

ANNEX A TO THE EMERGENCY OPERATIONS MANUAL

Grant Manual for Income Support Scheme (Wage and Social Contribution Support Scheme)

North Macedonia – Local Roads Connectivity Project

Contingency Emergency Response Component (CERC)

COVID 19 Crisis Response Program

Introduction

1. The objective of this Grant Manual is to present the design of the income support scheme established by the Government of North Macedonia as part of its COVID 19 crisis response program and the modalities of funding of the scheme by the World Bank under the Contingency Emergency Response Component (CERC) of the Local Roads Connectivity Project. Section I presents the main features of the COVID 19 crisis response program of the Government. Section II presents the income support scheme established by the Government as part of its crisis response program. Section III discusses the modalities of funding of the scheme by the World Bank under CERC. Annex 1 includes the additional questions that should be added to the grant application form to comply with World Bank (WB) environmental and social safeguards requirements. Annex 2 includes an IT assessment of the Public Revenue Office (PRO) as well as the Treasury for the purposes of the implementation of CERC. Annex 3 includes the CERC grant process mapping.

Section I: Government COVID 19 Crisis Response Program

2. Like other countries in the Western Balkans, North Macedonia has been hit by the COVID 19 pandemic since late February 2020. North Macedonia confirmed its first case on February 26, 2020. As of April 24, 2020, there were 1326 confirmed cases in the country, including 337 recovered and 57 deaths. The country is in the ascending part of the curve with new cases growing by about 6% per day on average over the period extending from April 14 to April 18, 2020. On March 18th, the President declared a state of emergency after which borders were closed and the Government imposed important social-distancing restrictions including a nationwide curfew to slow down contagion.

3. Government has introduced a broad range of policies to respond to the crisis and help companies survive and retain the employees, including fiscal, monetary and macro-financial measures:

I. Fiscal measures

- a. In March, the Government implemented a fiscal package (0.2% of GDP) to help address firms liquidity problems and to protect jobs, targeted to affected sectors such as transport, hotel and restaurants for three months starting in April, 2020. The measures include a subsidy on social security contributions for firms that maintain employment, and postponement of advanced payments of corporate income tax. The measures also include direct financial assistance to firms from the Development Bank, offering loans at zero interest rate. It has also reduced the interest rates on tax arrears and overpayments as well as mandated a temporary prohibition for initiating bankruptcy procedure.
- b. An additional package of fiscal measures was announced on April 1, 2020, including a wage subsidy equal to the minimum net wage for affected companies to help them maintain jobs (1% of GDP), and financial support for vulnerable households who were

part of the informal economy and lost their income. Moreover, additional funding will be made available by the Development Bank to commercial banks at favorable terms. The Government also implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duty on medical supplies.

II. Monetary and Macro-Financial Measures

- a. The National Bank of the Republic of North Macedonia (NBRNM) cut its policy rate by 25 basis points to 1.75% on March 16. It has also provided more liquidity to banks by lowering the amount of C-bills actions.
- b. The NBRNM has revised its credit risk regulation to encourage banks to restructure loans temporarily, and it has relaxed its loan classification standards for NPLs. It has also reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors and has extended the deadline for banks to submit their first Liquidity Assessment Report in order to allow them to focus on providing credit while maintaining the quality of the loan portfolio.

Section II: The Income Support Scheme

4. On April 7 and June 13, 2020, the Government issued Decrees on the Financial Support of Private Sector Employers Affected by the Health and Economic Crisis caused by the COVID 19 Virus that establishes an income support scheme for the months of April, May and June 2020 (“the Decrees”). The fundamental objective of the scheme is to enable employers to keep employees on their payroll during the crisis, so that they can restart their operations quickly and efficiently following the crisis.

5. Under the Decrees, the Government provides financial support to the private sector employer for the months of April, May and June 2020 in the amount of no more than MKD 14,500 per employee prorated by the registered working hours of the employee, provided that the employer fulfills the following conditions:

- a. Reduction in total revenues of 30% in the month for which they are applying relative to the monthly average of the total revenues realized in 2019. In case the employer has been registered in the relevant registry after March 2019, the reference for the calculation is the monthly average of the total revenues realized since the day of registration in the relevant registry in 2019 and the months of January and February 2020. In case the employer performs seasonal work, the reference for the calculation is the four months of the season during the previous year;
- b. No payment of dividends to the owners, no payments for bonuses, business performance rewards or any other rewards to employees and to the members of management and supervisory authorities, from the date of entry into force of the Decree until the payment of salaries for the month of June 2020; and
- c. Maximum 10% of the total number of employees should have individual monthly salaries exceeding MKD 120,000 per employee per month during the month for which the employer applies for financial support.

6. Under the Decree, the employer applying for financial support will not be eligible to use the financial support for the employee if:

- a. The employee received a net monthly salary higher than MKD 39,900 for each month during the period of December 2019, January 2020 and February 2020;

- b. It benefits from subsidies under the Decree on Subsidizing the Amount for the Payment of the Mandatory Social Insurance Contributions during the State of Emergency;
- c. It benefits from an exemption from income tax payments and mandatory social insurance contributions in accordance with the Law on employment and Insurance in the case of Unemployment; and
- d. The employee is employed for additional work in accordance with the Law on Employment.

7. The Decree further stipulates that the employer should reimburse the received funds to the budget subject to the following parameters:

- a. up to 50% of the reported financial result achieved for 2020 plus the amount of taxable expenditures minus the income stated in the tax return for employers subject to corporate income tax;
- b. up to 50% of the reported financial result before taxes stated in the 2020 income statement for employers subject to annual tax on total revenues; and
- c. up to 50% of the reported financial result before taxes stated in the 2020 income tax statement plus intangible expenditures for tax purposes from the annual tax return for independent entrepreneurs.

This reimbursement must be made in three monthly installments without interest in the months of April, May and June 2021.

8. Subsequently, the Government issued a revised Decree including the following changes:

- a. The income support scheme may apply to the owner/founder of the employer, thus extending the benefits of the scheme to the self-employed and family businesses; and
- b. The period during which the employer must retain certain number of employees after receiving the income supports reduced from four months to two months (to July 2020).
- c. Employers with up to 50 employees in the month for which they received support cannot reduce their employees by more than 15%, those with above 50 to 250 employees cannot reduce the number by more than 10%, and employers with above 250 employees cannot reduce their number by more than 5%, excluding employees that retire or pass away. The reduction can only be done in the following cases:
 - retirement and death of an employee,
 - termination of the employment contract by the employee,
 - cancellation of the employment contract without notice by the employer due to violation of the work order and discipline or work obligations,
 - contractual taking over of an employee,
 - termination of employment contract validity on the basis of a court judgment and
 - termination of employment contract validity due to established permanent incapacity for work;
- d. Viable firms in tourism, catering (accommodation, restaurants, bars, tourist agencies and tour operators) and transport (land transport, water transport and air traffic) applying for the income support scheme can also apply to cover 50% of the social contributions of their eligible employees under the Decree on Subsidizing the Amount

for the Payment of the Mandatory Social Insurance Contributions during the State of Emergency. For the purposes of the present scheme, firms will be considered viable¹ if:

