

Project's Financial Statements and
Independent Auditors' Report

Ministry of Education and Science of the Republic of
Macedonia

"Skills Development and Innovation Support Project" -
International Bank for Reconstruction and Development
Loan number 8332-MK

For the period from 7 February 2014 to 31
December 2015

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Management Responsibility

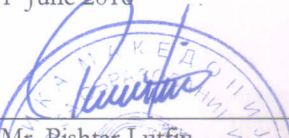
The accompanying financial statements comprising of Statement of Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Balance sheet, Statement of Breakdown of Loans and Grants, Statement of Withdrawals (SOE's), Designated Account Statements and related disclosure Notes (further referred as to "Project's Financial Statements"), of the Ministry of Education and Science of the Republic of Macedonia ("the Ministry"), "Skills Development and Innovation Support Project" (further referred to as "the Project"), financed under International Bank for Reconstruction and Development Loan (IBRD) numbered 8332-MK ("Original loan") as at and for the period from 7 February 2014 to 31 December 2015 included on pages 4 to 19, are the responsibility of, and have been approved by the Project's management.

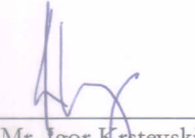
The accompanying Project's financial statements have been compiled by the Project's management, for the purposes of reporting to the Ministry and the International Bank for Reconstruction and Development, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement numbered 8332-MK dated 7 February 2014.

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, Independent Auditors, have been engaged to audit these Project's financial statements in accordance with the International Standards on Auditing. Their report is included on pages 2 and 3.

1 June 2016


Mr. Pishtar Lutfi
Minister of Education and
Science


Mr. Igor Krstevski
Project Director


Ms. Aleksandra Davitkovska
Financial Manager

Independent Auditors' Report

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To the Management of the Project

We have audited the accompanying financial statements of the Ministry of Education and Science of the Republic of Macedonia (“the Ministry”), “Skills Development and Innovation Support Project” (further referred to as “the Project”), financed under International Bank for Reconstruction and Development, Loan numbered 8332-MK comprising of the Statement of Sources and Uses of Funds, Balance sheet, Statement of Uses of Funds by Project Activity, Statement of Breakdown of Loans and Grants, 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 7 February 2014 to 31 December 2015 and included on pages 4 to 21.

Management’s responsibility for the Project’s financial statements

These Project’s financial statements are compiled for the purposes of reporting to the Ministry and the International Bank of Reconstruction and Development (IBRD) management, and are the responsibility of the management of the Project. The Projects’ management is responsible for developing and maintaining such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Project’s Management policy is to prepare the accompanying Project’s financial statements on the cash receipts and disbursement basis in conformity with the related requirements of the World Bank’s financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement numbered 8332-MK dated 7 February 2014. 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of "Skills Development and Innovation Support Project", financed under International Bank for Reconstruction and Development, Loan numbered 8332-MK, present fairly, in all material respects, the Project's financial position as at 31 December 2015, and the movement on the Sources and Uses of Funds, Statement of Uses of Funds by Project Activity, Statement of Breakdown of Loans and Grants, Statement of Withdrawals and Designated Account Statements for the period from 7 February 2014 to 31 December 2015, in conformity with the related requirements of the World Bank's financial reporting guidelines and in compliance with the relevant provisions set out in the Loan Agreement numbered 8332-MK dated 7 February 2014.

