

Project's Financial Statements and Independent Auditor's Report

Ministry of Agriculture, Forestry and Water Economy

"Agriculture Modernization Project" - ID P168014

International Bank for Reconstruction and Development
Loan Agreement number 9037-MK

EU Grant Agreement number TF0B9819 administered by
IBRD

For the period from 28 March 2022 through
31 December 2023



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Independent Auditor's Report

To the Minister for Agriculture, Forestry and Water Economy
and Management of the Project

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We have audited the accompanying Project's financial statements of the Ministry of Agriculture, Forestry and Water Economy of the Republic of North Macedonia ("the Ministry" or "MAFWE"), "Agriculture Modernization Project" (further referred to as "the Project"), implemented by the MAFWE and financed under International Bank for Reconstruction and Development, Loan Agreement number 9037-MK dated 03 June 2021 and the EU under the European Commission - World Bank Partnership Programme Part III for Europe and Central Asia Programmatic Single-Donor Trust Fund, Grant Agreement number TF0B9819-MK, signed between the Republic of North Macedonia ("Borrower/Recipient") and the International Bank of Reconstruction and Development (acting as the administrator of the Trust Fund) dated 02 December 2022, comprising the Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Project Balance Sheet, Statement of Withdrawals, Designated Account Statements and related disclosure Notes (further referred to as "the Project's Financial Statements") as at and for the period from 28 March 2022 to 31 December 2023 included on pages 3 to 22.

Management's responsibility for the Project financial statements

The Project's management is responsible for the preparation and fair presentation of these financial statements and for such internal control as management determines is necessary to enable the preparation of Project's financial statements that are free from material misstatements, whether due to fraud or error.

The Project's Management policy is to prepare the accompanying Project's financial statements on the cash receipts and disbursement basis in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement number 90374-MK dated 03 June 2021 and Grant Agreement number TF0B9819-MK dated 02 December 2022. On this basis, cash receipts are recognized when received rather than when earned and cash expenditures are recognized when paid rather than when incurred.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying Project's financial statements of "Agriculture Modernization Project", implemented by MAFWE and financed under International Bank for Reconstruction and Development, Loan Agreement number 9037-MK and Grant Agreement number TF0B9819-MK, present fairly, in all material respects, the Project's financial position as at 31 December 2023, and the movement on the Statement of Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Withdrawals and Designated Accounts' Statements as at and for the period from 28 March 2022 to 31 December 2023, in conformity with the accounting policies described on Note 3, the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement number 90374-MK dated 03 June 2021 and Grant Agreement number TF0B9819-MK dated 02 December 2022.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 3 to the Project's financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Project's management to comply with the financial reporting provisions of the Agreement referred to above. Our report is intended solely for the Project Management, the Ministry of Agriculture, Forestry and Water Economy of the Republic of North Macedonia and the International Bank for Reconstruction and Development and should not be distributed to or used by parties other than the Ministry and the IBRD.



Suzana Stavrikj
Director
Grant Thornton DOO, Skopje



Suzana Stavrikj
Certified Auditor

Skopje, 28 June 2024

Management Responsibility

The accompanying Project's financial statements comprising of Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Project Balance Sheet, Statements of Withdrawals, Designated Account Statements and related disclosure Notes (further referred as to "Project's Financial Statements"), of the Ministry of Agriculture, Forestry and Water Economy of the Republic of North Macedonia (further referred as to "MAFWE"), "Agriculture Modernization Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development Loan (IBRD), Agreement number 9037-MK and EU Grant Agreement number TF0B9819, for the period 28 March 2022 to 31 December 2023 on pages 4 to 22, are the responsibility of, and have been approved by the Project's management.

The accompanying Project's financial statements have been compiled by the Project's management, for the purposes of reporting to the MAFWE and the International Bank for Reconstruction and Development, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement number 9037-MK dated June 3, 2021 (effective from June 18, 2021) and EU Grant Agreement number TF0B9819 administered by IBRD signed and effective from December 2, 2022.

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

Grant Thornton doo Skopje, Independent Auditor, has been engaged to audit these Project's financial statements in accordance with the auditing standards accepted in the Republic of North Macedonia¹. Their report is included on pages 2 and 3.