- i. They do not owe more than 5,000 Euros of taxes;
 - ii. Have not had losses as reflected in tax returns filed in 2018 and 2019; and
 - iii. On February 29, 2020, did not have loan obligations that were due for 90 days or more as captured by official register.
- e. Employers with less than 250 employees that are in profits by the end of the 2020 financial year are not required to repay the financial support if they can demonstrate that they are investing at least the amount otherwise repayable into improving the productive capacity of the business. Eligible investments can include improvements to:
- . Workforce capabilities:
 - . Training for staff in areas such as marketing and branding, financial management, production improvement, research and development, digital upgrading
 - . Training for management such as business management, corporate governance or any of the activities listed under training of staff.
 - . Company operational capabilities
 - . Costs related to upgrading production (e.g. lean manufacturing and process design, lean office), marketing and branding, business model change, digital transformation(automation, online commerce), new market expansion, new product development
 - . Accreditation for new standards, IP costs
 - . Productive capital stock
 - . Equipment and other assets that are regularly utilized and used to improve the efficiency and productivity of the business. This can include production related equipment, computer and related equipment, software, transport equipment

Ineligible expenditures include business as usual activities (wages, office expenses, maintenance costs, accounting, legal, compliance and government fees, financing expenses, rental, salary), sales activity (advertising, representatives, printing and placement, trade shows), cost of maintaining existing software, cost of maintaining existing industry certifications. Expenditures financed under CERC must comply with World Bank safeguards and Anti-corruption Guidelines.

Section III: Modalities of Funding of the Income Support Scheme under CERC

9. The Government requested funding from the World Bank for the income support scheme under the Contingency Emergency Response Component (CERC) of the Local Roads Connectivity Project. The fundamental objective of the scheme is to eliminate search and training costs for viable firms in the recovery period, while maintaining employment for as many people as possible during the emergency phase. Supporting viable firms is important as they will be driving economic growth in the recovery period.

¹ This is not a legal or financial assessment of the viability of a firm. Instead, it is an eligibility test developed for the purposes of the present scheme. Firms that have no tax returns filed for both years (2018 and 2019), or just for 2019 if they started operations in 2019, will not meet this test.

10. **While the beneficiaries of CERC are viable firms, in order to calculate the costs of the intervention, calculations need to be made at the number of employee level.** It is expected that once the World Bank filters are applied to firms, approximately 64,000 employees will be supported at net minimum wage². Approximately, 16,000-30,000 employees in viable firms in tourism, transport and catering will qualify to receive 50% of social contributions covered. As such, it is expected that CERC will disburse approximately 33 million Euros. A 10% contingency will increase this amount to approximately 37 million Euros. In or around June 2020, the World Bank and the Government will evaluate the status of the crisis, the demand for financing and discuss the use of the remaining funding for an additional month. The funds not used for activities detailed in the Grant Manual for CERC by October 1, 2020 shall be redirected to the non-CERC categories of expenditures as defined in the Loan Agreement.

11. The Government and the World Bank agreed that CERC funding of the scheme will be limited to certain firms that meet certain criteria. The criteria will be based on three filters as follows:

- a. *Enterprise filter:* CERC funding will be available for MSMEs only (i.e. enterprises with less than 250 employees at the time of application to the partial income support scheme). The enterprise filter will be administered through data coming from the Public Revenue Office (PRO). PRO has information on the number of employees in a given firm;
- b. *Safeguards filter:* CERC funding will be available only for enterprises that meet the Environmental and social safeguards requirements applicable to World Bank operations. The safeguards filter will be administered through a number of specific questions in the application form to be submitted by the employer to the PRO. The questions that should become a part of the application form are attached as Annex "A". It should be mandatory for all firms applying to answer all the listed questions. The applicant should not be able to submit the application unless they have responded to every question. The government is not expected to verify the companies responses to the questionnaire in practice.
- c. *Viability filter:* CERC funding will be available only for enterprises that meet a viability test:
 - i. They do not owe more than 5,000 Euros of taxes;
 - ii. Have not had losses as reflected in tax returns filed in 2018 and 2019; and
 - iii. On February 29, 2020, did not have loan obligations that were due for 90 days or more as captured by official register (such as the Credit Bureau).

The viability filter will be administered in two ways:

- The viability tests concerning tax arrears and losses will be administered based on the information existing in the PRO data base, and will not require specific questions under the questionnaire to be submitted by the employer to the PRO; and
- The viability test concerning the official register will be administered through an exchange of information between the official register (i.e. the Credit Bureau) and the PRO. Specifically, the PRO will communicate to the official register the list of firms that meet the first two viability filters, and the register will review this list and

² The Agriculture Sector is excluded from CERC as it receives support under other WB programs.

communicate to the PRO the enterprises that have debts that were due for 90 days or more on February 29, 2020.

12. The Project Emergency Compliance Unit (PECU) has been evaluated against the World Bank for fiduciary and safeguards requirements:

- a. **The current implementation arrangements for financial management and procurement are adequate and will be able to provide sufficient level of control over the transactions.** The proposed risk rating from a financial management and procurement for the CERC component are proposed to be Substantial.

The Finance Management Specialist from MSIP who is envisaged with the primary supervisory role over the FM on CERC implementation has sufficient knowledge and skills to perform the task. The second person from the LRCP has less experience on WB procedures but he was selected on a competitive basis for that position and underwent some online trainings on WB procedures. The PECU Procurement Specialist assigned has sufficient knowledge and experience to procure the audit firm and to manage the purchase of data from the official registry.

- b. **The environmental and social implementation arrangements are assessed as acceptable and satisfactory.** The proposed risk rating for the CERC component are proposed to be low. Corresponding Environmental and Social Management Framework (ESMF) has been prepared before the CERC activation.
- c. **The CERC environmental and social due diligence will be supported by the head of unit of the PESR (Public Enterprise for State Roads).** PESR has implemented the National and Regional Roads Project, financed by the Bank, approved in September 2014 and completed in September 2019. The project's environmental management was Moderately Satisfactory overall whereby project's social management performance was assessed as Satisfactory. The project triggered Environmental Assessment (OP/BP 4.01) and was assessed as Environmental Category B. In order to ensure environmental compliance of the project, PESR prepared the Environmental and Social Assessment and Management Framework (ESAMF) which underlined main environmental risks associated with the road rehabilitation, and defined the procedures, responsibilities and implementation arrangements for the preparation of specific Environmental Assessments and Management Plans (EAMPs). Environmental and social management was done through PESR's department for environmental and social development.
- d. **PESR is implementing RUDP project financed by the WB.** The project was approved on June 2015 and is scheduled to be completed in December 2020. The project was assessed as Environmental Category A. Current performance rating of the project is Moderately Satisfactory for Environment Management and Satisfactory for Social Management.
- e. **Subject to minor modifications that will be made prior to the disbursement of funds for the income support scheme, the information technology (IT) systems in the PRO that receives and filters applications and in the Treasury that processes payments to firms are adequate.** Based on the recently completed assessment and the clarifications provided by the Public Revenue Office (PRO) and Ministry of Finance (MoF) teams during the preparation of the CERC activity, the Bank team is of the view that existing country systems can be used (with some adjustments) to automate the whole process for online applications, evaluation and selection of firms, payment of financial

assistance, informing the applicants about the status of their application, and reporting of the results.

