



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 13-Jun-2023 | Report No: PIDC36316



BASIC INFORMATION

A. Basic Project Data

Country North Macedonia	Project ID P180350	Parent Project ID (if any)	Project Name Second Social Services Improvement Project (P180350)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Oct 16, 2023	Estimated Board Date Jan 31, 2024	Practice Area (Lead) Social Protection & Jobs
Financing Instrument Investment Project Financing	Borrower(s) Republic of North Macedonia	Implementing Agency Ministry of Labor and Social Policy	

Proposed Development Objective(s)

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

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	30.00
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Environmental and Social Risk Classification
Moderate

Concept Review Decision
Track I-The review did authorize the preparation to continue



Other Decision (as needed)

B. Introduction and Context

Country Context

North Macedonia enjoyed a period of sustained economic growth and poverty reduction prior to the COVID-19 pandemic and is now faced with a slow recovery and rising inequality, with additional risks arising from climate change.

Economic growth in North Macedonia has been moderately robust for the last decades, with an average real annual gross domestic product (GDP) growth of 2.7 percent from 2000 to 2019, above the average for the Europe and Central Asia (ECA) Region of 1.8 percent but below that of its Western Balkan peers (4.1 percent). During this period, the economy grew in all years except for 2009 and 2012, when the global financial and Euro crises spilled over and resulted in two minor contractions. The COVID-19 pandemic shocked the global economy in 2020 and, as a result, GDP in North Macedonia contracted by 5.9 percent. Since then, the post-pandemic recovery has been sluggish, with real GDP growth standing at 2.1 percent in 2022.¹ Beyond recent shocks to the global economy, North Macedonia is vulnerable to extreme temperatures, wildfires, storms, landslides, droughts, and floods. Climate change is expected to have a specifically negative impact on the agricultural sector,² as the temperatures are expected to rise in the next 40 years resulting in droughts in some areas and a decline in production.

The country experienced strong employment and labor force participation gains in the two decades prior to the COVID-19 pandemic, although there are strong disparities in labor market opportunities across regions, ethnic groups, and gender.

Between 2000 and 2019, labor force participation (LFP) in North Macedonia rapidly increased from 60 to 66 percent of the working age population, driven by the positive strides made by women entering the labor market. This trend, coupled with a significant reduction in unemployment³, led to rapid increases in employment rates in the country. At the same time, regional disparities have widened, with the gap in the unemployment rate between the Northeast and the Southeast increasing from 27.5 percentage points (pp) in 2019 to 32.5 pp in 2021, the largest among a pair of regions in any Western Balkan country. While male LFP in North Macedonia is similar to the average in EU-27 countries (77 percent), that of females lags 12 pp behind (55 vs 67 percent in the EU), with a staggering 22 pp differential across gender.⁴ By age groups, the youth unemployment rate is close to 32 percent, more than double the average in the country and that of youth in EU-27 countries. Ethnic minorities similarly experience higher unemployment rates.⁵ While the unemployment rate declined in 2022, reaching 14 percent, the lowest mark since independence in 1991, it has been driven by many working-age individuals moving out of the labor force to inactivity or migrating to other countries. Outmigration, coupled with the ageing of the population, has fueled the increase in vacancy rates in the last decade, in particular in certain service sectors and construction.⁶ As a result, increasing LFP is fundamental not only for prompting equity but also for the sustainability of the economy, given the declining share of the working age population.

Reducing poverty rates and supporting shared prosperity in North Macedonia requires promoting economic activity and employment.

Economic growth in North Macedonia translated into continuous gains in poverty reduction, with poverty rates progressively falling from 41 percent in 2009 to 19 percent in 2021.⁷ The growth elasticity of poverty between 2009 and 2019 stood at -0.93, implying that for every 1 percent increase in GDP, there was a reduction of 0.9

¹ World Bank (2023). Testing Resilience. Western Balkans Regular Economic Report, No. 23.

² Knez, Štrbac and Podbregar (2022). Climate change in the Western Balkans and EU Green Deal: status, mitigation and challenges. Energy, Sustainability and Society, 12 (1).