Skopje,


2 June 2016

Grant Thornton DOO, Skopje



GRANT THORNTON
DOO
Skopje

Director
Suzana Stavrik



Certified Auditor
Suzana Stavrik

Financial Statements
 For the period from 7 February 2014 to 31 December 2015

Statement of Sources and Uses of Funds

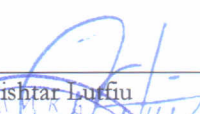


	(Amounts in EUR)					
	For the period from 7 February 2014 to 31 December 2015					
	Actual		Planned		Variance	
	Current period	Cumulative to date	Current period	Cumulative to date	Current period	Cumulative to date
Sources of funds						
World bank DA-A	1,563,784	1,563,784	1,563,784	1,563,784	-	-
World bank DA-B	400,000	400,000	400,000	400,000	-	-
Interests Earned	-	-	-	-	-	-
Front end fee	44,250	44,250	44,250	44,250	-	-
Total sources of funds	2,008,034	2,008,034	2,008,034	2,008,034	-	-
Foreign exchange difference						
Exchange gains	61	61	61	61	-	-
Exchange losses	(89)	(89)	(89)	(89)	-	-
Uses of funds						
Financed by WB						
Component 1: Improving Transparency in higher education	(97,386)	(97,386)	(97,386)	(97,386)	-	-
Component 2: Modernization of Secondary Technical Vocational Education and Training	(204,210)	(204,210)	(204,210)	(204,210)	-	-
Component 3: Improving the Innovative capacity of enterprises and collaboration with research organizations	(71,946)	(71,946)	(71,946)	(71,946)	-	-
Component 4: Project Management and Monitoring and Evaluation	(317,111)	(317,111)	(317,111)	(317,111)	-	-
Front and fee	(44,250)	(44,250)	(44,250)	(44,250)	-	-
Subtotal - Financed by WB	(734,903)	(734,903)	(734,903)	(734,903)	-	-
Financed by GoM						
Component 1: Improving Transparency in higher education	-	-	-	-	-	-
Component 2: Modernization of Secondary Technical Vocational Education and Training	-	-	-	-	-	-
Component 3: Improving the Innovative capacity of enterprises and collaboration with research organizations	-	-	-	-	-	-
Component 4: Project Management and Monitoring and Evaluation	-	-	-	-	-	-
Subtotal - Financed by the GoM	-	-	-	-	-	-
Total uses of funds	(734,903)	(734,903)	(734,903)	(734,903)	-	-

Financial Statements
 For the period from 7 February 2014 to 31 December 2015

Statement of Uses of Funds by project activity (continued) (Amounts in EUR)
 For the period from 7 February 2014 to 31 December 2015

	Actual		Planned		Variance	
	Current period	Cumulative to date	Current period	Cumulative to date	Current period	Cumulative to date
Net increase/(decrease) in the cash flow:	1,273,103	1,273,103	1,273,103	1,273,103	-	-
Bank Balances, at beginning of the period	-	-	-	-	-	-
Bank Balances, at end of the period	1,273,103	1,273,103	1,273,103	1,273,103	-	-

The Project's Financial Statements have been approved by the Ministry on 1 June 2016 and signed on its behalf by:

 <hr/> Mr. Pishtar Lufiu Minister of Education and Science	 <hr/> Mr. Igor Krstevski Project Director	 <hr/> Ms. Aleksandra Davitkovska Financial Manager
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Financial Statements
 For the period from 7 February 2014 to 31 December 2015

Statement of Uses of Funds by Project Activity

	(Amounts in EUR)					
	For the period from 7 February 2014 to 31 December 2015					
	Actual		Planned		Variance	
	Current period	Cumulative to date	Current period	Cumulative to date	Current period	Cumulative to date
Project's expenditures by activity:						
Component 1: Improving Transparency of Higher Education						
Contract 1: Needs Assessment, Strategy and Policy Development for NTTO	97,386	97,386	97,386	97,386	-	-
Contract 2	-	-	-	-	-	-
Contract 3	-	-	-	-	-	-
Contract 4	-	-	-	-	-	-
Contract 5	-	-	-	-	-	-
Contract 6	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
Sub-total	97,386	97,386	97,386	97,386	-	-
Component 2: Modernization of Secondary Technical Vocational Education and Training						
Contract 1: Skills forecasting	49,086	49,086	49,086	49,086	-	-
Contract 2: TA for new competency based curriculum and pertinent modules for innovation and entrepreneurship education in secondary education	123,120.00	123,120.00	123,120.00	123,120.00	-	-
Contract 3: Preparation of program for provision of grants and support in development of implementation legal procedures	32,004	32,004	32,004	32,004	-	-
Contract 4	-	-	-	-	-	-
Contract 5	-	-	-	-	-	-
Contract 6	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
Sub-total	204,210	204,210	204,210	204,210	-	-
Component 3: Improving the Innovative capacity of enterprises and collaboration with research organizations						
Contract 1: Resident Advisor for Capacity Building of the FITD	32,377	32,377	32,377	32,377	-	-
Contract 2: Software for the Needs of the FITD	30,496	30,496	30,496	30,496	-	-
Contract 3: Equipment for the FITD	4,928	4,928	4,928	4,928	-	-
Contract 4	-	-	-	-	-	-
Contract 5	-	-	-	-	-	-
Contract 6	-	-	-	-	-	-
Contract 7	-	-	-	-	-	-
Payments without contract	-	-	-	-	-	-
Capacity Building of the FITD/ Training / accommodation, per diem, and transport	4,145	4,145	4,145	4,145	-	-
Sub-total	71,946	71,946	71,946	71,946	-	-