The PRO is expected to develop an extension to existing e-Tax portal for the submission of application forms online. Also, PRO's DANIS/MPIN systems should be extended with an additional module to automate the evaluation and selection of firms. Existing MoF systems can be used directly without any adjustment by following the same procedure used for other authorized government payments. The data transfer between the PRO and MoF for the payment of financial assistance can be through existing interface based on secure file transfer protocol. In case the PRO can complete the development of above additional capabilities on existing platforms, the proposed workflow automation can be implemented through existing country systems. An assessment of the IT system is attached as Annex 2. Funds under CERC will be disbursed only when the needed adjustment to the IT system to generate the report of firms that meet the criteria are made to the satisfaction of the WB.

13. CERC will function as a reimbursement mechanism. First, a Euro designated bank account holding CERC funding will be opened at the NBRNM supported by a corresponding mirror Denar account opened within the Treasury Single Account in the name of the GS. The both accounts will be managed by the PECU and used to pay for the purchase of data from the official registry (such as the Credit Bureau) and the audit. On or around May 13, June 13 and July 13, 2020, the government through the GS will make payments to all firms that have qualified for the income support scheme from the "Fund for support to deal with COVID-19 crises" (COVID-19 Fund) in the Treasury. It is expected that up to approximately a week later, the total amount of funds corresponding to the applicants that meet the WB criteria will then be reimbursed from the WB to the government's COVID-19 Fund in the Treasury. Annex 3 describes the CERC grant process and flow of funds.

Annex 1 – Social and environmental safeguards questions for the grant applications

ELIGIBILITY		
Please indicate if your company is engaged in the following activities:		
Trade in wildlife and wildlife products prohibited under the CITES convention	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing, distribution and sale of banned pesticides and herbicides.	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing, handling and disposal of radioactive products	<input type="radio"/> yes	<input type="radio"/> no
Hazardous waste storage, treatment and disposal certified/allowed under the national legislation and in the EU.	<input type="radio"/> yes	<input type="radio"/> no
Use CFCs in production or servicing or other substances regulated under the Montreal Protocol.	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing of electrical equipment containing polychlorinated biphenyls (PCBs) in excess of 0,005 % by weight	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing of asbestos containing products.	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing nuclear reactors and parts thereof.	<input type="radio"/> yes	<input type="radio"/> no
Production of tobacco, unmanufactured or manufactured.	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing of tobacco processing machinery.	<input type="radio"/> yes	<input type="radio"/> no
Manufacturing of firearms.	<input type="radio"/> yes	<input type="radio"/> no
Production or trade in alcoholic beverages (excluding beer and wine, tourism and hospitality industry).	<input type="radio"/> yes	<input type="radio"/> no
Betting and gambling industry	<input type="radio"/> yes	<input type="radio"/> no

Beneficiary Companies Commit the following	
All of its employees have employment contracts	YES
Communicate clearly job description and employment conditions to contracted workers	
Age verification. Confirm that company does not use labor of minor age	
Fulfill and is in compliance with the OHS regulations and national strategy on OHS (special focus to be paid to construction industry)	

PERMITS AND STATE OF THE ENVIRONMENT		
Permits		
Did the company have negative environmental inspection findings and litigations in the past year?	<input type="radio"/> yes	<input type="radio"/> no

Was the company responsible for fatalities or severe injuries if any in the past year?	<input type="radio"/> yes	<input type="radio"/> no
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*It should be mandatory for all firms to respond to all the above questions. Applicants should not be able to submit the application unless they have responded to all the questions above.

**The application should include the following feature and language: “By clicking this box, a grant beneficiary receiving financing from the World Bank through this application process agrees to comply with the provisions of the World Bank Anti-Corruption Guidelines (<https://policies.worldbank.org/en/policies/all/ppfdetail/4039>).”

Annex– 2 - Rapid assessment of the country systems for the income support scheme under CERC

Introduction

This technical note presents a rapid assessment of the existing country systems and quick enhancements needed for the automation of the workflow from initial online application and selection process, to the payment to beneficiary bank accounts of qualified firms, including relevant control, monitoring and reporting mechanisms.

The following country systems will be used for the automation of two important phases:

1. **Online applications and selection of eligible firms:** The e-Tax, MPIN and other systems of the Public Revenue Office (PRO) will be used for the online submission of applications and the selection of eligible firms meeting the criteria. The approved list of eligible firms will be submitted to the Treasury Office in a USB (in Excel format) for electronic payments through existing Treasury system.
2. **Payments to beneficiaries:** The e-Budget and Treasury (TrIS) systems of the Ministry of Finance (MoF) will be used for registering budget allocations and payments to all beneficiaries. Single Treasury Account (STA) will be used to send specific payments to all beneficiary bank account through the banking system managed by the National Bank of the Republic of North Macedonia (NBRNM).

The World Bank completed a comprehensive assessment of the public financial management systems used by the MoF in 2019 and prepared the detailed requirements of the future Integrated Financial Management Information System. The final report of this project was officially submitted to the MoF in April 2020. Based on this activity, the team already prepared a detailed assessment of the Treasury and Budget systems of the MoF, together with an overview of other core PFM systems including e-Tax. Benefiting from these recently completed assessments and the clarifications/updates of the PRO and MoF officials during the preparation of proposed CERC activity, the following sections present the relevant capabilities of above country systems.

The process flow diagram prepared by the PRO (Graph 1) presents the use of existing PRO registries/systems to automate above workflows. The PRO informed that the e-Tax and MPIN systems can be used with some enhancements to automate the online applications and selection of firms. Existing MoF systems will be used directly without any adjustment by following the same procedure used for other authorized government payments.

Online applications and selection of eligible firms

The PRO is using the e-Tax and other systems for online applications and submission of forms by the taxpayers for various needs and the automation of various PRO functions as summarized below:

- e-Tax - A portal for electronic communication with taxpayers for filling forms online.
- DANIS - The core PRO system for processing of returns, calculation, borrowing and record of tax debts.
- MPIN - System for automatic receipt, processing and payment of salaries.
- KIBS - Clearing House KIBS AD Skopje is an operator of a payment system for settling small interbank payments.

Submission of applications: A new online application form will be developed rapidly as part of the e-Tax portal for the submission of applications by interested firms. The Bank team has provided the desired format and data fields of this form to the PRO team for the development of a new online application form accordingly.

