

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC18675

| | |
|---|---|
| Project Name | Bosnia and Herzegovina Employment Support Program (P152347) |
| Region | EUROPE AND CENTRAL ASIA |
| Country | Bosnia and Herzegovina |
| Sector(s) | Public administration- Other social services (50%), Other social services (50%) |
| Theme(s) | Improving labor markets (50%), Social Safety Nets/Social Assistance & Social Care Services (30%), Other social protection and risk management (20%) |
| 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 | B-Partial Assessment |
| Date PID Prepared/ Updated | 07-Mar-2016 |
| Date PID Approved/ Disclosed | 08-Mar-2016 |
| Estimated Date of Appraisal Completion | 06-Jun-2016 |
| Estimated Date of Board Approval | 15-Sep-2016 |
| Concept Review Decision | Track II - The review did authorize the preparation to continue |

I. Introduction and Context

Country Context

Bosnia and Herzegovina (BiH), a small country of close to 4 million people, is yet to create a foundation for sustainable economic growth after a period of successful post-conflict recovery. Although it has a middle income country status, its economy has stagnated particularly after the global crisis of 2009-2011 and lagged considerably compared to its Southeastern European neighbors. After the end of the war in the 1990s, BiH experienced more than a decade of economic recovery from 1996 to 2008. However, the period of economic recovery was not followed by development of foundations for sustainable economic growth. Since the early 2000, BiH has become an economy driven by remittances – averaging around 20 percent of GDP, fueling consumption growth. The global financial crisis and the subsequent Euro zone crisis exposed the country's structural weaknesses: i) financial sector proved vulnerable and reduced financial in-

flows; ii) inadequate structure of public spending which is largely focused on wages and poorly targeted social benefits; and (iii) strict labor market policies which put undue pressure on firms, which were unable to adjust to the new economic environment.

Poverty has remained relatively stable over the last seven years. Headcount poverty was 14 percent in 2007 and there has been a slight increase of poverty to 15 percent in 2011. Poverty is much more concentrated in rural areas. The incidence of poverty is twice as likely in rural areas and is fairly evenly concentrated in the two entities, Federation of Bosnia and Herzegovina (FBH), and Republika Srpska (RS). The bottom 40 percent of the population also rely much more on social assistance, pensions, and remittances rather than wage employment. BiH also rates low (second to last after Albania) across several Human Development Indicators (e.g. years of schooling) within the SEE, EU11 and EU17.

Despite its small size, BiH has a complex governance structure reflecting the provisions of the country's constitution established to end the war nearly twenty years ago. The governance structure involves the Council of Ministers at the State level, while each entity has its own government and local government units. In the FBH, 10 cantons, each with its own constitution and government, represent an additional layer between the Government of the FBH and local government units. The district of Brčko was added to the structure in 1999.

With the public sector spending close to 50 percent of GDP, ensuring efficiency of public institutions is critical. In BiH, the state, entities, district, canton and municipal governments spend approximately 50 percent of GDP. The choices made by public institutions can therefore significantly influence economic growth. These choices are important to ensure efficient use of public resources and to ensure that the poor and those who are in the bottom 40 percent of income distribution have adequate access to social services and economic opportunities, including employment services, to benefit from and contribute toward economic growth.

Sectoral and Institutional Context

Poor labor market outcomes and the incomplete transition to a market economy continue to be the major concerns in BiH. As the 2013 “Getting Back to Work: Growing with Jobs in Europe and Central Asia” report suggests, the solution to creating more and better jobs is complex and would consist of many components. Amongst these are: (i) creating an enabling environment for private sector so existing firms expand their workforce and new firms emerge and succeed; (ii) equipping the workers/job-seekers and new labor force entrants with the right set of skills; (iii) addressing work-disincentives in taxes and social protection; and (iv) eliminating barriers to work for marginalized groups and facilitating job matching, in addition to making labor markets more competitive, modernizing the public sector, and better integration with global/regional markets.

Labor market participation and employment rates remain stubbornly low and below pre-crisis levels. Labor Force Survey (LFS) results indicate that labor market participation in April 2015 was 44.1 percent of the working age population. The employment rate in 2015 was 31.9 percent which remained over one percent below the 2008 (pre-crisis) level of 33 percent. Unemployment is particularly high among those without tertiary education, women, and young people. For older adults (50-64 years old), the employment rate is slightly above the country average, but the unemployment rate is significantly lower: 16.8 percent, indicating higher labor force participation. Labor market outcomes are poorer for those in the bottom 40 percent of the income distribution, as they have lower employment rates than the rest of the population due to higher unemployment and

lower participation rates.