Financial Statements

For the period from 7 February 2014 to 31 December 2015

Statement of Uses of Funds by project activity (continued)

(Amounts in EUR)

	Actual		Planned		Variance	
	Current period	Cumulative to date	Current period	Cumulative to date	Current period	Cumulative to date
Project's expenditures by activity: component 4: Project Management and Monitoring and Evaluation						
Contract 1: Project Manager/Director	41,418	41,418	41,418	41,418	-	-
Contract 2: Procurement Specialist	35,199	35,199	35,199	35,199	-	-
Contract 3: Financial Specialist	25,705	25,705	25,705	25,705	-	-
Contract 4: Coordinator for business and innovations	27,205	27,205	27,205	27,205	-	-
Contract 5: Monitoring and Evaluation Specialist	16,614	16,614	16,614	16,614	-	-
Contract 6: Part-Time Environmental Consultant	4,816	4,816	4,816	4,816	-	-
Contract 7: Financial/Accounting Software and support and maintenance for the project duration	1,511	1,511	1,511	1,511	-	-
Contract 8: Equipment for the PMU	2,453	2,453	2,453	2,453	-	-
Contract 9: Hardware for the PMU	15,628	15,628	15,628	15,628	-	-
Contract 10: Administrative Assistant	15,511	15,511	15,511	15,511	-	-
Contract 11: Procurement Assistant	14,376	14,376	14,376	14,376	-	-
Contract 12: Phones for the PMU	5,672	5,672	5,672	5,672	-	-
Contract 13: Consulting services for logistical support in the organization of a conference dedicated to the needs and challenges in the area of higher education	4,332	4,332	4,332	4,332	-	-
Contract 14: Monitoring and Evaluation Assistant	509	509	509	509	-	-
Contract 15: Grants Officer	509	509	509	509	-	-
Contract 16: Development of Software for Skills Observatory	10,601	10,601	10,601	10,601	-	-
Contract 17: Technical Assistance for Policy Development and Initial Set-Up of the Skills Observatory	42,920	42,920	42,920	42,920	-	-
Contract 18: IT Specialist for the establishment of the Skills Observatory	9,247	9,247	9,247	9,247	-	-
Contract 19: IT Senior Administrator for the Skills Observatory	6,470	6,470	6,470	6,470	-	-
Contract 20: Skills Observatory Administrator	509	509	509	509	-	-
Payments without contract Training / accommodation, per diem, and transport	3,553	3,553	3,553	3,553	-	-
Operating Cost for the PMU	30,421	30,421	30,421	30,421	-	-
Operating costs: Bank provision	827	827	827	827	-	-
Operating costs: Petty cash	1,105	1,105	1,105	1,105	-	-
Sub-total	317,111	317,111	317,111	317,111	-	-
Total	690,653	690,653	690,653	690,653	-	-

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Balance sheet

In EUR	31 December 2015
Assets	
Bank balances	1,273,103
Total assets	1,273,103
Funds and liabilities	
Funds	
Unspent funds	1,273,103
Fund balance	1,273,103
Total Fund and liabilities	1,273,103

