



<b>1. Project Data:</b>		<b>Date Posted :</b> 02/27/2001	
<b>PROJ ID :</b> P038392		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name :</b> Social Sectors Adjustment Loan	<b>Project Costs (US\$M)</b>	29.0	29.0
<b>Country :</b> Macedonia	<b>Loan/Credit (US\$M)</b>	29.0	29.0
<b>Sector(s) :</b> Social Protection Adjustment	<b>Cofinancing (US\$M)</b>	0.0	0.0
<b>L/C Number :</b> C3113			
	<b>Board Approval (FY)</b>		99
<b>Partners involved :</b> None	<b>Closing Date</b>	06/30/1999	04/14/2000
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>

## 2. Project Objectives and Components

### a. Objectives

Support the Government of FYR Macedonia Social Sector Reform Program by : (i) helping to improve the long-term financial solvency of social sector programs; (ii) increasing labor market efficiency and reducing the cost of labor market distortions; and (iii) reducing poverty by improving the quality and targeting efficiency of social assistance benefits.

### b. Components

(i) Social Protection: (a) A major reform of the public *pension* system and the development of the framework for a mandatory, funded, privately-managed scheme. (b) A reform of the *social assistance* system to improve equity in the level of benefits, better targeting of benefits and to strengthen the efficiency and work incentives in the social assistance system.

(ii) Labor Market: (a) A reform of the unemployment insurance system to improve the financial solvency of Unemployment Insurance Fund and reduce constraints to labor hiring . (b) A fundamental change in labor legislation that eases hiring and termination conditions and allows for greater flexibility for enterprises to deviate from collective agreements.

(iii) Health: A restructuring of the health insurance system to allow for greater cost containment of the Health Insurance Fund and improving the quality of health care services .

### c. Comments on Project Cost, Financing and Dates

Total financing of \$29 million was provided for the project. The loan was to be disbursed in two equal tranches, the first upon effectiveness and the second upon fulfillment of second tranche conditions . The second tranche was delayed. This was due to Parliamentary elections and the Kosovo crisis . As a result the project closed in 4/2000 against the original closing of 6/99.

## 3. Achievement of Relevant Objectives:

The objectives were achieved. Social Protection: (a) *Pension Reform*: The Government amended the pension law, including the reduction of maximum and minimum pensions and increasing the retirement age . These amendments were passed as part of second tranche conditions . The Government also appointed a Committee on Pension Reform which developed an action plan to reduce the financing requirements of the public system and to introduce the funded pension scheme. Under the Social Reform Technical Assistance Project, and with support from a Japanese grant, the Actuarial Unit also received training on public pension fund modeling which enabled it to produce a detailed financing plan for the introduction of a mandatory private pension pillar, which was a condition of the second tranche. Simultaneously with SSAC approval, the Govt signed the Pension Reform Technical Assistance Project which continues to provide support for the reform program through technical assistance and by financing a public information campaign. A Social Reform Technical Assistance Project (SRTAP) was also approved. *Social Assistance Reforms*: The Govt passed a Social Assistance Decree with provisions that included (i) equalizing rural and urban social assistance levels, based on the newly established single national poverty line; (ii) simplifying scale rates to differ only by family size, (iii) introducing work incentives by limiting the duration of social assistance benefits to four years and (iv) increasing penalties for fraudulent claims . The reform also improved benefit administration by (i) providing an even flow of beneficiaries to social assistance offices based on identification numbers, regions, and names nationwide and (ii) through random audits on the verification and monitoring of claims . The SRTAP set up a

poverty monitoring unit to carry out household surveys as part of poverty assessments and to compute poverty lines . It also set up an automation unit within the Ministry of Labor and Social Protection .

**Labor Market:** The Govt passed a new law on employment and unemployment insurance . The basic aim of the amendments was to improve the efficiency of the unemployment benefit system . The Govt adopted improved amendments to the Labor Relations Law aimed at easing labor market restrictions but in January 1999, the Constitutional Court repealed several of the amendments which was detrimental to improving the flexibility of the labor market. The Government decided to redraft the amendments which were discussed with the Bank and which proved to be satisfactory in meeting the SSAC reform program .

**Health:** The Government passed a new Health Insurance Law which established a framework for a capitated primary health care system, basic benefits package, co-payment/ user charges policy for health services and a referral system by primary care providers for outpatient specialists and hospital care . The Govt also passed a new Drug Law to allow for streamlined registration of drugs, reference pricing based on generic products, adoption of essential drugs for public sector reimbursement and competitive bidding procedures for public sector drug procurement . The laws owe their success to the support provided by the Health Sector Transition Project .

#### 4. Significant Outcomes/Impacts:

Reforms of the public pension, health and employment insurance programs will improve the long -term financial solvency of these programs . Provisions of the Employment Law and amendments to the Labor Relations Law will provide greater efficiency and flexibility in the labor market . Targeting of social assistance benefits as well as quality of the administration of the social assistance programs has reportedly improved . Lifting labor mobility restrictions while simultaneously improving social assistance programs was important given an expected increase in layoffs with the planned closure of loss-making enterprises and the downsizing of public administration .

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

There were no significant shortcomings but no indicators were provided to assess improvements in the equity and efficiency of the social assistance system . The President's Report suggested that household surveys will be used to assess the impact of changes in the social assistance program in targeting the poorest households . The ICR didn't report whether surveys were carried out and if they were what was the outcome . In addition, gender is rated "not applicable" perhaps because the project didn't include gender-related components. There was scope for introducing gender aware labor monitoring systems in project design .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Highly Satisfactory	Satisfactory	The conditions for tranche release were met in terms of passage of laws, decrees . But in the absence of monitorable indicators, it is unclear to what extent targeting effectiveness of social assistance improved, distortions in the labor market were reduced, and the quality of primary care improved . Gender was not addressed in the project.
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

1. Lifting labor mobility restrictions while *simultaneously* improving social assistance programs was important given an expected increase in layoffs with the planned closure of loss -making enterprises and the downsizing of public administration. 2. Parallel technical assistance and investment operations are important for the success of adjustment operations such as the SSAC .

#### 8. Assessment Recommended? ☐ Yes ☒ No

#### 9. Comments on Quality of ICR:

The ICR is of good quality . Detailed partner comments have been included . The ICR could have included monitoring indicators for targeting of social assistance, reducing labor market distortions and improving quality of primary care.

