

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC14134

<b>Project Name</b>	Serbia Competitiveness and Jobs (P152104)
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Serbia
<b>Sector(s)</b>	Other social services (30%), General industry and trade sector (70%)
<b>Theme(s)</b>	Micro, Small and Medium Enterprise support (15%), e-Services (5%), Export development and competitiveness (30%), Technology diffusion (20%), Improving labor markets (30%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P152104
<b>Borrower(s)</b>	Public Debt Administration
<b>Implementing Agency</b>	Deputy Prime Minister's Office
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	25-Jan-2015
<b>Date PID Approved/ Disclosed</b>	02-Feb-2015
<b>Estimated Date of Appraisal Completion</b>	30-Apr-2015
<b>Estimated Date of Board Approval</b>	29-Jul-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

After a difficult decade during the 1990s, Serbia made solid progress on growth and poverty reduction between 2001 and 2008. Real GDP growth averaged 5.0 percent per year. The relatively high growth in combination with social transfers contributed to poverty reduction, with the poverty headcount falling from 14 percent in 2002 to 6.6 percent in 2007, according to the Living Standards Measurement Survey (LSMS) data. In terms of jobs, though, the picture was less rosy. Labor markets deteriorated significantly at the onset of reforms, as job destruction in unviable public enterprises exceeded job creation in the private sector. Consequently, the employment rate among the adult population dropped from 50 percent in 2000 to 40 percent in 2006, while unemployment increased from 12 percent to 21 percent. By 2007, though, the Serbian labor market seemed to have passed the trough and both employment and unemployment started to improve. The unemployment rate dropped to 13.6 percent in 2008.

Since the global financial crisis, however, progress on economic growth, poverty reduction, employment, and shared prosperity has stalled. The poor and bottom quintiles experienced a disproportionately stronger decline in welfare than the average, due to employment and labor income losses. Average annual real GDP growth since the crisis dropped to around zero. The economy has since been in recession twice – in 2009, 2012, and likely in 2014. Lack of overall growth and also somewhat worsening inequality has translated into worsening poverty and shared prosperity.

### **Sectoral and Institutional Context**

Key challenges to boosting Serbia's growth and shared prosperity include increasing investment, exports, productivity, and private sector jobs. The proposed project will contribute to addressing these challenges by supporting complementary reforms in three areas: 1) investment climate and export promotion, 2) innovation, and 3) labor.

1. Investment climate and export promotion. Investors, and especially large-scale ones, are generally looking for stability and predictability. Most export industries, particularly manufacturing, entail large-scale investments that only pay-off in the medium-term. This is why these investors are more likely to come if they can expect a certain degree of stability with respect to the economic fundamentals and a relatively smooth process of starting and operating a business. Complicated procedures and an opaque regulatory environment enable vested interests to engage in rent seeking, while reducing incentives for rule-abiding long-term investment. Serbia also needs stronger and better-defined FDI, export promotion, and sectoral support frameworks and institutions.

2. Innovation. Fostering private sector research and development and innovation can be important to increasing productivity and creating the exports and jobs of the future. Serbian R&D spending, though reasonable when compared with other countries in the Balkans, is heavily concentrated in the public sector. Among most transition economy peers, the private sector is increasingly playing a significant role in R&D. Channeling R&D investments at the enterprise level facilitates both the absorption of existing productivity enhancing technologies from abroad as well as the creation of new technological breakthroughs. This will be particularly important if Serbia intends to promote the creation of high value added jobs and the export orientation of its enterprise sector in the long term.

3. Labor. In Serbia, creating more and better job opportunities is critical to increasing shared prosperity. Since the global crisis escalated, a significant number of jobs in Serbia were lost, and unemployment remains high at over 20 percent. Just before the crisis, in 2007/08 the total number of employed people in Serbia was around 2.7 million. Since then, the number of employed has dropped sharply, both in the formal and informal sectors. As of October 2013, the total number of employed people in Serbia was around 2.3 million. Although precise data is not available, the vast majority of job losses have been in the private sector, including in the informal sector. As the GoS engages in the new wave of privatization and restructuring of loss-making State Owned Enterprises (SOEs), significant job losses are also expected in the public sector. Reforms are needed to better help unemployed workers find jobs, and to motivate the out of work population, in particular socially disadvantaged groups (such as last resort social assistance beneficiaries, and the long term unemployed), to actively seek employment and to equip them with the necessary skills to work in the private sector.