Financial Statements

For the period from 7 February 2014 to 31 December 2015

Statement of Breakdown of Loans and Grants

Sub-Loan/grant No. / WB approved date	(Amounts in EUR)				
	Cumulative Sub-Loan/grant amount	for the period Paid sub-loan/Grant amount	from 7 February 2014 through 31 December 2015 Remaining balance	Outstanding payments	Payment requests processed
Sub-component 2.2. Grants for school-business collaboration (MoES)					
Beneficiary 1					
Grant 1					
Contract 1	-	-	-	-	-
Contract 2	-	-	-	-	-
Contract 3	-	-	-	-	-
Remaining funds	-	-	-	-	-
Grant 2					
Contract 1	-	-	-	-	-
Contract 2	-	-	-	-	-
Contract 3	-	-	-	-	-
Remaining funds	-	-	-	-	-
Beneficiary 2					
Grant 1					
Contract 1	-	-	-	-	-
Contract 2	-	-	-	-	-
Contract 3	-	-	-	-	-
Remaining funds	-	-	-	-	-

Financial Statements

For the period from 7 February 2014 to 31 December 2015

Statement of breakdown of Loans and Grants (continued)

		(Amounts in EUR)				
	Sub-Loan/grant No. / WB approved date	Cumulative Sub-Loan/grant amount	for the period Paid sub-loan/Grant amount	from 7 February 2014 through	31 December 2015	Payment requests processed
				Remaining balance	Outstanding payments	
Grant 2						
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Contract 3		-	-	-	-	-
Remaining funds		-	-	-	-	-
Sub-component 3.2. Pilot of Financial Instruments (FITD)						
Beneficiary 1						
Sub-Loan/Grant 1						
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Contract 3		-	-	-	-	-
Remaining funds		-	-	-	-	-
Sub-Loan/Grant 2						
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Contract 3		-	-	-	-	-
Remaining funds		-	-	-	-	-
Beneficiary 2						
Sub-Loan/Grant 1						
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Contract 3		-	-	-	-	-
Remaining funds		-	-	-	-	-
Sub-Loan/Grant 2						
Contract 1		-	-	-	-	-
Contract 2		-	-	-	-	-
Contract 3		-	-	-	-	-
Remaining funds		-	-	-	-	-

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Withdrawals – Designated Account

(Amounts in EUR)

For the period from 7 February 2014 to 31 December 2015

Application # and date	Total Requested	Total Disbursed	Difference
Original Loan 8332-MK			
#1 Initial Application / 24.04.2014	1,000,000	1,000,000	-
#2 Application / 7.08.2015	312,489	312,489	-
#3 Application / 31.07.2015 *	400,000	400,000	-
#4 Application / 14.12.2015	251,295	251,295	-
Total	1,963,784	1,963,784	-

* The funds from Application 3 are allocated to Fund for Innovation and Technological Development. This fund is responsible to build the institutional capacity to stimulate innovative activities and piloting financial instruments to support innovation and technological development in the enterprise sector.

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Designated Account – EUR

Account number	MK 07 1007 0100 0146 543
Depository Bank	National Bank of the Republic of Macedonia
Address	Complex of Banks, 1000 Skopje, Republic of Macedonia
Loan Number	8332-MK
Currency	EUR

(Amounts in EUR)
For the period from 7 February 2014 to 31
December 2015

At 7 February 2014	-
<hr/>	
Add: Inflows	
Replenishment during the period	1,563,784
Interest received	-
	<hr/>
	1,563,784
Deduct: Outflows	
Transfer to treasury account (Mirror designated account) - MKD	(689,181)
Transfer to treasury account (Mirror designated account) - MKD for transfer to Petty Cash in EUR	(2,766)
	<hr/>
	(691,947)
At 31 December 2015	<hr/> <hr/> 871,837

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Designated Account – EUR (Fund for Innovation and Technological Development)

Account number	MK 07 1007 0100 0147804
Depository Bank	National Bank of the Republic of Macedonia
Address	Complex of Banks, 1000 Skopje, Republic of Macedonia
Loan Number	8332-MK
Currency	EUR

(Amounts in EUR)
For the period from 7 February 2014 to 31
December 2015

At 7 February 2014	-
<hr/>	
Add: Inflows	
Replenishment during the period	400,000
Interest received	-
	<hr/>
	400,000
Deduct: Outflows	
	<hr/>
	-
At 31 December 2015	400,000