Currently, the employers are registered as users in the e-Tax portal. This web-based application has a built-in form generator through which the PRO can develop new types of forms (tax returns, requests, etc.). This form generator can support templates to contain editing fields (numeric and alphanumeric) and check boxes that are needed to implement the financial assistance request. The e-Tax system can also support document attachments, but in that case an automatic procedure will not be possible. This system has its own database and due to security (protection from external intrusion) it is not directly connected to the core DANIS platforms. The submitted electronic requests through e-Tax system are further transferred to DANIS, where the necessary controls are performed in accordance with the data available to the PRO:

- The PRO has data from the final accounts obtained from the Central Registry, which is responsible for receiving and processing this final account. From these data, the net profit from the previous years will be transferred, the predominant activity.
- The PRO has data on debts over 300,000 MKDen for legal entities and over 20,000 MKDen for natural persons (including sole proprietors) for debts due by 31.01.2019 and payments made by 29.02.2020.

Evaluation and selection of firms: The PRO will develop another application to automate the evaluation and selection of firms by searching relevant registries/systems (e.g., e-Tax, DANIS, MPIN) for required controls and verifications needed to fulfill the conditions for receiving financial assistance. Submitted applications and relevant systems will be checked for compliance with the social and environmental safeguards requirements, the World Bank's viability requirements, as well as the financial management requirements.

Submitted data will be checked upon receipt and processing of the request. After the verification of the request, DANIS will return the status to e-Tax and inform the applicant about the completeness of the request. The complete requirements are processed (replicated) in the MPIN system. With the exception of data coming from the official registry, all other processes will be done with automatic processes without the participation of a human factor with predefined basic (query) procedures. The details of this verification process is presented in Annex 2.

List of eligible firms: This application will produce an Excel table listing all applications received, controls performed based on the criteria identified and the results of this evaluation. This Excel table will be prepared after automated checks to avoid any manual intervention and protected to avoid any edits on the final list. The GC will review this list and approve for payments. The firms will be able to monitor the status of their application online from the e-Tax portal and ask questions, if necessary.

Calculation of payment amounts: The PRO has a system for submitting electronic payroll calculations (MPIN) which enables control of calculations and payment of the entire salary (net salary to employees, tax to treasury and contributions to funds). When calculating the salary, it is checked whether the employer has a complete request for financial assistance and for which employees the taxpayer has requested financial assistance. In this part, additional controls will be installed, which are a condition for receiving the financial assistance (e.g. Less than 10% of employees have a salary above 120,000 MKD).

Payments:

After checking the calculation, the employer is issued a document (folio) with which the salary is paid. This document will contain by default the data on the amount of net salary, tax and contributions to be

paid, as well as the subsidy that will be approved for the contributions. This document will also contain information on the financial support that the company will receive.

The data from these calculations will be submitted electronically to the General Secretariat, showing:

- The companies eligible and subsidy amount due for covering 50% of social contributions by the World Bank
- The companies eligible and subsidy amount due for covering net salary by the World Bank
- The companies not eligible for World Bank support and the subsidy amount for covering net salary by the COVID-19 Fund

Data exchange between e-Tax and Treasury (TrIS) system: The bank statements of Treasury tax revenue sub-accounts are generated automatically in TrIS and sent to the PRO by email for registration in e-Tax and other systems. PRO verifies payroll calculations (that budget users send first to the tax office for a calculation check) and after a successful check sends these to the TrIS including the Folio numbers (verification number) via FTP protocol. Folio numbers allow the budget user in TrIS to upload payroll files (from the Treasury local office). A similar process will be used to transfer the details of eligible payments from e-Tax to the Treasury system once these are approved.

Because the PRO is electronically connected to the commercial banks through KIBS, after the payment of the salaries by the employer, the PRO immediately has information about the payment made. The data for the paid calculations will be available in electronic format for control and audit assistance.

As explained in the process flow diagram below, the PRO and MoF will capture all relevant data about the applications, evaluation, selection of eligible firms, payment details and payment confirmations, and share these with the Bank team for review and filing needs.

The PRO will also include a support line in online application platform to answer the questions of the applicants about the process and the evaluation results, in case there is a request for info or an objection that needs to be responded.

Payments to beneficiaries

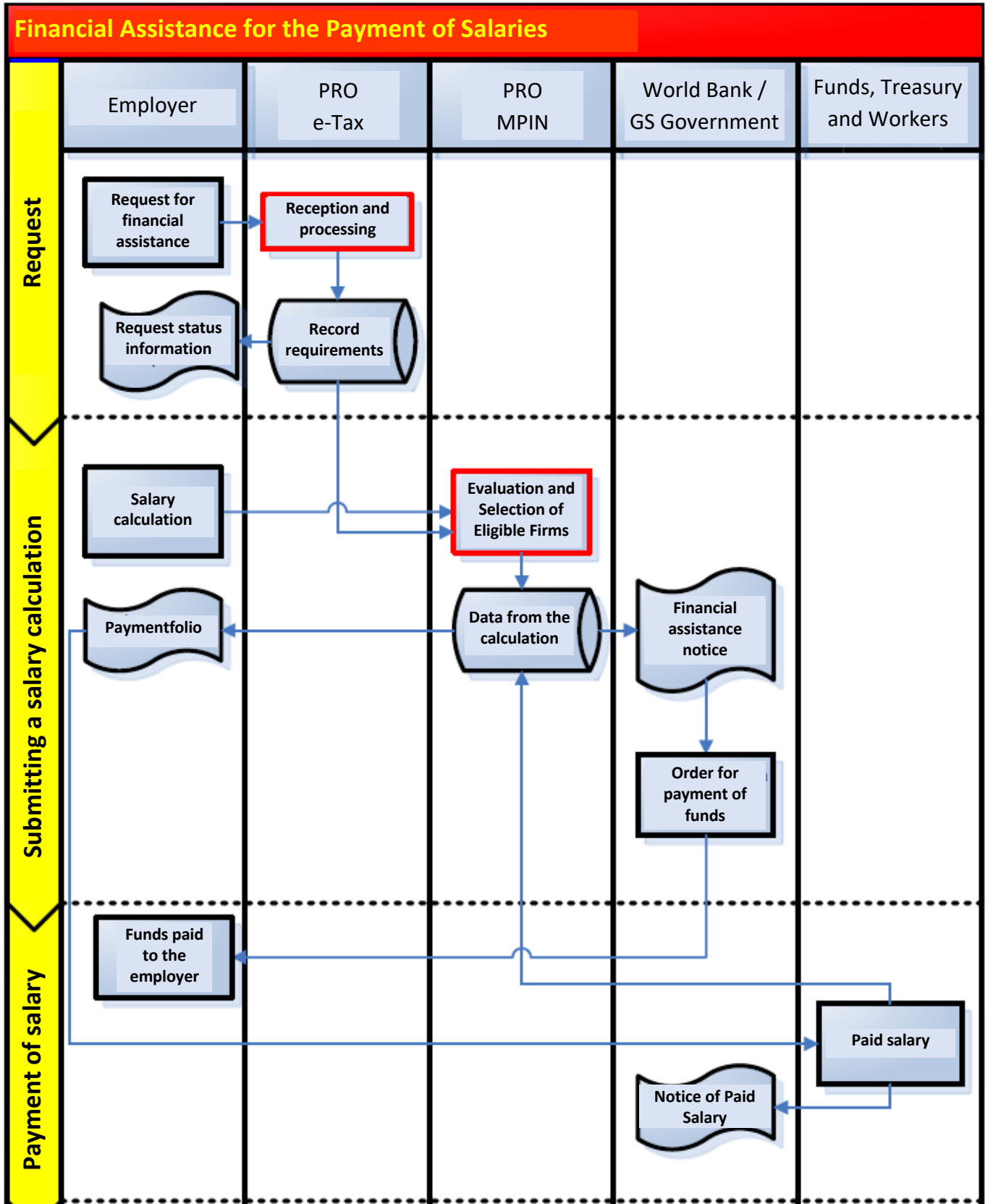
The MoF is using e-Budget and Treasury system (TrIS), as well as the Single Treasury Account (STA) since 2002. Based on the findings of the recently completed assessment of the PFM systems, there is a reliable Budget and Treasury system, and the STA operation in place and the system can record and report the details of all expenses from specific STA sub-accounts. Payment instructions can be sent from the TrIS to the National Bank of the Republic of North Macedonia (NBRNM) as an electronic document through a secure link. The Treasury offices are running these platforms with necessary controls and oversight on a daily basis and these country systems can provide reliable info on all revenue and expenditure flows.