Sashka Jovanovska Vukelic
Financial Management Specialist



Trajan Dinkovski
Project Director



Ovletan Tripunovski
Minister for Agriculture, Forestry
and Water Economy of the
Republic of North Macedonia

28 June 2024

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

Project's Financial Statements
28 March 2022 through 31 December 2023

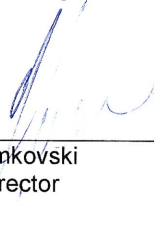
Statement of Sources and Uses of Funds – Loan Agreement number 9037-MK & EU Grant Agreement number TF0B9819

(Amounts in EUR)
For the period from 28 March 2022 through
31 December 2023

	Current period	Cumulative
Opening cash balance		
IBRD Designated Account	-	-
TF (EU Grant) Designated Account	-	-
Total opening balance	-	-
Add: Funds received		
IBRD Designated Account	4,823,580	4,823,580
TF (EU Grant) Designated Account	100,000	100,000
Total Financing	4,923,580	4,923,580
Less: Expenditure by Category		
Goods and Works	56,165	56,165
Consulting Services	230,784	230,784
Non consulting services	-	-
Training & Incremental Operating Costs	30,873	30,873
Matching Grants	-	-
Front end fee	115,000	115,000
Total Expenditures	432,822	432,822
Add: Foreign exchange difference	-	-
IBRD Designated Account balance	4,400,648	4,400,648
TF (EU Grant) Designated Account balance	90,085	90,085
Cash on hand balance	25	25
Total Closing Cash Balance	4,490,758	4,490,758

The Project's Financial Statements have been approved by the MAFWE on 28 June 2024 and signed on its behalf by:


Sashka Jovanovska Vukelic
Financial Management Specialist


Trajan Dimkovski
Project Director


Cvetan Tripunovski
Minister for Agriculture, Forestry
and Water Economy of the
Republic of North Macedonia

Project's Financial Statements
 28 March 2022 through 31 December 2023

Statement of Uses of Funds by Project Activity - Loan Agreement number 9037-MK & EU Grant Agreement number TF0B9819

(Amounts in EUR)
 For the period from 28 March 2022 through
 31 December 2023

Project Component/Activity	Current period			PAD (Project Appraisal Document)	Revised*
	Planned	Actual	Variance	Life of Project	PAD
Component 1 - Agriculture Sector Competitiveness					
Sub-component 1.1: Access to Training and Advisory Service					
Targeted training	-	-	-	200,000	
Setting up of the database/awareness	-	-	-	100,000	
On-demand Advisory Grants	-	-	-	1,000,000	
Sub-total	-	-	-	1,300,000	
Sub-component 1.2: Agriculture and Food Distribution System					
Feasibility study, ESMP, Detailed Design for Collection and Conditioning Centers (CCCs)	-	-	-	500,000	499,890
Construction of CCCs	-	-	-	10,100,000	
Equipment for CCCs	-	-	-	700,000	
Supervision of civil works	-	-	-	500,000	
TA for CCCs Management and Operation	-	-	-	80,000	
Feasibility study and business plan, ESIA, Detailed Design and TA for Agri-food Platform (AFP) for Agri-food Platform (AFP)	-	-	-	810,000	774,768
AFP Construction	-	-	-	16,000,000	
Equipment for AFP	-	-	-	1,155,000	
Supervision of civil works	-	-	-	825,000	
Sub Total	-	-	-	30,670,000	1,274,658
Total Component 1	-	-	-	31,970,000	1,274,658

Project's Financial Statements
 28 March 2022 through 31 December 2023

Statement of Uses of Funds by Project Activity - Loan Agreement number 9037-MK & EU Grant Agreement number TF0B9819 (continued)

(Amounts in EUR)
 For the period from 28 March 2022 through
 31 December 2023

Project Component/Activity	Current period			PAD (Project Appraisal Document)	Revised
	Planned	Actual	Variance	Life of Project	PAD/iii
Component 2: Institutional Capacity for EU Accession					
Sub-component 2.1 – Evidence-Based Policy-Making					
Activity 1					
Establishment of an Integrated Data Platform - cons 1	12,476	12,476	-	50,000	37,600
Establishment of an Integrated Data Platform - cons 2 IT	1,505	1,505	-	80,000	9,240
Hardware and Software	-	-	-	300,000	
Strengthening Monitoring Capacity	73,426	73,426	-	80,000	76,944
Policy Analysis Capacity Building – assessment	-	-	-	25,000	
Policy Analysis Capacity Building – development of analytical tool	-	-	-	135,000	
Policy Analysis Capacity Building – capacity building	-	-	-	80,000	
Creation of an Evaluation system	-	-	-	50,000	
Enumerators	-	-	-	150,000	
Activity 2					
Policy and legal framework	-	-	-	130,000	
Improving data quality on state agriculture land: assigning land ownership title	-	-	-	850,000	
Improving data quality on state agriculture land: sub-dividing parcels in co-ownership	-	-	-	2,000,000	
Improving data quality on state agriculture land: elaborates for recorded leases	-	-	-	500,000	
Design and creation of temporary inventory for state agriculture land	16,279	16,279	-	150,000	162,790
Analysis and reengineering of business processes	-	-	-	150,000	
Analysis of leasing contracts and data input into a temporary inventory	-	-	-	600,000	
TA to prepare Technical Specifications for state agriculture land management information system, hardware and other software	-	-	-	100,000	
State agriculture land management information system implementation including supply and installation of hardware and software	-	-	-	1,020,000	
Sub Total 2.1:	103,686	103,686	-	6,450,000	286,574
Sub-component 2.2 - IPARD implementation capacity					
Detailed Design, ESMD, Supervision of CW	-	-	-	150,000	172,992
Refurbishment of PA premises – civil works	-	-	-	750,000	
Equipment (IT and furniture)	-	-	-	1,100,000	
Sub-total 2.2	-	-	-	2,000,000	172,992

