

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA71534

Project Name	Bosnia and Herzegovina Employment Support Program (P152347)
Region	EUROPE AND CENTRAL ASIA
Country	Bosnia and Herzegovina
Lending Instrument	Investment Project Financing
Project ID	P152347
Borrower(s)	FBH Ministry of Labor and Social Policy, FBH Ministry of Finance
Implementing Agency	RS Ministry of Labor and Veteran Affairs
Environmental Category	C-Not Required
Date PID Prepared/Updated	11-Jul-2016
Date PID Approved/Disclosed	11-Jul-2016
Estimated Date of Appraisal Completion	24-Jun-2016
Estimated Date of Board Approval	15-Sep-2016
Appraisal Review Decision (from Decision Note)	The meeting authorized appraisal and made the following recommendations to be reflected in the PAD: (i) compressing the DLIs and making them scalable where possible; (ii) focusing the PDO on increasing job placements; (iii) re-arranging the presentation of the components and results chains accordingly; (iv) tightening the rationale and context for the project; (v) adding support for communications to component 2; and (vi) revising the economic analysis.

I. Project Context
Country Context

Bosnia and Herzegovina (BiH) is a small, middle-income country of close to 3.8 million people. Despite a period of successful recovery following the war of the 1990s, the country is yet to create a foundation for sustainable economic growth. Whereas its economy remains smaller than before the war, the contraction of the informal economy through tighter tax enforcement suggests that progress is being made towards restoring the economic activity to pre-conflict levels. After years of relatively strong economic growth during 2005 – 2008 (average 5.5 percent of GDP), BiH's economy was negatively impacted by the global financial crisis resulting in consecutive contractions of the economy in 2009 and 2012. The country experienced the beginning of a moderate economic recovery in 2013 when growth reached 2.4 percent; however, this was interrupted by floods in May 2014. In 2015, BiH has made important progress in reaching consensus on priorities for structural reforms, which also helps the country to draw closer to the EU. According to first estimates, real growth in 2015 was 3.2 percent and driven by manufacturing

and services. BiH's governance structure is complex, comprising two entities, the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS), with a high degree of autonomy.

Making progress on poverty reduction continues to be a challenge in BiH. The poverty headcount at the state level in BiH in 2011 (latest data available) stood at 15 percent of the population, the same level as the previous four years (2007-2011 period). While poverty incidence in 2011 is similar at both state and entity levels, it is much higher in rural areas, at 19 percent, compared to 9 percent in urban areas. High unemployment and inactivity rates significantly challenge the government's ability to reduce poverty as employment is one of the most important factors to pull people out of poverty. 12 percent of the employed as opposed to 22 percent of the unemployed are poor. Hence, the poor, in particular, have difficulty in getting good formal jobs and keeping them.

In 2015, the BiH Council of Ministers and the governments of Republika Srpska and Federation of Bosnia and Herzegovina officially adopted the Reform Agenda, a medium-term plan of structural reforms that represents a broad consensus among all levels of government on the key priorities for economic and social development that would aim to place Bosnia and Herzegovina on a more sustainable growth trajectory. The Reform Agenda also acknowledges the importance of addressing high unemployment and inactivity in BiH. Indeed, structural reforms in BiH can only be seen as successful if they are able to generate jobs and economic opportunities. As such, the Reform Agenda sets out a wide set of policy reforms that touch upon employment issues.

Sectoral and institutional Context

Poor labor market outcomes and an incomplete transition to a market economy continue to be major concerns in BiH. Recent analysis confirms very low activity and employment rates and a high unemployment rate. In 2015, 27.7 percent of the adult population (aged 15 and older) was unemployed, which is one of the highest unemployment rates in the Balkan region. Arguably, an even bigger problem is the high level of inactivity—that is, the share of the adult population that is neither having nor looking for work—which currently stands at 56.3 percent. Inactivity rates are considerably higher among women and youth. Only 31.9 percent of the adult population are actually employed, yet even among these only a few have formal jobs, and even fewer have private sector formal jobs.

BiH suffers from a deep structural unemployment problem. Among the unemployed, 81.6 percent have been looking for work for more than a year, pointing towards deep structural problems in the labor market, with a large share of job seekers not having the right qualifications for the jobs offered by employers, or stuck in informality. 43.8 percent of the unemployed were not able to find a formal job for more than 5 years. Amongst those with secondary education, there are more inactive (42 percent) than employed (40 percent). In 2015, over 60 percent of people with tertiary education were employed compared to 15 percent of those with primary education. Among the employed, 58 percent of those with tertiary education had professional jobs and only 2 percent low-skilled jobs. In contrast, among the employed, very few people without tertiary education have professional occupations, and one-third of those with primary education are in unskilled jobs.

The Reform Agenda mentioned above identifies a range of policy priorities to improve labor market outcomes in BiH, from business climate improvements to taxation and educational reforms. This project focuses on one of these priorities, namely improving employment outcomes by increasing the effectiveness and scale of active labor market programs (ALMPs) and upgrading job

intermediation services of the BiH PES. Strengthening the effectiveness of ALMPs and of intermediation services provided by the PES are key to reducing frictions in the labor market stemming from high search costs, supporting job seekers to transition into (formal) employment quicker and firms to find employees quicker, and, crucially, improving the ability of the government to weather economic and employment shocks. In particular, effective ALMPs are an important tool to act as a cushion and safety net for those who may have to transition into new jobs as a result of SOE or other structural reforms planned in the Reform Agenda.