For the payments, each budget institution should bring a data file including all necessary information related to the payments (e.g., date, currency, name of the payer, relevant account code, program, purpose of remittance, amount, recipient's account, tax/parent number of recipient, call number of recipient, type of form). This file, depending on the conditions, can be submitted in USB to a treasury office or in an appropriate email, along with a letter that is duly signed by the responsible person of the institution that submits the request for payment. When loading a file, the Treasury system checks for certain parameters that are pre-defined depending on the type of payment (e.g., checking the folio number, checking if the recipient's account is active, if the provider's account is active/existing). In case of the PRO, there is an existing link between the PRO and MoF systems and data exchange can be

performed through secure file transfer protocol instead of USB exchange to minimize manual file transfer.

Once the payment request is loaded, authorized MoF officials will check and approve the payment. When approving, the application itself has certain set parameters to check whether there is a budget (there should be a relevant budget allocation registered in the e-Budget system beforehand), whether there is a chart of account code and expenditure account given in the order, and whether there is an account of the recipient. Following these controls and approvals, the payment instruction prepared in a specific format by the TrIS is sent to the NBRM and the payments are made through MIPS (North Macedonia Interbank Payment System) to individual beneficiary bank accounts. At the end of a working day, NBRM generates the bank statement report (SWIFT message MT950) and this file is saved on the folder of file adapter. The running script then grabs the file and loads data into TrIS and reconciliation is performed on each payment.

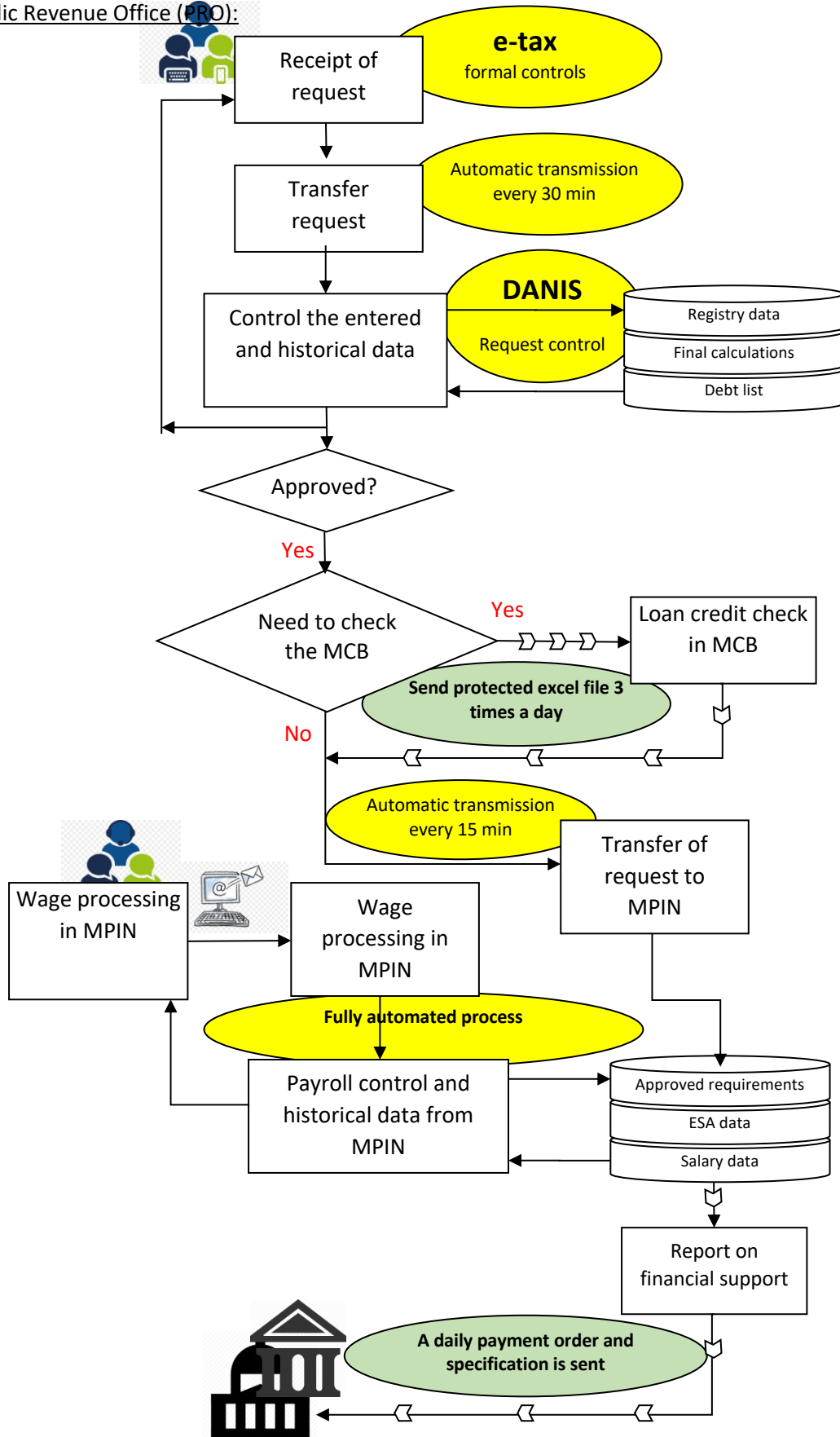
Graph 1 - PRO process flow diagram for the automation of applications and payments



ANNEX 3 – CERC Grant Process

A. Finalizing the Bank list of qualified firms:

Public Revenue Office (PRO):



ANNEX 3 – CERC Income Support Scheme Process

A. Finalizing the Bank list of qualified firms:

Public Revenue Office:

PRO will apply all the filters relevant to the WB funding that are available through PRO databases and application form (i.e. all filters except what is required to come from the official registry) and generate a list (report from the database) that includes all the firms that meet the filter requirements.