Project's Financial Statements
 28 March 2022 through 31 December 2023

Statement of Uses of Funds by Project Activity - Loan Agreement number 9037-MK & EU Grant Agreement number TF0B9819 (continued)

(Amounts in EUR)
 For the period from 28 March 2022 through
 31 December 2023

	Current period			PAD (Project Appraisal Document)	Revised
Project Component/Activity	Planned	Actual	Variance	Life of Project	PAD
Sub-component 2.3: Safe disposal of animal by-products (ABP)					
Establishment of a sustainable system for Animal By-Product Management	22,200	22,200	-	400,000	444,000
Infrastructure for the rendering plan	-	-	-	3,000,000	
Equipment for a plant with capacity 4 tons/hour	-	-	-	3,200,000	
Supervision	-	-	-	240,000	
Special trucks	-	-	-	1,200,000	
Special containers (250)	-	-	-	460,000	
IOC /Bank charges	184	184	-		
Sub-total 2.3	22,384	22,384	-	8,500,000	444,000
Total Component 2	126,070	126,070	-	16,950,000	903,566
Component 3: Project Management					
Project Management					
Project Coordinator	17,212	17,212	-	78,000	45,960
Procurement Specialist	24,664	24,664	-	72,000	42,267
FM Specialist	23,629	23,629	-	66,000	47,580
Office Assistant	14,486	14,486	-	31,500	31,500
Env and Social consultant	9,663	9,663	-	40,500	20,150
Civil engineer	11,445	11,445	-	42,000	27,300
International Procurement Consultant	-	-	-	70,000	
Office equipment, PC desktops, Laptop	10,305	10,305	-	11,500	10,305
FM Software	13,057	13,057	-	15,000	13,057
Vehicles	32,802	32,802	-	30,000	32,802
IOC	30,689	30,689	-	119,500	
IT specialist with GIS system and support to the AMP	3,800	3,800	-	24,000	24,000
Sub-total	191,752	191,752	-	600,000	294,921
Project Monitoring					
Baseline/beneficiaries Survey	-	-	-	60,000	
Monitor implementation of SEP	-	-	-	20,000	
FM Audit	-	-	-	75,000	
MTR survey	-	-	-	70,000	
Final survey	-	-	-	70,000	
Beneficiary survey	-	-	-	70,000	
Sub-total	-	-	-	365,000	-
Total Component 3	191,752	191,752	-	965,000	294,921
Total all components	317,822	317,822	-	49,885,000	2,473,145
Front end Fee	115,000	115,000		115,000	
GRAND TOTAL:	432,822	432,822	-	50,000,000.00	2,473,145

* Amounts in the column are concluded contracts' values as of 31 December 2023.

Project's Financial Statements
28 March 2022 through 31 December 2023

Project Balance Sheet

(Amounts in EUR)
As of 31 December 2023

Assets

Cash and cash equivalents

IBRD DA 4,400,648

TF (EU Grant) 90,085

Petty-IBRD MKD 25

Petty-IBRD-EUR -

Advance Payments -

Cumulative Project Expenditures 432,822

Total assets 4,923,580

Liabilities and funds

Project Financing 4,923,580

Other income -

Exchange Rate Difference -

Total liabilities and funds 4,923,580

Project's Financial Statements
 28 March 2022 through 31 December 2023

Statement of Withdrawals Loan Agreement number 9037-MK— Designated Accounts

(Amounts in EUR)

For the period from 28 March 2022 through 31 December 2023

Application #	date received	Total Requested	Total Received	Difference
IBRD9037MK/1	18.Jun.22	4,500,000	4,499,900	100
IBRD9037MK/2B	15.Nov.22	22,975	22,969	6
IBRD9037MK/3	28.Feb.23	24,800	24,793	6
IBRD9037MK/4	30.Jun.23	55,184	55,184	-
IBRD9037MK/5	13.Nov.23	105,621	105,621	-
		4,708,580	4,708,467	112*

*The difference occurred from bank charges of the intermediary bank. The amount of previous bank charge was claimed in the next withdrawal application

Statement of Withdrawals Grant Agreement number TF0B9819— Designated Accounts

(Amounts in EUR)

For the period from 28 March 2022 through 31 December 2023

Application #	date received	Total Requested	Total Received	Difference
TFB9819/MK/1	07.Sep.23	100,000	99,887	113
		100,000	99,887	113*

*The difference occurred from bank charges of the intermediary bank. The amount of previous bank charge was claimed in the next withdrawal application.