BiH has one of the highest unemployment rates amongst the Southeastern European countries. The official unemployment rate is at 27.7% (LFS 2015), which is more than twice as high as the countries in the region. Annual labor force surveys conducted in the period of 2006-2013 reveal that about 12.4% of the working age population has been without a job for more than eight years. Most notably, youth unemployment rate (those between the ages of 15-24) has rapidly increased from 47.5 % in 2008 to 62.3 % in 2015. The rate is 4.5 times higher than the global average, which was at 12.7 % in 2012.

Root causes of structural unemployment are multiple. The global crisis has had a negative impact on economic growth, which has also worsened the labor market outcomes. Over the course of the last four years, GDP growth has been sluggish and averaged 1.5 percent, hence labor demand has not grown fast enough to create sufficient new jobs. Other factors impacting the poor employment outcomes are: (i) the public sector is too large (50 percent of GDP) and often holds back the private sector from entering into some still state owned segments of the economy; (ii) inadequate competencies and skills not meeting the demands of the employers; (iii) low productivity of firms and inability to grow and generate new jobs; (iv) overly bureaucratic business environment (BiH ranks 107th in the Doing Business 2015, lagging behind the rest of the Western Balkans economies); (v) insufficient connectedness with the global markets and weak export performance; (vi) insufficient level of FDIs; (vii) incomplete transition from a centrally planned economy to a private sector growth-led economy; (viii) high labor taxes and strict labor market regulations which constrain labor adjustments and put undue pressure on private firms; and (ix) traditional focus on categorical cash benefits and introduction of plethora of categorical social and veteran benefit programs provide disincentives for formal labor market participation.

The latest analysis by the Economic Institute – Sarajevo, conducted as a part of the Bank financed Social Safety Nets and Employment Support Project, confirmed that there is a high level of informality in the labor market. It is estimated that about 30 percent of the total number of employed operate in the informal sector. Nevertheless, the share of informal employment has considerably decreased since 2001 when it was 47 percent, and 2004 when it was 42 percent. The informal employment is largest in the agriculture and forestry sector at over 90 percent, but it is also substantial in the construction sector at 19 percent. Informality is particularly prevalent in rural areas where 41.7 percent of employed are in the informal sector, in comparison with 11.5 percent in urban areas. Informal employment is primarily concentrated among people with primary education or less. All informally employed are registered as unemployed solely for the purposes of obtaining the health insurance coverage. In addition, there is also a non-negligible percentage of the employed population with temporary contracts, of which 47 percent is not entitled to pension insurance while 46 percent are not entitled to health insurance.

Recent changes (towards the end of 2015 and beginning of 2016) have been introduced to the labor codes both in the FBH and the RS and should ease some of the constraints on the firms in terms of hiring and firing and ease entry of new workers into the market. Although level of taxation including social contributions remain relatively high. It also does not encourage part time and seasonal employment arrangements. High level of taxation and social contributions (social sector contributions and income tax amount up to 41 percent of the gross wage in the FBH, and 43 percent in the RS) create further disincentives for employers to register workers or for self-employed to register themselves. All of which further reinforces the informal economy.

Public Employment Services (PES) are seriously under-staffed, lack methodological tools, and spend the majority of their resources on administrative tasks. A recent analysis of the functionality of the public employment services in the FBH (Economic Institute of Sarajevo, 2014) reveals that the staffs of these agencies spend about 70 percent of their time on administrative tasks rather than on employment services (i.e. mediation counseling, assistance for training and professional orientation). In particular, staff devotes significant resources to process health benefits and issue a variety of certificates to the registered unemployed to access other social benefits. In the FBH, the staff beneficiary ratio is 1:1300 that is far below the EU recommended standard of 1:250-300. This means that on average staff spend 4 to 6 minutes per unemployed in the worst cases in the FBH and up to 19 minutes in RS (Kuddo, 2013). In addition, staff lacks tools to profile, prioritize and tailor services to the different segments of the “unemployed” and “inactive” population. Thus, it is important to strengthen the capacity of PES to be able to differentiate between types of beneficiaries and guide them towards appropriate measures.