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Treasury Account (Mirror Designated Account) – MKD

Account number	160010032978651
Depository Bank	National Bank of the Republic of Macedonia
Address	Complex of Banks, 1000 Skopje, Republic of Macedonia
Loan Number	8332-MK
Currency	Macedonian Denars (“MKD”)

(Amounts in EUR)
For the period from 7 February 2014 to 31
December 2015

At 7 February 2014	-
<hr/>	
Add: Inflows	
Transfer from designated account – EUR	689,181
Transferred funds from designated account – EUR for Petty cash in EUR	2,766
Foreign exchange gains	61
	<hr/>
	692,008
Deduct: Outflows	
Amount of eligible expenses paid during the period	(686,789)
Transfer to Petty Cash in MKD	(1,296)
Transfer to Petty Cash in EUR	(2,766)
Foreign exchange losses	(89)
	<hr/>
	(690,940)
At 31 December 2015	1,068

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Petty Cash in MKD

Loan Number 8332-MK
Currency Macedonian Denars (“MKD”)

(Amounts in EUR)
For the period from 7 February 2014 to 31
December 2015

At 7 February 2014	-
<hr/>	
Add: Inflows	
Transfer from Mirror Designated Account – MKD	1,296
	1,296
Deduct: Outflows	
Amount of eligible expenses paid during the period	(1,105)
	(1,105)
At 31 December 2015	191

Financial Statements
For the period from 7 February 2014 to 31 December 2015

Statement of Petty Cash in EUR

Loan Number 8332-MK
Currency EUR

(Amounts in EUR)
For the period from 7 February 2014 to 31
December 2015

At 7 February 2014	-
<hr/>	
Add: Inflows	
Transfer from Mirror Designated Account – EUR	2,766
	2,766
Deduct: Outflows	
Amount of eligible expenses paid during the period	(2,759)
	(2,759)
At 31 December 2015	7

Notes to Project’s financial statements

1 General

On 7 February 2014, the Ministry of Education and Science of the Republic of Macedonia (“the Ministry” or “the Borrower”), entered into the Loan Agreement numbered 8332-MK with the International Bank for Reconstruction and Development (“IBRD”) for financing the “Skills Development and Innovation Support Project” (further referred to as “the Project”) in the amount of EUR 17,700,000.

The objective of the Project is to improve transparency of resource allocation and promote accountability in higher education, enhance the relevance of secondary technical vocation education, and support the Borrower's innovation capacity.

The Borrower has established the Project Management Unit (“PMU”), responsible for the day- to- day activities and for procurement, financial management, disbursement and monitoring and reporting for the entire Project.

The following table underlines the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for the Eligible Expenditures in each Category:

Category	Amount of the Loan allocated (expressed in Euro) Revised original values	Percentage of the Expenditures to be financed (inclusive of taxes)
1.Goods,works,non-consulting services, consulting services, training and operating costs	7,847,000	100%
2.School grants	649,000	100%
3.Innovation grants and Innovation Sub-Loans	9,159,750	100%
4.Front and Fee	44,250	
Total	17,700,000	

According to the provisions of the Loan Agreement, the Borrower is liable to repay the principal amount of the Loan in semi-annual installments, payable each 1st February and 1st August, commencing 1 February 2019 through 1 August 2031. The Borrower is liable to pay to IBRD a front-end fee equal to 1/4 of 1% (0.25%) of the Loan amount and interest for each interest period equal to LIBOR for the Loan Currency plus a Variable Spread.

The Closing Date of the Project is 31 May 2019. The effectiveness Deadline is the date ninety days after the date of this Agreement.

2 Project Objectives, Activities and Institutional Arrangements

Project Objectives and Activities

The proposed Project would support the Government of Macedonia’s (GOM) initiatives geared to:

- increase graduates’ competitiveness on a regional and international level;
- increase labor market relevance of graduates’ skills;
- make innovation a source of productivity improvement, competitiveness, increased exportability of goods, and sustained economic growth; and
- increase universities and private enterprises engagement in, and their benefit from, R&D efforts and technology adoption opportunities.