PRO will obtain information on companies with debts that were overdue by more than 90 days as of February 29, 2020 from an official public register.

PRO will apply all the filters relevant to the WB funding that are available through PRO databases and application form and generate a list (report from the database) that includes all the firms that meet the filter requirements with the firm's Tax ID, name, how much they were qualified to get (net and social contributions), for how many employees, answers to all the filter responses and sends it to the PECU.

PRO will send a list of firms that have met all the WB filters to the Project Emergency Compliance Unit (PECU). This will include the name of the firm and tax number in a format that the official public register/ system can read (e.g. Excel).

PECU:

For the information of the firm employees, the names of all beneficiary firms supported by both the government budget and World Bank loan with the amount of subsidy provided will be published on the PRO or government website.

B. Before reimbursement by the Bank:

Ministry of Finance, Treasury System:

On or around May 15, June 15 and July 15, 2020, the General Secretariat receives a confirmation from the Treasury in a form of bank statements that transactions have gone through and payments have been made to firms. The confirmation is shared with a PECU as well. This includes information on the firms and the amount paid to each.

PECU within the General Secretariat of the Government:

Receives the report and does a random check of 1 percent of the recipients to make sure that based on filter questions, the firms are qualified for Bank funding.

If all is cleared, the PECU will request reimbursement of funds equivalent to the total amount reflected in the document, from the WB to the government COVID Bank account in the General Secretariat for the net wages, and to the Ministry of Labor for the social contributions.

C. Before processing the second payment:

Public Revenue Office:

To reimburse the government in the second month, the same process as in the first month described above applies.

Additional step to take place no later than 15 days after each payment in May and June. This applies to new applicants for each month as well as *to request reimbursement for repeat applicants (i.e. those who had applied to the first month and have applied again for the second month).* To ensure that the firm complied with the requirement of not reducing the total number of employees by more than 5, 10 or 15 percent (depending on the number of employees) and to confirm that the firm paid the salaries of all the employees in the firm for the previous month based on the calculations they had submitted in their original application form, the PRO will generate a report that includes name of the firm, Tax ID, how many employees received benefits in this firm, how many total employees the firm had at the beginning and end of April, 2020, at the end of May and at the end of June, 2020. The Public Revenue Office sends this report to the PECU. The PECU will do a random check of 1% of the firms in the list to verify this compliance. The government would reimburse the World Bank for cases of non-compliance and the non-complying firm will be ineligible for additional support from World Bank funds. The Bank may also require additional information from the firms to investigate possible noncompliance with the World Bank Anti-Corruption Guidelines. Firms that do not provide the requested information will be deemed noncompliant.

D. After the second reimbursement:

Public Revenue Office:

At the end of August, 2020, Public Revenue Office generates a report that includes name of the firm, Tax ID, how many employees received benefits in this firm for the months of April, May and June, 2020 (separate for each month), how many salary-receiving employees the firm had at the end of April, 2020, at the end of May, 2020, at the end of June, 2020, and at the end of July, 2020. The total number of employees that received salaries should not drop by more than 5, 10 or 15 percent (depending on the firm size) from the first month that the firm received benefits compared to end of July, 2020 and any discrepancies should be flagged in the report.

The Public Revenue Office sends this report to the PECU.

PECU within the General Secretariat of the Government:

Reviews the report and for the discrepancies found, will request reimbursement from the government for the firms that have benefited from the WB resources under the grant scheme but did not maintain the minimum number of employees. The Bank may require additional information to investigate non-compliance with World Bank Anti-Corruption Guidelines.

If number of companies eligible for income support under World bank criteria exceeds the available World Bank funding, then instead of requesting return of funds that were provided to defaulting companies, the PECU may, upon a case-by-case approval by the World Bank replace the defaulting companies in the list of supported companies with new companies that met the criteria but were funded by the government budget due to lack of WB funding. Any such new companies that would be

considered under the WB funds need to go through the same filtering and clearance process explained above.

E. Verification that the companies have reinvested profits in amount of the provided subsidy into eligible causes

Firms can reinvest the amount of money that they would otherwise have had to return based on the current government Decree. By the time the tax returns are due, the firm needs to submit to the PRO a request for transforming the salary subsidy into a grant, including relevant invoices and proof of payment. After reviewing those documents, PRO issues a decision for the grant. If the company does not provide these documents, they will have to reimburse the government in three monthly instalments as described in the Decree.

In August, 2021, the Ministry of Finance shall submit a report to the World Bank describing for every World Bank grant firm beneficiary the status of whether the funds were returned (if so, how much), if they were invested (in what and for how much), and if they were not returned, the reasons for this. The World Bank reserves the right to ask additional information and further audit this report.

F. Reporting and External Audit

For financial management reporting purposes to the World Bank, the PECU's financial management specialist assigned for the CERC component, will prepare and send to the Bank quarterly reports similar to the ones for the Local Roads Connectivity Project.

After August 2020, but before the end of 2020, an external auditor will be selected to conduct an audit to verify the proper use of funds based on the Terms of References agreed with the Bank. This Audit will take place separately from the audit of the Local Roads Connectivity Project and will ensure compliance with technical, procurement, financial management, and social and environmental safeguards, as well as Anti-Corruption requirements of the World Bank. The government will prepare a TOR acceptable to the World Bank for the audit firm prior to any disbursements being authorized under CERC.

ANNEX 4 – Grievance Redress Mechanism

Grievance Redress Process

In compliance with the World Bank's ESS10 requirement, a specific grievance and feedback redress mechanism is established.

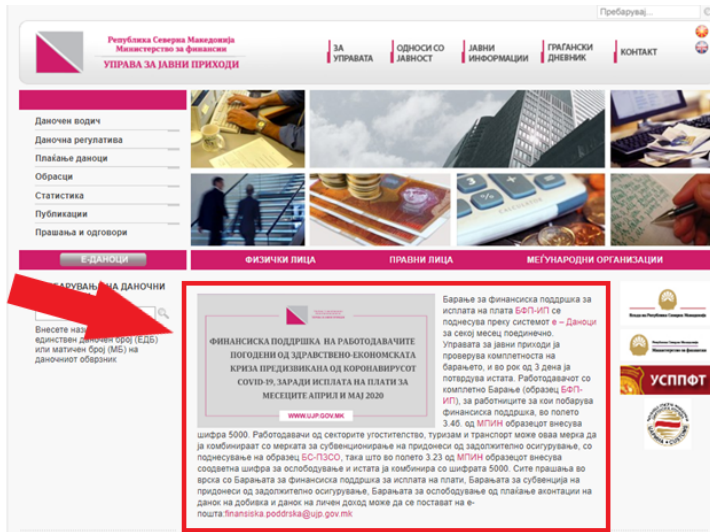
The established grievance mechanism is used to collect feedback, questions and comments regarding this program. It is in place early in the process to receive and address stakeholder comments and questions in a timely manner and provide further information on net wage subsidies to the companies/employees affected by the program.