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Designated Accounts Loan Agreement number 9037-MK – EUR

Account number	7010-00-701-0001891.6
Depository Bank	National Bank of the Republic of North Macedonia
Address	Blvd Kuzman Josifovski Pitu 1, 1000 Skopje, Republic of North Macedonia
Loan Number	9037-MK
Currency	EUR

(Amounts in EUR)
For the period from
28 March 2022 through
31 December 2023

At 28 March 2022	-
Add: Inflows	
Replenishment during the period	4,823,580
Transfer from petty cash eur	89
	4,823,669
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) - MKD	307,909
Intermediate Bank fee	112
Front end fee	115,000
	430,021
At 31 December 2023	4,400,648

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Designated Accounts Grant Agreement number TF0B9819– EUR

Account number	7010-00-701-0001926.2
Depository Bank	National Bank of the Republic of North Macedonia
Address	Blvd Kuzman Josifovski Pitu 1, 1000 Skopje, Republic of North Macedonia
Grant TF number	TF B9819
Currency	EUR

(Amounts in EUR)
For the period from
28 March 2022 through
31 December 2023

At 28 March 2022	-
Add: Inflows	
Replenishment during the period	100,000
	100,000
Deduct: Outflows	
Transfer to treasury account-(Mirror designated account) - MKD	9,802
Intermediate Bank fee	113
	9,915
At 31 December 2023	90,085

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Treasury Accounts (Mirror Designated Accounts) Loan Agreement number 9037-MK – MKD

Account number	1400100280786G8
Depository Bank	National Bank of the Republic of North Macedonia Blvd Kuzman Josifovski Pitu 1, 1000 Skopje, Republic of North Macedonia
Address	
Loan Number	9037-MK
Currency	Macedonian Denars ("MKD")

(Amounts in EUR)
For the period from
28 March 2022 through
31 December 2023

At 28 March 2022	-
<hr/>	
Add: Inflows	
Transfer from designated account – EUR	307,909
	307,909
Deduct: Outflows	
Amount of eligible expenses paid during the period	305,395
Transfer to petty cash MKD	245
Transfer to petty cash EUR	2,269
	307,909
At 31 December 2023	-

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Treasury Accounts (Mirror Designated Accounts) EU Grant Agreement number TF0B9819-MKD

Account number	140010028078507
Depository Bank	National Bank of the Republic of North Macedonia
Address	Blvd Kuzman Josifovski Pitu 1, 1000 Skopje, Republic of North Macedonia
Trust Fund	TFB9819
Currency	Macedonian Denars ("MKD")

(Amounts in EUR)
For the period from
28 March 2022 through
31 December 2023

At 28 March 2022	-
<hr/>	
Add: Inflows	
Transfer from designated account – EUR	9,802
	9,802
<hr/>	
Deduct: Outflows	
Amount of eligible expenses paid during the period	9,802
	9,802
<hr/>	
At 31 December 2023	-

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Petty Cash in MKD- Loan Agreement number 9037-MK

Loan Number 9037-MK
Currency Macedonian Denars (“MKD”)

(Amounts in EUR)
For the period from
28 March 2022 through
31 December 2023

At 28 March 2022	-
Add: Inflows	
Transfer from Mirror Designated Account – MKD	245
	245
Deduct: Outflows	
Amount of eligible expenses paid during the period	220
	220
At 31 December 2023	25

Project's Financial Statements
28 March 2022 through 31 December 2023

Statement of Petty Cash in EUR - Loan Agreement number 9037-MK

Loan Number	9037-MK
Currency	EUR
(Amounts in EUR) For the period from 28 March 2022 through 31 December 2023	
At 28 March 2022	-
Add: Inflows	
Transfer from Mirror Designated Account – MKD	2,269
	2,269
Deduct: Outflows	
Amount of eligible expenses paid during the period	2,180
Transfer to designated account-Loan number 9037-MK	89
	2,269
At 31 December 2023	-

Notes to Project's financial statements

1 General

General Information	
Client/Lead Implementing Agency	Ministry of Agriculture, Forestry, and Water Economy of the Republic of North Macedonia
Funding/Project Financing	IBRD Loan (No. 9037 MK) EUR46 million EU Grant (No TF0B9819) EUR4 million
Date Project Approved	January 30, 2020
Date Loan Agreement signed	June 3, 2021
Date Grant Agreement signed	December 2, 2022
Date Loan Became Effective	June 18, 2021
Date Grant Became Effective	December 2, 2022
Project Closing date	30 June 2025

The project summary

The total Project cost is EUR 50 million, of which EUR 46 million is IBRD loan and EUR 4 million is EU grant.