The Project consists of four components:

Component 1: Improving Transparency of Higher Education

This component will have three main sets of activities, all targeted toward improving both the transparency and efficiency of the quality assurance and finance mechanisms in the higher education sector: (i) institutional strengthening and stronger quality assurance in higher education; (ii) reforming the higher education financing model; and (iii) establishing a centralized office to foster mission-oriented research and university-industry collaboration.

Sub-component 1.1: Quality Assurance in Higher Education

This sub-component builds upon Bank-supplied technical assistance in higher education quality assurance (2010-2012) and would finance activities targeted toward improving the quality assurance mechanisms in higher education, including: (i) providing training for improving the administrative capacity of the Higher Education Accreditation and Evaluation Board (HEAEB) and other key players in charge of managing quality assurance activities; (ii) funding of external evaluation by foreign experts of FYR Macedonia’s higher education sector, and up; and (iii) upgrading of the education management and information system, including the development and implementation of the central data base.

Sub-component 1.2: Higher Education Financing Reforms

This sub-component, utilizing technical assistance and information gleaned through a Bank-sponsored pilot of a potential new finance model, would support the design and implementation of a performance-based funding model to promote transparency and efficiency in the resource allocation mechanisms. It would include the following technical assistance activities: (i) assessment of funding model options to select the most appropriate model for the Macedonian context; (ii) design of the funding model, formula and implementation plan; (iii) identification of internal performance indicators and results framework for monitoring and evaluation; and (iv) rollout of the new finding model. This subcomponent would also finance communication campaigns, outreach and dissemination events to inform different groups of stakeholders about these reforms and generate support for them

Sub-component 1.3: Development of a National Technology Transfer Office (NTTO)

This subcomponent would support the development of a central office to be the system-wide interface between the research community and the industry, and a national focal point for international cooperation. It would play a key role in the conversion of the results of research into competitive products and processes, and steer research towards industry needs. The NTTO is expected to have a mandate that is broader than a typical academic technology transfers office. The proposed NTTO, while performing typical tasks such as industry outreach, would additionally be a center for advising the industry in FYR Macedonia on Intellectual Property(IP) in-licensing and technology importation and integrating the innovation activities of

Project Objectives, Activities and Institutional Arrangements (continued)

Macedonia with EU programs. Given the small country size, and low research activities, having a technology transfer office with a broader mandate makes sense as it leverages economies of scale and prevents duplication of efforts. The subcomponent would provide technical assistance for establishment and operationalization of the NTTO and would also finance the salaries of experts and the purchase of patent and market intelligence databases.

Component 2: Modernization of Secondary Technical Vocational Education and Training

This component would finance activities targeted toward building the foundation of a modern and efficient secondary TVET system that is characterized by delayed tracking of students into vocational pathway, increased relevance of the standards and curriculum for the labor market and improved mechanisms for school-industry collaboration. These changes are expected to lead to the transformation of the secondary TVET from the narrow occupational to a more general and broader technical education and eventually to result in greater labor market relevance and transferability of skills, and increased flexibility in secondary TVET provision. It consists of two sub-components.

Sub-component 2.1: Quality and labor market relevance of TVET provision

This subcomponent would contribute to the modernization of the secondary TVET system and its relevance for the labor market needs and improving the capacity of TVET secondary schools to deliver quality TVET. Specifically, this sub-component would finance: (i) technical assistance to support the development of an overarching model for the transformation of the secondary TVET provision; (ii) development of occupational standards, competency-based curriculum and programs; (ii) efficiency assessment of the secondary TVET school network and development of a proposal for restructuring the network; (iii) development of a training program for teachers and other staff, including identification of required skills, development of training materials and rollout of the program; and (iv) carrying out of a need analysis and acquisition of equipment for schoolbased practical training.

Sub-component 2.2: Grants for school-industry collaboration

This subcomponent would finance technical assistance activities aimed at: (i) designing and implementing a grant program to support TVET activities; and (ii) provision of School Grants to selected TVET schools to finance activities to improve the labor market relevance of the vocational education and training including involving industries into the practical training delivery.