There might be different types of complaints. Some of the most common expected complaints to this program are presented here: it is expected that grievances will be submitted by companies that consider they are eligible for CERC support but who have missed the deadline to submit applications. Should grievances be submitted by such companies, they are referred to responsible entities so they can receive a timely response, including support from the Government's fund where this is appropriate. Also, a company who receive a negative audit report may submit a complaint about it. Furthermore, grievances may also be submitted from employees for not receiving income support despite their employer(s) receiving funding.

The Public Revenue Office (PRO) is the responsible entity for funds application system for minimum net wage subsidies. Thereof, the **GRM at first level** is established at PRO, along with the application process.

Each Citizen/company shall fill-in the Request form – BFP-IP on the following link <http://www.ujp.gov.mk/mk/obrasci/opis/221>. At this link, as last paragraph GRM is briefly presented and the GRM Form is attached (Annex 1). This set-up will allow each citizen/company right after the Request form, easily to see the possibility to fill-in GRM form, if she/he feels necessary to submit one or more complaints.

The grievance form is available on the PRO website together with clear information on how feedback, questions, comments, concerns and grievances can be submitted by any stakeholder and information concerning the PECU's managing of the GRM both in terms of process and deadlines. The website will include the possibility to submit grievances electronically. All grievances can be filled anonymously. It is published on the central position of the webpage (see photo)



The GRM can be downloaded, filled-in and submitted to special E-mail address: finansiska.poddrska@ujp.gov.mk.

Grievances could be also submitted by:

-phone: 02 3253 200 or 0800 33 000

- post: str. 11 Oktomvri no. 10, 1000 Skopje, Republic of North Macedonia

The PRO has established a team of three employees who will be responsible for GRM for the CERC component. The PRO team will be responsible to manage the grievances and to provide answers within 15 days of receipt.

The PECU E&S experts will be provided with detailed report from this E-mail to be able to generate required reports towards GRM implementation and/or to respond to some of the grievances under their competences and competencies under PECU. The report will consist of a list of complaints received, complainant and response received.

Additionally, in order to increase transparency, the PRO will publish a list of frequently asked questions and received complaints and answers to those, so that each citizen/company can see that the answer they've received as the same for everyone.

The PECU will ensure that the GRM is responsive to any concerns and complaints particularly from affected citizens/companies and vulnerable groups.

For better transparency and information to public, the General Secretariat will publish the List of companies who received minimum net wage payment on its website, at the same link where the CERC component documents are published. The List shall contain as minimum, the name of the company and the type of industry it belongs to. The transparency tool can be linked to open finance lint too: <https://open.finance.gov.mk/mk/home>

For citizen/company that want to file an official complaint (acceptable to court) the PRO will adjust and create a complaint form, for which citizens/companies will be able to be informed through the PRO website, and the delivery will be through the e-Taxes portal. After the submitted complaint, the PRO will decide with a response to the complaint. A formal archive will be kept for this, data and evidence will be required from the base of the PRO, AVRSM or from the taxpayer. For citizen/company

that want to file a complaint anonymously they will be able to do so by sending the filled out complaint form on the special e-mail (finansiska.poddrska@ujp.gov.mk).

In case a grievance cannot be resolved in manner satisfactory to the complainant he/she has the right for an appeal. In such cases the resolution of the grievance will be reviewed **at second level** by a Commission at the level of the implementing agency (Government's General Secretary Office). After the submission of the response to the complaint by the PRO, if the taxpayer is still dissatisfied, he/she will be able to submit a complaint after the response of the PRO to the General Secretariat of the Government of RSM. This information will be contained in the submitted response from the PRO.

They will be able to submit the appeal through a GRM form (Annex 1) available on www.vlada.mk/CERC or on the e-mail address: finansiskimerki@gs.gov.mk.

The Commission will consist of three officially appointed members that are not directly involved in Project implementation. The Commission will acknowledge the receipt of the appeal within 3 days and issue the final decision within 10 days of the receipt of the appeal. The Commission in GS will have mandate to request PRO to review the complainant documentation and provide feedback or to advise the complainant to use the judicial possibilities. The decision of the Commission will entail a detailed explanation of the grievance resolution process as well as the explanation of the final decision and guidance on how to proceed if the outcome is still not satisfactory for the complainant. The complaints and decisions will be published on the webpage of the General Secretariat.

At all times, complainants may seek other legal remedies in accordance with the legal framework of Republic of North Macedonia, including **formal judicial appeal**.

The following steps are to be taken to ensure full GRM functioning:

Step 1: Recording received grievance in the GRM registry

In order to capture and track grievances received under the project, a dedicated GRM register is planned. Specifically nominated members of the PRO, GS and RECU will record grievance information in the grievance registry. For those who will submit official complain this will include:

- Appointed number of Grievance (give each new complaint a specific entry number and refer to this number in each subsequent correspondence)
- Date of receipt
- Stakeholder name (or statement that the grievance was filled anonymously)
- Date of acknowledgement
- Description of grievance
- Description of action taken
- Date of grievance resolution

The PECU will share the Grievance Registry with the WB on a monthly basis.

Step 2: Providing the person who filed the grievance with an immediate acknowledgment of receipt and second follow up within 5 days of receipt³

- A standard “thank you for your message” response, “Thank you for your e-mail, we’ll respond to you as soon as possible”, should be sent immediately to the complainant (or autoreply) to let them know that their message is being reviewed. It should also include the reference number of the complaint for easier follow up for those that have been submitted through e-taxes.
- A second message should be sent within 5 days indicating whether the complaint is being further reviewed by the agency, or has been referred to another entity, or lacks sufficient cause for follow up.
- This message should include information on the process for appeal in case the complainant is not satisfied with the result.

Step 3: Assessing and investigating the grievance

- All complaints should be given a facts-based, objective assessment. Investigators must be neutral and not show bias.
- Not all complaints need a full investigation. For some it might be sufficient to do a brief desktop review.
- For those that do need investigation, the response should be appropriate and proportional to the suspected abuse. This might include travel to the location where the potential problem has occurred. It can be beneficial for investigators to travel in pairs to enable collection of evidence and witness statements to be observed by a colleague.
- A proper set of notes should be kept for each investigation, including lists of witnesses, evidence, etc., a diary of actions, etc. Some investigations can result in court cases so it is important to maintain proper records.
- Summary reports should be provided to the World Bank on a monthly basis, even if there are no complaints.
- In the event that a complaint refers to fraud or corruption, this should immediately be communicated to the World Bank.