Table 1: Overview of Project Proceeds

Category	Amount of the Loan (Expressed in EUR)	Amount of the Grant Allocated (Expressed in EUR)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, consulting services, Training and Operating costs for parts 1.1 (a), 1.2, 2.1, 2.2 and 3 of the Project	40,385,000	-	100%
(2) Matching Grants under part 1.1 (b) of the Project	1,000,000	-	100% of the amounts disbursed under the Matching Grants
(3) Goods, works, non-consulting services, consulting services, Training and Operating costs for part 2.3 of the Project	4,500,000	4.000.000	56% of the Loan proceeds 44% of the Grant proceeds
(4) Front-end fee	115,000	-	Amount payable pursuant Section 2.03 of the Agreement in accordance with Section 2.07 (b) of the General Conditions
(%) Interest rate Cap or Interest rate Collar Premium	-	-	Amount due pursuant to Section 4.05 (c) of the General Conditions
TOTAL AMOUNT	46,000,000	4.000.000	

Notes to Project’s financial statements (continued)

2 Project Objectives, Activities and Institutional Arrangements

PDO, PDO indicators, and Components

The Project Development Objective (PDO) is to improve competitiveness in targeted agricultural sub-sectors and strengthen agricultural public sector readiness for EU accession.

Brief description of project components

Project objectives will be achieved through implementing interventions planned under the following components/sub-components and activities described below:

Component 1: Agriculture Sector Competitiveness (EUR32.0 million, IBRD)

- Sub-component 1.1 - Access to Training and Advisory Services (EUR1.30 million).
- Sub-component 1.2 - Agriculture and Food Distribution Systems (EUR30.7 million).

Component 2: Institutional Capacity for EU Accession (EUR13.0 million; EUR9 million IBRD; EUR4 million EU)

- Sub-component 2.1 – Evidence-Based Policy-Making (EUR6.5 million, IBRD).
- Sub-component 2.2 - IPARD Implementation Capacity (EUR2 million, IBRD).
- Sub-component 2.3 - Safe Disposal of ABPs (EUR8.5 million, EUR4.5 million (IBRD); EUR 4 million (EU IPA grant)

Component 3: Project Management: (EUR1 million, IBRD)

Project description by component

Component 1: Agriculture Sector Competitiveness (EUR32.0 million, IBRD)

The objective of Component 1 is to enhance farm-level competitiveness and foster agricultural produce aggregation and market integration of farmers. Proposed interventions under the component focus on technical assistance (through training and advisory services) and off-farm infrastructure investments to complement existing IPARD measures in on-farm productivity-enhancing investments. It includes the following two sub-components:

Sub-component 1.1 - Access to Training and Advisory Services (EUR1.30 million). The objective of the sub-component is to support the provision of high-quality training and advisory services for agricultural producers and agribusinesses in two formats: First, it will support targeted trainings on specific topics relevant for beneficiaries of the Collection and Conditioning Centers (CCCs) and the Agri-food Platform (AFP) both of which are to be established through the support under sub-component 1.2 in the project areas i.e., one CCC each in Resen, and Strumica and an AFP in Skopje. Training topics are envisioned to include but not limited to: improvement of crop varieties specifically for exports; Global Good Agricultural Practices (GAP); organic agriculture, and climate smart techniques. These trainings will be extended also to the NEA advisors, to improve their capacity i.e., enhance their knowledge and skill. Second, it will provide financial support to producers and agribusinesses throughout North Macedonia in the form of matching grants for on-demand advisory services to be provided by qualified advisors. Given the existing advisory services by NEA or local government agricultural service staff that primarily support producers’ applications for IPARD funds, the project-supported advisory services are expected to improve the knowledge and skill of farmers and agribusinesses in production and post-harvest practices, business management skills¹, marketing, etc. This will be done through the establishment of an Advisory One-stop Shop that is expected to strengthen the attractiveness of the CCCs to be established under sub-component 1.2. A pool of regional experts will be set up to support the on-demand advisory service provision to producers and agribusinesses in North Macedonia. To this end, announcements will be made seeking expressions of interest from experts who can provide high-quality assistance and advisory services to agricultural households and businesses.

¹ Given the increased regulation and transparency on the issue of labor standards in the agribusiness value chain in the EU (such as formulated in the 2015 Modern Slavery Act), trainings will ensure to highlight the need to comply with these regulations related to seasonal, casual and transient workers.

Notes to Project’s financial statements (continued)
Project Objectives and Activities (continued)

Specifically, sub-component 1.1 will provide financing for technical assistance (TA) and consultants’ services to: (a) carry out a skills needs and training analysis (training needs assessment (TNA)) of agricultural producers and processors in the project areas; (b) develop a database of vetted local consultants (trainers and advisory service providers) with extensive knowledge and expertise of providing training and advisory services in various fields, including agricultural production/processing, distribution, business planning and management, product innovation, marketing and sales and others; (c) develop a manual of the principles and application procedures for project technical advisory services, including eligibility criteria, contribution ceilings etc.; (d) develop and carry out a public awareness and information dissemination program about the project’s training and advisory support program; and (e) the provision of approved eligible technical advisory services to farmers.