Component 3: Improving the Innovative Capacity of Enterprises and Collaboration with Research Organizations

This component is focused on supporting the efforts of the FYR Macedonia Fund for Innovation and Technological Development (FITD) to build the institutional capacity to stimulate innovative activities, and piloting financial instruments to support innovation and technological development in the enterprise sector. It is organized around two sub-components.

Sub-component 3.1: FITD capacity building

This sub-component would finance activities required to build up institutional competence of the FITD, in particular, providing support for: (i) planning and designing the programs, strategy, operations and procedures; (ii) training of FITD staff; (iii) selection of the Investment Committee and peer reviewers; (iv) mentoring and training for FITD beneficiary enterprises; and (v) marketing and communications strategy.

Project Objectives, Activities and Institutional Arrangements (continued)

Sub-component 3.2: Pilot of Financial Instruments to be delivered by FITD

Once the FITD is established, it would provide specific funding instruments for each stage of companies' life cycle to foster innovation. These instruments will include: (i) an accelerator; (ii) proof of concept innovation mini grants, including but not limited to IP protection, and business plan preparation for initial capital mobilization; (iii) commercialization matching grants and loans; and (iv) sector specific grants in technology development and technology absorption projects for new or improved technologies, products and processes. It is anticipated that the pilot instruments will be introduced in a phased approach starting with the accelerator and proof of concept grants.

Component 4: Project Management and Monitoring and Evaluation

This component would finance the activities in two sub-components to: (i) ensure effective administration and implementation of the Bank-financed project; and (ii) develop and put in place an effective M&E system.

Subcomponent 4.1: Project Management

This sub-component would support the operation of a Project Management Unit (PMU) reporting to a Project Director and responsible for all the day-to-day project implementation activities, as well as procurement, disbursement and accounting functions. World Bank financing would be provided for consultants employed as part of the PMU, as well as for assistance and training to all project staff, project audits, office equipment and incremental operating costs.

Subcomponent 4.2: Monitoring and Evaluation

M&E are crucial elements of program design as they provide important feedback mechanisms for policy, effectiveness, and credibility of the programs. The Project would support the design and implementation of (i) tools to monitor the results framework for the Project; (ii) M&E studies/surveys to establish a baseline for project results indicators as well as their measures during project implementation and upon project; (iii) impact evaluation for selected innovation programs; and (iv) skills observatory. World Bank financing would be provided for technical assistance; services and training of the Ministry of Education and Science staff engaged in monitoring; and the design, implementation, and analysis of evaluation surveys.

Institutional Arrangements

The PMU shall be responsible for the day-to-day Project implementation and for procurement, financial management, disbursement and monitoring, and reporting for the entire Project. The Steering Committee shall be responsible for overall Project oversight and coordination. The Working Group shall be responsible for providing necessary technical expertise and support for efficient Project implementation. The Grant Approval Committee shall be responsible for evaluating and selecting proposals for School Subprojects. The Investment Review Committee shall be responsible for evaluating and selecting proposals for Innovation Subproject.

Throughout the duration of the Project the Borrower shall: (i) maintain the PMU, the Steering Committee and the Working Group; and (ii) establish and maintain the Investment Review Committee and the Grant Approval Committee; all with staff, resources and terms of reference satisfactory to the Bank.

The Borrower shall carry out the Project in accordance with the Project Operational Manual and shall not amend, suspend, abrogate, repeal or waive any provision of said Manual without the prior approval of the Bank.

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 received for the completion of the Project’s objectives, in accordance with the respective provisions set out in the Loan Agreement numbered 8332-MK signed between the IBRD and Ministry of Education and Science of the Republic of 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 8332-MK dated 7 February 2014.

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

The financial statements have been prepared for the period from 7 February 2014 through 31 December 2015.

Currency translation

All accounts are kept in Euro as this is the reporting currency of the Project. Transactions denominated in currencies other than Euro are translated using the buying foreign exchange rates of the National Bank of the Republic of Macedonia for international payment operations of the government bodies of Republic of Macedonia prevailing at the date of the transaction.



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