³ almost cut in half from 32.2 percent in 2000 to 17.4 percent in 2019

⁴ Employment gaps by gender also show a similar picture.

⁵ World Bank (2022). North Macedonia Social Protection Situational Assessment.

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

⁷ World Bank (2023). North Macedonia Systematic Country Diagnostic. Draft.



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

The state of human capital in North Macedonia is improving, but progress is too slow and uneven to successfully tackle the triple challenge of low productivity, ageing and inequality. According to the World Bank Human Capital Index (HCI), between 2010 and 2020, the HCI value for North Macedonia improved from 0.54 to 0.56.¹² An HCI of 0.56 implies that children born today will be about 44 percent less productive than they would have been, had they enjoyed full health and complete quality education. The index score is the lowest among Western Balkan countries (where the average is 0.62) and second lowest in all the ECA region. While the health component is above the average among its peers, both the low test scores and the expected years of schooling¹³ drag the overall index down in North Macedonia. Low educational outcomes contribute to a skills gap that affects young people and first-time labor market entrants. This is against a backdrop of falling birth rates and outmigration. Birth rates have fallen from more than 14 births per 1,000 inhabitants in 2000 to slightly above 9 in 2020, which led to the first years of decline of the natural population (number of births minus deaths) in the country in 2020 and 2021. On top of that, migration outflows have added pressures to the shrinking population – with about 4,000 net outmigration during 2011-2020, equivalent to 0.2 percent of the population. By 2040, more than 20 percent of the population in North Macedonia will be over the age of 65. This draws attention to rising eldercare requirements that, like those for childcare, fall disproportionately on women, with implications for their participation in economy activities and wellbeing. This is illustrated by the fact that 42.6 percent of women report care responsibilities to be the main reason for being economically inactive compared to only 3.7 percent of men.¹⁴

Sectoral and Institutional Context

North Macedonia has undertaken a comprehensive social protection reform to improve coverage, targeting and adequacy of its programs, which proved to be key to support vulnerable groups during the COVID-19 pandemic. The 2019 reform of the social protection system¹⁵ focused on consolidating the many fragmented benefits and enhancing coverage and targeting. The guaranteed minimum assistance (GMA) scheme was established to replace all other means-tested social assistance programs. A new means-tested social pension for elderly aged 65 years and older was introduced

⁸ For full details on the methodology and caveats, see Ravallion, M. (2022). Growth Elasticities of Poverty Reduction, NBER Working Paper 30401. Poverty and real GDP per capita growth data from 2009 to 2019 come from the World Development Indicators of the World Bank.

⁹ World Bank (2022). North Macedonia Social Protection Situational Assessment.

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

¹¹ For example, ethnic Albanians are more than twice as likely to be in the bottom income quintile than in the highest one, and the concentration among the poor is even higher for the Roma population.

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

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

¹⁴ World Bank. (2022). Country Gender Assessment – North Macedonia.

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



in 2019, and the universal parental allowance (PA) program was transformed into a means-tested PA. The reform also institutionalized the conditional cash transfer program,¹⁶ providing poor households with children both a child and education allowance. Through these reforms, the adequacy and coverage of social assistance has improved in North Macedonia, with a shift in financing towards means-tested programs.¹⁷ The reform of social assistance also allowed for a faster response to the COVID-19 pandemic, in particular through the expansion of the GMA to additional poor households. In parallel, the country strengthened its pension system and is currently the only country in the Western Balkans with a fully developed multi-pillar pension system, although further reforms are needed to ensure its financial sustainability.¹⁸ In terms of Active Labor Market Programs (ALMPs), changes have been more subdued. While coverage has increased, it remains moderate, with only half of the total number of unemployed being registered with the Employment Services Agency (ESA), hindered by the limited financial and human resources.¹⁹ During this period, the World Bank has supported these reforms both with analytics and operations, as detailed above and below.