The information dissemination activities and the management of application process for technical advisory assistance will be managed under the responsibility of the MAFWE and the NEA branch offices.

The project will finance a minimum 50 percent of the cost of the technical advisory services per eligible approved recipient farmer, based on comparable cost-sharing activities in other projects in the region. Criteria to be considered in the application would also include support to “public goods” elements, such as agri-environmental practices to reduce GHG emissions, adoption of water/energy efficient technologies, and climate-smart technologies², or for specific support to women, young and small farmers. The sub-component – through technical advisory services – would also promote the adoption of digital technologies in this sub-component, including online platforms, videos, and other e-extension tools, to attract North Macedonia’s young agricultural labor force (40 percent of the agricultural land holders were under 45 years old in 2013).

Sub-component 1.2 - Agriculture and Food Distribution Systems (EUR30.7 million). The objective of this sub-component is to develop sustainable and competitive food storage and distribution systems to benefit producers, processors, distributors, and consumers. The food storage and distribution systems to be constructed through the project support will improve storage capacity to help agricultural producers adapt to the risk of extreme climatic changes by preserving their produce during harsh winters and hot summers. The sub-component will support the development and operationalization of two CCCs i.e., one each in Resen and Strumica municipalities, and an AFP in Skopje suburban area, composed of a wholesale market and a logistics area. Specifically, the sub-component will support: (a) technical assistance for the preparation of feasibility studies, and business plans; conducting environmental and social impact assessments; preparation of detailed designs; and construction supervision plans for all three facilities; (b) civil works for the construction of three facilities; and (c) operational guidance for the start-up of activities. The facilities are expected to be built on state-owned land and will be owned by the State. The CCCs will be managed through a PPP arrangement i.e., public delegation service contract to a private operator (cooperatives and/or agri-food sector company). Regarding the AFP, two options have been identified: (a) a PPP arrangement i.e., a public delegation service contract to a private experienced operator; and (b) a public delegation service contract to a semi-public company, with technical assistance for training of local personnel to operate and guide the operation of the market for several years. Which option is more suitable for this facility will be decided after the preparation of the feasibility study.

Component 2: Institutional Capacity for EU Accession (EUR13.0 million, EUR9 million IBRD, EUR4 million EU)

The objective of Component 2 is to enhance public support services, including the capacity to design and deliver effective support to the agriculture sector. It includes following three sub-components:

Sub-component 2.1 – Evidence-Based Policy-Making (EUR6.5 million, IBRD). The objective of the sub-component is to build the capacity of the MAFWE by supporting the establishment of a M&E system that ensures effective agricultural and rural development policy design and implementation; and by establishing an information system for effective and efficient management of state-owned agriculture land. It will support technical assistance, goods, trainings, and study tours to strengthen the MAFWE’s capacity for effective M&E and evidence-based policy making. Specifically, technical assistance will be provided for:

² These may include Technical Assistance to identify climate-smart technologies such as soil-crop management, improved livestock feeding, conservation tillage, windbreak barriers, mulching/soil cover, improved irrigation efficiency, water storage/rain harvest, shading/anti-hail nets, manure treatment, drainage, use of biofertilizers, compost, integrated pest management, solar refrigeration, solar heating systems and energy efficiency equipment in processing facilities, appropriate grain storage to limit pest infestations among others.

Notes to Project's financial statements (continued)
 Project Objectives and Activities (continued)

- *Establishing a M&E system* consistent with Common Agricultural Policy (CAP) post-2020 requirements, as described in the recent legislative proposals of the EC. The M&E system will allow to record all relevant indicators -- context, output, result, and impact -- as envisaged in the CAP post-2020 Performance Monitoring and Evaluation Framework (PMEF) to guide evidence-based decision making in both agriculture and rural development policy, including associated data collection, surveys, and evaluations.
- *Strengthening MAFWE's capacity* to re-design the existing Direct Payment scheme in a manner that facilitates compliance with current EU farm income support measures and integration of rural development measures into a common policy framework.
- *Mapping of data currently collected* (in terms of both variables and software/hardware environment) to assess (a) the needs for and identify data variables to be stored in the platform and (b) the necessary software and hardware infrastructure. The sub-component will provide support to establish one integrated data platform that includes all relevant data associated with agriculture and rural development that is currently compiled by various MAFWE Departments, AFSARD, NEA, State Statistical Office, and others for decision making at central level.
- *Identifying a set of agriculture and rural development performance and impact indicators* that can guide evidence-based policy decision-making aligned with the CAP 2021-2027 PMEF.
- Development of data update and quality control procedures.
- *Facilitating the creation and functioning of an agricultural and rural development evaluation system*, including support for ex-ante, ex-post, and thematic evaluations to be carried out by independent experts.
- *Creating an information system* to improve climate knowledge as well as an information platform with key climatic variables and data to be available to all agricultural stakeholders at the national level.