### **Relationship to CAS**

The proposed project is fully aligned with the Serbia Country Partnership Strategy FY12-FY15. Pillar 1 of the CPS is “Competitiveness” and it covers support to the country’s goals of improving the investment climate and innovation capacity (which are Components 1 and 2 of the proposed operation). Pillar 2 of the CPS is “Improved Efficiency and Outcomes in Social Spending”. Component 3 of the proposed operation, which aims to improve the efficiency and outcomes of spending on the National Employment Service and active labor market policies, directly addresses this pillar.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The proposed PDO is to improve the investment climate, foster innovation, and enhance the job opportunities of registered unemployed.

### **Key Results (From PCN)**

#### 1. Investment climate and export promotion

- Reduced administrative burden for businesses
- More transparent, predictable, and efficient interactions between businesses and the state, including through reforms to the inspections regime and reforms of agencies involved in investment and export support
- Increased efficiency in using public resources to support investment and export promotion

#### 2. Innovation

- Enterprise innovation fostered and scaled through Innovation Fund matching grants programs
- Competitive applied research financing introduced via National Science Foundation model to promote participation in EU programs and improve likelihood of commercialization
- Public research and development institute (RDI) sector reorganized and performance financing generate systemic efficiencies and reward relevance and performance.
- Technology transfer, entrepreneurship, and innovation ecosystem strengthened by integrating private sector actors in the professionalization of incubators, accelerators, technology parks, tech transfer offices, etc.

#### 3. Labor

- Number of job placements through NES increases
- Ratio of case workers per registered active unemployed increases
- Placements rates of active labor market programs (ALMPs) compared to non-participants with similar unemployment risk improve
- Vacancies registered with NES increases
- Incentives for formal employment of low earners improve

## **III. Preliminary Description**

### **Concept Description**

The project will address the challenges described above through the following components.

Component 1. Investment climate and export promotion. This component aims to encourage new investment by making interactions between businesses and the state more transparent, predictable, and efficient. Increased investment, in particular in tradable sectors, will lead to higher productivity and better competitiveness. Also, the component will support activities on enhancing Serbia’s

institutional framework for export and investment promotion, including by possibly redesigning financial instruments supporting exporters, or by providing new services, like manufacturing extension, value chain support, and market intelligence. All of these activities are ultimately expected to result in more exports and formal private sector jobs. There are two subcomponents: 1. A Inspections reform and 1.B Reform of the agencies for investment and export support.

Component 2: Innovation. The component will support four main activities: a) scaling-up enterprise innovation; b) establishing competitive applied research financing; c) consolidating the public research sector for efficiency; and d) enabling the technology transfer, entrepreneurship, and innovation ecosystem. These project activities will leverage the institutional capacity built at the Serbia Innovation Fund (IF) and the enterprise innovation programs piloted under the 2011 EU Instrument for Pre-Accession Serbia Innovation Project (EU IPA SIP). This project will also build on the strategic research and innovation sector planning activities and technology transfer initiatives of the 2013 EU IPA Serbia Research, Innovation, and Technology Transfer Project (SRITTP).

Component 3: Labor. The proposed operation will support the Ministry of Labor, Employment, Veteran and Social Affairs in the implementation of selected objectives of the National Employment Strategy, particularly with a view to improving the performance of the National Employment Service (NES) in terms of placement of active jobseekers into jobs. The support will result from three sets of activities: a) enhancement of service delivery capacity of the currently over-stretched National Employment Service (NES); b) improvement of the design, provisioning, and targeting of active labor market programs (ALMPs); and c) improvement of incentives for formal jobs for a targeted subset of disadvantaged workers.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01	x		
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	100.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
International Bank for Reconstruction and Development			100.00

Total	100.00
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