These reforms also aimed to develop a well-established system for social and child services. The Ministry of Labor and Social Policy (MLSP) is responsible for both social services and early childhood education and care (ECEC), including kindergartens, as set out in the Social Protection and Child Protection Laws.²⁰ The 2019 reform incorporated a major change in the way social services²¹ are planned, financed, and delivered, which were introduced alongside a major push towards deinstitutionalization.²² Under this law, the municipalities have the leading role in identifying priorities and offering services in partnership with local service providers, while the MLSP sets standards, finances services and monitors outcomes. Since the Law was adopted, the Ministry, with support of the World Bank-financed Social Services Improvement Project (SSIP),²³ has established the regulatory framework for non-residential social services and piloted the provision of social services by private providers in partnership with municipalities (see below for more details). With regards to ECEC, the MLSP oversees the staffing, budgeting, and the provision of infrastructure (kindergartens) and collaborates with the Bureau for Development of Education (BDE), within the Ministry of Education and Science (MoES), which is responsible for the educational program taught in kindergartens. The municipalities' role in ECEC involves managing facilities, overseeing enrollment, providing financial support, ensuring quality, and fostering collaboration. With support from SSIP, the MLSP built and modified kindergartens to expand access to preschool education, strengthened the professional development of the present and future early childhood education workforce and established instruments for the assessment and monitoring of the process quality in the classroom, the quality of the learning environment and children development outcomes.

The Ministry has continued to invest in its social protection delivery systems, most recently through the efforts to integrate the provision of cash benefits and social services. The social protection system in North Macedonia is well established, with social assistance benefits and social services accessed through a network of Centers for Social Work (CSW). Over time, the Ministry has invested in information systems to support the application, assessment, and delivery of all cash benefits (the Cash Benefit Management Information system - CBMIS) and to register social services (LIRIKUS). The MLSP is in the process of designing a new Social Welfare Information System that will integrate CBMIS and LIRIKUS,

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

¹⁷ See, for example, the draft social assistance chapter in the PFR 2022 and the forthcoming SCD.

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

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

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

²¹ This term is used in this PCN to refer to nonresidential services, that is, preventative and community-based services.

²² See: World Bank (2022) and National strategy for deinstitutionalization in the Republic of Macedonia 2018–2027.

²³ The project (P162246) is to the amount of 28.7 million euros and is implemented in the period from October 2018 to June 2024.



enabling a more complete human-centric approach and better prioritization of the needs of poor or vulnerable families. The reform is also introducing integrated case management, which aims to respond to the needs of individuals/households in a holistic way and provide tailored recommendations based on the assessment by case workers. However, these changes are still to be fully implemented. A key challenge for the implementation of this reform is the lack of qualified staff and limited motivation, in spite of recent increases in staffing in the CSWs. These challenges extend to the coordination between CSWs and the ESA to support the activation of GMA beneficiaries through the use of individual employment plans. Reducing administrative work burden and providing training to social workers to adjust to the new case management system remains key. Municipalities, which play a larger role in social protection since the 2019 reform and are now responsible for carrying out an assessment of social needs in their populations and prepare annual social protection plans, lack the necessary staff and expertise.

The coverage of social and ECEC services has increased, although significant gaps remain, and new challenges are emerging. With support from the SSIP, the MLSP has established the provision of social services through licensed providers, reaching 2,602 beneficiaries by early 2023. In parallel, the MLSP has piloted the outsourcing of these services to private providers, with 20 new private providers receiving their licenses and delivering services through this model.²⁴ This experience demonstrated the success of this new way of delivering social services through private providers, in partnership with municipalities, while also generating a range of lessons. To date, roughly 85 percent of the social services financed by the SSIP has been for in-home care, which is largely being used to meet the needs of elderly people, with reports of growing demand from municipalities and NGOs nationwide. This emphasis on in-home care for the elderly has raised questions around the extent to which these services should be subsidized by the central government, and the possibility of the for-profit private sector to fill some gaps, with due attention to equity and affordability.²⁵ There is also growing concern that these services be embedded within a system of long-term care for the elderly, which requires strong linkages with the health system and referrals to residential facilities, as appropriate. Other types of social services include day centers for children with disabilities, personal assistance, and centers to promote active aging. The number of kindergartens has also increased (from 54 public and 3 private in 2011, to 78 public and 31 private in 2022), leading to a moderate upward trend in pre-primary education enrolment (ages 3-6) over the last decade, increasing from 32 to 43 percent in 2022.²⁶ However, North Macedonia still lags behind many countries in the Western Balkan region, falling far short of the EU Education and Training 2030 target of 96 percent coverage of children ages 3-6 years. Embedded in this target is a global recognition that preschool attendance plays a critical role in supporting the development and learning of children and their future success in life.²⁷ At the same time, around 85 percent of children under the age of 3 are not in childcare facilities (compared to 64.7 percent in the EU-27).²⁸