Goods provided for these aspects will include the necessary software and hardware to store existing historical data into both the integrated platform and the satellite databases specific to MAFWE Departments and Institutions in order for all databases to be compatible between them and at the same time, able to transmit data variables to the integrated platform, in accordance with future policy analysis needs. Training for building MAFWE capacity on M&E and policy analysis capacity as well as evaluation quality control and on the use of evaluation findings for policy analysis.

Sub-component 2.1 will also strengthen MAFWE capacity to manage state-owned agriculture land and provide technical assistance, advisory services, and goods (where required):

- Assisting MAFWE in drafting Government policy on state land administration and management and of relevant legal framework updates;
- Improving data quality and records of leased state arable land and pastures with the AREC;
- Designing and creating a temporary inventory for state arable land and pastures;
- Supporting the data migration on leases of arable land from the MAFWE electronic system, out of maintenance since 2012, from spreadsheets and paper records of MAFWE and PEMP, into a temporary inventory to allow use of the data while developing the new state agriculture land management information system;
- Establishing a new state agriculture land management information system, including equipment and software, assuring interoperability with the systems of AREC, MAFWE, the Paying Agency (Farm Register) and other institutions;
- Ensuring data migration from the temporary inventory into a new state agriculture land management information system and creating a publicly accessible inventory for state agriculture land in support to transparency and good governance; and
- Analyzing and reengineering of business processes in state agriculture land management to achieve better efficiency and transparency.

Notes to Project’s financial statements (continued)
Project Objectives and Activities (continued)

While project support is limited to strengthening MAFWE capacity to manage state-owned agriculture land, a better managed state-owned agriculture land is expected to support the development of the agricultural land market, both related to leasing and ownership, which in turn will facilitate the consolidation efforts supported under other projects.

Sub-component 2.2 - IPARD Implementation Capacity (EUR2 million, IBRD). The objective of sub-component 2.2 is to strengthen AFSARD’s (Paying Agency) capacity for better and enhanced implementation of the IPARD accredited measures, in particular Measure 101 “Investments in physical assets of agricultural holdings”, and Measure 103 “Investments in physical assets concerning processing and marketing of agricultural and fishery products” which will receive an increase in allocation of EU grant contribution of EUR9.1 million, as well as future measures planned to be accredited, including the “Improvement and development of rural infrastructure” measure. AFSARD has recruited some 46 new staff (June 2019) and is expected to recruit an additional 21 staff to ensure adequate staff numbers capacity for the implementation of the accredited measures (as assessed in the workload analysis). The sub-component would support: (a) the renovation of a suitable office building to be identified by the Government to accommodate increased AFSARD staff; and (b) office furniture and information technology equipment.

Sub-component 2.3 - Safe Disposal of ABPs (EUR8.5 million, EUR4.5 million IBRD; EUR 4 million EU IPA grant)

The objective of sub-component 2.3 is to support the establishment of an ABP safe disposal system compliant with the provisions stipulated in the EU negotiations Chapter 12 Food safety, veterinary and phytosanitary policy the establishment of a safe disposal of ABPs system. The support includes technical assistance, civil works, and goods required for the establishment of an ABP safe disposal system. The support also includes the operationalization of an ABP control system along the entire chain (production, separation, storage, transport, and disposal and/or processing); training of inspectors and business operators; establishing documented procedures and check lists for the approval of establishments and inspection thereof, completing the alignment as necessary of the legal and regulatory framework in line with the current and relevant EU acquis; and launching a public information and awareness campaign for the food production and processing industry. Ultimately, this sub-component is expected to significantly reduce GHG emissions from livestock disposal.

Safe Disposal of Animal By-Products

Animal by-products (ABPs) not intended for human consumption are a potential source of risks to public and animal health. To protect human health, control animal diseases and protect the environment, safe management of animal by products should be established as part of the horizontal food safety system in the country. In addition, according to the relevant European Union (EU) legislation on ABP, the Republic of North Macedonia is required to establish efficient national system for management of ABP, in compliance with the criteria and requirements covered under the EU legislation. This is a pre-condition for successful completion of the negotiations within Chapter 12 – Food safety, Veterinary and Phytosanitary policy, in the process of accession of the Republic of North Macedonia to the membership into the EU.

The main purpose of establishing efficient national system for management of ABP, including collection and processing of ABP is to provide rules for handling and processing ABP, their circulation, safe removal, and utilization, as well as a satisfactory degree of protection of public health, animal health protection, safety of food and animal feed and environmental protection. With the established system is expected to significantly reduce GHG emissions from livestock disposal following the establishment of an ABP safe disposal system that is in line with national and EU legislation. The national system should provide institutional and operational capacity for management and non-harmful removal of ABP and at the same time, protection of public health and the environment.