Active labor market measures supported by the PES are too narrow in scope, have low coverage and need to be re-oriented to better respond to the needs of the private sector and jobseekers. Allocations for ALMPs have averaged at about 15 percent of public employment services’ expenditures. Only about 2.6 percent of the unemployed benefit from ALMPs (excluding counseling) and efficiency and impact of many programs are also unclear as monitoring and evaluation practices are not well developed. Less than 5 percent of long-term unemployed (12 months or more) have benefited from the ALMP measures implemented by PES (over the last five years). Existing ALMPs mainly focus on subsidies to employers, rather than focusing on improving employment opportunities for the unemployed through counseling, skills enhancement and on-the-job training. There is also focus on supporting youth employment but primarily university graduates, whereas there are no programs targeting young active job seekers who have completed secondary and primary education.

Besides improving the opportunities for the hard to employ categories as targeted under the recently completed Social Safety Nets and Employment Support Project – (SSNESP), PES services will need to be broadened to benefit different segments of the work-able population including “unemployed”, “inactive” and “jobseekers”. The scope of the interventions also needs to be revisited and adjusted to improve their effectiveness. In particular, none of the current training includes the elements to develop socio-emotional (soft or non-cognitive) skills and is not of consistent quality whether delivered by public or private sector.

Finally, there are significant inefficiencies within the social assistance system which create disincentives for work and do not provide adequate support to the registered unemployed social assistance beneficiaries to access labor markets. For example, the linkage between access to health insurance and unemployment registration and insurance, and almost non-existent formal working relationship between the PES, Centers for Social Work, and offices responsible for veteran benefits probably result in double-dipping into benefits and inefficient and incoherent case management amongst these agencies. Furthermore, as discussed in the 2014 report on Activation and Smart Safety Nets in BiH, “work-able” poor are not eligible for social assistance benefits and the design of the draft or actual social protection laws suggest a 100 percent marginal effective tax rate for those “work-able” poor. Overall, a tradition of providing unconditional categorical cash transfers undermines efforts to promote activation programs.

Relationship to CAS

The proposed Employment Support project will contribute to the key country goal of stimulating employment and reducing the unemployment in BiH. Although there is no nationwide country development strategy in BiH, entity government programs and public discourse are heavily focused on job creation. The central theme of the new World Bank Country Partnership Framework (CPF) (FY16-19) is more and better jobs. Similarly, the social protection and labor group, in collaboration with other sector groups, has been leading the formulation of a short to long term policy action agenda on improving the business environment and investment climate which is expected to be addressed via various WBG supported interventions over the course of the CPF cycle. In this context, the current Reform Agenda which is pursued by the governments in BiH and supported by international IFIs, inter alia, focuses on maintaining macroeconomic stability and improving the labor code to introduce necessary flexibility in the labor market. Other Bank operations will also contribute to this agenda by focusing on macro/fiscal reforms and reforms directed at improving the competitiveness of the private sector.

The proposed project will support the twin goals of reducing poverty and promoting shared prosperity. The project will provide services to jobseekers and will aim to improve the employability and job prospects for the bottom 40 percent in the society.

Furthermore, the project will complement the ongoing efforts by the Swiss Development Corporation (SDC) to strengthen PES capacity to deliver better intermediation and counselling services. Finally, this project will strengthen the linkages between the PES and the Centers for Social Work and contribute to the activation of the beneficiaries of social assistance. While this project will not aim at supporting reforms of the benefit design, the task team will maintain the policy dialogue in this area with the aim to encourage approval and utilization of the improved targeting methodology of all cash transfers that was prepared under the recently closed Social Safety Nets and Employment Support Project. The World Bank also has approved a technical assistance facility which will support the entity level Ministries of Labor and Ministries of Finance to undertake further structural and legislative reforms related to labor markets and benefit design as indicated in their reform agenda action plan for 2016-18.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The objective of the proposed operation will be to improve employability and access to jobs of select groups by supporting the expansion and improving the effectiveness of public employment services. The longer term objective of the project is to contribute to better employment outcomes.

Key Results (From PCN)

18. The project will monitor the achievement of the project development objective through the following key outcome and intermediate outcome indicators:

Project Development Indicators (PDIs)

- i. % of “registered unemployed” in employment 24 months after benefiting from PES (male/female)
- ii. % of informally employed converted into formal employment (male/female) (measured 12 and/or 24 months following the intervention)
- iii. Ratio of percentage of registered unemployed in employment after receiving training

(treatment group) and percentage of registered unemployed in employment who did not receive training (control group).