Uneven access to these services disproportionately affects families in the lowest income quintile, those who live in rural areas and particularly, those belonging to the Roma community and who have some kind of disability. In spite of the gains in expanding the supply of social services, significant regional disparities remain given the insufficient and unevenly distributed networks of service providers, with the largest per capita availability in the capital of Skopje and more scarcity in distant rural areas.²⁹ These disparities also show up in key indicators of early childhood development. Despite recent

²⁴ To date, these private providers are all non-governmental organizations. Of the grants awarded under the SSIP, the MLSP has committed to continuing the financing to these services when the grants end. In this way, the financial sustainability of these services has been secured.

²⁵ The growth of in-home care has also created demand for care workers in North Macedonia. Experience under the SSIP suggests that beneficiaries of the GMA may be activated into these jobs, with the required technical training and social mentoring support.

²⁶ State Statistical Office (2023). Institutions for childcare and education: kindergartens/centres for early childhood development 2022.

²⁷ Barnett, W. S. (2008). Preschool education and its lasting effects: Research and policy implications.

²⁸ Leshoska, V., et al. (2022). Gender-Based Discrimination and Labour in North Macedonia (II), Reactor- Research in Action.

²⁹ Taking residential care for elderly people into consideration, the majority of social services are offered in the Skopje region.



investments, ECEC institutions continue to be unevenly distributed and heavily geared towards urban, densely populated areas and to working parents. The urban enrollment rate is almost two and a half times higher (47 percent) than that in rural areas (20 percent). Out of 80 municipalities in the country, 13 have no facilities and offer no ECEC provision. One consequence is that ethnic minorities, many of whom live in remote regions, regions experiencing poverty, or in distinct communities within or bordering larger cities, have significantly less access to ECEC services. The 2018-2019 Multiple Indicator Cluster Survey (MICS) found that there are large disparities in access by ethnicity (54 percent of Macedonian children, 14 percent of Albanian children and 12 percent of Roma children participate in ECEC), gender (41 percent of male children, 32 percent of female children participate in ECEC), and wealth index quintile (only 7 percent of children in the lowest quintile attend kindergarten compared with 67 percent of those in the highest quintile).³⁰ Further, children with special needs encounter social stigma and face challenges accessing inclusive education and social support.³¹ Less than one percent of all enrolled children in ECEC are children with disabilities.³² The MSLP is taking steps to address such inequalities beyond investments in increasing the coverage of kindergartens. For example, CSWs and kindergartens are currently coordinating to improve understanding of the importance of sending young children to preschool among GMA households in an effort to increase their enrollment. However, for the foreseeable future, many of the poorest children will continue spending their preschool years at home, which draws attention to the important role of parents in nurturing their learning.

Emerging evidence draws attention to aspects of the quality of services that continue to require attention, allowing for more targeted investments. In ECEC, the results of the Measuring Early Learning Quality and Outcomes (MELQO) instrument (established under SSIP) which generates nationally comparable evidence, indicate that, while a large proportion of children are doing well in key domains, there are areas that would benefit from targeted strengthening, especially those skills that are specifically associated with school readiness such as literacy and numeracy. In addition, there are groups of children that demonstrate learning vulnerability and are falling behind their peers. These children would benefit from more care and support for their socio-emotional development by strengthening the capacities of preschool teachers and working with parents. The MELQO results also highlight the influence of parental education on children's learning and development as well as stimulation in the home. The study makes clear the relationship between children's regular attendance in preschool and their learning success, highlighting the significant impact of preschool attendance on outcomes.³³ To date, satisfaction with social and ECEC³⁴ services has been high, although the Ministry recognizes the need to strengthen the regulation, licensing, and monitoring systems to ensure that services continue to be delivered to a high quality as coverage expands.