Step 4: Deliver a resolution to the complainant within 15 days of grievance receipt

- Efforts will be made to conclude all complaint handling within 15 days of receiving the complaint. However, some complaints can be complex or lead to unexpected consequences, and will need more than 15 days to resolve, especially in an emergency situation.

Step 5: Follow up

- Lessons learned from the complaints and cases can be extremely valuable for future programs/operations.

³ This step is currently not possible to implement, but will be reviewed and included as soon as the technical possibility occurs

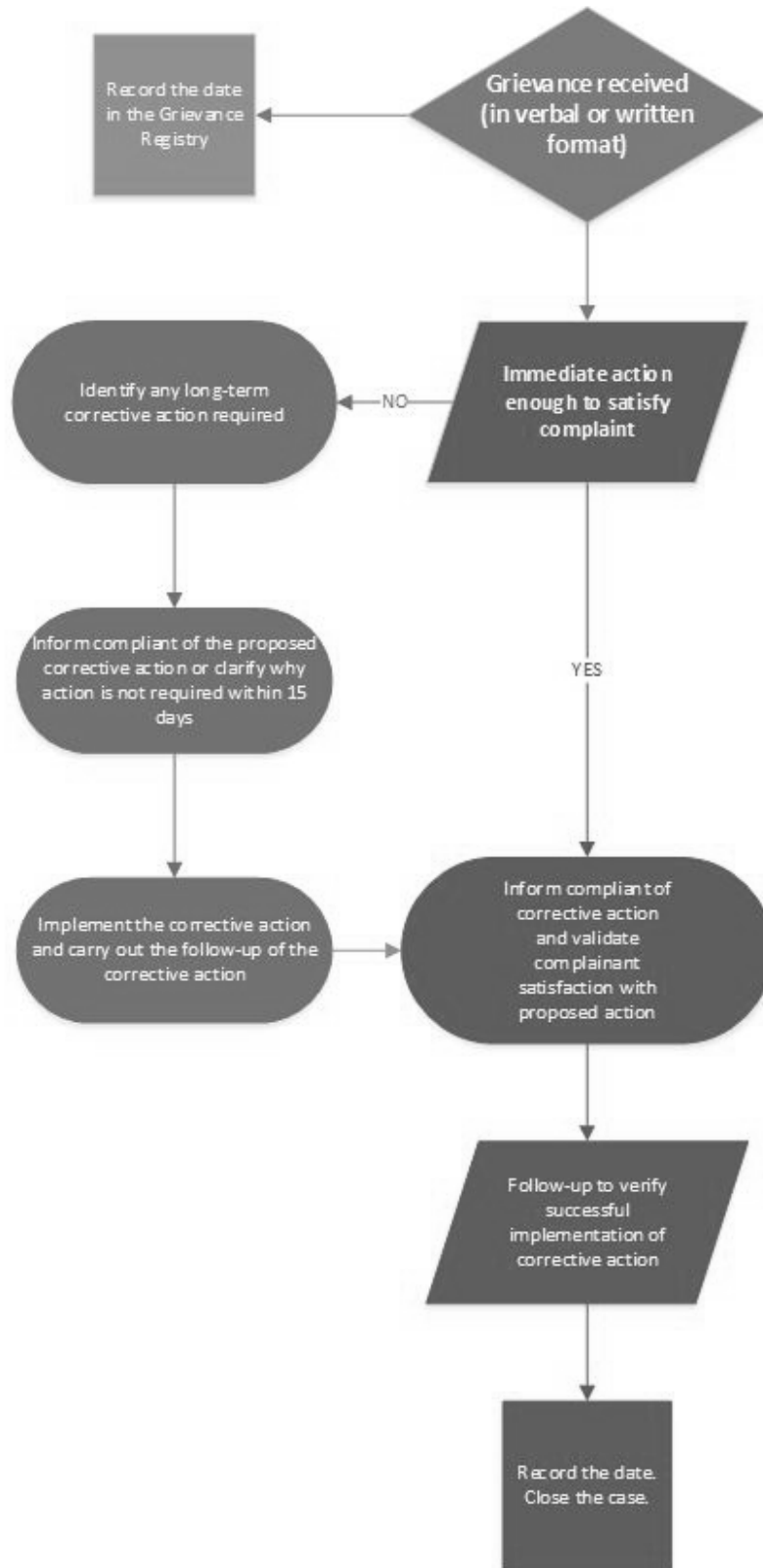


Figure 1: Scheme of GRM functioning

1.1 World Bank Grievance Redress System

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

ANNEX 1

Grievance Form

Reference Number	
Full name (optional) <input type="checkbox"/> I wish to raise my grievance/feedback anonymously. <input type="checkbox"/> I request not to disclose my identity without my consent.	
Contact information Please mark how you wish to be contacted	<input type="checkbox"/> By Post: <i>Please provide mailing address:</i> _____ <input type="checkbox"/> By telephone: _____ <input type="checkbox"/> By E-mail

(mail, telephone, e-mail).	
Preferred language of communication	<input type="checkbox"/> Macedonian <input type="checkbox"/> Albanian <input type="checkbox"/> Other: _____
Gender	<input type="checkbox"/> Female <input type="checkbox"/> Male
Age	
Description of Incident for Grievance/Feedback	What happened? Where did it happen? Whom did it happen to? What is the result of the problem?
Date of Incident / Grievance	
	<input type="checkbox"/> One-time incident/grievance (date _____) <input type="checkbox"/> Happened more than once (how many times? _____) <input type="checkbox"/> On-going (currently experiencing problem)
What would you like to see happen?	

1.2 OUTREACH AND CONSULTATIONS

For better outreach, all kind of available media are used to promote the program: Institution's official websites, Internet news portals, radio and TV media, social media (profiles of the institutions and officials e.g. Facebook, Instagram and Twitter), Chamber of Commerce, professional organisations and bodies.

Every message in the media should include clear instructions on where to get more information and a channel for feedback/complaints that is confidential and easy to remember.

For the companies, the primary need is to understand how to access the funding and what obligations this places on them. For example, how much needs to be transferred to employees, with what evidence kept to defend the transaction and within what timescale? Penalties for non-compliance with the rules should be clear, as should the Grievance Redressal Mechanism channels. In all written materials (e.g. posters, handouts, online information), some reference should be made to principles inherent in the AC Guidelines including duty to report any attempted abuse.

For the employees, it might be very difficult for some people to self-identify as participants (or non-participants). Real care should be given to how information will reach the public so as not to raise inappropriate expectations. The planned inclusion of information on the radio might prove to be especially useful in terms of reaching poorer families, particularly women. Use of social media is also an excellent idea and could encourage feedback, particularly from younger beneficiaries.

Though the program is expected to be short term, it would be valuable to keep feedback channels open for some time after the funds have been distributed to ensure queries can be still be answered and lessons can continue to be learned for future operations.

Outreach and publication process will be closely monitored by the Institutions involved and PECU members.