- iv. Improvement in cognitive, technical and socio-emotional skills of ALMPs beneficiaries based on standardized tests
- v. Increased average earnings of ALMP beneficiaries
- vi. Improved knowledge of and satisfaction from PES services

Intermediate Outcome Indicators:

- viii. Number of “newly registered” unemployed (previously “inactive”)
- ix. Number of ALMPs beneficiaries (male/female)
- x. Number of program participants that have been assessed in skills and competencies
- xi. Improved staff to beneficiary ratios
- xii. Improved ratio of frontline to back office PES staff
- xiii. Number of monitoring reports produced, and ALMP programs rigorously evaluated in the PES monitoring system

III. Preliminary Description

Concept Description

As a key input to the broader jobs agenda, the proposed project will focus on improving access to jobs by enhancing scope and delivery of public employment services. This will be achieved by strengthening capacity of the PES to assess dynamics of the labor market and adjust the ALMPs to better meet the needs of the employers and jobseekers. In particular, it will help PES to better profile their beneficiaries, and distinguish active job seekers from those registered to obtain health insurance, and better equip jobseekers with skills and knowledge to improve their employability. It will also support demand driven on-the-job training services to address the needs of employers to get adequately trained staff for the existing job vacancies and targeted self-employment initiatives, particularly in the agriculture sector, to promote entrepreneurship and contribute to reduction of the informal economy. The project will also support the Ministries of Labor and PES to improve core work flow processes within public employment services.

The proposed project intends to alleviate constraints on the supply, and to a limited degree, on the demand side of the labor market. On the latter, it will promote self-employment/entrepreneurship, facilitate workforce expansion in firms, and provide incentives to those in the gray economy to legalize their enterprises. On the supply side, it will aim to enhance employability of the workforce through a set of targeted active labor market measures with a strong focus on on-the-job training, both provided by employers alone and in collaboration with formal education institutions. In line with this goal and to maximize the impact of the active measures, the proposed project will work to augment the capacity of the PES, such that they are more “client-oriented” and able to better perform their core functions of needs assessment, outreach, profiling, counseling, intermediation and skills development. This will involve enhancing delivery of core employment services, and the targeted active labor market measures (on-the-job training, support for self-employment and other). In the F BiH, the project will also support a new wage subsidy scheme launched in February 2016 targeting the youth and the self-employed with possible adjustments to its design parameters in the outer years of the project.

The design of the project is based on the premise that: (i) reforming the PES to enable them to

better identify the needs of the unemployed/jobseekers and the employers and to customize their services, (ii) re-orienting active labor market measures to be more responsive to labor market conditions and to include provision of the “right skills” needed by the private sector; and (iii) further integration of public employment services with the social assistance to better serve the segments of the population which are either inactive or have weak labor market attachment.

Hence, the project aims to contribute to better employment outcomes by reforming the PES and improving the range and quality of services offered to promote work and labor force participation. The project design incorporate innovate measures to include some or all of the below:

- a. Reform of the PES to adopt a responsive approach to individual and local needs;
 - b. Building foundational as well as technical skills of jobseekers and the unemployed to increase employability;
 - c. Making space for partnerships between the private, public and NGO sectors to improve quality of services and delivery;
 - d. Strengthening the incentive and accountability framework of the regional employment offices to deliver services using a performance based financing approach.
 - e. Strengthening the benefit and responsibility framework for the unemployed and the inactive to incentivize the “inactive” to being “active jobseekers” and the “informally employed” to enter the formal economy.
5. This project is one of the multiple interventions and part of the larger policy dialogue foreseen to promote job creation and improve labor market conditions (on the demand and supply side).

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: | 55.00 | Total Bank Financing: | 50.00 |
| Financing Gap: | 0.00 | | |
| Financing Source | | Amount | |
| Borrower | | 5.00 | |
| International Bank for Reconstruction and Development | | 50.00 | |
| Total | | 55.00 | |

VI. Contact point

World Bank

Contact: Mirey Ovadiya
Title: Sr Social Protection Specialis
Tel: 473-2960
Email: movadiya@worldbank.org

Contact: Josefina Posadas
Title: Senior Economist
Tel: 458-7279
Email: jposadas@worldbank.org

Borrower/Client/Recipient

Name: FBH Ministry of Labor and Social Poliicy
Contact: Azra Jahic
Title: Advisor to Minister
Tel: 38733255434
Email: azra.jahic@fmrsp.gov.ba

Name: FBH Ministry of Finance
Contact: Mirjana Vucic
Title: Advisor to the Minister
Tel: 000-000-0000
Email: Mirjana.Vucic@fmf.gov.ba

Implementing Agencies

Name: RS Ministry of Labor and Veteran Affairs
Contact: Mira Vasic
Title: Assistant Minister
Tel: 000-000-0000
Email: m.vasic@mpb.vladors.net

VII. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>