In the Republic of North Macedonia, this area is regulated by the Law on by-products of animal origin and 15 by-laws - Regulations, which derive from it and regulate the collection, transport, removal, procedure, processing, processing, conversion, storage, placing in trade, distribution, use and non-harmful disposal of by-products of animal origin. These national rules are aligned with European rules.

Notes to Project’s financial statements (continued)
Project Objectives and Activities (continued)

Currently, there is no organized system for the collection, disposal, or use of ABPs. Almost all ABPs are disposed by burying in landfills or pits. These also include ABPs that are generated from food production facilities and from dead livestock. Operators with food of animal origin who are also generators of ABPs in their own facilities have established an internal system of selection by category of by-products during the production process, but due to the absence of a complete system, the selected categories of by-products are mixed in one category when leaving the facility where they are generated. The removal from the facilities is carried out by the Public Utility Companies with which the operators have concluded a contract for collection and disposal. This waste eventually ends up as municipal waste in city landfills.

The first activity undertaken under this sub-component will cover the following phases:

- Phase I: Site selection, Development of Feasibility Study, Environmental & Social Impact Assessment (ESIA), and Urban Planning.
 - ❖ Activity 1.1: Site selection
 - ❖ Activity 1.2: Development of Feasibility Study and Business Plan, Schematic Design and Initial Environmental and Social Impact Assessment/Environmental and Social Management Plan
 - ❖ Activity 1.3: Urban planning of the site

Regarding the site selection, the proposed two locations in the Municipality of Rosoman will be assessed by the consultancy and proper site will be selected accordingly. Both locations will require transformation process of the land from agriculture to construction.

- Phase II: Detailed Design Development and Finalization of Environmental & Social Impact Assessment (ESIA) together with Environmental and Social Management Plan and Feasibility Study;
 - ❖ Activity 2.1: Development of Detailed Design according to national legislation and FIDIC standards;
 - ❖ Activity 2.2: Finalization of site-specific ESIA/ESMP based on the detailed design;
- Phase III – Technical Assistance during bidding documents preparation and Civil Works Contract Management.
 - ❖ Activity 3.1: Technical Assistance during the preparation of the bidding documents for construction of the ABPs Rendering Plant;
 - ❖ Activity 3.2: Technical Assistance – Extended Design Services;

Besides these activities, as part of Sub-Component 2.3, it is envisioned to support civil works for construction of ABP facility, consulting services for supervision of the civil works, and purchase of equipment for the newly build ABP facility, special trucks, and containers.

Component 3 Project Management: (EUR1 million, IBRD). It aims at supporting MAFWE in the efficient implementation of the project, assuring compliance with fiduciary (financial management, procurement), environmental and social safeguards, and M&E requirements according to the agreed project implementation arrangements. Specifically, the component will support technical assistance, goods and incremental operational costs associated with the establishment of the Project Management Team (PMT), which will be staffed with a Project Director, Project Coordinator, Component Leaders, Procurement Specialist, Financial Management Specialist, Safeguards Specialist, and Technical Specialists. Staff and civil servants of the MAFWE, AFSARD, PEMP, AREC, FVA, NEA and FVA will be appointed as Component Leaders for the relevant activities. The PMT will also manage the project’s grievance redress mechanism (GRM) and citizen engagement (CE) activities. Support for project implementation will also include provision of technical assistance for the day-to-day coordination, additional technical support, as needed, as well as for fiduciary (procurement, financial management) and safeguards (environmental, social) requirements; training, equipment, and incremental operating costs to support project management and monitoring. It will also support financial audits and surveys as required for monitoring and evaluation of project results and impacts.

Notes to Project’s financial statements (continued)

3 Accounting policies

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

Basis of preparation

The accompanying financial statements have been prepared for the purposes of reporting to IBRD, on the activities of the Project related to the loan and grant received for the completion of the Project’s objectives, in accordance with the respective provisions set out in the Loan Agreement number 9037 MK and Grant Agreement number TF0B9819 signed between the IBRD and Republic of North Macedonia. These financial statements are prepared on the cash receipts and disbursement basis and include all Project - related expenditures incurred, which are financed under the provisions set out in Loan Agreement numbered 9037 MK dated June 3, 2021 and Grant Agreement number TF0B9819 dated December 2, 2022. These instructions closely follow the World Bank’s Disbursement Guidelines for Projects.

The financial statements have been prepared for the period for the period from 28 March 2022 to 31 December 2023.

Currency translation

All amounts of the Project’s financial statements are presented in Euro as this is the reporting currency of the Project. The exchange rates used for preparation of the Project’s financial statements is the buying foreign exchange rates of the National Bank of the Republic of North Macedonia for international payment operations of the government bodies of Republic of North Macedonia by which each instalment is transferred to a Denar (“MKD”) denominated account in the bank, until that Denar amount is spent.

Budgeted amounts included in the Statement of Uses of Funds by Project Activity are translated from MKD into Euro at the date of transactions.

