SIAP-3.12 SIAP Coordinator	3.234,35	2.926,00	308,35	2.706,31	2.439,00	267,31	5.940,66	5.365,00	575,66
SIAP-3.13 IT consultant		24.000,00	(24.000,00)	850,92	975,00	(124,08)	850,92	24.975,00	(24.124,08)
Front-end Fee				34.500,00	0,00	34.500,00	34.500,00	0,00	34.500,00
Total Project Expenditures	59.489,22	210.135,00	(150.645,78)	67.797,93	83.277,00	(15.479,07)	127.287,15	258.912,00	(131.626,85)

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

Project's Financial Statements
For the period from 01 January 2021 to 31 December 2021

Statement of Withdrawals – Designated Account

(Amounts in EUR)
For the period from 1 January 2011 to 31 December 2021

Withdrawal application No.	Disbursement categories				(2)	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)	Grants					
2020									
1	0,00	1.000.000,00	0,00	0,00	1.000.000,00	1.000.000,00	0,00	21.05.2020	
Total	34.500,00	1.000.000,00	0,00	0,00	1.000.000,00	1.000.000,00	0,00		
2021									
Total	0,00	0,00	0,00	0,00	0,00	0,00	0,00		
Total disbursed	0,00	1.000.000,00	0,00	0,00	1.000.000	1.000.000,00	0,00		

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 January 2021 to 31
 December 2021

At 1 January 2021	966.694,00
Add: Inflows Replenishment during the period	
Replenishment during the period	0.00
	966.694,00
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) - MKD	(59,508.65)
	(59,508.65)
At 31 December 2020	907,185,35

(Amounts in EUR)
 For the period from 2 March 202 to 31 December 2020

At 2 March 2020	0,00
Add: Inflows Replenishment during the period	
Replenishment during the period	1,000,000.00
	1,000,000.00
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) - MKD	(33,306.00)
	(33,306.00)
At 31 December 2020	966.694,00

Ministry of Labour and Social Policy of the Republic of North Macedonia
 "Social Insurance Administration Project"
 IBRD Loan number 9036- MK

Project's Financial Statements
 For the period from 01 January 2021 to 31 December 2021

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 1 January 2021 to 31
 December 2021

At 1 January 2021	8.07
Add: Inflows	
Transfer from designated account – EUR	59,508,65
	59,508,65
Deduct: Outflows	
Amount of eligible expenses paid during the period	(59,489.22)
	(59,489.22)
At 31 December 2021	27.50

(Amounts in EUR)
 For the period from 2 March 2020 to 31 December 2020

At 2 March 2020	-
Add: Inflows	
Transfer from designated account – EUR	33,306.00
	33,306.00
Deduct: Outflows	
Amount of eligible expenses paid during the period	(33,297.93)
	(33,297.93)
At 31 December 2020	8.07

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. Closing date of the project according to the Loan Agreement is 30 April 2023. IBRD agreed to lend the Ministry of Labor and Social Policy of the Republic of Macedonia 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.

In accordance with 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 the Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Training and Operating costs under the Project	13,765,500.00	100 %
(2) Front end FEE	34,500.00	Amount payable pursuant to Section 2.03 of Loan Agreement in Accordance with Section 2.07 (b) of the General Conditions
(3) Interest Rate Cap or interest Rate Collar premium	0.00	Amount due pursuant to Section 4.05 (c) the General Conditions
TOTAL AMOUNT	13,800,000.00	

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's Financial Statements
For the period from 1 January 2021 to 31 December 2021

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

The project is 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

- o Subcomponent 1.1 Establishment of Single Unified Registry System for social insurance
- o 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

- o Subcomponent 2.1 Establishing unified disability assessment system and Central Disability Certification Coordination Unit (CDCCU)
- o Subcomponent 2.2 Reforming the system of employment of persons with disabilities
- o 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: 8.92 million EURO / US\$9.81 million equivalent)

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 assets 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.

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 records history, related to different periods and data categories.

Project's Financial Statements

For the period from 1 January 2021 to 31 December 2021

Notes to the Project's financial statements (continued)

Project Objectives, Activities and Institutional Arrangements (continued)

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 (approximate credit amount: 4.20 million EURO / US\$4.62million equivalent)

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.

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

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.

Project's Financial Statements
For the period from 1 January 2021 to 31 December 2021
Notes to the Project's financial statements (continued)
Project Objectives, Activities and Institutional Arrangements (continued)

The implementation of Component 1 would require strong coordination between MLSP, Ministry of Health ('MOH'), and Ministry of Finance ('MOF'), while Component 2 will be 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 proposed project would require 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 should be 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 are the principle 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 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.

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

The financial statements have been prepared for the period from 1 January 2021 to 31 December 2021.

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 yearend are translated into EURO ("EUR") using the foreign exchange rates ruling at the balance sheet date.



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