International evidence on employment promotion suggests that the provision of efficient intermediation services that respond to the demands of the private sector and potential job seekers is essential for a well-functioning labor market. BiH still needs to tackle this challenge. It will require equipping the PES with adequate human resources, knowledge, and tools (including ALMPs) to re-orient them towards modernizing intermediation. In BiH, qualified employment counselors and administrative staff are currently stretched thin and services are almost exclusively offered in-person with little use of electronic platforms or automation. A recent analysis of the functionality of the public employment services in the FBH (Economic Institute of Sarajevo, 2014) reveals that staff at these agencies spend about 70 percent of their time on administrative tasks rather than providing employment support (i.e. mediation counseling, assistance for training and professional orientation). In the FBH, the staff-to-beneficiary ratio is 1:1300, which is far below the EU recommended standard of 1:250-300. This means that, on average, staff spend 4-6 minutes per unemployed in the worst cases in the FBH and up to 19 minutes in RS (Kuddo, 2013). Moreover, there is a wide divergence in the capacity of the local employment offices, and it is important to promote more homogeneous and modern practices across the country for profiling and tailoring services to different type of job seekers and assessing employers' needs. Thus, it is important to strengthen management processes and methodological capacity of PES to improve the quality and range of its core services.

Twice as many people are registered as unemployed than actual number of unemployed, suggesting that many informally employed and inactive people register with PES although they are not seeking support in finding employment. It also suggests that many of the registered unemployed are not looking for work but are rather registered to obtain free benefits free health insurance and certificates for various local programs and services. This creates a significant administrative burden for the PES that prevents it from focusing its resources on the real jobseekers. Given the size of the public employment sector, the only way forward to providing better public employment support is to modernize the way PES are managed and find efficiency gains.

ALMPs are another key policy tool to enhance job seekers' prospects to find employment. OECD countries make use of such programs extensively, especially during times of economic downturns in order to shorten unemployment spells, keep job seekers attached to the labor market, and avoid deterioration of worker skills through training. BiH faces many challenges in this area. First, coverage of ALMPs is very low for the size of the registered unemployed population. In 2015, both FBH and RS governments spent 0.07 percent of their GDP on ALMPs, covering 5,000 people. This is well below average spending of about 0.5 percent of GDP for the EU-27 countries. In the older EU countries, spending is much higher: as high as 1.5 percent of GDP in the case of Denmark. Second, targeting of ALMPs is weak. The decision about which program is right for what each beneficiary should be made based on evidence, which in turn requires data-driven case management of the registered unemployed. Third, monitoring and evaluation of ALMPs is almost

nonexistent and is needed to create the evidence necessary to assess which programs work best, for which subgroup of beneficiaries, and at what cost. Finally, this evidence needs to be used to enhance design of existing ALMPs and introduce new programs that best address BiH's employment challenges. The successful implementation of ALMPs is closely linked with the successful reforms of PES capacity to intermediate, to manage cases, to reach out to employers, and to monitor and evaluate in order to then strengthen service provision.

II. Proposed Development Objectives

The project development objective is to increase formal private sector employment among targeted groups of registered job seekers. The project will achieve this by financing a menu of active labor market programs, supporting strengthening of job intermediation, and by modernizing monitoring and evaluation practices of the public employment services.

III. Project Description

Component Name

Support for Employment promotion

Comments (optional)

This component will support a menu of active labor market programs and activities to strengthen job intermediation offered by public employment services.

Component Name

Support for management systems, monitoring and communications

Comments (optional)

This component will support improvements in data management monitoring and evaluation and communication practices of the public employment services and Ministries of Labor.

Component Name

Unallocated

Comments (optional)

IV. Financing (in USD Million)

Total Project Cost:	97.91	Total Bank Financing:	56.10
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			41.81
International Bank for Reconstruction and Development			56.10
Total			97.91

V. Implementation

In both the RS and FBH, the project will be housed under the Ministry of Labor and Veterans Affairs and Ministry of Labor and Social Policy, respectively. These institutions will have the reporting and monitoring responsibility vis-À-vis the World Bank. Specific implementation and institutional arrangements by entity are described below. Detailed project implementation procedures will be compiled in a short Project Operational Manual (POM) to be ready by project effectiveness.

In both entities, PES will be responsible for the implementation of active labor market programs to be financed by the project. The specific arrangements to be followed may differ by each active labor market program and will be confirmed at the time of the appraisal. It is expected that implementation will follow existing guidelines put out by the FBH and RS PES.

Dedicated teams under the Ministries of Labor (MoL) (in each entity) will monitor project implementation, and this is a requirement for successful implementation and timely disbursements. The Ministries of Labor will be in charge of monitoring the project, verifying the achievement of DLIs as reported by the PES and reporting to the World Bank. MoLs will also guide the development of procedures and methodologies for improved intermediation.

Entity level Steering Committees will be in place to oversee project implementation and to which the MoLs will present quarterly or bi-annual reports on the progress towards achievement of Disbursement Linked Indicators (DLIs) and project indicators. The members of the Steering Committees will include representatives of the Ministry of Finance, Ministry of Development, Entrepreneurship, and Crafts, Ministry of Industry, Prime Minister's Office, PES, Ministry of Labor; and any other institution that might benefit project implementation.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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

Comments (optional)

VII. Contact point

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