The Government is committed to addressing gaps in access to and quality of social and ECEC services to promote more equitable human capital accumulation and increase labor force participation. As part of its firm commitment to the human capital agenda, the Government, with technical assistance from the World Bank, is in the process of adopting a Human Capital Strategy (2023-2030), which recognizes the need to expand access to quality ECEC services as a key strategy to promote the human capital of future generations. This reflects the vision of the *Comprehensive Strategy for Education Development 2018-2025*, which is to incrementally universalize quality ECEC services and improve inclusiveness. This is to be achieved by increasing the number of children in the system, improving curricula and the learning environment,

³⁰ UNICEF. (2020). 2018-2019 North Macedonia's multiple indicator cluster survey and 2018-2019 North Macedonia Roma settlements multiple indicator cluster survey, Survey findings report.

³¹ Byrne, K. (2020). An analysis of the situation of women and children in the Republic of North Macedonia: Executive Summary. UNICEF.

³² State Statistical Office (2023). Institutions for childcare and education: kindergartens/centers for early childhood development 2022.

³³ MELQO final report (2023).

³⁴ MELQO (2023) study shows that the majority of the parents (55.5 very satisfied and 43.7 mostly satisfied) who participated in the study are in general satisfied with the quality services provided by the kindergartens.



increasing human resource capacity, and strengthening the legal framework and management of the sector. The Human Capital Strategy also aims to improve the reach of social services to meet the needs of vulnerable groups, an aim that is similarly set out in the National Programme for Development of Social Protection 2022-2023. Increasingly, the Government acknowledges the need to invest in services to meet the current and future needs for care in the country derived from the aging of the population. This recognizes that investing in care services has a positive spillover by reducing the burden of informal home care so working age caregivers, who are disproportionately women, can seek employment opportunities – a key objective of the Government.

Relationship to CPF

The proposed project contributes directly to the country’s goals, as set out in the Country Partnership Framework (CPF) 2019-2023 and those that are emerging for the forthcoming CPF. The proposed project contributes directly to the goals of the current CPF,³⁵ and those that are emerging for the forthcoming CPF, based on the updated Systematic Country Diagnostic (SCD). The CPF promotes “investing in people” as a key factor in sustaining inclusive growth over the long term. The proposed project directly contributes to this goal, which is set out in Focus Area Two - Inclusive Growth: Expand Skills and Opportunities for the Most Vulnerable, through its investments in expanding access to ECEC, social services and promoting the inclusion of marginalized groups. The importance of strengthening human capital development for all is reinforced through the analysis that is emerging in the 2023 SCD, which is an update to the 2018 SCD. The draft SCD finds that the labor force needed for stronger economic growth is constrained by aging population, coupled with outmigration, skills mismatch and other barriers to productive participation in the labor market.

C. Proposed Development Objective(s)

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

Key Results (From PCN)

The key results that will measure progress towards the PDO are:

- a. Number of beneficiaries receiving social services from licensed providers - disaggregated by type of service, region, and gender;
- b. Share of cash benefit recipients and social services recipients assessed through the case management system, with information recorded in the Information System;
- c. National preschool enrollment rates for 3–6 year-old children (disaggregated for children same age group from GMA households) by region; and,
- d. Improved quality in the public preschool institutions.

D. Concept Description

The proposed project aims to and improve the quality of social services, including preschool services, especially for vulnerable groups. Building on the Social Services Improvement Project, the the proposed project will achieve this objective through three components. The first component would aim to expand the coverage of selected social services, improve the quality of these services, and enhance access to these services through investments in the social protection system. The second component would improve the supply and quality of ECEC, while promoting the inclusion of marginalized groups. The third component would support the project management and the monitoring and evaluation of

³⁵ World Bank (2019). Country Partnership Framework for the Republic of North Macedonia 2019-2023. Report No. 135030-MK.



its objectives and outcomes.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

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APPROVAL

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